

CRM ROI Review

Optimizing Returns on Customer-Centric Strategies

Featured Customer:

Audi

Identifying Return on Investment from mySAP CRM Solutions

volume three number 2 march 2004

Innovating the Customer Experience

Audi expects 22% IRR through 2005 on its my SAP CRM Investment

Audi's emblem of four rings signifies one of Germany's oldest established automobile manufacturers. Founded by engineering visionary August Horch in 1909, the Audi name originated by translating Horch's name, which means 'listen' in German, into Latin, 'Audi' (audio). With a commitment to implementing progressive technology, Audi became a globally respected producer of automobiles, most recently in the luxury sector. Today, Audi remains focused on satisfying customer needs by building a brand that exemplifies individuality, exclusivity and excellence.

Much of Audi's success was founded on technological ingenuity. Audi was the first auto manufacturer to develop catalytic converters across an entire product range in the 1980s, and is famous for the all-wheel-drive Quattro coupe. Following its entry into the luxury sector in the early 1990s, Audi capitalized on its ingenuity and has competed well on the sector's defining elements of innovative design, safety and performance. Since that time, the company has enjoyed record results.

Shifting the competitive battleground

While product innovation lies at the heart of Audi, it is only one piece of the company's long term success plan. The executive team recognized that, despite its recent wins, Audi needed to differentiate itself even further in order to capture more of the industry's most important indicator of sustained success, customer loyalty and repurchase. Audi saw potential for increasing repurchase rates, so the company set out to shift the competitive landscape without sacrificing product innovation and ingenuity.

Audi believed redefining the customer experience through Customer Relationship Management (CRM) would unlock customer retention. The company's vision is to recast Audi's face to the customer by creating a more holistic relationship among manufacturer, dealer and customer. The result: a premium ownership experience that boosts customer satisfaction and repurchase.

Starting in the late 1990s, Audi took several steps to enable its vision. In 1999, the Board of Directors declared CRM an organizational core competency in order to develop the infrastructure needed to enhance marketing, sales and service across customer touchpoints. Audi set out to build a central customer database and a plan to act on that data to spark the interactions required to meet customers' needs. Central to the plan was mySAP CRM, launched in April 2002. By using mySAP CRM to stimulate customer loyalty, Audi expects a 22% Internal Rate of Return (IRR) on its mySAP CRM investment through 2005.

Contents

Innovating the Customer Experience	1
Audi Corporate Overview	2
Enriching the Brand Promise	3
Incremental Steps	4
Crafting the Customer-Focused Environment	5
Optimize Process, Generate Opportunity	7
Customer Insight Enables Growth	9
The Loyalty Effect	10
The ROI of CRM	12
The 8 Point Takeaway	15
About the ROI Review	16

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Please refer to material no. 50068497.

For the summary of this ROI Review, please refer to material no. 50068498.

Corporate Overview

With a history of automotive excellence that spans nearly a century, Audi is one of the world's leading luxury automobile manufacturers. The proof is in the recent numbers. The Audi brand set a new sales record in 2003 for the tenth year in succession: by 3.7 percent to 769,893 vehicles worldwide. Audi vehicle sales in Western Europe (excluding Germany) were up by 1.2 percent to 309,880 vehicles. The company's market share in Western Europe (including Germany) thus stayed at the previous year's level of 3.8 percent.

Audi's four rings symbolize the 1932 merger of 4 previously independent motor-vehicle companies into AUDI AG: Audi (touring cars), DKW (small cars), Horch (luxury) and Wanderer (mid-market vehicles). Based in Ingolstadt, Germany, Audi manufactures upscale automobiles. In addition to its A-series line, Audi produces the TT



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Roadster, TT Coupe, and the Cabriolet. Italy-based subsidiary Automobili Lamborghini makes the Murciélago and the Gallardo while subsidiary Cosworth Technology manufactures high-performance engines.

A 99% owned subsidiary of Volkswagen Group, Audi has 5,000 dealerships with operations all over the world. Each dealer's contract delineates service levels for Audi customers. Audi supports each dealership through investments in showrooms and personnel training.

Audi AT A GLANCE

Founded: 1932

Employees: 52,856 (Dec. 2002)

Headquarters: Ingolstadt, Germany

Revenue: €23.4 billion (2003)

1-year sales growth: 3.6% (2003)

1-year profit growth: 5.4% (2003)

Net profit: €816 million

Audi, a 99%-owned subsidiary of Volkswagen, is an upscale carmaker that produces more than 750,000 cars a year. Audi has distributors all over the world. In addition to its A-series line, Audi produces the TT Roadster, TT Coupe, and the Cabriolet. Italy-based subsidiary Automobili Lamborghini makes the Murciélago and the Gallardo while subsidiary Cosworth Technology manufactures high-performance engines.

SAP Installed Solutions: mySAP CRM 4.0, SAP BW 3.1

Number of mySAP CRM users: 391

Key Executives Interviewed at Audi:

Mr. Gerhard Naegele, *Project Director, Volkswagen Financial Services AG*

Dr. Christoph Wargitsch, *Head of CRM and New Media*

Dr. Stefan Scholer, *Head of Customer and Dealer Systems*

Mr. Alexander Habisreitinger, *Manager of Customer and Dealer Systems*

Mr. Christoph Engelmann, *Head of Customer Care Development and Support*

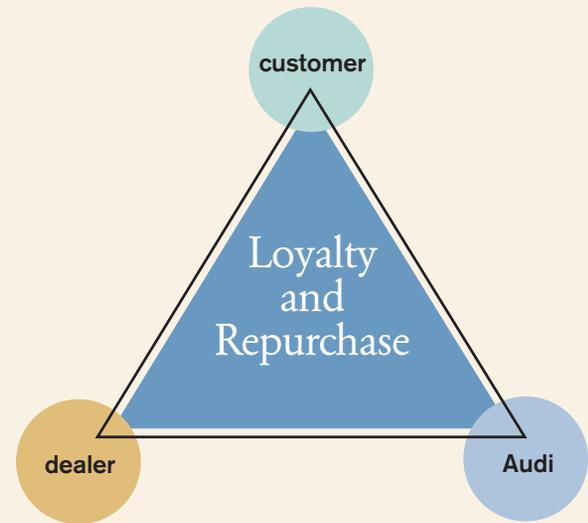
Ms. Catherina Wrede, *Manager, Campaign Management*

