



## Creating a CRM Business Case

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### Executive Summary

Companies are changing the way they do business. In the 1970s, many businesses focused on Financial Management, in the 1980s on Process Redesign, and in the 1990s on Enterprise Resource Planning. Today's managers and strategists are turning to Customer Relationship Management (CRM). Great companies have always been built around strong customer relationships. CRM enables today's companies to maximize the value of their customer relationships through systematic use of technology and analysis of customer information.

CRM is an umbrella term referring to a wide range of marketing, sales, service, organization and technology initiatives. The common thread is the application of knowledge to customer interactions. Building a CRM program requires investment of time, money and resources, and often brings associated changes in processes and priorities. With a CRM Business Case, CRM proponents can enlist organizational support while ensuring stakeholders throughout the organization share a common CRM vision.

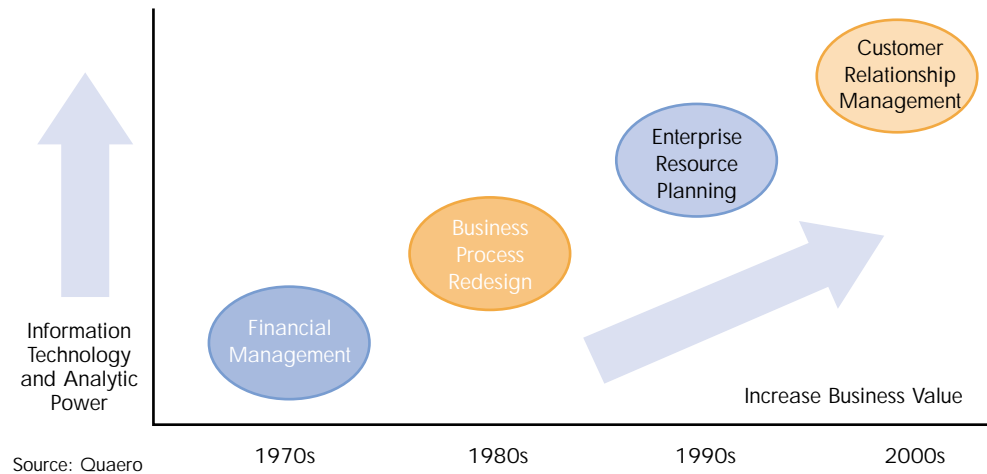
A compelling CRM Business Case is honest and thorough. It sets realistic expectations and provides a solid framework for discussion and problem solving. It takes into account a company's current situation and objectives. It fosters understanding of potential benefits, costs and risks. The benefits, costs and risks of inaction must also be weighed. The CRM Business Case does more than define the financial return on investment; it outlines a customer-centric vision and the road map for getting there.

### Buzzword Alert

**CRM:** Customer Relationship Management – often used to describe any business or marketing approach that claims to target customers, not transactions. Sometimes confused with customer service, account management, sales force automation, e-commerce, predictive modeling, data mining, data warehousing, database management, database marketing, direct marketing, and a wide variety of marketing activity. Used here to describe a systematic business approach using information and on-going dialogue to build long-lasting mutually beneficial customer relationships.

**Customer Centric:** Sometimes used to refer to any awareness that a business has of its customers. Used here to describe an approach to business that uses the customer (not the transaction) as the building block of data management, reporting, goal-setting and measurement as well as business and marketing strategy, organization and technical infrastructure, and corporate culture and values over time and across sales, marketing, IT, analysis, service, management and support business units.

**Figure 1:**



The elements required to create a compelling CRM Business Case are:

## Financial

- Sources of Incremental Revenue
- Reductions in Costs
- Higher Profitability
- Incremental Costs

## Strategic

- Real but Intangible Benefits
- Sustainable Competitive Advantage
- Opportunity Costs
- Execution Risks
- Barriers to Success

## Contents

**Creating a CRM Business Case** outlines the critical steps, underlying issues, necessary processes and key characteristics of a compelling business case for CRM, with examples.

### **Defining CRM . . . . . 4**

CRM is commonly used to describe a variety of customer programs and initiatives. This section presents a precise definition of CRM and its importance in business today.

### **Understanding the Company Context . . . . . 6**

Every organization occupies a unique position on the CRM Learning Curve. This section helps readers determine their company's level of CRM readiness.

### **Key Elements of the CRM Business Case . . . . . 9**

The financial and strategic elements of building a Business Case are explained here.

### **Barriers to CRM Success . . . . . 16**

This section identifies common risk factors when launching a new CRM program.

### **Results . . . . . 17**

The document concludes with a summary of key characteristics of a compelling CRM Business Case.

#### **Win/Win**

A frequent traveler accustomed to business class had a family emergency in London. He rushed to the airport to purchase a coach ticket overseas. The airline representative knew the customer's previous travel preferences. In addition, the representative knew that most mid-summer flights were crowded and usually encountered delays. Without request or any hassle with upgrade coupons etc., the representative understood the customer's value, specific preferences and immediate needs. She seated the traveler in business class at no added cost.

Note:

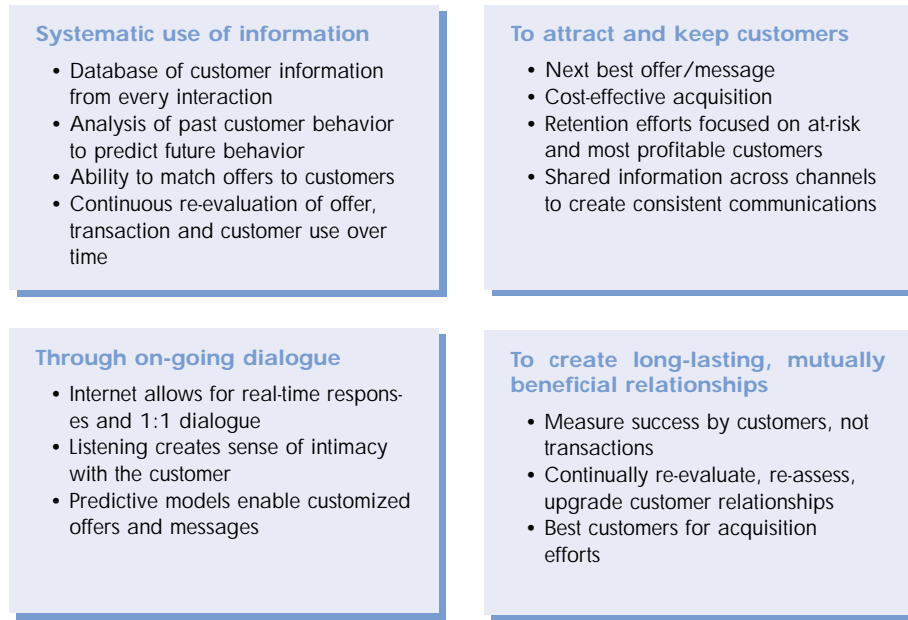
- 1) The airline representative had easy access to pertinent customer information
- 2) Using that information, she anticipated the customer's needs
- 3) She was empowered to issue upgrades on the spot

# I. Defining CRM

## Customer Relationship Management

Customer Relationship Management (CRM) is the systematic use of information to attract and keep customers through on-going dialogue in order to create long-lasting and mutually beneficial relationships (Figure 2).

