6.0 Justifying CRM Costs and Boosting Return on Investment

Many enterprises pursue expensive customer relationship management (CRM) initiatives without first understanding the challenges and costs involved. This approach often results in CRM projects that fail to meet measurable benefit objectives. As enterprises acknowledge such first-try CRM failures and boards of directors demand increased accountability, IT and CRM managers are now held to the same standards as their business counterparts. As a result, they have started creating economic justifications to ensure that their CRM projects get funding. Moreover, smart CRM managers not only justify their CRM initiatives; they also utilize the business case throughout their initiatives to ensure they don't repeat the same mistakes.

Enterprises need to realize that CRM is a business strategy with underlying technology, and that it requires large investments in applications, hardware, software, telecommunications, internal labor, external consulting services and training. Therefore, an enterprise should calculate the business benefits associated with reducing the total cost of ownership (TCO) of CRM, and use these to build a compelling justification for its CRM project. In addition, ongoing measurement of CRM benefits helps ensure that an enterprise receives expected advantages and achieves strategic objectives.

Several key concepts form the foundation of CRM economics.

- *TCO* provides a holistic view of IT costs across the enterprise over time, and includes people, processes and technologies.
- *Benefits* are those tangibles or intangibles that promote or enhance the well-being of, or provide an advantage to, the business. Demonstrated benefits result from identifying various metrics and the degree to which implementing CRM will impact those metrics.
- *Return on investment (ROI)* — which, in its simplest form, is benefits less cost — is the most important concept, because it is a measure of how a project affects an enterprise's financial statement.

An enterprise must understand CRM economics because two of the three key drivers of a CRM strategy — optimizing revenue and profitability — link directly to understanding economic benefits. These benefits (for example, contributions to earnings per share) accrue only after an enterprise follows through and takes the necessary actions.

The following Key Issues frame the analysis in this chapter:

- What are the critical success factors for achieving ROI?
- How should an enterprise quantify and justify a CRM initiative?
- How will an enterprise manage its CRM investments?

6.1 Delivering ROI From CRM Investments

Key Issue: What are the critical success factors for achieving ROI?

6.1.1 The Need to Determine CRM ROI

Tactical Guideline: An enterprise without standardized measures of business benefits is unlikely to achieve its CRM goals.

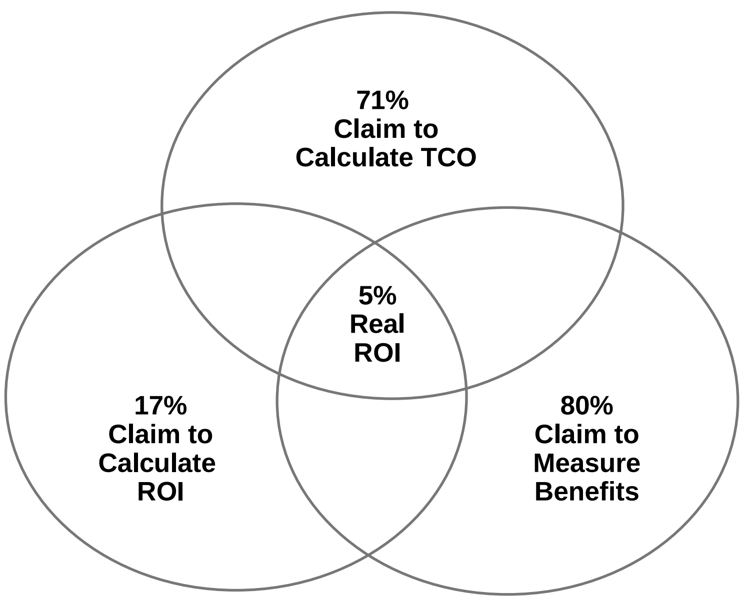
Disenchantment with CRM largely results from few enterprises completing ROI and building solid business cases from which to manage and measure their CRM initiatives (see Figure 6-1).

Some of the more common reasons cited for not calculating CRM ROI include:

- Difficult to accomplish
- Not necessary
- Lack of priority by business or IT
- No tools for the job
- Will be considered after the CRM implementation
- No ownership
- No clear method for determining ROI
- Dropped after initiating the project
- Confidentiality

However, calculating the TCO and benefits, building a business case and measuring ROI will help an enterprise make wiser CRM investments and enable it to enjoy the results — instead of complaining that CRM fails to meet

Figure 6-1: Few Enterprises Measure CRM ROI



Source: Gartner Estimate

ROI return on investment
TCO total cost of ownership

expectations. Therefore, an enterprise needs to assess the costs (such as technology, labor, consulting services and training) and benefits associated with CRM programs, and express that evaluation in terms of ROI.

To determine a viable ROI, an enterprise needs:

- A full understanding of the TCO associated with the systems
- The ability to measure the CRM program's business benefits, using terms familiar to those working in the business units
- A strong foundation in business case preparation
- The capability to augment established business standards with realistic, risk-oriented evaluation techniques

Delivering ROI from CRM requires:

- Ensuring that the funder of the CRM initiative is the one who will directly derive the benefits projected, and that IS on the "hook" for delivering the projected benefits
- Business unit leaders who actively ensure that redesigned processes meet business unit needs, and are widely adopted within the business unit
- Tracking operational and financial projections in the business case, analyzing the difference between the projected and actual results, and taking the appropriate measures or courses of action when differences are observed

Because of the cost and complexity of a CRM program, only an enterprise that has these elements will reliably deliver returns.

6.1.2 Who Should Pay for CRM

Tactical Guideline: To ensure that required process changes occur and the CRM system is properly used, the business units that benefit from the CRM initiative should also fund it, and be accountable for costs incurred and benefits achieved.

