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ABSTRACT

In the recent years, customer relationship management (CRM) has being depictured by the software vendors as a cure-alls for the enterprises which wish to acquire, maintain efficiently customer share and at last to gain more profit in globalized market with fierce competition. However, the currently popular CRM marketing practice often produces disappointing outcomes. The more popular this marketing practice gets, the more people who realize that the current CRM practice hardly manages customer relationship. Through analyzing the costs-benefits, ROI and TCO of CRM implementation, this article tries to find out a correct way to accomplish successfully CRM implementation, discuss the success factor and failure barrier of CRM projects for successful complementation of CRM.

Key words: Customer Relationship Management (CRM), CRM implementation, Cost-Benefit, Return on Investment (ROI), Total Cost of Ownership (TCO)

1. INTRODUCTION

The fundamental goal of all Return on Investment (ROI) studies is to describe how existing customers derive value from the use of a particular software product, and to extrapolate a generalizable model from those experiences that can predict the degree to which a new user will derive a measurable ROI.

Several 2003 reports claimed the ROI from CRM implementations was dismal, with 8 out of 10 projects failing to deliver on ROI promises, and 50-70 percent typical project failure rates. Some of this year's reports are more optimistic, with about 52 percent of companies responding that their CRM initiatives generated an ROI between 51 percent and 500 percent, and 30 percent of respondents saying the return was greater than 501 percent.

Many newcomer companies must decide if they should begin with a CRM initiative. Above mentioned results should have a great influence on their decision. No matter how different the results are, the companies must know as exactly as possible if the CRM project is in the long time run lucrative for them.

Before CRM project companies should be able to demonstrate ROI on their CRM investments, and they need to implement serious yardstick work when seeking to evaluate CRM-software investments and to give a clear evaluation that quantifies the expected costs, tangible financial benefits, intangible strategic benefits and risks.

In the following, we are going to discuss thoroughly costs, benefits and ROI problems.

2. COST-BENEFIT ANALYSIS OF CRM IMPLEMENTATION

In order to establish a business case for pre-project planning, and post-project success measurement, we must assess implementation costs, benefits, and risk.

i. Implementation Costs

Basically, implementation costs are should include CRM software licensing and maintenance or support contracts; EDI, database, operating system and other software licensing and maintenance or support contracts; hardware purchases and maintenance or support contracts including servers, storage and network upgrades (as required); software integration and customization, including design, development, test and ongoing maintenance; implementation labor; ongoing administration and support labor; planning and requirements meetings; user training and learning time; and process change management.

ii. Tangible and Intangible Benefits

As table 1 described, generally speaking, benefits typically include increases in staff productivity, cost avoidance, increased revenue and margin, and reduced inventory through the elimination of errors. Benefits could be divided into tangible and intangible benefits.

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Table 1 CRM benefits and improvements

Key Benefit Area	Key Improvement
Reduce cost of sales	Enable self-service sales channels, changing the mix of direct sales, tele-sales, channel or agent sales, and self-service the most effective or least costly channel in order to reduce costs and improve satisfaction
Reduce sales administrative overhead	Reduce the time spent on sales administrative overhead tasks such as commission calculations, forecasting and reporting enabling increased selling time
Improve leads to sales closure rates	Increase the percentage of leads which are converted to sales
Increase customer retention	Reduce customer churn rate and eliminate replacement expenses
Improve customer satisfaction and loyalty	Improve customer lifetime value

1) Tangible Net Benefits

A clear and precise cost-benefit analysis which tallies all of the planned project costs quantifies each of the tangible benefits and calculates key financial performance metrics such as ROI, NPV, and payback period.

2) Intangible Benefits

A total of the expected intangible benefits should include key performance indicators (KPI) that will be used to measure success or shortfalls of CRM project. These are a handful of areas of improvement that should be considered as Table 1 described.

3) Risk Assessment

Risk Assessment is also essential for CRM project success, because the evaluating the risks of people, process, and technology can proactively mitigate their probability and manage their impact on project success.

