

The Business Benefits of CRM

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The Business Benefits of CRM

THE BUSINESS BENEFITS OF CRM

When executed appropriately, a CRM strategy can deliver significant quantitative and qualitative business benefits. The quantitative benefits are driven by two main factors: reduced costs and increased revenues. Looking at these two factors more closely, CRM solutions let organizations reduce the cost of acquiring, selling to, and serving customers, and they help organizations enhance revenue by increasing sales per representative, sales per customer, average order size, and other revenue-driving metrics.

Cost Reduction Benefits

By streamlining and integrating customer-facing processes and providing richer customer data to sales, marketing, and service personnel, CRM can produce significant cost reduction benefits in a few key areas: cost to acquire customers, cost of sales, and cost to retain and serve customers.

Decreased Customer Acquisition Costs

Effective CRM strategies help organizations better understand a customer's preferences, buying behavior, revenue, profitability, and purchasing frequency. Having this knowledge can reduce customer acquisition costs significantly. For example, within one high-tech company, the implementation of a Siebel CRM system helped the telemarketing group to dramatically lower the number of calls required to generate leads. The company's vice president of sales and marketing explains:

Under our old sales information system, our telemarketing people were deluged with irrelevant information—free-form, unstructured information that had been recorded by agents during previous calls. This random information often impeded their call productivity. With our account-focused CRM system, they see just the information they need to converse intelligently—service records, for example, or the fact that an account falls into a certain vertical market. As a result, our telemarketing personnel can now make approximately 80 calls per day versus 60 before the CRM implementation, and the value of those calls has gone up. Our people's hit ratio—that is, the proportion of calls that translate into qualified leads—has gone from 1 lead for every 52 calls to 1 in 33. Most impressive of all, telemarketing's success as a profit center—what

we calculate as its ‘contribution margin’ toward closing deals—has roughly doubled since we rolled out the CRM system.

Decreased Cost of Sales

CRM can reduce the cost of sales by increasing sales force productivity, enhancing partner-channel productivity, decreasing quotation-proposal generation time, and improving order-configuration accuracy. WilTel Communications provides a detailed example of the way in which Siebel CRM technology can reduce the cost of sales.

Excess capacity in the telecommunications industry had driven prices down over the past few years, making it extremely difficult for communications providers such as WilTel to maintain profitability. WilTel sought to differentiate itself through a concerted effort to beat industry-standard intervals for service delivery. To accomplish this, the company had to significantly shorten its order intervals and focus on meeting the customer’s requested due date. However, its existing legacy system had limited growth capabilities, poor integration with other systems, and inadequate data integrity. This led to increasing business costs due to the substantial effort and human resources required to meet its customers’ dates.

To address these problems, WilTel replaced its legacy system with a Siebel CRM solution that significantly streamlined the order entry and validation process, allowing the company to meet customer-requested due dates faster and with fewer people. As a result of decreased order entry time, WilTel reduced headcount in its dedicated order entry staff from 22 to 10 people, saving nearly US\$500,000. Additionally, because the order entry process was much simpler, project managers could enter orders while talking to customers—increasing order accuracy and leading to higher customer satisfaction.

WilTel’s vice president of service delivery explains, “We saw an almost immediate increase in customer satisfaction from 56 percent to 89 percent, helping us retain customers and minimize customer acquisition costs. And the efficiency and productivity gains are translating directly into dollar savings.”

WilTel also cites the following improvements from its CRM solution:

- A reduction in average order entry time for direct access lines from 8 hours to 45 minutes
- A 50 to 80 percent reduction in overall order entry time
- Cost savings of US\$10,000 each month through a reduction in time spent on account maintenance, security, and queries, and by eliminating paper files

Decreased Cost to Retain and Serve Customers

CRM can lower the cost to retain and serve customers by deflecting simple customer service issues to the Web and streamlining the process of serving customers through other channels.

Honeywell Industrial Control (HIC) significantly reduced the costs associated with serving its customers by implementing a Siebel CRM solution focused on knowledge management. The company built an online solutions database letting contact center personnel quickly answer recurrent customer queries. As CIO and Vice President Rob Baxter explains, “Our goal was to never discover a problem twice.” By entering solutions to more than 50,000 problems into a central database and making that database available to its field engineers, HIC cut its problem resolution time from an average of 8 hours to 20 minutes. With the addition of an online self-service application, the company realized even greater efficiencies, reducing its call center costs by 15 percent.

