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RESEARCH REPORT D6 | FOR USE WITH NUCLEUS FINANCIAL MODELING TOOL D6W

ROI Evaluation Report: Microsoft Business Solutions CRM

THE BOTTOM LINE

Organizations can use Microsoft Business Solutions CRM (Microsoft CRM) to improve the performance of sales and customer service teams and to simplify the management of those teams. Because of its relatively low cost and its tight integration with Microsoft Outlook, Microsoft CRM will appeal most to small and medium-sized businesses that hope to deploy an inexpensive, user-friendly solution.

KEY RETURN AREAS

- Increased staff productivity
- Increased profits on sales
- Reduced personnel costs
- Reduced marketing costs
- Reduced integration costs
- Reduced consulting costs
- Reduced training costs

Microsoft Corporation, drawing on experience and technology gained through its acquisition of small enterprise software leader Great Plains in April 2001, has developed a CRM package targeted at small and medium-sized businesses. This new product, Microsoft Business Solutions CRM, provides a broad set of tools and capabilities designed to aid companies' sales and customer service efforts. Microsoft's CRM suite comprises two distinct applications, which customers can buy together or separately:

- **Microsoft Business Solutions CRM Sales Standard.** CRM Sales Standard provides basic features like calendaring, search, account and task management, report generation, and e-mail management. It also supplies sales-specific components to help manage leads, opportunities, and territories. To that basic core of services, CRM Sales Professional adds applications that support activities such as quote, order, and invoice generation, workflow definition, quota programs, and product catalog management.
- **Microsoft Business Solutions CRM Customer Service.** The standard version of this product gives users a feature-set much like the Sales Standard package, replacing the sales extras with service-oriented features for recording service requests, managing cases, queuing cases, and managing a knowledgebase. The professional edition supplies more robust email-management capabilities, supports case routing and workflow definition, and also includes the product catalog.

Microsoft CRM Integration is a separate component, based on the Microsoft BizTalk Server 2002 Partner Edition, that allows developers to establish links with Microsoft Business Solutions software and with third-party applications. It is free to owners of CRM Sales Professional. Microsoft plans to ship the general-release version of Microsoft CRM in the first quarter of 2003, with Microsoft Business Solutions CRM Integration to follow soon after.

All pieces of the Microsoft CRM suite depend on an environment of Microsoft products and applications, including Microsoft SQL Server, Exchange Server, and Active Directory. End users of CRM Sales can work either in the Microsoft's Outlook client or in a reasonably intuitive Web interface; the CRM Service product relies solely on the Web interface.

Companies considering a Microsoft CRM deployment can expect to achieve their greatest benefits through their utilization of the following areas of functionality:

- **Sales lead and client record management.** Salespeople can collect leads routed to them from various sources, track prospects from initiation to sale, and maintain information about existing client relationships.
- **Customer service case management.** Customer support staff can view client account records to determine appropriate

service levels, and then track cases from complaint to resolution according to company rules.

- **Performance and forecast reporting.** Sales managers can keep tabs on the sales pipeline and can compare success rates across reps, regions, products, or clients. Customer service managers can view open trouble tickets or employees' time-to-response patterns.
- **Process definition and management.** Managers can establish forms, workflow rules, and escalation paths all in accordance with company terminology and protocols.

Microsoft enters a CRM market that has changed significantly since the late 1980s and early '90s, when companies like Clarify, Vantive, and Siebel first began selling software to support sales and customer service efforts. Over the past decade, vendors have expanded their suites beyond basic sales and customer service features to include functions like data analysis and marketing automation. The evolution of the Internet and wireless technologies has forced vendors to accommodate these as new channels for customer interaction and as new means of access for sales and service teams. Meanwhile, several new vendors — the likes of Kana, eGain, and Talisma — have seized on these developments as opportunities to join the CRM fray.

To large enterprises familiar with today's CRM landscape, the Microsoft CRM suite will seem comparatively simple. The current product awaits third-party support for features that have become standard in many enterprise CRM solutions, like computer telephony solutions and customer self-service. There's a reason for this simplicity: Microsoft is targeting small and medium-sized businesses. Most of these organizations can easily get by with only lightweight support for marketing automation and without a wireless interface for field support users.

