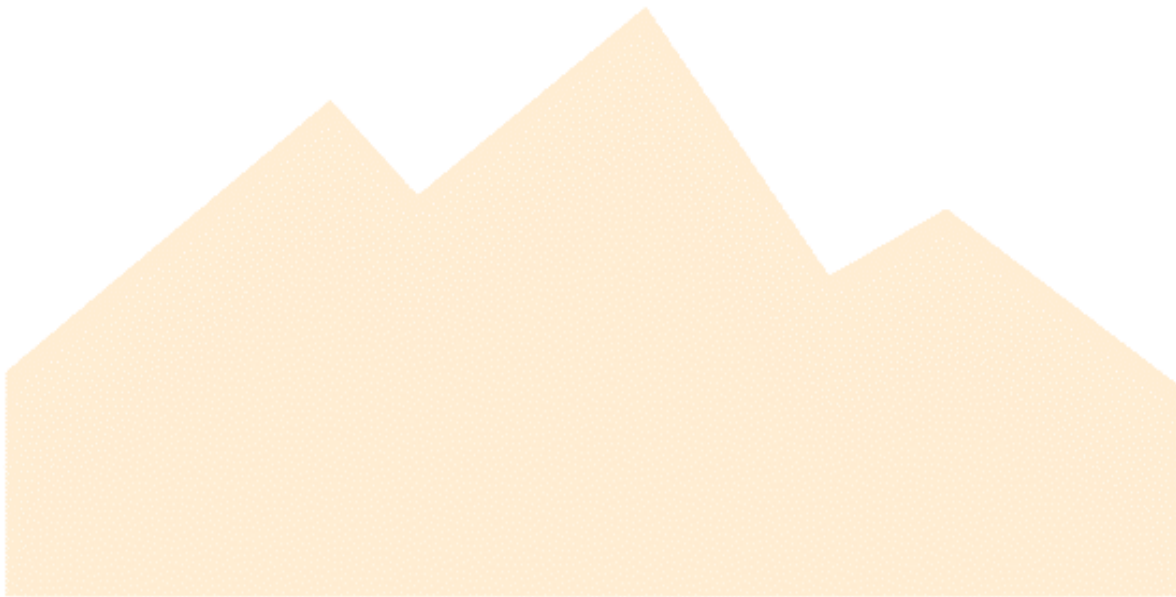


# THE RETURN-ON-INVESTMENT (ROI) OF CRM SOLUTIONS

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## Measurements

Before we start down the path of figuring out the ROI of CRM, we need to first understand what our goals are. What problems are we trying to solve? What costs are we trying to save? What times are we trying to improve? What pains are we trying to cure? As you are thinking about these important issues, you can also think about what it's costing you to not address them. For instance, how much is it costing you in lost revenue when your sales people are not productive?

We can address this point by considering CRM Solutions as an investment, not a cost. This is an important viewpoint because if you only look at CRM as costing your company money, then there's no return on that investment to even consider. But even if you do consider it an investment, then you also need to know what it is you'll be improving in order to measure your return. As such, it is important to understand your goals and objectives, then measure your progress as you proceed. Only then will you be able to calculate your return on investment.

## Scenario

Let's analyze an ROI by creating a scenario to work from. First, let's say we have a company that has 100 sales reps. This company, we'll call it Rally Inc., has annual revenues of \$100M. Therefore, each sales rep has a \$1M (one million dollar) per year quota. Let's also say that an average sale at Rally is \$10,000. Therefore, to make quota, each sales rep needs to close 100 sales per year, assuming they average \$10K each.

Rally's corporate goal is to increase annual sales by 10%, thereby generating \$110M per year. In order to achieve this goal, they'll need to increase the productivity and close ratio of each sales rep by 10%, requiring them to make 110 sales per year, an increase of less than 1 sale per month. Here's the math:

10 Additional Sales X \$10,000 Avg Sale = \$100,000 more revenue per year, per rep

\$1,000,000 Annual Sales per rep + \$100,000 Increased Sales = \$1,100,000 Annual Sales per rep

\$1,100,000 X 100 Sales Reps = \$110,000,000 Annual Corporate Sales, or \$10M more sales per year

We now have some measurable goals. We have a corporate goal of increasing annual sales by \$10M. We also have a goal of increasing individual rep's sales to 10 more per year. Actually, the goal is to increase annual sales by \$10M. The way to achieve this goal is to increase the number of closed sales by 10 per year per rep. So the increased number of closed sales is the method for reaching the corporate goals. It's important to note the difference since it's the final goal of increased corporate sales we are ultimately measuring. The trick is to increase the close ratio for each sales rep by 10 more per year (or 10% increase in close ratio).

Now we just have to figure out how to achieve that, and everything will work out just fine, or so we hope.

Let's assume that the average close ratio is 25%. In order to close 100 sales per year, a sales rep needs 400 qualified opportunities in their pipeline. To increase their close ratio to 110 sales per year, a sales rep will now need 440 qualified leads in their pipeline. So now we need to make sure we can find, and qualify, another 40 leads per sales rep, or a total of 4,000 more qualified leads per year for all 100 sales reps. As you can see, we not only have to improve the productivity and efficiency of the sales force, but we also have to improve our marketing efforts as well. All this just to increase annual sales by 10%. Clearly, the proper implementation of your CRM solution will be critical. But that's another subject.

If we summarize for a moment, we can see that by adding 4,000 more qualified leads to Rally's 100 sales reps' pipelines, each sales rep will sell 10 more deals each year and increase the company's annual revenue by \$10M. For the record, how each company actually acquires 4,000 more qualified leads varies tremendously and is not the subject of this paper. Nonetheless, it will definitely take a lot more overall leads to whittle them down to 4,000 qualified ones. The point being that your CRM solution better be able to handle marketing campaigns, lead tracking and opportunity management, as well as automate your sales force.