Strategic Vision: Enriching the Brand Promise

While Audi's journey toward customer excellence evolved in the 1990s, its CRM program launched in 1999. The manufacturer staked a new position as a luxury brand in an effort to differentiate itself from a crowded mid-class market. As part of its move, Audi separated its dealerships from Volkswagen and instituted a new set of dealership standards unique to the Audi brand. Audi created an independent marketing department to execute its product marketing activities that had been previously conducted jointly by Audi and Volkswagen. It also began investing in workforce training, built upon the famous German apprenticeship system that provides intensive training with an emphasis on quality.

Like any auto manufacturer, Audi's goal is to acquire and retain customers for the long term. Though customer loyalty and repurchase are critical for any industry, it is paramount to the luxury car sector. The auto industry is fiercely competitive, in part because the global market for new cars is saturated, making customer retention critical. Also, the combination of large ticket products with the more frequent purchasing tendencies of affluent consumers makes repurchase the ultimate measure of success. Luxury sector consumers buy a new car every two to three years, compared to the larger industry average of three to five years.

Though Audi experienced record company results in the luxury sector, it felt there was potential for improving loyalty. Audi also recognized that strong brand affinity and product excellence alone would not be enough to drive its desired level of repurchase. "All companies in this sector try to prosper on the basis of good quality, maximum safety and technical design," says Dr. Christoph Wargitsch, Head of CRM and New Media at Audi. "But if we were going to play in the premium league and gain competitive advantage, we needed to markedly distinguish ourselves from our competitors to gain the long-term customer loyalty that Audi is targeting." The challenge quickly crystallized: to sustain Audi's brand



- As part of its CRM strategy, Audi envisions working more closely with its dealerships to deliver relevant, personalized offers to its most valuable customers to drive lifetime loyalty.
- The Audi dealerships traditionally have had the most direct relationship with the customer at the point of sale.
- mySAP CRM has enabled Audi to collect customer data at customer touchpoints. Customer profiles enable improved customer service and more targeted marketing.

promise of top product quality while creating a fresh approach to generate repurchase.

Delivering a premium customer experience

Audi understood that providing a rich customer experience across channels would prove vital to expanding brand relevance beyond product innovation alone. "We saw a natural opportunity to augment our heritage of product excellence by becoming more premium in our CRM activities to create greater loyalty," explains Dr. Wargitsch. "This meant designing operations that enable the delivery of a premium customer experience alongside the delivery of a premium product."

The dynamic between manufacturer, dealer and customer lies at the center of Audi's CRM plan. "The relationship between manufacturer, dealer and end user is a triangle," explains Dr. Wargitsch. "To ensure loyalty, we must ensure the triangle is working on all axes." Audi made it a priority to have an integrated CRM approach whereby all functions were considered.

In doing so, manufacturer and dealer will provide one face to the customer and deliver the premium customer experience. By understanding customers' needs, Audi can make targeted offers across the customer lifecycle. This will drive satisfaction, loyalty and repurchase.

CRM ROI Review

Optimizing Returns on Customer-Centric Strategies

Audi

Incremental steps

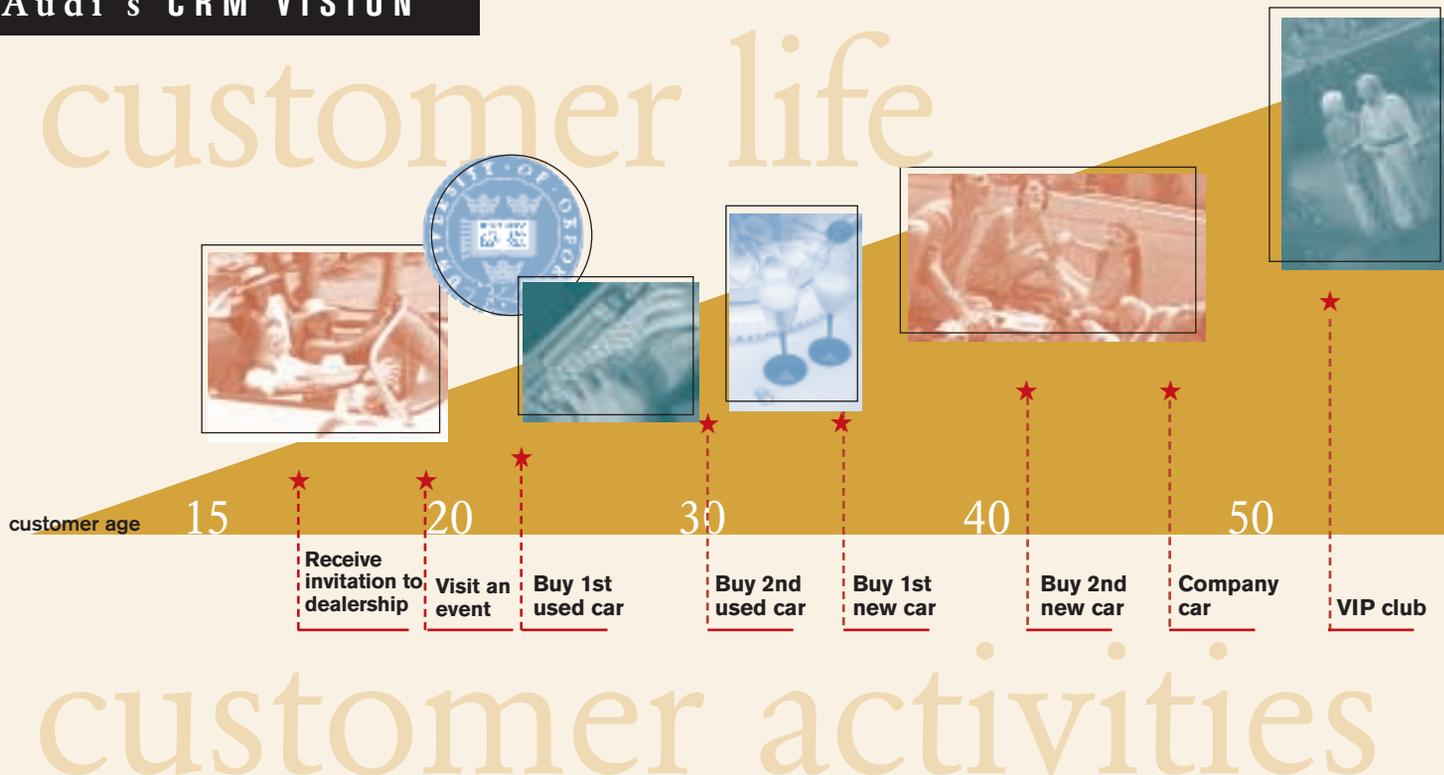
Audi drafted a number of strategic objectives designed to enable its long-term vision. The first was to establish the importance of CRM enterprise-wide. In 1999, the Board of Directors confirmed the strategy and declared CRM a core competency at Audi. "Focusing on customer relationships is not a project or initiative at Audi. It is a function, on the same level as product marketing and other traditional marketing functions," says Dr. Wargitsch.

