

# Activity-Based Cost Management in the Support Center

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*Using ABC to Drive Superior  
Contact Center Performance*

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## Before we begin, a question for you...

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How often does your contact center fail to receive timely executive approval for the investment needed to implement changes or acquire resources that you have recommended?

\_\_\_\_ Never

\_\_\_\_ Rarely

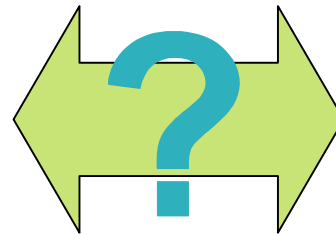
\_\_\_\_ Often

\_\_\_\_ Very Often

# How Do You Measure “Performance”?

The contact center measures its performance and evaluates its success primarily in *operational* terms:

- Response time
- Abandon rate
- Problem cycle time
- First level resolution



The enterprise measures its performance and evaluates its success primarily in *financial* terms:

- Revenue
- Profitability
- Growth rate
- Return on Capital
- Stock price

# Some Likely Trouble Indicators

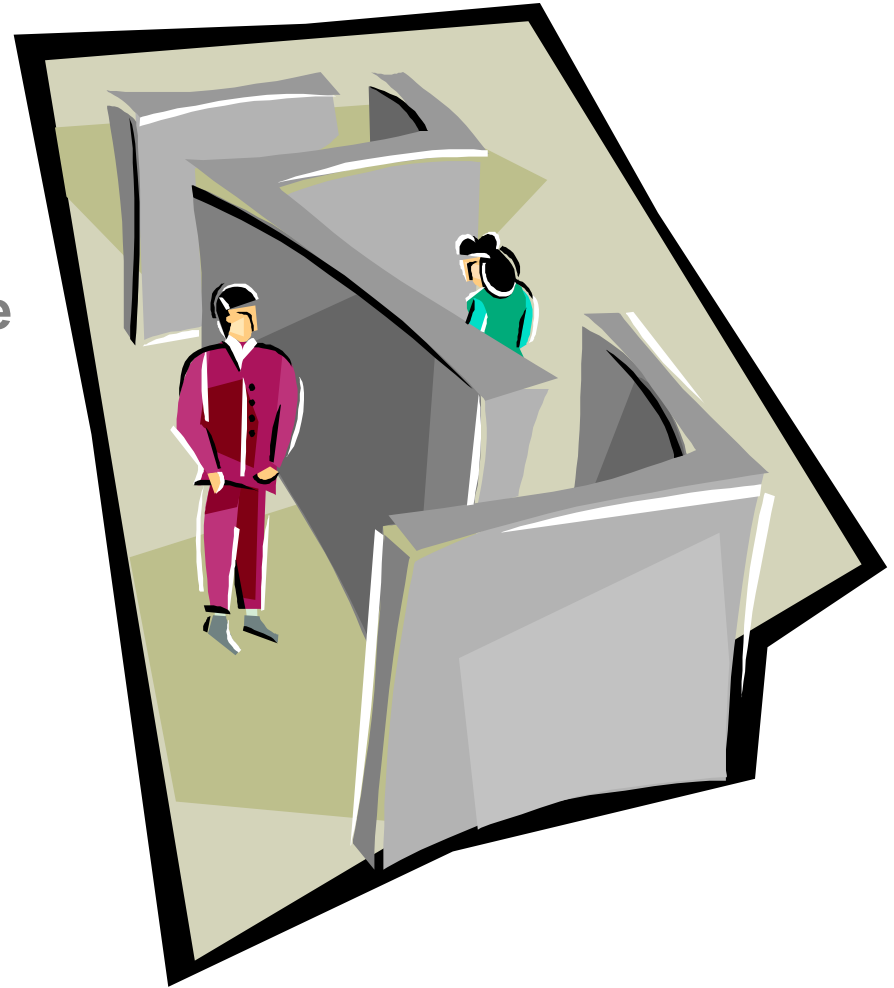
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- “My customers’ expectations keep rising, but my budget doesn’t.”
- “We’re not seeing the performance improvement we were expecting from our new systems and tools.”
- “My current budget doesn’t adequately support my performance objectives.”
- “My staff is frustrated, and turnover is impacting our performance.”
- “I know I can do more/better, but I’ll have to do it without increasing my budget.”

