

Why CRM? The Business Case for Customer Relationship Management

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EXECUTIVE OVERVIEW

In virtually every industry and every global region, forward-looking organizations are investing in customer relationship management (CRM) technology to support the adoption of more customer-centric strategies. Examples of leading, global companies with major CRM initiatives underway are shown below:

Industry	Examples of Leading Global Companies with a Major CRM Initiative Underway
Automotive	GM, Ford, DaimlerChrysler
Chemicals	Dow, BASF, DuPont
Communications	BT Retail, TIM, Deutsche Telekom
Consumer Goods	Maytag, Nestle, Dial, Hershey Foods, Quaker Oats, Coca-Cola
Energy	Schlumberger, TXU
Financial Services	JPMorganChase, FleetBoston, Société Générale, AXA
Healthcare	Blue Cross Blue Shield
High Technology	IBM, Sun
Pharmaceuticals	Bayer, Boehringer
Public Sector	New York City 311, Consignia (U.K. Post Office)
Travel and Transportation	Marriott

Table 1: Global companies are investing in CRM technology to support the adoption of more customer-centric strategies.

Organizations are adopting CRM and related technologies because they understand that having the technology to execute a customer-centric strategy is a business imperative.

Just as back-office automation became critical for competitive success in the last half of the twentieth century, the application of technology to front-office processes—sales, marketing, customer service, and partner and employee relationship management—is now an imperative for success in the new century. Organizations that understand the strategic value of CRM technology to achieve dramatic increases in revenue, productivity, and customer satisfaction will have a significant lead on their competitors who lag in the adoption of this technology.

A BRIEF HISTORY OF CRM TECHNOLOGY

In little more than a decade, CRM technology has undergone a rapid transformation. When first generation applications were introduced in the early 1990s, they were better known as sales force automation (SFA) applications because they were geared exclusively toward automating the activities associated with field sales, including contact management, opportunity management, and revenue forecasting. SFA technology was functionally trivial, and the hardware it ran on was not user-friendly. “Automated” salespeople had to rely on bulky, portable computers, barely legible visual displays, and capricious modem connections to use the software. In addition, software vendors of the time rarely consulted end users when developing applications. As a result, end user acceptance of the solutions was often poor. Many salespeople viewed SFA software as an “electronic leash” or, even worse, as a surveillance tool.

In this early period, IT solutions were sold as discrete, departmental packages, each one serving no more than 100 users. In a fragmented market, companies bought separate solutions for the field force and the call center, and the applications did not communicate with one another. SFA applications both exacerbated and were victimized by the notorious “silo effect”—different departments operating in isolation and maintaining separate information stores.

By the mid-1990s, leading CRM software vendors began to offer their customers integrated information systems. Applications for sales and service converged, the software became far more scalable, and applications for marketing were introduced. And as CRM software vendors sought more input from end users, the applications became far more user-friendly, leading to much higher rates of user acceptance.

Around 1998, CRM technologies took another quantum leap in response to the rise of global ecosystems—networks of customers, partners, suppliers, and employees all connected by the internet. To allow all of these players to participate in an organization’s information flow, CRM developers added massive new levels of functionality to existing products while developing suites of new products to serve the emerging model of the internet-enabled organization.

CRM software vendors then developed software that would allow companies to provide their customers access to the organization across multiple channels. This development addressed an old technological challenge: How does one coordinate the information gathered in sequential customer interactions when some of it may come in over the Web, some into a call center, and yet more in a face-to-face conversation? The capability of CRM technology to solve this cross-channel synchronization problem propelled it into the next stage of market evolution.

Today’s best CRM solutions have come to address specific vertical industry requirements while integrating unwritten business processes that historically have varied from division to division. The result is a higher degree of consistency, leading to improvements in efficiency as well as the integrity of customer-related information. Most recently, CRM vendors have extended the flexibility of their

systems to allow organizations to deliver solutions via hosted or on-premise versions, or in any combination. In addition, they have integrated business intelligence to empower every member of an organization with relevant and up-to-the-moment customer and business data. Ultimately, these CRM solutions are critical enablers of the seamless, high-quality experience that customers now demand.

THE CORE COMPONENTS OF CRM

Although CRM software can deliver a wealth of benefits, many companies fail to appreciate that technology is just one component of a successful CRM initiative. With the addition of Siebel CRM, Oracle's experience with more than 5,000 CRM initiatives has shown that the most successful companies approach CRM as a complete business strategy, focused on improving the way a company markets to, sells to, and provides service to customers. When implemented effectively, a CRM strategy results in greater employee, partner, and customer satisfaction and an improvement in an organization's financial performance.

Oracle identifies the following components as central to any CRM initiative:

- Effective customer segmentation
- Integrated multichannel strategy
- Well-defined business processes
- The right skill sets and mindsets
- The right technology

Effective Customer Segmentation

Customer segmentation—the process of dividing a market into discrete customer groups that share similar characteristics—is a critical component of a CRM strategy. Customer segmentation allows an organization to understand which customers are most profitable and how to most effectively market to, sell to, and provide service to these customers. With this knowledge, a company can determine which investments will drive the greatest returns.

