

# The Economics of Customer Interaction Management

An eglue White Paper **September 2009**

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## Introduction

For quite a while now, companies have been required to operate in a new market arena, one in which multiple, commoditized products are no longer enough to beat the competition. Nowadays, success and competitive edge are much more about quality of service and the high rate of customer retention that it produces. As companies come to terms with the rules of this new consumer “battlefield”, they are increasingly realizing the significance of customer interactions as a critical window of opportunity. A window through which they can communicate with their customers, really listen to them, better understand them, find out what it takes to tailor the offers they are most likely to accept and, last but not least, secure their long-term loyalty.

Interaction is the new watershed line – that delicate point in time in which customers expect full payback for their loyalty and wallet share. Handled incorrectly, it can quickly lead to a customer being lost forever. However, with close attention, continuous optimization and the right Real-time Customer Interaction Management (RTCIM) tools, interactions can prove to be of immense value to producing a positive balance sheet.

This document will present how Real-time Customer Interaction Management tools can enable an organization to fully capitalize on the true economics of an interaction – to handle any combination of customer circumstances, across any interaction channel and without sacrificing its own business objectives, all while assuring short time-to-results and fast return on investment.

More to the point, this document will demonstrate how interaction backed by these tools can go far beyond a traditional customer call to become a key economic factor that positively impacts a company’s top line, its bottom line and, last but not least, its long-term customer retention rate. In our review, we will refer to the environment, industry standards and averages of an imaginary call center, as well as to real world results achieved by genuine companies so as to demonstrate ROI (Return On Investment) modeling. The information presented can be referred to for better assessment of the benefits that RTCIM tools can bring to your own specific business, by using your business metrics rather than of the ones brought here.

## An Imaginary Call Center

The sample metrics presented in this document will refer to an imaginary call center.

Its defining characteristics are listed below:

- Number of agents (working concurrently) – 1,000
- Average number of calls handled by an agent per day – 50
- AHT (Average Handling Time) – 360 seconds/6 minutes
- Handling Time cost per minute – \$0.50
- First Call Resolution rate – 70%
- Annual agent attrition rate – 55%
- Customer retention – save/cancellation call ratio – 27% of all cases saved
- Sales:
  - Service-to-sales attempts – in 5% of the calls
  - Sales conversion rate – 10% of offers converted to sales
  - Revenue per offer accepted – \$100\*

\* This parameter may vary significantly, as per industry and specific line of business.

## Improving the Top Line

Quality customer interaction is the bedrock of improved profitability, as well as of increased sales and service-to-sales conversion rates. After all, customers satisfied with the attitude and service they're experiencing in an interaction are likely to be receptive to offers for additional products and services. And yet, quality service is both necessary and insufficient. Companies need to be able to target the right customers, with the right offers at the right time. During customer-initiated interactions, it is vital that the customer service representative be equipped with the "sharpest pencil" – contextual, personalized recommendations on what, how and when to make an offer to the particular customer calling in.

An effective Real-time Customer Interaction Management solution can serve this exact purpose in that it provides call center agents with immediate, context-related and actionable guidance and offer recommendations. These are based on both real-time and historical data intelligence extracted from all available internal or external corporate data sources.

Applying such real-time decision technologies as business rules and predictive analytics, Real-time Customer Interaction Management enables agents to fully capitalize on unexplored revenue opportunities and generate new ones with the most suitable and personalized cross- and up-sell offers.

## Real World Top Line Results

Lets start out with a genuine business. A European cable and media company serving more than 2.1 million households seeks to improve the quality of its call center interactions as a means of increasing customer satisfaction, operational efficiency and, most importantly, profitability via higher sales and service-to-sales conversion rates.

The company deploys a Real-time Customer Interaction Management solution and experiences a 23-second reduction in AHT and, as hoped, a 39.4% increase in sales conversion rates during customer interactions. Even better, following these gains, the company achieves complete return on investment within less than six months.

## Simulated Return Calculation

Examination of the imaginary call center presented earlier in this document (while referring to the real world results achieved in numerous implementations) enables calculation of the additional revenue generated by an RTCIM solution, as follows:

- Call volume per month – 1,000 agents x 50 calls per day x 25 days = 1,250,000 calls.
- Number of calls relevant to offer attempt – 20% of total calls, or 250,000 calls per month, of which agents actually attempt in only 3% of the calls (due to un-effective or none existing targeting rules, lack of supporting tools and low agent confidence). An RTCIM solution can actually help agents leverage each and every one of these calls. However, let's make the more modest assumption that agents will actually only attempt to make a sale during half of these calls, making 10% of your entire monthly call volume relevant to offer attempts.
- Conversion rates – equipped with the offer most likely to be accepted for each and every individual customer and in every possible situation, and backed by all necessary knowledge and sales tips, agents substantially improve their sales performance.
- An increase in revenue per sale is the result of additional and more appropriately targeted offers than those made in the call center today, with the assistance of real-time decisions that take not just propensity to buy into consideration, but also the profitability/margins to be gained by offers at the call center's disposal.

