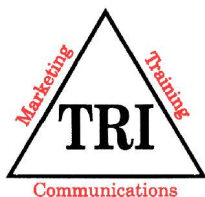


DRIVING THE RETURN ON INVESTMENT (ROI) OF VIDEOCONFERENCING



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Introduction

In recent years, the growth of videoconferencing has been driven by mergers & acquisitions, corporate downsizing, the drive to control costs, a need to reduce response times, negative events (i.e. war, weather, and illness), and decreased costs of videoconferencing technology. And yet, even with these factors in place many organizations continue to struggle to get users to view videoconferencing as a necessity and optimize usage of equipment.

The purpose of this document is to review the current state of videoconferencing and address how focusing on return on investment can help organizations increase the usage of the technology and better understand its benefits.

The Current Situation

The use of videoconferencing has the potential of increasing productivity and efficiency by reducing unproductive travel time, preventing meeting delays, creating shorter and more structured meetings, and providing faster exchange of information. This allows for greater reach of message since individuals may now obtain information when it is convenient for them. Videoconferencing also allows for an increased number of participants and allows people who might never meet, yet who work together, to meet virtually – face-to-face over video. With videoconferencing and the data collaboration tools that are now used with it, all individuals who need information, can get the information when it is easiest for them, on a real-time or delayed basis. By increasing usage, organizations will quickly see a financial return on investment.

Unfortunately, many users of videoconferencing are confused because the industry has been pushing technology and buzz words at them they don't understand and the industry has not been teaching users how to develop applications and benefits. In addition, many videoconferencing systems are difficult to schedule and use.

Simply put, the average user doesn't care about the buzzwords. They want technology that is transparent to them and easy to use; allowing them to conduct business independently and efficiently. If used with purpose, videoconferencing can help users be more strategic and competitive.

Users want to improve productivity, increase access to subject matter experts, and allow meetings to be held when needed. While these factors may be difficult to quantify and place a dollar value on, there are return on investment formulas that can be used to cost justify the deployment and usage of videoconferencing. The problem is that few users, or vendors for that matter, take the time to do the cost justification. As a result, videoconferencing usage languishes.

How We Got This Way

When videoconferencing was first commercially introduced in 1982 by CLI and NEC, as an industry we made the mistake of telling everyone that videoconferencing looked like a television and sounded like a telephone.

As a result, users felt that a videoconferencing unit would last 20 years before needing replacement and calls would complete like telephone calls. We all know that videoconferencing systems are really computers that need software updating with regularity and, if you haven't been told let me tell you that the carriers have NEVER established a call completion rate for video calls over ISDN as has been done for audio calls. Further, you need to realize that IP is an evolutionary process that will take 10 years to complete. (We are in about year 7 of that process.)

Let's not leave audioconferencing out of this equation. Although we have done much better with audioconferencing, there are still an awful lot of offices and conference rooms without conference phones. In fact, there are still conference rooms without telephones!

Clearly the use of data and web conferencing has grown. However, technology is not the only issue to be concerned with regarding data and web conferencing. People resist change and find nothing wrong with their current work style. They need to be shown the value of the technologies. Fortunately, the SEC ruling regarding the dissemination of information has greatly helped the growth of data and web conferencing. But users don't know where the responsibility for these technologies belongs within their organization and they don't know which technology to request for a particular situation. Confusion reigns.

So what needs to be done to drive adoption? The answer is to start small and grow. The answer is to continue to provide promotions and training. The answer is to be sure equipment is updated and procedures are in place across an organization. The answer is to realize that users resist change and need to be shown a measurable benefit to using videoconferencing. One benefit of increasing videoconferencing usage is clearly financial.

Return on Investment

Understanding the value obtained by implementing videoconferencing helps management understand why videoconferencing should be viewed as a necessity, not just a nicety. While many view the benefits of videoconferencing to be measured with soft dollars, in reality those who have identified useful applications have had no trouble developing a return on investment to justify both their initial capital expenditures and their ongoing recurring costs. By calculating a return on investment it is easier for management to see the value of videoconferencing and, thus, understand the need to continue growing the usage of the technology. Without understanding this value what often happens is that when one champion of the technology departs another is not easily found. When value is understood everyone wishes to claim the deployment and usage of videoconferencing as their idea. Types of ROI calculations for videoconferencing include travel cost savings, increased productivity, and time efficiency. As an example, one company found they achieved a return on their investment after only 67 days because they paid for their equipment by not traveling. Another company increased productivity to enable them to get a product to market three months sooner, thus saving millions of dollars.

Following is a sample business case formula for calculating the return on investment of videoconferencing. This formula can be using in its entirety or broken apart, depending on the application requiring justification.

