

## CRM ROI

### Introduction

After years of false starts and missteps, many businesses are at last starting to achieve real-world return on investment (ROI) from their CRM investments. Early CRM adopters had their ROI impaired by numerous factors, such as:

- Poorly managed consultants and costs
- Improperly defined goals and business processes that weren't aligned well — or at all — with the business strategy and overall business needs
- Larger-than-expected integration issues and costs
- Inadequate or no way to measure ROI

At this point, companies have learned from their previous mistakes as well as successful implementations, and are doing a better job deriving overall business value from CRM investments.

A recent ROI study from IDC, "[The Financial Impact of CRM](#)," illustrates this tendency. Although extrapolating this data to draw specific conclusions would be improper, Bitpipe nonetheless believes the trends highlighted in this study are valid, specifically:

- Companies are generating high ROI from CRM

- Few firms have to wait long for payback on their CRM investments — almost all achieve payback in less than three years, and many do so in a year or less
- Benefits from increased productivity and business-process enhancements significantly exceed any technology-related savings

The Nucleus Research report entitled, "CRM Planning: Keys for Project Success," (note: Ventana no longer offers free access to this report — you must sign-up for a free 10-day trial of their service to view this report) offers companies starting, upgrading, or trying to restart a failed or stalled CRM initiative the following items to help maximize CRM ROI:

- A four-step vendor evaluation process
- Key factors to weigh before making a decision
- Pricing and deployment best practices

The first of these four steps calls on businesses to identify the problem in business terms. However, in this step, Nucleus doesn't clearly point out what Bitpipe believes is one of the most critical factors to CRM success. Some know and understand — but many don't — that CRM is mostly about clearly defining business processes and aligning them with business strategy, before ever

thinking about software that can enable this. The later in the process that a company can make its CRM technology decision, the better its chance for overall project success.

In addition, Nucleus properly included development of a business case in its four-step process, but as the fourth step — after developing a vendor short list and checking vendor references. Companies that want to generate strong ROI from CRM need to determine ROI much earlier in the process. Furthermore, companies should expect that they will frequently have to change these measures as they define, and then hone their business processes. The longer a company waits to define its ROI measures, the greater the temptation becomes to keep a project schedule by skimping on this critical element — or even skipping it until after launch, or completely. A CRM initiative won't succeed unless ROI measurements are agreed to by top management and key stakeholders.

### Seeking More Value and Return From CRM

Most businesses using CRM have already realized most of the cost savings from "easy" process and productivity improvements. As implementations mature and are updated, firms now must work

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harder and focus on additional aspects to continue to get solid ROI from ongoing or additional CRM investments.

Analyst firms addressed many of these topics in recent reports. Table 1 provides an at-a-glance view of these aspects of CRM, why they're important to businesses using CRM and the key takeaways of each. (*The table covers only those analyst reports highlighted on Analyst Views since the beginning of 2004. If an analyst firm isn't listed, it doesn't mean it has no opinion on the topic; rather it means that the analyst firm didn't make its opinions public.*)

### The Role of Hosted Applications

Another result of CRM delivering consistent and proven ROI is that conservative adopters of technology finally have the real-world proof they need to make new or additional technology investments in this area.

Small and midsize businesses (SMBs) — which usually have limited financial resources and therefore tend to be conservative adopters of technology — are starting to make the move into CRM as well. SMBs increasingly are finding the notion of hosted CRM applications appealing because of:

- Low, upfront costs
  - Rapid implementation
  - Simple administration and management
  - The ease of use associated with a Web-based application
  - The ability to "rent" the application and pay as it is used, rather than potentially impairing cash flow by making a huge, one-time capital investment
- application-delivery mode to another
  - Maturity of the business' IT environment and skills
  - Total cost of ownership (TCO)
    - Hosted applications cost more in the long run than applications that a business licenses and runs on premises
    - META believes — and Bitpipe concurs — that hosted and on-premises applications reach the same TCO after about three years

However, the decision of whether to use a third party to host the CRM application, or license the application and run it "on-premises" through the company's systems, isn't as simple as saying that any business with cash-flow challenges should choose a hosted application. As META Group points out in "[Hosted CRM: A Great Debate or Much Ado About Nothing?](#)," businesses that want to have successful CRM implementations need to ignore the delivery-model issues initially and instead first consider several critical factors:

- The application's fit with current and future business requirements
- The ability to expand the investment (by adding modules that offer new capabilities)
- Migration and change-management capabilities should the business choose to switch from one

At a more detailed level, Beagle Research Group believes that hosted CRM applications are about to change (see "[Hosted CRM's Necessary Divergence](#)"). Because they're now proven, hosted CRM applications will evolve from first-generation applications that were simply "Web friendly" to a new category of hosted applications that users will consider "Web necessary." These Web-necessary applications usually support unique business processes, rely on the Internet as part of their value proposition and tend to provide collaborative capabilities. Since marketing remains the lagging functional component in many CRM suites, Beagle expects businesses — especially their marketing organizations — to look to Web

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necessary applications to fill these gaps in CRM functionality.

