Is CRM Right for You?

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I. What is CRM and What Can It Mean For Your Bottom Line?

Customer Relationship Management (CRM) is a business approach that emphasizes optimizing revenue, profitability and customer satisfaction through the efficient and effective management of business to customer interactions. CRM also refers to the set of software products designed to aid firms in improving their customer relationship operations.

Is CRM a profitable place to put your company's investments? This paper is intended to help you find out by:

- Identifying metrics to help evaluate the health (and bottom-line implications) of customer relationship management (CRM) in your business.
- Analyzing the costs, benefits, and return on investment (ROI) of CRM improvement.
- Identifying the different kinds of CRM projects (both technical andoperational) that your organization might implement.
- Outlining the types of CRM products that are available.
- Providing a plan for you to conduct your own CRM evaluation project.

Summary

There is a great deal being written about the value of implementing CRM software. CRM, like any software, is seldom a panacea. Before your organization jumps on the CRM bandwagon, you need to define the problem(s) you are trying to solve, the metrics you are seeking to attain, and the role of organizational and processchange in your plan.

Why this is Important

"U.S.-based companies will spend between $10 billion and $20 billion on CRM software in 2001. Of those projects, between 55% and 75% will fail to meet their objectives."

- Meta Group as quoted by K. Fogerty in Computerweek, June 2001

Related Resources

There are other CC Pace white papers that provide more depth on ROI analysis and Software Selection. These papers can be requested from the authors or accessed through: *www.ccpace.com*

- *Maximizing Value, Minimizing Cost in Software Selection*
- *Prioritizing Projects to Maximize Return on Investment*

II. Why Do Many CRM Projects Not Achieve Their Objectives?

This paper presents an approach to help you overcome many of the common obstacles that hinder CRM project success. These include:

- Not identifying project goals (preferably in quantifiable metrics) before the project commences.
- Implementing software without analyzing the underlying organizational and process changes needed to solve CRM problems.
- Not gaining adequate executive commitment.
- Failing to sufficiently earn sales, marketing, and customer support staff project buy-in.
- Believing that software by itself is the panacea that can create organizational change.
- Misunderstanding CRM product functionality and/or confusion in deciphering vendor claims.
- Underestimating CRM costs by not including factors such as customization, integration, internal resources, training costs, learning curves, ongoing maintenance (both internal and vendor license), and opportunity costs.
- Not applying the lessons of past project successes (and challenges) into CRM planning.
- Failing to closely monitor the project once it has commenced to discover deviations between actual and expected cost, benefit, and ROI.
- **Underestimating the amount of integration needed between CRM projects and other organizational projects (both process and technical).**

III. How Can You Measure the Health of Your Customer Relationship Processes?

In many companies, the processes that enable and support customer interaction are fragmented and narrowly focused. Companies that offer their clients a variety of products and services and those which serve clients through multiple channels are likely to have many customer points-of-contact throughout their organizations. Most of these stand-alone processes do not share information across departments, channels , and product lines. Their systems often do not integrate multiple 'stovepipes' of data (such as customer history, current orders, and inventory) nor do they empower sales staff to make real-time decisions.

There are several high level 'thermometers' that can tell you how your customer relationship processes are impacting your bottom line. You should measure all of these at regular intervals and analyze both internal and industry trends.

- Revenue Trends
  - Sales to Existing Customers (Revenue Per Order, Order Product Variety, Trend Data)
  - Sales for New Customers (Market share, Trend, Revenue, Product Type)

- Sales and Marketing Expense
  - Cost (and Effectiveness) of Sales
  - Cost (and Effectiveness) of Marketing
  - Prospect Conversion Rate
  - Internal Trends as Compared to Industry Metrics

- Customer Satisfaction
  - Customer Retention/Repeat Business Data
  - Customer Satisfaction Survey Metrics
  - Customer Satisfaction Compared to Key Competitors

IV. What's the Fix? Process, Technology, Both, or Neither?

Technology is a tool used to empower, not replace, business strategy. It needs to be applied thoughtfully and purposefully in order to effect its intended return on investment.

Once you identify an opportunity within your business for improvement to your customer relationship metrics, you can identify your target goals as well as the processes (and/or automated systems) that need to be improved in order to achieve them.

