



## Believe the Hype about Hosted Contact Centers

*After years of build-up, how much longer should we wait for the market to mature?*

By Christopher Musico - June 1, 2008

**Note:** The article below appeared in the June 2008 issue of CRM Magazine. It features an interview with Micky Thompson, CIO for the Dawson McAllister Association from 2004 through 2008. Comments by Micky are highlighted in yellow.

**Source:** <http://www.destinationcrm.com/Articles/Editorial/Magazine-Features/Believe-the-Hype-about-Hosted-Contact-Centers-49187.aspx>

Hype can take on many forms -- like, say, the word-of-mouth hype that can sweep through a fifth-grade math class. The 21st-century home for hype is clearly the Internet, where blogs spring up debating anything from the "right" Prada handbag to Al Gore's place in the global-warming hall of fame. What about hype in the business world, particularly for customer service strategies and technologies?

Lately that hype has focused on the hosted contact center. Vendors, analysts, and consultants -- and their collective press releases, study results, and sales calls -- all indicate that the hosted center is on the rise. For the last several years, the notion of a hosted contact center for the enterprise has been on many contact center executives' minds. Pundits have been singing its praises since at least the early 2000s -- building the hype, promising that it would certainly shift the way operations were run.

In fact, one recent paper from analyst firm Frost & Sullivan bore the title, "The Hosted Model: Why It's Revolutionizing the Contact Center Industry." Daniel Hong, lead analyst for customer interaction technologies at research firm Datamonitor, also believes in the business model. "Hosted and managed contact center services are among the fastest-growing segments within the contact center technology market," he says. And the vendors certainly see it: "The hosted contact center is now becoming probably one of the hottest technological initiatives among enterprise call centers," says Tim Houlne, chief executive officer of Working Solutions, a provider of outsourced contact center solutions.

Frost & Sullivan also recently published statistics from its study of the hosted contact center market in Europe, the Middle East, and Africa (EMEA), stating that both large and small-to-midsize businesses (SMBs) are believing, and buying up, the hype. The market earned revenues of 277.9 million euros in 2007 (approximately \$434.7 million according to the exchange rate at press time), and by 2013 is estimated to reach 1.45 billion euros (approximately \$2.3 billion). Kunal Kakodkar, a Frost research analyst, says that SMBs in EMEA are attracted by the payment option. "Leasing contact center technology allows organizations to deflect high upfront capital expenditure," he explains. "This is an attractive business proposition for small and midsize businesses that seek contact center technology, but do not have access to the capital expenditure required for expensive premise equipment." Kakodkar also points out that EMEA is two to three years behind the North American hosted contact center market, and is just growing out of its infancy phase.

Other analysts, though, are not convinced the golden age of the hosted contact center market is upon us -- yet. Drew Kraus, research vice president for Gartner and its lead analyst on the hosted contact center, says that the market for the hosted contact center for the enterprise is still developing. "The large enterprise usage of the hosted contact center...is for the most part still in its infancy," he says. "There are certain aspects of the hosted contact center business that are somewhat [mature] -- primarily in the area of hosted [interactive voice response] solutions -- but when we look at the broader set of hosted applications, particularly the...contact-routing and

-prioritization engine that essentially is [automatic call distribution] in the cloud -- and now the multimedia-routing engine in the cloud -- there is a whole lot more hype than actual market adoption around that." So much more hype, in fact, that Kraus claims "we see numbers in the low single digits both in terms of number of call centers and number of agents."

The most recent figures from industry research firm DMG Consulting seem to back him up, estimating the current penetration rate for hosted contact center infrastructure in use worldwide at just 3.2 percent (approximately 385,352 seats). DMG, however, sees perhaps a tenfold explosion over the next few years: By the end of 2011, the firm believes, 30 percent to 35 percent of all new contact center seats will be hosted.

That projected growth in new hosted seats may be why the hosted model is seeing such fast adoption in today's less-mature markets. When asked to explain the growth within the EMEA market, Kraus says that we need to dig a little deeper than dollars and cents. "There is more market share than what we see in North America," he admits. "In large part, these services are being sold into smaller and low-complexity contact centers.... It tends to be a better fit there. Particularly for those that do most of their business in-country, they can keep all activity primarily with one long-distance provider, which allows them to do a better job of controlling both the network and the application."

