

Raising ROI IQ

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The Agenda

- Introduction
- Building your Business Case
- Market Trends
- Who really Cares?
- Practical Use of ROI and TCO
- ROI illustration's
- Elements of an ROI Proposal
- Tools and Templates
- Questions????

A 3D bar chart with five blue bars of increasing height from left to right. An orange arrow points upwards and to the right, following the trend of the bars. The chart is set against a light blue background with a grid pattern.

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Building your Business Case

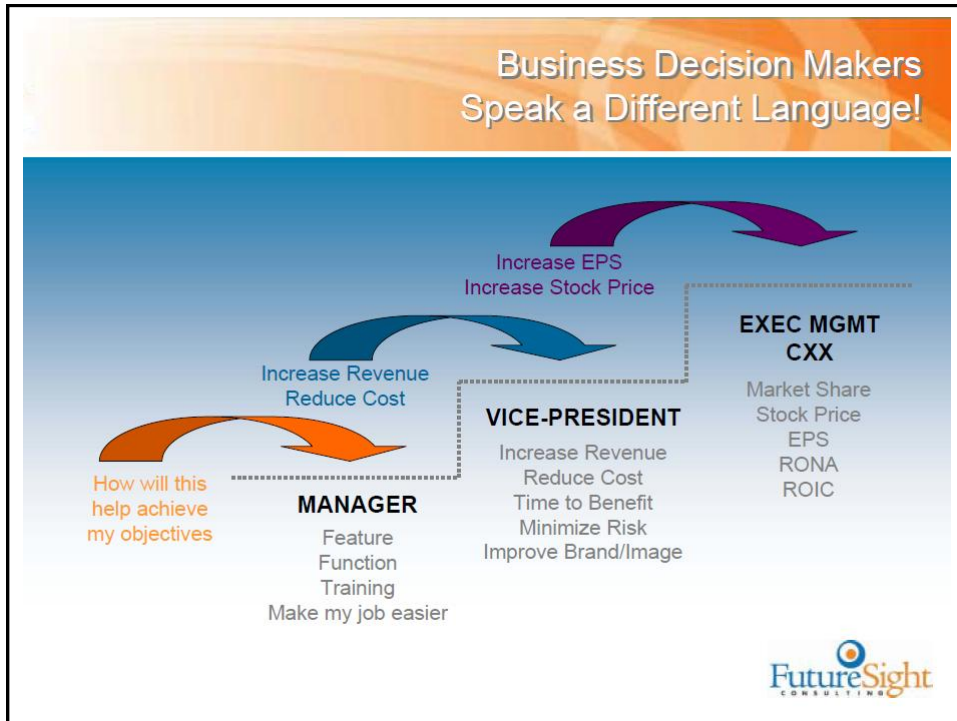
- Establish your Elevator Pitch to your Executive
 - You only get one shot to make the biggest impression.
- Do your homework to understand what you are competing against for funding.
- Articulate your position as to why your project is aligned with your organizational goals. ie. Profitability, Customers Sat, New Services, Employee Effectiveness, Security
- Speak your Executives Language.
- Be prepared to compromise and negotiate
 - What are you willing to risk or defer as part of your project.
 - Provide Options
- Facts are your Friend
 - Deliver Analysis (ROI or TCO)
 - Operational Input
 - Stakeholder Impacts by a Status Quo vs. Migration
- Document your Assumptions (CYA)




Market Trends

Customer Trends:


- 82% of IT decisions now require ROI analysis. (Information Week)
- Over 50% of customers use ROI to validate their own analysis and screen vendors (E&Y)
- 81% of buyers expect IT vendors to quantify their value proposition. (E&Y)
- 61% of buyers rate vendors ability to quantify their value proposition as part of their selection process.



Beware of the CFO!!!!



- CFO's today spend on average 16% of their time on IT decisions per month.
- Nearly 60% are heavily involved in:
 - Budgeting
 - Needs assessment
 - Project planning
 - Vendor selection
 - Governance
 - Business alignment
 - And other aspects of IT
- Approximately 96% of survey respondents oversee IT resource allocation and 27% have sign-off responsibility for all changes in IT resource allocations.