**Figure 2:**



Source: Quaero

## Why CRM Is Important

Companies turn to CRM to maximize the number and value of customer relationships, an increasingly important goal in a changing business environment.

*Highly Competitive Marketplace.* The Internet, catalogs, stores, and other emerging channels make the marketplace more competitive than ever by decreasing the impact of distance and increasing choices.

*The New Empowered E-Customer.* Customers use the Internet and Call Centers to gather information, comparison shop, switch providers, and talk to satisfied and dissatisfied customers quickly and easily. They use e-mail to communicate directly with companies.

*Ever-Changing Technology.* New tools are available, enabling companies to provide services personalized to individual needs and thus gain a competitive advantage.

*It Makes Business Sense.* Companies that provide customers with what they want take share of wallet from those that do not.

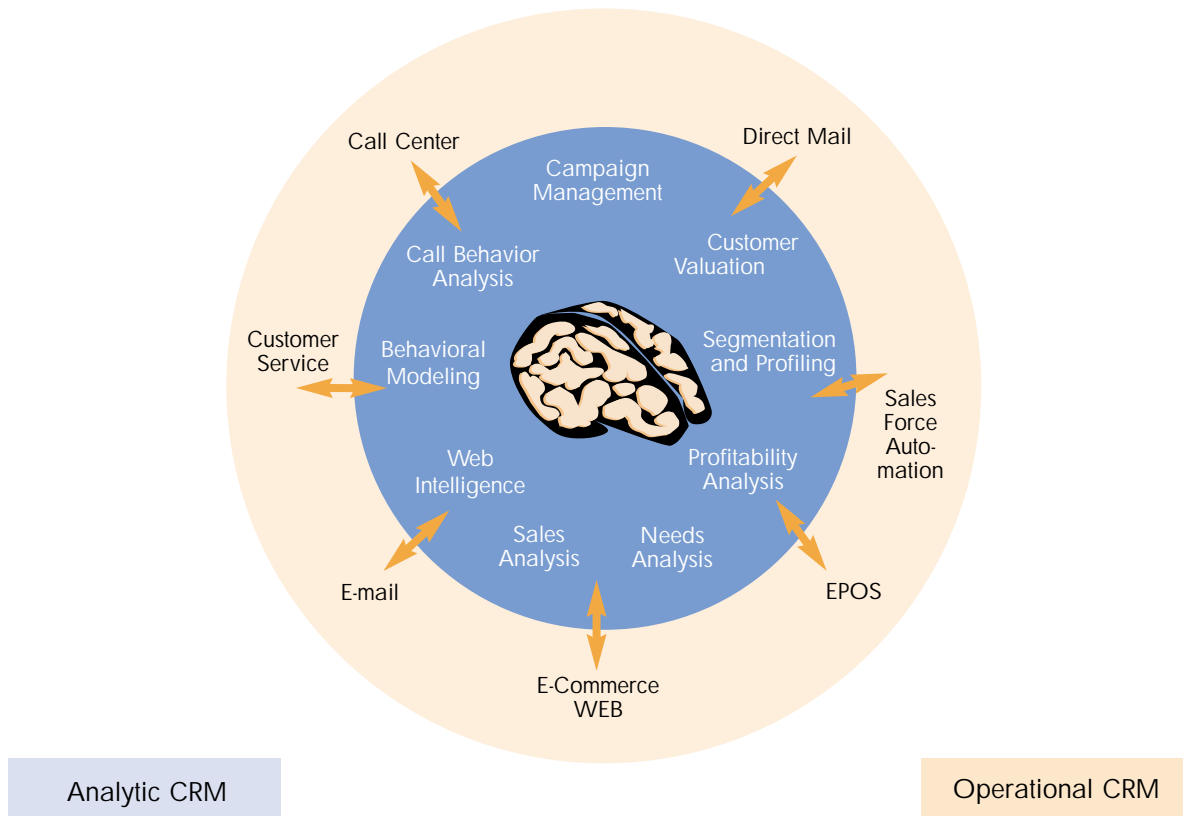
## CRM Space

CRM programs may emphasize Operations or Analytics:

*Operational CRM.* A company executes customer programs with a focus on increasing the efficiency of individual business units. This is primarily tactical.

*Analytic CRM.* A company executes customer programs with a focus on increasing effectiveness through behavior analysis, customer segmentation, and modeling for example. This is more strategic.

**Figure 3.**



Source: Quaero

Companies often focus on Operational CRM at first, driven by customer demands and marketplace challenges. Analytic CRM may follow, requiring new infrastructure and processes to obtain knowledge about customer needs and use that information to meet those needs. Long term, Analytic CRM produces more of the competitive edge companies seek in a CRM program because advances are harder to replicate (Figure 3). However, there is a blurring of these lines and we are seeing some convergence between analytical and operational CRM.

## Symphony

Companies need to have good quality information, the appropriate processes in place, and the ability to bring everything together in harmony in order to have intelligent dialogue and long lasting relationships with their customers.

## A Customer Conversation is Critical

Whether focused on Operations or Analytics, the foundation of any successful CRM program is listening to the customer. CRM allows a company to capture what the customer says or does on the web, in e-mail, through catalogues and at stores and call centers, then analyze that information and respond to the benefit of both customer and company (Figure 4).

**Figure 4.**

| Benefits to the Customer | Benefits to the Company   |
|--------------------------|---------------------------|
| Greater Efficiency       | Measurable Processes      |
| Relevant Offers          | Improved Customer Loyalty |
| Proactive Service        | Increased Profits         |

Source: Forrester Research, Inc.

## 2. Understanding the Company Context

Smart companies begin building their CRM programs with a CRM Business Case. The Business Case not only justifies investments of time, money and resources, it documents financial and strategic expectations, and sets the stage for needed processes and organizational changes. The measurements used in the Business Case become the measurements used to monitor and evaluate the CRM program; the language of the Business Case becomes the language of the CRM team; the vision stated in the Business Case and the road map to achieve that vision become the shared vision enterprise-wide.