3. TCO AND ROI ANALYSIS OF CRM PROJECT

A survey of trends in the evaluation and purchase of CRM systems, released by Sage CRM Solutions, indicates that return on investment, cost and functionality are the three top issues for companies in the small to mid-market. Integration also figures significantly. However, ROI ranked as most important issue when evaluating CRM solutions.

We can get such conclusion, that ROI is the ultimate indicator of the success of a CRM program.

i. The Control of TCO

The first benefit is Total Cost of Ownership (TCO). When implementing a CRM technology, the initial costs of licensing, hardware, software, training and consulting, along with the ongoing costs of support and maintenance, all play a role. In the past the failure to account for all of the implementation costs helped lead to CRM failures. Today, smart companies are working with vendors to keep TCO to a minimum. The lower the TCO, the quicker a company can begin realizing ROI on its CRM investment.

ii. The Enhancement of ROI

ROI from CRM typically comes in two forms: the first is cost reductions from increasing efficiency and the second form of ROI is revenue enhancements.

Through segmenting the different management layers, the main factors which have great influence on the ROI are described in the following text.

1) Strategic layer

The way to realize lower TCO and higher ROI should include the following strategic imperative.

- Develop overall strategic plan that leverages the customer base as a valuable asset and grows that asset over time.
- Differentiate customers according to their value to the firm and their individual needs, and set a plan to focus resources on top customers.
- Provide strong executive leadership through ongoing visibility and reinforcement of customer-focused goals and rewards.
- Commit to organizational change across the enterprise in order to communicate strategic objectives, spark adoption and instill processes.

2) Technology layer

Technology selection and framework will determine the success or failure of the CRM project, so that technology imperatives should be as following:

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

3) Analytical Layer

a) Cost reductions

Analytical CRM solutions decrease costs by enabling the organization to:

- Target campaigns more accurately to tightly defined customer segments instead of large, scattershot efforts.
- Reduce customer support requirements by offering products/services that better suit their needs.
- Eliminate products and services that fail to meet customer expectations.
- Reduce the cost of acquiring new customers, by getting more bites for the buck on marketing efforts and doing a better job of retaining customers.
- Tailor interactions differently to high-value and low-value customers by focusing more expensive communication channels and/or more attractive offers

where the payback is higher.

b) Revenue Enhancements

Analytical CRM solutions increase revenue by enabling the organization to:

• Cross-sell and up-sell more effectively. It is easier and less costly to retain existing customers than to attract new ones; therefore, organizations can realize greater profits by increasing revenue from existing customers rather than relying on all revenue growth to come from new customers.

• Predict which customers are most likely to buy, by recognizing that customer needs and wants are constantly changing based on multiple factors, such as life transitions, major milestones or acquisitions, external events and more.

• Identify high-value customers and cultivate long-term relationships, by focusing on the top 5 percent of the customer base that very well might account for 75 percent of revenues, and in the process, increasing the percentage of high-value customers.

• Increase brand awareness by providing well-targeted communications that will be well received, and by providing consistent customer treatment — a uniform company image — across all customer touch points.

• Increase customer satisfaction, loyalty and referrals by using the customer insights generated by analytical CRM to differentiate the organization from the competition with customer-pleasing actions, offers, products and services.

4) Operational layer

a) Cost Reductions

In the following field we could realize the cost reductions:

• Service and Contact Center: reduced talk time, reduced post-call handling time, fewer call transfers, reduced wait times

• Sales: shorter sales cycle time, reduced cost of sales, less down time

• Marketing: reduced number of campaigns to cold prospects, fewer duplicate records and reduced levels of inaccurate customer data

b) Revenue Enhancements

In the following field we could enhance the revenue:

• Service and Contact Center: improved cross- sell and up-sell rates, higher problem resolution, higher customer satisfaction and re-purchase

• Sales: higher lead-to-close ratio, increased margins, more targeted and productive visits

• Marketing: improved response rates, increased number of annual campaigns, higher number of quality leads, increased average order size.

4. CAUSES OF HIGH FAILURE RATE OF CRM

Here we summarized some important reasons caused high failure rate of CRM implementation.

i. Strategic Problem

1) Implementing before creating strategy

A surprising number of firms dive headlong into CRM without carefully working out an exact customer strategy that the technology helps the company execute. Before even considering a specific CRM technology, organizations should figure out where they are going. This would include such basic planning actions as segmenting customers from most to least profitable, deciding whether to simply invest more in profitable customers, manage costs better to improve overall margins, divest unprofitable customers, or a combination of various options.

