

The Total Cost of Ownership of Cloud- and Premise-Based Contact Center Platforms

A look at the five-year cost comparisons for
technology infrastructure deployment

Publication Date: 07 Mar 2016 | Product code: IT0020-000182

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Summary

Catalyst

In 2013 Ovum compared the total cost of ownership (TCO) of cloud (cloud-based) tools with traditional premise-based systems in contact centers. At the time, many businesses were unsure of the long-term viability of migrating their critical systems to the cloud. Although short-term cost-savings were widely seen as a rationale for beginning a cloud migration project, the longer-term outlook was often fuzzy. Our research determined that over time the costs of the two deployment modes tended to converge in many situations, leading us to conclude that factors other than cost (such as security, flexibility, and technology footprint) should play a stronger role in the decision-making process.

This study revisits the question of TCO for both modes over a five-year span, using new pricing data that reflects the significant downward pressure on cloud technologies since 2013. (There was also downward pressure on premise tools, but the trend was not as aggressive.) We describe nine possible scenarios for technology deployment and contact center size and compare the cumulative costs over a five-year period.

Ovum view

The choice of whether to deploy contact center infrastructure via premise-based technology or cloud-based services involves many variables, but as the quality of the tools converges, buyers need to look more closely at the relative costs in different deployment scenarios.

Ovum's research shows that there are situations in which larger, multisite service organizations can benefit from cloud-based solutions. We believe that the more applications and functions an enterprise includes with the core routing platforms, the better the cost profile for hosting compared with traditional premise-based systems. Some large enterprises continue to hesitate due to concerns about scalability, but Ovum regards the cloud as a mature and reliable way to deploy contact center technology.

Large companies that are looking to hedge their movement into complex multichannel interaction environments, or to ensure that their technology stays at the cutting edge of innovation, would be wise to consider cloud solutions. Although hosting is not always the cheapest option, over a five-year period the differences are sometimes not significant enough to make cost a compelling reason to avoid the cloud.

Many people focus on the cloud's different cost model, but it offers other significant strategic advantages as well. For example, cloud-based systems are much quicker to deploy and to scale up or down in response to changing business conditions. Many users also report that they are easier to administer than premise-based systems due to interfaces that are unified across different product modules. The cloud offers businesses a way to hedge their technology decisions using a more forgiving short-term payment model.

The cloud also appears to be driving a quicker innovation cycle – on both sides of the equation. Incremental software updates on many cloud platforms occur several times per year, with relatively little intervention (or attention) needed by buyers, making the premise-driven 12–18-month update

cycle looks antiquated. Premise vendors are speeding up their cycles, providing quicker innovation to customers on both sides of the equation.

Key messages

- Cloud-based contact center platforms have experienced significant downward pricing pressure since 2013. This has changed the factors that enterprises should consider when deciding on an infrastructure deployment mode.
- Prices for premise-based systems have also been affected, but not to the same degree as cloud. In response to competitive pressures, legacy premise vendors have speeded up their development cycles, strategically acquired technology companies, added cloud-based options, and redrawn their go-to-market plans.
- Cloud systems today are notably more cost effective over a five-year span than they were in the previous version of this study, in 2013. However, buyers should look beyond cost when making deployment decisions, to factors such as security, industry expertise, geographic reach, reliability, and vendor relationships.

Recommendations

Recommendations for enterprises

Ovum believes that direct comparisons of cost tell only a partial story and should be used with care by enterprises as a first step in the decision-making process. Businesses considering a refresh of their contact center platforms should create clear road maps of their internal technological expectations over the next three to five years. This should include the expected interaction channel landscape; the impact of customer mobility on behavior; the connection between strategic marketing communications and customers and tactical service interactions; the size and complexity of the existing infrastructure; and the potential need for new systems (and integrations) for analytics, CRM, digital marketing, and back-office processing.

Enterprises should also take note of their own size and technology configurations, along the lines of the scenarios outlined in this report, to establish guidelines for their own exploration of vendor offerings.

Recommendations for vendors

Every vendor across the contact center spectrum needs to have a strategy for delivering technology via cloud, premise, or a combination/hybridization of both. Vendors that fumble this transition will find their market share eroding.

Vendors should be more explicit about feature road maps, particularly when forked development paths make it difficult for buyers to directly compare similar offerings or when there are overlapping products within a portfolio due to acquisition.

Finally, vendors should look at the cloud/premise decision as an opportunity to dive deeply into the business processes underlying contact center operations and to position themselves as knowledgeable partners. Sharing best practices and providing guidance in a fast-changing technology environment can become a key differentiator in a price-sensitive environment.

The current state of the market

Significant developments in deployment decision-making

The significant stories of the past three years have been downward pricing pressure affecting both cloud and premise technologies and drastically increased buyer acceptance of the cloud as a working model for deployment.

Downward pricing pressure

In surveys of vendors Ovum found that pricing has declined significantly on a per-seat basis for cloud-based platforms. Depending on the feature bundle and the size of the deal, we are seeing declines of up to 30% overall.

Part of the overall decline comes from the increased bundling of related applications into the package. Buyers are now more likely to see add-ons such as call recording, workforce optimization (WFO), and some CRM and CTI integrations to be rolled into the core price. Some suppliers cited the “sticker shock” and disconnect that results when buyers see low initial prices for core call routing and then realize that (as in premise deployments) they then have to add essential tools at further per-seat prices. As a result, vendors targeting the low end of the market (fewer than about 75 seats) are furiously bundling packages of routing, WFO apps, integrations, and IVR.

At the higher end of the market there is growing recognition that rock-bottom pricing for cloud is not always wise, although suppliers almost uniformly emphasized the strong pressure to provide a competitive entry price for hosted voice routing. The larger suppliers then compensate for this with the addition of professional services to customize solutions such as more complex IVR routing, creation of specific reporting templates, and CRM integrations.

