

CRM Software Applications Spending by SMBs on the Rise

Focus Report

Publication Date: 15 January 2004

GARTNER WORLDWIDE HEADQUARTERS

NORTH AMERICA

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06904-2212
U.S.A.
Tel: +1-203-316-1111
Fax: +1-203-316-6300

West Coast Headquarters

251 River Oaks Parkway
San Jose, CA 95134-1913
U.S.A.
Tel: +1-408-468-8000
Fax: +1-408-954-1780

Latin America Headquarters

Gartner do Brasil
Av. Nacoes Unidas 12901
19 andar - Torre Oeste
CEP 04578-903
Sao Paulo SP Brasil
Tel: +55 11 3443-1509
Fax: +55 11 3443-1401

EUROPE

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
United Kingdom
Tel: +44 1784 267770
Fax: +44-1784-268980

ASIA/PACIFIC

Asia/Pacific Headquarters

Level 7
40 Miller St.
North Sydney, NSW 2060
Australia
Tel: +61-2-9459-4600
Fax: +61-2-9459-4601

JAPAN

Japan Headquarters

Aobadai Hills 6F
7-7, Aobadai, 4-chome
Meguro-ku
Tokyo 153-0042
Japan
Tel: +81-3-3481-3670
Fax: +81-3-3481-3644

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Publication Date: 15 January 2004

Authors Thomas Topolinski
 Wendy Close

This document has been published to the following Cluster codes:

SWSA-WW-FR-0104

ITSM-NA-FR-0001

For More Information...

In North America and Latin America:	+1-203-316-1111
In Europe, the Middle East and Africa:	+44 1784 267770
In Asia/Pacific:	+61-7-3405-2582
In Japan:	+81-3-3481-3670
Worldwide via gartner.com :	www.gartner.com

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Chapter 1

Executive Summary

SMBs and CRM Spending

Companies with less than 1,000 employees are seeing more customer relationship management (CRM) software vendors offering CRM products and services because of the underpenetrated market opportunity as well as slower license revenue growth in the larger-enterprise markets. Gartner defines North American-based midsize businesses (MSBs) as having between approximately 100 and 999 employees and small business as having fewer than 100 employees. (In Europe, the businesses are smaller, so Gartner defines European small business as up to 49 employees and a midsize business as up to 250 employees.) These two markets make up the small and midsize business (SMB) market which, in 2002, spent an estimated \$741 million worldwide on CRM software (see Figure 1-1).

Gartner estimates less than 20 percent of the estimated 89,802 midsize businesses in North America have been early CRM adopters and already have enterprisewide CRM solutions. For the other 80 percent, CRM remains an unfulfilled opportunity. We estimate only 2 percent of the 4,980,186 North American-based small businesses have implemented enterprise CRM suites. If you add Europe, there are over 10 million SMBs, with an even lower percentage having purchased a CRM software solution. Recent Gartner SMB IT surveys indicate that although CRM is a high priority in the category of business applications, it is not as pressing as improving security and IT infrastructures. Therefore, many SMBs will continue to defer CRM or will consider partial or interim CRM projects. However, SMBs have the same value-added benefit to implementing a CRM solution as a large enterprise. Those include:

- Reduced cost of sales and operational expenses
- Increased customer touch
- Increased up-sell and cross-sell opportunities
- Increased customer satisfaction by providing better customer service and support

