

Six Trends in Midsize Business CRM Implementations

Midsize businesses are expanding their CRM systems and emphasizing marketing functions more. They don't implement CRM by themselves, don't know what they are spending, and don't focus enough on metrics or processes.

Core Topics

Customer Relationship Management:
Customer Relationship Management

Small and Midsize Business: SMB IT
Project Manager

Key Issue

What are the best practices for small and midsize businesses that are deploying IT products and services in the next three years?

Gartner research reveals six trends in customer relationship management (CRM) implementations among U.S. midsize businesses (MSBs) with approximately 100 to 1,000 employees. We discuss each trend, including our strategic planning assumptions and action advice for MSBs.

Of MSBs, 60 percent will adopt or expand their CRM application solution in the next 24 months.

Of the estimated 140,000 U.S.-based MSBs, we estimate that 9 percent to 10 percent have completely implemented a CRM application solution (beyond contact and activity managers like ACT!). These are Type A companies (leading-edge IT adopters). We estimate:

- Twenty-six percent to 35 percent are implementing and/or updating their CRM systems.
- Eleven percent to 12 percent will implement in the next six months.
- Six percent to 9 percent will implement within the next 12 months.
- Nine percent to 13 percent will implement in more than 12 months.
- One percent to 2 percent will have no plans.
- Twenty-five percent to 33 percent will determine that CRM software does not apply, such as some MSBs in education, government or wholesalers.

(Source: Gartner User Wants and Needs Survey, December 2003, $n = 201$ MSBs.)

Gartner

© 2004 Gartner, Inc. and/or its Affiliates. All Rights Reserved. Reproduction of this publication in any form without prior written permission is forbidden. The information contained herein has been obtained from sources believed to be reliable. Gartner disclaims all warranties as to the accuracy, completeness or adequacy of such information. Gartner shall have no liability for errors, omissions or inadequacies in the information contained herein or for interpretations thereof. The reader assumes sole responsibility for the selection of these materials to achieve its intended results. The opinions expressed herein are subject to change without notice.

Strategic Planning Assumptions

By 2006, those midsize businesses without at least a rudimentary, loosely woven set of customer-centric capabilities and technologies in place will be at a competitive disadvantage compared to other midsize businesses and large-enterprise competitors (0.8 probability).

Through 2006, fewer than 10 percent of midsize businesses will know their three-year total cost of ownership for CRM (0.9 probability).

MSBs that proactively manage their CRM software contract negotiation efforts will reduce TCO by 30 percent during the first three years, and between 15 percent and 20 percent annually during the next five years (0.8 probability).

Through 2007, midsize businesses' integration of marketing into a CRM strategy will be driven by the efforts of CRM application suites to expand their currently limited marketing presence, rather than a greater focus on midsize businesses from best-of-breed marketing vendors or marketing service providers (0.8 probability).

Through 2006, 25 percent of midsize businesses will take twice as long as is required for a CRM software package evaluation and selection process (0.9 probability).

Through 2006, risk reduction, quickly achieving benefits, and shortages of in-house skilled resources will drive more than 35 percent of midsize businesses to employ the services of their chosen CRM software vendor, and more than 45 percent will use a consulting firm, business partner, systems integrator or external service provider for CRM implementation services (0.8 probability).

Through 2007, 60 percent of midsize businesses will be in the limited-action stages of CRM maturity, with the stages of leading and maximizing out of reach for all but 15 percent of midsize businesses (0.7 probability).

During our normal CRM MSB vendor reference checks, from March to June 2004, we surveyed more than 120 MSBs that had already deployed CRM application solutions, and an overwhelming 75 percent stated they are expanding their CRM system in some way. MSBs are planning system upgrades, adding more seats, rolling out to more geographies/remote locations, and adding new types of users, such as field technical sales support, field service, professional services, offshore users and partners. Others are integrating their CRM systems with enterprise resource planning (ERP) applications or accounting applications, their data warehouse, their self-service portals for customers, product registration systems, wireless devices, and IP phone systems. Others are adding such features as contract management, enhanced reporting and analysis, project management, customer self-service portals, and self-help services for internal CRM users.

Strategic Planning Assumption: By 2006, those MSBs without at least a rudimentary, loosely woven set of customer-centric capabilities and technologies in place will be at a competitive disadvantage compared to other MSBs and large-enterprise competitors (0.8 probability).