A compelling CRM Business Case offers an honest and complete assessment of where a company is and where it needs to be on the CRM Learning Curve:

- Current Level of Development
- CRM Preparedness
- Big Bang versus Small Increments

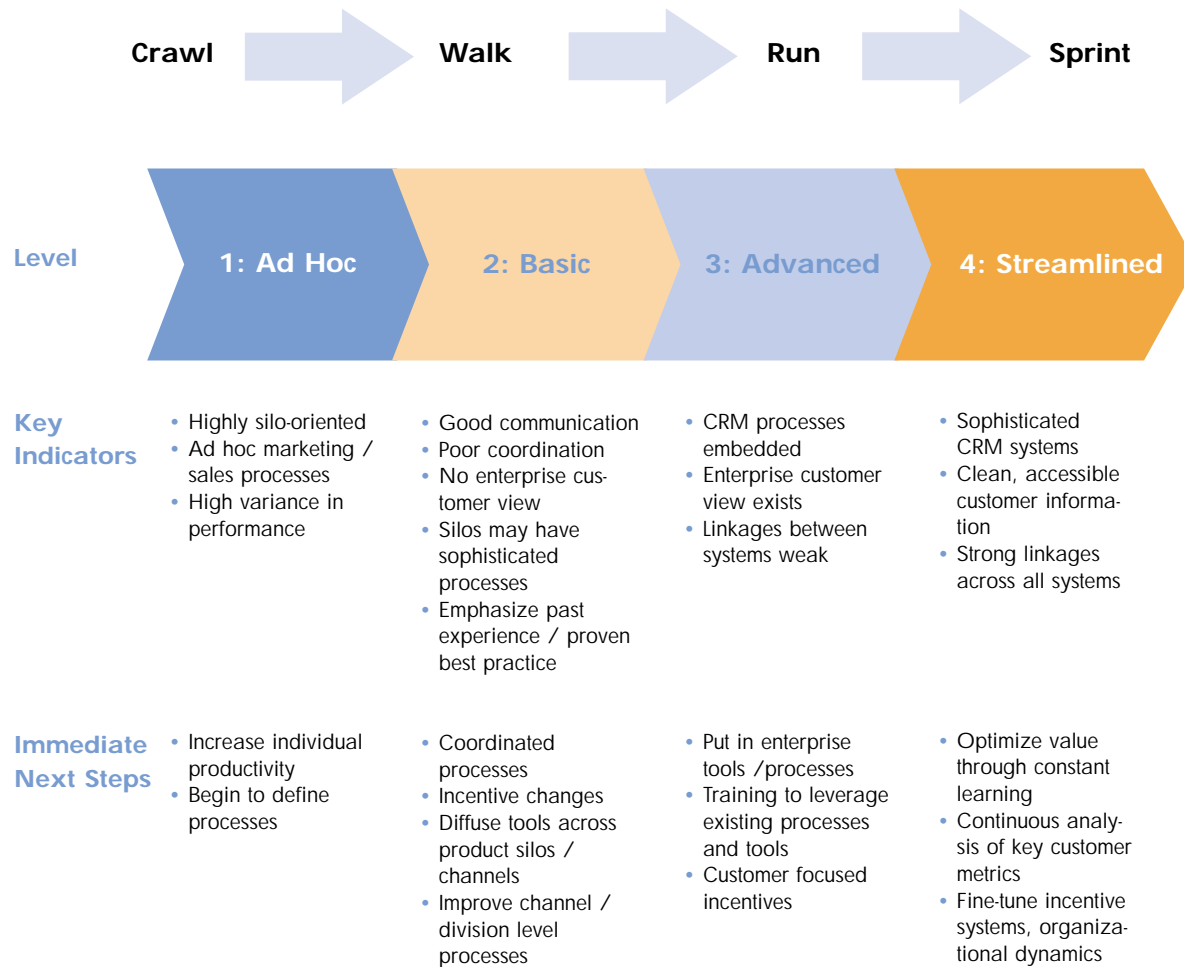
### Who would you rather be?

The Internet provides a great deal of consumer information, but customers do not always have time to sift through it all. Companies with the ability to help customers identify what they need and deliver it to them quickly and conveniently can set a premium price for their products and services. Who would you rather be: a customer-centric company like Amazon.com, selling goods at a premium, or Buy.com, who has to offer discounts?

## Current Level of Development

For CRM implementation, the ability to move quickly depends on how much progress has already been made toward establishing an enterprise-wide customer-centric organization. There are clearly recognizable key indicators of where a company stands on the CRM continuum and what the most appropriate next steps are at each stage (Figure 5).

Figure 5.

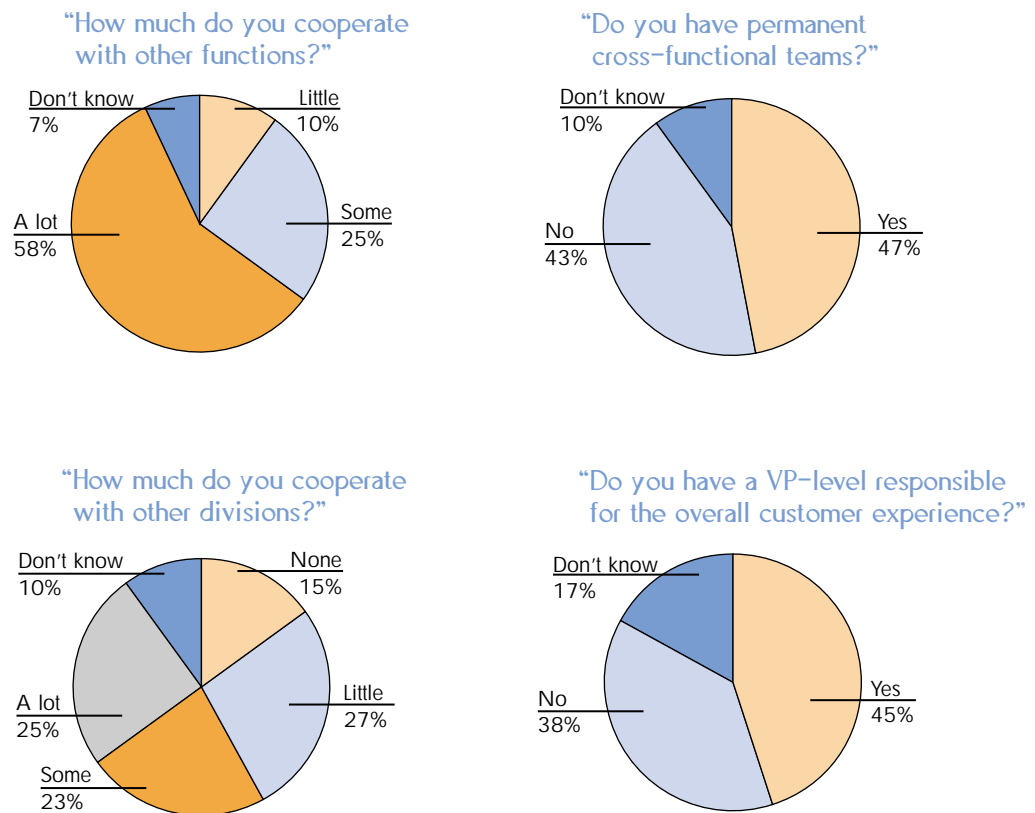


Source: Quaero

## CRM Preparedness

New CRM Managers often find their organizations less prepared for CRM than hoped. For example, speaking to customers in a single voice, critical to CRM, proves difficult where business units are not accustomed to coordinating their customer contacts with other units. The Business Case should lay out these considerations (Figure 6).

