



# CALCULATING THE ROI OF CRM

*a 7 step guide*



# THE IMPORTANCE OF *calculating ROI*

**The potential business benefits of a CRM implementation are widely recognised. CRM can help drive revenues from both existing and new customers; it can reduce costs right across a business; it can enhance the customer experience, in turn cutting attrition and increasing advocacy. Finally, it can deliver the insight that enables better decision-making throughout an organisation.**

In a recent survey of CRM decision makers, Nucleus Research discovered that successful projects generate a return of up to \$5.60 for every \$1 spent. It is the potential to achieve similar returns that is leading businesses to invest money and time on CRM implementations.

Yet some CRM projects still deliver disappointing returns or fail altogether. One of the crucial elements of a successful CRM implementation is to gain, at an early stage, a clear understanding of the expected ROI and then, when the system is in place, the actual ROI.

Get this right at the outset and your purchase will be aligned to specific business requirements. You will be able to share realistic expectations throughout your organisation. You will also be able to scale your initial budget up or down and understand the likely impact. Then once you have the calculation in place, you can check it periodically, either ensuring your CRM is delivering to expectations, or making necessary changes. We've identified 7 key steps to calculating the ROI of CRM...





## *Step 1:* WHERE ARE YOU NOW?

The first step is to set out figures in three areas:

- Your anticipated new business sales this year
- Your expected value of renewals this year
- The percentage of your renewals that historically have actually renewed each year

## *Step 2:* HOW WELL DO YOUR SALES & MARKETING FUNCTIONS PERFORM NOW?

Next, score your sales and marketing function on a scale from one to ten across key areas such as new business generation, upselling and cross-selling, sales execution, and sales management (including renewal).

For example, when you drill down into your new business generation activities, how well do you segment and profile your existing database to identify potential prospects? Or, looking at upselling and cross-selling, how easily can you target existing customers based on previous purchase history?



## Step 3:

# HOW WELL COULD YOU PERFORM IN THOSE AREAS WITH A NEW CRM PLATFORM?

In this step you go back across those key areas, estimating how well your sales and marketing could function, again on a scale of one to ten, if it had in place a fully functioning CRM platform. So, it may be that when you looked at sales management you scored yourselves a five for your current ability to measure the performance of individual salespeople, but with a CRM system in place delivering the necessary information that would leap to a nine.

## RATINGS EXAMPLE

Step 2: Rate your sales and marketing performance today to get your effective score.

Step 3: Estimate your rating in the future with a new CRM platform that meets your business needs.

Rate 1-10 (1 is low, 10 is high,  
0 for not applicable)

New Business Generating	Rating Today	Future Rating
Segmenting & profiling your existing database to identify potential prospects	3	8
Marketing to your new prospects	4	8
Generating enough leads to feed your sales team	6	8
Effective follow-up of new leads by sales	2	8
Our marketing is always effective and we can measure the return on investment	4	8
Upselling & Cross-Selling		
We can easily target our existing customer based on their interests	2	8
We can easily target our customers based on previous purchase history	4	8
Our marketing to existing clients is effective and we can measure the return	5	8
Sales Execution		
We have a proven sales methodology which every sales person follows	4	8
Our sales team isn't bogged down in unnecessary administration and can focus on sales	5	8
Our sales people have documented account plans which add value to our sales process	4	8
We conduct regular deal reviews and know who the key contacts are in a sale and we understand the sales cycle	5	8
Sales Management		
We are effective at measuring individual sales people and identifying areas for improvement	4	8
We can quickly and easily create an accurate sales pipeline	5	8
We can identify positive and negative behaviour in our sales team and adapt our sales process accordingly	4	8
Renewal Management		
We have an effective (automatic) process to send renewal reminders to clients	4	8
We can identify problematic customers before renewals are lost and take corrective action	3	8
Our renewal processes are efficient and don't require lots of manual tasks	5	8
Sales & Marketing Effectiveness Score	61	120
Renewals Effectiveness Scope	12	24







## *Step 4:*

# WHAT IMPACT WOULD THIS HAVE ON YOUR FINANCIAL PERFORMANCE?

The figures detailed in steps two and three, provide a percentage by which your organisation could improve its sales and marketing effectiveness and its renewals performance. From this you should be able to assess the impact this would have on both your top line growth and your renewals rate. By applying this to the figures on existing sales and renewals this allows you to see your expected revenue growth figure.