The CFO's Desired Financial Metrics

ROI:

- Return on Investment (ROI) is the cumulative net benefits (benefits minus direct costs of benefits such as applying a profit margin to total revenue influenced) derived from a technology initiative, divided by cumulative costs of the enabling technology investment and associated deployment and on-going costs.
- ROI is the number one way CFOs are making technology purchase decisions in these tight times. They are using this metric to control technology purchases and to make smarter tech-buying decisions. It allows them to quickly cut through the technology hype to determine the true economic worth to the firm.

Breakeven:

- The payback period is the point in time (sometimes referred to as breakeven point) where the organization recoups its costs outlaid for a particular technology solution. It's where the net benefits equal the costs associated with the technology initiative. The payback period is a good measure of risk, letting the investor know how long it is going to take to recoup an investment outlay.



The CFO's Desired Financial Metrics

TCO

- Total Cost of Ownership (TCO) is where most companies begin to scrutinize the costs of a potential technology solution. TCO seeks to measure all of the expenses, both human and technical, behind a given technology initiative. It includes all costs related to the technology lifecycle, including procurement, deployment, maintenance and support. A TCO analysis can be very good for budgeting purposes, or choosing between alternative courses for technology initiatives. It is not often wise to evaluate potential technology initiatives based on TCO alone.
- Key cost areas to be considered in the TCO analysis include software (including maintenance and upgrades), hardware and other infrastructure-related costs), personnel, consulting, training (admin and end users) and other areas particular to a given project.



Do you need an ROI or TCO?

- **What is the Point of TCO?**
 - Total cost of ownership is intended to evaluate the cost of acquiring, using and maintaining a product or system.
 - TCO usually includes two or more alternatives.
 - Status-Quo or Do Nothing
 - Investment
 - Lease vs. Buy
 - TCO is preferred by people who are oriented to cost containment.
 - The advantages of productivity or revenue enhancement of one solution over another may not be considered in a TCO.
- **What is the point of ROI?**
 - Decision Makers use ROI to determine worthiness of an investment using key financial metrics
 - Hurdle Rates
 - IRR
 - ROI calculations permit a project to be evaluated based on its own merits.
 - ROI is not focused only on expense savings like TCO but can include Productivity Benefits, and Increased Margins.



The basics of TCO and ROI

A TCO Case Total Cost of Ownership

- Requested by those focused primarily on operating budget who want to save money
- Generally limits you to a strict “hard dollar” view – if it won’t show up in the expenses lines, it won’t be in the case
 - Tougher for applications like mobility for sales force productivity, for example

An ROI Case Return on Investment

- Requested by those aligned with business strategy, marketing, lines of business who want to justify an investment to enhance the business
- Opens up the possibility for productivity and revenue benefits
 - Often the focus in contact center sales

- The majority of the effort is identical for both types of analysis. The more that the investment delivers productivity and revenue benefits, the more likely the focus will be on ROI.



How do you know if you need a solid ROI Case?

- Introduction of a new technology within your enterprise that has unproven track record.
- High-Ticket purchases....particularly those requiring a high level of services and/or are deemed to be capital investment based.
- Products that are not deemed to be mission or business critical.
- Switching from the status quo to a new solution or upgrade.



Project Funding

- Capital has a cost, just like fuel has a cost
- Your Firm expects a project, at the very least, to return the cost of capital that was used to fund it
- Most firms require a project to return more than just the cost of capital
- Competing projects are selected on the basis of their return.
 - New X-Ray Device vs. Communications Upgrade



The Practicalities of Doing an ROI or TCO

- The goal is a compelling case that permits you to proceed with your project
 - The **case needs a champion** within the company willing to be the voice for the case, to validate numbers, process, and diligence
 - Data collection should **focus on “reasonable” numbers** – no numbers will ever be “right” or “exact”
 - We **avoid using benchmarks as a substitute for your data**. Work may take longer to start, but we find it quicker to finish
 - **Cases are built with care**, in anticipation of the concerns and questions the decision makers are sure to raise
 - **It’s an iterative process** – gather data, consider the output, validate the findings, socialize the findings, gather additional data not available earlier, and repeat until closure
 - **It may not take very long** -- A winning case can “be ready” even when some benefits haven’t been calculated – as long as *all* the costs have been included



