

A CRM Blueprint:  
Maximizing ROI from your  
Customer-Based Strategy

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Peppers & Rogers Group



# A CRM Blueprint: Maximizing ROI from your Customer-Based Strategy

## overview

**Return on Investment (ROI).** It's the foundation upon which every business is built. Whether bulls or bears dominate the market, increasing numbers of large and mid-sized companies are turning to customer-based business strategies as their ROI cornerstone. In fact, International Data Corporation predicts revenue from the worldwide CRM industry will increase at a compound annual growth rate of 25 percent, from \$61 billion in 2001 to a whopping \$148 billion in 2005.

**Large enterprises have led the way** in developing and implementing customer-based strategies, to varying degrees of success. Armed with the knowledge of these experiences, mid-sized firms are turning to customer-based strategies as a blueprint for reaching their ROI goals. This report examines that trend and provides real-world examples of how mid-market firms are getting it done.

**"A CRM Blueprint: Maximizing ROI from Your Customer-Based Strategy"** analyzes the Customer Relationship Management (CRM) marketplace and provides in-depth perspectives designed to help you build your company's customer-based strategy. The report begins by defining CRM for large and mid-market companies. Section two, "Tracking the Trends," surveys the current and future state of customer-based business initiatives, highlighting key metrics that help drive the marketplace. "The Basic CRM Blueprint" provides the context for understanding IDIC (Identify, Differentiate, Interact, Customize), the Peppers and Rogers Group methodology for implementing a customer-based initiative. The report concludes with the "Idea Well," a list of twelve key steps that can help your company become more customer focused.

## Customer Relationships Crucial to Boosting the Bottom Line

Companies of all sizes face the challenges of growing and retaining customers in a hyper-competitive market and of rationalizing their distribution channels. That pressure has fueled the drive to aggregate distribution and to differentiate customers according to their value to the organization. At the same time, icons of superior and personalized customer service are increasingly creating demand for higher service standards across industries. The service models of Amazon.com, Nordstrom and Charles Schwab have raised expectations for all organizations.

These forces mean that companies must incrementally improve their competitive position or definitively create their firm's unique market space. Either option requires a customer-based strategy designed to meet the expressed needs and preferences of your customers. The payoff can be increased loyalty, greater share of wallet, a broader array of services, greater channel efficacy, and a lock on your Most Valuable Customers (MVCs). In short, it's all about improving ROI.

## More Than a Buzzword

It is important for firms to sort through some of the noise and recall that CRM is a business strategy, not just a technology. At the heart of the strategy are some rather simple tenets. One is that learning more about a customer's needs and behaviors enables a firm to develop stronger, more profitable relationships with that customer. The second premise is that stronger relationships will increase sales and promote better retention of key customers. These are the goals of every enterprise, regardless of size or industry.

But is the cost associated with implementing a customer-focused strategy and reorienting operations too much for a business to take on? And are six or even seven-figure budgets, multi-year implementations, and swelling Information Technology (IT) staffs

inevitable? Not according to the increasing number of firms that are already realizing better customer retention, increased competitive standing, higher profits and improved prospects for sustained growth by becoming more customer-focused.

## Mid-Sized Firms Better Positioned for CRM

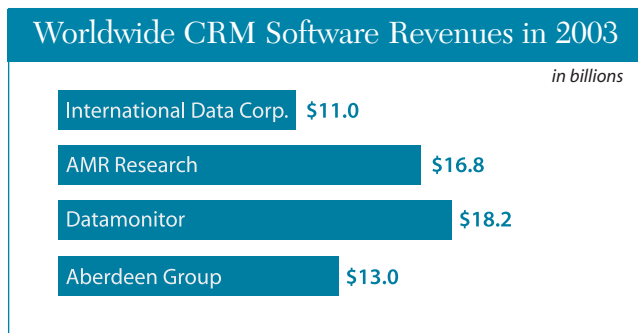
Large enterprises have long been the leaders in CRM strategy and implementation. Yet increasing numbers of mid-sized companies are entering the CRM fray; and in some ways are better positioned for success. Given their size, large enterprises face widespread technology infrastructures and their accompanying internal stakeholders. Dispersed operations and wide product offerings may present significant integration issues as well as practical challenges such as how to efficiently train employees to use the new technology. Simply put, gaining an enterprise view of the customer is easier the smaller the size of the enterprise.

