CRM Metrics That Really Work

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Not everything that can be counted counts, and not everything that counts can be counted (Albert Einstein 1879-1955)

Customer relationship management or CRM, is yet another one of those popular three-letter programs that have been implemented by most large corporations over the last decade that has failed to live up to its expectations. According to a study done by Bearing Point in 2003, nearly half of the companies surveyed reported that they are re-evaluating their CRM initiatives because of poor ROI. The study of 167 companies with at least $1 billion in sales indicated that although 82% felt that CRM was important, only 37% felt as if they were achieving expected performance. Many of the organizations I've had contact with have no hard data on whether or not their CRM efforts have been successful. Any effort that costs this much and takes up this much of your time needs to be measured and evaluated.

Most CRM programs I have seen are comprised of two parts:

- Processes for building relationships with customers that spell out behaviors and sequences for those activities
- Software for creating customer data bases and reporting progress in the sales/relationship building process with each account.

The CRM consultants will sell you the software and the processes needed to supposedly make all of your customers love you and buy more of your stuff.

What is CRM supposed to do?

The theory behind CRM is that if companies take a systematic approach to building relationships with important customers, this will result in greater levels of customer satisfaction, increased revenue from those customers, and greater loyalty. This is a valid theory, but many CRM programs I have seen are thinly disguised attempts to cross sell customers more stuff that they don't really need. CRM has become a nice way of referring to cross-selling or "would you like fries with that?" My personal banker at Citibank wants to have a quarterly meeting with me so we can "review my holdings and my portfolio performance". I have no need to drive for 20 minutes to meet with him to review my accounts, which I can review on-line any time I want. What Bruce really wants to do is get me in his office so he can talk me into putting more money in my Citibank accounts or to sell me additional products/services. Don't get me wrong, I like Bruce, and think he is doing a good job, but I know he is not just inviting me to his office for a friendly chat – he has sales goals he needs to achieve. I have several different accounts at Citibank, so Bruce can use this information to his advantage, to tailor his sales pitch to my personal situation: " I noticed you had a lot of money in your checking account and thought you might want to put some of that into a CD to get a better interest rate." Building a relationship with a customer is more than just selling him more stuff. In fact if the customer realizes he has been sold something he does not need, this could jeopardize and otherwise healthy relationship.

CRM is based on faulty assumptions

There are several flaws in the logic behind most CRM programs I have seen.

Faulty assumption # 1: Building a relationship requires a systematic process and management system.

Anyone who has ever had a job in sales knows that you can't take to same approach to sales as you can with engineering a product or landing a plane. You can follow the exact same series of behaviors with one prospect, and she does not buy a thing. Follow the same approach with another prospect, and she buys a whole bunch of your product. All customers want many of the same things when they buy something: value, convenience, the right features, quality, and they want to buy from someone they can trust. Beyond that, there are many differences that influence people's buying behavior. The flawed logic in CRM programs is that you can engineer a relationship with the customer with as much precision as you can design the products or services you sell.

Selling is about 40% science, and 60% art. Yet, many CRM programs focus on following the same series of behaviors with each customer. The most successful salespeople are those that can tailor their approach to each individual customer, which means getting to know them and doing more listening than talking. Using an engineering approach to sales tends to only work well with a product that pretty much sells itself like fast food or cars.

My friend Lisa works as a pharmaceutical sales rep. She spends her days visiting doctors, trying to engage them in conversations, and leaving them samples. Each evening she needs to input data in the company's CRM system detailing who she visited, how much time she spent with each doctor, what was said, how they responded, etc. She doesn't sell the drugs to the doctor's offices. Rather, her job is to build a relationship with the doctors so they prescribe her company's drugs more often. The problem with the approach is that the doctors are often too busy to spend any time with Lisa, and she frequently spends most of her time trying to talk the office staff into letting her spend a minute or two with the doctor. She always manages to give away the free samples, but regularly leaves without getting to see the doctor. Realizing that doctors are busy during the day, her employer gives her a generous allowance to take doctors out to dinner after work, but Lisa never manages to spend her entertainment budget because most of the doctors want to be home with their families. Those that do want to go out to dinner are the single ones who want to date her. The company's attempts to boil down customer relationships to measures of call frequency, call duration, and following a scripted sales pitch simply do not work very well with most customers.