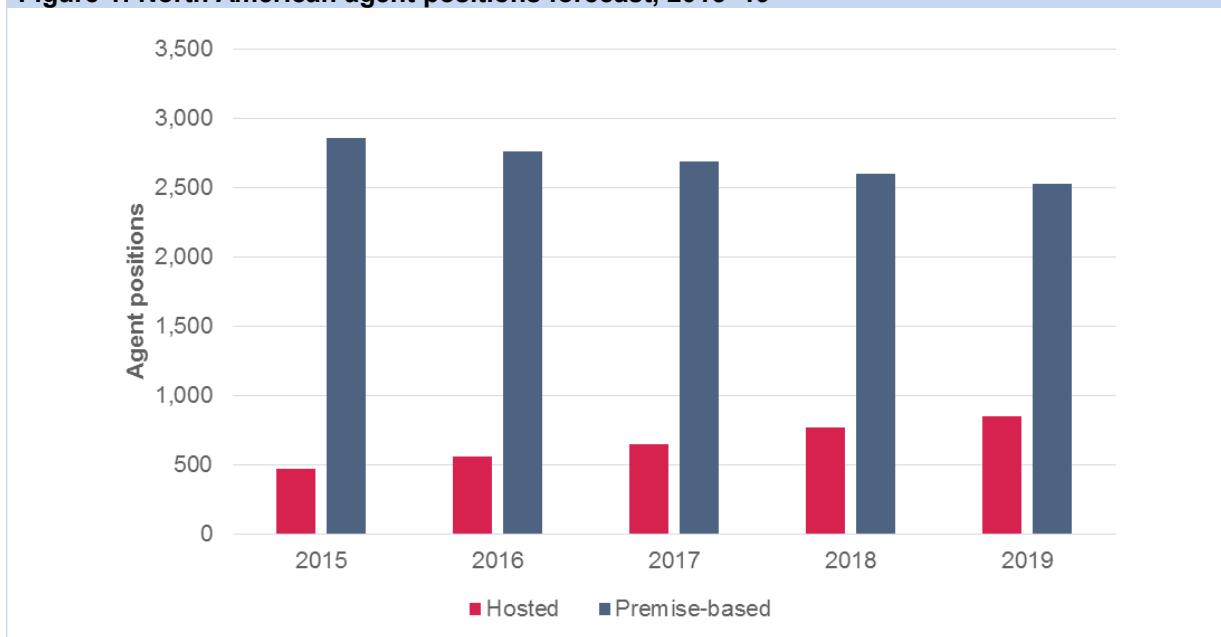
Outlying vendors do report rising average prices, but we attribute those specific cases to companies that are shifting either the balance of their offerings to more complex bundles or to those moving up-market toward larger deployments.

Increased buyer acceptance of diverse deployment modes

In 2013 it was still common to hear principled objections to cloud deployment that were based on questions of security, IT oversight, or regulatory compliance. In addition, buyers often questioned the capability of cloud offerings. Though it was rarely articulated publicly, at that point there was still widespread suspicion that basic cloud platforms were not at feature parity with premise platforms. Whether this was true or not was immaterial – the development of a wholly new technology mode will always encounter skepticism until commentators are proved right or wrong.

In 2016, however, it is fair to say that the buying community has expressed a willingness to put their critical contact center infrastructure (often along with their customer data) in someone else’s hands. Ovum estimates that 17% of all North American contact center seats are currently run on cloud-based platforms. That number will rise to more than 25% by 2019, representing one of the fastest adoption rates of a new technology in the history of contact centers. Figure 1 illustrates the forecast for cloud-based agent positions through 2019.

Figure 1: North American agent positions forecast, 2015–19



Source: Ovum

End users are buying into the idea of the cloud because their vendor suppliers are – untangling the “chicken and egg” causality loop is unnecessary at this point. Legacy premise vendors need either a cloud offering to stay competitive (and innovative) or a strategy for providing a mix of cloud and premise tools tailored to specific industry or regional needs. (Examples include healthcare or financial services firms that will not move data off premise or countries that have privacy regulations affecting the movement of customer information.)

After many years of false starts and ambiguity, the legacy premise community has now apparently embraced the cloud. All of the key vendors in the call routing/ACD space now offer at minimum a variation of their signature product lines via cloud deployment. Those offerings are increasingly taking center stage in marketing, along with the ability to offer a customized “pick and choose” variety where some infrastructure components are moved to the cloud and others remain on premise, depending on the customer’s comfort level and needs. Some suppliers are going to market with hybrids that look a lot like managed services, offloading responsibility for infrastructure without actually moving the technology itself.

Aside from the existential questions facing legacy premise suppliers, the biggest shift for them has been the tempo of development. Cloud vendors have provided their customers with an update cycle that is much faster (and in many cases, easier) than traditional premise systems have offered. Instead of 12- or 18-month cycles, cloud vendors offer two or four updates per year and deliver them quietly without IT interference and service interruptions.

The expectation of faster updates is changing the way vendors approach premise development road maps. Some seem to be aiming for more rapid incorporation of new features on a more regular basis.

Legacy premise vendors have also been on an acquisition spree, buying niche cloud companies in areas such as IVR and speech analytics. This has smoothed the pathway for some of the biggest companies to transition to a mixed cloud/premise world, bringing experienced cloud professionals into their decision-making processes. Still, some of the “converted” premise vendors are struggling with

how to price and sell cloud products, especially those that sit in competition with their homegrown legacy platforms.

Even though cloud has grown dramatically as a deployment mode for contact center technologies, the vast majority of seats and systems remain on-premise. The reasons for this are complex and stem from several factors:

- Long ACD replacement cycles (seven to 10 years or more was not unusual) and a large existing installed base.
- Existing investments in an ecosystem of integrated software that makes change expensive and operationally risky.
- Different buying criteria that separate large enterprises from smaller or midsize ones. Differences in security and company policy still mean premise systems have a place.

Most of the dramatic growth in cloud call routing has taken place in small contact centers. Over time that trend is pushing into larger ones, especially as large-scale premise vendors commit to selling the cloud into those markets.

This creates a dilemma for the vendors: each must continually weigh the changes in its revenue stream and its customers as it considers what the proper mix of offerings should be.

Evolution of more mature apps to cloud

Bundling applications together is affecting more than just the overall pricing of systems. It is having an impact on the overall view of suites versus best-of-breed selection for individual applications. This trend has been in place for a long time, but is accelerated by the way cloud platforms foster integration between niche applications.

The first applications to move to the cloud were call routing and IVR infrastructures and CRM. Those were accepted as cloud apps because of the huge benefits small businesses could gain from access to enterprise-class applications at low prices. (For example, Salesforce for CRM or voice routing via the old AT&T or MCI networks in the 1990s.)

By bundling tools such as outbound dialing, proactive notification, speech analytics, and call recording into cloud packages, the industry is encouraging customers to think of special-purpose applications as modules or features rather than as separate products. This will likely have a long-term effect via consolidation and integration regardless of how the cloud migration trends progress.

One of the attractions of full-featured cloud platforms is the ability to administer and operate the varied tools within those platforms from single-sign-on browser pages. Contact centers are evolving from best-of-breed to best-of-suite, radically reducing the number of discrete interfaces and, as a byproduct, the skills and training required to successfully manage systems.

TCO comparison methodology

Ovum's model for determining the total cost of ownership of contact center platforms was initially developed in 2013 and has evolved along with the marketplace.