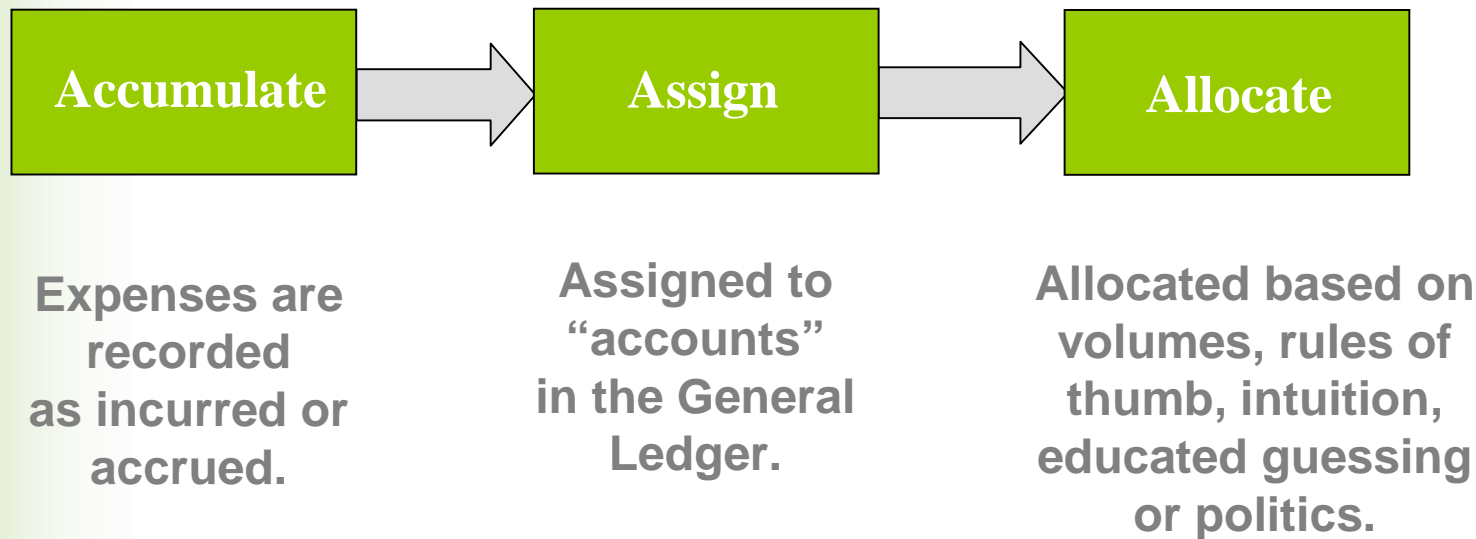
# What We Have here is..... Failure to Communicate!

When contact center management and executive management fail to speak the same language, everybody loses.

- Poor decisions
- Missed opportunities
- Ineffective allocation of resources
- Diverging expectations



# Traditional Cost Accounting (TCA)



# Limitations of TCA

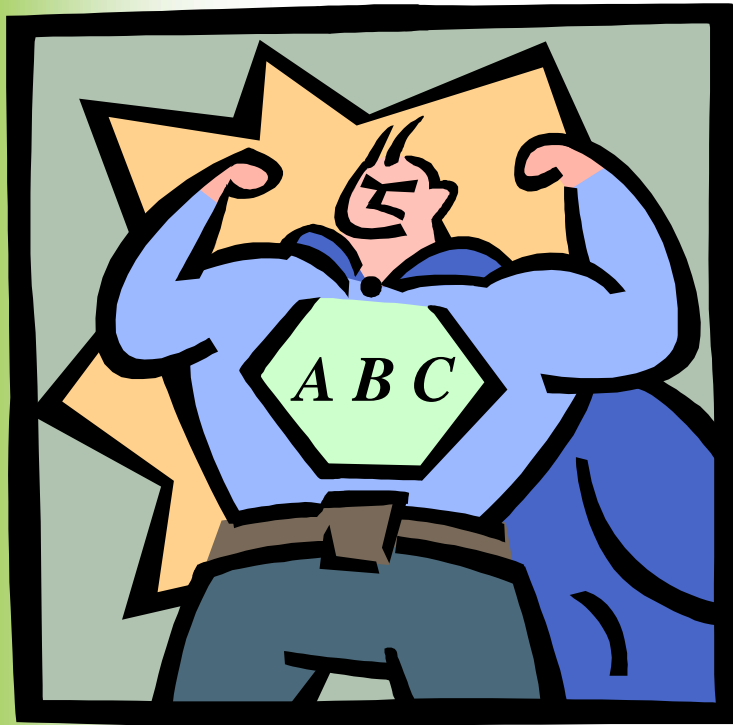
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- Costs are *allocated arbitrarily*.
- Allocations are *to organizations* (rather than to *activities*).
- Allocations *cannot usually be verified objectively*.
- Cross-allocations are *complex* and often *misleading*.
- TCA is *not “forward looking”*.
- TCA does *not explicitly link financial accounting with operational results*.
- TCA *terms and concepts are often unfamiliar* to operational decision makers.

