Show Me the ROI!

Plan, Deliver and Measure Serious Returns on Serious CRM

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A Teradata CRM White Paper

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Executive Summary

Senior executives want to know one thing about any initiative: "What's the Return On Investment (ROI)?" Today more than ever, every dollar invested must be justified, and any technology acquired must deliver positive and tangible results. CRM professionals must show clear empirical links between CRM capabilities, marketing excellence and bottom line financial performance. And today more than ever, CRM is moving to the epicenter of most companies' operating models. Why? A recent Accenture report indicated "CRM performance accounts for 28-60 percent of the variance in companies' return on sales." (July, 2001)

The good news is that tangible ROI metrics on CRM can in fact be established with the use of actionable intelligence generated by analytical CRM itself. Moreover, CRM intelligence can be the basis of highly effective communications with customers – resulting in more and better-focused campaigns, lower campaign execution costs, higher response rates, and better return on customer relationships (ROR) – an equally important value perspective which can also be measured using analytical CRM tools.

The Giga Information Group has reported that only "about 30% of companies have or are in the process of implementing a measurement strategy for CRM – and 15% don't plan to measure CRM at all." (IdeaByte, August 8, 2001) One wonders how they can ever be certain what exactly is driving their performance. In any case, we expect these companies to change their thinking – soon.

Whatever our views, we cannot be satisfied to idealize CRM's inherent power to grow revenue and profitability, however true it may be. The company that practices 'serious CRM' must establish a serious process to plan, deliver and measure returns (ROI) on a CRM investment. This paper is your introduction to this process. We describe a methodology for executing CRM strategies in a way that CRM-related ROI can be measured over time. To illustrate how to do this, we use the Teradata CRM solution for examples. The process itself, however, is applicable to CRM in general. By using the Teradata® CRM solution in the examples, we are able to show how an analyst can examine the data to evaluate alternative CRM opportunities. This is one of the primary purposes of this paper.

The central business challenge is to plan, execute and measure ROI from CRM initiatives, because mastering CRM as a science is the key to sound practice and replicable success.

Another reason it is important to set forth a serious process for measuring ROI on CRM is to openly reinforce the reality that dramatic ROI is indeed realizable on CRM. The time has come to transcend the media buzz and lead a new and more scientific discussion around CRM – especially in view of so many conflicting opinions and reports.

For example, top analysts at Gartner Group report, "The larger CRM consultancies and vendors are presenting evidence that successful CRM initiatives are leading to improved profits and better stock prices." (Feb.2001) According to Forrester Research, 45 percent of companies are considering CRM projects and 37% already have installations under way or complete. Moreover, analysts at Forrester found that companies routinely invest as much as 15 to 30 million dollars per year on software and services to "enhance the customer conversation." Why are the investments so high?

The analysts tell us it's because companies are reporting "solid ROI from their CRM investments," according to the Peppers & Rogers Group (PRG), a well-known marketing consultancy.

Moreover, PRG reports:

"over 65% of companies they have surveyed expect CRM to increase sales revenue by more than ten percent, with 27% of companies expecting sales increases of over 20 percent."

Then there are the negative reports that proclaim failure and disappointment – but rarely with sufficient detail or actionable insight, in any case.

Thus, a central business challenge is to plan, execute and measure ROI from CRM initiatives – understanding exactly how they generate value for customers, marketers and shareholders – because mastering CRM as a science is the key to sound practice and replicable success.

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Opinions about CRM vary, and success with CRM may or may not meet expectations - but one thing is certain - Customer Relationship Management is important because it is clearly linked to business market value. Patricia Seybold, a leading business analyst has put it succinctly: "The market value of your company is a direct reflection of the value of your customer relationships." She added that: "Companies are valued ... based on their future earnings potential. Where do earnings come from? From customers ... the value of earnings they'll receive from their current and future customer relationships ... Investors have a right to know how many customers you have, how much you're earning per customer, how well you're treating your customers, and how fast you're growing the value of your customer franchise."

To make CRM and your company successful, you must align your CRM initiatives with corporate goals and vision – then execute according to a very clear, step-by-step process.

Why companies can't 'see' the ROI on CRM

Some companies do not realize ROI on their CRM initiative due to 'blurred' vision – they cannot 'see' customers clearly, or have not methodically linked their CRM objectives and opportunities to the stated corporate vision. Most CRM consultancies and analysts will tell you that any major business initiative must be driven by a corporate vision – and executive sponsorship. Yet often, CRM initiatives are launched without it.

