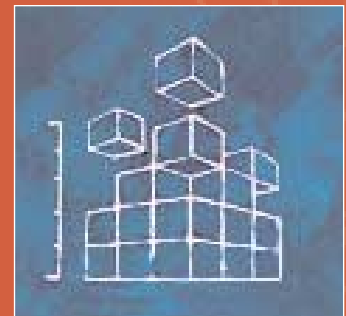




WHITE PAPER | 2004



CRM ROI BLUEPRINT 2004

How Customer-Focused Strategies and Solutions
Drive Productivity, Profitability and Growth

Microsoft
Business
Solutions

Peppers & Rogers Group
a Carlson Marketing Group company



CRM ROI Blueprint 2004:

How Customer-Focused Strategies and Solutions Drive Productivity, Profitability and Growth

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The modern era of business performance revolves around the development of profitable customer relationships. As the forces of change and commoditization continue to accelerate, companies are finding that their most valuable differentiator is long-term customer loyalty and the revenue it generates.

CRM ROI Blueprint 2004 picks up where the original 2001 white paper, *A CRM Blueprint: Maximizing ROI from your Customer-Based Strategy*, left off. At that time, CRM was at a crossroads. Companies were tightening their technology budgets and the validity of Customer Relationship Management (CRM) was being questioned. At the same time, however, CRM was expanding its reach into the mid-market sector, and research firms foresaw a positive long-term horizon. The original version of *A CRM Blueprint* addressed these issues and outlined the “strategy plus technology” blueprint for driving positive return for the mid-market.

Three years later, the blueprint holds true. Connected CRM strategy and technology are required to keep investment costs down and drive higher returns; and they remain a valuable path for the mid-market firm. Today, as the economy moves toward recovery, one seminal lesson remains: ROI as an investment proof point is here to stay and a more mature CRM can deliver.

CRM ROI Blueprint 2004 illustrates *how* mid-market firms can draw direct connections between more mature CRM strategy, enabling technology and measurable return. The benefits are crystallizing as customer-focused companies sell more products and services to existing customers rather than perpetually acquiring new customers to replace the “leaky bucket” of lost ones. Benefit categories range from reduced Total Cost of Ownership (TCO) to Return on Investment (ROI) from improved sales, service and marketing processes. *CRM ROI Blueprint 2004* discusses the business case for investing in CRM solutions and provides a modern blueprint for making these investments in an intelligent and successful way.



The CRM Business Case

The demand for CRM solutions, particularly among mid-market businesses, is clearly on the rise. While there are numerous forces driving this trend, it's apparent that companies are seeking the increased profitability and reduced costs associated with strong customer relationships. As they invest in strategies and solutions to realize these gains, they expect a clear business case based on demonstrable results and successes.

Recent research indicates that mid-market companies are accomplishing their CRM goals. According to a 2003 "CRM Spending and Satisfaction Report" by Boston-based research firm Aberdeen Group, companies with revenues from under \$10 million to over \$1 billion have seen a range of CRM benefits, including improved productivity, improved analysis and reporting, greater cost control and revenue enhancement.

Mid-market companies are utilizing Customer Relationship Management strategies and solutions to increase share of wallet with existing customers, re-align their resources around Most Valuable Customers (MVCs) and identify new revenue streams based on customer insight.

A 2003 PricewaterhouseCoopers "Trendsetters Barometer" survey supports these findings. According to the survey, 81% of the fastest growing U.S. companies have initiated CRM programs over the last three years, and many plan to expand their CRM capabilities in 2004. These firms have achieved 46% faster revenue growth than their competitors over the past five years (fueled by an expected 60% revenue growth rate through 2003). Given such findings, it's no surprise that Boston-based AMR Research estimates the CRM market will grow to \$10.8 billion in 2004, a \$1 billion leap from 2003.

MID-MARKET HELPS FUEL CRM GROWTH

In a recent survey, New York City-based research firm AMI-Partners found that 12% of small firms and 25% of mid-sized firms have already invested in CRM solutions. Similar to their enterprise counterparts, mid-market companies are

utilizing CRM strategies and solutions to increase share of wallet with existing customers, re-align their resources around Most Valuable Customers (MVCs) and identify new revenue streams based on customer insight.