2) No long-term strategy

Believing that CRM is a technology solution is still a tremendous obstacle for far too many firms. The fact remains that CRM is a business process change, often supported by technology. But there continues to be a tendency to look to technology as a sort of business panacea. Business leaders who do so are often disillusioned by CRM, because they don't align their business processes to meet specific goals.

3) Lack of guidance

Companies would never construct their offices without a blueprint. According to Gartner, however, more than 60 percent of companies that have implemented CRM did not have mutually agreed upon goals for their projects prior to the installation. Like a building without a bearing wall, a CRM initiative without goals will collapse.

4) No risk assessment or contingency plan

ii. Organizational And Management Problem

1) Lack of communication between IT and the business, resulting in a mismatch of requirements and expectations
2) No senior business sponsor AND separate project manager
3) Lack of employee support

It's natural to resist change. Top salespeople may ask, for example, why should we be forced to change our working habits, when those very habits helped us become so successful? On the other hand, poorer performers may fear the outcome of their managers having a window into their bad habits. Failure to convince these and other employees of the benefits of CRM often results in passive resistance and low employee-adoption rates.

4) Technology put before people

No or minimal involvement of key users during the scoping phase and lack of regular communication with them throughout the project implementation.

5) No accountability

Driven by fear of the unknown, resistance also spills into the managerial level in the form of avoidance, or lack of accountability. But CRM success depends on that accountability. The fact is, if accountability is not taken at the upper most managerial level, negligence there will only breed negligence among those who should be using the system, but aren't, making failure inevitable.

6) Organizational culture is not aligned with the customer

Often management gives lip service to the notion of customer as king, but doesn't act that way. Workers are told to “delight the customer” but are actually rewarded for pushing peak volumes of product out the door, without regard for customer satisfaction. This type of company tends to overemphasize product metrics — such as inventory, costs and profitability — instead of customer measures, such as customer satisfaction, complaint levels, response times, loyalty, attrition and lifetime value.

7) Restricted marketing scope

The current CRM practice restricts its marketing scope within a company's database. These companies concern more and more about the data in their databases, but pay less and less attentions to their market competitions and marketing potentials, especially the potential customers NOT yet in their databases. These companies lost their visions to their markets and their marketing basically becomes a sub-function of their IT department.

iii. Customer Process Problem

1) Installing CRM in an organization that isn't already customer focused

It is no wonder a large percentage of CRM failures stem from insufficient change management based on trying to force CRM down the throats of staff that don't yet have a customer focus or an organization that's processes are not conducive to the building of strong customer relationships. It is folly to embark on CRM without taking the time to survey the company then reconfigure all processes and systems so they actually fulfill customer needs.

2) Incorrect definition of customer relationship

The current CRM practice incorrectly defines customer purchases and contacts as customer relationship. But customer purchases and contacts are the tangible customer behaviors rather than the customer relationship that drives these behaviors. Until it understands the driving force behind customer loyalty behaviors, a company is unlikely to be able to manage its customer relationship properly.

3) Confusing customer interaction with hounding

In some cases, organizations have implemented CRM in such a way as to hound customers with repeat messages by phone, fax, email or direct mail. While marketing has used CRM to devise innovative methods of inundating the mailing list, this approach may actually drive business away in the long run. The important thing is to identify the right customers i.e. those that actually want to form a relationship with you. Next, you have to work out how to contact them in the best way so that they continue to value the relationship.

4) Ignorance of customers' needs

The current CRM practice lures companies away from their markets and their customers. The current CRM practice requires companies to focus on things like the correlations between product purchases for cross/up selling and the predictions of what customers will buy in the future from the products/services in their databases. So the companies that adopted the CRM practice tend to ignore their customers' real needs, which are the real drivers behind the purchase correlations.

iv. Project Problem

1) Poor project scoping and undefined project objectives, roles and responsibilities

These will lead to the setting of unrealistic expectations.

