IT Trends – Module 4 (Application Trends)

Assignment 2

CRM - Measuring Success and ROI

Name: Withheld on Request

ACS Member No:

Phone No:

E-mail:

I declare that this assignment is based on my own work and that all material previously written or published in any source by any other person has been duly acknowledged in this assignment.

ABSTRACT

There is a growing view amongst organizations adopting CRM (Customer Relationship Management) that projects are not delivering the hoped for value.

According to the Gartner Group, CRM systems are likely to fail at 60% of companies that implement them. But three out of every four US corporations interviewed are implementing CRM. Therefore, if customer-relationship applications are expensive, and roll-outs a mindfield, is CRM more trouble than it's worth?

This article examines the reasons why companies have been dissatisfied with both the success and ROI (Return on Investment) of CRM implementations.

It looks at factors leading to successful implementations and discusses considerations for the measurement of CRM success and ROI.

INTRODUCTION

With the globalization caused by the growth of the internet, companies face increasing competition from all over the world. Prices have reduced and competing products from vendors have tended to be very similar and having the same capability. Therefore, without product differentiation across companies, the costs to acquire and retain customers have increased as customers do not care as much about slight price differences. With a click of the mouse they can easily shift to another provider, and therefore more and more, businesses have to compete on customer service and more targeted marketing to reduce costs and increase penetration.

In order to implement customer-centric strategies, organizations have turned to CRM software application packages from vendors such as Siebel, Oracle, PeopleSoft and others. Their aim is to integrate their customer-facing processes, improve the efficiencies of their call centers and sales forces, and more accurately target their campaigns with the help of sophisticated customer data analytics (Conner 2001).

However, over the last year, there has been a groundswell of complaints that implementations are not delivering to expectations. Sir Richard Heygate, CEO of Sophron Partners (Heygate 2001) says that everywhere he goes he hears the same complaints. "We have spent a fortune on new contact management systems and sophisticated marketing tools, but there seems little or no change in our operating efficiency. As for improvements in customer revenues and profitability, we have lost faith that these will ever materialize".

WHAT IS CRM ?

Surprisingly there are several definitions around of what CRM means. The differences in definition reflect different expectations that organizations have when they implement a CRM system.

To the layman, CRM is an information industry term for methodologies, software, and usually Internet capabilities that help an enterprise manage customer relationships in an organized way *(Customer Relationship Management).*

For some, CRM is a way to identify, acquire, and retain customers. For others, it is a way of automating the front office functions of sales, marketing, and customer service (Patrick & Morin 2001). It is a way of responding appropriately and effectively to customer interactions in Marketing, Sales, Service and transactional inter-actions.

According to Richard Forsyth, editor-in-chief of CRM-Forum (Forsyth 2001), two major components of a CRM system are:

- A set of functions that allow the organization to build an understanding of customer behavior and
- A second set of functions that allow it to communicate with customers, across many channels, to meet their service requirements, and try and persuade them to behave more profitably.

The definition that I find most appropriate is the following:

CRM is a business strategy to select and manage the most valuable customer relationships. CRM requires a customer-centric business philosophy and culture to support effective marketing, sales, and service processes. CRM applications can enable effective customer relationship management, provided that an enterprise has the right leadership, strategy, and culture (Thompson 2002).

WHY IMPLEMENT A CRM SYSTEM?

CRM objectives fall into three main categories (Goldenberg 2001):

- Cost savings,
- Revenue enhancement, and
- Strategic impact.

However, according to Forsyth (2002d), the main objective of CRM should be to increase revenue and build customer loyalty so as to increase the life-time value of the customer. Heygate (2002a) opines that there are three basic sources of value from CRM:

- Using better understanding of the customer's propensity, in order to target sales communications more effectively through automated campaigning.
- Secondly, supporting these campaigns with further automation of the sales/service process to improve efficiency.
- Translating insight into the way customers like to be treated, in very short order, into new ways of providing products and services.

