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Measuring the Returns of Information Driven Customer Relationship Management Tools

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ABSTRACT

Today, Customer Relationship Management (CRM) implementations are large and expensive. Yet, in spite of best efforts, most CRM implementations are either disappointments or outright failures. The authors contend that the proper use of CRM metrics can positively influence CRM implementations. The paper presents current best practices of CRM metrics in large companies with full CRM implementations in the hopes of jumpstarting the use and research of CRM metrics in other companies. The proper use of CRM metrics can (1) measure and track the impact of their CRM system and (2) increase the likelihood of successful CRM implementations.

INTRODUCTION

Customer Relationship Management (CRM) systems are used as part of a customer-centric business strategy in which an organization seeks to increase customer satisfaction and loyalty by offering customer-specific services (Kristoffersen and Singh, 2004). CRM allows companies to collect and analyze data on customer patterns, interpret customer behavior, develop predictive models, respond with timely and effective customized communications and deliver product and service value to individual customers (Chen and Popovich, 2003). Today, CRM implementations are large and expensive. It is estimated that the average investment in CRM applications is $2.2 million (Chen and Popovich, 2003). And estimates of 2004 global corporate expenditures on CRM range from U.S. $23.5 billion (Bull, 2003) to U.S. $125 billion (Adebanjo, 2003; Winer, 2001).

According to industry analysts, 75-85 percent of the CRM systems implementations either are outright failures (Bygstad, 2003) or disappoint to the level that CRM has frequently come to mean 'Can't Recover Money'. In a recent study of Australian businesses who had adopted CRM systems, 60 percent were less than satisfied with the results achieved to date (Ang and Buttle, 2005). This combination of failed implementations and those providing little or no return on investment do not meet the bottom-line driven results demanded today by investors, the marketplace, and company executives.

CRM implementations failed for a number of reasons, including poor or non-existent business processes, lack of executive management support, poor planning, lack of a good strategy or poor alignment with business needs, underestimation of the complexities of CRM, inadequate investment in implementation, an assumption that the same methodologies used for implementing Enterprise Resource Planning (ERP) systems are suitable implementing CRM systems, and inability to integrate with ERP systems (Bull, 2003; Corner & Rogers, 2005; Chan, 2005).

This paper is interested in the other 15-40% of CRM implementations that succeeded and how to increase that number. The authors contend that the proper use of CRM metrics can positively influence CRM implementations. For example, Chan (2005) contends that the inability to align the correct metrics across business activities is a critical reason for CRM failure. The following paragraphs will discuss the use of CRM metrics today and — based on the current industry practice — look at the specific metrics that can be used by larger companies to measure and track the impact — positive or negative— of their CRM system.

THE USE OF CRM METRICS TODAY

Currently, CRM metrics are not being employed very much and when they are used they are typically not used very well. In a sample drawn from Fortune 1000 companies, 39 percent had no CRM metrics, 48 percent had internal metrics and only 12 percent had external goals and metrics (Rogers, 2003).

CRM metrics use in companies today is too often inadequate — they are mostly internally focused, measuring items such as increase in sales revenue, improved sales productivity, reduction in marketing waste, reduction in costs in call centers, reduction in sales cycle time, increase in campaign response, and decrease in cost of response. In order to optimize CRM performance, metrics need to be enterprise-wide, customer-centric (Chan, 2005), and relevant (Rogers, 2003). Metrics from sales, marketing, customer service and operations should be unified to drive measures of customer profitability, customer satisfaction and market share. Appendix A, "CRM Building Blocks" (Swift and Gregg, 2005), provides a useful approach for phasing in your company's customer management capabilities one at a time — starting with infrastructure — along with appropriate and associated metrics.

The Information-Driven Selling model (Kingstone, 2005) is another useful model for understanding the variety of metrics that are needed. For CRM implementations to be successful they must identify the *information* needed, based upon and *aligned* with corporate goals and existing processes, and supported by the right *technology*. Together, the technology, information, and alignment will provide *actionable insight*, *process efficiency*, and *performance effectiveness* — finally increasing the company's *profit and value* as well. This model can help reinforce for managers the various dimensions of metrics needed.