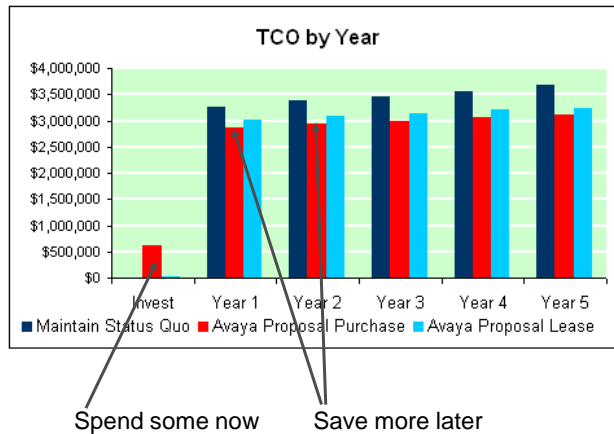
TCO issues

- What is the scope of the TCO?
 - In terms of sufficient functionality of the systems
 - In terms of time (3 year? 5 year?)
 - In terms of cost categories
 - Initial costs of product, installation, implementation
 - Ongoing costs of maintenance, any added services or personnel
 - Application benefits that lead to savings in billed services, reduction in payroll
 - Application benefits that lead to increased employee efficiency, increased revenue (?)
- What is the Status-Quo spending if the project is not done?
 - One of the most overlooked aspects of a TCO or an ROI
- Can leasing be considered?
- What constitutes “sufficient” savings?



Classic TCO illustration

- Ultimately it is the dollar reduction in TCO that is of greatest interest, not the absolute value
- Purchase TCO is lower than Lease due to interest rate



ROI Issues

- Same scope issues as the TCO
 - Functionality, window of time, benefits to include
 - Productivity and revenue benefits are more often seen in an ROI than a TCO
- What is the Status-Quo spending if the project is not done?
 - An often overlooked part of a TCO or ROI case
- Can leasing be considered?
- What constitutes the investment criteria?
 - What is the required rate of return and payback period?
 - Most companies do not divulge the required rate of return; a rate “close enough” works as long as the project IRR is clearly greater
 - Payback period, in months or years, is usually openly shared



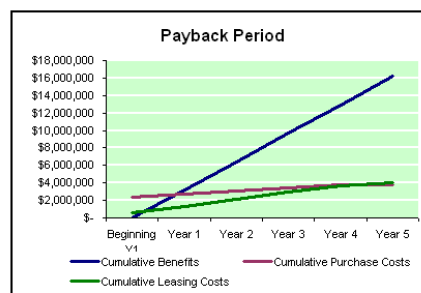
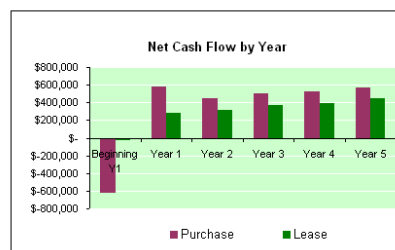
What are the investment criteria?

- What is the required rate of return or hurdle rate for the project?
 - Also known as “hurdle rate”
 - Equal to $\text{Inflation} + \text{Cost of Credit} + \text{Risk}$
 - For example, $2\% + 7\% + 10\% = 19\%$
 - Projects are often completed and approved without knowing the exact rate as long as the project’s Internal Rate of Return is much greater than a reasonable estimate of the hurdle rate
- What is the required payback period?
 - Easier knowledge to acquire than corporate hurdle rate
 - Often expressed in terms of months (eg, 18 months)



Classic ROI Illustrations

- Some “negative” cash flow as project begins, turning to “positive” cash flow.
- Internal Rate of Return and months to payback are key results.



