



**Gor
HARUTYUNYAN**

PhD in Economics,
Assistant

In 2020, he graduated from ASUE with a bachelor's degree in "Management", then in 2022, he graduated from the master's program "Information Technologies in Business". In 2022-2025, he studied at the ASUE Department of Management as a postgraduate student. In 2025, he defended his PhD thesis and received the degree of Candidate of Economics. Since 2025, he has been working at the "Amberd" Research Center as a researcher and as an assistant at the Department of Management.

 <https://orcid.org/0000-0001-6415-6010>

HOW TO EVALUATE CRM EFFECTIVENESS?

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This paper presents a comprehensive model for evaluating the effectiveness of Customer Relationship Management (CRM) in organizations. Although companies adopt CRM strategies according to their specific goals, there remains a universal need for measurable indicators that reflect the quality of customer relations and the customer lifecycle. The study integrates key performance metrics—including customer acquisition, retention, satisfaction, loyalty (NPS), cross-selling and upselling, customer lifetime value (CLV), digital adoption, and response rates—into a unified assessment formula. The developed model may serve as a practical tool for banks and other organizations striving to measure, compare, and improve their CRM strategies in a structured and data-driven manner.

In the previous papers of this series, we discussed what CRM is and how to create effective CRM strategy, especially in the banking industry and final step of this process was the assessment of its effectiveness. To implement or maintain a customer relationship management strategy, organizations need a model to assess the effectiveness of that strategy. Each company implements a CRM strategy that is appropriate to its own activities, but there are a number of key indicators and ratios used to assess business effectiveness. Companies can set various goals within the context of a CRM strategy, including increasing sales, reactivating lost customers, retaining reactivated customers, retaining active customers, developing different communication channels, attracting new customers, and automating processes. To achieve these goals effectively, companies identify and calculate numerous

indicators related to CRM¹.

CRM effectiveness in organizations can be calculated using the following formula, which incorporates multiple aspects of CRM. The formula includes factors that reflect the entire customer life cycle and the quality of the relationship. The indicators included in the developed formula are: customer acquisition rate, customer retention rate or customer loss (customer retention rate, customer churn rate), customer satisfaction rate (satisfaction rate), customer loyalty rate (Net Promoter Score), cross-sell and upsell rate, financial results/customer lifetime value (CLV), digital adoption rate and customer response rate (customer response rate – from non-personalized offers, communications).

• Customer Acquisition is the process by which a company acquires new customers . The Customer Acquisition Rate (CAR) is calculated as follows²:

$$\text{Customer acquisition rate} = \frac{\text{New customers}}{\text{All customers}} * 100\% \quad (1)$$

• Customer retention is the company's ability to retain its existing customers over time, while customer churn is the opposite – the rate at which customers stop using the organization's services. The two ratios are inversely related: for example, if the retention rate is 5%, the churn rate will be 95%.

$$\text{Retention rate} = \frac{\text{Active customers}}{\text{All customers}} * 100\% \quad (2)$$

• Customer satisfaction index indicates the level of satisfaction of a group of customers with the services provided by the company³. The data required for the calculation can be obtained through surveys. To calculate the index, the survey results are collected on a scale of (1-10) and an average value is calculated.

• NPS shows how satisfied customers are with a given company's products, services, and activities, and how willing they are to recommend it to their friends or relatives⁴. The value of the coefficient is not a percentage (from -100 to 100), therefore, to bring the value to 0-100%, it is necessary to add 100 to the resulting number and divide by 2.

