



SalesOutlook, Inc.

CRM Economics

Managing Risk In CRM Investments

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Introduction

Audience

The material in this business paper is not technical in nature and is intended for executive audiences, although any reader with a high school education will find the material palatable. The material is presented in a manner so that executives and senior managers responsible for the success of the Customer Relationship Management (CRM) vision can better understand the impact of various risks related to CRM technology projects.

Purpose

The goal of this business brief is to help the reader make wise choices in throughout the CRM implementation lifecycle by recognizing several factors that influence the risks and eventual outcomes (returns) related to implementing CRM. By recognizing and understanding the risk and return components, and their inter-relationships, the reader is in a better position to minimize risks, reduce costs, shorten payback periods, and maximize overall returns.

Scope

Since the topic of CRM is a subject of mammoth proportion, the most reasonable course of action for the purpose of this white paper is to limit the discussion to the components of risk and their relationship to the overall return on the CRM investment. Because of this limited scope, the reader should peruse additional articles, white papers, publications, and books when making decisions affecting the specific issues and elements of his (or her) CRM project.

This white paper is intended to serve as general advice relating to systems architecture, business process and workflow automation, and user acceptance issues. It is not in the scope of this paper to compare specific CRM technologies or to make recommendations related to any specific CRM software product or vendor.

Measures of Risk And Return

Organizations typically choose to adopt a CRM-related philosophy for one reason. There is a common belief that the better an organization understands its customers and their needs, the greater opportunity it has to satisfy those needs and produce a profit while they do so. This notion is well conceived, but it can cause organizations to take on undue levels of risk in pursuit of becoming customer driven.

The essence of CRM is to understand your customers so that you can better identify and react to their needs, wants, and expectations. Gaining the agility to do this better than the competition is why organizations are willing to invest heavily into CRM and CRM technology. Here's why.

As the organization uncovers needs that are not being met, it identifies opportunities to generate revenue. This requires intimate knowledge of customers and the industries they serve. It also requires frequent interaction with customers if this strategy is to be successful. Today, most organizations look to CRM technology to help them turn the volumes of data into useful business information and to help them successfully manage the frequent interactions.



But how do you know if your project will be successful? How can you know before hand if the returns generated by the CRM initiative will justify the costs and pain of rolling it out?

To answer these questions, organizations look to the popular methods of investment justification and the popular investment analysis financial models. There are many techniques in use today, but the most common methods include:

- Return on Investment (ROI)
- Internal Rate of Return (IRR)
- Net Present Value (NPV)
- Payback Period (PP)
- Breakeven Analysis (BEA)

Understanding The Financial Models

The financial models identified above have two things in common. Each method:

1. Attempts to quantify the relationship between benefits, costs and risks as they relate to the passing of time
2. Produces results that are only as reliable as the initial assumptions used to drive the calculations of the complex formulas

The first commonality is a desired characteristic. The “right thing to do” is to examine the relationship between cost, risk, time, and the benefits produced. Unfortunately, the second characteristic in common is one that is not desirable. It brings to the surface that the accuracy of the model’s output is totally based on the validity of the assumptions used to drive the input values used in the calculations. Here’s why that is.

Predicting The Future Is Virtually Impossible

If, out of one million attempts to predict what will happen to you tomorrow at precisely 3:46:20 PM, you may get lucky once or twice but the other 999,998+ times you will not be remotely close to what actually transpires. Using the results of financial models when the output is based on input values produced through the S.W.A.G. method (scientific wild-ass guess, in case you are wondering) to “estimate” or “forecast” your costs and returns is fruitless. In fact, it can be detrimental to the organization in a number of ways.

In one way, the organization might commit itself to a CRM project that it should never pursue simply because the “projected” returns and benefits look too good to pass up. Conversely, the organization may pass on a CRM initiative that it should undertake simply because “the numbers don’t work.” The point is that when you are using guesstimates to drive a financial model, all you can get out of it is a guesstimate that may or may not reflect reality.

Another problem with using the traditional financial models for investment selection and justification relates to the fact that the majority of the models are based on streams of future cash flows occurring at different intervals of time. This presents the organization with the problem of having accurate “baseline” statistics to drive the formula assumptions. Beyond that, the baseline statistics are needed in order to compare them to the actual results achieved ***after implementation is complete.***



The simple fact is that most organizations do not have these baseline metrics at their disposal. The vast majority of organizations have never possessed (or never implemented) the operational processes and technology required to capture and analyze the metrics.