# A B C to the Rescue!

Activity Based Costing (ABC) is a well established cost management methodology that:

- traces costs to specific activities.
- supports strategic decision making.
- explicitly links financial to operating performance.



*Rather than just reporting costs by organization, ABC provides true insight into operational costs and clearly identifies options for both financial and operational improvement.*

# Activity Based Costing Defined

- ABC focuses on “*cost objects*”... products, services or functions.
- Cost objects are *defined by the activities and tasks* that must occur to produce them.
- *Activities consume resources* every time they occur.
- Resource *consumption drives costs*.
- Customer demand causes activities to be performed.
- TCA works in a “top down” fashion; ABC can work “bottom up”.
- Total costs are the same by either method; only the view differs.

# TCA vs. ABC

<b>TCA View</b>	<b>(000s)</b>	<b>ABC View</b>	<b>(000s)</b>
Salaries	328	Maintain records	76
Benefits	165	Receive calls	57
Supplies	26	Resolve problem	379
Facilities	89	Manage escalation	152
Utilities	24	Create reports	94
Travel	13		
Systems	113		
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Total	758	Total	758

# The ABC Methodology

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1. Define the product, service or function (*cost object*) for analysis.
2. Establish the demand (volume) drivers.
3. Define the activities that occur.
4. Establish the resources that are expended.
5. Determine the cost of each resource.
6. Calculate the cost of a single cycle for each activity.
7. Determine the number of activity cycles required.
8. Analyze the associated costs of each activity.

# What Does ABC Accomplish?

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- Creates a ***detailed financial baseline*** based on activities and tasks.
- Shines a spotlight on ***cost elements that are “hidden”*** within the cost structure.
- ***Identifies and prioritizes*** realistic improvement opportunities by:
  - ROI and financial impact.
  - Operational performance impact.
  - Impact on business objectives and drivers.
- Provides a ***compelling business case*** for action.

# ABC in the Contact Center

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## **Activity Based Costing has valuable applications in the contact center environment, including:**

- Understanding your cost structure at a granular level.
- Identifying cost reduction and process improvement opportunities that may be hidden by the accounting systems.
- Creating compelling business cases.
- Demonstrating the ROI for proposed investments.
- Establishing a realistic Total Cost of Ownership for new systems.
- Evaluating alternative improvement scenarios in financial terms.
- Forecasting the financial impact of new business initiatives.

# Okay..... What's the Catch?

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Introducing ABC into an organization can be:

- ✓ Complex
- ✓ Time consuming
- ✓ Difficult
- ✓ Expensive
- ✓ Politically risky

# Automation is a Must

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- A simple and repeatable methodology coupled with an automated modeling tool is required if ABC is to be truly effective.
- Fortunately, there are many choices available.  
( A web search for “activity based costing software” yields over 12,000 hits.)
- Most tools can quickly be eliminated based upon cost, lack of adaptability to the contact center environment, and/or limited flexibility.