Why? Some business people mistakenly view CRM as 'silo' activity – not understanding the implications of the CRM initiative on the rest of the company. CRM requires integration of the technology application into many processes.

Plus, too often, CRM is viewed as a purely technical solution. Thus, should the initiative suffer problems, people may simply "blame it on the tool." Yet in fact, the CRM technology is only an 'enabler.' It is those special people – the users – who create and replicate business value, using technology to generate intelligence for informed decision-making. And companies often underestimate the organizational implications of CRM. CRM has impact up and down — through the supply chain and on every part of the business. Ownership of data, the customer, and the process is key.

Companies that believe they can use CRM technology to simply automate the same old processes they used in the past – which have not been successful ... are making serious mental mistakes. To make CRM and your company successful, you must align your CRM initiatives with corporate goals and vision – then execute according to a very clear, step-by-step process. ROI from CRM doesn't come from doing the same old thing faster. It also doesn't come if you don't learn from your mistakes. So how do you learn from your mistakes? You need to set up the right processes.

It's about the way you do business

Let's be clear — we are not talking about campaigns – our scope is broad – we are discussing CRM as an ongoing – and expanding – business process. It is, when done correctly, a scientific process, based on systematic activities. Thus, companies need a clear course of action for planning and achieving ROI. This means understanding the differences between database marketing, sales force automation, and the much-larger initiative ... CRM. And to measure CRM success, you must measure the impact of the entire CRM process in terms of the activities specifically undertaken to improve marketing results.

Just to get started with a clear definition (as if the world didn't have enough definitions of CRM!) – think of CRM as the tactical cultivation of customer relationships based on a detailed strategy and clearly defined objectives. This is achieved as a company communicates – with relevance and intelligence – to individual customers in preferred channels. Of course, you must also know that your company is delivering differentiated value to each customer.

ROI begins and ends with analytical CRM

Customer data rolls in to your business in continuous waves. To gain the vital insight that creates ROI and competitive advantage, you must find and mine the intelligence – learn from customer behavior patterns. Why? Because all of the marketing and revenue opportunities your business will ever need are buried in those waves of interaction and behavior.

Analytical CRM – the examining of highly complex patterns of customer interaction data – helps companies recognize new opportunities by seeing possibilities as well as patterns – ones that you can leverage to build more profitable relationships with your customers.

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Analytical CRM involves tracking and evaluating, examining highly complex patterns and trends. And it can lead to more accurate marketing predictions – revealing potential upward and downward shifts in customer value. In the present tense, it makes CRM execution more effective as a result of new, actionable insights and perspectives it provides.

Analytics include segmentation studies, customer migration analysis, Lifetime Value (LTV) modeling, cross-sell/up-sell analysis, new customer models, customer contact optimization, merchandising analysis, customer attrition and churn models, credit risk scoring – and more.

Analytical CRM tools serve as the technology foundation that drives ROI on CRM – as well as the CRM process itself.

The first step – leadership team meets to set objectives

Yet CRM does not begin with technology. CRM begins with a strategic vision. Your management team needs to meet and articulate the purpose and direction of all efforts to "cultivate" relationships. In other words, your company must reach consensus on the kinds of customer relationships it wants to create – and establish objectives for doing so.

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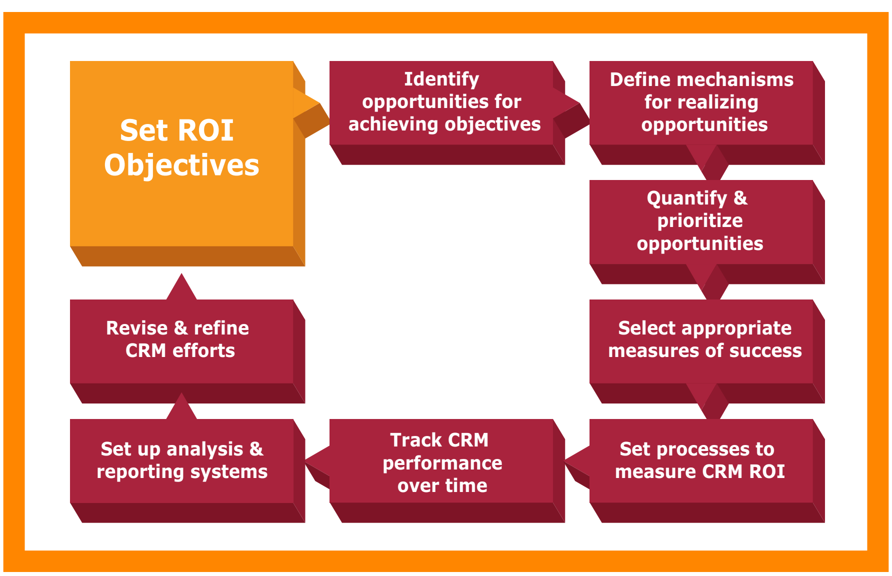
Thus, strategic objective setting is the first part of the process for measuring ROI on CRM. Let's look at the process. This is a map of the process for achieving and measuring CRM ROI. We will be following this map as we continue the discussion. Note that we are presupposing that some analytical CRM modules are in place, for example, analytical modules available in Teradata CRM. This is a post-implementation process:

1. Set Your ROI objectives
2. Identify opportunities for achieving those objectives
3. Define mechanisms for realizing opportunities
4. Quantify and prioritize opportunities
5. Select appropriate measures of success
6. Set up processes to measure ROI on CRM
7. Track CRM performance over time
8. Set up analysis and reporting systems
9. Revise and refine CRM efforts

Process for Achieving CRM ROI



Now let's look at each phase, and take it one step at a time.

The first of many sessions (you will need to schedule) is "Phase One," which might take a half day, or full day session. This session involves interviews and discussions - a workshop - to establish high-level objectives for delivering and measuring ROI. They will vary by industry and company, of course. In any case, objectives should cascade from corporate goals and priorities.

Who needs to be present for this session? As is true with any initiative, there is certainly 'assembly required' – that is, an assembly of the senior strategic management team, and a CRM consultant who serves as the discussion leader to lead and keep the conversation on track.

The key at the initial session is 'focus' – don't digress by going down a hundred different paths at once. Establish priorities for objectives that relate and link directly to the strategy.

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First, discuss and establish the relative importance of these issues to the business:

- Acquisition (if client has a small customer base),
- Growth (increase the value of the customer base – issue may be few number of transactions and/or small customer transaction size),
- Retention
- ‘Win-back’ (high churn issues)
- Operational/marketing efficiencies

For instance, if you want to increase efficiency, you could use the Teradata CRM Response Modeling module to limit campaign scope to only customers most likely to respond, thus to better target. If using a mail or telephone communication channel, this would reduce campaign costs. Note that using response modeling, when used to increase response rate to the same mail size by better targeting, is consistent with Growth objectives.

By the end of this first process, there should be consensus on the business focus of CRM. For purposes of this paper, let’s just assume it is going to be “80% growth, 10% acquisition, 10% retention.”

Okay, we have set the high-level objectives. Now what?

The next “session” or series of sessions begins Phase Two. This is a ‘brainstorming’ forum intended to ***identify best opportunities to achieve objectives.*** There are many ways and opportunities to achieve objectives – your goal is to find ***the best*** opportunities. Also you need to determine the number of opportunities. For the purposes of this discussion, assume TEN opportunities.

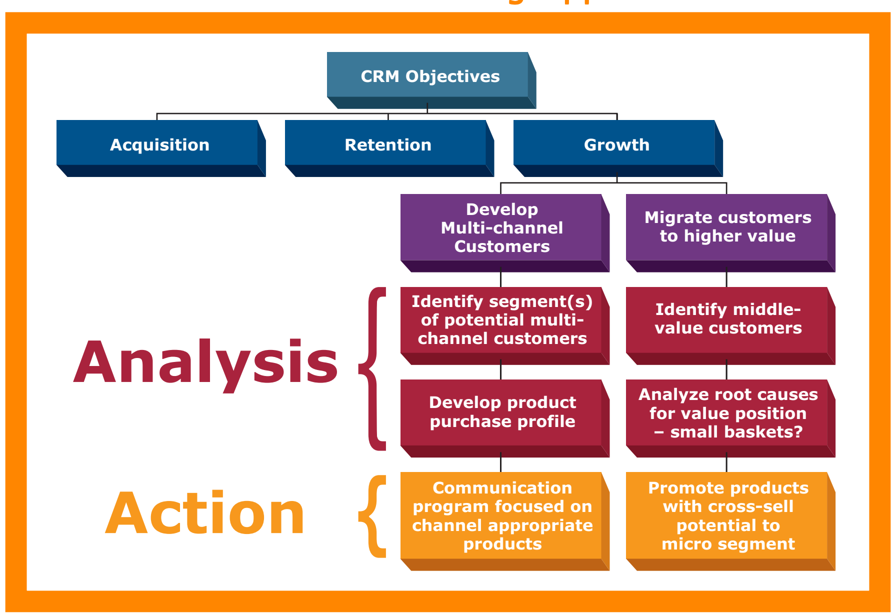
Who needs to be present? Assemble the business/client marketing team. Set the course by reinforcing the strategic focus of CRM. Discuss “where we are, where we are going, and how we have agreed we will get there.”

