



# **Defining the role of the contact centre in the business value chain and selecting the appropriate commercial model for your operations**

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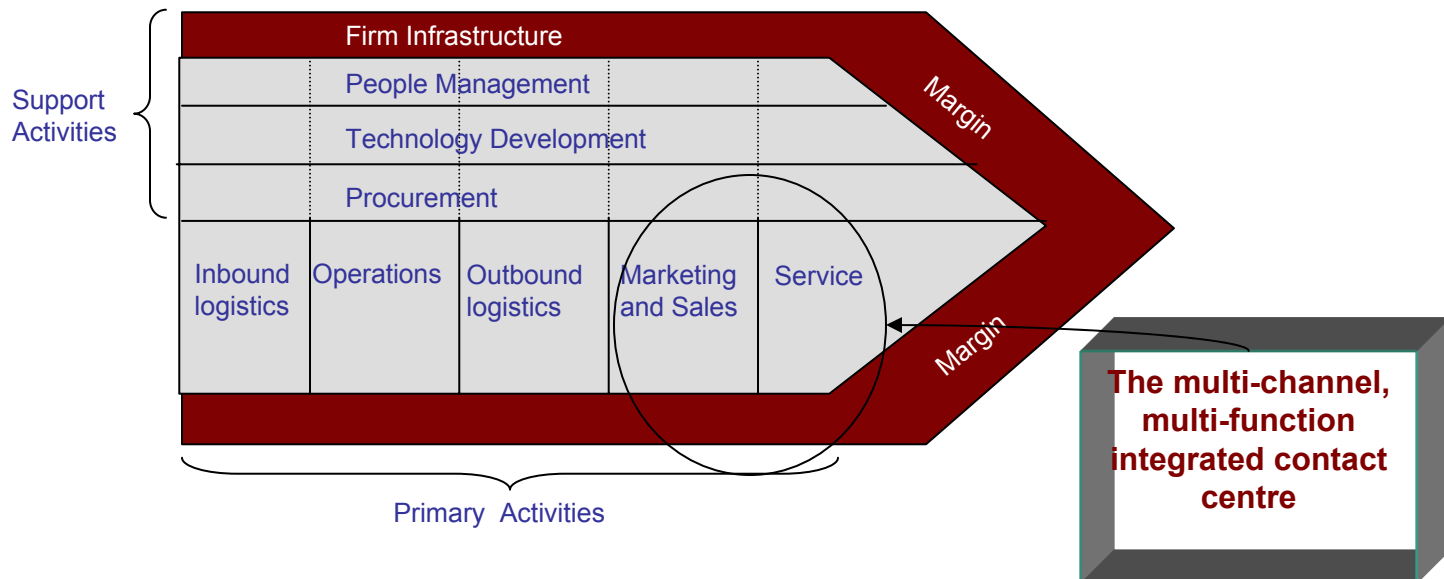
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# Introduction

As a fully enabled direct channel, integrated with the business, the contact centre can play a key role in the organisation's value chain by reducing cost, enabling focus and adding value to its product and service offerings – this role in the business value chain will shape the commercial model for the contact centre



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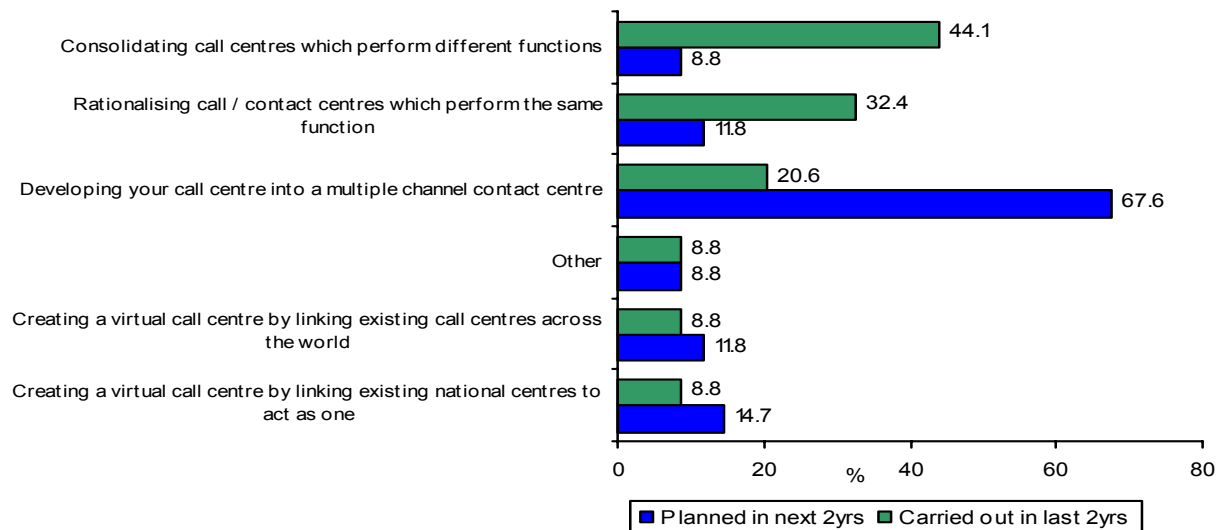
# Business context