Microsoft isn't the only software provider interested in a cut of the middle-market pie. Salesforce.com, SalesLogix, and UpShot have already been selling CRM solutions made to fit companies that need only a handful or just a few dozen seats. The challenging economic climate and increased competition at the small business and enterprise levels have also drawn challengers from below and from above. Shrink-wrapped software veterans like ACT! and Goldmine, whose users tend to work alone or in very small businesses, aspire to grow by serving slightly larger companies and workgroups. At the high end, with large-enterprise spending on CRM in stasis, companies like Onyx, PeopleSoft, and even mammoth Siebel look increasingly to the middle market as a potential refuge. Why the rush? Everyone sees an opportunity to unseat the middle market's leading CRM "vendor": homegrown applications based on popular databases.

Microsoft CRM will enjoy competitive advantages over each group of CRM contestants. Vendors that have heretofore focused on large enterprises will struggle to produce a turnkey solution for IT-constrained

and budget-conscious middle-market companies. By contrast, Microsoft planned from the outset to build and price its solution for this market. The lower cost of ownership creates the potential for greater ROI. The smaller vendors, meanwhile, will not find it easy to match Microsoft CRM's combination of usability, functionality, and deployment flexibility. Microsoft's solution allows users to work in the Outlook client — which can be taken off line — or a Web interface, whereas the others either integrate more weakly with Outlook, if at all, lack a Web interface, or provide nothing but a Web interface. As a result, Microsoft offers the potential for greater productivity gains and, consequently, greater ROI.

This report explores the costs and benefits associated with a Microsoft CRM deployment. The associated Nucleus Research financial modeling tool can be used to calculate the ROI, TCO, payback, and risk of a Microsoft CRM deployment in a specific user environment.

KEY BENEFIT AREAS

In studying Microsoft CRM, Nucleus has identified four key benefit areas within which organizations are most likely to find lowered costs and enhanced returns: improved sales performance and management, improved customer service operation and management, improved information analysis for decision making, and improved technology management. Specific calculations for the returns associated with each benefit area should be entered into the financial modeling tool tied to this report.

Improved Sales Performance and Management

CRM applications promise to solve problems that many sales teams face as they grow: Rolodexes and spreadsheets have become inadequate for the volume of leads required to make quotas, individual reps unwittingly pursue the same leads — but use different sales methodologies — and managers struggle to control and coordinate team efforts. For companies plagued by problems like these, Microsoft CRM provides tools for sales forces that can enable them to do their jobs more efficiently and more effectively.

A number of features within Microsoft CRM offer potential productivity gains to sales teams. The contact manager enables salespeople to find and update contact information more easily than they could with a system based on paper or simple desktop spreadsheet. Easy access to the entire history of interactions with a given contact or client also reduces the odds that salespeople will make a call that they, or someone else, have already made — rework that not only wastes time but also erodes customer trust. Automated lead routing helps inside sales staff hand off qualified leads much more quickly.

The off-line capability of the Outlook client lets outside sales recoup hours of productivity formerly lost to travel time. Optional integration with Microsoft Financials further enables quick quote generation and inventory verification. Changes like these all reduce

the cost of selling and contribute to the ROI from a Microsoft CRM deployment.

Sales managers can realize their own productivity gains. Microsoft CRM's workflow editor and administrative tools makes it relatively easy for them to define the workflow rules and user access profiles that push leads to the right salespeople and that enforce specified sales processes. This means less time hounding sales staff, policing policies, and remedying errors — leaving more time for truly productive efforts.

To calculate the value of productivity gains, companies should identify which tasks can be accelerated, how many employees perform those tasks, and how often they perform them. Nucleus also recommends that a correction factor — 50 percent is a reasonable standard — be applied to any time-savings estimate before it is multiplied by the hourly, fully loaded cost of labor.

