Economic Accounting Note Series

Configuring Customer Relationship Management Systems for Economic Accounting and Performance Management

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Unlike businesses that measure performance against internal goals related to sales revenue and profits, economic development and government agencies measure performance against goals external to their organization, such as employment and income. By integrating economic accounting metrics into their program management system, development agencies can track performance related to external goals as part of their workflow. In this note, I discuss and provide guidance on configuring Customer Relationship Management (CRM) systems for economic accounting to track and manage performance.

Issue

Economic development organizations often implement Customer Relationship Management (CRM) systems to support their Business Recruiting and Expansion (BRE) efforts. These systems are designed to improve the operational efficiency and effectiveness of BRE programs that rely on marketing and sales processes supported by CRM systems. Several companies configure CRM platforms or develop niche CRM software applications to meet the needs of the economic development community.

While these systems support sales and marketing processes to improve internal performance, program and agency performance is measured against external goals related to the local economy. That is, unlike businesses that measure performance against internal goals related to sales revenue and profits, economic developers measure performance against goals external to their organization. The issue addressed in this note is how to integrate economic accounting and performance management methods with CRM systems to measure performance against these external goals.

Discussion

Economic development performance management includes methods to track and measure the organization’s performance against goals that are set through strategy and planning processes, allowing organizations to continuously revise tactics and allocate funds to achieve success. Given that CRM systems are relied on to implement programs such as Business Retention and Expansion, these systems can play a central role in tracking progress towards goals. To do so, configuration of these systems must include data on external performance parameters that determine success.

Configuration must also tie companies in the CRM system to market segments defined in the strategy and planning process. This linking is a key part of targeting and implementing programs to achieve economic development goals. In the discussion that follows, I introduce economic portfolios as a method for configuring market segmentation in CRM systems, and suggest adding productivity scores, economic contribution and expansion impact estimates, and industry growth indicators to company records to facilitate planning and reporting on progress during program implementation.

Economic Portfolios

Portfolio management is the organizing principle behind the work of economic development organizations and their performance, managing a portfolio of investments in infrastructure, industries, and programs to provide for a sustainable, prosperous economy. In an economic accounting system, portfolios are defined for the largest industries that drive the local economy, for local industries that supply production requirements to these industries, for physical and social infrastructure that maintains and improves productivity for these industries, for industries necessary for resilience and other multi-criteria planning factors, for workers that provide necessary skills for the economy to prosper, and for programs – the services delivered by economic development organizations. For more information on portfolio accounting, please see our related Economic Accounting Note on this topic.

Integration of portfolio management with CRM systems requires adding data fields to each record to indicate if a company, asset, or program is included in each type of portfolio. For instance, a company could be included in the portfolio of largest industries contributing to gross local product, the portfolio of resilience industries, and the portfolio of industries that provide occupational variety. The results of retaining or expanding this company in the local economy can then be tracked across all three of these performance areas, providing a running tally of how a program is affecting performance goals of economic growth, resilience, and providing opportunities to local workers across a broader set of occupations.

Local Productivity Score

A key driver of economic performance is productivity. As industrial production becomes more efficient and uses fewer monetary resources per unit of production, the economic system creates more real income to spend, save, and invest. Stated in terms of regional development, a region may have lower input costs per unit of industry output compared to other regions due to its natural and human resources and investment in infrastructure. This cost differential translates into a competitive advantage that causes industry to expand production in the region. This expansion, caused by a productivity advantage, has the result of raising regional employment and income levels. In this example, regional resources and investments affect production costs -- a productivity advantage -- which has the result of expanding production in the region and increasing regional income. Without this effect on productivity there will be no impact on employment or income.

In order for a region to sustain and improve economic performance, the region's productivity must be continuously benchmarked and improved. Some industries will be at a competitive advantage for operating in the local economy, while others will be at a disadvantage. When implementing a CRM system, having an indicator for productivity score relative to a productivity benchmark allows for reporting of companies in the system that are at risk of contraction and those that are well positioned for growth relative to their peers. This information feeds into an organization's plan to alter this situation through investments in infrastructure and workforce programs. The productivity effect of these investments can then be traced through to measurement against retention and expansion goals, tying results directly to the effect of investments on increased productivity and the resulting increase in jobs and income.

Economic Contribution

One measurement of results is economic contribution. Each company and industry contributes to the local economy not only directly through local wages and earnings, but also through local supply chain purchases and the spending of these wages and earnings. The total contribution is this impact back through the supply chain and forward through spending of income.

When implementing a CRM system, including economic contribution fields for output, income, and employment allows for reporting on the total contribution across companies in a portfolio and targeting and prioritizing workflow to achieve performance goals. Oftentimes I see organizations measure contribution based solely on a company's direct jobs and income, underestimating the total contribution of a company to local economic performance.

Expansion Impact

A related measure to economic contribution is the economic impact of business expansion. Economic impact is the marginal change in direct and indirect output, income, and employment that results from an expansion of a company's local business operations. When implementing a CRM system, including these impact fields allows an organization to develop a target portfolio of industry prospects and see the total potential impact of all opportunities in its business expansion pipeline. This continuous tracking of opportunities and their economic impacts allows organizations to make adjustments to the targeting of its expansion program financial incentives to achieve its external economic performance goals.