Segmentation begins with the development of the customer profile, which includes a rich description of the key characteristics of a specific customer, including both basic data (demographics, purchasing history, and so on) and information derived from analyzing the customer's lifecycle process. The customer profile encodes, for example, observations about which offers appeal most to the customer, which channel(s) the customer prefers, which product attributes the customer values most, how much the customer has spent in the past and is likely to spend in the future, and other issues of strategic relevance.

By analyzing the customer lifecycle process, organizations can pinpoint significant differences as well as significant similarities among customers. The job of segmentation is to sort out which differences and similarities are most important

across all customers, and then to divide the customer base into groups based on the relevant distinctions. Effective segmentation is greatly aided by the power of CRM technology, which gives organizations the ability to capture and analyze large bodies of timely data and to discern significant correlations among customer attributes. In addition, CRM technology provides a single view of the customer across all company touchpoints. Having this holistic view is vital to segmentation efforts.

In the past, because organizations had no easy way to capture, consolidate, and analyze customer data, their segmentation strategies were limited and often based on criteria of little strategic value (such as geography). With CRM technology, on the other hand, organizations can segment customers according to far more complex and less obvious factors, such as channel preference, profitability, buying patterns, and other meaningful customer attributes.

Integrated Multichannel Strategy

For a CRM strategy to be successful, a company must offer its customers multiple ways of interacting with the organization. Companies today can no longer compete effectively with only one channel.

Not so long ago, most organizations had one primary distribution channel. For example, consumers could buy General Electric refrigerators any way they wanted—as long as it was through a GE retailer during store hours. Customers could order products from L.L. Bean any way they wanted—as long as it was over the phone to the call center. In this world of fixed, single-channel distribution, customer relationships were relatively straightforward.

Today, however, market forces and new technologies are dramatically changing traditional channel structures. Whether through the click of a mouse, a toll-free call, or a visit to a store down the street, today's customers can defect to a competitor with unprecedented ease. In this climate, a single channel simply cannot serve customers effectively. Complicating the marketplace even further, customers traverse channels in varied patterns—from the Web to the call center, back to the Web, and so on—while expecting to be recognized every step of the way in an ongoing dialogue with the organization. As a result, organizations need a clearly stated, integrated, multichannel strategy that satisfies the following requirements:

- Aligns the right products to the right channels
- Balances customer needs and channel costs
- Enhances the customer experience

Aligning the Right Products to the Right Channels

Companies can use any number of channels to market to, sell to, and provide service to their customers. Options include field sales, retail outlets, call centers, resellers, the internet, and wireless platforms, to name just a few. In designing a channel system, a company must consider which channels are best equipped to

support the company's products and services, meet the needs of specific customer segments, and support each stage of the buying cycle.

For example, one online pet store, no longer a going concern, learned quickly that selling 50-pound bags of dog food to an older demographic via the Web was not a sustainable strategy. The costs associated with shipping the 50-pound bags to consumers priced the product out of the market, and the low internet usage among the target audience further limited sales.

Balancing Customer Needs and Channel Costs

Channel investment decisions are based on understanding two things: what value a channel offers to customers and at what cost. Channels must be evaluated in terms of their value proposition to customers and their costs to the company.

Additionally, channel investments must be made with a strategic objective in mind, such as growing market share for a particular product or increasing overall revenue. Many managers have too quickly decided that a lower-cost channel must be more profitable and, therefore, all products are driven through that channel. However, cost alone is a limited method of assessing channel strategy. A more thorough analysis should answer the following questions:

- Will the lower-cost channel effectively deliver value to customers?
- What type and proportion of customers will migrate to the lower-cost channel?
- Will the order or deal size be affected?
- How much will it cost to educate customers?
- Will the more expensive channel still be needed to serve some customers?

All channels have associated costs. The task is to identify all cost drivers (infrastructure, headcount, allocated costs, and overhead) associated with each channel. While a channel might result in lower costs per transaction (low variable cost), it might still be expensive to maintain (high fixed costs). Cost per transaction and the cost per interaction (pre- and post-transaction) should also be measured.