Mid-market companies may also face fewer challenges in reorienting business processes and winning employee support. Even mandating change, if necessary, may be easier in a smaller, more centralized organization. CRM project ownership is also more clearly defined in a mid-sized organization. C-level management is often directly involved not only in the decision to pursue a customer-based strategy, but also in software selection and day-to-day project management. Experience has shown that senior management commitment, visibility and ongoing involvement is key to CRM success.

But perhaps the greatest advantage today's mid-sized firms have is the benefit of learning from the experiences of those who have gone first down the CRM highway. The Fortune 2000 cannot only learn a lot from the experiences of the Fortune 500, but in more and more cases, they can show the big guns a thing or two about realizing a rapid, quantifiable return on investment.

### Tracking the Trends

Cahners In-Stat Group, a Scottsdale, Ariz.-based market research firm, estimates that large firms continue to drive as much as 78 percent of the market in operational CRM revenue, with spending estimated at \$1.9 billion in 2001. The firm forecasts worldwide revenue from CRM software applications alone at \$9.4 billion in 2001, with growth to \$30.6 billion by 2005. In-Stat's total CRM market estimates include software, analytical services and interactive solutions.



Source: eMarketer, "The CRM Report," 2001.

Gartner puts an even higher price tag on the worldwide CRM market. A January 2001 report by the Stamford, Conn.-headquartered technology research and consulting firm projects the 2001 CRM market at \$25 billion. By 2005, its estimates for growth balloon to \$65 billion. The firm puts the total services market (consulting, development, integration and process management) at six to eight times the application market.

The recent market slowdown has not deterred companies from investing in CRM initiatives. A report by Jupiter Media Metrix, a New York-based research firm, indicates that 74 percent of businesses that it surveyed said their spending on CRM solutions in 2001 would increase. Most estimated that they would spend 25 percent to 50 percent more in 2001, despite a slowing economy. Jupiter speculates that this is because more and more firms are realizing that customer retention costs less than acquisition, especially in leaner times.

Over the past several years, much of the CRM tech-

nology and related services market has concentrated at the high end of the market. Large financial services, telecommunications and technology concerns in particular have been the low hanging fruit around which many CRM technology providers have flocked. Such concentration is not surprising. A 2000 survey of 1,670 executives published by the Seattle, Wash.-based Data Warehouse Institute (TDWI) shows that 13 percent of companies surveyed spent over \$10 million on CRM solutions. On closer examination, however, 40 percent of companies spent less than \$500,000. And more and more firms are spending under \$100,000 to realize measurable benefits.

Less than \$100,000	16%
\$100,000 to \$500,000	24%
\$500,000 to \$1 million	17%
\$1 million to \$2.5 million	14%
2.5 million to \$10 million	16%
\$10+ million	13%

Source: "Harnessing Customer Information for Strategic Advantage," published by The Data Warehousing Institute, 2001.

### Rapid CRM Growth for Mid-Market Firms

Leading industry analysts anticipate that the mid-market is where much of the growth will come in the CRM market space. Cahners In-Stat predicts significant growth in the mid-market, beginning in 2002. The firm expects spending by mid-sized firms to be as high as \$490 million by the end of 2001.

A recent study by Forrester Research in Cambridge, Mass. found that 45 percent of the companies it surveyed were considering CRM projects and another 37 percent had initiatives already in progress. And a 2001 survey of 1,231 middle market executives commissioned by Microsoft Business Solutions found 40 percent of firms already making use of a CRM solution.

## CRM Goals

Improved customer service and greater customer retention are the two primary goals of CRM efforts, according to TDWI. Over 90 percent of respondents to the survey said these two objectives were either “very important” or “important.”

Following close behind were increasing the lifetime value of a customer (84 percent), customer acquisition (83 percent), and the ability to identify and treat Most Valuable Customers uniquely (78 percent). Less important was supply chain optimization, with only 48 percent of respondents citing this as an important goal. Such a result may be indicative of the still early stage of CRM at most firms.

In terms of CRM functionality, a 2001 Microsoft Business Solutions survey found that today’s executives want three primary outcomes from a CRM system:

1. Improved customer service by making data available in real-time (76 percent).
2. Organization of data from multiple sources into a single location (68 percent).
3. Ability to get more done with fewer resources (67 percent).

## From Customer Management to Enterprise Management

Such broad customer service, integration and efficiency objectives are indicative of the shift that has gone on in the market for CRM solutions. Companies are also changing both the ways that they buy and implement CRM applications. Not long ago, the focus was primarily upon standalone sales force automation and call center applications. Many firms looked to providers who promised to address a specific front office sales or service need.

