



## Customer Relationship Management Applications For Small Business:

Don't Compete Without It!

White Paper

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## Executive Summary

Customer Relationship Management (CRM) software technology and database tools are not a new innovation. Since the mid-1980's, Contact Management applications such as ACT!, Maximizer and Telemagic created the demand for more sophisticated lead generation and tracking capabilities. The next generation of multi-user Sales Force Automation (SFA) software collected data into repositories of customer information that could be hosted on a server and then be 'mined' for repeat sales and lead generation for new opportunities. CRM is the newest evolution that introduces back-office integration and Internet compatibility, combined with communications platforms such as Microsoft Outlook®.

International Data Corporation (IDC) estimates that the total market for the three CRM segments that they track: sales automation, marketing automation and customer support/call center software will grow from \$3.3 billion in 1999 to \$12.1 billion in 2004<sup>1</sup>. However, due to the size and complexity of the leading applications, CRM still remains out of reach financially and also in terms of the IT infrastructure requirements for small businesses. For the purposes of this paper, the CRM suppliers are classified into three segments:

Enterprise	500+ users	\$1 to \$5 million dollars to implement
Mid-market	100+ users	\$300,000 to \$600,000 to implement
Entry-level	25+ users	\$50,000 to \$150,000 to implement

The enterprise-class software developers such as Siebel Systems, Pivotal and PeopleSoft focus on CRM as a part of the business process, with planned integration of the other major business functions. As a result, it is very difficult for them to scale down the size of the applications to fewer than 500 users (seats). In addition, extensive professional service consulting is required on the front end to identify all of the constituents and define their information needs and the extent of application integration.

Mid-market developers such as Onyx, SalesLogix and Infinium are becoming more adaptable to Microsoft® Windows® server environments, but many were developed with a Unix era "client-server" architecture that makes it difficult to integrate Internet technology. Many of these 'second generation' applications offer a web-enabled user interface through the use of Internet Explorer® or Netscape®, but require an off-line synchronization process to make the primary database current for all users.

Entry-level applications such as Goldmine and Neteos are narrower in focus, easier to implement and less costly to support. However, their growth path to other important business functions such as Finance, Marketing and Customer Service tend to be limited. In addition, many of the newer entrants are purely Internet based, raising concerns about data security and wireless access (disconnected clients) from remote locations. Wireless broadband (3G) should broaden CRM usability in a few years.

The small business CEO or owner is at a severe disadvantage when it comes to considering a CRM solution. On one hand, CRM automation in the new paradigm of an e-commerce environment and an extended distribution channel is a distinct competitive advantage. On the other, adding to the cost of the IT infrastructure and fixed overhead costs is usually not a desirable use of funds.

This paper attempts to clarify the reasons for a small business to consider a CRM solution, and identify the rewards and pitfalls that could result from its implementation.

Footnote 1. IDG News Service 8/17/2000

## What CRM Is, And Isn't

CRM can be a valuable tool, with clear ROI benefits when appropriately planned, configured and deployed. Like it or not, the Internet is transforming the way in which even 'brick and mortar' businesses are expected to respond to customer-facing events such as product inquiries, pricing requests, order status and customer support. CRM facilitates these functions by providing a repository of shared data among internal departments and raising the level of communications between sales channel partners, prospects and customers.

The classic dilemma for a small business is that, IF data about the customer is properly captured, it probably resides in the wrong place in terms of outbound marketing and business intelligence applications. Typically, customer data resides in either the Service department or the Finance department and is not easily shared with sales and marketing without redundant and inaccurate data entry. When it is captured, it usually lacks important information about decision-makers, buying patterns and new sales opportunities such as the expiration date of warranties, purchase contracts and a 'hot list' of older products that are easy targets for upgrades.

Absent this information, the business, sales and marketing executives are bound in an endless vignette that goes something like this:

CEO: Sales are down. What are you doing about it?

VP Sales: We're doing our best but we haven't had enough qualified leads lately.

VP Marketing: What do you mean? We just came back from the SuperMongo conference and gave the field over 300 new leads. What happened to them?