If Audi was going to provide a premium customer experience by meeting customers' product needs, it had to start interacting with Audi owners more often. This mandated a consolidated 360-degree view of customers based on a customer's lifestyle, life stage, product preferences and purchase motivations. Audi also needed new, customer-focused processes that could cultivate a two-way, ongoing

customer dialogue. Only then could Audi act on customer insight and drive repurchase by delivering relevant, individualized offers to customers at the right time.

At the time, however, Audi did not have the tools or processes in place to get there. Disparate legacy systems and information stores inhibited Audi's ability to further interact with end users and better identify their needs. There was no technological infrastructure in place by which to capture, house and act on incoming data, which had a significant impact on processes. "We had no consolidated customer database," says Dr. Wargitsch, "and we noticed that many of our processes, such as customer service, would not be able to facilitate a dialogue with customers. It was imperative that we close these gaps if we were going to deliver the best customer experience." Audi enabled its ultimate vision by starting the CRM journey.

Audi's CRM VISION



Audi's CRM vision outlines the desired behavior outcomes inherent in the implementation of its customer-focused journey, enabled by mySAP CRM.

Crafting the Customer-Focused Environment

In 2000, Audi defined the technology requirements necessary to focus processes around the customer, specifically its marketing and service operations. The first step was to consolidate the company's multiple databases into a central source and make that information available to other systems.

Audi's CRM infrastructure, known as KuBa (Kunden Datenbank, or customer database) is designed to house the consolidation. KuBa is a joint development of a common customer database structure among Audi, Volkswagen and Volkswagen Financial Services AG. "KuBa is the basis for Audi's CRM processes," details Mr. Gerhard Naegele, Project Director, Volkswagen Financial Services AG. "By creating a unique, centralized customer database, Audi is enabling the analysis and availability of up-to-date customer data in its development of CRM processes." SAP's Business Information Warehouse (BW) is one core component of the KuBa system. Audi chose BW to consolidate all relevant databases and house the integrated information within KuBa. To date, KuBa holds data on 700,000 customers, 600,000 vehicles and several million individual customer interactions.

From insight to action

Audi needed to utilize the consolidated customer data to make relevant offers, elevate service levels and deliver the premium customer experience. A top requirement was a CRM solution capable of integrating with systems already in place, specifically KuBa and BW. "From the beginning," affirms Mr. Naegele, "we wanted to select a CRM solution that would easily integrate with our existing systems." Audi considered solutions from Oracle, Siebel, SAP and Clarify, and in the end decided mySAP CRM was the best solution.

There were several reasons for this. First, mySAP CRM enabled tight integration with KuBa as well as SAP BW. Second, mySAP CRM offered the broad functionality base Audi needed to act on the customer data across channels. "SAP had proven to us that it was a strong partner," says Dr. Stefan Scholer, Head of Customer and Dealer Systems at Audi. "The functionality of mySAP CRM would provide us a sustainable holistic view of the customer and allow us to integrate touchpoints. It was a clear decision." Today, mySAP CRM makes up the second core technology component of the KuBa system along with the BW solution.

"To help users get accustomed to the new business processes and functionality, we instituted a strong change management program alongside the