Any project that requires funding needs to align stakeholders' incentives with the money that will be spent — particularly which business units pay for the project and which ones benefit. Most enterprises have a hard time doing this.

ROI methods, such as internal rate of return (IRR) and net present value, often don't account for such distribution issues. Furthermore, they don't ensure optimal investment outcomes for business units that make their own profitability their first priority.

In most cases, the IS organization assumes the role of provider — turning business unit input into a CRM project. However, IS needs to influence equitable alignment of costs with benefits. If the business unit that funds a CRM program doesn't recover its investment or receive benefits, it likely won't:

- Invest further to maintain the solution and keep it updated as changes in the business necessitate
- Encourage use of the system by appropriate business users

When determining the right funding model for a CRM initiative, an enterprise should ensure that:

- It equitably distributes costs to business units that will use and benefit from the system.
- Business units that fund the CRM initiative receive benefits and a return in line with their strategic objectives.

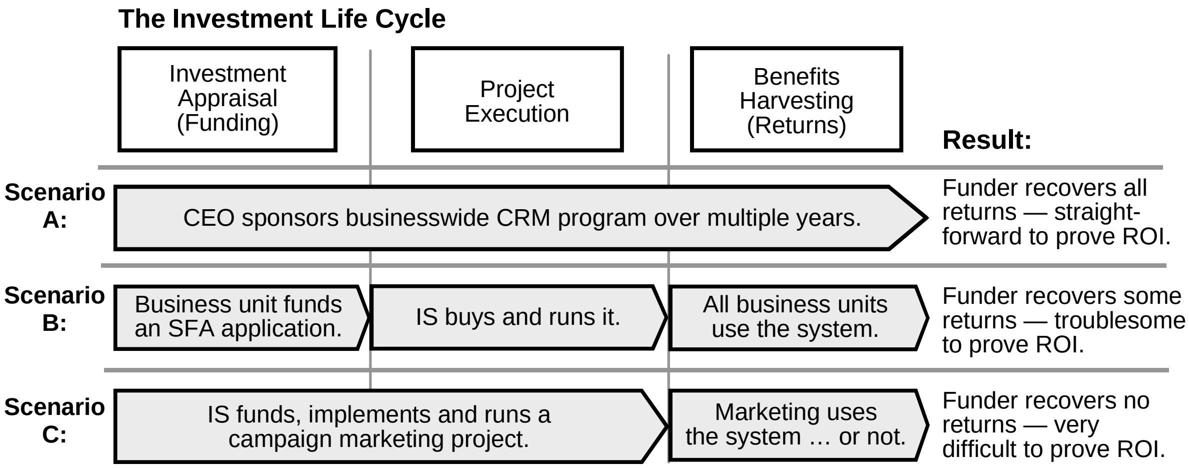
Once an enterprise aligns CRM costs with business unit needs and usage, the funding business units can be held accountable for delivering results from CRM investments. Proving ROI then becomes much easier (see Figure 6-2).

Action Item: When making CRM investment decisions, enterprises should take into account the impact of spending and benefits on each business unit's profit and loss or operational budget. Doing this will allow the enterprise to understand how investment levels will affect behavior.

6.1.3 Creating a Master Plan for CRM

Strategic Planning Assumption: Through 2006, enterprises that create an enterprisewide CRM strategic plan, and fit individual initiatives within that plan, will deliver a 25 percent higher level of return than enterprises that neglect to do so (0.7 probability).

Figure 6-2: Why the IS Organization Should Not Fund a CRM Initiative



CRM customer relationship management
IS information systems
ROI return on investment
SFA sales force automation

Source: Gartner

CRM implementation requires a unique, overarching enterprisewide work plan that includes the phases, activities and tasks specific to each technology implementation, broken down into manageable components (for example, project management, business process and application design). In addition, the enterprise needs to align each initiative with the overall CRM business process and infrastructure plan, which details execution of the strategies, tactics, processes, skills and technologies. An enterprise should follow a structured methodology and use economic justification to make sound business-based decisions.

Implementation represents just one milestone in a CRM initiative. Because other process metrics better indicate project success, an enterprise — using a balanced scorecard approach — should measure these metrics, which include:

- The quality of data
- System and network performance
- Knowledge transfer to users

Although an enterprise can't deliver or measure many such outcomes for months or years after the initial implementation, it nonetheless should begin measurements with the pilot and perform periodic measurements throughout the project life cycle.

Action Items: An enterprise should:

- Create an enterprisewide CRM plan that incorporates implementation plans for sales, marketing and service, and for the integration of these domains.
- Have project managers establish, record and measure multiple success metrics.
- Link project team, project sponsor, executive management and external service provider (ESP) payments and bonuses to such metrics — not to implementation time and initial budget.

6.1.4 Successfully Managing CRM TCO

Tactical Guideline: *TCO — a fundamental decision support tool — presents a holistic view of IT costs across the enterprise over time, and includes people, processes and technologies.*

CRM project managers need to complete a TCO analysis of each CRM work plan, accounting for people, technology and process costs.

