THE STATE OF CUSTOMER RELATIONSHIP MANAGEMENT SOFTWARE: 2003-2004

"Buyer's Guide" ratings of CRM software;

key trends; core issues

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Dick Lee, David Mangen, Ph.D

The State of Customer Relationship Management Software: 2003-2004

Customer ratings of CRM software; key trends; core issues

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PRELIMINARIES

INTRODUCTION

This is the third CRM research study that we've developed—"we" being David Mangen, PhD, customer research consultant, author and founder of Mangen Research Associates; and Dick Lee, CRM consultant, author and founder of High-Yield Marketing. While the new study branches out to cover dimensions of CRM we haven't previously explored, it also builds on our first two initiatives, described below.

After collaborating on client projects over a number of years, in 2001 we decided the time was right to cut through vendor hype and find out what *customers* thought of the CRM software they'd purchased. So we mounted the first large-scale and objectively conducted study of customer satisfaction with CRM software, *Multi-function CRM Software: How good is it?* [1] While our research methodology focused on accuracy rather than producing publicity-oriented findings, the results did stir things up. Several companies crowing the loudest about their exceptionally high customer satisfaction wound up *eating* crow. And customers reserved their best ratings for systems not very highly regarded by industry analysts and pundits.

In 2002, we decided to research the business side of CRM. We developed a second study, *The Blueprint for CRM Success*,[2] which HYM Press released in the beginning of 2003. "Blueprint" correlates implementation practices with corresponding ROI outcomes for almost 450 completed CRM implementations. While again designed for accuracy rather than creating controversy, create controversy it did.

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[1] *Multi-function CRM Software: How good is it?* ; Lee, Mangen, Thompson; HYM Press 2001.

[2] *The Blueprint for CRM Success*; Lee, Mangen, Thompson; HYM Press 2002.

Many involved with CRM were surprised to learn that complex, slow-to-unfold, *strategic* CRM implementations—the type discouraged by most software sellers because they're so messy and time-consuming—significantly outperform simple, *tactical* implementations. No small coincidence, this software-seller resistance to strategic implementations, when you consider that smaller scale, tactical CRM implementations typically *start* with the purchase of CRM software—giving software sellers early sales opportunities with customers that can't yet know what functionality they really need or don't need. In contrast, software purchases for strategic implementations come late in the CRM implementation process, when customers can make informed buying decisions, the bane of overaggressive sellers. Turns out that when the software sale comes early—the ROI comes late, if at all.

No small wonder another "Blueprint" finding—that there's no correlation between brand of CRM software selected and ROI results[3]—didn't sit so well for some. Nor did "Blueprint" findings that customer-centric strategies drive ROI from CRM more than any other factor—followed in importance by providing business and technology training and willingness to make organizational changes. Strategic planning and organizational change don't exactly top the business-activity hit parade.

And now we're back for round three, this time with *The State of Customer Relationship Management: 2003-2004.* Having recently covered the "what you build" portion of CRM with "Blueprint," we wanted a complementary piece re-evaluating "what you buy." Updating customer satisfaction ratings of CRM software from our original data and widening coverage was an obvious starting point for the new study. But this time we went deeper by collecting functional ratings from over 1,000 customers, which revealed some eye-opening perspectives from CRM software users. Plus we added coverage of key CRM industry trends and issues identified by our data. And for fun, we also added high-level customer assessments of CRM consulting organizations and industry analysts. This time, we know in advance that our findings

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[3] These data do not mean that software selection is unimportant. They infer, among other things, that strategic CRM implementers holding off selecting software until knowing their strategic, organizational and process requirements for technology support are likely to select the right system.

could generate some very heated responses. But we've maintained our careful, conservative and objective research approach, nonetheless.

Comparing our new findings with baseline 2001 data, much has changed in two years. Systems not present or not generating sufficient data for reporting in 2001—notably Microsoft and Salesforce.com in the small business arena—are altering the competitive landscape. And market share among all sizes and shapes of CRM systems looks more fluid than in years past, presenting opportunities for some vendors and threats to others. In customer satisfaction, some vendors present in the 2001 study have moved up the ratings ladder. Others have slid down. And we're seeing more separation among vendors, which is accentuated by our new functional ratings based on real customer input, rather than us compiling lists of features.

And we'd better stop this Introduction here, before we start "spilling the beans." Hopefully, we've whet your appetite for what's to come. However, before letting you loose on the data and findings, first we need to pass along some very important information about our ratings scales and what different ratings mean, along with explanations of how we collected data. And we also want to share with you what we know about why our findings differ so much from several recent studies, including a highly-publicized, vendor-sponsored report.

But before doing even that, we want take a moment to say "Thank you." Thanks to our good friend and colleague Bob Thompson, founder and publisher of CRMGuru.com, an active participant in all three studies who graciously allows us to recruit survey participants from his global subscriber base. Thanks also to our fellow publishers at *Selling* Power magazine, SearchCRM and Web Digest for Marketing for allowing us to recruit their subscribers. And thanks to you for purchasing *The State of Customer Relationship Management: 2003 - 2004*. We sincerely appreciate your support for our current work—and for our previous studies as well.

We hope this report contributes to your CRM success,

Sincerely,

Dick Lee, David Mangen

IMPORTANCE OF RELYING ON CUSTOMER INPUT

Like most business-to-business sectors, the CRM market is rife with customer surveys measuring this, that or the other thing. But most of this "customer research," as it's so often incorrectly labeled, lacks one critical component—*representative* customer input. Unfortunately, most CRM industry data distributed either contain scant feedback from actual buyers and users of products and services—those users who often have to live (or die) by CRM's outcomes—or contain data from narrowly construed, skewed samples that do not accurately represent the market as a whole. Either way, most of these surveys lump together some valid input with biased or uninformed feedback.

Examples of invalid input

- *Cherry-picked survey bases*—selected participants very likely to provide the desired feedback.
- *Non-customer perceptions*—which are shaped by advertising and promotion plus second-hand information, hardly substitutes for hands-on experience.
- *Vendor self-evaluations*—always very rosy opinions, except for input from an occasional disgruntled employee.
- *Vendors evaluating other vendors*—usually not very rosy opinions, especially when the vendor being judged is a market leader.
- *"Defensive" evaluations*—such as those rendered by financial buyers (or others) who feel a strong need to defend a decision or selection.
- *Evaluations among financial partners*—as in cases of responses from a consulting company regarding a software vendor they represent.

- *Student participation*—no knock on students or CRM education (especially since both of us have graduate-level teaching backgrounds), but neither coursework nor avidly reading trade publications creates the *informed* opinions of products and companies this genre of research requires.

Please forgive us for being picky about this, but using data sources like these is no way to run a research study. It's the classic, "Garbage in, garbage out." But the sad part is that once labeled "research," regardless of the quality, many read it and believe it. And worse yet, others republish it without assessing the quality of data, which is the primary reason why we have so much misinformation surfacing and resurfacing in the CRM industry.

Sensing an opportunity to offset at least some of this misinformation was a principle motivator when we originally decided to launch these studies—and it remains so today.

The sources we tapped

- CRMGuru.com subscribers
- SearchCRM subscribers
- *Selling Power* subscribers
- Web Digest For Marketers (WDFM) members

The input we used

- Current customer (or user) input.
- Past customer (or user) input.
- Consultant input (omitted for market share analysis).
- Prospect input from those actively looking for products/services (omitted for current market share analysis).

Why consultants and prospects?

Frankly, we have pondered a bit ourselves over the question of whether to include consultant and prospect data. We have decided to include both for several reasons:

- Both sets of input are consistent with customers/user input (although consultants tend to rate software vendors a tad more favorably).
- Consultants are important recommenders of CRM software, with exposure to some aspects of systems that customers don't always see.
- Prospects provide up-to-date input on new software releases.
- The additional data from prospects and consultants occasionally add enough to the statistical base to permit us to rate an additional vendor.

Screening

To protect the integrity of our data, we rigorously screen out non-qualified perceptions, software vendor input and student input using means that go well beyond survey taker self-identification. While this type input is easy to obtain in large volumes—which makes conducting a study much less expensive and time-consuming—it doesn't belong in anything that purports to be research.

Likely vendor objections

Based on past experience, our software ratings will certainly trigger several types of vendor objections—the most prevalent being that their "new version fixes all those problems." And in fairness to the vendors, new releases typically add functionality. They also improve the overall customer experience in some cases, but not as reliably. However, as we compare our new results with our 2001 customer satisfaction results, only one vendor of the eight rated in 2001 registered more than incremental change in customer satisfaction (more than 5 rating points) over the two-year interval. Clearly, in most cases new releases are not making dramatic differences. Plus, the percentage of customers running the latest releases has been increased by increasingly aggressive vendor marketing to stimulate upgrading. With the number of new CRM implementations requiring CRM software a fraction of what it was several years ago, software vendors have been pushing upgrades harder than ever before in order to maintain revenues.

Another frequent vendor complaint will be, “You didn’t include us.” We do appreciate software sellers wanting to be included among the “top systems” from a customer usage standpoint. However, we won’t include any vendor unless we have sufficient customer responses for fair and accurate assessments. We set these minimum response count thresholds before we start collecting data. And once we’ve collected data, we won’t lower them—only raise them if necessary, as was the case for this study, when we found internally inconsistent data for an “on the cusp” system that narrowly cleared our response count threshold. While we could have justified statistically going ahead and reporting data for this CRM system, we erred on the side of caution and upped the minimum level of survey responses required for reporting—eliminating not one but three systems in the process. We regret the loss of the additional ratings, but we won’t use suspect data.

Our Scoring & Segmentation Models

Numbers are wonderful. Without them we're lost. Unfortunately, with them, we're often even more lost. For example, stick a stack of customer satisfaction scores in front of a car buyer, and you'll likely get a blank stare. But show said buyer some *Consumer Reports*-style symbols for average, above average, way below average, etc., and the light of recognition shines. And this analogy holds water even if Mr. or Ms. Car-buyer happens to be a marketing research professional.

Customer satisfaction scoring model

+2	Well above average
+1	Above average
0	Average
-1	Below average
-2	Well below average

While we've continued to report statistical ratings above the individual system/vendor level, once at the vendor-specific level, we've altered our format from the original "Multi-function CRM Software" study and adopted a more intuitive scoring system showing 2 levels of deviation from mean scores. This system should facilitate vendor comparisons and provide more effective decision-support. Please note that we avoid using absolute terms such as "excellent" or "good" In our rating schema. As the statistical analyst member of our team wryly points out—the CRM software market suffers from "reverse Lake Wobegon syndrome."[4] It's a place where "All the systems are below average"—at least relative to customer satisfaction levels achieved by most industries other than passenger airlines.

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[4] For his popular radio program, "Prairie Home Companion," storyteller-comedian Garrison Keillor plays off a fictitious place called Lake Wobegon, "where all the children are above average."

Functional rating schema

Were you to ask an experienced CRM consultant whether a particular CRM software system is a good system, the consultant's answer would likely be, "Good at what?" That's appropriate, because CRM software functionality covers a wide spectrum—two spectrums, to split hairs: an *internal* spectrum of functions that connect staff to customer information and staff to staff (and in the case of call centers, staff to customers); and an *external*, web-based spectrum that connects external stakeholders to information and to internal staff.

Please note that the sequencing of the functions on the following charts is very important, as CRM functionality is very much a continuum across the spectrums, rather than isolated points. The percentages show the share of overall implementations having a strong focus on each function.

Internal Spectrum					
Marketing analytics	Marketing campaign management	Sales force automation (SFA)	Call center sales	Contact center customer service	Field service[5]
34.2%	32.3%	37.2%	11.4%	22.3%	N.A.

The external spectrum, while not having as many individual functions, is becoming a progressively stronger element in the functionality mix.

External Spectrum		
Partner Relationship Management (PRM)	Online customer service	Online customer sales
10.3%	16.3%	5.4%

[5] Due to a survey design error, we omitted a question about field service functionality usage. However, we did collect and report data on the strength of individual software systems in providing field service functionality.

In the write-ups for the individual software systems, we've charted their functional use by customers.

But even more important to those selecting software than how many companies are using particular systems for specific functional applications is how users of particular systems rate their functional strengths across the spectrums. Here, rather than using customer satisfaction ratings, as we have elsewhere in the study, we've switched to "top box" ratings, which are more effective at discriminating between functional competence and functional excellence.

Functional ratings

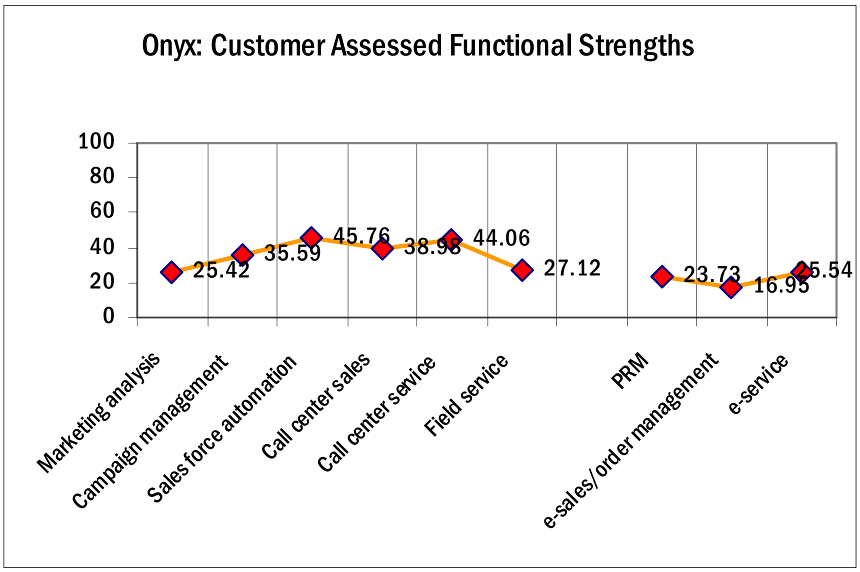
Our "top box" functional effectiveness ratings report the percentage of respondents that either "Strongly Agree" or "Moderately Strongly Agree" that the CRM software system they're rating is "Strong in _________ function." Often, "top box" ratings consider only the single most positive answer of the choices offered. However, had we limited ourselves to the "top box" literally, we would have lacked sufficient responses for reporting. So we used the two most positive answer choices.

We've reported functional strengths and weaknesses in two separate ways. First, in each system's ratings we've included a scoring table very similar to the customer satisfaction scoring table. For reference, a top box score of 50% or better is usually considered a very positive performance measure, and we did have a number of scores of 50% or higher spanning several functional areas. On the other hand, we also had scores dipping down to 0 and some very low individual function ratings for systems claiming broad functionality.

+2	60% or more rating in top 2 boxes, indicating superior performance in this functional area
+1	45% - 59% rating in top 2 boxes, indicating good performance in this functional area
0	30% - 44% rating in top 2 boxes, indicating adequate performance for modest requirements in this functional area
-1	15% - 29% rating in top 2 boxes, indicating significant deficiencies in this functional area
-2	Less than 15% rating in top 2 boxes, unlikely to provide much support in this functional area

In addition to the scoring table, we've charted the actual scores, but using a line chart rather than the customary bar chart. We did so because these nine CRM functions are not fully discrete.

To cite a business-to-business example, the function we call "campaign management" is often very intertwined with sales force automation functionality, because the latter helps supports necessary sales follow-up to customer inquiries generated by a database marketing campaign. Similarly, campaign management functionality is often intertwined with marketing analytics functionality, because analytics supports necessary targeting and list selection support. Because of this intertwining, providing strong support to one function typically requires providing significant support to adjacent functions on the spectrum. The chart below for Onyx provides a good example of how strengths (and weaknesses) tend to be clustered—rather than one functional area strong and the adjacent area very weak.



We recommend that you pay very careful attention to these "functional excellence" measures. Distinguishing between excellence and competence matters greatly to companies faced with this very common situation—finding a CRM software system that excels in supporting one or several critical functions while adequately supporting some or all of the remaining functions where requirements are less stringent. Companies selecting CRM software in this environment must make sure they match "peak to peak"—matching system strong suits with their critical requirements. Unfortunately, selecting a system that's competent at everything, without sufficient concern for excellence in supporting the critical functions, is a more common occurrence.

Tier segmentation for CRM software systems

To help keep our comparisons among systems on an apples-to-apples basis, our individual system software ratings divide the market into four tiers.

Tier-1	CRM systems scalable to meet the enterprise-wide requirements of large-companies with thousands of potential software users; market focus on companies with annual revenues $500MM and up, although vendors frequently solicit smaller accounts.
Tier-2	Systems designed to meet the needs of companies with hundreds of users and sales of $1MM down to $500M; some vendors try to compete in Tier-1 space, others in Tier-3.
Tier-3	Software designed for the small business market, primarily targeting customers with less than 100 potential users.
Marketing Analytics Systems	Niche systems designed primarily for customer base analysis, typically with marketing campaign management functionality as well. These systems are most often used by Tier-1 size customers.

How we classify vendors

Actually, we don't classify the vendors. Software buyers do. The fact that a particular vendor is sending out a stream of press releases claiming Tier-1 sales successes for its system doesn't make it a Tier-1 system. The only input determining tier placement is the size of the companies providing survey feedback—or in the case of the Marketing Analytics tier, how companies are using the system.

Does "tier" = price?

Do the tiers represent price brackets? They may not always reflect software license prices, but by and large they do segregate vendors by total cost to implement. Customers may experience some license price competitiveness between, say, Onyx, from Tier-2, and PeopleSoft, from Tier-1—or between SalesLogix, from Tier-2, and MS CRM, from Tier-3. And some Tier-1 systems "give away" (and we'll let you decide what that means) their CRM modules as part of an ERP sale. But when you factor in configuration and deployment costs, the tiers are a good cost barometer.

About “Survey-base input to potential customers”

At the conclusion of each software review, we’ve summarized survey-taker input in ways designed to provide future customers with a useful frame of reference. While the majority of the comments are strictly data-based, we have extrapolated from the data to the degree that we might, for example, express a -2 rating for corporate stability by saying, “Have your CFO run a financial check before you buy”—or by adding comments about recent upgrades that most survey-takers would be aware of but had no opportunity to comment on in the survey. However, the text in these sections is either descriptive of the data presented in this report or a neutral presentation of new release information that might cast vendors in a more favorable light—and is not based on our individual opinions or judgments.

WHAT'S DRIVING CUSTOMER SATISFACTION?

As in all customer satisfaction studies, some data points in "The State of CRM Software" mean more than others. Overall, the survey's customer feedback about CRM software breaks down into the following eight categories.

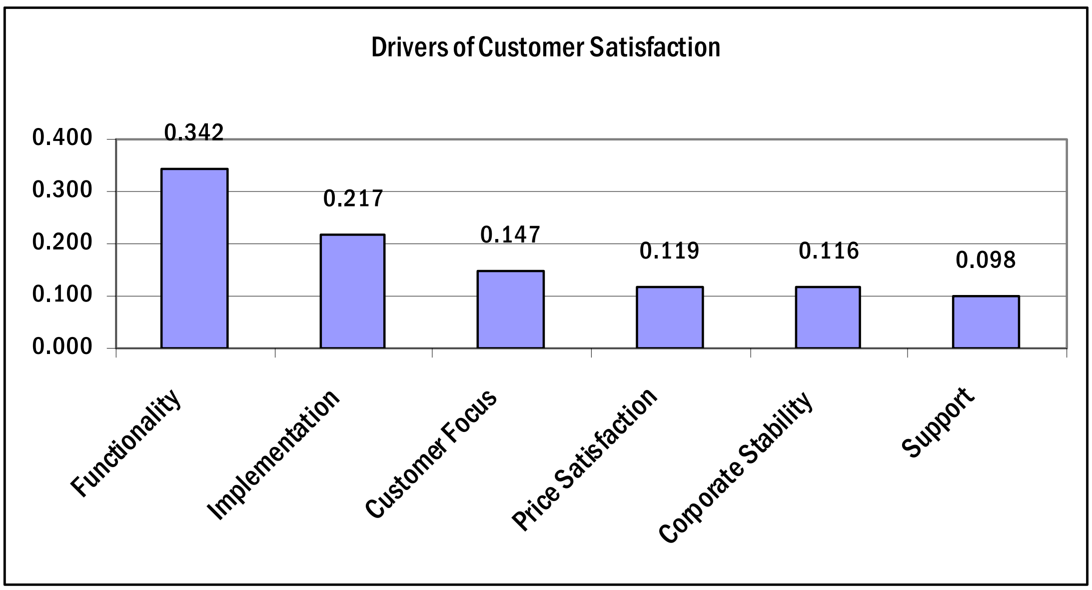
Corporate stability	• Is the vendor financially stable? • Can I trust this vendor to be around for three years?
Customer Focus	• Does the vendor take time to identify unique requirements? • Will this vendor reject a sale that's not a good fit? • Is the vendor responsive?
Functional specificity	• Is this a vertical (industry-specific) application? • Is it modular? • Does it have depth of functionality in specific areas?
Functionality	• Can the system meet our specific needs? • Does it fulfill our company's functionality requirements?
Versatility	• Does this system touch all the major CRM bases-from marketing to sales to service to web functions?
Ease of implementation[6]	• Is the system relatively easy and inexpensive to configure and deploy? • Does it provide value for our investment? • Does it perform as advertised?
Price Satisfaction	• Is it fairly priced for its functionality? • Is it affordable to our company?
Support	• Does the vendor have adequate engineering support for configuration and adequate user support once the system is deployed?

[6] We actually measured the converse—implementation difficulty—but we've adjusted the scoring so we can report all attributes from a positive perspective.

Among these eight categories, we identified that only six are independent drivers of customer satisfaction with CRM software—meaning that a higher score in a category increases the CSI score, without dependency on how another category is rated.

Actual drivers of customer satisfaction

The two categories that were *not* direct drivers of customer satisfaction were "functional specificity" and "versatility." While these are definitely important attributes, when software buying companies increase their efforts to thoroughly understand CRM software support requirements *before* selecting software, as they're now doing, these factors diminish in importance as independent factors. Knowing what functionality you need before selection obviates buying broad functionality to cover what you don't know you need.



Relative importance

Based on how survey-taker responses in each area affected overall satisfaction, we assigned the "weights" in the chart above to the six drivers (higher importance means more weight). All of the weighting is already incorporated into the scoring, so you don't need to think about any of this again—except to remember that CRM software buyers remain very particular about getting whatever functionality they need, and they're far less concerned about the overall capabilities of CRM software systems than about how a system fits their needs. Although we'll address this issue in more detail in "The State of CRM Software," another takeaway is that the emphasis placed by sellers and buyers alike on industry-specific solutions is misplaced, at least to a significant degree. Our data quite strongly suggest that customers prefer software that they (or their software provider) can adapt to their unique needs over software with industry-generic functionality provided out-of-the-box.

Satisfaction scoring in other areas

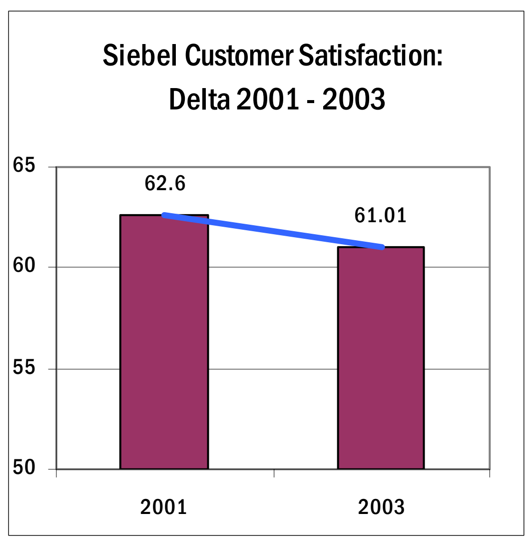
Due to data volume limitations, our analysis of consulting firms and analysts is more directional than statistically specific, so in these areas we're reporting top-line data only, without weighting and creating customer satisfaction indices for these areas.

WHAT'S BEHIND CONFLICTING DATA?

