

Financial Contribution Analysis for Contact Centers... ...Activity-based Decision Making in Revenue-producing Centers

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All contact centers should be strategic tools for achieving corporate goals. Often the contact center is the highest on the totem pole for budget cuts and lowest on the totem pole for investment dollars. In other words, the contact center is not viewed as a strategic asset but as a necessary expense-budget item where the overall goal is simply to control expenses. This is always a damaging attitude but nowhere is it more directly harmful to the bottom line than in a revenue-producing contact center.

For more information on the value of using your contact center as a tool to achieve strategic goals, please visit our website, www.primarymatters.com and review the white paper,

[Customer Contact Centers are Still Not Strategic](#)

We can think of a revenue-producing center in the broadest terms where the agents answer phones and emails the result of which is revenue for the company but no agent action “drives” the revenue. Or we can think of revenue-producing in the narrowest sense where the agents are responsible for “closing the sale.” Some examples:

- Product Distribution where the agents take orders against warehouse stock,
- Order Processing where the agents act on incoming orders prompted by marketing campaigns or mail order catalogs,
- Reservations such as airlines or hotels where little sales effort is involved,
- Reservations in a competitive industry where a sales effort is required to produce revenue, such as travel agents or resort management,
- Outbound sales where the agents are making cold calls or responding to an expressed interest, and
- A support center where there is cross-sell or up-sell opportunity.

Contact centers can become powerful, strategic profit centers rather than cost centers. To achieve this, center management must “present” the center to upper management in a strategic context. When decisions are being made on budgets, resource plans, process change, or capital investments, center management must persuade with analysis that includes the detailed and credible impact of any change on the expense and the revenue generated (down to the process level by process step) emphasizing the financial impact on the profit margin. Upper

management understands and believes the bottom-line impact. Credible analysis on the contribution to profit of any proposal is powerful and will garner organization-wide support for the initiatives center management is considering and strategic respect from organizational peers.

Activity-based Net Cash Flow Analysis

Activity-based analysis has been used for several years to model the cost impact of initiatives in contact centers. Whether you are projecting headcount and budget requirements, estimating technology demand and cost, building business cases on planned initiatives, or evaluating the impact of process change, activity-based projections enable a credible, detailed analysis that facilitates your decision making or engenders support from other decision makers.

The Primary Matters Guide® is Primary Matters' activity-based application used to produce the analysis contained in this paper. Please visit our website, www.primarymatters.com, to view our [Narrated Presentations](#) which will provide a detailed understanding of the value activity-based analysis and The Guide™ can add to your organization.

However, the cost implications are not enough to reveal the larger picture of how changes in the contact center impact the bottom line. Recently, activity-based analysis has expanded to include a revenue component. Adding the revenue component (by process step), you are able to analyze the financial impact to cash-outflow (cost) and cash-inflow (revenue) of any change to agent productivity, implementing or upgrading productivity technology, or altering process steps. The direct financial contribution to the bottom line can be measured for any initiative being considered by contact center management.

Examples of initiatives where activity-based analysis with a revenue component would add exceptional value to the decision-making process include:

- Reducing the number of abandoned calls,
- Adding cross-sell or up-sell scripting to incoming support calls,
- Initiating a direct mail campaign,
- Spending more for a targeted direct mail campaign,
- Investing in an outbound dialer (ROI),
- Projecting headcount requirements by skill to react to peaks and valleys in contact volume,
- Improving training for sales agents, and
- Any initiative where funds are required to increase revenue and the net impact on cash flow needs to be projected.

The Activity-based Approach

To analyze initiatives you are considering, you begin by building a baseline of what your contact center looks like today. Through simple data entry, facts describing your personnel (productivity and cost), and system requirements

(capacity and cost) are defined. By defining the work process steps involved in completing your contact center mission, the number of times each process is performed per month, and the revenue generated each time the process is performed, you are able to uncover the personnel and systems required to perform the work defined. You are also able to uncover your costs at a granular level, including labor costs, total cost of ownership per system, and cost per process step. The revenue component adds the ability to see the revenue and net cash impact of each process performed in your center.

Scenario Analysis

The baseline describes what your contact center looks like today, and projected into the future assuming all personnel, technology and process assumptions remain the same. You are ready to analyze your personnel, technology or process initiatives. This is called “scenario analysis.” To run a scenario, you simply make changes to your baseline by entering information about the proposed change. To analyze these options, you will enter data on the investment and the source of the financial benefit of the initiative. The financial benefit could be greater personnel productivity or reduced personnel cost; reduced handle time to handle more calls at the same sales conversion rate; increasing handle time but offsetting with a revenue generating function or increased revenue per closure; or an increase in sales conversion rate.