Operational/Process Issues and Solutions

Many problems are operational (or process-based) and cannot be addressed — or may be exacerbated by -- implementing a new technology. The solution may lie in business process redesign, change management support, training, or improving internal communications.

Symptoms of operational or process issues include:

- Internal (process) red tape delays in fulfilling customer requests,
- Sales representatives not given the information and/or authority to make real-time decisions,
- Existing computer applications that are not used because of inadequate training and lack of knowledge about system features, and
- Business processes that were never completely updated to leverage automated systems, thereby requiring redundant work and increasing turnaround times

Improving processes will, most likely, cost less than investing in new technology. Process solutions may require extensive change management plans, both upon implementation, and for months (and possibly years) thereafter. Alternatives for process changes include:

- Reorganizing staff and/or reporting relationships,
- Introducing new metrics to measure processes and staff performance,
- Restructuring processes to increase efficiency and reduce 'silo' communications, and
- Providing training (including cross-training)

Technology Issues and Solutions

It may be that some of the answers are found both in organizational change and technology implementation. In this case you have already streamlined your operations and may need to further improve access to (or coordination of) information, speed of transaction processing, coordination of stand-alone processes, analysis of customer data and patterns, and/or understanding of sales modeling.

IV. What's the Fix? Process, Technology, Both, or Neither? (continued)

Keep in mind that most technology issues should not — and cannot— be solved with new products and systems alone. Modifications to existing systems (in concert with process changes) should be considered as an adjunct or alternative to investing in, integrating, and customizing new software.

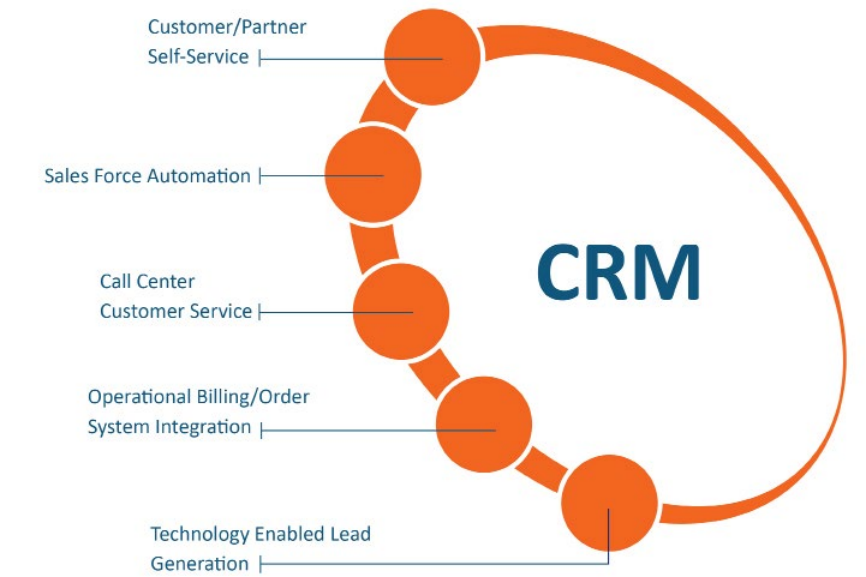
Symptoms of technology issues include:

- Inability to access information easily or timely by sales and/or marketing staff
- Multiple product and service lines aimed at similar target markets but supported by independent , stand-alone systems,
- Inability to centrally analyze sales forecast data and compare it to actual order records,
- Inability to identify marketing targets (or product/service popularity trends) from historic client data,
- Inability of automated systems to support cross-selling efforts,
- Customer service representatives lack the data to address client issues, and
- Inadequate information available to make decisions about customer preferences, buying habits, qualifications.

V. What Are Some CRM Products and What Can They Do For You

CRM products are automated applications that support the accomplishment of corporate goals related to customers, such as increased revenue and/or increased sales efficiency (i.e., better results with lower expenditures from sales, customer service, and marketing.) These technologies capture customer data from across the enterprise, then analyze, consolidate and/or distribute it for use across the multiple customerfacing departments (or processes) within the company.

CRM products can be grouped into 5 general categories:



Customer/Partner Self-Service Systems: enable your customers, suppliers, and/or partners to use the internet to gain information that is directly relevant to them. This may include customized product selections, order status update, on-line order entry, or self-guided query and response. Examples of these systems include email response management systems, web personalization systems, web-based order-entry, and web self-help.

