May, 2009

Managing Customer Relationships: The Choice Between What's Cheap and What Works

The proliferation of customer relationship solutions has presented an interesting challenge for small business owners. How does a small organization looking to control spending decide between common productivity tools, such as Microsoft Outlook or Excel, or a more robust solution? This decision is made more difficult by the emergence of free customer relationship management (CRM) and contact management (CM) solutions. Both CRM and CM tools are productivity tools that allow businesses to organize contact, opportunity, and account information in a centralized repository. In the case of CRM, organizations are also able to integrate disparate customer data that exists with marketing and customer service and support channels. The documented business benefits of both CRM and CM tools have some small and medium-sized businesses evaluating free solutions to alleviate their specific business challenges.

Free solutions can take the form of a "freemium" solution or other existing productivity tools, such as spreadsheets or email. "Freemium" solutions, for instance, provide basic functionality on a trial, controlled usage, or ad-supported basis. The "freemium" model was conceived with the eventual goal of selling a premium solution that expands on the basic functionality of the freeware. Naturally, small businesses are enticed by a free solution and its "try before you buy" model. However, companies must be sure to balance their immediate needs with the growth of the business by evaluating full-featured CRM or CM tools in conjunction with free offerings.

This research document will examine the benefits of free and paid CM solutions for small-to-medium sized businesses. Organizations in need of a sales automation solution to manage account, contact, and company information will be advised on how to select a CM tool that has the functionality to satisfy short-term needs and meet long-term goals.

Overview: Taming Information Overload

Companies continually encounter economic, regulatory, or operational business challenges, or "pressures," pertaining to their business or industry. Economic or regulatory forces, for instance, can cause organizations of all shapes and sizes to be challenged by the same issues. However, the strategies that companies enact to alleviate business pressures are often very different and ultimately determine a company's ability to respond effectively to challenges. Figure 1 reveals the top two business challenges CM users encounter, as well as the top strategies in place to reduce these pressures.

The Difference Between CM & CRM:

Contact Management Solution (CM): A contact management solution is a productivity tool designed to manage:
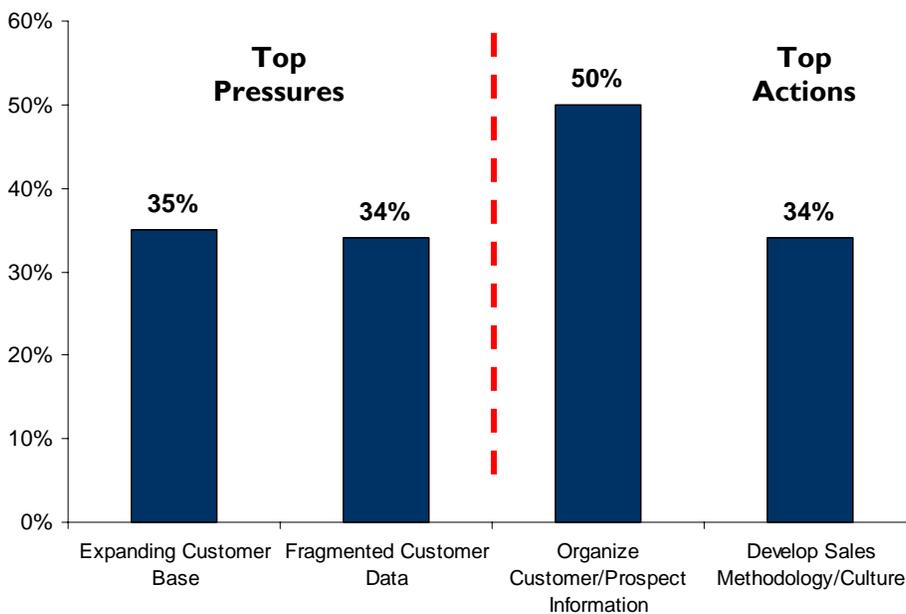
√ Contacts