It is very important to ensure that metrics are in place before an organization embarks on a CRM implementation. Many CRM initiatives have been undertaken without a clear strategy or metrics in place to register a measurable improvement in performance. A Cap Gemini Ernst & Young (CGEY) published CRM Index based on a survey of nearly 200 European companies concluded that over 66% of companies cannot identify the ROI from their CRM investments. This is not that there is no ROI but there these companies have not put in place metrics to measure the ROI . Of the nearly 33% of companies who can measure ROI more than 75% of these companies have achieved greater than 10% ROI, with more than 33% achieving ROIs over 25%.

It is easy to set unrealistic, or incorrect, expectations of where benefits will be obtained.

O'Conner (2001b) advises organizations not to adopt new technology without a clear understanding of how it can generate economic benefit given potential risks and rewards and an understanding of the organization's design, strengths, and weaknesses.

ARE CRM PROJECTS FAILING ?

According to a research study released in March, 2001 by the Meta Group (cited in Connor 2001), between 55% to 75% of CRM projects fail to meet management objectives.

However, research undertaken by CRMGuru (*The Blueprint for CRM Success* 2002*)* indicates that the failure rate of CRM projects is 35 %. About 50 % of projects get a payback within 18 months.

CSC *(Why does CRM fail)* argue that failure does not mean that huge technology programs have crashed and burned. They haven't. It means that large sums of money have been spent without shareholders seeing the <u>*expected ROI*</u> which is a difference.

Thompson (cited in *The Blueprint for CRM Success* 2002) states that Customer-centric business strategies, including the effective use of customer satisfaction and churn data is the leading predictor of success.

What is common in all these reports and surveys is the fact that a large number of CRM projects (and the percentage varies across different surveys), are failing to meet business objectives in one way or another. Organizations have discovered that there's a considerable gap between the vision and reality of CRM.

WHY ARE CRM PROJECTS NOT MEETING OBJECTIVES?

The aim of all organizations is to increase profits which is why they are in business.

Francis Buttle, Professor of Management (Marketing and CRM) at Macquarie Graduate School of Management, Macquarie University (cited in Forsyth 2002c) points out, that either reducing costs or improving revenue can increase profits. This choice between reducing costs or improving revenue is at the heart of many CRM program justifications, and often the cause of CRM failure, particularly at the strategic level. This is because organizations often chose to go for quick win solutions rather then strategic long term initiatives.

The main factors that are causing many CRM implementations not to meet business objectives and therefore to be seen as failures are:

Business process changes

Companies fail to change underlying business processes before implementing the technology--a mistake in any IT deployment. "Technology is not the answer alone," says Gartner research director Wendy Close(cited in *CFO.com: CRM roll-outs are generally unsuccessful* 2002a*)* "But many companies think it is."

"Companies must recognize that CRM is more than just technology," says Paul Nannetti, European Head of CRM , CGEY. "It's about having the right business strategy, behavior and approach. It requires the alignment of organizational structure, business models, processes and culture. CRM software alone won't make your company customer-centric".
Many corporate CRM adopters forget basic business concepts when rolling out the customer-facing applications (CFO.com 2002a).

The real issue of CRM failures is one of expectations, of misalignment of business and IT. A piece of software that is supposed to deliver miracles won't ever perform as expected. CRM isn't going to immediately guarantee a pure flow of customer information without a company having to wrest its business processes into place (Sweat 2002).

Enterprise wide implementations

CRM that is departmental only can only yield departmental efficiencies and results. CRM projects sputter and stall mainly because companies aren't prepared to make the required organizational and process changes (CFO.com 2002a).

"They forget about the other elements involved, the change management strategies affecting people and processes, the need for training, user buy-in and collaboration," explains Ms Close. "And they introduce CRM initiatives piecemeal, in this department or that one and not across the enterprise, where it will have the most profound impact." (CFO.com 2002a).

Sales force buy in

Experienced CRM deployers point out employees won't use CRM applications unless they feel the software will help them get their jobs done. "And they won't feel that," says Jay Gardner, vice-president and CIO at BMC Software Inc, "unless they're involved in the project" (cited in *CFO.com: It takes several attempts to get a CRM system right* 2002b).
As observed in *CFO.com:CRM roll-outs are generally unsuccessful (2002a)*, it's crucial that the users of the technology drive the development of the technology and buy into the implementation.

