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Choosing the Best CRM for Your Organization

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By Paul Gillin

Executive Summary

CRM buyers have a wealth of deployment options available to them, providing unprecedented flexibility, cost-efficiency and business value. They can opt for a traditional on-premise packaged software installation, subscribe to one of the new breed of on-demand services delivered via the Internet, host their own on-demand solution or deploy a combination of those approaches. This gives IT organizations the power to fine-tune CRM deployments to match their needs, strategic objectives and the budgets of business users.

But with choice comes complexity. Not only must IT managers carefully analyze their business scenarios, they also must understand the strengths and weaknesses of the available products. There are many new hosted solutions, but most don't integrate well with the market-leading packaged solutions or with legacy systems. These so-called software-as-a-service (SaaS) products also have a wide range of capabilities for customization and standards compliance. Vendor stability and reliability also are important issues. With consolidation inevitable in the market, users need to choose vendors wisely.

This white paper describes and analyzes the four most popular deployment scenarios, then offers a guide to choosing a hybrid approach that best matches the needs of the business while delivering superior performance, application integration and functionality.

Introduction

Customer relationship management (CRM) has been one of the most compelling operational concepts of the past 15 years. Beginning with humble roots in sales force automation, CRM has expanded to include a wide range of tasks, analytics and engagement tactics that maximize the value of the customer relationship and contribute to sustainable revenue growth. Total CRM revenues reached $8.4 billion in 2006, up 7 percent from the previous year, according to Forrester Research. AMR Research, which includes a broader range of applications in its forecast, predicts that the market will grow from $8.6 billion in 2006 to $18 billion in 2010, a 21 percent compound annual growth rate.

As CRM has expanded to encompass elements of collaboration and Web 2.0-style engagement, the software tools to support it have grown and become more diverse as well. Today, buyers have the luxury of choosing from a vast selection of products to help develop and nurture customer relationships.

- Broadly defined, CRM encompasses everything companies use to manage customer relationships, including capture and analysis of customer information and analytics to leverage that data toward better sales performance.

Why is CRM important?

Common sense dictates that it's cheaper to generate more revenue from existing customers than to acquire new ones. According to surveys, the cost of finding new customers is estimated at three to five times the cost of customer retention.

Retaining customers isn't easy, though. The Internet has lowered the cost of switching and made markets more price-sensitive. Customers increasingly are asking for custom solutions to their problems, using comparative shopping services and freely available rating systems to pit companies against each other.

In this increasingly competitive environment, businesses must differentiate not only their products, but their customer experience. In fact, customer experience is emerging as the most important competitive differentiator between vendors in many markets. The focused ability to anticipate and respond to customer needs will separate market leaders from also-rans.

CRM systems support business growth in two critical ways. First, they enable sales and support personnel to gather detailed information about individual customer needs, enabling them to offer custom products and services the customer can't find anywhere else.

Secondly, analytics provide insight about customer behavior on a broad scale. For example, knowing that customers who buy red sports cars also are highly likely to buy premium sound systems can help an automaker shave costs and deliver more targeted products. These correlations aren't always evident, so analytics and data mining can reveal hidden information about customer behavior that can greatly benefit the business.

Finally, call-center and customer-care applications enable businesses to deliver highly customized service. By knowing in detail the customer's background, product configuration, service history and satisfaction, customer-service representatives can address each situation uniquely.

Recently, CRM tools have begun to take on an exciting new dimension by leveraging Web 2.0-like social media features to build online communities of customers, channel partners and suppliers. While these efforts are still at an early stage, they show great promise to take CRM to the next level and further drive growth in the market.

Technology has evolved to support these needs. From the early database-oriented sales-force-automation applications, CRM systems have blossomed to include data mining, dashboards, alerts, multimedia, e-mail integration, free-form text analysis and other sophisticated features. The best CRM systems enable buyers to extend capabilities as their business demands and to customize the solution to their industry. Integrated with core financial systems, Internet commerce servers and customer contact center software, robust CRM systems can give a 360-degree view of the customer, enabling a business to track every customer "touch." This helps the business build a robust profile of each customer and deliver a much more targeted set of goods and services.