## Costs

As outlined in Part 1 of this series, The Cost of CRM Solutions, the detailed line items can accumulate dramatically, depending on the rollout plans, customization requirements, CRM product chosen, number of users, and more. Let's start compiling our list of costs using worst-case scenarios and noting that these figures are for illustrative purposes only and will vary by company.

❑ Hardware: \$ 4,500. X 100 Sales Reps	=	\$ 450,000.
(includes new laptops, networks, servers, etc.)		
❑ CRM Product: \$500. x 100 Sales Reps	=	\$ 50,000.
❑ Other Software (Office suite, etc.): \$810. x 100 Sales Reps	=	\$ 81,000.
❑ Installation: 10 Days @ \$1,500/Day	=	\$ 15,000.
❑ Services (Customizations, training, etc.): 48 Days @ \$1,500/Day	=	\$ 72,000.
❑ Support & Maintenance:		
1. CRM Software (20% of List): \$100. X 100 Sales Reps	=	\$ 10,000.
2. In-House Support: \$1,000 x 100 Sales Reps	=	<u>\$ 100,000.</u>
TOTAL:		<b>\$ 778,000.</b>

## Payback

Now that we know the results we want to reach and measure against, and we know the costs associated with the CRM solution, we now need to calculate our return on investment, or basically what's our payback. So that we can calculate the monthly impact of the CRM solution, let's divide the total annual sales goal of \$10,000,000. by twelve months, yielding \$833,333. monthly sales goal for all 100 sales reps.

Let's consider that Rally's reps won't be any more productive for the first three months after the installation and training. Let's also consider that by month four, all 100 sales reps will realize only 10% increased productivity, therefore increasing sales by only 10% of their goal. This will result in only \$83,333. total sales increase for that month (10% of \$833,333) for all 100 sales reps. Finally, let's consider that each month, the 100 sales reps will be 5% more productive than the prior month until they hit 100% increased productivity, which is when they will collectively reach the corporate goal of \$833,333. increased sales per month. This monthly increase in sales will yield a 12-month increase of \$10M, which is our ultimate goal.

By looking at the table below and the cumulative increased sales each month, we can see that the initial investment of \$778,000. for our CRM solution will be returned in nearly 9 months (September of the first year). We can also see that we will reach our target monthly goal of \$833,333. in 12 months (January of year two).

### Year 1

<u>Month with % Productivity Increase:</u>	<u>Jan (No increase)</u>	<u>Feb (No increase)</u>	<u>Mar (No increase)</u>	<u>April (10% of Goal)</u>	<u>May (10% Increase)</u>	<u>June (15% Increase)</u>		
<b>Increased Revenue per Month:</b>	\$0	\$0	\$0	\$83,333	\$91,666	\$105,416		
<b>Cumulative Totals:</b>	\$0	\$0	\$0	\$83,333	\$174,999	\$280,416		
		<u>July (20% Increase)</u>	<u>Aug (25% Increase)</u>	<u>Sept (30% Increase)</u>	<u>Oct (35% Increase)</u>	<u>Nov (40% Increase)</u>	<u>Dec (45% Increase)</u>	<u>Year 1 Total</u>
	\$126,499	\$158,124	\$205,562	\$277,508	\$388,512	\$563,342	\$1,999,963	
	\$406,915	\$565,039	<b>\$770,601</b>	\$1,048,109	\$1,436,621	\$1,999,963		

### Year 2

<u>Month with % Productivity Increase</u>	<u>Jan (50% Increase)</u>	<u>Feb (Goal Reached)</u>	<u>Mar (Goal Reached)</u>	<u>April (Goal Reached)</u>	<u>May (Goal Reached)</u>	<u>June (Goal Reached)</u>
<b>Increased Revenue per Month:</b>	<b>\$845,013</b>	\$845,013	\$845,013	\$845,013	\$845,013	\$845,013
<b>Cumulative</b>	\$2,281,634	\$3,126,646	\$3,971,659	\$4,816,672	\$5,661,684	\$6,506,697

**Totals:**

<u>July (Goal Reached)</u>	<u>Aug (Goal Reached)</u>	<u>Sept (Goal Reached)</u>	<u>Oct (Goal Reached)</u>	<u>Nov (Goal Reached)</u>	<u>Dec (Goal Reached)</u>	<u>Year 1+2 Total</u>
\$845,013	\$845,013	\$845,013	\$845,013	\$845,013	\$845,013	<b>\$12,140,115</b>
\$7,351,710	\$8,196,722	\$9,041,735	\$9,886,748	\$10,731,760	\$11,576,773	

By the end of the first year, we increased sales by \$2M. By the end of year two, we generated over \$12M in increased sales. This is a very respectable ROI, considering we invested a generous \$778,000. for our CRM solution and allowed for a gradual, and patient, increase in productivity over time.

Not all implementations will be this predictable nor payoff this quickly. However, by approaching your investment in this manner, you can get a better handle on your return-on-investment. Although this may seem a bit complex, simply saying you need to sell over \$778,000 worth of products or services to pay for this project is not going to give you an accurate financial picture. It's also not going to ensure that your investment is going to help resolve the business issues that you set out to solve.

Of course, you can always take a more uncomplicated approach to the whole matter. Quite simply, if you're Rally Inc. and you don't invest wisely in technology solutions to improve the performance and productivity of your sales force and marketing department, then it can cost you \$10,000,000. in increased sales over the next year – Opportunity Lost.

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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, call **(919) 491-2823** or 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

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For more information about implementing Customer Relationship Management solutions for your business, pick up copies of **CyberSelling** and **CRM For The Common Man** by Russ Lombardo at our web site or Amazon.com

