

April 2007

Document **H33**

ROI CASE STUDY MICROSOFT DYNAMICS CRM PAML

THE BOTTOM LINE

PAML used Microsoft Dynamics CRM to track customer interactions enabling it to significantly improve customer retention rates, identify and correct customer service issues, and deliver speedier responses.

ROI: 97%

Payback: 2.18 years

THE COMPANY

Pathology Associates Medical Laboratories (PAML) is a division of Bourget Health Services, Inc., a subsidiary of Providence Health Care, located in Spokane, Washington. PAML has become the largest reference laboratory in the Pacific Northwest region of the United States, offering a full range of laboratory and testing services to more than 100 hospitals. With more than 1,300 employees and partnerships with several regional healthcare networks and laboratories, PAML has been successfully delivering inpatient and outpatient testing services to hospitals, clinics, physician offices, and corporations since 1957.

THE CHALLENGE

PAML employees resolved customer service issues on an ongoing basis, but lacked an efficient process for centrally managing and tracking each incident:

- Employees in each department manually tracked customer incidents but often had to find the information they needed from other departments by either looking for paper files or calling colleagues — delaying incident resolution.
- Without a 360-degree view of the customer, employees could not tell if a problem was recurring or new. Because of this, PAML employees didn't recognize that some customers were having problems in several departments at the same time. As a result, many customers were dissatisfied and customer retention rates began to decline.
- Employees used paper-based quality improvement forms to report any recurring problems, and more than 500 forms were filed each month. Significant time was required for management to review the forms, and identify a course of action, and ensure the problem didn't impact other customers.

Losing one of its biggest customers because of client service issues was key motivation for PAML to centralize and automate the management of customer data.

RELATED RESEARCH

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- F21 ROI Case Study — Microsoft Dynamics CRM — Human-I-Tees
- F9 ROI Case Study — Microsoft Dynamics CRM — Qosina
- D71 ROI Case Study — Microsoft Dynamics CRM — iQ Net Solutions

THE STRATEGY

PAML looked for a system that would streamline the management of customer relationships and support rapid analysis of any service issues. As a result, PAML looked at a number of technology solutions and selected Microsoft Dynamics CRM for several reasons:

- Ease of use. To avoid the typical adoption challenges of CRM, PAML's management realized that they would need to implement a system that was easy to use. Because Microsoft CRM software looks very much like PAML's e-mail messaging system, management thought employees would find the system easy to use and simple to navigate, thereby requiring minimal training.
- Centralized data access. Employees would have access to a centralized repository of all customer information, making it easy to quickly respond to service questions and follow up on previously resolved issues. PAML also thought that Microsoft CRM would be a good way to address employee frustrations surrounding lengthy resolution times and departmental disconnect.
- Analytics capabilities. Microsoft CRM had the needed analytics capabilities and metrics to identify reoccurring problems and trends. This allowed PAML to identify and address these problems before they even developed.
- Flexibility. PAML liked that Microsoft CRM capabilities included built-in workflows that could be used to streamline paper-based processes in other departments as well.

In 2003, PAML purchased its first 100 Microsoft CRM licenses and deployed the first the phase of the solution. Currently, Microsoft CRM has been deployed to more than 750 customer-facing employees across the organization. Not only is Microsoft CRM used in client services, but employees in supply, logistics, IT, dispatch, sales and retention, billing, lab testing, and quality improvement also use it. Microsoft CRM is linked with PAML's lab information system and provides employees with the information they need to manage most customer questions at the initial point of contact.

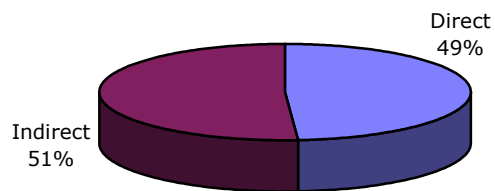
KEY BENEFIT AREAS

Moving from a paper-based tracking system to a CRM solution has enabled PAML to strengthen customer relationships, increase customer retention rates, and refine its business processes and workflows to support greater profitability. Key benefits from the solution include:

- Increased call center productivity. Integrating Microsoft CRM with Microsoft Office Outlook messaging and PAML's lab information system enables client service representatives to quickly answer questions about test results or the status of orders from within the CRM application, so PAML was able to accelerate response times and handle 15 percent more calls in its call center without hiring additional staff.
- Improved customer retention. Before Microsoft CRM, PAML estimated 20 percent of customer churn in its largest region was because of poor customer service; that number has been reduced to zero. Because all employees — not just client service staff — have access to updated customer information, they can track problems more effectively and have reduced customer inquiry response time from three days to less than one day, increasing customer retention and retaining profits of more than \$400,000 a year.