√ Opportunities

√ Accounts

√ Notes/History

Customer Relationship Management (CRM): A customer relationship management solution is a process-centric solution that serves as a record for all customer interactions. CRMs can integrate the disparate customer data that exists within:

√ Sales

√ Marketing

√ Service/Support

Aberdeen research reveals that 35% of CM users cited their expanding customer base as a top two business challenge causing them to automate sales interactions. Furthermore, 34% of CM users were challenged by fragmented customer data. These two business challenges are not mutually exclusive; it stands to reason that the larger and more complex a business becomes, the greater likelihood there is for additional fragmented customer data. The relationship between these two business challenges also suggests the need for solutions that are able to scale with the growing business needs of their users.

Figure 1: Top Pressures and Actions

All Contact Management Users

Source: Aberdeen Group, March 2009

Fifty-percent (50%) of CM users indicated that organizing customer and prospect information is a "top two" strategic action to alleviate the pressures associated with an expanding customer base and data stream. Naturally, companies should organize and centralize customer and prospect information to provide some semblance of internal visibility to sales operations and protect against losing data assets to employee turnover. Furthermore, by tying all pertinent account or specific customer information to a contact record, companies are able to organize and centralize all interactions and better understand the customer experience. The productivity tools companies currently leverage to organize such information, such as spreadsheets and email, are typically labor intensive and not conducive to collaboration.

Manual Methods for Organizing Outreach

For small businesses without a defined CM, the use of email and spreadsheets typically serve as the primary form of contact management. Of

"Prior to our current CM solution, we managed our contacts in an Excel spreadsheet. It was fine for a limited number of contacts but once our database grew…adding specific notes in individual cells became difficult and limiting."

~ Jason Myslik
VP of Commercial Marketing Services
St. Charles Town Company

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the 260 total respondents to a 2008 Aberdeen survey, more (77%) indicated the use of Microsoft Outlook for contact management than a sales force automation (SFA) tool (30%). The advent of free solutions has provided these companies with another alternative; however, the streamlined features that small-to-medium businesses require are often included with a "premium" solution. Forty-seven percent (47%) respondents indicated that integrating sales and marketing processes is a top two strategy for supporting sales force automation initiatives. The use of an integrated CM solution allows businesses to manage account and contact information and history, as well as send targeted email messages to specific customer segments. The reliance on spreadsheets and email systems for account management does not allow for such a unified sales and marketing outreach.

Freemium: The Good, The Bad, and The Costly

The "freemium" business model, occasionally referred to as the "pay as you grow" or "value-tiered" model, operates under one simple assumption: if customers truly value the basic product or service a company delivers, then they would be willing to pay for additional offerings or functionality. The growth in popularity of certain consumer-focused "freemium" solutions, such as VoIP providers or online photo sharing services, has legitimized the model as one that can attract and retain customers when done properly. However, there is a difference between what users are willing to experiment with in their personal lives and the decisions they'll make for the overall well-being of their business. Free solutions are often a valuable learning experience for end-users deciding which features and functionality are most valuable to their organization.

Table 1: Contact Management Solution Types

Solution Type	Definitions	Considerations
Personal Information Management (PIM)	Software that provides basic information management functionality, such as calendar, address book, and light contact management. Microsoft Outlook and Lotus Notes are examples.	Companies leveraging a PIM solution as the primary form of contact management can often suffer from "information overload." Unorganized inboxes, for instance, can make it hard for employees to find the messages/notes they need quickly and easily.
"Freemium" Contact Management (FCM)	Contact management solutions that provide basic CM functionality on a trial, controlled usage, or ad-supported basis. FreeCRM and Zoho are examples.	The "try before you buy" allows businesses to experience the benefits of a CM solution and evaluate the features necessary for daily operations. However, businesses must establish who owns the data and develop a contingency plan in the event the FCM does not scale appropriately.

