

A Primary Matters White Paper

Customer Contact Centers are Still Not Strategic

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January, 2002

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By Greg Borton, CEO Primary Matters, Inc
January, 2002

For the last decade, contact center management has rallied around the goal of being a strategic function as opposed to a cost center, thus transforming themselves from being viewed as a support group, necessary and important, but not critical to the process of making decisions affecting the forward momentum of the business. Notwithstanding all the interest and talk about being strategic, very few centers have made this transition, thus becoming a peer with the other strategic groups such as sales, product development, manufacturing and finance.

A Meeting with the Management

Imagine a meeting between the members of the management group of a company. In the room are the CEO, CFO, COO, the VP of Product & Service Development, the Marketing VP, the VP of Sales and the VP of the Customer Contact Centers. In the discussion that takes place, focused generally on how the company is going to meet its goals in the next years, each VP is asked to describe their primary deliverables and how these will affect the company.

The VP of Product & Service Development starts, "We are shipping four new products and two upgrades. These should be able to support the revenue, growth and profitability plans required by the company!" The VP of Marketing follows with, "Our new marketing campaigns will focus on teaching our installed base of customers the value of the new products, thus making them eager to acquire the upgrades as well as expand their use of our services. In addition, we are targeting two new market segments so that we can expand our market share. We should be able to provide more than an adequate number of qualified opportunities for the sales force, enabling it to meet its revenue goals."

Here the VP of Sales steps in, "The sales force is now receiving training on the new products in order to successfully present our products and services and obtain orders. In addition, we are re-organizing our corporate account management focus in order to increase the penetration in our large accounts that comprise 70% of our revenue streams. We feel confident that we'll be able to meet or exceed the sales goals."

Then the VP of the Customer Contact Center volunteers, "We handled 860,000 calls and 140,000 emails last month, with an average speed of answer of 40 seconds for 80% of the calls. We think that with our hiring plans we can maintain this quality of service at a slightly lower cost per call of \$2.89 per call instead of this years \$2.95 per call."

What is wrong in this meeting?

It is simply that the Contact Center's contribution to this meeting has little business impact. It presents itself as a necessary and costly support function and not in terms that are important or can be understood by the other groups in the company. Yes, the management group knows that the Contact Center is vital and important. Yes, they also know that without it the company could not survive. But the information that the Contact Center provides, such as call volume and cost per call, has no business meaning to the other groups.

The data the Contact Center provides describes the work it does – the number of calls and the number of emails handled. In a software product company, this is the equivalent to informing the management group of the number of lines of software that the engineers have written; in a manufacturer, the tons of steel used; in a sales force, the number of sales calls made.

This information is inward looking. The number of calls and emails handled has no business meaning to anyone other than an expert in contact centers. The information can't be used to improve product quality, save corporate costs, increase revenue, or change the business relationship with the customer. The other members of the management group can't use this information to improve themselves or the Contact Center.

As a consequence, this Contact Center is not a strategic participant in the company. There is little reason for the other members of the management group, including the upper management – the CEO, CFO and COO - to pay much attention to the Contact Center other than to make sure it continues to provide customer service at a reasonable level. The management group has no choice but to view the Contact Center's budget from a cost control perspective - keep the budget as small as possible as long as the desired quality of service – measured by average speed of answer and occasional surveys to the customer base – is maintained.

Lastly, even if the management group wished to pay more attention to the Contact Center, they couldn't be useful since there is no pertinent information of use to them.

What could the Contact Center have presented at the Management Meeting?

What if the VP in the Contact Center had made the following presentation instead of the one summarized above?

Impact of Working with Product Management and Development

“Over the last six months, we have been working with the VP of Product Development and focused on the costs of supporting each of the major products. In doing so we have found that with an additional investment of \$1.6 million by R&D and manufacturing to modify several product features, the contact centers will be able to reduce their costs significantly.

Chart 1 shows the impact of this program on the Contact Center Headcount. Chart 2 shows the financial impact. In the first year, the cost reduction to the company will be \$2.7 million for the \$1.6 million investment. Over three years, the savings will be \$14 million, almost all of which can go to the bottom line of the company.”