Another friend would appear to do everything wrong. His behavior would lead you to believe that no one would ever buy anything from this guy. Yet, he is the most successful of all the consultants in the large firm for whom he works. He starts a project with a new client and within a year has turned them into a key account, generating many billable days for him and other consultants, and millions in sales of training materials. What's his secret? He smokes, swears, frequently pisses off important people in the client organization, beats his client at pool every day at lunch, and is brutally honest with everyone. He does not report in to his boss, misses sales meetings, and is generally regarded in his firm as someone who is "not a team player". Yet, in spite of all this, his clients love him, trust him, and listen to his advice. Jim builds relationships with his clients because first of all, he is one of the smartest guys I know, and second, because he is completely honest and trustworthy. Clients also learn to like him because he does not try to be likeable – he is a real person, as opposed to some $1000 suit with a good haircut, an ivy league degree and a mouth full of management buzz words.

Faulty assumption # 2: CRM software provides the data needed to improve your ability to build relationships with customers

Most CRM data bases I have seen include all sorts of information about accounts and individual customers. There is information in there about the org. structure and who has the real authority, decision making matrices, and personal information about customers such as their previous jobs, buying history, spouse's names, kid's ages and names, hobbies, interests, golf scores, favorite vacation spots, etc. Salespeople can access all of this data from their laptops, so they can go from appointment to appointment and make each customer feel special by appearing to remember all this personal information about them.

The flaw in logic is that this customer intelligence will enable the salesperson to use it to his advantage to build a relationship with the customer. Remember the movie *Ground Hog Day?* It is one of my favorites. The Bill Murray character learns more and more each day about Andie McDowell: loves French poetry, hates white chocolate, always drinks to world peace, etc. Bill Murray's character remembers and uses this knowledge to his advantage to try to make her fall in love with him, and it really starts to work after working at it for many days. Andie McDowell's character eventually figures out she's being worked, and it backfires. Only when the Bill Murray character stops trying to trick her into loving him does she begin to grow fond of him. Bill Murray's approach is exactly what many CRM programs are all about: finding out detailed information about customers, and recalling and using that information to try to build their trust.

The problem, is that most customers know they are being worked. Many salespeople are about as sincere as my dentist, Dr. Weinberg, who looks at the reminders on my chart as he walks into the treatment room: "How's the ah . . . consulting business Mark?" The bottom line is that having a bunch of personal information about a customer does not really help you build a relationship with her. In fact, it might alienate a customer who was just beginning to trust you, just as it backfired on Bill Murray in the movie.

Faulty assumption # 3: It will be easy for the salespeople to use the CRM software and they will love it when they see how it helps them sell more.

I have a lot of friends and clients in sales jobs: pharmaceuticals, insurance, financial services, medical devices, copiers, and a host of other products and services. One thing I hear from all of them is that they hate their company's stupid CRM systems. It's common for salespeople to spend 2-4 hours a day with their lap top, typing in reports of conversations with customers and prospects, entering data, and preparing account status reports. Most have a large territory to cover, so they spend from 7:00 a.m. until 6:00p.m. on the road, visiting customers. The CRM data has to be entered each night, after being stressed out all day with traffic and customers who don't what to see them. They all universally despise the CRM system and see the requirements as busy work that detracts from their productivity and greatly impacts their morale. The CRM systems I have seen are not simple, intuitive, and do actually require a lot of time from salespeople. Of course, if all of this time spent entering and retrieving information paid off, it might be worth it, but most studies I have seen suggest that CRM does not produce good ROI. What is not discussed in any of the studies I have seen is the impact these systems have on the morale of the sales force. Anecdotal data tells me that CRM systems have done a lot to contribute to stress and poor morale among salespeople. What all of this data does is make managers feel comfortable. Managers like to keep tabs on their people and make sure they are not goofing off, so they require daily reports like this to ensure that the salespeople are out there every day calling on prospects and servicing their existing accounts. All this behavior frequently does not produce increased sales or loyalty from customers, however.

How to Measure CRM Success

As with any aspect of performance or improvement program, it is unlikely that you will be able to come with a single metric that tells you whether or not you are successful. No single chart will tell you about whether or not CRM is working or not. What is needed is an index that is comprised of four types of metrics:

- **Input metrics** – measures of quality, accuracy, thoroughness, and the degree to which data are current and verifiable

- **Process metrics** – measures of behavior or activity proven to link to good performance
- **Output metrics** – Quantifiable things that can be counted such as orders, samples distributed, proposals submitted, new clients acquired, brochures sent, phone calls made, meetings held, accounts visited, demos conducted, etc.
- **Outcome metrics** – gross margin dollars, sales revenue, reduced marketing costs, partnerships with important customers.