People costs can include:

- Internal staff
- Customers
- Shareholders
- ESP or system integrator staff
- Vendor staff
- Internal support
- External support
- Education
- Skills

Technology costs can include:

- Software, hardware and maintenance
- Servers
- Desktops
- Notebooks
- Handheld devices
- Storage devices
- Printers
- Accessories
- Telecommunications
- Middleware
- Integration
- Data cleansing

Process costs can include:

- Strategies
- Tactics
- Skills
- Sales
- Marketing
- Service
- Corporate finance
- Department accounting
- Legal
- Human resources

In addition, CRM project managers should use the following guidelines to manage TCO successfully:

- Understand each TCO component, its impact on the costs and assumptions regarding its useful life.
- Build best- and worst-case scenarios to determine TCO tolerances.
- Staff the CRM project with employees who have experience in building and measuring TCO.
- Include financial analysts on the project to assist with the approval process, and to provide insight for senior management during the life cycle of the initiative.
- Create a TCO model that accommodates monthly budgeting for the initiative's life cycle.
- Ensure that senior management and the steering committee commit to the assumptions that underlie each TCO component and scenario.
- Align the TCO model with project phases and milestones, and produce a graphic display of costs.
- Expect vendor proposals and internal staffing decisions to come before a final TCO calculation.
- Use the TCO model to drive many project decisions, such as:
  - Whether to use an ESP
  - Vendor selection
  - Internal staffing scenarios
  - Choosing a centralized or distributed model

Action Item: An enterprise should calculate TCO for each tactical project in the CRM initiative and ensure that it includes people, process and technology costs over the planning horizon — including ongoing management and enhancement, not just the initial acquisition costs.

6.2 Validating and Measuring a CRM Project

Key Issue: How should an enterprise quantify and justify a CRM initiative?

6.2.1 Analyzing CRM TCO Survey Results

Tactical Guideline: To remain competitive and achieve benefits from CRM initiatives, a large enterprise will implement an average of seven CRM components or modules, and should expect to pay more than $20 million in TCO over three years.

CRM project costs will vary greatly among large enterprises because they use different assumptions and make different estimates. A detailed analysis of the responses to a recent Gartner survey showed that, although 71 percent of respondents provided TCO costs, few enterprises understand TCO.

When asked for their TCO period, many respondents indicated one year. However, one-year TCO is not TCO at all. An enterprise that calculates only a one-year TCO considers only the acquisition or purchase costs for the project. It fails to consider spending over a period of years, or multiyear ongoing maintenance and required enhancements.

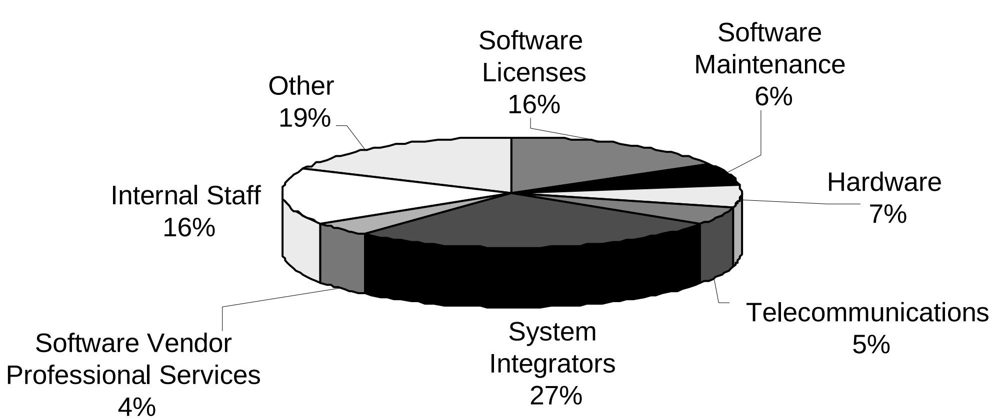
TCO needs to include all costs that an enterprise will incur for a CRM investment, over the life of that investment, not just its acquisition cost. At a bare minimum, an enterprise should develop CRM TCO for two years; Gartner recommends developing it for at least three years.

The survey results also indicated a high variability in what CRM TCO includes and excludes. The standard cost categories were:

- Software licenses
- Software license maintenance
- Hardware
- Telecommunications
- Services (internal and external)
- Other costs

As a percentage of the total costs of a CRM project, software licenses represent a relatively small portion (16 percent). External services (including system integrators and software vendors' professional-services consultants) represents the highest cost category (31 percent). Total labor costs — including the costs of internal and external resources — account for nearly one-half total CRM project costs (see Figure 6-3).

Figure 6-3: CRM Spending by Category



Source: Gartner Survey of December 2003, 64 respondents

Survey results also indicated the following trends regarding CRM TCO:

- Most enterprises aren't including telecommunications in their TCO calculations.
- Less than one-half of enterprises included all hardware costs in their CRM TCO calculations.

Action Items: An enterprise should:

- Build its TCO model to include consistent cost categories across all CRM projects for at least three years.
- Monitor and measure costs and spending throughout the project.

6.2.2 Underbudgeted CRM Costs

Strategic Planning Assumption: Through the end of 2006, most large enterprises will underestimate the total cost of implementing CRM-oriented projects by more than 35 percent (0.7 probability).