For this and other reasons, AMI-Partners analyst Deepinder Sahni remains "bullish" about the demand for CRM solutions in the small- to mid-sized sector. An increasing number of companies in this arena are "positively oriented to technology solving customer issues," says Sahni. "They want to be more efficient in managing relationships and processes." Sahni also contends that "economic conditions," "end user awareness" and improved support from CRM vendors all point to substantial investment in solutions that will enhance the productivity and efficiency of sales, customer service and marketing personnel.

Stamford, Conn.-based research firm Gartner has come to similar conclusions. "The tangible benefits that most of these firms report are related to cost reduction areas," says Gartner analyst Scott Nelson. In many cases, benefits may be less tangible but no less critical. Once organizations begin to "inject the voice of the customer" into their decision-making processes, he says, "you make better decisions that are in keeping with the needs and demands of your customer base."

These factors, when combined with the range of hard and soft benefits being generated by customer initiatives, will spur continued investment and growth in CRM strategies and solutions. However, even if the light at the end of the tunnel is in sight, exactly how to make that journey may remain unclear in the minds of mid-market decision makers. Understanding how to take the necessary steps is our next focus.



Drawing the Blueprint: Strategy

What separates the companies that have successfully implemented CRM solutions from those who have failed? The cornerstone of success, a comprehensive strategy for revenue enhancement enabled by cost-effective and flexible technology, remains the same. What has changed, however, are many of the underlying objectives for achieving that goal. The blueprint for generating ROI—and steering your initiative from vision to process, to technology implementation and measurement—is becoming clearer.

STRATEGIC PLANNING FIRST

Achieving CRM ROI begins with sound planning. The heralded failures of companies that implemented CRM technology in recent years can be largely attributed to the absence of a coherent strategy. Missing at the outset was a clear understanding of the objectives and processes to be enabled by the technology in the first place. Strategic vision, therefore, is critical. It guides the tactical and operational actions that companies execute to achieve their business objectives.

For most organizations, “strategic step one” is a change in mindset. According to Peppers & Rogers Group, companies must begin to view the customer base as a valuable asset that must be proactively managed over time. “Though not listed as an asset on most balance sheets,” says Steve Skinner, President of Peppers & Rogers Group, “the customer base is the most important asset a company possesses.”

FOCUS REDUCES COST, BOOSTS REVENUE

Companies will only realize the next level of CRM return when they leverage customer analytics and insight to better understand the *value* and *needs* of individual customers. In doing so, firms can manage the customer base as an asset

and increase its value over time. “If the goal of business is to drive efficiency and maximum return by making the *right* offer to the *right* customer at the *right* time, then a more rigorous, quantitative understanding of individual customers is needed,” state Don Peppers and Martha Rogers, Ph.D., partners at Peppers & Rogers Group. “To unlock fully the ROI potential of a customer base, you must first understand the value and needs of individual customers and then use that insight to treat different customers differently.”

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Steve Skinner, *President,*
Peppers & Rogers Group

The promise of this approach lies in developing a deep understanding of the *actual* and *potential* value of customers by measuring their individual contributions to the firm. Actual value is a measure of a customer’s lifetime value (LTV)—or the stream of future contribution if the customer’s relationship with you does not change. By contrast, potential value represents

unrealized opportunity—a measure of how much more business might be generated if treatment of a particular customer is modified.

Through the collection and analysis of customer intelligence, companies can also determine new processes for addressing each customer’s unmet needs and enhancing the value of each relationship. This helps companies avoid automating existing processes that are inefficient or unproductive. These include multiple transfers of inbound service calls, sending out marketing campaigns to customers less likely to make a purchase, or simply throwing leads over the wall to sales staff.

For the mid-market company with limited and already fully engaged resources, avoiding such inefficiency is particularly critical. By understanding which customers bring the most value to the firm, mid-market companies can then focus



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their processes and resources on the customers most likely to drive return. For example, field sales agents can rearrange travel time, field visits and follow up inquiries according to customer value while distributing other interaction efforts to inside sales agents or service reps. The results are less down time, higher close rates and shorter sales cycles.

