How to Negotiate a Favorable Contact Center as a Service Contract

Published 16 December 2020 - ID G00740923 - 19 min read

By Analysts Steve Blood

Initiatives: Customer Service and Support Technology

Customer service organizations looking to adopt SaaS-based contact centers are faced with myriad pricing and service offers. Application leaders should use this research to guide negotiations for the most competitive final proposal in terms of payments, SLAs and professional services.

Overview

Key Challenges

- Contact center as a service (CCaaS) contracts are a new concept for many organizations. Application leaders responsible for customer service should review the different payment terms to ensure lower total cost of ownership (TCO) over the contract term.

- Service-level agreements (SLAs) can be complex and vary in terms of quality. Negotiating strong uptime SLAs will ensure the vendor focuses on meeting the organization's operational stability requirements.

- Professional services and support will be an important component of service delivery but costs and terms differ among providers. Quantifying support needs and costs is essential in forming a strong provider relationship.

Recommendations

Application leaders responsible for customer service and support technology should:

- Optimize operating costs for CCaaS by matching business use case requirements with service provider offerings.

- Incentivize service uptime by defining tight SLAs and service terms and agreeing responsibilities between the CCaaS provider and the business unit for the duration of the contract.

- Create a healthy business relationship by determining the level and cost of support required from the CCaaS provider or partner prelaunch and during the contract term.
Strategic Planning Assumption
By 2024, contact center as a service (CCaaS) solutions that include functionality from all four pillars of customer service technology will represent 70% of all new CCaaS deployments, up from 20% in 2019.

Introduction
Organizations are expected to accelerate planning for the migration of contact center infrastructure to CCaaS platforms over the next 18 months. The need for greater flexibility in working location for customer service representatives as well as anticipated changes to the mix of interaction modalities — demands that have surfaced through the COVID-19 pandemic — require application leaders responsible for customer service to adopt a more agile approach to technology investment.

A CCaaS contract should be a multiyear relationship. The cost of making changes to technology in the customer service office can have a knock-on effect in terms of cost to migrate as advisors, managers and administrators require reorientation around new technology. Our assessment, validated by clients during inquiries, is that the average cost of reorientation is about 0.5 days per person.

Creating a sustainable, multiyear partnership with a CCaaS provider will hinge on three key service characteristics of the relationship:

- Are we paying a competitive amount for the service we receive?
- Do service levels meet the business needs and are outages rectified quickly?
- Do we get value from the ongoing support relationship in optimizing our customer service operation?

A detailed approach to negotiating contracts is provided in Follow Gartner’s T4 Process to Optimize Negotiations: Tactics, Templates, T&Cs and Timing. The purpose of this note is to drill into the specific areas of CCaaS terms and conditions, as these are topical conversation points in inquiry related to Gartner BuySmart™ (see Note 1).

The CCaaS market is now highly competitive as it matures and organizations have multiple providers to consider when replacing their legacy customer on-premises equipment. CCaaS providers continue to invest in automation, which reduces the cost of installation. They have increasingly expanded their offers to include more capabilities across the four pillars of great customer service (see Customer Service and Support Technology Primer for 2020). Resource management and insight through customer service analytics are two key examples of how providers are enabling organizations to consolidate the number of applications they must manage in the customer service space. Key to understanding the actual functional requirements is to start by engaging business users and their needs by defining use cases (see How to Choose Your Best-Fit Vendor for Contact Center as a Service).

It can be difficult to compare vendors in final tender from a pricing and value perspective because the licensing, service-level agreements and professional service charges can vary between them (see Figure...
These recommendations are designed to help clients understand the myriad of different offers in order to reach a common and competitive final negotiation.

