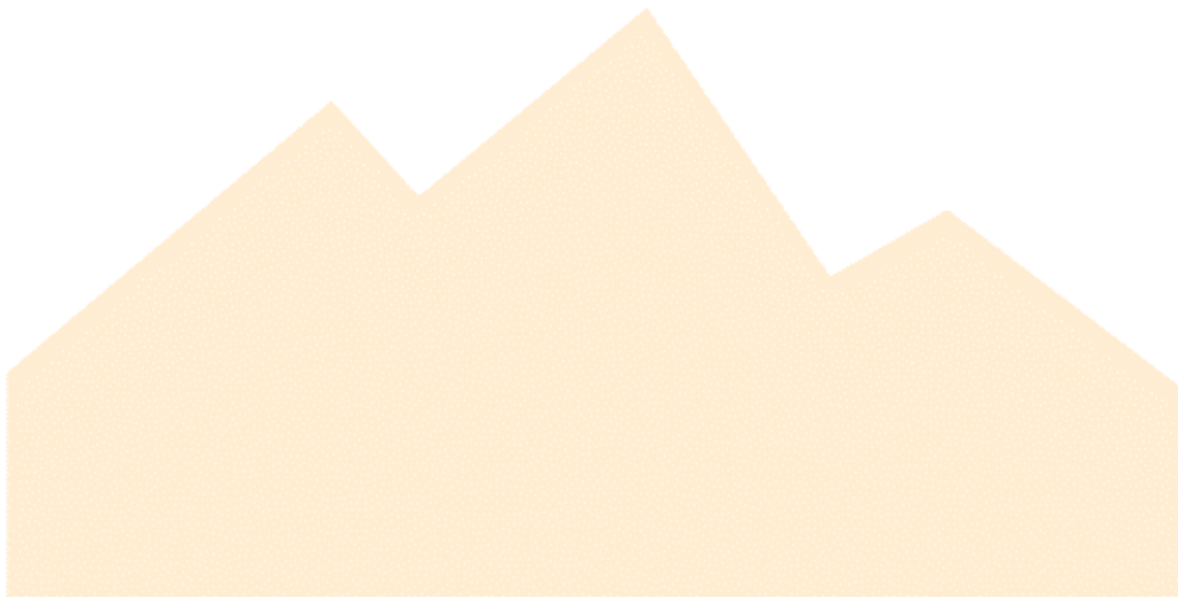


THE COSTS OF IMPLEMENTING CRM SOLUTIONS



Russ Lombardo
PEAK Sales Consulting, LLC
russ@peaksalesconsulting.com
www.PeakSalesConsulting.com

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CRM conjures up a variety of definitions, ideas and fears with many people involved in automating their company's sales, marketing and support functions. Unfortunately, often times the costs associated with implementing such an important project are not understood, or realized, until it is too late. Statistics show that between 50 – 80% of all major CRM projects fail due to a variety of reasons – improper funding not being the least important one. Failure doesn't just mean the project was thrown out either. It includes projects that were delivered late, missing key functionality and/or excessively over budget. It's the budgetary issues that will be addressed in this article.

Since a major part of the planning for a CRM solution must include costs, this is a critical concern within most companies. But what should the budget include? It's easy to assume that the cost of the software will comprise the majority of the budget. While it could represent a major percentage, depending on what product is chosen for implementation, it typical should be just one of the many pieces that make up the whole. In fact, depending on the company's exact needs, plans and requirements, the software cost could easily be the smaller percentage of the total cost.

Insight Technology Group, a consulting firm specializing in researching how companies are reengineering the way they sell to and service customers, surveyed more than 200 firms regarding how they budgeted for first-year expenses for hardware, software, customization, integration, training, and support. The average cost was \$10,385 per user. However, 37.5% of those surveyed stated that they ended up over budget and didn't deliver on all the intended functionality. Therefore, if we take into account only those projects that met or exceeded expectations, then the first-year investment to successfully automate a salesperson is \$17,000, according to the survey. Obviously, implementing a CRM solution is not something to take lightly regardless of the product that you choose. Although, these figures are quite high and represent large-scale CRM implementations, the point is still valid for smaller scale projects -- the costs can and will be considerable.

