

> White Paper

> **NEW VALUE FOR CUSTOMER**

RELATIONSHIP MANAGEMENT SYSTEMS

*Enterprise Incentive Management Brings Alignment and Measurement,
Broadening the Success of CRM Initiatives*



EXECUTIVE SUMMARY:

New Value for Customer Relationship Management Systems

Customer Relationship Management (CRM) systems have rapidly gained recognition as a powerful set of tools to drive customer loyalty. CRM systems offer a comprehensive approach to the way customer information is gathered and disseminated, such as purchasing and service history and buyer preferences, to help the organization and its employees better anticipate and meet customer needs. By developing a sense of customer loyalty, CRM offers the promise of maximizing the lifetime value of each and every customer for the organization.

However, CRM implementations have met with mixed success rates. At its core, CRM involves behavioral shifts for an organization's employees, forcing them to adopt a more customer-centric focus in their day-to-day activities. While CRM systems are effective at automating customer interaction processes, they often fail to drive the behavioral shift at the employee level that is needed for the organization to derive maximum benefit from their CRM implementation.

Enterprise Incentive Management (EIM) systems have emerged as an essential strategic tool to drive employee behaviors and activities in alignment with an organization's CRM goals. Employees are much more likely to adopt the organizations' customer relationship initiatives when properly motivated by well-designed, accurately calculated, and frequently communicated incentives. The result: increased corporate alignment, greater productivity, mutually beneficial customer relationships, and ultimately, increased revenues and profitability for the organization.

A TRANSACTION – OR A RELATIONSHIP?

At its fundamental best, sales involve much more than merely the sterile exchange of goods and services for monetary compensation. That dynamic offers no enduring reason for the buyer to return and make repeat purchases. Instead, sellers are feverishly working to establish, maintain, and extend relationships with customers. A relationship-driven sales model works well on a relatively smaller scale, but there is a practical limit to the number of account relationships a sales rep can manage on a personal level. How can an enterprise of thousands of employees have that kind of intimate customer knowledge about thousands of customers? How can you scale customer relationships?

In business contexts, Customer Relationship Management (CRM) systems have arisen to help provide technology, methodology, and process to systematize the establishment and growth of stronger relationships with customers. These solutions provide centralized repositories of comprehensive customer account information, arming employees with the latest details to strengthen relationships and maximize cross-selling and upselling opportunities. The result: increased customer loyalty and customer lifetime value.

With CRM, a sale evolves from a discrete transaction with a salesperson into an ongoing process that involves the sum total of customer interactions – “touchpoints” – with numerous people throughout both the buying and the selling organizations.

Although CRM can be loosely defined as an integrated blend of Sales Force Automation and customer call center management, there is peril in this simplistic definition. If companies deploy CRM as a “sales” tool (seeking solely to maximize short-term revenue) instead of a “customer” tool (seeking long-term customer satisfaction), it is destined to fall short of its objectives. Instead, CRM is a people-driven process supported by technology and knowledge that leverages and strengthens customer relationships to improve sales and service processes and ultimately, increase profitability.

CRM BARRIERS: ALIGNMENT, ADOPTION

Implemented well, CRM systems can have numerous, far-reaching benefits across the enterprise. Users can combine sales and service transactions with rich content, extend the borders of their enterprise, extend the hours of availability through self-service, and – most importantly – collaborate more effectively with customers and partners for increased customer satisfaction.

However, significant hurdles remain:

CRM DEFINED

From CRM.ITToolbox.com:

Customer relationship management, or CRM, is an information technology industry term for methodologies, strategies, software, and other Web-based capabilities that help an enterprise organize and manage customer relationships. For example, if a marketing department runs an outbound campaign, all of the information about the customers and the program should be retained for the sales staff to follow up on, the customer service representatives to answer any queries, and technical support to provide any field support. The idea is to have the same information available to all in the company so that every product or service need of the customer is met. CRM implies that everyone in the enterprise is focused on the customer.¹

From CFO Magazine:

“Several companies are turning to customer-relationship management systems and strategies to gain a better understanding of their customers’ wants and needs. Used in association with data warehousing, data mining, call centers and other intelligence-based applications, CRM allows companies to gather and access information about customers’ buying histories, preferences, complaints, and other data so they can better anticipate what customers will want. The goal is to instill greater customer loyalty.”²

¹ Mandeep Khera. “Customer Relationship Management – Beyond the Buzz.” ITtoolbox CRM. <http://www.crmassist.com/documents/document.asp?i=430>

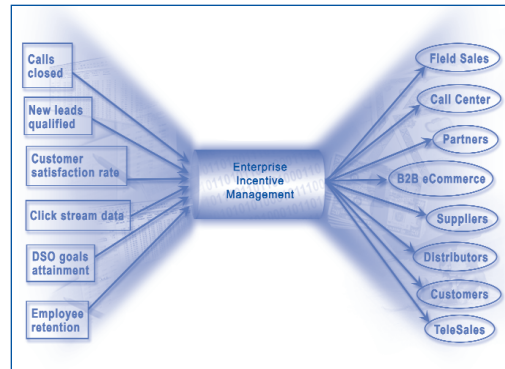
² Bronwyn Fryer. “SO HAPPY TOGETHER.” CFO Magazine, June 1999.