**Figure 1. Key Categories of CCaaS Contract Negotiation**

**Key Categories of CCaaS Contract Negotiation**

- **Payments**
  - Named License
  - Concurrent License
  - Consumption

- **SLAs**
  - Service Level
  - Service Credits
  - Service Management

- **Professional Services**
  - Installation
  - Account Management
  - Migration

Source: Gartner 740923_C

**Analysis**

**Optimize Costs by Matching Use-Case Requirements With Service Provider Offerings**

The greatest cost associated with operating a CCaaS platform is the technology platform payment (license or consumption) that connects customers to associates. For most CCaaS providers this is a telephony-centric license, with additional capabilities to manage channels like email, messaging and social media. Optionally, CCaaS providers will offer workforce engagement management (WEM) and analytics capabilities to broaden the scope of the service they offer. There are three payment terms to offer these services, though not all providers offer all terms (see Table 1). Starting with a greater understanding of your baseline requirements will help you negotiate the best payment terms for your organization.
Table 1: CCaaS Payment Types

Viewing partial table. Click here to view full table

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Named User License</td>
<td>Each customer service advisor is configured with a unique identity and the service fee is paid irrespective of whether the user is active.</td>
</tr>
<tr>
<td></td>
<td>Best suited for organizations operating normal (eight hours) to extended (12 hours) working hours.</td>
</tr>
<tr>
<td>Concurrent User License</td>
<td>There are multiple configured identities and the service fee is based on the maximum number of advisors that may be logged into the platform at any one time.</td>
</tr>
<tr>
<td></td>
<td>Best suited for organizations operating multiple shifts, or typically 24-hour operations.</td>
</tr>
<tr>
<td>Consumption Pricing</td>
<td>There are multiple configured identities on the platform but the service fee is only paid if the advisor is active in supporting customer inquiries. Charges are typically based on minutes or hours of use for telephone calls, number of message responses and interactions in a self-service platform.</td>
</tr>
<tr>
<td></td>
<td>Best suited for organizations with either low occupancy (advisors are required to support customer service for two to four hours per day) or highly variable 24-hour operations, ranging from say 20 seats at night to 400 seats during the day.</td>
</tr>
</tbody>
</table>

Source: Gartner (December 2020)

The following recommendations are key to optimizing operating costs through the contract term.

**Audit Your Operation**

Audit your existing contact center software platform to understand configurations, numbers of existing perpetual licenses and volumes of traffic to calculate the optimal resource requirements. This will help define the most appropriate payment option. For larger, more complex environments, auditing existing implementations using tools such as Blackchair can help ease the cost of migration to the new cloud platform.

**Decide Your Contract Term**

Most commonly, we see three-year terms for CCaaS. Changing technology introduces disruption and cost to the organization, and it is unlikely you will want to change platform providers any more
frequently. The CCaaS market is highly competitive, with rates for services decreasing each year. A shorter-term contract gives you the opportunity to renegotiate rates to take advantage of price reductions. Your contact center operation will be subject to transformation over the next three years, so committing to a longer term is unlikely to prove beneficial unless you can build flexibility into the contract. Negotiate a three-year term with a commitment from the provider to allow you to change the mix of services, especially channels, throughout the contract term. Agree to a minimum monthly commitment with the ability to flex up and down according to seasonal need.

Occasionally, we see contracts that include an annual price increase of between 1.5% and 3%. This should be rejected. As mentioned above, the CCaaS market is highly competitive and rates are being reduced annually.

Consider Optional Licenses
Referencing your use cases, assess the benefit of adding workforce engagement management and analytics software from your CCaaS provider. This will often represent a lower TCO than managing separate (and competing) vendor integrations. Expect some licenses here to differ from the core telephony license. For example, as resource planning requires a schedule for each employee, it is more common to see this listed as a named user, not as a concurrent user option.

Suite or A La Carte
Suite offers can look attractive compared to buying services on an a la carte basis. Use cases will help to assess if bundling is an option for more flexible licensing and better discounts, or if it leads to a higher cost per user. For example, WEM as an a la carte subscription will mostly be a named user license, but if you opt for a bundle, it may be available as part of a concurrent user license. Clients tell us in inquiry that a la carte licensing can be more difficult to manage operational costs, with a sense of being charged unfairly for minor services, which does not help the ongoing supplier relationship.

Telecom Connectivity
Our best practice recommendation is to always source the telecom connectivity from the CCaaS provider in place of bringing your own telecom. Most CCaaS providers offer this for a per-minute fee, which will vary depending on whether the call is local or international, or originates from a toll-free number. Ensure providers include both their inbound and outbound rates as part of the proposal.

Sometimes, in order to facilitate greater discounts on the monthly user license, providers will increase the inbound call costs. For example, inbound interstate/DID should be less than one cent per minute. We have seen it offered for as much as 1.9 cents per minute. For organizations requiring more than 500 seats of inbound contact center, volume discounting should mean rates of 0.75 cents per minute or better.