Set out some possible opportunities, proportional to the strategic objectives … 80% growth, 10% acquisition, 10% retention. We are focused on the ***Growth*** objective as a high priority. Evaluate possible opportunities to grow. One way to do this, for instance, would be to migrate medium value tier customers to a higher value tier by increasing the number of products they own.

There are several ways to do this. For example, move a targeted segment to multiple purchasing channels, which has proven a good way to increase spending. This extends the amount of time and ways customers can ‘shop’ and increases the number of trips to the store or touch point.

Our examples may refer loosely to the retail industry, but this process can be applied to any industry.

Define Mechanisms for Realizing Opportunities



The outcome of this phase is to identify and create a credible portfolio of opportunities – let’s say ten, proportional to the number of objectives. So, if your plan was 80% growth, 10% acquisition, 10% retention, then your team must identify 10 opportunities with growth as the key goal. Thus you have eight opportunities pertaining to growth, one for acquisition and one for retention. And each of these opportunities must be evaluated for credibility and impact through analytical CRM tools.

The next series of sessions, referred to here as “Phase Three” has two dimensions: ***Analysis*** and ***Action***. This is where the real work is. For purposes of example, in the paper, we describe how this is done using the CRM tool to do analytical tasks aimed at helping your company realize the best possible opportunities. Who should be present for phase three? Marketing tool users, CRM analysts, and professional services people who may assist.

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Let's assume we want to do analysis to explore the opportunity of **'MIGRATING CUSTOMERS UPWARD'** in the value chain. We then will need to identify middle value customers – and explore root causes for the value position of those segments … with the goal of determining exactly which customer segment(s) should be migrated.

Once we have analyzed each opportunity and have agreed upon the ten we will pursue, then we will be ready for the **ACTION** dimension, which is beyond the scope of this discussion. The Action dimension refers to our communication tactics – say, with a focus on channel appropriate products with cross-sell potential, if that is determined to be a valid opportunity. Although we don't discuss specific actions, it is important to consider whether reasonable action plans can be identified.

Assuming we want to explore the viability of **MIGRATING CUSTOMERS UPWARD** in the value chain, we might begin by running a ***Percentile Analysis*** (Teradata CRM module) on the customer base. If using Teradata CRM, you would:

- Use 'order by' a measure of value such as 'spending'
- Use 'group by' as number of customers
- Choose numbers of groups – for instance, five – (because it's good practice to work with groups of 20-20-20-20-20)
- Time frame for analysis would be 12 months' spending

Analyze the root causes for your strategic segments respective value positions.

Then, go ahead and let the tool work – run the numbers. When the results come back, we now have a way of identifying mid-level customers – who can grow. We have identified segments that may be migrated upward.

These results will show your customer spending in 20% buckets. Save the top 20% as a new target segment for later use. This top 20% segment is used as a basis for comparison in further analyses. Also save the second 20% as a new segment. Consider members of this group good candidates for customer migration.[1] For analyses described later in this paper, also save the other three value groups as three additional target segments.

Let's assume for purposes of this paper that the business has one million total customers. This means we have 200,000 in the top 20% and 200,000 customers in the 2nd tier customer segment, and so on.

Next, start to analyze the root causes for your segments' respective value positions. Look at the results of the Percentile Analysis. Look at the medium value customers, the second 20% - at the average number of transactions/trips PLUS average transaction/basket size. Compare it to the top 20% - what do you see? In some cases, the number of transactions/trips are comparable, but basket/transaction size is smaller, or the basket size is same but with fewer number of transactions/trips.

Think about it this way: Maybe medium value customers don't make as many trips – or conduct as many transactions … as high-value customers. Alternatively, they have as many transactions, but those transactions are smaller. We thus learn the dynamics of the medium value customer, and this suggests how to influence behavior – to achieve some growth in value … for this example, by increasing the number of transactions.

You can also run a ***Product/Affinity Analysis*** to ascertain what's different about products that medium value customers own vs. high-value customers. The goal is to look at cross sell opportunities. You would do this by running separate analyses on the Top 20% segment and the Medium value segment that you created from the Percentile Analysis.