General issues of data quality aside, right off the bat we feel impelled to directly address significant variances between our findings and two sets of conflicting claims floating about the CRM space. Frankly, we would prefer to just let our data stand on its own, and trust that you'll trust the thoroughness and objectivity of our work as presented. However, too much promotion and repeating of these conflicting findings has already occurred to ignore the gaps among data. So instead, we'll address these disparities head-on.

Siebel's customer satisfaction rating

As some of you have likely guessed already, one of these variances is between outcomes of "The State of CRM Software" and findings of an April 2003 Aberdeen Group study of customer satisfaction with Siebel Systems' CRM application—a study that was funded by Siebel.[7]



As occurred in 2001, we are reporting customer satisfaction with Siebel at a far lower level than Siebel itself promotes to the market. In fact, Siebel was the only vendor rated with a negative CSI vector between 2001 and 2003. The customers we surveyed rated Siebel at 61.01 on a scale of 100 in customer satisfaction, down

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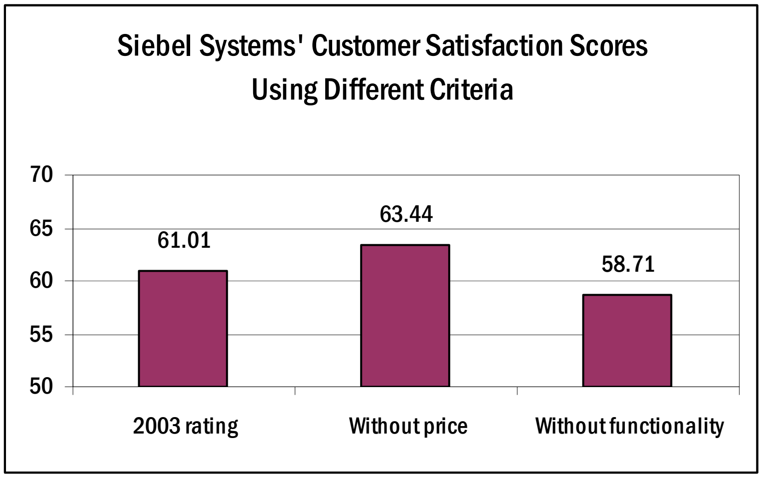
[7] "Does CRM Work? Compelling Evidence from the Siebel Customer Base," an Executive White Paper from Aberdeen Group.

from 62.6 in 2001.[8] A score of only 61 connotes "airline" level satisfaction—sub-par rather than superior performance.

But more to the point, our 2003 CSI numbers are very significantly lower than what Aberdeen reports.

What explains these discrepancies, especially the discrepancy between our findings and Aberdeen Group's? We wish we knew. Among the factors that can significantly



alter customer satisfaction scores are selection of attributes to rate, phrasing of questions, how the sample base is composed and how the survey is scored. To illustrate how attribute selection can alter scores, we reran Siebel's numbers two ways: minus the price satisfaction rating scale, Siebel's Achilles heel; and minus product functionality, Siebel's strong suit. The differences that result are clear and statistically significant, but not dramatic. And not remotely close to making up a 20 point gap, which is the minimum that would be required to raise our numbers to Aberdeen's reported customer satisfaction level of "8".[9] Likewise, surveying customers versus consultants produces variations of up to 3 or even 4 points in some individual attribute scores. And surveying different job titles will do the same. But none of these variables—or even all of them combined—will change a "60" into an "80."

If forced to guess how Aberdeen could produce such positive numbers, we'd speculate that survey attributes were limited to assessing out-of-the-box functionality—and omitted thorough evaluation of satisfaction with price, ease of

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[8] Despite several differences between the two surveys, the outcomes are closely, if not exactly, comparable. See the Addendum for a complete description of the survey variations.

[9] It's highly unusual in professionally-conducted research to report a CSI score as a whole integer on a ten point scale. Our data goes to two decimal places on a 100 point scale.

implementation, the sales experience and/or technology adaptation to meet individual user needs. Or as an alternative, we could construe a "top box" survey scoring method that includes as "positive" responses all but the lowest rating or the lowest two ratings.[10] But these are only guesses.

Even if you could explain away the gap between ratings, however, what's much harder to justify from a research perspective is the total lack of context in the Aberdeen study. Any CSI score—including Aberdeen's CSI score of "8" for Siebel and our score of 61.01—should derive the majority of its interpretive meaning from comparisons with competitive scores. However, in a brief back section on Siebel's shortcomings, Aberdeen's study[11] waives off the need for comparative context by posing the question, "Are These Problems Unique to Siebel?"—and then answering their own query by saying, "The short answer is no."

Well, our study has the long answer. And the long answer, defined by data rather than opinion, is that Siebel finished 12th of 14 vendors rated for overall customer satisfaction. Plus, Siebel ranked lowest in price satisfaction; trailed only SAP (and by a statistically insignificant margin) in implementation difficulty and ranked lowest in customer focus except for packages sold retail.[12] And plainly put, you can't spin these findings fast enough to pin a "happy face" on Siebel's CSI performance—as the Aberdeen study does. Consumers of research findings deserve to be treated with greater respect then by ignoring the criticality of answering the question Aberdeen never asks, "Compared to what?"

In fairness to Siebel, we can't fault the company for their score from Aberdeen's survey or for the lack of competitive context. We have no direct or indirect knowledge that Siebel made any effort to influence the outcome of the Aberdeen study. But as for the study itself, without outcomes of applying the same survey to competing

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[10] Our "top box" ratings recognized only the top two possible responses on a seven response-option scale.

[11] Actually, by "study" we're referring to the white paper reporting the study's outcomes—not the study findings themselves, which were not released to the public, to our knowledge. .

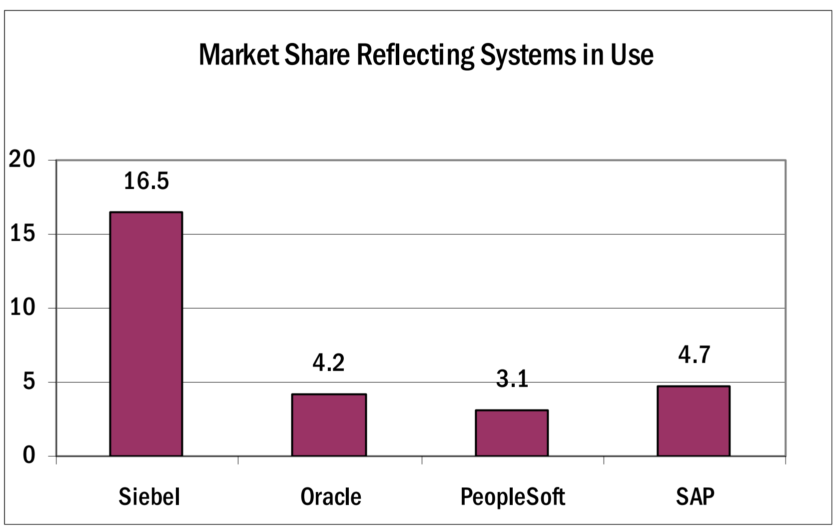
[12] ACT! and GoldMine.

vendors, we don't believe it conveys any meaningful information—and it has great potential to add to the misinformation that abounds in the CRM space.

Inflated ERP-vendor market share numbers

The second set of claims at considerable variance with our findings is CRM market shares self-reported by ERP system providers with integrated CRM capabilities. Some firms have started bundling their CRM software into the sale of back-office systems, which means customers don't pay a visible incremental license fee to add CRM functionality. No problem with that—except for vendors counting these sales as active CRM sites for market share purposes, even in cases where customers have never used the CRM functionality. Consequently, by their count, ERP vendors have been gaining ground on market leader Siebel by leaps and bounds. But our data tell another story.

While the ERP-related systems as a group are making some market share headway against Siebel, even collectively they're well under Siebel's share numbers. And comparing our new data with 2001 survey responses, it appears highly likely that the Tier-1 group as a whole (the ERP-related players together with Siebel) are *losing* market share to smaller competitors.



While some may view this over-reporting of market share as little more than "aggressive marketing," when CIOs try to persuade their business-side counterparts that ERP-related CRM software is the "only way to go," with the inference that CRM technology sales are headed in this direction, that's much more serious than "aggressive marketing." Plus, it's not painting a very accurate picture to stockholders.

Different approaches to determining market share

Sales numbers are the most customary business measure of market share, with units produced (or sold) probably second in frequency of use. However, neither of these approaches works effectively in CRM. Sales numbers are inaccurate because CRM functionality is often bundled with ERP functionality, leaving vendors to interpret (or misinterpret) however they wish the amount of each sale attributable to CRM. Abuses like this have already occurred. The units approach, which translates into software user licenses sold, doesn't work either because of site licenses issued to large customers that ignore user counts—and on the other hand because many licenses issued are never used. Furthermore, a multi-million dollar sale of marketing analytics software may involve only a small number of user licenses.

For these reasons, we prefer to calculate, market share on the basis of how many organizations are using each system. It's not a perfect approach, but we believe it's the best approach available.

I. Key Trends, Core Issues

THE STATE OF CRM SOFTWARE

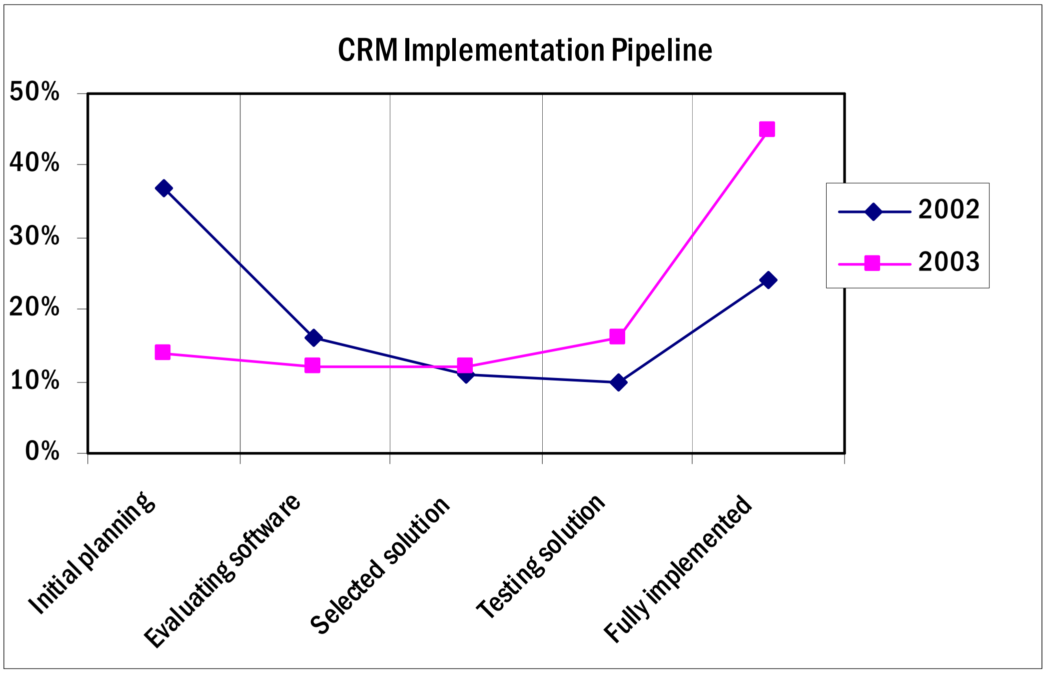
Respondents to “The State of CRM Software” survey expressed a mixed bag of opinions on the state of CRM today and where it’s headed. For example, 85% believe that companies will increasingly incorporate CRM practices into their core business processes. And 70% disagree with the notion that CRM will remain a standalone initiative that companies will implement on a one-time basis, expressing yet more support for CRM integrating itself into the fabric of business. However, over 60% maintain that software will continue to be the element most associated with CRM, very much a holdover from years past when CRM was software-dominated. And respondents split evenly on questions of whether CRM has more positive connotations than negative and whether the use of the term “CRM” will diminish over the next several years.

Interesting opinions—but this study is about hard data, rather than opinions, so let’s start right in.

The software sales pipeline has slowed to a trickle

Comparing this year’s data identifying the stage of CRM projects currently in the planning and implementation pipeline with last year’s “Blueprint” data reveals a disturbing trend for software sellers. The software sales pipeline, already low when we pulled “Blueprint” data in Q2 of 2002, emptied out even more from Q2 2002 to Q2 2003, when we pulled our new data. And given the low level of projects in the early planning stage, it won’t be refilling soon.

Although the pipeline data for “Blueprint” and for this study aren’t fully comparable because of differences in who qualified to take each survey, they’re parallel enough to compare at a macro level, where we see a very considerable drop in the number of brand new implementations starting in 2003 versus 2002.



Several factors likely contribute to the decline of new CRM starts:

- The dearth of new capital spending.
- The "bad rap" CRM has acquired from failure of ill-planned implementations.
- An increasing amount of "remediation" (new implementations using previously acquired software).
- A gradual shift towards more focus on the marketing aspects of CRM at the expense of both sales force automation and contact center activity—a shift that enables more implementers to bypass CRM software in favor of data warehouses and non-CRM analytic tools.

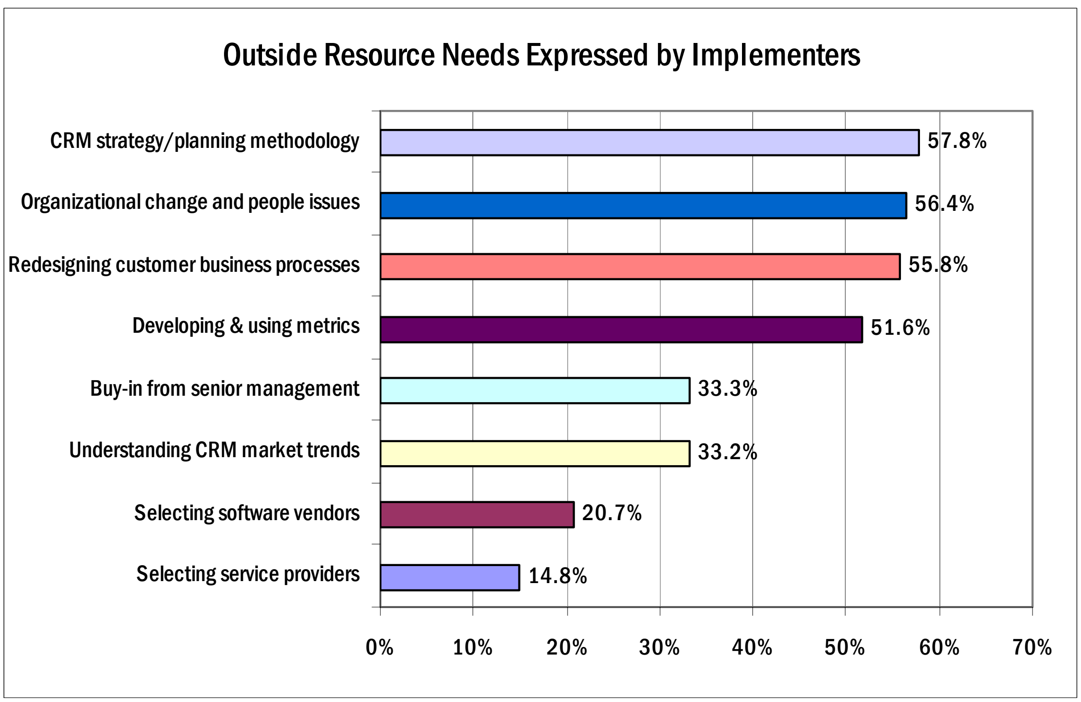
While the future always holds a number of surprises, it's unlikely that any of these conditions will show marked improvement from the CRM software seller perspective near-term. Consequently, the CRM software industry should anticipate more lean times ahead.

On the other hand, we must underscore that our pipeline data do not necessarily imply that fewer companies are moving in a customer-centric direction and adopting

CRM values—just that these initiatives are not necessarily named “CRM” and they don’t necessarily involve CRM software.

Customer-centric planning is finally gaining traction

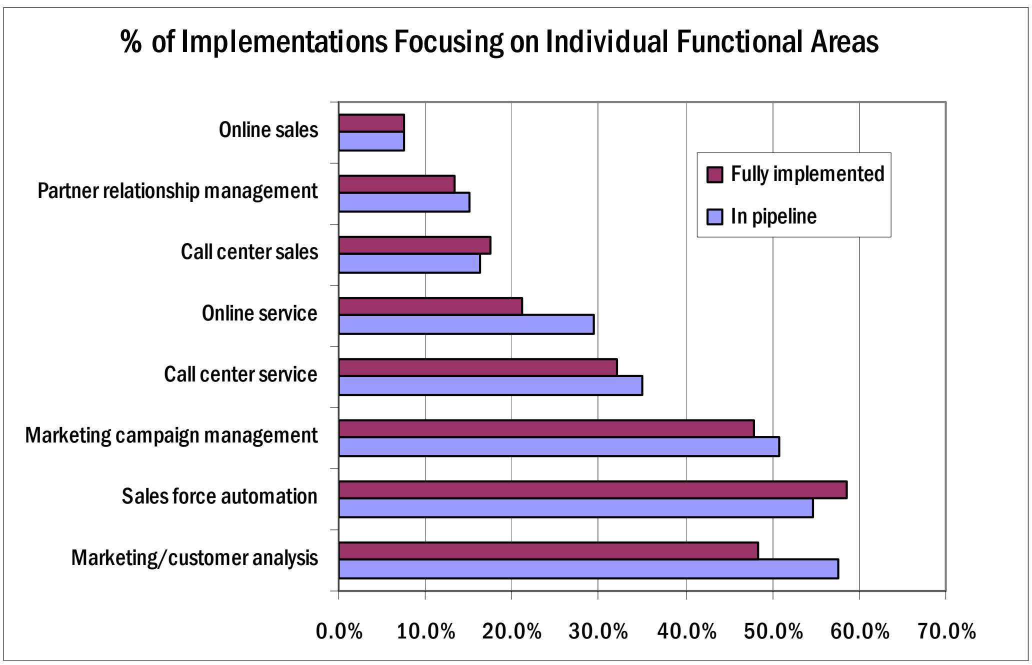
While software sales are depressed, interest in development of customer-centric business strategies is surging. Statistically, our survey base is more interested in seeking outside assistance for development of customer-centric strategies than for any other CRM-related activity. Obtaining help with organizational change, redesign of business processes and metrics finished close behind. Interestingly, these four leading areas of interest in outside assistance align very closely with the four drivers of ROI from CRM identified by “Blueprint:” customer-centric strategies, line-level training and support, organizational change and measurement. It certainly appears that many CRM implementers are now “getting it” about what makes CRM work—a significant departure from times past.



Marketing is moving to the fore

Sales force automation has been the leading area of functional focus (at least on a per implementation site basis) since CRM began. However, our new pipeline data position marketing/customer analysis slightly ahead of sales automation as the leading focus of future implementations, with marketing campaign management the third-leading focus of "futures." Should this trend continue, with marketing's importance in the CRM mix steadily increasing, CRM software vendors may face even more distress, as marketing/customer analysis is the CRM functional area least dependant on support from traditional CRM software.

Another trend of considerable consequence is the expanding breadth of CRM implementations. The pipeline chart shows more increases than decreases in functional focal points, with the increases larger on average than the decreases.



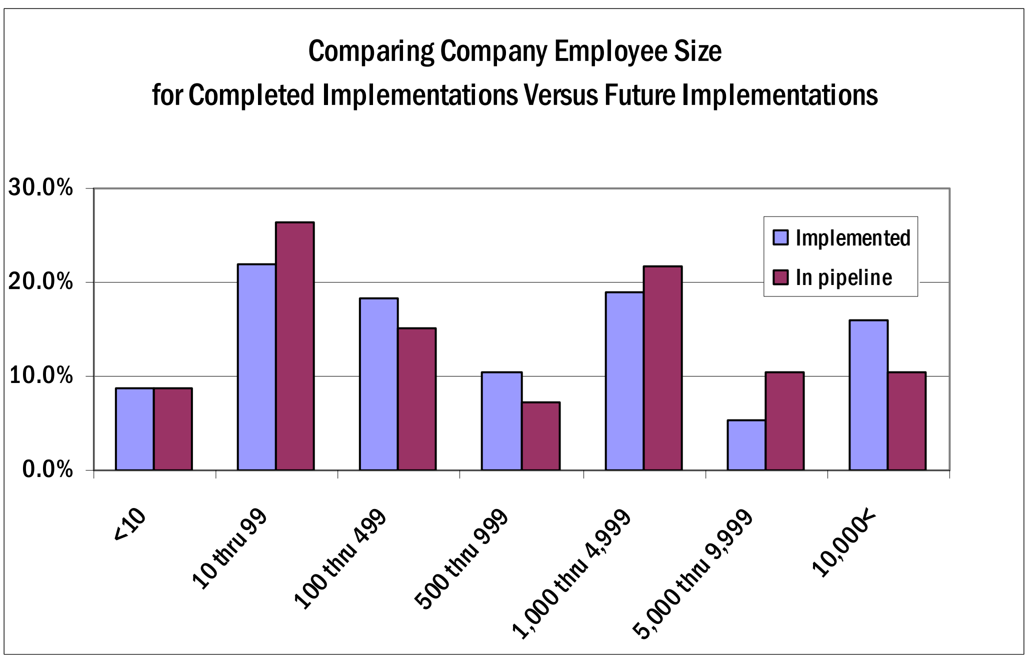
The theories predicting more focused CRM implementations and more use of vertical software solutions don't pan out.

Between our findings regarding the drivers of customer satisfaction with CRM software (which indicate that choosing an industry vertical system is *not* a satisfaction driver) and the increasing breadth of implementations demonstrated by the pipeline chart above, our data dispute the popular notion that the future of CRM software is in vertical solutions and in very narrowly construed solutions with great depth across a narrow band of functionality. Instead, and as we've found in our previous two studies, customers want software functionality that supports how they individually want to conduct business—not bucket-loads of functionality they can choose from, not someone else's best practices and not "industry-generic," third-party interpretations of best/common practices for their industries. Ironically—CRM software customers want what the industry preaches is the real goal of CRM—customer specificity.

The SME migration is still grounded

Few people in and around CRM doubt that the "action" is shifting to what's variously called the "SME" market (small to medium enterprise) or the "mid-market." But they should doubt it, because our data doesn't reflect CRM moving "down market" to progressively smaller companies. Not yet, anyway.

Comparing employee size data for completed CRM implementations with similar data for implementations still in the pipeline reveals alternating variances—but no pattern



indicating that the market for CRM goods and services is dramatically shifting towards smaller businesses. Microsoft's successful launch of MS CRM—software designed and priced for down-market implementers—has been referred to as "proof" of SME growth. However, Microsoft's successful launch has affected the small business market only, and MS CRM sales appear to be coming out of competitors' market shares rather than from market growth. We might even attribute much of the industry talk about the action in CRM shifting to the SME area to wishful thinking—vendors seeing demand lessen from the enterprise market and hoping it's going somewhere, rather than just going away.

Consolidation of CRM software purchases with major vendors turns out to be more projection than reality

Virtually every technology magazine in print or on the web has opined that the "big four" CRM vendors—PeopleSoft, Oracle, SAP and Siebel—would before long dominate the CRM software market. Some IT-industry pubs have even projected that Siebel would lose out to the other three, because ERP-dominated CRM was the wave of the future.

While accurate market share numbers are hard to come by, we did pull representative share numbers in this study. And to the surprise of many, including a host of technology publishers and writers, the combined share of customer sites for the "big four" is only 28.5%. And the share of prospects in the pipeline looking at "big four" solutions is only 30.1%—which will likely drop to a lower percentage that actually select one of these vendors because many customers look at Tier-1 suppliers before shifting attention to more affordable Tier-2 systems or more specialized marketing analytics systems. While our "Multi-function CRM Software" study in 2001 was not designed to capture market share,[14] we can still draw some market share inferences from the data—and based on that data, construing a scenario where the "big four" had less than 35% market share in 2001, versus the current 28.5%, is difficult.