Figure 6.



Percent of 60 Global 2,500 companies interviewed  
Source: Forrester Research, Inc.

### Anybody Home?

Did you know that the majority of e-mails from customers go unanswered at most companies? Customer Support and Fulfillment are important components of the customer experience, especially when the customer initiates contact.



## Big Bang Versus Small Increments

The Business Case should also address speed of implementation. Many companies hurry to implement a total CRM program once the decision has been made to build it. Realistic schedules reflect a variety of internal factors (Figure 7).

**Figure 7.**

| CRM Pace Factors   | Big Bang  | Small Increments                            |
|--|---|---|
| Company Sponsorship Level  | High Level Executive Sponsorship                            | Divisional, channel leadership              |
| Level in the CRM continuum   | 3 or 4  | 1 or 2                                      |
| Information Intensity <ul style="list-style-type: none"><li>• Company is disciplined using information within division</li><li>• Quantity of information used</li><li>• Use of factual data, not just traditional approaches</li></ul> | High  | Low   |
| Organization Dynamics  | Fluid, with customer focused or enterprise level incentives | Silo-based, with product, volume incentives |
| IT Organization  | Sophisticated with client service orientation               | Stretched department leading the way        |

Source: Quaero

## 3. Key Elements of the CRM Business Case

### The CRM Business Case

The key elements of the CRM Business Case are:

- Financial and strategic goals and expectations
- Measurements used to monitor progress and evaluate the program
- Short-term and long-term benefits and risks (Figure 8)

The process of identifying, detailing, calculating and projecting these factors can be arduous, but the resulting Business Case will have tangible and lasting value. The Business Case makes concrete the results of the CRM Program:

- Projected revenues, profits, market share, or shareholder value
- Increases in capability and knowledge
- Enhancements to efficiency and effectiveness
- Reduced costs over time

It also serves as a reference and a planning tool going forward:

- Helps prioritize allocation of corporate resources
- Provides measurable accountability for CRM projects
- Sets standards for consistent comparison of projects across the enterprise
- Establishes a shared CRM vision
- Outlines the road map for achieving that vision

**Figure 8.**

|                  | Benefits  | Risks   |
|------------------|---|---|
| <b>Financial</b> | <ul style="list-style-type: none"> <li>• Sources of Incremental Revenue</li> <li>• Reductions in Costs</li> <li>• Higher Profitability</li> </ul> | <ul style="list-style-type: none"> <li>• Incremental Costs</li> </ul>   |
| <b>Strategic</b> | <ul style="list-style-type: none"> <li>• Real but Intangible Benefits</li> <li>• Sustainable Competitive Advantage</li> </ul>                     | <ul style="list-style-type: none"> <li>• Opportunity Costs</li> <li>• Execution Risks</li> <li>• Barriers to Success</li> </ul> |

Source: Quaero

## Financial Elements

Credible comprehensible financial information is essential to a compelling Business Case. Whether the audience is senior management, Wall Street analysts, or employees responsible for day-to-day CRM activity, the ability to understand the financial justification ensures acceptance and commitment.

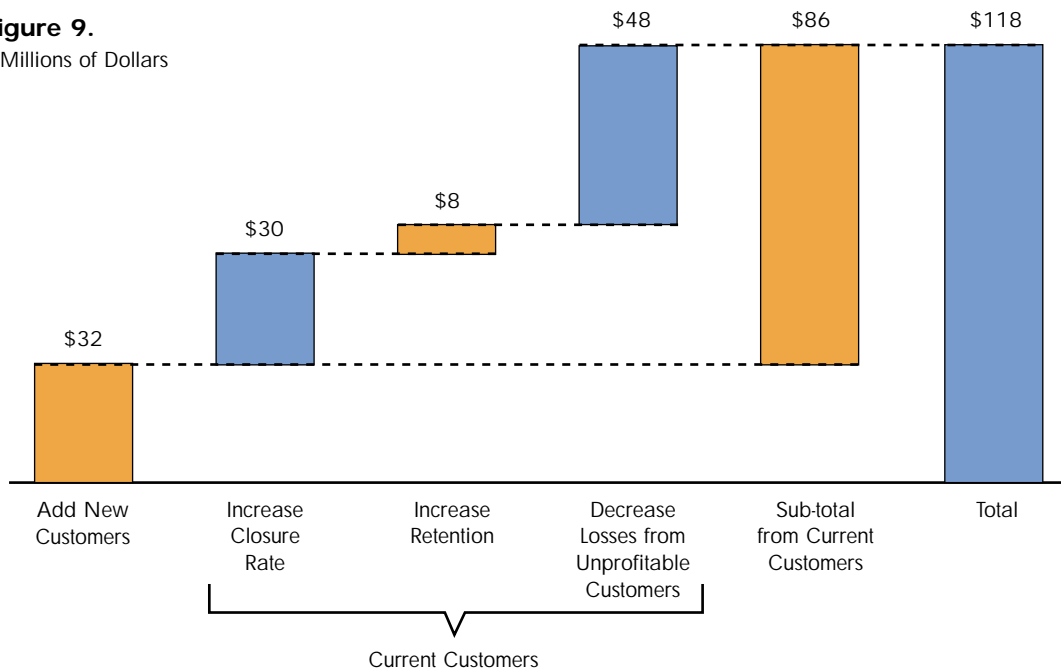
In most companies, the CRM Program dramatically improves reporting range and accuracy. Beginning with the Business Case, the audience gains an ever-growing understanding of and appreciation for the CRM program through its ability to measure results with ever-increasing reliability.

## Revenue

*Sources of Incremental Revenue.* CRM programs produce incremental revenue typically from better product mix, increased cross-selling, higher value-based pricing, customer retention, and less expensive customer acquisition (Figure 9). Depending on the circumstances there could be other revenue opportunities as well.

