

# The Five Drivers of CRM Success & ROI: An Industry Perspective

## *Introduction*

The evolution of the CRM industry can be traced back to an idea that customer contact data ought to be in one database that can be shared by functions directly touching the customer. This technology based concept was referred to as Customer Asset Management (CAM). Other concepts such as 1:1 Marketing burst on the scene and were highly touted as the next big idea by Gartner. Overlay the dot-com era with the influence of e-commerce and e-business and stir lightly and one gets a concept and industry called CRM.

During these turbulent times, the industry and technology have gone through a metamorphosis of stages but we are still struggling with the concept. The high cost and perceived low success rates place CRM in danger of being dismissed as just another wave of technology that proved to be more hype than reality. The CRM industry is driven largely by technology and therefore positions its capabilities in this context. The reality is that these capabilities and their respective cost only have merit when embraced by an appropriate operational strategy. When organizations attempt to use the technology to essentially “pave cow paths” they typically encounter organizational resistance and costs that do not drive success or ROI. Where success has been derived, one will typically find a senior executive who leveraged the capability of the technology to meet specific needs. However, CRM is really an operational strategy that challenges user organizations to operate in new ways that are potentially different from the status quo. Thus, CRM requires senior management leadership to be successful. The longer term viability of this industry is dependent on a shift to recognizing technology as part of an operational strategy that is driven by customer value and profitability.

This white paper attempts to clarify the nature of CRM and presents an argument that five key drivers strongly influence success. Ultimately, the future of this industry will be dependent on user organizations gaining tangible and demonstrable results; to a great extent that is dependent on user organizations clearly articulating their needs to the vendor community. As long as the vendor community dictates capability and direction, there will be a mismatch. Vendors must become more customer centric and end user customers have to take a leadership role. Hopefully, this white paper will contribute to this direction.

## *What is ROI?*

ROI is an acronym that stands for return on investment. ROI is basically common sense that assumes that if one invests money or resources, there should be an expectation that the return will be greater than that which was invested. The actual metric of ROI is a ratio, where net benefit or profit is divided by the investment (dollars to keep everything in like terms). From an individual context, investing in an academic degree is an investment of time and money that is assumed to generate future incremental benefits in terms of promotions and higher income.

Since most investments impact results over multiple years, ROI represents a forecast that compares status quo versus the impact of making the investment. The calculation is a number that is generated based on a series of assumptions regarding the future. The validity of the number is a function of quality of the estimates and how well reality maps with the assumptions. As with any forecast, the assumptions can have political overtones and therefore represent a **hope** as opposed to a commitment to result. For example, a company may project growth for an obsolete product because it does not possess a viable replacement. Following

this same example, if this same company were to evaluate an investment option to fast track a new product or develop a complementary service option, the baseline of the status quo will dilute the impact of any improvement proposal. Likewise, if the improvement assumption is not based on realistic estimates, then it will generate an inflated ROI.

ROI is meant to be a management tool to be used to allocate limited resources to the places where they will produce the greatest organizational benefit. The calculation is meant to be based on assumptions of cause and effect that will allow management to make appropriate decisions relative to this investment. In other words, a quality ROI calculation forms a type of road map that will help identify whether the investment is on track and what to do about it if it is off track. It is always possible to rationalize an acceptable ROI, it is a number and estimates can be created to meet the required threshold; when this is done, ROI is being approached as if it were a gate that must be opened to proceed. When approached as a **gate**, senior management is likely to make less than optimal investment decisions and is denying itself the opportunity to take early action when investments are at-risk.

ROI is meant to be a discipline that creates accountability within the organization. If the organization is adverse to accountability, then it is highly vulnerable to becoming road kill on the CRM highway because cruise control will not negotiate the curves of change and decision making. A properly developed ROI establishes a well defined end state and provides a roadmap including navigation signs to get you there. Even with such a roadmap it is possible to get detoured but at least one will recognize the condition and be able to identify how to get back on track.

### **CRM Success Versus ROI**

For some strange reason, since the economy is soft there is much more emphasis on ROI in the CRM industry (does that imply that when the economy is good we do not need to manage our investments?). Given this emphasis, all vendors and some consulting firms have gone to great lengths to position themselves in terms of "success." This has given way to new levels of hype and grandstanding. It is important to recognize that success and ROI are not necessarily the same thing. For instance, bringing a project in on-time and on-budget could be construed as success; but it implies nothing about ROI. Bringing in a capability to market early may have such a large benefit that ROI is a foregone conclusion (or is it?).

Vendor literature and web sites are replete with surveys and statistics that claim success. In many situations the improvement dollars are significant, but without a sense of investment and total cost of ownership one cannot assume a ROI. This phenomenon is not necessarily the vendor trying to place the right spin on a project. Surveys indicate a large portion of initiatives lack success metrics (cause and effect) and a calculation of ROI. It is really the user organization that must be concerned about the ROI; the vendor is dependent on the client in this area. Since CRM has a pervasive set of applications and is often positioned in vague motherhood type language as *customer centric* and *loyalty*, there is a tendency to consider the benefits too fundamental to measure or assess cause and effect. This type of thinking is akin to viewing CRM as some type of silver bullet that will magically bring the organization to health and competitive advantage. At best it is wishful thinking and at worst it is a means to avoid accountability.