So, if an executive or senior manager is unable to rely on generally-accepted financial models to arrive at a “go/no-go” decision relating to CRM, then what can he/she rely on? How does the executive make the decision that is the right choice for the organization?

A Dose Of Common Sense Goes A Long Way

Determining whether or not a customer-focused business model and CRM technology is right for your organization is not as difficult as many would lead you to believe. It does not take statisticians and Chartered Financial Analysts to make the right choice. It just takes some good old-fashioned horse sense. Yes, a dose of common sense goes a long way.

Common sense tells you that if you implement business processes and instill the culture of sharing information and collaborating across departments, functions, staff, managers, and business partners, your organization’s *collective knowledge* relating to the needs your customers, prospects, and partners will increase, and so will the odds that your organization will uncover additional revenue opportunities as the result. That’s obvious.

Common sense tells you that if your employees, managers, and business partners have access to the right information to serve the needs of your customer when an interaction takes place the odds are improved that your customer will be satisfied with your service and will remain loyal to your organization. That also seems obvious, but creating customer loyalty is much harder than identifying needs, wants and expectations to uncover potential revenue opportunities.

It is common sense to assume that creating loyal, repeat customers, and referral business will help create additional revenue opportunities that will impact the organization’s top and bottom line in a positive way. That is what CRM is all about.

Suffice it to say that implementing CRM in an organization is just plain old common sense. That always holds true so long as common sense prevails through the CRM initiative’s entire lifecycle. And, when dealing with projects that have a history of high failure rates, common sense suggests that you focus on managing risk and limit your exposure at the same time just in case things don’t go as planned.

Components Of Risk In CRM (Critical Success Factors)

There are many components that combine to form the overall risk of a CRM initiative. There are risks that relate to the technology implemented, of course, but there are also other key risks that can be considered critical success factors.



Cultural risks relate to the ability of the organization to create an environment and organizational culture that fosters collaboration and information sharing. Failure to do so increases the risk that the CRM initiative will fail to achieve the desired results and targeted returns on the investment.

Another key risk that exists is that the organization's leadership will not become deeply involved in the CRM initiative, and from a strategic perspective, the project may end up off track and fail to accomplish its stated objectives. Perhaps, for instance, it does not impact customer satisfaction and loyalty in the desired manner or by the desired magnitude.

Other risks relate to individuals actually adopting and using a customer-focused business methodology. This involves adjusting individual behavior so that it becomes focused on the customer's needs, wants and expectations and then reacting appropriately for each unique situation.

It is important to consider each of these primary risk factors when contemplating a CRM initiative, as they will have the greatest impact on whether or not the initiative will actually achieve the organization's goals and produce the desired returns (bottom-line results).

Cultural Risk

Let's face it, knowledge is power, and information is knowledge. Also, people generally resist change. These two factors feed on one another to create a culture that increases the risk of the CRM initiative falling short of its goals.

In most organizations, there are many individuals who would prefer that the information they manage remains "their" information and remains under their own lock and key. It's like each piece of information is being held hostage by a little king in a little kingdom. In this environment, sharing and collaboration is not encouraged, it is avoided.

The point is that many individuals in your organization will resist the whole CRM concept, and they will be very resistant to giving others access to their treasured information. Unfortunately this greatly diminishes the value that can be gained from the information when it is not made available to the right individual at the right time to produce an immediate, desirable result.

The bottom line is that several factors that can be collectively described as Cultural Risk combine to increase the probability your CRM initiative will fail if not handled properly.

Leadership Risk

Just as a culture that allows barriers to collaboration and information sharing increases the risk of a CRM initiative failing, the risk of failure also rises when key executives and managers take a hands-off approach to the CRM initiative and its related projects.

At its heart, CRM is a set of related business strategies that use technology systems to aid in implementing, managing, and monitoring the customer-focused business strategies and their outcomes. Since CRM itself is an issue that is strategic in nature, it naturally requires the attention of those driving the vision, direction, and strategy of the organization. It requires strategic-level executive involvement in order to succeed.