You would compare medium value to high-value customers. Ask: "Do medium value customers purchase and own different products than high-value customers?" Also consider: "Which if any products seem to be preferred by high-value customers – and how do you motivate medium value customers to become high-value customers? " There may be cross-sell opportunities associated with some products that can be used to do this.

If the analytical CRM tool is mapped to each customer's length of time (tenure) as a customer, you might find patterns of tenure by doing 'quick counts' in the Teradata CRM ***Segmentation Module***.

Use the ***Customer Behavior*** analysis module to identify whether the medium value customers are short tenure or long tenure. Rather than the current one-year time period, you might look at prior year or two prior years.

1 Note that in some cases, you may want to use the next 30% or 40% as the "Migration" segment.

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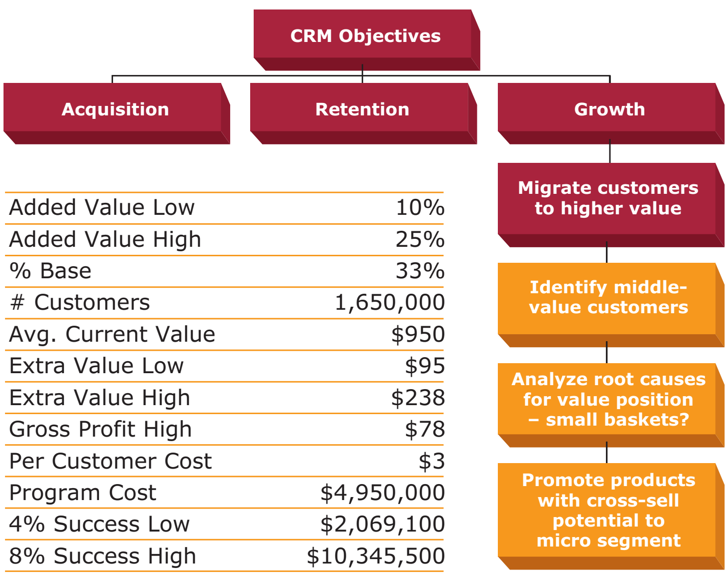
Once you have identified all of the opportunities, you are ready to move into *action*.

Again, use your 'medium value' (second 20% tier) customers as your target segment. For purposes of the CRM software, use a 'quarterly' measure of value, because it's not how often they shop but how long they've been customers. Then, compare that to high-value customers. Run the analysis. What you will see is how many customers in each group were active in any given quarter.

You might run an additional ***Percentile Analysis*** on medium value customers and look at changes from the previous year to learn if they migrated down or up. Now we have a new Percentile Analysis in five groups. Be sure to note the 'average value overall' – current vs. prior year. You are looking for patterns of migration in the past.

Quantify and Prioritize Opportunities



Added Value Low	10%
Added Value High	25%
% Base	33%
# Customers	1,650,000
Avg. Current Value	$950
Extra Value Low	$95
Extra Value High	$238
Gross Profit High	$78
Per Customer Cost	$3
Program Cost	$4,950,000
4% Success Low	$2,069,100
8% Success High	$10,345,500

The objective, again, is to accelerate the growth of medium-value customers into higher value. This leads you to consider another possibility: perhaps some medium value customers have migrated down, and were once high-value customers.

Another possibility is to analyze the segments using the Teradata CRM tool known as ***Cross Segment Analysis.*** For the rows, use each of five target segments saved in the original ***Percentile Analysis***. For the columns, use product categories (purchases in key product bundles during current year).

Measures include: spending, customer counts, and number of transactions. Why? We know their spending is similar but are their product purchasing patterns are different. Ask: Do certain product bundles link to customers moving up in value?

There are many types of analysis you can conduct; the ones here are just a few for the purpose of illustration. However, at the end of the sessions, based on your analysis, you should be able to estimate how much ROI can be achieved by pursuing this objective. This would be stated as a percentage increase in spending.