In the CRM feedback circle, data gathered from multiple customer touch points are stored in centralized databases. Sophisticated analytics are then applied to discern patterns of customer behavior and to craft custom products and programs for customers and groups of customers.

Deployment Options Proliferate

Just a few years ago, customers had few choices in CRM deployment. The standard option was an on-premise installation, which involved significant up-front cost and often long deployments. For many organizations, an on-premise deployment is still the best option because it provides superior customization and integration capabilities. Users have complete control over the application and infrastructure, giving them the ability to apply additional horsepower for transaction-intensive applications and to use their preferred programming and customization tools to extend the application's functionality. However, new alternatives are emerging.

The most popular of these is software as a service (SaaS). This is the next generation of the application service provider (ASP) model popular in the late 1990s. However, there are night-and-day differences between SaaS and the old ASP model. Today's SaaS services offer superior scalability, reliability and data integrity. Whereas early ASP services were often plagued by outages and

performance problems, modern SaaS applications are based on much more reliable technology, incorporating world-class data centers, redundant services and state-of-the-art security.

There also are big differences between the relatively inflexible ASP services of a decade ago and modern SaaS. Web services standards and the emerging service-oriented architecture make it possible for SaaS services to be customized to a much greater degree than their predecessors. This is why many customers now look at SaaS as a complement to or a replacement for on-premise deployments.

SaaS isn't for everyone, though. Buyers should carefully consider the merits of on-premise and on-demand deployments before choosing a course. A new hybrid alternative has recently emerged that offers compelling benefits. This will be discussed later in this white paper.

Next, we will discuss four basic options for CRM implementation:

- Customer-Managed On-Premise
- Privately Managed and Hosted On-Premise
- Multi-tenant On-Demand (SaaS)
- Private On-Demand (SaaS)

Customer-Managed On-Premise

In a traditional on-premise deployment, the customer buys or leases infrastructure, including hardware, operating systems, databases and other system software, and installs a packaged application in its data center. The customer owns the entire package and is free to customize it as needed. The customer has complete control over the infrastructure and data.

Siebel Systems (now part of Oracle) was a pioneer in on-premise CRM and is still the market leader. Forrester Research estimates that on-premise solutions still make up about 90 percent of CRM sales[1].

Advantages: For customers who need complete ownership and control over every aspect of the deployment and maintenance of the CRM application and its infrastructure, on-premise is the way to go. Customers who choose this option can achieve a high level of integration with operational and legacy applications and can customize the deployment as much they want. Customers are also in complete control of data storage and protection, which minimizes the risk of legal exposure and embarrassment due to another party's mistake. Finally, some CRM providers and specialized third parties offer highly customized vertical industry solutions that extend on-premise deployments with a level of sophistication that on-demand services cannot match.

Disadvantages: The primary downside of on-premise deployment is cost and time. Acquiring hardware and software infrastructure is expensive and time-consuming. However, over time an on-premise deployment can be the least expensive option if a customer deploys the application widely over a period of years. Deployment times for highly customized applications can stretch to a year or more and may involve the use of dedicated IT resources and external consultants. Customers also have limited options for migrating to other CRM applications because of the need to realize a return on investment on the up-front cost.

User View: The intensely competitive airline industry demands that carriers identify every possible opportunity to cut costs and maximize customer loyalty. Alaska Airlines has long tracked customer behavior, but data was scattered in silos throughout the company. It knew it needed an on-premise solution so executives could aggregate data from various legacy systems.

It chose Siebel CRM to gain insight into customer loyalty. Using dashboards, the company could collect a variety of information about scheduling, ticket purchases, seat selection, on-time flight performance and other metrics to gain a richer view of the factors that drive loyalty. This insight has helped the airline target offers to customers based upon their history and behavior.