Most CCaaS providers have relationships with multiple carriers, and as they grow their customer base, they will benefit from better telecom rates, which are opportunities to improve on telecom rates through a
multiyear contract. Consider including in your contract the ability to review telecom rates on an annual basis.

If your organization has high volume outbound requirements, maybe you already benefit from better pricing than the CCaaS provider can achieve. In these circumstances, balance the benefit of lower telecom costs with the additional costs of connecting your carrier to the CCaaS provider, and the cost of managing that part of the service yourself.

The same argument can be used for consumption-only pricing offers. As the CCaaS provider scales, expect that its consumption rates will reduce.

**Sandbox**

As CCaaS configurations grow and IT organizations invest more in integration and testing, we are seeing test environments being offered in CCaaS contracts. These are essentially a small tenant of the CCaaS platform, specifically configured just for testing and experimentation. It excludes production use. Typical costs for this are 5% to 10% of the standard licensing terms.

**Define SLAs With CCaaS Provider for the Duration of the Contract to Incentivize Service Uptime**

Most Gartner clients we speak with are actively pursuing a cloud approach to contact center technology, but a common concern is whether to trust the CCaaS provider to deliver a service level as good as, if not better than could be engineered with traditional on-premises technology. CCaaS platforms are engineering a very high level of service for their customers, irrespective of size, because many hundreds or thousands of customers are sharing a common instance of software on the same platform.

However, cloud platforms do have outages, and the objective of a service-level agreement is to minimize the impact of outages. For all SaaS agreements, clients should use SaaS SLAs: Reduce Risk and Improve Service by Negotiating These Key Terms as a foundation for negotiating SLAs. Within the communications and collaboration space, which is closely aligned to CCaaS, there are a few different terms to consider as part of an overall service-level agreement. These are covered in detail in Negotiate UCaaS SLAs With a Focus on These Key Terms. Here we look at uptime SLAs specific to CCaaS.

**Define Your SLA for Uptime**

The most common uptime SLA CCaaS vendors will offer is 99.99%. This represents four minutes of unscheduled downtime on a monthly basis. Many CCaaS providers will publish their monthly availability on their website so you can see how the service has performed historically. These tend to be high-level measurements. As a customer you should expect outages to be reported weekly with length of outage, root cause and the number of customers affected. These can be reviewed at regular service review meetings discussed later in this research.

Some providers will include scheduled maintenance windows as part of their SLA. When maintenance windows are extended beyond the planned downtime, the net result is downtime. It is important to
understand how frequently maintenance will be performed and how much advance notice you will be provided.

Where you subscribe to the CCaaS provider’s telecom service (we believe this is a best practice), ensure the monthly SLA includes public switched telephone network (PSTN) connectivity. The CCaaS provider should own the responsibility for rerouting traffic in the event of carrier outages. Where the provider excludes telecom, expect to spend more time managing the relationship.

Some providers are starting to include measurement of voice quality using mean opinion score, with a target of offering better than (typically) 3.9 out of a maximum score of 5.0. The greatest risk of poor audio is in the connection between the CCaaS platform and the customer service advisor. Since 80% of voice traffic passes over the Internet, it is not clear how a CCaaS provider would assume responsibility for this. However, synthetic monitoring of call quality to the advisor desktop can be useful if it alerts application leaders to potential network challenges.

**Negotiate Mutually Agreeable Service Credits for Outages**

Service credits are critical for nonperformance of all license-based SaaS offers (see Note 2), yet this is an area where CCaaS providers tend to be weak in defining robust, escalating credits to counter repeat breaches of service. In our contract reviews, service credits range from 10% for SLAs that drop below 97% to only 50% if the service has an outage that lasts the whole month. As organizations scale their cloud contact center deployments to hundreds and thousands of users, the focus on quality surrounding uptime is critical to a long-term relationship.