With analysts differing on just how mature the market is, how much longer before it really makes a splash? The problem with hype is that it sometimes ends up overselling itself, like the build-up (and rapid fall) of Snakes on a Plane or the 2007 New York Mets. But hype still needs an audience. As Kraus explains, "The largest obstacle for hosted contact center vendors right now is getting in the door to tell the story." There is still an overall lack of education on the topic -- and that's shaping the story of the hosted contact center market.

## **THE MARKET**

One benefit of the hosted model is that it can work basically anywhere. "There is no one particular vertical where the hosted contact center is gaining the most traction," Kakodkar says. "We're finding traction throughout all verticals." While the market then won't be pigeonholed into one niche vertical, the problem still lies in the size of the enterprise and the complexity of the contact center operation. SMBs seem to be picking up the hosted contact center much faster than large enterprises. Micky Thompson, chief information officer for Dawson McAllister Association, a nonprofit organization that deployed Interactive Intelligence's hosted contact center automation solution, says there are benefits to SMBs going hosted in the contact center, but the jury is still out for larger enterprises. "It works really great in small businesses, it's almost a first go-to for [them]," he says. "Large companies have a benefit of scale, and it depends on whether that company is going to get enough scale so they can offset the opportunity cost that they're going to lose by not going hosted."

While the SMB market for CRM applications and solutions is growing rapidly, it may take some large, marquee customers to really get the hosted contact center market off the

ground as a widespread option. "There are opportunities here, but larger and more-complex contact centers that require a lot of customization and...have to make regular changes to the systems -- those aren't really good candidates for hosted services," Kraus says. "The truth is a lot of contact centers out there that have relatively low complexity and customization requirements, fairly stable environments, appear to be good matches for these kinds of services." The verticals best served by a hosted model, he says, are those with fairly stable environments and low complexity, such as government and education.

Complexity aside, large businesses may have other reservations about going with a hosted contact center -- and that concern is translated into dollars, cents, and depreciation. "From the very large contact centers, we've been seeing some interest in hosted [models], but their legacy premise deployments can be a restraint for them to switch to hosted," Kakodkar says. Chad Markle, a principal at Bridge Strategy Group, a consulting firm, says that for a large business that has already leveraged an on-premise contact center, the decision to switch to a hosted model can be a monumental one. "[Larger companies] that made a major investment in premises-based equipment [made] a major capital outlay," Markle explains. "They had to develop skill sets and capabilities in IT, development, and customer service. It's a big step to basically build up a call center -- and so for those companies to consider a hosted contact center, it has to be a major change in the business model that would cause them to [switch], because the equipment they have right now is depreciated and the internal departments may be very comfortable with it."

This doesn't mean vendors aren't trying to tap into the large-scale companies, though. Scott Manghillis, senior manager of Intervoice Hosted Solutions, which recently announced its foray into hosted offerings with IP Contact Center (IPCC) Version 4, says that his firm "determined that every existing Intervoice customer is a candidate for our IPCC. There may be certain business drivers or existing infrastructure that may prohibit that, but we are looking at taking the hosted IPCC model to the street to meet...global organizations." But getting street credibility, or market share, will take time, and the ability to address some key concerns raised by users of all sizes. "Our biggest trouble is getting in the door," Manghillis admits.

## **A HOST OF HOSTED CONCERNS**

Whether you're looking at a contact center of 50 seats or 500, many pundits believe there are several common concerns with a hosted model: control, a vendor's financial stability, and data security. "[Those] are the three most important [ones] we hear voiced right from the outset," Markle says.