COST BREAKDOWN

As mentioned earlier, the software cost is only one piece of the pie. Additional costs include hardware, customization, training and support – not to mention other inherent costs associated with lost productivity of the individuals while they're learning to use the system, downtime associated with implementing the system, and other soft costs. Let's take a closer look at each of these items.

Hardware

It's not enough to say, "My sales reps already have laptops, so my hardware expenses are already taken care of." When you consider that the system may require their existing laptops, and even the desktops, to be upgraded with more memory, larger disk drives, faster modems,

and more of the latest technologies to ensure their systems are fully functional, then perhaps they are not quite ready after all. Add to that the costs for servers, networks, modem pools, and other hardware necessary to ensure a proper infrastructure exists to support the users, then the costs for hardware can escalate dramatically.

Today there are a variety of alternatives for remote users to access the central system and database. If your remote users need to have access to their customer and calendar information while not being connected to the central database (such as while at a customer site or in an airplane), then they will need to use a synchronization mechanism to share their local data with the central one. As such, their local system will need to have a large enough disk drive to accommodate the local database, as well as more memory to run the application locally and a fast connection to transfer all that information as rapidly as possible.

Alternatively, if they only need to access their information while connected to the central system, then their memory and disk drive requirements won't be as strict since they will typically only need a high-speed Internet connection for real-time access. While this method does not require the robust systems in the field as the previous alternative, it does prevent the users from accessing their information when not connected to the central system. Either alternative must be understood and decided upon prior to implementation so that the proper infrastructure can be established and the expenses budgeted.

A good rule of thumb is that each user's hardware requirements could range from \$3,000 to \$6,000, which includes the latest technology, accommodates future growth and takes into account the sharing of the central system they will be accessing either locally or remotely. Most importantly, don't skimp on hardware technology. There's nothing worse than a sales person losing valuable selling time waiting for their ill-equipped system to respond to a query, or even worse, come back from the repair center.

Software

There may be fifty ways to leave your lover, but there are over 200 ways to automate your sales force. That's how many products, by some counts, are available today that do some sort of sales force automation, CRM, or contact management. CRM software products vary dramatically in price and functionality. Prices for high quality and fully functional CRM/SFA products range from around \$500 to several thousand dollars per user. Add to this the cost of software for e-mail systems, presentation software, office suites, quotation systems, proposal writers, and more, and you can easily see how a user can carry around \$2,000 to \$5,000 worth of software on their laptop.

Much of this software, such as office suites, comes with the system, which reduces the impact and cost dramatically. The biggest variable here, however, is the CRM product itself. In order to address the needs of a typical sales and marketing organization, the proper CRM product should handle all contact management functionality, calendars and group scheduling, opportunity management, forecasting, management reports and analysis, reliable and fast synchronization (if necessary), automated processes, imbedded e-mailing, Internet access, and more. It should also be scalable from a small number of users with a small database up to hundreds of users perhaps spread over multiple networks (which synchronize together) and all

seamlessly accessing a very large database. This high-end scalability requires a CRM product that supports a client/server architecture. Also, add to the cost of the software around 20% of the manufacturer's suggested price per licensed copy for annual support and maintenance.

One more thing to add at this point is the additional cost for the installation and setup of the software, since the software price itself does not include this required effort. Depending on the product chosen, this can take just a few days, or span several weeks or months, which is the case with many higher-end products. Expert consultant rates for this type of work can range from \$1,000 to \$2,000 per day.

Customization

Since every organization is different, and every department within an organization is equally diverse, it is imperative for a CRM solution to be tailored to meet the unique requirements of its users. These customizations vary wildly depending on the requirements of each department and user as well as the priority of these individual requirements, which dictates when they need to become available. Clearly, it is advisable to roll out changes to the system in reasonable increments over time, thus allowing the individual entities to absorb them, learn them, and use them as they become available, without being inundated by too many new features and functions simultaneously.