Chart 1

Change in Contact Center Headcount due to Modification of Product Features to Reduce Demand on Contact Center

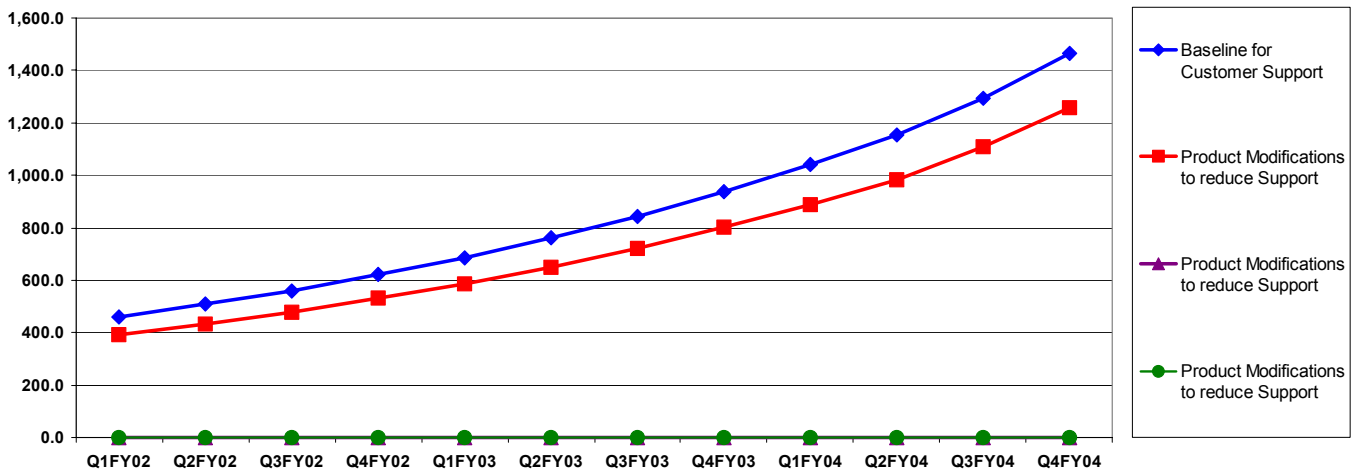
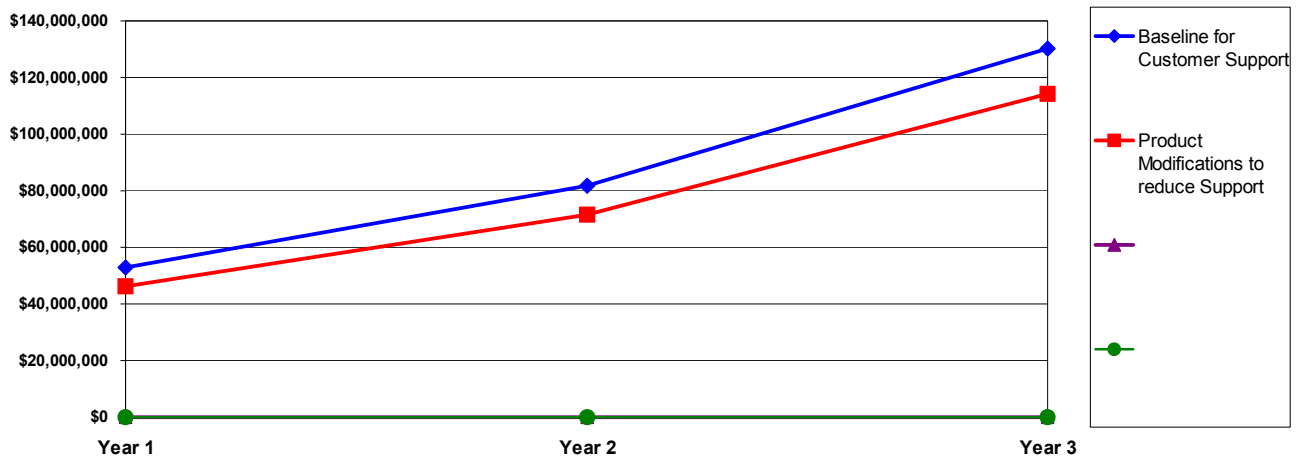