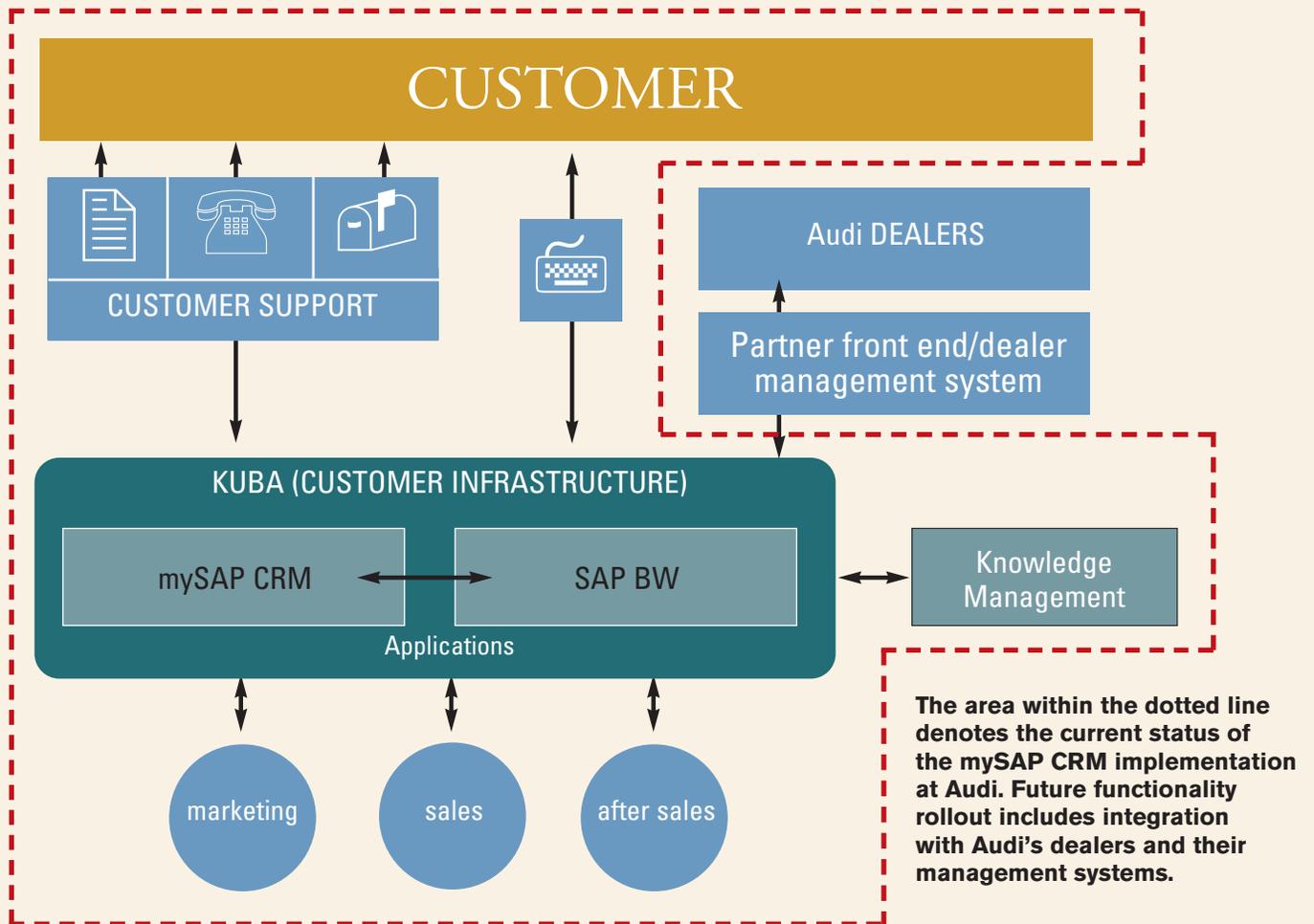
“Focusing on customer relationships is not a project or initiative at Audi. It is a function, on the same level as product management and other traditional marketing functions.”

Dr. Christoph Wargitsch
*Head of CRM and
New Media*

CUSTOMER VALUE

60

SAP IT LANDSCAPE



implementation,” says Dr. Scholer. Led by an internal change management professional, Audi held information workshops and training sessions on CRM concepts for customer care representatives. Also, each representative was granted time during his or her work day to conduct self-taught training in mySAP CRM with the aid of a screen cam. Audi offers training on customer relationship management standards to ensure the consistent delivery of a premium customer experience by its customer service representatives.

Audi implemented mySAP CRM from October 2001

through April 2002. PricewaterhouseCoopers and SAP consulting as well as systems integrators Syskoplan AG, and ecenta supported the implementation. mySAP CRM enabled Audi to integrate multiple customer contact channels—namely telephone, email, fax and letter—and optimize outbound marketing processes such as campaign management. Audi also connected mySAP CRM to its computer telephony integration (CTI) system to enable customer service representatives to personalize interactions with inbound calling customers.

Audi is using mySAP CRM to drive the automotive industry's most sought after goal: customer loyalty and repurchase



Customer Care: Optimize Process, Generate Opportunity

The mySAP CRM implementation began in Audi's Customer Care departments. With two Customer Care centers, one based in Cologne and the other in Ingolstadt, Germany, Audi employs 220 customer service agents who annually handle inquiries from approximately 400,000 prospects and customers twenty-four hours a day, seven days a week. Audi's implementation of mySAP Customer Interaction Center was launched in early 2002. The availability of integrated customer data and customer profiles, combined with the elimination of manual processes will generate over €10 million through 2005.

Prior to mySAP CRM, an increasing number of customer or prospect-initiated contacts were coming directly to Audi. Most inbound contacts were made by customers considering repurchase or filing a service inquiry, or prospects considering purchase of a new car. Dr. Wargitsch explains, "Traditionally, manufacturers affect brand affinity and dealers directly influence the customer relationship. But with the strong trend showing consumers increasingly contacting the manufacturer, and our entry and need to differentiate ourselves in the luxury sector, we saw that we could augment our dealers' activities and grow retention by also building direct relationships with our customers."

Audi previously did not have a streamlined and consistent process for handling inbound customer service inquiries. For example, Audi's automated system recorded inquiries regarding complaints, but all other inquiries were recorded manually and not centrally stored. "While there were guidelines for addressing specific customer issues, there were no existing templates to ensure a customer-focused consistency among responses from our representatives," recalls Mr. Christoph Engelmann, Head of Customer Care Development and Support.

In addition, Audi service agents relied mostly on @sk!, the company's knowledge management portal, to address

inbound service issues. However, while @sk! provides basic guidelines for addressing most inquiries, it was not integrated into the customer care representative's interface. This made it difficult for service agents to resolve customer service inquiries quickly and efficiently.

