



White Paper

Calculating ROI on

Unplanned Projects

DMC Associates
Management Consultants

August 5, 2005

Douglas Cassell
Principal Consultant
Bus #: 774-238-0434

Assessing ROI for Contact and Processing Center Projects

A major hurdle for many organizations is the burden of having to prove their business case for consulting projects with a verifiable (and often immediate) Return on Investment. Following are points that will help you to calculate a Return on Investment for your project.

1) Frequently, organizations set aside funds in the annual budget for special projects and for any required consulting assistance. Inevitably, a critical project arises during the year for which there is no budgeted money. Showing a sufficient ROI for the project is critical to getting it approved and started. The good news is that there are multiple ways to prove “savings” and make a case for ad hoc funding.

Consider the “pay as you go” method. Experienced consultants have an idea where you will tend to see investment return from the type of work they perform. If you have a consultant in mind, it is entirely appropriate to discuss their expectations prior to finalizing your business case to learn where you might achieve a fairly quick savings or return. It is important to consider all the implications of the project in your discussions. For instance, will your return will come from a reduction in staff costs or a reduction in processing per unit costs. Will there be future cost avoidance for another business unit whose costs may already be spiraling well over budget. Keep in mind that any savings gained from your unexpected project are unplanned and unbudgeted and can usually be used to supplement the funding for your project. Moreover, the funds saved by your project may be able to assist others to fund their priority projects. So, start your ROI calculation by talking to your consultant.

2) There are many ways to determine a ROI from relatively concrete and verifiable data. Some projects **affect the volume or the activity done**. Determine if your project will:

- Automate activity, tasks and volumes.
- Transition clients, vendors and suppliers to less expensive contact or process formats like web enabled transactions or service contacts.
- Eliminate the need for a transaction or a process to occur.
- Reduce internal non-customer focused tasks e.g., corporate email volume, reporting, inter-department callbacks or redundant/ineffective quality checking.
- Replace multi-touch transactions with one and done resolution.

To start the return calculation, estimate the planned reduction in activity and multiply it by known unit costs (or cost estimates) to calculate savings. Note: these projects tend to reduce error probability and consequently, free up managerial time formerly needed for error escalation and rework as well as scheduling and following up with the people who perform the tasks affected. Assess the managerial time affected and include notes of what other priorities would receive greater managerial attention if the changes were done.

Some projects are more focused on **affecting the cost of the time** experienced by the team doing the work. Keep in mind that labor costs account for 60-75 percent of most

organization's operating budget. Cost of time reductions can occur by streamlining the completion time of a process (e.g. fulfillment, customer identification or data gathering) or a customer service contact. Alternatively, the cost of time can be reduced by changing the staff mix performing the activity (e.g., reducing overtime or "temp" hours used in staffing the business unit performing the activity or outsourcing). A variation of this last concept is that a careful review of task assignment may show that simply by rationalizing roles and responsibilities, lower cost team members can be used in task completion.

As above, by focusing managers on managing (not meetings, special projects or client escalations) managers can spend more time correcting a team's underproductive work habits that simply add time to each transaction. ROI will be the reduction in work hours multiplied by a per hour average cost of staff.

3) Other projects are designed to reduce the cost of lost business by improving service levels. In both a customer service and product environment this means reducing dropped contacts/sales/orders, eliminating backlog, giving consistent, timely high quality answers and providing greater 24x7 self service. If your project is of this type then calculate a value for lost business and use it with your estimates of improved service to identify return. Some projects are designed to provide better tools for identifying and resolving service level problems e.g., providing better decision support systems or knowledge bases. It is worthwhile estimating their impact on the service level and the consequent reduction in lost business. In calculating the ROI value do not disregard the value of reduced client churn (acquisition costs), increased loyalty (hence sales revenue), and reduced write-offs/lessened liability. It is critical to remember that service related ROI dollar calculations are frequently a mixture of revenue gains, as well as cost reductions.

4) There are other downstream impacts of projects that may be overlooked in thinking about your ROI, all of which should be incorporated into your calculations. With less rework and accurate volumes, better data mining can be done. This has the impact of improved marketing and also affects customer acquisition costs. If the project achieves more accurate volume and work to time relationships, this improves reporting and serves as the basis for more accurate forecasting and staffing cost control. Better staffing typically improves staff loyalty and reduces the high cost of acquiring and training staff.

Outsourcing, hosting, site consolidation and site relocation also affect the cost of doing business in a geographic area. In all these cases it is worth trying to estimate project impacts in these longer view areas and including that in your ROI.

In sum, calculating ROI should be a multi-dimensional calculation, having a volume, quality and time component as well as a service, a managerial time and a long term corporate value impact. ROI's are much easier if you have access to your organizations cost per contact/activity, contact per channel, cost per staff /manager, contracted vender service costs (e.g. phone, web) cost of sales and sales revenue per contact. But even without officially sanctioned data, these can typically be estimated for use in calculating return. Lastly, remember that your consultant has quite likely dealt with the ROI calculation numerous times. It is worth asking them for informal assistance even prior to contracting with them.