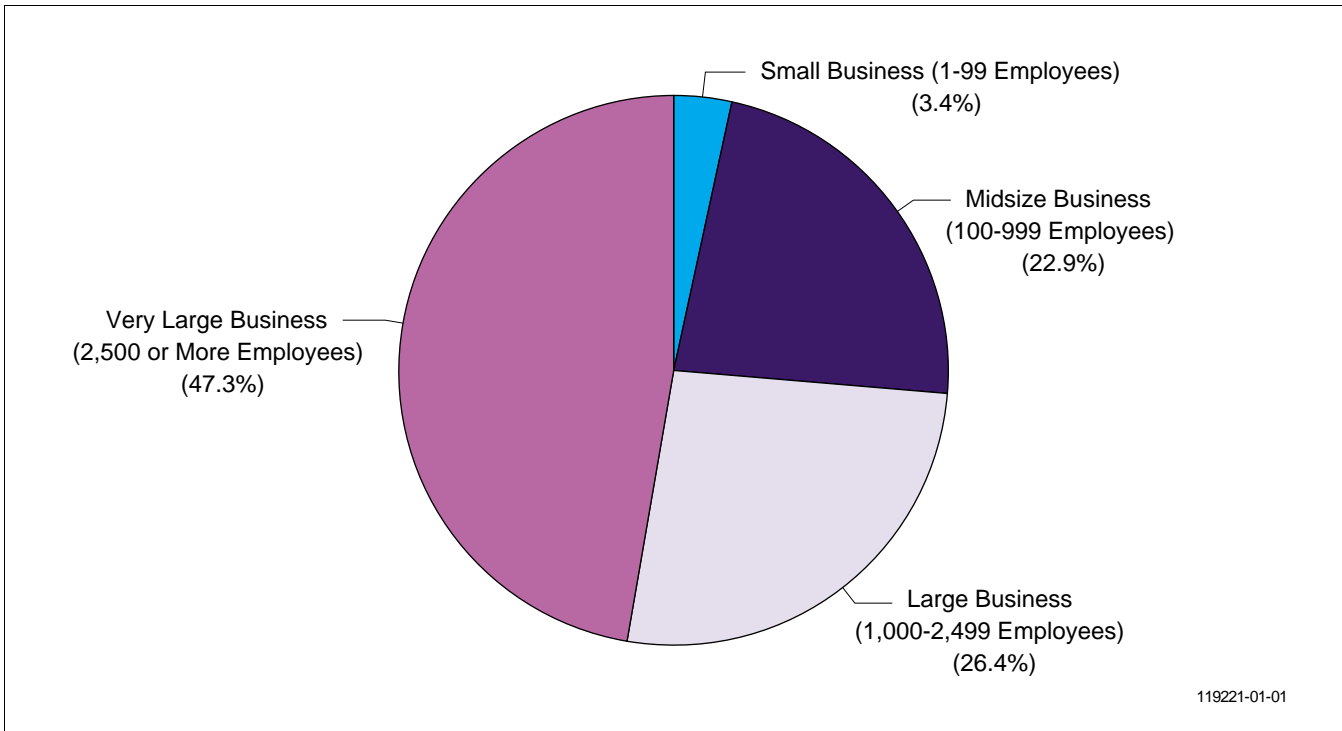
With more CRM opportunities being presented to SMBs today and in the future, smaller companies are more likely to buy CRM applications and services based on these values.

In 2002, MSBs purchased only \$645 million (a 22 percent decline from 2001) in CRM software applications, while small businesses purchased only \$96 million, a 10 percent decline from 2001. However, this 10 percent decline is compared with the 25 percent decline in 2002 for the entire CRM application market.

In 2001, Gartner Dataquest estimated that MSBs (100 to 999 employees) purchased \$825 million in CRM software, including application service providers (ASP) solutions, while small businesses (1 to 99 employees) purchased \$106 million — a \$931 million SMB CRM software market worldwide (see Figure 2-1).

