

Hosted CRM Buyer's Guide

Focus Research
February 2009

Table of Contents

Executive Summary	p. 3
Hosted CRM Overview	p. 4
Hosted vs. On-Premise CRM	p. 5
Market Overview	p. 6
The Benefits of Hosted CRM	p. 7
Basic Features	p. 8
Cost	p. 9
Checklist	p. 10
Conclusion	p. 11

Executive Summary

Today's Customer Relationship Management (CRM) solutions aim to recapture the personalized customer service provided by local mom-and-pop shops of yore – except with high-tech-analytics capabilities, collaborative platforms and automated processes. By gathering information from multiple data sources and storing it in a centralized location, a hosted CRM solution provides a holistic view of a customer in real time. Armed with this insight, a company's management, sales and service people can better generate leads, target top customers, manage marketing campaigns, drive sales and boost customer satisfaction.

The bottom line with hosted CRM solutions is that they provide an efficient way for businesses to bolster customer loyalty while reducing operating costs and increasing overall profitability. In this Buyer's Guide, you will find details on what to look for, how to buy, what you can expect to pay, and how to derive the most value from your hosted CRM investment.

Hosted CRM Overview

A CRM solution is a software application that allows users to access important data, ranging from a customer's account balance to past purchases, through a single source in real time. Beneficial to countless departments within a business, most CRM solutions include these primary applications:

- **Sales Force Automation:** Empowers sales representatives with immediate insight into customer buying patterns; helps managers better forecast future sales; allows companies to adjust production cycles based on real-time sales figures; enables accurate assessment of the sales team's performance.
- **Marketing:** Helps marketing executives better manage and design campaigns, adjust budgets, link revenue to specific advertising initiatives, create targeted campaigns, and assess campaign results.
- **Service and Support:** Enables businesses to provide prompt customer service, accurate product support, call-center service and proactive IT help-desk assistance.
- **Analytics:** Generates real-time, graphical and customized reports so that businesses can better allocate resources, gain strategic insights and optimize enterprise performance.

Hosted vs. On-Premise CRM

There are two primary types of CRM solutions for businesses: hosted CRM and on-premise CRM. Hosted CRM (also known as 'on-demand CRM') entails a company outsourcing a portion or all of its CRM functions to an ASP (application service provider). Unlike licensed on-premise CRM software, hosted CRM tools are payable on a monthly basis without requiring complex implementations or the assistance of an in-house IT team. The result is a cost-effective solution that promises to deliver a quick ROI (return on investment), while freeing a company to focus on its core competencies.

In fact, according to a study from Nucleus Research, more than 80 percent of companies that outsourced CRM achieved a positive ROI. The study reported that problems with the on-premise CRM model include high software and consulting costs, ineffective user adoption, and poor management.

But for all its promises of immediate payback, the hosted CRM model does have its shortcomings. For one thing, whereas on-premise CRM solutions can be tailored to the particular needs of an organization, on-demand solutions don't allow for the same degree of customization. What's more, on-premise solutions are easier to integrate into a company's existing business processes and applications.

For small- to medium-size businesses, however, the price is right when it comes to hosted CRM tools. By paying per user per month, a company can gain access to a sophisticated application in a mere 30 days without having to burden its IT department or cut off its cash flow. And of particularly good news to growing companies is the fact that today's on-demand CRM solutions are highly scalable and easy to upgrade.

Market Overview

According to technology market analysts at Forrester, the CRM market is poised to hit nearly \$74 billion in sales in 2007. CRM applications represent about \$21 billion of that market, with services making up the rest. With so much money to be made, it's no surprise the CRM landscape features scores of players, from up-and-comers to industry stalwarts. Key vendors include Amdocs, PeopleSoft, Salesforce.com and Siebel Systems, to name a few.

Recently, there has been significant consolidation among vendors, including M2M Holdings' acquisition of Onyx Software, Oracle's gobbling up of Siebel Systems and CDC's purchase of Pivotal. And the competition for midmarket dominance continues. But, with the CRM market for 2007 predicted to grow 11 percent, a handful of hosted vendors are surfacing as clear winners, according to industry analysts.

Salesforce.com is one such market leader. An early entrant in the on-demand market, the company boasts a subscription-based online delivery model that is ideally suited to small- and medium-size businesses – especially those with limited funds and IT resources. Services are delivered in a very modular manner and, thanks to Salesforce.com's on-demand Apex platform, its CRM application can be up and running in weeks or days – a fraction of the time typically required by traditional client/server CRM software.

Oracle-owned Siebel and its CRM On Demand product promises to automate, simplify, and manage sales information; provide better customer service across all customer touch points with a pre-built contact center; and help marketing managers allocate funds effectively.

Another popular midmarket player is NetSuite, which aims to deliver a 360-degree view of the customer. Highlights of the company's flagship product include an order management system that lets salespeople take real orders from customers, as well as the ability to access customer purchase histories without requiring complex integrations with an accounting system.

And last year, RightNow Technologies acquired on-demand CRM provider Salesnet – a purchase engineered to leverage Salesnet's sales workflow automation expertise. Today, RightNow offers both hosted and on-premise CRM solutions. By hosting and managing a CRM application on behalf of a customer, RightNow delivers faster time-to-benefit, greater scalability, lower cost of ownership and reduced project risk.

According to a new study from market research firm ABI Research, the global market for hosted services will exceed \$34 billion in 2012, of which the North American portion (where most of the cable operators pursuing the small business market are located) will amount to \$11.6 billion.