Where is the business going, if not to the "big four?"

- New players such as MS CRM and Salesforce.com (with almost 6% market share between them) are picking up considerable business.

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[14] We limited the 2001 study to multi-function CRM software only, thereby eliminating specialized marketing analysis- and contact center-focused systems as well as Tier-1 contact managers.

- Vertical (single industry) products such as Chordiant in financial services, Dendrite in pharmaceuticals and IAS (Optima Technologies) in financial planning services are gaining share.
- Specialized marketing analysis systems are now taking business that previously would have defaulted to one of the "big four."
- Onyx, an anomaly for appearing to be the only player from CRM's "old guard" of the mid-1990s still growing in share, appears to be picking up some of the Tier-1 fall-off.

Bottom line—for all these reasons and likely more, the CRM software system market is fragmenting rather than consolidating.

BUYING LESS BUT ENJOYING IT MORE?

Nobody having anything to do with CRM needs this study to tell them that purchases of CRM goods and services are down from their peak levels in 1999-2000—a long ways down. But are customers liking what's available more than previously? That's another question.

Customers are at least somewhat happier than in 2001, when our "Multi-function CRM Software" study registered a composite CSI score for all software systems of 63.1. The "State of CRM Software" data yield a current CSI score of 65.3, up 2.2 rating points.

CSI Scores	
Corporate stability	74.53
Customer focus	53.79
Functional specificity	50.07
Functionality	69.55
Implementation	63.43
Versatility	58.59
Price satisfaction	63.21
Support	63.46
Total CSI Index	65.30

At first blush, only 2.2 points of improvement looks minimal, but the numbers are a bit better than that. From 2001 to 2003, Siebel Systems' CSI dropped almost 1.6 points, leaving Siebel 12th out of 14 vendors rated. Because Siebel still has far larger market share than any other individual vendor, its low score acts as an anchor, pulling the entire rating scale down. *Without* Siebel, the improvement would have been 1 rating point higher with a composite rating of 66.30. While still not great improvement over two years, the over 3 point increase does show forward movement, especially considering that customer expectations appear to be increasing over time.

How does a CSI of 65.3 compare with other industries?

Although the perspective on standards varies from researcher to researcher, even using relaxed standards designed to produce encouraging results leaves CRM software CSI (customer satisfaction index) scores at very substandard levels. And if we applied more stringent standards that limit the top bracket to scores of 90 and above, the picture would appear much gloomier.

Research "Standards"	
>85	Very high
78-85	High
72-78	Average
67-72	Low
<67	Very low

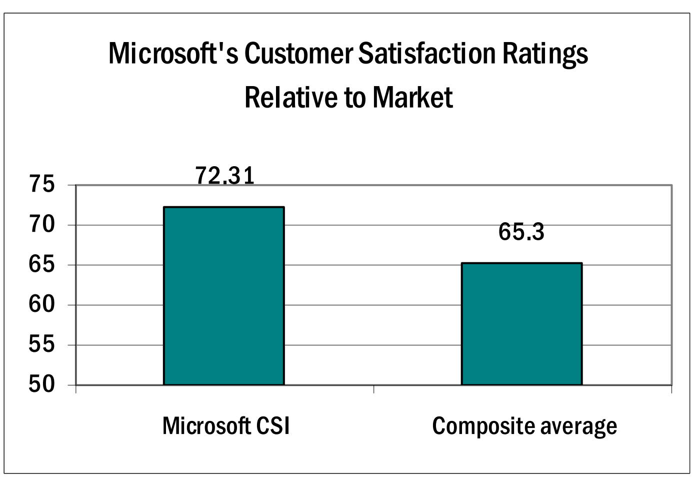
As a business, CRM software still has a long way to go before reaching reasonable customer satisfaction levels. And that's both a problem for the industry as a whole and an opportunity for individual vendors willing to work at meeting and beating customer expectations.

MICROSOFT SLIPS THROUGH A WINDOW OF OPPORTUNITY

Lots of CRM market watchers (including more than a few analysts) thought Microsoft's timing in releasing MS CRM in late 2002 was impeccable—because the SME market was supposedly heating up. And they were right about the timing, but for the wrong reason. According to our pipeline data, the low-end market for CRM products is not expanding as predicted—at least not yet—which has forced Microsoft to win business away from existing players such as ACT!, GoldMine (FrontRange) and Maximizer rather than picking low-hanging fruit in a rising demand environment. But Microsoft did dodge a bullet of sorts by getting into the CRM market when it did, because emerging and new small business CRM products from vendors including ACCPAC and NetSuite (NetCRM) are hot on MS CRM's heels, plus ASP solution-provider Salesforce.com is making a strong market move—all in a market segment that until recently has been marked more by neglect than by competition

A great start, but not a cakewalk to small business market dominance

Going forward, Microsoft may not have the cakewalk over weak competition it originally envisioned. Salesforce.com is achieving high customer satisfaction scores. And while ACCPAC and Net CRM's "n" numbers (number of respondents rating them) were too low to report, what data we have suggest that



both these systems have been well-received by users. Nonetheless, MS CRM is off to a great start, winning 2% of total market share in less than six months plus prospect-share over twice that percentage. And even more significantly, MS CRM recorded the second highest composite CSI score in the study. Microsoft's 72.3 CSI score is tops among Tier-3 players, and second to SalesLogix in the entire field of 14 systems for which we have sufficient data to issue ratings. That gives MS CRM an eight point plus CSI lead over both ACT! and GoldMine. That's a big gap in customer satisfaction terms.

Will Microsoft move up-market?

Considerable speculation has floated about whether Microsoft would quickly take MS CRM up-market and start competing against Tier-2 and even Tier-1 players. However, our data show minimal large company interest in MS CRM. This may result from initial market perceptions of MS CRM as a system that lacks the depth and breadth of functionality that large company CRM implementers expect. However, Microsoft's reseller channel may be a contributing factor as well, as the majority of Microsoft's channel partners selling MS CRM are small businesses selling to small businesses.

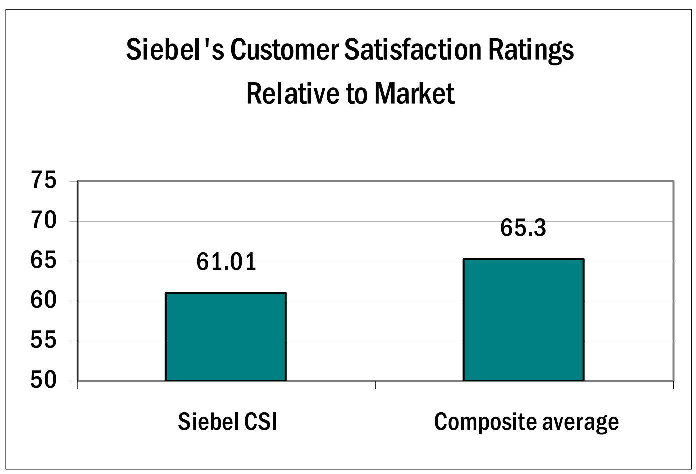
There's no need for Onyx, Pivotal or even SalesLogix to be looking over their shoulder. Not yet, anyway.

SIEBEL ON A DIET

Siebel Systems has long been referred to as the "800-pound gorilla" of the CRM software market. But our data show considerable slippage in Siebel's strength from 2001 levels, and we might well downgrade the Siebel of today to the "200-pound gorilla" category.

A svelte 200-pound gorilla—and not happy about it

Siebel's customer satisfaction ratings have slid lower since our 2001 study, with Siebel finishing 12th out of 14 vendors rated. Only Clarify (Amdocs) and Oracle ranked lower. Further, Siebel's once dominant market share is slipping as well. Most prior studies we've seen have pegged Siebel's share of total sites with CRM software installed in the high 20% range. In our "Multi-function CRM Software" study, we came up with an imputed share of 26%, which was consistent with other data available in 2001. However, our 2003 data indicate that Siebel's current market share has fallen significantly below 20% (we show 16.5%). A drop of this magnitude has to be cause for concern for Siebel—if only because it lessens pricing power, which Siebel can ill-afford to lose at a time when customers are resisting its historically high prices.



Not listening to customers

Just as in our 2001 study, negative customer reactions to price and implementation complexity dragged down Siebel's CSI scores. It's ironic that known issues of this type should persist in a supposedly "customer-centric" market space. But most of Siebel's competitors in the Tier-1 space have also been slow to respond to customer dissatisfaction. As the phrase goes, CRM software vendors, particularly Tier-1 players, "are not eating their own dog food."

Back to ASP

Envious of the growing sales numbers posted by ASP vendors, Salesforce.com in particular, Siebel is returning to the ASP market where it failed badly with Sales.com—this time with IBM as a marketing partner. But there are many "ifs" attached to this new partnership:

- Siebel's fortunes in the ASP market are tied to IBM's.
- To succeed with its SME strategy, IBM has to successfully win business away from Microsoft. Oracle, Sun and IBM itself have all tried and failed at this before.
- Siebel's announced pricing structure is high, even for the middle market slice of SME.
- To date, the ASP market has been almost exclusively Tier-3—and even slimmed down to 200 pounds, Siebel is still an elephant traipsing through the tulips in the small business market.[15]
- Tier-1 and Tier-2 customers overall have been reluctant to accept generic CRM functionality rather than functionality adapted to their specific needs—and the ASP economic model depends on delivering generic functionality.

All of that said, Siebel appears to be pegging many of its ASP hopes to integrating ASP functionality offered to smaller business units of larger companies with internally

[15] The upcoming chapter, "The ASP Phenomenon…or is it?" presents data indicating that ASP systems may struggle to move up from the Tier-3 market space.

hosted Siebel CRM systems. The integration links are not yet developed as of this writing, so we don't know how robust they're going to be, but this is an untried strategy the success of which may depend on how closely the ASP side can mimic the functionality of the traditional, internally-hosted system.

But to further cover its ASP bases, Siebel has just (as we are finalizing this report) purchased UpShot, one of the original ASP providers. UpShot should become Siebel's Tier-3 ASP presence—and with Siebel behind it[16] Upshot should have the financial strength and credibility to challenge Salesforce.com

An extra measure of exposure

All the Tier-1 vendors are suffering from the evaporation of capital budgets. However, being the only major Tier-1 vendor without an ERP base, Siebel faces some additional exposure. Whereas a PeopleSoft, Oracle or SAP can slide over from a completed ERP implementation into an incremental CRM deployment, every new Siebel implementation must start from scratch. That's a formidable sales barrier to overcome on every sale, especially amidst a persistent economic downturn.

[16] Early indications are that Siebel is going to leave the UpShot organization intact, which would help mitigate the "elephant in the tulips" issue.

PeopleSoft v. Oracle: will (CRM) Customer Interests be Protected?

Within days after we closed the data collection process for "The State of CRM Software," Oracle announced a hostile takeover bid for PeopleSoft. Almost immediately, articles appeared seemingly everywhere in the business press speculating on the likely impact a successful takeover bid would have on ERP markets.

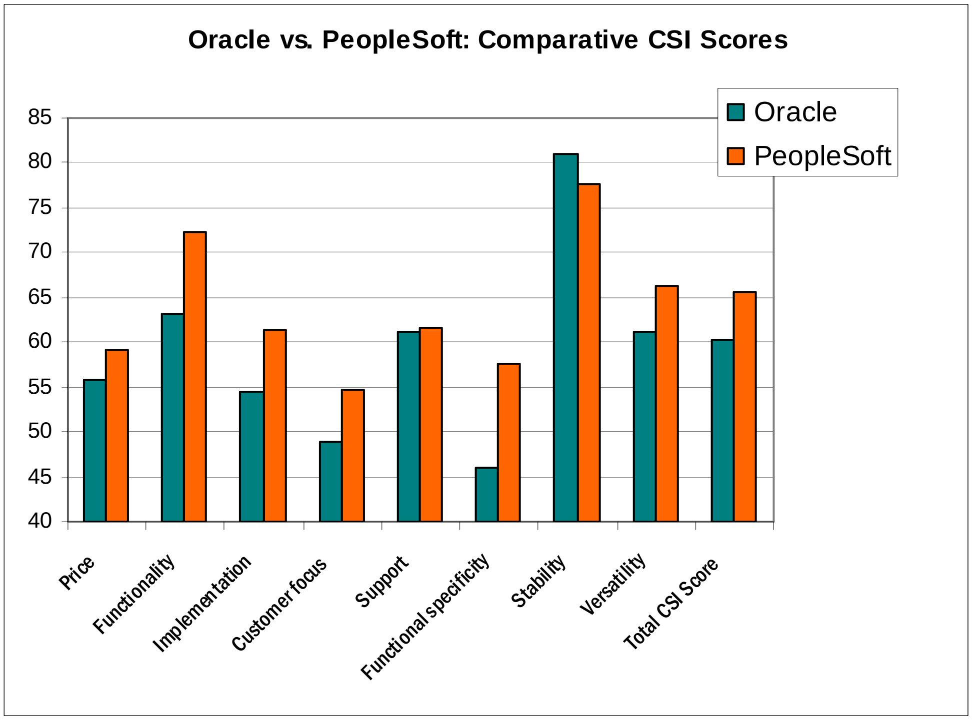
CRM aspects ignored

Unfortunately, for all that was written, nary a word it seems appeared on the impact of the proposed combination in CRM markets, which would have been considerable. Although the union now appears unlikely to occur, thanks in no small part to strident opposition from PeopleSoft customers in the government and private sectors both, it's still worth reviewing the impact a successful takeover bid might have caused.

Customers make clear distinction

Based on customer evaluations of the two vendors' CRM systems, a hostile takeover by Oracle followed by gradual elimination of the PeopleSoft system (as most predict would occur) would not be viewed any more favorably by PeopleSoft customers on the CRM side than on the ERP side—and perhaps less so. Clearly, this would not be a case of eliminating an "unnecessary" CRM system left without a role by vendor over-population in the enterprise-level CRM software sector. Quite the contrary. PeopleSoft CRM customers feel better about their software than customers of any Tier-1 competitor, and by a significant margin. Losing PeopleSoft would have very negatively affected customer choice by eliminating the Tier-1 vendor perhaps best positioned for growth in CRM.

This attribute-by-attribute comparison of CSI scores between Oracle and PeopleSoft demonstrates how much enterprise-level customers would lose in the transition from the latter to the former—especially in functionality. The data show that the Tier-1 CRM software market has a long way to go before reaching vendor parity.



Tier-2 impact as well

Our data show PeopleSoft with greater Tier-2 penetration than competing Tier-1 systems. This relative sales success may be a function of PeopleSoft's best-of-tier ratings for Customer Focus, Price Satisfaction and Ease of Implementation—all potentially important qualities for vendors seeking to "step down" and do business with smaller customers. But regardless of the reason for its Tier-2 success, losing PeopleSoft to an Oracle takeover would have been felt in the mid-market as well as in the Tier-1 market.

The ASP Phenomenon—or is it?

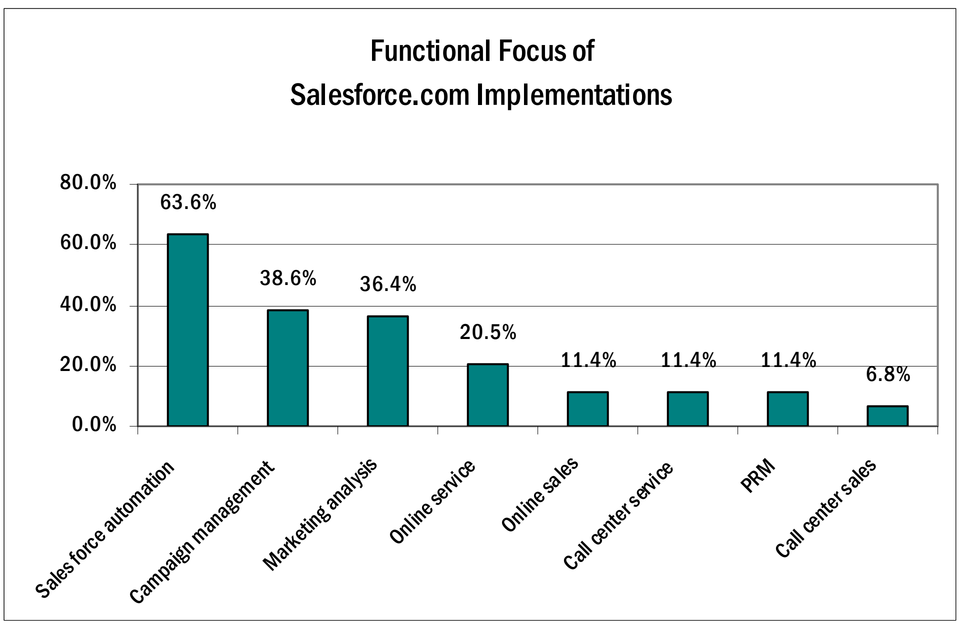
The ASP phenomenon—third-party hosting of CRM, application and data both—is not new to CRM. Upshot, for one, offered ASP services to CRM implementers dating back to the late 1990s. Siebel dabbled in it for a while with Sales.com. And as customary in a technology-related industry such as CRM, thousands upon thousands of words about ASP-based CRM were written before companies started using it.

How far can the ASP movement go—and how fast?

But now, led by Salesforce.com, there is an emerging ASP movement in CRM today. The question is how far will it emerge—and how fast? According to many observers—and especially in the minds of leading vendors such as Salesforce.com and its seemingly ubiquitous CEO, Marc Benioff—the sky is the limit. However, a close look at our data reveals significant boundaries the ASP model for CRM has yet to cross—boundaries that may box in the ASP movement and limit the future growth of ASP systems.

- Market share: At 2.8%, Salesforce.com's market share barely exceeds Microsoft's, despite several years head start on MS CRM. Upshot, for all its years on the market, doesn't yet register on the market share scale. Neither does Salesnet. Although accurately pegging the total ASP market share is difficult—in part because several applications can function as either ASP or traditional systems—current ASP market share is almost certainly under 5% of installed CRM software sites.

- **The size ceiling:** Despite stories to the contrary, our data show no evidence of any ASP market penetration outside the small business space. Siebel's new model integrating ASP functionality with the traditional mode may break the ceiling, but in this integrated set-up ASP may turn into a stepping-stone, rather than an alternative, to internally hosted technology.
- **Functionality limitations:** Salesforce.com, the only ASP application gathering sufficient customer satisfaction data to rate, scored well in "Functionality"—which measures how well a system delivers the functionality its current customers require. But in the "Functional specificity" and "Versatility" categories, which indicate potential to satisfy a broad base of customers, Salesforce.com scored poorly.
- **Focus on sales automation:** ASP-model CRM is being adopted primarily in the sales force automation functional area, with more limited use for marketing support and little use beyond these functions.



Adding up the limitations

While the current ASP model certainly has growth potential, it has difficult to traverse boundaries as well. And based on our current data, eventual growth to 10% to 15% market share, perhaps as high as 20% if the SME market expansion really does occur, are reasonable three to five year projections. Moving beyond 20% will likely require a new ASP-model that offers much more functionality along with better data integration opportunities than current ASP systems—which Siebel now plans to introduce. But these changes will come at a cost. The migration of pure ASP-systems into Tier-2 and Tier-1 markets will likely be constrained by the very functional simplicity and low level of data integration that make ASP inexpensive and easy-to-install in Tier-3. And Siebel's hybrid model will have to forsake ASP's functional simplicity to appeal to Tier-2 and Tier-1 users, which may limit market appeal. The jury is still out, but based on our data, a wholesale market migration to ASP technology is highly unlikely.

II. The Buyer's Guide to Tier-1 CRM Software

Tier-1 Segment Overview

The Tier-1 or “Enterprise” CRM software market includes five players: Clarify (Amdocs), Oracle, PeopleSoft, SAP and Siebel.[17] None of the five distinguished themselves in the ratings, with only PeopleSoft attaining an average rating for the CRM software industry.

Tier-1 Players/Key Data Points					
System:	Clarify (Amdocs)	Oracle	PeopleSoft	SAP	Siebel
Current CSI score:	60.13	60.26	65.60	62.20	61.01
Delta from 2001:	N.R.	+ 2.19	+ 2.64	+ 3.63	– 1.59
Current market share:	1.1%	4.2%	3.1%[18]	4.7%	16.5%

CSI breakdown

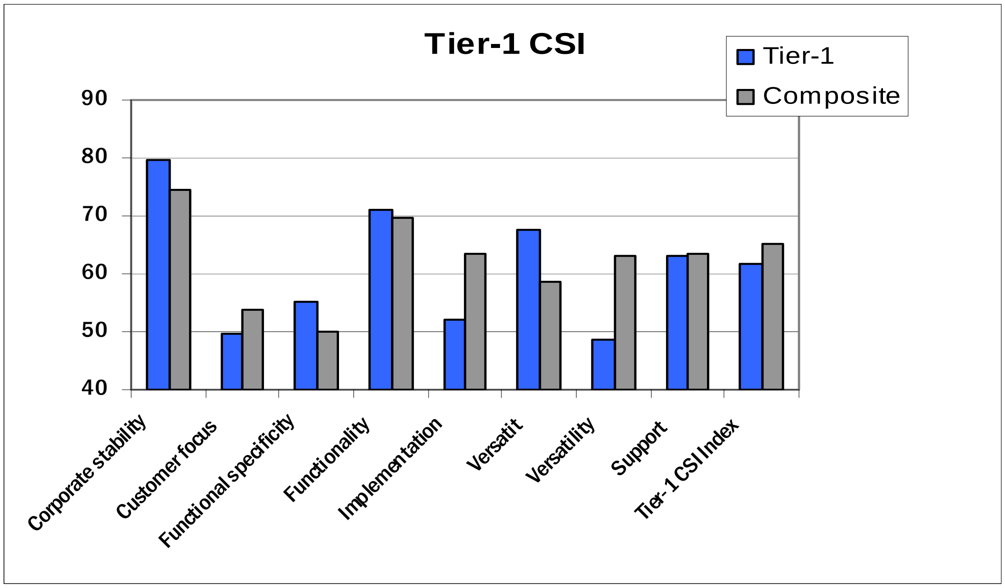
Among the direct drivers of customer satisfaction, price satisfaction and ease of implementation continue to drag down Tier-1 CSI scores, as they did in 2001. If the Tier-1 players cannot address these issues more effectively, any hopes they have of generating substantial revenues from Tier-2 customers will likely not pan out.

In addition, Tier-1 players are still generating low customer ratings for customer focus (or lack thereof). Of particular concern to customers is the Tier-1 players’ tendency to push customers to use their “out of the box” functionality, rather than adapting to

[17] As previously described, the size of companies actually using the software—rather than vendor claims or aspirations—defined tier placement for each system rated. We did create a separate tier for marketing analytics systems, which are commonly used by Tier-1 sized companies.

[18] Includes .2% for J.D. Edwards implementations.

meet individual customer functional requirements. Unfortunately, having extensive, pre-built functionality appears to make adaptation to specific customer needs more difficult for Tier-1 systems than for some Tier-2 systems.



Significant trends

The three ERP players—Oracle, PeopleSoft and SAP—have become more serious players in this space since 2001, largely through upgrading functionality and offering fully web-based systems. And all three have gained ground on the two "independents," with Clarify only a shadow of its former presence in the late 1990s following two changes in ownership, and Siebel plagued by continued controversy over its contested customer satisfaction claims and increasingly negative media coverage sparked by what some regard as corporate hubris.

Unfortunately for Tier-1 vendors, now that competition has heated up, the large implementation, "enterprise market" has gone ice cold, leaving the few buyers out there enormous price negotiation leverage.

Potential line-up adds

Chordiant and Kana, both niche players specialized in customer service, were the two Tier-1 systems attracting the most survey responses among those we lacked sufficient data to rate. Neither is currently profitable, and their narrow functional ranges may work against them in the current market.

E.piphany very much wants to enter this space and has broadened its functionality in hopes of playing outside the marketing analytics segment. However, until we see customer data indicating more than nominal use of E.piphany outside of analytics, we have to leave it classified in the marketing analytics space, not in Tier-1.