Negotiating credits aligned with other related SaaS offers, such as Salesforce, Microsoft Dynamics 365 and Oracle Cloud, can be a useful starting point. Given the critical nature of CCaaS, we believe Table 2 represents a realistic set of escalating service credits based on minimum monthly spend. Reaching this proposal was a combination of our own analysis of credit terms offered to clients in contract proposals, as well as Gartner analysts’ research opinion. We also sought input from CCaaS providers for their views on how meaningful these service-level credits would be (see Note 3). We believe these service-level credits represent an achievable proposal. If your provider resists the higher levels of penalties for poor performance, you might decide to negotiate early termination rights based on poor performance.
Table 2: Example SLA Credits for CCaaS

<table>
<thead>
<tr>
<th>Monthly Service Availability</th>
<th>Maximum Time of Outage</th>
<th>Example Credit Offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.99% and above</td>
<td>Four minutes</td>
<td>None</td>
</tr>
<tr>
<td>Below 99.99% but equal to or better than 99.95%</td>
<td>22 minutes</td>
<td>5%</td>
</tr>
<tr>
<td>Below 99.95% but equal to or better than 99.9%</td>
<td>43 minutes</td>
<td>10%</td>
</tr>
<tr>
<td>Below 99.9% but better than or equal to 99.0%</td>
<td>7.6 hours</td>
<td>20%</td>
</tr>
<tr>
<td>Below 99% but better than or equal to 97%</td>
<td>22 hours</td>
<td>50%</td>
</tr>
<tr>
<td>Below 97%</td>
<td>More than 22 hours</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Gartner (December 2020)

CCaaS contracts often state that customers should apply for service credits within 30 days of the outage, placing the onus of service management on the client. We believe a healthier partnership can be established by setting monthly or bimonthly service meetings where weekly reports of outages are discussed, and the root causes investigated. Where the fault lies with the service provider, they will confirm the service credit payable in the following month’s billing cycle. This would be a key role within service management.

Agree Service Management Responsibilities

Ongoing service management will be critical to a strong partnership, and the customer service organization will need to dedicate some time to managing the supplier relationships. Take time to map out the dependencies for the customer service platforms, who has primary responsibility for support and the demarcation lines between your IT organization and providers. With a structured program for escalation in place, which is then shared with every SaaS partner, lines of responsibility and who to contact are more clearly defined. This will be especially important if you want your CCaaS platform to connect to other external communications services, or if you decide to bring your own telecom as discussed above.

Determine the Level and Cost of Support From the CCaaS Provider Before and During the Contract Term
Implementation costs and ongoing support can influence the total cost of ownership both positively and negatively. A deep understanding of client needs with proactive support can help the account relationship immensely. However, ineffective support coupled with high repeat costs for multiple configuration projects can make customers feel they’re being unfairly charged for minor services, which ultimately leads to dissatisfaction.

Understanding the anticipated costs of implementation and ongoing support from the outset of a contract is key to a healthy business relationship that is likely to last for five to seven years.

**Scrutinize Installation Scope and Costs**

In terms of installation fees, we have a general rule for the average CCaaS deployment that implementation per user will cost between two and three times the monthly service fee. For example, if the monthly service fee is $100, the implementation cost will be between $200 and $300 per user. Over the last few years we have seen more contracts where the cost of implementation is closer to twice the monthly fee, driven by improvements in delivery processes by the providers as well as the economies of scale of larger-sized deals.

CCaaS requirements can often be complex, with custom integrations as well as initial-self-service delivery of bots and additional services such as WEM. These can increase the overall implementation cost beyond our general rule. Custom integrations can consume a lot of hours of professional services for which it is difficult to provide any clear rule. However, it is still possible to assess contract costs by having the provider split the proposal into basic and advanced implementation sections. The basic implementation can be compared against our general rule. The advanced implementation can be assessed in a detailed scope of work with rate cards and hourly professional service costs clearly indicated in any proposal. Rate cards are key to understanding postimplementation charges for repeat services.

Beware of contracts offering 40% + discounts on professional services. While at scale there may be an opportunity to deliver some savings that can be passed on to the customer, in general a service provider or partner’s cost for service remains consistent. It is not as if they pay their engineers less for one deal over another or cut back on training. Where large discounts are offered, or where implementation is offered for “free,” it is most likely that the real cost is being recovered by means of the ongoing service fees, which will undoubtedly be higher as a result. Start out by budgeting the appropriate fees for implementation to avoid overpaying for services as your operation grows.