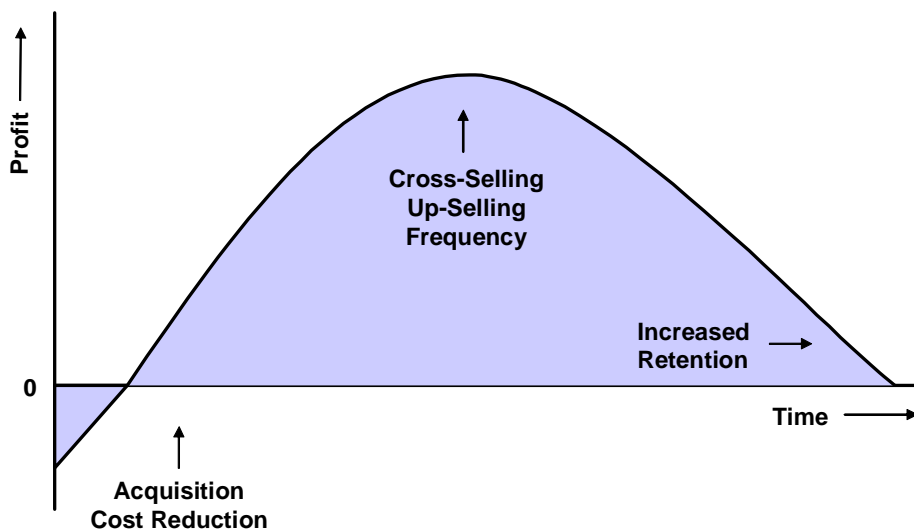
CRM represents a significant investment in technology and organizational change, ROI is the only real criteria for success. The industry and elements of the user community are going to

miss a fundamental opportunity to improve operational and strategic performance because we have wrapped a powerful **management concept** in an incomprehensible array of techno babble and marketing hype. Without a coherent value based message, senior management is likely to dismiss CRM as just another fad. Everyone loses in that event, even the companies that have got it right and created a difference, the cost of continuing the evolution will increase disproportionately.

There is a management principle that states that in order to sustain a long-term business relationship there must be a sharing of benefits. Without a win-win, one element of the relationship goes away. Therefore, across the board, all elements of the CRM industry and end user community need to seek out and practice this shared value principle. It is the purpose of this white paper to identify the drivers of value which will in-turn provide the framework for success as defined by ROI.

### ***Rationale For The Driver Model***

A *driver* for the purposes of this white paper is an element of action that offers potential leverage to the creation of an acceptable and actionable ROI within the CRM user community. Before describing the nature of these drivers, it is necessary to cut through the smoke and get to the heart of the issue regarding CRM. The heart of CRM is understanding and calculating the life cycle profitability and potential for each customer or customer segment. This concept is depicted by the following graphic:



Customer Life Cycle Profitability

According to this model, a customer may not be profitable when first acquired due to the high cost of acquisition; therefore, a reasonable strategy is to reduce acquisition cost and/or incent the prospect to buy more in the early stage of the relationship. The organization would then seek to maximize the potential of the customer through strategies such as up and cross selling or influencing the frequency of purchase. Given, that the customer is profitable, the organization should seek to retain that customer over time. CRM provides the tools to assess potential and deliver programs and actions that increase customer profitability but these must be part of a coherent organizational strategy. The benefits are not automatic; they must be integrated into the operational processes and decision making of the organization. **CRM is about being smart**

**in the management of customers for the purposes of generating profitable growth.** It is not about being close to customers because that's a nice way to operate.

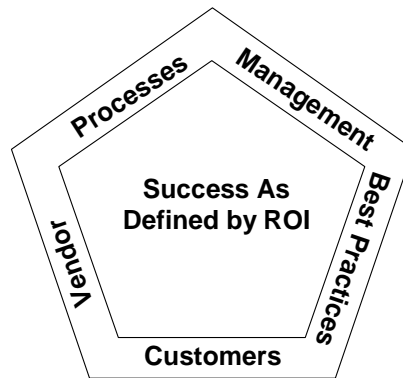
If profitable growth is the objective of CRM, then there are a finite number of basic strategies to achieve that result:

- ❖ Reduce organizational costs without diluting the customer's sense of received value
- ❖ Reduce or maintain costs while more effectively selling to the customer
- ❖ Cost effectively increase the customer's perception of value in areas that result in the purchase of higher price and/or margin products and services.
- ❖ Retain profitable customers in a manner that does not dilute profitable growth

The following drivers can reasonably be linked to achieving profitable growth while achieving an acceptable ROI for the initiative:

1. **The Customer** – What are the value needs (opportunities), event triggers, and behavior characteristics of the customer? Without a commitment to understanding and leveraging these characteristics, how can one cost effectively manage the customer base and add more profitable customers?
2. **The Processes** – As was learned during the dot-com era, the customer's perception of your company and brand is based on their total experience. This experience is based on the processes associated with the customer's touch points plus the sub-processes that support them. CRM implies using these processes, transaction data, syndicated, data, and dialogue to achieve the correct experience based on the nature of the customer and the event circumstance.
3. **Management** – A focus on customer profitability and managing through processes requires organizational change that must be led by senior management. Therefore senior management leadership is a key driver of success.
4. **The Vendor** – There are vendors that would have one believe that choice of their product is **safe** or somehow will automatically lead to *success*. This is obviously a loose linkage. However, what the vendor provides needs to make sense with what organizations are trying to achieve; otherwise, they are contributing to diluted ROIs. Therefore it is accurate to say they are a driver, but the user organization has the responsibility to effectively choose and use the capabilities.
5. **Best Practices** – There are basic principles that successful organizations adhere to either consciously or unconsciously that are essential. Short cuts lead to diminished results and resistance. The convenient scapegoat is always the system.