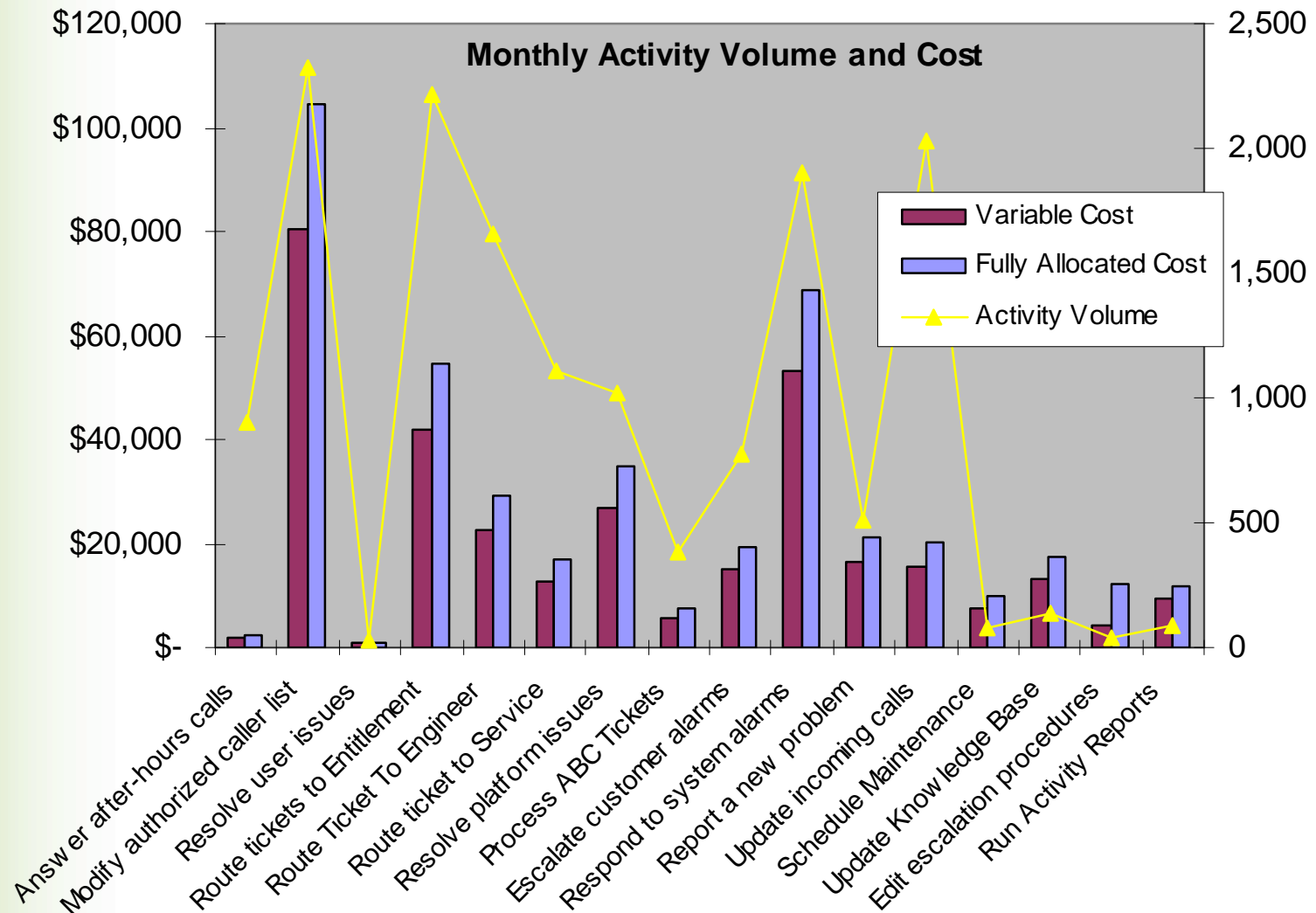
# What Kind of Results are Typical?

- Identification of 3 - 6 critical improvement areas that optimize performance against organizational/strategic objectives.
- Specific cost reduction opportunities of between 10% and 15% of current operating budgets.
- Accurate 3-year forecasts of operating and capital budgets for the baseline and alternative scenarios.
- Accurate, quantifiable ROI calculations for potential investment scenarios.

# Case Study: AboveNet

<b>Business</b>	Network services provider for small-medium size businesses
<b>Strategic Goals</b>	<ul style="list-style-type: none"><li>▪ Improve effectiveness of customer interactions</li><li>▪ Reduce duplication and total cost of operations</li></ul>
<b>Project Goals</b>	<ul style="list-style-type: none"><li>▪ Understand cost structure well enough to identify genuine saving opportunities</li><li>▪ Optimize performance of call center vs. cost</li></ul>
<b>ABC Model</b>	<ul style="list-style-type: none"><li>▪ Created detailed financial model and successive scenarios of customer facing operations comprising 2 programs, 15 activities, and 75 tasks</li></ul>
<b>Results</b>	<ul style="list-style-type: none"><li>▪ Realized a permanent annual savings totaling 25% of annual budget (\$1.1M) from specific process and system improvements.</li><li>▪ Significant service quality improvement as perceived by customers</li></ul>