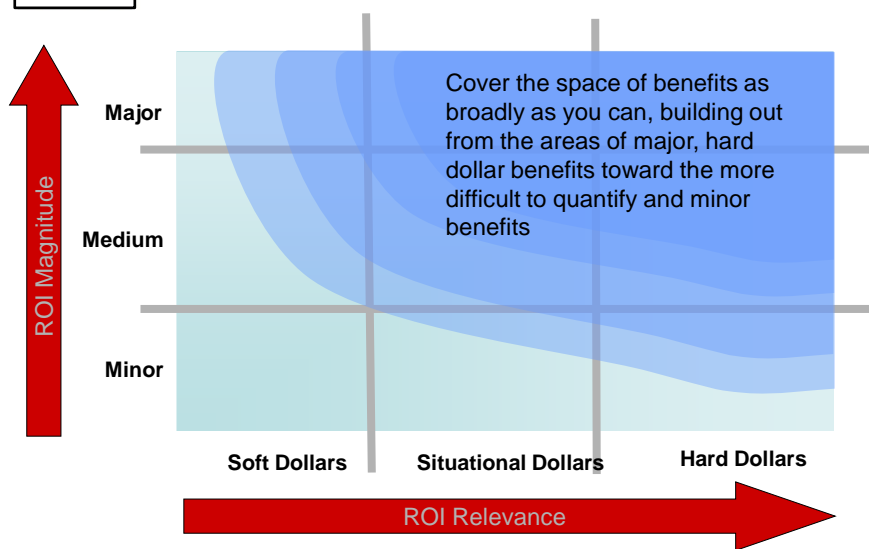


Variations in the ROI situation

- Clients ask for a “savings” case and a “business expansion case”
 - Example: “Show me how many FTE I could cut in my call center and then show me how many more contacts I could handle or additional sales I could make if I kept the agents”
- Client ask for cases “with and without the revenue”
 - Does this save our company operating expense vs. drive new revenue for my company.



Magnitude and Relevance of Benefits





Enterprise Convergence

- The general situation
 - Multiple individual systems will be consolidated into one or a few enterprise wide systems
 - Calls that now use the PSTN can use the corporate LAN or WAN for VOIP telephony; trunk consolidation may be possible
 - Capabilities will be uniform throughout the enterprise
 - New applications on the CM3.0 software platform will be available
 - It will be possible to manage from a centralized point
 - Contact centers may be consolidated resulting in fewer ACDs and increased efficiency



Typical areas of benefits for you to consider

- **Network Savings**
 - PSTN, private lines, trunking (sometimes), vendor-provided services (prompting, pre-route), soft phone for work-from-home, road warriors, mobile
- **Administration**
 - Fewer systems, common release, uniform support and availability of 24x7 remote monitoring streamlines support efforts
 - Time to do a MAC drops for some down to a couple minutes, of elimination of outside MAC services
- **Conferencing and Collaboration**
 - Replacement of all or part of outside service charges using Meet Me or Meeting Exchange
- **Contact Center**
 - Consolidation benefit of agent pooling
 - Introduction or expansion of new efficiency or effectiveness measures, both inbound and outbound
 - Extension of contact center into new site or new functions
 - Introduction of Blended Agents for Multi Channel Interactions



Typical areas of benefits for you to consider

- **Productivity from telecommuter, road warrior, messaging and mobility applications**
- **Operation/telephone receptionist position consolidation**
- **Status-quo spending on infrastructure**
 - Including Centrex replacement, site refreshes, planned expansions, foreseen upgrades for functionality, security or maintenance support requirements
- **The Killer App**
 - The way in which your business processes or competitive market presence will be changed through improved communications within your business and with your customers, suppliers, and partners



Important subjects, difficult to quantify

- Benefit of improved disaster recovery / business continuity
- Benefit of account control through mobility apps that direct client calls to “one number” covered by corporate voice mail, rather than to employee’s cell numbers and voice mail
- Ease and speed of adapting in a dynamic marketplace



Client data and "default" data structure

1. In this topic of Admin, Support and MACs, there are 5 sub-topics in vertical columns
2. The green cells are what we can't possibly know without asking the client
3. The orange cells are unit costs and other types of detail that you must eventually validate if you are taking benefits in that area

