

# **ROI on CRM: a customer-journey approach**

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## **ABSTRACT**

We discuss an issue critical to companies that invest in Customer Relationship Management (CRM): how to assess return on investment (ROI). A number of issues make this task challenging. First, defining the boundaries of CRM; second, establishing what constitutes a CRM investment; third, deciding what counts as a 'return' on that investment; and, finally, choosing the time frame to use in the assessment. We first review the literature on the effectiveness of CRM, and then propose a customer-journey approach to computing ROI on CRM. This approach traces the customer's value from initial acquisition, through development to retention. We then propose a series of research propositions that can help inform how business performance can be affected while implementing CRM.

## **INTRODUCTION**

We discuss an issue critical to companies that invest in Customer Relationship Management (CRM): how to assess return on investment (ROI). A number of issues make this task challenging. First, defining the boundaries of CRM; second, establishing what constitutes a CRM investment; third, deciding what counts as a 'return' on that investment; and, finally, choosing the time frame to use in the assessment. We first review the literature on the effectiveness of CRM, and then propose a customer-journey approach to computing ROI on CRM. This approach traces the customer's value from initial acquisition, through development to retention. We then propose a series of research propositions that can help inform how business performance can be affected while implementing CRM.

Over recent years, the amount invested in CRM technology has exploded worldwide. Helms (2001) estimated that worldwide investment in CRM stood at \$61 billion. This is set to grow to \$148 billion by 2005 according to International Data Corporation. In the United States, the near-term annual growth rate in CRM investments is expected to be around 9%, and in Europe, 25% (ECCS 2001).

However, despite these huge sums, very little research has been published on whether such investments have made substantial returns to the company (see Buttle, 2002b, for a review). The META group recently conducted interviews with Global 2000 companies

(e.g. Eastman Kodak, Nortel Networks, Sprint) and found that 64% of the respondents lacked techniques to measure the business value of CRM, and less than 10% have a tangible ROI measure for their CRM! (Brown 2000). Nearly 40% of Australian companies are unable to determine whether CRM has realized any benefits at all (Meagher 2002).

Given that the boundaries of CRM are ill-defined and projects can take a number of years to conclude, computing ROI can be troublesome. Consider also that CRM has strategic, operational and analytical perspectives, and the ROI problem becomes even more pronounced.

### **IS CRM WORKING?**

Managers using CRM software to support their sales, marketing and service activities report several benefits, for example higher levels of customer satisfaction, enhanced customer retention, reduced customer acquisition costs, and higher share of customer spend.

There is some published research to support this. One oft-cited and seminal piece of research found that lifting customer retention rates by 5% of customers could increase company profit by 25% to 95% (Reichheld 1996). This is due to the high cost of acquisition, plus the fact that in the early years, customers are often unprofitable. It is only in the latter years when the volumes purchased increase that the customers become profitable. This leads to the idea that a customer should not be viewed from a single transaction, but as a lifetime income stream. In the car industry for instance, it is estimated that a General Motors customer is worth \$276,000 over a lifetime of purchasing cars (11 or more vehicles), parts and service. Fleet operators are worth considerably more. The estimate also allows for the effect of word-of-mouth endorsement to friends and relatives (Ferron 2000).

In the business-to-business context, where there are few prospective buyers, the cost of customer acquisition can be huge. We estimate, for example, that the cost of replacing a lost advertising agency client is over 20 times the cost of retaining an existing client. In the UK, major agencies can spend up to £2 millions on research, strategic analysis and

creative work in pitching for one major client, with up to 4 creative teams working on different executions. An agency might incur these costs several times over as it pitches to several prospective clients to replace the defector. Sometimes the prospective client will be expected to pay part of these pitching costs. For existing clients there are only the ongoing costs of social bonding plus the recruitment of the occasional big hitter who is brought in with fanfare to work on the account. Existing clients are billed for any research and production costs that are incurred (Michell 2002).

Recently, Coles and Gokey (2002) have argued that it is not enough to manage customer defection alone. They suggest that it makes better sense to monitor customer buying behaviour, and to identify customers who have reduced their spending. This is often a signal that defection may be about to happen. In their 2-year study, across 16 diverse industries, they found that migration in downward spend is more damaging to revenues than defection. For instance in one banking case, they found that when 35% of customers reduced their account balances (i.e. downward spend), this reduced the total balances of the bank by 24%. On the other hand, their annual defection rate of 10% in the customer base only produced a 3% decrease in the bank's total balance. This phenomenon was true across 16 industries. In short, they argue that it makes better sense *not* to wait for customers to defect, but to manage the process of customer development (migration) once the customers are acquired.