Another market research company, In-Stat, believes that strong growth in hosted VoIP will remain steady and will exceed 3 million seats in service by 2010. There are currently about 400,000 seats in service in the U.S., the majority in the small and medium-sized market.

With so much money to be made, it's no surprise the CRM landscape features scores of players.

The Benefits of Hosted CRM

There's good reason the on-demand model has taken the IT world by storm in recent years. With its promises of reduced costs and easy deployment, today's hosted CRM solutions offer countless benefits to companies ranging from fledgling businesses to international enterprises.

Here are just a few of the biggest benefits:

- **Rapid Deployment:** Hosted CRM implementations can take as little as a few days and rarely exceed three months. What's more, with an on-demand solution, companies need not invest up-front time in the planning of hardware and software purchases. An on-premise implementation, on the other hand, can easily exceed 12 months – an awfully long time to wait to get into the CRM market.
- **Easy Upgrades:** On-premise solutions often lay claim to a painstakingly slow product development life cycle, whereas on-demand applications can accommodate the instant deployment of new versions. Furthermore, product enhancements and upgrades can occur instantaneously, and hosted CRM applications can be configured – and reconfigured – quickly.
- **Reduced Costs:** Forget about purchasing costly hardware and ramping up your IT team with highly paid software experts. With hosted CRM, there's no hardware to purchase, servers to install or techies to recruit.
- **Security Safeguards:** If today's hosted CRM vendors want to survive, keeping their datacenter security up to par is paramount. End users, on the other hand, have been known to skip software upgrades and poorly manage their employees' desktop installations – all the more reason to trust global industry leaders with the security of your data.

Basic Features

For some companies, a step-by-step strategy is the most cost-effective and efficient path to a hosted CRM deployment. Fortunately, most CRM solutions are modular enough to accommodate such a piecemeal approach. Sales-force automation is typically the most popular application of CRM, followed by analytics and service. The features found in each of these categories should include all of the following:

Sales-Force Automation

- Lead management
- Contact management
- Territory and quota management
- Partner management
- Opportunity management and forecasting
- Sales methodology implementation
- Feedback management

Analytics

- Scheduled reports
- Customizable forecasting
- Data quality management
- Proactive alerts
- Custom analyses
- Role-based analytics
- Comprehensive library of pre-built reports

Service and Support

- Email response management
- Web and voice self-service
- Chat
- Agent productivity

Cost

While the price of an on-premise CRM solution can easily run upwards of \$500 per seat, companies can subscribe to an on-demand tool for as little as \$50 per user, per month. But a modest up-front fee isn't the only factor helping companies save their hard-earned dollars on a CRM deployment. A study by Gartner Inc., which looked at the total cost of ownership of enterprise applications, found that 80 percent of the cost of deploying and maintaining on-premise applications is not due to licensing, but to additional costs related to hardware and administration of the software.

But that's not all. According to Gartner Inc., through 2010, on-demand CRM will provide as much as 10 to 13 percent lower five-year total cost of ownership than on-premise software for moderately complex CRM deployments.

Whether your view is to the long- or short-term, there are a number of areas where an on-demand CRM solution can cut costs. These include:

- **Front-end Expenses:** Thanks to the CRM solution's on-demand model, there's simply no need to purchase hardware, software or added IT infrastructure to accommodate the introduction of CRM technology.
- **Manpower:** Implementing and maintaining a CRM solution requires the ongoing expertise of highly qualified IT professionals. By turning to an ASP, however, a company can save thousands of dollars in IT manpower and help desk support.
- **Customization Mania:** Although criticized for its one-size-fits-all approach to CRM, a standard on-demand CRM tool can spare a company the price tag – and hassles – that often accompany application customization.
- **Security:** A CRM solution doesn't have to reside within a company's walls to be safe. Rather, today's hosted CRM solution providers go to great lengths to safeguard their clients' data. And that's good news to businesses unwilling to invest in costly security controls and experts.

Hosted CRM Checklist

What to ask before you buy

Before talking to a CRM vendor, you will need to know the following information about your current situation:

- How many employees are in your organization?
- Will your company be in growth mode over the next five years?
- How quickly are you looking to deploy a CRM solution?
- What are your total CRM project cost limits?
- Do you have the in-house IT resources to support an on-premise solution?
- What degree of customization are you expecting from a CRM application?
- Do you have the safeguards in place to securely manage in-house datacenters?
- How could you benefit from an in-depth view of your sales pipeline?
- How could your salespeople be better managing customer relations?
- How can you improve your customer-support services and activities?
- How easily can you generate forecasting reports?
- How effectively are you targeting top customers?
- How effectively are you allocating your people, budgets and resources?
- How quickly are you responding to customer inquiries?

Conclusion

Purchasing, implementing and maintaining a hosted CRM solution may be a relatively hassle-free endeavor, but it's not the end of the road. Making a technology available is one thing; driving adoption of the solution among employees and creating processes to support its capabilities is a whole other ball game.

Said Tim Hickernell, an Info-Tech Research Group senior analyst: "In the end, it's about process. If you don't have your sales, your service, your marketing processes in place, I don't care if the software is on-demand or if the software is on-premise, it's not going to be utilized fully."

Certainly, failing to get the most from your CRM investment is wasted money. But the real bottom line is that, in today's highly competitive marketplace, companies simply can't afford to alienate their customers. While American businesses experience between 20 and 50 percent customer turnover annually, it costs about five times as much to attract a new customer as it costs to keep an old one. Maintaining customer loyalty through a hosted CRM solution can mean the difference between success and failure.