Thus, the drivers of CRM ROI can be characterized as a pentagon as indicated below. The remainder of this white paper will expand of the leverage associated with each driver. It should be noted that the purpose of this white paper is not meant to be an exhaustive review of each driver but rather to provide a framework for the reader to extrapolate to his or her specific situation.



### **Driver No. 1: The Customer**

There are a great many vague notions associated with CRM. Amongst these are terms like being customer centric, getting closer to customers, increasing loyalty etc.; but what do these terms mean or imply? These terms relate to a state where the organization is somehow rallying around the customer; but does that define an operational direction or objective? The answer is of course no! For the customer to be an effective driver one must have specific objectives, tactics, and metrics to define success. Being customer centric can imply many things but for the purposes of this white paper assume that this means managing customer profitability and seeking to maximize the potential of the organization's portfolio of customers. Getting closer to customers will be interpreted as creating dialogue and studying customer behavior and needs such that the organization can offer appropriate value to the customer thereby leveraging potential and retention. Loyalty is really a propensity to act in a certain way i.e. recommend the product, purchase in the future, etc. Behavior metrics such as frequency of purchase, complaints, retention, satisfaction, and response to campaigns are more definitive of action as opposed to intended action. Therefore, by themselves the terms used in the industry lack clarity and actionability, it is up to the user community to convert these notions into an operational response; without this step, CRM is unlikely to drive anything other than confusion.

Without getting overly prescriptive, the beginning of the process of becoming customer centric involves the following:

- ❖ Calculating customer profitability and assessing potential.
- ❖ Segmenting customers based on value needs
- ❖ Assess behavior and event circumstances as appropriate
- ❖ Validation of assumptions

It should be emphasized that this is an evolutionary process and that it should not be expected to start with fourteen decimal place accuracy. Never-the-less, it is often an eye-opening experience; frequently the customers who are perceived as highly profitable are not. Segmentation by value needs is also a wake-up call for the organization because everyone is treated roughly the same and/or steps are often taken that customer has little need for while neglecting ones that are important. Once the segments are defined it should be possible to brainstorm areas that are perceived as adding value to the customer. It is key to remember that customer value must be a two-way street. The customer must recognize the value and be willing to pay for that value through behaviors that positively impact life-time profitability. Some examples (B2B) of ways to provide value are listed below:

- ❖ **Awareness of capabilities.** In this sense advertising and marketing campaigns can add value to customers in terms of creating awareness. However, the message must help the customer relate the capability to their value need.
- ❖ **Product or service trial.** Allows the customer to experience the value of the product or service at low to no risk. The cycle time of providing the sample and customization of the sample are also often key value differentiators.
- ❖ **Image transfer.** Use of the product can enhance the customer's image such as "Intel Inside" labels on PCs.
- ❖ **Cost of the product.** A high quality product at a lower price is often valued (caution should be exercised here).
- ❖ **Cost of ownership.** This embraces the initial cost plus the usage cost thus it embraces all aspects of what the customer does with the product and other usage and support costs.
- ❖ **Flexible financing.** This involves terms or programs that make it easier for customers to purchase or use the product. Often premiums of another type can be used to offset these extra costs of providing value to the customer.
- ❖ **Optimization.** This can take various forms; for example, it could be unit loading for shipment or the best selection of mix or specifications to maximize customer profitability or minimize the customer's risk.
- ❖ **Integration with the customer's process.** This can include supplying a module versus a component in a manufacturing setting or it could be managing the customer's inventory, etc.
- ❖ **Product design expertise.** This involves providing input to new (or existing) product with the intent of improving product performance at a lower cost.
- ❖ **Technical assistance.** The customer may need help in trouble shooting problems or there may be an opportunity to help the customer self diagnose problems or better yet take action before problems occur.
- ❖ **Invoicing.** The timing, organization, and format of invoicing can make the customer's internal processes more efficient while not adding any cost to the supplier.
- ❖ **Regulatory paperwork or requirements.** Many industries have regulatory requirements that are time consuming and complex. Examples are the medical and aircraft industries. It may be possible to reduce or simplify these requirements for the customer thereby reducing their costs but linking their processes with yours (retention and frequency of purchase).
- ❖ **Order entry.** There are many examples where e-commerce offers opportunities to simplify ordering, configure products, offer promotion deals etc. and be available 24 X 7. These are typically value adds but may be replicated by competition in which case it becomes a cost of doing business.
- ❖ **Provide reports.** This type of value add might be order status reports or could be more sophisticated reports on equipment condition and usage that helps the customer fine tune their operations.
- ❖ **Disposal of packaging or used product.** Handling these types of material streams from the point of use can be a source of significant cost for customers. For the supplier, this represents an opportunity to lock into the processes of the customer and may provide insights regarding other opportunities.
- ❖ **Co-marketing.** This concept has been used by many companies to share costs and extend marketing dollars.
- ❖ **Warranty and return product policies and procedures.** These policies and procedures can be costly for customers and suppliers alike. The issue is to be

responsive and identify the types of situations that result in returns and try to eliminate them. However, it should be recognized that this aspect of the operation can strongly influence future purchase behavior.