VP Sales: I'm told by the field that most of them weren't real prospects and the literature on the new product was late getting out.

CEO: Well, 300 leads seem like a lot. Did we close any business?

VP Sales: We have some new orders but the field said they were in the pipeline anyway.

VP Marketing: What do you mean? I didn't see these accounts in the last sales forecast.

CEO: This is ridiculous. How can we not know where our business is going to come from? Why didn't the literature get out right away?

VP Sales: The field doesn't have the time to document everything they are working on.

VP Marketing: We had to create a new database and manually enter the data from the show and it took awhile to clean up the mailing list.

CEO: Come back to me at the next meeting and tell me how you're going to fix this!

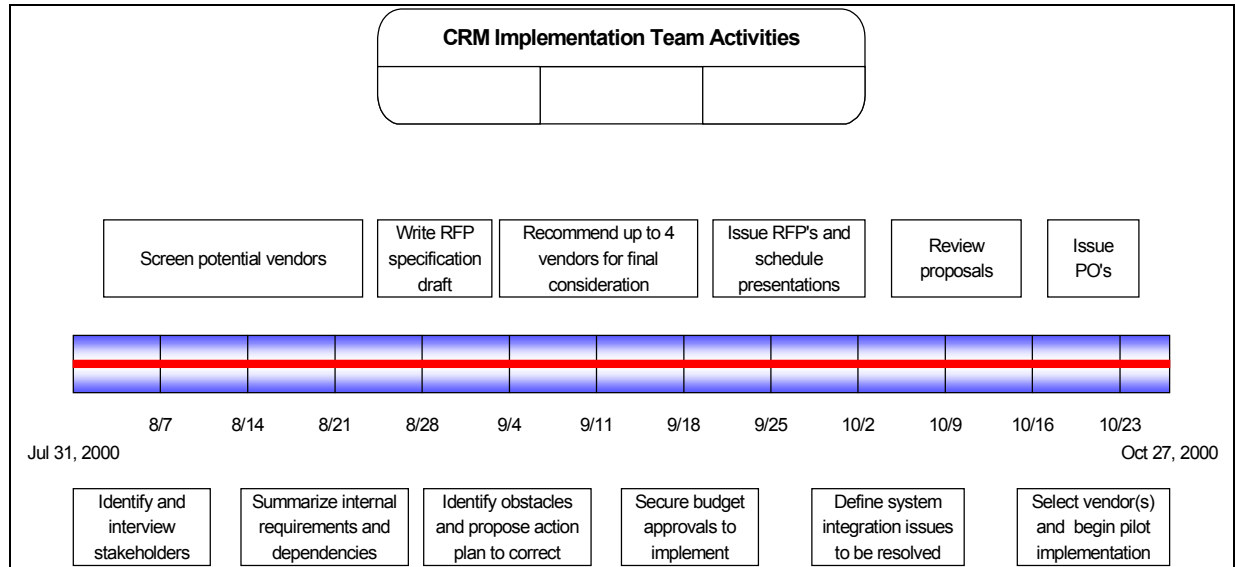
Sound familiar? This is the heart and soul of the issues that Sales Force Automation software and more recently CRM software was created to resolve. The bad news is that SFA, CRM or any other automated solution cannot fix a broken or a flawed sales process that lacks procedures, discipline, communications and accountability, no matter how well intended.

If the above dialogue sounds like one of your recent staff meetings **STOP** right here and define the sales process and its dependencies first before you consider CRM solutions.

## Getting Started

OK, so you have capable managers and a reliable sales process in place and you just want to step up the pace to grow revenue and market share. CRM can be a valuable tool to achieve this objective, but like any other form of automation the foundation for success must be laid first.

A project plan is always a good idea, and a timeline overview (example below) can help everyone visualize what the front-end process should be and what critical roles and actions have to be taken before the implementation proceeds.



Some additional points to consider in the planning include:

### Prior Experience

One common mistake that small companies make is to jump into a database-centric, multi-user sales application with no one at the helm who has implemented one before. Inevitably, someone from Sales is tapped to be the project leader and with luck, the application will be installed and available for full deployment within six months.