• Cross-selling and upselling refer to selling new product categories to existing customers⁵. Cross-selling is driven by the customer purchasing a new product or service. Since we are dealing with the quantity of a product or service, the basis for the calculation can also be based on this measure. The upselling rate shows the proportion of customers who switch to a higher-value product in a given group.

$$\text{Cross - selling rate} = \frac{\text{Customers using more than 1 product}}{\text{All customers}} * 100\% \quad (3)$$

$$\text{Upselling rate} = \frac{\text{Customers starting to use high - value products}}{\text{All customers}} * 100\% \quad (4)$$

• CLV - is the present value of the future profits expected from a customer over the entire period of the relationship with the company⁶. This value again does not have a percentage value, therefore, by identifying the maximum value and setting it to 100%, one can also obtain the corresponding percentage of the remaining values.

$$CLV = \sum_{t=0}^T \frac{(p_t - c_t)r_t}{(1+d)^t} - AC \quad (5)$$

where⁷,

p_t is the total customer payments at time t ,

c_t is the cost of direct services provided to the customer at time t ,

d is the discount rate,

r_t is the probability of the customer making a

¹ Harutyunyan G. CUSTOMER RELATIONSHIP MANAGEMENT (CRM) INDICATORS AS BUSINESS EVALUATION MEASUREMENTS. ALTERNATIVE quarterly academic journal, 2, 2023, p. 83

² Nasir S. Customer Relationship Management Strategies in the Digital Era. A volume in the Advances in Marketing, Customer Relationship Management, and E-Services, 2015, Hershey, p. 219, DOI: 10.4018/978-1-4666-8231-3.ch008

³ Rajendran R., Arun C. EVOLUTION OF CUSTOMER SATISFACTION INDEX AS A PERFORMANCE METRIC: A COMPREHENSIVE REVIEW. Journal of Xi'an University of Architecture & Technology, 11(12), 2019, p. 536.

⁴ Reichheld F., Markey R. THE ULTIMATE QUESTION 2.0. How NET PROMOTER Companies Thrive in a Customer-Driven World. 2011, Boston, p. 49.

⁵ Kwiatkowska J., Cross-selling and up-selling in a bank. Copernican Journal of Finance & Accounting, 7(4), 2018, p. 62-63, DOI: <http://dx.doi.org/10.12775/CJFA.2018.020>

⁶ Gupta S., Hanssens D., Hardie B.; Modeling customer lifetime value. Journal of service research 9(2), 2006, p. 141, DOI: 10.1177/1094670506293810

⁷ Gupta S., Hanssens D., Hardie B.; Modeling customer lifetime value. Journal of service research 9(2), 2006, p. 141, DOI: 10.1177/1094670506293810

repeat purchase at time t ,
 AC is the cost of attracting a customer (acquisition cost),
 T is the future time period over which CLV is calculated.

- Digital engagement shows the volume of customers who prefer to use the bank's services on digital platforms⁸.

$$\text{Digital engagement rate} = \frac{\text{Number of active users of digital banking}}{\text{All customers}} * 100\% \quad (6)$$

- Customer response rate shows how actively customers respond to offers and notifications addressed to them (e.g., participate in the proposed campaign, make a transaction, read the sent email, or click on the link)⁹.

$$\text{Customer response rate} = \frac{\text{Number of responding customers}}{\text{Number of targeted customers}} * 100\% \quad (7)$$

The proposed formula for assessing CRM effectiveness contains all the coefficients presented above and has the following form:

$$\text{CRM effectiveness} = \sum_{i=1}^8 w_i * S_i \quad (14)$$

where:

- i is the number of each consecutive coefficient,
- S is the value of the coefficient,
- w is the weight given to the coefficient.

The selection of weights should be based on how important each criterion is to the achievement of the objectives of the customer relationship management strategy in a given organization. The values of these weights can vary from company to company, depending on the predetermined goal and objectives. The calculation of weights can be carried out using the Analytic Hierarchy Process (AHP), which is a structured, multi-criteria decision-making methodology. It is widely used to determine weights between factors based on structured expert judgment. In AHP, the problem is divided into a hierarchy, facilitating the comparison of criteria or alternatives

through pairwise evaluations. For each pairwise comparison, a quantitative score is given, defining the relative importance of one factor to another, using a numerical scale of 1-9, and the results of expert judgments are verified mathematically. On a 1-9 rating scale, 1 indicates that both factors being compared have the same weight, and 9 indicates that the first factor is significantly more important than the second. AHP converts subjective assessments into quantitative weights by constructing a pairwise comparison matrix, summing up the individual judgments (if there is more than one expert, the geometric mean method is used), and mathematically obtaining the main eigenvector of the matrix. This vector indicates the weight of the given component¹⁰.