Definitions

Ovum defines a contact center based on its use of an automated system (ACD, PBX, or software equivalent) for voice traffic, with a minimum of 10 agent positions. Agent positions themselves are defined as desks from which agents make and/or receive telephone calls (or other types of communication) to and/or from internal or external customers. This is taken to imply that the call in question involves communication between the agent and the customer.

Several types of center are specifically excluded from our consideration:

- Public safety centers (i.e., those centers that receive calls to the emergency services), which are counted separately and are not included as contact centers.
- Air traffic control.
- Financial trading floors.
- Legal interception centers, (i.e., centers where law enforcement officers or other security workers listens to conversations in which they do not take part).

Contact center scenarios

We compared pricing across three different contact center use cases:

- One contact center, with 50 agent positions.
- Up to two contact centers, with a total of 300 agent positions.
- Up to three contact centers, with a total of 750 agent positions.

All three of those scenarios and centers are assumed to be located in North America. These three groupings represent common use cases that span a variety of technology needs and operational contingencies. For larger centers, we asked vendors to provide pricing data for information on multisite installations to ensure that they were including the appropriate routing and management features as well as the basic per-seat costs. This pricing analysis did not include costs for network charges or real estate. It also did not consider factors that are region-specific, such as differences in electrical and other costs, proximity to public infrastructure, and variations in salaries.

The technology options

In comparing premise-based systems to cloud systems, we identified six product categories that would be essential to most contact center environments:

- Basic call routing (i.e., voice-only).
- Advanced call routing (multichannel capabilities, including phone; fax; web; email; SMS; and queuing, priority, and skills-based routing).
- Outbound predictive dialing.
- DTMF-based inbound IVR (collecting digits, playing prompts, call steering).
- Workforce management (volume forecasting, shift scheduling, and adherence measurement).
- Call recording and quality monitoring. (In some cases, cloud-based call recording may still require some premises-based equipment.)

Ovum obtained pricing for these products from multiple sources, including vendors and end users, and calculated average price points based on the list price for each separate piece of infrastructure and for separate tools sold together as a bundle.

We then considered three possible product bundles or combinations based on the technology footprint that a company would be seeking:

- Low-technology, comprising just basic call routing and IVR.
- Medium-technology, comprising basic call routing, IVR, and WFO tools (call recording, quality monitoring, and workforce management).
- High-technology, comprising advanced call routing (i.e., multichannel), IVR, all of the workforce apps, and outbound predictive dialing.

Those three scenarios and three product bundles create a total of nine comparative simulations depicting the implications for multiple-sized deployments with different technology footprints. Not all of the nine scenarios are equally likely to exist in the real world – you will rarely encounter a 750-seat center with a low-technology footprint. But consideration of all nine gives insight into the way the decision to deploy in the cloud or on-premise can have real consequences.

The specific variables used by any given enterprise to calculate the return on investment of the TCO of a technology investment are, of course, going to vary. The choice of variables for this comparison represents what Ovum believes is a fair baseline that brings the different worlds of premise- and cloud-based offerings into alignment.

In addition to calculating the average price for each technology component, our analysis included estimations of the amount of call recording and storage used in a typical period, the costs of installation (including configurations and customization), the cost of internal staffing related to technology management and administration, and annual maintenance and support (where applicable).

Outside North America

The data model and comparisons described in this report are based solely on information pertaining to North American contact centers. That said, in our research we did gather enough information about global trends to make some observations.

- Basic prices for cloud platforms tend to be higher in the UK and Northern Europe than in the US. However, the typical configurations in those regions are smaller; centers with 750 seats or more are relatively rare compared to North America.
- Certain regions are extremely price sensitive, notably Asia-Pacific (APAC) and the Caribbean and Latin America (CALA). Vendors report severe pressure to bundle and to discount when provisioning in those regions. Some have also indicated that the southern European region exhibits pricing trends close to those in CALA and APAC and typical centers of approximately 75 seats or fewer.
- When comparing offerings in different regions, it is important to make distinctions between packages that are purely local (i.e., confined to a single country) and those that are multi-country. For example, the costs of support differ between local and international deployments. (The complexity and variability of international pricing is one key reason the calculations in this study consider only North America.)

- Multiple service providers described CALA as an “untapped market,” which may explain why discounting and lower price points are so common there (as vendors compete to win share and lock in clients).

Even within the US there are notable variations. For example, one vendor noted that contact centers on the West Coast are more cloud-friendly due to the high concentration of entrepreneurs and smaller technology companies – what one might call a “Silicon Valley” effect trickling into contact center deployment. In the Midwest and East, it was noted, companies are somewhat slower to shift and still rely on more traditional premise deployments. In those regions there is reportedly a higher degree of customer loyalty to long-standing contact center vendors.

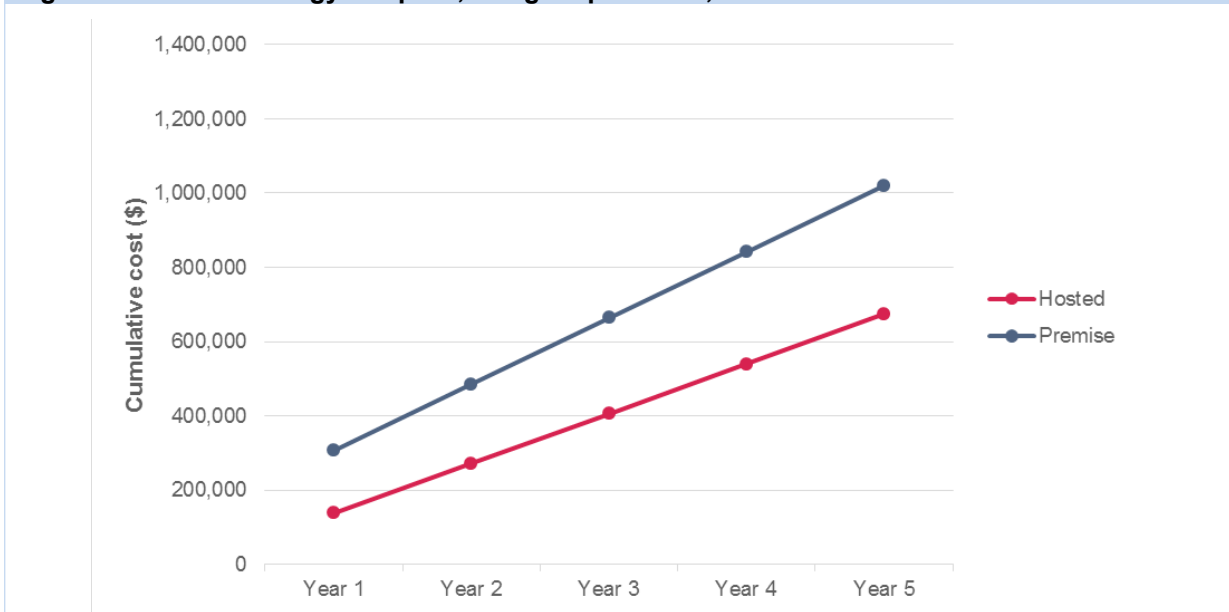
Scenario analyses

Low-technology footprint scenario

In the minimal scenario, an organization would purchase just rudimentary ACD functionality and the call steering capability in basic IVR. This scenario represents one traditional use case for hosting: small companies, or departments within larger ones, that have a light need for call handling but lack the budgets or workforce to deploy dedicated technology resources.