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Contact Management (CM) Solution	A productivity tool designed to manage contacts, opportunities, accounts, and interaction notes. ACT! by Sage and Microsoft's Business Contact Manager are examples.	A CM solution is crucial for companies with multiple sales representatives, accounts, and opportunities. CM solutions allow businesses to organize sales outreach, while a CRM solution may be a better fit for companies looking to unify sales, marketing, and customer service and support efforts.

Source: Aberdeen Group, April 2009

The Good

For a small business owner examining ways to organize sales outreach and document conversations and contact information, a CM solution provides all the necessary functionality (Table 1). CM solutions allow users to manage opportunities, accounts, and contacts, as well as centralize meeting and conversation notes for the benefit of the entire organization. Several "freemium" contact management (FCM) solutions are adept at providing modest functionality to business owners who are experimenting with a CM solution or are just starting out. The "try before you buy" model allows businesses to develop a comfort level with a FCM tool and determine what features meet their specific needs.

The Bad

Companies trying to break their reliance on Microsoft Outlook and Excel as their organization's primary information management systems may be intrigued by a freemium solution at first. However, the risk remains that the company will migrate back to laborious, manual practices if it were to encounter usage caps or contact caps. Furthermore, the limited functionality of some FCM tools does not allow companies to execute on their sales and marketing initiatives as planned. Finally, the disruptive advertisements of some FCM tools can become a nuisance that affects productivity.

The Costly

The cost of a solution (64%) was identified by survey respondents as a "top two" criteria used to select a solution provider, right behind the ability to demonstrate success in similar projects (69%). Organizations are focused on every expenditure and the impact each expense may have on the business, particularly in a challenging economic climate. As a way of cutting costs, some small businesses may opt for a FCM solution to organize prospect and customer information. The "try as you buy" model provides a no-risk safety net for small businesses searching for the tool that best fits the needs of the organization. However, companies must remember that what is free now may prove to require extensive resources to support down the road. Once a company has reached its usage limit, it must decide whether or not to upgrade to a premium model or move to another CM solution. The time

Consider a Free Solution if:

√ Your business is comprised of an individual user or small team

√ You are okay with usage caps, such as contact limits or predetermined number of free seats

√ You don't mind ad-supported solutions

√ You are curious about the business benefits a contact management solution provides and want to experiment prior to implementing a paid solution

√ Your CM initiative is not a mission-critical objective

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and productivity wasted migrating customer information from one system to another eventually eats into the resources that were perceived to be saved through the implementation of a free solution.

Case in Point

American Health Insurance, headquartered in Northridge, California, is an independent health insurance agency that works with Blue Cross, Blue Shield in several states. Founded in 2003 by Chuck Mondrus, American Health Insurance at first focused exclusively on California before branching out into Colorado, Nevada, and Georgia. Even though the company has just 10 employees, the list of business contacts exceeds 80,000, making it one of the largest health insurance companies in the country. As a result of this vast amount of customer data, Mondrus quickly realized the need for a contact management solution that would give them visibility into the business. "Quite simply, ACT! by Sage keeps us on task," begins Mondrus. "I can take a snapshot in any point in time of where I am in my business; using the 'Groups' function, I can organize contacts that were sold in a particular month, look at the performance of my sales representatives, see how the billing takes place, and keep tabs on customer emails."

One of the biggest benefits for American Health Insurance is the ability to set reminders, or "ticklers," regarding prospect outreach. "Our solution gives up the ability to set up automated alerts as to when to reach out to a prospect or customer," says Mondrus. "In my line of work, we are always trying to get a hold of people to answer questions or provide quotes; our solution helps us balance the outreach to our older contacts versus our newer ones."

Since American Health Insurance generates demand online, they needed a system that could integrate the contact information they capture online directly into the solution. For example, online prospects often provide contact information to get free online quotes. Once they've done so, American Health Insurance is automatically notified. "An email is sent to me through a secondary service that takes that new contact information and imports it directly into our ACT! fields. ACT! then sets a reminder for me to follow-up with that contact after a certain amount of time," says Mondrus.

