



The Financial Realities of CRM: A Guide to Best Practices, TCO and ROI

Customer Relationship Management Strategies

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Executive Summary

Using technology to improve the way a business interacts with its customers is critical to the success of just about every small and medium-sized business (SMB) in North America. After all, customers are a company's most important asset. With an effective customer relationship management (CRM) program in place, these relationships can be appropriately managed to maximize revenue from the customer while improving customer satisfaction and keeping operational costs low.

CRM creates relationships that yield maximum value over the entire customer relationship by selling, marketing and caring for customers based on their specific needs and preferences. Businesses initiate CRM projects for a variety of reasons, including to increase revenue by better understanding their customers' preferences and buying patterns. By gaining insight into both individual customers and target market segments, companies can then develop customer-centric processes to boost sales and optimize top-line business performance.

CRM initiatives are most often successful when the project becomes part of the company's overall process improvement plan and not simply looked at as an IT investment. However, even when SMBs recognize the strategic importance of CRM solutions, three roadblocks—time, money and resources—can derail (or have already derailed) or delay CRM initiatives. As a result, SMBs continue to use basic contact managers or spreadsheets, or have abandoned their CRM strategies altogether (see Exhibit 1). This custom report provides insight into issues that SMBs need to consider before purchasing and implementing a CRM system to achieve their CRM project goals.

Exhibit 1

Use of CRM, Contact Managers and Spreadsheets by Companies with Less than 250 Employees

Source: The Yankee Group 2004 Sales and Marketing Effectiveness Survey

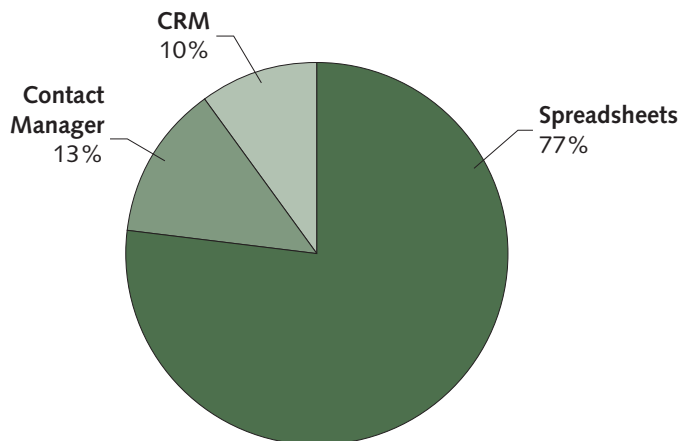


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I. The State of CRM in SMBs

Eighty percent of Americans work for companies with less than 500 employees, and more than 85% work for companies with less than 1,000 employees, according to the U.S. census. However, the majority of CRM options available today are more appropriate for the top 15% of larger enterprises. As a result, the majority of SMBs will continue to purchase basic contact managers or spreadsheets as this is often the only option they are aware of to help them keep track of their customers. Since many SMBs are differentiated from large corporations by their ability to deliver personalized customer service, the lack of CRM use within these organizations needs to be addressed. If SMBs do not know their customers and are unable to identify and address specific needs and preferences they may as well close up shop. Customer loyalty will move to competitors that better understand how the customer wants to do business.

A key challenge for SMBs is finding the right solution set that can deliver the requisite functionality to enable them to compete with large-enterprise counterparts. However, complete CRM solutions for the SMB market—with enterprise-class capabilities at a price SMBs can afford—are only now becoming available.

A CRM strategy for an SMB has many of the same desired outcomes as in a large enterprise, including improved customer selection, acquisition, retention and expansion. Therefore, the key business drivers are similar, specifically:

- Manage the customer lifecycle from first contact to contract to cash
- Become a more customer-centric organization
- Create seamless processes and open communication among company employees for better management and control of information
- Nurture customers' growing expectations for differentiated services

If the desired outcomes and key business drivers for adopting CRM in SMBs are similar to those of large enterprises, then why is CRM so rarely used?

