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## How Much Should You Spend on CRM Software?

– David Taber, CIO

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Making the business case for an accounting or HR system is clear-cut: Avoid unnecessary costs, manage cash better, reduce risk and you're done. If you were to invest twice as much in one of those systems, you might increase business payoff by 20 percent, so you can find the optimization point for ROI in a single spreadsheet.

With a manufacturing systems, the extra payoff from investing in all the fanciest supply-chain add-ons, such as constraint-based production scheduling and inventory optimization, just isn't there for most businesses. For both the CIO and the CFO, these systems are easy to think about—the data is hard to debate, and the outcomes are pretty much black and white.

Then there's the CRM system. To misquote Tom Lehrer, "Life is like a CRM system: What you get out of it depends on what you put into it."

**Column:** [Why CRM Implementation Is So Political](#)

Depending on your company's process maturity, competitive situation, channel structure and a few other key variables, the same investment can yield wildly different payoffs. There are four main reasons for this difference.

### 1. CRM Business Processes Are Driven by Humans

Those business processes typically involve huge cost structures, too—in many companies, sales and marketing are the biggest overall expenses. The core business process, revenue generation, is the most unreliable part of most businesses. If you don't believe me, just look at all the "revenue misses" and "upside surprises" in recent earnings reports from [Sony](#), [Sharp](#), [Zynga](#), [Facebook](#) and others.

A small difference in the performance of the sales and marketing business processes, then, can make a big difference in your company's bottom line. For example, if you could improve the win rate of your sales team by just 5 percent, you could easily see a 10-percent increase in profitability. It would be difficult to drive that kind of profit increase in the manufacturing business process, not to mention impossible in the accounting business process.

### 2. CRM Systems Are Still Evolving Rapidly

The definition of what's encompassed by CRM changes like an amoeba. Sales and service are certainly part of CRM, but what about marketing automation? Email blasters? Ecommerce? Website advertising? Social media? Pricing optimization? All depend on whom you ask within your company and how your company is performing.

### 3. The Cost Range of CRM Systems Is All Over the Map

The initial acquisition costs—from "fake free" open source CRM systems to products that run \$3,000 per seat per year, if not or more—can mostly be determined up front. When it comes to system extensions, integration and ongoing system administration and governance, though, the costs are hard to quantify without extensive business process and technical analysis. Even when you do come up with a cost estimate for CRM system extension, integration and administration, it's rarely realistic, even if it's precise.

### 4. Payoff Is the King of All CRM Variables.

CRM vendors and industry analysts will be more than happy to provide you with wonderful numbers about efficiency and performance gains. Don't get too excited about those numbers for these reasons.

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- They don't apply to you. Since your business processes, competitive situation, product lines and sales personnel are different from whatever companies were measured to produce those numbers, the payoffs and interactions of leveraging CRM systems will not be directly comparable.
- They are rarely based on a control group. Too often, the numbers are based on a "before and after" comparison of a team when several other changes were made at the same time as the sparkly new CRM system. New product launches, organizational changes, competitors' missteps and even team morale could have as much to do with the improved business performance as the CRM system. It's almost impossible to statistically normalize the numbers or isolate the payoff that comes just from CRM improvements.
- Depending on where you are as an organization and what market you are in, the specific CRM features that really pay off will vary dramatically. Is your support organization a cost center under margin pressure, where shaving pennies is all that matters, or is it a source of renewals and upsells, making it an effective profit center? Dozens of questions such as these will cause the payoff from a CRM system to vary dramatically.

The business case for your CRM depends upon the system's design target. The concept of a design target has been around for decades, and it needs to be applied when you're trying to optimize your CRM investment. We will discuss how to do this in Part 2 of this article.

*David Taber is the author of the new 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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