Misalignment Between CRM Goals and Employee Activities – The “Fail Faster” Approach – CRM needs to streamline and automate the *right* processes – the strategic initiatives and activities that are not only customer-centric but also *profit-optimizing*. If your sales rep receives commissions to sell the Acme 100 product, CRM will help him sell more Acme 100s more efficiently. But what if the Acme 100 isn't what he should be selling to benefit the company's bottom line? Unfortunately, the power of CRM can also be applied incorrectly, enabling you to “fail faster” if your activities are not aligned with corporate objectives. This is especially true in instances where corporate strategy is constantly shifting. New strategic goals that fail to “filter down” to the tactical level can create dramatic disconnects between actions and objectives.

“Big Brother” Effect – Given the massive amounts of data they collect and aggregate, CRM systems can give many employees pause. For example, by requiring a sales representative to enter each sales call, visit, and meeting, a CRM system can make the rep feel like he is being overly burdened and scrutinized. Or a CRM system that tracks the times and lengths of calls into a call center can unintentionally place greater pressure on service reps to end calls more quickly, resulting in lower, instead of higher, levels of customer satisfaction. However, by tying incentives to those activities – the right activities – CRM can be a catalyst for more productive and more effective customer relationships.

Usability – CRM systems can embody levels of complexity far greater than anything large numbers of employees are used to – or trained for. Absent a strong motivation to learn and use the CRM system, these applications can be adopted unevenly across the enterprise, limiting their benefits to the corporation. For example, if the sales team is using CRM, but the services team is not, information flows are inconsistent and customer service/satisfaction suffers greatly. If a sales rep calls a customer who is currently experiencing technical issues or billing problems, the customer's dissatisfaction can increase significantly – simply because the sales rep didn't know the current status of the account.

The only way to succeed: establish goals that you can measure and manage.



Enterprise Incentive Management enables companies to manage any metric for any plan.

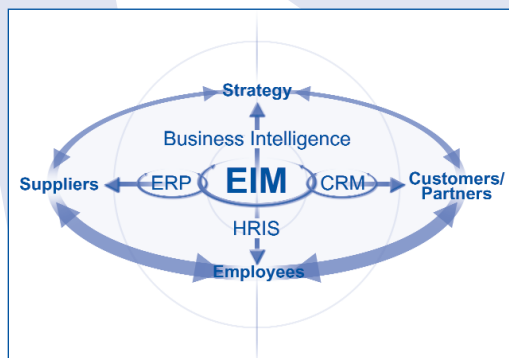
THE IMPORTANCE OF METRICS

Given that the most effective implementations of CRM are those that are fully utilized by all users with shared goals, enterprises deploying CRM solutions must overcome adoption and alignment challenges. As a result, new-breed Enterprise Incentive Management (EIM) systems are rapidly becoming a popular complement to CRM implementations.

What is EIM? It's a rapidly growing class of software solutions that enable companies to implement, track, and manage performance-based incentive compensation plans for broader employee populations and partners. With EIM, you create incentive compensation plans for different groups of employees that reflect not only their individual job responsibilities, but also larger corporate goals. In classic terms, a sales rep receives incentive compensation based on his sales quota. But there are numerous other line-of-sight compensation scenarios to consider:

- > A customer service rep's bonus is tied to customer satisfaction surveys and rankings
- > The shipping department receives a quarterly bonus if it exceeds a threshold of accurately picked/packed shipments
- > A telesales rep receives a special bonus for “upselling” transactions
- > A marketing manager's compensation is tied to product profitability

- > Manufacturing department bonuses are based on quality and defect rates
- > Even the classic direct-sales rep plan can be modified to focus on specific products, sales-cycle lengths, or sales profitability.