Assume, for instance, that a high value customer spends 2,000/year, and that a medium value customer spends 1,000/year. Based on these figures you can estimate how much value your efforts could add, (probably not enough to move them to high-value tier immediately but maybe a 10-25% increase in value) – so for instance, assume a 10-25% increase, per the spreadsheet on the slide.[2]

ROI can also be calculated by starting with a percentage of customers and spending levels – then adding a 10-25% increase in value. You project the value (see spreadsheet) and look at the average profit margins on the new value. Plus, add the 'per-customer' cost of implementation 'times' number of customers to arrive at the total program cost.[3]

Next, calculate gross profit ***TIMES*** number of customers ***TIMES*** success rate ***MINUS*** program costs . . . and you get the numbers for ROI. Success rate takes into consideration the fact that the CRM efforts will not be successful for all targeted customers. CRM success rates vary greatly according to the industry, type of marketing effort,

2 Note that marketing research studies may provide additional insights into what constitutes a reasonable percentage increase in value.

3 This is where some thought will have to be given as to what marketing actions will be taken.

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communication channel used, and offer. The result will be a high and low estimate of how much you can make on each opportunity. Then you apply the same analyses to evaluate all/other ROI opportunities.

In our example, we looked at numbers related to example value migration and spending patterns. Your group can draw conclusions and plan your communications based on new analytical intelligence and insights you generate. Again, once you have identified this and all other opportunities, you are ready to move into the **ACTION** dimension of the process – and develop communications plans.

Next, select clear measures of success

Companies often make the big mistake of failing to set up measurement processes – and this makes it extremely difficult, or even impossible, to know how far you have gone – how much you have accomplished.

After doing the analytical exercises and identifying the ten best opportunities to achieve your objectives, you will need to establish metrics to measure your success. These might include such measures as increases in:

- Average customer value
- Average number of products owned by customer
- Average market basket size
- Average number of transactions
- Average profit of a customer
- Customer retention rate
- Customer acquisition rate

The metrics you choose should be aligned to your stated objectives, in other words acquisition, growth, retention, marketing efficiencies. They should also be consistent with the identified opportunities, as analyzed, such as 'increase market basket size, or increase number of transactions.'

Next you need to set up ***processes*** to measure your ROI on CRM. Based on the metrics that you have established around the key customer segments you have identified, you need to set up baselines – reference points – criteria, for evaluating your success.

Set up baselines by documenting where you are today. Gather the statistics on key strategic customer segments you have identified, in areas such as:

– Total sales, number of products or services sold, number of transactions, call volume, gross margin, cost of servicing, length of tenure, average value of transaction, average customer lifetime value, customer equity, and others, as appropriate to the business and strategic objectives.

Use control groups to make sure CRM activities have caused changes

The key question is **"HOW DO YOU KNOW"**? Let's say you reported 20% value growth among your medium tier customers. How do you KNOW that your CRM actions caused or drove the significant improvement?

You need a measurement system to verify that improvements are the result of your efforts. Thus you set up 'control' groups – randomly selected sub-segments of each target segment that do not receive the communications, offers, or messages of the main segment. You then compare the outcomes from your targeted segments to the non-targeted 'control' groups so that the differences can provide evidence.

There are three types of control groups used to measure the impact of CRM on a company's ROI: communication, marketing program, and global control groups. In addition to being sound marketing science, setting these groups up must be done to prove that your efforts – and the company investment in CRM – are delivering ROI – and how much ROI.

Communication control groups provide a reality check in communications campaigns by validating whether or not a message or offer achieved its goals. For example, a

Control groups provide a reality check in communications campaigns by indicating whether or not a message or offer achieved its goals.

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The following charts can serve as examples of areas a company might use to evaluate the performance of CRM – and it's impact on overall company business performance over time.

Example of How CRM Drives Performance

	Measures	Year end 3/31/2001	Year end 3/31/2000
Captured by TD CRM Solution	Number of Campaigns	285	147
	Number of Targeted Customers	11,873,000	9,379,670
	Average # Contacts / Customer	720	290
	Number of Contacts	85,500,000	27,195,000
	Cost of Contact	$1.85	$1.31
	Number of Responses	6,840,000	1,305,360
	Cost of Response	$23.13	$27.29
	Average Value of Response	$114	$93
Derived by TD CRM Reporting Framework	Revenue from CRM Campaigns	$779,760,000	$121,398,480
	Gross Margin CRM Campaigns	$218c332,800	$34,112,973
	Total Campaign Costs	$158,175,000	$35,625,450
	Direct Campaign ROI	$60,157,800	($1,512,477)
	Total Revenue from Targeted Customers	$1,575,251,000	$615,707,089
	Gross Margin from Targeted Customers	$441,070,280	$173,013,692
	Other CRM Costs	$15,000,000	$4,000,000
	Total ROI from CRM Activities	$267,895,280	$133,388,242
	% Change in CRM-Related ROI	**101%**	
Extrapolated from all DW Information	Total Customers on Database	16,384,740	14,538,489
	% Customers Targeted	72%	65%
	Total Customer Revenue	$1,642,927,100	$724,042,278
	Total Gross Margin	$460,019,588	$204,903,965
	Mass Marketing Costs	$85,000,000	$57,000,000
	Other Costs	$65,000,000	$28,500,000
	Total ROI	$310,019,588	$119,403,965
	% Total ROI from CRM Activities	**86.41%**	