The use of on-premise CRM has changed the company, says James Archuleta, CRM director. "People are starting to realize that there are causes and effects between all of the elements of a business, and so it is truly affecting us in breaking down those silos within the organization," he says.

Recommendations: Choose on-premise if you are ready to make a commitment to CRM as a

[1] "CRM market to grow steadily, Forrester study says," SearchCRM.com, Nov. 14, 2006

foundation of your business and find an application that meets your requirements. On-premise deployment is also a wise choice if you have specific integration needs or an interest in controlling the infrastructure.

Privately Managed and Hosted On-Premise

This approach is identical to the one outlined above except that a vendor provides most or all operational support for the application at its hosting site. The customer preserves all the functionality of the application and the ability to customize and integrate with legacy systems with a high degree of control. Modifications may be done with a mix of internal and vendor-supplied resources.

Advantages: This option has all the advantages of the customer-managed approach as well as the added advantages of shorter deployment and access to outside expertise. Because the application provider has extensive knowledge and experience with the CRM software, customers cut the staff learning curve and can be up and running in less time than a traditional on-premise deployment requires. The vendor also might be able to improve functionality with custom and industry-specific deployments, without extensive ramp-up time.

Disadvantages: The biggest downside is cost. Using contracted skills is often more expensive than relying on in-house resources, although these costs are typically built into the per-user costs. Vendors also may need additional time to learn the specific needs of the business. This approach also might involve additional management overhead to coordinate the activities of external and internal staff.

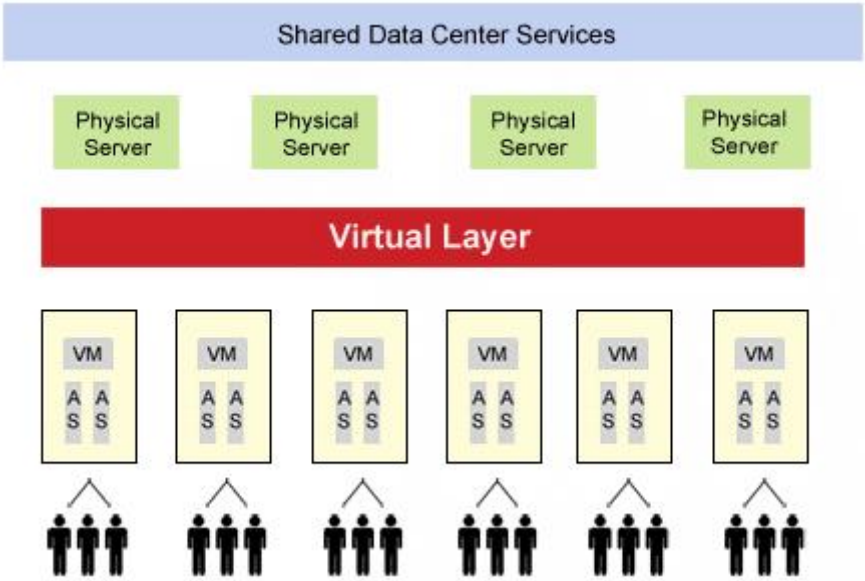
Recommendations: For users who want the advantages of best-of-breed functionality, complete infrastructure control and the highest levels of security and data protection, the Privately Managed and Hosted On-Premise approach deserves serious consideration. However, customers should negotiate service agreements carefully to be sure they have a clear picture of the required investment.

Multi-tenant On-Demand (Software-as-a-Service)

In a typical software-as-a-service (SaaS) deployment, a vendor provides the application as a service that is licensed by multiple customers. All aspects of infrastructure management and application delivery are handled by the service provider, conforming to a service-level agreement negotiated with the customer. Delivery is typically over the public Internet. The customer typically does not maintain software or hardware and pays for access to the application only. The customer owns the data, unless otherwise negotiated with the vendor.

Typically, SaaS services are delivered through a multi-tenant architecture. In this approach, all underlying server resources, system software and databases are shared and a single application is presented in multiple views customized as if they belong to the individual customer.