This scenario eschews the added-value applications that most larger formal centers would find necessary. Here, we are looking just at the raw switching for inbound voice traffic.

Figure 2: Low-technology footprint, 50 agent positions, one site

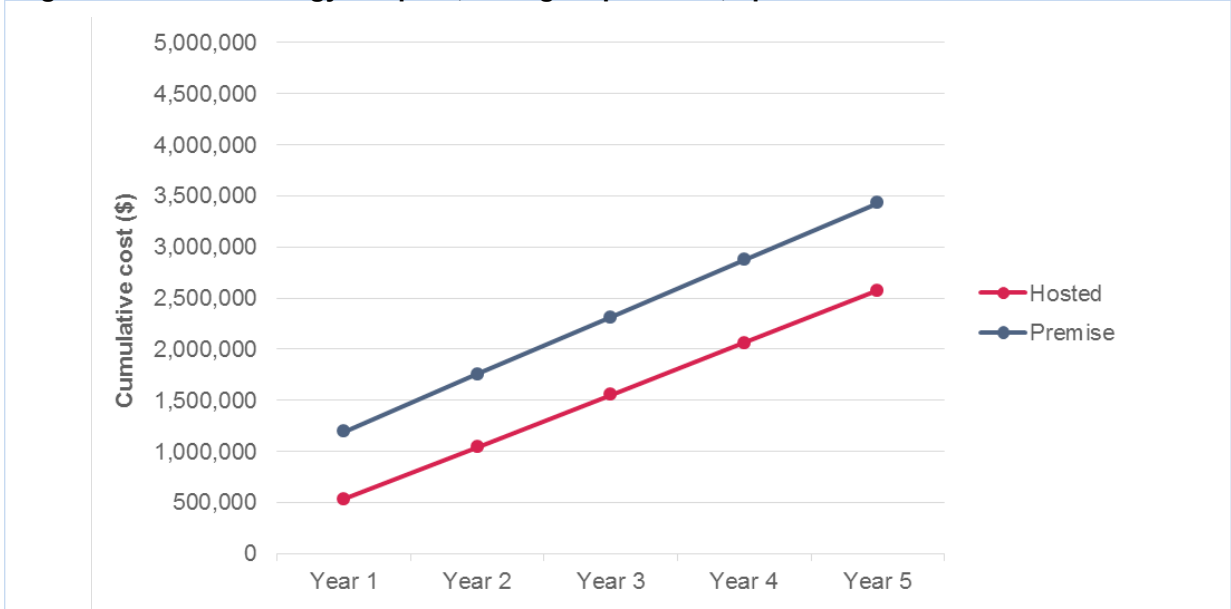


Source: Ovum

Figure 2 depicts the five-year cumulative costs for a single 50-seat center. At this size, the cost profiles for premise and cloud systems are very similar, even out to five years. The average cloud platform costs approximately \$150,000 less in the first year and by Year 5 the spread has grown to a cumulative \$300,000.

This scenario closely tracks with the original rationale for small businesses to move some of their infrastructure to the cloud: low cost with minimal capital expenditures. This configuration has come under the most intense pricing pressure on the cloud side in the last five years, verging on commoditization. Most of the vendors that entered the market with this configuration as their main offering have moved up-market, seeking larger customers with more advanced needs.

Figure 3: Low-technology footprint, 300 agent positions, up to two sites

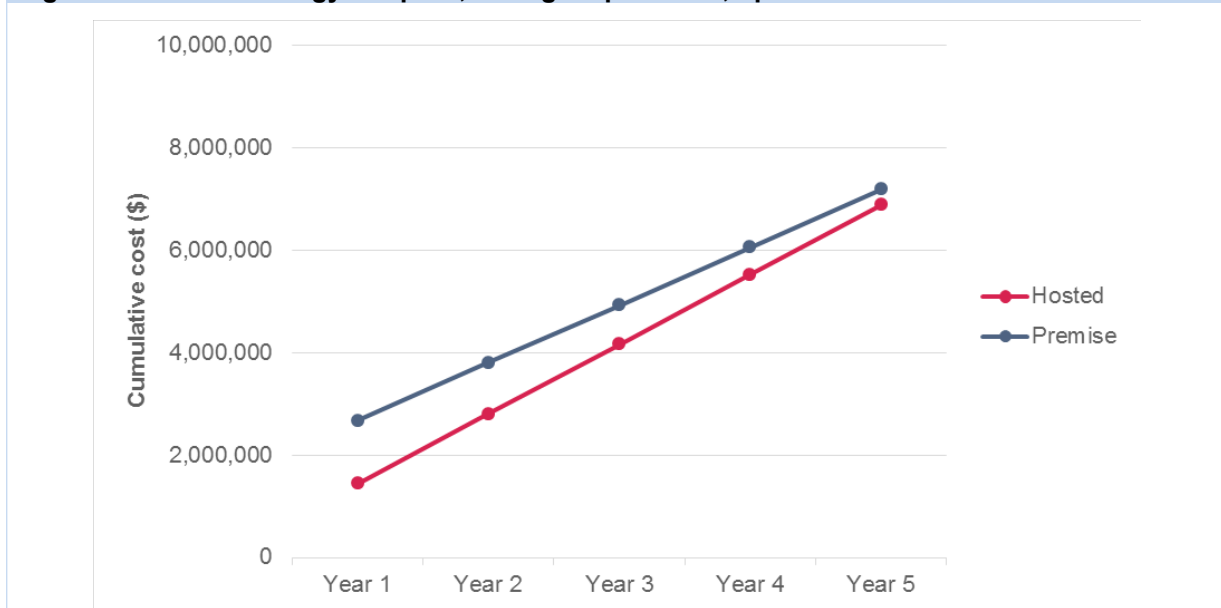


Source: Ovum

For a 300-seat, two-center organization, as shown in Figure 3, the initial outlay for the first year favors a cloud solution. In our 2013 report, this scenario showed a much closer convergence of the two deployment modes by Year 5; in 2016 the cloud option retains a consistent cost advantage over premise.