Brendler (2002) notes that no matter how great the technical changes are, a company will not get the results it requires from CRM without understanding and managing its impact upon the people who live with it and make it work on a daily basis. That's why a company's people not expensive systems will determine how customer-centric and therefore how successful the company becomes.

Bad Customer Data

If customer data is very bad or duplicated several time in the enterprises database then it makes a mockery of the analytical capabilities and decision-making tools that are touted as CRM's greatest benefit. Clearly, no marketing or strategic business decisions can be based on information that is flawed.
"We have customers who have thrown away million-dollar systems because they were too dangerous to use," agrees Lacy Edwards, CEO of San Francisco-based Evoke Software Corp, which provides data-profiling software.(cited in *CFO.com: Is CRM a good idea gone bad* 2001).

The magnitude of the CRM data problem is starting to emerge. A Meta Group report in May 2001 noted, "CRM implementations continue to be limited by data integration and quality issues, which are more often stumbled upon, rather than anticipated." And in August 2001 a Gartner report (cited in *CFO.com: Is CRM a good idea gone bad* 2001) listed seven reasons CRM implementations fail. Topping the list: "Data are ignored." As both Meta and Gartner suggest, companies often charge ahead with expensive CRM projects without first assessing--and budgeting for--the work needed to correct existing data into shape.

Customer Knowledge
O'Conner (2001d) states that organizations must have requisite knowledge of their customers and most promising prospects (e.g. who they are, why they buy from you, what channels they prefer to deal through), otherwise the organizations will not have the performance criteria needed to redesign customer-facing and related-business processes. Without a clear idea of how to increase perceived value for the customers, organizations are flying blind- buying CRM software and systems integration services with the hope that somehow this huge investment will pay off in the future.

MEASURING CRM SUCCESS AND ROI

The success of a CRM implementation and ROI are two different things but often assumed to mean the same.

ROI first…

Buttle (cited in Forsyth 2002b) defines ROI % as profits * 100 divided by investment. O'Conner (2002a) defines ROI as an increase in profit expressed as a percentage of the investment required over a given timeframe.

Many CRM systems wrongly measure ROI as simply the incremental revenue or margin return from implementing a technology CRM solution. This has limited applicability, as it doesn't give sufficient operating insight to make ongoing decisions that improve the customer relationship. It approaches the problem from the point of view of the business, and leaves out the point of view of the customer, except as a source of revenue (Fung 2002).

So far, the focus of many CRM implementations has been on cost reductions. This has largely been because the easiest way to achieve project approvals in most organizations is to demonstrate ROI through cost savings, rather than through revenue increases or less tangible improvements in customer relationships. However cost savings in the CRM space often result in passing effort and cost onto the customer which is unlikely to endear you to your customer base. The best example of this is probably most call center environments, where significant cost savings and hence ROI are achieved, at the expense of customer inter-action with poor IVR interfaces and long call-waiting times (Forsyth 2002c).

O'Conner (2002b) states that it is next to impossible to create a standardized process that accurately measures incremental profit contribution (and therefore ROI) that can be irrefutably attributed to implementing a CRM package.

Given that much ROI calculation is based on projections, ROI studies can become a vehicle in an organization to justify a predetermined decision, either to move something forward by goosing the projected estimated numbers or to kill a project by inflating the costs surrounding the project and minimizing the expected return (O'Conner 2002b).

CRM ROI, properly done, should integrate the vendor and customer's agendas to figure out how to make the most money for the vendor while producing the most satisfaction and returns for the customer (Fung 2002).

CRM Success Factors

If organizations cannot definitely measure ROI on a CRM implementation, how can they measure success? What can they do to improve the level of success?

According to O'Conner (2002b), that should be determined by business objectives and what the system is designed to produce. A good starting point is customer metrics: revenue and cost impact arising from the acquisition and defection rates within different classes of customers.

CRM value comes from precisely targeting specific opportunities, re-thinking end-to-end marketing processes, measuring everything and monitoring continuous improvement (Heygate 2001).