Administration, Support, MACs		Nominal Annual Savings \$					
Administration, Support, MACs		Switch and Key System Admin Staff	Help desk Staff	Application Support Staff	MACs	Outside Admin or MAC services	Total
A	Number of support staff today	0	0	0			
B	Percent reduction anticipated	0%	0%	0%			
C	Percent increase in staff productivity	0%	0%	0%			
D	Annual training budget	\$ -	\$ -	\$ -			
E	Percent reduction anticipated	0%	0%	0%			
F	% of phones with MACs done in-house				0%		
G	Annual expenditure on outside service					\$ -	
H	Percent reduction in outside expense					0%	
I	Savings on staff payroll	\$ -	\$ -	\$ -			\$ -
J	Annual Savings on training	\$ -	\$ -	\$ -			\$ -
K	Annual Productivity Improvement of staff	\$ -	\$ -	\$ -			\$ -
L	Annual Savings outside Admin and MAC service					\$ -	\$ -
							Net Annual Savings \$ -

Administration, Support, MACs		Assumptions and Intermediate Calculations				
		Admin staff	Help desk staff	ACD administration	MACs	Outside Admin or MAC services
A	Loaded Annual Payroll / employee	\$ 65,000	\$ 65,000	\$ 65,000		
B	Percent of phones (total) with MAC activity				4%	
C	Labor per phone (minutes)				30	
D	Percent labor reduction per MAC				33%	
E	Productive weeks per year				48	
F	Productive hours per week				32	



ROI depiction for a Purchase

Return on Investment Analysis on Purchase Costs depicted are for Customer owned and managed solution

	Beginning Y1	Year 1	Year 2	Year 3	Year 4	Year 5
Total Benefits		\$ 2,340,186	\$ 3,012,893	\$ 3,352,331	\$ 3,357,144	\$ 3,362,100
Solution Costs	\$ 3,180,000	\$ 580,000	\$ 580,000	\$ 580,000	\$ 580,000	\$ -
Remaining Depreciation and Penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Costs for Purchase	\$ 3,180,000	\$ 580,000	\$ 580,000	\$ 580,000	\$ 580,000	\$ -
Net Benefit	\$ -3,180,000	\$ 1,760,186	\$ 2,432,893	\$ 2,772,331	\$ 2,777,144	\$ 3,362,100
Depreciation		\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Tax Basis		(\$2,019,814)	\$ 1,832,893	\$ 2,172,331	\$ 2,177,144	\$ 2,762,100
Tax @ 37%		\$ -	\$ 678,171	\$ 803,763	\$ 805,543	\$ 1,021,977
Net Cash Flow	\$ -3,180,000	\$ 1,760,186	\$ 1,754,723	\$ 1,968,569	\$ 1,971,600	\$ 2,340,123
ROI for Purchase, All Benefits	Beginning Y1	Year 1	Year 2	Year 3	Year 4	Year 5
Cumulative NPV by Year @ 20% RRR	\$ -3,180,000	\$ -1,713,178	\$ -494,621	\$ 644,597	\$ 1,595,408	\$ 2,535,851
Internal Rate of Return by Year		-45%	7%	32%	44%	51%
Payback Period (months)		22				

Required Rate of Return: 20%
Tax rate: 37%

- You have evaluated benefits and have entered your costs
- This is a conservative depiction with costs for Year 2 assessed at end of Year 1 (and so on) and benefits for each Year assumed at year's end



ROI depiction for Lease

Return on Investment Analysis on Lease

	Beginning Y1	Year 1	Year 2	Year 3	Year 4	Year 5
Total Benefits		\$2,340,186	\$3,012,893	\$3,352,331	\$3,357,144	\$3,362,100
Costs outside of Lease	\$ 160,000	\$ 580,000	\$ 580,000	\$ 580,000	\$ 580,000	\$ -
Lease Payments (on \$3,000,000)	\$ 59,059	\$ 708,709	\$ 708,709	\$ 708,709	\$ 708,709	\$ 649,650
Total Costs	\$ 239,059	\$ 1,288,709	\$ 1,288,709	\$ 1,288,709	\$ 1,288,709	\$ 649,650
Net Benefit	\$ -239,059	\$1,051,477	\$1,724,184	\$2,063,622	\$2,068,435	\$2,712,450
Depreciation		\$ -	\$ -	\$ -	\$ -	\$ -
Tax Basis		\$812,418	\$1,724,184	\$2,063,622	\$2,068,435	\$2,712,450
Tax		\$ 300,595	\$ 637,948	\$ 763,540	\$ 765,321	\$ 1,003,607
Net Cash Flow	\$ -239,059	\$750,883	\$1,086,236	\$1,300,082	\$1,303,114	\$1,708,843
ROI for Lease, All Benefits						
Cumulative NPV by Year @ 20% RRR	\$ -239,059	\$ 386,676	\$ 1,141,007	\$ 1,893,369	\$ 2,521,800	\$ 3,208,546
Internal Rate of Return by Year		214%	322%	488%	491%	492%
Payback Period (months)		4				