As a result, service agents handled inbound inquiries differently and had difficulty bringing some inquiries to resolution. Moreover, management had no way to track progress, explains

Mr. Alexander Habisreiter, Manager of Customer and Dealer Systems. "Management had no visibility into complaint resolution rates, and inbound customer contacts could remain in an e-mail inbox or on a representative's desk for many days," he says. There simply was no process or system to generate accurate reports on the nature and volume of complaints from different channels.

ROI R U N D O W N

mySAP CRM is creating improvements in process quality, generating over €10 million through 2005.

Process optimization pays off in quality improvements

mySAP CRM changed all of this. Integrating the call centers on one system was the initial priority. "With CRM as a core competency, we felt the need to bring all of our customer service processes together, so that customer care was also a company-wide competency," says Mr. Habisreiter. While still separated by location, today's customer care centers operate cohesively, collecting data from all customer inquiries and interactions, regardless of their nature.

Today every inbound customer contact is captured into mySAP CRM, whether received by e-mail, fax, letter or telephone. "Electronic communications, faxes and letters are automatically integrated into mySAP CRM," says Mr. Engelmann. The workflow functionality of mySAP CRM also provides management visibility into unattended inquiries after three days. Each email is personally responded to within thirty minutes by a representative, letting the

customer or prospect know his question is being addressed and when to expect a response.

The benefits of improved quality are also evident in mySAP CRM's integration with @sk!. Today representatives can quickly access data since the system is integrated with Audi's customer database. Audi also created approximately 1,000 standardized letter templates accessible through the integration of mySAP CRM and @sk!, organized by topic, so representatives respond to customers with a consistent style and information. "Essentially, we save time by not having to create new letters for each inquiry. But we are also building better rapport with customers by instituting more professional, consistent responses," explains Mr. Habisreitingner.

ROI RUNDOWN

With mySAP CRM to generate more targeted direct marketing campaigns, Audi anticipates a contribution of over €2.3 million through 2005.

Audi's customer care business processes were restructured to enable systematic and standardized collection of data into customer profiles. With each incoming call, the caller's profile is obtained from mySAP CRM, allowing agents to view the entire history of a customer's interactions, vehicle types and contact information within a single desktop screen. CTI also allows representatives to personalize and verify the call, and if they have phoned in the past, the profile is immediately accessed. Data hygiene technology also minimized the record duplication and errors. Mr. Engelmann notes, "With availability to complete customer profiles, we can handle a greater volume of calls, but more importantly, calls are handled with more quality and personal touch."

CRM IN AUTOMOTIVE: MARKET RESEARCH POINTS THE WAY

Although product improvements can be matched by competitors, automotive companies can gain a competitive edge on customer repurchase by making the product ownership experience as easy, delightful and individualized as possible. Customization provides enormous and largely untapped potential to increase the gain that customers expect from a transaction, particularly where the high-ticket purchase of a luxury automobile is concerned.

Recent market research reflecting consumer attitudes indicates the growing relevance of CRM in the automotive sector, a significant departure from the traditional mass marketing efforts of the industry. A 2003 Cars Online survey revealed CRM's potential role in the areas of customer acquisition and retention. According to the survey, only 18% of consumers believed TV advertising influenced their car buying decisions, while almost half of consumers said a relevant, direct mail offer from a dealer or manufacturer would be ideal. Also, most consumers said they expect a

response to a query within 24 hours and that a slow response time would likely lead them to purchase elsewhere. Almost half said they would look for a new manufacturer or dealer if the response times were too long.

A customer's experience with a brand is no longer built on mass marketing campaigns or on product performance alone. Brand is also built by making each interaction with customers valuable and relevant. "Today's economy is driven more on value delivered than on product features," says Dr. Christoph Wargitsch, Head of CRM and New Media at Audi. "That's why Audi is no longer built solely via mass media, but rather by proactively managing the customer experience across touchpoints. This experience is the most compelling determinant of a customer's future purchase behavior."

Brand is also built by making each interaction with customers valuable and relevant.

Marketing: Customer Insight Enables Growth

Smart marketers know that cultivating a customer's lifetime loyalty depends upon generating the lead that has the potential to become a lifetime customer. In an industry fueled by mass marketing, companies in the automotive sector have traditionally focused on broad-based marketing efforts. Audi sought to build upon these efforts by adding a more integrated approach. It set out to execute targeted direct marketing campaigns to not just generate more leads, but to generate more qualified leads for dealers. The next step of Audi's CRM program was to optimize its proactive processes, such as campaign management, by injecting customer-focused marketing approaches into Audi's product promotion strategy.

Using the Marketing Management component of mySAP CRM, Audi piloted a direct marketing campaign in conjunction with the launch of the A8 in the Italian market from June through October 2002. "We saw the opportunity to create customer 'pull' with direct marketing by discovering what is relevant to our prospects' automotive purchase motivations," says Dr. Wargitsch. The plan was to use the process insights and results to help guide an international rollout of the direct marketing strategy.

Audi designed the campaign based on response variance to needs-based related questions, such as customers' automobile preferences and purchase motivations. "The campaign involved segmenting customers into needs-based groups, so we could better understand reasons for purchase and try to customize our future marketing efforts appropriately," explains Dr. Wargitsch. Via six different mailings, Audi sent the campaign to prospects and current Audi customers, using internal data collected from Europcar, Volkswagen Financial Services AG, Audi's web database and recent Audi car buyers.

Based on individual responses to the questions, the final mailing presented an individualized offering, and offered a test drive of the new A8. "Those that responded 'yes' to the A8 test drive were deemed qualified leads," explains Ms. Catherina Wrede, Manager, Campaign Management. All of the response data is recorded in customer profiles in mySAP CRM and qualified leads are then delivered to the appropriate dealer for follow up.