Potential line-up scratches

The probability that Oracle will complete its planned hostile takeover of PeopleSoft appears to be lessening by the month. The strong show of customer loyalty and support for PeopleSoft may give it a boost, once the takeover threat is off the table.

Amdocs, on the other hand, appears to face an uphill climb. It will need to regenerate sales momentum to keep Clarify a player—a difficult task in a very down market.

Clarify (Amdocs)

Clarify								
Customer Satisfaction Ratings[19]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
-2	-2	+2	-1	+2	-1	-2	-2	-2
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
-2	-2	-2	0	+2	0	-2	-2	-2

Customer satisfaction

Considering Clarify's very considerable contributions during the 1990s to development of quality software to support customer-facing functions, seeing it finish 14th out of 14 vendors rated is not a happy sight. But it's also understandable, after the original company was purchased by Northern Telecomm, neglected, then unloaded at fire sale prices to Amdocs, which has been working hard trying to make up for lost development time. Hopefully, satisfaction ratings from new customers will show substantial improvement—because even in the CRM software industry, CSI numbers like these can undermine salability.

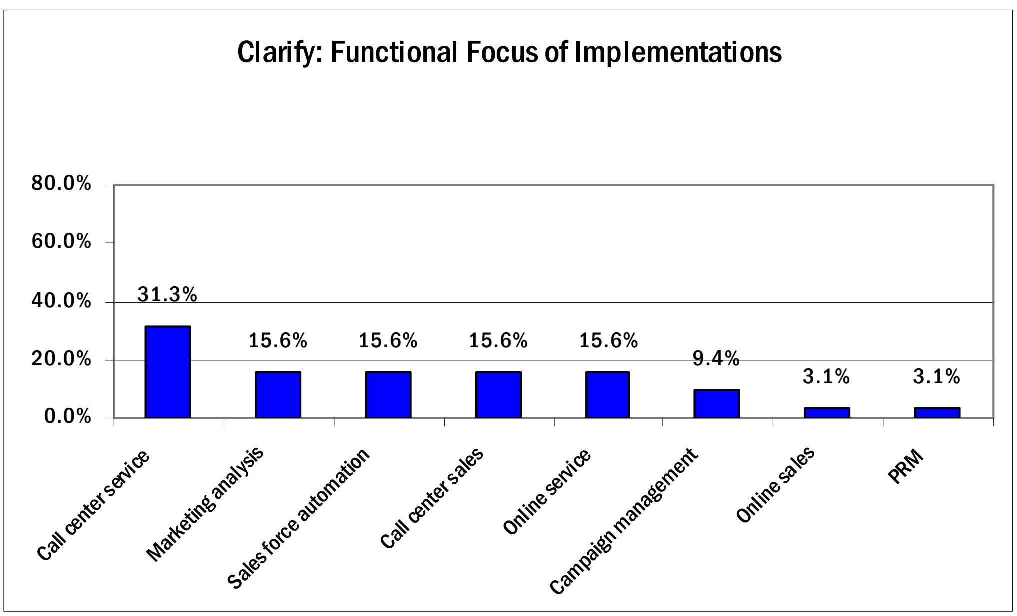
[19] See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

The combination of Clarify's functional use patterns in the chart below, customer ratings of functional strengths on the following page and CSI scores strongly suggests that some customers may be downgrading Clarify because they're attempting to use the system outsides its functional range. Whereas customers reporting on Clarify's functional strengths clearly label the system a niche player specialized in supporting call center operations, actual usage is more widely distributed over a range of functional areas. Clarify is currently expanding its functional focus hopes of competing more effectively against more diversified Tier-1 systems.

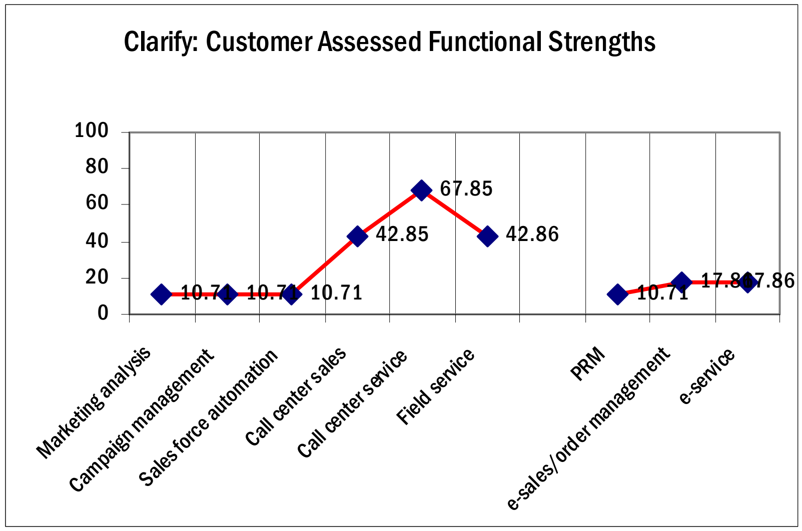
Functional focus in use

Despite the functional ratings showing Clarify's call center operations head and shoulders stronger than other functional areas, less than a majority of implementations have a call center focus. This data may indicate significant overselling of the system's capabilities. If that's the case, many current Clarify customers will welcome new upgrades that expand the functional focus.



Survey-base input to potential customers

Based on customer input, you'll be much happier using Clarify in Tier-1 call center settings than elsewhere. Field sales and marketing have not been the system's strong suits, nor have the Internet-based functions—and the cost and complexity of the system may discourage many Tier-2 customers. With most competitors continuing to upgrade functionality and improving customer satisfaction as well, Amdocs has its work cut out for it in attempting to restore this once industry-leading system to its former status.



However, Clarify has added functionality outside of call center functions in recent releases, and you may want to evaluate how much progress they've made if your functional focus is call center but you have additional functional requirements. Also, as appropriate for any system that's changed hands, look for the presence of new releases in the pipeline as at least some confirmation of continuing development and support.

ORACLE

ORACLE								
Customer Satisfaction Ratings[20]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
+2	-2	-1	-2	-2	+1	-2	-1	-2
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
0	0	0	-1	-1	-1	-1	0	0

Customer satisfaction

Oracle's customer satisfaction in CRM has improved at approximately the industry average pace. However, that still leaves Oracle 13th out of 14 vendors ranked. Price, lack of customer focus and not delivering the specific, individualized functionality customers want are among the sticking points. Oracle may be able to maintain CRM sales or even grow them somewhat, by concentrating on customers with Oracle back-office implementations—but gaining substantial market share will likely require higher satisfaction levels.

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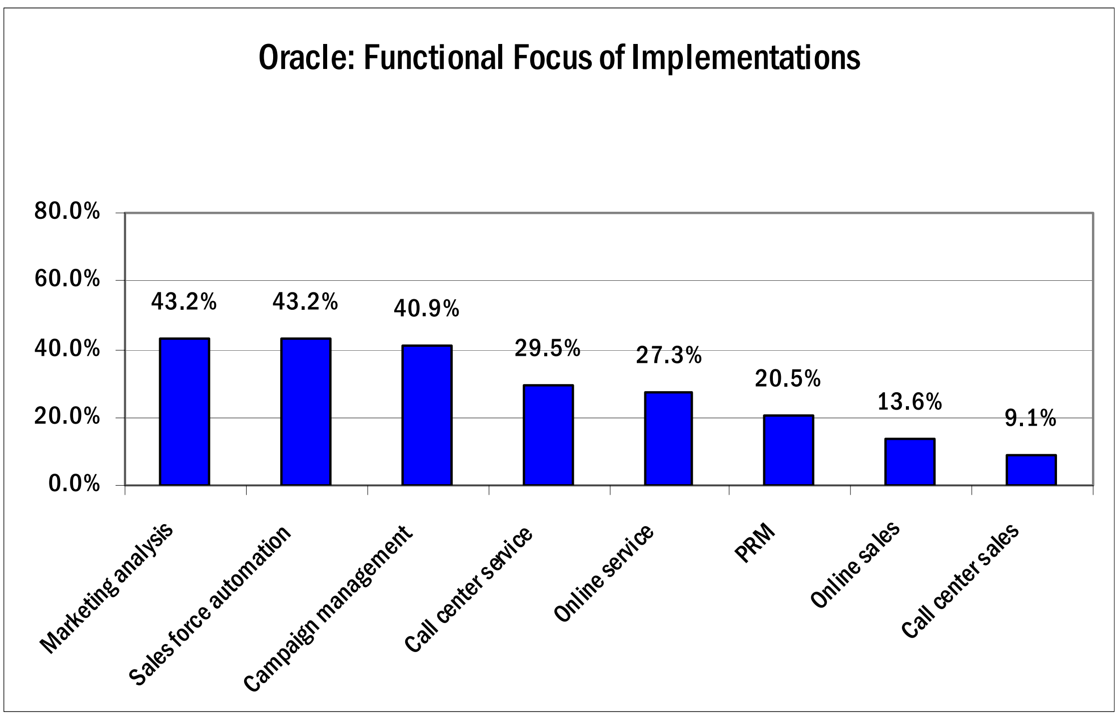
[20] See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

Oracle has used the "peanut butter" approach to developing its CRM functionality—with customers seeing a relatively thin layer of functionality spread evenly across the spectrums. The latest releases have upgraded marketing analysis functionality in particular, but the convenience of integrating with an Oracle back office aside, Oracle's CRM system still lacks a clear functional role.

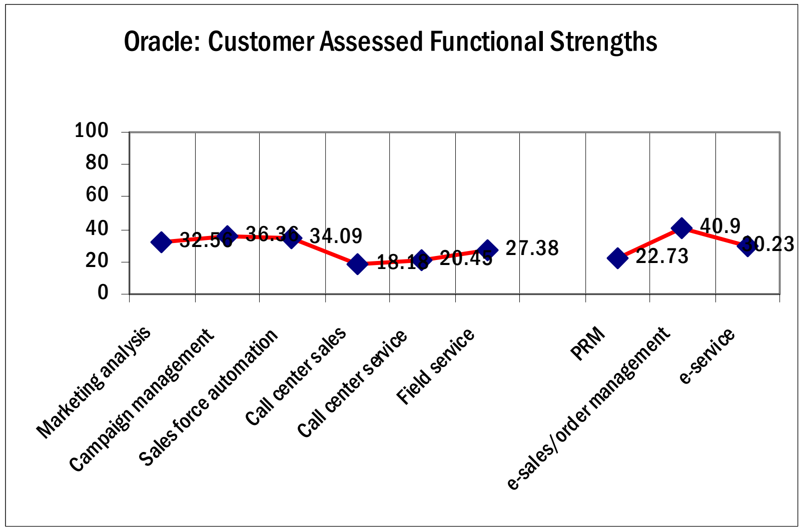
Functional focus in use

Aside from Internet functions—where Oracle sees a higher than average percentage of use—the functional focus of Oracle implementations adheres to industry-wide patterns. This is typical of ERP-related systems where the CRM component is often selected because its back-office mate is already installed, rather than for its functional attributes.



Survey-base input to potential customers

Compatability with an Oracle back office, rather than specific functional strengths, appears to be Oracle's primary CRM appeal. Especially considering low customer ratings for cost, customer focus and implementation difficulty—the lack of functional distinction (other than in e-sales) makes Oracle best-suited for Tier-1 implementations with relatively basic functional requirements—and an Oracle back office environment.



Oracle has recently introduced a series of pre-programmed process templates designed to reduce implementation cost and complexity. However, as we've mentioned several times previously and will say again, customers have expressed a clear preference for system adaptability to meet their specific needs over pre-built functionality—a message that a number of players in the CRM software industry are having a hard time hearing.

PeopleSoft

PeopleSoft								
Customer Satisfaction Ratings[21]								
Corporate stability[22]	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
+1	0	+2	+1	-1	+2	-1	0	0
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
0	0	0	+1	+1	0	-1	0	0

Customer satisfaction

PeopleSoft fares better than other Tier-1 systems in customer satisfaction, finishing 7th out of the 14 vendors rated, four places ahead of SAP, the next-highest Tier-1 finisher. While PeopleSoft customers give it a positive CSI score for functionality, more important to achieving its top overall CSI among Tier-1 players is *not* generating the strong negatives in price satisfaction, implementation difficulty and customer focus that competitors generate. With some additional work on simplifying implementation and perhaps showing some pricing flexibility with middle market

[21] See pages 13-18 for explanation of our ratings systems.

[22] We finished collecting our data several days before Oracle announced its takeover effort.

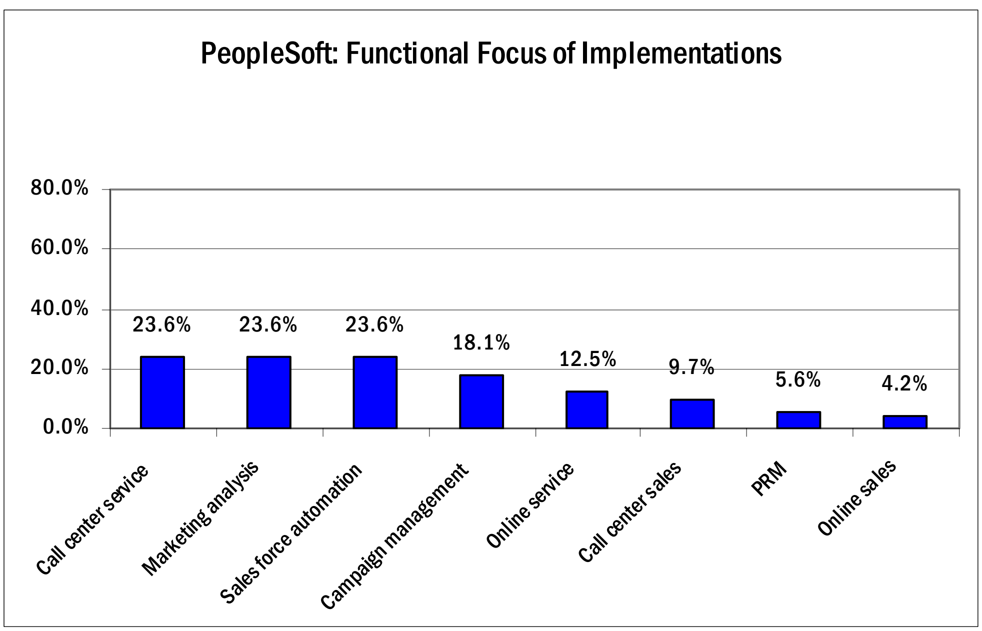
customers,[23] PeopleSoft could post some very respectable scores, relative to industry averages.

Functional strengths/weaknesses

PeopleSoft's strengths are clearly focused in the call center functional areas. Functional upgrades in new releases should start lifting ratings in other areas, sales force automation in particular. However, PeopleSoft will have compete outside the call center areas before it can substantially increase market share among customers not using its back office systems—and that will require substantially more functional development across the spectrums than yet evident.

Functional focus in use

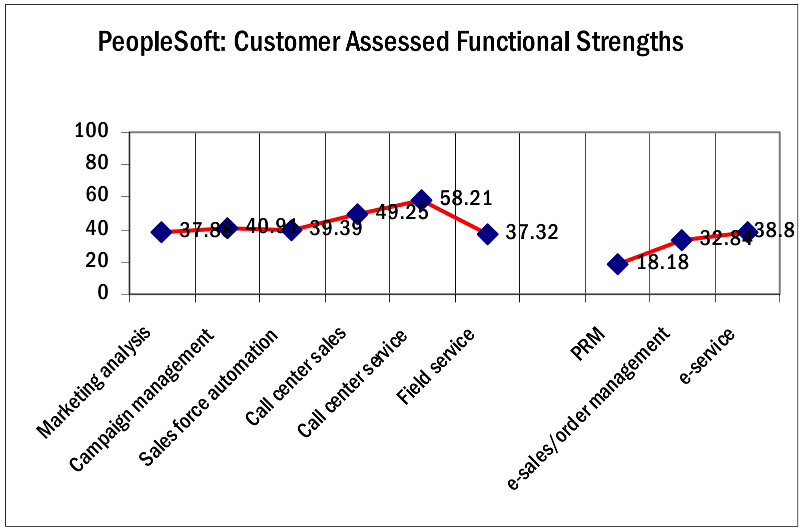
We don't see as high a percentage of call center-focused implementations as PeopleSoft's functional strengths in call center support would suggest, but that's likely the effect of customers buying PeopleSoft CRM to marry with a PeopleSoft back office rather than for its functional capabilities.



[23] Our data shows PeopleSoft more successful than other Tier-1 players in penetrating the Tier-2 customer space.

Survey-base input to potential customers

Customers rate PeopleSoft a very capable performer in the call center functional areas, although its top box ratings are considerably below Siebel's. The gap between the two notwithstanding, PeopleSoft has enjoyed some success selling head-to-head with Siebel to call center-focused customers not using PeopleSoft elsewhere. While recent upgrades have made it more applicable for multi-function implementations, PeopleSoft remains less than a strong choice for functionally-diversified CRM implementations not paired with a PeopleSoft back office. But within its call center niche, PeopleSoft's combination of above-average functionality and Tier-1-leading customer satisfaction should place it on a high percentage of Tier-1 customer short lists. And its Tier-1-leading ratings for customer-focus, price and ease of implementation should place it on many Tier-2 selection lists in settings where PeopleSoft back-office technology is already in use.



What about the "JDE" system?

We gave this question a headline because we believe many readers will be looking for this information. Unfortunately, as in past studies, the former J.D. Edwards (and former YOUcentric) CRM system did not pull sufficient survey response for rating.

SAP

SAP								
Customer Satisfaction Ratings[24]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
+2	-1	0	0	-2	+2	-2	0	-1
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
0	+1	0	0	0	0	-1	+2	0

Customer satisfaction

Although SAP finished 11th out of 14 vendors in customer satisfaction, it registered one of the highest point increases over our 2001 scores. Clearly, SAP is moving up the CRM ladder from a customer perspective. Price and implementation difficulty continue to be major negatives, but customer satisfaction with functionality has increased very substantially. If SAP can improve as much on the implementation side as it's improved in functionality—and perhaps show more value for the total cost—customer acceptance of SAP's CRM solution will continue to improve.

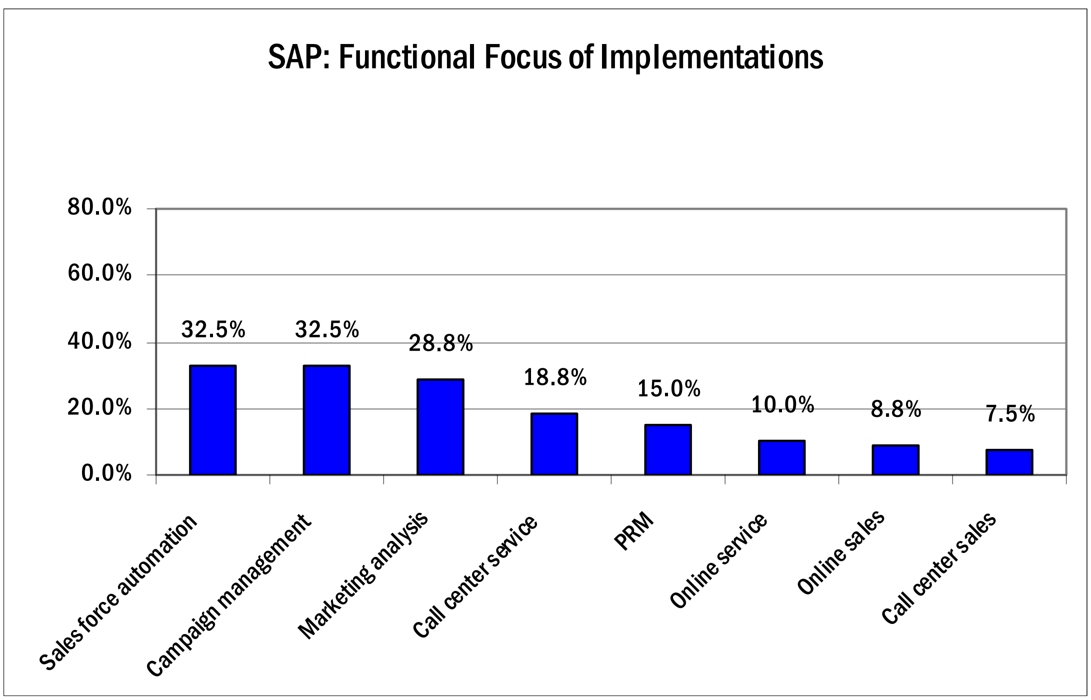
[24] See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

Like Oracle, SAP is trying to cover all the bases on the "internal" functionality spectrum equally well. Unlike Oracle, SAP has achieved average or better functionality across most functions. Plus, SAP has a very substantial lead over all competitors in e-sales and order management. If SAP's strategy is to cover customer requirements reasonably well, no matter what they are, it's on the right track. And that may be the most opportune strategy for an ERP-related system that's proven very difficult to sell to customers not running SAP in the back office.

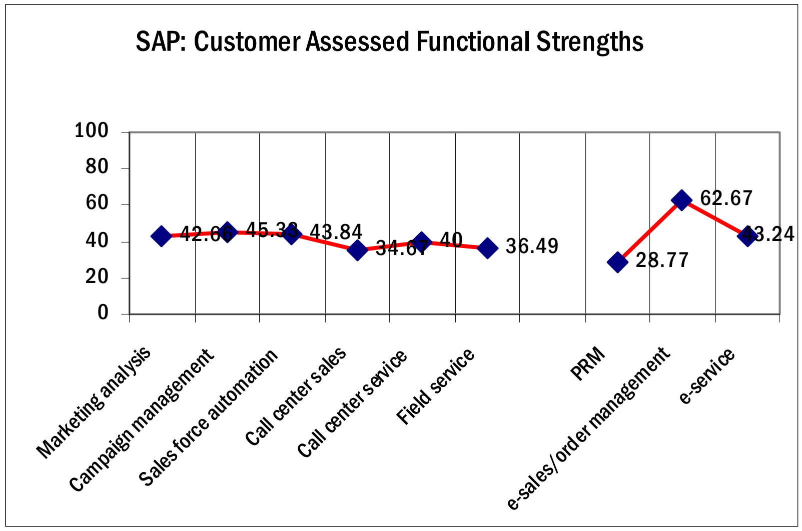
Functional focus in use

As with other ERP-related CRM systems, usage of SAP reflects industry-average functional requirements distribution rather than a pattern of matching SAP's strengths with customer requirements. Low market penetration in e-sales, despite SAP's industry-leading strengths in this area, supports this perspective.



Survey-base input to potential customers

Like PeopleSoft, customers rate SAP a very capable performer in most functional areas (all but PRM, where functional strength is low across all multi-function systems). Unlike PeopleSoft, SAP rates highest in e-sales, whereas PeopleSoft's strong suit is call center service. Considering its functional scores, SAP should make selection short lists for companies adding CRM software functionality to an existing SAP back office environment. But considering CSI scores, which express significant customer dissatisfaction with implementation



difficulty and cost, SAP's CRM system is unlikely to attract much interest in "foreign" back-office environments. However, SAP has been working for several years on simplifying implementation, so a check of very recent references might prove worthwhile—especially for an SAP back-office customer reluctant to go through another SAP implementation.

Siebel Systems

Siebel Systems								
Customer Satisfaction Ratings[25]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
+2	-2	+2	+2	-2	+2	-2	0	-2
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
0	0	+2	+2	+2	0	0	0	0

Customer satisfaction

Despite having the highest functionality scores in the industry—coupled with functionality being the leading driver of customer satisfaction—Siebel finished 12th in customer satisfaction among the 14 vendors rated. We might call Siebel's scores "bi-polar," in the sense that they swing very high in functionality—but ever lower in price satisfaction, ease of implementation and customer focus, hence the -2 aggregate score. However, the low customer focus score does reflect a functional shortcoming—difficulty delivering the specific functionality individual customers want, which is very different from delivering enormous amounts of pre-built functionality customers can elect to use.