In the meantime, you have lost at least half of the sales productivity of this person, and run the risk of them being disenfranchised from their sales role, losing peer status among the sales force and ultimately leaving the company. In the long run, hiring or training someone in a sales administration position with database experience would be cheaper and more effective to ensure that the current level of sales momentum isn't negatively impacted.

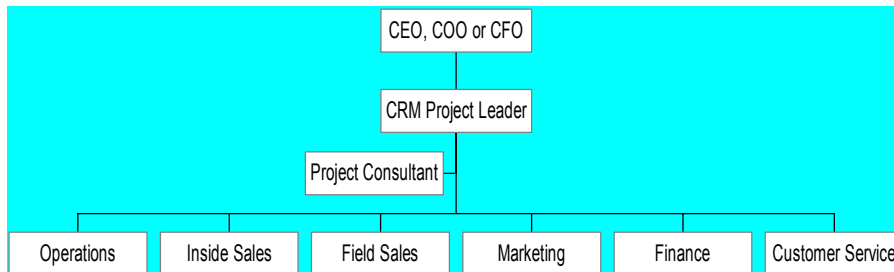
### **Executive Commitment**

The smaller the company, the more important it is for the CEO, COO and CFO to be openly committed and interested in the progress of a CRM implementation. An internal meeting and memorandum articulating this commitment is essential to keep priorities focused and managers accountable. Ideally, the project leader should report directly to a senior executive, around organizational barriers if necessary in order to minimize operational conflicts.

A project update should be issued weekly from the project leader(s) and in person at the senior staff meeting at least monthly. In other words, treat it as seriously as you would a product in development or a new manufacturing process or you will be sending a message that it can take a back seat when necessary.

### **The Core Team**

A CRM implementation should not be on the shoulders of one person from Sales or Marketing. A project leader is important to have, but without the input and active involvement from other departments, the end result will be another single-purpose application that duplicates other efforts and expenses. For example, a team may be comprised of the following contributors:



The core team approach creates ‘buy-in’ from all departments and usually results in a faster, cheaper implementation. Communication between departments is enhanced and politics minimized, since no one wants to be seen as the impediment to success. If there is no in-house CRM expertise, a vendor-independent consultant can help quantify the requirements and assist in the vendor screening and feature/benefit analysis.

### **Setting Expectations**

Entry-level CRM implementations will take at least six months from start to finish, even with the aforementioned planning actions. Inexpensive, ‘shrink-wrapped’ applications can be in place sooner, but usually address only the most basic sales lead and forecasting needs. Back-office application integration should not be considered in the evaluation of these solutions.

For multi-user, intradepartmental applications a plan should be established that includes planning, specification, vendor evaluation, pilot program and general rollout phases. A three and six month ‘health check’ is also advisable and further customization should be anticipated within the first year of implementation.

Sales channel partners will usually be eager to receive their leads faster through automated distribution, but the CRM system will be ineffective if they don’t participate fully. Prior commitments from channel partners to receive training and provide feedback is key to a successful implementation.

## **Application Integration Considerations**

Beyond the basic sales functionality of lead capture, distribution, tracking and pipeline forecasts most CRM application can be expanded to include access to and interoperability with other departmental applications. Careful consideration should be given to these longer-term needs, such as Finance, Supply Chain Management and Human Resources during the selection of the CRM package and vendor.

For example, many CRM offerings claim to be integrated with popular back-office applications like Great Plains, but the database implementation and required (prerequisite upgrades) version of the CRM software, back-office software, central database and operating system are important to understand in the cost analysis. The compatibility with popular communication tools such as Microsoft Exchange® Server and wireless PDA devices like the Palm VII® should be reviewed, as well as network capacity and security. Other applications that could be considered for concurrent or subsequent integration are:

### **Marketing**

Entry-level CRM packages vary widely on the amount of marketing information that is tracked in the database. A flexible package should include the ability to enter information on marketing programs such as mailers, advertising and trade shows, and record leads and subsequent sales that can be tied directly to those programs. Without this capability, the historical effectiveness (ROI) of a particular campaign will never be known. Likewise, the identity of visitors to the web site for demos or downloads should be captured through a form that dynamically updates the prospect database. If the primary application doesn't have this capability, third party tools such as Brainshark can be used if they are compatible and supported by the CRM vendor.