Like many business owners, data security is a huge point of concern for Mondrus. As a result, American Health Insurance opts to house their customer data on an internal server. "Personally, I'm wary of having my data online on someone else's server. As a result, that issue eliminates any online contact management solution, free or not, that forces me to house my data on a separate server." Mondrus' concern pertains not just to data security, but also data ownership. With over 80,000 contacts in the database, American Health Insurance prefers a customizable contact management solution.

For companies deciding which contact management solution fits their specific needs, Mondrus offers up some advice. "Obviously, you need a

Did You Know?

The term "freemium" was coined in a March 2006 blog post by venture capitalist Fred Wilson. In an attempt to sum up his "favorite business model" at the time, Wilson asked his readers to give a name to this emerging business model. "Freemium" eventually beat out other submissions, such as "Try N' Buy," "Free2Fee," and "Freequisition."

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~ Chuck Mondrus, Founder, American Health Insurance

Support and Training

As Chuck Mondrus from American Health Insurance suggests, customer support and training programs are key features for end-users to consider when evaluating CM solutions. According to 25% of CM users who participated in the *CRM in SME: Sized to Fit* survey, a commitment to customer service is a top criterion for vendor evaluation. For the most part, freemium providers eschew live support in favor of electronic correspondence, typically email support. This leaves some end-users unable to solve technology issues quickly and easily. A free solution that requires technical support can quickly become a drain on a user's time and productivity; what was once a "free" solution can become an expensive addition when balanced against an organization's time and labor costs. As Cecilia Wahlquist, Office Manager for Hawaii Real Estate, put it, "It is important to have a support team that is right on a problem when you call; free solutions typically don't offer that type of service."

This level of customer support applies to training programs as well. As Mondrus states, "Training shouldn't even start until after a month of use. That way training can focus on how to get *even more* out of the system." Training courses devoted to maximizing the use of a solution are typically part of the "premium" upgrades that free solutions offer. The absence of proper training during the early phases of implementation may prevent an organization from understanding all the sales and marketing benefits a solution offers.

Who Owns the Data?

When it comes to the use of sales automation tools, ownership of the data and contacts is typically the "elephant in the room." Organizations are often tasked with dismantling the belief amongst sales representatives that contacts are *their* assets, not the company's. In fact, 28% of end-users currently leveraging sales automation tools tie technology adoption to bonus plans or performance reviews. In doing so, companies are able to satisfy the need for complete and accurate customer and prospect information (53%), adhere to formal and documented sales processes (44%), and provide internal visibility for several departments (33%). The use of "freemium" solutions, however, adds another wrinkle to the ownership issue.

For solution providers, the risk of a purely free business model is that there is no guarantee of any revenue stream. That same risk applies to end-users. If a FCM provider is unable to carve out a niche for themselves in a crowded and mature market, they will inevitably go out of business. In such an event, end-user organizations are left to question: what will become of *my* data? Can I migrate my information to another system? Will the servers that housed the data simply be sold off? Or, are on-site solutions "time-

Consider a CM Solution if:

√ You require more robust sales automation capabilities

√ You would like the option of having an implementation partner review internal processes and get the organization up and running

√ Your sales and marketing efforts would benefit from email and word processing integration

√ You would like customization and/or personalization options

√ You want to ensure you partner with a secure, stable organization

"We have close to 10,000 contacts that we have acquired through the years stored in our database. Our solution allows us to send out marketing emails to specific segments and track all of our opportunities; it's not just a glorified phone book to us."

~ Cecilia Wahlquist, Office Manager, Hawaii Real Estate

Telephone: 617 854 5200
Fax: 617 723 7897

CM: Working With You, Not Against You

Figure 2 displays the top three technologies that CM users leverage in addition to an individual contact management system to support customer-facing groups, such as sales. Despite the use of a sales automation tool, 76% of CM users *still* rely on spreadsheets to organize information. The continued use of spreadsheets and static reports necessitates a solution that is able to integrate things such as email and word processing documents. The goal of any technology solution, whether it is free or paid, is to work in conjunction with how the business works. Often times this requires the solution to integrate with the general business infrastructure.