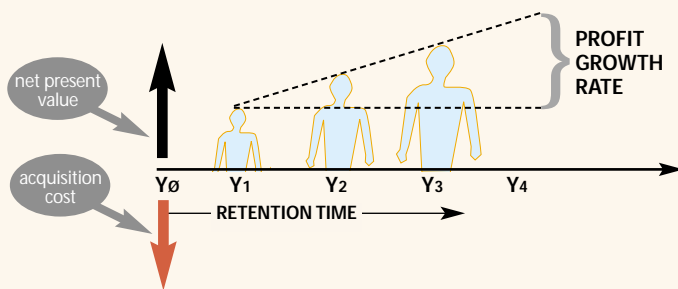
The allocation of the best resource—and the right amount of resources—helps sales managers as well. By interacting with the right prospect or customer at the right time, managers can maintain sales targets while supporting fewer resources. Productivity and efficiency go up, while costly inefficiency diminishes. Over time, customer retention and the Net Present Value (NPV) of customers also increase. This allows companies to reap the value of loyal customers rather than over-allocating precious resources toward customer acquisition.

Success demands consistent, visible communication and reinforcement by executives and key influencers. Employees look to their leaders for signals of what is important and what is not. If a CRM initiative is given scant attention by company leaders, there is far greater likelihood that people will continue to follow old habits and work processes, thereby avoiding the challenge (and promise) of business change. Thus the absence of commitment from the top sets the stage for sub-optimal CRM performance and diminished ROI.

Given the size and increased intimacy of the typical mid-market company, executives can play an even greater role in facilitating CRM success. For example, mid-market employees often have greater visibility and accessibility to top management. As a result, executives can take advantage of more insular lines of communication to consistently reinforce the objectives and rewards of the CRM program to the enterprise.

CUSTOMER LIFETIME ECONOMICS

CUSTOMER PROFIT (\$)



©Peppers & Rogers Group 2003.

COMMIT TO ORGANIZATIONAL CHANGE

Cultural change is vital to achieving strategic objectives, rolling out a CRM technology and seeing desired ROI. When companies overlook the importance of cultural change, they increase the likelihood of CRM failure. To overcome this challenge, companies must be prepared to lead, communicate, train, motivate and support employees to ensure they engage in the desired customer-focused behavior. “To realize the ROI benefits of a customer program, companies must put both customers and employees at the center of CRM efforts,” says Puleo. Employees must clearly understand the objectives of the initiative and be rewarded for utilizing new customer-focused processes and technologies. This helps to ensure that strategic objectives are met, technologies are adopted and processes are carried out.

EXECUTIVE LEADERSHIP

Regardless of company size, CRM programs depend on the vigorous endorsement and support of influential leaders to be effective. Such efforts define the culture and commitment of a customer-driven enterprise. “Leadership by executives is an often overlooked or under-emphasized component within customer-based initiatives,” explains Marijo Puleo, Director of the Organization Transformation Practice at Peppers & Rogers Group, “but it’s a critical success factor. A key contributor to failure is when the sponsor fails to maintain a strong leadership role.”

When facilitating cultural change, mid-market firms have some advantages. Due to their size, the challenge of disseminating the customer vision across the enterprise is somewhat less daunting. And since many key players within these firms wear multiple hats, they can be extremely valuable influencers in supporting the transition to customer centricity across functional or departmental lines.



Drawing the Blueprint: Technology

To date, no customer vision or strategy—no matter how robust—has been successful without technology to enable it. Strategy and technology must work hand in hand to bring a customer-focused plan to fruition. “Software does not give you a CRM strategy,” says David Thacher, General Manager of CRM at Microsoft Business Solutions. “It automates your existing strategy, thereby making that strategy actionable.”

The challenge is selecting the technology best suited to meet your strategic objectives and business needs. To make the right investment, important questions must be answered: Which technology partner complements my CRM goals? Can I capture cost reductions from efficiencies and top-line revenue growth? Which functionalities match my newly established CRM processes? How do I avoid over-investing? These and other questions must be addressed in order to properly invest in the right CRM technology and maximize return on that investment.

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DEFINE TECHNOLOGY NEEDS UP FRONT

Customer initiatives often fail when companies roll out technology without first identifying what was needed from the solution. Create a cross-functional team made up of important players from the IT and business sides. This ensures that the business and process needs of departments key to the implementation's success are included up front. The results are clear guidelines for choosing the optimum technology and making the right level of investment.

CREDIBILITY CAN BE EVERYTHING

Selecting the right technology partner at the outset is vital, and the credibility of that partner is a top consideration. In choosing a technology partner, end users—specifically in the mid-market—must be able to rely on a solutions

provider to roll out the technology on time and on budget. Insightful vendors recognize that CRM is not a one-time solution. Rather, it's an ongoing commitment to continuously improve business processes by wrapping them around the customer—a goal that is unattainable without supporting technology.