Results of a recent benchmarking survey indicate that, in South Africa, the top three business drivers for contact centres are: improving customer service, creating direct relationships, and retaining profitable customers

To respond to these business drivers, the number one imperative of contact centre operators has become the need to develop a multi-channel, multi-function contact centre capability, fully integrated into the business

**As a fully enabled direct channel, integrated with the business, the contact centre can play a key role in the organisation's value chain by reducing cost, enabling focus and adding value to it's product and service offerings – this role in the business value chain will shape the commercial models for the contact centre**

Which are the major developments planned? - 2002



Source: Dimension Data Proactive Insight South African Contact Centre Benchmarking Report - 2002

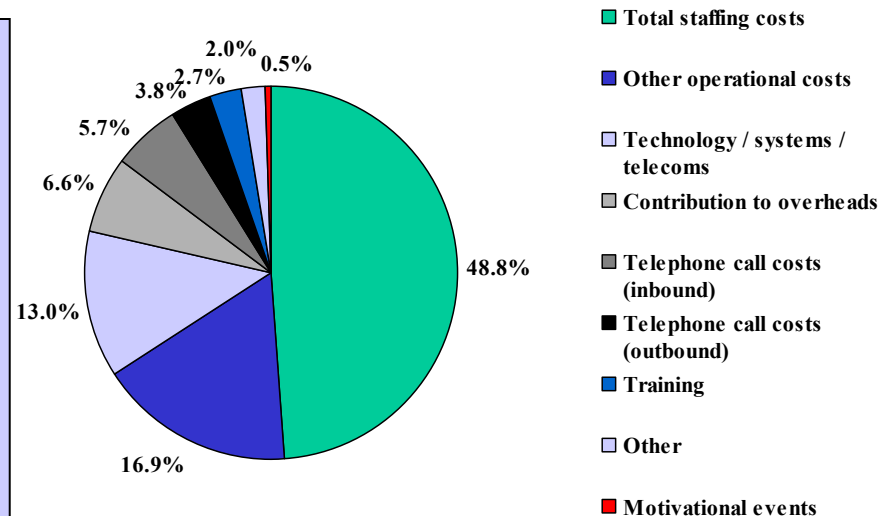
# Full cost of ownership

Calculating the full cost of ownership of a contact centre (i.e. what does it cost you to own and run a contact centre on a monthly basis) can be a tricky exercise. Your asset register, infrastructure configuration plan and income and expense statement will provide you with the information you require.

It is essential to identify and quantify all the costs related to the operation of the contact centre. Many of them, such as certain group IT costs and overhead costs are obscured or unavailable because of constraints of GL systems within the organisation.