This list provides a sense of the range of opportunities to provide value to customers. The important take away from this list is that the provision of value impacts many processes and functions within the organization. Value is driven by processes and this represents an organizational disconnect with CRM. Senior management manages by function and value is delivered by process. Thus managing customer profitability by necessity implies a corresponding focus on processes and continuous improvement. Thus, it should come as no surprise that processes is the next category of drivers.

For summary and reference purposes, this list of customer value add opportunities is reproduced in the Appendix. Each organization must assess whether these capabilities would positively impact behavior and form the basis for a sustainable competitive advantage.

### ***Driver No. 2 Processes***

Processes represent the mechanism for delivering value to customers and leveraging customer profitability. These processes cross functional lines and therefore reinforce the notion that CRM is an enterprise initiative. Though many of today's *success stories* are at the functional level, to truly tap into the potential of CRM requires an enterprise perspective and commitment. It is generally agreed that process analysis needs to start with the customer touch point and work back toward the organization. The analysis must focus on the following:

- ❖ Opportunities to add customer value that will positively impact customer profitability and retention.
- ❖ Opportunities to eliminate non-value activities from a customer and internal perspective.
- ❖ Opportunities to reduce cost while retaining or enhancing value to the customer. There are basically two way to do this: make existing resources more efficient or use more cost effective resources (effectiveness).

At this point you may be asking yourself, isn't this like reengineering, one of the management fads of the past? It is true that CRM requires process analysis similar to reengineering; however, there are two important differences. Reengineering efforts tended to focus on high cost processes with the objective of reducing cost and cycle time. Often, the result of this effort was a recommendation that was never implemented because it was viewed as too disruptive to the organization versus the projected cost savings. In other words, the pain of the status quo was less than the pain of implementing the recommendation. The focus of CRM process redesign is to start with the customer touch points and work back into the organization looking for ways to add value, increase revenue, or eliminate non-value add activity. The CRM analysis has the potential to leverage incremental revenue, margins, and increase retention whiled reducing costs and cycle time. While reengineering tended to examine processes in isolation (reduce cost and cycle time), CRM requires that each process support the dual objectives of value add and cost reduction. To accomplish this, it is recommended that cost, risk, and value add trade-offs be evaluated in terms of the Go To Market Process. The Go To Market process includes strategic marketing, tactical marketing, and the selling activities associated with each channel. Given a broader charter for analysis and unified framework for resolving individual process trade-offs, CRM offers a more balanced and objective framework for process analysis. However, it should be pointed out that process

redesign still represents organizational pain and senior management must still be convinced that the pain of the status quo is far greater than the implications of change.

For reference, the Appendix includes a list of common customer touch point and support processes. Each process is mapped against its potential impact on the Go To Market process and there is an indication as to whether the process offers an opportunity to better use existing resources (efficiency), use new resources (effectiveness), and/or add value to customers that will result in incremental revenue or margins. In practice, such a chart yields a broad perspective regarding the potential of CRM. The chart also yields a better understanding of the scope of CRM.

### **Driver No. 3 Management**

It is common for CRM gurus to talk in terms of senior management **support** but this is a gross understatement and is down right mis-leading. CRM is not about technology but about operational strategy. As has been already noted, management has historically managed by function with a focus on product, services, and markets; CRM introduces the need to manage by customer profitability and processes. This is a major shift in perspective and represents organizational change. Senior management must be engaged and leading the initiative, not sitting in the corner office receiving periodic updates.

As stated earlier, the industry defines itself in terms of technology and senior management often does not understand the nature or magnitude of the issues. Treating CRM as just another technology is a recipe for failure. Unfortunately, project manager after project manager gets sent out to “make it so” and they are told that they need senior management support (backing and resources) but it is not that simple. Senior management does not realize the issue and often the project manager doesn’t know what to ask for; so the good ship organization hits the iceberg and the initiative fails to garner results. Where there is success, one typically finds a high level functional executive leading a portion of the organization to operational benefit and hopefully ROI.

Before embarking on a CRM initiative, senior management must understand the operational implications of CRM and assess the potential and the cost. They must then create a game plan for introducing this concept to the organization. This represents the framework for organizational change management which must operate in parallel with the implementation of infrastructure. Senior management must lead by establishing a compelling business case for the change and then model the correct behaviors. Key and respected managers must be assigned to reinforce the importance of the initiative and to ensure it is implemented right. Accountability and metrics must be set in place to measure progress and actually manage against. Lastly, senior management must pull together and create organizational alignment to support the focus on customers and processes. If these things do not happen, it will leave doubt in the minds of the rank and file relative to the level of commitment. In general, senior management must publicly commit to utilizing best practices as the basis for implementing the project and be prepared to deal with the issue of resistance to change (see Driver No. 5 for more detail).

