Integrating CRM with ERP

A Baseline Consulting Group White Paper
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Introduction

You have identified important business issues or opportunities within your organization, its customers and its competitive landscape, and have decided that a Customer Relationship Management (CRM) initiative will enable you to tackle them. Though you know that CRM is a strategic initiative that extends far beyond the technical solution, you are also aware that technology is an instrumental driver of your final success. Moreover, you want to fully leverage in this initiative your previous investments and your organization resources.

You may be dealing with dozens of software vendors and system integrators, each one praising the benefits of his solution. Among these proposals, one claims not only to manage efficiently the entire customer life cycle, but also to take full advantage of your previous technology investments. Your incumbent back-office system[1] vendor has also a CRM solution, and it is praising the benefits of the tight integration of both systems. The question is then, how do you know whether this solution is the best for you?

The best-fit solution for you will depend on the strategic goals of your CRM initiative, as well as on how these goals fit with the drivers of competition within your industry. Companies looking for efficiency and integration of demand and supply may find the CRM proposal of their Enterprise Resource Planning (ERP) vendor attractive. On the other hand, companies interested on strategic customer care through their CRM initiative, may not find ERP vendors proposal compelling and would prefer a best of breeds approach.

This paper outlines why different companies will or will not find back-office vendors CRM proposals valuable. We are including the strategic criteria management should use when evaluating these CRM solutions. The reader will find it especially useful when evaluating proposals from ERP vendors against "best of breed" approaches. Finally, we also present some of the best practices of CRM implementation, with an emphasis in the CRM – ERP integration.

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[1] By back-office systems we mean the whole family of back-office Enterprise Software like Enterprise Resource Planning (ERP), Human Resources Management (HRM) and Supply Chain Management (SCM) systems. We will refer to all of them as ERP systems.

Companies looking for efficiency will turn to ERP vendors

Why companies looking for efficiency will turn to ERP vendors

Risk-averse companies interested on operational effectiveness through the value chain are the most likely to select a CRM solution powered by their incumbent ERP vendor. These organizations will find ERP vendors' CRM solutions valuable not only because they tackle (or claim to tackle) those companies main driver of competition (efficiency), but also because ERP vendors are a "safe" alternative at a potential lower cost. Not surprisingly, most of these enterprises would be among ERP vendors[2] current installed base.

ERP vendors enable operational effectiveness

When properly integrated, ERP and CRM technologies can provide an infrastructure that enables operational effectiveness. Obviously, ERP vendors claim to offer the best integration among their own front- and back-office technologies, and therefore, the highest efficiency through the value chain.

<u>Tight CRM – ERP integration leads to operational effectiveness</u>

Organizations can leverage the CRM –ERP integration to the enhancement of operational effectiveness. In Exhibit 1, we have highlighted how this integration affects the activities through the value chain. The value chain is a framework that helps us to identify the value-creation activities that a company performs in order to compete, and how they affect both company's costs and value delivered to customers[3]. As we can see, by linking front office, customer-facing systems (CRM) with back-office systems (ERP, HRM, SCM), organizations can build an infrastructure that enables streamlined business processes, which in turn will lead to operational effectiveness enhancement. Additionally, the tight integration provides a consistent view of customer and back-office information for –theoretically- anybody who needs it[4], empowering the decision making across the enterprise.

<u>ERP vendors offer a tight CRM – ERP integration</u>

We have just highlighted the benefits of a tight CRM – ERP integration. As one may expect, ERP vendors claim that they offer the best possible integration between both solutions. The natural question is

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[2] Unless specifically stated, when we say "ERP vendor" we refer to the three major ones: SAP, PeopleSoft and Oracle. However, most of the findings of this research are true also for the mid-size and low-end vendors like JD Edwards and Microsoft Great Plains.

[3] Michael Porter, Strategy and the Internet –Harvard Business Review, March 2001

[4] CRM –ERP integration can enable the famous CRM promise of one view of the customer

then, whether a company looking for these benefits should embrace ERP vendors CRM solution. While the answer is not always yes, ERP vendors are ideally positioned to provide a tight integration between their own back-office and CRM solutions. Moreover, companies trying to achieve all the integrations benefits with a best of breeds approach may have to rely on extensive system integration and may not accomplish the most elaborate integration benefits, like real-time availability information.