- **Cost:** Software license fees alone have proven cost-prohibitive for SMBs. Traditional enterprise CRM products delivered by Siebel, PeopleSoft and SAP can be very complex and cost anywhere from \$5,000 to \$15,000 per user. Even applications from traditional midmarket vendors, such as Pivotal and Onyx, can cost at least \$2,000 per user.
- **Complexity:** Issues, such as configuration, customization, integration and ongoing maintenance and support, have created barriers to entry for SMBs. Also, traditional enterprise CRM vendors are pushing applications to the SMB market that are more appropriate for companies with thousands of employees.
- **Perceived risk:** Past CRM failures from highly visible organizations have led to CRM disillusionment. When it comes to better understanding customers, technology is only one piece of the solution. Successful CRM requires commitment from all levels within the organization. Many businesses simply jumped onto the CRM bandwagon without aligning their corporate goals with the CRM implementation.
- **Too many choices to evaluate:** Too many product choices not only increases complexity, but also fragments processes by having separate data in various departments and applications, such as accounting, inventory and CRM.

Even though companies are anxious to automate key business processes to effectively manage their customer relationships, they can't allocate hundreds of thousands of dollars and a year's time to implement a customized solution that fits their individual business models. Yet, they do need an integrated suite of applications that can easily adapt to business dynamics and integrate processes between sales, marketing and service.

II. Defining a Successful CRM Implementation

Buying Criteria: The New Approach to Evaluating CRM Purchases

Some smaller companies have deployed advanced functionality from Siebel or SAP, while many large enterprises are completely satisfied with basic contact management functionality. What is the right choice for your business? The answer is found in the details of CRM use and not with company size. Before investing in CRM, buyers should consider key criteria based on three groups of functionality: basic, core and advanced. The majority of companies that evaluate CRM solutions fall into either basic or core groups.

Basic Buying Criteria

The drivers for basic users are simplicity and cost. Companies want to enable basic data tracking in either a standalone contact manager or a small, LAN-based workgroup. Historically, businesses have wanted to migrate from Microsoft Outlook or spreadsheets to basic CRM with better account and contact management functionality.

Some options are ideal for SMBs with little or no IT staff, budget constraints and a desire to improve their business processes. The characteristics of SMBs that meet the basic buying criteria can be varied:

- **Very small IT staffs and budgets:** The basic CRM user often has to wear multiple hats in IT, finance and administration. By necessity, the user becomes extremely resourceful and technologically savvy. Limited human resources can lead to a situation where one or two individuals are required to play judge, jury and executioner over technology investments. Smaller budgets and a consumer-minded procurement process create an environment where there is the same frugality and sensibilities of typical technology consumers. Corporate IT and procurement departments in larger companies typically do not purchase technology with the same cost-consciousness.

Exhibit 2

Buying Groups for CRM Solutions

Source: The Yankee Group, 2004

	Core	Advanced
Large Enterprises		<ul style="list-style-type: none"> - Large IT staff - Customization of application - Thousands of internal and external users
Medium Enterprises		<ul style="list-style-type: none"> - Constrained IT staff - Configuration of application - Multi-user collaboration across departments - Direct and vertical VAR channels - Key drivers: <ul style="list-style-type: none"> — Customer-centric CRM across the entire enterprise
Medium Market	<ul style="list-style-type: none"> - No IT department - Shrink-wrapped data tracking for contracts and accounts 	<ul style="list-style-type: none"> - Multi-user collaboration across departments - Direct and vertical VAR channels - Key drivers: <ul style="list-style-type: none"> — Sales and service effectiveness
Small Businesses	<ul style="list-style-type: none"> - Individual users, limited workgroup - Retail channel - Key drivers: <ul style="list-style-type: none"> — Sales efficiency 	
	Basic	

- **Less organizational complexity means fewer business and technological requirements:** Companies that have less complexity can often be satisfied with shrink-wrapped data-tracking software for contacts and account management. The basic CRM user does not have the budget or complexity requirements to invest in a customized solution. This user's main goal is to add structure to the company's accounts and contacts on a one-to-one basis rather than engaging in a team or collaborative approach to CRM.
- **Focused on sales prospecting rather than sales management:** Basic CRM users have specific business needs and priorities during the sales cycle. They are concerned with generating sales prospects at the earliest stage and typically have small sales organizations.

