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Cloud Contact Center Market Trends:
Movement from Best-of-Breed to Suites
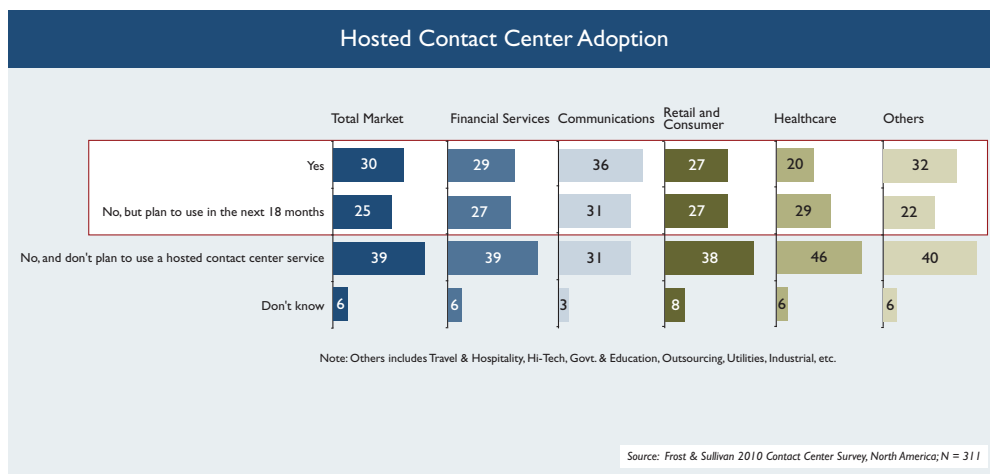
INTRODUCTION

The cloud model has seen unprecedented demand and growth in the contact center market over the past few years. Frost & Sullivan values the total market comprising best-of-breed and full-suite hosted and cloud contact center solutions to be worth $1.4 billion in North America, growing at 11.6 percent a year. This represents the combined spend across hosted and cloud-based ACD, IVR, outbound contact, chat, quality monitoring, workforce management, and analytics applications.

In contrast, the corresponding market size for premises-based contact center systems, based on product revenue, is $1.7 billion in North America, and growing at 6.1 percent a year. While not exactly an apples-to-apples comparison, as maintenance fees are excluded from the premises market size, it reveals a significant market trend. The hosted/cloud model is not just a viable, but, increasingly, a preferred model to deploy contact center technology.

A recent Frost & Sullivan survey of contact center organizations in North America shows the current and planned use of hosted or cloud contact center solutions. As shown in the figure below, 30 percent of the respondents currently use one or more hosted or cloud-based contact center applications. Another 25 percent of the respondents plan to use them in the next 18 months.

Hosted Contact Center Adoption

	Total Market	Financial Services	Communications	Retail and Consumer	Healthcare	Others
Yes	30	29	36	27	20	32
No, but plan to use in the next 18 months	25	27	31	27	29	22
No, and don't plan to use a hosted contact center service	39	39	31	38	46	40
Don't know	6	6	3	8	6	6

Note: Others includes Travel & Hospitality, Hi-Tech, Govt. & Education, Outsourcing, Utilities, Industrial, etc.