2) No project success metrics

Without project success metrics CRM implementer can't efficiently monitor and evaluate the project under construction, so that enterprises are not able to guarantee the success of CRM projects.

3) Lack of regular checks to ensure the project is on track - to time and budget

The direct aftermath of lack of regular checks to ensure the project is on track - to time and budget is that implementer of CRM can't strictly control the end time of accomplishment of CRM project with acceptable budget.

v. Technology Problem

1) The technology gap

Three key limitations typically undermine systems that support analytical CRM strategies:

• Organizations don't have an enterprise-wide view that reconciles and exploits data from all relevant functional/ transactional systems across business units.

• Organizations may have simple analytics that tell them what was and what is, but not an accurate view of what will be, why and what to do about it.

2) Solving CRM implementation problems with more CRM technology

Some companies try to implement a state-of-the-art CRM system at once. They spend, and often waste, millions in doing so. Their faulty reasoning considers that the latest technology will instantly solve a decade's worth of people problems that plague the business. More often than not, the expensive technology goes largely unutilized and the same problems continue to haunt the company. In many cases, then, it may be better to start small with a relatively low-tech approach to CRM.

3) Integration Woes
Today there is no killer application that solves all integration problems. Most large-scale implementations require some customization. This may lead to problems that put vendors and consultants at odds with customers.
Many vendors and consultants maintain that most customers expect integration to happen like plugging a light fixture into a socket and flipping a switch, when in fact it is an evolutionary process.

4) Dirty Data
An often-overlooked, yet insidious hurdle is dirty data, or inaccurate and old information. Data is the lifeblood of a CRM system, and incorrect numbers, spelling mistakes, and outdated contact information can infect that system if it is left unchecked.

5. SUCCESS FACTORS IN CRM

The benchmarking consortium detailed and prioritized measurements for each benchmark identified in the kickoff meeting and guided the entire selection of successful practices. Our analysis led to the formulation of six success factors.

1) Evolution Path
As a first step, most companies implemented a system for operational CRM, e.g. call center or sales force processes. Analytical CRM rests upon this foundation and covers data mining and churn analysis functionality. Only little use was made of collaborative CRM which indicates an evolution path from operational, analytical to collaborative CRM and a stepwise implementation of CRM.

2) Timeframe
Most successful practice organizations have gone through a rapid system evaluation phase and completed the system introduction phase within approximately 7 months. But a full CRM was considered to take a minimum of 2 years. Successful companies split these long-term CRM projects into manageable subprojects lasting a maximum of 6 months.

3) Organizational Redesign
Prior to the introduction of a CRM system all successful practices established CRM concepts for the definition of processes and organizational structures. Organizational redesign also needs to consider structural issues, i.e. to establish a centralized responsibility and authority for defining cross- functional standards.

4) System Architecture
Virtually all the CRM systems in the benchmarking were standard packages, while no system offered a comprehensive operational, analytical and collaborative CRM functionality. Advanced CRM companies integrated specialized systems for operational, analytical, and collaborative CRM into a best-of-breed architecture. Following the evolution path described above, mature CRM concepts also required integration architecture for seamlessly exchanging information.

5) Change Management
Convincing employees of the benefits of CRM methods and systems is regarded as an important success factor.

6) Top Management Support
For establishing customer orientation on a corporate level, implementing inter-organizational process and system standards, and for supporting the adoption of the CRM systems within the organization top management support was a key requirement Top management sponsors also ensure that short-term setbacks in the CRM project can be overcome.

6. CONCLUSION

In order to do an ROI study correctly, we need enough customers with enough experience. What constitutes enough customers is the first problem. The validity of the sample is the next problem. The third problem is that even if you get a lot of ROI data from a lot of customers, it's rarely in a form that can be used to build a generalizable model. Every company had a different way to measure ROI.

Because of above-mentioned problems we have not tried to construct a generalizable panacea model, but only proposed criteria and critical factors to take account of during evaluating the RIO of CRM implementation of enterprise. There is very close linkage between the enhancement of ROI and the success rate of CRM implementation. If we pay enough attentions to success factors in CRM and avoiding causes of high failure rate of CRM projects, the ideal level of ROI must be reachable.

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