



CRM Analytics: Turning Data into Action

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Adapted from Worldwide Customer Relationship Management Analytic Applications Software Forecast and Analysis, 2003-2007 by Robert Blumstein, IDC #29388 and In the Nick of Real Time: CRM Analytics and the Decision Process by Robert Blumstein, IDC #27455

Companies face a universal, fundamental problem: turning the ever-growing sea of data they gather into actionable business decisions. Many enterprises have been addressing this need by implementing customer relationship management (CRM) analytic applications. These applications allow companies to support CRM with real-time analysis, business process support, data integration, and other services.

While CRM analytic applications have been hit by the recession just like other sectors of the technology market, they are a good area for companies to invest in because they help companies keep existing customers, as well as promote lasting, more profitable relationships.

This has led many companies to investigate the idea of installing CRM analytic applications. However, companies looking at this complex space should keep several factors in mind. For example, vertical market specialization is increasing the capabilities of CRM analytics for many companies. Enterprises must also evaluate whether building or buying CRM analytics systems will allow them to better reach their goals for return on investment (ROI). Companies must also avoid being blinded by the latest technologies, instead focusing on specific business goals.

Definitions

CRM applications automate the cross-enterprise, customer-facing, nonindustry-specific business processes within an organization: sales, marketing, and customer support and contact center.

CRM analytic applications meet the above classification and also address areas such as:

- **Business process support.** This consists of packaged applications software that structures and automates a group of tasks pertaining to the review and optimization of business operations (i.e., control) or the discovery and development of new business (i.e., opportunity).
- **Separation of function.** An application can function independently of an organization's core transactional applications (although it can be dependent on such applications for data and might send results back to these applications).
- **Time-oriented, integrated data from multiple sources.** The application extracts, transforms, and integrates data from multiple sources (from customer and sales data to internal processes). Users can predict trends and create long-range models, with all predictive functions drawing on a common, integrated database.

CRM analytic applications should be viewed as representing only one category of the overall analytic applications software market. Along with CRM analytics, the following types of software compose the total analytic applications market:

- **Business process management (BPM).** Cross-functional applications that evaluate and measure the success of an enterprise business strategy
- **Financial.** Applications for financial consolidation, budgeting and planning, activity-based costing, and other financial analysis
- **Operations and production.** Applications to measure and optimize the production and delivery of business products and services (These analytic applications are typically the most strongly verticalized.)

The CRM Analytic Market

CRM analytic applications help users analyze large and disparate sources of data and turn them into real business actions, best practices, and automated processes. This has become particularly relevant in the current era, as companies must deal with rapidly growing amounts of data. The down economy has also prompted many enterprises to focus on existing customers, better serving them to create longer-lasting and more profitable relationships.

These factors stimulate healthy growth in this market, with worldwide revenue of CRM analytic software growing from \$794.0 million in 2002 to \$1,455.9 million in 2007. A key division in the CRM analytic arena is between marketing analysis and Web-site analysis. Marketing analysis represents the traditional role of CRM analytics and remains the largest overall segment. However, Web-site analysis is growing far more quickly, as companies do more marketing and selling online, trying to take advantage of the Internet to cost-effectively reach more people.

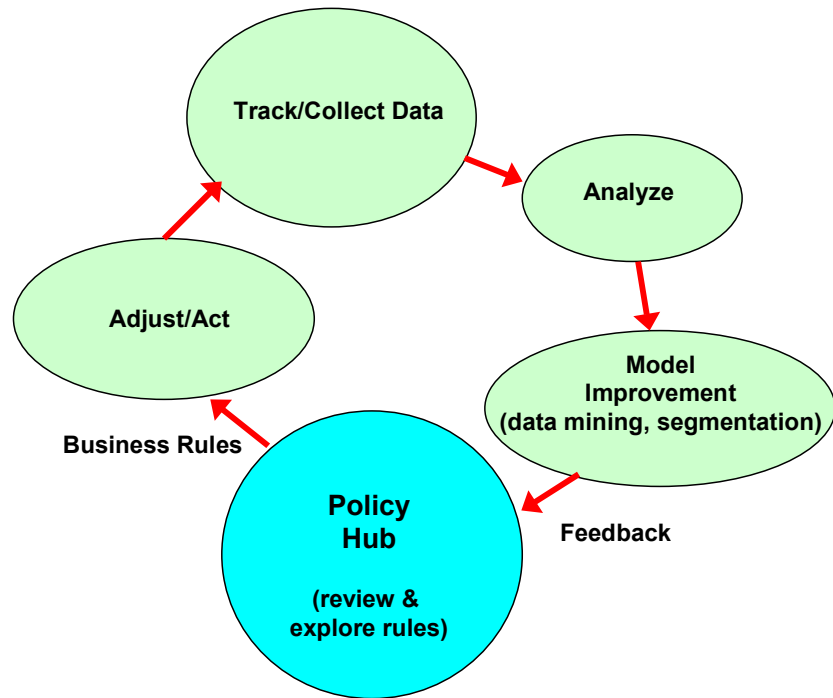
Analytics Linked with Operations

Increasingly, CRM analytic software is bridging the gap between analysis and action. It is not enough to obtain an analytic finding; the finding must be offered in the context of the overall business workflow. That may mean developing acquisition propensity scores and then automatically applying them to rank and select prospects or optimizing a marketing channel mix for customers and then creating a strategic policy to forge agreements with channel players.