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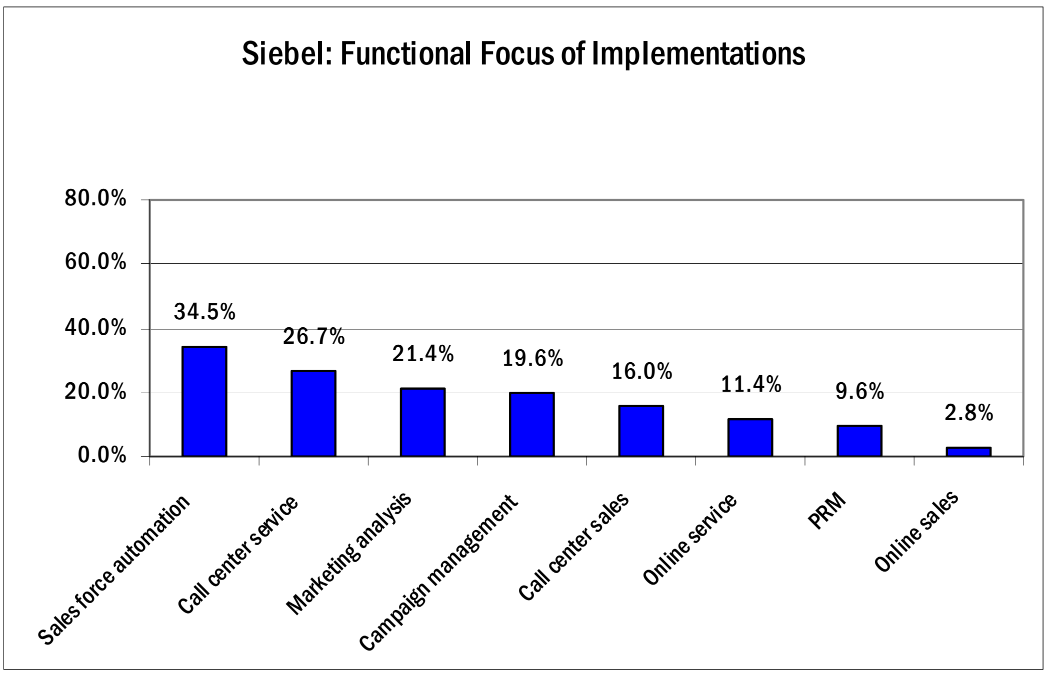
[25] See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

Siebel excels in the traditional CRM functions—sales force automation, call center sales and call center service—and recorded the highest functional ratings in the latter two areas. While receiving "top box" scores below 50 in field service, e-service and PRM, Siebel still had the highest scores in the former two areas and trailed only MS CRM in the latter.[26] Many Siebel customers have yet to migrate to the web-based series 7.X release and are still running the client-server based 6.X releases instead. More migration to the web version will likely raise functional scores even higher.

Functional focus in use

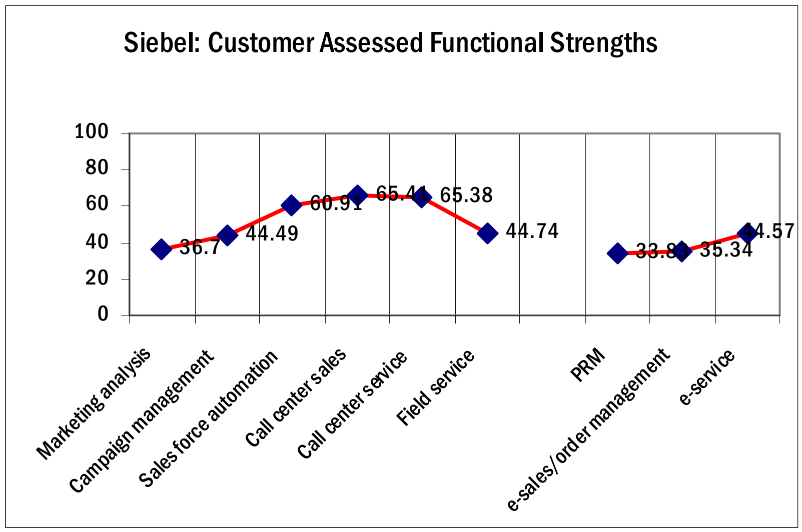
Unlike implementations of ERP-related systems, the functional distribution of Siebel implementations accurately reflect the system's functional strengths.



[26] Finishing with a market high top box score below 50 is an indication that customers want to see improved functionality overall in a functional area.

Survey-base input to potential customers

In terms of delivering out-of-the-box functionality, Siebel comes the closest of any CRM system to being all things functionally to all companies—at least in terms of pre-emgineered functionality. Marketing analytics have been a relative soft spot, but improvements continue to be made in this area. However, customers give Siebel lower scores on being able to meet specific requirements of individual customers than they give the system for providing volumes of functionality. And that returns us to a now-familiar issue—that customers on the whole prefer system adaptability to their needs to extensive “pick-lists” of functionality.



Tier-1 customers that can afford Siebel and can cope with implementation difficulties should definitely consider it for most sets of functional requirements. However, they’d be well-advised to thoroughly understand their individual requirements before-hand, and they should make certain Siebel can flex to meet these requirements. But that should be standard operating procedure with any vendor.

III. The Buyer's Guide to Tier-2 CRM Software

TIER-2 SEGMENT OVERVIEW

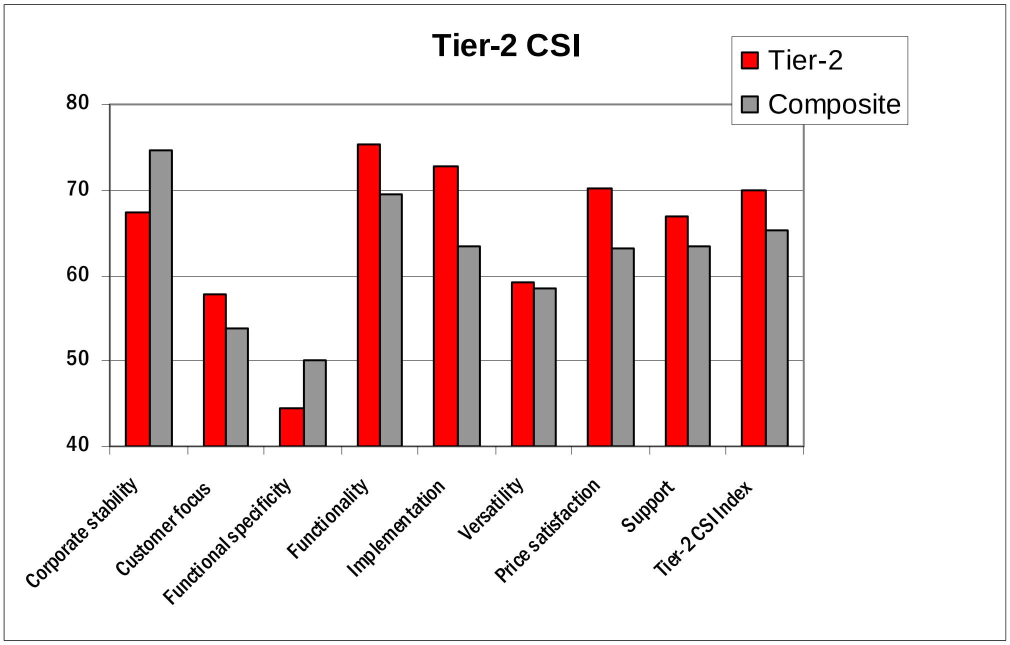
The Tier-2 or "mid-market" CRM software segment has lost several significant players since 2001. Plus, Saratoga Systems, while still active as a company, is not showing up on our response charts, and Remedy, like Clarify, has been through wrenching changes in ownership that have sapped its strength. That leaves Tier-2 with only three major players—Onyx, Pivotal and SalesLogix—with an increasing amount of mid-market business seemingly scattered among a host of niche systems.

Tier-2 Players/Key Data Points			
System:	Onyx	Pivotal	SalesLogix
Current CSI score:	68.13	67.25	73.51
Delta from 2001:	+ 2.59	+ 1.74	+ 7.52
Current market share:	8.2%	2.0%	6.4%

CSI breakdown

This tier outperformed its companions in 2001 and performed even better in 2003. Tier-2 CSI scores for several attributes are approaching the respectability level (and not just for CRM software), which is very positive for the CRM industry.

Unfortunately, the area needing the most attention from a CSI standpoint is corporate stability. The mid-market players need a strong economy that will help them operate in the black—and they also need to figure out how to generate much more customer respect for what they're delivering relative to the Tier-1 players.



Significant Trends

Pivotal and Onyx have been mentioned in the same breath for years. The two companies started at virtually the same time in the early 1990s. Both are based in the Pacific Northwest (Pivotal in Vancouver, B.C., Onyx in Bellevue, Washington). Both have been through several up and down cycles. But now the link is broken. Onyx is pulling ahead of Pivotal in market share and finally appears ready to establish itself as the dominant player in the larger company segments of the mid-market. Likewise, SalesLogix, now owned by British software conglomerate Best Software, appears to be gaining a firm grip on the lower end of the mid-market. While both will have to contend with Tier-1 competitors foraging in the mid-market, looking for greener pastures, at least they don’t yet have to worry about Microsoft creeping up on them from behind for the immediate future, as MS CRM is not yet penetrating the Tier-2 space.

Potential line-up adds

The future of the former J.D. Edwards CRM system (now PeopleSoft, nee YOUcentric) is up for grabs. Based on our data, JDE did not gain much traction in CRM prior to becoming part of PeopleSoft, leaving some innovative technology still waiting to be effectively marketed and sold.

RightNow Technologies is carving out space in Tier-2 with its e-business systems and seems likely to gain a stronger foothold once the economy picks up. Microsoft could also make a move into Tier-2, but would probably require an entirely new sales channel to do so.

Otherwise, barring a miraculous comeback by Remedy or Saratoga Systems, the Tier-2 line-up looks relatively set for the short term—as long as all the players survive the economic downturn.

Potential line-up scratches

Neither Onyx nor Pivotal has been able to reach and sustain profitability, although Onyx appears to have more forward momentum. Both need help from a strong economy in order to get into the black and stay there. Judging by their very low corporate stability ratings, if they can't manage to achieve profitability soon, either may become a buyout candidate, or worse.

ONYX

ONYX								
Customer Satisfaction Ratings[27]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
-2	+1	-2	+2	+2	0	0	+2`	+1
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
-1	0	+1	0	0	-1	-1	-1	-1

Customer satisfaction

Onyx ranked 5th overall in customer satisfaction, in part because of ease of implementation and excellent technical support, and in part because Onyx (both the system and the company) is delivering customer-specific functionality. Accomplishing this reflects well on the adaptability of the system as well as on Onyx's willingness as a company to adapt to customer preferences—both signs that Onyx is listening to customers. Unfortunately, customer concerns over Onyx's financial condition prevented its satisfaction score from being even higher.

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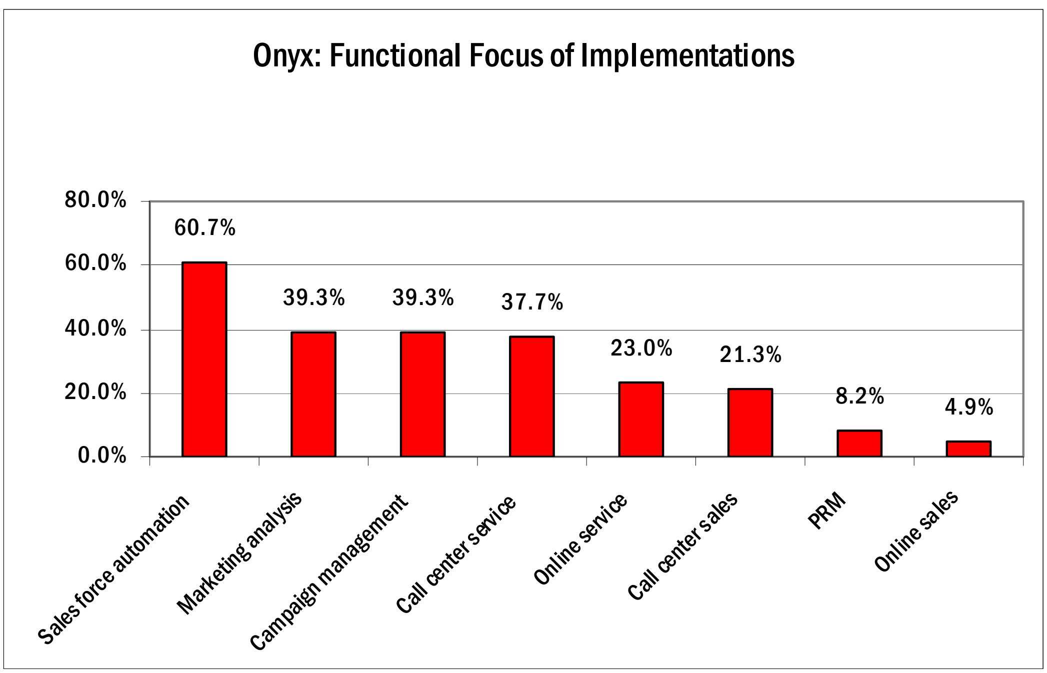
[27] See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

Customers rate Onyx moderately well in the core CRM functions—SFA, call center sales and call center service—with some drop-off going to either side of the "internal" functionality spectrum and considerable drop-off on the Internet spectrum. However, the "+2" score for customer satisfaction with functionality indicates that Onyx is delivering more of what functionality is needed and less of what's not needed by customers than competitors—which isn't a bad combination.

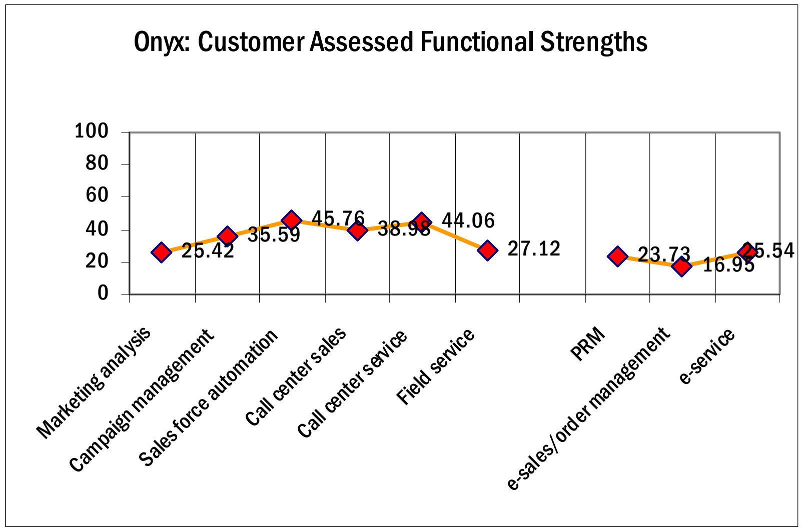
Functional focus in use

Onyx's customer base is heavily skewed towards sales force automation, rather than balanced between field sales and call center focused implementations as would reflect its functional balance. However, this skew may reflect Onyx's relative longevity in the market and being around in the early and mid- 1990s when SFA was the focal point of most Tier-2 implementations.



Survey-base input to potential customers

Onyx has the functional capabilities of a good, but not flashy, multi-function CRM system. When shortcomings on the Internet functionality side are addressed and accepted by customers, its effective range will further expand. Onyx has also established a niche market with financial service companies, which should contribute to continued functional improvements in the marketing functions, call center and e-sales and service—all important to financial implementers. Tier-2 companies with functional requirements focused in SFA and call center areas—and even Tier-1 companies not looking to go overboard with software—should give Onyx a good look. However, if corporate stability is as important to you as it is to many of our respondents, have your CFO check the company's current financials and future prospects. But this too should be standard operating procedure with most vendors.



Pivotal

Pivotal								
Customer Satisfaction Ratings[28]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
-2	0	-1	+2	+2	+1	+1	-1	+1
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
-1	+1	+1	-1	-1	-1	-1	-1	0

Customer satisfaction

Pivotal ranked 6th overall in customer satisfaction, right behind Onyx. And had it not stubbed its toe on customer support, Pivotal might have jumped into 3rd place. With Pivotal, as with Onyx, we see a system with high customer satisfaction in functionality but only modest functionality ratings from customers. And again the cause is flexibility to adapt to specific customer needs, rather than offering mega-loads of technology options. However, considering Pivotal's difficulty moving up in market share ratings despite high after-purchase CSI ratings, we might suspect that boatloads of technology look better than adaptability to many customers *before* the sale, but not after. On the other hand, Pivotal's -2 rating in corporate stability has to

[28] See pages 13-18 for explanation of our ratings systems.

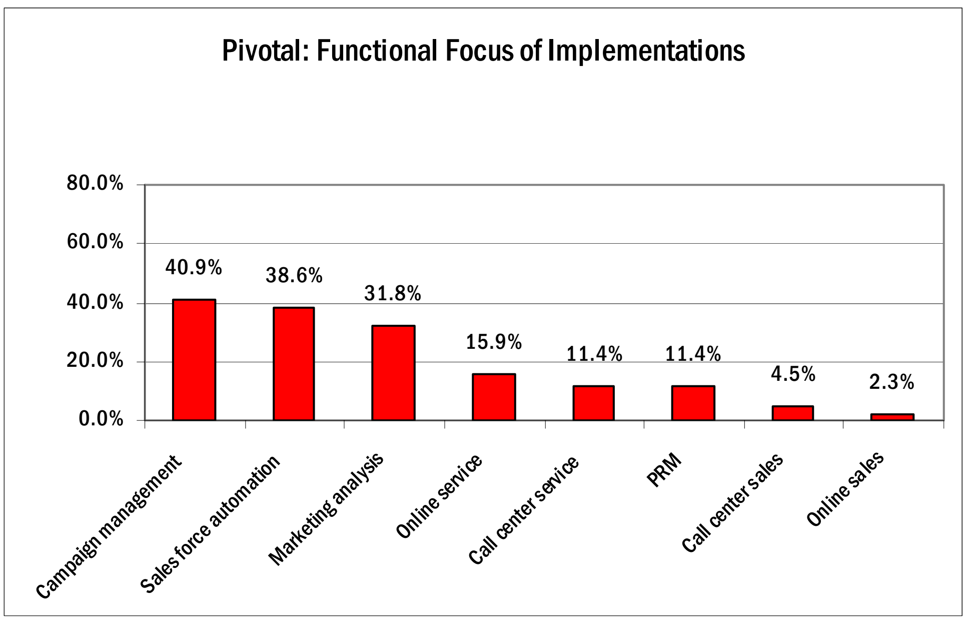
factor into the sales picture. CRM software customers are clearly concerned about vendor stability issues.[29]

Functional strengths/weaknesses

Compared to Onyx, Pivotal is more sales automation-focused—with functional strengths in both SFA and campaign management, the latter being especially important to B2B users generating sales leads via database marketing. Unlike Onyx, Pivotal's functionality rates low for customers with a strong call center focus. This is a sales-focused system, although not to the extreme degree that SalesLogix and Salesforce.com are sales-focused.

Functional focus in use

Pivotal's installed base accurately reflects the system's functional strengths, with campaign management and SFA the leading focal points of implementations, followed by marketing analysis.



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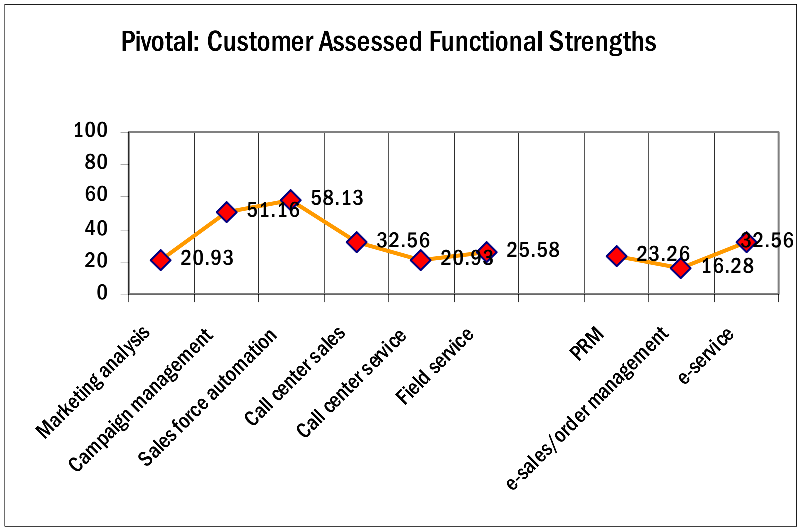
[29] As of this writing, Oak Investment Partners, owners of customer service-focused CRM system, Talisma, has tendered an offer for all outstanding shares of Pivotal stock. Although both systems are built on Microsoft platforms, integrating functionality across two systems is never a slam dunk. And while purchase of Pivotal may address financial issues, Oak Investment is a private company and we cannot comment on its financial status.

Survey-base input to potential customers

Pivotal is among the better systems for sales force automation, according to user ratings. Otherwise, except for strong campaign management capabilities and some strength in call center sales (which relies on some of the same functionality as SFA), Pivotal has "get by" strengths that will liklely satisfy only users with modest requirements and expectations in other functional areas. Pivotal is not presently a strong candidate for multi-function requirements companies with balanced needs in sales and customer service. But sales-focused customers in the mid-market and even the high end of the small business customers should give Pivotal a close look. And again, as with Onyx, if corporate stability is an important consideration, at it is to many of our respondents, have your CFO check the company's current financials and future prospects.



SalesLogix (Best Software)

SalesLogix								
Customer Satisfaction Ratings[30]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
+1	+2	-2	+2	+2	-2	+2	+1	+2
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
-2	0	+2	-1	-1	-1	-1	-2	-1

Customer satisfaction

Repeating its 2001 performance, SalesLogix topped our 2003 customer satisfaction ratings. Customers like SalesLogix for being easy-to-install, affordable, adaptable to their individual functional requirements and quite well supported. SalesLogix is the only system outside of Tier-3 sold and supported by independent VARS, and the VARS should share in this rating as well. Analysts and many industry pundits, particularly those with a technology bent, continue to overlook SalesLogix in their industry evaluations. However, customers continue to give SalesLogix its due as a serious player in the SFA space. Many companies with "higher-brow" systems that field sales

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[30] See pages 13-18 for explanation of our ratings systems.

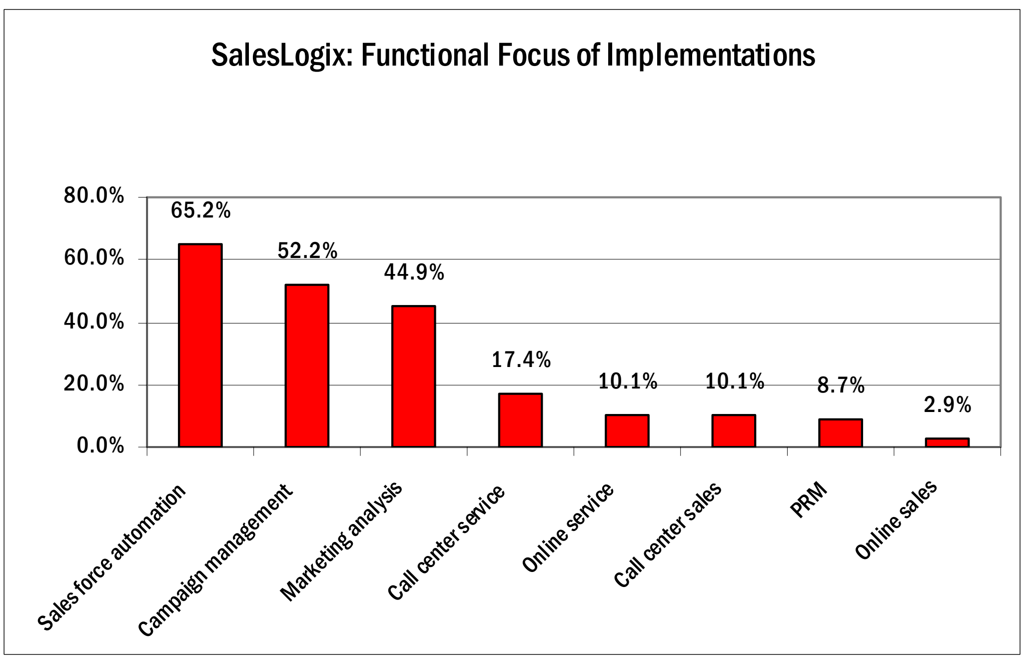
people refuse to use would have been smart to look at SalesLogix during their selection process.