**Figure 9.**

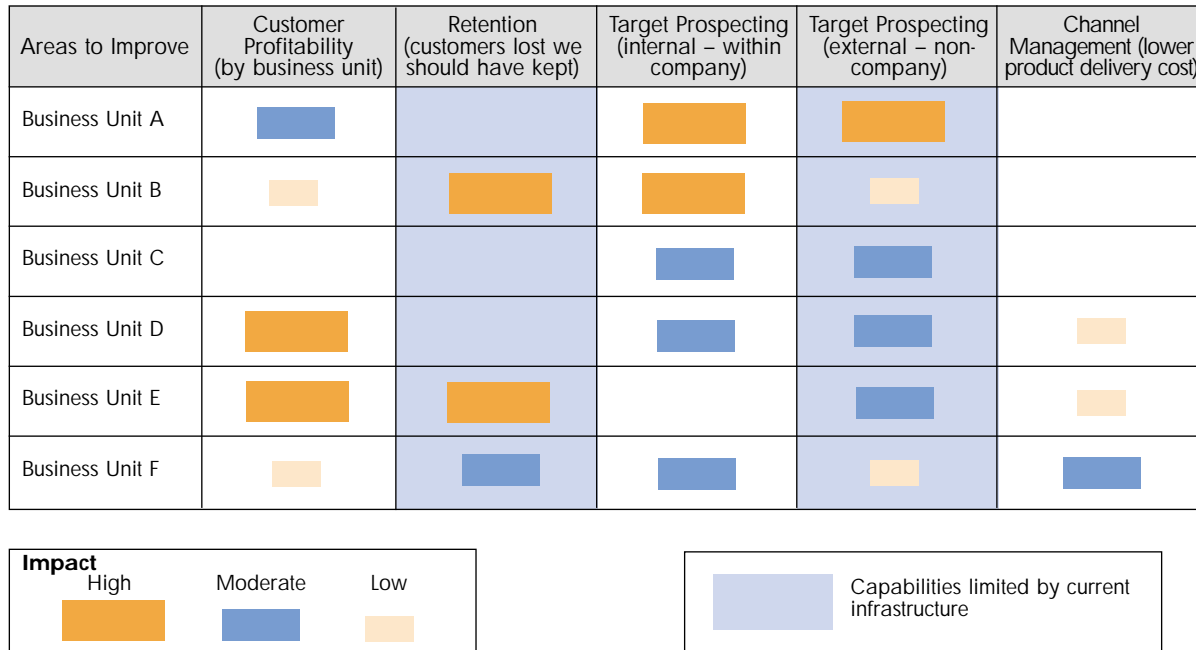
Millions of Dollars



Source: Quaero

CRM also produces incremental revenue through improved ability to prioritize business needs by time and value. Different divisions within a company may have divergent priorities. One division may identify prospect selection as top priority, but retention and channel management may be critical to another (Figure 10).

**Figure 10.**

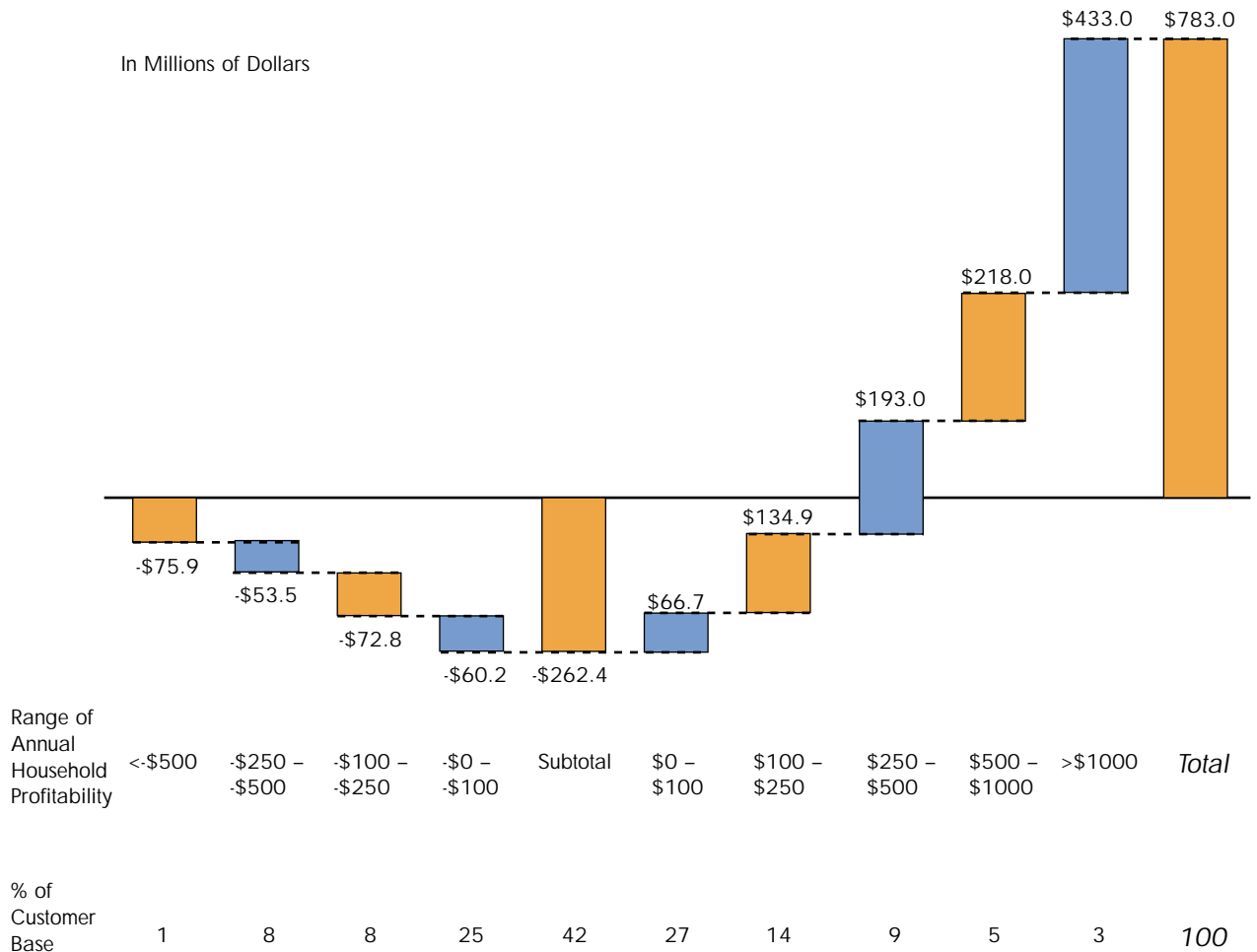


Source: Quaero

*Cost Reduction.* CRM reduces acquisition costs by improving response rates to sales initiatives, response time to customer requests, and establishing cost-efficient processes.

*Higher Profits.* CRM programs enable companies to segment their customers by profitability and develop strategies to improve target households' profitability (Figure 11).

