



THE HOSTED MODEL: Why It's Revolutionizing the Contact Center Industry

A Frost & Sullivan White Paper

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INTRODUCTION AND PURPOSE

This white paper takes a detailed look at the industry trends and the value proposition for hosting contact center technology. It is written for contact center executives, managers and decision makers who are evaluating the hosted platform as a viable replacement for premised-based infrastructure.

To assist organizations in determining if the hosted model is a good fit, this paper includes an exclusive case study, a total cost of ownership (TCO) analysis and end-user preference research. The paper's conclusion contains a set of Frequently-Asked-Questions (FAQs) for companies considering a potential hosted partner.

What types of companies make good candidates for a hosted solution?

- Small/medium-sized businesses (SMBs) looking for advanced functionality
- Rapidly growing businesses
- Multi-site firms with multiple contact centers
- Organizations growing through Merger and Acquisition activity
- Enterprises expanding the labor pool with remote agents
- Businesses needing contact center business continuity plans
- Businesses needing to quickly expand and contract for peak seasons/traffic/campaigns
- Enterprises with limited capital for upgrades/expansions

INDUSTRY TRENDS

The call center industry is undergoing significant technological, economic and social changes. Lower-cost software applications can now be delivered as a service through the Internet and a customer care representative can be an outsourcer in the Philippines, a stay-at-home mom in Texas, or a knowledge agent with a PhD.

The hosted contact center market is moving out of the early adopter stage, with immense growth potential for the future. The market has enjoyed rapid growth rates over the past couple of years to meet the need for customer service, help desk support, technical support and product sales. Based on our most current research, Frost & Sullivan forecasts overall hosted revenues to grow at a compound annual growth rate (CAGR) of 34.1% from 2006 through 2013. For small seat deployments (< 100 seats) alone, this aggressive growth is forecasted at an even higher CAGR of 41.3% for the same period.

What is a Hosted Contact Center?

Frost & Sullivan defines a Hosted Contact Center as a network-based service in which a service provider owns and operates a contact center technology platform and leases its services and features to end-users for a monthly or usage-based fee. The hosted model is gaining in popularity because of its strong value proposition and low cost of ownership.

VALUE PROPOSITION DRIVING HOSTED ADOPTION

Financial Advantages

There are several factors driving the adoption of hosted solutions. The first is the 'pay-by-the-drink' financial model that allows business of all sizes to move away from high front-end expenditures in favor of a more manageable operational expenditure approach. Small and mid-size companies typically do not have the ready access to cash to make the necessary capital expenditures for expensive new premise equipment. As a result, making the shift from capital expenditures (CapEx) to operational expenditures (OpEx) is especially relevant for these firms. Additionally, the pay-as-you-go model also simplifies overall cost management and business planning, making it more favorable than the CapEx model.

From a customer perspective, the low upfront investment, instant access to cutting-edge technology and rapid results make the model difficult to ignore. The real enabler of the low cost model is, surprisingly, a technical one; leveraging multi-tenancy architecture. End-users, referred to as tenants, share server capacity in a partitioned environment. This allows the hosted provider to pass on cost savings from the economies of scale realized through the use of shared resources.

Security Strength

A perceived lack of control over operations and the security of critical customer data in a hosted environment continue to cause end-user concern. But the reality is that a well-engineered hosting environment will have deeper security infrastructure in-place than many SMBs could afford on their own. This is a significant advantage in being able to leverage the financial investment that the hosted provider has made in security standards and measures. In sum, tenant self-administration capabilities along with process/methodologies with enhanced security options, have played a critical role in overcoming these reservations. (Refer to the case study on Health Advocate for more on security.)

Flexible Work Options and Virtualization

Another driver is the trend towards flexible and decentralized contact centers that offer the same level of control and visibility into agent scheduling, performance and customer interactions as the traditional model. Virtualization allows companies to create a central queue that includes agents in multiple centers and skills-based routing that ignores physical location. At the same time, virtualized contact centers afford managers the ability to schedule agents, monitor and record calls, tweak queues and generally do their job with no regard for where agents are physically situated.