Core Buying Criteria

Enterprise CRM vendors have tried to meet the demands of the core-buying group with scaled-back versions of higher end products. The vendors do this by stripping out sophisticated functionality such as customization and workflow, or by delivering horizontal, not vertical, functionality. The core market does share some traits with the advanced market but desires a sophisticated but simple application at a significantly lower price point.

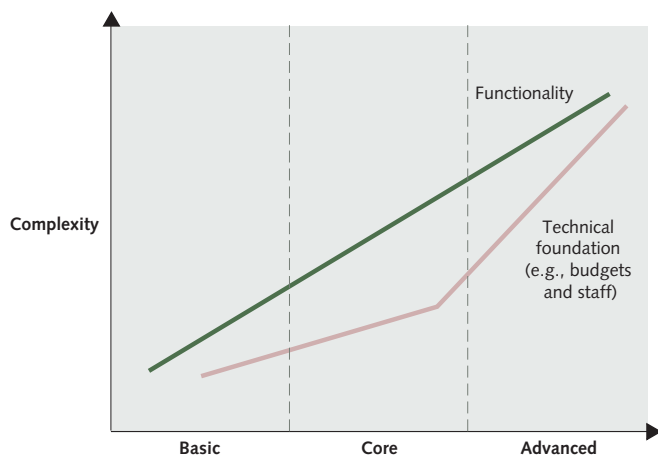
The core market wants richer functionality that is easily and quickly adaptable to business dynamics but doesn't require a large budget and IT staff (see Exhibit 3).

The core market is the most underserved and also the hardest to please. As with advanced CRM buying criteria, it is important to understand the immediate pain points and existing IT investments. For example, does the company currently use Microsoft Outlook to manage its customers and prospects and needs to move toward a more team-oriented selling environment? Does the company have a small field salesforce, but a large customer service initiative and needs to build a multichannel customer interaction center? Even with these very different issues, core buyers share some common characteristics:

- **Usability is more important than deep functionality:** What makes a CRM application effective is user adoption. It does not matter how many features an application offers if it does not follow an efficient workflow. Too much complexity also increases price (not necessarily license cost but the TCO). Usability extends toward ease of integration with familiar desktop and back-office applications.

Exhibit 3
Traditional Demographic CRM Selection Criteria

Source: The Yankee Group, 2004



- **Effective account and contact management that enables many-to-many collaboration and team selling to effectively close the deal:** Simple contact managers are not flexible for most businesses because companies do not have strict one-to-one selling relationships. It is important to enable customer-focused teams since most companies have multiple salespeople, employees and partners working with a single customer.
- **Integrated view for better customer visibility across departments:** It is critical for CRM applications to integrate to other enterprise systems such as accounting, inventory and e-commerce. However, few businesses have been able to leverage data across departments and business units for improved customer centricity, which drives effectiveness and transparency.

Building a Framework for Measuring the Total Cost of Ownership (TCO)

Companies seeking to document the cost of deploying CRM need to understand that software for the enterprise can't be evaluated in the same way that commodity products or desktop applications are purchased. Implementing CRM software and related hardware requires thorough understanding of the business process to be implemented in the CRM solution including the interaction between sales, marketing and support so the business rules create a unified application environment. Any cost estimates will be incorrect without a thorough knowledge of options available, pieces of the solution or a plan of who will put it all together. Companies are tasked with finding and managing these costs to deliver a competitive advantage and drive improved results that affect the bottom line.

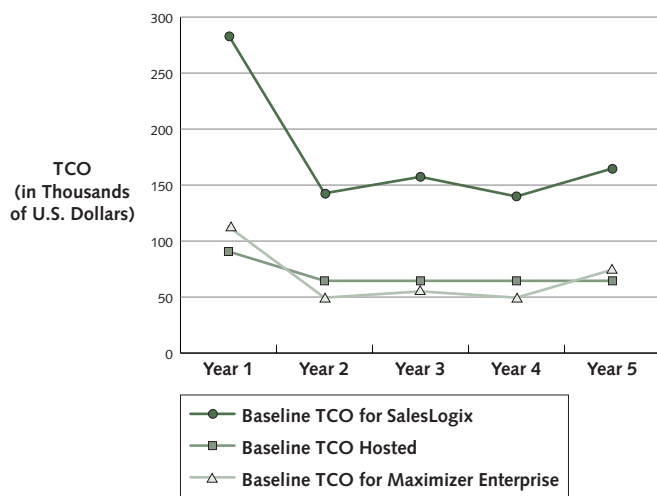
There are many cost components of implementing a CRM system but license cost is only a small part of the overall cost of ownership; additional costs incurred after initial license take up most of the overall cost. Historically, most of the emphasis has been placed on capital expenditure, such as the hardware and software costs, rather than understanding the post-deployment costs.