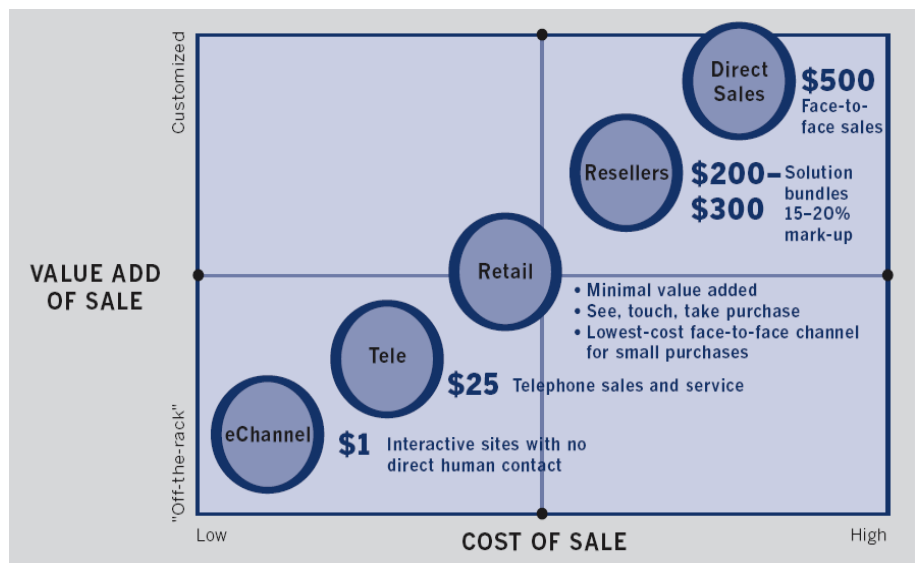


Figure 1: Channels must be evaluated in terms of their value to customers and their costs to the company.

Enhancing the Customer Experience

Traditionally, companies operated under the assumption that building the best product was the key to gaining market leadership. However, with increasing product commoditization and increasing demands on customers' time, companies are realizing that how they market to, sell to, and provide service to customers is just as important as what they sell. Customers demand the ability to conduct business with an organization on their own terms, and they do not want to have their time wasted by inefficient company processes.

To meet customers' increasing demands, companies must take a couple of key steps toward enhanced customer satisfaction. First, they must provide customers with self-service options. Customers should be able to visit a company's Web site at any time to check the status of a service request, reorder a product, or resolve a billing inquiry. Providing this type of service not only increases customer satisfaction, but also lowers a company's customer support costs.

Second, companies need to ensure a seamless experience for customers across all channels. For instance, if a customer is trying to place an order online and encounters difficulties, the customer should be able to call a customer service representative and pick up the transaction where it was left off on the Web. A customer-centric organization will have this capability, while an organization that is not customer-centric might ask the customer to begin the transaction over again with the phone representative, wasting the customer's time and the company's money.

Well-Defined Business Processes

Automating an ill-defined or inefficient business process will only accelerate the pace at which an organization achieves poor results. A CRM strategy, therefore, must focus on redesigning customer-facing processes based on the perspectives and needs of the customer. Figure 2 lists several processes that should be examined when developing CRM strategy:

Marketing	Sales	Service
<ul style="list-style-type: none">• Customer segmentation• Demand generation• Campaign development• Campaign execution• Customer development and retention	<ul style="list-style-type: none">• Opportunity management• Territory management• Account management• Activity management• Cross-selling and up-selling• Lead closure• Sales team hand-offs	<ul style="list-style-type: none">• Account inquiries• Service dispatch• Problem resolution• Service tracking

Figure 2: Several processes should be examined when developing a CRM strategy.

Each of these processes needs to be examined—not in isolation, but in terms of the way they are linked to other processes. Consider just three processes that are often poorly defined in the development of a CRM strategy: lead management, call routing, and service-ticket tracking.

Lead Management

Lead management is the process of generating and or identifying a lead, qualifying that lead, and converting the lead into a sale. Within a multichannel system, leads may come into an organization from any number of sources: field sales, the call center, field service, a partner organization, or the Web. Given this complexity, organizations must clearly determine which person or department is ultimately responsible for closing leads, because this determines how leads should be routed. The organization also needs to determine how to define a qualified lead. Without a clear definition, leads of poor quality will be routed to the people responsible for closing them, resulting in frustration and lost sales productivity.

Call Routing

Many businesses—especially those organized by line of business—have not defined routing processes that can readily direct inbound callers to the most appropriate response person. The negative results include delays, frustrated customers, and abandoned calls. Therefore, before implementing CRM technology, organizations need to define optimal routing processes. Ultimately, a customer should be able to call into any point in the organization—from the front desk and the call center to the technical services department—and be routed to the appropriate person without being disconnected.

Service-Ticket Tracking

It is imperative that companies have clear business rules for managing inbound service requests. These rules should define exactly how resources will be dispatched to fix a customer's problem and how status updates will be shared as the issue is being addressed. In many organizations, call center representatives are unable to track the progress of work being done by field technicians. This makes it impossible for them to keep customers apprised of a service-ticket's status. The processes for sharing service request information should be clearly defined before automating those processes with CRM technology.

In the training phase of any CRM implementation, users must acquire a simple competency with the new tools, as well as a familiarity with and enthusiasm for the business processes that the tools will enhance.