Maximizing CRM effectiveness and doing so in a relevant decision/action time frame must take into account the overall cycle of business activity within which analytics operates. As Figure 1 shows, analytics are derived from tracking and data collection. The analytics feed into a modeling process that then produces a piece of decision-worthy information. The information then feeds into the policy hub, the arena in which the information is used to make a decision, and the decision itself results in a new action, bringing the process full circle.

The total time to complete this cycle is the sum of the times (with some allowance for overlap) of the individual steps. To approach real time, it is necessary to shrink not just the duration of analysis but rather the total cycle time from data collection to action. Each of these steps can be viewed along a spectrum of time ranging upward from a starting point of near-real time.

Figure 1
Workflow and the Policy Hub



Source: IDC, 2003

Key Functions of CRM Analytics

As the market has matured, some of the hype that originally came with it has worn off. Both vendors and users now realize that analytics alone cannot save a company from bad planning or second-rate products. Rather, CRM analytics have become an essential piece of a larger puzzle, an instrument of survival and parity in the new environment rather than a promise of absolute victory. More experienced CRM analytic users are becoming adept at using this software for measurement, asset optimization, and, ideally, long-term planning.

Key developments in CRM analytics include:

- **Near-real-time analytics.** Real-time (usually near real time but not instantaneous) CRM analytics are designed to substitute automated judgment for live interactive judgment. Faster processors, cheaper storage, and the dual blossoming of service center cross-selling and Internet experience optimization have made this a major wave.
- **Business process change.** Too many firms selected CRM analytic software without considering that the implicit business process behind the software was different from

their own way of doing business. A business built around a quarterly planning meeting in which half of the time is devoted to agreeing on a common set of numbers is very different from a business built around a continuously updated set of analytics derived from a single set of numbers.

- **Vertical specific actions.** Although there are basic commonalities to the creation of CRM analytics that the general community of marketers understands, individual industries find certain metrics more valuable to their business models than others, and all industries prefer to conduct their business in their own jargon. As a result, vendors that verticalize their software have a distinct advantage in the marketplace.
- **More sophisticated ROI metrics.** CRM analytic implementations have been plagued by unrealistic expectations and lack of accountability. Now tighter budgets are forcing stronger demands for pilot projects that demonstrate their ROI prior to general rollout. The midmarket firms that many vendors now target have more limited dollars and shorter time horizons, making it more difficult to lose sight of project goals.
- **Increasing analytic sophistication.** CRM analytics now exist to automate higher levels of judgment and to link the recommendations with operational activities. This trend will continue as companies seek to implement best analytic practices for each step of the entire CRM function.
- **Increasing adoption by areas outside North America.** Although North America is still the largest market and will continue to grow in absolute terms, its percentage of the worldwide market is declining. Asia/Pacific will become a major growth area for this software.
- **Platform standardization.** Windows operating systems will continue to increase their market share, while Unix will remain almost unchanged, and market shares for most other operating systems will decline.

Considerations

While the decision to employ CRM analytics may seem like a straightforward one, there are several important issues that users must consider:

- **Sarbanes-Oxley Act.** Enterprises face new responsibilities due to the Sarbanes-Oxley Act, particularly around the disclosure of financial data. Implementing CRM analytics

provides an opportunity to build in compliance from the ground up.

- **Build versus buy.** Verticalization has not addressed all custom software needs, but buy solutions have made big gains in business process support data integration. Meanwhile, many providers have been integrating their consulting expertise into packaged applications.
- **Business process changes.** Both insufficient changes and a lack of understanding of these changes will continue to pose an obstacle to successful CRM analytic implementation.
- **Business plans.** Projects must be integrated into an overall business plan, emphasizing specific business needs over technology. This is especially important when determining specific metrics in order to show ROI.
- **Speed versus quality.** As more CRM analytics focus on near real time for the purpose of optimizing interactions or maximizing specific revenue goals, the prospect of trading depth for speed becomes very real. Users must measure the relative advantages of legacy analytic processes that produce well-understood results versus newer algorithms that produce instant results but whose quality and tendencies are not well known. In other words, faster is only better if it also produces superior results.
- **Political clashes.** Improved CRM analytics will also create greater accountability by forcing individual executives and departments to prove, in measurable ways, that they are carrying their weight. While this overall result is desirable, it may undermine support for such projects inside the organization. Greater information sharing can also arouse distrust. Any extensive CRM analytic blueprint should account for human problems, not just IT issues.

Conclusion

CRM analytics have become an important function for companies seeking to gain efficiency and capitalize on their existing customers. Meanwhile, vendors are increasingly integrating these functions with other software, making them more widely available and vertically integrated.

Speedily implemented pilot projects for small corners of CRM analytics have become the new foot in the door during these tight budgetary times. These pilots involve visibly reaching carefully selected goals. Solving a single problem with a measurable impact — optimizing pricing in a way that leaves less money on the table, for example — is a swift way to win hearts and minds. Once financial decision makers see the power of these types of applications, many will follow with larger implementations.

However, to properly capitalize on this market, companies need to make important decisions about

- Effecting business process change
- Vertical market specialization
- Showing ROI
- Build versus buy

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