Mitsubishi Motors has seen similar results from the implementation of its Siebel CRM solution. “Our main focus,” says Rich Donnelson, Director of Service and Product Support, “is to satisfy the customer. The new CRM system helps us ensure that our customers are receiving the quickest and most efficient service from our retailers.” Mitsubishi’s CRM system has helped the company achieve an 8 percent reduction in its call abandon rate and a 38 percent reduction in cost per call. The company can now handle a 75 percent increase in call volume with similar levels of internal staffing.

Quick & Reilly’s CRM system helped the company increase its lead conversion ratio—that is, the percentage of leads that become new accounts—from 40 percent to 60 percent.

Revenue Enhancement Benefits

Because CRM strategies allow organizations to monitor, measure, and track every customer interaction, organizations can determine the precise results of those interactions and therefore calculate the return on every marketing, sales, and service effort. Indeed, with CRM capabilities, organizations can determine the profitability of each customer or account and thereby adjust their allocation of resources to each customer based on that customer’s profitability. By extending this capability across all communication and distribution channels, an organization can optimize its business model. That is, it can reach the right customers and prospects through the right channels at the right time with the right product or service. These capabilities lead to improvements in key areas, including increased close rates, increased revenue per sale, and improved customer retention.

Increased Close Rates

By deploying robust CRM systems and processes, customer-facing personnel have easy access to all relevant account, contact, lead, activity, and product information they need to serve customers. Moreover, CRM technology ensures that information is provided wherever and whenever it is needed, leading to meaningful improvements in close rates.

Financial consultants at Quick & Reilly, for example, use the company’s Siebel CRM system to view information about investors, such as income and investment preferences, and then target their investment pitches accordingly. Explains Quick & Reilly’s Assistant Vice President of Sales Force Automation:

We are able to be so much more personal in our interactions now. With essential customer information right in front of them, our representatives are able to develop customized investment strategies and deliver them—along with every appropriate piece of marketing collateral—directly to the customer, right from their desks. This system has enabled us to improve our lead conversion ratio—that is, the percentage of leads that become new accounts—from 40 percent to 60 percent.

Increased Revenue per Sale

CRM can help organizations increase average revenue per sale by facilitating cross-selling and up-selling. For example, Marriott has developed a program called Personal Planning Service, powered by Siebel CRM technology, which allows Marriott to create personalized vacation itineraries for guests at select resorts well in advance of arrival. When a customer makes a reservation for one of Marriott's select resorts, the company starts building an itinerary based on the customer's requests and stored preferences. When the customer arrives at the hotel three weeks later, tee times have already been scheduled, dinner reservations arranged, and recreation itineraries created. Marriott has found that guests who participate in the program show noticeably higher guest satisfaction scores and spend an average of US\$100 more per day on services beyond the room rate.¹ They are also more likely to generate repeat business because they had a satisfying experience.

CRM technology can also increase average revenue per sale by helping sales representatives focus on the right deals—those that represent the highest revenue potential. For example, at Peregrine Systems, a leading provider of infrastructure management solutions, the combined implementation of a new sales methodology and Siebel CRM technology helped the company's large direct sales force act on opportunities more quickly and close business faster. "Previously, the sales representatives didn't have a methodology for going in and really assessing an opportunity," says Rick Berzle, Vice President of Corporate Marketing, Peregrine Systems. "The sales force automation system we were using could not support an integrated sales and marketing process."

Since implementing Siebel CRM technology and new sales methodology, Peregrine has seen dramatic improvements in the effectiveness of its sales efforts. "These tools have given our representatives a framework for assessing an opportunity," says Berzle. "They can now determine the true potential of an opportunity, whom they need to influence to win the sale, which obstacles they need to overcome, and how to engage the customer in a process that will close the sale."

The CRM technology gives sales representatives a comprehensive view of all activities, opportunities, and service issues associated with any given account, enabling deeper selling of infrastructure management solutions into the account. For example, by allowing a sales representative to see that Peregrine is currently

¹ "Suite Returns," by Elana Varon, *CIO Magazine*, August 15, 2000, pg. 2.

managing a customer's computer network, the CRM software lets the representative engage in targeted cross-selling efforts, such as offering the customer a broader solution that encompasses the procurement of additional networking equipment.

"The CRM technology and the new methodology have moved our sales organization to an entirely new level," says Berzle. "In the first five months after implementation, we realized at least US\$8 million in competitive wins that were directly attributable to the new solution."