Required Rate of Return 20%
Tax rate 37%

- Benefit lines for Lease and Purchase are always equal
- Purpose of this depiction is to overcome high capitalization dollars, introduce cash flow advantages of leasing

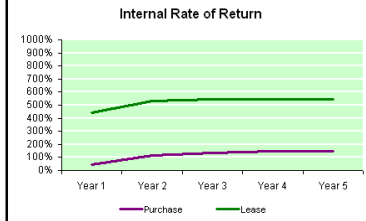
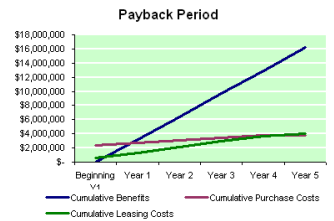
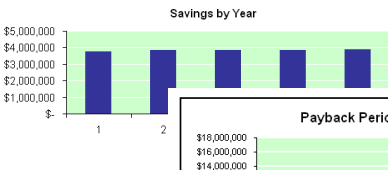
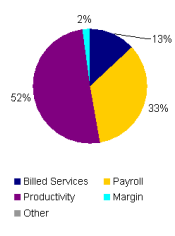


Illustrations from an ROI

5-year total savings by category used in ROI

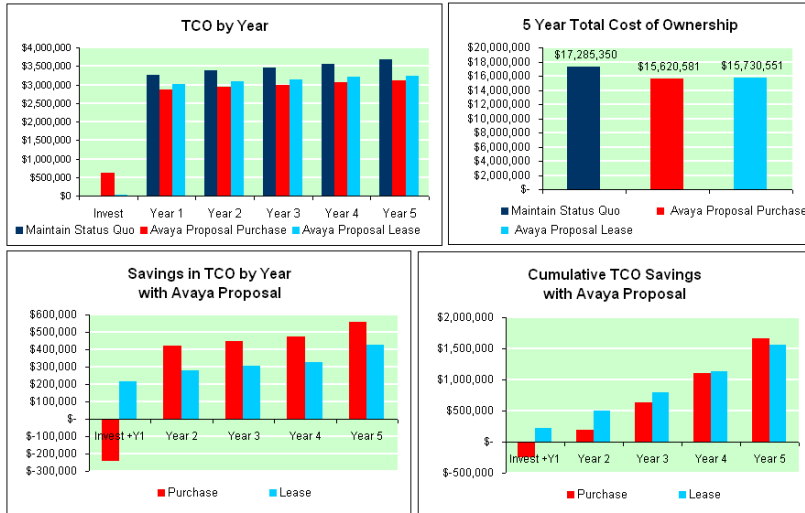
	Billed Services	Payroll	Productivity	Margin & Other
Network Savings	\$ 1,017,600			
Administration	\$ 147,250	\$ 3,380,000	\$ 1,300,000	
Operator Consolidation		\$ 750,000		
Conferencing	\$ 421,200	\$ -200,000		
Telecommuter, Road Warrior, Mobility	\$ 251,804		\$ 1,987,693	
Messaging	\$ 192,000		\$ 1,726,571	
Contact Center Staffing	\$ 709,863	\$ 5,430,465		
Centrex Savings	\$ -			
Call Recording	\$ 260,000		\$ 1,480,476	
Cabling Savings	\$ 90,000			
Reliability		\$ 215,659	\$ 97,680	
Juniper - Cost of Downtime		\$ 653,397	\$ 246,645	
Other Savings				\$ -
Totals	\$ 2,486,917	\$ 9,370,465	\$ 6,492,300	\$ 97,680