The total revenue generated per month can be calculated via the following formula:

$$\text{Total Revenue} = (\text{Call Volume}) \times (\text{Offer Attempt Ratio}) \times (\text{Conversion Rate}) \times (\text{Revenue per Sale})$$

In our example, this formula produces the following results:

Metrics	Without RTCIM	With RTCIM	Business Impact
Service to Sales Offer Attempts	3%	10%	An increase in the number of opportunities to cross/up-sell, or in the proportion of calls in which agents attempt to produce sales.
Sales Conversion Rates	5%	7%	An increase in the number of attempts that are accepted (converted to actual sales).
Revenue per Sale	100\$	110\$	An increase in the value of an average deal closed.
Totals (revenue generated by the call center every month)	$1.25M \times 3\% \times 5\% \times \$100 =$ <b>\$187,500</b>	$1.25M \times 10\% \times 7\% \times \$110 =$ <b>\$962,500</b>	Additional monthly revenue: <b>\$775,000</b>

## Conclusions

Assuming conservative improvement figures, it is evident that RTCIM can significantly boost the revenue generated by the call center, as can be witnessed in the above example, in which the call center achieves a revenue increase of **\$775,000 per month**, or a **\$9.3 M increase in annual revenues**.

## Improving the Bottom Line

Much has been written and conversed about impacting the bottom line in call centers – namely increasing customer interaction-related efficiency and reducing operational costs.

A Real-time Customer Interaction Management solution can help do just that. It tackles two of the most time consuming hassles involved in handling customer calls: the search for relevant information and the need to decide on the best course of action. Considering the fact that, in many cases, agents work in a complex, cumbersome desktop environment, there's no wonder that these two tasks account for plenty of redundant (and expensive!) handling time.

RTCIM provides call center agents with all the context-sensitive information they need, whether through real-time interpretation of interactions in progress or by extraction from relevant corporate data repositories – effectively eliminating time-consuming data searches. It also assists in data entry by automatically populating applications with the most accurate information, and can even automate entire business processes that are currently handled by agents manually. RTCIM not only unleashes a strangled service desktop, but can also provide next-best-action recommendations on the basis of sophisticated real-time decisioning technologies. Agents no longer need to figure things out for themselves with anxious or impatient callers on the line.

The results, experienced by a great many RTCIM users, are dramatically reduced AHT, increased FCR (First Call Resolution) rates, minimized agent training costs and reduced agent turn-over – a clear contribution to a company's bottom line.

## Real World Bottom Line Results

A world-leading global provider of IP-based business communication, high speed wireless Internet access, and local and long distance voice services seeks to combat increasing sales-related costs resulting from long AHT and low FCR rates at its call centers.

It deploys a Real-time Customer Interaction Management solution, which monitors agents/customer interactions in progress, collecting and extracting the information they need from multiple systems "behind the scenes", and provides them with highly personalized guidance. The result – a 9% decrease in AHT across the entire call center operation. For this particular company, this translates to over \$2 M in annual savings.

#### Additional positive results:

- A large US Telco has reported a 12% reduction in agent training following deployment of an RTCIM solution.
- A global insurance provider achieved no less than a 7% point improvement in FCR rate with RTCIM tools.

## Simulated Return Calculation

Let's take another look at our imaginary call center. Here are the relevant metrics again:

- Number of agents (working concurrently) – 1,000
- Average number of calls handled by agent per day – 50
- Monthly call volume – 1,250,000 calls
- Average Handling Time – 360 seconds/6 minutes
- Handling Time cost per minute – \$0.50
- First Call Resolution rate – 70%
- Annual agent attrition rate – 55%

## Savings from Reduced AHT

Let's assume a 5% reduction in AHT, which in our case translates to savings of 18 seconds on average. This is very much doable, and can even be regarded conservative when considering measurements made in real world RTCIM implementations.

Savings are calculated via the following formula:

$$\text{Monthly Savings} = (\text{Monthly Call Volume}) \times \text{AHT} \times (\text{HT Cost per Minute}) \times (\% \text{ Decrease})$$

In our example, this formula produces the following results:

$$1,250,000 \times 6 \text{ minutes} \times \$0.50 \times 5\% = \text{\$187,500 per month, or \$2.25 M annually.}$$

## Savings from Improved FCR

Improving First Call Resolution will not just bear impact on call center efficiency (and therefore on its costs), but also on other metrics such as customer satisfaction. In this section we will assess the impact on efficiency only.