The SaaS market is growing rapidly, with hundreds of companies delivering all kinds of



In this simplified representation of a multi-tenant architecture, physical servers share data center resources on the back end. Virtualization is used to create multiple virtual machines (VM) and application spaces (AS) that are independent of physical devices. Each group of customers sees only its own applications. This architecture provides the illusion of a customized computing space while achieving efficiencies through economies of scale due to consolidation.

applications this way. Research firm Gartner estimates the market was worth $6.3 billion in 2006 and predicts it will grow to $19.3 billion by the end of 2011, a 25 percent compound annual growth rate. CRM has been a prime driver in this market because basic CRM functions apply to many businesses and rapid deployment is attractive to companies seeking immediate sales impact.

Advantages: Multi-tenant On-Demand SaaS is the ideal option for customers with limited capital resources, variable work force needs or reluctance to commit to a specific CRM application. There is almost no up-front investment; costs are usually borne as an operating expense and users can be added or dropped as business demands, with a corresponding impact on costs. In its early years, the SaaS model acquired a reputation for unpredictable performance and availability, and security was always a question mark. However, modern SaaS systems housed in world-class data centers provide superior performance and "five-nines" availability. There have been no reported security breaches of SaaS systems operated by major vendors. SaaS also offers a best-practices approach to deployment because vendors learn from managing a large number of users, each with different needs. Upgrades and fixes are done quickly, often without the customer even noticing. This minimizes maintenance for IT staff.

Disadvantages: Although service providers have come a long way toward delivering customization features, it is impossible for software delivered as a service to be as easily molded to a customer's needs as software deployed on-premise. In the SaaS model, customization is usually handled with a high-level programming language or a proprietary toolset. This may present training issues and could increase switching costs if the customer later chooses a different service provider. SaaS applications also are more difficult to integrate with legacy systems, particularly if proprietary coding is involved. While integration can be streamlined through the use of Web services and a service-oriented architecture, the on-demand model has inherent disadvantages in this area.

SaaS customers also give up some control over upgrades, enhancements and planned downtime. Service-level agreements need to be negotiated carefully to minimize surprises and disruptions. Data ownership issues also have been an issue when data is hosted off site. Again, careful attention to contractual obligations is required. SaaS implementations also can carry a hidden cost disadvantage. While per-user pricing is attractive in the short term, large installations might be more expensive over time than on-premise solutions. Also, because SaaS costs are usually borne as an operating expense, the cost could be less predictable and could affect profitability.

User view: Heat and Control Inc, one of the world's leading manufacturers of food processing and packaging equipment, deployed the Siebel CRM On Demand SaaS service to get a better handle on sales activities. Previously, information was stored locally by individuals around the world, which meant that a lot of communication was required to get deals done.

With Siebel CRM On Demand, the company quickly gained access to best practices for lead tracking and pipeline status. For example, Siebel's Sales Process Coach enabled Heat and Control to develop a standard terminology for all sales activities and stages. Managers no longer had to sort out the terms used by individual sales reps and organizations.

Pipeline analysis is now overlaid with production planning. Depending on where an opportunity is in the sales cycle, the engineering and manufacturing teams can get a clear picture of what future production demands might be. From purchase to go-live, Heat and Control's implementation process took just three and a half months.

Recommendations: If flexibility, speed of deployment and ease of switching are important, then SaaS is the right solution for you. SaaS also makes sense if the user base is in the hundreds or thousands – as opposed to many tens of thousands – or if different solutions need to be deployed in different departments. For maximum flexibility and long-term cost control, on-premise solutions still might be the better bet. However, SaaS is an increasingly popular option for customers who want fast results at a relatively low start-up cost.

Private On-Demand

Although multi-tenant SaaS implementations can generally be considered very reliable and secure, some customers like to have the peace of mind of knowing that there is an infrastructure dedicated to their application. Historically, their only option has been a full on-site deployment of a packaged application. But vendors are beginning to innovate with versions of their SaaS products that deliver the cost and availability benefits of a hosted solution while adding a level of customer ownership. There is no standard terminology for this model, so we'll call it Private On-Demand.

