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Why CRM Financial Analysis Always Fails

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Everybody gets that procuring and implementing software isn't the same as hardware. I've been writing endlessly about how CRM is different from other enterprise software — not technologically, mind you, but in terms of the business drivers and the physics of the cost-benefit equation.

So why does everyone try to make CRM business cases the same way they would for an HVAC system upgrade? Well, part of it is that many businesses spend less on IT than they do on heating and energy, so they don't feel they have to be *that* careful. Plus, everyone wants to use the tools and methods perfected in other parts of the business (say, the factory, the distribution system or the network) rather than starting from scratch. Blindly applying rules and methods from other parts of the business yields crummy decisions about CRM projects — and crummy assumptions lead to crummy results.

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Unlike any other enterprise software category, CRM systems' costs and benefits vary widely by industry and don't scale up or down in predictable ways. Further, as with news media, the information that's easily accessible to you is very likely to be misleading.

CRM vendors will gladly provide case studies only marginally applicable to your business. Industry analysts will give you lots of data and examples, but the data points are from a fairly skewed population. Unfortunately, benchmark data on the meaningful stuff is hard to find.

If you want the right answers to drive an optimal CRM business case, you're going to have to do some original work.

CRM Costs Always More Than They Appear

The good news? Some costs are fairly easily quantified. You can just ask for quotes and, in a few days, know the up-front obvious stuff.

Of course, that's not the important side of costs. Four factors will completely overwhelm the initial procurement cost:

- For a system of any size, the data maintained inside the CRM is far more costly than the system itself. If you pay only $100 per lead, those 750,000 people in your database cost you at least $75 million. Of course, that's sunk cost at this point, but the amount you should be willing to pay to keep that asset valuable and current far exceeds the cost of nearly any CRM project.
- For CRM use cases that need to have visibility into other systems (in particular, for ecommerce and service and support use cases), the costs of data cleanup, integration, and reconciliation can

be amazing — a couple dollars per record, sometimes more. Best of all, you're much more likely to discover new data problems as you dig in. Aside from the unknown financial costs, this is typically the most annoying part of any CRM project, thanks to overburdened personnel and plain old politics.

- For an implementation project of any complexity, the overruns and follow-on phases will almost certainly exceed the size of the initial project. In my humble opinion, this goes double for classic waterfall fixed-price CRM projects, or when a lot of integration is required for the CRM to be really effective.
- For a user base of any size, the biggest costs of all may well be wasted user time. Particularly in politically-charged situations that are all too common in CRM projects, even a "correct" system can lead to a lot of silliness. Yes, you can view this as a sunk cost as well, but employee inefficiency should never be ignored. This is particularly true if you have large field forces for sales and support.

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Sum this up and it's easy to see why the immediately visible costs don't matter. Examine your costs at a holistic level; don't goof around with simple TCO spreadsheets.

Business Constraints May Stymy CRM Benefits

There's some good news here. Vendors pay industry analysts to quantify the productivity, revenue and profitability impacts of a superb CRM implementation. Great. Use the data. Analysts show revenue improvement numbers of 30 percent or even more. To misquote the immortal words of Sybase founder Bob Epstein, "These are the numbers that the vendor guarantees you'll never be able to achieve."

Let's look a little deeper. A killer CRM implementation can mean real revenue upside when automation, follow-through and coordination are the underlying business problem. In a multi-channel sales force — particularly one where renewals and repeat business drive profitability — it really is possible to get important top-line growth. Thanks to the cost structure of sales organizations, incremental investment in CRM means that every dollar of increased sales will have solid contribution margin. Increased profits never hurt.

However, you should calibrate expected revenue upside against four constraints:

- Is there really 30 percent more demand out there for your current products or services? Is the only thing blocking 30 percent more revenue really marketing, sales or support execution? How much of a bottleneck is your lack-of-wonderful CRM?
- If you did have a perfect CRM, would your sales team's win rates go up? Would they close a month sooner? Is there that much slack in your sales function and supporting processes?
- Is your company good at change management? Are you successful at business process updates and behavior modification? Are you a learning organization?
- For the parts of a bleeding-edge CRM that touch channel partners and end customers, are they culturally willing to play? Or would a rapid switch to automation turn some of your existing customers off?

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Let's try to up-level this a bit. More revenue with less profit is pointless, so let's optimize for maximal profit dollars. Doing that focuses your attention on the "opportunity costs" minimized, the pitfalls avoided, and the quality of executive decisions. Sure, those sound fuzzy, but they matter: Ignoring these factors led to Edsel, New Coke and Microsoft Bob.

CRM Investments Have a Fuzzy Bottom Line

That's the problem. The important stuff about CRM investment is tough to quantify before the project is completed. Call it Schrodinger's Cat for IT. I'm all for business cases — they do matter — but with CRM systems, the bigger the decision you try to make, the more costly and inevitable estimation errors become.

From the point of view of pure decision theory, the best decision you can make is the smallest decision you can make, and make iteratively. That's the theoretical underpinning of why an agile approach works better for CRM.

David Taber is the author of the Prentice Hall book, "Salesforce.com Secrets of Success" and is the CEO of SalesLogistix, a certified Salesforce.com consultancy focused on business process improvement through use of CRM systems. SalesLogistix clients are in North America, Europe, Israel and India. Taber has more than 25 years of experience in high tech, including 10 years at the VP level or above.

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