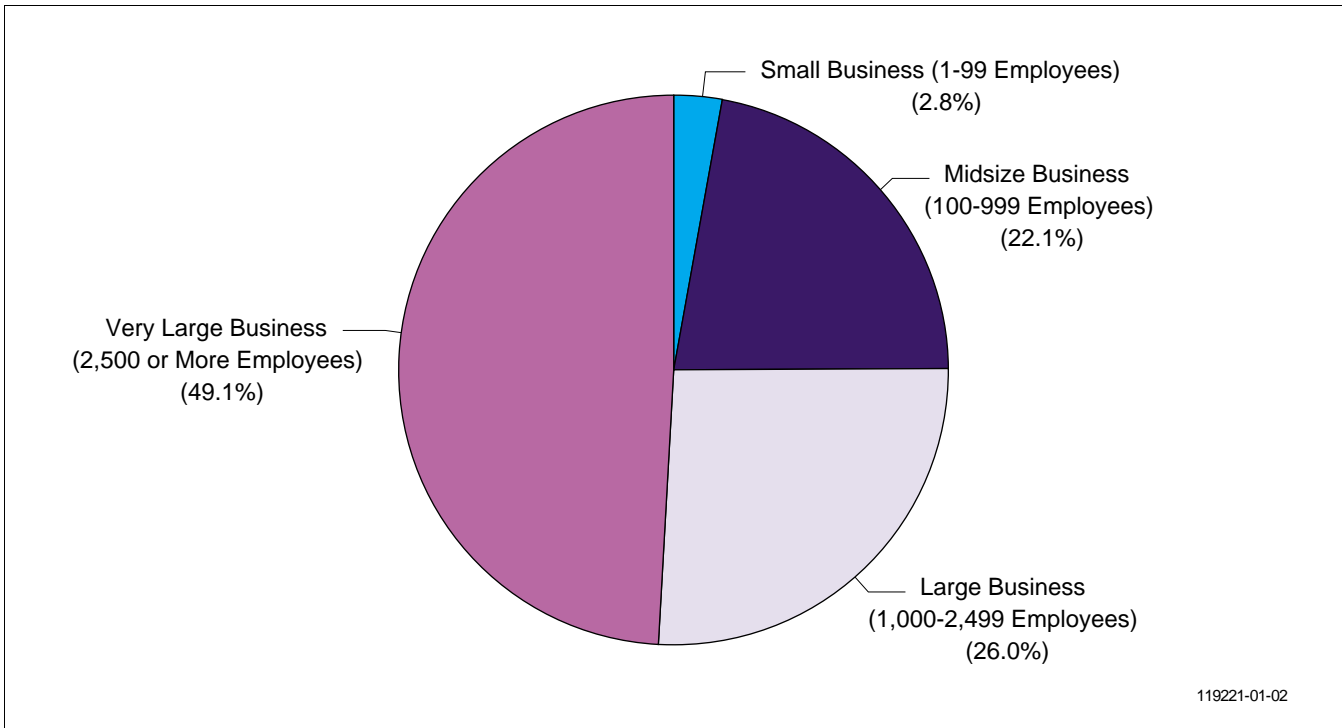
Compared with the large (23 percent decline) and very-large-business (28 percent decline) sectors, CRM software spending by SMBs did not drop off as sharply in 2002, and they represented more spending in 2002 than in 2001. MSBs represented 22.9 percent of spending on CRM software in 2002 (up from 22.1 percent in 2001), while small business represented 3.4 percent (up from 2.8 percent in 2001) of the market.

Figure 1-1
CRM Software Applications Spending by Company Size, 2002



Source: Gartner Dataquest (September 2003)

Figure 1-2
CRM Software Applications Spending by Company Size, 2001



Source: Gartner Dataquest (September 2003)