Microsoft CRM also introduces functionality that can help sales teams increase sales volume. Lead-tracking functionality ensures that no one unwittingly discards sales opportunities. A workflow engine that automatically passes leads to the appropriate representative as soon as they enter the system enables faster response time and thereby increases closing rates. Armed with immediate access to customer order histories, an account manager can respond on the spot when a client's purchase order falls short of established patterns — an opportunity either to point out and remedy an oversight or to reassure a recently disappointed customer.

All the while, because Microsoft CRM keeps client information close at hand, salespeople are in a position to maintain a high degree of familiarity with their customers and a high level of quality in their interactions — both of which lead to fewer lost customers and more repeat business. The total increase in sales volume will vary depending on the level of unmet market demands, the intensity of competition, and historical closing rates. In highly saturated, highly competitive markets, Nucleus advises companies not to anticipate an increase of more than 3%. For businesses with high closing rates in unsaturated markets, the impact is likely to be much greater. Returns from increased sales will depend on typical order sizes and product profit margins.

Key returns from improved sales performance and management include the following:

- Increased salesperson productivity
- Increased sales management productivity
- Decreased cost of customer acquisition
- Increased revenues (increased profits on revenues)
- Decreased administrative overhead
- Reduced employee training costs

Improved Customer Service Operation and Management

Microsoft CRM also addresses the needs of customer service departments, enabling service staff to resolve client issues with less time and effort, and helping them satisfy customers in ways that lead to repeat business and increased revenue.

Customer service teams can expect productivity gains that parallel those enjoyed by sales groups. Because the system's query and search functionality provides fast access to customer records, reps in the call center can respond more rapidly to customer concerns. A simple knowledge base helps teams leverage their shared expertise to resolve customer problems quickly. Direct access to the product catalog can likewise accelerate case resolution. Workflow rules that automate case routing not only ensure that service requests don't fall through the cracks, but also saves reps the additional time they now spend finding "the right person" to address problems that demand special expertise. Contract access helps reps determine which customers deserve higher priority and more time. Ultimately, changes like these can enable a company to serve more customers without having to increase staff, or to serve the same number of customers with a smaller staff.

Enabling service staff to give customers better answers faster can lead directly to revenue gains. Nucleus has found that the use of a solution like Microsoft CRM can boost customer renewal and repeat sales rates when coupled with effective service policies — thereby not only saving money that would have been spent to acquire new customers, but also locking in repeat customers that tend to increase their orders over time. The resulting increase in profits experienced by individual companies will vary based on the typical order size of new versus repeat customers, and on product profit margins.

Key returns from improved customer service operation and management include the following:

- Increased employee productivity
- Decreased personnel costs
- Decreased cost of sales
- Increased revenues (increased profits on revenues)
- Decreased administrative overhead
- Reduced employee training

Improved Information Analysis for Decision Making

Microsoft CRM's data analysis and reporting applications can also have a positive impact on the company's bottom line. They not only reduce the time needed to analyze data and generate reports, but can also increase profits by furnishing more accurate reports to decision-makers with greater speed.

The Crystal Enterprise tools bundled into Microsoft CRM can increase staff productivity by significantly reducing the time required to create reports. This will apply to report processes that analyze data like sales staff performance, lead generation, customer trends, and

service requests. To develop similar reports from isolated spreadsheets kept on each employee's desktop requires several more hours per report, and creates many more opportunities for errors that need to be checked and addressed through time-consuming manual efforts.

With accurate reports quickly in hand, business managers are in a position to make better, more profitable decisions. Sales directors, apprised of surges in demand for particular products, can alert salespeople to look for cross-selling opportunities. Directors can also redistribute sales staff to take advantage of spikes in regional demand. By the same token, whenever demand for a given product falters, or sales prospects shrink, managers can instruct the back office to scale back inventory replenishment and supply purchasing. Thus, companies will realize returns in the form of increased profits on sales and decreased spending on inventory.

Microsoft CRM reporting features can also help marketing groups spend less. By plotting and comparing the success rates of specific direct marketing campaigns and trade shows, marketing directors can stop paying for programs that don't pay off. The money saved becomes working capital — an opportunity to increase investments in efforts that have reliably led to new revenue in the past, or to try out new programs.