Functional strengths/weaknesses

SalesLogix is unapologetically an SFA system with some side functionality. It does what it does very well, and hasn't tried to do a whole lot more. That said, however, the market is heading towards more functionally diversified CRM implementations, especially in Tier-1 and in Tier-2, where SalesLogix does much of its business (with the balance coming from Tier-3). Staying so focused on SFA and undiversified into other areas could render SalesLogix a Tier-3 player—and Tier-3 is a more crowded market space than Tier-2.

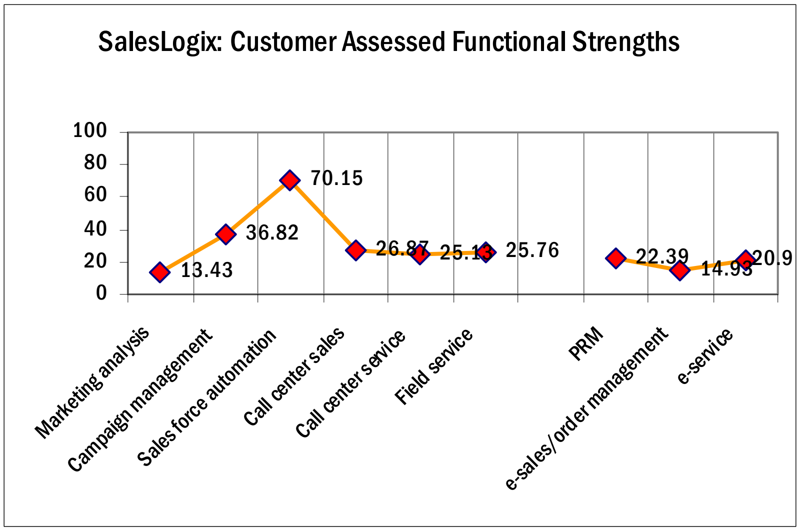
Functional focus in use

The only surprise in the "Focus in Use" table is that SFA is not even stronger. From the data, some customers are using the system on the marketing side as well as for sales.



Survey-base input to potential customers

SalesLogix, which has twice topped our CSI scores, operates within a specific range. It doesn't scale as high in user capacity as its Tier-2 competitors, and it's very sales-focused. But for mid-market accounts with several hundred users rather than a thousand or more—and most of those in field sales and sales support functions—Sales Logix should definitely be on the selection list. Plus. SalesLogix now has 3rd-party ASP support and a considerable amount of web functionality for internal users, giving it added flexibility from a method-of-deployment perspective. However, if customer service is a serious requirement or you need e-business or heavy-duty analytics capability, you should look elsewhere—with this caveat. Market forces (including MS CRM) may push SalesLogix into expanding its core functionality outside of sales, so check any new releases before crossing it off. Also, relatively large Tier-3 competitors with suitable functional requirements also should give SalesLogix a close look.



IV. The Buyer's Guide to Tier-3 CRM Software

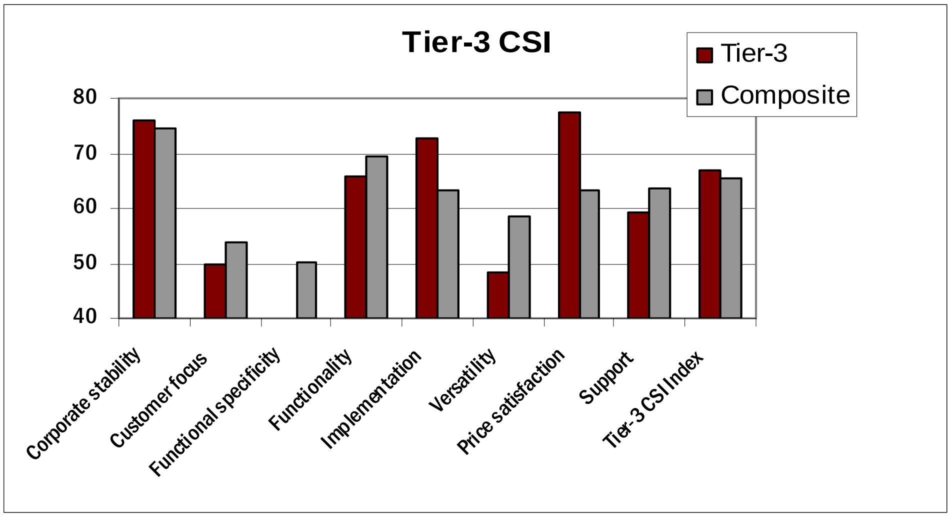
TIER-3 SEGMENT OVERVIEW

The Tier-3 or "Small Business" segment software market has suffered from lack of customer choice for years. But today, with the growth of Salesforce.com and the introduction of MS CRM—not to mention the growing presence of players including ACCPAC, NetCRM and SuperOffice from Norway—small business CRM adopters finally have a range of affordable CRM software options. Although we haven't yet seen an upsurge in small business CRM activity, an upsurge in the economy, backed by the presence of new technology tools, could set one off.

Marketing Analytics Players/Key Data Points				
System:	ACT! (Best)	GoldMine (FrontRange)	MS CRM (Microsoft)	Salesforce. com
Current CSI score:	63.83	63.28	72.31	71.71
Delta from 2001:	(not rated)	+ 3.26	(not rated	(not rated
Current market share:	7.5%	7.6%	2.0%	3.8%

CSI breakdown

Driven by positive contributions from MS CRM and Salesforce.com, Tier-3 CSI performance improved substantially from 2001. In addition, several of the systems not making the cut list for evaluation showed good scores (although based on insufficient input). Much to the relief of small business customers, that light at the end of the tunnel is *not* a train.



Significant trends

Small business has forever been plagued by lack of information systems interconnectivity. But thanks to web-based technologies, cost-effective solutions to this problem are on the way—including integrated customer and accounting systems from ACCPAC, Microsoft, NetSuite and before long Intuit. A very likely consequence will be fading away of the traditional contact management systems—and their replacement in part by "CRM-like" modules on new accounting systems.

Another important trend already landing with both feet in Tier-3 is the growing popularity of ASP systems (and some of the accounting-related systems are ASP-hosted). While pure ASP systems may not traverse far out of Tier-3, they may wind up dominant within Tier-3, especially with MS CRM now available as an ASP system through a Microsoft partner.

As a result of both these trends we're likely to see a third one emerging soon—the gradual retreat of the traditional Tier-3 players back to their contact management roots.

Potential line-up adds

Clientele continues to hang around the Tier-3 periphery with its customer-service focused system. As in our 2001 customer satisfaction survey, Clientele almost made the list of systems we had sufficient data to rate. A stronger economy plus significant product changes, including the company's wholesale adoption of Microsoft's .Net standards, could lift Clientele's sales and make it more of a force.

In addition, previously mentioned ACCPAC and NetCRM are likely candidates to rise up on the radar screen, and we wouldn't be surprised to see more accounting-related CRM software, especially ASP-based systems, appear and thrive.

While better known in the CRM industry than ACCPAC and NetCRM, ASP systems Upshot and Salesnet had less customer response than the former pair. But the Siebel purchase could dramatically improve UpShot's fortunes.

Potential line-up scratches

Although there will always be a role for simple, disconnected contact managers, that role will diminish as affordable, "true CRM" systems hit the market. Sales of ACT!, GoldMine, and Maximizer will likely diminish as a result.

ACT! (Best Software)

ACT!								
Customer Satisfaction Ratings[31]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
+1	-2	-2	-2	+2	-2	+2	-2	-1
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
-2	-2	0	-2	-2	-2	-2	-2	-2

Customer satisfaction

ACT! is cheap and easy. Other than that, there's not much to like from a CRM perspective, and therein lies the problem. ACT! is included here because customers attempt to use it for CRM, rather than just for individual contact management, which it was designed for. The fact that ACT! has been given rudimentary capabilities to network and synchronize data accounts for some of this misuse. But in other cases, the companies buying it have to account for the misuse. Regardless, a very sufficient

[31] See pages 13-18 for explanation of our ratings systems.

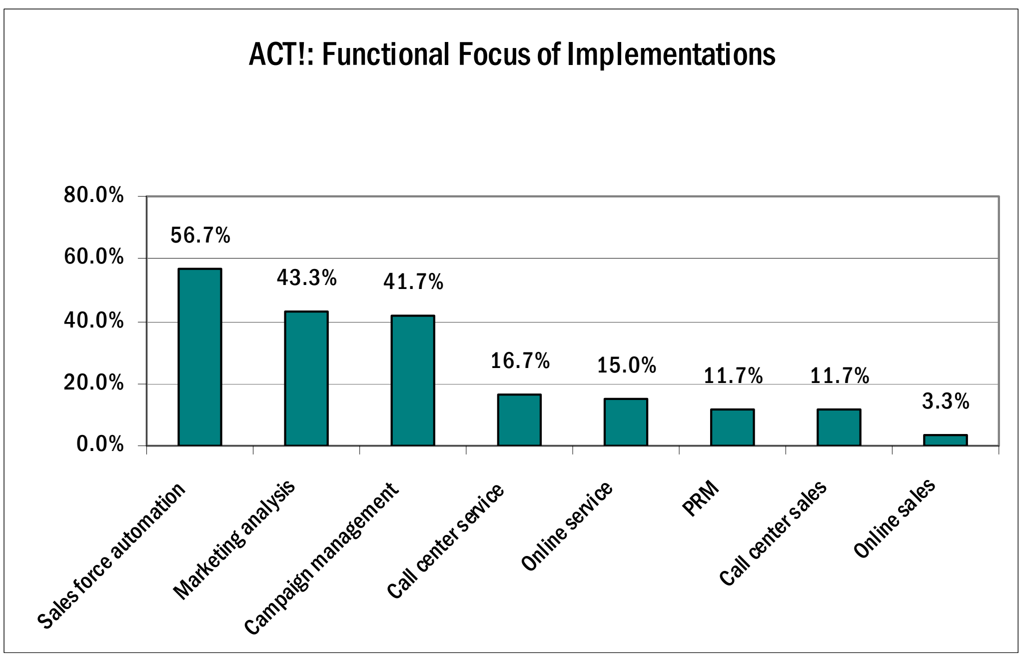
percentage of ACT! customers are using it within its functional limitations, which accounts for its 9th place CSI score.

Functional strengths/weaknesses

ACT! provides basic contact information management support, along with some automation of sales-related administrative tasks. Elsewhere, ACT! was at or near the bottom in customer functionality ratings.

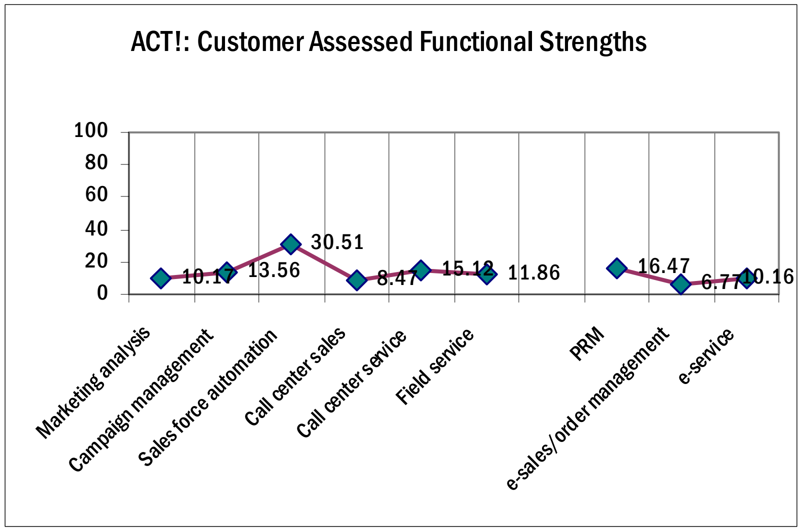
Functional focus in use

Typical of a sales-focused system, considerable use of ACT! for marketing purposes comes along with its use for SFA. In fact, 43% of ACT! respondents report a functional focus on marketing analytics, despite its weak marketing functionality. But on the other hand, for many of the very small customers of the type ACT! attracts, analytics often means nothing more than sorting customers by SIC codes.



Survey-base input to potential customers

With a relative wealth of affordable CRM software systems becoming available in the Tier-3 market, now is probably a good time for customers to let ACT! fade back onto retail shelves and resume being a simple, affordable personal contact management program. Many salespeople and solo business practitioners have fond memories of starting with ACT! as their first piece of customer information and automation technology, and many more will likely start with ACT!. But there's no longer much reason for companies needing to network, integrate and synchronize customer data to use ACT! for CRM.



GoldMine (FrontRange)

GoldMine								
Customer Satisfaction Ratings[32]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
-2	-2	-2	-2	+2	-2	+2	-2	-1
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
-2	-1	+1	-1	-1	-1	-1	-2	-2

Customer satisfaction

GoldMine finished 10th in customer satisfaction, largely on the weight of high scores in two key drivers of customer satisfaction—ease of implementation and cost. The major difference between it and ACT! is that GoldMine received a very negative rating for Corporate Stability. Not surprising for one of the two rated systems available for purchase at retail outlets (ACT! being the other), GoldMine's Support score is very low. Unfortunately for FrontRange, trailing MS CRM and Salesforce.com at this point in time is not a good omen. Tier-3 is growing up, and customers are raising the customer satisfaction and functionality bars by a good measure.

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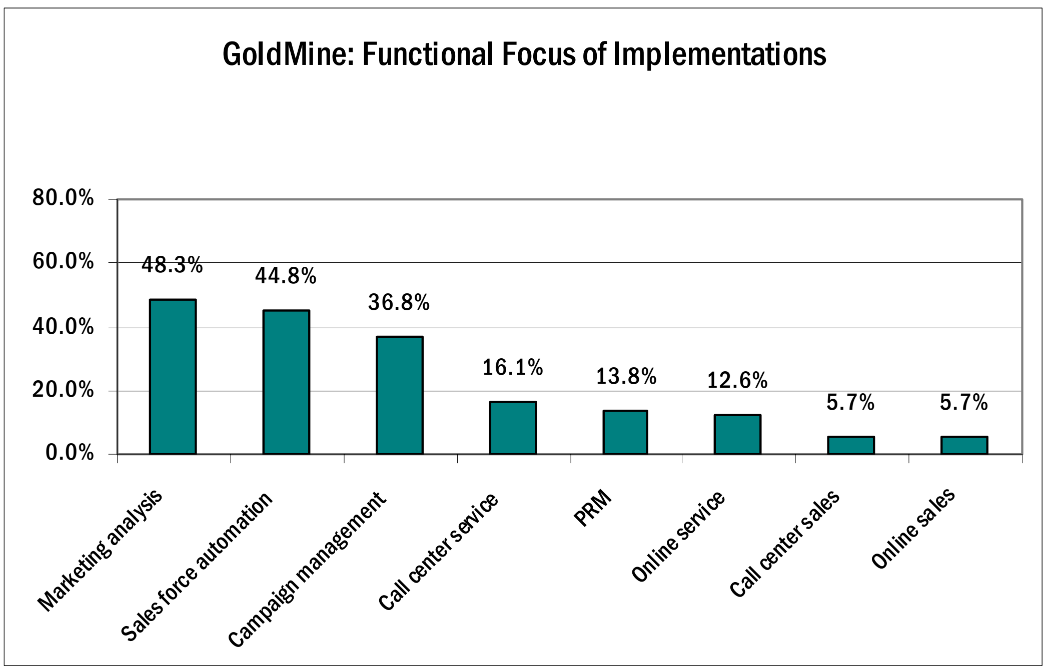
[32] See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

Customers rated GoldMine positively in SFA functionality and higher than ACT! in other functional categories as well. However, SFA is GoldMine's only strong suit, and the adjacent functions on the spectrum (campaign management and call center sales) are both weak.

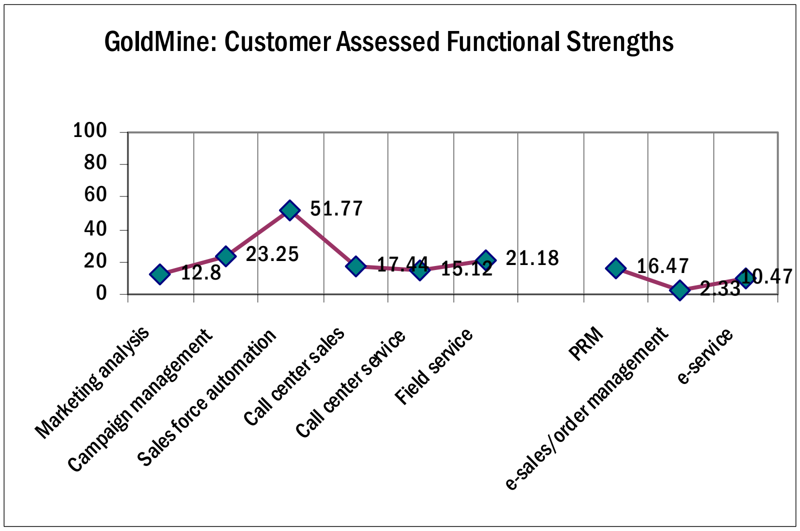
Functional focus in use

Customers are using GoldMine extensively for marketing support, even more so than to support field sales. However, that's clearly a reflection of small businesses not needing a complex analytics engine—and likely some customers being unable to afford better marketing functionality.



Survey-base input to potential customers

Customer ratings of GoldMine relative to Tier-3 competitors MS CRM and SalesForce.com show it at a clear disadvantage. Price-wise, GoldMine is less expensive than either (comparing GoldMine's purchase cost to Salesforce.com's monthly lease rates for a two or three-year period), and that may leave it a niche with financially-strapped customers. If it doesn't, GoldMine may be relegated to use by very small work groups and sophisticated individual users. If you're in one of these two groups, you may want to give it a look. But for customers of any size, MS CRM or Salesforce.com will likely prove more attractive. And customers considering GoldMine should also check whether their accounting system now includes CRM functionality.



MS CRM (Microsoft)

MS CRM								
Customer Satisfaction Ratings[33]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
+2	+1	-2	+1	+2	0	+2	+1	+2

Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
-1	-1	+1	0	-1	-1	+1	-1	-1

Customer satisfaction

MS CRM finished 2nd to SalesLogix in CSI ratings, a remarkable achievement for a brand new system. Customers regard the system as providing good value for the price (despite approaching Tier-2 license-pricing when all the modules are included), easy to install and also providing the specific functionality they need. The only “nick” in all the CSI categories is the Functional Specificity” rating—which largely addresses whether a system provides vertical functionality. Fortunately for Microsoft, Functional Specificity did not turn out to be a driver of overall customer satisfaction.

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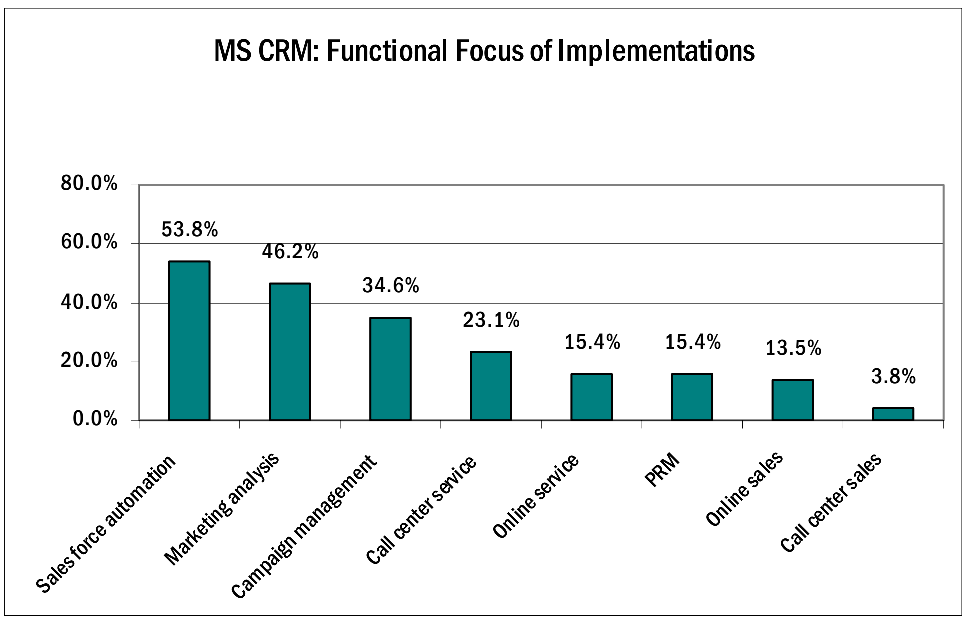
33 See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

Microsoft introduced MS CRM with an emphasis on SFA—likely as a competitive move to undercut similarly focused Tier-3 players. Nonetheless, MS CRM didn't suffer from the severe dips in non-SFA functional scores experienced by Tier-3 rivals And MS CRM topped the functional ratings in partner relationship management, although we suspect that was partly due to some Tier-3 "redefinition" of what larger companies define as PRM.[34] Also, Microsoft attracted a heavy vote across the functionality spectrums in the "three box,"[35] indicated that MS CRM may be only one upgrade away from very positive functionality scores that could support market-entry into the low-end of Tier-2, provided Microsoft can find a Tier-2 sales channel.

Functional focus in use

MS CRM users fit the same SFA-focused pattern found throughout Tier-3, which is perhaps more a reflection of customer requirements than of system strengths.



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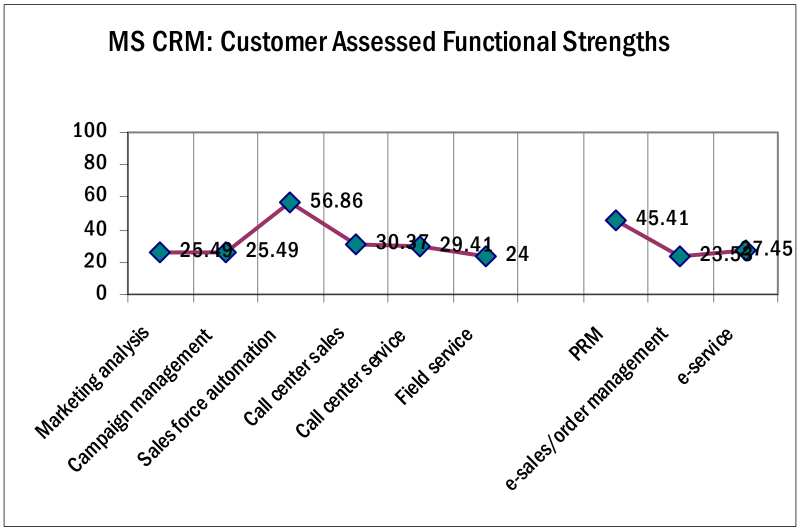
34 Because relatively few Tier-3 companies utilize PRM, we suspect that MS CRM's high PRM rating is driven by relative ease of exchanging data among companies in a Microsoft environment.

35 The next rating choice below the top two ratings we used for the "top box" scores. This choice indicates that the respondent "Agrees" that a system is strong in a function rather than "Strongly agrees" or "Moderately strongly agrees," the two choices above it.

Survey-base input to potential customers

MS CRM deserves a good look by any Tier-3 customer in the market for CRM software. Planned new releases will improve functionality outside the sales area, and MS CRM's very high (for CRM software) customer satisfaction ratings make it that much more attractive. While data security concerns may give some IT professionals pause about using a Microsoft product, virtually all the Tier 3 players (and most of the Tier-2 players) are built on Microsoft technology platforms, making relative levels of security among Tier-3 and even Tier-2 systems a moot point. Once functionality upgrades are introduced, MS CRM may start appealing to smaller Tier-2 customers, and third-party add-ons (including ASP hosting) are already expanding its functional range.