### **Checking Hosted CRM's Pulse by Looking to a Leader**

A good barometer for the hosted CRM application market opportunity — especially among SMBs, the group most interested to date in hosted CRM applications — is major-vendor interest and investments. Siebel, a leader and one of the best-known names in CRM software, unveiled its hosted application strategy (Siebel OnDemand) in October 2003 and built on that vision soon thereafter by acquiring hosted CRM provider Upshot. Siebel's continued its attempts to make that strategy a reality — and gain more credibility among SMBs — by recently acquiring Ineto to provide a key component it was missing: a hosted contact-center offering (see "[Ineto Acquisition Will Boost Siebel's Appeal to Midsize Firms](#)").

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**Table 1 - Analyst Firm Views On Various Aspects Of CRM**

Analyst Firm and CRM Aspect	Report Title	Why It's Important to CRM	Takeaways
Aberdeen Group <i>(Customer self-service and support)</i>	<a href="#">"Creating Value by Empowering the Self-Serviced Customer"</a>	When done right, online self-service systems can help customer-facing businesses (such as retailers) reduce costs and increase customer loyalty.	"Self-service is a means to an end, not a goal."  Customers increasingly need to configure their own solution; they want choice and control, not just variety.
AMR Research <i>(Analytics)</i>	<a href="#">"Getting More From Customer Analytics"</a>  <a href="#">"Investment Priorities for CRM in 2004"</a>	Better use of CRM analytics reduces costs up to 50 percent and increases revenue by 2 percent to 5 percent.	Best practices: 1. Cleanse data and then locate it centrally before trying to analyze it. 2. Make data available when business needs require, not when reports can be generated. 3. Make the data work for you by having specific instances trigger business processes.
Butler Group <i>(Analytics)</i>	<a href="#">"Siebel Moves Into Analytics"</a>	Competitive opportunity —most businesses fail to properly use analytics to their advantage.	Siebel Systems is assembling the components needed for solid analytics capabilities in its applications.
Hurwitz & Associates <i>(Customer experience)</i>	<a href="#">"Creating a Dynamic and Responsive Customer Experience"</a>	Because anyone can implement CRM software at this point, firms need to differentiate themselves by effectively managing the customer experience.	A company focused on customer experience management: 1. Uses all channels to help customers understand the company and take the desired action. 2. Ensures internal processes and information flows focus first on the customer. 3. Uses technology to recognize the buyer and know what that person really wants. 4. Leverages its data about the customer and the interaction to seek and react to opportunities. 5. Makes the customer experience — regardless of channel — a key corporate goal.
META Group <i>(Customer self-service and support)</i>	<a href="#">"Self-Service and Support Tools Will Reduce Operational Costs"</a>	Core CRM investments and functions for most businesses.	Better self-service tools can cut operational costs — mostly by reducing the number of people needed in the call center
Tower Group <i>(Customer support — contact center)</i>	<a href="#">"U.S. Banks to Invest \$5.2 Billion on Call Center Personnel in 2004"</a>	Optimizing contact-center investments makes good financial sense — the savings from a 10 percent reduction in personnel expenses is the same as the savings from a 30 percent reduction in IT expenses.	Building on total quality management (TQM) approaches, new contact-center applications, focused on performance optimization, will empower agents — and the entire contact center — to perform better.
Ventana Research <i>(Customer profitability)</i>	<a href="#">"Customer Profitability Revisited — A Strategic Initiative For Finance Executives"</a>	As businesses once again start focusing on growth issues, senior executives (especially CFOs) will look to improve corporate profits by more actively managing customer profitability.	Four elements essential to consistently managing customer profitability: 1. Strategy 2. Analytics 3. Information technology 4. Implementation

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### **Consensus Opinion**

The problems that marked the early days of CRM — such as almost three out of four projects failing, expensive project overruns and extensive integration challenges — are at last in the past for many companies. Although CRM projects can still be perilous, companies have reduced their implementation risk in many ways, such as by:

- Learning from previous CRM mistakes — and successes — to ensure history doesn't repeat itself
- Using more mature technologies — CRM suites have become increasingly prevalent and encompass more of the functions previously left to stand-alone, best-of-breed applications
- Defining implementation goals and aligning CRM with key business processes

In short, companies now seem less concerned with whether they can implement CRM, and more concerned about how well they can "do" CRM. They've focused on ROI, and are delivering solid results in this area. Now many are focusing on additional, more advanced CRM aspects to try to improve their CRM ROI. Furthermore, continued positive ROI results from real-world CRM implementations are providing the "push" needed to get conservative technology adopters into CRM — whether through licensed or hosted CRM applications.