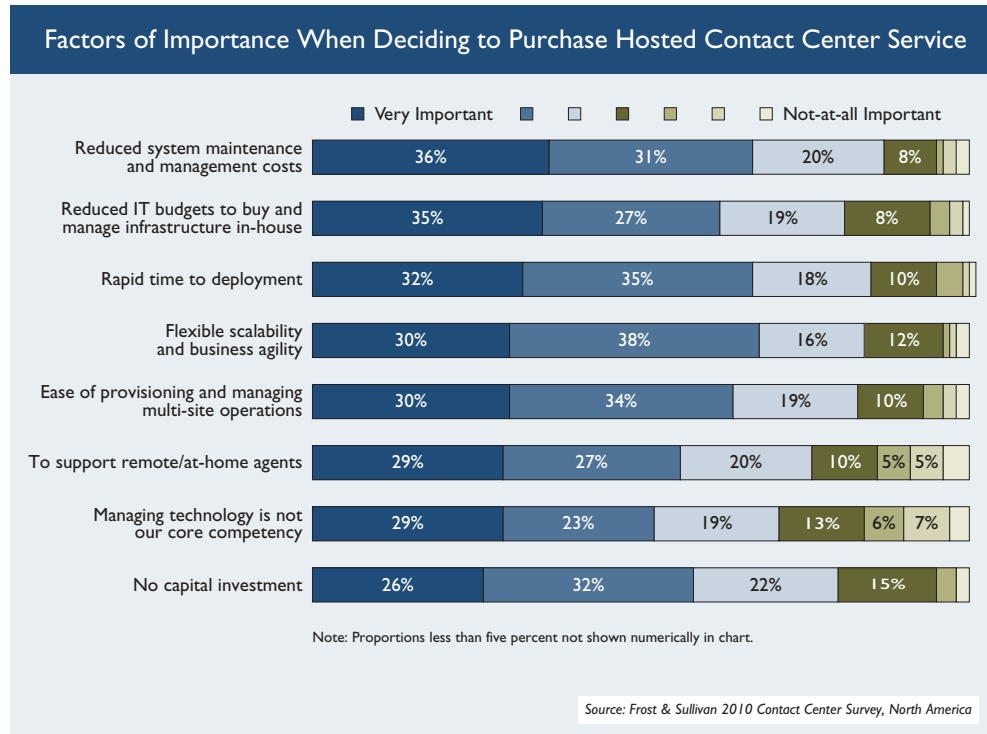*Source: Frost & Sullivan 2010 Contact Center Survey, North America; N = 311*

Furthermore, the adoption of hosted or cloud solutions is not concentrated in any one or few industry sectors; rather, it is fairly distributed across industry verticals. Its high adoption in industries such as financial services and healthcare validate the robustness and maturity of the model.

This paper will discuss some of the emerging trends, contemporary issues, and future outlook for the cloud contact center market.

KEY CONSIDERATIONS FOR BUYERS—FROM TACTICAL TO STRATEGIC

Several contact center organizations on the cusp of major technology upgrades have been turning to hosted and cloud solutions to save costs and at the same time modernize and 'future proof" their contact center technology. The top reasons cited by buyers include the following business drivers, as shown in the figure below.

Factors of Importance When Deciding to Purchase Hosted Contact Center Service

Note: Proportions less than five percent not shown numerically in chart.

Source: Frost & Sullivan 2010 Contact Center Survey, North America

While cost reduction continues to be a key objective, the predominant driver is no longer just the financial benefit of moving an expense from cap-ex to op-ex. Enterprises have come to appreciate the host of other benefits of the cloud model, particularly:

• Reduction and simplification of ongoing maintenance

• Faster deployment and realization of business value

• Ease of provisioning and managing distributed sites and remote agents

• Flexibility, scalability, and business agility

The demonstrated success and growth of the model has dispelled the concerns buyers have had with cloud contact center solutions related to security, functionality, reliability, control, etc. The reputed and leading solution providers in the market meet the most rigorous of enterprise requirements related to security, control, reliability, and business continuity.

MOVEMENT FROM BEST OF BREED TO SUITES

When customers look to deploy cloud contact center solutions, they need to determine which systems to retain on premise and which ones to move to the cloud. Key systems/applications in use by enterprise contact centers include CRM, ACD, IVR, multimedia contact, outbound contact, quality monitoring, workforce management, analytics, etc. In many cases, the systems in place have been purchased at different times, from different vendors, and integrated to deliver the desired operational functionality. The ongoing cost of maintenance, upgrades, and integration represents a good portion of the total cost of ownership (TCO) of a contact center's IT infrastructure.