The Right Skill Sets and Mindsets

Because a CRM strategy requires a company's various departments to work more closely together, it changes the dynamics of how people interact and how a company makes decisions. While CRM technology facilitates collaborative decision-making, this very virtue can create tension in fragmented organizations whose members take proprietary attitudes toward data ownership. Managing change is thus critical when implementing a CRM strategy.

The change management required by CRM entails the realigning of skill sets and mindsets. Teaching technical skills without changing attitudes will lead to poor user adoption—one of the recurrent hallmarks of failed implementations.

To support the culture change that CRM requires, many companies have found it necessary to realign their reward systems. This means, for example, that customer satisfaction scores and customer retention will carry more weight in the organization's compensation program than customer acquisition. In addition, the organization may have to reconfigure its commission scheme to support a multichannel strategy. At Cisco Systems, for example, salespeople receive commissions for repeat orders that come in over the Web or through the call center, because Cisco Systems wants its sales force to drive as much business as possible through these lower-cost channels.

The Right Technology

The right technology is the final linchpin in a CRM strategy because it enables an organization to track every customer interaction, regardless of where, when, or how the interaction occurs. The right technology will satisfy the criteria explained in the following sections.

Multichannel Support

A CRM solution must provide an integrated family of sales, marketing, and customer service software applications across all channels, including field sales and service, call centers, resellers, and the internet. This creates a closed-loop system for capturing, organizing, and leveraging detailed information about customers, prospects, and partners so that every customer-facing employee and process

operates from the same comprehensive store of logically centralized data: The right hand always knows what the left hand is doing.

For example, a field sales representative can use a laptop to connect to the corporate customer database before making a customer call and find out that the customer had earlier that day logged onto the corporate Web site and spent 15 minutes viewing several recently posted pages detailing a new product offering. Armed with this information, the representative can review the latest positioning information about the new product and prepare a tailored presentation.

Additionally, a consolidated customer data source lets an organization determine the preferences and economics of customer segments. Supported by this knowledge, an organization can determine which marketing campaigns and offers to target to which specific customers, how to design new products and services to meet customers' additional or changing needs, how to best provide service and support, and how to reward and express appreciation to the organization's best customers.

Industry-Specific Functionality

Regardless of the amount of prebuilt functionality a CRM application offers, enterprises typically develop supplemental functionality so that their CRM solution fits their unique business processes and needs. The degree to which they must do so, however, depends largely on the number of unique requirements they have and the amount of prebuilt functionality an application offers. Accordingly, organizations should select applications that offer extensive prebuilt functionality to support the business processes for their particular industry. By scrutinizing the prebuilt functionality available in a vendor's offering, organizations can avoid needless costs associated with reinventing the wheel.

Scalability and Global Support

Many employees throughout an organization, including personnel in sales, marketing, customer service, and back-office functions, use CRM applications. In addition, increasingly large numbers of customers interact with these applications through online self-service channels. And, in the case of employee relationship management applications, the user base might include every member of the workforce. CRM applications, therefore, must be highly scalable and flexible enough to be delivered any way users prefer—in both hosted and on-premise versions, or in any combination.

In addition to scalability, CRM applications must also provide multilingual, multicurrency support as well as support for multiple time zones. With this support, global organizations can implement the applications in multiple languages while maintaining a single, unified repository of customer data across the different languages. This allows organizations, for example, to consolidate sales forecasting information across different global regions and to analyze data regardless of the language of the underlying customer interactions.

Flexible Deployment Options

Companies of all sizes utilize CRM technology to better meet the needs of their customers. As CRM initiatives expand across regions, functions, channels and markets, CRM vendors have introduced a variety of deployment options including web hosted, private hosted, on premise and combinations thereof. The selection of the correct deployment option is critical to the success of CRM within an organization. The table below provides some key insights to consider when selecting a deployment option including functionality, deployment timeframe, available IT resources, budget and attitudes toward outsourcing.

	Multi-tenant hosted CRM (Web hosted)	Single-tenant hosted CRM (Privately hosted)	On Premise CRM
Functional Requirements	Core functionality in sales, marketing, service, and analytics	Extended capabilities in select areas such as field service and deep industry support	Extended capabilities in select areas such as field service and deep industry support
Deployment Time Frame	Can be immediately deployed for fast results in as little as a few weeks	Two- to four-months on average	Two- to four-months on average
IT Resources Required	Limited/no IT resources required	Functional application knowledge, vendor management and IT governance required	Leverage existing in-house IT expertise, hardware & software
Budget Requirements	Limited/no capital budget required; project can be funded out of operating budget	No capital budget required for hardware, only for software licenses. Monthly subscription can be funded out of operating budget	Have allocated capital budget for hardware and software
Outsourcing Attitudes	Currently outsource or are considering outsourcing	Security, service and compliance of utmost importance & currently outsource or considering outsourcing	Prefer to maintain complete control of applications and infrastructure on-site

Table 2: Deployment option issues to consider when selecting a CRM vendor.