Without the input and guidance of key executives and senior-level managers, the CRM-related processes and technologies rarely align with the strategic vision of the organization as they are designed and implemented. This is a very costly and tragic mistake that can and should be avoided.

By taking a “hands off” approach, an organization’s leadership substantially increases the risk that the CRM initiative will fail to meet its vision and stated strategic objectives.

Adoption Risk

The user acceptance issue is paramount. Although it can be considered a component of the Corporate Culture risk, it is most appropriately considered with respect to the acceptance of technology systems, software applications, and automated business processes. Adoption risk primarily centers on the issue of change: people do not modify their behavior easily.

An unused system or process, whether automated or not, generates no return whatsoever. Zero. Nada. Nothing. Therefore, the total investment shelled out for consultants, employee labor, manager and executive time, software licenses, training, travel expense, hardware, and etc. can become a huge write-off that will negatively affect the organization’s financial situation if the users never adopt and embrace the new way of doing things.

A failed CRM implementation affects the morale of your troops in a very harmful way that may cause even greater damage to the overall health and well being of the organization. In other words, a botched CRM initiative is often a major catastrophe that begins a chain reaction of events that can critically – and sometimes even fatally – wound a business entity.

If the user community does not embrace the new processes and technologies, then the whole initiative turns into an expensive disaster for the organization. Many organizations simply cannot afford for its CRM initiative to fail. Keep this in mind while considering that the renowned research firm Gartner Group insists that between 60 and 70 percent of them do indeed fail.

Hence, gaining user adoption is essential. It is perhaps the most significant component of risk affecting the overall success or failure of a CRM initiative.

Since the outcome of the whole initiative hinges primarily on whether or not the users adopt desired behavior patterns, it is critical that you give Adoption Risk the attention it deserves as a the number one critical success factor for CRM implementations.

Exposure Risk

The term exposure is frequently used in the banking and insurance circles. Basically, it represents the sum total of all capital (money) that would be lost in the event the investment, insured item, or loan is a “total loss.” The financial industry professionals refer to that number as the organization’s exposure.

The concept of exposure can be applied to modern CRM initiatives as well. The exposure of an organization implementing CRM can be determined by calculating the total of all costs incurred (or projected) to fully define, construct and implement the CRM vision.



In basic terms, this means that the bigger, the more expensive, and the more complex a CRM initiative becomes, the organization's costs rise and so does its financial exposure. Therefore, its risk increases and so does the level of return required to justify moving forward with the investment.

There are three important points to remember about exposure in CRM implementations. They are:

- The more expensive your software is, and the more complex it is to design and implement, the greater the cost of your initiative and therefore the greater your level of exposure.
- The more complex you make your CRM implementation, perhaps by trying to automate too much workflow, the greater your cost will be and the greater your exposure will become.
- Increasing exposure does not necessarily alter the potential return on the investment, but it does increase the risk and requires a higher return to be produced in the same time frame in order to justify the increased level of risk.

5 Steps To Minimize Risk And Maximize Return

Now that the elements of risk, as they relate to adopting a business methodology based on CRM, are better understood, let's take a look at some strategies to manage the individual risk components and minimize the risk for the overall CRM initiative.

Step #1: Minimize Your Exposure

The first and most critical step in minimizing financial risk is to keep your organization's exposure to the lowest level possible without jeopardizing the successful transition to CRM behaviors.

By keeping costs down, your breakeven point will be lower and your investment will begin generating positive returns in a shorter period of time. Obviously, this drives the internal rate of return, net present value, and return on investment to higher, more desirable levels. It also limits the downside potential should things go awry.

Some strategies to keep the cost down, thereby limiting exposure, include:

- Giving strong consideration and preference to the total implemented cost versus the set of features and capabilities your organization must have to operate and survive. Do not pay extras for bells and whistles. They drive the complexity and cost up. Pay for the basics, because these are the features that will benefit you the most.
- Locate, design, and build tools and systems that provide the basics, but can be extended and/or modified to meet changing requirements.
- Leverage existing technology and technical knowledge. Before you buy new software that requires beefier hardware, additional servers, or unreliable synchronization processes, look at your existing technology. Consider the technology tools and products your organization already owns and has in use. Look for solutions that leverage the organization's existing assets even further. This will keep costs down while generating additional returns on previous technology spending. It will most likely keep your



organization's IT costs down too since the staff already exists to service the existing technologies it owns and operates.