Remote and at-home agents provide numerous benefits for contact centers, including reduced seat costs, an appreciable elevation in employee morale (which contributes to better customer experiences), an accompanying increase in employee retention rates, and finally an expansion of the labor pool to include better-qualified agents. While still in the early stages, with their numbers rising rapidly, work at home agents could become the industry norm in the coming years and represent an appealing alternative to off-shoring.

Access to the Latest Technology

Using a subscription model, enterprises can try out new functionality without spending a great deal of time and money. Hosted contact center solutions thus offer the ability to trial new technologies with minimal risk and at a relatively lower cost of entry. Hosted solution providers periodically undertake functionality upgrades thereby giving subscribers the ability to attain the latest feature functionality with minimal effort and cost. The service provider guarantees performance, reliability and support through service level agreements with the client.

Business Continuity Reduces Risk

Ensuring business continuity during outages, facility emergencies and inclement weather is a critical requirement. The hosted contact center model ensures business continuity by enabling agents to be connected to the technology platform and necessary applications - from anywhere with Internet access. Even in an outage, companies maintain the ability to service and sell to the client base, undermining what could otherwise be a disastrous situation resulting in lost revenue, dropped calls and negative customer experiences. Hosted contact center solutions eliminate the costly and time-intensive process of building and maintaining a back-up site from which to take calls and deal with emergency situations.

Enhanced Operational Flexibility

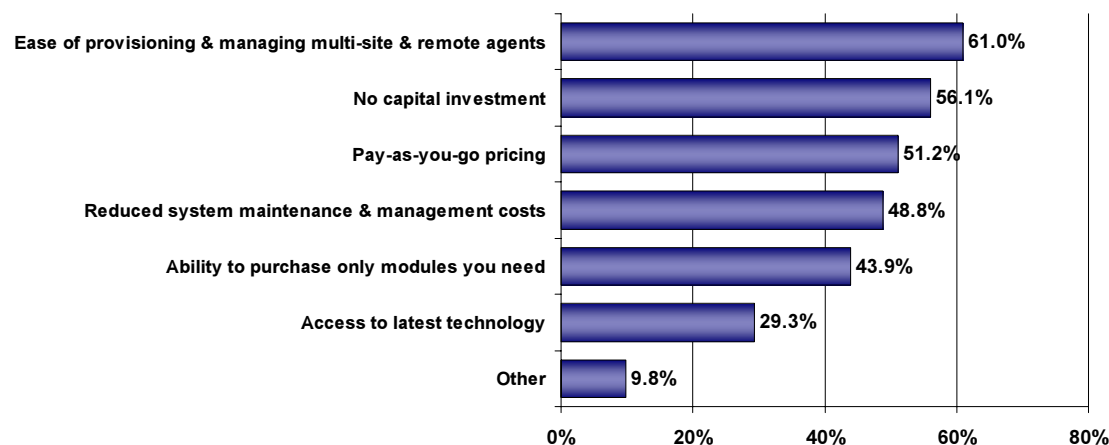
Expanding operations and adding agents can be accomplished easily and cost-effectively using the hosted model. A major benefit of the hosted model is the ability to rapidly scale either up or down to meet business demands due to business growth, unexpected and/or fluctuating call volume from seasonality, new product introduction, sales promotions, etc. With the hosted model, organizations can purchase technology 'on-demand' to meet their average requirements and avoid over-provisioning to handle peak periods. Outbound marketing campaigns can thus be tailored in the same fashion. In this way, hosted allows for business growth without disrupting or changing the infrastructure.

Reductions in upfront capital expenditures and associated lower total cost of ownership (TCO) are key drivers in this market. In this way, hosted contact center solutions continue to offer an attractive and cost-effective alternative to premise-based solutions.

REASONS FOR SELECTING HOSTED

Chart 1 below provides a window into Frost & Sullivan's most recent end-user research on the factors that motivate the adoption of a hosted solution. The results clearly demonstrate that the primary drivers for companies to choose a hosted contact center solution include ease of implementation, no capital investment and pay-as-you-go pricing. These are followed by reduced system maintenance and access to the latest technology.