Key returns from improved information organization and access include the following:

- Reduced report creation time and administrative overhead
- Increased profits on revenues
- Reduced inventory costs
- Increase in working capital
- Reduced marketing costs

Improved Technology Management

Nucleus has found that companies investing in Microsoft CRM can also benefit from keeping costs for deployment, integration, development, and system administration lower than they would be in the absence of a CRM solution, and lower than they would be with many alternative solutions.

Companies now considering building their own solutions will find that they can save weeks — and even months, depending on project requirements — of developer time by deploying Microsoft CRM instead. This not only allows a company to shed costs, but also accelerates the deployment schedule so that returns begin to accrue sooner.

Integrating a CRM solution with Outlook or back-office financial applications can deliver significant benefits, but accomplishing these integrations often becomes an expensive endeavor. Microsoft CRM Sales Standard reduces the cost of integration by integrating with Outlook out of the box, and by supplying the Microsoft CRM

Integration Server free to companies that deploy CRM Sales Professional. The latter leverages Microsoft BizTalk Server 2002 Partner Edition so that developers can create and manage connections much more economically than through point-to-point integration efforts. Integration with Microsoft Financials is virtually automatic.

Microsoft CRM is meant to serve the needs of most medium-sized businesses out of the box and therefore may not require extensive customization. In particular, product-centric companies like resellers, retailers, and discrete manufacturers will find that the existing data models and forms are quickly adapted to their needs. Business managers can use simple configuration interfaces to add and modify fields within customer records forms and to modify workflow routing. Thus, the cost of meeting many customization requirements is no greater than a few hours of a sales director's time — far less than would be required with many alternative CRM packages or a custom-built solution.

For organizations that currently maintain a custom-built CRM application, an investment in Microsoft CRM can significantly reduce future IT development and maintenance costs. With the forms/fields editor, business users can take over work that has previously required developer time. System administrators, meanwhile, can save time by utilizing Active Directory's management console to set user profiles, passwords, and permissions; Microsoft CRM leverages these to enable single sign-on and to ensure security.

Key returns from improved technology management include the following:

- Reduced integration time and costs
- Accelerated application deployment
- Reduced IT employee training
- Increased developer productivity
- Reduced consulting costs
- Reduced system maintenance costs

KEY COST AREAS

Deploying Microsoft CRM entails a number of one-time and ongoing costs that organizations need to consider when evaluating the potential impact of an investment. Specific calculations for the expenses associated with each cost area should be entered into the financial modeling tool tied to this report. IT buyers should note that each company's costs will depend on negotiated prices; Nucleus advises that review teams not rely on list prices when calculating the estimated financial impact of a project.

Software

Organizations considering an investment in Microsoft CRM should consider the cost of Microsoft CRM Server license and maintenance fees as well as the cost of additional software needed to run the CRM Server. At a minimum, companies that need sales

functionality will have to obtain the Microsoft CRM Sales Server, and those that need service features will have to buy the Microsoft CRM Customer Service Server. Per-seat license prices will depend on corporate requirements: companies using the entire suite will pay more per seat than those using just one components, and companies that want the additional functionality of Microsoft CRM Professional will pay more than those that need only the standard feature set.

To meet key deployment requirements, organizations must own several supporting products and application services. Microsoft XML Core Services 4.0 with Service Pack 1 and Microsoft .NET Framework with Service Pack 2 are automatically installed with the CRM Server. Beyond that, the most notable prerequisites include:

- Microsoft Windows 2000 Server, or Advanced Server, with Service Pack 3 or later
- Microsoft SQL Server 2000 with Service Pack 2 or later
- Microsoft Exchange Server 2000

Deployment teams will also have to install or verify the installation of several services:

- Microsoft Message Queuing (MSMQ)
- Indexing Service
- Internet Information Services
- Microsoft Data Access Components (MDAC) 2.7

On the client side, utilizing the Outlook interface requires a desktop running Microsoft Windows 2000 Server or Professional (Service Pack 3) or Windows XP (Service Pack 1), and Microsoft Office 2000 (Service Release 1) or Microsoft Office XP. The Microsoft CRM Web client requires Microsoft Windows 98 SE with Service Pack 2, and Microsoft Windows 2000 (Server or Professional) or Microsoft Windows XP (Professional or Home). Microsoft will provide Microsoft Internet Explorer 6.0 if a customer lacks Internet Explorer 5.5 with Service Pack 2 or later.