Outcomes exceed expectations

Results of the campaign outperformed Audi's expectations. The company planned on generating 300 qualified leads and instead, generated 1100. "This was more than we anticipated, and was more than we ever received from single mailing promotional campaigns," says Ms. Wrede. Also, as responses were from both existing customers and non-Audi customers, the company can use campaign results to create target groups for re-purchase and prospect groups for initial purchase based on product preferences and buying motivations.

Audi plans on using mySAP CRM and the pilot campaign approach for this year's campaigns across the product line. Using its lead-to-sale conversion rate and assumptions generated from the Italy A8 pilot, Audi anticipates over €2.3 million in revenue enhancement from executing several campaigns through 2005.



“The functionality of mySAP CRM would provide us a sustainable holistic view of the customer and allow us to integrate touchpoints. It was a clear decision.”

Dr. Stefan Scholer
Head of Customer and Dealer Systems

The Loyalty Effect: Meeting a Lifetime of Customer Needs

Lifetime customer loyalty, evidenced by higher repurchase rates, is Audi's top goal. Its vision for achieving that goal begins with integrating all of Audi's current and incoming customer data into unified profiles that will include purchase history (year and model, for example), finance and warranty history, and service interaction history. Audi strictly adheres to privacy legislation and only uses customer data when the customer agrees. Customer information will be drawn from Audi's recently consolidated KuBa database, direct marketing efforts, customer service inquiries, leasing contracts and dealer databases.

As the profiles take shape, Audi can then begin collaborating with its dealers to provide the premium customer experience and drive repurchase. "By integrating our collected customer data with the transaction data collected by dealers, Audi will be able to create complete customer profiles and make individualized, timely and relevant offers based on those profiles," says Dr. Wargitsch. The payoff: Audi expects its mySAP CRM backed initiative will contribute over €3.3 million related to loyalty increases through 2005.

Establishing the dealer partnerships

Audi is on its way to bringing its plan to fruition. The company is capitalizing on several key advantages. First, VW Financial Services AG, Audi's financial services arm, is also participating in Volkswagen's common CRM database initiative.

Recent European Union legislation is also contributing to Audi's CRM cause. In October 2003, Block Exemption Regulation 1400/2002 (BER) became fully effective within the motor industry. BER aims to spark greater competition and broaden consumer choice by allowing dealers to buy

and sell cars from multiple manufacturers. Where some manufacturers may view BER as a setback, Audi sees opportunity. Block exemption regulation allows Audi to define more customer-focused standards by which all dealerships are expected to operate, which could serve as a platform for collaboration down the road. Audi has already taken the first steps by revamping dealer contracts to ensure that dealers achieve certain core standard service levels.

BER has also elevated the need for manufacturers to build rich relationships with dealers, a requirement that Audi is prepared for given its CRM core competency.

"Now more than ever, we are challenged with dealer integration and how to connect with and enhance dealers' infrastructure in a way that will communicate benefits to them," explains Dr. Scholer. By providing more value to individual dealers, Audi can offset the likelihood of dealers selling other manufacturers' vehicles while setting the stage for collaboration around integrated customer data long term.

The power of process

Audi is establishing business processes for collaborating with dealers to provide the premium customer experience. Technology, specifically mySAP CRM will play an important role Audi in this effort. For example, "We can inform an existing Audi owner about a product launch based on the owner's preferences, purchase motivations, or where he sits on the lifecycle stage," says Dr. Scholer. "With mySAP CRM, we also can notify the dealers that we are sending a specific marketing campaign around the launch as well as alert those dealers to follow-up with recipients of the campaign by phone."

Audi also has created dealer-manufacturer feedback loops that will be enhanced by the integrated customer profiles. For example, details Dr. Wargitsch, "When a

ROI RUNDOWN

By replacing its complaint handling system with mySAP CRM, Audi saved €400,000.

customer contacts the manufacturer with a service issue, Audi verbally forwards that information to the customer's local dealer so they are aware and can take the appropriate action." Once the service issue is resolved, information from the dealer can be entered into the customer profile, allowing for an up-to-

date storehouse of relevant customer data. Audi and its dealers will act in unison to provide a premium customer experience across marketing, sales and service channels. This will generate customer satisfaction, loyalty and repurchase, which meets the needs of manufacturer, dealer and customer alike.

OVERCOMING THE COLLABORATION CHALLENGE

While visionary, Audi is not alone in its plan to capitalize on shared customer data, collaborate with dealers to elevate the customer experience, and boost repurchase revenue. According to the National Auto Dealer Association, of the approximately 22,000 car dealerships in the United States alone, an estimated 50 to 70 percent are engaged in some form of CRM.

Despite the early strides of CRM within the auto industry, collaboration between manufacturer and dealer brings significant challenges. For example, manufacturers often have minimal access to customer data that resides in dealer management systems. In most cases, dealers, not manufacturers, interact with customers on a consistent basis. As a result, manufacturers cannot actively match their data to the vehicle sales, parts and customer service data collected by dealers. A connected challenge is customer privacy. Acting on shared, integrated data from manufacturer and dealer must be done in a secure manner that protects the privacy and preferences of individual customers.

Audi is addressing these challenges in order to free up data flow between manufacturer and dealer while protecting customer privacy. The company is actively showing dealers the long-term benefits of collaborating around the customer. The first step to gaining buy in is working from the dealer's perspective. "In using CRM, our goal is to help facilitate more relevant interactions between dealer and customer to help dealers sell more cars," says Dr. Stefan Scholer, Head of Customer and Dealer Systems at Audi. For example, by



A CRM-driven approach to collaborate around the customer will take the three-way relationship among manufacturer, dealer and customer to a new level.

combining the sales, customer service and parts data housed by dealers with the lead generation and marketing data compiled by manufacturers, a more holistic and effective face to the customer can be put forward. Dealers could then utilize the complete profiles to data to generate more effective marketing and sales efforts to cultivate repurchase.

