

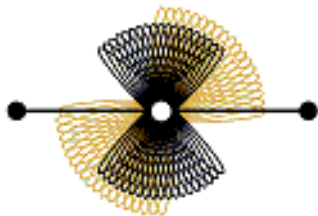
2013

DMG
CONSULTING LLC



Building the Business Case for a Cloud-Based Contact Center Solution

Sponsored by:



INTERACTIVE INTELLIGENCE[®]
Deliberately Innovative



Table of Contents

Why a Cloud-Based Contact Center is Likely in Your Future	1
Building the Business Case	1
Conducting the Financial Analysis: Return on Investment.....	2
Total Cost of Ownership	3
Technology Investment Financial Analysis Example	4
Final Thoughts.....	6
About Interactive Intelligence.....	7
About DMG Consulting.....	7

Why a Cloud-Based Contact Center is Likely in Your Future

The contact center infrastructure market is at an exciting inflection point. The cloud-based contact center infrastructure market is booming and accelerating, while the premise-based sector is losing momentum. End users around the world, in contact centers of all sizes and verticals, are adopting cloud-based contact center solutions (also known as automated call distributors (ACDs)), interactive voice response (IVR) systems and dialers.

IT and business managers have discovered that there are many advantages to cloud-based contact center solutions. The financial benefits alone can be substantial. The most common benefits for enterprises are:

1. No capital investment
2. Lower start-up and integration costs
3. No upgrade fees
4. No maintenance expenses
5. Reduced internal IT support costs
6. Elimination of data center charges for rent, occupancy and electricity
7. Reduced contact center operating costs

While many companies are realizing a positive financial return from replacing an outdated premise-based ACD with a new cloud-based contact center solution, the business and operational benefits are also significant. Once the hardware and software are moved to the cloud, operating managers can dedicate their time and resources to using the solution to optimize the performance of their department.

Building the Business Case

There are three major components of a compelling business case for a technology acquisition. These are:

1. A concise description of the challenge or problem that needs to be addressed, along with its financial impact on the organization. To get the investment approved, show the impact of the problem on the company's bottom line. If the investment is for a service organization, it's also a good idea to address the impact on the customer experience, however, this is a secondary benefit.
2. A 1- to 2-page description of the investment, highlighting its major benefits and contributions to the organization.

3. A review of the selection process to explain how the preferred solution was chosen and why it's better than the alternatives.
4. A detailed presentation of the specific quantifiable and qualitative benefits that will be realized from the investment – be as specific as possible. Identify benefits that tie back to corporate and contact center goals; specifically, look for cost savings, incremental revenue and cost avoidance opportunities. Clearly communicate the path to payback. Unless the investment yields quantifiable benefits that are cost savings for customer service departments and incremental revenue for sales or collections organizations, the investment is highly unlikely to be approved. (It's fine to include soft benefits, but not for cost justification.)
5. Conduct a detailed financial analysis. The format of the analysis will vary based on the acquisition model.

The business case is the politically correct way to advocate for a potential investment, but it's also important to keep in mind the following:

- Obtain corporate investment approval guidelines and be sure the project meets them
- Senior executives do NOT have time to read lengthy documents; put detailed support into appendices
- Use numbers and metrics to make a point
- Justify all investments based on hard dollar savings and benefits
- Get the support of all impacted departments before submitting a request to senior management

Conducting the Financial Analysis: Return on Investment

Return on investment (ROI) is a general term used to represent three financial metrics that are commonly used to assess the value of an investment:

1. Payback period – number of months or years for a project to earn back its initial investment.
2. Net present value (NPV) – the sum of all project costs and benefits expressed in the value of today's dollar.
3. Internal rate of return (IRR) - a measure of how much an investment is earning, expressed as a percent.