Underpinning customer acquisition, retention and development (migration) strategies and tactics is the information in the customer database. Customer knowledge is critical to CRM performance. Gensch, Aversa and Moore (1990) reported a business-to-business case study in which they isolated the 8-10 attributes that customers used to select their suppliers for industrial equipment. They then segmented the customer base using different combinations of these attributes. From this, four segments emerged: Company-loyal, Competitive, Switchable, and Competitor-loyal. The company then targeted the Competitive and the Switchable segments with appropriate value propositions, whilst remaining focused on satisfying the other segments. After one year, sales rose 18% while at the same time, the total industry declined 15%.

## **CRM AND CORPORATE PERFORMANCE**

There seems little doubt that CRM implementations have the capacity to improve managerial performance in the important areas of customer acquisition, customer development (migration) and customer retention. But what evidence is there that CRM has had a significant influence on overall corporate performance? In short, does CRM contribute to the bottom line?

The evidence tends to be anecdotal, as indeed it must be. If a company adopts CRM as its fundamental business strategy, there is no way of holding the competitive and internal environments constant for the next 5 years to assess whether improvements to the bottom are due solely to CRM implementation.

One prominent case is the Royal Bank of Canada (RBC), which won the first international award for CRM excellence in large corporations. RBC started their CRM initiative in 1995. To date they have invested over \$100 million. Today the Vice President for CRM claims “we no longer view CRM as a program. [It] is our core strategy”. Revenue growth is running at 10-15% p.a., and profit growth at 25%. He went on to say, “We absolutely conclude the CRM is paying us back in spades. It enabled us to grow both top of the house revenue line and at the same time achieve huge cost savings”. RBC’s retention of customers is exceptionally high in an industry where some 22% of commercial customers change banks every five years (Schell 1996).

Another case study in business-to-business illustrates the same point. This concerns the American market research company Customer Research Inc (Greco 1998). In 1987, this company had 157 customers, turning over \$11 million in revenue. Analysis of revenue and cost streams allowed the company to divide these customers into 4 segments. They found that only 10 customers were high margin and high volume. Worse still, the majority of their customers (101 in fact) were not desirable; they were of the low volume, low margin type. Too much resource had been spent on acquiring and servicing these unprofitable customers. To solve this problem, management sacked some customers and developed a more stringent screening process for new ones. They calculated they needed about 20-30% more revenue from existing clients if they were to let go of the 100 of so unprofitable customers within 2 years. Through a series of organizational changes

ranging from screening new enquiries, delighting their high value customers, and changing the remuneration packages of the sales people, they managed to make a radical shift. By 1988, they had trimmed the customer base to 78, but revenue increased to \$30 million, and profits more than doubled. This highlights the important CRM disciplines of customer portfolio analysis, activity-based costing, and role of leadership in guiding CRM implementations.

There have been few studies brave enough to try to link business performance to CRM competence. Woodcock (2000) found a correlation of .80 between how well companies managed their customers and business performance. Correlation, it should be noted does not prove cause-effect. Accenture (2001), a consultancy active in the CRM space, found that a 10% improvement in 21 CRM capabilities boosted profits (pre-tax) by as much as \$40-\$50 million in a \$1 billion company. They indicated that this could be improved even further to \$120-150 million if further improvements were made to CRM capability. Another study by the consulting company Insight Technology Group (cited in Woodcock, Starkey, Stone, Weston and Ozimek 2001, p.95) found that companies who followed their CRM projects to completion enjoyed benefits in a number of areas: revenue increases (+42%), sales cost decreases (-35%), sell cycle reductions (-25%), margin improvements (+2%), customer satisfaction (+20%). More recently, Woodcock, Starkey, Stone, Weston and Ozimek (2001) also found that with proper investment and management of CRM, a 4-fold return on investment could be anticipated over 3 years.

Against this backdrop of success stories, we also have studies that show that CRM implementations often fail. It is suggested that between 70% and 90% of CRM implementations have failed (Brewton, cited in Buttle 2002b). Another estimate is that 30-40% of CRM tactical projects have failed, while 60% of CRM projects that attempt a strategic focus have also failed (Woodcock, Starkey, Stone, Weston and Ozimek 2001). Worse still, one in five CRM implementations are thought to have actually damaged customer relationships (Bain and Co 2001).