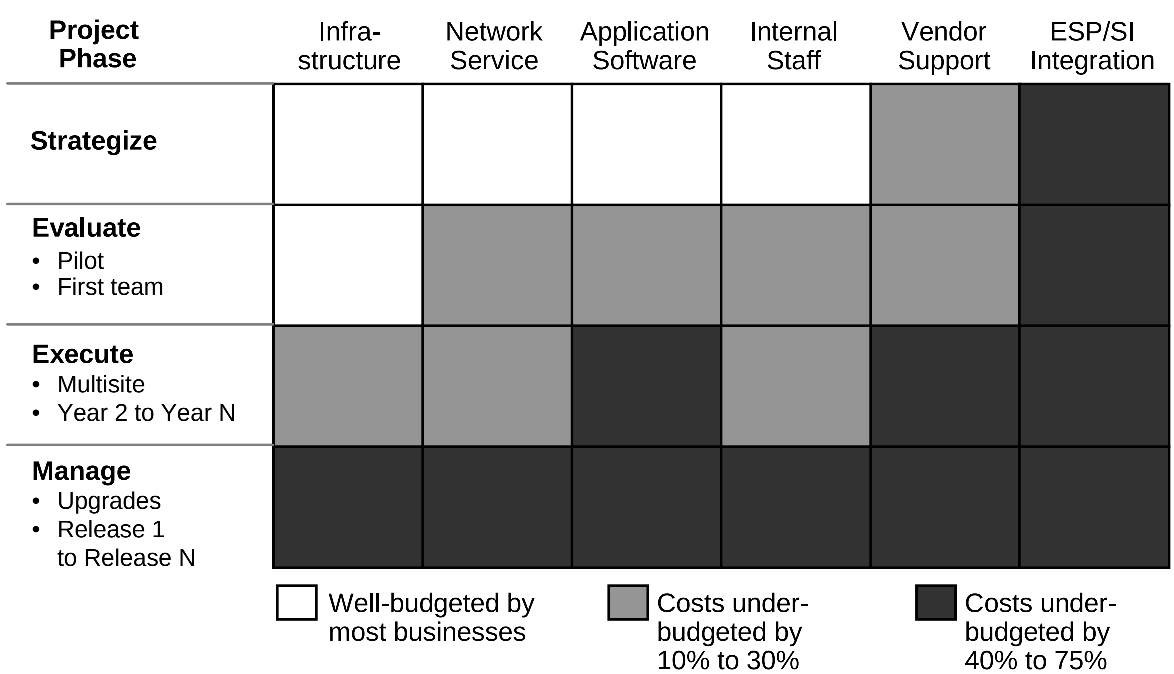
Most enterprises have grossly inaccurate CRM budgets at key project phases. They tend to accurately forecast only short-term, controllable budget items (such as costs for next year's network services or application software).

When passing CRM plans to upper management for review and approval, enterprises tend to omit items too difficult to forecast and explain. As a result, enterprises significantly underbudget these items (see Figure 6-4).

In most cases, successful implementation of CRM applications, processes or business models depends on using specialty consultants and system integrators. Therefore, services are the most-underbudgeted cost because most enterprises don't properly staff their projects with enough internal people and over-rely on ESPs. Then, when these enterprises think that the project is "over," they discover that they need to keep their ESPs on their projects longer handle a transfer of knowledge that should have already occurred.

Enterprises should benchmark their CRM initiative budgets against projects of comparable complexity. Regardless of the process or industry, too many

Figure 6-4: Underbudgeted CRM Project Costs by Category



Source: Gartner

ESP external service provider
SI system integrator

enterprises rely on metrics that vendors suggest (for example, implementation costing 1.5 times the license cost). Projects of comparable complexity provide a reality check on the adequacy of the enterprise's implementation budget.

Action Items: CRM managers should:

- Interview other business units that have implemented successful projects, and learn how they developed their budgets and where they believe they could have improved.
- Staff projects with a sufficient number of internal resources throughout the CRM initiative.

6.2.3 CRM and Business Performance Management

Tactical Guideline: Closing the measurement gap in business performance requires a standard business performance framework.

Any business performance management system requires a measurement framework that has these characteristics:

- All metrics, when used collectively, are leading indicators of financial performance
- No more then seven (plus or minus two) metrics are used at any given level
- Metrics should be collectively exhaustive and mutually exclusive, and should be selected based on data available in automated business systems.
- The framework should:
  - Focus on the needs of executives and middle management
  - Be based on standard prime metrics to foster collaboration and allow comparison to internal and external entities
  - Allow combinations of standard and custom metrics
  - Capture the relationships between functions
  - Evolve and develop over time

Action Items: Enterprises should:

- Develop competency in business metrics determination, measurement and monitoring.
- Start simply. First develop a discipline; then, when competent in that discipline, apply the framework to all initiatives.
- Look to approaches such as (but not limited to) Gartner's Business Performance Framework, Deloitte Consulting's Enterprise Value Map or eLoyalty's Value To/Value From Customer.

6.2.4 Sales Metrics

Tactical Guideline: Sales executives should use established metrics that assess the effect of technology investments and strategies to improve sales effectiveness.

Only after a sales organization develops a common set of standardized, successful sales processes can technology be applied to reinforce the selling process. Successful sales processes should complement each other and form an integrated approach to CRM.

Many enterprises mistakenly believe that freeing salespeople from paper-based processes will automatically make them more productive and increase sales. However, leading enterprises will focus their sales-oriented technology investments toward areas that affect key selling objectives directly — that is, spending that improves the effectiveness of the sales process and increases client retention.

These enterprises also will reinforce well-defined, streamlined sales processes through the aggressive use of sales technologies, such as:

- Direct-sales technologies (such as opportunity, contact and account management systems)
- Telesales (outbound and inbound)
- Configurators
- Collaboration tools
- Knowledge management systems
- Sales-driven customer portals

- Competitive-intelligence systems
- Partner relationship management systems
- Incentive compensation technologies

However, an enterprise needs to use metrics so it can measure the effectiveness and performance of its sales technology spending. For example, an enterprise could create a sales-close index, which divides the number of successful sales campaigns by the total sales campaigns closed (either successfully or through inactivity) during the month.

An enterprise can augment its metrics by determining:

- The percentage of deployed sales technology that focuses on managing sales activities
- System adoption rates
- The number of people accessing the total functionality of the system

Action Item: An enterprise should choose sales-based metrics that encourage desired behavior, which in turn will help deliver value from a CRM initiative.