The notion of a control issue is interesting, since one of the main benefits of a hosted model -- besides saving on on-premise infrastructure -- is being freed from the day-to-day operations of the contact center. You're essentially leaving these worries to the vendor and going about your core business. The haggle between companies and providers can become quite contentious when agents need to be added or dropped, a new call flow has to be created, or other service-level agreements (SLAs) need to be addressed. "A company offering hosted services may get stiff penalties if it fails to make agreed-upon SLAs, and that looks good on the contract, but if you're the contact center manager it only benefits the guy who takes your job when you get fired when the service company didn't meet its SLAs," Kraus says. "There's so much perceived risk when you're looking at systems that actually deal with direct interactions with your customer in a real-time basis that most companies still prefer to keep that in-house."

Manghillis notes this as a primary concern as well when pitching Intervoice's hosted model to potential customers. "The day-to-day operation and administration of the platform becomes something that the customer wants to handle, and in a hosted model we generally

don't allow this for our customers in the voice portal market today simply because it may be able to impact the SLA," he explains. "We're doing a look in the mirror if you will, to look at what we can hand to our customers to allow them to fulfill those unique needs while delivering on SLAs so we don't get into fingerpointing if and when there is a failure."

Markle says companies concerned about having proper control need to talk to multiple vendors and determine which one can provide a happy medium. Many vendors, he says, can alleviate customers' fears. "By and large, the vendors that we've worked with and brought in to talk to our clients have demonstrated the ability to address those major concerns," he says.

Another potential deal-breaker revolves around the vendor's financial stability. With CRM's many mergers, acquisitions, and partnerships, this is a tough pill to swallow for vendors and companies alike. In fact, when Dawson McAllister's Thompson was shopping around, he was forced to rule out Aspect Technologies because of concerns over product stability. "Aspect was one of the final vendors we were looking at to partner with, but they were going through a merger at the time and didn't have a roadmap showing where the [hosted] product was going," he recalls. "They didn't know if the product they currently had was going to be supported in the next few months," he says. "We needed to know that the product was stable, financially sound, and had a roadmap for where [it] was going."

Markle says Thompson's fears are valid. "In the long term, if your provider runs into issues and is unable to continue to advance the technology, pay their people, and maintain the relationships they have on the front end, it can cause major disruptions for the customer and organization," he explains. "Customers must continue to monitor the financial health of the company from multiple angles to make sure they're continuing to grow and be successful and be viable in the long term."

As for security, there is always a risk in that any data used by a third party -- in this case, the vendor providing the hosted contact center model -- could leak. However, analysts say vendors have created robust applications that should be able to assuage fears of data loss. "When you are essentially outsourcing a major business function like that, there is always going to be some question," Kakodkar says. "But feature sets now are basically on par with anything you can get on-premise [in terms of security]."

While the software capabilities are there, overarching concern makes it hard for vendors to plead their case. "[Vendors] can prove that the security is legit with the data," Kraus assures. "The issue is getting the chance to tell the story because they get discounted and taken out of the competition in many cases before they're ever invited to play. So it's not that they can't provide a strong security story; they rarely get the chance to."

## **EDUCATION**

The key to handling these concerns may be simply to correct preconceived notions of the hosted model. Vendors have to beef up communication efforts in order to make their case. "End-user education is huge," Kakodkar believes. "A lot of people still don't know about hosted at all. In fact, we had one of the main vendors that we spoke to say that approximately 40 percent of current customers did not know what a hosted solution was." He says sales and marketing teams have to constantly knock down the door and drive home key message points. "It has to be a sales-and-marketing effort, just letting them know what it is and how it works, and that there is an alternate solution to buying all this infrastructure and investing that heavily in a particular technology platform," he adds. Interoice's Manghillis concurs, stating that working hosted contact center solutions into the conversation with customers will take "an educational process."

Markle contends that it doesn't have to be an educational initiative solely on the vendor's end, though. Companies also have to take initiative in determining the best technologies out there to help their particular business needs. "[Education] is one of the things we're strongly advising our clients [to undertake]," he says. "They need to understand the opportunity around the hosted contact center, and have somebody who is reading the literature and talking to the different vendors in the industry."