If CRM's contribution to corporate performance is equivocal, what can companies do to evaluate its worth? How does one go about evaluating the ROI of CRM?

## UNDERSTANDING ROI

Return on investment is a simple idea. It computes thus:

$$\text{ROI} = \frac{\text{Profits} \times 100}{\text{Investment}}$$

It measures how much profit is returned from a given investment. It is a useful comparative index. Other things being equal if a company can generate 10% ROI from project A and 15% from project B, the company will opt for project B.

In the context of CRM, this simplicity is however complicated by 4 issues:

1. defining the boundaries of CRM
2. establishing what constitutes a CRM investment
3. deciding what counts as a 'return' on that investment
4. choosing the time frame to use in the assessment

The rest of this paper will examine these issues in detail accompanied by a series of testable research propositions.

### Issue 1: Defining the boundaries of CRM

CRM suffers from a lack of clear definition. There is no consensus about what is meant by the term CRM. Different constituencies having an interest in CRM have different emphases. Technology firms, like Siebel and PeopleSoft, want to sell software solutions into client organizations; consultants, like PwC and Accenture want to profit from helping clients generate strong business outcomes from their CRM investments; clients typically want CRM to improve both cost and revenue sides of the profit equation.

In the context of these different perspectives, we have found it useful to conceptualise CRM at three levels of abstraction: strategic, operational and analytical.

At a **strategic** level, CRM is seen as a core business strategy. As such it competes against other possible core business strategies. Kotler (2000) notes that companies may be product, production, sales, or market(ing) oriented. CRM is consistent with becoming more customer- or market-centric. Other strategies might be preferred in different conditions of economic and market development. For example, as emerging national

economies have sought to generate wealth, they have typically adopted a production - oriented approach to doing business where the goal is to compete on price supported by low unit manufacturing costs. For example, this is true of many businesses on mainland China today. Similarly, in developed economies, as new markets emerge, companies typically adopt a sales oriented approach as in the case of the European mobile telecoms industry in the mid 1990s.

Smith (2001) offers a strategically-flavoured definition of CRM: 'CRM is a business strategy combined with technology to effectively manage the complete customer life-cycle'.

At an **operational** level, CRM is concerned with automating chunks of the enterprise. CRM vendors have developed products that enable automation of selling, marketing, and service functions. A major driver of CRM implementations has been channel integration. Whereas it was common for companies to have single or few routes to market, now it is commonplace to have many. In business-to-business markets, channels have multiplied: distributors, catalogues, on-line, electronic exchanges/auctions, direct selling. Under such circumstances, the creation of a single-view of the customer using data captured across all channels, and exploitation of that data has been a huge challenge. It is a challenge that is difficult to meet without IT. Most CRM projects also involve a number of smaller, but also very challenging projects, such as: systems integration, data quality improvement, process reengineering, data analytics, and market segmentation. CRM implementations such as these require strong project management and change management skills.

Rembrandt (2002) offers an operations-flavoured definition of CRM: 'a good CRM program enables customers to easily access the information they need at any time and includes a 24-by-7 web-site, fast email tools and the ability to discuss problems with a human being rather than an electronic answering system'.

At an **analytical** level, CRM is focused upon exploitation of customer data to drive more highly focused sales and marketing campaigns. Analytical tools such as decision trees, neural networks and clustering can be used to improve the effectiveness and efficiency of customer acquisition, customer development and customer retentions strategies.

We conclude this section by reporting our preferred definition which reflects all 3 perspectives:

CRM is the core business strategy that integrates internal processes and functions and external business networks to create and deliver value to targeted customers at a profit. It is grounded on high quality customer data and enabled by information technology (Buttle 2002a)

## **Issue 2: Establishing what constitutes a CRM investment**

It is important to understand that the investment figures cited earlier represent investments in technology only. Most CRM projects in larger companies take between 3 and 5 years to implement. The technology component typically is a large investment at the outset. However, over the full term of the CRM project, technology costs account for between one-third and one-fifth of overall costs.

Other costs are incurred in changing two other core elements of CRM strategies: people and process. People may need to be reskilled or retrenched; talent may need to be recruited. Consultants may need to be brought in to conduct some of the project, such as systems integration and data warehousing. Front and back-office processes may need to be reengineered. The organization may need redesigning around customers or segments.