According to the Contact Babel US Contact Center Operational Review 2008, the industry average FCR is 69.8%, with larger call centers ahead of others with approximately 83%. Our imaginary call center resolves 70% of all issues on first contact. We will assume a 3% point improvement, meaning that following RTCIM deployment, the average FCR rate will reach 73%.

Savings are calculated via the following formula:

$$\text{FCR Savings} = (\text{Cost per Call}) \times [(\# \text{ Repeat Calls Before}) - (\# \text{ Repeat Calls After})]$$

While:

$$\text{Repeat Calls} = (\text{Monthly Call Volume}) \times (1 - \text{FCR Rate})$$

In our example, these formulas produce the following results:

$$\text{Repeat Calls Before} = 1.25\text{M} \times (1 - 0.7) = 375,000 \text{ per month}$$

$$\text{Repeat Calls After} = *1.25\text{M} \times (1 - 0.73) = 337,500 \text{ per month}$$

And:

$$\text{FCR Savings} = (6 \text{ min} \times \$0.5) \times (375,000 - 337,500) = \text{\$112,500 per month, or \$1.35 Monthly.}$$

\* we assume no change in total call volume due to improvement in FCR. If needed, this can be added to the above formulas.

## Savings on Agent Training

Agent training is a recurring 'toll' that every call center operation is subject to on almost a weekly basis. Processes change, systems are routinely modified and agents need periodic reminders for even the most frequent tasks. In an industry in which annual agent turn-over rates are higher than 40% (and in some industries as high as 100%), the cost of training can become a major liability.

An RTCIM solution helps in curbing these costs by providing call center agents with 'on the job' assistance. It guides them during live calls on how to perform and complete tasks and processes in an accurate and efficient manner. If and when a process change is introduced, the guidance provided by the RTCIM solution can quickly be adapted and distributed throughout the entire operation, reducing the need to take agents off the floor and into the training room.

According to Contact Babel US Contact Center Operational Review 2008, the average annual cost of ongoing training is \$1,991 per agent (varies by industry from \$1,000 to \$4,200).

It is not uncommon for companies to reduce training by 8 to 12% just by effectively utilizing RTCIM solutions. We will use a 10% decrease in agent training needs in the following example.

Savings are calculated via the following formula:

$$\text{Monthly Training Savings} = (\text{Annual Cost of Training}) / 12 \times (\# \text{ of Agents}) \times (\% \text{ Reduction})$$

In our example, this formula produces the following results:

$$\$1,991 / 12 \times 1,000 \times 10\% = \mathbf{\$16,590 \text{ per month or } \$199,100 \text{ annually.}}$$

## Savings on Agent Attrition

As mentioned earlier, agent attrition rates can reach and may even exceed 100% annually. This means that an entire workforce ends up being replaced over the course of a single year. According to Contact Babel US Contact Center Operational Review 2008, the average induction course cost is \$5,341 per agent, and it takes 2.9 months to make a newcomer fully productive. It is clear that any contribution to agent retention rates bears significant impact on an operation's bottom line (not to mention the additional benefits of having seasoned agents servicing the company's customers). According to the same report, 33% of all businesses polled indicated excessive pressure and stress as the main reasons for attrition. RTCIM can relieve some of this pressure by providing agents with a much more supportive and personalized work environment. Having real-time guidance, tips and information tailored to the specific needs and performance level of any individual agent reduces the stress experienced during the course of complex customer interactions.

For the purpose of the exercise below, we will assume a 5% point improvement in agent retention, meaning that the current 55% attrition rate will fall to 50%.

Savings are calculated via the following formula:

Agent Attrition Savings = (Reduction in Number of Agents Replaced) x (Cost of New Hire)

While:

Reduction in Number of Agents Replaced =  
(Total # Agents) x (Previous Attrition Rate - New Attrition Rate)

In our example, these formulas produce the following results:

Reduction in number of agents replaced = 1,000 x (55% - 50%) = 50 agents a year.

Agent attrition savings = 50 agents x \$5,341 / 12 =  
**\$22,254 per month or \$267,050 annually.**

## Securing Customer Loyalty

An interaction is not only a potential source of increased or added revenue streams, but also a critical and sensitive point in time, in which companies are evaluated – for better or worse – by their customers. Carefully managed interactions – across any and all possible interaction channels – can, and most likely will produce differentiated and positive customer experience, resulting in increased overall customer satisfaction.

Positive interaction will ultimately be perceived as quality customer service, giving customers strong reason to stick around, and even motivating them to actively promote a company's image through consumer communities, social networks, peer review sites and plain word-of-mouth.

A Real-time Customer Interaction Management solution can go a long way towards achieving this. With real-time analytics and other Decisioning technologies, it can anticipate customer churn, and provide recommendations for the best retention treatment when a customer calls. It can also respond immediately to churn signals detected during live calls and help agents through the conversation, with offers and rebuttal tips.