## **LOOKING AHEAD**

The hosted contact center market definitely has a future -- and how quickly it can realize its potential depends on who you speak with. Manghillis says he is very optimistic about Intervoice's hosted offering gaining traction due to the current economic situation facing America. "In the past, any time you have the kind of economic situation that we have here in this country today, there has been a significant rise in the amount of outsourcing," he says. "I see a trend that customers are absolutely going to start outsourcing, especially start-up companies and new companies adding feature functionality to their existing infrastructure and may not have the cash to spend Day One to purchase solutions.... You're going to see a litany of even larger-scale enterprise businesses go to a hosted model for their contact center."

Others are more hesitant. "Our hypothesis is that eventually most, if not all, of even the largest-scale contact centers will look at [the hosted model] in a very serious way," Markle says. "I think it's absolutely one of the top things a contact center manager and contact center strategists will be tracking and assessing for their organizations. But the horizon is out beyond five years." Kraus agrees: "I think that you will see marquee customers come along in the next one to two years," he says. "To actually see that translate into market traction, it's more in the three-to-five-year time frame."

Kraus also advises vendors not to expect to see revenues quickly. "It's going to take time," he says. Vendors expecting to see rapid adoption of these services may "drop out as soon as they hit the 12-to-18-month point when they were expecting to move into the black...and are not even close to it yet," he says. "Vendors that take a more long-term view I think have a chance to make it." Companies using the hosted model, however, may be better off: According to figures from DMG Consulting, the average payback for hosted contact center solutions is between two and six months, and the quantifiable benefits, when compared to costs, can return double or triple the original investment.

Time will tell if the hosted contact center is really a fit for the entire enterprise. (Nabbing some large companies will deliver some cachet.) But Dawson McAllister's Thompson makes a compelling argument in favor of hosted contact center solutions: The hosted model has helped his nonprofit company reduce costs by 80 percent over an on-premise solution. If that's any indication of the market's future, the hype may turn out to be true after all. "I really believe in the hosted contact center solution," he says. "It proved to be so much more efficient than I even pictured it to be.... In the end it makes my job a lot easier. It also helps our donors and funders know that we're bringing the right people to do the right job."

## **SIDEBAR: Hard Hosting Decisions**

Having any company take on a new CRM solution can be a potentially difficult undertaking, but in particular, convincing a company that it needs to switch from an on-premise contact center solution to a hosted model can get downright contentious, according to Chad Markle, a principal at Bridge Strategy Group, a Chicago-based consultancy. "The challenge in larger firms is taking into account the best interests of people who have staked their careers on a certain technology vendor's premises equipment and software, and they come in every day to feed and care for it," he explains. "Those people are being asked to make a decision

regarding a hosted contact center, and you can imagine where their allegiances lie. As we get involved, we try to make sure all the facts are on the table and, in some cases, it is a bit of a challenge to make sure everybody looks at the decision as coldly and dispassionately as they need to."

The main point to keep in mind is that a hosted contact center will do nothing if it doesn't fit within your business goals. "It's like any decision executed well within a business," Markle contends. "You have to understand fundamentally what your business strategy is and how you're going to win in the marketplace. Once you've got that figured out as an organization, the next question will be 'Is there a business case around hosted contact centers?'"

Without a connection to your business model, the results could be disastrous. "We can't emphasize the connection [to the business model] enough, because you won't remember why you're doing this when you get to implementation, which is tough," Markle says. "You absolutely need to do that."

Once you've decided to implement a hosted offering, putting together the right team is essential. Markle suggests having the following:

- adequate resources for the transition;
- a clear connection to the vendor's executive management in order to address any issues that arise; and
- a common vision with the vendor for the deployment.

Having these pieces in place is important for a successful implementation, Markle says. "It has to be a long-term, mutually beneficial relationship to be successful."

#### **SIDEBAR: The Hosts with the Most**

The top five vendors in hosted contact center infrastructure (in alphabetical order).

- Aspect Software
- Cisco Systems
- Oracle
- United Carrier Network
- West Interactive

*Source: DMG Consulting*

---

*Contact Editorial Assistant Christopher Musico at [cmusico@destinationCRM.com](mailto:cmusico@destinationCRM.com).*