There are many other ways to keep costs to their minimum levels. However, be cautious of cutting back in areas that will affect the adoption rate of the solution by the organization's people. Even though catering to user requests drives costs up and increases exposure, it also has an offsetting effect that increases the probability of user adoption. Therefore, the proper balance must be attained for each unique situation and organizational culture.

Step #2: Maximize The Probability Of User Adoption

The issue of users adopting the solution and modifying behavior patterns successfully is just as important as is minimizing your exposure. Keeping exposure in check keeps the downside potential to acceptable levels, and promoting user adoption increases the probability that the eventual outcomes of the initiative will achieve the desired results.

Unfortunately, these two elements share a direct relationship that causes one to rise as the other rises. Therefore, as you increase the probability your people will adjust and adapt, you also increase costs, which result in higher levels of exposure.

Here are a few methods you might consider to promote user acceptance and adoption without significantly increasing your costs and exposure:

- Build information sharing and collaboration features into the tools and systems your users already know and use each day. That way very little change in behavior must take place to achieve regular use and (hopefully) user adoption.
- Leverage existing applications like Office, Outlook, and your email infrastructure to exchange information, share ideas, and interact easily. Besides reducing your training requirements and leveraging assets that are already owned and deployed, you are also enabling the users of these systems to become customer focused within an environment that is comfortable to them.
- **DO NOT** take the approach of buying some technology solution that is complex, cumbersome, confusing, or by necessity requires major changes in behavior. This is one of the surest ways you can increase the likelihood that your users will reject your solution. When that happens, the investment is a total loss. In that event, hopefully you did a good job managing your total exposure!
- Get help from professionals, especially if this is your first attempt at a major CRM initiative. CRM professionals have gained from the trials and errors of many CRM initiatives in various environments, cultures, and industries. Take advantage of this learning to avoid pitfalls and to incorporate the best ideas and successful practices into your initiative. However, be cautious. Screen consultants well and ensure they have the expertise that will benefit your particular situation. If not, you are just throwing your money away and are better off on your own.

Most importantly, promote user adoption by avoiding creating the situation where managers and staff feel as if "Big Brother" is watching over them. The best way to avoid this and encourage adoption is to keep it simple. Make it quick and easy to behave in the desired manner. This one thing will greatly encourage users to adopt and adapt the desired behaviors.



Step #3: Keep It Simple – Don't Over Complicate

Another important step in managing the overall risk of your CRM implementation is to keep it simple and stick to the very basics, at least initially. In time, your organization may find itself in a position where it needs to modify or extend the functionality of its systems and automate additional processes. However, doing so initially increases costs and increases your exposure. It also increases complexity and contributes to the risk that you will be unsuccessful in modifying behavior effectively enough at one time for the initiative to be successful.

Instead, design the CRM processes, metrics, and technologies so that they can be successfully deployed in phases. In the very initial phase, focus on the essentials only. Focus on the tools that enable users to share information and collaborate on basic Account, Contact, Opportunity, and Service information. If the solution you are considering also offers basic functionality in the area of marketing, then consider it a bonus.

Search for low-cost solutions that leverage existing hardware, software, and user technical knowledge. The software you select must be extensible and customizable to accommodate future requirements and expansion.

Believe it or not, such solutions do exist. My company, [SalesOutlook, Inc.](http://SalesOutlook.com), develops flexible, user-friendly CRM solutions built on [Microsoft Exchange](http://Microsoft.com), [Office](http://Office.com), and [Outlook](http://Outlook.com). These solutions are commercially available, and they are very reasonably priced.

Be sure to keep your measures of success simple, and focus on only those metrics that are essential to maintaining control. Focus on the key metrics that measure the effectiveness of your marketing, sales, and support processes. Include only the key measures of customer satisfaction and loyalty that are easy to capture, report and analyze. Most likely, your requirements will not be met “out of the box” by whatever solutions you consider, so give preference to solutions that enable you to easily incorporate your own custom reports. Just make sure that the software is able to capture the data you need to produce those reports.