Chart 1.0: Factors for Using Hosted Solutions



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ADVANCED CALL CENTER CAPABILITIES

Businesses of all sizes are benefiting from the breadth of hosted offerings from leading contact center technology vendors. Features and functionality that were once only attainable by larger organizations with deep pockets in an on-premise environment are now easily implemented by even the smallest contact centers. In addition to basic automatic call distributor functionality, solutions now encompass advanced contact center functionality such as speech self-service, outbound dialing, workforce management, quality monitoring etc.

One example of this advanced functionality is the unified agent desktop. Contact center agents today are required to respond quickly to inquiries and issues associated with multiple products, services, billing systems, knowledge bases, pricing schemes and the like, but are challenged to quickly access only the relevant information from all of these sources. The unified agent desktop is a critical tool that helps reduce complexity and can have a huge impact on overall customer satisfaction.

World-class hosted providers offer a unified desktop that performs two critical functions: 1) Funnels all customer interactions – voice, e-mail, chat, fax and self-service – through a single, comprehensive interface. This allows agents to handle customer exchanges across multiple channels, simultaneously; and 2) Interfaces to back end applications, content and resources to present only relevant resources in a single desktop. This dynamic interface can have a significant impact on agent productivity and customer service performance.

One unique approach to exposing an application or system such as billing, inventory, order entry and others on the agent desktop can be found in Cincom's Synchrony's "Smart Tabs." What Frost and Sullivan finds unique and powerful about Synchrony's Smart Tabs is their ability to change dynamically based on the activity or contact type, presenting only what agents need for a specific interaction. With a single agent desktop and Smart Tabs, agents process more quickly and are more responsive to customer needs before moving on to up sell or cross-sell activity. It enhances the customer experience by giving the agents immediate fingertip access to everything relevant about that customer for faster, on-target service.

A truly unified agent desktop can be utilized in sales, marketing, finance and other business disciplines to gain valuable customer insight as well as better coordinate activities with the "tip of the spear": contact center agents.

TCO ANALYSIS: PREMISE VERSUS HOSTED CONTACT CENTER SOLUTION

Return on investment evaluations are most often based on a number of tangible and intangible benefits. While hosted contact center solutions bring a number of benefits to the table, their impact on cost reduction contributes most effectively towards creation of a compelling business case.

Cost-justification in the form of clear-cut ROI metrics is an integral part of the technology investment process. A clear understanding of the Total Cost of Ownership (TCO) of technology investments is essential in the current business environment. TCO analysis helps eliminate hidden costs and surprises and helps assess investments from both short as well as long term perspectives. Contact center solution costing takes into account costs associated with the following essential components.

- Software Costs
- Hardware Costs
- Implementation Costs
- Ongoing Expenditures (Maintenance, upgrades etc.)
- Subscription Costs for Hosted Solutions
- IT Staff Costs

Figure 1 illustrates a TCO model for a 100 seat contact center and comparison of costs associated with premises based and hosted models over five years.

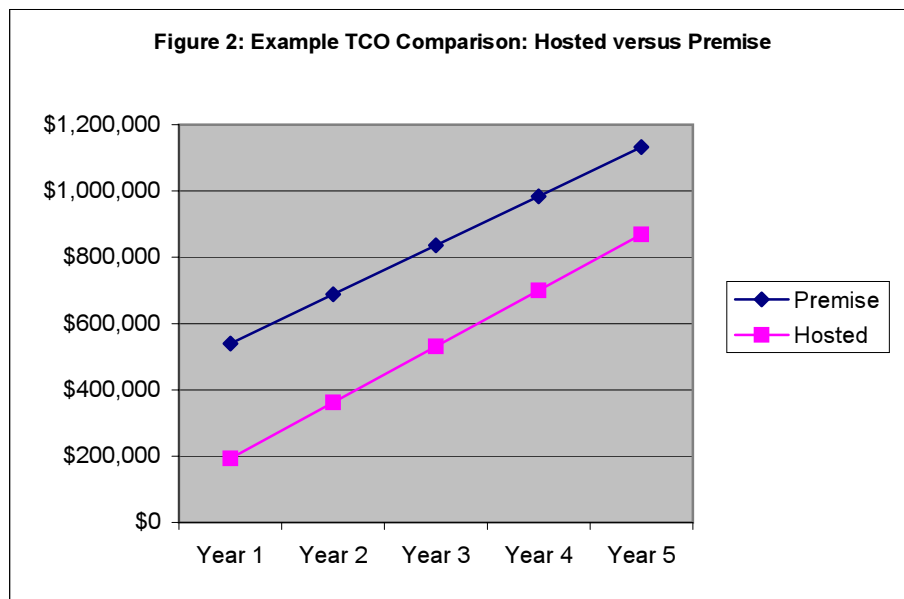
Figure 1: Cost Comparison Premise versus Hosted