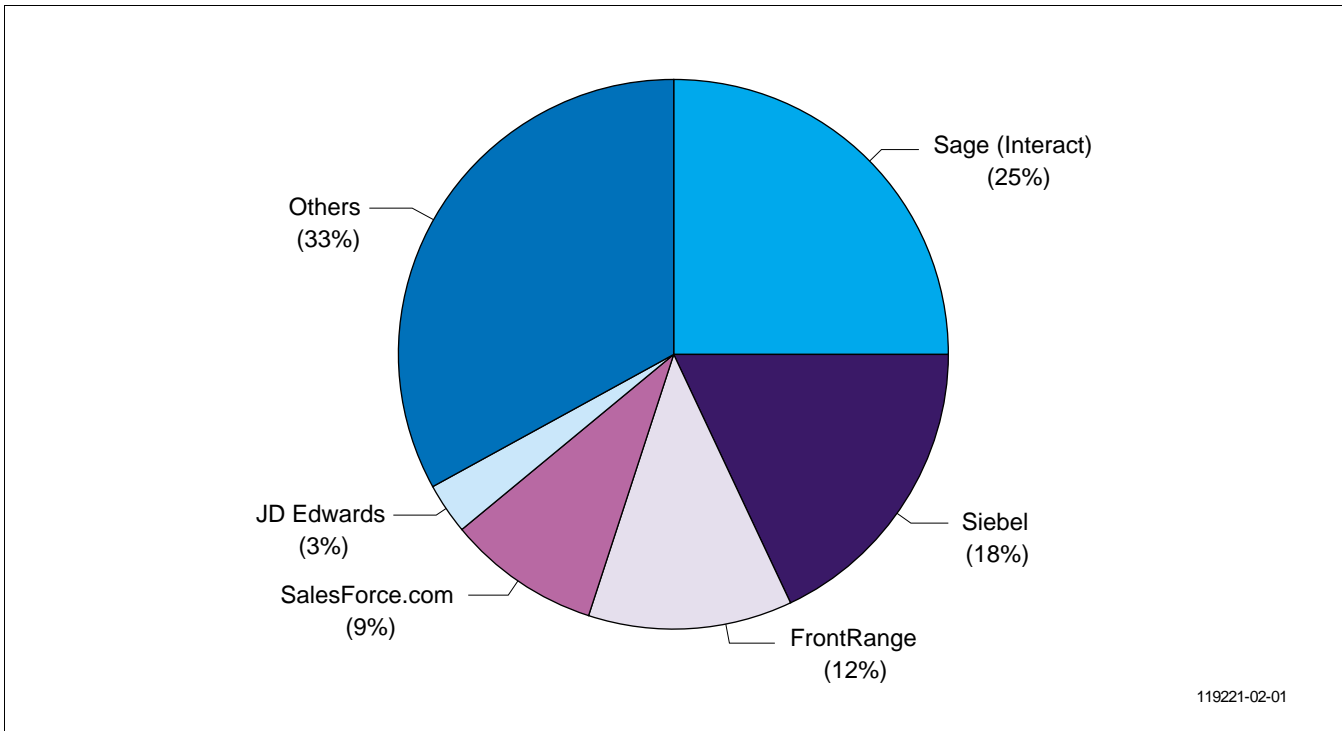
Chapter 2

Market Share Leaders in 2002 SMB CRM Software Applications

In the worldwide small business CRM software applications market, Best Software (with its SalesLogix, ACT and TeleMagic products) is No. 1 with a 25 percent market share. Although we would not consider ACT or Telemagic CRM suites, we did include them in Best's market share numbers because the solutions begin to address basic CRM needs for the small business. Siebel is No. 2 with an 18 percent market share, followed by FrontRange (with its Goldmine product) with a 12 percent market share, Salesforce.com (with its hosted ASP offering) with a 9 percent market share and J.D. Edwards, now owned by PeopleSoft, with a 3 percent market share (see Figure 2-1). Other vendors make up the remaining 33 percent.

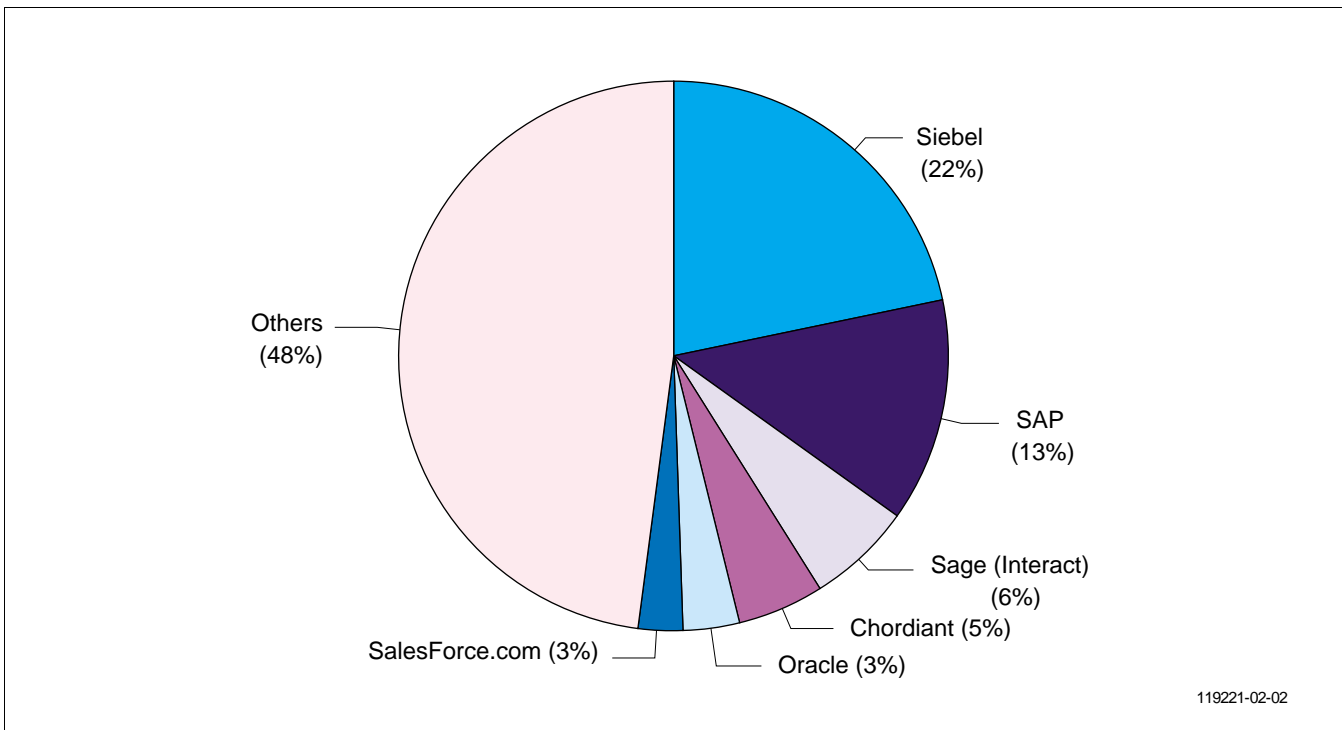
In the worldwide MSB CRM market, Siebel is the key market share holder at 22 percent, followed by SAP with 13 percent, Best Software with 6 percent, Chordiant with 5 percent, Oracle with 3 percent and Salesforce.com with 3 percent. Other vendors make up the remaining 48 percent (see Figure 2-2).