### **Sales**

The primary benefit to the sales organization is the access to leads and customer profiles immediately upon updates to the database. Having a uniform on-line method of entering forecasts, win/loss reports and expenses also enhances the sales process. More sophisticated applications can track performance against quota and commission accounting.

Most of the applications that are Internet based or provide access can also be used for Business Intelligence information such as credit ratings, competition, industry research and SEC filings. With the appropriate controls on access and usage, Sales can operate more independently and efficiently with a higher likelihood of customer and channel partner retention.

### **Finance**

What Finance manager wouldn't want direct access to the sales forecast? In spite of the traditional desire of the field to keep this information from too much scrutiny, the net result can be a better handle on cash flow needs and inventory control. Another win-win application is the ability to review expense reports on line and disburse the payments electronically.

### **Customer Service**

A repository of maintenance contracts and account activity is essential if revenue is to be maximized and pro-active customer care is desired. Troublesome products, and sometimes customers, can be identified and reviewed for further action before a crisis results. Unusual service activity can also be a sales opportunity. The customer will probably appreciate a call from their sales rep asking to review the nature of a recurring problem, and usually it is good to know the customer's service status before asking for a new order.

Other types of application integration are possible, but as with any other form of software deployment and related support, the costs can escalate quickly.

## **Creating The Request For Proposal (RFP)**

One of the most costly mistakes a small company can make in the quest for a CRM solution is to call a few vendors and invite them to come in and “tell us what we need.” In the first place, reputable vendors will insist on a paid consulting assignment to identify these needs. In fairness to the vendors, this approach protects them against spending a lot of time on education only to have the client decide that they can’t afford the solution.

Another approach that vendors may take is to present a complex and detailed survey to be completed by the client that defines user requirements for screen displays, reports and fields that have to be allocated in the database. In the end, the only needs that are defined are technical in nature and have little to do with the realities of the small company or their business goals. In fact, the exercise may define data fields that are necessary to enable a vendor’s feature but not useful for the client.

Before calling any vendors, it is worthwhile to collaborate internally on the business benefits that should result from a CRM implementation, articulated in a Request For Proposal (RFP) document that clearly states the business goals that the application is expected to meet.

Some examples of strategic business goals might include:

- We currently have annual revenue of \$xxx and want to grow by at least xx% for the next three years.
- Our sales expense has been xx% and we want to reduce that by operating more efficiently
- We currently have xx sales reps and want to double that in the next 12 months
- We want our sales reps to be alerted when a new order exceeds the customer’s credit limit
- We want to follow up on every service call with a satisfaction survey within one week
- We are changing from a direct sales model to an indirect one and need to be more responsive with lead distribution, literature fulfillment and the associated costs of marketing campaigns
- We want to query our customer database to offer special promotions on excess inventory items

Many other examples can be applied, but the main point is that the application can and must serve the business goals first, with the technical attributes and features stated as a secondary benefit. The RFP response should also include representations from the vendor on the responsibility and cost for needs definition, configuration sizing (servers, storage and communications), system and database administration requirements and technical support. A non-aligned integration consultant can help with this evaluation if in-house resources are not available.

Some vendors include a warranty period in which changes to screen layouts, reports and the database are included. The post-warranty cost for upgrades should be stated for at least the first year of operation. License costs for the application should be stated in terms of the number of users and the cost for additional users.

It is especially important to have in writing what the terms of ownership of the application and the subsequent customization are. Some form of escrow for the source code is desirable to protect from the failure of the vendor or their acquisition by a larger supplier who may elect not to continue support for certain products or modifications.



## **The Outsourcing Alternative**

The recent advent of the Application Service Provider (ASP) model has opened up many opportunities for both CRM vendors and customers of all sizes. Large enterprise applications can be offered in more of a 'Lite' version without disrupting the value proposition of the core product.