The Appendix provides a summary of key actions and commitments that senior management can take that will have a strong impact of the probability and magnitude of CRM success. Opposite each action is an indication as to whether it will have a favorable impact on the magnitude of costs/benefits and/or timing of benefits (key factors in leveraging ROI). This

can be a useful checklist to use in discussing the importance of senior management's involvement.

#### **Driver No. 4: The Vendor**

There are a myriad of vendor specialties in the CRM space. There are software vendors, consultants, training experts, hardware suppliers, ASPs, etc. All of these vendor specialties play a potential role and add value when utilized correctly. For purposes of simplicity, let's focus on the software vendor. This is not too great a leap because many vendors provide both the software and services described above. When selling any type of new technology there is a natural tendency to seek validation regarding its viability (does it work, does it add value, and are user organizations successful?). To deal with these issues, most vendors seek reference accounts and case studies to demonstrate value add and the viability of what they are selling. For vendors, this issue is a two edged sword. At a financial level, software companies have to close deals; therefore, there can be a reluctance to introduce analysis or studies that delay the decision and place the selection at risk. However, most vendors realize that they must have a track record to sustain growth. Though the vendor certainly has a role to play in the success of implementation, it is the user organization that ultimately controls the definition of success and failure and even that perception can vary by who you talk to within the organization. For example, on-time and on-budget may be perfection to the project manager but the operations people are left with a maintenance nightmare; is this a success?

Numerous studies peg CRM success at 50 percent or below, yet vendors claim success at the 80 percent level; who is right? Well what question are we really asking? If we are asking is CRM a silver bullet, then the success rate is most likely south of 10 percent. If we are asking is the CRM concept viable and are the vendor offerings really enablers, then the answer is probably in the 80s but there is a caveat; most success cases deal with functional installs where there is strong functional leadership and a clear opportunity (problem). Most studies do not differentiate as to whether there was a clear definition of success and the timing thereof. Given this situation, who is interviewed can greatly skew the answer.

Although the industry tends to look at itself as a unique microcosm, a little research would reveal that all initiatives that involve major transformations such as Total Quality Management (TQM), reengineering, ERP, etc. all demonstrate similar rates of success. The conclusion one is left with is that companies have difficulty with organizational change. This conclusion is reinforced by statistical studies that have correlated many factors of CRM implementation versus economic success. Gaining economic advantage using CRM correlates most strongly with management and organizational response as opposed to who the vendor was. Therefore, vendor selection remains a key issue and suggests that software vendors ought to be *eating their own dog food* (modeling best practice use of CRM concepts and technology); but how many actually do? Clearly the vendor does play a part in success including ROI. Though the statistics do not correlate with a specific vendor, there are capabilities and behaviors that would favor selection if that selection were based on best practices (Driver No. 5). This section will discuss some of these areas; again, this content is not meant to be all inclusive but to give the reader a flavor for the issues.

1. **Pricing:** Influences initial and operational costs as well as capital. The timing and level of expenditures has a definite influence on ROI calculations.
  - Bundling of capabilities can work for or against the creation of an ROI. If purchasing modules that will not be used or whose use is deferred this is a definite negative.

- Fixed and variable (typically per seat or user) has an impact on the cost of scale.
  - ASP models typically smooth costs over time and are expensed; these attributes can be attractive strategically and enhance ROI from a cost standpoint. The trade-off of course is that the solution may not include all the desired features so that benefits are diluted.
2. **Out of Box Functionality (Screens and Workflows):** Can influence time to value (when benefits start to be experienced) and the cost of customization. There are always trade-offs relative to reduction in implementation time and cost versus derived benefits. Where the user organization does not have well documented processes or where the install involves a new operation such as e-commerce, this type of functionality can be very valuable.
3. **Range of Applications:** The breadth of applications provided, the functionality of these applications, and the level of integration of these applications will influence initial costs as well as maintenance and upgrade costs. Both benefits and costs will be impacted.
4. **Ease of Customization:** This again influences time to value and costs.
- The initial install has certain implications
  - How costly and time consuming are future changes in terms of creating the changes and then distributing those changes to the user community?
5. **Integration with other systems:** This can strongly influence time to value, costs, and functionality (benefits). In addition, costs must include the initial costs plus the costs of maintaining this integration.
6. **Maintenance of the System**
- Software maintenance cost is typically a percentage of price
  - How easy is it to maintain user names, product information, pricing, customer profile information, etc?
  - What tools are available to maintain data quality etc?
  - Transaction traceability
  - Tools for trouble-shooting
7. **Usability:** If the users do not use the system as intended then the benefits will be at risk; therefore, this is a pivotal issue for success.
- Navigation (intuitive and minimizes mouse clicks/key strokes)
  - Workflow
  - Responsiveness
  - Up-time
  - Need for work-arounds
  - Speed/frequency of updates
8. **Upgrades:** The cost of upgrading a system to the latest release can have major cost implications and therefore dilute ROI. At the same time, a user organization may be dependent on the upgrade to derive needed functionality.