Contact Center Solution 100 agents	Year 1		Year 2		Year 3		Year 4		Year 5	
	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted	Premise	Hosted
Hardware	\$52,000									
Software	\$192,000									
Implementation	\$196,000	\$24,000								
Maintenance and Upgrades			\$48,000		\$48,000		\$48,000		\$48,000	
Subscription Costs		\$144,000		\$144,000		\$144,000		\$144,000		\$144,000
IT Staff Costs	\$100,000	\$25,000	\$100,000	\$25,000	\$100,000	\$25,000	\$100,000	\$25,000	\$100,000	\$25,000
Total Cost	\$540,000	\$193,000	\$148,000	\$169,000	\$148,000	\$169,000	\$148,000	\$169,000	\$148,000	\$169,000
N-year TCO					\$836,000	\$531,000			\$1,132,000	\$869,000
N-year % cost savings		64%				36%				23%

Note: This contact center solution costing and TCO model is based on a hypothetical scenario and actual numbers might vary depending on functionality deployed.

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Figure 2 provides a graphical display of the TCO model associated with premises based and hosted contact center solutions over a one to five year period. As illustrated in the figures below, hosted contact center solutions help eliminate high costs for maintenance and upgrades associated with premises-based solutions. Staffing and Implementation costs are also significantly reduced.



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CASE STUDY – HEALTH ADVOCATE GROWS RAPIDLY WITH HOSTED CONTACT CENTER

The Situation

Health Advocate, Inc. (www.healthadvocate.com) is a privately held company founded in 2001 by a small number of former U.S. Healthcare executives. It was established to help employers and other organizations and their respective employees better navigate the clinical and administrative complexities of the nation's healthcare and insurance systems. The company currently serves more than six million Americans nation-wide through its relationships with more than 1,800 employers, unions, third-party administrators, and insurers, including some of the nation's largest companies as well as a wide range of local and regional organizations. With a roster of distinguished clients, Health Advocate offers its members a broad spectrum of time and money saving advocacy and assistance solutions.

The Problem

Health Advocate started small with fewer than 25 full-time "advocate" agents. The contact center is unique in that it utilizes highly skilled labor including doctors, nurses, and insurance specialists. There was no telephony infrastructure in place to speak of and customer cases were tracked using only an Access database. Within a very short time, the Health Advocate business model proved solid and client engagements and contracts began growing in leaps and bounds. There was an urgent need to add agents and call center functionality - quickly and easily.

"We really grew out of our short-term application," muses Kelly Johnston, Chief Operating Officer. "We had to decide how we were going to support our rapid growth at a time where price was an issue coupled with the fact that we had no IT department – not even one person."

There were a few additional operational challenges that accompanied Health Advocate's explosive growth:

- Improve case management capability
- Respond consistently to voice, email and fax
- Automate customer search, history, and resources
- Fully protect privacy and confidentiality of its members (HIPAA compliant)

In short, Health Advocate needed a more robust and flexible application to support its rapidly expanding business.

The Resolution – To Host or not to Host?