## Typical monthly operating costs

Operating costs	Operating costs
<b>Fixed:</b>	<b>Variable:</b>
– Salaries	– Temps
– Depreciation (intangibles)	– Overtime
– Depreciation (Tangible assets)	– Incentives, bonuses, commissions
– Insurance	– Telephone call charges
– Licenses	– Bandwidth
– Levies	– Facilities
– Maintenance and support	– Printing and stationery
– Rent, water, lights	– Training
– Security	– Repairs and maintenance
	– Recruitment
	– Marketing
	– Travel



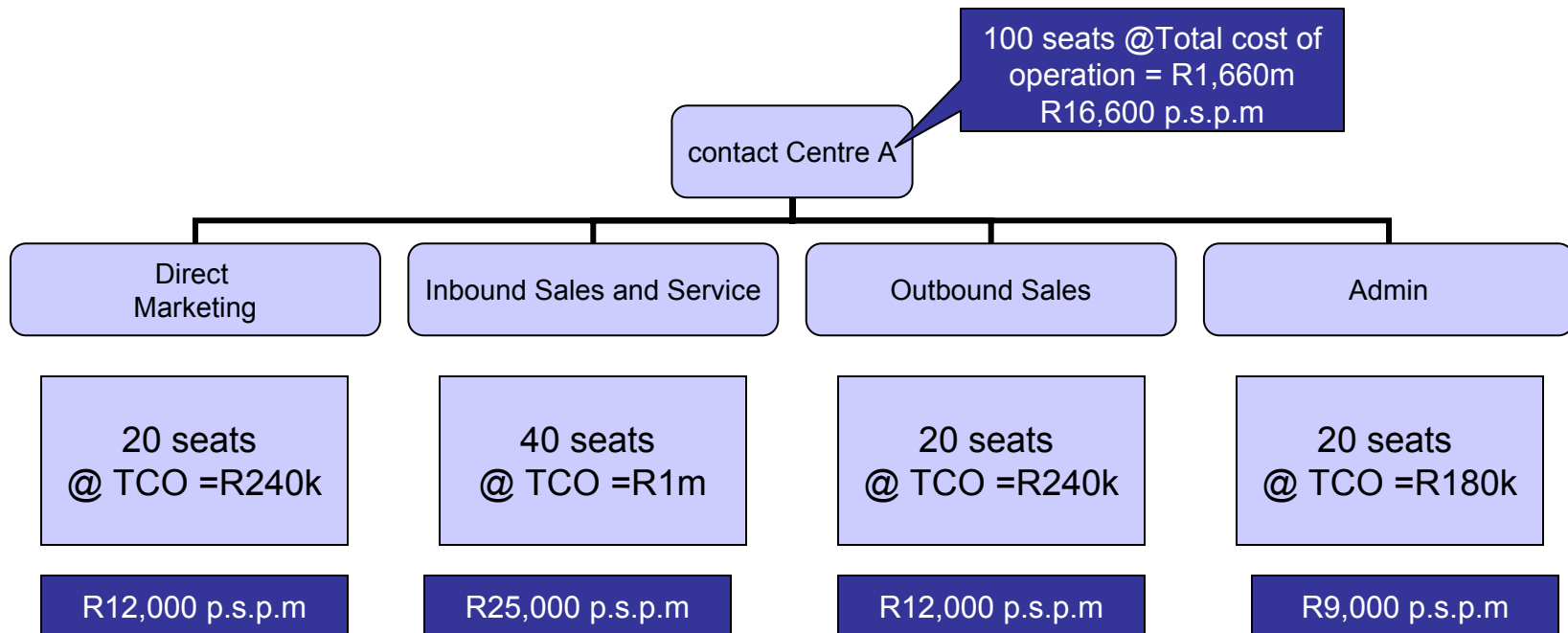
Source: Dimension Data Proactive Insight South African Customer

Contact Centre Benchmarking Report, 2002

# Full cost of ownership.. cont

It is possible that your contact centre is structured with different desks, differentiated by customer, function or service line, each configured differently and each resourced with an agent with a specific skill set.


Having calculated the full cost of ownership of the contact centre, the next important step is to decompose these costs to identify the real costs associated with providing each type of service to your different customers.



# Understanding your customers

The contact centre, as a direct channel, will interact with end users (consumers and businesses), with other functions within the business (operations, IT, back office departments) and with other internal business units (product, segment and channel business units), with a different value proposition for each customer grouping.

