

## **Don't Confuse CRM Benefits With ROI**

**In recent customer relationship management surveys, 52 percent of respondents claimed return on investment from implementing one or more CRM applications, but detailed analysis shows enterprises are confusing benefits with ROI.**

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### **Core Topic**

Customer Relationship Management:  
Creating Business Value for CRM

### **Key Issue**

How can enterprises control the investments and quantify the benefits of CRM?

### **Key Facts**

The critical differences between ROI and benefit realization are twofold:

- ROI encompasses TCO, as well as benefits
- ROI discounts future costs and benefits to enable them to be expressed in present-day currency terms.

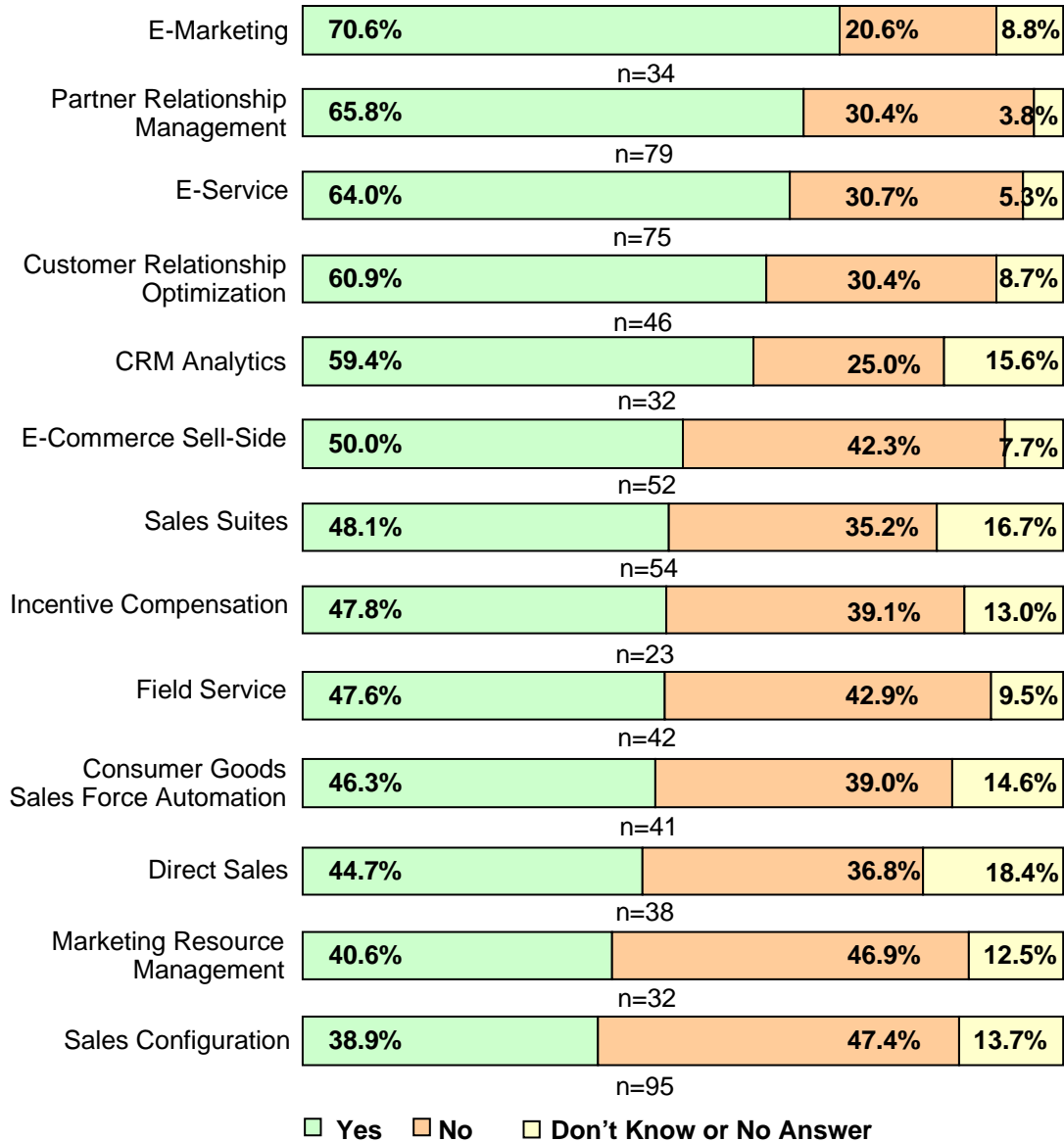
Although many enterprises make claims about return on investment (ROI), their comments about their ROI often demonstrate that they're confusing the realization of benefits with the achievement of ROI. It's important to know the difference between benefits and ROI, and they must be considered separately.