Similar efforts are being made on the privacy and security sides. "Consumers specify to the dealer at the point of sale whether or not they want their information used, and whether the dealer, AUDI AG or both can have access," says Dr. Christoph Wargitsch, Head of CRM and New Media. In addition, Audi outlines formal data privacy policies in both its contracts with consumers and dealers. Also critical, the company does not sell its consumer lists. A comprehensive approach for collecting and acting on relevant customer data will set the stage for long term success, says Dr. Wargitsch.

The ROI of CRM

Measurable gains in the form of increased revenue contribution and improved productivity constitute the bulk of Audi's return on its mySAP CRM investment. While Audi launched mySAP CRM in 2002, benefits have been calculated starting in 2003 to allow for employee acclimatization to new processes and technology. From this point, Audi projects an IRR of 22% through 2005. The IRR is based on a net operating benefit of €9.5 million on a technology investment of approximately €4.5 million.

Audi's mySAP CRM technology investment includes hardware, license fees, software, training and consulting services. Audi's annual operating costs, averaging approximately €1.4 million, stem from the ongoing hosting fees

payable to a third-party hosting company. These costs are associated with running mySAP CRM and related technology components that enable Audi's customer strategy.

Increased contribution from more targeted lead generation Using mySAP CRM to generate more targeted direct marketing campaigns, Audi is developing more qualified leads for dealers to cultivate. Audi anticipates this lead generation effort will result in a contribution of over €2.3 million through 2005.

Cost-savings from retired legacy systems By replacing its complaint handling system with mySAP CRM, Audi was able to save costs of €400,000.

THE ROI OF CRM

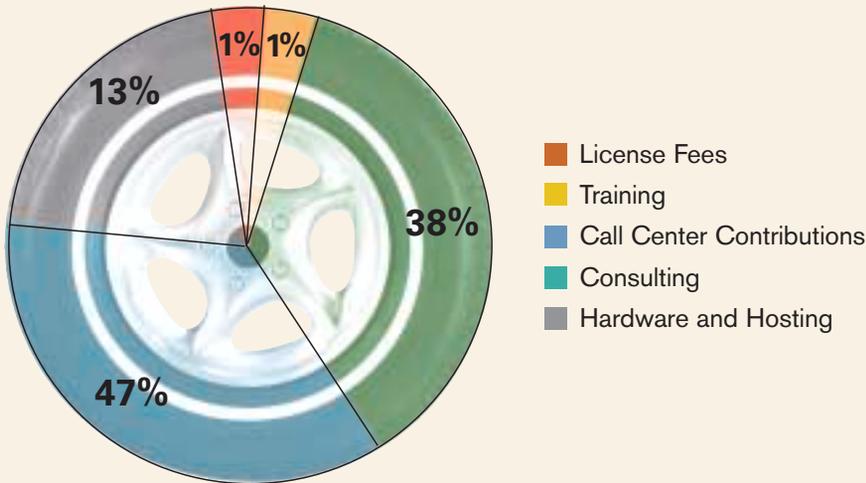
Audi expects a 22% Internal Rate of Return (IRR) on its mySAP CRM investment through 2005.

in million Euros	'01	'02	'03	'04	'05	Total
Direct Investments	-2.15	-2.10	-0.27	0	0	-4.52
Operating Costs	-1.14	-1.61	-1.50	-1.34	-1.34	-6.93
Cost Reductions	0	0.10	0.10	0.10	0.10	.40
Increased Contribution	0	0	3.45	6.30	6.30	16.05
Cash Flow after CRM	-3.29	-3.61	1.78	5.06	5.06	5.00
ROI Calculation: IRR through 2005						22%

*Note: Savings calculated on direct cost comparison.

INVESTMENT BREAKDOWN

The graph below illustrates the breakdown of cost categories associated with Audi's investment in mySAP CRM.



Productivity improvements from process optimization Since the implementation of mySAP CRM, customer care representatives can access customer profiles that enable a more efficient interaction when responding to a customer inquiry. Related quality and process improvements will generate over €10 million through 2005.

Contribution from increased loyalty With the current functionality enabled by mySAP CRM, combined with future plans for dealer integration and global rollout, Audi calculates over €3.3 million increase in contribution through 2005, realized according to the market situation.

Audi's CRM strategy was created to include the dealers' roles in affecting and optimizing the customer experience



“ We are building better rapport with customers by instituting more professional, consistent responses. ”

Mr. Alexander Habisreiter
Manager of Customer and Dealer Systems

FROM CUSTOMER COMPLAINT TO PRODUCT IMPROVEMENTS

No business is immune to customer complaints. Yet, it is the unique business that uses customer complaints as fodder for other operations, be it product development or operational improvement. Audi is one of those unique, customer-driven companies, using the process of complaint discovery and management as an opportunity to ensure the premium creation of total customer experience. It is no coincidence that listening to customers continues to be a hallmark of the Audi brand; it is evident in the translated company name, audi meaning 'listen.'

Audi is beginning to systematically incorporate customer service issues and feedback into the technical, product development process.

Audi is beginning to systematically incorporate customer service issues and feedback into the technical, product development process. In the past, the customer care department sporadically sent customer feedback recorded in the legacy system to the product development group. This process is changing at Audi, a transition that began during a recent

product launch. "After the launch of one of our cars, we noticed that sales were not going as well as planned," says Ms. Catherina Wrede, Manager, Campaign Management. "At the same time, there were a significant number of customer complaints associated with technical aspects of this specific vehicle. We utilized the feedback to adjust the product appropriately the re-launch and get back on track."