# Example: AboveNet

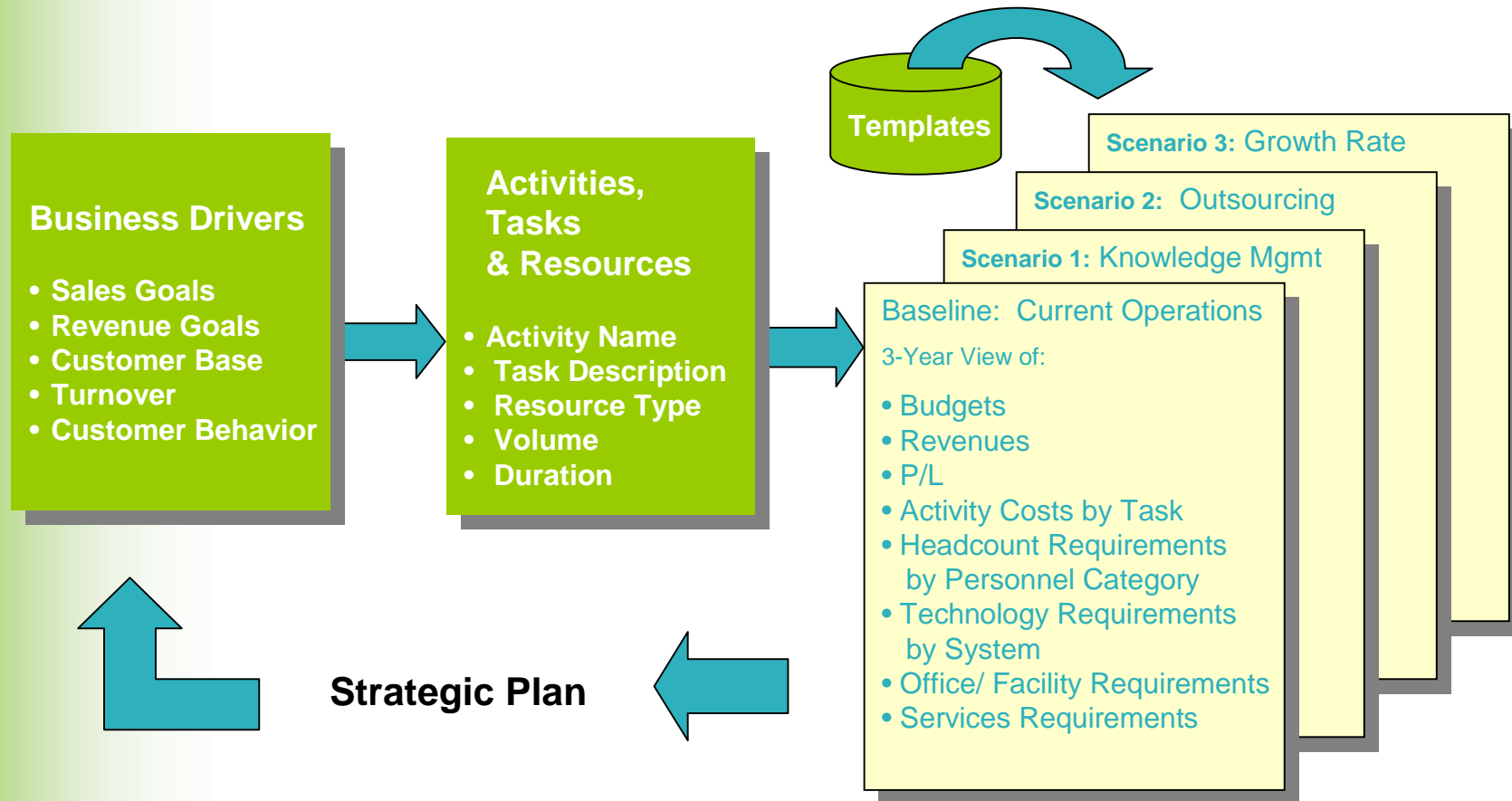


# Another Example: How Tyche Does It

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- An Activity Based Costing and Total Cost of Ownership methodology,
- Optimized for the contact center,
- Automated using *The Contact Center Guide*™ for maximum efficiency and flexibility,
- Resulting in a comprehensive contact center modeling approach for planning, forecasting and decision support.

# ABC Modeling Using The Guide



# The Secret to Success?



A methodology that combines process and technology to create an ABC solution for the contact center environment:

- Straightforward
- High usability
- Optimized for the support center
- Reusable

# Summary – Activity Based Costing

- **Communications gap leads to:**
  - Poor decisions
  - Missed opportunities
- **ABC bridges the gap:**
  - Links the operational and the financial
  - Current and forward looking view of costs, ROI, TCO and more
- **Implementation of ABC can be complicated:**
  - Data, process and political issues
  - Automation is a must
- **The results are real and impressive!**

# Activity-Based Cost Management in the Contact Center

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*Thank You*

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