- Improved quality assurance. PAML has taken advantage of Microsoft CRM workflow capabilities to automate previously paper-based processes such as filling out quality improvement forms and logging reoccurring incidents. Doing this has enabled quality improvement staff to identify opportunities for improvement quickly, saving one hour per case on more than 6000 cases per year.
- Reduced paper, printing, and storage costs. By eliminating paper forms for incident tracking and logging specimen pickup, moving to an electronic system has enabled PAML to eliminate many paper-based processes and save \$50,000 a year on printing and storage costs.

BENEFITS



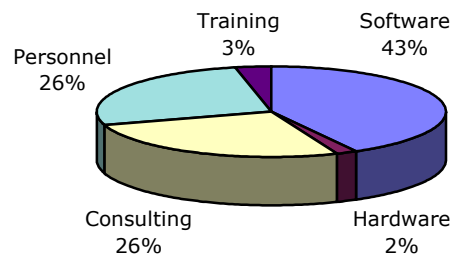
TOTAL: \$2,848,615

- Improved employee satisfaction. PAML employees are not only more productive, but they are also more satisfied with their jobs. Using Microsoft CRM has given them the insight to be able to help all customers quickly and without having to consult other colleagues or pass the problem along.

KEY COST AREAS

Key cost areas for the deployment included software, consulting, personnel, hardware, and training. Consulting and personnel are both ongoing costs as internal developers and Microsoft consultants are continuing to customize the solution to meet PAML’s needs while also working to support sales force automation.

COSTS



TOTAL: \$1,590,787

LESSONS LEARNED

Even though it is intuitive, any CRM initiative requires careful planning of training to ensure effective adoption. Despite the minimal training requirements, PAML found that its first round of training was not effectively carried out and had to be re-done to accommodate various skill levels and user needs. PAML has since addressed this problem and has improved its training techniques for future users and departmental introductions.

PAML also found that when implementing a new system, organizations should be cautious of populating it with old data. In the case of PAML, the company found that inputting information from its legacy billing system was problematic. Unless there is complete confidence in the structure and accuracy of existing data, it is important to review any information before inputting it into the system.

CALCULATING THE ROI

Nucleus calculated the costs of software, hardware, consulting, personnel, training, and other investments over a 3-year period to quantify PAML's total investment in MS CRM. Direct benefits calculated include reduced printing, paper, and storage costs.

Indirect benefits including increased customer retention rates were calculated based on the average revenue per customer, and the impact of customer service on client retention PAML experienced that was directly attributed to the system. PAML experienced a somewhat longer payback period than might be expected because it used a phased approach to test data security and confidentiality and made significant investments in customization that it plans to extend to partners for greater benefit.

Nucleus Research is a global provider of investigative technology research and advisory services. Building on its unique ROI case study approach, for nearly a decade Nucleus Research has delivered insight and analysis on the true value of technology and strategies for maximizing current investments and exploiting new technology opportunities. For more information or a list of services, visit NucleusResearch.com, call +1-781-416-2900, or e-mail info@NucleusResearch.com.

DETAILED FINANCIAL ANALYSIS

PAMI

SUMMARY

Project:	Microsoft Dynamics CRM
Annual return on investment (ROI)	97%
Payback period (years)	2.18
Net present value (NPV)	207,324
Average yearly cost of ownership	530,262

ANNUAL BENEFITS	Pre-start	Year 1	Year 2	Year 3
Direct	0	257,000	464,000	671,000
Indirect	0	356,538	548,538	548,538
Total Benefits Per Period	0	613,538	1,012,538	1,219,538

DEPRECIATED ASSETS	Pre-start	Year 1	Year 2	Year 3
Software	54,400	431,895	83,000	0
Hardware	0	13,500	15,200	0
Total Per Period	54,400	445,395	98,200	0

DEPRECIATION SCHEDULE	Pre-start	Year 1	Year 2	Year 3
Software	0	10,880	97,259	113,859
Hardware	0	0	2,700	5,740
Total Per Period	0	10,880	99,959	119,599

EXPENSED COSTS	Pre-start	Year 1	Year 2	Year 3
Software	0	33,000	33,000	33,000
Hardware	0	0	0	0
Consulting	144,100	0	170,000	106,500
Personnel	180,000	30,000	90,000	120,000
Training	28,096	0	25,096	0
Other	0	0	0	0
Total Per Period	352,196	63,000	318,096	259,500

FINANCIAL ANALYSIS	Year 1	Year 2	Year 3
Net cash flow before taxes	105,143	596,242	960,038
Net cash flow after taxes	(164,686)	299,001	539,819
Annual ROI - direct and indirect benefits			97%
Annual ROI - direct benefits only			-8%
Net present value (NPV)			207,324
Payback (years)			2.18
Average annual cost of ownership			530,262
3-year IRR			40%

FINANCIAL ASSUMPTIONS

All government taxes	50%
Discount rate	15%