Action Item: For those MSBs that have yet to invest in CRM software, to remain competitive, plan to spend from \$3,900 to \$5,400 per user — at a minimum — on CRM software and services throughout the first three years, not including internal help desk, user laptops and desktops, and telecommunication charges (see "The Three-Year Total Cost of Ownership for CRM Software for MSBs").

Fewer than 10 percent of MSBs will know their CRM costs over three years.

Few MSBs that have implemented CRM know their three-year total cost of ownership (TCO). This can result in credibility issues for the IS department caused by unexpected expenditures. An MSB with 170 CRM users will spend about \$750,000 over three years for CRM software and services. This is a substantial investment for an MSB, and tracking costs and benefits to show a return on investment (ROI) will be key to continued funding to improve the enterprise's CRM maturity. MSBs can lower the TCO for CRM, thus increasing their ROI, by planning, budgeting for internal resources, and recognizing that a solution's purchase price is only one component of a project's total cost. MSBs that focus primarily on purchase price often end up overpaying for software. Price represents no more than 50 percent of the value in a software negotiation. TCO is determined largely by terms and conditions that accompany a contract (see "Ten Tips for Lowering Your CRM Total Cost of Ownership").

Strategic Planning Assumptions: Through 2006, fewer than 10 percent of MSBs will know their three-year TCO for CRM (0.9 probability). MSBs that proactively manage their CRM software contract negotiation efforts will reduce TCO by 30 percent during the first three years, and between 15 percent and 20 percent annually during the next five years (0.8 probability).

Action Item: We recommend that TCOs be completed for at least a three-year time frame; best practice dictates taking a longer-term view and completing CRM TCOs for a five-year time frame. Enterprises that use shorter time frames run the risk of losing executive support for the long term.

Marketing functions will become a greater part of CRM projects for MSBs.

Note 1

Campaign Management Systems Defined

Campaign management systems (CMSs) are database management tools used by marketers to design single-channel (for example, e-mail) or multichannel (for example, e-mail and telephone) marketing campaigns, execute campaigns (such as increasing a specific market share with a particular product), and track the effects of those campaigns by customer segment over time. Campaign management tools do not do customer profitability analysis, and few offer real predictive power. They provide operational campaign management and execution capabilities through business rules and an interface, event-triggered marketing capabilities, and measurement and reporting.

Note 2

Which of the Following CRM Functions Were Part of Your CRM Project?

- Field sales — 77 percent
- Contact/call center customer service — 69 percent
- Campaign management — 55 percent
- Customer relationship optimization — 44 percent
- Telesales outbound — 42 percent
- E-marketing — 38 percent
- Analytics — 35 percent
- Marketing resource management — 31 percent
- Field service management — 26 percent

Base: 116 MSBs that have deployed CRM solutions from 14 CRM software suppliers targeting MSBs (see "MarketScope: CRM Software for Midsize Enterprises, 1H04")

Source: Gartner Survey, March 2004 to June 2004

While field sales and inbound customer service remain the most common CRM functions cited as a part of their CRM projects, more MSBs have begun to focus on marketing functions such as tools for managing marketing campaigns (see Note 1 and Note 2). MSBs are using their operational CRM software to define and track campaigns and activities, and for basic lead management. More-advanced marketing capabilities, such as customer profitability analyses and personalization, are only a vision for most MSBs (except those in the financial services industry) and would require investments beyond their operational CRM software that few MSBs have made. Many MSB marketing organizations still rely on traditional marketing channels, such as direct mail, to reach customers. Multichannel campaign management and event-triggered marketing will enable MSBs to improve execution in response to insight obtained through customer segmentation and profitability analysis.

However, MSBs looking for sophisticated analytical and CMS capabilities will need to look to other vendors or outsource providers rather than the traditional CRM suite providers, which are generally weak at these types of marketing capabilities, whether for MSBs or large enterprises. Relatively few marketing vendors are oriented toward MSBs (an example of one is NuEdge), and this has slowed the adoption of marketing software among MSBs. A lot of MSBs will work through marketing service providers for their marketing needs, so software is less of a direct issue for these MSBs. One implication of this approach is that their CRM (software) projects have often proceeded independently of marketing (the same issue as for large enterprises, until recently).

Strategic Planning Assumption: Through 2007, MSBs' integration of marketing into a CRM strategy will be driven by the efforts of CRM application suites to expand their currently limited

marketing presence, rather than a greater focus on MSBs from best-of-breed marketing vendors or marketing service providers (0.8 probability).