The weights of the components of the developed model were calculated by using the example of one of the banks in Armenia. A total of 23 employees of the bank assessed the importance of the above-mentioned CRM components for the bank on a 1-9 point scale, based on their own experience and the company's goals. The bank's branch managers, heads of service departments, marketing managers, CRM managers and heads of these departments participated in the assessment. The assessment scale was sent to the employees via e-mail using a Google Form questionnaire. The names of the indicators in the upcoming data are presented as follows:

- customer acquisition rate – a,
- customer retention rate – b,
- customer satisfaction rate – c,
- cross-sell and upsell rate – d,
- customer lifetime value – e,
- digital adoption rate – f
- customer response rate – g,
- NPS – h.

Individual employee ratings were aggregated into one matrix using the geometric mean, the data of which is presented in Table 1.

⁸ Abdennebi H. M-banking adoption from the developing countries perspective: A mediated model. *Digital Business*, 3, 2023, p. 1, DOI: <https://doi.org/10.1016/j.digbus.2023.100065>

⁹ Lemon K., Verhoef P. Understanding Customer Experience Throughout the Customer Journey. *Journal of Marketing*, 80, 2016, p. 73, DOI: [10.1509/jm.15.0420](https://doi.org/10.1509/jm.15.0420)

¹⁰ Saaty Th., Vargas L. *Models, Methods, Concepts & Applications of the Analytic Hierarchy Process*. Second Edition. 2012, New York, pp. 2-12

TABLE 1

References to Green Economy and Sustainable Development in the RA Government Programs¹¹

	a	B	c	d	e	f	g	H
a	1.00	0.92	1.00	0.88	0.91	0.62	0.89	0.92
b	1.09	1.00	0.68	2.65	0.77	0.66	0.82	0.75
c	1.00	1.47	1.00	2.15	1.35	1.07	0.84	0.47
d	1.13	0.38	0.47	1.00	0.53	1.16	1.05	0.51
e	1.10	1.30	0.74	1.87	1.00	1.44	1.40	0.56
f	1.61	1.51	0.86	0.86	0.69	1.00	0.65	0.56
g	1.12	1.22	1.29	0.95	0.71	1.54	1.00	0.66
h	1.09	1.34	2.14	1.95	1.78	1.79	1.51	1.00

In addition to calculating the vector, the model requires calculating the consistency ratio, which shows the reliability of expert assessments. Based on the data collected, the CR is 0.032, and according to the methodology, the coefficient should be below 0.10, therefore the collected data are completely reliable. As a result of mathematical calculations, the eigenvectors (weights) of the eight predetermined indicators are:

- customer acquisition rate – 0.107 – 10.7%,
- customer retention rate – 0.117 – 11.7%,
- customer satisfaction rate – 0.131 – 13.1%,
- cross-sell and up-sell rate – 0.089 – 8.9%,
- customer lifetime value – 0.133 – 13.3%,
- digital adoption rate – 0.111 – 11.1%,
- customer response rate – 0.124 – 12.4%,
- NPS – 0.185 – 18.5%

It becomes clear that the most important directions within the CRM strategy for this

bank are increasing customer loyalty, value, and satisfaction, without neglecting the other highlighted directions.

After calculating the composite score for customer relationship management (CRM) effectiveness, it is important to interpret what that score represents. A framework of qualitative scores is proposed, which are attached to the score ranges, to transform the number into an evaluative statement about customer relationship management (CRM) effectiveness:

1. 80–100: Excellent CRM performance,
2. 60–79: Good CRM performance,
3. 40–59: Fair (average) CRM performance,
4. 20–39: Poor CRM performance,
5. 0-19: Poor CRM performance.