When searching for an appropriate CRM product, several key issues need to be considered, beyond the basic functionality. Customizations vary depending on the capabilities and flexibility of the product purchased, as well as:

- How difficult the product is to customize,
- Who does the customization (you, the vendor, a value-added reseller, all the above, or none of the above),
- Whether or not the modifications affect the core product versus external files that provide for more flexibility and ease of update, and
- Whether the changes and additions can be rolled out in phases over time.

For example, several products are not only easy to use, but do not require someone with programming skills to customize them. The more complex the end-user requirements, however, the more a trained, certified specialist may be needed to assist in the customization effort, thereby relieving the end-user of having to become an expert at programming. Frequently, value-added resellers who are specialists in a specific product, or sometimes the vendor themselves, initially perform the customization work. As the end-user becomes more proficient in the product, they do some, if not all, of the on-going customizations. You need to look for those products that provide flexibility and strong customization capabilities that you need, yet allow for a phased rollout approach so your company can scale your CRM project without causing major disruptions to the productivity of your organization. Obviously, the specific product that you choose based on your requirements will dictate the price for this portion of your costs.

The costs for performing the customizations will vary and will probably continue at some level over time. While this portion of the cost of your system is difficult to estimate, you can limit some of the costs by controlling the amount of customization required initially, and at the same time planning for future changes, thereby spreading the costs over a reasonable period of time. The scope of costs for customizations can range from hundreds to thousands of dollars per user. One must be careful to remember that a lot of customizations on the front end not only increases the initial rollout cost, but also can dramatically delay the release of the CRM project to the users and increase the training time required before a user can adequately run the system. If we remember the earlier discussion about why many CRM projects fail, exceeding the budget and project delays are two of the top culprits.

Training

Good training is required – Period, end of story. Anyone who thinks that they can release a powerful system that will automate and streamline their operations and increase the productivity of the users without proper training is fooling themselves and risking a failed project.

First, training might be required for basic computer usage, such as Windows, word processing, presentation software, e-mail, and the like. It shouldn't be surprising that many end-users out there, including sales reps, are still not very familiar with using computers. Hence, an inventory of the skills of each user needs to be performed and then this sort of training should be provided to those whose inventory indicates that they need it. Second, there's basic usage of the CRM product itself; such as which buttons perform which functions, learning the basic user interface, mail merging, using the calendar, email usage, and basic functions.

Third, and most important, is the specific ways in which the product should be used within your business. In other words, how does the system help to execute your processes? This includes -- what business processes should be followed, workflow management, document management, opportunity management, how it is applied to your unique forecasting methodology, and task delegation. Basically this is training on how the system should be used to reflect the way your company uniquely wants things done using this new technology.

Training costs can range from \$500 to \$1,000 per user depending on their pre-existing knowledge. Typically, a half-day course on basic system usage for the novice, plus another day on the new CRM product, should cover the basics. Another full day or two may be needed for learning to use the system as your company intends on having it used (i.e. your business processes). In some instances, the very expensive, highly customized CRM products can require 1 to 2 weeks of training per user depending on their job function. Training rates can range from one to several thousand dollars per day per class, or when based on a per-student model, can cost several hundred dollars per student per course. Don't forget that you must also add specialized training classes for those individuals who must manage, support, and maintain the system in-house.

Training should not end when the student leaves the initial classes. On-going training is necessary to reinforce basic concepts and policies as well as to introduce new functionality that gets added to the system at the time that this functionality is being released to the users. Sales people especially are too busy to stop and learn a new system, even if you initially only rolled

out basic functionality. Therefore, you should expect the rate at which users adopt the system to be slow and to provide additional training opportunities to remind them what they learned in their initial class. As you roll out new features over time, don't forget to train them on those as well. It is recommended that you provide the initial training in person and in a classroom in order to provide synergy and to stimulate teamwork. The reps will work with and help each other as they are learning the new system. The more advanced and experienced reps will help the less experienced ones. However, some of the on-going training can be handled remotely via web-based meeting tools or standalone computer-based training products. Be sure to factor all this into your budget.