Finally, resist the temptation to create elaborate business rules and processes in the hopes that you will be able to automate most of them. Automating workflow is a decision in which the benefit of automating a particular workflow should be weighed against the cost and effort to automate it. Also consider the frequency that the process is likely to change because this will require additional cost and effort to design, develop, and implement required modifications.

Another important point to consider is whether or not 100 percent of all contingencies or exceptions can be identified and properly handled with automation. This level of automation typically causes costs to skyrocket, significantly increasing exposure and risk.

By keeping everything as simple as possible and sticking to the basics, your organization will find that it will improve its ability to succeed while keeping its downside exposure to acceptable levels. By keeping it simple, you will also increase the probability of gaining the cooperation and support of your people.



Step #4: Leverage Existing Tools, Behavior, And Knowledge

Another way to gain the cooperation of those serving your customers and business partners is to empower them with the information they need within the applications they already use each and every day. By building CRM-related tools and processes around the technology systems your people already use, you gain multiple benefits:

- You require the user to alter his or her behavior less radically, which promotes user adoption and desired behavior patterns. This increases the probability the CRM investment will produce acceptable returns and outcomes.
- You leverage the user community's existing technical knowledge and leverage the organization's existing information technology staff. This means your users require less training and the organization is not forced to increase IT staffing levels with specialists. Both will help you keep costs down and minimize exposure.
- By using existing servers and software tools, your organization will not only minimize its cost and exposure, it will also reduce the amount of time and effort it will take to deploy the solution and start realizing a return on the investment. Shorter implementation cycles mean lower costs and less chance for things to go wrong. Leveraging existing infrastructure simplifies and speeds up the deployment process.

As an executive, you understand the power of leverage. You understand that further leveraging existing assets to generate additional returns is good business. As an executive, your responsibility is to manage the risks and position the organization in the best possible position to accomplish its objectives, including ensuring that the CRM endeavor produces a positive return and a desirable impact on the organization. Therefore, your leadership and involvement is critical to the success of the initiative.

Step #5: Leadership By Example Is A Must

One sure way to turn your people off regarding CRM is to approach it with an iron fist. There are enough rumors, fears, and misunderstandings about CRM to make anyone anxious. That is why your leadership, and your example, is critically important.

Many executives approach CRM from the business strategy point of view, as they should. But too many executives rely on subordinates to use the technology tools on their behalf. This sets a bad example, because CRM is for all knowledge workers. And, from the perspective of the ordinary user, why should they use the system if the boss doesn't? Also, by not using the system yourself, you have no idea how easy or difficult it is to get at the information you want, when you need it. Is the system friendly enough? Does it create additional, unnecessary work for the user? You will never know unless you become a user of the technology yourself.

Technology is only one variable in the formula of successful CRM leadership. To successfully lead a CRM implementation, you also have to make the tough decisions when it comes to the tradeoffs between risk, cost, ease of use, and level of automation. Different managers and staff members in different roles have varying perspectives and agendas. It becomes your job to achieve the right balance between all functions and roles. It becomes your job to manage risk and ensure that desired outcomes are obtained. This is not always easy. Here's an example of why it is often very hard to do.



Assume that you have a senior member of your technology management team who seems to be somewhat knowledgeable of the CRM space, and you trust him. Why not? You, or someone working for you, hired him right? What may not surface is that this individual could have a deep fascination with some big, complex, whiz-bang CRM technology that he has always wanted to get his hands on. Taking the lead role in your CRM initiative will present him with the opportunity to “push through” the application and technology that he’s always wanted to learn. It will increase his marketability and earning potential. So, what do you think he’s going to recommend? Think about it.

There is no substitute for your involvement and leadership throughout the entire CRM implementation lifecycle. You must lead your team in developing your organization’s CRM strategies, you must lead in developing customer-focused business processes, and you must lead everyone around you in modifying personal behaviors in order to make it all work. You also have to lead your team through the challenging exercise of balancing features vs. costs, manual processing vs. extensive automation, and exposure vs. simplicity and ease of use. You are the only one with the authority and power to set the tone and make it stick.