Sales Force Automation Systems: provide tools for your sales people to maintain their contacts, track sales prospects, provide sales forecasts, enter and track orders, and provide customized quotes for clients. Examples of these systems include, and on-line sales forecasting and order-tracking.

Call Center Customer Service Systems: provide support for staff that answer client questions or respond to requests for dispatch services. Examples of these systems include web-based customer service, customer service call tracking, improved customer service representative (CSR) access to client information, and automated dispatch and tracking.

Operational Billing/Order System Integration Systems: provide integration (as well as migration) betweencustomer-facing (front-end) applications and the production (back-end) order-status and financial systems that contain the data that clients and partners may seek. These systems are not only CRM systems, but rather may seek. These systems

V. What Are Some CRM Products and What Can They Do For You

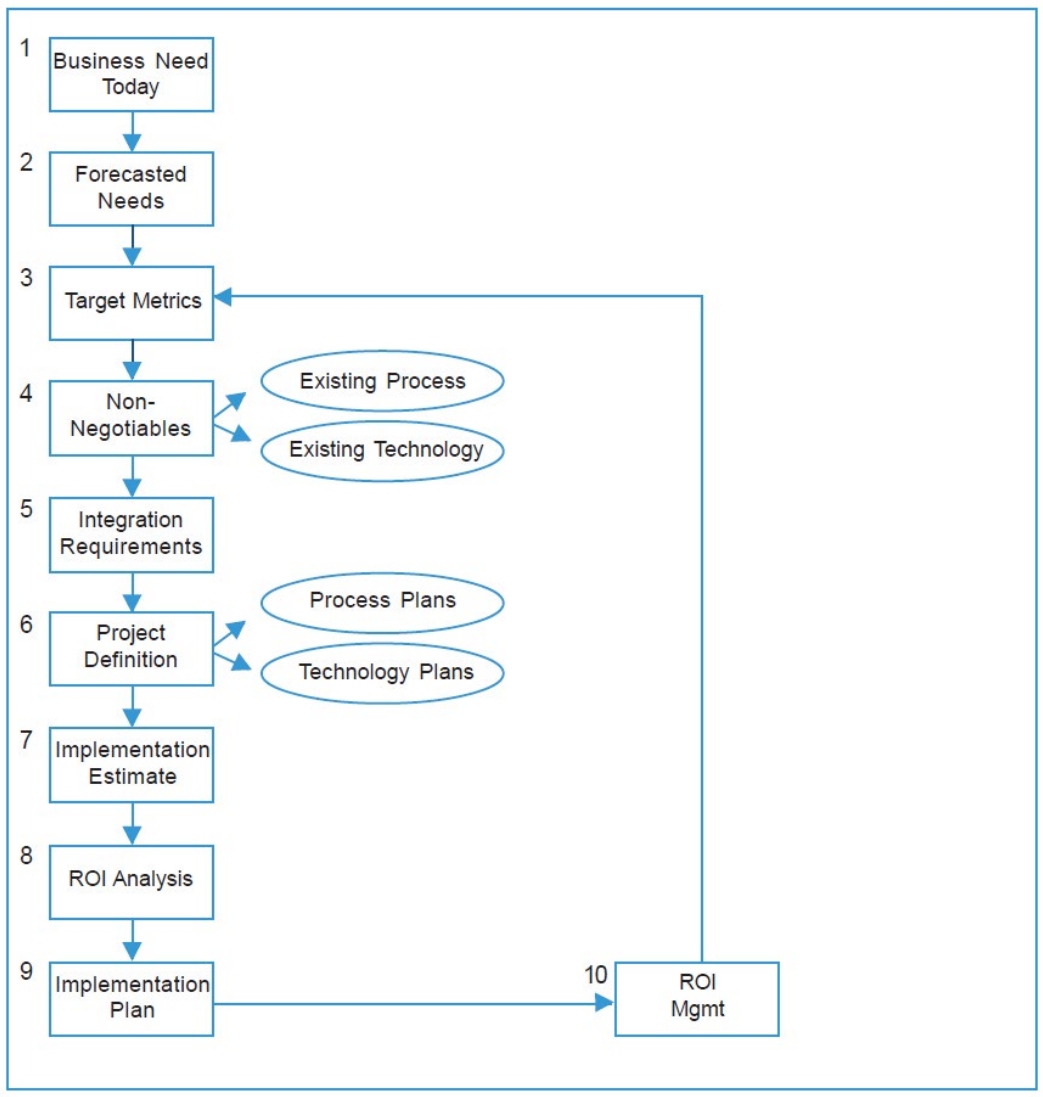
(continued)

are not only CRM systems, but rather the components of larger software suites that may include CRM. Examples of these systems are packaged accounting and manufacturing systems that have CRM front-ends.