Categories of Savings 5-year view





Illustrations from a TCO



Granular Contact Center Analysis

- A contact center ROI or TCO often includes
 - IVR complete self-service or partial self-service
 - Screen-pop applications that shorten call handling time
 - Data directed routing, improved caller segmentation, better skills based routing, or Advocate
 - Efforts that reduce talk time, wrap-up time, call transfers
 - Revenue from up-sell or cross-sell
 - Revenue gains from reduced abandons
 - Improved agent adherence to schedule, reporting at the agent level to identify and apply best practices
 - Consolidation of ACDs to increase efficiency
 - Redeployment of FTE to handle more inbound calls or to do outbound calls

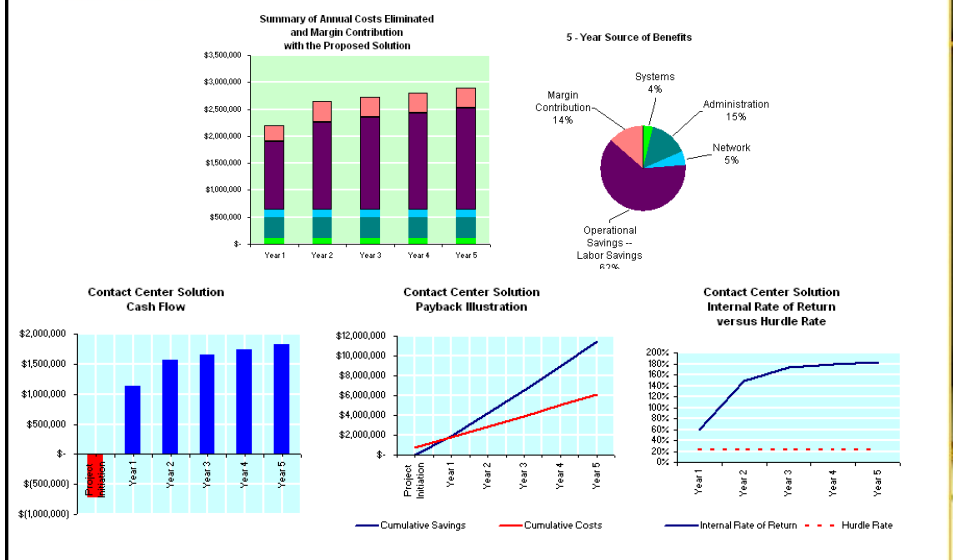


Entry Dashboard – One Page ROI

AVAYA Contact Center ROI Tool		Baseline and Improvements		Avaya Proprietary (Restricted Distribution) Solely for authorized persons having a need to know Pursuant to Company Instructions (c) 2005 Avaya Inc. All Rights Reserved	
AVAYA		FTE agent hours scheduled annually	1525	Annual Agent Loaded Payroll	\$ 1,584,000
How many full time equivalent agents are handling calls?	45	What is the loaded annual salary per agent? (wages+benefits)	\$ 35,200	Approximate agent occupancy is	95%
How many calls were handled (completed) last year?	900,000	What is the average talk time per call? (sec)	240	Current Average labor cost per call is	\$ 1,760
What is the average wrap up time per call? (sec)	20	What is the average wrap up time per call? (sec)	20	Current Average Revenue per agent-handled call	\$ 21
What % of completed calls result in a sale? (396,000 annually)	44%	What is the total revenue of the center? (average order size = \$46)	\$ 19,000,000	Potential Number of agent handled calls	813,860
What is the margin on sales?	12%	What is the margin on sales?	12%	Recaptured abandons at 70% retry included above	16,800
What % of calls are misrouted, and need transfer? (45,000 annually)	5%	What is the current abandon rate? (Abandons = 36,000 annually)	4%	Potential Net Labor Savings	\$ 240,097
What is the target rate for transfers, with the solution?	2%	What is the target rate for transfers, with the solution?	2%	Potential Annual Loaded Payroll	\$ 1,343,593 down 15.2%
What % of calls can be completely self-served?	8%	What % of calls can be completely self-served?	8%	Potential agent labor cost per call	\$ 1,650
What % of calls will get a screen-pop as part of the solution?	40%	What % of calls will get a screen-pop as part of the solution?	40%	Potential Revenue	\$ 19,942,763 up 5%
What is the talk time savings associated with screen-pop?	15	What is the talk time savings associated with screen-pop?	15	Potential New Margin Contribution	\$ 113,132