Improved Customer Retention

Improvements in customer retention lead to increased revenue growth. Customer retention is a critical factor in determining a company's long-term financial performance. Consider the value of existing customers: they require no additional marketing or set-up costs, generally provide higher revenue per purchase, are less sensitive to price, and refer new customers.² Consider everything together, and the financial return from retaining customers and extending their lifetime value can be enormous. For example, by studying a wide array of industries, management consultants at Bain & Co. found that a 5 percent improvement in customer retention increased profitability by 25 to 100 percent.

CRM lets an organization increase customer retention rates in a number of ways. First, CRM software provides powerful analytics that helps organizations understand the key drivers, timing, and predictors of turnover. Second, CRM marketing and campaign tools allow a company to develop models to target desirable customers at risk of defecting to another company with mailings, phone calls, and promotions. For example, one leading networking equipment manufacturer has used Siebel CRM technology in effectively tracking service contracts that are about to expire. "Since the system automatically alerts managers to approaching expiration dates," says the company's director of customer service, "we're able to immediately go after those contracts and make sure they are renewed before the expiration date. This has increased our revenue from service contracts by 20 percent."

Third, CRM technology can help a company improve customer retention by referring customers to alternative product and service offerings when a customer's primary choice is unavailable. For example, Siebel CRM technology lets Marriott maintain a unified guest information repository across its various lodging brands, including Residence Inn by Marriott, Courtyard by Marriott, and Ritz-Carlton. If a customer wants to book a room or a meeting at a hotel that is full, Marriott's CRM system can easily refer the customer to another Marriott property in the area that has capacity. By keeping customers within the Marriott portfolio, the company not only prevents sending business to the competition in the short term, but also

² "Quality Comes to Services," Frederick F. Reichheld and Earl Sasser, *Harvard Business Review*, March–April 1996.

gathers increasingly rich information about customers' preferences. This information can then be used to support a positive cycle whereby customers receive a highly personalized experience regardless of the particular Marriott brand or property they are visiting.

Additional Benefits of CRM

In addition to providing measurable benefits in the form of reduced costs and increased revenue, CRM technology provides many other benefits that are more difficult to measure. Some of these benefits include superior market intelligence, more customer-centric product development, improved forecasting and financial management, and greater brand equity.

Superior Market Intelligence

Because CRM databases are updated dynamically in real time, they provide an organization's sales, marketing, and customer service people with fine-grained and relevant information that can help inform strategic and tactical decisions. For example, at one leading energy company, CRM technology provides useful insights not only into broad market trends, but also into how individual customers make energy choice decisions. "Knowing why we win a deal, or why we lose one," says a company executive, "provides a tremendous competitive advantage in a deregulated market."

Product Development Tied to Customer Needs

By providing a comprehensive view of customer buying behavior, CRM technology can help companies tie product development efforts more closely to customer needs. At a leading software company, for example, Siebel CRM technology allows the rapid exchange of information between field sales personnel and product development groups. Because the system provides a field for Product Detail in the sales opportunities screen, product development personnel get highly specific information about potential deals and customer requirements. Says the company's directory of customer information services:

And that information leads to action. For example, when a significant opportunity moves forward in the sales pipeline, the Siebel CRM system can send an automatic e-mail to the relevant product manager, and that manager can then ask the sales representative, 'Is there anything we can do to help move this deal forward? Are there enhancements to consider? Should we send a technical support person on a call with you?' The exchange between the two functions is extremely rich. The CRM system is now really driving our product development.

Improved Forecasting and Financial Management

CRM technology can provide an organization with a more accurate picture of its sales pipeline, which leads to numerous benefits, including better inventory

management, increased customer satisfaction, and stronger relations with the financial community. Consider the experience of Asyst Technologies, a leading provider of technology solutions that improve the productivity and yield of chip manufacturing. Before implementing a CRM solution, the company's account managers submitted four separate and unlinked forecasts every month, each of which was intended to satisfy the information needs of various internal groups. However, each forecast presented a slightly different view of market demand, and the forecasts could not be consolidated to show a single view of the sales pipeline. Instead, a master scheduler would reconcile the four forecasts based on his knowledge of the sales force and market, and then develop guidelines for manufacturing that often bore little relation to what customers were demanding in the real world. Barney Huang, Senior Director, Asyst Technologies, explains,

The system was built on "Kentucky windage," where you hold a finger into the wind to make adjustments to your targeting. It wasn't accurate, it wasn't driven by customer knowledge, and it wasn't effective. We never knew exactly what our inventory needs were, and we had problems with incomplete shipments and late deliveries.