Figure 2-1
CRM Software Vendor Market Share for Small Businesses, 2002



Source: Gartner Dataquest (September 2003)

Figure 2-2
CRM Software Vendor Market Share for Midsize Businesses, 2002



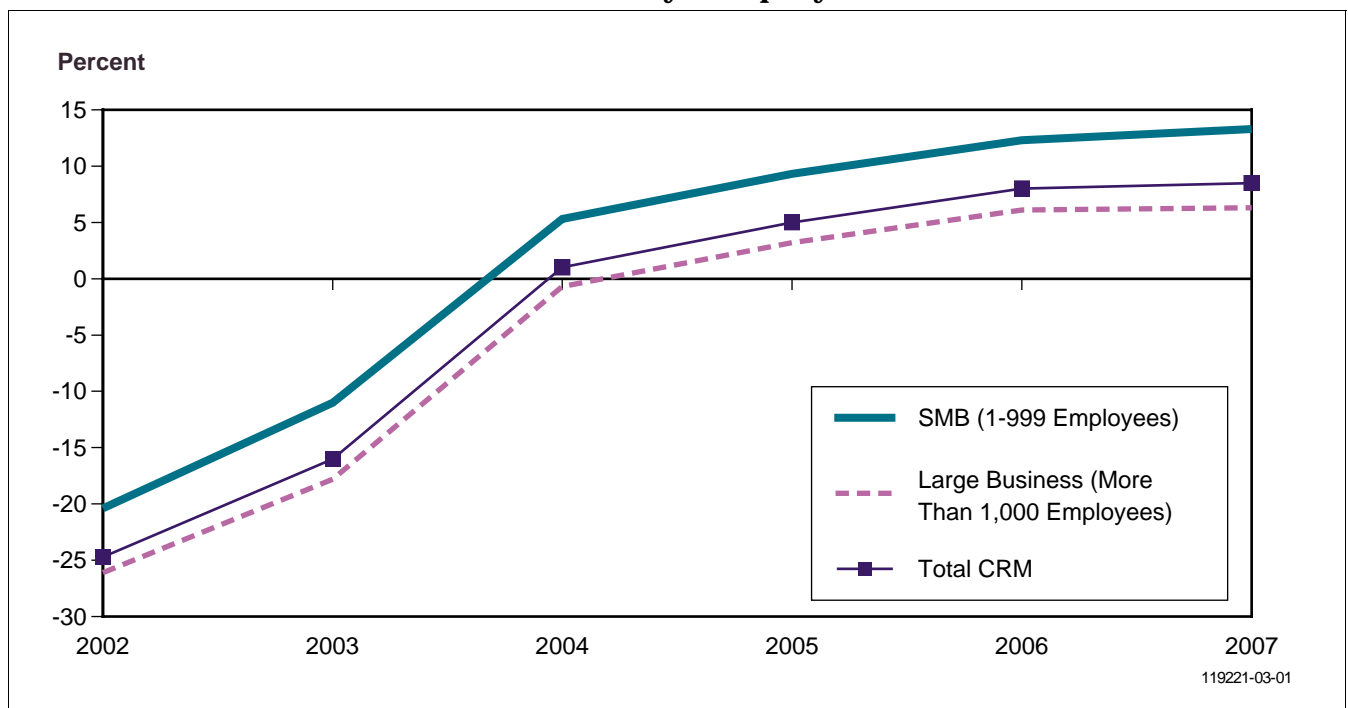
Source: Gartner Dataquest (September 2003)