*“Alignment is the essence of management,”
Fred Smith, Chairman, Federal Express.*

ALIGNING ACTIONS WITH CORPORATE INITIATIVES

Crafted properly, the incentive plan is a powerful and unambiguous motivator. These plans are critical – but the automation and communication of these plans are imperative to their ultimate success. With a sophisticated incentive management foundation, senior managers can implement and fine tune granular incentive and commission plans – so that they reflect the overall corporate strategy. Now, they can use the right incentives for the right employees. Profitability might not be the right metric for an accounts receivable clerk, but days sales outstanding (DSO) certainly would be.

EIM/CRM integration provides a powerful motivational tool that allows companies to pursue the most profitable activities and planned goals more efficiently. Integrating CRM with EIM enables you to further motivate your employees to achieve those goals and gives you the ability to track their performance. With CRM, sales reps see only who

the hottest prospects are. But with CRM and EIM, they can also see which product lines they should sell to maximize their commissions. And with customizable, adaptable plans, managers can adjust the plans as objectives change.

Ideal For Change Management

This can be especially relevant and important during those phases where companies are shifting their strategies. It's a given that when a fundamental shift in a business model is undertaken, the biggest challenge lies in changing the behaviors of the people in the organization to adopt new processes or pursue new goals. They're used to doing business in a certain way. For example, without powerful inducements to change how they deal with customers, the strategy can fail because of a lack of tactical support throughout the organization. EIM and CRM integration reduces or eliminates this effect because it communicates to employees where they should direct their activities for greatest personal financial gain.

EIM: THE LINK BETWEEN CORPORATE VISION AND CORPORATE PERFORMANCE

The nexus of EIM and CRM offers strategic benefits to enterprises that tie employee performance metrics with adoption and aligned use of CRM applications. The management truism goes even further: what's measured is managed and what's rewarded gets done. From an integration perspective, the CRM system provides the necessary transactional data that populates the EIM system. CRM solutions feed statistics on all of the “relationship metrics” to the EIM solution for streamlined rewarding of value-chain activity. For example, customer satisfaction statistics, prospecting activities, or other metrics from the CRM system could trigger incentive-compensation calculations in the EIM system. It is the integrated link that makes this possible – and the stronger that link, the stronger the result.

Getting salespeople to meet their performance targets by selling the right products and services to the right customers is the core challenge sales managers face in trying to increase revenue and attain profit objectives. A key weapon at the sales manager's disposal is the sales compensation plan. When designed and implemented correctly, the “comp plan” will drive sales forces to sell in the best interests of the enterprise and themselves.

Gartner, “Supercharge the Sales Effort: Sales Applications for Large Enterprises,” September 2001.

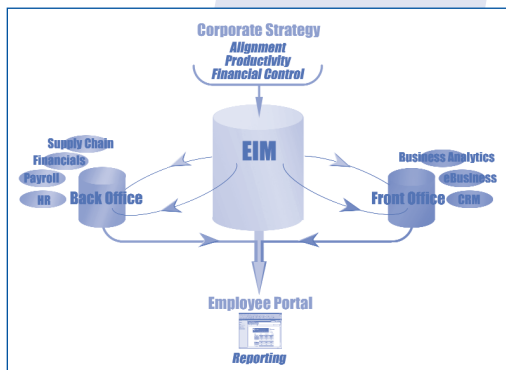
EIM delivers numerous added-value benefits to CRM systems, including:

Alignment – CRM helps you do more in less time. But what if it's more of the “wrong” things? A well-designed compensation plan dovetails neatly with strategic objectives. Activities are aligned with goals and employee efforts get directed to the objectives your company wants to achieve.

Increased Performance – EIM has a “turbo-charging” effect on CRM systems. Properly directed and motivated by EIM, CRM users face fewer distractions, fewer missteps, and greater incentive to perform the tasks and processes you have determined are best for the company. That means increased performance against the measures you have defined.

Improved Communication – For CRM users, EIM provides the sometimes-absent motivation to spur correct usage of the enterprise CRM system. Users can sign on, complete their job-related tasks, and see the compensatory results in reports – right from their CRM desktop. They know instantly if they're doing the things that the company values most.

An integrated EIM/CRM solution creates a well-orchestrated customer-oriented team by rewarding employees based on clearly communicated performance metrics. EIM increases CRM effectiveness by linking the overall integrated system to each individual's personal success. While employees reap the rewards of performance-based pay, the company ensures the success of its CRM initiatives by keeping employees aligned with enterprise-wide goals. This approach leads to greater customer loyalty, lifetime customer value and satisfaction, and thus, higher corporate profitability.



EIM bridges front-and back-office applications enabling organizations to increase communication and corporate alignment.

What's measured is managed and what's rewarded gets done.