Now, Audi's technical department proactively requests complaint data from the customer care department and the process has become automated. Rather than seeing complaints as a barrier to relationship building, Audi recognizes the opportunities present for both the customer and the company.

Ms. Wrede notes, "Complaints are an opportunity for further interaction with the customer and showing how we are keen on solving his problem. But they can also help us improve our products. It's a win-win situation."

The Future

Audi remains committed to further implementing its customer-based strategy to enhance the premium ownership experience. Immediate next steps include international rollout of the CIC component of mySAP CRM, based on the insights acquired in the pilot rollout in the German market. "Beyond improving processes in the customer care area, we also want to make sure all processes thread together to achieve a more integrated view of customer interactions," reiterates Dr. Wargitsch. Audi's goal is to achieve greater economies of scale by improving quality, generating efficiencies and optimizing processes throughout the global Audi network.

Future plans include improving proactive business processes, including outbound telemarketing efforts to increase the scope of direct customer interaction efforts. Audi plans to add CRM components and integration with existing dealer systems to achieve its ultimate vision. To



better target its mass marketing expenditures, Audi also plans to implement the analytical functionality of mySAP CRM to review and optimize its advertising efforts, based on the data collected in BW. Audi's collective customer-focused efforts strive for the holistic view of the customer that will enable relevant, timely and profitable interactions to keep customers loyal for a lifetime. ■

The 8 Point Takeaway

With mySAP CRM, Audi is creating more relevant, customized experiences for its customers to generate customer loyalty and repurchase. From here, long-term lessons emerge, shown in the 8 Point Takeaway.

1. Elevate the customer experience In the late 1990s, Audi embarked on its vision to elevate the ownership experience of individual customers. By using mySAP CRM to collaborate with dealers around rich customer data and manage the customer experience across channels, Audi will boost customer repurchase while operating more efficiently. The result: a 22% Internal Rate of Return through 2005.

2. Enrich brand value Building brand value goes beyond product performance. Audi recognizes that providing value to the customer at each interaction point and across channels strongly influences a customer's brand perception, satisfaction and future purchase decisions.

3. Recognize the value of retention Audi understands that retaining an existing customer is often more valuable than acquiring a new one. By utilizing mySAP CRM to enhance marketing, sales and support capabilities, Audi anticipates over €3.3 million in revenue contribution related to loyalty increases through 2005.

4. Centralize data first In 2000, Audi defined the technology requirements necessary to focus processes around the customer. Step one was consolidating multiple databases into a central source. To date, the central database holds information on over 700,000 customers, 600,000 vehicles and several million individual customer interactions.

5. Streamline individual touchpoints Today every inbound customer contact at Audi is recorded into mySAP CRM, whether received by e-mail, fax, letter or telephone. Electronic communications are automatically integrated into mySAP CRM.

6. Bring product promotion and CRM together Audi sought to inject customer-focused approaches into its product promotion strategy. Fuelled by customer and prospect insight, Audi is using mySAP CRM to generate highly targeted campaigns and qualified leads. The result: an anticipated €1.18 million revenue enhancement from 2004 campaigns alone.

7. Make customers a core competency Realizing that a few tactical CRM initiative will only reap minimal benefits, Audi's Board of Directors instituted CRM as an organizational core competency in 1999. As a result, Audi can fully develop the customer-centric infrastructure and set the stage for the highest return on its CRM investment.

8. Maximize existing assets Recognizing that dealers are a critical face to the customer, Audi made it a priority to include dealers in its CRM strategy, not displace them. Audi holds a vision of customer data sharing between the dealer and manufacturer. Such collaboration will deliver the premium customer experience.

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For the summary of this ROI Review, please refer to material no. 50068498.

About the ROI Review

The ROI Review, published by Peppers & Rogers Group, is a periodic report detailing the implementation of enterprise-wide, client-server applications, specifically the mySAP CRM customer-centric solution.

ROI Methodology

To assess the overall financial impact of the mySAP CRM implementation, Peppers & Rogers Group used two core methodologies:

First, a ValueMap®, a proprietary tool to Peppers & Rogers Group, was deployed to pinpoint the financial impact of specific elements of the CRM implementation on unique customer segments and treatment types. The ValueMap® takes a “bottom-up” approach to determine both current and prospective results.

The methodology of the ValueMap® is to identify customer segments and touchpoints affected by the mySAP CRM project and their related financial objectives. Then identify the specific functionality enhancements as well as key metrics impacted by each enhancement.

At that point, assess the post-implementation levels of the metrics and model the positive impact of the changes in cost savings or contribution enhancements. Then calculate total attributable gains plus the direct investment costs and changes in any other overhead (staffing, agency fees, etc.). The Return on Investment (ROI) calculation included the cost of both external and internal implementation work as well as incremental hardware.

Second, in addition to ValueMap® calculations, Internal Rate of Return (IRR) was used to determine the final ROI of the implementation. IRR was the chosen ROI methodology because it is the most conservative and explicit approach. Also, it is not dependent on estimating the appropriate hurdle rate (discount rate or opportunity cost of money) to be applied.

The IRR methodology is applied to net cash flows generated over the relevant time horizon measured in accordance with the Cash Flow Return on Investment (CFROI). This methodology has the advantage of eliminating the impact of company specific taxation circumstances and policies, as well as national corporate taxation conditions in the various countries in which the ROI Review studies take place.

Peppers & Rogers Group

Peppers & Rogers Group is a management consulting firm recognized as the world's leading authority on customer-based business strategy. It is dedicated to helping companies compete and win by identifying differences within the customer base and using that insight to maximize the value of each and every customer relationship. Led by 1to1 Magazine, Peppers & Rogers Group's independent media division reaches 250,000 CRM decision-makers weekly with a broad array of print, interactive and custom publications. Peppers & Rogers Group is a Carlson Marketing Group company headquartered in Norwalk, Conn.

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For more information on The ROI Review
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