## Real World Customer Retention Results

A worldwide chain of hotels sets out to improve the quality of its call center interactions so as to significantly increase reservation accuracy, drive down the number of repeat customer calls, minimize cancellations, and increase customer loyalty and return business.

It deploys a customized Real-time Customer Interaction Management solution, which automates data hunting and ensures that the information reservation agents need during interactions is constantly at their fingertips. The solution also advises on geography-dependent discounts, highlights room type up-sell opportunities and provides scripted sales and rebuttal support, granting agents greater confidence and maximizing customer satisfaction. Results showed increased customer satisfaction, reduced churn and a 15% increase in customer retention.

In another implementation – a top US financial services company implemented the solution and achieved a 17% improvement in asset retention process accuracy.

## Simulated Return Calculation

Modeling the economic impact of customer attrition or, on the other hand, retention, is the subject of many research studies. We will not cover the significant scope of this topic in this document, but will suggest a very simplistic approach to measuring impact on business results.

This is an adaptation of an approach actually taken by one of our customers when trying to evaluate the expected return from an RTCIM project.

Consider the following metrics:

- Current customer retention rate – save/cancellation call ratio – 27% of all cases saved
- Based on the real results presented earlier in this section, we will assume a conservative 3% point increase in customer retention ratio, meaning that the post deployment ratio is 30%
- The value of a retained case is \$100 a year. This is the current and future business accrued from this customer during the course of the subsequent year
- 20% of all calls are regarded 'retention cases'

Revenue retained is calculated via the following formula:

$$\text{Increase in Revenue Retained} = (\text{Increased \# of Saved Cases}) \times (\text{Value of Case})$$

While:

$$\text{Increased Number of Saved Cases} = (\# \text{ Retention Calls}) \times (\text{Improved Retention Rate})$$

In our example, these formulas produce the following results:

$$\text{Increased number of saved cases} = (20\% \times 1,250,000 \times 12) \times 3\% = 90,000 \text{ annually.}$$

$$\text{Increase in revenue retained} = 90,000 \times \$100 = \mathbf{\$9,000,000 \text{ annually.}}$$

## Summary of Benefits

If you've made it this far, you obviously have a very high tolerance for numbers! So here are just a few more, just to tie everything neatly together...

This is a summary of the simulated return calculations demonstrated throughout this document.

It is unlikely that all of these returns be achieved and accumulated in the context of a single project. Companies typically start their RTCIM experience with one or two of their most burning issues, prove return on investment, then progress to the next initiative (and to additional returns of course).

		Monthly Return	Annual Return
<b>Top Line</b>	Increased revenue generated in the call center	\$775,000	\$9.3 M
<b>Bottom Line</b>	Reduction in AHT	\$187,500	\$2.25 M
	Improved FCR	\$112,500	\$1.35 M
	Reduction in agent training	\$16,590	\$199,100
	Improved agent retention rates	\$22,254	\$267,050
<b>Customer Retention</b>			<b>\$9,000,000</b>
<b>Return Grand Total</b>			<b>Over \$22 M</b>

## **eglue – The What, the How and the Results**

### **What eglue Does**

eglue's InterAct Suite manages customer interactions in real time, leveraging existing IT environments to interpret a customer interaction from start to finish. The solution continuously produces context-sensitive decisions and advises users on recommended courses of action with personalized callouts.

### **How It Does It**

eglue's unique technology intelligently extracts real-time and historical data from both ongoing interactions and all available internal or external data sources – with minimal need for integration. It then translates this data into actionable user guidance by applying business rules and intelligence, and presents users with real-time recommendations in the form of on-screen callouts. Interaction rules can easily and quickly be modified by business users, as required.

### **Results!**

With eglue's Real-time Customer Interaction Management offering, organizations can handle any combination of customer circumstances – across any channel and in complete sync with their own business objectives. This helps maximize revenue per customer, retain customers by accurately anticipating customer needs and enhancing customer experience, and cut costs by improving operational efficiency, increasing return on existing assets and achieving low total cost of ownership. With a relatively modest initial investment, eglue assures short time-to-results and fast return on investment, often within less than six months of deployment.

## Summary

This white paper presented what we refer to as a new market arena, one in which competitive edge depends greatly on quality of service and on the ability to secure customer retention.

We submitted that an interaction with a customer needs be regarded a veritable watershed line – a critical event that, managed improperly, may drive customers to abandon a company. On the other hand, we maintained that interactions supported by effective Real-time Customer Interaction Management solutions can develop very differently, have far-reaching positive economic implications, and are more likely to produce both improved balance sheet and long term customer loyalty.

To demonstrate how companies can fully capitalize on the true economics of interaction, we provided samples of both imaginary call center improvements and positive real world results experienced by companies in various industries – companies that have learned to harness Real-time Customer Interaction Management tools to positively impact their top line, their bottom line and, last but not least, their long-term customer retention rates.

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