THE COMBINED SOLUTION IN ACTION: AN ILLUSTRATIVE SCENARIO

A Fortune 100 high-tech hardware manufacturer encountered a significant challenge – one that its CEO had to publicly acknowledge when its misaligned compensation plans drove the wrong outcome. Instead of tying goals to the most-desired activities (i.e. sales of high-margin products), the company's CRM system offered no incentive compensation dimension, simply presenting the hottest sales prospects.

The sales force – naturally driven to sell products in the easiest fashion possible to achieve personal quotas – focused on products with the shortest sales cycles, which happened to be the company's lowest-margin products. As a result, although revenue targets were met, company earnings suffered. Only after the company's management re-calibrated its compensation plans to reflect product profit margin – by developing and evaluating multiple models and integrating its plans with the CRM system – did the company's sales reps focus on what the company needed most. With an integrated EIM/CRM solution, sales reps can identify their hottest prospects, as well as the optimal product mix to sell, and understand the incentives associated with pursuing those prospects.

GETTING IN ALIGNMENT

Through an incentive foundation, the EIM/CRM solution helps companies avoid costly errors by automating the planning, modeling, management, and communication of incentive compensation plans, enabling them to reward employees who perform *in alignment* with the corporate strategy and goals. It empowers the company and its sales channels to adapt to dynamic business environments. The solution can also measure and reward any business activity, whether it's meeting the target percentages of an increasingly complex compensation plan or reaching the simple volume-based metrics of Web site hits.

What's more, EIM/CRM integration accommodates cash and non-cash incentives – such as bonuses, distributor discounts on company products, travel rewards, recognition, and more – allowing companies to develop highly creative plans for all members of the extended enterprise. By rewarding all facets of the customer-facing process – from sales to services – the company encourages stronger, deeper adoption of an aligned CRM system. The results: improved execution of company strategies, attainment of CRM goals, and increased system usage. Ultimately, that translates into increased productivity, increased customer satisfaction, decreased support expenses, greater corporate alignment, and increased revenue and profitability.

THE FUTURE OF CRM AND EIM

EIM is defined by enterprise applications that transform incentive compensation into a strategic tool to align and motivate people, partners, and channels across the extended enterprise. Identified by AMR Research as one of the “Top 12 Hot New

Application Markets,” the EIM software market is expected to grow rapidly, with a five-year CAGR of 91 percent. EIM solutions that integrate with CRM will bring new value to CRM customers by providing them with the most effective tools to achieve their corporate goals.

The benefits of this integration of CRM and EIM are sweeping and significant. Companies can carefully designate what activities that they want each employee to perform. The specific tasks that employees perform can be measured and the results tracked. And employees have a far clearer picture of their company's expectations for their own performance – as well as a clear picture of how their activities are aligning with company goals. The blinders are removed. The communication channel – incentives for desired activities – is unambiguously clear.

BEHAVIORAL INCENTIVES SHOULD BE PART OF EVERY CRM PROJECT PLAN

As with any project, the first step in a CRM project should be defining the desired outcome. This crucial step will affect everything from the choice of technology to the makeup of the project team. The next step is determining how to measure changes to this desired outcome. An often-overlooked step is determining how to encourage affected employees to change their habitual behavior to maximize improvement of customer service as well as to adopt the new technology. Incentives don't have to be expensive, but they do need to be administered fairly. Incentive Systems of Bedford, Massachusetts, offers one solution that can make designing and administering both monetary and non-monetary incentives almost a pleasure.

The Hurwitz Take

Each week at Hurwitz Group we see a parade of vendors with ideas on how to make a company's reluctant sales force use an SFA (sales force automation) software package or monitor call center personnel to ensure they are taking the right number of calls or using the proper upsell techniques. These vendors are often applying a complex answer to a problem with a simple solution. It is a management given that what gets measured gets improved and what gets rewarded improves the most. If a company wants to ensure that its CRM implementation isn't classified as “a failure,” it should measure and reward behavior that leads to success. Eventually, the market will catch on and CRM vendors will provide customers and prospects with not only the clear “value proposition” for their products, but also include the metrics right in their packages. The really forward-thinking vendors will further ensure their customer's success by including a solution like Incentive Systems, to ensure that their customers don't become one of those fuzzily defined failures.

Hurwitz TrendWatch

Hurwitz Group, August 2, 2001



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> ABOUT INCENTIVE SYSTEMS

Incentive Systems is the leading provider of Enterprise Incentive Management (EIM) software and services. Using Incentive's flexible, best-of-breed incentive compensation solution, customers can strategically align their people and partners with changing company goals. Through its detailed modeling component, management of accurate incentive payments, and Web-based compensation reporting tools, Incentive drives performance and profitability by providing organizations the power to motivate.