Like time-sharing applications of the past, users are remotely connected to a centralized system, but it differs in the sense that the user does not own the application and the system it resides upon. In fact, most ASP companies use a large Internet hosting service like Exodus, IBM or AT&T to operate and manage the physical system and network.

While the cost of operating an application through an ASP is rarely more cost-effective than hosting it in-house, there are many other considerations that can make it attractive, such as:

- Lack of internal IT infrastructure to support server-based applications
- Capital cost outlay for servers, storage and networks
- Time to plan, test and deploy the application
- Operational disruptiveness of deploying the application
- Lack of talent pool in the local area
- Other capital and management priorities

Another variation borne of the Internet age is the Managed Service Provider (MSP), such as Managed Operations, Inc. In this model, the capital equipment and all software is owned or leased by the end user, but physically located and managed at the MSP site. While comparable in overall cost to the ASP model, the benefit of an MSP is the ownership of the assets and the ability to easily move the application in-house at a later date.

In both models, the operational and security requirements should be clearly stated in the contract. For example, servers and storage are sometimes shared between clients when the hosting supplier's system resources are under-utilized. Since this sharing of system resources is behind the network firewall, concerns about co-mingling of private data such as customer records and sales forecasts could be valid.

The contract should also contain a Service Level Agreement (SLA) that speaks to the aggregate percentage that the application is available for access. In a global sales environment, 98% to 99% availability on a 24/7 basis is a minimum requirement. Call center or Help Desk hours, cost basis (flat, hourly or per user) and terms of access are also a consideration when users are globally dispersed, and backup/recovery procedures should be stipulated.

A special caution about both the ASP and MSP model is that, due to the turbulence of the Internet hosting market the actual hosting partner(s) of the application and their resources should be carefully reviewed for financial stability, application availability record, Disaster Recovery readiness and customer satisfaction. In the event of a business interruption or failure of the supplier, the legal rights and procedures for the transfer of equipment assets, licenses, databases and documentation should be clearly stated and reviewed by an attorney.

## **Implementation**

After the vendor selection, funding and method of hosting has been resolved, the implementation phase can begin. It is important at this point not to start taking shortcuts that will ultimately lead to the horror stories that abound with CRM implementations about delays, lack of user participation and extra cost.

### **Staffing**

Whether the application is hosted in-house or outside someone with a stake in the outcome has to own the support responsibility. Ideally, this person will have had prior experience in supporting an application and be capable (and willing) to be the part-time database administrator (DBA). This not a job, for example that a network or systems administrator would happily take on, so don't assume that the job can just be added to their responsibilities.

A more likely candidate might be found (or added) in the Sales or Marketing administration group. This person might also serve as the initial Help Desk contact, as user requests for help should always go through one contact for action determination.

### **Training**

All CRM vendors offer some type of training, but terms of delivery vary widely, from classroom groups to videos and web-based distance learning. The method and cost should also be a part of the RFP, as it may involve considerable travel expense to bring groups in for training, or to reimburse the vendor for multiple on-site classes.

Ideally, the participants in the pilot program can also assume a "train the trainer" role and provide the user training at remote field offices in the general rollout.

### **Pilot Program**

The Pilot rollout is the first real test of the application with live data and user requirements that may not have been anticipated in the configuration process. It is highly unlikely that everything will go flawlessly, so some time and cost should be budgeted to make last minute changes to the database, user interface or report formats.

The Pilot can be as short as one week and involve just a few users, but it will help to avoid the serious setback in user attitude and cooperation that occurs when everyone is subjected to unresolved problems.

### **Going Live**

If possible, plan a little kickoff ceremony to welcome all of the users with a mouse pad, hat or something to generate enthusiasm and reinforce the change to a new method of conducting business. There will always be a few users who can't log on, didn't read the user manual or just don't get it, so a pro-active Help Desk operation is advisable in the initial period.

Monitoring network usage and disk capacity consumption for the first 90 days should be a good indication of the resource requirements vs. the original plan. If the application is outsourced, the vendor should provide a weekly report on availability statistics relative to the terms of the SLA. Help Desk activity reports should be reviewed for potential flaws in the operation of the application or as an indication of the need for more training.