Industry Growth

Industries operating in a local economy are often spread out along a life cycle from introduction to growth and maturity and eventual decline. Understanding this mix of local companies is important for planning investments to continually replace the economic contribution of declining industries with contribution from companies in the industry growth stage.

Including fields for industry growth rate allows for reporting of the gain in economic performance of forecasted industry growth and the loss in economic contribution of forecasted industry decline. An organization can also report on their portfolio of companies by industry life cycle stage, providing an understanding of whether companies in the market growth stage offset companies in the declining market stage to provide for sustainable economic performance.

Guidance

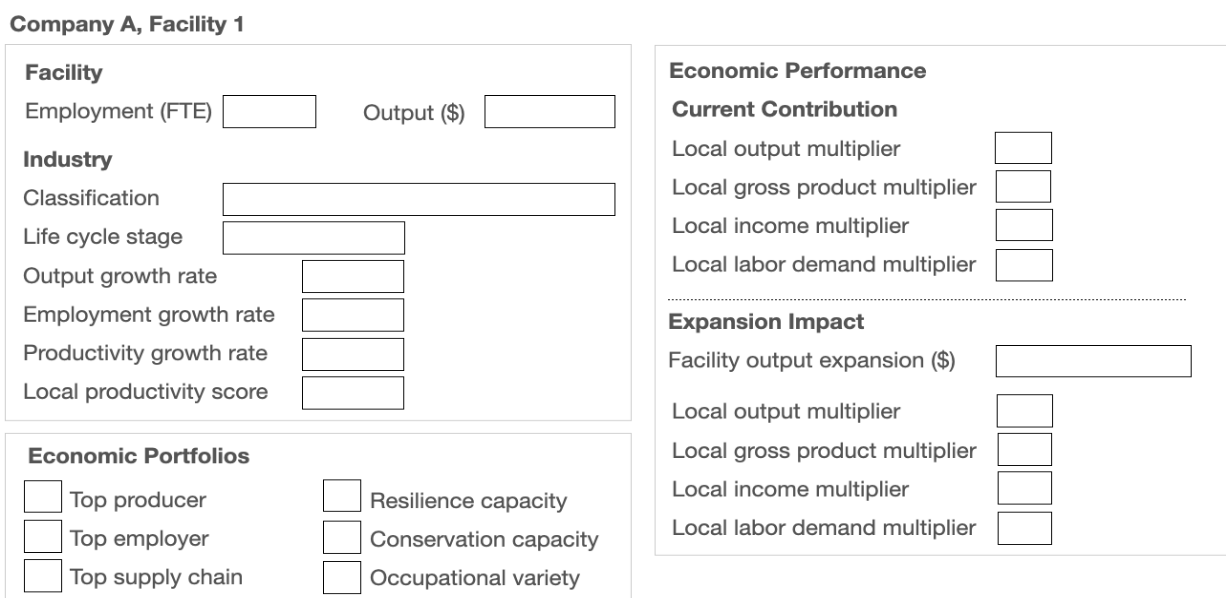
Unlike businesses, economic development organizations set performance goals that are external to their organization. For this reason, economic accounting is a core performance management function for economic development organizations.

Customer relationship management systems are home to individual company-facility level data and, collectively, industry data for key sectors of the local economy. These systems, if configured according to economic accounting principles, provide core performance management functionality for an economic development organization.

This integration of economic accounting principles with CRM systems includes adding metrics that track economic performance that results from internal actions. I suggest keeping it simple, adding only the most important metrics and organizing reporting by economic portfolios. By adding in the key metrics tied to the performance of the local economy, the organization's performance can be continuously tracked and resources adjusted to achieve organizational goals.

Figure 1 illustrates a minimal economic accounting integration with company-facility records in a CRM system. Data to populate these fields are available from economic accounting firms and can be entered manually or through integration with economic accounting systems. With these data, local economic metrics that result from business recruiting and retention program performance is tracked and reported on as part of the program management process. In addition, program resources can be targeted to individual facilities based on the planning process that considers industry life cycle stage and growth rates and specific portolio definitions that are important for achieving local economic goals.

Figure 1: Minimal economic accounting integration with CRM system



From these data fields, external metrics can be generated to report on the local market situation and targeting and tracking of program goals:

<u>Local economic situation</u>

- number and percentage of facilities by forecasted growth rates and life cycle stage for local industry portfolios

- percentage of facilities by productivity score to understand competitive advantage situation for local industry portfolios
- Current economic contribution of facilities at a competitive disadvantage to other locations and under threat for continued output and employment

Program performance

- Retention and recruiting targeting of facilities based on competititve advantage situation, growth rates, and supply chain opportunities
- Tracking of life cycle jobs, income, and output for retained and recruited facilities
- Tracking of life cycle jobs, income, and output for portfolios of local facilities that provide important services to the local economy, such as resilience capacity and occupational variety