SMBs are challenged with accurately identifying, tracking and managing all the costs associated with implementing a CRM solution. TCO for CRM falls into the following major categories:

- Hardware
- Software
- Professional implementation services
- Ongoing application maintenance
- Training
- Ongoing end-user support

However, TCO ranges by implementation and vendor. When looking at a TCO for a 20-seat implementation, the Yankee Group analyzed three different SMB implementation options: Maximizer Enterprise, SalesLogix and hosted providers, such as salesforce.com, RightNow Technologies and Siebel OnDemand (see Exhibit 4). Maximizer Software’s customers kept their overall TCO lower through easier configuration changes, fewer infrastructure purchases and eliminating the need for high-priced consultants. In addition, ongoing configuration changes were conducted by the line of business (LOB) person, instead of traditional system integrators or internal IT groups. Our TCO estimate incorporates the cost of a dedicated LOB CRM champion who is responsible for the ongoing support of the system.

Exhibit 4
TCO for a 20-Seat CRM Implementation
Source: The Yankee Group, 2004



How to Measure CRM Value

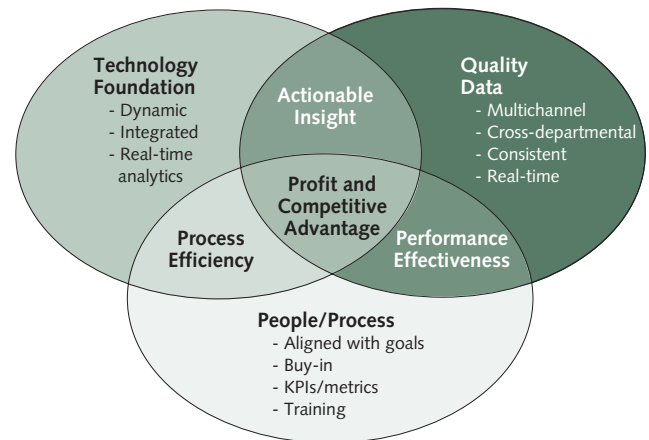
CRM is a highly visible initiative but demonstrating a solid return has proven difficult, especially at a time when enterprises are clamoring for ROI justifications on the most modest of projects. However, hard metrics can be used to measure the impact of technology, business process and training to make an intelligent business decision.

Customer-centric CRM can increase revenue, decrease costs and create competitive advantage (see Exhibit 5). Focus on foundational elements, including technology, data and people to:

- Integrate technology with quality data and businesses will gain more actionable insight.
- Combine technology with people and process efficiencies are achieved.
- Provide employees and customers with information needed and performance effectiveness is enabled.

As a result, actionable insight, process efficiencies and performance effectiveness will lead to profit and a competitive advantage (see Exhibit 5).

Exhibit 5
Customer-Centric CRM Creates Profit
Source: The Yankee Group, 2004



Measuring Your Value Using Key Performance Indicators

The million dollar question remains, what are the metrics to measure success? Businesses need to pick top key performance indicators (KPIs) that are quantifiable, measurable and assessed regularly against preset corporate targets. See Exhibit 6 for a sample of metrics by key departments.

However, all the best metrics in the world will have no meaning without a plan, process and integrated technology foundation to gain a return on the intelligence. Measuring and predicting effectiveness demands integrated insight into sales, marketing and customer service. Without integration, businesses won't have the answers to the following questions:

- Which prospects look like my most profitable customers?
- Which promotions produced the most qualified leads?
- Which products will be the most profitable in 3 to 5 years?
- Which customers are likely to respond to which new product offering?
- What product and service mix will increase customer satisfaction and reduce churn?

