



#30: The Spiegel Group

# The Value of CRM

An offer Eddie Bauer's CFO couldn't refuse

**W**HEN HARRY EGLER found himself fighting for a new enterprise-wide CRM system for the Eddie Bauer chain of 590 clothing shops, he knew that he was on the losing side of an imminent Socratic debate with his CFO. He knew it was the right investment to make, but he also knew that he couldn't prove to the CFO's spreadsheet that it was the right thing to do.

"It's almost impossible to prove the ROI, to justify the expense," he said. To avoid that problem, he simply side-stepped it with an offer that no CFO could refuse: he offered to slash the marketing budget by the full amount of the CRM system. The CFO agreed, saying, "If you can pay for it by saving money, that's as good as making money."

The experience of Egler, who today serves as Eddie Bauer's divisional VP for strategic planning, is a good illustration of the kinds of implementation difficulties experienced by major retailers eyeing large CRM systems and the creative responses that they demand.

Eddie Bauer is part of the \$3 billion Spiegel Group — along with Newport News and Spiegel stores. Its 1-TByte CRM system includes an Oracle (www.oracle.com) database, Sun Microsystems

(www.sun.com) Unix boxes, the Ceres package from NCR (www.ncr.com) and a series of SAS Institute Inc. (www.sas.com/retail) products for data mining and customer intelligence.

Few today doubt the strategic need for retailers to get a single view of their customers, and sophisticated CRM systems are obvious answers. But despite what the vendor sales reps say — and what is intuitive — the best approach is sometimes not the fastest and most comprehensive one.

The logic for building a large system is attractive, in the sense that it is going to be a huge amount of work and



money and most retail IT shops would rather take the hit all at once, rather than build a partial system knowing that it will have to be expanded almost immediately.

But Eddie Bauer's Egler says that logic loses sight of the fact that a CRM system is really an elaborate way to get clean answers to simple questions, such as, "What product is moving fastest this week and why?" The CRM system is then supposed to spit out the data — as massaged as that particular CRM vendor can — and it's then up to the retailer's analysts to figure out the answers and turn those answers into recommendations ("Dump the plaid shirts!").

From the analyst's perspective, irrelevant data is noise. Therefore, the larger the database, the more noise it will have and the more difficult and time-consuming it is going to be to find the desired answers.

"One of the things that I would recommend to folks is to start small and build core functionality," Egler said.

The first step in preparing for a new CRM system is to assemble a cross-functional (marketing, sales, product development, analyst, IT, CFO, COO/CEO, store managers, etc.) off-site meeting to brainstorm every answer that the retailer would find useful. "You want to build a table that is quite complex. If almost any problem

cropped up, you want to be able to solve it with that data model," he said, referring to that package as the 100 percent option. "You need to have a vision for the data, but you really want to start with a data model that is going to answer the top 60 percent. If you start smaller, it becomes much easier for your analysts to grasp that model."

Another issue that vendors rarely tell customers is the difficulty integrating a retailer's older data and the new system's analyzed data. Similar to many other business intelligence projects such as creating an integrated data warehouse or executing a knowledge management initiative, errors and inconsistencies that already exist with the older data will be brought to the new system and — when analyzed with the newer data — will pollute it. In other words, once integrated, it's very hard to contain contaminated data.

That said, most retailers have no alternative but to bring that data along so that historical analysis can be performed. "You're already going to have a series of problems just translating the data you have into your new system, let alone what you'll face building the new systems themselves," Egler said. "We brought in a lot of old data because we had to, but if you can afford to populate it from scratch, it eliminates those transitional issues."

Egler has a suggestion for sifting through the various vendor claims: Avoid the vendors who focus on their own products and who are suggesting that each retailer changes its data procedures to the way that vendor's soft-

ware wants the data. "Find the vendors who try to understand your business process. People inherently are resistant to change in a call center. What we say is, 'Nope. Our processes are sacred.'"

When Egler first brought his proposal to the CFO, he knew that the value of that better single customer view would be extremely high, but also next-to-impossible to quantify and prove.

"I have not seen anyone who has done a really good job of understanding what they are getting on the back-end," he said. What if the CRM analysis, for example, indicates that bright green pants are selling very well on the East Coast and that inventory of that product should be sharply increased? For the purposes of this example, let's say that inventory change makes the company an extra \$500,000. Is that \$500K fairly credited to the CRM system? Isn't it quite possible that the sales management team would have come to that conclusion on its own? To prove ROI, the case

needs to be made that CRM answers generated profits and were also answers that the company would have likely not had were it not for that CRM system. And that's a very difficult case to make. **RIS**



Harry Egler, VP, Eddie Bauer

## Executive Summary & ROI

**H**arry Egler, Eddie Bauer's divisional VP for strategic planning, knew it would be nearly impossible to justify the expense of a new CRM system to his spreadsheet-driven CFO. So he offered to cut the marketing budget by the full cost of the system. Read on for the details of his winning strategy.

## Retail CRM Implementation Tips

- **IDENTIFY** the universe of questions you want answered, but only create a system to answer 60 percent of it.

- **REMEMBER** that you're bringing your old errors with your old data. Leave behind — or keep separate — what you can.

- **OFFER** to cut marketing funds to cover the cost of a CRM system. It's an argument that will get the attention of your CFO every time.

- **BE AWARE** of the customer who visits your brick-and-mortar store and then visits your Web site and then calls customer service. Don't count their opinion three times.

By Evan Schuman, Contributing Editor