Support

Finally, support and maintenance must be included in your cost estimates. Typically, the CRM products available today offer annual support and maintenance packages for around 20-25% of the manufacturer's suggested retail price of the software product itself. This includes free and/or discounted updates and upgrades as well as phone support for technical issues. Additionally, or perhaps in lieu of the support package offered by the software author, the reseller who helped install, customize and train your company on the CRM project can provide support for an additional fee.

You also cannot afford to forget to factor in the additional costs for your own internal help desk. This would be the individual(s) your users will call back at your headquarters when they need help. Also, loaners for sick hardware, replacement units, and similar costs should be included in your estimates, as well. Industry estimates for support tend to run between \$1,000 and \$1,500 per user per year.

SUMMARY

At this point, you're either intrigued with the prospect of implementing a CRM solution or frightened to death by it. Regardless of your attitude at the moment, you need to be more aware of all the costs associated with fully implementing a CRM solution. We discussed mainly hard costs in this article, including hardware, software, training, and similar expenses. However, there is a broad range of soft costs as well. One of the major soft costs in a project of this type is the lost productivity attributable to the learning curve associated with the new system and the challenge of adapting it to their work environments. You should expect work to slow down and perhaps even expect sales revenue to decrease while you get your organization to change the way they operate on a day-to-day basis.

This challenge can occur whether you use technology or not. When you introduce new processes into your business, even if done on paper, the way people work will change and there will be a certain amount of lost productivity and resistance to the change. When you add to this the technology that needs to be mastered, additional productivity can be lost. Thus, you must factor in these soft costs as well and provide some forgiveness and latitude for your people while they acclimate themselves to this new system.

Yes, all of these costs, both hard and soft, add up to a lot. But before you say forget the whole idea, think about what it costs to not have your organization operating more efficiently

and productively. Your company today is dealing with much more challenging circumstances than in the past. Tools and techniques that worked only a few years ago can no longer be relied upon to help increase sales. You need something to help your team overcome the challenges of today's selling environment. The bar has been raised. That's where the CRM system comes into play. By all means, consider your CRM project as an investment, not a cost.

Russ Lombardo
President
PEAK Sales Consulting, LLC
russ@peaksalesconsulting.com
www.peaksalesconsulting.com

This article was extracted and edited from the book by Russ Lombardo entitled; "**CRM For The Common Man**" (ISBN: 0-9728263-0-0). Russ Lombardo is President of **PEAK Sales Consulting, LLC** (www.peaksalesconsulting.com) and an experienced CRM and sales specialist, trainer and speaker. Russ works with sales executives and sales teams to develop processes and training for dramatically improving results and increasing revenue. For a free paper on "*10 Tips to CRM Success*" and to reach Russ, send email to russ@peaksalesconsulting.com.

PEAK Sales Consulting, LLC

PEAK Sales Consulting, LLC specializes in working with businesses to develop and implement business and sales processes, and to provide sales training focused on these processes. Their focus is to help companies improve sales revenue, reduce sales cycles, generate predictable forecasts, enhance lead flow management, develop meaningful management reports, create superior sales metrics, and produce exceptional sales results. PEAK Sales Consulting's methodology provides the framework for aggressive and sustainable results in sales effectiveness.

PEAK Sales Consulting's services help businesses to:

- Accelerate sales growth
- Improve sales results of the individual sales rep and sales team
- Increase closing rates by improving conversion ratios
- Identify and leverage best practices of sales reps and sales managers
- Reduce ramp-up time for new sales professionals
- Help transition into a solution style of selling
- Provide accurate forecasting procedures and useful management reports with minimum resource expenditures

Written by:

Russ Lombardo
President

PEAK Sales Consulting, LLC
russ@peaksalesconsulting.com
www.peaksalesconsulting.com

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