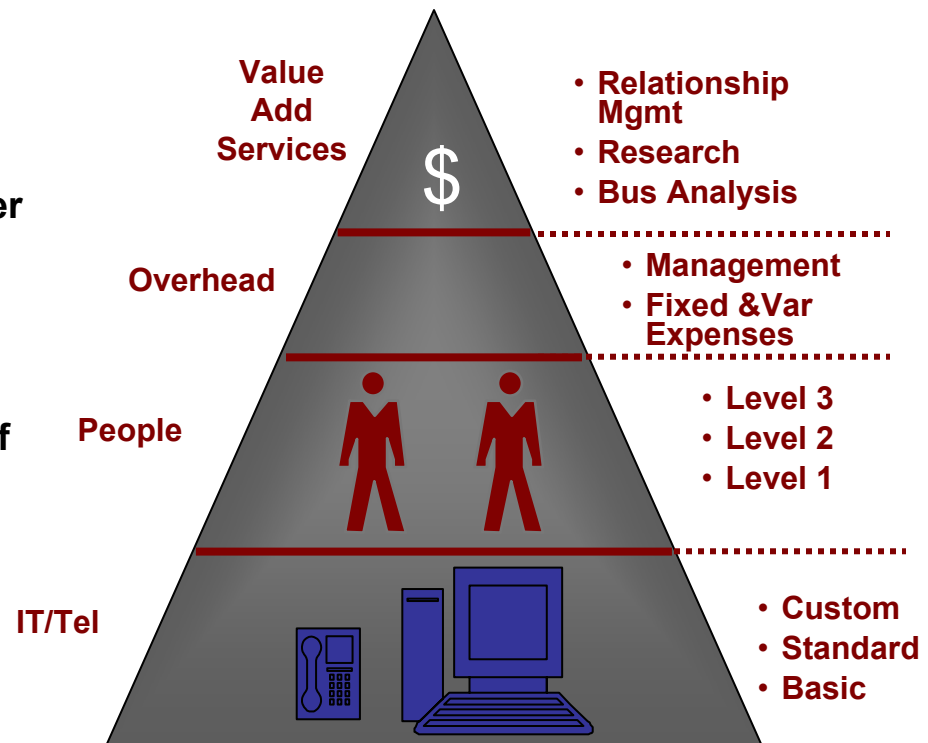
Before you can price properly it is essential to understand who is buying your contact centre's services from you and what their expectations are of your service delivery, quality and price.

External customer segments	Interaction media	Internal customers	Unique value proposition
<ul style="list-style-type: none"> <li>Affluent</li> <li>Consumer</li> <li>Micro</li> <li>Commercial</li> <li>Small Business</li> </ul>		<ul style="list-style-type: none"> <li>Segment BUs</li> <li>Product BUs</li> <li>Channel BUs</li> <li>Marketing</li> <li>IT</li> </ul>	<ul style="list-style-type: none"> <li>Ease of access</li> <li>Service quality</li> <li>Turn around time</li> <li>Knowledge</li> <li>Price</li> </ul>

# Differentiating the offerings and costs

- It should be a primary objective of the contact centre to provide the right service to the right customer cost effectively (reducing the overall unit cost of sales and service) through the direct channel.
- Cost is driven by interaction volume and the services offered, which are driven by the infrastructure, skills and management support required to deliver these services
- Typically, the fixed cost elements include: seat configuration, skill, management overhead, value added services
- Variable costs will change as volume of interactions changes – variable costs include call charges, overtime and temporary staff

## Contact Centre – Seat Configuration pyramid



# Differentiating the offerings and costs ...(cont)

## The Differentiated Cost Model

Configuration option	A	B	C	D	E
<b>IT Config</b>					
Simple	R 3,500			R 2,500	
Standard		R 6,000			
Custom			R 8,500		R 9,000
	R 3,500	R 6,000	R 8,500	R 2,500	R 9,000
<b>People Config</b>					
Level 1	R 5,500				
Level 2		R 6,500			
Level 3			R 7,500		
Admin				R 4,500	
SME					R 9,500
	R 5,500	R 6,500	R 7,500	R 4,500	R 9,500
<b>Overhead</b>					
	R 2,000	R 2,200	R 2,500	R 1,500	R 3,500
<b>Value Add</b>					
Rel Mngmt	R 500	R 500	R 500	R 500	R 500
Research	R 0	R 0	R 250	R 0	R 250
BA	R 0	R 0	R 1,200	R 0	R 1,200
Other					
	R 5,400	R 4,900	R 4,400	R 2,450	R 1,950
<b>Total - Monthly seat cost</b>	<b>R 16,400</b>	<b>R 19,600</b>	<b>R 22,900</b>	<b>R 10,950</b>	<b>R 23,950</b>