At the end, as we will discuss later in this paper, there is trade-off between the benefits from integration and the advantages of "best-of-breeds" sophisticated functionality. The best-fit solution for you will depend on the strategic goals of your CRM initiative.

ERP vendors claim lower up-front costs

ERP vendors are appealing to cost-conscious customers not only because they enable operative effectiveness but also because their solutions have lower implementation costs. They claim that implementing their CRM solutions over their own back-office systems requires less customization (i.e. system integration work) than implementing a "best-of-breeds" solution –a very interesting argument since integration expenses account for more than 60% of the first-year costs in a typical CRM project. However, ERP vendors still have to give more evidence (i.e. references and success histories) on this point. If this claim proves to be true, ERP vendors will be offering not only lower implementation costs but also shorter time to market. Moreover, they have the ability to bundle their CRM software as part of a larger e-business deal, reinforcing their position as a less costly solution – something not possible to match for most of their "best of breeds" competitors. For example, one very large German enterprise recently reported that SAP bid 50% less per seat than Siebel, winning the CRM deal even though they didn't have the best functionality.

This does not mean that ERP vendors have the lowest cost solutions – this just means that they can under price Siebel and most of the "best of breeds" vendors, like Epiphany, Informatica, etc. However, customers looking for the lowest cost solution may not consider ERP vendors, since outsourcing providers like Salesforce.com and bom.com offer Web-enabled CRM for as low as $75 per seat, versus $ 3,500 average Siebel cost per seat[5].

On the other hand, it is important to point out that most of the cost-savings offered by ERP vendors are related to the upfront costs (implementation costs). As anybody who has ever bought Enterprise Software knows, in the long run, maintenance costs are a significant

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[5] Source: Business 2.0: Surviving in the Shadow of Siebel, June 2002

portion of the total technology investment and should be monitored closely. While ERP vendors would probably claim that their maintenance costs are also lower, companies should ask for evidence of this affirmation, like references and case studies.

ERP vendors are appealing to risk-averse customers

ERP vendors are attractive to not only integration, efficiency-oriented customers. Cautious, risk-averse customers will also turn to them, especially in these post dot-com days, where companies investing in technology are concerned about the vendor long-term viability. This is definitely a strong point in favor of ERP vendors, i.e. SAP, PeopleSoft and Oracle, and, to a lesser extent, JD Edwards. They enjoy larger financial resources than most "best of breeds" CRM vendors –in fact, of these "best of breeds" vendors, only Siebel can challenge ERP vendors' huge resources. Moreover, ERP vendors also have larger R&D resources as well as already-working partnerships that they can leverage to strength their position. Again, only Siebel has comparable resources –actually, they have certified even more implementation partners than SAP and Oracle.

This does not mean that the other CRM vendors are not economically feasible. There are a good number of them that have developed interesting niche positions and have both a good installed customer base and an appealing product. However, companies dealing with them may need some degree of risk-tolerance, depending on the specific vendor. Those not risk-tolerant companies will turn to ERP vendors and Siebel, regardless whether they provide or don't provide the functionality required.

Exhibit 1: How the CRM –ERP integration impacts the value chain

Firm infrastructure

Human Resource Management

Technology Development

Procurement
- Enable cost effective inventory and procurement management by integrating inventory and purchase planning, with customer-originated information, like demand planning and sales forecasting