EXAMPLES OF CRM METRICS

The authors believe it is time to revisit and re-invigorate efforts to develop, implement, and research CRM metrics. Some CRM metrics, such as developing useful measures to support return-on-investment (ROI) or using the balanced scorecard technique, can take time to learn and implement. Another such metric is the Customer Value Scorecard (CVS). The CVS is a customer performance metric that looks at transition rates from different segments that affect the value of the customer base (Hansotia, 2002). Metrics such as Relative Customer Satisfaction, Customer Retention, and Customer Lifetime Value provide valuable benchmarks for managers (Rogers, 2003).

However, many less complicated CRM metrics exist and are being used today that can be applied quite readily to help demonstrate CRM's value

and profitability. The following metrics — currently used successfully in companies today — assume a full CRM implementation, integration with ERP reporting, and data mining capabilities.

- *Changes in cross-selling rate for existing customers.* Silos are often built in organizations between diverse product offerings. The integrated data of a CRM provides the ability to show an increase in cross-selling to existing customers. This provides many intrinsic returns to an organization's ability to maximize their share of customer's wallets.
- *Predicting future sales.* Over time, an integrated CRM system can provide more information about future sales and more accurate probabilities about potential "wins" with enough detail to support sales cycle intelligence.
- *Tracking customer satisfaction compared to future sales and repeat business*. These metrics may not provide verifiable results as quickly as other metrics, but the application of estimations based on an organization's past experience and the ability to show an increased consideration of top-line "wins" can be a valuable insight. Likewise, increased repeat work volume from existing clients can be identified and more easily documented, shared, and quantified with client satisfaction results to show how the increased communication and information sharing abilities provided by a CRM has produced increased top-line results.
- *Changes in conversion or sales rate.* An increase in the number of "opportunities" versus the number of "wins" can show growth. Data mining techniques can show conversion results in specific markets or within a range of customers not only in rates but in raw dollars with the powerful combination of unified ERP and CRM approaches.
- *Evaluating marketing campaigns.* The ability to measure the productivity of a campaign with hard numbers and trend data is especially important to organizations where larger individual investments in marketing are needed to produce a "win". Showing hard numbers that measure the cost of wider marketing campaign costs and the trends of those costs over time can show the quick and effective use of more targeted presentations that were not available prior to current CRM systems.
- *De-marketing poor customers*. While some organizations may not have the legal ability to not market to un-profitable customer segments, the ability to identify specific customers that are eroding profits has the ability to pinpoint where corrective action can be taken that has a direct positive impact on the bottom line performance.
- *Evaluating the CRM system.* The data documenting the effectiveness of the customer life cycle for customers – including order and supply process improvements, customer support, sales, sales and marketing expenses, and customer satisfaction — can document the value of the CRM system.
- *Bringing new marketing and sales personnel up to speed.* Staff transition is a fact of doing business, especially in today's dynamic environment. CRM systems metrics, as well as the valuable history of past and present interactions with customers, can significantly speed up a new employee's productivity learning curve.

Again, the point is that these CRM metrics are currently being used and used successfully. While not perfect, they provide a useful and relatively painless way to jumpstart a company in the use of CRM metrics.

SUMMARY

For some, the development and use of CRM metrics is a case of too little too late and can only confirm for you that the organization is already in trouble (Rogers, 2003). However, if an organization and its management are not willing to take the steps necessary to develop, implement, and manage CRM metrics that will reflect CRM effectiveness than in all likelihood the CRM implementation will not provide a positive, tangible return. CRM metrics, done well, provide actionable data, either positive or negative, and have the ability to (1) help demonstrate the value and profit attributable to a CRM implementation and (2) increase the dismally low success rate of CRM implementations.

Today, as we hope we illustrated, an opportunity exists for readily developing and using effective, customer-focused CRM metrics.

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APPENDIX A

CRM Building Blocks (Swift and Gragg, 2005)

Building Block	*Details*	*Objective*
Enterprise Integration	° Marketing ° Operations ° Finance	Total customer experience management
Enhanced Opportunity Identification	° Predictive analytics ° Pattern recognition ° Event-triggered communications	CRM optimization
E-marketing Optimization	° Clickstream analysis ° Profiling ° Personalization	Leverage the e-channel
Customer Relationship Management	° Segmentation ° Analysis ° Campaigns ° Personalization	Leverage all customer assets
Customer Profitability Measurement	° Present view of value ° Lifetime value	Customer activity cost information
Customer Knowledge Management	° History ° Interactions ° Psychographics	Customer profile and transaction information
Infrastructure	° Central, real-time customer information ° Enterprise data warehouse ° Flexibility and scalability	Build the customer data foundation