## Step 5:

# WHAT SAVINGS COULD YOU MAKE BY STREAMLINING BUSINESS PROCESSES?

You begin this calculation by entering the salaries, loaded costs and hours worked of employees across your key functions, for example, sales, marketing, administration, finance, and customer service. This gives you an hourly cost in each of those functions.

You then work through each of the activities in those functions, such as creating customer service tickets or entering orders into Sage. You look at how much time is spent on those tasks currently and by how many people. You estimate how much time could be saved, say by automating service tickets and Sage entries. This produces figures for hourly savings in each department which can be tracked through to cost savings using the hourly costs calculated above.

## SAVINGS EXAMPLE

Department		Paid Salary		Loaded Costs		Hourly Cost	
Sales		£ 45,000		£ 58,500		£ 29.02	
Admin		£ 23,000		£ 29,900		£ 14.83	
Marketing		£ 30,000		£ 39,000		£ 19.35	
Finance		£ 32,000		£ 41,600		£ 20.63	
Customer Service		£ 25,000		£ 32,500		£ 16.12	

		Hours per week					
Team	Activity	Current Time	Future Time	Number of People	Hours Saved	Hours Saved per Year	Total Saving
Sales	Completing weekly call meeting reports	2	0.5	10	2	780	£ 22,633.93
Sales	Completing weekly call forecast spreadsheets	3	1	10	2	1040	£ 30,178.57
Sales	Copying and pasting emails into CRM (100 per week, 1 min. per email)	1.7	0	10	2	867	£ 25,148.81
Sales	Sales managers pulling together consolidated forecasts	3	0.5	5	3	650	£ 18,861.61
Customer Service	Manually creating trouble tickets from emails (200 cases per week, 1 min. per case)	3.3	0	2	3	347	£ 5,588.62
Customer Service	10% improved efficiency using case management system	37	33.3	10	4	1924	£ 31,016.87
Marketing	Managing mailing lists and unsubscribe data	4	1	1	3	156	£ 3,017.86
Marketing	Segmenting data for marketing campaigns	5	1	1	4	208	£ 4,023.81
Marketing	Chasing sales to understand what happened to leads	4	1	1	3	156	£ 3,017.86
Finance	Chasing outstanding invoices (automate reminders)	10	5	1	5	260	£ 5,365.08
Admin.	Order entry into Sage	10	2	2	8	832	£ 12,339.68
Admin.	Creating renewals orders	10	0	1	10	520	£ 7,712.30
Total Saving per Year						7739	£ 168,904.99



## Step 6:

# WHAT IS THE TRUE COST OF YOUR IMPLEMENTATION?

The cost of a CRM implementation involves more than the annual licence fee. With the right vendor you should expect to include the initial implementation cost and to set aside a budget for further improvements you will want to make.

Beware vendors that will force upgrades, surprise you with unexpected additional features, vary licence costs, confuse you with complex discount plans, and require you to adapt your existing IT infrastructure. All are unnecessary and can add significantly to your costs.

Other costs you may want to factor in are time for training, project team commitments, possible delays in implementation and impacts on productivity while CRM beds down in the business.

## Step 7:

# WHAT IS YOUR ROI?

You now have figures for benefits and costs. These should be multiplied by five, as when you incorporate implementation costs and you allow time for the full benefits to be realised, it is only sensible to assess a CRM implementation over a five-year period. Dividing costs into benefits produces your ROI multiple.

## GETTING HELP



**Bear in mind that any vendor will be happy to help you with this process.**

They are used to making these calculations day in, day out, so should be able to accelerate the process by rapidly providing figures on expected improvements, and by helping you assess your current performance.



**Even with this advice and assistance, this is not a quick or simple process. It is though a worthwhile one.**

Put in the groundwork, follow each of the steps above and invest the time to embark on your project with accurate, granular information rather than vague, hurried estimates.



**Do this and you are far more likely to achieve a successful CRM implementation, realising all the anticipated benefits and delivering an excellent return on investment.**