Support for All Devices

Today's organizations take advantage of a broad range of information and communications devices, including desktop PCs, laptops, handheld devices, and cell phones. A state-of-the-art CRM system must support all of these devices, whatever the underlying hardware and operating systems, and must work seamlessly across devices. For example, users of mobile devices (such as laptops and handheld computers) must be able to easily and effectively synchronize information stored locally on their device with the system's centralized database. Without this capability, mobile personnel will be out of sync with the rest of the organization, a situation that can significantly undermine sales effectiveness.

THE BUSINESS BENEFITS OF CRM

When executed appropriately, a CRM strategy can deliver significant quantitative and qualitative business benefits. The quantitative benefits are driven by two main

factors: reduced costs and increased revenues. Looking at these two factors more closely, CRM solutions let organizations reduce the cost of acquiring, selling to, and serving customers, and they help organizations enhance revenue by increasing sales per representative, sales per customer, average order size, and other revenue-driving metrics.

Cost Reduction Benefits

By streamlining and integrating customer-facing processes and providing richer customer data to sales, marketing, and service personnel, CRM can produce significant cost reduction benefits in a few key areas: cost to acquire customers, cost of sales, and cost to retain and serve customers.

Decreased Customer Acquisition Costs

Effective CRM strategies help organizations better understand a customer's preferences, buying behavior, revenue, profitability, and purchasing frequency. Having this knowledge can reduce customer acquisition costs significantly. For example, within one high-tech company, the implementation of a Siebel CRM system helped the telemarketing group to dramatically lower the number of calls required to generate leads. The company's vice president of sales and marketing explains:

Under our old sales information system, our telemarketing people were deluged with irrelevant information—free-form, unstructured information that had been recorded by agents during previous calls. This random information often impeded their call productivity. With our account-focused CRM system, they see just the information they need to converse intelligently—service records, for example, or the fact that an account falls into a certain vertical market. As a result, our telemarketing personnel can now make approximately 80 calls per day versus 60 before the CRM implementation, and the value of those calls has gone up. Our people's hit ratio—that is, the proportion of calls that translate into qualified leads—has gone from 1 lead for every 52 calls to 1 in 33. Most impressive of all, telemarketing's success as a profit center—what we calculate as its 'contribution margin' toward closing deals—has roughly doubled since we rolled out the CRM system.

Decreased Cost of Sales

CRM can reduce the cost of sales by increasing sales force productivity, enhancing partner-channel productivity, decreasing quotation-proposal generation time, and improving order-configuration accuracy. WilTel Communications provides a detailed example of the way in which Siebel CRM technology can reduce the cost of sales.

Excess capacity in the telecommunications industry had driven prices down over the past few years, making it extremely difficult for communications providers such as WilTel to maintain profitability. WilTel sought to differentiate itself through a

concerted effort to beat industry-standard intervals for service delivery. To accomplish this, the company had to significantly shorten its order intervals and focus on meeting the customer's requested due date. However, its existing legacy system had limited growth capabilities, poor integration with other systems, and inadequate data integrity. This led to increasing business costs due to the substantial effort and human resources required to meet its customers' dates.

To address these problems, WiTel replaced its legacy system with a Siebel CRM solution that significantly streamlined the order entry and validation process, allowing the company to meet customer-requested due dates faster and with fewer people. As a result of decreased order entry time, WiTel reduced headcount in its dedicated order entry staff from 22 to 10 people, saving nearly US\$500,000. Additionally, because the order entry process was much simpler, project managers could enter orders while talking to customers—increasing order accuracy and leading to higher customer satisfaction.

Witel's vice president of service delivery explains, "We saw an almost immediate increase in customer satisfaction from 56 percent to 89 percent, helping us retain customers and minimize customer acquisition costs. And the efficiency and productivity gains are translating directly into dollar savings."

Witel also cites the following improvements from its CRM solution:

- A reduction in average order entry time for direct access lines from 8 hours to 45 minutes
- A 50 to 80 percent reduction in overall order entry time
- Cost savings of US\$10,000 each month through a reduction in time spent on account maintenance, security, and queries, and by eliminating paper files

Decreased Cost to Retain and Serve Customers

CRM can lower the cost to retain and serve customers by deflecting simple customer service issues to the Web and streamlining the process of serving customers through other channels.

Honeywell Industrial Control (HIC) significantly reduced the costs associated with serving its customers by implementing a Siebel CRM solution focused on knowledge management. The company built an online solutions database letting contact center personnel quickly answer recurrent customer queries. As CIO and Vice President Rob Baxter explains, "Our goal was to never discover a problem twice." By entering solutions to more than 50,000 problems into a central database and making that database available to its field engineers, HIC cut its problem resolution time from an average of 8 hours to 20 minutes. With the addition of an online self-service application, the company realized even greater efficiencies, reducing its call center costs by 15 percent.