Chart 2

Annual Cash Budget Comparison

	Year 1	Year 2	Year 3	Total
Baseline for Customer Support	\$52,759,082	\$81,742,206	\$130,086,116	\$264,587,404
Product Modifications to reduce Support	\$46,277,328	\$71,668,573	\$114,321,987	\$232,267,889



Impact of Working with Marketing to Understand the Customer Life Cycle

“We have been working with Marketing to understand how we can increase the customer life cycle. We have developed a cross-product group customer profile service design. This program will enable our agents to handle more of the customers’ questions in the first call. This will have several impacts on our business.

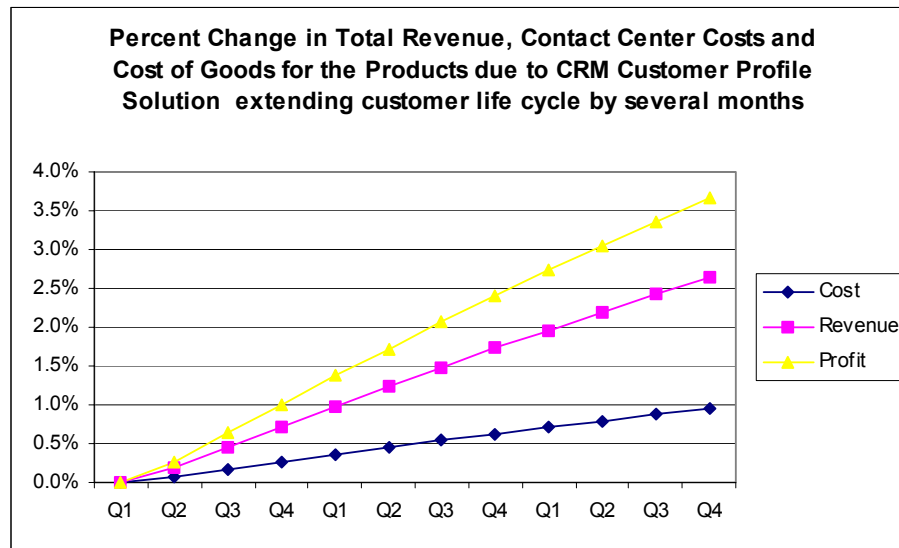
- First, there will be fewer call-backs, thus shaving about 1.5% from the current budget.
- Based on the quality of service surveys conducted over the last few months, our service will be perceived as better than our competitors.
- Our analyses conducted with marketing conclude that this will increase the average customer life cycle from 32 months to 34 months.
- Over a 3 year period, the result of this increase will be a 3.1% increase in the number of paying customers leading to an increase in overall corporate revenues.

Chart 3

Impact of Customer Profile CRM Solution on the Business (\$000's)				
Total Accounts before inter-departmental CRM	6,039,855			
Total Accounts after CRM Implementation (Year 3)	6,226,802	Percent increase in Customer Base	3.10%	
		Year 1	Year 2	Year 3
		3 Year Total		
An Increase in Product Revenues	\$2,644	\$11,398	\$21,257	\$35,299
A Decrease in Contact Center Costs	-\$2,148	-\$3,923	-\$5,193	-\$11,264
An Increase in Product Costs, due to More Customers	\$366	\$1,576	\$2,940	\$4,882
Total Business Units' Costs decrease, even with More Customers	-\$1,783	-\$2,347	-\$2,253	-\$6,382
Business Unit Contributions to the Bank Increase	\$4,427	\$13,745	\$23,509	\$41,681
Total Cost of Ownership for the Inter-Departmental CRM Solution	\$1,086	\$354	\$373	\$1,814
Return on Investment, including only Contact Center Savings	198%	421%	621%	621%
Return on Investment, including increases in Revenues	407%	1261%	2298%	2298%

- More importantly, since most profits are made in the later months of a customer life cycle, this will lead to a 12% increase in the profitability of each customer, thus increasing overall corporate profitability significantly.”