6.2.5 Marketing Metrics

Strategic Planning Assumption: By 2008, more than 20 percent of large enterprises will incorporate customer equity as a component of their valuation (0.6 probability).

Marketing organizations need to focus on identifying opportunities in terms of customer segments with unique requirements. In terms of innovation, most marketing organizations remain product-centric.

Some use metrics — such as the number of new products or the revenue derived from new products — to measure the effects of innovation. However, innovation metrics need to become customer-centric.

Customer-centric measures that serve as relevant indicators of innovation include:

- Revenue growth associated with new customer segments
- Average return on customer investment for new customer segments

To determine a level of effective reach, marketing organizations should consider measures of competitive spending and the relative market opportunity (that is, market size and potential market share). When trying to determine whether a brand is building equity, an enterprise needs to evaluate the following metrics:

- Levels of competitive spending
- Relative market opportunity
- Revenue per marketing dollar
- Marketing expenditures as a percentage of sales

Overall estimates will become more accurate as detail associated with each metric becomes richer. For example, an enterprise should allocate the costs of a regionally focused marketing effort to customers in that targeted area. However, in an acquisition-oriented campaign, an enterprise should allocate costs to those new customers obtained in that region as a result of the campaign.

Action Item: Marketing organizations should adopt customer-centric metrics to gain a better understanding of customers, and enhance strategic and tactical marketing.

6.2.6 Customer Service Metrics

Tactical Guideline: Operational metrics for customer service should focus on measuring relationships and the efficiency of processes.

Enterprises have long used operational-efficiency metrics to measure improvements in customer service. For example, if an enterprise could decrease the average amount of time spent on a customer call by 20 seconds, it would improve profitability by reducing customer maintenance costs.

However, customer experiences are shaped by more than just interactions with the customer service department. Enterprises need to elevate customer service from a departmental function to a business objective. When an enterprise makes customer service a strategic business function — and starts to consider it a revenue opportunity rather than just a cost center — the metrics for tracking customer satisfaction will need to change from operational efficiency to customer effectiveness.

To achieve customer effectiveness, an enterprise needs to adopt metrics that reflect customer satisfaction — rather than the enterprise's perception of customer satisfaction. For example:

- Instead of determining whether a customer service representative closes a call within two minutes, an enterprise should determine whether a customer received the information needed in the first call.
- An enterprise could create a customer care performance index that divides the number of satisfactory customer care requests by the total number of customer care requests made during regular operating hours.

Action Item: An enterprise should determine to what extent its organizations use effectiveness metrics, and then implement the processes and systems to collect the data needed to implement and track these metrics.

6.3 Overseeing the CRM Investment Portfolio

Key Issue: How will an enterprise manage its CRM investments?

6.3.1 Matching Desired Benefits to CRM Applications

Strategic Planning Assumption: Through 2008, return on CRM investments will occur 15 percent to 30 percent faster in enterprises that match the most appropriate CRM applications to desired benefits (0.8 probability).

As they start to pursue CRM strategies, enterprises soon realize the significant potential costs and benefits of CRM. At this point, many enterprises start to feel the need to quantify the value of CRM.

Broad, strategic initiatives such as CRM are hard to justify solely on the strategy's measurable and tangible benefits. Because most CRM strategies consist of tactically executed individual projects, an enterprise often must wait a long time before it starts seeing the benefits from a CRM initiative.

An enterprise that tries to determine the benefits of implementing CRM is seeking the wrong information. Rather than viewing CRM technology as a single item, an enterprise needs to determine which CRM applications it should implement as part of its CRM strategy. The choice of applications should align with the business objectives the enterprise has for its CRM strategy.

A recent Gartner CRM survey asked respondents if they'd achieved benefits in several categories (see Figure 6-5):

- Increasing revenue
- Lowering costs
- Improving efficiency
- Improving effectiveness
- Gaining a competitive advantage
- Other (responses to this category were open-ended)

Among the open-ended responses to the "other" choice, nearly 80 percent of these responses noted that — although their enterprises planned to measure benefits — it was either too early to tell just what the benefits were, or they hadn't started measuring benefits because the CRM project wasn't yet implemented.

Action Item: To justify CRM investments, CRM managers should define a minimum of two benefit categories (such as improved efficiency, improved effectiveness or lowered costs) in addition to the intangible benefits cited.

6.3.2 Financial Measurement Methodologies Used in CRM

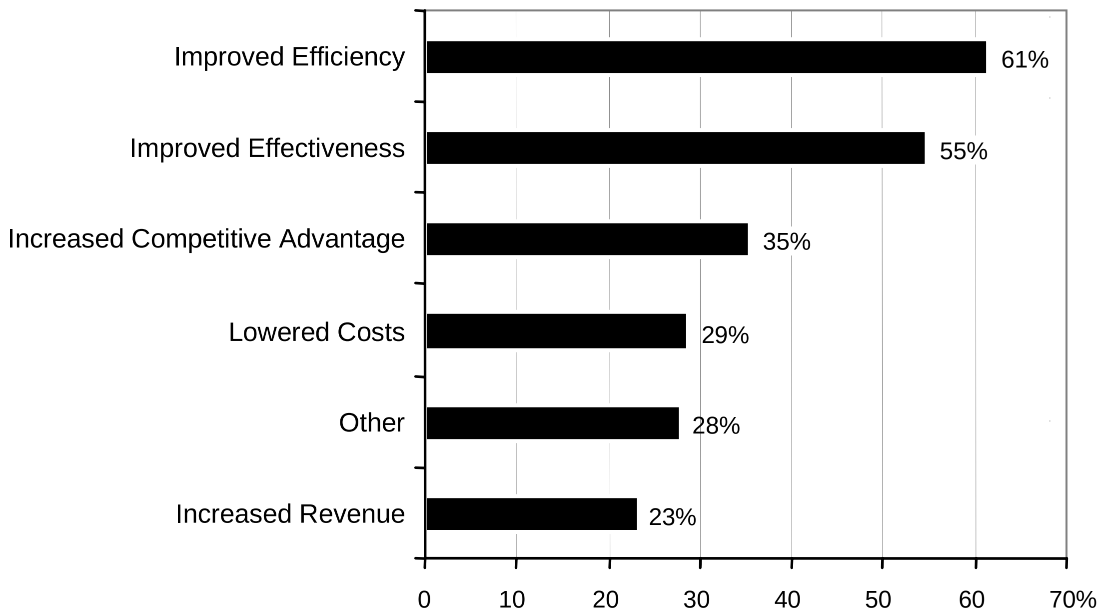
Strategic Planning Assumption: Through 2008, less than 20 percent of CRM project managers will be able to prove ROI using commonly accepted methodologies — although 28 percent of these managers will claim they can measure ROI (0.8 probability).

