
On-demand CRM: Big business?

On-demand CRM: Big business?

By
Cheryl Meyer

When business software giant SAP recently released its first Internet-based customer relationship management product, Marc Benioff, the brash founder and CEO of leading "hosted" CRM provider Salesforce.com, is sure to have scoffed.

"We are waiting to see SAP come out with a product of any quality," Benioff says when asked about his competitor's plans. "I don't see them in the market."

Whether the \$11 billion company's moves will take a bite out of Salesforce.com's leadership role in providing Internet-based CRM services, a business Benioff pioneered, is yet to be seen.

But what is clear is that small and midsize businesses--the customers on which Benioff built his business--are not the only companies with an interest in paying monthly or annual fees for hosted customer relationship software.

The move by SAP, whose ubiquitous business applications serve the world's biggest companies, highlights the growing use of on-demand CRM by large enterprises drawn to the technology's ease of use, speed of deployment, strong customer service and flexibility.

Salesforce.com has scored with a number of large customers, including Dow Jones Newswires, Yamaha of America and SunTrust Banks. RightNow Technologies, the No. 2 provider of on-demand CRM software after Salesforce.com, reports that 55 percent of its customers are companies or organizations with more than \$1 billion in annual sales. These include Black & Decker and Cisco Systems.

Despite these successes, integration and reliability concerns,

among other challenges, continue to impede widespread adoption of hosted CRM by the biggest enterprises. Indeed, according to industry estimates, only 10 percent to 12 percent of companies worldwide have shifted from traditional "on-premise" customer management tools to on-demand CRM. For business technology, that represents a very gradual migration to a computing model that, in tracing back to application service providers, has been around for years.

Perhaps big enterprises' biggest fear in moving to on-demand CRM is the challenge of integrating it with their back-office systems, such as enterprise resource planning, inventory control and supply-chain applications.

"That's the big Achilles' heel," says Forrester Research analyst William Band. "The jury is out on whether on-demand can handle the ability to link into complex legacy environments and customer data.

"In general it certainly doesn't have the ability to manage end-to-end customer processes like a SAP on-premise (application) would," he adds.

Experts say integration headaches in the on-demand arena are easing. Still, many continue to say that companies with complex integration requirements are better served by conventional on-site CRM software because of its superiority connecting diverse enterprise applications.

Another long-standing concern with hosted CRM is security. That's because hosting confidential customer data on the Web means corporate users cannot secure the data inside the safety of their own firewalls. Although analysts say such fears are waning, partly because no on-demand security breaches have been documented, these concerns persist.

In some cases it has convinced customers to switch to an on-premise product. Last year, for example, Athenahealth said it stopped using Salesforce.com's product because of security concerns and opted to use an on-premise CRM application from SugarCRM.

On-demand customers also are vulnerable to any technical difficulties that afflict their hosting services provider. "If the data center of the 'app' provider goes down, you're screwed and have no access to data," says Martin Schneider, a senior analyst at the 451 Group.

If a company is running an automated business process involving four on-premise applications and one hosted product, for example, the whole process will shut down.

Salesforce.com, for one, has had some outages this year. Schneider says downtime with software-as-a-service vendors is not uncommon, because the model "is still being perfected."

"Our biggest concern going into this was reliability and uptime," acknowledges Pearson Packaging Systems president and CEO Michael Senske, whose company is a long-time Salesforce.com customer. He says, however, that the Salesforce.com system has performed well.

If a large enterprise fails to take advantage of key features of hosted CRM, such as ease of customization, it might be better off going with an on-premise product, says Rebecca Wettemann, vice president of research at Nucleus Research.

"If they're paying on a monthly basis for the value they're not taking advantage of, they're renting for a lifetime without ever building any equity," she says. "It's like renting an apartment--it's great if I want flexibility."

Therein lies the attraction of letting companies of all sizes tap applications via the Internet for monthly or annual fees--flexibility and speed. A typical on-demand deployment takes one to three months, compared with up to 18 months for on-premise customer management software.

Capita Insurance Services in March signed on for SAP's on-demand offering in part because it could make applications immediately available to sales staff and achieve results with minimal upfront investment.

"You don't have to bet your business on a Power Point presentation and wait three years for results," says Greg Gianforte, founder and CEO of RightNow.

Vendors of on-demand software also must provide exceptional customer service because their revenues depend on customers renewing service contracts, Gianforte argues. In contrast, some say the complexity of on-premise CRM software packages makes it much harder for companies to change vendors. RightNow claims an annual customer retention rate of more than 90 percent. Salesforce.com claims a customer satisfaction rate of 97 percent.

On-demand providers typically give customers a trial run--if they don't like the software after a month they can discontinue the service. According to Nucleus Research, many companies in the past deployed traditional CRM because they thought they needed it, not because they understood how the technology would help cut costs, make users more productive or improve customer service. An on-demand product mitigates the risk of getting locked in to an unsuitable product. Customers also like the simple, browser-based interfaces, which make it easier for nontech employees to use and administer.

"We could have a nontechnical person go in and change the screen layout, move fields around and configure reports, whereas in the SAP world you need a configuration resource or developer to go in and write you a new report," says Tim Peterson, director of business process management for Hand Held Products. The maker of portable data collectors and barcode scanners last year switched from an SAP customer management application in favor of Salesforce.com's product. Peterson says SAP's on-premise CRM package wasn't user-friendly and that sales staff sometimes had difficulty accessing the system remotely.

"Our sales team didn't adopt the tool at all, to the point where we stopped using it for the sales force automation process and went back to a spreadsheet solution," he says. "If it isn't easy for the sales guys to use, they're not going to use it."

Another benefit of hosted software is that it can help companies keep their IT systems humming with a minimum of effort. Hosted software aims to help companies deploy and run software without involving internal technical staff. "The problem is that most companies are spending 80 percent of their resources just turning the lights on...doing the basic tech operations for running their servers," says Adam Gross, vice president of developer marketing at Salesforce.com. "We manage it for them."

Upgrading an on-premise CRM package can be costly and time-consuming because of the amount of customization required for applications. With hosted applications, "upgrades are easier for the vendor because they simply 'turn a switch' and the master version is upgraded for all users the next time they log on," Schneider says.

By contrast, with on-demand products multiple companies use the same code base, eliminating the need for individual customer upgrades. "The customers get faster access to innovations and can get access to developments another customer has asked for," Wettemann says.

Hosted CRM software also tends to be less expensive, at least in the short-term. Most on-demand providers charge anywhere from \$65 to \$100 per user per month for relatively simple deployments, though some offer annual or bi-annual payment plans. A traditional on-site product could cost \$300,000 up front and is installed on a customer's computers for years. The price tag doesn't include ongoing maintenance fees and consulting costs.

Whether large enterprises will switch to hosted CRM simply to take advantage of its more modest pricing remains unclear. Opinions also differ about why SAP, with its large-enterprise customer base, is moving into on-demand customer management. Some view the strategy as defensive. Over the past year, SAP customers and noncustomers alike who sought a quick-to-deploy CRM package have gone to an on-demand vendor, rather than buying an on-site application offered by SAP. Others contend it is a natural evolution of the company's product line.

SAP denies that it worries about losing customers. Tony Martinez, SAP's vice president of business development, CRM on-demand solutions, says the company simply is responding to the needs of existing midsize and large customers that now want an on-demand application.

"This is not a head-to-head fight against on-demand vendors in the market," he says. "Our target audience is our SAP customer base--customers who have a need for an on-demand offering for some of their users, but who also recognize that they need a longer-term strategy."

Bron: News.com