In conclusion, evaluating CRM effectiveness requires a structured, data-based approach that captures the multidimensional nature of customer relationships. The model developed in this study integrates all critical CRM indicators into a unified framework and assigns weights using the AHP methodology, ensuring both objectivity and alignment with organizational priorities. As CRM continues to evolve alongside digital transformation, such comprehensive evaluation tools become crucial for maintaining competitiveness and building long-term, value-creating relationships with customers.

¹¹ The table was compiled by the author.

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Գոռ ՀԱՐՈՒԹՅՈՒՆՅԱՆ

*«Ամբերդ» հետազոտական կենտրոնի փորձագետ,
 ՀՊՏՀ կառավարման ամբիոնի ասիստենտ, տնտեսագիտության թեկնածու*

ՖԻՆԱՆՍԱԿԱՆ ՀԱՄԱՎՈՐԳ

ԻՆՉՊԵՍ ԳՆԱՀԱՏԵԼ CRM-Ի ԱՐԴՅՈՒՆԱՎԵՏՈՒԹՅՈՒՆԸ

Հոդվածը ներկայացնում է կազմակերպություններում հաճախորդների հետ հարաբերությունների կառավարման (CRM) արդյունավետության գնահատման համապարփակ մոդել: Չնայած ընկերությունները CRM ռազմավարություններ են ներդնում իրենց նպատակներին համապատասխան, սակայն դեռևս գոյություն ունի չափելի ցուցանիշների հաշվարկման համընդհանուր անհրաժեշտություն, որոնք արտացոլում են հաճախորդների հետ հարաբերությունների կառավարման որակը և հաճախորդի կյանքի ցիկլը: Ուսումնասիրությունը միավորում է կատարողականի հիմնական չափանիշները՝ ներառյալ հաճախորդների ձեռքբերումը, պահպանումը, զոհունակությունը, հավատարմությունը (NPS), խաչաձև և վերավաճառքը, հաճախորդի ամբողջ ժամանակահատվածի արժեքը (CLV), թվային ինտեգրացումը և արձագանքման մակարդակը՝ միասնական գնահատման բանաձևի մեջ: Մշակված մոդելը կարող է ծառայել որպես կիրառական գործիք բանկերի և այլ կազմակերպությունների համար, որոնք ձգտում են չափել, համեմատել և բարելավել իրենց CRM ռազմավարությունները տվյալների վրա հիմնվելով:

Հիմնաբառեր. CRM, CRM արդյունավետություն, CRM արդյունավետության գնահատման մոդել, վերլուծական ասֆիճանակարգության մեթոդ

Гор АРУТЮНЯН

*Эксперт исследовательского центра «Амберд»,
 ассистент кафедры менеджмента АГЭУ,
 кандидат экономических наук*

ФИНАНСОВАЯ СИСТЕМА

КАК ОЦЕНИТЬ ЭФФЕКТИВНОСТЬ CRM?

Данная статья представляет комплексную модель оценки эффективности управления взаимоотношениями с клиентами (Customer Relationship Management, CRM) в организациях. Несмотря на то, что компании внедряют CRM-стратегии в соответствии со своими целями, существует универсальная потребность в измеримых показателях, отражающих качество взаимоотношений с клиентами и их жизненный цикл. В исследовании интегрированы ключевые показатели эффективности — привлечение и удержание клиентов, удовлетворённость, лояльность (NPS), кросс-и апсейл, пожизненная ценность клиента (CLV), цифровое вовлечение и уровень отклика — в единую формулу оценки. Разработанная модель может служить практическим инструментом для банков и других организаций, стремящихся структурированно и на основе данных измерять, сравнивать и совершенствовать свои CRM-стратегии.

Ключевые слова: CRM, эффективность CRM, модель оценки эффективности CRM, метод анализа иерархий