Mitsubishi Motors has seen similar results from the implementation of its Siebel CRM solution. "Our main focus," says Rich Donnelson, Director of Service and

Product Support, “is to satisfy the customer. The new CRM system helps us ensure that our customers are receiving the quickest and most efficient service from our retailers.” Mitsubishi’s CRM system has helped the company achieve an 8 percent reduction in its call abandon rate and a 38 percent reduction in cost per call. The company can now handle a 75 percent increase in call volume with similar levels of internal staffing.

Quick & Reilly’s CRM system helped the company increase its lead conversion ratio—that is, the percentage of leads that become new accounts—from 40 percent to 60 percent.

Revenue Enhancement Benefits

Because CRM strategies allow organizations to monitor, measure, and track every customer interaction, organizations can determine the precise results of those interactions and therefore calculate the return on every marketing, sales, and service effort. Indeed, with CRM capabilities, organizations can determine the profitability of each customer or account and thereby adjust their allocation of resources to each customer based on that customer’s profitability. By extending this capability across all communication and distribution channels, an organization can optimize its business model. That is, it can reach the right customers and prospects through the right channels at the right time with the right product or service. These capabilities lead to improvements in key areas, including increased close rates, increased revenue per sale, and improved customer retention.

Increased Close Rates

By deploying robust CRM systems and processes, customer-facing personnel have easy access to all relevant account, contact, lead, activity, and product information they need to serve customers. Moreover, CRM technology ensures that information is provided wherever and whenever it is needed, leading to meaningful improvements in close rates.

Financial consultants at Quick & Reilly, for example, use the company’s Siebel CRM system to view information about investors, such as income and investment preferences, and then target their investment pitches accordingly. Explains Quick & Reilly’s Assistant Vice President of Sales Force Automation:

We are able to be so much more personal in our interactions now. With essential customer information right in front of them, our representatives are able to develop customized investment strategies and deliver them—along with every appropriate piece of marketing collateral—directly to the customer, right from their desks. This system has enabled us to improve our lead conversion ratio—that is, the percentage of leads that become new accounts—from 40 percent to 60 percent.

Increased Revenue per Sale

CRM can help organizations increase average revenue per sale by facilitating cross-selling and up-selling. For example, Marriott has developed a program called Personal Planning Service, powered by Siebel CRM technology, which allows Marriott to create personalized vacation itineraries for guests at select resorts well in

advance of arrival. When a customer makes a reservation for one of Marriott's select resorts, the company starts building an itinerary based on the customer's requests and stored preferences. When the customer arrives at the hotel three weeks later, tee times have already been scheduled, dinner reservations arranged, and recreation itineraries created. Marriott has found that guests who participate in the program show noticeably higher guest satisfaction scores and spend an average of US\$100 more per day on services beyond the room rate.¹ They are also more likely to generate repeat business because they had a satisfying experience.

CRM technology can also increase average revenue per sale by helping sales representatives focus on the right deals—those that represent the highest revenue potential. For example, at Peregrine Systems, a leading provider of infrastructure management solutions, the combined implementation of a new sales methodology and Siebel CRM technology helped the company's large direct sales force act on opportunities more quickly and close business faster. "Previously, the sales representatives didn't have a methodology for going in and really assessing an opportunity," says Rick Berzle, Vice President of Corporate Marketing, Peregrine Systems. "The sales force automation system we were using could not support an integrated sales and marketing process."

Since implementing Siebel CRM technology and new sales methodology, Peregrine has seen dramatic improvements in the effectiveness of its sales efforts. "These tools have given our representatives a framework for assessing an opportunity," says Berzle. "They can now determine the true potential of an opportunity, whom they need to influence to win the sale, which obstacles they need to overcome, and how to engage the customer in a process that will close the sale."

The CRM technology gives sales representatives a comprehensive view of all activities, opportunities, and service issues associated with any given account, enabling deeper selling of infrastructure management solutions into the account. For example, by allowing a sales representative to see that Peregrine is currently managing a customer's computer network, the CRM software lets the representative engage in targeted cross-selling efforts, such as offering the customer a broader solution that encompasses the procurement of additional networking equipment.

"The CRM technology and the new methodology have moved our sales organization to an entirely new level," says Berzle. "In the first five months after implementation, we realized at least US\$8 million in competitive wins that were directly attributable to the new solution."

Improved Customer Retention

Improvements in customer retention lead to increased revenue growth. Customer retention is a critical factor in determining a company's long-term financial performance. Consider the value of existing customers: they require no additional

¹ "Suite Returns," by Elana Varon, *CIO Magazine*, August 15, 2000, pg. 2.

marketing or set-up costs, generally provide higher revenue per purchase, are less sensitive to price, and refer new customers.² Consider everything together, and the financial return from retaining customers and extending their lifetime value can be enormous. For example, by studying a wide array of industries, management consultants at Bain & Co. found that a 5 percent improvement in customer retention increased profitability by 25 to 100 percent.