Inbound Logistics	**Operations**	**Outbound Logistics**	**Marketing & Sales**	**After-Sales Service**
- Allow customer-centric demand planning and scheduling across the company and its suppliers	- Enable job scheduling based on customer priority by providing real-time customer information	- Improve customer experience by giving customer and channel access to product development and delivery status - Enhance forecasting systems, by integrating internal systems with customer forecasting systems - Enable more cost-efficient handling of orders by integrating them directly with the inventory and logistics systems	- Support identification of most valuable customers by providing information on historical revenues, products purchased, billing, collection and Account Receivables - Empower customer-facing personnel with real-time access to customer information, product catalog, pricing and availability - Improve customer experience by enabling customers and channels to directly configure products and services - Enhance customer interactions by providing real-time available-to-promise/capable-to-promise information to sales channels	- Enhance customer interaction by providing service personnel with the complete transaction history of the customer - Enables more cost-effective customer Support through on-line channels and process automation - Enable customer service improvement, by providing information from Human Resources Management systems, like qualifications, experience and skills, required to match best employees to the most valuable customers - Improve customer service by allowing customers and customer-facing personnel to track real-time inbound and in-progress inventory data

Companies looking for strategic customer care will walk away from ERP vendors

Why companies looking for strategic customer care will walk away from ERP vendors

While enhancing operational effectiveness is a compelling argument for some organizations, not every enterprise engaged in a CRM initiative is looking for it. Some companies see CRM as the enabler of a strategic initiative -they want to create value for the customer and the organization through CRM[6], not to improve their operational effectiveness. These organizations are looking for strategic customer care, and they are not likely to find ERP vendors CRM solutions attractive, because those solutions do not have the sophisticated marketing and analytics capabilities they require.

Strong analytics capabilities enable execution of strategic customer care initiatives

The whole idea behind strategic customer care is to improve company's long-term profitability by identifying, differentiating and retaining its most valuable customers. How can analytical tools help out in this strategy? In Exhibit 2, we have briefly outlined how an organization can leverage analytic and data mining capabilities through the different stages and activities of strategic customer care. In short, strong analytics capabilities are key for a strategic customer care initiative because they give the intelligence required to execute it. They empower customer acquisition and retention by enabling enterprises to identify and target their most valuable customers with offerings tailored to their unique needs and preferences. As a result, companies will improve their customer experience, differentiating themselves from competition and creating effective switching cost for their customers – an important source of a long-term sustainable competitive advantage.

ERP vendors do not excel on analytics

ERP vendors' analytics capabilities do not match those offered by best-of-breeds solutions. While most ERP vendors are improving their analytics, they seem to be focused on functionality just "good enough" to satisfy the requirements of non-sophisticated users. Moreover, large ERP vendors are not likely to ever be innovators in CRM –lots of integration with legacy systems is required, leaving too little room for experimentation in comparison with smaller, fast-moving competitors.

This is an important downside of ERP vendors with organizations looking for strategic customer care. These organizations want to gain a strategic advantage enabled by CRM –they want to rethink their business process and make them customer-centric; they need the expert tools best suited to their needs. Instead of enabling such a

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[6] As Richard Heygate has pointed out in The CRM Forum, a large proportion of added value from CRM initiatives comes from the analysis and intelligence that can be laid over the transactional activities.

competitive advantage, ERP vendors' proposal of streamlined business processes could result in forcing organizations to adapt their business practices to somewhat inflexible software. Moreover, this could result in a standardized solution that could be easily imitated by the competition, "commoditing" not only company's business practices but also its most valuable asset: Their customers.

Exhibit 2: How Analytic Tools can enable the different stages of Strategic Customer Care
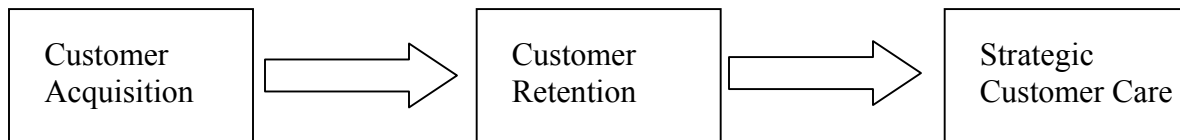
Stage	Customer Acquisition	Customer Retention	Strategic Customer Care
Marketing Activities	Acquisition Campaigns Campaign Responses Initial Purchase	Customer Segmentation Repeat Sales Sales and Support	Cross-sell campaigns Up-sell campaigns Forced churn Explicit cancellation
Analytic Tools	Scoring Models Logistic regression Campaign Management Tools	Cluster analysis Ordinal regression Collaborative filtering	Market basket analysis Neural networks Churn analysis

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