Document O128
June 2014

RESEARCH NOTE

CRM PAYS BACK $8.71 FOR EVERY DOLLAR SPENT

THE BOTTOM LINE

Companies continue to make new investments in CRM to take advantage of new analytics, social collaboration, mobile, and other capabilities – and with good reason. In analyzing Nucleus ROI case studies on CRM, we found the average returns from CRM have increased since 2011, from $5.60 to $8.71 for every dollar spent.

Companies continue to invest in CRM applications that enable them to drive greater sales productivity and results, improve the effectiveness and accountability of marketing efforts, and improve customer service and support. The past three years have been a CRM arms race, with vendors accelerating the pace of both organic development and acquisitions to deliver more ROI to customers in areas such as social, mobile, and analytics.

In 2011 Nucleus conducted an analysis of its existing published ROI case studies on CRM deployments and found that, on average, for every dollar a company spent on CRM it got back $5.60 (Nucleus Research *l120 – CRM pays back $5.6 for every dollar spent*, November 2011). Given all the changes that have happened in the market in the past three years, we looked at case studies published since November 2011 to determine whether all the vendors' investments and integration efforts had paid off to deliver more ROI to CRM customers – and they did. In looking at the case studies published since our last analysis, Nucleus found that for every dollar a company spends on CRM, they now get back $8.70.

Nucleus found that for every dollar a company spends on CRM, it gets back $8.71 – 1.5 times more than they got just three years ago.

Our analysis included all the case studies Nucleus has published on CRM projects since November 2011, including deployments of all the major vendors as well as smaller point solutions. Customers analyzed were from a broad range of industries and included both small organizations and large enterprises.

CRM RETURNS ARE INCREASING

In most cases, as software markets mature, companies making new investments in software to replace or complement existing solutions get smaller incremental returns, because they've already gotten a big return from their initial investment. However, Nucleus has found this not to be the case for CRM, for four main reasons.

COMPETITION IS FIERCE

Three of the four largest software companies in the world are continuing to invest in improving their CRM market position. Startups and upstarts are entering the market every day with new innovations. Accelerating release cadences are giving customers new features and capabilities to consider every few months. APIs and integration capabilities are exploding. On top of all that, particularly in cloud CRM, switching costs are relatively low (Nucleus Research *m107 – CRM: propensity to switch*, September 2012), so vendors have to win the customer not just for the initial deal but for the quarters after the deal is closed. All of this leads to more competitive pricing (in some cases penetration pricing strategies) and a larger investment on the part of the vendor to make sure the customer is successful and referenceable from day one.

In one recent case, Nucleus found a client was able to get the first year of subscription for free if they were willing to sign on to a 3-year contract, and this was a deal with one of the top three, not an up-and-coming player. The up-and-comers are relying more on customer success managers, a lot of handholding, and (often) complimentary services engagements at the beginning of the contract to keep customers on track to achieving high ROI and satisfaction.

CLOUD CRM DELIVERS MORE

It is no secret that cloud deployments tend to be faster and have lower upfront costs, increasing ROI, but in the CRM space, cloud also means access to new features and capabilities and the ability to expand an application's use over time with limited cost and disruption, driving greater benefit over time. As more companies have moved their CRM to the cloud, they've been able to take advantage of the cloud ROI multiplier effect (Nucleus Research *m108 – Cloud delivers 1.7 times more ROI*, September 2012) for greater returns.

BUYERS ARE DIFFERENT

Obviously, buyers are more knowledgeable and vocal about CRM successes and failures, they're more likely to be skeptical of vendor claims, they're making more reference checks, and they're more aggressive in their negotiating than they were just a few years ago. But another significant dynamic is changing the way CRM is bought and implemented – and how it delivers returns.

Before, CRM deployments were largely run by IT. Eighty percent of the work (and related decision making) was done by IT, with consultants brought in for what IT couldn't handle. Business users were introduced into the testing phase when much of the work had been done. Today the decisions are largely driven by the business, with business taking on 40 to 50 percent of the work, IT taking on very little, and (particularly in the case of cloud deployments), the rest of the burden is on the vendor. This changes two things: First, business users are much closer to planning, development, and design throughout the process to be able to demand what they want. Second, business users can be more demanding because they're asking their vendor, not some internal IT team that they can't risk upsetting in case they need help with a critical project in the future. So, in the past, if business users were 80 percent satisfied they let it go because they didn't want to burn up political capital with IT. Today they demand, and continue to demand, nearly 100 percent of what they want.

SOFTWARE IS GETTING SMARTER

We're not there yet, but vendors are starting to take advantage of embedded analytics, automation, and instrumentation to bring CRM users closer to the ideal of the Dark Cockpit (Nucleus Research *n167 – Enterprise software must adopt the principles of the dark cockpit*, November 2013). Applications are becoming more simplified and streamlined, more focused on productivity and results than record keeping and reporting, and more automated to free up manager and employee time for meaningful coaching and conversations instead of pipeline and status reports.

CONCLUSION

In a market where most companies with any track record are already on their second or third generation of CRM investment, conventional logic suggests the rates of return should be going down, not up. However, CRM bucks this trend because tremendous investment in the space, changing internal expectations and roles, and, quite simply, better technology are uncovering new ROI opportunities. Although not every company should expect $8.71 returned for every new dollar spent on CRM, it's not unreasonable to set that as a goal, and to take advantage of the competition in the marketplace to demand vendors show – and deliver – sustainable return on investment.