SALESFORCE.COM

SALESFORCE.COM								
Customer Satisfaction Ratings[36]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
+1	+2	-2	0	+2	0	+2	+2	+2
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
-1	0	+2	-2	-1	-1	-2	-2	-1

Customer satisfaction

Salesforce.com finished 3rd in CSI ratings, right behind MS CRM. Its slightly lower ranking resulted from trailing MS CRM in Functionality and Corporate Stability (although Salesforce.com's scores in both were very respectable). Without question, Tier-3 customers are buying into the ASP approach and valuing the low cost and ease of implementation (as well as sales force acceptance) over whatever functional limitations they might experience. However, as we've stated earlier, no one should blindly assume that high customer satisfaction in Tier-3 predicts similar acceptance levels in Tier-2.

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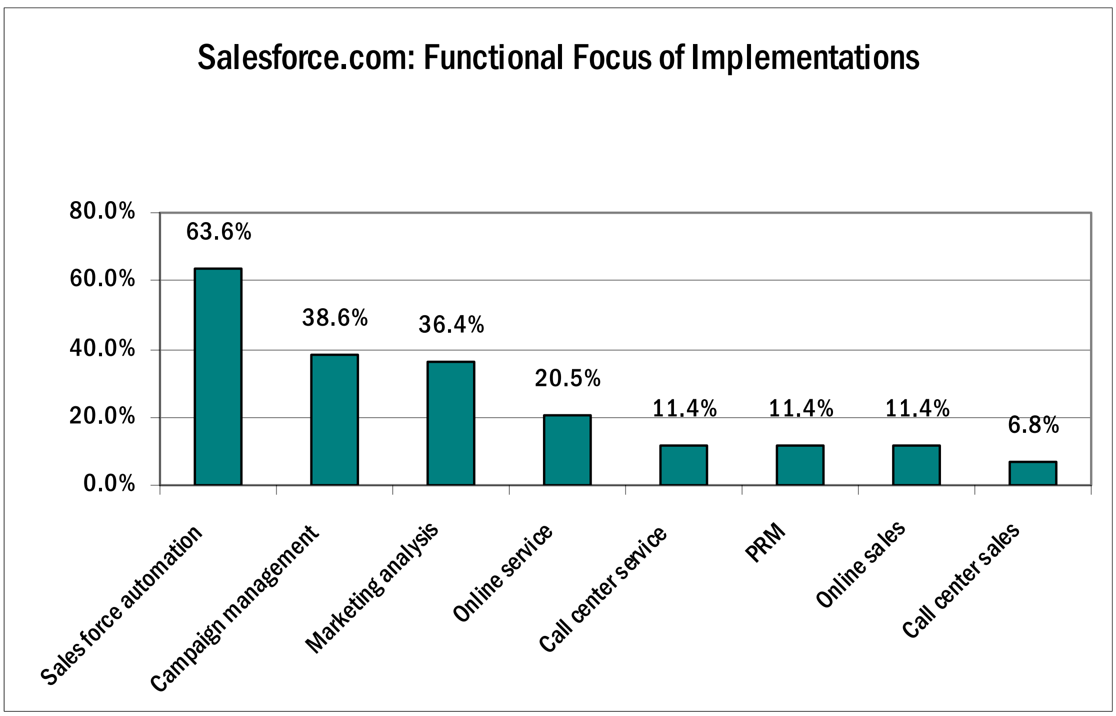
[36] See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

Outside the Marketing Analytics Tier, Salesforce.com is the most one-dimensional software system in the study. It does SFA very well. In fact, its 82.6 SFA score turned out to be the single, highest functional score recorded by any system in any tier. Salesforce.com also provides effective marketing campaign management to support field sales. And judging from the high customer satisfaction ratings, customers are subscribing to it for the right reasons. Beyond field sales and supporting marketing functions, it's very weak.

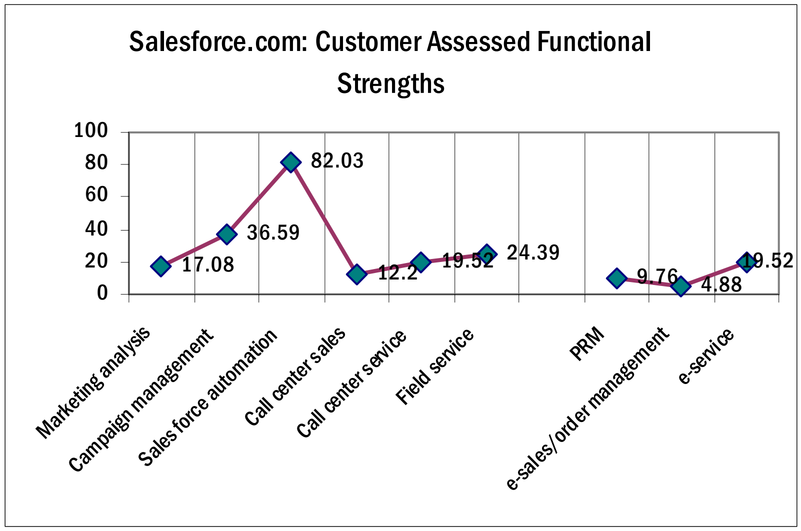
Functional focus in use

The focal points of Salesforce.com implementations reflect its functional strengths and weaknesses. As we've seen elsewhere in Tier-3, customers have expanded its use somewhat outside its functional strengths to fill necessary roles.



Survey-base input to potential customers

For field sales-focused Tier-3 customers, Salesforce.com is almost a "must include" on selection lists—and we only say "almost" because some customers may be uncomfortable with the ASP concept, and others may require more functional adaptation than the ASP model allows. However, from its press releases and promotion, Salesforce.com clearly has Tier-2 and perhaps Tier-1 ambitions. And here the case for reviewing it becomes much less compelling. The higher in the tier-ladder customers are, the higher their functional expectations tend to be—especially their expectation that whatever software systems they use will be adapted to fit their business model. Siebel's hybrid (ASP integrated with an internally hosted system) may prove more appropriate in these situations.



V. The Buyer's Guide to Marketing Analytics Software

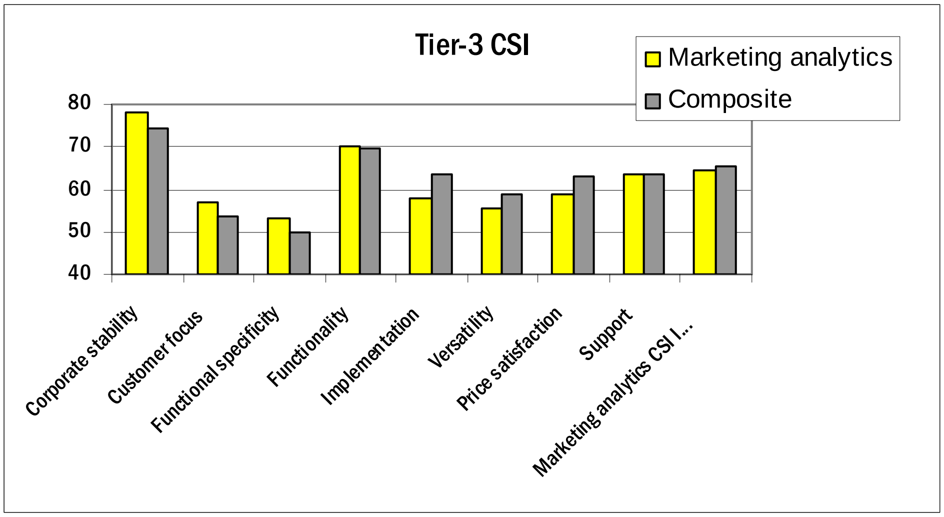
Marketing Analytics Segment Overview

Although marketing analytics has been part of CRM since the late 1990s, it was the last CRM segment to "take off"—and "take off" may be an overstatement, as the bad economy clipped this segment's wings before it could build up substantial momentum.

Marketing Analytics CSI		
System:	E.piphany	SAS
Current CSI score:	65.32	68.18
Delta from 2001:	N.R.	N.R.
Current market share:	1.8%	1.5%

CSI breakdown

The major marketing analytics systems as a group have the closest to average CSI ratings among all the tiers. They're expensive and hard to implement like Tier-1 systems, but the vendors respond better to individual customer requirements than their multi-function competitors. If this segment gets more wind in its sales and provides us a broader survey base going forward, it will be interesting to see how these free-standing systems will compare from a customer perspective with integrated analytical capabilities of Tier-1 systems.



Significant trends

All of the Tier-1 software vendors have beefed up the analytical capabilities of their multi-function CRM systems. As a result, a competitive struggle is looming over control of the segment—and whether niche marketing analytics systems or multi-function Tier-1 systems with analytics capabilities get the upper hand. Consumer-side customers—many of whom don't need CRM technology support except in marketing—may prefer working with familiar tools such as SAS. On the other hand, business marketers with broader focus CRM implementations to support may prefer a unified, multi-function CRM system running off a single database. Once (or if) spending on CRM software increases, there may be sufficient business to support both options. However, this is one area where vendor consolidation may occur, as even increased demand over current levels might not be sufficient to support a wide array of vendor options for standalone analytics systems.

Potential line-up adds

The marketing analytics segment has been a revolving door for vendors. Many companies with business intelligence or data warehousing or content management experience enter the CRM space, but most leave unnoticed in a relatively short time. And then some who leave do a u-turn and try to climb back in.

Of all those registering customer input, Teradata (an NCR company) and database marketing mainstay SPSS appear the most likely to generate sufficient user feedback to appear next survey. Unica is another possibility.

Potential line-up scratches

E.piphany wants very much to reposition itself in Tier-1. However, carrying out such a migration is extremely difficult in a very slow market. While E.piphany seems to be making some headway in the call center service market, it will have to persuade considerably more customers to use its non-analytic CRM functions before it can become a legitimate Tier-1 player. Unfortunately, that's a high bar to clear with precious few new customers available in the Tier-1 space.

E.PIPHANY

E.PIPHANY								
Customer Satisfaction Ratings[37]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
-1	+1	-1	0	0	+1	-1	0	0
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
+2	+2	-1	-1	0	-1	-2	-1	0

Customer satisfaction

Customers rated E.piphany 8th of 14 systems in customer satisfaction, four slots behind SAS. E.piphany avoided any "deep negative" ratings of the type that plagued most Tier-1 players with high-performance systems, and it registered a positive score in functional versatility, an indication that its hoped for migration to the Tier-1 space may eventually occur. Improving the perception of corporate stability and lifting customer-specific functionality above a neutral "0" rating appear to be the highest potential satisfaction improvement opportunities.

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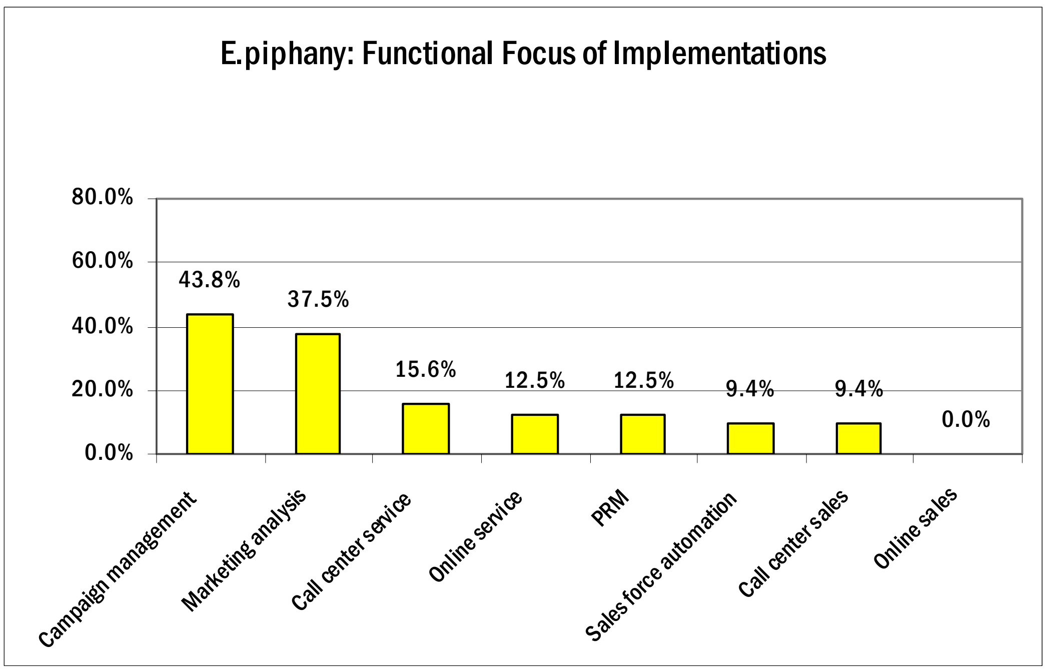
[37] See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

E.piphany's very high level marketing functionality ratings dwarf its customer ratings in other functional areas. E-service garnered a neutral "0" rating as did call center service, but just barely. New releases of E.piphany have strengthened areas outside of marketing, which will likely lift non-marketing ratings to some degree. Future customer surveys will be interesting to watch, to see if this occurs.

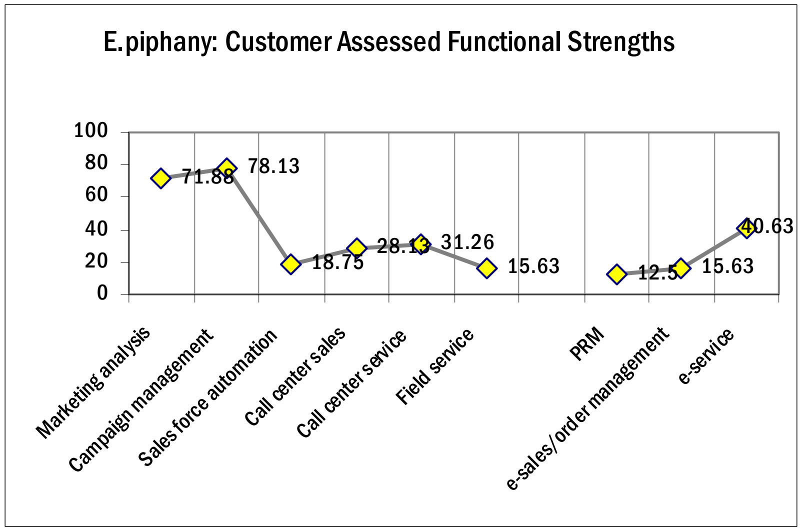
Functional focus in use

Marketing, marketing and marketing are the focal points of E.piphany's installed base. Whether this tight focus will loosen remains to be seen.



Survey-base input to potential customers

High-side Tier-2 and Tier-1 customers with requirements focused on customer analytics and effective database marketing (including e-marketing) campaign management should definitely evaluate E.piphany. This group includes retailers and other B2C marketing companies. And customers with a strong but not dominant marketing focus and lesser needs for call center support and SFA might give it a look too, especially given recent upgrades in broad functionality. But we still suspect that most customers without a strong marketing focus may find Tier-1 and Tier-2 systems more appealing—at least in the near term.



SAS INSTITUTE

SAS								
Customer Satisfaction Ratings[38]								
Corporate stability	Customer focus	Functional specificity	Functionality	Implemen-tation	Versatility	Price	Support	Overall
+2	+2	+2	+2	-2	-2	0	0	+1
Functionality Ratings								
Marketing analysis	Campaign mgmt.	SFA	Call center sales	Call center service	Field service	PRM	e-sales, order mgmt.	e-service
+2	+1	-2	-2	-2	-2	-2	-2	-2

Customer satisfaction

Customers rated SAS 4th of 14 systems in customer satisfaction, much higher than average for the Marketing Analytics Tier overall. And we suspect that SAS would generate an even higher CSI score if rated on a scale designed for this genre of systems. However, SAS is working hard to position itself in the CRM space, making the comparison with other CRM systems appropriate. And in this vein, SAS could further lift its ratings by addressing ease of implementation issues, in particular.

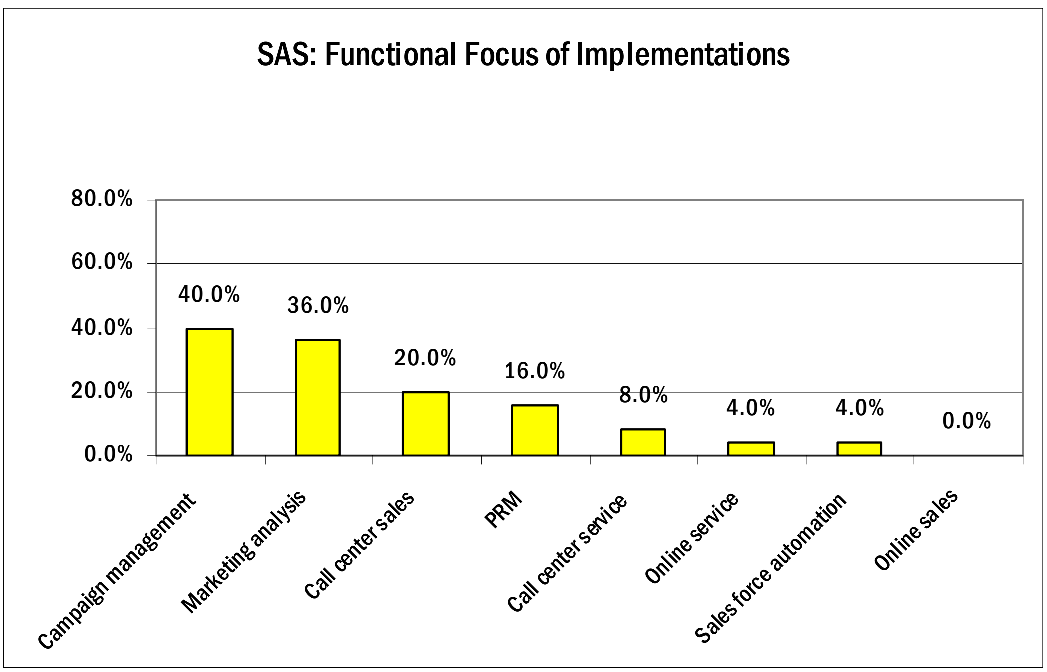
[38] See pages 13-18 for explanation of our ratings systems.

Functional strengths/weaknesses

Customers gave SAS the CRM industry's leading score in marketing analytics—and a positive, although not comparable, score in campaign management. Analytics is what SAS is designed to do, and that's what it does.

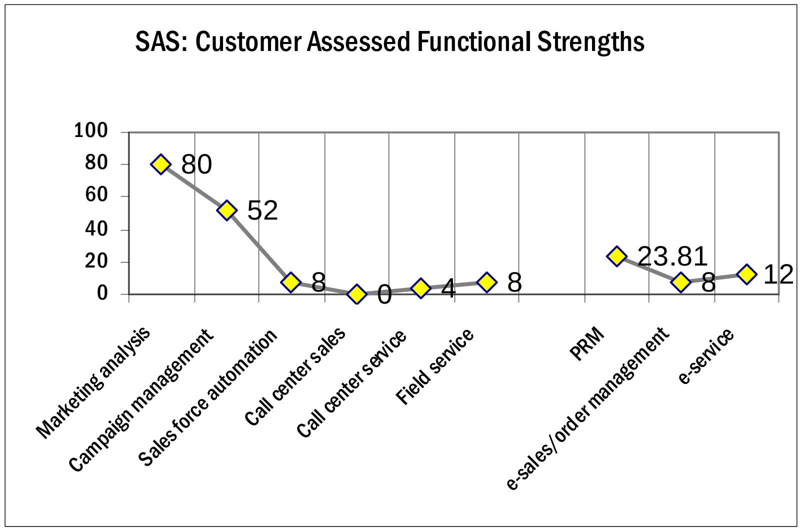
Functional focus in use

The wider than we might expect distribution of functional focal points is very likely the result of customers using SAS for customer research and target account identification for sales and partner management support—and doing without the process management and collaborative communication support offered by multi-function CRM software systems.



Survey-base input to potential customers

For Tier-1 and larger Tier-2 companies with a tight functional focus on marketing analytics, SAS is a powerful force. SAS may also be a good companion choice for a customer wanting a multi-function CRM system—as well as a "thoroughbred" analytics engine.



Before relying on SAS alone, however, customers should reflect on the totality of CRM and the importance of effectively managing all customer touch points and all channel relationships. Accomplishing this usually requires more than analytics and campaign management support, especially outside of retail channel business lacking direct contact with end-customers. But for other applications, even financial services or other retail services with customer touch, buyers considering any marketing analytics system should carefully consider whether they want to go "best of breed" or with one, integrated CRM system.

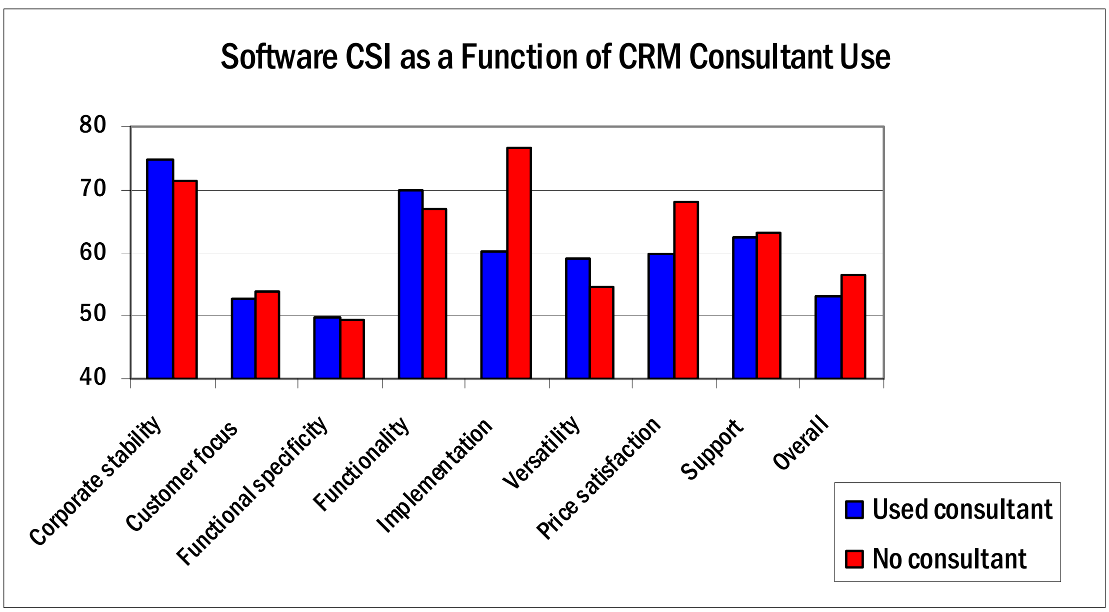
VI. CRM Advisors

CRM Consultants

CRM consultants come in all shapes and sizes—from the very large to the very small; from independent to captive arms of software vendors; and from being equipped to assist in the entire CRM implementation process or only the technology portion. Unfortunately, they come in all degrees of competency as well, with customers using CRM consultants experiencing a wide range of outcomes.

Does use of consultants lead to harder, more expensive implementations?

Looking at the chart below, you might think that using consultants only leads to more elaborate, more difficult and more expensive software implementations—and less happy customers. However, the chart actually says something very different—that Tier-3 customers with easier, less expensive implementations don't often use consultants.



Because Tier-1 and Tier-2 customers are less satisfied with their CRM software, whether they use consultants or not, picking out the difference consultants make to CSI scores has an extra wrinkle to it—and we lack sufficient data right now for this calculation.