One way to measure credibility is by looking at a vendor's successes, or track record, in the marketplace. An array of previous experience across verticals and multiple business settings is important. In a rapidly changing technology market, it's also important that solution providers demonstrate the financial and market stability one expects from a long-term partner. Analyst reports and other assessments

of a vendor's standing in the marketplace can also be helpful. Taken together, these types of insights help build trust, respect and credibility around the partner of choice, important criteria in making a smart CRM technology investment.

INTEGRATION AND SCALABILITY

In recent years, companies often have implemented CRM technologies to address particular “pain points” or achieve specific operational goals, such as automating customer service activities or providing field sales agents with upgraded tools. For many firms, this has proven to be a valuable starting point, says Holly Holt, Senior Product Manager, CRM at Microsoft Business Solutions. “You need to get in there, address a pain point, and then go from there. This helps to avoid ‘analysis paralysis’ by trying to align everyone in the organization first.”

At the same time, adds Holt, it's important to also account for an organization-wide technology framework or



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roadmap. This reduces the likelihood of creating non-integrated technology environments characterized by information silos, incomplete customer views and poor visibility across systems and departments. This is just as important for mid-market firms as it is for larger companies. By failing to plan properly during growth stages, mid-market companies can quickly find themselves in predicaments formerly reserved for their enterprise counterparts.

Tighter integration is a prerequisite to another important factor, scalability. As the CRM initiative matures—and incremental ROI fuels further investment—solution upgrades and additional rollouts will be needed to enable new customer-focused processes. The challenge going forward is to upgrade or implement solutions that are consistent with the existing infrastructure. “Your CRM solution should evolve as your business does,” says Thacher.

“Business needs and objectives change over time, so your CRM technology should be flexible enough to meet them.”

Taken together, integration and scalability will help mid-market organizations in particular avoid the pain of costly, unnecessary investments. Rather than deploying new solutions to plug process gaps—which can lead to exorbitant implementation and support costs—companies can utilize existing systems to enable new processes. This leverages systems already in place and stretches previous IT investment dollars further.

MATCH TECHNOLOGY TO PROCESSES TO DRIVE INTERCONNECTED BUSINESS LONG TERM

Flexible technology is essential if companies are to fully enable an interconnected business around customers. Managing customer relationships for maximum profitability and ROI requires customer-facing personnel to be able to see across the entire enterprise.

In addition to the standard data located in customer profiles such as contact information and purchase history, field sales agents will require real-time views into available inventory, production runs and current marketing campaigns. Service representatives will need access to more accurate order status, shipping registers and product information in order to quickly and efficiently address a customer’s needs on the spot. Marketing managers will require direct communication with sales teams in order to launch the most targeted and effective campaigns. As the value of customer relationships continue to become a key indicator of company strength, organizations that accomplish the above goals will reap the highest reward.

CRM ROI BLUEPRINT: STRATEGIC AND TECH IMPERATIVES

Strategic Imperative

- Develop overall strategic plan that leverages the customer base as a valuable asset and grows that asset over time
- Differentiate customers according to their value to the firm and their individual needs, and set a plan to focus resources on top customers
- Provide strong executive leadership through ongoing visibility and reinforcement of customer-focused goals and rewards
- Commit to organizational change not across the enterprise in order to communicate strategic objectives, spark adoption and instill processes

Technology Imperative

- Create a cross-functional team to define technology needs up front, prior to investment
- Establish a strong relationship with a credible vendor capable of meeting your business needs and goals while keeping the initiative on time and on budget
- Develop an integrated, scalable technology framework able to grow with the company over time
- Match technology to processes built around the customer in order to empower customer facing personnel and drive interconnected business long term