CRM lets an organization increase customer retention rates in a number of ways. First, CRM software provides powerful analytics that helps organizations understand the key drivers, timing, and predictors of turnover. Second, CRM marketing and campaign tools allow a company to develop models to target desirable customers at risk of defecting to another company with mailings, phone calls, and promotions. For example, one leading networking equipment manufacturer has used Siebel CRM technology in effectively tracking service contracts that are about to expire. “Since the system automatically alerts managers to approaching expiration dates,” says the company’s director of customer service, “we’re able to immediately go after those contracts and make sure they are renewed before the expiration date. This has increased our revenue from service contracts by 20 percent.”

Third, CRM technology can help a company improve customer retention by referring customers to alternative product and service offerings when a customer’s primary choice is unavailable. For example, Siebel CRM technology lets Marriott maintain a unified guest information repository across its various lodging brands, including Residence Inn by Marriott, Courtyard by Marriott, and Ritz-Carlton. If a customer wants to book a room or a meeting at a hotel that is full, Marriott’s CRM system can easily refer the customer to another Marriott property in the area that has capacity. By keeping customers within the Marriott portfolio, the company not only prevents sending business to the competition in the short term, but also gathers increasingly rich information about customers’ preferences. This information can then be used to support a positive cycle whereby customers receive a highly personalized experience regardless of the particular Marriott brand or property they are visiting.

Additional Benefits of CRM

In addition to providing measurable benefits in the form of reduced costs and increased revenue, CRM technology provides many other benefits that are more difficult to measure. Some of these benefits include superior market intelligence, more customer-centric product development, improved forecasting and financial management, and greater brand equity.

² “Quality Comes to Services,” Frederick F. Reichheld and Earl Sasser, *Harvard Business Review*, March–April 1996.

Superior Market Intelligence

Because CRM databases are updated dynamically in real time, they provide an organization's sales, marketing, and customer service people with fine-grained and relevant information that can help inform strategic and tactical decisions. For example, at one leading energy company, CRM technology provides useful insights not only into broad market trends, but also into how individual customers make energy choice decisions. "Knowing why we win a deal, or why we lose one," says a company executive, "provides a tremendous competitive advantage in a deregulated market."

Product Development Tied to Customer Needs

By providing a comprehensive view of customer buying behavior, CRM technology can help companies tie product development efforts more closely to customer needs. At a leading software company, for example, Siebel CRM technology allows the rapid exchange of information between field sales personnel and product development groups. Because the system provides a field for Product Detail in the sales opportunities screen, product development personnel get highly specific information about potential deals and customer requirements. Says the company's directory of customer information services:

And that information leads to action. For example, when a significant opportunity moves forward in the sales pipeline, the Siebel CRM system can send an automatic e-mail to the relevant product manager, and that manager can then ask the sales representative, 'Is there anything we can do to help move this deal forward? Are there enhancements to consider? Should we send a technical support person on a call with you?' The exchange between the two functions is extremely rich. The CRM system is now really driving our product development.

Improved Forecasting and Financial Management

CRM technology can provide an organization with a more accurate picture of its sales pipeline, which leads to numerous benefits, including better inventory management, increased customer satisfaction, and stronger relations with the financial community. Consider the experience of Asyst Technologies, a leading provider of technology solutions that improve the productivity and yield of chip manufacturing. Before implementing a CRM solution, the company's account managers submitted four separate and unlinked forecasts every month, each of which was intended to satisfy the information needs of various internal groups. However, each forecast presented a slightly different view of market demand, and the forecasts could not be consolidated to show a single view of the sales pipeline. Instead, a master scheduler would reconcile the four forecasts based on his knowledge of the sales force and market, and then develop guidelines for manufacturing that often bore little relation to what customers were demanding in the real world. Barney Huang, Senior Director, Asyst Technologies, explains,

The system was built on “Kentucky windage,” where you hold a finger into the wind to make adjustments to your targeting. It wasn’t accurate, it wasn’t driven by customer knowledge, and it wasn’t effective. We never knew exactly what our inventory needs were, and we had problems with incomplete shipments and late deliveries.

Following the implementation of a Siebel CRM system, the company’s forecasting improved dramatically.

We’re 50 percent more accurate in our materials inventory forecasting,” says Huang, “and we are getting that accuracy in record time. Compared to the four weeks that it used to take to get an accurate forecast, we are now putting reports together once a week. This clarifies the picture of where our markets are moving and helps us respond more nimbly to shifts in demand.

This clearer picture includes information about several new parameters. The company can now forecast by part number, region, account managers, product mix, and average sales price relative to cost. “This detail,” says Huang, “enables us to do things we couldn’t do before, such as margin analysis and assessment of booking probability.” This means tighter control over materials inventory, no empty warehouse space, and no overstocking. For Asyst customers, it means getting the right products at the right time. In fact, since implementing the CRM solution, Asyst has seen a 50 percent drop in delayed deliveries.