## **Issue 3: Deciding what counts as a 'return'**

In the conventional ROI formula, return is defined as profit. However, as noted earlier, tracing profit consequences of CRM investments is extremely difficult if not impossible at the strategic level of analysis. Other factors such as superior customer-valued quality, efficiency of distribution, brand image or corporate reputation may all be important determinants of sales and profitability.

However, at the operational level, it is often possible to identify useful measures of CRM performance. CRM Industry Awards finalist, EMC, has largely automated its customer service. Errors or potential events in a customer's systems or networks are automatically sensed. The customer's equipment dials home to EMC's support center 24/7 where staff research the issue by dialing back into the system. 90% of calls are resolved remotely

without customers even being aware there is a problem. EMC uses a number of call-centre metrics to assess their CRM performance where there is contact between customer and EMC: customer hold time, customer abandon rate, call duration, first call resolution rate, response time and resolve time, for example. A sales force automation program may be deemed successful if the enquiry-conversion rate is improved, the number of proposals written is increased, the cost-of-sales is reduced, and average customer order size is increased. All these measures are likely to be compared with pre-automation results. However, a company could not be certain that these results would not have been achieved without automation. In the absence of a control group, the best companies can hope for is a simple before-after comparison.

One catalogue trading company in the UK is a case in point. It ran a customer acquisition experiment in 1998, and found that the CRM-enabled campaign was much more successful in generating new customers than traditional direct mail. Furthermore there were additional beneficial outcomes from the CRM campaign, as shown in Table 1 below.

Table 1: CRM performance at UK Business Direct

|                                            | <b>CRM campaign</b> | <b>Traditional direct mail</b> |
|--------------------------------------------|---------------------|--------------------------------|
| <b>Number of catalogues mailed</b>         | 1000                | 5000                           |
| <b>Mailing cost</b>                        | £3,000              | £15,000                        |
| <b>New customers obtained in 1998</b>      | 65                  | 45                             |
| <b>Conversion rate (new customers)</b>     | 6.5%                | 0.09%                          |
| <b>Initial sales per acquired customer</b> | £180                | £120                           |
| <b>Total new initial sales revenues</b>    | £11,700             | £5,400                         |
| <b>Acquisition cost per account</b>        | £46.15              | £333.33                        |
| <b>Average customer sales 1998-2001</b>    | £7,500              | £2,200                         |
| <b>3-year gross margin (40%)</b>           | £3,000              | £880                           |
| <b>1998 customers still active in 2001</b> | 80%                 | 35%                            |

At the analytical level, CRM enables companies to embark on ambitious experimental programs to identify what sorts of campaigns and events are successful at improving the efficiency and effectiveness of customer acquisition, development and retention.

Besides thinking of ‘return’ from the strategic, operational or analytical point of view, another approach is to make the CRM outcome measures more ‘customer-related’. There are two types of measures here – ‘hard behavioral’ indicators, and ‘soft-attitudinal’

indicators. Some examples of the former include the number of new customers acquired, customer attrition rates, average spend per customer, customer complaints, cross-sell and up-sell rates. Examples of the latter include the customer satisfaction, purchase intentions, willingness to recommend. The problem with all these 'customer-related' measures, especially the 'softer-attitudinal' ones is that their relationship to the financial performance of the company (i.e. profitability) is not necessarily clear. For instance, it has been claimed that customer retention drives profitability (Reichheld 1996). Contrarily, it is argued that even this is misleading. What is even better than measuring retention rate is measuring changes in customer spend (Coles and Gokey 2002). Fornell (2001) also disagrees, claiming that the key driver is customer satisfaction. The advantage with these 'customer-related' indices, unlike the financial indices, is that they corresponds closer to the philosophy of CRM.

CRM outcome performance indicators can also be viewed more holistically from a number of domains based upon the balanced scorecard (Kaplan and Norton 1996). These include:

- Financial indicators like return on assets, EBIT and profit on sales.
- Customer indicators like numbers of customers, average customer value, customer satisfaction, customer retention, share of customer spend
- Process results like customer acquisition cost, speed to market (new products), complaint resolution
- People indicators like percentage cross-trained, employee satisfaction, employee retention, suggestions per employee.

The assumption in this scorecard is that there are cause-effect connections between financial results, customer results, process results and people results. Whilst it may be impossible to unequivocally link financial indicators to CRM investments at a strategic level, it is certainly more possible to make connections between customer, process and people indicators and CRM outcomes at an operational and analytical level.