9. **Scalability:** The choice of vendor must include the ability to maintain usability as a function of the number of users. Degradation of response and/or accuracy of the system will negatively impact user acceptance and benefits.
10. **Commitment to New Platforms:** As the technology changes, user organizations will adopt new technology standards which will influence the viability of a vendor and the costs associated with supporting the system.
11. **User Community:** The user community is a vehicle to gain dialogue with the customer base and establish common objectives and direction.

Ultimately, it is the responsibility of the user organization to comprehend total cost of ownership and make objective choices relative to vendor selection. Each factor will almost certainly represent some level of trade-off, so what is the criteria? Concentration on IT issues will most likely result in compromised operational benefits. Sole focus on operational issues may lose sight of strategic and technical considerations which will impact costs and perhaps benefits. ROI analysis provides balance but it is limited in terms of assigning risk and other intangibles. Unless user organizations apply a consistent discipline, it is unlikely that the vendor community is going to apply the same discipline to their product, services, and pricing. The leadership must come from the user community in terms of adherence to best practices which is the next driver.

The Appendix provides a summary of vendor capabilities with a corresponding indication as to its ability to leverage a positive impact on the magnitude of costs/benefits versus the timing of these cash flows.

### ***Driver No. 5: Best Practices***

What one considers to be best practice is a function of the assumptions regarding what is being implemented. If CRM is merely technology, then standard project management disciplines should suffice. However, if CRM represents an organizational change initiative, then best practices must embrace the process of moving the organization to a new operational perspective and level. The following outline is derived from the author's book, CRM Best Practices: Self Assessment. The best practices model is organized into nine sections and each section has a series of statements that provide a description of what constitutes best practice, the following provides a synopsis of these sections.

1. Policy and Strategy
  - The CRM initiative needs to be integrated with and linked to the direction of the company. Failure to do this places CRM as a standalone initiative with questionable organizational commitment.
  - The initiative must have a charter that defines its purpose, boundaries, resources, and metrics for success.
  - Senior management must provide a compelling reason for the initiative and show involvement and commitment.
2. Employees
  - Studies have demonstrated a correlation between employee satisfaction and customer satisfaction.

- Job metrics must be aligned with CRM metrics otherwise inappropriate behaviors and frustration will result.
3. Customers
- There must be a clear understanding of customer profit potential and customer behavior metrics that drive improved customer profitability.
  - Customer profitability and behavior metrics must become central to management decision making and performance evaluation.
  - The company must seek dialogue with its customers.
4. Partners
- Partners must be examined on the basis of their ability to deliver cost effective value to customers as opposed to being a cost saving alternative.
  - The company must be willing to invest in the partner channel to improve value delivery and cost effectiveness.
  - The company must operate on the basis of shared benefit to sustain a long term relationship.
5. Processes
- The company must adopt a disciplined approach to managing processes and commit to continuous improvement.
  - A senior executive must own each major process and be accountable for its performance.
  - Process performance metrics must be in alignment with the GO To Market Process and customer behavior metrics.
6. Results
- Clear metrics and goals must be established with a description of cause and effect.
  - To the degree possible, the current level of performance should be benchmarked before deploying any changes.
  - Performance versus goal or objective should be used for all decision making regarding the initiative.
7. Leadership
- Senior management must create a compelling case for change and be responsible for getting buy-in at all levels.
  - Senior management must commit to best practices and dedicate the correct level of resources to all aspects of the initiative.
  - Senior management must assure alignment of the organization with the CRM.
  - Senior management must establish policies that reinforce usage of the system.
8. Program Management
- CRM is typically deployed in phases with specific expectations regarding organizational results. This orientation is more in keeping with Program versus Project Management.
  - The Program Manager must follow a disciplined and documented approach to the initiative and provide regular updates to senior management.

9. Change Management

- CRM represents organizational change and therefore needs formal assessment of user needs and perceptions.
- Because Change Management is a program unto itself, it requires a separate project team and objectives. However, Change Management and Program Management must be tied together as one cohesive effort.

## **Summary**

This white paper has made the argument that ROI is the only actionable criteria for CRM success. Further, it has identified five drivers that determine the level of ROI benefit that is derived. These drivers included the following:

- ❖ **The Customer:** What is the opportunity to improve customer profitability through cost reduction, demand generation, and/or value add? This forms the framework for action.
- ❖ **The Processes:** Value add, demand generation, and cost reduction are created through processes. The company must focus on and manage processes with consistent and aligned metrics.
- ❖ **Senior Management:** Senior management must lead the initiative and provide a compelling business rationale for the initiative. CRM, in the final analysis, represents operational and organizational change.
- ❖ **The Vendor:** Must provide a set of tools, capabilities, and pricing that are consistent with value add for the user organization. Further, the vendor must work with the user community to evolve future capabilities that will help improve the profitability of client organizations.
- ❖ **Best Practices:** The user organization needs to implement CRM using a disciplined approach that is based on meeting well defined business objectives and performance goals. Senior management must lead and provide the resources and commitment to assure end user buy-in.