At this juncture, the choice boiled down to deciding on a premised-based or hosted call center solution. Health Advocate was faced with several business issues at once: capital constraints, no IT personnel, a requirement for HIPAA-compliant security, a need for fast

deployment and scalability/flexibility. Taking that long list of requirements into consideration, Health Advocate made a strategic decision to select Cincom's hosted Synchrony solution for its many robust capabilities. Chief among them were:

- Minimal IT resource requirements and low investment
- Unified agent desktop with Smart Tabs for quick access to relevant content
- Remote agent support and the ability to capture and track interaction across all channels (voice, email & fax) and back-end systems

"Cincom made it an easy decision for me, in truth," says Johnston. "Using the Smart Tabs feature gave us an immediate boost in our agent productivity. What's neat about it is that you can use it for email, chat and fax channels as well as telephony. It's great."

Johnston points to two major factors that drew her company to choose Cincom's hosted Synchrony solution. First, was the ease with which Health Advocate could add agents to the platform along with space for the database, additional ports and network bandwidth. The second factor that made Cincom an attractive option was its ability to meet Health Advocate's unique security requirements and grow with the company.

"We've been through a huge security certification process with Cincom," states Johnston. At this point we've gone beyond HIPPA to meet the even higher standards of the financial services industry."

The Results

With the Synchrony solution solidly in-place, Health Advocate has come to realize a number of benefits, including:

- Reduced training time and cost through the use of the unified desktop
- Increased contact center staff by more than 400% by simply adding hosted seats
- New efficiencies which resulted in a 50% increase in productivity.
- Decreased new-case entry time by 21%.
- Significantly reduced customer searches from three to four minutes to a best case of six seconds
- Accommodated 24x7 offering with remote agents
- Business Continuity in the event of an outage

To other organizations considering the hosted model, Johnston advises, "You need to know what your requirements are up front and make sure they are clearly defined before engaging in a relationship. We selected Synchrony so that we could focus on our core business and not be distracted by our systems – so that they [Cincom] can do what they do well and we could focus on what we do well."

FREQUENTLY ASKED QUESTIONS (FAQS) TO POSE TO A HOSTED PROVIDER

Frost & Sullivan believes that there are a number of important questions that need to be asked of a potential hosted partner before taking the plunge into a hosted model. Critical areas include vendor experience, customer roster, technical platform, security issues and the process of implementation:

Vendor Background and Experience

- What is the company's history and experience in call center operations?
- Can the company provide referenceable high performance implementation examples?
- How many contact seats are currently in production?
- What percentage can I expect to save with a hosted system vs. a premise solution?

IT Considerations

- Is there additional hardware or software to install on-site?
- What bandwidth and reliability issues should we address with our ISP?
- Are there additional costs required to integrate existing back office applications?
- What kind of resources and skill sets will I need to commit to the project at various phases?

Hosting Environment

- What reliability parameters are included in the Service Level Agreements?
- How can you maintain control, minimize business risk, and maximize service quality?
- How does the company address security and privacy concerns?
- How is your data separated from other clients' data?
- Do you provide 24x7 monitoring and support?
- What backup/disaster recovery procedures are in place?

Implementation Expectations

- How long is the training cycle and is it administered on-line?
- Are there additional support and service expenses?
- How long and complicated is a typical implementation?

Data Access

- Can I access my data outside of the provided call center application (e.g sales or marketing queries and reports)?
- How does the vendor return data to you at the end of the hosting agreement?
- How do I integrate my local data and applications with the hosted application?

CONCLUSION

Frost & Sullivan believes that hosted contact center technology is shifting quickly toward mainstream market acceptance. As a result, the market is now beginning to swell with a number of newer market entrants, as well as established providers, offering end users new capabilities and advanced contact center functionality.

Small and mid-size businesses as well as larger enterprises are moving forward to take advantage of hosted benefits: low up-front investment, minimal IT resource requirements, subscription pricing and robust feature suites. Enterprises of all sizes are on the move to build the contact center of the future: one requiring flexibility, scalability and ease of provisioning. Hosted contact center technology holds the promise of revolutionizing the industry because now there's a viable alternative to the limitations of premise-based systems. With hosted contact center solutions, enterprises today are realizing the power and freedom associated with lower TCO, increased ROI and the chance to finally concentrate on serving customers and generating new revenue.

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