#### Issue 4: Choosing the time frame to use in the assessment

As noted above, CRM implementations may take up to 5 years, and in some cases, more, to implement fully. Over this time not only can the competitive environment change, but members of the management team which opted to 'do' CRM may have left the company. It makes very little sense to attempt measurement of CRM performance over the long-term when general business turbulence has significant impact on business performance. For example, a company installing CRM on the upswing of a business cycle could not know with any certainty whether the general business climate or the CRM implementation were responsible for business performance.

It can be argued that the ideal time frame to evaluate a CRM program depends on the state of CRM maturity within the company. The further away the company is from the 'optimal' state of best customer management practice, the longer it will take before seeing a return. An operations-oriented business is less likely to see adequate returns from a CRM deployment than a company that already has considerable customer knowledge.

Is there a good rule of thumb for assessing CRM implementations? It has been suggested that a span of three years, with a minimum of 18 months is a good time frame (Woodcock, Starkey, Stone, Weston and Ozimek 2001). This suggestion is based on their observation that the payback period for lower quartile companies in their study shows very little benefit being delivered until the *third* year. They conclude:

*It underlies the absolute need for CM initiatives to be viewed at the very least as medium-term business developments. We would advise companies that have scored poorly on CMAT not to look for any net benefits to begin to show through in the first 18 months. This demonstrates that although the benefits begin to flow in that time, they are really quite negligible until some time later on (p.101).<sup>1</sup>*

While the time frame of 18 months to 3 years may be a useful guide, it is also important for managers to be cognizant of a whole number of contingent factors that can influence this guideline. For instance, one of the major difficulties with CRM implementations is the difficulty of changing existing business processes and human behaviors. It is not

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<sup>1</sup> CM is short for Customer Management. CMAT is a proprietary tool for auditing CRM capability.

unusual for CRM implementations to require changes to the ways customers are segmented, acquired and migrated; employees may have to learn afresh how to make outbound calls, identify cross-sell opportunities, and handle complaining customers. Processes like these often involve changing the culture and the retraining of (or indeed hiring of new) employees. Thus, the more business processes need to be changed (or challenged), the longer it will take before any discernible benefits can be seen.

### **A way forward: a customer-journey approach with activity-based costing**

Given these reservations and complications in assessing ROI, what is needed is a theoretical framework and concept to anchor these four issues. Two theoretical building blocks we recommend are: the customer-journey approach and activity-based costing..

First, we propose a customer-journey approach to assessing CRM performance. By customer-journey we mean the customer's transition from never-a-customer to always-a-customer. This has been described by others (Gordon 1998; Christopher Payne and Ballantyne, 1991) as a customer staircase or ladder. On this journey the value of customers will change. We imagine the complete journey as comprising 7 stages, as follows:

|                     |                                                                        |
|---------------------|------------------------------------------------------------------------|
| Suspect             | - could the customer fit our target market profile                     |
| Prospect            | - customer fits the profile and is being approached for the first time |
| First-time customer | - customer makes first purchase                                        |
| Repeat customer     | - customer makes more purchases                                        |
| Majority customer   | - customer selects your product/company as supplier of choice          |
| Loyal customer      | - customer is resistant to switching suppliers; strong attitude        |
| Advocate            | - customer generates additional referral dollars                       |

From the company's perspective, the journey is enabled by four critical CRM competencies.

1. Acquiring and exploiting customer knowledge,
2. Customer acquisition competency
3. Customer development competency (up-selling and cross-selling)
4. Customer retention competency.

Second, the approach we suggest for ROI evaluation is to use activity-based costing for each step of the journey. In other words, to trace both revenues and costs to customer/segment/cohort group as they make their journey from suspect to advocate. This means that the company should be able to trace the costs of acquisition, development and retention to customer/segment/ cohort. Ability to do this implies competency at activity-based costing (ABC). This in turn means that companies have to consider which line-items of sales, marketing, and service cost are directed to which outcome – acquisition, development or retention. Equally it is necessary to trace revenues to the same source. Data like this will yield a clearer picture of how effective the CRM implementation has been.