Both models provide enough room for an enterprise to consider factors such as the technology road maps of the competing vendors or the need for flexibility around managing the administration of the equipment, rather than just cost.

Figure 4: Low-technology footprint, 750 agent positions, up to three sites



Source: Ovum

When we scale the size of the deployment to up to three sites and 750 agents, the gap between cloud and on-premise solutions almost disappears. The spread between Year 5 costs is approximately \$400,000, about half of the spread in this scenario in 2013. This is one of the few scenarios where the decline in premise prices offsets the overall pressure on cloud pricing; Ovum attributes this to the relative paucity of the technology configuration here. And that leads to an important caveat: this low-footprint scenario has less applicability in large centers, which will be more likely to need much more sophisticated routing (between and within centers), as well as the management and optimization applications to support such a large agent pool.

The low-footprint option makes sense for small centers and as it scales the cost curve bends toward favoring premise systems. The reality, though, is that the facts on the ground mitigate against a large center turning to a cloud solution purely for basic routing and IVR. Larger centers, as we shall see, can find a better match with hosting for more elaborate scenarios that include more robust functionality. The premise-based version of the low-footprint scenario is the equivalent of buying a souped-up PBX or very limited ACD – neither the premise nor the cloud solution would be a recommended purchase by itself. The TCO here is less important than the feature set, reliability, scalability, and technology road map.

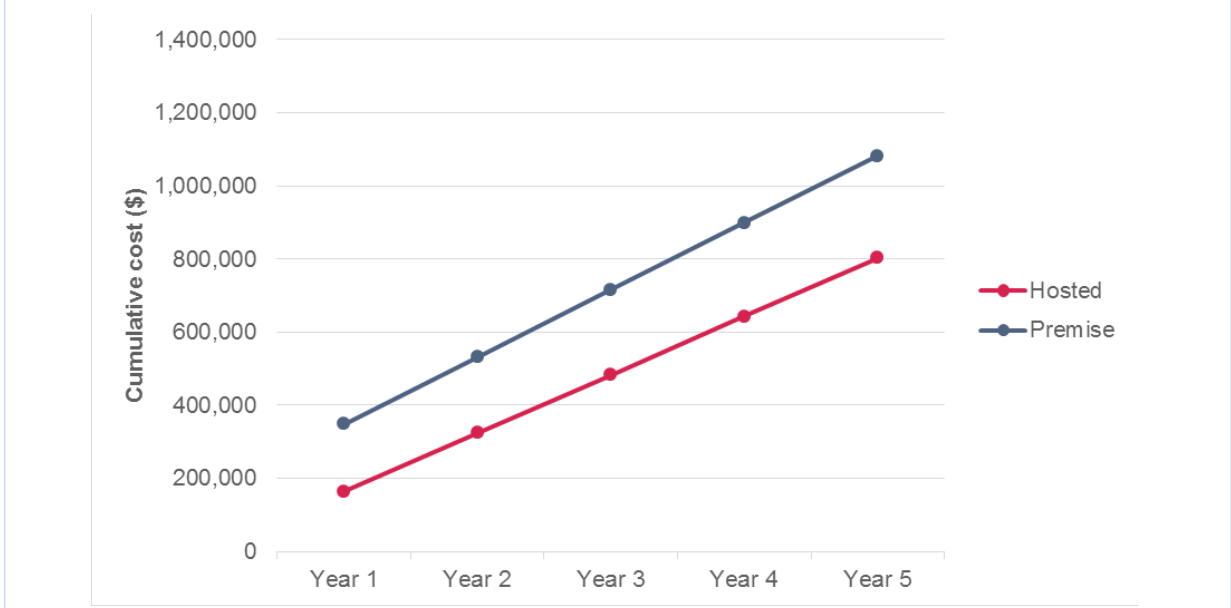
Medium-technology footprint scenario

The medium-technology scenario calls for a company to deploy the basic ACD capability and IVR (recapitulating the low-footprint scenario) and add the three core optimization applications (workforce management, call recording, and quality monitoring).

For most organizations, this is a more realistic view of their purchasing. It presupposes a more nuanced, less ad-hoc view of their customer interaction environment and exposes them to a wider variety of options across both the premise and cloud spectrums. For example, the WFO applications can be bought from either dedicated vendors or through partnerships and white-label arrangements

with the switching vendors. Many of the applications are available in either cloud or premise versions – from the same vendors.

Figure 5: Medium-technology footprint, 50 agent positions, one site

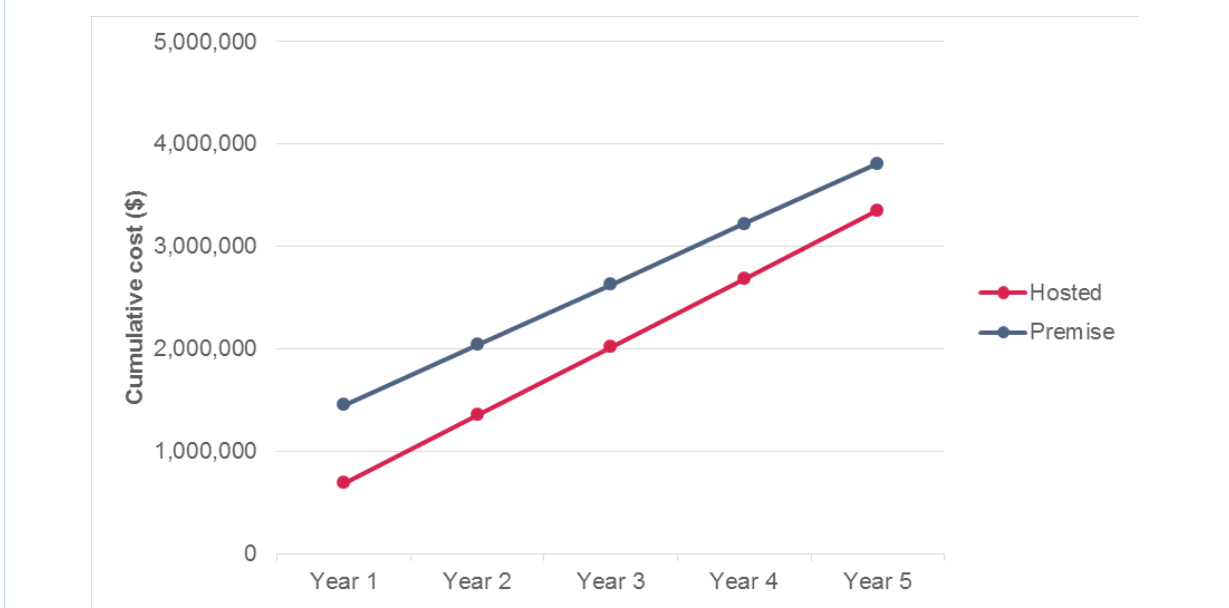


Source: Ovum

Figure 5 shows the cumulative totals for a 50-seat center in this medium-footprint scenario. This scenario exhibits significant change since the previous report. In the past, the modes converged closely at Year 5; now, however, premise pricing has barely moved but cloud pricing has dropped significantly. One possible reason is the addition of WFO; what is often rolled into a single price for cloud is still broken out as a separate line item in premise.