Chapter 3

What Is the Forecast for CRM Software New License Revenue by Company Size?

The CRM software market will grow faster in the SMB segment than the large-business segment. The SMB segment is forecast to grow from \$741 million in 2002 to \$966 million in 2007, with a compound annual growth rate (CAGR) of 5.5 percent. The large-business segment is forecast to drop from \$2.07 billion in 2002 to \$1.97 billion in 2007, with a CAGR of negative 1 percent. Vendors are looking to penetrate the smaller sectors during the next several years, while the larger sector is maturing and more saturated, albeit still the main share of the CRM software market (see Figure 3-1). In addition, there are several large vendors setting strategies and selling products into the SMB space, such as Microsoft (MS CRM), SAP and Siebel (Upshot and On Demand).

Figure 3-1
CRM New License Year-Over-Year Growth by Company Size



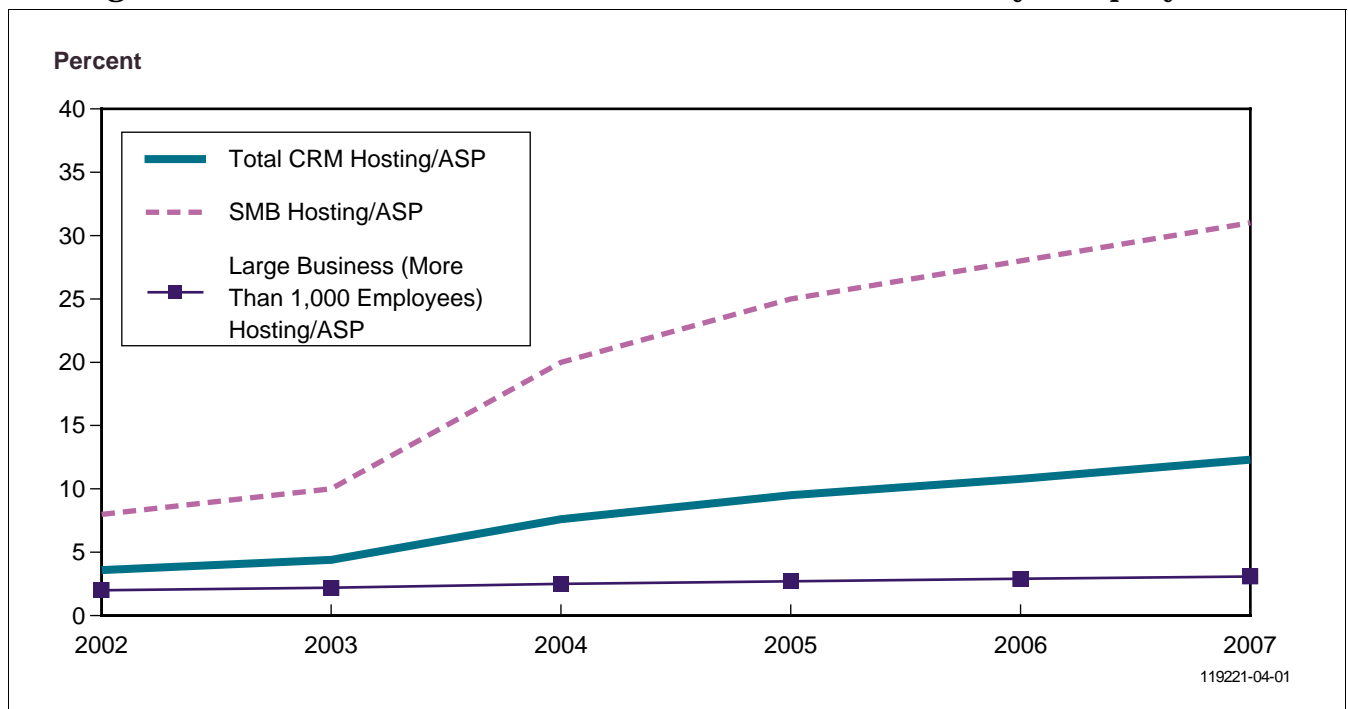
Source: Gartner Dataquest (September 2003)