ROI by Strategic CRM Objective

Customer Acquisition 25% of Budget	Cost of Acquisition	$39,543,750
	Acquisition Rate	2.14%
	# Acquired Customers	457,425
	Initial Value of Acquired Customers	$102
	Life-to-Date Value of Acquired Customers	$128
	ROI (Direct) on Customer Acquisition	$7,113,600
	ROI (LTD) on Customer Acquisition	**$19,006,650**
Customer Retention 40% of Budget	Cost of Retention	$63,270,000
	% Customers Targeted for Retention	29.4%
	# Customers Targeted for Retention	4275,000
	Retention Rate (On Targeted Customers)	58.8%
	# Customers Retained	2,513,700
	Retained Customer Value (Direct)	$296,616,600
	Lost Customer Value	$144,426,600
	Life-to-Date Value of Retained Customers	$625,861,026
	ROI (Direct) on Customer Retention	**$233,346,600**
Customer Growth 35% of Budget	Cost of Growing Customers	$55,361,250
	% Customers Targeted for Growth	20.58%
	# Customers Targeted for Growth	2,992,500
	# Customers Who Grow (On Targeted Customers	18.85%
	# Customers Who Grow	564,086
	Average % Growth	14.75%
	Value Associated with Customer Growth	$82,852,988
	ROI (Direct) on Customer Growth	**$27,435,080**

credit-marketing offer would perhaps be sent out to both high value and medium value segments. A sector or control group within each segment would NOT receive the offer, and thus you could examine new credit applications in each group and compare the results. To see if the offer is effective, each group is compared to its control group. The success of the communication is measured based on the lift in response, revenue, and / or profitability between the mailed (treated) group and its corresponding control group.

The same principle applies to marketing programs, which might be recurring. For example, a company might send out a monthly newsletter to a group of customers. However, with regard to marketing program control groups – never market to these people throughout the entire recurring campaign.

Global control groups refer to overall segment evaluation and comparisons. In other words, marketers should set aside control groups randomly created from each segment who are not targeted for campaigns, offers, or programs. These groups can help prove the effectiveness of ***ALL*** marketing/CRM activities, over an extended period of time.

Finally, it is important to set up a measurement system that separates CRM ROI from other ROI or other company measures. It is our opinion that top-line financial measures, such as stock price or PE are not good measures of CRM ROI.

The point here is simply this: you need to figure out what the components are that you will use to measure ROI on CRM alone.

Pay close attention to how CRM drives business performance

Here's a framework your company can use to view its CRM-related ROI. We offer the measures in the chart above because these are fairly standard in evaluating operational performance. However, different businesses focus on different measures. You need to decide what matters most to your business.

The information you need to evaluate CRM's contribution to your business top and bottom lines can be derived from your data warehouse. The "evaluation" involves simple mathematical calculations.

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The data represented in the top section of the chart would typically be captured by the Teradata CRM solution. As your business does its marketing with Teradata CRM, you are automatically capturing and recording all customer data from all channels – including data about the numbers of campaigns, and how customers are responding to them. Your analysts can simply use reporting tools to look at the tables and calculate the results based on your strategic objectives and measures.

In section two, measures are derived from data sets created in section one – by simple math, based on your own company business rules and formulas to determine, for example, gross margin. Or they may come from your company financial systems. Other costs for instance, may include overhead or personnel costs.

Section three is an extension of sections one and two, and extrapolated using your data warehouse.

The process for planning, delivering and measuring ROI is a science that requires discipline and consistency.

As you use CRM over time, you are affecting ***ALL*** of your customers' behavior – not just behavior immediately triggered by marketing actions. So you need to look at ***ALL*** customer behavior, over time.

Finally, all CRM performance metrics should be compared in year-over-year terms – so you can see how effective you are practicing CRM.

This chart shows information captured and calculated from the previous slide. It is arranged in terms of three fundamental CRM activities – acquiring, retaining and growing customers.

For instance, the term referred to as "Acquisition Rate" in the chart is actually your acquisition campaign "response rate."