## **Measurements**

After *several sales cycles have elapsed*, the benefits of a CRM implementation should start to become apparent. For example, if it typically takes 90 days from the initial contact with a new prospect to either win or lose a sale (a 'no decision' should be recorded also), then 180 days after the application launch the metrics you chose for measuring the impact should be improving. If they are not, a formal review of the implementation is warranted.

Good intentions aside, a number of things could have derailed the implementation temporarily that should not be construed as a failure of the project. These could include mixed messages coming from management, inadequate training, faulty or lethargic network connections or an acceptance of some users to persist in their old methods, reducing the collaboration benefits of the application.

If the program is on track, a few positive trends should start to surface, such as:

### **Revenue**

Assuming historical data is available, the quarterly revenue growth should begin to accelerate. That is, if the historical revenue growth rate was 3% per quarter, an indication of 4 – 6% per quarter of growth should begin to improve business velocity. A flat-to-down trend should be looked at immediately to exclude some other events, such as a disruptive new product introduction, unexpected competition, industry recession, etc.

### **Sales Productivity**

A positive increase in both the volume and accuracy of forecast data should be observed. The result is not necessarily higher sales growth, but at a minimum the win/loss data should identify reasons for the stagnation. These might include a misconception of what the sales cycle is, pricing issues, territory misalignment or too much dependency on business from key accounts.

### **Inventory Management**

More accurate sales forecasting usually will result in lower FGI inventories by enabling Just-In-Time (JIT) manufacturing. In addition, service personnel in the field can make more effective decisions about the deployment and currency of spare parts while eliminating redundancy.

### **TCO**

Total Cost of Ownership for a CRM implementation is a useful way to compare both vendor proposals and external hosting choices. The comparison should be projected for at least 3 years, with one-time costs such as front-end consulting, new equipment, unbudgeted headcount, mandatory user training and non-recurring software licenses amortized over that period.

Recurring costs, such as maintenance, support, upgrades and connectivity should be accounted for on a yearly basis as well as any cost increases that might be expected. Once the estimated TCO is established, it becomes easier to make choices between the CRM investment cost and other business priorities.

For example, an ASP or MSP solution might be more expensive over three years of operation but it might be the best strategic choice compared to management distraction, other hiring needs and the use of cash or balance sheet considerations.

As in all walks of business, there is no free lunch in CRM automation either.

## **Conclusion**

Automation of the sales, marketing and customer service functions is essential for any business that desires to be responsive to customer needs and to convert static and disorganized information into business opportunity. Due largely to the broad reach of the Internet, customers have access to many competitive solutions for their business needs and will quickly forget a supplier that has no sustained presence in their company.

The measurable impact of a CRM solution over the first three years varies widely, but some reasonable expectations should include:

- Increased revenue *growth rate* due to greater sales efficiency
- Improved gross margins due to targeting higher margin products and customers
- Improved customer and partner retention through automated marketing programs
- Increased win ratio versus lead volume with better business intelligence
- New incremental sales from parts, services and other products
- Lower sales and marketing costs versus revenue through reduced sales cycles
- More selling time due to a reduction in non-sales administrative tasks
- Improved brand and company visibility

Small business organizations can take advantage of CRM solutions, but must be careful to identify and prioritize their internal needs, processes and budgets before taking on a complex and often misunderstood technology. When properly planned, configured and implemented, CRM automation can be an effective competitive weapon and a business process that should result in greater organizational efficiency and lower operating costs.

A detailed RFP document should be prepared before any vendor is contacted. If there is no in-house experience with SFA or CRM automation, it is very probable that all of the internal or external constituents and their information needs have not been identified.

The bottom line: If you can't articulate the CRM requirements in an RFP, you can't expect the vendor to propose and implement a cost-effective, successful application.

About the author: Louis J. Finnegan is the founder and President of Advantage Product Marketing, Inc. located in Falmouth, MA. Prior to founding APM, Mr. Finnegan was a senior Sales and Marketing executive with four high technology companies. He has consulted for both start-up and established companies on product development, technology acquisition, partnering, competitive positioning, sales channel development and CRM application design since 1996.