Technology-Enabled Lead Generation Systems: enable targeted marketing based on client needs and/or past business trends. This lead generation could be dynamic (emailing offers or customizing web content) or static (providing targeted databases of clients by type). These systems include customer data mining, automated marketing campaigns, and customer personalization tools.

VI. How Do I Get Started in My CRM Project?

A high-level approach for developing a CRM plan is presented below. Notice that the plan begins with identifyingmetrics you are trying to improve, forecasting expected business needs, and analyzing the process and technological realities of your business. Only then are you ready to develop the parameters (including cost, anticipated benefit, ROI, and implementation plan) of your technology and/or process solutions.



VI. How Do I Get Started in My CRM Project? (continued)

ACTIVITY	QUESTION	POSSIBLE ANSWERS	PURPOSE
1. Business Need Today	**What leads me to believe I have a CRM Challenge?**	• Falling market share • Rising Cost of sales • Competitor customer satisfaction rates are higher than yours • Customer Retention • Falling revenue from existing clients	Focusing on specific quantifiable goals allows you to develop clear success criteria.
2. Forecasted Needs	**What are they expected/ possible changes in my business (including volume, sales strategy, and business model) that the software should be prepared to handle?**	• New product rollout • Entry into new market segments • Shift in customer demands • New government regulations • New competitors	Scalability, in terms of application volume and need for future functionality can be important to your business. Planning for them now can save you time and money.
3. Target Metric	**What are my (preferably quantitative) CRM goals?**	• Reduce cost of sales by 10% • Customer satisfaction rates up to 95% • Increase cross-selling by 20% • Increase new accounts by 20% • Increase target to close ratio by 10% • Increase marketing response rate by 15%	Quantitative goals shape the require-ments for technology product sand lay the groundwork for your ROI analysis (being able to compare expected benefit to cost).
4. Non-negotiables	**Are their existing practices/processes/ organization require-ments that cannot be changed?**	• Web self-service is viewed as counter to company approach to customer service • Marketing must continue to be handled separately by division. • Transactional legacy systems must be kept for 5 years	Identifies require-ments that can't be changed and estab-lishes more realistic parameters for software selection.
5. Integration Requirements	**What existing technology architecture and legacy systems do I need to integrate with?**	• Interfaces needed for data exchange • Data must be combined from multiple existing systems	To cost and plan the work involved, you must know the databases, architec-tures and languages of all systems you must integrate with

VI. How Do I Get Started in My CRM Project? (continued)

ACTIVITY	QUESTION	POSSIBLE ANSWERS	PURPOSE
6a. Project Definition Process	**What staff, procedure and process changes can achieve my goal (with or without technology)? What are their costs? What are my expected costs?**	• Integrate customer service and order entry process and organization reporting structures •Change sales staff commission structure	Significant improvements can often be achieved altering staffing, reporting relationships, and processes. Identifying the process changes and their associated costs helps in preparing project ROI
6b. Project Definition Technology	**What technology projects do I need to undertake in order to reach my goals? What is the anticipated benefit? What are my expenditures and timeframes?**	• Implement a sales force automation system • Coordinate marketing effort for all product lines using email	Identifying technology projects and their anticpated costs and schedules is a necessary prerequisite for ROI decisions.
7. Implementation Planning	**What are the high level costs in terms of both internal and external resources, financial outlays, and calendar dates? Have we planned for change management?**	• New or upgraded software/ hardware • Internal and External training • Change Management	Often project implementation costs are understated and overlooked.
8. ROI Assessment	**What are the anticipated costs and benefits? How does this change over time?**	• Basic Risk adjusted ROI for Project 1 = X • Basic Risk adjusted ROI for Project 2 = Y	Comparing all costs and benefits identified above, provides a preliminary ROI analysis. Each variable (cost and benefit) can be weighed with a risk factor to make the analysis more accurate.
9. Implementation Plan	**What projects have I decided to implement? What are the anticipated resources, direct costs, indirect costs and expected results?**	Project Plan Including: • timeframes • resources • results, and • expected metrics	Those projects that are chosen after ROI analysis must be implemented according to a plan that includes scope, duration, resources (including both internal and external) and expected results.
10. ROI Management	**What benefits am I realizing compared to those that I anticipated? What can I learn to change my implementation plan or expectations?**	• Resource costs and durations for process changes are twice as much as estimated • Software customization costs exceed expectations	A CRM project doesn't conclude after the implementation plan is built. Comparing expected to actual results and updating future activities from lessons learned helps to increase the ROI of all projects downstream.