The following factors and guidelines should be used to improve and measure the success of CRM implementations:

Relevant Performance metrics

CRM should be measured on its desired goals -- based on direct outcomes of its underlying activities -- whether it's lowering call center staffing costs, speeding response times, increasing product development cycles, or lowering shipment and billing errors (O'Conner 2001d). The organization should undertake regular assessments against these goals and investment should be driven based on the results of these assessments (Forsyth 2002c).

Implement CRM step by step

Organizations should have a strategic goal, but implement CRM step by step, ensuring that at each step the goals and returns can be clearly measured.
Too often, the CRM project starts of with too many requirements and too many goals. To achieve all of these requirements require multi million, multi year implementations which is what has caused such high levels of dissatisfaction. It is far better to implement CRM initiatives in steps, learning from each implementation before moving on to the next step. Enterprise wise CRM should be a strategic goal but organizations should not implement a big bang approach.

Sales process efficiencies

Achieve cost savings through improving the efficiency of sales processes and campaign measurements. Curry (2002) advises companies to decide on CRM processes before deciding on a CRM system. "Software's a great tool, but it will never be able to answer such questions as how are your marketing, sales, and service departments going to work together? You need to figure out if two divisions serve the same customers base, which one owns which customer. You need to decide if your distributors are customers or partners. You need to determine the relationship between outside sales and inside sales".

In the example of a leading high street bank, propensity scores for product purchase by channel drove a set of sales prompts in call centres and branches. Armed with likely next purchasing action, agents could break into conversations with a simple product solicitation, which would appear relevant and non-intrusive for the customer. The number of customer contacts turned into effective sales increased dramatically, resulting in over $50 million more sales in the call centre channel alone and the measurability of the approach lead to continuous learning and improvement.(Heygate 2002b).

"We didn't simply set out to strengthen our internal processes with CRM. Instead, we started with a clear business objective: to provide our customers with a greater economic value. Only then did we invest in technology to help us meet that goal. Much of the technology turned out to be CRM tools" says Christopher Milliken, president and CEO of Boise Office Solutions in Itasca, Ill. (Milliken 2002).

Improved Customer Profitability

One of the measures of a CRM success should be customer loyalty and churn. Too often, the focus has been on new sales at the expense of existing customers.
Higher loyalty means lower customer attrition which in turn radically cuts back on the costs of hunting for new businesses (Robinson 2000).

An organization should define and create measures of lifetime values so that the full benefits of what can be achieved are appreciated (Robinson 2000). A growing number of customers want self-service environments that save them time, and they are more sensitive to value-added services than minor price differences when it comes to retention. Call centers tend to waste a lot of customer time. High value customers are disposal-income rich but time-poor and will switch to competitors providing better service.

Finally…cost reduction does not always translate to better ROI

With a few exceptions, "tangible benefit" is an elusive concept. A CRM vendor promises "ROI in 90 days." The company buys and implements the package .Three months later costs go do down. But if your customer satisfaction ratings also drop, is that a tangible benefit? asks David Sims, editor of CRMGuru (Sims 2002a).

"On the face of it you know you're getting value, but you can't point to any number that accurately, completely reflects that value. Of course if you're improving your measurable customer satisfaction, getting more share of your customers and lowering customer churn, you're improving your company's business and your CRM Project has been a success" (Sims 2002a).

CONCLUSION

There are several issues in past CRM implementations and a number of reasons why companies have not reaped the hoped for benefit. These include lack of clear measures, failure to change business processes, lack of personnel buy in and over reliance on technology implementations.

Many companies have not been focused enough on what they want to achieve nor have they put in place the metrics to be able to measure success factors or ROI. CRM failures very often, are not a failure of technology -the technology is often extremely good, but a failure to meet expectations. This failure typically results from expectations not being fully understood.

ROI should be a long term goal for the enterprise as a result of implementing CRM. But it's not an effective measure of either short-term performance or isolated contribution from CRM. CRM success should be measured against desired business goals using clear and measurable metrics.

To increase the level of success, CRM should be implemented as a series of quick wins within a strategic framework. Implementations should strike a balance between attempting to reduce costs and increase revenue. Each CRM quick-win project needs to focus externally on the customer, and internally on how the organization interacts with the customer.

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