Today’s CRM customer wants an integrated front and back office solution. When asked what business processes they would choose to automate or improve first, the majority of executives say that they want to tackle *both* customer-facing and financial functions at the same time.

## The Basic CRM Blueprint

Companies of all sizes and industries are increasingly convinced that they can heighten customer loyalty and, as a result, improve margins and market position by embracing their customers. Being sold on a concept, however, is only the first step. For most companies, implementation is another issue entirely. Peppers and Rogers Group, a global management consulting firm dedicated to helping enterprises build and execute customer-based business strategies, applies a four-step methodology for transitioning CRM theory into action.

### *Identify*

While it may seem obvious and simplistic for a firm to know with whom it does business, siloed and widely dispersed data can make identifying customers a challenge. A key principle of CRM is that it is not enough just to capture name, address and purchase information. It is important to be able to identify each customer individually and link information about that customer across the enterprise. Each contact or interaction represents an opportunity to learn more about the customer’s habits, preferences and value to the firm.

### *Differentiate*

After a company has a good handle on who its customers are, it can begin to differentiate them. The underlying principles are that customers represent different levels of value to a company and that they have varied needs. One goal of differentiation is the ability to prioritize sales and service efforts around MVCs. The second objective is to do a better job tailoring those efforts based on knowledge of an individual customer’s needs.

### *Interact*

The next step in the process is interaction. A company that has a clear understanding of its customers and their value is in a strong position to improve the cost-efficiency and effectiveness of its dealings with those

customers. MVCs may, for example, be recognized in specific ways or not have to wait in queue for service. Strategic interaction gathers data relevant to increased knowledge of preferences and the firm's ability to continue to quantify value.

### **Customize**

The ultimate goal of CRM is to be able to deal with each customer on a one-to-one basis. Knowledge of the customer is so specific – and so relevant – that a firm can adapt its actions to meet that customer's previously expressed (or even implied) needs. The goal is to achieve that which was routine at the “mom-and-pop” grocery store. Customers were immediately rec-

ognized, addressed, and serviced on the basis of the last interaction and treated with knowledge of past and potential value to the firm.

These steps provide a sequential blueprint for any organization setting about to become more customer-focused. Differentiation cannot occur if a firm is not able to identify customers. Each step is also more challenging and complex than the previous. Steps often overlap – companies need not go through exhaustive identification processes to begin to differentiate. Most businesses can begin to reap immediate benefits and realize payback from a CRM initiative by merely identifying and changing the way they deal with the top 5 percent or bottom 20 percent of their customer base.

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## Idea Well 12 Key Steps to Becoming More Customer Focused

- 1. Don't be put off by the CRM hype of recent years.** Many businesses are realizing measurable productivity, sales, customer acquisition and retention gains from a strategic decision to become more customer focused.
- 2. A good out-of-the-box CRM solution probably exists to solve your problem.** One-dimensional views of the customer, disparate databases and the inability to mine customer data are common challenges. Tried and true solutions are available in the market today.
- 3. There's no need to break the bank.** Many highly functional front and back-office systems can and have been implemented for under \$100,000. In some circumstances, systems can be up and running for five figures.
- 4. Avoid automating chaos.** Automating a flawed business process does not improve the process. It just speeds up or makes a bad process more transparent. Map out the current business process you are trying to fix before you invest in any CRM application.
- 5. Establish clear benchmarks for success.** This can mean up-front work to obtain clear baseline measures.
- 6. Designate a person or department to head up and manage the CRM project.** It doesn't have to be an IT person, but it should be someone of authority with an excellent understanding of your business.
- 7. Consider working with a Value-Added Reseller (VAR).** Select one with the care you use in selecting any other trusted business partner such as an attorney or a CPA.
- 8. Develop a detailed project plan for the implementation.** Revisit it periodically to make sure it is still on track.
- 9. Bring front and back-office staff in early.** These people have the most insight into how you can improve your operations.
- 10. Plain vanilla is good.** Training will be easier, more effective and less costly if you keep it simple.
- 11. Train initially and on a continuing basis.** Factor training costs into the total project budget.
- 12. Implement in stages.** Early, visible wins will engender support, build enthusiasm and momentum. Look for solutions that are integrated, modular and customizable.



## Conclusion

Reorienting around customers is uncharted territory for many businesses. But enough time has elapsed for firms to observe the successes and challenges encountered by companies that have already started down the CRM road. Companies of all sizes that are becoming more customer focused are realizing results. The most successful among them recognize that CRM is a business strategy that requires a new way of thinking. It also represents a major change in culture and operations.