Action Item: Successful MSBs will realize the value of marketing as a driver that enables a richer customer experience across all channels. Concentrate first on what to communicate to customers (collection and analysis), rather than rushing into how to communicate with them (distribution). (See "The Evolution of Customer Relationship Marketing" and "MarketScope: Customer Relationship Marketing, 1Q04.")

Of MSBs, 25 percent will spend twice as long as necessary evaluating CRM software packages.

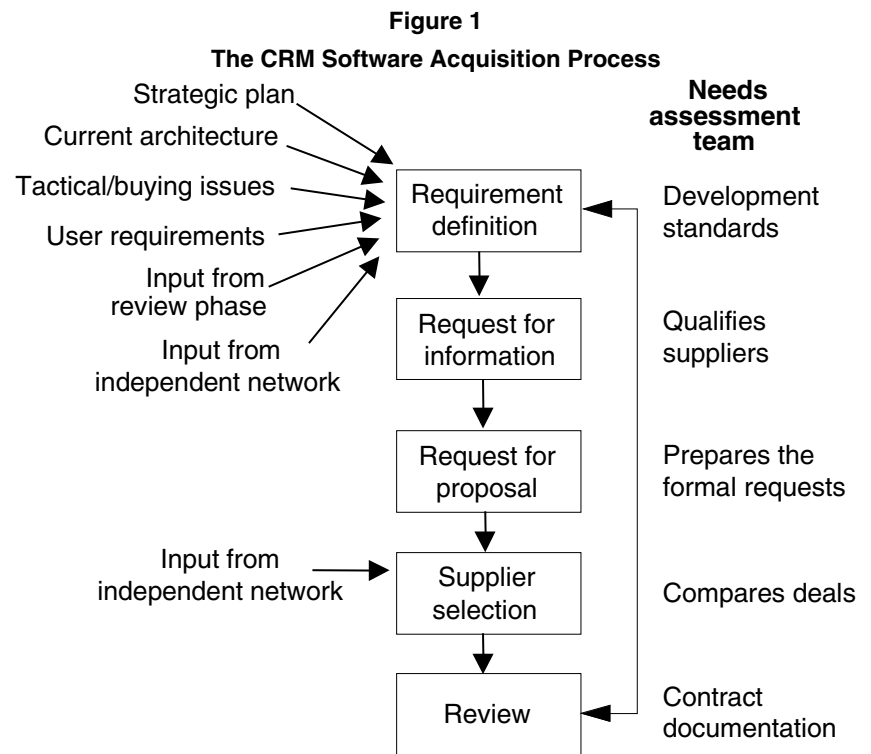
Note 3
How Long Did You Spend Evaluating CRM Software Solutions Before Making a Purchase?

- Less than 30 days — 6.1 percent
- One to two months — 19.3 percent
- Three months — 31.6 percent
- Four months — 8.8 percent
- Five months — 5.3 percent
- Six months — 24.6 percent
- Other — 4.4 percent

Base: 114 MSBs that have deployed CRM solutions from 14 CRM software suppliers targeting MSBs

Source: Gartner Survey, March 2004 to June 2004

We believe that many MSBs are taking too long to evaluate CRM software packages (see Note 3). Short-term ROI demands rapid evaluation of vendor solutions. A structured, comprehensive product evaluation methodology can cut the time, costs and risks, reducing CRM vendor evaluation times by half. Decreasing the time invested in an evaluation process, while concurrently reducing the risks associated with a procurement decision, can produce significant value for a buying center. CRM software evaluations, when following a structured process such as the one shown in Figure 1, should take about three months to complete.



Recommendation: Use a review phase as part of the process to ensure that requirements have not changed.

Source: Gartner Research (June 2004)

Strategic Planning Assumption: Through 2006, 25 percent of MSBs will take twice as long as is required for a CRM software package evaluation and selection process (0.9 probability).

Action Item: To keep CRM technology selection initiatives from taking too long (more than three months), costing too much and being too heavily based on subjective, tactical decision criteria, we recommend that MSBs use a formal methodology for strategic technology selection decisions (see "Selecting Technology With the RHA Methodology" and "Accelerated CRM Vendor Evaluations for Uncertain Times").

Of MSBs, 80 percent will not implement CRM by themselves.