We opt for a customer journey approach to evaluating CRM performance for a number of reasons:

1. These 4 components of CRM are important determinants of business performance. The value of a customer is not in the margin of any single transaction but in the value of all future margins earned over a lifetime of purchases.
2. The journey concept is simple for managers to understand
3. It is possible to track the attrition rate (and hence value) of a cohort of customers as they move from one stage to another.
4. These are amenable to measurement in the short-term, and give a clear indication of Analytical CRM performance

Finally, it should be noted that acquisition, development and retention strategies are not cost-free. They make demands on company resources. A customer who calls a customer contact centre to find out answers to questions that appear in FAQ on the company website may turn out to be unprofitable despite producing a high margin for the company on the purchases made. Similarly, a large customer that demands just-in-time, customized product, and then negotiates deep discounts may also turn out to be unprofitable. In one study looking into the business-to-business area of grocery distribution, Niraj, Gupta and Narasimhan (2001), found that indeed, the large companies are not necessarily the most profitable even though they may account for nearly 79% of sales.

## Research propositions

A number of research propositions flow from this customer-journey framework. Our research propositions attempt to explain how business performance can be affected while implementing CRM. This research should lead to better understanding of the various drivers of ROI in the context of CRM.

To recapitulate, the customer-journey perspective of ROI simply states that a good way of evaluating CRM investment is to see if it has brought about significant changes in customer acquisition, customer development, and customer retention, as underpinned by customer insight (from acquiring and exploiting customer knowledge). These data will generate an understanding of customer/segment/cohort profitability. The journey model provides a framework with objectively transparent criteria (e.g. cost of customer acquisition, products owned per customer, share of customer spend, customer retention rate) and management can more easily see the connections between journey outcomes and business performance. This leads to the following research proposition:

*P1: Companies that track gross margins and cost-to-serve as customers move along the journey will achieve better business performance than companies that don't.*

*P2: Companies that manage the value of each customer/segment/cohort as they progress along the customer journey are likely to have a better business outcome than companies that do not.*

The research proposition above is mediated by a number of factors. Understanding the value of each customer/segment/cohort is only the beginning. To make CRM effective, the company still needs to plan, set goals, and provide appropriate feedback to the implementation team. This line of thinking is consistent with the existing literature on goal setting and motivation in organizational behavior (Locke and Latham 1990). It can thus be hypothesized that companies that possess an explicit plan for customer acquisition, retention and development driven by a dedicated team with attached incentives, are more likely to achieve better business outcome than otherwise. This leads to the following propositions:

*P3: Companies that have explicit customer acquisition, development and retention plans will have better business performance than companies that don't.*

*P4: Companies whose people are skilled in managing the customer journey will achieve better business performance than companies whose people are not so skilled.*

*P5: Companies that incentivise their people to achieve specific targets for customer acquisition, development and retention will achieve better business performance than companies that don't.*

Our view is that companies must invest at least enough to understand their customers, since customer knowledge is the foundation of all intelligent CRM activities. Without customer insight, companies are likely to be much less effective in customer acquisition, and would be less able to define clearly targets for retention. Furthermore, without customer knowledge, companies cannot experiment intelligently with new offerings which might enhance revenue streams from up-selling or cross-selling. This leads to the following propositions:

*P6: Customer acquisition is more effective when companies have better insight into the buying intentions of customers.*

*P7: Customer retention will improve if the company understands the switching propensity of its customers.*

*P8: Customer retention will be better in companies that monitor trends in customer-spend.*

*P9: Companies that experiment with new offerings to existing customers will enjoy better cross-selling and up-selling rates than companies that do not.*

One clear danger in making CRM investments is to equate it with IT investment (Rigby, Reichheld and Scheffer 2001). This is because it may seduce management into thinking that as long as the software is implemented, success is more-or-less guaranteed. Buttle (2001) has pointed out that one of the main reasons why CRM fails is because companies fail to understand the impact of organizational culture on the implementation program. Companies which are focused on operational excellence, cost-cutting or are very sales-driven will find that CRM investments contribute little to their goals. CRM does better in organizations that are already customer-centric.