Exhibit 6 Key Metrics for Measuring Success

Source: *The Yankee Group, 2004*

Sales	Marketing	Service
- Revenue per sales person	- Marketing dollars as a percent of revenue	- First call resolution rate
- Average sale cycle average deal size	- Average return on marketing	- Call quality (as measured by quality monitoring)
- Sales representative turnover rate	- Total leads generated	- Voice service level (by type of call)
- New rep ramp time	- Average response rate	- E-mail service level (by type of e-mail)
- Average administrative time/rep	- Lead qualification rate	- Average speed of answer
- Percent of representatives that achieve quota	- Lead close rate	- Abandon rate
- Average time to close	- Percent of marketing collateral used by sales representatives	- Average handle time
- Average price discount	- Change in market penetration	- Cost per contact (calls, and e-mail)
- Percent of accurate forecasted opportunities	- Improve time to market	- Average call value
- Average number of calls to close deal	- Number of feedback points	- Average close rate
- Average number of presentations necessary to close deal	- Marketing execution time	- Agent turnover
- Average number of proposals needed to close the deal	- Message close rate	- Customer satisfaction
- Average win rate		- Accuracy of data entered (e.g., trouble tickets)

III. Recommendations

CRM can do more than just improve customer relationships. It can enhance marketing efficiency by enriching the data used to design and execute campaigns. It can reduce operational costs by eliminating redundant or wasteful tasks. If properly executed, CRM can also lead to significant improvements in customer satisfaction and, in the long term, increase revenue and customer loyalty.

Recommendations for CRM Implementation

- **Simplify.** When evaluating CRM applications, pay attention to flexibility and usability and avoid creating the complexity that drives longer deployment cycles. Also, integrate in-context training and continuous refinement of the process to ensure end-user adoption and satisfaction.
- **Get rid of the spreadsheets.** Future success can only be achieved by gaining a comprehensive look at the business through better information management. While many businesses feel it is fine to continue with antiquated spreadsheet use for customer management, it does not empower insightful decision making and collaboration.
- **Understand the business strategy and process before evaluating the software.** Ignoring this step will ensure the automation of a bad process. Many companies make two basic mistakes: 1) automating existing processes without evaluating the best ways to refine the process, and 2) overcomplicating the use of technologies to meet too many corporate objectives. Sometimes, less is more.
- **Create applications that empower the end user.** The carrot and stick only works for basic data entry, not quality data management. If the user interface is cumbersome with too many data entry requirements, end users will not enter quality data that is useful for making accurate business decisions.
- **Convince management that your CRM strategy is critical for long-term viability.** Buy-in is critical—there is no magic bullet—and it is best done on a case-by-case basis, taking into account individual personalities, backgrounds, hot buttons, etc. Deliver results to management, starting with the revenue portion, and show quick results that lead to more sophisticated integrated results, such as profitability.
- **Don't forget that garbage in is garbage out.** Prioritize data cleansing and data refinement processes. One of the reasons for CRM failure is the lack of quality data to drive actionable insight.
- **Measured return on value.** A true understanding of how to measure the benefits of CRM is needed. CRM can only be measurable if a plan is in place and baseline metrics are analyzed for continuous improvement.

Recommendations for CRM Vendor Selection

One weak point for traditional CRM initiatives is complexity of implementation. Before selecting a CRM solution and vendor, SMBs should consider:

- **Ease of use:** The solution should provide an integrated view of information in as few clicks as possible. Productivity applications, such as calendaring, tasks and e-mail, should be efficiently integrated into the CRM application to ensure adoption.
- **Collaboration:** Sharing insights and information across team members will not only improve employee productivity but also increase customer satisfaction.
- **Low TCO:** It is important to have flexibility to make customizations without expensive professional services. It is critical to have an LOB person allocated as a CRM thoughtleader. SMBs cannot rely on IT support.
- **Viability and reliability:** It is not only important that a company is financially stable, but also that the product road map is mature. Talk to customers, product managers and partners to ensure that the company is meeting the needs of its existing customer base.
- **Hosted CRM is not necessarily a less expensive alternative:** Businesses can lower TCO by focusing on configuration versus expensive customization. All CRM vendors are not created equal. If you are in the basic or at the lower end of the core buying segment, a premises-based alternative could have a lower TCO, depending on your business requirements.

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