If you asked any company why they are doing CRM they would mention the things I have listed under "outcome metrics". These are the only things that put dollars in anyone's bank account. Because of the importance of these measures, and the fact that it is harder to fake the data, I would put the most weight on these metrics in the CRM Index or gauge. The problem with outcome and even some output metrics is that they are mostly lagging indicators or measures of the past. A good CRM Index should include a mix of leading and lagging indicators in order to be a valid gauge. The leading indicators are the ones that track the inputs and the process or behavior measures. Tracking these metrics on a daily basis helps sales managers feel good that their people are out there working hard.

When creating a CRM Index, I would begin by assigning a weight to each of the four types of measures as follows:

Input metrics:	15%
Process metrics:	10%
Output metrics:	35%
Outcome metrics:	40%

The reason for such a heavy weight on the outputs and outcomes is that they are the real measures of value.

Input Metrics

Input measures are important because they are the most forward-looking of all the four types of measures in the CRM Index. Input measures should be both quantitative and qualitative. Some examples of input metrics that might be counted are:

Inquiries received	Web site hits
Calls made	Letters sent
Customer profiles created	Attendees at seminars
Business cards received	Brochures sent
Leads generated	RFPs received

These are all measures of activities designed to generate new business or gain additional business from existing customers. It is not enough to just count things like those listed above. The input metrics need to have a qualitative component as well. I did a public workshop last year at a conference in Orlando, and my input metrics that I tracked looked very strong. I had about 70 people attend the workshop from 25 different companies, and had about 30 of the attendees give me their business card and ask for mine after the session. I followed up several times with letters, phone calls, books, etc. and not one of those prospects generated a dollar in income for me. It's important to measure the quality of your inputs as well as the quantity. A client in the police radio business came up with a qualitative measure of prospects called "Opportunity Strategic Value" or OSV Score. Each prospect was given a score from 0-100%, depending upon factors such as:

- Location
- Size
- Name recognition (would impress other police departments if we had them as customers)
- Number of units needed
- Potential gross margin
- Political connections (e.g., do we have any friends working there)

Account managers were measured on the inputs they generated, but also on the quality of those inputs. This helped drive the right behavior by getting them to focus on bringing in important and profitable customers. Another client in the facilities maintenance business came up with a similar metric for both prospective and existing customers, and had similar success with using the measure to encourage salespeople to go after high quality prospective customers. Points were also assessed for different types of inputs, such as 10 points for a business card or letter sent, to 75 points for an RFP received.

Process Metrics

Process measures in sales or account management are usually measures of behavior or activity. For example, a process metric might be the number of accounts called on per week, or the number of product demonstrations conducted, or the number of customers that attended your golf outing. Many organizations have very specific standards for following processes that are supposed to build relationships with customers. For example, visiting A level customers once a week, B level customers, once a month, and so forth. There are also often standards for how to give a presentation or demonstration, right down to the exact words to say and hand movements to properly demonstrate the product. Salespeople are measured on the degree to which their behavior matches the standards. Call centers that deal with customers also have process measures such as call waiting time, abandoned calls (hang-ups), average call length, and so on.

All of these process measures and standards are designed to increase sales, improve customer satisfaction, and increase customer loyalty. The problem with most of these process measures is that they have not been proven to link to anything of value in most companies. In other words, there is no evidence suggesting that following a scripted demo, or visiting accounts once a week results in increased business or even increased satisfaction from customers. Usually companies have some fairly good data on the link between input metrics and output metrics. For example, my friend who sells executive compensation plans sends out about 100 letters to get 15 good leads that he calls, to get 5 appointments, to do 3 proposals to get one sale. With data like this it is fairly easy to set targets for input metrics, based on overall sales goals.

I rarely see this kind of research backing up the validity of process measures. The process measures and standards are too frequently based on anecdotal evidence or superstition. Sales managers feel good if all their reps are calling on the right number of accounts, conducting demonstrations, handing out business cards, and entering all these activities on a daily basis in the CRM data base. Often I find that the people who get the best scores on the process or behavior measures are among the worst performers when you look at their achievements. Remember my friend Jim I talked about earlier? He ignores the behavior or process measures his company tracks. He does not dress appropriately, refrains from using his company’s lingo when describing their products/services, often cancels client dinners at the last minute, or refuses to socialize with them at all, and does not work well with other consultants and salespeople in the company. Yet, his performance on the outcome measures beats all of his peers.