If the adoption of CRM must take the culture of the organization into consideration, then it also implies that the leadership of the company is extremely important. This is because the upper management has the power to break down organizational silos, and the power

to reward and punish so that an enterprise-wide integration can occur quickly. Reed (2001) found that the lack of senior management buy-in was the single most important reason for CRM failure. Business leaders, at the minimum, must understand the organization-wide implications of CRM, be keenly aware of the company's weaknesses in this regard, and then have the fortitude to implement cultural changes *before* CRM systems are brought into the company. This leads to the following propositions:

*P10: The more the senior management team understands the enterprise-wide aspects of CRM, the greater the success of CRM implementations.*

*P11: Companies that have a more customer-centric culture are more likely to be successful in their CRM implementation than others.*

*P12: CRM initiatives that are lead by IT champions are less likely to succeed than those that are championed by marketing, sales or general management.*

It is worth noting that the connections between acquisition, development and retention are not necessarily linear. For instance if customer retention is poor, then even with a fast rate of customer acquisition, companies are not likely to see a major improvement in the business outcome. Similarly, if the customer acquisition rate outstrips customer development capability, companies may end up with too many low value customers (e.g. not enough sales and support activity to nurturing existing customers to higher spend). Conversely, the opposite may also be true. If companies carefully optimize customers as they make their journey (e.g. minimizing the level of attrition between each stage) may experience the benefits (e.g. profit) compounded many times over. Thus,

*P13: Companies that adopt a coordinated customer-journey approach in their CRM implementations are more likely to have better business performance than companies that don't.*

*P14: The more business processes need to be changed, the longer it will take before there is a measurable improvement in business performance.*

Another factor impacting on the time-frame for assessing CRM outcomes is the nature of the company's product or service. The issue here is to the extent to which these can be easily modified or customized for CRM purposes such as customer acquisition, development and retention. The easier it is for the companies to do this, the shorter will be the time frame needed to evaluate the CRM. On the other hand, if it is difficult to

customize the company's product or service, or this can only be done at major cost, then a longer time frame may be needed before the benefits of CRM are seen. Given that it is easier for service companies to customize their offer (in real time) we would expect them to see a faster return on their CRM initiatives than manufacturing companies. An exception might be companies manufacturing modular products. This leads to the following propositions:

*P15: Service companies that implement CRM practices are more likely to see quicker benefits than product-based, manufacturing companies.*

*P16: Manufacturing companies that have modular products are more likely to see a quicker return on their CRM investment than companies having non-modular products.*

Related to the issues discussed above is the size of the company. It can be argued both in terms of changes in business processes and customizing of products and services, it is easier for smaller companies to change. For instance, in a study of quality awards with 600 US companies (Hendricks and Singhal 2000), it was found that smaller quality award winning companies average an increase of 63% in operating income, 30% in sales, 17% in return on sales, 21% increase in employment, 42% increase in assets. For each of these metrics, the smaller companies outperformed larger companies. Thus it seems that smaller companies are more nimble-footed, and hence more likely to need a shorter time frame before seeing the benefits of CRM. Hence:

*P17: The larger the company, the longer it will take before seeing the benefits of CRM initiatives.*

*P18: Larger companies that implement CRM in a phased way, mimicking the scale of implementation of smaller companies, will experience a faster ROI than their large counterparts who do not.*

The final issue relates to the time it takes to communicate the changes created by CRM to customers. For instance, customers may not be aware of changes in business processes, people skills or offerings that impact upon their experience of doing business with the company. Furthermore, in some product categories where the purchase cycle is long, customers may not come into contact with the company for a number of years after initial purchase. In which case, improvement in customer experience may not be felt until some

time down the track. Indeed improvements may need to be advertised before customers even notice it. All these lead to the following propositions:

*P19: Companies that systematically communicate their offerings will see a quicker ROI on their CRM investments than companies that don't.*

*P20: The shorter the purchase cycle, the faster the customers experience the benefits of CRM implementations.*

## CONCLUSION

The aim of this paper is to highlight a number of issues relevant to evaluating the ROI of CRM. Although the ROI concept is relatively simple, its application in the CRM context is complicated by 4 issues.

1. defining the boundaries of CRM
2. establishing what constitutes a CRM investment
3. deciding what counts as a 'return' on that investment
4. choosing the time frame to use in the assessment

We suggest a customer-journey approach to measuring CRM-performance. The customer-journey perspective basically emphasizes the importance of understanding customers, and then exploiting that knowledge in intelligent customer acquisition, development and retention activities. We suggest that companies adopt some form of activity-based costing for each step of the customer-journey. Activity-based costing will give insight into the real profitability of each customer/segment/cohort on the journey. Acquisition, development and retention strategies are not cost-free. They make demands on company resources. Once costs to acquire, develop and retain customers, and the margins earned from sales to these same customers are known, it is possible to compute customer value at each stage of the journey. We propose a series of research propositions, which connect the ROI question to customer value on the customer journey.

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