A recent Gartner survey indicates that, while many enterprises claim to achieve benefits from their CRM initiatives, a minority perform financial measurements to confirm the financial outcomes of these initiatives. Absent such measurements, enterprises cannot really know whether their CRM initiatives are delivering value for the enterprise and its employees, customers and stakeholders.

Traditional financial measurement methodologies still dominate among CRM managers who measure the outcomes of their CRM initiatives — and will likely continue to do so for the next several years. The three most common financial measurement methodologies used in CRM are (see Figure 6-6):

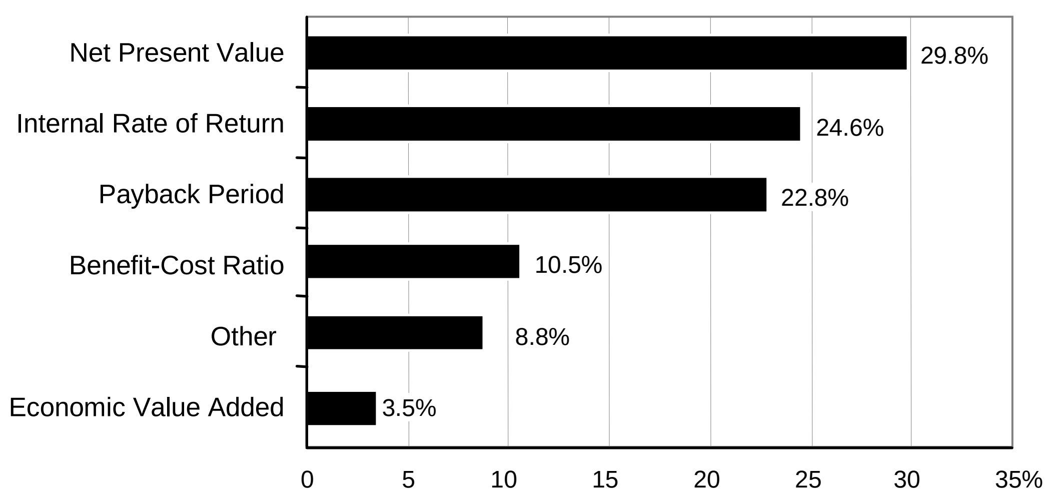
- *Net present value*
  - The discounted value of future cash flows minus the present value of the investment and associated future cash flows

Figure 6-5: Typical Benefits Claimed



Gartner Survey of December 2003, 150 respondents

Figure 6-6: Common ROI Methodologies Used for CRM



Source: Gartner Survey of December 2003, n=57

  - Expresses a multiyear investment in terms of the current value of the currency used (be it dollars, yen, pounds or euros)
- *Payback period*
  - The net investment divided by the average annual cash flow from that investment
  - Estimates the period of time that will elapse before the enterprise gets its money back
- *IRR*
  - The discounted rate that results in a net present value of zero for a series of future cash flows
  - A cutoff rate of return
  - When the IRR is less than the cost of capital or the desired rate of return, investments usually aren't made

Responses to the same recent Gartner CRM survey revealed that enterprises using the three aforementioned methodologies claim an average ROI of 41 percent.

Action Items:

- When cost-justifying CRM investments, an enterprise should use methodologies such as net present value, payback period and IRR in conjunction with measuring soft benefits, such as the impact on customer satisfaction or employee productivity.
- An enterprise not experienced with ROI methodologies should use an ESP to assist in building and measuring the ROI from its CRM projects.

6.3.3 The Right Way to Calculate ROI

Tactical Guideline: When calculating ROI, an enterprise should:

- *Consider a variety of cost and benefit scenarios*
- *Discount future cash flows in current terms*

Many enterprises perform CRM ROI analysis using simple calculations that are based on nominal costs and benefits, instead of discounted cash flows (which factor in the opportunity cost of capital). Even more enterprises calculate ROI using only a best-case scenario. In most instances, these two approaches lead to missed estimates and a gaping hole in credibility (akin to what happened with enterprise resource planning in the late 1990s).

To address this issue, an enterprise should:

- Assess potential, plausible cost and benefit outcomes from implementing a CRM initiative, using best-case, worst-case and probable-case scenarios.
- Evaluate the relative likelihood of each of these scenarios.
- Ensure the evaluation appraises the costs and benefits using discounted cash flows, so that the analysis doesn't unfairly favor outcomes that provide more immediate benefits.

CRM project managers that find this process unfamiliar should consult with the enterprise's finance department, whose staff uses these methods regularly and should understand them well.