**Figure 11.**



Source: Quaero

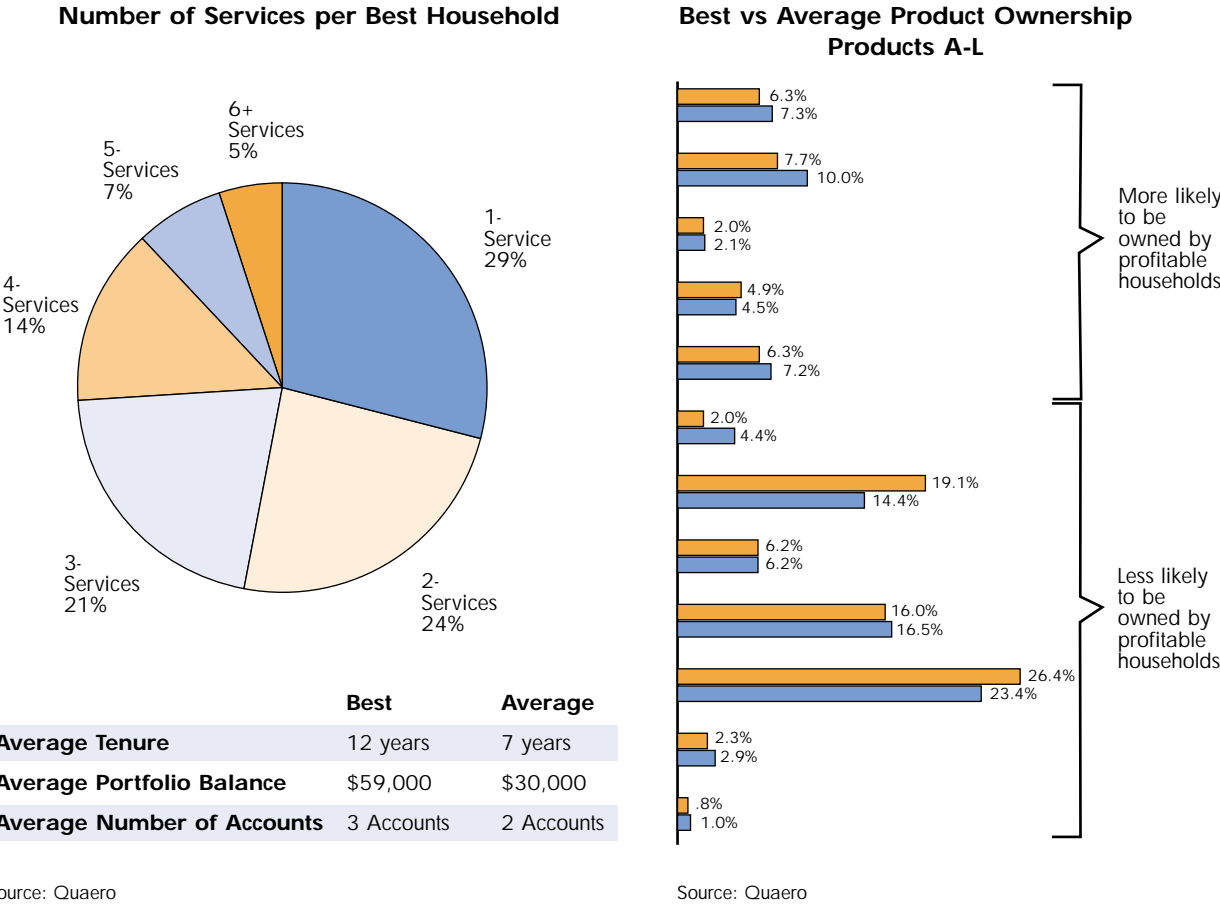
### CRM Success

IDC shows CRM projects yielding 8% in incremental revenues in year one with a target of 16% within 2 years for large projects (average investment \$3.1 million).

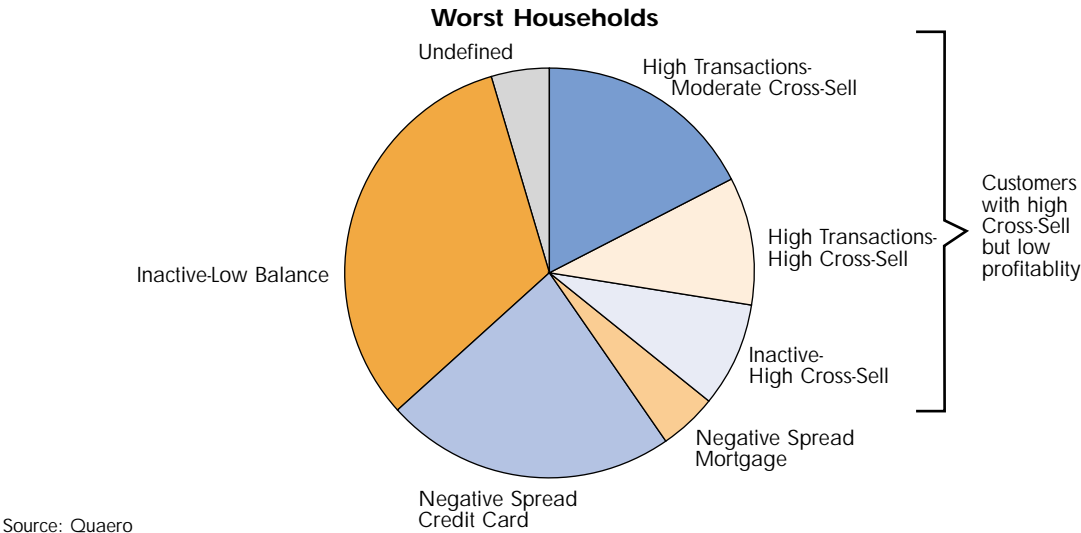
1998 Insight Technology Group Study saw revenue increases of up to 42%

*Actionable insights.* Actionable, verifiable information gleaned from customer data enables a company to test common industry beliefs. In some industries, for example, it is not true that the more products and services a customer owns the greater the value of the customer relationship. (Figure 12, 13). This would imply that the cost of cross-selling programs, which can be significant, are higher than can be financially justified.

**Figure 12.**

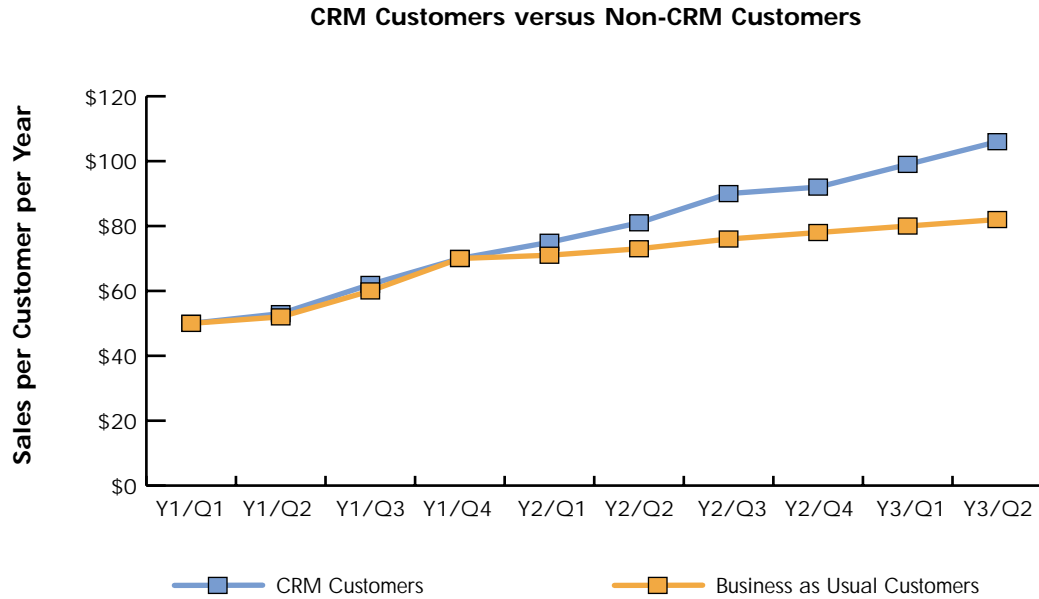


**Figure 13.**



*Control Group.* Comparing a group of customers included in CRM programs against a static group (Business as Usual) quantifies the incremental lift of CRM programs over time (Figure 14). This can be a very powerful way of isolating the impact of CRM programs and justifying sustained investment and effort over time.