Though each driver is not earth shattering by itself, collectively they do speak to the need to create demonstrable value within the industry and to keep everyone's feet on the ground. The noise level in the industry is likely to dry up to a whisper if these concepts are not embraced in the future.

**Appendix**

*Opportunities To Leverage Customer Value Add*

<b>Value Add Characteristic</b>	<b>Leverage on Customer Profit Life Cycle</b>		
	<b>Acquisition</b>	<b>Max. Potential</b>	<b>Retention</b>
Awareness of capabilities	X		
Product or service trial	X		
Image transfer		X	X
Cost of the product	X	X	X
Cost of ownership	X	X	X
Flexible financing	X	X	X
Optimization		X	X
Integration with customer's process		X	X
Product design expertise		X	X
Technical assistance	X	X	X
Invoicing		X	X
Regulatory paperwork or requirements	X	X	X
Order entry		X	X
Provide reports		X	X
Disposal of packaging or used product		X	X
Co-marketing		X	X
Warranty and return product	X	X	X

Sample List of Processes That Touch The Customer

Process Name	Go To Market Process					Source of Potential Benefit			
	Strategic Marketing	Tactical Marketing	Customer Acquisition	Delivery	Build Relationship	Efficiency: Productivity	Effectiveness Productivity	Value Delivery Revenue	Margins
Marketing Communication	X	X	X			X			
Lead Management	X	X	X			X	X		
Credit Approval			X	X		X	X		
Financing Options			X	X	X			X	X
Order Entry: Initial			X	X		X	X		
Order Entry: On-going				X	X	X	X	X	X
Contracts: Initial			X	X		X			
Contracts: Renewal					X	X	X	X	X
Campaign Management	X	X	X	X	X	X	X	X	X
Conference/Event Management	X	X	X	X	X	X	X		
Sales Process: Territory Management			X	X	X	X	X	X	X
Sales Process: Account Management			X	X	X	X	X	X	X
Proposal Generation			X	X	X	X	X	X	X
Pricing	X	X	X		X	X	X	X	X
Pricing Exceptions		X	X		X	X	X		
Invoicing				X	X	X	X	X	
Voice of Customer: Web Site	X	X			X	X	X	X	X
Voice of Customer: Focus Groups	X	X			X	X	X	X	X
Voice of Customer: Surveys	X	X			X	X	X	X	X
Voice of Customer: Interviews	X	X			X	X	X	X	X
Customer Satisfaction	X	X	X	X	X	X	X	X	X
On-site Installation				X		X	X		X
Customer Training				X	X	X	X	X	X
Customer Reports				X	X			X	X
Inquiry: Price			X		X	X	X	X	
Inquiry: Availability			X		X	X	X	X	
Inquiry: Substitutability			X		X	X	X	X	
Inquiry: Request for Information			X		X	X	X		
Inquiry: Request for Quote			X		X	X	X		
Inquiry: Request for Proposal			X		X	X	X	X	X
Inquiry: Order Status			X		X	X	X	X	
Inquiry: Specification/Applicability			X		X	X	X	X	X
Inquiry: Location			X		X	X	X	X	
Inquiry: Optimization			X		X	X	X	X	X
Inquiry: Capability			X		X	X	X	X	
Inquiry: Billing			X		X	X	X		
Inquiry: Credit			X		X	X	X	X	

Sample List of Processes That Touch The Customer (continued)

Process Name	Go To Market Process					Source of Potential Benefit			
	Strategic Marketing	Tactical Marketing	Customer Acquisition	Delivery	Build Relationship	Efficiency: Productivity	Effectiveness Productivity	Value Delivery Revenue	Margins
Inquiry: Problem Resolution				X	X	X	X	X	
Fulfillment: Brochures	X	X	X		X	X	X		
Fulfillment: Price/Quote			X		X	X	X		
Fulfillment: Catalogue	X	X	X		X	X	X	X	X
Fulfillment: Samples - Standard		X	X		X	X	X	X	
Fulfillment: Samples - Custom		X	X		X	X	X	X	X
Sample Tracking		X	X		X	X	X		
Product/Service Fulfillment				X	X	X	X	X	
Product Tracking				X		X	X		
Catalog Production	X	X	X		X	X	X		
Web Site Maintenance	X	X	X		X	X	X	X	X
Design/Problem Solving			X		X	X	X	X	X
Site Visit		X				X	X	X	
References	X	X	X			X	X	X	
Demonstration of Capability	X	X	X			X	X	X	
Case Study Development	X	X	X			X	X	X	
Product Return				X	X	X	X	X	
Warranty	X	X	X	X	X	X	X	X	X
Logistics				X		X	X		
User Group Management	X	X	X		X	X	X	X	X
Complaint Management	X		X	X	X	X	X		
New Product Trial: Alpha	X	X			X	X	X		
New Product Trial: Beta	X	X			X	X	X	X	X
Customer win back processes		X			X	X	X	X	