In cases where a company's investment in Microsoft SQL Server or Exchange Server licenses is driven by needs beyond CRM, only an appropriate fraction of the additional hardware cost should be figured into ROI calculations. When products have already been purchased for other purposes, the cost should be omitted altogether.

Hardware

Hardware needed to support Microsoft CRM will depend on the number of users, with one dedicated server being sufficient for up to 150 users. Companies using Microsoft's Small Business Server can deploy the CRM server on the same machine, if the user group is small. Although Microsoft CRM can also be installed on a single computer with either Microsoft SQL Server or Exchange Server, Microsoft discourages users from doing so. Therefore, organizations making first-time purchases of these supporting servers may need to purchase additional hardware. As with software costs, the cost

of hardware should be appropriately adjusted if the hardware has already been purchased or if a new acquisition is driven by ends other than CRM.

Consulting

Consulting costs for Microsoft CRM will depend on an organization's need for fast time to deployment and the extent of its integration plans. Companies that can tolerate a longer deployment period or that don't need significant integration work will be able to deploy CRM themselves with minimal outside assistance — assuming they have an IT staff with Microsoft system skills. In cases where time is critical, or where an organization wants to integrate a third-party financial system to enable automatic quote generation, consulting costs still should not far exceed the cost of software licenses. Many customization needs, as noted before, can be addressed by business managers; companies should try to satisfy as many of their customization requirements as possible before adding to the consulting budget.

Because Microsoft depends on value-added resellers (VARs) to sell and deploy the CRM suite, consulting costs will also vary from region to region and provider to provider. Based on conversations with VARs, Nucleus expects deployments to take between two weeks and four months, with the bill for a three-month project serving 50 end users falling somewhere between \$40,000 and \$60,000.

Personnel

When estimating the cost of a Microsoft CRM deployment, organizations should consider both the business personnel needed to define data fields and workflow rules as well as the IT personnel who will be involved in deployment, development, and ongoing support of the application.

Because Microsoft CRM has been developed for small and middle-market companies, initial and ongoing personnel requirements will be minimal. A single systems administrator should easily be able to manage the system on an ongoing basis. Development needs will mostly be confined to integration with third-party applications; when no such integration is planned, little developer time is required at all.

Companies that lack experience with Microsoft technologies will have to consider the cost of adding skilled personnel, or else plan to invest more heavily in training for existing IT staff.

Training

Because Microsoft CRM Sales Standard's features are all available within the Outlook client, successful use will require less training than many alternative solutions. There are also fewer obstacles to adoption wherever sales teams already use Outlook, thus eliminating or reducing the cost of internal adoption campaigns.

Training customer service departments should also remain a low-cost affair. Though CRM Service users do not have the option of working in Outlook, the learning required to use the Web interface effectively should not exceed two or three hours per employee. The training required to reap returns from the data analysis toolset is also minimal compared to many alternatives; Crystal supplies a simple interface, and its report graphs and tables can be exported to Excel.

However, organizations may find that some training helps to ensure adoption and effective use – especially those for whom Outlook is new. Similarly, though existing Microsoft expertise in many IT departments will make Microsoft CRM easy to learn, organizations should still plan to invest in training for developers and system administrators. To determine the training costs associated with a Microsoft CRM deployment, organizations should include trainer and training location costs as well as the fully loaded cost of employees' time spent in training.

Other

Organizations should include any other costs associated with a planned Microsoft CRM deployment, including travel and user incentives. The financial modeling tool provides a separate section for these costs at the bottom of the Costs worksheet.