What is at work here in small centers is that the pay-by-the-drink cost of the cloud call routing is outweighed by the higher cost of premise IVR plus the annual maintenance costs of the premise equipment.

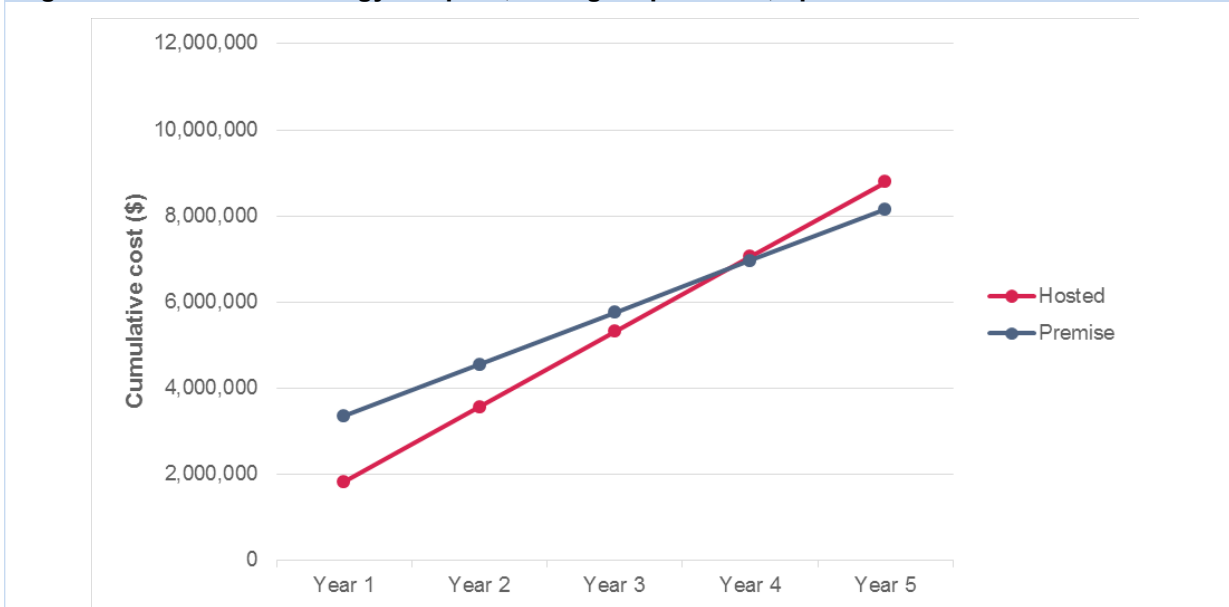
Figure 6: Medium-technology footprint, 300 agent positions, up to two sites



Source: Ovum

In 2013 these lines crossed at Year 3; today the cloud has a clear cost advantage over premise throughout the five-year stretch. This is an important development because, of the nine scenarios, this midsize, mid-tech option is the most common in US businesses.

Figure 7: Medium-technology footprint, 750 agent positions, up to three sites



Source: Ovum

The large enterprise will find that hosting has a \$1m+ advantage in the early part of the study period, but by Year 4 paying by the drink for such a large number of seats outweighs the cost of premise deployments.

This suggests that midsize and large centers should look at hosting as a transitional or hybrid platform in this scenario. Some aspects of hosting are much more attractive than others – IVR, for example, is more than 10-times the price if you buy it to own it and requires dedicated personnel to manage it

onsite. For an organization that is going through a transition – merging centers, say, or considering a wholesale technology overhaul that might still be two to three years into the future – a medium-footprint cloud solution might be an effective mechanism for ensuring continuity over time.

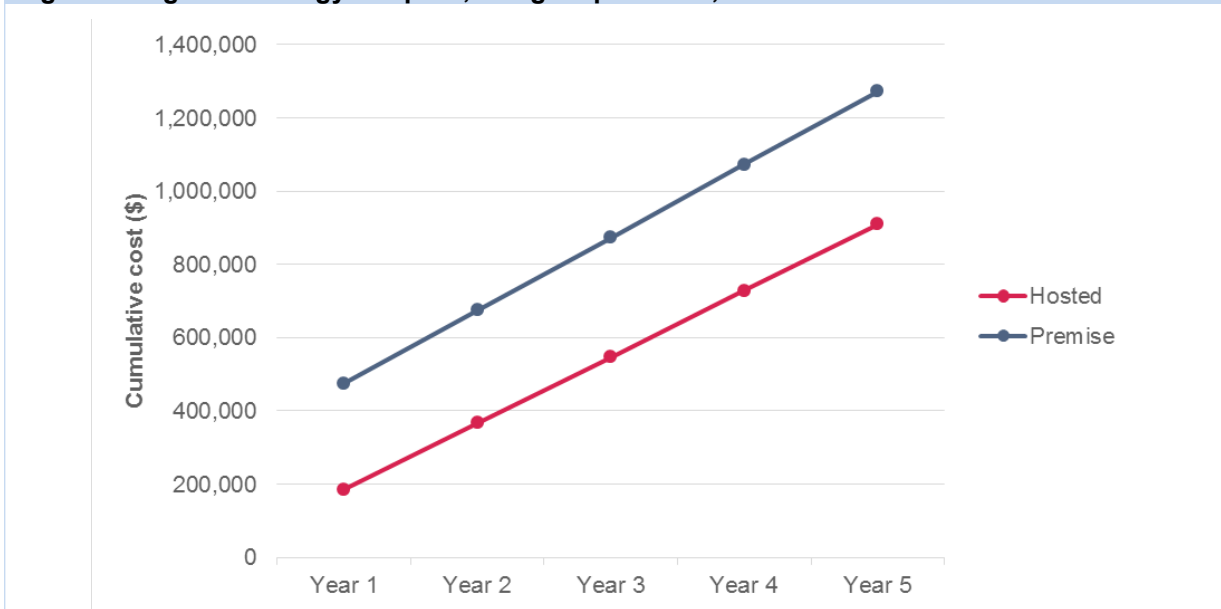
High-technology footprint scenario

In the most expansive scenario, we posited the use of all six technology components. Instead of the basic call routing option, this scenario incorporates full-throated multichannel contact routing. The exact nature of the offerings varies, but for the most part vendors are making available email, web chat, and SMS as potential interaction channels. On both sides of the deployment divide, these extras are often baked into the core offering or available as reasonably priced additional modules (or services).