> "Being able to produce professional, clean, and efficient reports was a huge benefit for our company."
>
> ~ Jason Myslik
> VP of Commercial Marketing Services
> St. Charles Town Company

Figure 2: Top Technologies Used in Conjunction with CM Solution
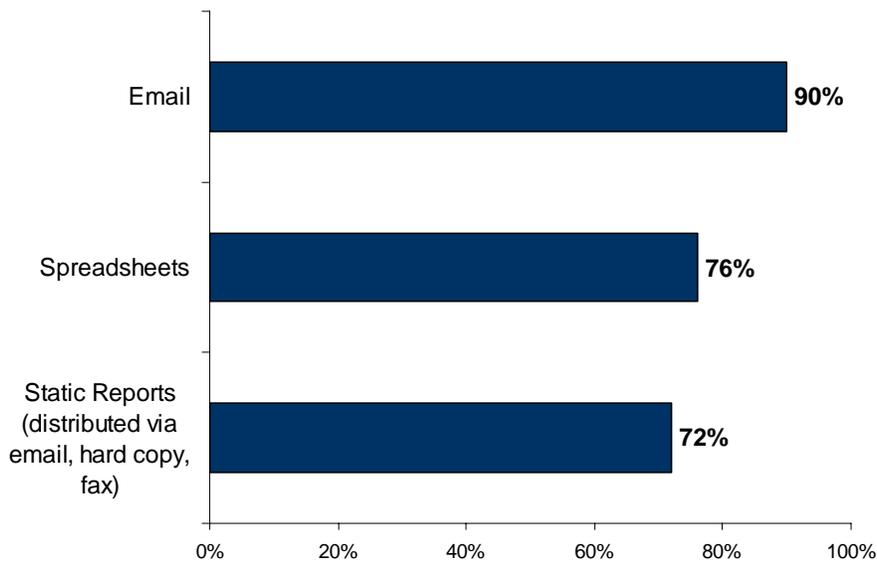
Source: Aberdeen Group, March 2009

Case in Point

Hawaii Commercial Real Estate, located in Honolulu, specializes in the sale, leasing, and financing of office spaces, industrial buildings, hotels, retail centers, and investment properties in Hawaii. The Company, which was founded in 2003, has worked with some of the nation's top brands and provides investment forums and market reports for its clients. Naturally, a small company that works with clients and agents alike needs a contact management system to organize its contacts and accounts. "For us, we basically live and die by our database," begins Cecilia Wahlquist, Officer Manager for Hawaii Commercial Real Estate. "We have close to 10,000 contacts that we have acquired through the years stored in our database.

Our solution allows us to send out marketing emails to specific segments and track all of our opportunities; it's not just a glorified phone book to us."

One of the biggest benefits Hawaii Commercial Real Estate has derived from its contact management solution is the ability to communicate with local brokers to find new buyers and keep detailed notes on the interest levels of prospects. "The first thing we do is put our information into our contact management system. Any new lead we obtain, we document how they found out about us, what they may be looking for, and how we can help them currently. Even if it goes nowhere in the present day, we have them in our database to nurture the relationship. We can send targeted emails to them based on roles, such as mainland broker or property owner, and keep the relationship fresh for when we do have something that fits their needs," explains Wahlquist. The company is also able to query the contact database and send personalized letters and postcards to prospects and property owners in the market.

Although a free contact management solution may be a good option for some businesses, Wahlquist is happy to continue with her current provider. "The biggest concern about a freemium solution, for me at least, is who owns the data? We consider our database highly confidential. We don't just stores names, we make notes and histories about a certain client or prospect," says Wahlquist. The fear that a "freemium" provider will cease to exist one day is enough to make small businesses cringe at the thought of losing their sensitive customer data. Furthermore, the technical support capabilities of paid solution are often a crucial component to implementation. "The technical support for our current solution is outstanding," interjects Wahlquist, "it is important to have a support team that is right on a problem when you call; free solutions typically don't offer that type of service."