VII. What Do I Need to Know About Selection a CRM Product?

It's a confusing market out there. Many vendors are updating their products — and/or merging with other vendors— on a regular basis. The nature of software sales (vendors often have large marketing and sales budgets and it is often difficult to compare product functionality directly) makes deciphering software claims a source of confusion for many project managers. We have addressed many of these issues in the CC Pace white paper Maximizing Value, Minimizing Cost in Software Selection. Please visit the CC Pace web site (http://www.ccpace.com) or email the authors of this paper if you would like a copy.

In brief, ensure that you perform a comprehensive requirements definition before you review any vendor's product. This ensures that products meet your needs instead of vice versa. A feature/function matrix or vendor proposal requirements document should include:

- Mandatory Software Features,
- Desirable Software Features,
- Architecture Integration Requirements,
- Preliminary Change Management Criteria,
- Anticipated Price (both product and customization/integration),
- Reference Qualifications (size, industry, regency), and
- Reference Questions

VIII. What Do I Need to Know About Estimating the ROI for My CRM Project(s)?

As CC Pace noted in our white paper *Prioritizing Projects to Maximize Return on Investment* (available www.ccpace.com or through a request to this paper's authors,) ROI estimation is often difficult and often based on rosy future projections rather than on the accuracy of past data. Among the specific tips we can provide about analyzing the ROI of CRM are:

- If you have multiple projects aimed at the same goal, it is often difficult to determine how much 'benefit' each specific project will provide. Possible solutions include aggregating projects into a single ROI estimate and planning an incremental implementation plan whereby the least expensive (or highest estimated ROI) projects are pursued first.
- A good way of avoiding CRM hype is to check with industry associations and management publications about the actual benefits realized by other companies similar to yours.
- Make sure you estimate all the costs of implementation. Remember that many process and technology changes require both an intensive investment up front as well as a stream of maintenance and update costs throughout the project. Make sure that you include the cost (often opportunity cost) for current staff and resources as well as the more obvious costs of products and consultants.
- Don't underestimate the cost of not making a decision about CRM. In many industries, firms that raise the quality and reduce the cost of customer relationship management often set standards that other firms must meet in order to stay competitive.
- Learn from past project implementations, even if they are not related to CRM. When did you underestimate costs? Where was real ROI higher (or lower) than expectations? How can you avoid these issues in the future?
- Don't forget the customer in your data gathering. Before you make assumptions about what would raise satisfaction or reduce slides in market share, make sure that you have good data from the source about priorities and costtrade- offs. It's easy to be trapped in corporate group think if you do not directly collect data from your clients.
- Mitigate your risks. Gartner Dataquest found in a September 2000 survey that the top 3 challenges for internal IT staff implementing a CRM strategy were (in order of difficulty): understaffing, legacy system integration, and coordination among user departments. Organizational challenges often include lack of sustained executive support, insufficient cross-departmental cooperation, and underestimation of cost and time for change management.

IX. So, What's Most Important?

In summing up our most useful CRM recommendations, here are the highlights:

- Make sure you understand what you are trying to accomplish before you begin your CRM project.
- Know up front that new software is seldom a panacea and that there is rarely a single product that will fit all of your needs.
- Identify and plan for the process, organization, and training changes necessary to achieve your goal.
- Take the time to understand the kinds of CRM products available and conduct an objective analysis of the one(s) most likely to achieve your goals.
- Don't underestimate CRM costs. Include both internal and external resources, training time, learning curve, product costs, infrastructure costs, integration costs, customization costs, opportunity costs, and ongoing maintenance costs (both internal and external).
- Track all project implementation lessons and factor them into your future project plans. Always be vigilant to deviations between actual and expected costs and benefits.

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