CASE #5b: ARC Media Corp.

Commodity Type: Service - Software

Karen Desai felt somewhat intimidated as she examined the papers on her desk. She had recently been entrusted with sourcing a new CRM (Customer Relationship Management) software solution to replace the aging Delta system that currently existed at the company's two call centers. The firm that created Delta had filed for bankruptcy and support for the system beyond one year seemed unlikely. The software collected and managed customer information and was used by the sales reps during customer calls. The files and papers she had all over her desk were all the data she was able to gather from the two candidates she had narrowed the search down to: RAP and Weebel Corp. She needed to select one of the two.

The software was to be installed at the two ARC telemarketing call centers in Montreal, Canada, and Albuquerque, New Mexico. These centers housed a total of 1,000 Sales Reps who handled incoming customer calls and made outgoing sales calls to prospective customers of the company's highly successful *Notary Pro* software. Under *Notary Pro*, customers could purchase a 1 year subscription for USD $20 to receive a limited number of notarized documents. This price was expected to remain stable over the next few years. Table 1 shows the price breakdown.

Table 1

Price per Subscription	$ 20.00
Variable Costs	$ 12.00
Fixed Costs	$ 6.00
Profit	$ 2.00

Among the data on Karen's desk was the following.

Current Situation:

Number of licenses (seats) required (total for both call centers)	1,000
Average employee turnover	30%
Inbound calls:*	
Average number of calls per year	2,500,000
Average Talk Time per (TT) call	7 minutes
Outbound calls:*	
Average calls per year	5,000,000
Average Talk Time (TT) per call	7 minutes
Avg. After Call Work Time (ACWT) (both inbound and outbound)*	8 minutes
Sell Rate: Avg. % of inbound calls that resulted in a sale	40%
Sell Rate: Avg. % of outbound calls that resulted in a sale	30%
Average sale	1 subscription ($ 20)
Practical capacity (total talk + after call work time for all inbound and outbound calls)	112,500,000 mins

* Call times are broken into 2 sections: 1) Talk time (TT) and 2) After call work time (ACWT). Talk time is the time spent talking with customers, ACWT includes data compilation and entry time after communication with the customer is completed

The call centers both operated at <u>full practical capacity</u>. The average number of incoming calls was relatively constant over the last few years and was expected to remain stable going forward.

CASE #5b: ARC Media Corp.

Sourcing Data Summary

Details	RAP	Weebel Corp.
	S-4	**XSELL**
Product name	**S-4**	**XSELL**
Software license fee (per user per year)	$ 1,500 per user per year	$ 1,950 per user per year
Hardware (network/servers) – one-time up-front cost	$ 2,800 per user	$ 3,000 per user
Internal data center (one-time up-front infrastructure cost)	$ 1,000,000	$ 1,200,000
Implementation (Roll-out) time till full operation	270 days	360 days
Implementation Labor costs:		
– System integration days	9,000 FTE days	12,000 FTE days
– Integration labor rate	$ 1,000 per day	$ 1,200 per day
• Application Configuration days	500 FTE days	500 FTE days
• Configuration labor rate	$ 1,000 per day	$ 1,200 per day
➢ Customization days	800 FTE days	800 FTE days
➢ Customization labor rate	$ 2,000 per day	$ 2,400 per day
Training	$ 250 per user	$ 500 per user
Maintenance	20% of license fee	15% of license fee
Upgrades (software)	Included in maintenance	15% of license fee
Hardware upgrade (one time cost at end of Year 3)	$ 1,500 per user	$ 1,700 per user
Average after call work time (data compilation/entry)	5 minutes	3 minutes

Using the information Karen gathered, complete the worksheets that follow.

CASE #5b: ARC Media Corp.

Worksheet 1: Calculation of Sales capability

#	Details	RAP	WEEBEL	CURRENT
A	Practical Capacity	112,500,000	112,500,000	112,500,000
B	Talk time per inbound call	7	7	7
C	After call time per inbound call			
D	Work Time (talk + after call time) per inbound call			
E	No of inbound calls			
F	Total inbound call time			
G	Total time available for outbound calls			
H	Talk time per outbound call			
I	After call time per outbound call			
J	Work Time (talk + after call) per outbound call			
K	# of outbound calls possible			
L	# of outbound sales			
M	Outbound sales per work day (L divided by 260 billable days per year)			

CASE #5b: ARC Media Corp.

Worksheet 2: Calculation of Implementation Opportunity Cost

#	Details	RAP	WEEBEL
A	Implementation time (days)		
B	Opportunity Time (implementation time - best implementation time)		
C	Outbound sales in opportunity time with **best implementation time**		
D	Outbound sales in Opportunity Time with **current system**		
E	No. of units of lost sales in Opportunity time		
F	$ per unit of lost sale (i.e. contribution)		
G	Total Opportunity Cost		
	Recurring or one-time cost?		

Worksheet 3: Calculation of Operational Efficiency Opportunity Cost

#	Details	RAP	WEEBEL
A	Annual Outbound sales		
B	Opportunity Quantity (# of sales less than best-in-class)		
C	$ per unit of lost sale (i.e. contribution)		
D	Operational Opportunity Cost		
	Recurring or one-time cost?		

CASE #5b: ARC Media Corp.

Worksheet 4: RAP (S-4) - Total Cost of Ownership

Cost Element	Yr. 0 - Yr. 1	Yr. 1 - Yr. 2	Yr. 2 - Yr. 3	Yr. 3 - Yr. 4	Yr. 4 - Yr. 5
I. Infrastructure Costs:					
Software License					
Hardware (network/servers)					
Internal Data Center					
II. Implementation Costs:					
System Integration labor					
Application Config. Labor					
Customization labor					
III. Usage Costs:					
Training					
Maintenance					
Upgrades (software)					
Upgrade (hardware)					
Opportunity Cost:					
1. Implementation time (Worksheet 2)					
2. Operational efficiency (Worksheet 3)					
TOTAL *(I + II + III)*					
PVIF's @ 12 %	1	0.893	0.797	0.712	0.636
Present Value *(Total * PVIF)*					

TCO *(Sum of all Present Values)*: _____

* Note: For Opportunity Costs complete worksheets 1, 2 and 3

CASE #5b: ARC Media Corp.

Worksheet 5: Weebel Corp. (XSELL) - Total Cost of Ownership

Cost Element	Yr. 0 - Yr. 1	Yr. 1 - Yr. 2	Yr. 2 - Yr. 3	Yr. 3 - Yr. 4	Yr. 4 - Yr. 5
I. Infrastructure Costs:					
Software License					
Hardware (network/servers)					
Internal Data Center					
II. Implementation Costs:					
System Integration labor					
Application Config. Labor					
Customization labor					
III. Usage Costs:					
Training					
Maintenance					
Upgrades (software)					
Upgrade (hardware)					
Opportunity Cost:					
1. Implementation time (Worksheet 2)					
2. Operational efficiency (Worksheet 3)					
TOTAL (I + II + III)					
PVIF's @ 12 %	1	0.893	0.797	0.712	0.636
Present Value (Total * PVIF)					

TCO (Sum of all Present Values):

* Note: For Opportunity Costs complete worksheets 1, 2 and 3

CASE #5b: ARC Media Corp.

Questions:

1. Based on your TCO models, which supplier/s would you suggest Karen select? Explain your reasons

2. What points would you raise in your negotiations with the selected supplier?