Chapter 4

How Is the Hosting/ASP Model Working in the CRM Software Market?

Hosting of applications in the CRM software market has been idle with a low market share (3 percent in 2002) compared with software new license models during the past three years. However, projections are increasing during the next five years (a 13 percent market share in 2007) because more CRM application vendors are offering hosting as well as focusing downstream into the under-penetrated SMB market. The SMB market is clearly more open to the hosting model because of the lack of major investment of a CRM solution, the flexibility and the characteristics of an SMB enterprise compared with a larger company (see Figure 4-1). The five-year CAGR for hosting of CRM software applications is 38 percent for the SMB market, while the hosting forecast for the non-SMB market is growing at 8 percent. This results in a CRM hosting/ASP market CAGR of 29 percent through 2007.

Figure 4-1
Hosting/ASP Year-Over-Year Growth in the CRM Software Market by Company Size



Source: Gartner Dataquest (September 2003)

Chapter 5

Gartner Dataquest Perspective

Downstream Movement to SMB Is Here

The CRM software market will move into the SMB sector more rapidly during the next five years. Hosting of CRM software applications is one model that will increase this movement, while maturation and slower spending is being realized in the large business sector. Several vendors have been offering hosting as a model for CRM. However, many more companies are moving into this space at a rapid pace.

The bottom line is that the SMB market holds the greatest opportunity for CRM software vendors, while talk and hype from these vendors is being replaced with real strategies and product offerings that cater to the smaller company. Buyers in the SMB space have the requirements for gaining value through a CRM application and strategy. This underpenetrated market is wide open for growth for the software vendors. The CRM SMB market is becoming ripe for the smaller companies to gain the same toolsets and value that their large enterprise counterparts have enjoyed for several years, but packaged and designed more for their size requirements. Gartner Dataquest's forecasts incorporate these drivers and the focus on SMBs will continue. Additional related research can be found in "SMBs Report High User Satisfaction With CRM Software," M-21-4290 and "SMBs Boost Their CRM Maturity With Software," M-21-4533.

Gartner Dataquest Recommendations

Gartner Dataquest recommends the following actions for CRM vendors:

- Software vendors must consider the SMB market as a ripe target for future business growth. For the past several years, most products and strategies have been designed for the large enterprise, while the SMBs have had limited options in products and solutions for CRM.
- Investors in the CRM software market must focus on vendor performance on new license revenue. However, they need to look for opportunities in the detail of the CRM market's segments and subsegments to find opportunities for higher growth targets, such as SMB and hosting.
- Buyers for CRM software in the SMB space should carefully review the CRM software vendor's plans for supporting the SMB offering, especially when hosted. Ask the hard questions, such as "What is the staying power for keeping this service if it has a slow start?" Test for their long-term commitment to make the service work.
- Buyers for CRM software in the SMB space can expect more SMB-tailored offerings from more vendors in the near term, so don't jump into the first opportunity you come across.
- Buyers must research and understand the impact to current business processes that are apt to change when implementing a CRM solution. Typically, the vendors leave it up to buyers to uncover and plan to business process changes.

Chapter 6

Glossary of Terms

Table A-1 lists the definitions of the acronyms and abbreviations used in this report.

Table A-1
Report Glossary

Acronym/Abbreviation	Definition
ASP	application service provider
CAGR	compound annual growth rate
CRM	customer relationship management
MSB	midsize business
SMB	small and midsize business

Source: Gartner Dataquest (January 2004)

