6-Step VALK ROI Development Process

A CRM Perspective

Financial justification of IT investment, particularly in new software, has become a very difficult task for senior management teams at most SMB and major companies. Most software solutions are aimed at streamlining business processes. The risks and rewards for the persons responsible for making the final purchasing decision are tremendous and can either impact the company adversely or positively. The question for the decision maker is – will the changed process be better than the previous, or will the company experience cost savings, increased revenue or a breakeven point? The approach described herein has been proven with a large number of small and mid size entities that successfully use this methodology as a tool for their own sales forces and for internal justification of their own IT investments. Several (SI) systems integrators and management consultants are adopting this approach as well.

1. Activity Center Approach

- *Operations*

In this approach we look at the business entity as a sequence of activities within the total value chain (internal / external) of the organization. Every CRM suite has its final goal – to create value for the customer who pays for it. The value created may come from several sources. Some examples of those sources are: improvement of company efficiency, increase in productivity, elimination of outsourced activities, reductions in return orders or increased sales. All of that can be achieved only through improvement in the current process. Lets take as an example of a call center. Every department in the call center has its own process flow. Every process flow will be examined as an activity center in the whole value chain of the business, which the CRM solution will automate. The first step toward improvement of the current process through CRM implementation would be the automation of non-value added activities in each process step of the total value chain.

- *New product development*

Besides creating value in the operational process, ROI has to be a critical part of every new product development initiative. I have encountered cases where companies are adding new features and slick interface designs - trying to chase after their competitors, incurring increased production costs which substantially inflate their total operational cost. The excuse is frequently used that every new feature will more than fulfill every need of the end user. As a result they intuitively hope that the number of prospective accounts will increase. Those claims can be tested only by a sound business case or by projected ROI before any investment decisions are made regarding the allocation of resources. The VALK ROI approach helps companies increase time to market through by helping speed the decision making process.

2. Key Success factors for building a successful ROI model

   i. Firm wide support, starting with CEO and executive team. A clear understanding of customer issues (full consensus on how vendor's solution will help to resolve those issues).
   ii. Development of solid relationships with the customer team involved in ROI development, detailed understanding of the process for which CRM software will be used: call center, sales force automation, marketing department, analytics, field logistics and so on.
   iii. Understanding of value drivers for each process, department, process step.

3. ROI metrics

   a. Metrics should be established for financial investment decision makers (CFO level, prior to CRM implementation). As an example in hotel cost center: number of value added calls (calls when the purchase was made), calls per operator / per day, cost per call and so on.
   b. Metrics to monitor improvements (after implementation).
      The same metrics used above will be routinely monitored by appointed person and filled into the matrices that will show trends in key value drivers' behavior.

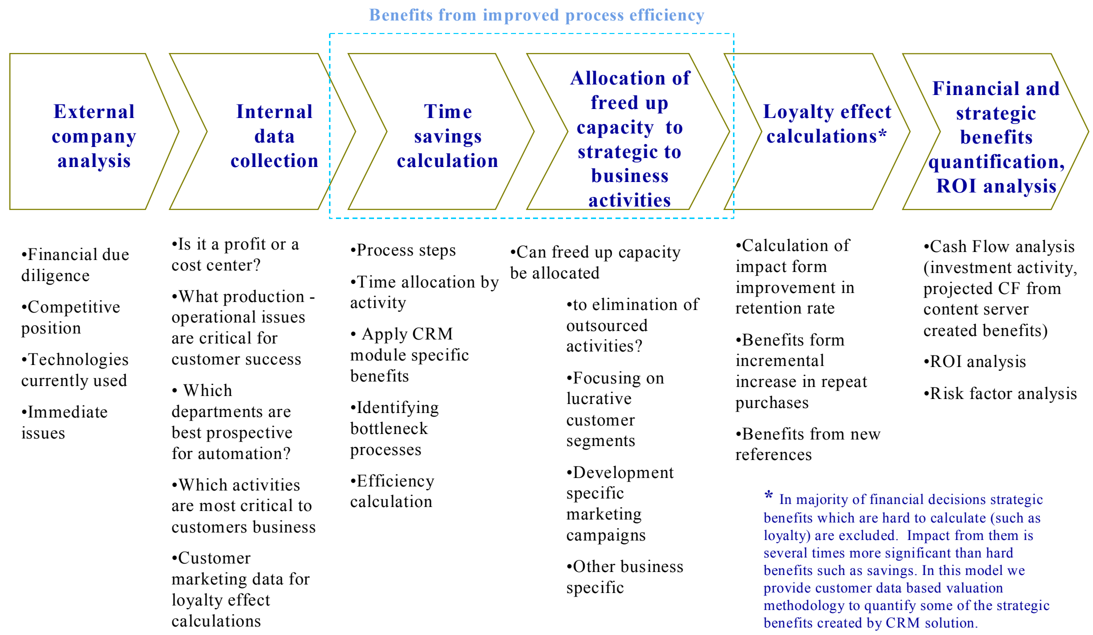
4. Keeping the ROI study within budget while maintaining credibility

When the ROI development process is approached as a major consulting assignment it becomes very expensive while consuming time and resources. A large number of risk factors such as probability of the adoption, implementation success, end user acceptance, and many other issues will not be mitigated. If the company tries to save money and develops a simplistic ROI model through product knowledge of Sales Engineers with little help from the joint vendor/customer CRM team, it will risk losing credibility when presenting to the CFO or executive decision maker.