DEPLOYMENT STRATEGIES

Prospective buyers of Microsoft CRM have several deployment options to consider. Many companies will find that they can increase their returns by integrating Microsoft CRM with other applications. Many others will find bottom-line advantage by deploying the Microsoft CRM solution into a hosted environment.

Integration with Other Microsoft Business Applications

The Microsoft CRM integration component, leveraging the BizTalk Server 2002 Partner Edition, will support a relatively painless integration with Microsoft Business Solutions (Great Plains) Financials. This gives employees using CRM Sales direct visibility into customer purchase histories, price lists, and inventory data and automates several steps in the quote-generation process. This integration also enables finance personnel to process orders directly from sales team members' CRM entries, cutting down on re-entry time and errors.

Obviously, this strategy is most likely to yield increased ROI for companies that already use Microsoft Business Solutions Financials. Such companies should compare the cost of integration and staff training on the use of these advanced features with the returns from potential acceleration of the sales cycle, increases in employee productivity, and reduced error rates. Companies that would first need to acquire Financials should evaluate the impact of that investment separately.

Within a short time, Microsoft will release adapters to other applications under the umbrella of Microsoft Business Solutions, including Solomon, Navision, and Axapta software. This release will enable integrations that are similar to the integration with Financials in their ease and in their effect.

Integration with Other Applications

Companies deploying Microsoft CRM Sales Standard can also use the integration component to facilitate integration with non-Microsoft applications. It provides pipeline components and mechanisms for guaranteeing message delivery between components, establishing rules for data transformation, and adding business logic. This component relieves companies of the need to purchase a separate integration toolset if they wish to connect Microsoft CRM to software packages for resource planning, accounts receivable, fulfillment, and other back- and front-office functions.

Compared with integrations for which Microsoft supplies ready-made adapters, integration with third-party software will be more expensive. Companies will need to increase project budgets either to retain extra consulting support or to develop BizTalk skills within the IT staff, and increases in the overall length of deployment will lead to additional incremental costs.

Hosted Alternatives

Several of Microsoft's partners will offer to host Microsoft CRM for their clients. Nucleus spoke with one VAR that expects to be able to serve most businesses for about \$100 per user per month; they also hope to have deployment times down to just a few hours for organizations that have minimal customization and integration requirements.

Hosting will have special appeal for firms with little or no IT expertise in-house, and it also presents all companies with a method for piloting Microsoft CRM at a lower initial cost and thus with reduced risk. Organizations whose operations are geographically distributed may also find that hosting provides a cheaper means of centralizing customer data and applications management.

Conversely, companies that have large IT rosters steeped in Microsoft skills may find greater ROI through on-site deployment – especially if company business processes are frequently altered for competitive advantage. Companies with unusually strict policies for data and application security may also find that hosting does not meet their requirements. Nonetheless, Nucleus has found that many businesses miss opportunities for increased ROI by dismissing hosting without proper consideration, and advises all would-be buyers to look carefully at hosted options.

CONCLUSION

Microsoft CRM enables sales and service groups to acquire customers, to sell to accounts, and to resolve client service requests more

efficiently; if coupled with effective sales and service programs, it may also lead to increased revenue. The core application organizes and facilitates access to customer information. Its workflow and rules definition tools allow business managers to reinforce and to automate successful sales and service protocols. Data analysis and reporting functionality supports improved decisions in areas like resource planning. On top of those key benefits, Microsoft CRM can also ease burdens on IT personnel by simplifying integration, development, and system administration.

Small and medium-sized companies whose representatives currently keep lead and customer information using combinations of card files, isolated spreadsheets, and carbon-copy trouble tickets are likely to see the greatest returns from deploying Microsoft CRM. Other companies that already have a simple off-the-shelf CRM package or a homegrown solution will likely achieve positive ROI, too, thanks to a simpler interface, simplified integration with external data sources, and broader functionality.

Organizations considering an investment in Microsoft CRM should use the associated financial modeling tool to quantify the potential costs and returns from a deployment in their environment.