Chart 4



Impact of Working with Sales to Re-Design the Sales Process

“Lastly, we have been working with the VP of Sales and are opening a TeleSales group who will be responsible for the Warrantee Renewal process, thus off-loading this responsibility from sales people. We think that this will have several effects:

- The Warrantee Renewal rate should increase from 78% to 85% since the TeleSales people will be dedicated to the Warrantee Renewal process.
- The renewals will be closed, on average, two weeks earlier bringing revenues in more quickly, again, due to the dedicated focus of the TeleSales people.
- The sales people can spend more of their time on the higher priced, new product sales efforts increasing the revenues per sales person.
- It is anticipated that the cost to obtain a Warrantee renewal will decline from \$473 to \$92 per renewal as the TeleSales personnel will take less time to handle the contract renewal process eliminating most travel and face to face meetings. In addition, the TeleSales people will have a higher contact rate since they will be available to handle return calls and will attempt outbound calls more regularly.

- Lastly, the cost of the TeleSales person is lower, even though they will be professionals.

Chart 5

Financial Impact of Re-Structuring the Warrantee Renewal Sales Process					
	Percent Warrantee Renewal	Cost per Warrantee Renewal	Number of Renewals	Total Annual Cost	Warrantee Renewal Revenues
Sales Personnel	78%	\$473	2,892	\$ 1,368,030	\$ 26,030,160
Telesales Personnel	85%	\$92	3,152	\$ 289,966	\$ 28,366,200
Increase in Number of Warrantee Renewals			260		
Increase in Warrantee Revenue			\$ 2,336,040		
Annual Net Cost Reduction			\$ 1,078,064		
NOTE: This analysis excludes the impact of freeing up the sales personnel to pursue new sales opportunities - this may be the largest impact of re-structuring the Warrantee Renewal Activity					

What makes a Group Strategic?

There is no question that the VP's presentation shows that the Contact Center is strategic. What defines a 'strategic' role for the Contact Center?

It is obvious that many of the Contact Center's plans are the result of working with other groups in the company to create initiatives that change the corporate bottom line. With product development, the contact center has identified product issues that cause incoming contacts to the service representatives and technical support agents. The Contact Center measured the costs of these contacts and worked with product management and manufacturing to identify the investment required to reduce the contacts caused by these product issues. The two groups created a plan and identified the ROI determining that this joint effort would reduce overall corporate costs.

With Marketing, the Contact Center analyzed the factors that affect the customers' perceived quality of service and determined that a cross-product customer profile service would have a significant positive impact changing the market's perception of the company's value compared to its competitors. Further, the two groups decided that this would lead to an increase of several months in the average customer life cycle.

The financial analysis of an increased customer life cycle proved a major revenue increase over time, with an even greater increase in corporate profitability.

With the Sales organization, the Contact Center focused on how it might increase warrantee revenues by having telesales agents take this role from sales people increasing revenue and decreasing costs.

In Summary, for a Contact Center to be Strategic it needs to:

- ***Be directly involved in affecting the Corporate Bottom Line.***
- ***Work with its peer groups to create joint strategies that address business goals.***
- ***Measure itself and provide reports to other groups using the same metrics that the other groups use, essentially data based on customers, products, revenues, and cost per customer. Using call and email volumes does not work. Contact volume metrics and costs have no relevance or meaning to other groups in the company.***
- ***Receive and provide data to its peer groups on a regular basis, including sales forecasts, product shipments, technical or service issues. The data it provides should include cost of service by product and customer, since this is important to product development.***
- ***Understand the major goals and concerns of the other groups, especially sales and marketing, since many of the revenue opportunities the Contact Center may address are a result of working with these groups.***