Most capital appropriation requests must pass ROI and business-case analysis tests. Customer relationship management (CRM) projects are no exception, and, if anything, they require additional analytical rigor because of the immaturity of the market and the propensity for many implementations to lack measurable benefits and positive ROI. For enterprises to achieve ROI from CRM, investments in the related technologies and applications must contribute to tangible (that is, measurable) business benefits, in addition to intangible benefits (such as customer loyalty).

In response to a series of surveys, conducted in December 2002, 653 respondents answered questions about achieving ROI from their deployments of CRM applications. Overall, 52 percent claimed to be receiving demonstrable ROI from implementing one or more CRM applications (see Figure 1); however, the comments associated with the claimed ROI demonstrates that most enterprises are confusing benefits (see Note 1) with ROI (see Note 2).

### **Gartner**

**Figure 1**  
**ROI Claimed for CRM Applications**  
**Question: Have you received demonstrable ROI from your deployment?**



Source: Gartner Research (December 2002)

### Benefits

Standard dictionary definitions of the word "benefit" vary, but a general explication is anything that promotes or enhances well-being or provides an advantage. CRM benefits fall into three categories:

- **Revenue enhancements** — benefits that contribute to increased revenue
- **Cost savings (or cost avoidance)** — benefits that contribute to a reduction in the cost of operations or a decrease in the cost of future operations (such as a postponement or reduction in hiring)

## Note 1

### Benefits

Following are examples of benefits described by survey respondents:

- "Better visibility into potential sales and better reporting, more-efficient quoting, fewer people required to manage distributor business"
- "We are reducing customer service rep head count in 2003 as a result of this system"
- "Savings of 8.5 full-time equivalents (FTEs), plus improved efficiency for all staff who use it"
- "We retired the legacy application, saving \$75,000 per year in support and \$150,000 in FTE internal resources to manage"
- "Fewer miles driven between scheduled inspections, resulting in more time available to do added inspections that were previously not available"
- "Reduction of cycle time to reconcile payments and better analysis of trade fund spending"
- "We save \$5 every time someone uses the online configurator, instead of calling us"
- "Improved yield on direct mail campaigns, using modeled customer scores to determine mailing strategy"
- "Lead times reduced by two weeks, faster to market (competitive advantage), reduced staff"
- "Reduced average training time for reps from 12 hours to 45 minutes"
- "Eliminated one management level position responsible for e-mail response as a specific task"
- "Eliminated salary differential for e-mail capability as a skill"
- "Reduced labor spending on e-mail response by 50 percent first year"
- "Raised agents' 'occupancy rate' by 11 percent, on average"
- "Eliminated additional head count requirement for 30 percent increase in volume"

- **Intangibles (or soft benefits)** — these benefits are often difficult to quantify, tend to be controversial and are often exaggerated.

For each of these categories, enterprises generally break out benefits into the following:

- *Efficiency benefits* — those that address performing or operating quickly and accurately in ways that are the least wasteful (for example, decreasing the time it takes to complete a process)
- *Effectiveness benefits* — those that address performing or operating in the most impressive or extraordinary manner to produce intended results (for example, ensuring that the process always yields the best answer)

Although many CRM initiatives are initially justified and driven by cost savings, they are unlikely to be funded solely on cost savings, because the initial cost savings projected cannot be sustained for multiple years. This is because once enterprises have taken the savings, in subsequent years departmental budgets will most often be reduced by the initial amount of savings. Therefore, we recommend that enterprises segment benefits into the efficiency and effectiveness categories for cost savings and revenue enhancements and plan for several benefits in each category that will span multiple years.

Hardened investment committees tend to be cynical about most soft benefits. Therefore, we recommend taking a more-comprehensive approach to developing benefits, one that we label value on investment (see "Projecting, Measuring, and Monitoring Business Value" and "TVO Methodology: Valuing IT Investments via the Gartner Business Performance Framework").