This advanced scenario also includes outbound predictive dialing, IVR, and the core WFO applications.

What this high-tech footprint scenario is trying to determine is the cost-efficacy of switching to a cloud services model for the most demanding – and typically most expensive – traditional centers. These centers (regardless of size) are serving the most complicated customer interactions. Their customers are reaching them through a variety of channels that may include yet-to-be-standardized methods such as social media and mobile chat or video and they require bidirectional conversations for either service follow-up or sales. These are the centers that historically have been the most invested in the traditional premise-based deployment because they have leaned on their premise platforms for bulletproof feature maturity.

Figure 8: High-technology footprint, 50 agent positions, one site



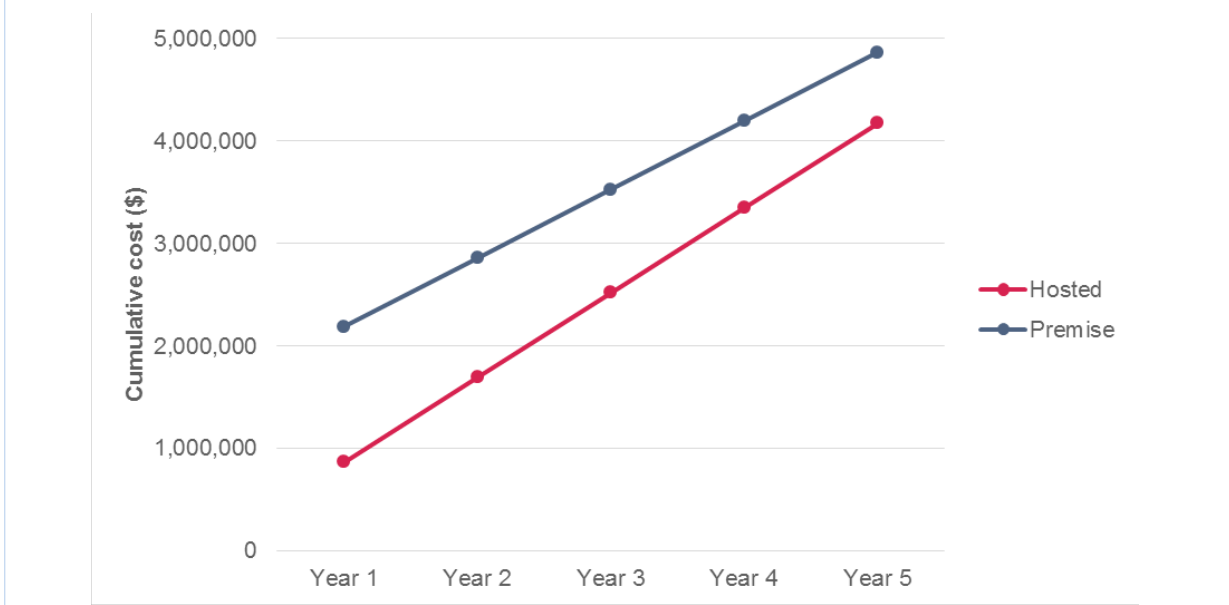
Source: Ovum

For small centers, the cost comparison remains consistent across all the technology scenarios. Even with a full complement of advanced tech deployed, the 50 seat center finds a very similar five-year outlay for premise and cloud. Hosting the technology is cost-advantageous through Year 5.

Centers in this situation would likely be those that cater to a select or high-value group of customers, or those that remain small because they provide narrow expertise. Healthcare services or high-end

technical support may fall into this category, as may some types of specialized financial services. Another case would be businesses that are deliberately keeping their head count low while emphasizing the customer benefits of new contact channels for self-service. This would mean that they continuously need leading-edge interaction-handling technology to remain cost-sensitive.

Figure 9: High-technology footprint, 300 agent positions, up to two sites

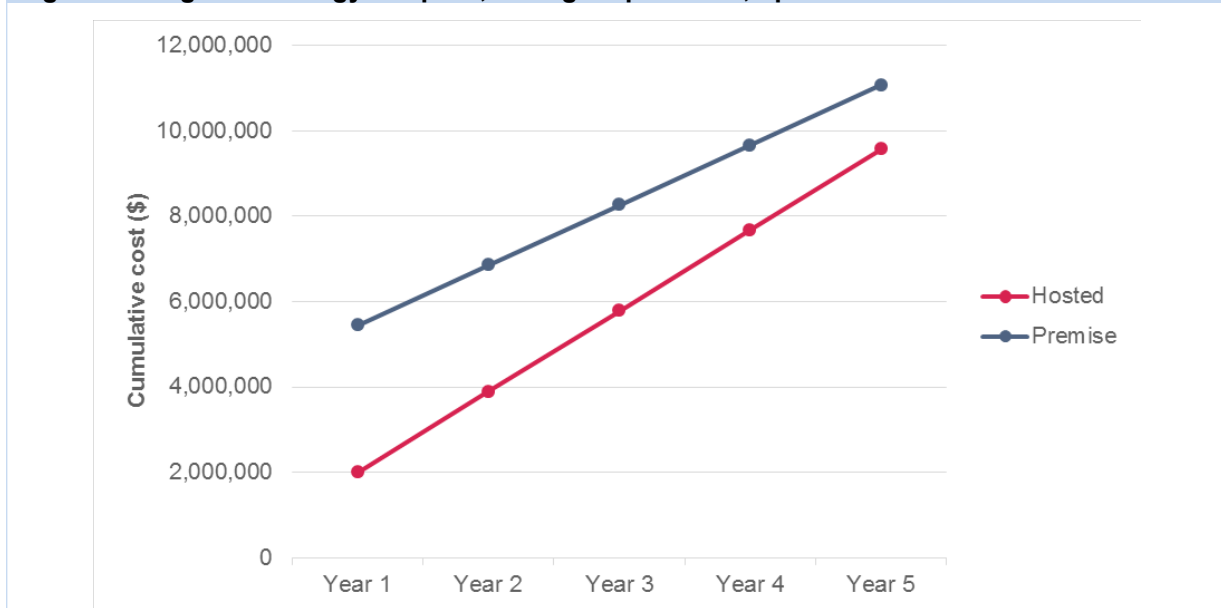


Source: Ovum

Ovum believes that 300-seat centers also do particularly well with cloud services in the high-footprint scenario.