After only *minutes* of data entry, the projected impact of moving forward with the considered initiative becomes apparent. Reports are created showing the impact on cost and revenue. Reports will reveal the impact on headcount, total costs, total revenue, and net cash flow. A business case including return on investment when appropriate will be produced. You will understand the marginal and total net cash impact on each process step in your organization. You will know the bottom-line financial contribution to profit for any change being considered.

You will have all the information needed to make better, faster decisions with complete upper management support.

An Activity-based Example

The best way to understand the power of activity-based analysis with a revenue component is to see an example using company data...to see how the results were used in decision making to gain support for an investment. ResortCo is a property management company in a mountain resort area. They own hotels, apartment complexes and resort homes, and also manage properties for other owners. ResortCo revenue is generated when a prospect calls the contact center, usually for information. The agent has to “sell” the reservation. It is an intensely competitive market where the supply exceeds the demand. The agent needs to lock in the sale in the first call. A lost call is considered a lost sale. If

ResortCo doesn't take the call and make the reservation the first time, the prospect will call somewhere else.

The extreme seasonality adds to the complexity of the business. The properties are open year round but ResortCo makes 80% of its annual revenue from November to February...ski season.

ResortCo recognizes that closing a reservation for their three different property types (hotel room, condos and homes) is very different requiring different approaches (skills). The prospects are looking for very different services, conveniences, time frames and price points. The "product" is really very different depending on the type of accommodation the prospect is considering.

ResortCo, in the off-peak season, employs about 10 agents. They are generalists and try to handle any call that comes in except those considering home rental. These calls are transferred to a supervisor or manager due to the potential revenue. During peak season, the agent headcount increases to about 44 agents. There is some attempt to specialize by skill (room, condo, home) but to ensure that every call is handled promptly the skill routing breaks down quickly as the call volume increases. Additionally, when clients call to confirm a reservation, ResortCo encourages the agents to attempt an up-sell giving discounts, but still increasing revenue by keeping more expensive properties full.

The reservation center management knows that every missed call is missed revenue opportunity, but have watched their abandon rates climb over the last several years as their business has grown. Their *laisse faire* approach to manning by skill, training by skill and routing calls by skill is breaking down. The abandon rates for the resort home calls (highest revenue per reservation) have even climbed in the off-peak season. Management has a quote from a consultant that, for \$450,000, will develop skill-specific training to include enough cross-training for each agent to be able to up-sell; will develop specific scripts for each skill level; will improve the ACD/IVR prompts, routing vectors and queues; and will deliver the training the first year for the new hires prior to the peak season.

The reservation center management took the proposal to upper management with a great deal of tentativeness expecting skepticism which is just the reaction they received. The attitude was "just take the calls." The reservation center was viewed as a necessary expense to achieve revenue but the strategic nature of the center was not acknowledged. Reservation center management needed help in showing upper management, in a detailed credible way, how an increase in their budget for better staffing by skill, and an investment for improved training and call routing would actually substantially increase revenue and margins. They turned to activity-based analysis with a revenue component to build the business case.

The Results

Using activity-based analysis with a revenue component the baseline was built in a matter of hours based on the assumptions in the following table.

Call Type/Skill	Monthly Volume		Conversion Rate		Revenue Per Call		Abandon Rate	
	Off-Peak	Peak	Off-Peak	Peak	Off-Peak	Peak	Off-Peak	Peak
Room	6,915	41,490	30%	35%	\$350	\$500	3%	6%
Condo	1,065	6,390	25%	29%	\$750	\$1,000	3%	8%
House	515	3,090	15%	18%	\$2,000	\$3,000	6%	10%
Confirmation	2,155	12,930	10%	13%	\$250	\$350	3%	5%

Within minutes, a scenario was run adding an investment of \$450,000 and changing all of the abandon rates to 3% (Off-Peak and Peak). The conversion rates were not changed even though the goal was to increase conversion rates, as well. The conversion rate change could not be guaranteed while the abandon rate improvement could be, so center management based the business case on improvement in only the abandon rate.

Using activity-based analysis with a revenue component, these simple data changes take only minutes to accomplish and reveal amazing results. Decreasing the abandon rates automatically produces the headcount (by skill) required to handle the increased call volume. This is the headcount that will be required to achieve the projected abandon rates.

	Headcount Required	
	Off-Peak	Peak
Room	6	32
Condo	1	3
House	1	2
Confirmation	2	8
Total	10	45

This causes an increase in the labor portion of the expense budget (1 person during peak season). However, at the same time, due to proper overall staffing and staffing by skill (with skill-specific training and targeted call routing), more calls will be handled, increasing revenue.

Center Management included the following report in their updated presentation.