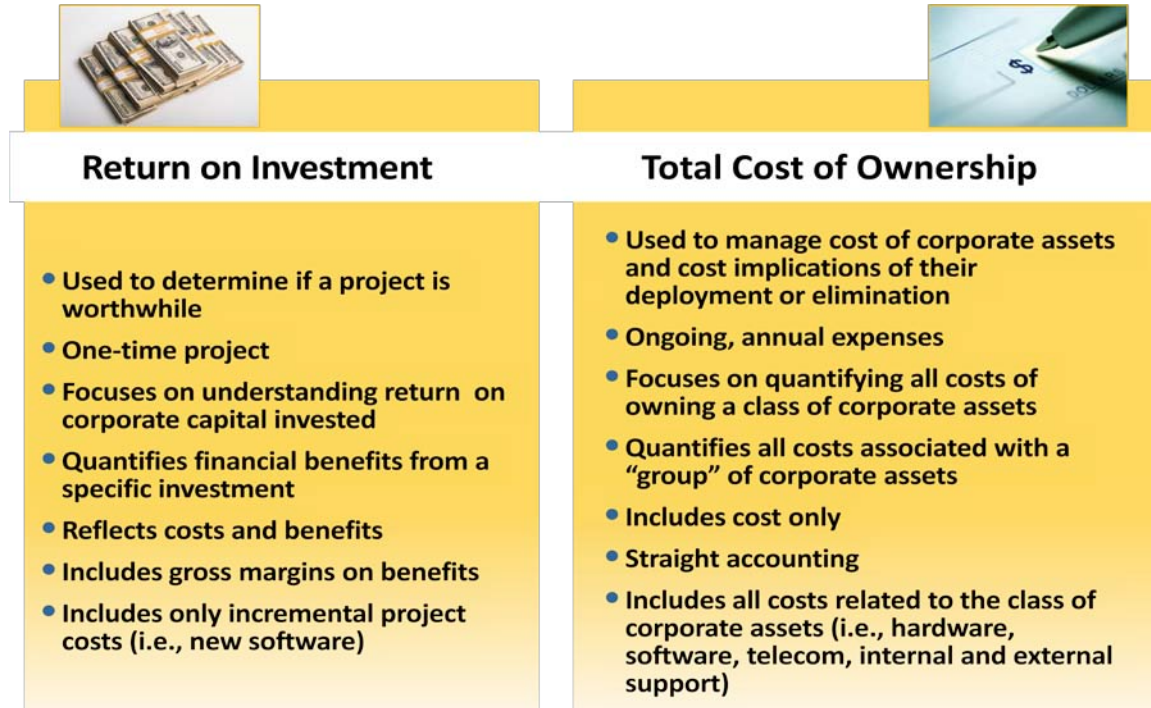
The ROI metric(s) used in the business case to justify an investment depend on the characteristics of the acquisition model. For a cloud-based investment, use NPV to

identify the solution that yields the greatest financial benefits to the organization. When considering just a premise-based solution, then all three of these options apply. Both payback and IRR are not effective measures when evaluating cloud-based solutions because the start-up costs are low relative to the ongoing benefits. If calculating the payback and IRR are part of the organization's standard approval process, go through the motions, but in the write-up, emphasize the NPV, as this is what the chief financial officer or comptroller will evaluate.

Total Cost of Ownership

Total cost of ownership (TCO) is a very different metric from ROI. ROI quantifies the cash flow impact/benefits of the proposed investment, while TCO is an accounting measure that looks at the future budgetary impact, typically over a 3- to 5-year period. TCO takes into consideration the following cost categories: depreciation, ongoing maintenance, internal staff and support, indirect fees for rent and occupancy, IT overhead, etc. The two metrics are totally different, highly complementary, and should both be used to evaluate a potential technology investment. Figure 1 compares ROI and TCO and summarizes how to use each metric to justify an investment.

Figure 1: ROI vs. TCO



Source: DMG Consulting LLC, March 2013

TCO is a useful tool for assessing the long-term bottom-line impact of a technology change (investment) on an operating area. Keep in mind that when comparing investment alternatives, CFOs care more about ROI because it measures the impact of the investment on the cash flow of the enterprise.

Technology Investment Financial Analysis Example

Here is an example of an ROI analysis. This business case is for the acquisition of a 100-seat cloud-based contact center infrastructure solution. As seen in Figure 2, the assumptions are the following:

1. The organization's cost of capital is 15%. This means that the organization will only consider projects that earn a return in excess of 15%.
2. The implementation cost for the new ACD is a one-time fee of \$50k.
3. At a cost of \$150/agent, the monthly recurring fee is \$15k.
4. The savings from replacing an outdated premise-based ACD with the new cloud-based system are:
 - a. Eliminating the need for an upgrade to the old premise-based ACD; \$35k
 - b. Reducing the number of IT people required to support the ACD; \$15k
 - c. Eliminating the maintenance fees for the old premise-based ACD; \$2k
 - d. Eliminating the cost of rent, occupancy, electricity, etc.; \$2k

Figure 2: Project Assumptions

Organization's cost of capital	15%
Costs:	
One-time new system start-up cost	\$50,000
Monthly recurring fees (100 agents @\$150)	\$15,000
Savings:	
Avoiding system upgrade	\$35,000
Reducing IT support staff	\$15,000
Eliminating maintenance on old system	\$2,000
Rent and Occupancy, etc.	\$2,000
Monthly benefits	\$19,000

Source: DMG Consulting LLC, March 2013

Figure 3 shows the cash flows from this investment. The cash flow analysis represents the movement of money in and out of an organization for a specific project. In the investment year (year 0), the organization spends \$50k on the implementation, but saves \$35k by avoiding the need to upgrade the old premise-based ACD. In each of the first three years of the investment, the organization has to pay \$180k, which is the annualized impact of the monthly recurring fees. However, they save \$228k per year, representing the annualized benefit of saving \$19k per month due to the transition to the cloud-based ACD. The net of the annual benefits and costs is a positive inflow of \$48k in years 1, 2 and 3, which is a substantial payback relative to the initial cash outlay of \$15k.