**Validate Account Management Requirements**

Technical account management (TAM) is a mandatory charge by some CCaaS providers offering to support customers directly. We see charges vary from $1,500 to $6,000 per month per TAM, based on the size of the implementation. The value for money will depend on the level of skill of the account manager and the number of accounts he or she has to support. As CCaaS providers grow in size, TAMs may find themselves stretched to provide support because of an increasing customer base. Growth industries
suffer higher churn, especially in sales, which can mean your newly assigned technical account manager is not as skilled as the previous associate.

Depending on the level of service management responsibility you want to take on, there may be less of a requirement for TAM support. Spend some time to understand the value of this role to your organization as part of the statement of work. Ask to engage with the CCaaS provider’s peer community to get a view of the positives and negatives of the role. Use Gartner Peer Insights to determine this. In the event you are undecided, make the TAM role an optional condition in the sales contract. If the service provider fails to meet the expectations of the role, you should have the option of canceling it during the contract term. TAM is generally charged based on a fixed number of hours of support. Consider starting with a lower number of hours, increasing this if you see the value materializing during the early stages of the contract.

Understand the Details of Migration Offerings
As the CCaaS market becomes more competitive, we are witnessing the introduction of migration offerings to entice customers to sign up earlier with a lower initial contract risk. Typically, organizations migrating from a legacy on-premises contact center platform to CCaaS will run both in parallel until user acceptance is achieved and a gradual migration of users is complete. This means that organizations are still paying maintenance for the old platform while paying the subscription for the new CCaaS offering. Migration offerings from CCaaS providers look to minimize the cost of migration by allowing you to use the CCaaS platform at little or no charge until the migration is complete. There is usually a time limit to a migration plan, but this can represent an attractive offer to secure a CCaaS deal.

In principle we would concur with this approach, but you need to be sure you fully understand the limitations of any migration contract. Sometimes, during testing, the user acceptance phase is not completed because functionality is missing or was missold. In the event migration is halted, it is important that this is also reflected in the migration offer. If the latter expires while the feature limitations are being resolved, the cost-benefit of such an offer is diluted. User acceptance testing can potentially go more smoothly if the use cases are well understood and tested as part of a proof of concept, as detailed in How to Choose Your Best-Fit Vendor for Contact Center as a Service.

Note 1. Gartner BuySmart
BuySmart is Gartner’s trademarked approach for using data-driven insights and situational analysis to acquire (buy or rent) technology solutions across all categories of spend (software, SaaS, cloud, infrastructure, services, devices, network).

Note 2. Service Credits
Service credits only really apply to a license-based approach. With consumption pricing, if the service is unavailable, the customer will not pay for any service.

Note 3. Service-Level Credit Framework
We asked 16 CCaaS providers for their opinion on this set of service credit proposals. We received a mixed response from a total of 11 providers. Five providers agreed with these proposals. For the remaining six, there was general agreement on the upper levels of credit for service outages, but there was resistance to the proposal of refunding 100% of credit at below 97%. Some providers felt this would leave them overexposed financially. Others felt that if the service dropped below 97% the customer would be looking at alternative providers.

**Recommended by the Author**

Follow Gartner's T4 Process to Optimize Negotiations: Tactics, Templates, T&Cs and Timing

How to Choose Your Best-Fit Vendor for Contact Center as a Service

SaaS SLAs: Reduce Risk and Improve Service by Negotiating These Key Terms

Negotiate UCaaS SLAs With a Focus on These Key Terms

© 2020 Gartner, Inc. and/or its affiliates. All rights reserved. Gartner is a registered trademark of Gartner, Inc. and its affiliates. This publication may not be reproduced or distributed in any form without Gartner's prior written permission. It consists of the opinions of Gartner's research organization, which should not be construed as statements of fact. While the information contained in this publication has been obtained from sources believed to be reliable, Gartner disclaims all warranties as to the accuracy, completeness or adequacy of such information. Although Gartner research may address legal and financial issues, Gartner does not provide legal or investment advice and its research should not be construed or used as such. Your access and use of this publication are governed by Gartner’s Usage Policy. Gartner prides itself on its reputation for independence and objectivity. Its research is produced independently by its research organization without input or influence from any third party. For further information, see “Guiding Principles on Independence and Objectivity.”