Return on Investment (ROI)

Headcount Comparison

	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Q4FY09
Baseline Variable Employees	10	44	44	10	10	44	44	10	10	44	44	10
Scenario Variable Employees	10	45	45	10	10	45	45	10	10	45	45	10
Personnel Reduction	(0)	(1)	(1)	(0)	(0)	(1)	(1)	(0)	(0)	(1)	(1)	(0)

Investment and Expenses - Total Cost of Ownership (TCO)

Total	\$ 450,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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Summary Financial Results in \$000's

Baseline Net (Revenue - Expenses)	\$ 709	\$ 2,709	\$ 2,997	\$ 709	\$ 708	\$ 2,873	\$ 2,997	\$ 709	\$ 708	\$ 2,873	\$ 2,997	\$ 774
Scenario Net (Revenue - Expenses)	\$ 265	\$ 3,565	\$ 3,863	\$ 714	\$ 714	\$ 3,734	\$ 3,863	\$ 714	\$ 714	\$ 3,734	\$ 3,863	\$ 783
Savings	(\$444)	\$856	\$866	\$5	\$5	\$861	\$866	\$5	\$5	\$861	\$866	\$8
Cumulative Savings	(\$444)	\$411	\$1,277	\$1,283	\$1,288	\$2,149	\$3,016	\$3,021	\$3,027	\$3,888	\$4,754	\$4,762

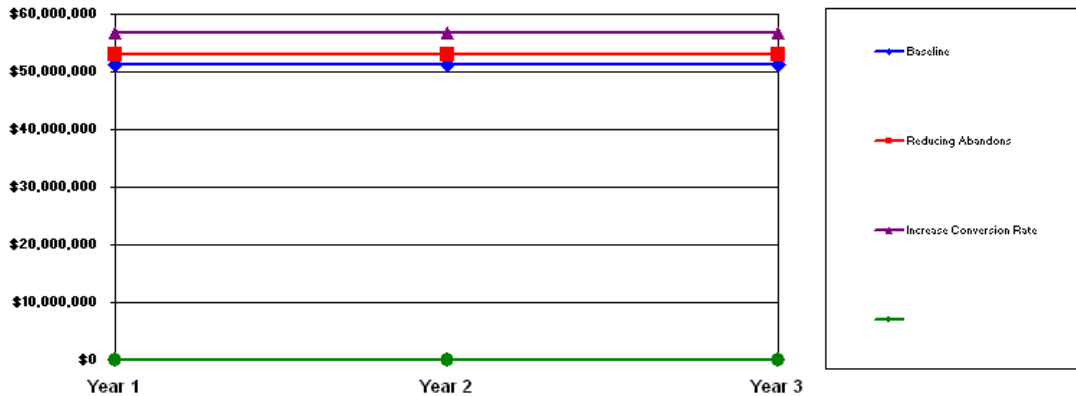
Annual Net Cash Budget (Revenue - Expenses) Comparison

	Year 1	Year 2	Year 3			
Baseline	\$7,123,630	\$7,286,717	\$7,352,683			
Reducing Abandons	\$8,406,524	\$9,024,911	\$9,093,559			
Annual Cashflow Savings due to Initiative	\$1,282,894	\$1,738,194	\$1,740,876			
Investment/TCO	\$450,000	\$0	\$0			
Cumulative Return on Investment/TCO for Reducing Abandons Scenario	285%	671%	1058%			
Discount Rate 15.00%	PV of Investment/TCO	\$382,500	NPV of Cashflow	\$3,415,421	ROI	893%

This report shows the change in headcount, the required investment, and the cash flow comparison between the baseline and the scenario. Upper Management can see the annual ROI and the fully-discounted, three-year ROI of 893%. With 5 minutes of additional analysis, center management was able to add a postscript...with a 2 percentage point increase in conversion rate the overall ROI increases to 3,133%. To emphasize this point, they included the following revenue comparison report in the presentation.

Annual Revenue Comparison

	Year 1	Year 2	Year 3	Total
Baseline	\$51,126,212	\$51,126,212	\$51,126,212	\$153,378,636
Reducing Abandons	\$52,919,475	\$52,919,475	\$52,919,475	\$158,758,426
Increase Conversion Rate	\$56,838,741	\$56,838,741	\$56,838,741	\$170,516,222



This report emphasizes to upper management that the real goal of the proposal is not to monitor an increase in expenses and capital investment, but investing to increase overall revenue and to contribute to the overall profit margin of the company.

Conclusion

Activity-based analysis with a revenue component enables revenue producing centers to produce analysis that reveals how changing the productivity and cost of people; implementing or upgrading technology; or changing any aspect of the work processes impact the overall cost and revenue of the company. The net impact on the contribution to profit margin can be discovered at the work process level. In this case, center management was also able to build the confidence of upper management by showing that the ROI was based on specific changes to abandon rates and conversion rates. By monitoring these metrics after implementation, center management can provide progress reports on the specific ROI achieved to date and updated estimates on when the total projected ROI will be achieved. Activity-based analysis with a revenue component enables a revenue-producing center to be a strategic tool in achieving corporate goals.