As small businesses grow their customer and prospect base, contact management solutions provide an effective method for organizing and correlating customer data. "Contact management solutions are great tools for any organization as long as the company is clear on what they are going to be using it for," concludes Wahlquist. It is important that companies don't view contact management solutions as a glorified phone book and take time to consider the implications they can have on all facets of sales and marketing.

Key Takeaways

For organizations evaluating both free and paid CM solutions, there are a few key takeaways that should be considered.

- **Weigh your current business needs against future growth.** "Freemium" solutions are an enticing option for small or new businesses. However, companies must evaluate the ability of the solution to grow with the business. Free solutions may indeed be the most cost-effective option in the short-term. However, as a company grows and takes on a larger number of customers and

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>
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contacts, the complexity of operations and amount of fragmented customer data are likely to increase. Companies must be sure that whichever solution they implement has the ability to address the short-term goals of the company, as well the plans for growth.

- **Empower sales to sell.** With the ability to extend CM and Customer Relationship Management (CRM) solutions through add-ons, plug-ins, and complimentary products, such as an integrated sales intelligence solution, organizations are finding ways to reduce the amount of time sales representatives spend searching for information and enabling them to sell. For small and midsized organizations, a CM solution serves a similar purpose. By centralizing contact, account, and opportunity information, organizations can reduce the amount of time employees spend on the administrative tasks associated with email and spreadsheet reliance.

- **Be clear on who owns the data.** Prospect contact information is valuable information to any company; therefore, organizations considering "freemium" solutions should be certain they can migrate data to another solution if they choose, or that their data is protected in the event the provider folds.

- **Free is only free if you don't value your own time.** There is typically a cost associated with the implementation, support, and customization of a paid CM solution. However, the additional services that are necessary to be successful, such as training, live support, and Service Level Agreements (SLAs), are incorporated in these costs. In the case of a "freemium" solution, a lack of proper documentation, such as an operator's manual, support, or training can become a drain on an organization's time and productivity. What once appeared to be a free solution can become more costly as businesses struggle with a lack of visibility into the vendor and an absence of add-on developer kits and implementation partners. For some organizations, the time spent developing training curriculums, struggling with support issues, or attempting to customize a solution can outweigh the benefits of a free solution. Furthermore, the time devoted to laborious and time-consuming tasks using spreadsheets can also be a drain on organizational resources.

Small business owners are understandably interested in any productivity tool that is cheap or, better yet, free. However, before a company relies too heavily on a free solution for their contact management needs, special attention should be paid to balancing the solution's potential and limitations against the organization's business needs and growth plans. If it is determined that a "freemium" solution will only scale to a certain point and cause organization's to select between upgrading (for a price) or migrating data elsewhere, then a paid solution might be a more attractive alternative in the long run.

"Another benefit we received from our current CM solution is the ability to send email blasts to the prospect and broker community. In the past, we outsourced email activity to a creative ad agency, which was more expensive and less efficient. Now, we use our own database of real-estate brokers within our CM."

~ Jason Myslik
VP of Commercial Marketing Services
St. Charles Town Company

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Related Research	
Automating Success: The Choice Between Contact Management and Customer Relationship Management; January 2009	Users of Sales and Marketing Solutions Display a Significant Lack of KPI Awareness; August 2008
Sales Intelligence: The Secret to Sales Nirvana; January 2009	Best-in-Class Enterprises Promote and Achieve Successful CRM Adoption; August 2008
Sales Effectiveness: Pathways to Productivity September 2008	Tailor-Made CRM: Best Practices in Customization, Configuration, and Integration May 2008

Authors: Andrew Boyd, Chief Research Officer, (andrew.boyd@aberdeen.com)

Alex Jefferies, Senior Research Associate, Customer Management Technologies Group, (alex.jefferies@aberdeen.com)

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