*Sample List of Processes That Support The Customer Touch Processes*

Process Name	Go To Market Process					Source of Potential Benefit			
	Strategic Marketing	Tactical Marketing	Customer Acquisition	Delivery	Build Relationship	Efficiency: Productivity	Effectiveness Productivity	Value Delivery Revenue	Margins
Strategic Planning	X	X	X		X	X	X	X	X
Budgeting	X	X	X		X	X	X		
Employee Training			X	X	X	X	X	X	X
Employee Satisfaction Assessment			X	X	X	X	X	X	X
Employee Review & Reward		X	X	X	X	X	X	X	X
Internal Help Desk		X	X	X	X	X	X		
Maintenance of Infrastructure	X	X	X	X	X	X	X		
Product Development	X	X	X	X	X	X	X	X	X
Forecasting	X	X	X		X	X	X		
Opportunity Management	X	X	X		X	X	X		
Competitive Analysis	X	X	X		X	X	X	X	X

*Potential Impact of Senior Management Actions on Cost and Timing of Cash Flow*

Management Action	Implication			
	Initial Cost	Operational	Benefits	Timing
Articulate Organizational Direction			X	X
Rationale/Urgency for Change			X	X
Disciplined (Formal) Change Management		X	X	X
Appropriate Budgeting: Help Desk		X	X	
Appropriate Budgeting: Change Management		X	X	
Appropriate Budgeting: Training - Initial		X	X	X
Appropriate Budgeting: Training – On-going			X	
Commitment to: Best Practices	X	X	X	X
Commitment to: ROI	X	X	X	X
Commitment to: Accountability & Success Metrics	X	X	X	X
Commitment to: Dedication of Quality Resources	X	X	X	X
Commitment to: Process Focus	X	X	X	X
Commitment to: Process Ownership	X	X	X	X
Commitment to: Structural Change (as required)		X	X	X
Commitment to: Realistic Timeframes	X	X	X	X
Alignment of Org. Direction & Metrics		X	X	X
Identify Total Cost of Ownership		X	X	X

*Potential Impact of Vendor Capabilities on Level and Timing of Cash Flow*

Vendor Capability	Level Of Impact				Timing of Impact			
	Capital	Cost Initial	Cost Oper.	Benefits	Capital	Cost Initial	Cost Oper.	Benefits
Pricing: buy what is used	X	X			X	X		
Out of box functionality	X	X	X	X	X	X	X	X
Integration with other systems	X	X	X	X	X	X	X	X
Cost of customization		X		X		X	X	X
Software maintenance costs			X					
System maintenance costs		X	X				X	
Ease of upgrading to new software releases			X	X			X	X
Scalability	X	X	X	X	X	X	X	X
Level of integration between applications	X	X	X	X	X	X	X	X
Ease of navigation			X	X				X
Responsiveness of the system			X	X				X
Uptime				X				X
Best practice workflows		X	X	X		X	X	X
Security of data			X					
Ease of system updates			X	X				X
Transaction accuracy and traceability			X	X				X
Efficiency of data transfer			X	X				X
Frequency of system updates			X	X			X	X

## *About the Author*

Glen S. Petersen is an internationally recognized speaker, writer, practitioner, and thought leader in the Customer Relationship Management (CRM) and e-Business industries. Mr. Petersen has held senior level management positions with systems integration and end user organizations. As a visionary and early adopter of Sales Force Automation (SFA), in 1986 Mr. Petersen led one of the first successful national implementations of SFA in the United States. Realizing the tremendous future of this new technology, Mr. Petersen joined a SFA software start-up company in 1988 and had the pleasure of working with many of the pioneering organizations that deployed sales force automation at a time when most organizations were unaware of its existence. In 1991 Mr. Petersen left the vendor community to do consulting.

This experience combined with his background in operational and strategic planning places Mr. Petersen in a unique position to advise and assist clients in this challenging area of change management and technology integration. During this period, Mr. Petersen has developed a number of proprietary facilitation techniques, which help organizations to better understand the potential of these technologies, and how to rally the organization around a single threaded, phased implementation approach.

Prior to founding GSP & Associates, Mr. Petersen was Senior Vice President at ONE, Inc. and Ameridata, a \$1.3B provider of hardware, software, and services. In these positions, Mr. Petersen directed operational strategy engagements and helped major corporations articulate and justify their CRM and e-Business initiatives.

Mr. Petersen is the author of seven books:

- *High-Impact Sales Force Automation: A Strategic Perspective*
- *Customer Relationship Management Systems: ROI & Results Measurement*
- *Leadership and Alignment in a Customer Centric World*
- *ROI: Building the CRM Business Case*
- *CRM Best Practices: Self Assessment*
- *Making CRM an Operational Reality*
- *The Profit Maximization Paradox: Cracking the Marketing/Sales Alignment Code*

Mr. Petersen is a frequent speaker at CRM conferences and has developed a number of pre-conference and on-line seminars for them over the past five years. Mr. Petersen has also conducted seminars and presented at conferences created by Inc. Magazine and The Center for Business Intelligence. Topics include sales and marketing performance, the blurring of the role of marketing, sales process modeling, strategy, best practices, and return on investment (ROI) as they apply to CRM. Mr. Petersen is a top advisor for CRMCommunity.com and has authored numerous articles regarding sales, technology implementation, quality, and leadership issues

Mr. Petersen has a bachelor and masters degree in engineering from Illinois Institute of Technology and an MBA from the University of Chicago.

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