Choice of consultants makes a big difference

Respondents evaluated consulting firms on three primary dimensions: (a) price/value, (b) organizational competence, and (c) technology competence. Analysis of the CSI ratings of consultants themselves yielded four principle segments that describe their overall experience with the consultants they used:

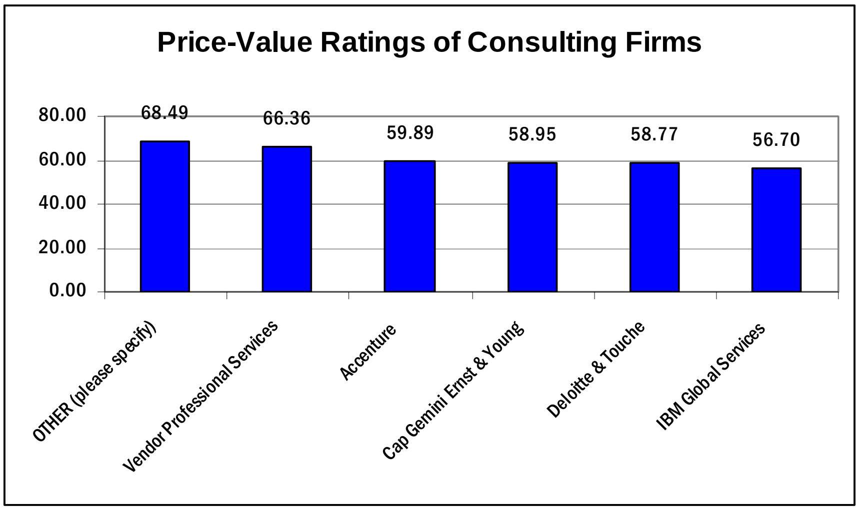
- *Burned by consultants* respondents, who basically thought their consultants were incompetent.
- *Ambivalent* respondents, who were relatively neutral, but still gave some pretty damning evaluations.
- *Delighted* respondents, who gave consultants a couple of the highest single category ratings in the study.
- *Technology consultant users* who were more consistent in their experience and gave their advisors scores for Price-value and Technology Competency that we might equate to top quadrant CRM software scores.

Customer Experience Patterns with CRM Consultants				
Segment	**Share of total**	**Price-value**	**Organizational competence**	**Technology competence**
Burned by consultant	9.3%	24.04	18.8	27.74
Ambivalent about consultant	31.6%	51.32	50.87	50.87
Delighted with consultant	34.3%	83.74	79.22	73.02
Used technology consultant	24.8%	69.0	52.29	71.22

The range in scores is alarming, indicating that hiring a CRM consultant is not something that customers should take lightly—or do casually.

Which firms deliver the best value?

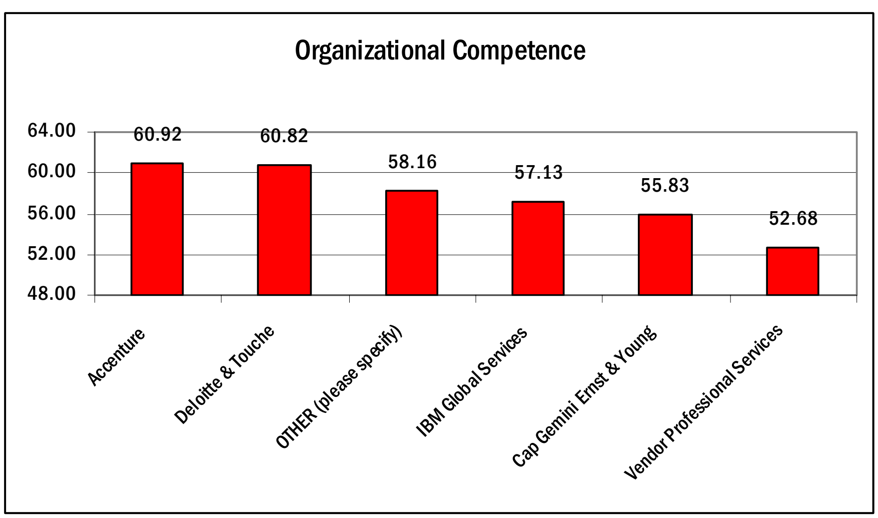
We had sufficient customer data to comparatively rate four major consulting firms, and we added to the ratings an "all other" category plus vendor professional services.



The named firms are likely the four market share leaders, with Accenture showing 9.4% market share followed by IBM Global Services at 7.6%. But when it comes to which CRM consulting firms deliver the best value, customers voted for "all other" instead, giving their top rating to the remaining software independent (and mostly smaller) firms, followed by captive, software vendor consulting arms.

Which are most organizationally competent?

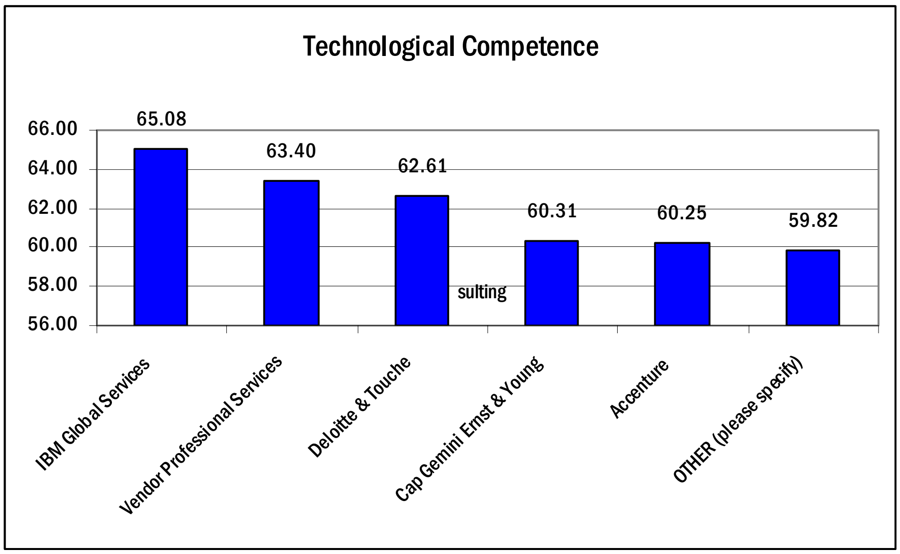
From the standpoint of capabilities to help customers make the organizational changes most often required to produce substantial ROI from CRM, the shoe was on the other foot, with Accenture and Deloitte leading



the pack, and vendor consulting arms finishing last. Given the importance of successfully making organizational changes to CRM success, companies hiring CRM consultants would be well-advised to check carefully on the organizational change skill sets of any vendor consulting team under consideration.

And the best for technology?

Showing no favoritism to any one category or firm, customers rated IBM highest from a technology perspective, with vendor consulting services second. Unfortunately, we don't have the data required to drill down a level to see whether these high vendor ratings reflect consulting teams from ERP-based CRM systems working effectively on integration of their own front office and back office technologies.



Which is best overall?

If you've been reflecting on the CSI levels of all the firms and collections of firms rated, you've already noted the low rating-levels, which almost mimic the software CSI levels. But in the light of a full third of customers being "delighted" with their CRM consultants, we don't believe that it's much of a stretch outside our data to say that the variance in consulting quality that customers experience may stem more from quality variances from team to team within firms than from quality variances from consulting firm to consulting firm.

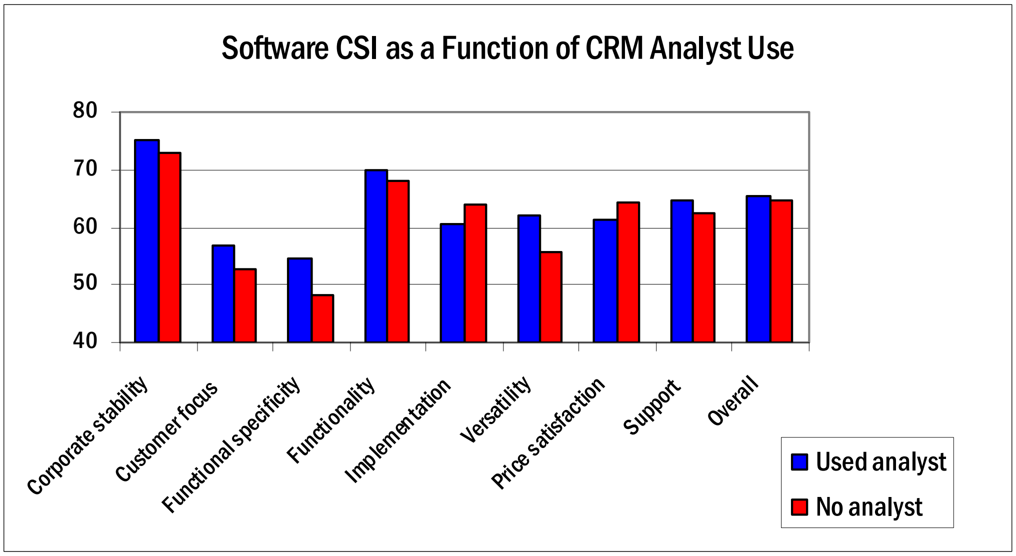
CRM Analysts

CRM analysts also come in all shapes and sizes, but the firms we're referring to here are the large organizations that track entire business sectors—Gartner Group's tracking of technology, as a good example. Because of CRM's high visibility—plus some very high industry revenue forecasts previously issued for coming years—a number of market analyst firms are following CRM. Whether they'll continue to do so, considering that these future revenue forecasts appear to be highly inflated, is an open question. But even if they continue their coverage, it's only partial coverage. Analyst CRM studies and market analysis are heavily skewed towards tracking public companies—not surprising because analysts serve the investment industry. And unfortunately, this narrow focus on public companies bypasses almost all the CRM services sector and the majority of the fractionated software market.

But regardless of how much of the CRM market analysts follow, some companies rely on them for input and research to support software selection, hence our coverage here.

Does use of analysts increase customer satisfaction with software selected?

The overall answer is—to some degree. Customers relying on analysts for support tend to use the more fully-functioned software systems (most offered by public companies) that are more expensive and harder to implement. Just as for consultants, that's likely a function of analyst-use being much more prevalent among larger companies than smaller companies. But unlike the situation with consultants, analyst-assisted customers had consistently higher CSI ratings for their software than those working without analysts. Analyst-assisted customers, mostly Tier-1 or Tier-2 customers, reported higher than Tier-1 and even Tier-2 average CSI scores for their software.



Customer experience segments

Respondents rated the analyst firms on three performance dimensions: (a) price/value, (b) vendor neutrality, and (c) performance. Analysis of our analyst ratings yielded three principle segments:

- *True believers* who ascribe value and objectivity to analysts and don't believe they're too "cozy" with the vendors they cover.
- *Skeptics* who believe that analyst-vendor relationships are too cozy but still see value in using analysts and analyst research.
- *Cynics* who typically aren't sure whom analysts are working for and don't see benefit from their analyst relationships.

CUSTOMER EXPERIENCE PATTERNS WITH CRM ANALYSTS				
Segment	Share of total	Price-value	Vendor neutrality	Performance
True Believers	34.5%	73.19	70.03	75.10
Skeptics	27.5&	76.00	56.25	78.03
Cynics	38.0%	42.47	48.75	49.51

As for consultants, the range of scores shows great disparity of customer opinions of their CRM analysts.

Are some firms better than others?

Unfortunately, the percentage of CRM software customers relying on analyst support is very low. That kept us from getting sufficient data to rate individual firms' CSI performance, except for Gartner. Gartner scored below average for the entire group in Price-value and approximately average in both Vendor-neutrality and Performance.

As a group, analyst CSI scores averaged several points higher in price-value than consultant scores. However, customers voiced significant dissatisfaction with analyst vendor-neutrality—with the majority of "household name" firms posting CSI scores below 50 for their objectivity (or lack thereof).

VII. About the Authors

RICHARD A. (DICK) LEE

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CRM consultant and publisher of HYM Press, Dick Lee, was among the founders of the relationship marketing movement in the early 1980s and among the first CRM specialists to practice customer relationship management from a business perspective, rather than a technology focus. Mr. Lee's professional accomplishments include: development of a strategic planning methodology designed to produce customer-centric outcomes, which is now in widespread use Internationally; developing and teaching the first graduate-level course in customer-centric planning; introducing the "Four Steps to CRM Success" implementation planning approach, also in widespread use; and inventing the innovative "Visual Workflow" method of customer-aligning business strategies, business process and technology.

Over his 20-year consulting career, Dick's clients have included 3M Company, American Airlines, American Express, Fidelity Investments, General Electric, Medica, Microsoft and Pitney-Bowes. But he has also worked with many progressive medium and small enterprise companies determined to implement customer-centric business practices.

In 1997, Dick wrote a seminal book, *The Sales Automation Survival Guide*, which gave the yet-to-be-named CRM movement a major shove in a strategic direction. In 2000 he followed up with an updated work, *The Customer Relationship Management Survival Guide*, which broke more new ground by linking CRM to fundamental economic changes—and predicted the future direction of the CRM movement. Most recently, Dick has put his entire consulting methodology into the public domain with the 2002 release of *Strategic CRM: the complete implementation manual*.

As an outgrowth of his work and his writing, Dick travels internationally delivering conference keynote addresses and CRM workshops. His work and perspectives have been featured in “Business Week,” National Public Radio’s MarketPlace, “Newsweek,” “The Wall Street Journal” and numerous other print and web-based publications. He holds a BA from Reed College, Portland, Oregon and an MBA from Suffolk University, Boston, and taught for 10 years at the Graduate School of Business, University of St. Thomas in Minneapolis.

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David Mangen is founder and President of Minneapolis-based Mangen Research Associates, Inc. (MRA), which since 1983 has provided full-service research and analysis services for clients needing to better understand customers and customer behaviors. MRA is among very few research firms nationally skilled in applying multivariate statistical analysis and effectively communicating the results to clearly identify issues and find answers in the marketplace. Clients retain MRA for support in product development, identification of emerging markets, developing and maintaining closed-loop customer satisfaction and retention systems, mining corporate databases, identifying key drivers of successful business outcomes, accurate sales forecasting, and price point optimization. MRA is best-known, however, for generating insight into the behavior of customers and helping clients take appropriate actions to strengthen customer relationships.

MRA has developed many statistical analysis tools that are now used industry-wide, particularly in the financial services sector. The firm works with clients in both business-to-business and business-to-consumer environments, with a bias towards B2B and high customer value B2C environments. While its clients include numerous Fortune-level organizations, MRA also works with many mid-market companies that believe in understanding their customers.

Dr. Mangen himself is known as a “researcher’s researcher.” Aside from his consulting work, his background includes a stint as a professor of research methods and statistics at the University of Southern California. Dr. Mangen is one of the country’s leading experts on using statistical modeling approaches such as LISREL™

and conjoint analysis, and has developed alternative methods that enhance conjoint studies conducted via telephone.

Dr. Mangen is the author of eight books, including the internationally respected Research Instruments in Social Gerontology (University of Minnesota Press) series and Customer Retention: Maximizing Customer Lifetime Profitability (Sheshunoff / Thomson Financial), as well as numerous research articles on research methods and statistical modeling.

ADDENDUM

CSI Comparisons with 2001 Data from the "Multi-function CRM Software" Study

Although not central to "The State of CRM Software" findings, during this report we have compared current CSI ratings with those produced by our 2001 study—both for the industry as a whole and for individual vendors. As pointed out in the main report text, differences between the two survey instruments may lead to slight comparability issues. However, in the spirit of being careful to present very clean data, we want to clearly explain the nature of what we feel confident is only a slight, potential issue—and one that if present, would tend to affect all vendors equally rather than affect the delta in CSI for some vendors but not others.

To communicate the comparability of the two different approaches to measuring customer satisfaction, we need to start with the primary process steps we use to develop the customer satisfaction scores:

- Respondents are presented with specific items evaluating vendors.
- Evaluation items are factor analyzed and grouped into collections of "like-minded" items that tap a common underlying theme.
- Factor scores are developed, using weights for each item drawn from the factor analysis, and summing the weighted items across all items in that factor. These scores range from 0 (where the respondent uniformly gave the most critical response to the vendor) to 100 (where the respondent uniformly gave the most favorable response to the vendor).
- Factor scores are used as predictors in a multiple regression analysis, using the "overall satisfaction with the vendor" measure as the criterion for that analysis.

- A Customer Satisfaction Index (CSI) is created by weighting the factors that were statistically significant predictors of overall satisfaction by their weights from the regression analysis, and summing the weighted factors. This sum is also transformed onto a 0-100 scale where 0 indicates complete dissatisfaction, and 100 indicates complete satisfaction.

Ultimately, our customer satisfaction indices are weighted composites of the responses to the individual items.

Because of differences between the two studies, a strict interpretation of the word "comparison" requires us to state that the CSI score used in this report is not identical to the CSI score developed for the "Multi-function CRM Software" study because of the following differences between the studies:

- *Differences in the response set used by respondents to answer the items.* In the 2001 study, respondents used a 5-point scale ranging from Strongly Agree to Strongly Disagree. In the 2003 study respondents used a 7-point scale — also on a Strongly Agree to Strongly Disagree range — but with the additional response options of "Moderately Strongly Agree" (coded as a 2) and "Moderately Strongly Disagree" (coded as a 6) included in the response set.

- *Differences in both the number of items and the content of the items included in the study.* In the 2001 study, we included 17 specific items by which respondents evaluated software vendors. In 2003, 36 items were included in the software vendor evaluation process. While 15 of the 17 items used in 2001 were included in the study, we added 21 additional areas where respondents could evaluate software vendors.

- Because of the increase in the sheer number of items, the underlying dimensions used to evaluate vendors (developed using a tool known as "factor analysis") were also necessarily different, although each of these dimensions were ultimately scored on the same 0-100 scale.

- Because the dimensions were different, both the set of plausible predictors as well as the statistically-determined key drivers of the overall satisfaction item were also necessarily different. However, the weighted summation of the factors that were significant was still constrained to produce an outcome CSI score ranging from 0-100.

Theoretically, each of these items could produce differences that preclude a strict interpretation of comparability. However, the effects of all the assorted statistical analysis, weighting, and the like functionally results in *a CSI score that is temporally-based to the demands of customers at that time*—which is a difference that we believe allows comparisons of the scores between 2001 and today.

Of greater potential concern for the comparability of the study is the difference in the number of response options. Moving from a 5-point to a 7-point response set can introduce differences in the score that may be more substantial. The magnitude of that difference lies in how people respond to the varied stimuli. Consider the following hypothetical distributions of responses to the exact same question, but using different response sets:

Hypothetical Five Point Distribution

	Score	Number of Respondents
Strongly Disagree	0	10
Disagree	1	25
Neutral	2	30
Agree	3	25
Strongly Agree	4	10
Average 0-4	2.0	
Average 0-100	50.0	

Hypothetical Seven Point Distribution

	Score	Number of Respondents
Strongly Disagree	0	10
Moderately Strongly Disagree	1	10
Disagree	2	15
Neutral	3	30
Agree	4	15
Moderately Strongly Agree	5	10
Strongly Agree	6	10
Average 0-6	3.0	
Average 0-100	50.0	

In this hypothetical example, the percentage of respondents who provide the "extreme" or "neutral" positions remains the same; the only differences are in how the 5-point distribution "Disagree" and "Agree" responses map to the 7-point "Moderately Strongly Disagree/Agree" and "Disagree/Agree." While the average on the original source scale is obviously different, when translated onto a 0-100 scale it is identical.

It is not necessary that changes be restricted to just the four intermediate response options. Consider the following example where all response options experience change, with some of the extreme scores in the 5-point distribution migrating to the moderate positions" and with the entire distribution "flattening out" to some degree. The overall average on the 0-100 scale remains the same.

Hypothetical Five Point Distribution		
	Score	Number of Respondents
Strongly Disagree	0	10
Disagree	1	25
Neutral	2	30
Agree	3	25
Strongly Agree	4	10
Average 0-4	2.0	
Average 0-100	50.0	

Hypothetical Seven Point Distribution		
	Score	Number of Respondents
Strongly Disagree	0	5
Moderately Strongly Disagree	1	8
Disagree	2	24
Neutral	3	26
Agree	4	24
Moderately Strongly Agree	5	8
Strongly Agree	6	5
Average 0-6	3.0	
Average 0-100	50.0	

To produce changes that will dramatically influence the CSI scores requires an unbalanced shift in how the response options are used. For example, in the following example, satisfied customers tend to move toward the neutral position, while dissatisfied customers are more likely to "rate down" even though the percentage selecting the most negative response remains the same.

Hypothetical Five Point Distribution		
	Score	Number of Respondents
Strongly Disagree	0	10
Disagree	1	25
Neutral	2	30
Agree	3	25
Strongly Agree	4	10
Average 0-4	2.0	
Average 0-100	50.0	

Hypothetical Seven Point Distribution		
	Score	Number of Respondents
Strongly Disagree	0	10
Moderately Strongly Disagree	1	20
Disagree	2	5
Neutral	3	30
Agree	4	17
Moderately Strongly Agree	5	13
Strongly Agree	6	5
Average 0-6	2.8	
Average 0-100	47.2	

Under this contrived circumstance, with an unbalanced shift in how respondents interpret the introduction of the two added categories, we see a change of almost 3 points in the score when presented on the 0-100 scale.

How likely is it that the introduction of the two additional categories has produced this sort of a differential response pattern? While we obviously cannot be certain—we have not done a controlled experiment testing the differences—the overall consequences are probably trivial. We believe it is unlikely that the effects would be concentrated on one end of the scale versus the other, and even less likely that the introduction of the two additional options would tip a customer who is on the positive end of the scale to flip to the negative or even neutral position. Therefore, even though it is not possible for us to claim strict comparability to the CSI measure reported in 2001, we suggest that comparisons that are accompanied by qualification that the CSI scores may reflect minor differences in scoring outcomes because of the differences between the two surveys are acceptable.

Standards For Assigning CSI Ratings
(+2 through -2 Ratings)

We have assigned CSI ratings to vendors based on their performance relative to all other vendors. In this respect, all vendors have been "graded on the curve" in that we use the statistical distribution of respondent scores to define the cut-points for assigning respondents to our five, distinct performance categories:

- Well Above Average (+2)
- Above Average (+1)
- Average (0)
- Below Average (-1)
- Well Below Average (-2)

For each of the main evaluative dimensions, as well as the composite CSI score, we use the standard error of the mean — based on the distribution of respondent scores, not the vendor aggregate distributions — to define the categories. The standards we used were as follows:

Rating	Translation	Standard Error of Mean
+2	Well above average	Greater than Eight Standard Errors Above the Mean
+1	Above average	From Three to Eight Standard Errors Above the Mean
0	Average	Between -3 and +3 Standard Errors Around the Mean
-1	Below average	From Three to Eight Standard Errors Below the Mean
-2	Well below average	Greater than Eight Standard Errors Below the Mean

This method of assigning scores to performance categories implies that each distinct measure necessarily has its own unique numerical standards that define "Well Above Average" or "Below Average" or any of the other categories. The actual numerical standards for each of the measures are presented in the following chart.

	Well Below Average		Below Average		Average		Above Average		Well Above Average	
Dimension	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Price Satisfaction	0.000	57.597	57.598	61.103	61.104	65.311	65.312	68.817	68.818	100.000
Functionality	0.000	65.346	65.347	67.974	67.975	71.129	71.130	73.757	73.758	100.000
Ease of Implementation	0.000	58.558	58.559	61.600	61.601	65.253	65.254	68.295	68.296	100.000
Customer Focus	0.000	49.121	49.122	52.040	52.041	55.547	55.548	58.466	58.467	100.000
Support	0.000	58.317	58.318	61.529	61.530	65.385	65.386	68.596	68.597	100.000
Functional Specificity	0.000	45.596	45.597	48.389	48.390	51.743	51.744	54.536	54.537	100.000
Corporate Stability	0.000	69.904	69.905	72.797	72.798	76.271	76.272	79.163	79.164	100.000
Versatility	0.000	54.335	54.336	56.995	56.996	60.188	60.189	62.847	62.848	100.000
CSI Score	0.000	61.788	61.789	63.979	63.980	66.611	66.612	68.802	68.803	100.000

The vendor summary ratings presented throughout the body of this report are based on the score ranges presented in this table. For each vendor, the average score for all eligible respondents for each measure was calculated, and placed within this table to create the ratings used throughout this report.