What % of agent calls will have less talk time due to partial IVR service, task streamlining, skills based routing, etc.?	70%	What % of agent calls will have less talk time due to partial IVR service, task streamlining, skills based routing, etc.?	70%	Additional number of calls resulting in sale	540
What is the talk time reduction associated with self-service?	20	What is the talk time reduction associated with self-service?	20	New average revenue per agent-handled call	\$ 25
What % of calls will have reduced wrap up time?	0%	What % of calls will have reduced wrap up time?	0%	Busy scriptlets	70%
What is the wrap up time savings expected for these calls?	0	What is the wrap up time savings expected for these calls?	0	Micro-voiced call handling	25%
What % of sales calls will benefit from up-sell/cross-sell?	20%	What % of sales calls will benefit from up-sell/cross-sell?	20%	Summary of Labor Savings and New Margin	
What is the average revenue increase with up-sell/cross-sell?	\$ 12,000	What is the average revenue increase with up-sell/cross-sell?	\$ 12,000	\$ 11,880	Annual Labor savings: Reduced Transfers, 0.3 FTE agents
What % of non-sales calls will result in a sale with the solution?	0%	What % of non-sales calls will result in a sale with the solution?	0%	\$ 125,770	Annual Labor savings: Self-service, 3.6 FTE agents
What is the average revenue for these new sales?	\$	What is the average revenue for these new sales?	\$	\$ 36,787	Annual Labor savings: Screen pop, 0.9 FTE agents
Assumption for reducing abandons?	Reduction to built into solution	Assumption for reducing abandons?	Reduction to built into solution	\$ 71,650	Annual Labor savings: Reduced talk time, 2 FTE agents
				\$ -	Annual Labor savings: Reduced wrap-up, 0 FTE agents
				\$ -	Headcount set-aside cost: To reduce abandons, 0 FTE agents
				\$ 194,924	Incremental margin: Up-sell / cross-sell
				\$ -	Incremental margin: New Sales
				\$ 8,208	Incremental Margin: Recaptured abandoned calls at 70% retry
				\$ 353,139	Total Net Annual Benefit Identified



Typical View of a Contact Center Financial Analysis



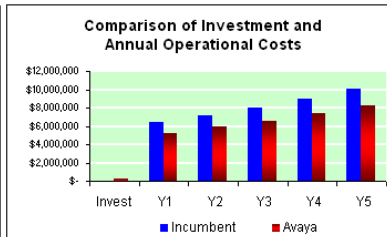
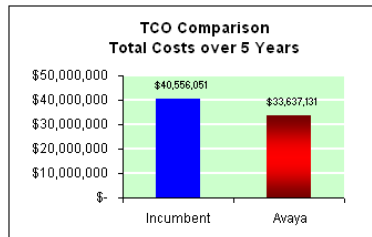
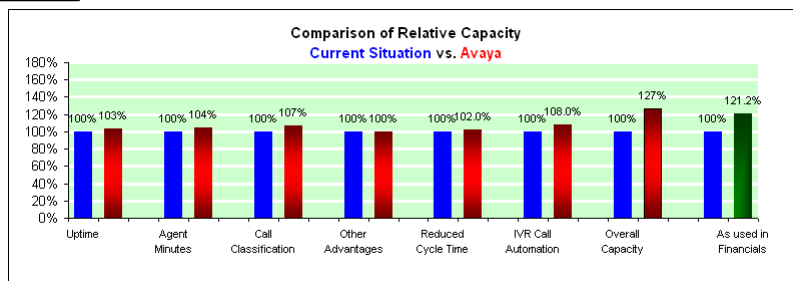


Predictive Dialer ROI or TCO analysis

- Replacement of manual, preview, or existing predictive dialers or upgrading of older Avaya dialers
- Lower labor costs or increased sales or collections due to
 - Increased up time from better reliability
 - Superior call classification
 - Less idle time between calls
 - Introduction of IVR to handle low value collections, provide appointment reminders, announce availability of orders for pick-up, etc.
- Evaluation of cost of compliance to Nuisance Calling regulations



Predictive Dialer Opportunity





Cerium Networks: *Integrated Communication Solutions*

“The Way We Put Things Together IS What Sets Us Apart!”