As one or more of these systems are due for replacement, or there is a business need for a new application, these may be the most likely choices to move to the cloud. The cloud deployment is not complete until the cloud applications are integrated with the systems retained on premise. Subsequently, IT needs to manage this hybrid infrastructure. However, consistent with the evolution of the premise market, many companies are moving to full-suite solutions and focusing on developing strategic partnerships with a smaller number of suppliers.

We have looked at several use cases of premise, cloud, and hybrid contact center infrastructure, and determined that:

- Companies realize greater cost savings as more applications are moved to the cloud

- Companies realize greater cost savings with the cloud model as the contact center organization expands and grows

Thus, from a cost standpoint, full-suite cloud solutions deliver greater TCO savings than best-of-breed cloud solutions. While cost is not the only deciding factor, enterprises that achieve strong results from deploying one or more applications from the cloud will look to move more applications to the cloud over time.

In the short term, as several new customers look at cloud solutions, we expect to see strong adoption of both best-of-breed and full-suite cloud contact center solutions in the market. In the long term, vendors that offer full-suite cloud solutions will have an edge over best-of-breed cloud solution providers in the contact center market.

UP-MARKET ADOPTION AND GROWTH

Historically, adoption of the cloud model was highest among small contact center organizations with limited IT budgets. As the market matured, several larger organizations began deploying cloud contact center solutions. The economic downturn

in 2009, in fact, had a major positive impact on the cloud contact center market. Driven in large part by reduced IT budgets, several enterprises due for major contact center technology replacements or upgrades switched to hosted or cloud solutions.

For most large enterprise contact center organizations, the migration to a cloud model begins with one or more departments or sites, eventually scaling up to support multiple sites and locations.

Our TCO research determined that a 500-seat, distributed contact center organization realizes as high as two times the cost savings compared to a 100-seat center, over a five-year period, by moving to the cloud.

GLOBAL ADOPTION AND GROWTH

As Europe braces itself for a period of economic restraint, enterprises in Europe are likely to assume a stronger cost containment stance in the near future. Similar to the observed trend in North America, we expect this to drive greater demand for hosted and cloud solutions over premise system purchases in Europe.

In the Asia Pacific region, companies continue to focus on improving their customer service to drive competitive differentiation and revenue growth. At the same time, the looming economic uncertainty is pushing companies to explore hosted and cloud alternatives to premises-based systems.

Multi-national, multi-shore, distributed contact center organizations stand to derive significant cost savings and other business benefits by virtualizing their contact center infrastructure. The cloud model allows each location or department to have local configuration, management and control, while providing the company enterprise-wide visibility into its customer service operations.

VENDOR ALIGNMENT

As the cloud model continues to penetrate and grow in all segments of the contact center industry, customers are demanding more deployment flexibility and help with managing their hybrid infrastructure. Vendors need to simplify integration and migration between premises and cloud environments. To that end, vendors that only offer hosted or cloud solutions need to emphasize their integration/interoperability with leading premises systems. Likewise, vendors that only or primarily offer premises-based solutions need to emphasize their integration/interoperability with leading hosted and cloud solutions. Finally, vendors that offer both premises-based and hosted or cloud solutions should emphasize the flexibility and ease of migration between these environments.

CONCLUSION

Cloud-based solutions have advanced as not just a viable, but increasingly a preferred model to deploy contact center technology. It enables greater flexibility, scalability and business agility for contact centers, while saving significant costs over the long term.

The installed base of premises-based contact center technology still represents a much larger portion of the market, although revenues from hosted and cloud solutions will outgrow premise system sales in North America by 2014. While best-of-breed and full-suite hosted and cloud solutions will continue to see strong adoption and growth in the market in the near term, much of the market will gravitate toward full-suite cloud solutions in the long term.

Contact center organizations looking to make new technology investments or upgrades should evaluate all options to determine what might be the best way forward for their organization. Ease of integration and management of the hybrid infrastructure should be a key consideration when selecting a vendor. Enterprises that don't want to be locked in to one model or the other, and instead want to maintain the flexibility to migrate between models, should consider partnering with vendors that offer this flexibility to mitigate risks.

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