Achieving the ROI all companies seek can be accomplished through effective customer-based strategies. Yet, intelligent and results-based CRM requires a solid amount of analysis and implementation at both the front and back ends of an organization. Moreover, CRM is not simply a technology that can be purchased. The most successful implementations are a result of an alignment of strategy, process design, as well as technology. Of course, there's also the human element. Garnering input, communicating effectively, managing expectations and putting feedback back into the process are also vital to driving ROI from any customer-based implementation.

This is why companies embarking on the CRM journey today are more likely than early adopters to look at the total array of services provided by a potential technology vendor. Even if they do not intend to buy a full-blown implementation, firms are seeking out CRM providers that offer consulting services, development capabilities, customization options, integration assistance, modularity and training.

Such decisions reflect an understanding that becoming more customer focused is not something that happens in a vacuum. As this CRM blueprint report illustrates, selecting a technology partner with depth and breadth reflects a growing understanding that early gains in one part of the business – such as back-office processes – can be leveraged for measurable impact upon sales and service.

Today's CRM solutions are flexible enough to address the area where a business is feeling the most pain, whether it's sales, service, accounting or order management. Whether a firm starts on the front or the back end is not critical. What is important is to get started. □

## How to Select a Value-Added Reseller (VAR)

The following steps are recommended by Don Nelson, General Manager, Channel Development, Microsoft Business Solutions:

Ask your peers about companies they have worked with.

Find out about the VAR network your CRM application vendor offers. The longer your manufacturer has been in business, the more likely it is to have a large, well-established network with proven success in working with a company like yours.

Ask the software provider to recommend resellers in your area.

Establish a short list of potential partners. Gauge the potential of the relationship through preliminary meetings wherein you clearly outline your business objectives.

Establish the VAR's references and experience. Speak to past and present customers, especially in your vertical market, but also outside of your industry.

If you haven't already mapped out the critical business processes you want the CRM solutions to improve, find out if the VAR or the software vendor can help you — before you begin a CRM implementation.

Don't rule out a VAR because they can't do it all for you. While it would seem ideal to find one company to handle your hardware, networking, software, etc., there's something to be said for expertise and specialization. Just make sure all of your providers are aware of your strategy, your objectives, and most important, that they communicate with one another.

If at any time you are unhappy with the VAR relationship, go back to the software provider and ask for another recommendation.





Behind every success is a winning strategy.  
Supporting every strategy is the power of software.

Your business is like no other. So your CRM solution should be tailored to your unique challenges—both functionally and economically. Microsoft Business Solutions is a leader in providing that tailored solution. We've devoted more than twenty years to providing flexible business management software that's designed to address all your business needs. With a full enterprise suite offering remarkably smooth customization and expandability, your business can meet the future with the right tools to thrive.

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A handwritten signature in black ink, appearing to read "Jeff Young".

Jeff Young  
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## About Peppers and Rogers Group

As the preeminent management consulting firm specializing in customer-focused business issues, Peppers and Rogers Group helps clients devise strategies and plans for strengthening their customer relationships; assists clients in the operational implementation of their customer relationship initiatives; offers training and e-learning programs, research studies, workshops and keynote presentations; and helps clients locate and evaluate CRM professionals through its 1to1<sup>®</sup> Executive Search subsidiary. Peppers and Rogers Group's advertising-supported newsletters and magazines reach more than 250,000 CRM professionals around the world. Peppers and Rogers Group was founded in 1993 by Don Peppers and Martha Rogers, Ph.D., co-authors of a series of books and articles on managing customer relationships, including *The One to One Future* (1993), which first popularized the term "one-to-one marketing." Steve Skinner, a former partner at McKinsey & Company, is president and CEO.

In addition to its headquarters in Norwalk, CT., Peppers and Rogers Group maintains 16 other offices throughout North America and on five other continents. Recent and current clients include Agilent Technologies, Bayer Corporation, Bentley Systems, Ford Motor Company, Jaguar Cars, Lowe's, Verizon and Volvo. Internationally, new clients include Banco Itau, Sul America Investimentos, EDS, Lloyds Bank, and Unimed (Brazil); Bell South (Chile), Ford Chile; Novartis Pharma (Argentina); Village Group (Australia); Dogus, one2one, P&O Stena Line, Syngenta, Thomson Holidays, and Winterthur (Europe); and Discovery Health and SAS Institute (South Africa).

For more information visit the company's Web site: [www.1to1.com](http://www.1to1.com)

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