Project managers who are uncertain about how to calculate CRM benefits should begin with pertinent data from sales, operations, human resources, training, public relations, finance, marketing, and customer service and support, including turnover rates, head count, training costs, operating revenue, contribution, and average deal size and duration. Some enterprises use activity-based management to assign fully loaded costs to activities performed within sales, marketing and customer service and support.

When determining costs for each item, it's crucial to achieve consensus from functional and departmental champions and the chief financial officer. Once consensus is reached regarding the base data and the assumptions surrounding it, business benefits can be determined. Figure 2 shows a typical revenue enhancement benefit calculation.

**Figure 2**  
**Example of a Benefits Calculation**

**Work it like an old-fashioned story problem**

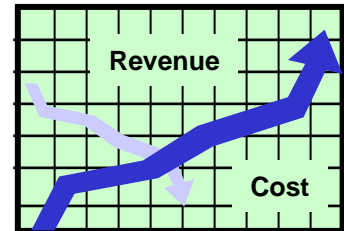
**Current Base Data:**

- 600 reps; 60 hours/week; 40 weeks/year
- 10 hours/week actual selling time
- All reps generate \$240 million in business annually = \$400,000/rep/year

**Benefit to Calculate:**

- Increase sales time by 20% = 2 hours/week or 80 hours more selling time/year/rep

**CRM Benefits**



**Do the Math**

Increased Revenue (per rep, per year)	=	Current Revenue	X	% Increase Sales
		\$400,000		20
	=	\$80,000/rep/year		
Increased Revenue (all reps annually)	=	\$80,000/rep/year	X	600 sales reps
	=	\$48,000,000		

Using conventional wisdom and consensus, executives agree on one-half of this amount

**Bottom Line:** If the system and behavior changes enable this benefit level, the enterprise will achieve revenue increases of \$24 million annually from this single benefit.

Source: Gartner Research (April 2003)

*Action Item: CRM managers should consider efficiency and effectiveness and define a minimum of two benefits in each of the categories, in addition to the intangibles to justify CRM investments. Then, working with a cross-departmental group, they should agree on base data (and the assumptions surrounding the base data) and calculate estimated benefits to prove that investments in CRM can increase revenue or decrease costs. Use these estimated benefits calculations in ROI calculations. After initial implementation, begin measuring these benefits to prove they are accruing, ultimately hoping to reach the benefit projected during the benefit calculation.*

**ROI**

ROI is a financial analysis of how a project affects an enterprise's financial statement. The critical differences between ROI and benefit realization are twofold: first, ROI encompasses total cost of ownership (TCO), as well as benefits; second, ROI discounts future costs and benefits to enable them to be expressed in present-day currency terms. Enterprises can undertake many types of ROI analysis (see Note 3), and Gartner recommends that they work with their financial or business analysts to determine the best method.

## Note 2

### ROI

Following are examples of ROI described by survey respondents:

- "We've achieved an average ROI of 105 percent from our campaigns, resulting in us exceeding planned profits contributions by 55 percent"
- "Saw a positive ROI within one year as it was critical in helping us drive online sales"
- "We're beginning to be able to measure the expected ROI from some of our initial campaigns — this is also an area that I believe many companies expect an ROI too soon or are not adequately able to develop an ROI, because the ROI crosses several organizations or functions (such as cross-sell, upsell), where it requires multiple functional areas to develop ROIs together"
- "ROI in 16 months — benefits included call time reduction from seven minutes to four minutes"
- "We were able to pay back the entire project cost within 13 months by improving our targeting efforts through better segmentation, etc."
- "The increased margin on our sales paid for the entire system in about two and a half years"
- "Initial ROI was projected to be 29 months; actual ROI will be at least 60 months"
- "Payback period originally estimated for 18 months ended at nine months; 25 percent NPV/three years; 30 percent internal rate of return/12 percent cost of capital"

## Note 3

### Types of ROI Calculations

- Balanced scorecard
- Economic value added
- Internal rate of return
- NPV
- Payback period
- Real options analysis
- TVO

In general, an ROI calculation will produce a range or series of potential results, based on scenarios and changes in assumptions. To fully appreciate the numbers in that range, a full business-case analysis must be completed prior to undertaking any CRM initiative. This analysis should focus on understanding the total costs and benefits of pursuing a CRM strategy. It should also take into account the factors and assumptions that may affect attainment of the expected ROI. The business case should include:

- A business-as-usual analysis, including cost calculations, capital and depreciation detail, expense and capital spending detail, and a complete base case business-as-usual profit and loss (P&L) statement
- A business-as-a-result-of-CRM analysis, including cost calculations, capital and depreciation detail, expense and capital spending detail, and a complete business-with-CRM P&L statement
- A comparison of the P&L statements (business-as-usual and business-with-CRM), including an analysis of the period expenses, annual expenditures, depreciation and amortization
- A spread of period costs and expenses over the work plan (indicating key milestones and decisions) to gain a full appreciation and understanding for the magnitude and timing of expenditures as planned

Figure 3 is one of many pages of scenario-based output generated by a Gartner client that developed an excellent business case for its CRM investment. This company has a number of processes that embody "best practices" in its approach to generating an ROI for its CRM program.

First, it adopts a scenario approach to evaluating benefits, considering a minimum of three viable business outcomes to evaluate the expected ROI from each of three different benefit levels. Second, it evaluates the statistical likelihood of each scenario, using confidence levels to set internal expectations realistically and to drive internal discussion around benefit assumptions. Third, the company makes assumptions behind each scenario extremely explicit, which drives most of the review discussion to the front end of the process when the finance organization is engaged in preliminary business case review, not during the investment discussions, which are typically the last phase of investment decisions. Finally, the company breaks out expected benefits by business unit and requires each business unit head to commit to delivering its own estimated benefit.

**Table 1**  
**Example of a ROI Calculation**

ROI Scenario	Net Present Value (NPV) of Revenue	NPV of EBITDA	Confidence Level		
			90 percent	75 percent	50 percent
<b>Improve Close Rate</b>					
1.5 percent	\$2,843,637	\$1,137,455	\$1,137,455		
2.0 percent	\$3,791,516	\$1,516,606		\$1,516,606	
3.0 percent	5,687,274	\$2,274,910			\$2,274,910
<b>Increase Product A Renewal and Sales</b>					
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
<b>Increase Billable Service Calls per Technician</b>					
1.25 calls/week	\$4,299,750	\$1,719,900	\$1,719,900		
1.75 calls/week	\$6,019,650	\$2,407,860		\$2,407,860	
2.5 calls/week	\$8,599,500	\$3,439,800			\$3,439,800

Source: Gartner Research (April 2003)

Calculating ROI requires ongoing recalculation and measurement. ROI is not a "one-time" calculation made to support a capital funds request or justification before a project begins. Rather, it must be continually recalculated — after approval, and during and after implementation and rollout as well. Enterprises must continue counting the costs of operation after initial rollout, as projected in the TCO and business case analysis, to prove that the investment is meeting or has exceeded the projected numbers presented in the ROI calculation at the time of fund justification.

*Action Item: CEOs, CRM steering committees and board members must require CRM managers to develop a thorough business case analysis working with the enterprise's corporate financial group to understand the assumptions and "what-ifs" that will impact the ROI from CRM initiatives. Ongoing measurement and recalculation are also critical. Working with peer groups, research organizations and consultancies can help to incorporate best practices into the ROI analysis process for CRM investments.*

**Acronym Key**

<b>CRM</b>	Customer relationship management
<b>EBITDA</b>	Earnings before interest, taxes, depreciation and amortization
<b>FTE</b>	Full-time equivalent
<b>NPV</b>	Net present value
<b>P&amp;L</b>	Profit and loss
<b>ROI</b>	Return on investment
<b>TCO</b>	Total cost of ownership
<b>TVO</b>	Total value of opportunity

**Bottom Line:** Customer relationship management managers must understand the difference between benefits and return on investment. They must ensure that a variety of cost and benefit scenarios are taken into consideration when conducting ROI calculations and that cash flows are always discounted to be comparable in current dollar terms. They must use best practices to calculate both and put metrics in place to measure the benefits projected during the investment decision process. Using measurement systems before, during and after implementation will help enterprises stay on track to achieving not only benefits, but also the projected ROI that was promised when the decision to move forward with CRM was made. Although respondents in our survey claim ROI, we estimate approximately 13 percent of them are actually able to cite the ROI they claim, whereas the rest can only anecdotally claim benefits, not ROI.