Another example – "Customer Retention" begins with calculations of the number of customers retained . . . multiplied by the average value of each.

Customer growth is calculated by looking at how much each customer is spending plus the increase or decrease over time. Again, the key point is that the ROI figures can be derived from the CRM tables and data warehouse. (Measuring CRM-related ROI is a matter of accessing the data generated by Teradata CRM and your data warehouse.)

You should also report on the impact of CRM actions by customer segment – independent of the specific marketing programs or CRM objective. Each strategic segment is compared against its global control group to determine the overall profitability.

ROI by Strategic Customer Segment

Strategic Segment	Treated / Control	# Customers in Segment	Avg Sales $ / Customer	Gross Margin %	Trips / Customer	Avg $ / Trip	Cost / Customer	Total Cost	Gross Margin	Segment Profit
High Priority Retail	**Treated** **Control**	570,328 28.583 **Lift**	$959 $835 **$289**	34.38% 33.17%	9.73 7.38	$98.59 $113.14	$15.75	$9,108,666	$24,718,442	$15,609,776
Best Business	**Treated** **Control**	78,384 17,483 **Lift**	$2,934 $2,654 **$280**	22.37% 23,55%	18.33 17.99	$160.07 $147.53	$9.33	$731,323	$4,909,660	$4,178,338
Medium Priority Retail	**Treated** **Control**	1,285,312 45,303 **Lift**	$653 $627 **$26**	31.38% 33.84%	6.74 688	$96.88 $91,13	$3.18	$4,087,292	$10,486,604	$6,399,311
Level 2 Business	**Treated** **Control**	112,113 23,483 **Lift**	$1,833 $1,658 **$175**	20.38% 22.88%	12.33 11.88	$148.66 $139.56	$8.93	$1,001,169	$3,998,510	$2,997,341
Level 3 Business	**Treated** **Control**	194,002 30,752 **Lift**	$1,138 $1,102 **$36**	19.35% 23.11%	966 943	$117.81 $116.86	$7.33	$,422,035	$1,351,418	-$70,617
CRM Profit										**$29,114,149**

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Show Me The ROI!

Achieving ROI on CRM is about continuous refinement

Again, CRM is an ongoing process. Building customer value takes time, and your success will vary among market segments, geographic locations and other criteria, based on your objectives for each of these. CRM is a science assisted by art. There is a scientific process based on systematic and formulated knowledge. Business users need to think of their efforts in this way. Remember that customer behavior is always to some degree unpredictable. Things change. In fact your business will change – it will grow!

For lots of reasons, the format and consistency of your CRM ROI reports is critical. You need clear reports designed to accurately reflect the value of your CRM initiatives. Most standard summary reports have little use in determining overall ROI on detailed CRM activities. Companies need reports that deliver accurate, actionable information that pertains directly to the bottom line business performance.

In addition to the metrics we have mentioned here, your company will want to consider many other measures – such as that of customer equity and the corresponding ROI. The Marketing Science Institute has published a helpful article "Customer equity: ROI for marketing" (Marketing Science Institute, Fall 2000) which outlines an excellent process for determining "the total lifetime value of a firm's customer base." The article's author points out that "by analyzing customer equity, they can figure out the differentiators that matter most to customers."

Again, the process for planning delivering and measuring ROI is a science that requires discipline and consistency. Make sure you execute with discipline.

If you have been tasked to set up an ROI process for CRM, your mission is NOT impossible. Apply what we have discussed. Set up the sessions. Work with an experienced CRM analyst. Get the leadership team involved.

Again, in order for CRM technology to succeed, it must be based on a detailed understanding of how your customers contribute information and value as they interact with your business over multiple channels.

And the science of planning, delivering and measuring ROI on CRM is emerging as a critical undertaking.

A clear strategic roadmap will help ensure focused execution and credible, replicable results. You also need solid analytical CRM technology to accelerate and automate your analysis and communication processes.

Why is Teradata CRM your best choice for analytical CRM?

The company you choose to provide CRM solutions should be one with significant experience and expertise in your industry – as well as a company that knows data warehousing, data management and CRM, with top-tier clients who've realized measurable business value. And when it comes to the solution you need, it begins with customer data – the foundation of CRM. We at Teradata know which data you need, how your industry uses data, and how data differs between industries. We understand how the use and sophistication of data increases and evolves over time. We have extensive experience working with customers as their CRM business processes and needs grow. Our credibility is built around powerful and proven analytics and data management solutions that deliver superior business results.

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