

COMPANIES MUST FIND RETURN IN CUSTOMER BASE

Stephen E. Lipka, Ph.D.

“ROI” and “CRM” usually appear together in the same sentence when the first is the justification for the second, particularly when installing a new CRM system.

But there’s a different, possibly more valuable ROI issue to consider: the return on investing in your customer base. You’ll need good CRM practices as well as systems to measure that value. To understand why, let’s start with this basic question: What’s a customer worth to you?

For an answer, consider an example. Suppose you’ll profit \$1,000 this year and \$500 next year from goods and services a customer will purchase from you before they’ll move on to something else. So their value to you is \$1,500. If you could invest \$500 by some method that would cause that customer to buy enough to yield \$1,000 in profits next year and \$500 the year after that, you’ll increase customer value by \$1,000. Your return would be 200 percent.

Holistically speaking, this investment must pay for quite a bit: product or service development, market research, marketing, and preparation of your marketing, sales, delivery and service channels. From this viewpoint, your business objective is simple: For a given investment in your customers, maximize the value of your customer base.

CRM’s *raison d’être* is to meet that objective. Customer relationship management is a set of processes, practices, attitudes and supporting systems that seek to maximize the value of your customer base. CRM processes

help you manage your return on investment in your customers.

CRM – An Investment Management Process

Now let’s take a look at the CRM process with ROI-colored glasses to bring the investment aspects into clearer view. For clarity, we’ll ignore time and market segments. The process has seven major activities:

1. Understand prospect and customer behavior and needs.
2. Set your business objectives. Examples: Acquisition, expansion, and win-back, all suitably quantified.
3. Develop the value propositions that will meet the objectives. Calculate the expected ROI for those value propositions from the financial benefits you’d reap and the amount you’d have to invest. For example, you develop four value propositions based on your research and knowledge:
 - Proposition A (aimed at new customers) costs \$300,000 and is projected to yield 1,000 customers from whom you profit by \$600, for an ROI of 200 percent.
 - Proposition B (aimed at expanding current customer purchases), costs \$50,000 and (with similar calculations) is projected to yield 300 percent.

- Propositions C and D (both aimed at winning back departed customers) yield 170 percent (at a cost of \$200,000) and 200 percent (at a cost of \$250,000), respectively.
4. Choose the value propositions you can afford, highest ROI first. Following the above examples, if you have \$600,000 to invest, you choose Propositions A, B, and D.
 5. Develop the value proposition(s) and prepare the channels. If you can't do this with the investment you had planned, you'll have to rethink the results of the previous three activities.
 6. Execute. (Market, sell, deliver and support.)
 7. Measure the actual client demand and actual ROI for the value proposition(s) to measure success. (Let's assume no delivery cost variances that skew ROI.)

So if you invest \$600,000 and you actually increase profits by \$1.5 million, your actual ROI across all value propositions is 250 percent. Your investment increased the value of your customer base by \$1.5 million.

This CRM process provides you with a way of managing your investments in your

products, services, channels and ultimately your customers. ROI is at the core, but it's not the ROI most often discussed in the context of CRM.

Institutionalizing this approach requires that you do three things: Set up your business process and systems, train your organization and adjust your culture. Of course, it costs money to put all that in place. What's the ROI for that? It's the return from better managing your investments in your value propositions. You can measure that, but it's hard to project.

Is there a way to project the ROI solely for a proposed CRM system? Not easily, because that's only one component, and the benefits are indirect. While cost savings and increased productivity are the basis of most published ROI calculations, the truth is that these are small matters in the broader "investment" view of CRM.



About the Author

Stephen Lipka is a Principal of Avatar Strategic Partners, where he serves companies that want to improve their profitability through better use of information technology. His career spans 32 years in management, consulting, and product development. Steve received his Ph.D. in Computer Science at SUNY Stony Brook. Reach Steve at slipka@AvatarSP.com.



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