Figure 3: Cash Flow Analysis				
	Year 0	Year 1	Year 2	Year 3
Cash flow from benefits				
- Avoiding upgrade in year 1	\$35,000			
- Monthly benefits		\$228,000	\$228,000	\$228,000
Cash outflow for project				
- One-time	(\$50,000)			
- Ongoing		(\$180,000)	(\$180,000)	(\$180,000)
Net cash flow from investment	(\$15,000)	\$48,000	\$48,000	\$48,000

Source: DMG Consulting LLC, March 2013

Figure 4 is the cash flow analysis. It shows that the NPV of the project is a positive \$95,595. This means that by replacing the old premise-based ACD with a new cloud-based solution, the organization is approximately \$95k better off, after adjusting the money on a time value basis over a three-year period.

The IRR from this investment is 316%. This means that in each of the three years, the organization will earn a little more than 3 times the initial incremental cash outlay from this investment. Lastly, the payback from this investment is a rapid 3.8 months.

Figure 4: ROI Metrics	
NPV of project (including costs & benefits)	\$94,595
NPV of project costs	(\$460,981)
Internal rate of return (IRR)	316%
Payback period (in months)	3.8

Source: DMG Consulting LLC, March 2013

This example is representative of these types of investments, but the financial impact and ROI will vary for every organization. When building the business case, work closely with the vendors to identify all potential costs, in order to avoid any unpleasant

surprises. It is better to be conservative and then over-deliver, as this will improve the chances of getting future projects approved.

Final Thoughts

Cloud-based contact center solutions are altering the dynamics and responsibilities of operating environments. Business and IT managers have found this value proposition appealing, as it allows them to concentrate on what is important to the enterprise: delivering outstanding and cost-effective service. While the general benefits of these solutions are well known, it's essential to build a solid business case so that management is comfortable with the financial advantages of cloud-based contact center solutions.

About Interactive Intelligence

Interactive Intelligence Group Inc. (Nasdaq: ININ) is a global provider of contact center automation, unified communications, and business process automation software and services. The company's unified IP business communications solutions, which can be deployed on-premises or via the cloud, are ideal for industries such as financial services, insurance, outsourcers, collections, and utilities. Interactive Intelligence was founded in 1994 and has more than 5,000 customers worldwide. The company is among Forbes Magazine's 2011 Best Small Companies in America and Software Magazine's 2012 Top 500 Global Software and Service Providers. It employs approximately 1,400 people and is headquartered in Indianapolis, Indiana. The company has offices throughout North America, Latin America, Europe, Middle East, Africa and Asia Pacific. Interactive Intelligence can be reached at +1 317.872.3000 or info@inin.com; on the Net: www.inin.com.

About DMG Consulting

DMG Consulting LLC is an independent research, advisory and consulting firm that provides strategic and tactical advice to contact center managers, vendors and the financial community regarding the contact center, analytics and back-office markets. Our mission is to help clients build world-class contact center and back-office environments by leveraging technology, processes and people. We provide insight and guidance to assist management in optimizing performance by increasing operational efficiency, providing an outstanding customer experience, enhancing loyalty, and increasing sales and profits. DMG devotes more than 10,000 hours annually to researching various segments of the contact center, analytics and back-office markets, including vendors, technologies, best practices, solutions and their benefits and ROI. More information about DMG Consulting can be found at www.dmgconsult.com.

© 2013 DMG Consulting LLC. All rights reserved. This Report is protected by United States copyright law. The reproduction, transmission or distribution of this Report in whole or in part in any form or medium without express written permission of DMG Consulting LLC is strictly prohibited. You may not alter or remove any copyright, trademark or other notice from this Report.

This Report contains data, materials, information and analysis that is proprietary to and the confidential information of DMG Consulting LLC and is provided for solely to purchasers of this Report for their internal use. THIS REPORT AND ANY DATA, MATERIALS, INFORMATION AND ANALYSIS CONTAINED HEREIN MAY NOT BE DISCLOSED TO OR USED BY ANY OTHER PERSON OR ENTITY WITHOUT THE EXPRESS PRIOR WRITTEN CONSENT OF DMG CONSULTING LLC.

Substantial effort went into verifying and validating the accuracy of the information contained within this Report, however, DMG Consulting LLC disclaims all warranties as to the accuracy or completeness of this information. DMG Consulting LLC shall not be liable for any errors or omissions in the information contained herein or for any losses or damages arising from use hereof.

DMG Consulting LLC
6 Crestwood Drive
West Orange, NJ 07052

DMG
CONSULTING LLC

973.325.2954
www.dmgconsult.com
info@dmgconsult.com