Without your involvement, the project is likely to become one of those 60 – 70 percent that fail to accomplish its objectives. Can you afford that? Put another way, can you really afford NOT to be deeply involved in such a critical, strategic-level transformation? Of course not!

So get involved and lead by your example. When you do, you will be surprised at how much you will succeed. But first, you have to be able to measure your level of success (or failure).

Benchmarking Your Success

Benchmarking means different things to different people. As it is used in this discussion, it relates to how you measure operating results. So, from this perspective the following paragraphs offer guidance on monitoring the results of the various business functions so that adjustments and enhancements can be made when and where they are needed.

Define What You Want To Measure

It sounds totally obvious to do, but many organizations pursue CRM without first defining what metrics should be gathered and who should have the responsibility for monitoring and taking action on them as appropriate.

Failure to define what should be measured and who is responsible for monitoring the metrics (and taking action when appropriate) leads to information being gathered but generating no action as the result. In other words, you are spending the money and resources to gather, store, and protect the information but it is not generating any return for the organization.

The solution is to define what “numbers” are important to what people at what moment and at what frequency. The key is to keep the focus on only the information that is necessary to maintain and grow the organization’s profitability. Period. Anything more becomes excess that adds undue risk and exposure thereby increasing the potential for failure as well as increasing the magnitude of the failure.



The key to achieving initial success with CRM benchmarking is to keep it simple and stick to the basics.

Keep It Simple And Stick To The Basics

Initially, stick to the basic numbers your organization must have to manage itself. Then, as time goes on, extend your measures to new areas and extend your technology systems to gather and report on the new metrics. The important thing is to do this when the time is right, and the time may not be right during the initial construction and deployment of your CRM capability.

For most organizations, the basic numbers required varies by department and function. Therefore, it makes the most sense to ask the managers and executives responsible for these functions to define which metrics they need to be successful in their role. The answers you get will vary widely, but many measures of success are shared in common across organizations and industries.

Common Benchmarks (Measures Of Success)

Marketing Effectiveness

An organization's marketing function is a critical component of its revenue generation machine. Just as an engine does not run unless a component called the starter does its job, neither can an organization's sales function produce a steady stream of new revenue without a marketing function that produces a steady stream of solid suspects. These suspects must exhibit an interest in a product or service or have a need the organization can fill to be considered a solid suspect.

Note that the marketing function has one purpose: to produce bona fide suspects ready to be qualified and pursued in the sales process. Marketing's job is to fill up the sales pipeline.

Many organizations try to analyze the results of their marketing to the point that the potential revenue, or even actual revenue produced, can be tied back to the specific marketing activity that generated the interest. The problem with this is that the organization's failure to produce revenue may not be caused by ineffective marketing, but instead it may be due to poor sales processes and the lack of prompt follow up during the sales cycle. The result is that the real problem and breakdown can be obscured by the metrics being monitored.

Since the role of the marketing function is to generate interest, awareness, and brand recognition in the market, it follows that the central measure of success for the marketing organization should focus on how many inquiries and responses are generated over time for each type of marketing activity.

Therefore, common measures of marketing effectiveness might include:

1. Number of inquiries or responses (suspects) generated per marketing activity or marketing event as a function of time
2. Ratio of respondents (suspects) that become qualified prospects
3. Number of responses produced by marketing activity type or event type
4. Short term, intermediate term, and long-term trend analysis of responses based on Campaign, Event, or Activity



5. Revenue and expenses relating to a Campaign, Event, or Activity so that an understanding of how marketing's actions impacted the bottom-line (P&L Analysis).

Previously, I stated that it is generally not a good idea to try and gauge marketing effectiveness by the impact it produces on the bottom line, but it also appears in the list of common metrics defined above. This is to recognize that many organizations desire to understand this relationship, even if it confuses the central issue of whether or not the marketing function is producing an adequate stream of quality suspects for the sales organization to follow up. Just like kids in candy stores, we don't always want what is good for us. However, we always seem to desire what is not good for us.

So, keep it simple in your initial deployment. Stick to the first two or three items in the list of success metrics defined above. Doing so will keep your costs down, and those few metrics will still provide you with a clear picture of how effective your marketing efforts are at filling the sales pipeline with quality suspects.

By sticking to the basics, you will maximize the benefit while minimizing your exposure, thereby minimizing the effects of risk.