More than 45 percent of MSBs implementing CRM software use a consulting firm, business partner, system integrator or external service provider (ESP) to assist them. More than 35 percent use their software vendor's implementation services. Only about 10 percent use both. Most MSBs are not implementing CRM strategies and technologies by themselves, but neither are large organizations. The difference with large enterprises is that 75 percent to 85 percent use an ESP and 62 percent of large enterprises also use their software vendors' professional services. MSBs that use some type of external CRM services are six times as likely to state they got an ROI than those that implemented CRM alone. ESPs can bring much-needed, proven methodologies and strong project management to MSB CRM projects. They also can help MSBs achieve project benefits faster through their experience with industry solutions and with specific vendor applications. However, evaluating and selecting ESPs can be a project in itself, because most ESPs that are focused on MSBs are relatively small and regional, and they are biased toward known application and vendor solutions (often, the reseller receives a percentage of the software sale in addition to the services).

Strategic Planning Assumption: Through 2006, risk reduction, quickly achieving benefits, and shortages of in-house skilled resources will drive more than 35 percent of MSBs to employ the services of their chosen CRM software vendor, and more than 45 percent will use a consulting firm, business partner, systems integrator or ESP for CRM implementation services (0.8 probability).

Action Item: Consider the use of ESPs when: industry-specific expertise is needed; skills or manpower are not available in-house; extensive organizational and business process change is required; rapid deployment is needed; and extensive application extension or tailoring to map to business processes is required. Consider the use of your chosen CRM software vendor when

skills or manpower are not available in-house, rapid deployment is needed, and extensive application extension or customization is required. Part of the contract should be a skills transfer exercise to enable the MSB to be self-sufficient.

Defining CRM metrics and CRM processes will need more attention from MSBs.

Having well-defined metrics used to track and monitor success and having well-defined and automated CRM processes are the two building blocks to CRM maturity for which MSBs show the least maturity (see "The Eight Building Blocks of CRM" and "SMBs Boost Their CRM Maturity With Software").

Metrics: Developing metrics is challenging, because many MSBs don't have a clear set of baseline metrics to start with and must identify and gain consensus regarding somewhere between three and five metrics per domain (such as sales, marketing or service) that the organization will use to track its CRM success. CRM metrics are the internal and external indications of accomplishment used to justify, monitor and track CRM programs and will be the path to quickly gaining more resources for further improvements. They provide a feedback mechanism for the continuous development of strategies and tactics and an effective way to truly monitor ROI and even TCO.

Action Item: Metrics and targets should be set at the beginning of CRM programs and monitored through the life cycle of the initiative. MSBs should carefully choose the metrics that will have relevance to the business and will help business executives to manage enterprise performance. No more than seven (plus or minus two) metrics should be used at any given management level (see "Choosing Metrics for Customer Relationship Management").

Processes: The actions an enterprise executes to manage the customer life cycle and interactions with those customers are referred to as "CRM processes." Examples include welcoming new customers, handling inquiries and complaints, and winning back lost customers, as well as the analytical and planning processes that build knowledge bases related the customer. Many MSBs fall into the trap of simply automating their flawed established processes. As a result, they continue to do the same things that have annoyed customers for years, only they do them more quickly. A best practice is to redesign processes from your customer's point of view, enabling your enterprise to begin remaking itself into an entity from which customers expect and receive satisfaction.

Action Item: Rather than trying to focus on all CRM processes at once, you should identify the top-10 highest-value processes for the customer. Focus your initial process efforts on these by defining the organizational, process and technology elements that must be put in place to optimize the given process. Use customer surveys to understand what customers want and what the level of service should be (see "Using Customer Surveys to Improve Business Processes"). Determine the minimum standards for each process. Consider promoting these standards or service-level agreements (SLAs) as a competitive differentiator. And when you fail to meet the minimum standards or SLAs, consider compensating your customers.

Strategic Imperative: Having well-defined CRM metrics and well-defined and automated CRM processes will remain critical to achieving CRM maturity.

Strategic Planning Assumption: Through 2007, 60 percent of MSBs will be in the limited-action stages of CRM maturity, with the stages of leading and maximizing out of reach for all but 15 percent of MSBs (0.7 probability).

Acronym Key

CMS	campaign management system
CRM	customer relationship management
ERP	enterprise resource planning
ESP	external service provider
MSB	midsize business
ROI	return on investment
SLA	service-level agreement
TCO	total cost of ownership

Bottom Line: Midsize businesses should examine how each of the six trends highlighted here may affect their organizations, and they should perform a CRM maturity/capability assessment. Gartner research indicates that there are great opportunities for MSBs to use CRM investments against the competition, if it is done properly.