Action Item: To calculate ROI, an enterprise should take a pragmatic, scenario-oriented view of the potential outcomes to a CRM initiative and evaluate each scenario using its discounted cash flows.

6.3.4 Sample ROI Calculation

The following example of an ROI calculation, produced by a U.S. manufacturer, illustrates the best practice of taking a scenario approach, and expressing the business impact of the CRM program in terms of revenue and earnings. Figure 6-7 shows one of the many pages of scenario-based output this manufacturer generated as part of its business case for CRM investment.

This manufacturer followed a number of best practices in its approach to generating an ROI estimate for its CRM systems. These included:

- Adopting a scenario approach to evaluating benefits, considering a minimum of three viable business outcomes to evaluate the expected benefit from each investment
- Evaluating the likelihood of each scenario, using confidence levels to set internal expectations realistically and drive internal discussion about benefit assumptions

Figure 6-7: A Sample CRM ROI Calculation by a U.S. Manufacturer

ROI Scenario	NPV of Revenue	NPV of EBITDA	Confidence Level 90%	75%	50%
Improve Close Rate					
1.5%	$2,843,637	$1,137,455	$1,137,455		
2.0%	$3,791,516	$1,516,606		$1,516,606	
3.0%	$5,687,274	$2,274,910			$2,274,910
Increase Product A Renewal and Sales					
3% each	$571,031	$228,412	$228,412		
5% each	$951,718	$380,687		$380,687	
10% each	$1,903,436	$761,374			$761,374
Increase Billable Service Calls per Technician					
1.25 calls per week	$4,299,750	$1,719,900	$1,719,900		
1.75 calls per week	$6,019,650	$2,407,860		$2,407,860	
2.5 calls per week	$8,599,500	$3,439,800			$3,439,800

Source: Gartner

EBITDA earnings before interest, taxes, depreciation and amortization
NPV net present value
ROI return on investment

- Making the assumptions behind each scenario explicit, which drives most review discussion at the front end of the process, when the finance organization makes its preliminary business case review
- Breaking out expected benefits by business unit
- Requiring each business unit to commit to deliver its own estimated benefits

Action Item: An enterprise should work with peer groups, research firms and consultants to incorporate best practices into the investment analysis process for CRM investments.

6.3.5 Business Justification for CRM Investments

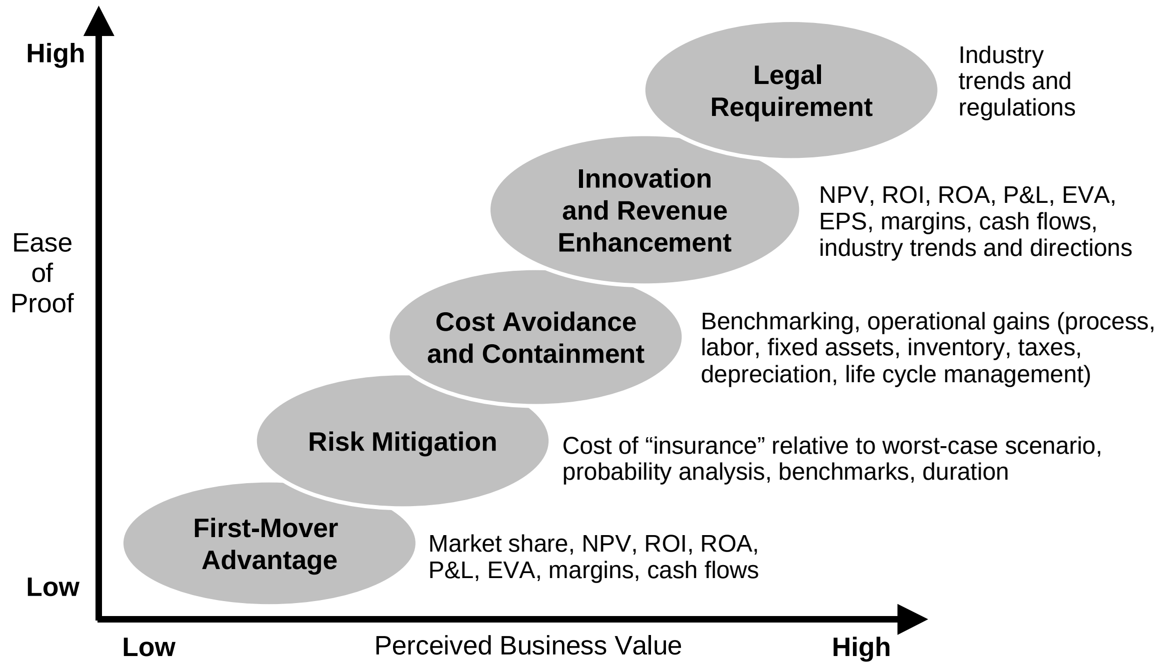
Tactical Guideline: More than 80 percent of CRM funding requests will require more justification than just ROI calculations.

CRM investments take many forms. This leads to complex processes for identifying and articulating the value created. CRM investments require a multifaceted analysis of financial (tangible) and nonfinancial (intangible) measures, which must create synergies to provide greater overall returns. Developing the benefits analysis for CRM investments has usually involved a quest for direct cost reductions — to the exclusion or de-emphasis of other forms of enterprise value.

Business justification for investment depends on the degree of risk associated with investing. Where risks are certain — such as with legal requirements and regulations — CRM programs are easy to justify. However, where the risks and rewards are less certain — such as gaining first-mover advantage by entering a new market — justifying CRM becomes more difficult (see Figure 6-8).

An enterprise should try to position a CRM project by its perceived business value, and within a category in which proof of benefits is easiest. These dimensions expand the view of value creation by blending emerging and traditional elements. The business justification of CRM initiatives increasingly will depend on exploiting the full range of intangible and tangible value.