The key to having good process metrics in your CRM Index is to closely study the behavior of your superstar salespeople. Do not interview them – watch them. Most people who are good at what they do are unconsciously competent, and have a hard time articulating why they are successful. By watching the star performers and comparing their behavior to the average ones, you are likely to find subtle difference that account for their success. These are the subtle differences upon which your process metrics should be based. By deriving your process measures from a study of your star performers, you have at least a good hypothesis that by following a particular process or sequence of behavior, improved performance will result. Test these hypotheses, however, before settling on them and making them the way you do business. Also, keep in mind that there is a lot of art to managing customer relationships, and the more you try to adopt a cookie cutter approach, the less likely your salespeople are to be successful. Take an approach more like Nordstrom: hire people with brains and personalities, and trust them to make good judgments, rather than turning them into robots.

Even though there is a lot of art to sales or relationship building, there should be some basic processes followed and measured. For example, there may be a process for interviewing a prospect and defining her needs. There may be another process for determining and overcoming objections, and another process for reviewing the strengths of your product/service versus the competition. There should not be a script or defined process for having drinks or dinner with clients, or other activities where the approach needs to be tailored to each situation and individual customer.

The reason the process metrics are given such a low weight in the CRM Index is that the behavior or process metrics are the measures with the least integrity. In other words, an organization can be getting a good score on all the behavior measures and still have unhappy customers and problems with the relationship they have with your firm. Input metrics are a little less risky because they involve tracking hard objective things like leads, or requests for quotations/proposals. If you had solid research backing your process metrics, you might want to increase the weight of these measures in the CRM Index to make them equal to the input metrics. In this case, the input and process metrics might each be worth 12.5% of the index.

Output Metrics

An output is some sort of product or something that can be counted. An output is either a physical product such as a proposal, report, or contract, or an accomplishment such as a closed deal, a new client brought on board, an order, or a service performed successfully. For example, and output measure for a shipping firm might be packages or containers delivered., or on-time flights for an airline. Outputs tend to be things of value to either the organization or its customers. Customer contact employees like account managers, service delivery personnel, and customer service reps generate all sorts of outputs that might be counted as part of a CRM Index. A number of my service industry clients have a metric called the Aggravation Index, wherein they track the number of things they do each day to aggravate a customer. Each aggravation is also weighted on a 1-10 scale, based on its severity. It turns out that as the aggravation index goes higher, more and more customers start leaving. In other words, there is a direct correlation between the aggravation index, which is an output metric, and customer loyalty, which is an outcome measure. The aggravations are not caused by the salesperson or account rep., but by the people involved in delivering the service to the customer. Some of the factors that get counted in an airline's aggravation index are:

Late flights	Cancelled flights
Lost bags	Middle seats
Delays taking off	Delays waiting for bags
Damaged bags	Long lines to get boarding passes
Long hold time when	Dropped calls
calling to reserve a ticket	Hard to use web site
Gates without enough chairs	Customer complaints.

Each of these aggravations is counted on a daily basis and multiplied by the number of passengers impacted, and the seriousness of the aggravation. A flight that is late 30 minutes would count a lot less than one that is cancelled and 200 passengers have to spend the night in O'Hare because every hotel room in Chicago is booked.

How your company performs or how your products perform has a major impact on the relationship with customers. If the copy machines in your law firm break down on almost a daily basis, the account rep is the one that takes the heat for this, and this sort of situation can ruin years spent trying to build a relationship with a customer.

When tracking outputs, it is important to include those produced by the sales or customer contact people, but also to track outputs that will have a major impact on a customer's satisfaction with your company. Most of the things that cause a relationship between two companies to sour are not the fault of salespeople or account reps. Rather, the most important outputs relate to how well products and services perform. Outputs are given a fairly heavy weight in the CRM Index for two reasons:

- They can be objectively counted and measured
- They have a big impact on the relationship with customers.

Outputs for the sales or account management function that might also be included in the CRM Index are:

- Proposals won
- New customers acquired
- Extensions or sales of additional items
- Referrals
- Commendation letters from customers
- Joint marketing efforts with customers
- Customer problems solved

There may be a long list of outputs that get counted and assigned a weight, depending on their importance to the organization's success. For example, a proposal for a $1million sale might be worth less than a signed contract for $200k.

When constructing this section of your CRM Index, think about assigning a weight to the various outputs based on how important they are to the relationship you have with customers. For this reason, I would count the outputs that relate to your product or service performing well as worth 25% of the total 35%, and the remaining 10% for the outputs produced by the salespeople or account reps. A big sale is an important output for the company and the salesperson, but it does not necessarily strengthen the relationship a customer has with your company.