5. ROI development process

In our approach we will address financial, marketing, engineering and sales issues as well as numerous questions from industry analysts. The 6 Step ROI Development Process allows vendors to implement the ROI process at a much lower cost while maintaining a high-level of credibility. Another benefit of the VALK ROI process is its flexibility. It can be customized to the customer's needs in a short period of time, reinforcing the vendor's value proposition and shortening the company sales cycle. As previously mentioned, the ROI development process consists of 6 simple steps:

6 step ROI development process



1. Studying customer competitive landscape and strategic competitive positioning.
2. Designing data collection map: customers critical issues, actions needed to resolve issues, key value drivers to measure improvements and quantify existing performance, resources needed to obtain data.
3. Calculation of timesavings created by elimination of non-value added activities. Benefits are applied to the process steps.
4. Allocation of time saved on business critical activities. The test questions what activities we should focus more to produce 80% of value (20/80 rule). Quantification of the potential benefits.
5. Loyalty data collection and improved loyalty effect quantification.
6. Aggregation of the value created (methodologies used for quantification of benefits created (ABC, EVA, NPV, ROA (real option analysis)).

6. Roadmap to Implementation?

The success rate for implementing CRM greatly depends on the customer's perception of how it will "change" or improve their business processes. As is the case with any software solution, it is hard to characterize a CRM product as an "out -of-the-box-solution". All customer managers I spoke with feel confident about their current process; they just want to improve it, not change it. Nobody wants to hear about a new "process in the can" especially from a CRM vendor. But changes towards streamlining current processes have to be made. To reduce costs associated with CRM implementation, new sub processes and disciplines are required to maximize the investment. This means the new process has to eliminate labor intensive and time-consuming activities, while enhancing the productivity of call center operators through the use of new features – easing the access to resources, ultimately allowing you to better serve the end customer. The question that needs to be answered in the end is how did the CRM implementation eliminate costs and increase customer satisfaction for the service provider (call center staff turnover rate, rate of "value added" calls, average time and cost per call, etc.).

7. How to monitor benefits after the CRM implementation

Issues identified together with the customer have to be linked to key value drivers. The impact those value drivers will help us to monitor improvements. For example in Call Center I would and recommend to track before and after CRM implementation:

1. Cost per call
2. Calls per day by operator
3. Average call time
4. # Of total calls
5. # Of sales related calls
6. # Of transactions
7. Average transaction amount
8. # Informative / non value added calls
9. # Of informational calls turned into sales
10. # Of canceled orders and causes
11. Call center staff turnover rate

Some examples of customer call center issues:

1. High turnover employee rate: leads to high training cost (SG&A), low productivity (revenue), poor customer service (Revenue).
2. High cost per call (Operating cost)
3. High average call time (Operating cost)
4. High level of abandoned calls (Revenue)

Case studies

OEM Company

A global chip equipment manufacturing company has 30% of its service sales coming from Asia Pacific customers. Company policy is to sell as many services with every piece of the equipment as possible. Management of the company questioned the low margins on service revenue being achieved in the region. A hypothesis was developed: maintenance time is very high for each unit of the equipment installed. A company purchases a CRM module "field logistics" from Clarify. The vendor discovers that by purchasing one service agreement majority of customers, by substituting equipment serial numbers receives service for all their installed base (8-10 pieces of equipment) for the cost of servicing one piece of equipment. Customers took advantage of poor spreadsheet service sales control. This finding it was communicated to the customer. The vendor found out that customer did not mind paying the service fee in full but used advantage of weak service control sales anyway. After 2 year of CRM usage service sales were managed by equipment serial number, not by customer name. Services sales went up by 60% generating 600% return on investment just over 24 months.

Call center

A global Hotel and Resort Company made the decision to invest in CRM suite for their global service center. The major reason was slowly increasing call center operating costs and declining sales. Management suspected that the reasons behind this were a decrease in call center operational efficiency and customer loyalty. The CRM vendor projected a 300% return on investment over a 6-quarter period. The vendor conducted a study and found out that call center operators were frequently quitting their jobs due to low decision making authority in selecting the right pricing and the level of complexity involved in obtaining information needed by the customer in shot period of time. As a result frequent training conducted by a third party was expanding the marketing budget and negatively effected overhead (HR cost). Customers had very low satisfaction with the level of services and could easily switch to the competitor in some cases paying more for better service.

After the implementation of the CRM solution form a leading US vendor our customer decreased their turnover rate by half and increase in customer loyalty through increase in repeat orders. As a result total sales went up by 1% (on global basis it is a large number) providing ROI of 2300% on the investment in CRM, including integration and annual maintenance costs.

8. Challenges in the ROI development process

In any ROI initiative there must be a mutual interest from the vendor as well as from the customer. A well-built ROI framework will not guarantee that the ROI numbers will be accurate. It depends on several factors: the variety of data available, how well this data can be linked together, the case of difficulty of quantifying it and how the probability that today's factors influencing data available will repeat in the future. In many cases data related strategic benefits are rarely tracked, so opinions from the most-experienced people in the field will become the basis for making assumptions. Those assumptions must be reasonable and conservative to maintain a level of credibility.

9. Pitfalls in the ROI modeling

The 1st mistake ROI developers (SI's, Sales Managers, Financial Primes in Sales, Marketing/Product Managers) make is that they all focus on hard savings and as a result of increases in process efficiency they calculate labor savings – which means laying off people. The vast majority of customers I worked with do not want to lay off people and do not see this as savings.

The 2nd pitfall is that in the majority of cases ROI developers disregard “Soft” or “Strategic” benefits. Those benefits can significantly enhance the ROI curve by multiple of a double digit-number (if assumptions are reasonable and have reliable sources of data).

The 3rd biggest pitfall is that the majority of all ROI models tend to be too complicated, which is hard to explain and communicate to analysts or CFO’s financial people, or too simple based on bogus assumptions.