Sales Effectiveness

Like marketing, the effectiveness of your sales efforts is critical to the survival and growth of your organization. While the goal of the marketing function is to fill up the sales pipeline with suspects having a need and/or an interest, it is the mission of the sales organization to qualify the suspects' ability and intention to buy.

Once the sales professional is convinced that he or she is working with a qualified prospect, the relationship manager then begins to explore and discover the full extent and specific details of all opportunities to produce revenue. The more efficient and effective this process is the more customers it will produce, and the organization's top line revenues will grow as the result.

Therefore, the common measures of success that many sales managers use to keep the sales engine cranking are focused on the efficiency of the sales processes and the sales cycle times for different products and types of buyers. The typical sales manager will keep tabs on metrics that gauge the health, vitality, and activity in the sales funnel. For many, these metrics include:

1. Ratio of the number of opportunities won vs. the number that are lost
2. Ratio of the revenue produced vs. the potential revenue that never materialized
3. Number of active revenue opportunities in the sales pipeline
4. Total value of the active revenue opportunities in the pipeline
5. Call logs and sales representative activity reports
6. Revenue forecasts for different periods of time based on what is in the pipe
7. Average opportunity value per sales representative
8. and too many other measures to enumerate them all here

Again, the key to success is to keep to the basics and keep it simple. Gain the buy-in of your sales managers and sales people. To accomplish this, make sure that the collection mechanisms do not create additional work or require additional effort from the sales staff. In addition, make certain that the numbers reported are reliable and are in an acceptable format for quick and easy analysis.



Also, keep in mind that the information provided by and used by sales reps and their managers will need to be accessible to them at any time from any location. Providing this accessibility typically requires support for “offline” use when the user does not have the ability to connect with the Internet, so pay special attention to the ease of use and reliability of your CRM solution’s synchronization features.

By incorporating a simple metrics collection / reporting system into your CRM solution, you will find that your sales professionals and sales managers will have access to the information they need, when they need it, wherever they need it.

This kind of simplicity and access to information encourages user adoption and lowers the risk that the sales organization will fail to fully leverage the benefits of CRM technology. It also helps to keep the organization’s exposure as low as possible.

Service, Satisfaction And Loyalty

Accurately measuring the satisfaction and loyalty of your customers can be a difficult task. One reason for this is that people frequently respond to survey questions in one way but then act in a totally different, unpredicted manner. It is human nature to tell someone what you think they want to hear, and customers frequently respond the same way to satisfaction surveys.

One interesting way around this is to implement a loyalty program like many grocery stores and wholesale clubs have pioneered. These systems issue unique identifiers to customers so that the organization can gain a deep understanding of each customer’s behavior and buying habits. While this approach works well for organizations generating revenue in a B2C environment based on consumer products, it is more difficult to implement in the B2B world or in situations where the focus is on professional services.

By sticking with the basics and keeping it simple, most organizations are able to measure the level of service, satisfaction, and loyalty of customers and business partners by examining the frequency, volume, and value of repeat and referral business. Some of these measures of success might include:

1. The average total value of sales in a customer’s lifetime
2. The number and frequency of repeat purchases
3. The number of incidents / requests as a function of product, service and time
4. The number of referrals and the value of the referral business
5. The average amount of time it takes to initially respond to customer requests or inquiries
6. The average amount of time it takes to resolve issues or fulfill requests
7. The average length of time a customer is considered to be “active”

Again, the point is to stick to the basics and keep it simple to minimize your exposure and risk while simultaneously improving the odds that the user community will embrace the customer focused behaviors and CRM technology. Minimizing your exposure and improving the probability of user adoption greatly increases the odds that your CRM initiative will yield an adequate return on the overall investment.

Therefore, do not rely on surveys that can produce unreliable results. Instead, drive your CRM metrics for service levels, satisfaction, and loyalty by analyzing the number and frequency of



requests for assistance, the frequency and value of repeat and referral business, and the amount of time it takes the organization to respond to the requests of its customers and partners.

Monitoring these few key metrics will simplify your CRM initiative and will increase the probability that your CRM endeavors will produce a positive return on your CRM investment.