**Illustrative**

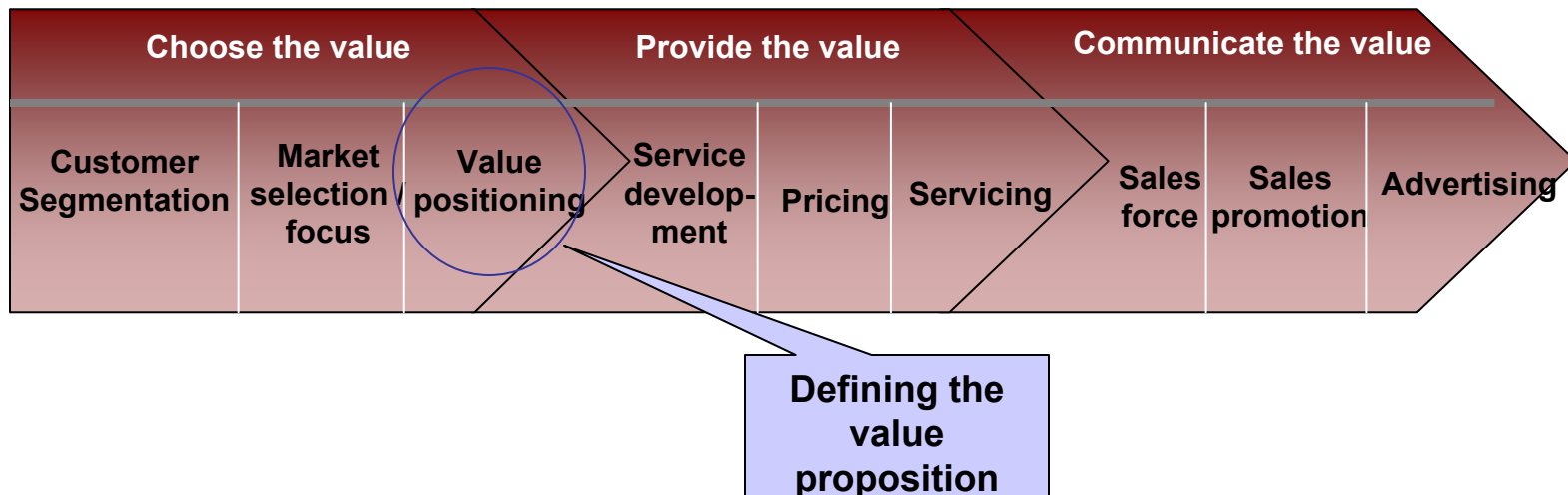
# Developing the value proposition

Creating the value proposition and positioning the value of the contact centre offerings is part of the process of value creation and delivery

The proposition should address some or all of the following criteria:

- Importance of the offering
- Distinctive features of the offering
- Superior features of the offering
- Communicable benefits
- Affordability
- Profitability

## The value creation and delivery sequence



# Pricing Models

- There are many methods that can be used, in combination or alone, when determining the price for contact centre services.
- The conventional methods include:
  - Mark-up pricing – adding a standard markup to the cost of service
  - Target return pricing – pricing to achieve a targeted Return on Investment
  - Perceived Value pricing – pricing on the value of the service as perceived by the customer
  - Value pricing – charging a fairly low price for a high quality offering (the bargain deal principle)
  - Going rate pricing – pricing on the basis of the going rate that competitors charge
  - Fixed rate pricing – fixed prices quoted in a bid or contract

# Pricing Models ... (cont)

- There are other pricing methods, often more suited to contact centres, including:
  - Fixed capacity models (customer pays a fixed price for a fixed capacity and a corresponding service level)
  - Outcome based models (customer pays for the outcome e.g. sales closed, and the contact centre recovers the cost of operation from this revenue - payment could be in the form of a commission)
  - The fixed cost per subscriber model (the customer pays a fixed monthly price per subscriber – usually with a known ratio of calls / contacts per subscriber), and
  - Activity models in which the customer pays per activity e.g. per call handled