“By enabling us to provide seamless, personalized service across the globe, our CRM system is playing an integral role in helping us maintain our customers’ trust and maintain the strength of the Palm brand.”

**—David de Valk
Senior Director of Global Customer
Service palmOne, Inc.**

Greater Brand Equity

While improving customer satisfaction and retention is clearly a revenue enhancement benefit, such improvements over time also lead to greater brand equity—a critical determinant of success in many industries. David de Valk, Senior Director of Global Customer Service at palmOne, Inc. explains the link between customer service and brand equity at palmOne:

Our customers aren’t just customers, they are vocal company fans—they rely on their palmOne devices to manage their lives. To continue earning their loyalty, we must show them that we can protect their personal information and respond to their service needs quickly and effectively. By enabling us to provide seamless, personalized service across the globe, our CRM system is playing an integral role in helping us maintain our customers’ trust and maintain the strength of the palmOne brand.

Strong brand equity provides a competitive advantage not just by improving customer loyalty, but also by giving the brand owner greater license to introduce new products and services. When customers trust a brand, they are more willing to try new products and services offered under the brand’s name. Organizations with strong brands thus enjoy an advantage when expanding into new markets.

CONCLUSION

In today's increasingly competitive marketplace, more and more organizations are turning to CRM as a means of driving corporate performance. Many of these organizations, however, wrongly assume that CRM is about technology. In reality, technology is merely an enabler of CRM. A complete CRM strategy must address each of the following areas:

- **Effective customer segmentation.** Companies must have a total customer view and divide their customer populations into discrete groups that share similar characteristics.
- **Integrated multichannel strategy.** Organizations need to synchronize their channels and balance the cost of each channel against other factors, including value to the customer, the customer's preferences, and each channel's profit potential.
- **Well-defined business processes.** Organizations must ensure that business processes are clearly defined and are based on customers' perspectives and needs.
- **The right skill sets and mindset.** Organizations must carefully manage change and provide the right training and incentives to bring about the desired behaviors.
- **The right technology.** Organizations require technology that provides a single view of customer information across all customer touchpoints, addresses specific industry requirements, works seamlessly with other technologies, supports multiple devices, scales easily, and provides support for global operations.

The key to creating business value with CRM is remembering that business strategy and technology strategy are inextricably linked. Companies that fall into the trap of thinking they can implement CRM capabilities based only on technology will fail. Those that take a more holistic approach will be able to achieve the greatest success in driving greater customer satisfaction, and ultimately, shareholder value.

JUST THE FACTS: BUSINESS BENEFITS OF CRM

Company	Business Benefits of CRM
Mitsubishi Motors North America	<ul style="list-style-type: none"> • 8 percent reduction in call abandon rate • 38 percent reduction in cost per call • Able to handle a 75 percent increase in call volume with similar levels of internal staffing
Asyst Technologies	<ul style="list-style-type: none"> • 50 percent improvement in accuracy of materials inventory forecasting • Average order configuration time has dropped from 25 days to 2 days in one product group • 50 percent reduction in delayed deliveries
Honeywell Industrial Control	<ul style="list-style-type: none"> • Customer satisfaction has risen from 92.3 to 98.1 percent • 15 percent reduction in call center personnel costs
WiiTel Communications	<ul style="list-style-type: none"> • 55 percent reduction in headcount in its dedicated order entry staff • 90 percent reduction in average order entry time for direct access lines • 50 to 80 percent reduction in overall order entry time • 56 to 89 percent increase in customer satisfaction
SKF	<ul style="list-style-type: none"> • 25 percent increase in service-related revenue
EMI Industries, Inc.	<ul style="list-style-type: none"> • Cut 10 to 20 percent off the time it takes to complete a custom project from proposal to order completion
Quick & Reilly	<ul style="list-style-type: none"> • 50 percent improvement in lead conversion • 67 percent increase in average revenue per sales representative • 10 percent increase in customer retention • 5 percent improvement in cross-selling
FleetBoston	<ul style="list-style-type: none"> • 15 percent increase in financial products revenue • Increased the number of products sold per customer from 4.6 to 6.2 • Reduced number of credit-only customers from 33 to 20 percent • Lowered administrative costs by 3 to 5 percent • 200 percent return on technology investment through cost reductions
Leeds City Council	<ul style="list-style-type: none"> • \$640,000 in annual cost savings • 96 percent of customers rate services as "excellent"
Telstra	<ul style="list-style-type: none"> • Account telemarketing team doubled weekly revenue • Threefold gain in employee productivity
Novell	<ul style="list-style-type: none"> • Achieved 99 percent forecasting accuracy

Table 3: In today's increasingly competitive marketplace, more and more organizations are turning to CRM as a means of driving corporate performance.



Why CRM? The Business Case for Customer Relationship Management
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