Conclusions

While it is customary to review the key points of the material presented in the main discussion, it makes more sense to sum up the material presented in the preceding pages by driving home one final point.

If you are an executive or senior manager for an organization that is contemplating a CRM initiative, you must first come to grips with the fact that 2 out of every 3 times an organization attempts what you are about to try, it fails to accomplish its goals. While there are many reasons for failure, the fact remains that you have more than a 60 percent probability of failing too. Considering that level of risk, why bother to attempt implementing CRM at all?

The benefit of a successful CRM strategy, coupled with successful CRM execution, leads to growth in the top and bottom lines. Success with CRM strengthens the organization from both a competitive and a strategic perspective. There are sufficient returns to justify moving forward so long as costs are contained and exposure is limited. But real success hinges on your ability to minimize the downside without restricting the upside potential. Being successful with CRM is about managing risk and limiting your exposure in case things go wrong. So how do you do that?

Start by putting your CRM initiative on a diet. Stick to the basics and keep it simple. Resist the temptation to over automate and to collect information that is not absolutely required. It will rarely be used anyway. This approach keeps the cost and complexity to minimum levels. Additionally, by trimming your requirements, your organization may find that its real needs enable it to purchase and implement CRM technology that is more affordable and less complex to implement and maintain, which reduces exposure and risk even further.

Try to leverage your organization's existing hardware and network infrastructure wherever possible. Try to leverage corporate standard software tools like Microsoft Office, and email. Do your very best to create the environment, culture, and technical systems that facilitate information sharing and foster collaboration and interaction. Create an environment, culture, and technology tools that the user community can take advantage of. Give your people the benefits they offer without requiring major changes to individual behaviors or workloads.

This increases the likelihood that your user community will embrace the "new way" of doing things, and that increases the probability that your CRM initiative will be successful and produce the desired outcomes.

Most of all make the CRM tools simple and user friendly. Be sure to make them powerful enough to deliver the information that is needed, to the person needing it at the time they need it, wherever they happen to be at the time. Keep in mind that the return on any CRM initiative



where the organization's people fail to adopt and incorporate the CRM-related behaviors into their own behavior patterns is zero. User adoption is essential to success.

Keeping it simple means that your organization resists the temptation to automate everything possible but instead opts to automate only those processes that are required to maintain control and produce required metrics. Keeping it simple also means that your organization's executives and managers carefully consider the measures of success that are essential to the successful operation of the organization. Over automating business processes and collecting excessive amounts of data are counter productive and waste valuable resources. Both increase cost, complexity, exposure, and risk. All increase the probability of failure.

With regard to a CRM initiative, it is imperative to minimize costs and keep the organization's exposure to a minimum while doing everything possible to ensure that the people in your organization will eagerly adopt and implement the behavior patterns necessary to make CRM successful. The easiest way to do this is to use common sense and leverage your existing assets, technology, and user behavior patterns.

The easiest way to succeed with CRM is to create CRM capabilities within the tools and applications your users already understand and use each day. Applications like email, word processors and spreadsheets are the tools that typical professional use each day, so build your CRM program around them.

By doing these things, your organization will minimize its exposure while maximizing its upside potential. By effectively managing risk, your organization will increase the probability it will be able to successfully implement CRM at a lower cost, in a shorter time, in a way that produces the desired results.

About The Author

Craig Woirhaye is the Director of Business Development for SalesOutlook, Inc. His articles and white papers have been published on a variety of web sites, including Inc.com and Microsoft bCentral.

Armed with more than 20 years of experience in technology and business operations, Mr. Woirhaye offers executives and business managers insightful, on-target advice and solutions to strategic business issues involving technology, with a specific focus on CRM and enterprise technology systems.

Mr. Woirhaye first became involved in the technology that has evolved into what we call CRM back in the late 1980's with the first dos-based version of ACT!. Since that time, Craig has designed, constructed, and deployed solutions based on ACT!, MarketForce, SalesLogix, Pivotal, and SalesOutlook. Mr. Woirhaye's accomplishments also include leading several successful engagements focused on business process alignment and engineering.

In his career, Mr. Woirhaye has held executive, management, and technical positions with notable technology and management consulting firms, including Global Technology Partners and ONE, Inc. This business experience is supplemented by a BSBA in Economics and Finance



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