**Figure 14.**



Source: Quaero

## Expense

*Costs.* CRM budgets should include implementation costs as well as the cost of new hardware and software. Training and testing require investment in time and resources as well as expense (Figure 15).

**Figure 15.**

| Expense               | Description   |
|-----------------------|---|
| <b>Organization</b>   | <ul style="list-style-type: none"> <li>Hiring, training, &amp; retention of skilled users</li> <li>Change Management: Rollout, orientation for enterprise</li> <li>Program costs</li> </ul> |
| <b>Infrastructure</b> | <ul style="list-style-type: none"> <li>Hardware &amp; Software</li> <li>Consulting, Development, Systems Integration (internal, external)</li> </ul>  |

Source: Quaero

## Strategic Elements

### Benefits

*Real but Intangible Benefits.* There are benefits of CRM initiatives that cannot be quantified:

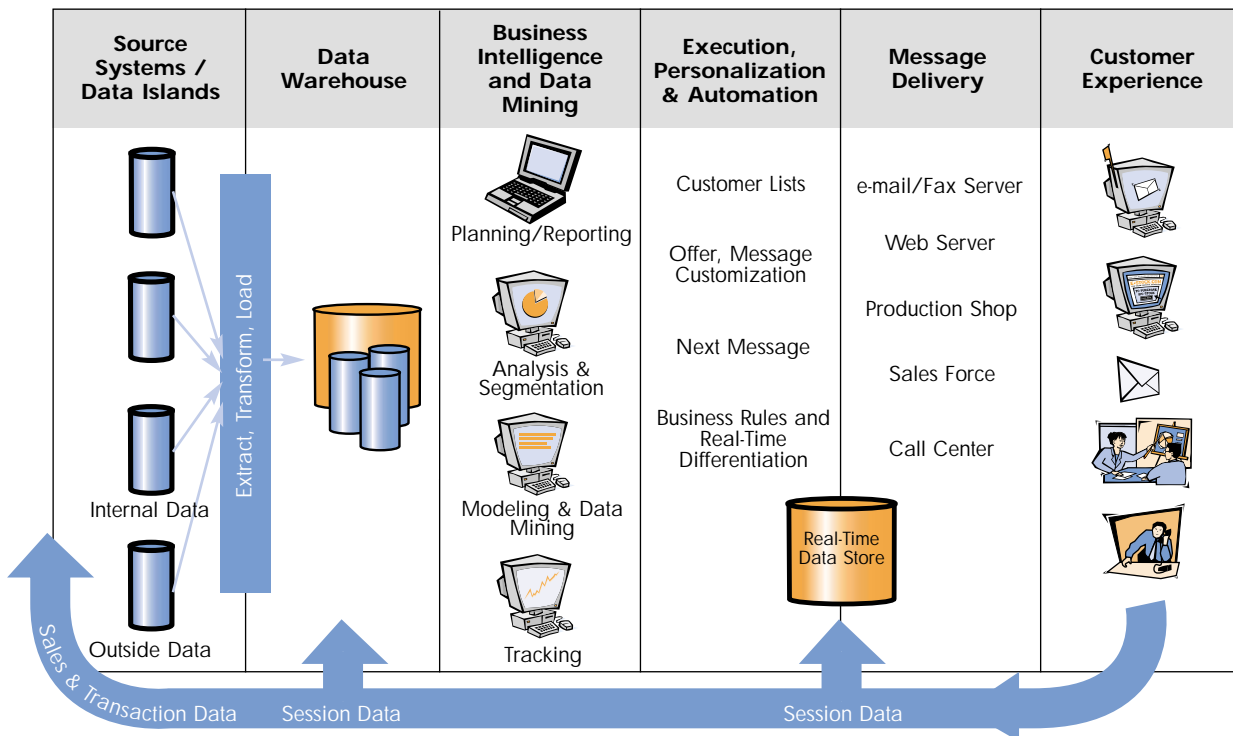
- Improved agility in responding to marketplace changes
- Increased customer satisfaction<sup>2</sup>
- Quicker, easier access to more reliable information

*Sustainable Competitive Advantage.* Companies with a solid CRM infrastructure have an advantage over those who do not:

- Benefits are enterprise-wide
- Information and knowledge are difficult to replicate
- A loyal franchise reaps long-term rewards

CRM Infrastructure may seem complex at first, but once in place guides an organization to become a knowledge-driven, customer-centric, agile and effective enterprise (Figure 16).

Figure 16.



<sup>2</sup> Insight Research saw an increase of 20%

## Risks

*Opportunity Costs.* There are opportunity costs when not executing CRM initiatives:

- Competition could lock up customer base
- Higher acquisition costs
- Self-selecting 'bad' customers can devastate economies

*Execution Risks.* Some risks companies can encounter when executing CRM initiatives:

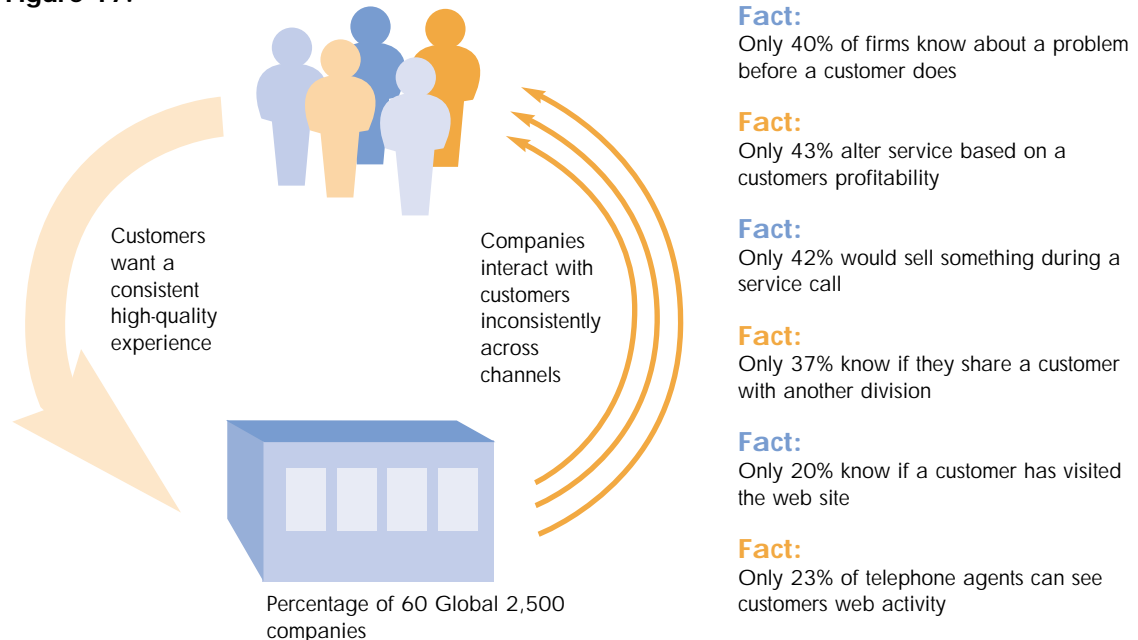
- Technology incompatibility
- Poor business requirements definition
- Poor training / rollout
- Weak sponsorship / lack of sustained support
- Lack of linkages to business and market strategies

## 4. Barriers to CRM Success

*Identifying Barriers to Success* strengthens the Business Case. By isolating matters of concern, examining them closely and assessing potential consequences, a company begins the process of finding solutions and monitoring progress towards those solutions.

Barriers to success often arise from internal organization. One of the most common difficulties managers encounter is dealing with multiple customer contact channels that do not coordinate efforts to produce a single consistent customer experience (Figure 17).

**Figure 17.**



Source: Forrester Research, Inc.

### CRM Launch

1998 Insight Technology Group research indicates that 21% of CRM projects met all expectations. For these projects, sales costs decreased by 35%, sell cycle length reduced by 25%, and margin improvements reached as high as 2%.



Fortunately, a number of software offerings are emerging to solve this problem although none of them have a proven track record yet. Other internal roadblocks companies face when implementing CRM include:

- Poor user/developer interface
- Organizational misalignment
- Dysfunctional incentives
- Lack of a clear customer champion

Such problems may be documented for the first time in the CRM Business Case, but CRM did not create them. Building a CRM program often uncovers issues that exist within a company and signals the need to resolve them.

## 5. Results

At its best, The CRM Business Case is the first demonstration enabling a company to track its business and customer performance quicker, smarter, and more effectively as it moves toward a CRM approach.

The CRM Business Case defines and monitors progress towards financial and strategic goals. Customer loyalty is not just a buzzword in the CRM Business Case; it represents tangible efforts with dramatic, measurable, short-term impact on the company's bottom line and long-term revenue increases that outpace competitors.

Over time, the Business Case will provide a benchmark to measure the on-going effectiveness of a company's CRM initiatives. It also serves as an effective tool to manage growth.

Finally, the CRM Business Case, with its updates and revisions and addenda over time, provides a platform to remind stakeholders across the enterprise that CRM is built on proven common sense principles of business:

- The customer is the core of any successful business
- What you know can help you
- You learn more by listening than by talking
- It helps to think about what you want to do before you do it

### Just Getting Started

META Group findings reveal 80% of organizations report success implementing CRM programs, even though the majority (70%) have not yet integrated across channels.

## About the Authors

**Dr. Naras Eechambadi**, a world renowned authority on CRM, is the founder and CEO of Quaero LLC, a leading CRM services provider.

Naras has two decades of experience helping senior executives leverage customer information to build enhanced relationships and increase profitability. He specializes in identifying new trends that will change business processes and transform companies across industries and then helps companies manage that transformation. He is frequently quoted and published in business and technology journals and is currently writing a book on Knowledge Driven Marketing.



Prior to founding Quaero, Naras was Senior Vice President at First Union Corp., the sixth largest financial services company in the U.S., where he created the firm's Knowledge Based Marketing Group. He also oversaw First Union's targeted direct marketing and cross-selling efforts across established and emerging channels, including the web, call centers, and branches.

Prior to First Union, Naras was a consultant with McKinsey & Company, the leading global management consultancy, where he was a leader in the marketing practice, a co-founder of the CRM practice, and an advisor to senior executives in many industries. He also served as Associate Director of Marketing Sciences for BBDO Worldwide, the primary advertising agency within Omnicom, one of the largest ad agency holding companies in the world.

Naras earned his Ph.D. in Marketing from the University of Texas at Austin and his Masters in Management Science from Northwestern. Naras has taught at the Burke Institute, the University of California at Berkeley, and the University of Connecticut.

Co-Author: **Melissa Ortiz**, Business Consultant

Melissa brings a strong background in e-commerce and extensive marketing experience in campaign management, data mining, and response analysis.

At Quaero, Melissa's diverse consulting engagements include the publishing, telecommunications, financial services, and e-commerce industries. She also was the Project Manager and contributor for Quaero's comprehensive CRM training for the Direct Marketing Association involving a holistic understanding of CRM topics such as customer strategy, developing a business case, the CRM data warehouse, data mining, campaign management, tracking, and organizational change.



Prior to Quaero, Melissa was employed at First Union National Bank in Knowledge Based Marketing's Enterprise Technology Analysis Group. In this role she performed response tracking for marketing campaigns in Deposits, Lending, and Investments. Melissa also worked in the E-Commerce Division as sole Lead Analyst for the SOLD system, affecting the type and quality of leads sent to over 2,000 branches and their employees. She has also worked at Harcourt Brace Executive Compensation Reports and First Virginia Bank, and has interned at The Martin Agency and Patrice Tanaka & Company.

A graduate of the College of William and Mary's School of Business, Melissa is the winner of the BBA Program Outstanding Student Award.

## About Quaero

Quaero helps companies maximize their customer profitability through its CRM services with development of CRM roadmaps, rapid data mart development, customer analytics and campaign management implementations. Quaero brings its strong CRM expertise coupled with its analytics and customer information technology focus to companies in financial services, retail, e-business, communications and health care to develop long and profitable customer relationships. Clients include AT&T, Sprint, Sallie Mae, TRACFONE Wireless, Inc., Mellon/Dreyfus, Forrester Research, JP Morgan Chase and The Limited. Quaero supports the needs of companies to translate their customer contacts into long-term profitable relationships through its three lines of business: Quaero msi - providing marketing consulting and systems integration; Quaero Answers - offering research and training; and Quaero csp - offering outsourced CRM services. Quaero has offices in New York City, Research Triangle Park, Charlotte, Atlanta and Denver. For more information, call 877-570-2199 or visit the Quaero website at [www.quaero.com](http://www.quaero.com).

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