Figure 6-8: Different Levels of Business Justification for CRM



EPS	earnings per share	**P&L**	profit and loss
EVA	economic value added	**ROA**	return on assets
NPV	net present value	**ROI**	return on investment

Source: Gartner

Action Items: An enterprise should expand its:

- Business justification approaches, to consider traditional and emerging value categories that blend tangible and intangible forms of value
- Analytical skills, to evaluate the full range of value created through CRM investments

6.3.6 Creating a Solid Business Case for CRM

Strategic Planning Assumption: Through 2008, less than 20 percent of large enterprises will implement the processes and economic tools to guide decision-making throughout the life cycle of CRM initiatives (0.7 probability).

An enterprise pursuing CRM must complete an enterprisewide prioritization process for the CRM initiative. Prioritization at the board level can help assess the value of various CRM investment options. TCO analysis, ROI and business justifications should be required as part of the prioritization process.

To develop a sound business justification for each project, an enterprise first needs to complete the standard capital-appropriations request process and required financial analyses for each CRM initiative, and combine these to provide a complete, enterprisewide view of total CRM costs and benefits.

Excellent business cases give decision makers all the information they need. Most enterprises use a standard business case template to ensure completeness and consistency. Although section titles and sequencing vary, most cover similar topics (see Figure 6-9). Standard sections typically include:

- *Executive summary:* This should state:
  - What the problem is
  - What the recommendations are
  - What the enterprise hopes to achieve
- *Opportunity or problem definition:* This should be stated in business terms, and linked to business objectives or challenges.

Figure 6-9: Elements of a Solid CRM Business Case

Business Case Section	Content Description
1. Executive summary	Summarizes the opportunity, recommendation and business impact
2. Introduction and background	Sets the scene by tracing the key events leading up to the business case, and builds credibility by summarizing the due diligence performed
3. Opportunity or problem definition	Describes the opportunity to be seized or problem to be solved in business terms, either linked to business objectives or pain points
4. Recommended solution and alternatives	Recommends a specific solution, and provides the rationale for its selection from the alternatives considered
5. Benefits estimates and assumptions	Presents underlying assumptions, and quantifies major sources and types of expected benefits, how they will be measured and who is responsible for them
6. Cost estimates and assumptions	Quantifies expected costs and the assumptions on which they are based, usually with scenarios for the range of costs
7. Risk factors and mitigation	Quantifies the major risks that could impact project success and provides mitigation strategies for each
8. Financial analysis	Presents the standard financial measures (such as ROI, NPV or IRR) used to evaluate other capital investments
9. Implementation approach/ timeline	Provides estimated timing of major tasks and phases, so that financial analyses based on the timing of expenditures and benefits can be completed
10. Appendices	Presents detailed supporting data, such as financial models

IRR internal rate of return
NPV net present value
ROI return on investment

Source: Gartner

- *Recommended solution and alternatives considered:* This discussion should include architectural compliance issues.
- *Financial analysis:* This sometimes combines:
  - Benefit estimates and assumptions
  - Cost estimates and assumptions
  - Risk factors and mitigation

Action Items: Senior executives funding CRM initiatives should:

- Require project teams to follow the capital-appropriations request process, and to meet enterprise financial targets.
- Use the outline in Figure 6-9 as a framework for creating a solid business case for CRM.

6.3.7 Using the Business Case Throughout the CRM Project Life Cycle

Tactical Guideline: *An enterprise should:*

- *Focus on building the skills of a small team of specialists in the IS organization who will become subject matter experts in project justification.*
- *Have this team work with the CRM project champions in the business units to develop the business case and manage it throughout the CRM investment life cycle.*

Just as an enterprise should view CRM as a journey, it should also consider the business case supporting CRM as a dynamic document that serves multiple purposes throughout three phases of the CRM investment (see Figure 6-10).

Figure 6-10: Using the Business Case to Add Value Throughout the Project Life Cycle

	Investment Life Cycle Phase		
	Investment Appraisal	**Project Execution**	**Benefit Harvesting**
Business Case Objective	Get project buy-in, approval and funding	Keep project on track	Achieve project payoff
Business Case Role	Inform and convince, develop collective ownership	Baseline reference for scope decisions	Measurement yardstick for auditing
Key Persons and Groups Involved	Executive sponsor, project owner, investment committee	Project manager, project steering committee	Business unit management, auditors

Source: Gartner

- *Investment appraisal:* During this phase, the business case should be used as a tool to gain project buy-in and management approval and funding, and to survey all stakeholders to ensure their needs and issues are being addressed. It should also be used to brief and pre-sell influencers and decision makers. Final presentation to the investment committee becomes a formality if the necessary pre-selling occurred with influencers and decision makers.
- *Project execution:* During this phase, the business case should be used to guide project execution.
- *Benefit harvesting:* Enterprises that shelve the business case after it has served its purpose to get project funding are overlooking a powerful tool. They should continue to use the business case to prove that the enterprise achieved the promised payoffs, so that requests for additional funding are more readily approved.

Action Item: An enterprise should use the business case to drive project execution throughout its CRM journey.

6.4 Recommendations

- Analyze TCO, benefits and ROI. Although few enterprises complete this step, those that do claim an average ROI of 41 percent.
- Make the business unit project champion — not the IS organization — responsible for making the business case for CRM.
- Ensure the IS organization works with business units when building CRM systems and creating processes.
- Get help from the finance organization or CRM ESPs, as needed.
- Include soft benefits in the business case — don't rely solely on ROI for justification.
- Use the business case to guide decision making throughout the three phases of the CRM initiative.