Following the implementation of a Siebel CRM system, the company's forecasting improved dramatically.

We're 50 percent more accurate in our materials inventory forecasting," says Huang, "and we are getting that accuracy in record time. Compared to the four weeks that it used to take to get an accurate forecast, we are now putting reports together once a week. This clarifies the picture of where our markets are moving and helps us respond more nimbly to shifts in demand.

This clearer picture includes information about several new parameters. The company can now forecast by part number, region, account managers, product mix, and average sales price relative to cost. "This detail," says Huang, "enables us to do things we couldn't do before, such as margin analysis and assessment of booking probability." This means tighter control over materials inventory, no empty warehouse space, and no overstocking. For Asyst customers, it means getting the right products at the right time. In fact, since implementing the CRM solution, Asyst has seen a 50 percent drop in delayed deliveries.

"By enabling us to provide seamless, personalized service across the globe, our CRM system is playing an integral role in helping us maintain our customers' trust and maintain the strength of the Palm brand."

**—David de Valk
Senior Director of Global Customer
Service palmOne, Inc.**

Greater Brand Equity

While improving customer satisfaction and retention is clearly a revenue enhancement benefit, such improvements over time also lead to greater brand equity—a critical determinant of success in many industries. David de Valk, Senior Director of Global Customer Service at palmOne, Inc. explains the link between customer service and brand equity at palmOne:

Our customers aren't just customers, they are vocal company fans—they rely on their palmOne devices to manage their lives. To continue earning their loyalty, we must show them that we can protect their personal information and

respond to their service needs quickly and effectively. By enabling us to provide seamless, personalized service across the globe, our CRM system is playing an integral role in helping us maintain our customers' trust and maintain the strength of the palmOne brand.

Strong brand equity provides a competitive advantage not just by improving customer loyalty, but also by giving the brand owner greater license to introduce new products and services. When customers trust a brand, they are more willing to try new products and services offered under the brand's name. Organizations with strong brands thus enjoy an advantage when expanding into new markets.

JUST THE FACTS: BUSINESS BENEFITS OF CRM

Company	Business Benefits of CRM
Mitsubishi Motors North America	<ul style="list-style-type: none"> • 8 percent reduction in call abandon rate • 38 percent reduction in cost per call • Able to handle a 75 percent increase in call volume with similar levels of internal staffing
Asyst Technologies	<ul style="list-style-type: none"> • 50 percent improvement in accuracy of materials inventory forecasting • Average order configuration time has dropped from 25 days to 2 days in one product group • 50 percent reduction in delayed deliveries
Honeywell Industrial Control	<ul style="list-style-type: none"> • Customer satisfaction has risen from 92.3 to 98.1 percent • 15 percent reduction in call center personnel costs
WiiTel Communications	<ul style="list-style-type: none"> • 55 percent reduction in headcount in its dedicated order entry staff • 90 percent reduction in average order entry time for direct access lines • 50 to 80 percent reduction in overall order entry time • 56 to 89 percent increase in customer satisfaction
SKF	<ul style="list-style-type: none"> • 25 percent increase in service-related revenue
EMI Industries, Inc.	<ul style="list-style-type: none"> • Cut 10 to 20 percent off the time it takes to complete a custom project from proposal to order completion
Quick & Reilly	<ul style="list-style-type: none"> • 50 percent improvement in lead conversion • 67 percent increase in average revenue per sales representative • 10 percent increase in customer retention • 5 percent improvement in cross-selling
FleetBoston	<ul style="list-style-type: none"> • 15 percent increase in financial products revenue • Increased the number of products sold per customer from 4.6 to 6.2 • Reduced number of credit-only customers from 33 to 20 percent • Lowered administrative costs by 3 to 5 percent • 200 percent return on technology investment through cost reductions
Leeds City Council	<ul style="list-style-type: none"> • \$640,000 in annual cost savings • 96 percent of customers rate services as "excellent"
Telstra	<ul style="list-style-type: none"> • Account telemarketing team doubled weekly revenue • Threefold gain in employee productivity
Novell	<ul style="list-style-type: none"> • Achieved 99 percent forecasting accuracy

Table 3: In today's increasingly competitive marketplace, more and more organizations are turning to CRM as a means of driving corporate performance.



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