

SMBs Leverage Web Enablement for Hosted CRM

By 2006, approximately 25 percent of small and midsize businesses will conclude that an application service provider will have a role to play in their customer relationship management initiatives.

Core Topic

Small and Midsize Business: SMB IT
Project Manager

Key Issues

Which vendors, products and services will be best-suited for small and midsize business IT requirements?

How will IT architectures evolve for small and midsize businesses in the next three years?

Strategic Planning Assumption

In 2002, 8 percent of midsize businesses and smaller enterprises chose an application service provider for customer relationship management; this will grow to 25 percent by 2006 (0.7 probability).

Increasing numbers of small and midsize businesses (SMBs) will be assessing the benefits of using an application service provider (ASP) for customer relationship management (CRM). To ease the headaches of managing complex CRM software, or to avoid these headaches in the future by using a new style of software, SMB IT managers are increasingly becoming receptive to the "low-cost/good-enough mantra" that is at the heart of the ASP idea. This is primarily driven by price sensitivity as well as concerns about limited IT resources and total cost of ownership (TCO). Continuing tough economic conditions have also, unsurprisingly, aided ASP adoption. In 2002, 8 percent of SMBs chose an ASP for CRM; this will grow to 25 percent by 2006 (0.7 probability).

Who Should Consider Using an ASP for CRM?

SMBs that are the most appropriate for using ASPs fall into seven categories.

Too Fast: These companies are growing too fast to keep up with their rapidly changing application requirements.

Too Far: These companies are expanding geographically and do not want to replicate their current application environment in multiple locations.

Too Poor: This is where many midsize enterprises that need the capabilities of a CRM package fall; often, they cannot afford the upfront costs, but *can* afford the ongoing usage fees.

No Skills: Many companies will fall into this category because they cannot afford to acquire and retain the key CRM skills they need in a challenging economy, and they don't have the skills or resources available in-house.

Gartner

Too Immature: This is where 80 percent of midsize enterprises are. They are immature in CRM — meaning they lack a CRM vision, CRM strategy, a consistent customer experience, good collaboration, CRM technology underpinnings in place, clean data on customers and metrics to measure their CRM success (see "SMBs Boost Their CRM Maturity With Software").

A CRM ASP can be an excellent solution for SMBs that want to improve their customer interaction consistency, centralize customer data collection and learn what their longer-term CRM application requirements are "by doing." SMBs moving up from PC-based contact management or homegrown customer-tracking applications will find CRM ASPs appealing.

Too Stubborn: Do you have a sales force that refuses to use your CRM solution? Ease of use is increasingly being recognized as critical to the rapid and broad adoption of CRM applications within enterprises, and ASP solutions tend to be easier for users. In a June to October 2003 Gartner survey of more than 130 SMBs and business units of larger companies (97 percent were North America-based) using CRM software from 20 vendors, users of CRM ASP Salesforce.com gave its CRM "software as a service" the highest score in product usability (see Table 1). Some may argue that high usability in software has nothing to do with being an ASP. However, by its very nature, an ASP would not survive if the solution did not have high usability, because clients would quickly cancel their subscription if the software was too hard to use. On the contrary, it is not that easy to return purchased and deployed software that users won't use, although some suppliers, such as Best Software with its SalesLogix product and its partners, are offering some money-back guarantees. Also, an ASP has the advantage of gathering consistent data on usability from hosting all its clients, and it can apply this data to its solution.

Table 1
SMB CRM User Survey Results: Usability

SMBs rate their CRM vendor on a one-to-10 scale (10 being the best) in product usability for end users:

No. of Clients Surveyed	Name of Vendor	Product Usability for End Users
16	Salesforce.com	9
2	Firstwave Technologies	8.5
7	Best Software's ACCPAC	8.3
9	Microsoft CRM	8.2
8	Onyx Software	8.1
4	Interface Software	8.1
3	iCode	8.1
6	Epicor Software	8
4	Firstwave's Connect-Care	8
3	NetSuite	8
9	Siebel MidMarket	7.9
18	Best Software's SalesLogix	7.8
14	Pivotal	7.7
8	FrontRange's GoldMine	7.5
9	Soffront Software	7.3
7	Saratoga Systems	7.3
8	Oncontact Software	7
2	PeopleSoft	7

Note: Although the sample is small, we believe that it serves as a guideline of the trends in the overall user base.