Lower TCO and Higher ROI



Finalizing the Blueprint: TCO and ROI

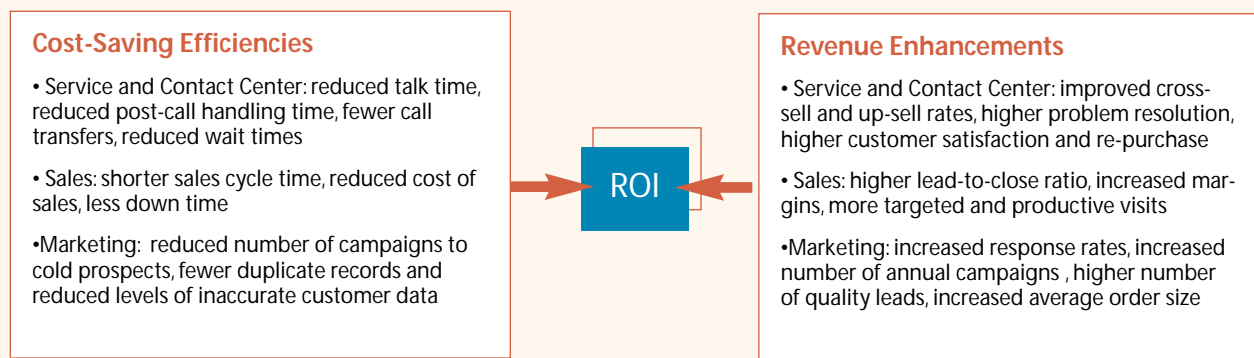
ROI is the ultimate indicator of the success of a CRM program. Ironically, it's also where many initiatives fail, since accurately measuring the initial and ongoing investment costs, identifying the cost reductions brought by more efficient operation and tracking revenue enhancements unique to CRM can be challenging. However, when a CRM initiative is backed by sound strategy and processes, enabled by technology and measured correctly, it will generate a wide range of benefits.

The first benefit is Total Cost of Ownership (TCO). When implementing a CRM technology, the initial costs of licensing, hardware, software, training and consulting, along with the ongoing costs of support and maintenance, all play a role. In the past, the failure to account for all of the implementation costs helped lead to CRM failures. Today, smart companies are working with vendors to keep TCO to a minimum. All of the technology recommendations above—choosing the right partner, integration and scalability, matching technology to process and leveraging previous IT investments and systems—help keep TCO down. More importantly, the lower the TCO, the quicker a company can begin realizing ROI on its CRM investment.

The most telling benefit category is Return on Investment. ROI from CRM typically comes in two forms. The first is cost reductions from increasing efficiency. For example, when customer data helps an inside sales team maintain productivity levels with fewer resources, cost reductions result. When sales agents in the field need to spend less time manually entering data into slow legacy systems, companies save time and money. When access to customer data helps service representatives resolve inbound calls more quickly, savings roll up.

The second form of ROI is revenue enhancements, which also come in many forms. Complete purchase and service histories of top clients help sales teams make the right offer at the right time across the right channel. Timely access to valuable information increases "selling time," shortens sales cycles, improves close rates and keeps sales resources focused on valuable customers. Marketing teams send more targeted campaigns to customers more likely to make a purchase, while avoiding irrelevant contacts that breed dissatisfaction. Accurate customer data allows service representatives to recognize and confidently act on cross-sell and up-sell opportunities.

COST-SAVING EFFICIENCIES AND REVENUE ENHANCEMENTS





The Customer-Focused Future

It has been three years since the first installment of *A CRM Blueprint* established the essential guidelines for achieving measurable Return on Investment from a customer-based initiative. Today, the lessons of the original blueprint still ring true, but *CRM ROI Blueprint 2004* has taken these lessons even further.

The pieces of the ROI puzzle are currently falling into place. The connections among customer-driven strategy, technology and measurement are becoming more direct and visible. As CRM has matured, it also has become clear that the benefits of customer initiatives are no longer

As CRM has matured, it has become clear that the benefits of customer initiatives are no longer reserved for large enterprises with deep pockets.

reserved for large-scale enterprises with deep pockets. The lessons of the last several years point the way to unlocking strong CRM ROI for companies of all sizes and across verticals. ■

Microsoft Business Solutions

Microsoft Business Solutions offers a wide range of business applications designed to help small, midmarket and corporate businesses become more connected with customers, employees, partners and suppliers. Microsoft Business Solutions' applications automate end-to-end business processes across financial, distribution, project accounting, electronic commerce, human resources and payroll, manufacturing, supply chain management, business intelligence, sales and marketing management, and customer service and support.

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Peppers & Rogers Group is a management consulting firm recognized as the world's leading authority on customer-based business strategy. It is dedicated to helping companies compete and win by identifying differences within the customer base and using that insight to maximize the value of each and every customer relationship. Led by *1to1 Magazine*, Peppers & Rogers Group's independent media division reaches 250,000 CRM decision-makers weekly with a broad array of print, interactive and custom publications. Peppers & Rogers Group is a Carlson Marketing Group company headquartered in Norwalk, Conn.

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