Outcome Metrics

Outputs are products or accomplishments that can be easily counted or quantified. An output might have obvious value such as an order, or hopefully lead to something of value, such as a proposal submitted. Outcomes, on the other hand, tend to be things that are harder to quantify and measure, but are often more important than the outputs. For example, a long-term trusting relationship with a profitable customer is an important outcome that is harder to measure than the number of responses to a direct mail marketing campaign.

Remember that the goal of a CRM process is to build a strong positive and lasting relationship with important customers that lead to greater profits. I have worked with a number of firms that have designed a Customer Relationship Index that is used as a measure of the type of relationship they have with each account. A facilities service firm in San Jose calls this metric the Customer Relationship Index. A textile firm in Orange

County, CA has a similar metric they call their "Matrimonial Index." The scale on both company's metrics goes from a level one relationship which indicates that the customer is married to another supplier but willing to have a friendly lunch or take an occasional phone call from your sales rep. A level 5 relationship indicates a happy customer that has been buying from your company for several years, and has gotten to know the account rep and others in your company very well. A score of 10 on the relationship index is used to signify a true marriage or business partnership. A 10 score might indicate a long-term contract, many personal friendships among the employees at your two firms, political connections (e.g., your CEO and the customer's CEO are personal friends), exit barriers that would make it difficult and expensive for the customer to find a new supplier, etc.

Both firms I mentioned have specific criteria for each number of the matrimonial index that are measures of the strength of the relationship. Another client incorporates an input measure that their CEO calls the "ugly stick" with the outcome metric called the relationship index. There are two dimensions that go into calculating the index

Attractiveness **1-10 scale**

Relationship **1-10 scale.**

A "perfect 10" or attractive customer is one who has the following characteristics:

- Pays invoices in 30 days or less
- Generates healthy profit margins
- Buys large volumes
- Partners with suppliers
- Stable company that will be around a long time
- Ethical company that manages with integrity
- Customer name will impress other potential customers
- Easy to work with – e.g., low maintenance

A level 1 or ugly customer would be just the opposite of a "10". Customer accounts are given an "ugly stick" rating twice a year by those who work with the account because often their status changes with time. Some customers get uglier with time, and some get better looking. For example, a successful major airline might have been rated as a 9 in attractiveness several years ago, but they have fallen to a level 2 now because they are close to filing bankruptcy. The 1-10 relationship index is also an important outcome measure. The company sets targets for certain types of customers and for the types of relationship with want to have with them. An example of how one company constructs this metric is as follows:

Example Customer Attractiveness/Relationship Index

ATTRACTIVNESS LEVEL	RELATIONSHIP TARGET
Beautiful 9-10	9-10 happy marriage/partnership
Very attractive 7-8	7-8 engaged; happy relationship
Attractive, but some flaws 5-6	5-6 committed dating, mostly Good relationship
Average, a number of flaws 3-4	Casual dating, no real trust yet; Customer using other suppliers
Ugly, many flaws 1-2	1-2 occasional lunch, customer Married to another supplier.

The relationship index should probably be one of the heavily weighted sub-measures in the outcome segment of your CRM Index. Other important outcomes should probably be included as well, such as:

- $ in sales increases from existing customers
- $ in gross margin increases from existing customers
- $ in new sales attributable to referrals from existing customers
- Customer satisfaction levels
- Accounts where your company is the sole supplier
- Accounts where your company is rated as a preferred supplier.

Conclusions

Like most other three-letter management programs that have delivered less than they promised, CRM has failed to result in stronger relationships with customers and increased profits in more organizations than it has succeeded in. Part of the reasons for this failure are the faulty assumptions that building relationships is as simple as having the right data on your customers, and following a systematic process of behaviors to build and sustain relationships. If it was really that easy there would not be so many books, training programs, and models on how to create good business relationships. Businesses have been doing CRM for thousands of years. Sales has always been about building relationships, and there have been many successful salespeople over the years who did not have a flowchart on the selling process or CRM software and a laptop computer.

Companies have invested millions of dollars in software, training, and meetings over the years to improve their ability to build relationships with customers. What many have not done is to measure the effectiveness of their CRM efforts. A single measure of something as complex as customer relationships is unlikely to reflect your performance.

What is needed is a Customer Relationship Index that summarizes results for four different aspects of performance:

- Inputs
- Processes or behaviors
- Outputs
- Outcomes.

Such an index can provide executives with the data they need to monitor the progress of their company in creating and sustaining positive and profitable relationships with important customers.

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