Source: Gartner Research (June Through October 2003)

No Patience: Some enterprises will encounter problems when it comes to issues like sales pipeline visibility or customer service incident resolution. An immediate fix is needed. Our research shows that an ASP solution like Salesforce.com is implemented with less resources, and on average in almost half the time it takes to implement SalesLogix or Microsoft CRM in-house, and in one-third of the time it takes to implement Pivotal in-house (see Table 2).

Table 2
Average CRM Implementation Times for SMBs

Vendor	How long did the implementation take? (Please estimate the number of business days from signed contract to live operation.)	How many full-time equivalent personnel were required? (Total number of full-time personnel that worked on the project, including your company, system integrator & software vendor personnel.)	Average no. of licensed users surveyed	Sample size
Salesforce.com	47	2.7	130	12
Best Software (SalesLogix)	71	4	96	18
Microsoft CRM	72	3.4	45	7
Siebel MidMarket Edition	79	6.4	83	9
Onyx	107	5	124	8
Pivotal	143	5.4	213	14

Note: Although the sample is small, we believe that it serves as a guideline of the trends in the overall user base.

Source: Gartner Research (June Through October 2003)

Some midsize divisions of large companies will find the enterprisewide SAP, PeopleSoft or Siebel CRM deployment, for example, won't roll out the solution to their division until much later than the business demand requires. An ASP solution can be an inexpensive, good short-term solution if the commitment is limited to one year.

SMBs do not need to fall into any of these categories to try out CRM ASP services, but the more a company fits into all of these categories, the more appropriate an ASP CRM service will be.

What Are the Key Challenges When Using an ASP for CRM?

Key challenges in using an ASP for CRM fall into seven categories.

Lack of Security Is a Perceived Threat: The primary fear that prospects encounter when evaluating a hosted model is data ownership and security. The fact is, most service providers have more security, firewalls and processes in place to protect data than could be mustered for an in-house deployment.

Integration Is Challenging: Integration between hosted and on-premises solutions is improving via the integration of XML application programming interfaces, but it is still not sufficient for

companies with many systems and processes that need to be integrated.

Not Tailored for My Industry: Many CRM ASPs are seeking to offer "verticalized" solutions, but we don't see many available today, meaning the user will need to be able to customize the ASP solution to meet unique industry requirements. This can be challenging in the typical multitenant environment of an ASP.

Is It Really an ASP? Users must differentiate between those online CRM vendors that are simply hosting client/server-derived software and those that have been architected from the ground up for hosting — meaning high security, proven hosting experience, data redundancy, disaster recovery and so on (see "Management Update: What You Should Know About the Application Service Provider Market").

Processes Lacking: Enterprises we spoke with that had implemented Salesforce.com, for example, stated that, to get a more useful system, they needed to invest quite a bit more internally on tasks such as defining processes, validating data and adding workflow capabilities. The ASP solutions lack or have immature embedded CRM processes and workflow, in some cases.

Features Are Light: It is challenging to find an ASP with the required depth and breadth of features to solve CRM needs for SMBs with more-complex requirements, although this is changing rapidly as more CRM vendors introduce ASP solutions.

Costs Can Be an Issue: In the long term, an ASP solution can be more expensive than some on-premise CRM software solutions in Years 2 through 5. For example, over three years, Salesforce.com Professional Edition will cost more than purchasing Microsoft CRM Professional Edition for a midsize business with 171 CRM users and simple CRM needs. Users should carefully evaluate the costs and benefits of using an ASP for CRM.

Bottom Line: The combination of relatively low startup costs, few IT resources required for startup or maintenance, rapid deployment, ease of use and deep-enough functionality to meet the needs of many SMBs, as well as divisions of some large enterprises, has proved to be the right mix for many enterprises. However, customer relationship management application service providers are not the right fit for all businesses, particularly those requiring support for unique or industry-specific business processes and a high level of enterprise integration. Enterprises must realize that, as soon as they get past the "quick fix" mentality, these solutions may not help them move past simple automation to a higher level of business intelligence.

Acronym Key

ASP	application service provider
CRM	customer relationship management
SMB	small and midsize business
TCO	total cost of ownership