One element that makes the high-tech footprint more suited to hosting than the other scenarios is that premise systems typically show a very steep cost climb when you jump from basic call routing to advanced multichannel routing. Advanced premise-based call routing costs roughly twice as much as basic ACD functionality. On the cloud side, the price premium for advanced routing is much slimmer. From some vendors, in fact, there is no premium at all, with advanced features being built into the software offering at all levels of service. This disadvantages premise systems significantly because it raises both the initial price and the ongoing maintenance costs, making cloud more viable as a long-term option. The reduced staffing footprint for managing integrated applications also makes cloud an attractive option here.

Figure 10: High-technology footprint, 750 agent positions, up to three sites



Source: Ovum

The clearest example of that comes when we examine the distributed 750-seat centers, precisely the ones that are most likely to need advanced routing and full-featured applications. In other words, this high-footprint scenario more closely resembles the real-world needs of 750-seat centers than the bare-bones or mid-range scenarios.

In this example, cloud systems start at one-third the cost of premise systems and the costs never fully converge over the life of the scenario. Over that time, a business choosing cloud will have been relieved of many of the burdens of technology management. The benefits of this go beyond cost: they allow an enterprise to be culturally flexible and more focused on its main mission, which is to leverage the most appropriate technology to improve the customer experience. Most businesses will reconsider the lifecycle and utility of their core tools at the end of a five-year period anyway, which would reset the cost equation and make the premise side of the ledger even less appealing.

This scenario also shows the largest decrease in premise pricing from the original study in 2013. At that time, Year 1 costs were closer to \$8m (as opposed to today's \$6m), and Year 5 was nearly \$15m (compared to today's \$11m).

Choosing the right deployment mode

The working hypothesis underlying this study was that, although there would be a difference between cloud and premise pricing (and therefore TCO), making a decision requires insight into much more than just cost. Many other factors play in a deployment choice, especially when looking five years ahead. There is no one right answer in any given situation.

Enterprises should weigh cost alongside other significant factors, such as feature compatibility, investment in legacy systems, and company culture, when making deployment decisions.

Table 1 distills the cloud/premise value equation for all nine scenarios considered, showing the windows in which cloud solutions are either less expensive or at parity with premise equipment. That

these windows exist is not itself a compelling reason to choose hosting, but they provide a framework for knowing when price should be weighed among other significant factors.

Table 1: Which deployment mode is more cost efficient?

	50 seats, one site	300 seats, two sites	750 seats, three sites
Low-tech footprint	Cloud	Either cloud or premise	Either cloud or premise
Medium-tech footprint	Either cloud or premise	Slight advantage to cloud	Slight advantage to premise
High-tech footprint	Either cloud or premise	Slight advantage to cloud	Either cloud or premise

Source: Ovum

For small centers

Not surprisingly, the situation for small centers has the most consistency in pricing over the study period. There is little real difference in short- or long-term costs between cloud and premise systems. Most vendors treat cloud offerings for this market as a commodity, emphasizing price and ease of use as differentiators. The choice of premise or hosting can be based on the underlying technology profiles of the vendors: their development road maps, integration capabilities, and anticipation of needs for different kinds of interaction channels.

For midsize centers

Midsize centers that are unsure of their technology direction should consider cloud solutions if there is a two-to-three-year window in which they expect they might be evaluating their operational practices or the direction of their customer experience programs.

For example, an organization that finds itself (through merger or acquisition) with two smallish centers but a 300-agent headcount might find cloud-based services to be an effective bridge past the headaches of a multivendor environment. In the third year of that window, the developing richness of the feature sets in both premise and cloud solutions may change the cost calculus going forward – short-term hosting can act as a bulwark against technical obsolescence.

However, midsize centers that are relatively stable – those that do not anticipate needing multichannel contact handling or scaling to much larger configurations – would find premise systems to be a more cost-effective solution for the short and long term.

For large centers

Large, complex centers have the most to gain by conducting a rigorous cost and feature comparison of the two deployment modes. Ovum does not expect multisite centers with 750 or more agents to have much use for the basic configurations in the low-technology footprint scenario. The medium- and high-technology footprint scenarios, however, both indicate that there is room for evaluating hosting as a way either to transition to new technologies or to reduce the large management and scalability costs of premise-based systems.

Larger companies are also better positioned to combine the two deployment modes in a hybrid infrastructure, which might include cloud systems such as IVR and WFO alongside premise-based data management and routing. Companies with 300 seats and above may also find it advantageous to explore managed services offerings, especially in situations where the preferred deployment mode

differs based on the application. One such example would be when sensitive voice recordings have to stay behind a corporate firewall, but other aspects of the interaction can be handled in the cloud.

Ovum is convinced that the larger the center and the more advanced the application suite, the more likely it is that a company can benefit from incorporating cloud-based technology services. We recommend designating a task force to explore the degree to which other enterprise departments (beside customer care) are moving toward the cloud for CRM and other business software. Evidence suggests that large systems integrators have been encouraging the transition to cloud contact center systems as part of larger-scale enterprise technology migrations. Advanced cloud technology has distinct cost advantages, which can probably be further leveraged through volume discounts and closer vendor relationships.

Appendix

Methodology

Ovum conducted primary research into the pricing plans of cloud and premise vendors of contact center infrastructure tools. We asked more than a dozen vendors (and key end users) about their prices for various configurations of technologies in different geographic regions and for centers of different sizes. We believe that the pricing used to construct this model represents the current averages for each segment.

Ovum constructed a model for purchasing infrastructure that included the up-front (list) costs, as well as the costs of installation, configurations and integrations with existing systems, ongoing maintenance fees, and estimated labor costs to administer the technology.

Additional information was gathered from the 2015 Ovum Decision Matrix on cloud contact center platforms and the 2015 forecast of agent positions.

Further reading

2016 Trends to Watch: Contact Centers, IT0020-000114 (October 2015)

Ovum Decision Matrix: Selecting a Multichannel Cloud Contact Center Solution, 2015–16, IT0020-000140 (August 2015)

Fundamentals of Multichannel Cloud Contact Center Platforms, IT0020-000114 (May 2015)

Global Contact Center Market Forecast: 2013–19, IT0020-000099 (March 2015)

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We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help you. For more information about Ovum's consulting capabilities, please contact us directly at consulting@ovum.com.

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