BUSINESS CASE EXAMPLE

Meeting Costs	Conventional Meeting	Video Meeting
A. Number of displaced meetings	300	300
B. Meeting length (hours)	2.5	2.0
C. Average number of attendees	4	4
D. Number of travelers	2	0
E. Average attendees wage / hour	\$ 40	\$ 40
F. Annual meeting costs (A*B*C*E)	\$120,000	\$96,000
Travel Costs		
G. Number of roundtrips (A*D)	600	
H. Average cost per roundtrip	\$ 600	
I. Annual travel costs (G*H)	\$360,000	
Productivity Costs		
J. Average travel time (hours)	6	
K. Percent (%) non-productive time	50 %	
L. Average traveler wage / hour	\$ 40	
M. Number of roundtrips	600	
N. Non-productive costs (J*K*L*M)	\$72,000	
Videoconferencing Costs		
O. Hours of videoconferencing (A*B)		600
P. Equipment / facility costs (O*\$20*2)		\$ 24,000
Q. Transmission & bridging costs (O*\$250)		\$150,000
R. Videoconferencing costs (P+Q)		\$174,000
TOTAL COSTS		
S. Cost conventional meetings (F+I+N)	\$552,000	
T. Cost videoconferencing (F+R)		\$270,000
U. VALUE OF VIDEOCONFERENCING (S-T)		\$282,000
Simple Payback Period: \$200,000 / \$282,000	= .7 years or	8.5 months

VIDEOCONFERENCING COST JUSTIFICATION

EXPLANATION OF CATEGORIES AND FORMULAS

MEETING COSTS

- A. The number of meetings held during the course of a year that could be displaced by videoconferencing is generally 20 to 50 percent.
- B. Estimate the overall average meeting length. Videoconferences tend to be 20 to 30 percent shorter than in-person meetings.
- C. Estimate the overall average number of attendees at a meeting. Videoconferences range from two to 20, but the average is four to six participants.
- D. The number of meeting attendees who travel – usually 50 percent of the total number of participants.
- E. Based on an overall annual remuneration of \$60,000 (including bonuses) for the average attendee, add 30 percent overhead for benefits and divide by 1,900 hours worked per year. The average hourly compensation is \$40 / hour.
- F. Multiply the number of meetings by meeting length by average number of attendees by average wage per hour ($A*B*C*E$).

TRAVEL COSTS

- G. The total trips between two sites being analyzed (number of travelers * the number meetings or $A*D$).
- H. Total travel costs including ground travel (personal mileage, rental car, taxi), airfare, meals and lodging.
- I. Multiply number of roundtrips by the average cost per roundtrip ($G*H$).

PRODUCTIVITY COSTS

- J. The average length of time it takes a traveler to travel to and from the remote site.
- K. The inverse of the time a traveler is actively pursuing work-related activities while traveling. If a traveler works 50 percent of the time, the traveler is non-productive 50 percent of the time.
- L. Same as the average attendee wage (E).
- M. Total trips between the two sites being analyzed (G).
- N. Multiply the average travel time by the percent non-productive travel time by average traveler wage per hour by number of roundtrips ($J*K*L*M$).

VIDEOCONFERENCING COSTS

- O. Multiply number of meetings displaced by the videoconference meeting length ($A*B$).
- P. Based on average facility / equipment costs of \$100,000; a 50 percent utilization factor (4 hours per day); and with capital costs amortized over 5 years (includes accepted depreciation standards) – the cost per hour of one videoconferencing room is about \$20 per hour (2 rooms are required).
- Q. Average cost per hour of usage is \$250.
- R. Add equipment / facility costs and transmission costs ($P+Q$).

TOTAL COSTS

- S. Add annual meeting costs, annual travel costs and cost of non-productive time ($F+I+N$).
- T. Add annual meeting costs and annual videoconferencing costs ($F+R$).

Subtract the cost of videoconferencing meetings from the cost of displaced conventional meetings ($S-T$).

ROI Through Expanded Applications – Think Outside The Box

Videoconferencing technology provides a powerful communication tool. Now, make the most out of it. It is not just a meeting tool. Once the equipment is in place, you have direct access to

TV/Video Production applications. Use your videoconferencing equipment to create “webinars”. Use it for product demonstrations that you send to new customers. Save time with HR training by using your videoconferencing equipment to present and record the company policies. Create a special CEO message and send it out to all employees. All of this is possible without expensive TV production equipment – use your video system to make it work.

Summary

The future for videoconferencing is bright. Dynamic changes in the global communications environment – decreasing network and equipment costs and the need for businesses to compete in a global economy – will help propel the adoption and usage of videoconferencing at a rapid rate. It will be important for organizations to develop a plan to efficiently and effectively measure the ROI for conferencing technologies to ensure their successful and ongoing usage.

Users need to get the benefit of quality technology that works flawlessly, is easy for them to use, and designed to meet their ongoing needs. Management wants to quantify cost savings and feel the technology is positively impacting the bottom line.

About TRI

Telemanagement Resources International Inc. (TRI) is a 25 year old management consulting firm specializing in marketing, communications, and training with an emphasis on design, assessment, project management, promotions, and training for collaborative conferencing systems. More information about TRI can be obtained at www.TRIInc.com.

About S. Ann Earon

S. Ann Earon has been a researcher and consultant in multimedia communications for 25 years. She holds a Masters in instructional technology and educational administration from Northeastern University, and a Ph.D. from Boston College in business, speech & communications, and education. Dr. Earon currently chairs the Interactive Multimedia & Collaborative Communications Alliance (IMCCA), the non-profit industry association for conferencing & collaborative communications. She can be reached at AnnEaron@aol.com.

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