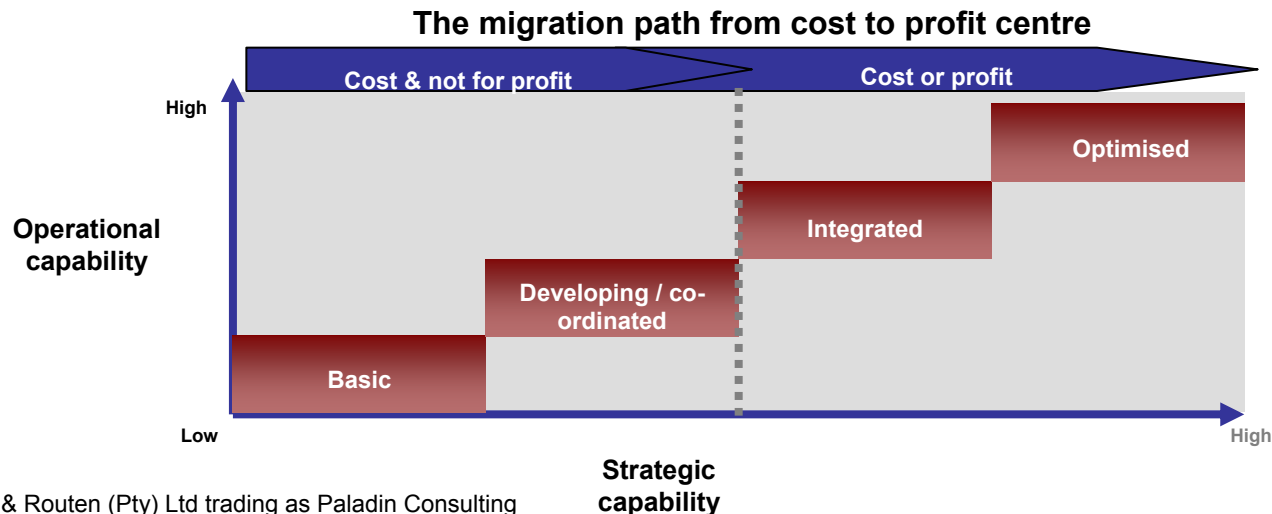
# Pricing Models...(cont)

- The price and pricing model selected will be largely determined by the role that the contact centre plays in the organisation's value chain
  - Primary role as low cost channel
    - The model used is likely to be either the mark-up model or the target–return model
    - The price is likely to be based on cost recovery or even under-recovery
  - Primary role as value enabler and value creator
    - The model used is likely to be the perceived value or value model
    - Price is likely to be considerably higher than the cost enabling the contact centre to operate as a profit centre

# Migrating from cost to profit

- The imperative, to be a cost centre or a profit centre, will be determined by the role that the contact centre plays as a direct channel in the value chain of the organisation.
- A “**cost centre**” - set up with the primary purpose of providing a low cost channel for the marketing, sales and service delivery - focused on achieving levels of operational efficiency and effectiveness that would enable the organisation to compete on the basis of cost.
- A “**not for profit centre**” - set up with the dual purpose of reducing the cost of service through the direct channel and of creating customer value through direct marketing and selling - with a hybrid model of cost recovery and margin making.
- A “**profit centre**” - set up with the primary purpose of adding value to the organisation’s product and service offerings.

*The journey from cost to profit is a challenging yet rewarding one*



# In Summary

- There are no rules regarding pricing for contact centres that apply in all cases all of the time
- Each situation needs to be assessed on the basis of the internal and external environment in which the particular contact centre operates
- Pricing models and prices should be determined on the basis of the strategic role of the contact centre and, more importantly, driven by the proposition that was proposed to and accepted by the customer
- Before you can price, sell and deliver the service effectively you must have the operational and strategic capability to enable you to deliver the service
- The contact centre is a complex environment which if not properly structured, configured and fully integrated into the main stream of the business will fail to bear the expected fruits
- The journey from cost to profit is a long and expensive one, albeit potentially very rewarding
- Making such a journey requires effort, time, money and commitment.