A Private On-Demand service is identical in every way to a multi-tenant hosted model except that the SaaS application is run on an infrastructure dedicated to one customer. This includes servers and software and may also extend to bandwidth. Upgrades and new functionality are provided on the same schedule as with a multi-tenant environment. Contract terms are similar, although at a higher cost.

Advantages: A Private On-Demand model potentially opens the SaaS option to a class of customer that wouldn't consider it otherwise. These include customers in highly regulated or security-conscious industries, where any kind of shared-space deployment would be considered too risky. These customers can get all the advantages of SaaS – including best-of-breed functionality, rapid implementation, expert service and variable cost – without giving up control.

Disadvantages: The cost of this option is understandably higher than that of multi-tenant SaaS. Vendors must cover the additional overhead of providing dedicated technology, and possibly staff, so the per-user charges and minimum-user guarantees of a Private On-Demand option will almost certainly be higher than those of a multi-tenant SaaS deployment. Customers also can't expect to have as much control over upgrades and customization as they would for an on-site deployment.

Recommendations: For organizations that couldn't otherwise consider a SaaS solution, this option could be a godsend. It has all the benefits of SaaS without the perceived risks. However, this option is not a replacement for Customer-Managed or Privately-Managed On-Premise deployments, which offer the customer more control in a number of areas. Also, a Private On-Demand service may cost more than an on-premise deployment in the long run.

Factors for IT to Consider

Implementing and managing a CRM system invariably falls to the IT organization, and the associated resource demands require careful consideration. Licensing fees, customization, support and maintenance all carry cost. These must be matched to the needs of the business, meaning that IT and end-users must collaborate carefully when choosing a deployment. Here are some key factors to consider:

Staffing: All options include some staff expense. An on-premise installation will require server administration as well as software installation and custom programming. This is clearly the most costly option, but it also delivers the most customized results.

SaaS vendors promote their products as being easy to use and to customize, but few IT organizations want to put programming in the hands of business users. If your SaaS installation requires extensive customization or legacy integration, you'll need to factor this into your staffing costs. Many SaaS implementations also require extensive configuration before deployment. Be sure to ask vendors about these options, negotiate service-level agreements carefully and budget appropriately.

Finally, training and helpdesk support also consume resources. For an on-premise deployment, these costs fall almost entirely on the IT organization and its contractors, but even a SaaS solution may require IT helpdesk support. Again, it's a good idea to negotiate these costs and responsibilities with a service provider before making a commitment.

Budget: Although on-premise deployments generally cost more, much of the cost of servers and license fees is allocated and depreciated as a capital expense. This may be desirable for companies that want to amortize the cost of their CRM project over several years. In contrast, SaaS solutions are usually paid out of operating expenses and those

costs may very widely as the number of users changes If you choose SaaS, negotiate a price schedule you can live with over a period of years.

Business structure: A crucial but often-overlooked factor in CRM implementations is the nature of the business itself. Highly centralized organizations may enjoy the economies of scale of implementing a single solution and sharing it broadly. On-premise solutions are more appealing in this environment. Decentralized organizations typically push decision-making power down to business units. In these situations, SaaS solutions offer the kind of flexibility that business owners often desire.

Features: CRM solutions, whether packaged or delivered online, come with a basic set of features. For many sales organizations, this will deliver 80 percent to 90 percent of the functionality they need. However, vertical industry applications and company-specific features will require custom programming, as will integration with legacy systems. Consider carefully how much customization your deployment will require. Match this against the features the vendors provide and inquire about the cost and complexity of extending packaged solutions. Consider whether developers can use off-the-shelf programming tools to extend this functionality or whether they must learn a proprietary language. Consider, also, the readiness of your legacy systems for this kind of integration. If you are using a service-oriented architecture, then integration is more straightforward than if custom programming is required. All vendors have different degrees of expertise in back-end integration. Purchasing a CRM solution from a vendor that also provides ERP and database engines might significantly reduce your costs.

External issues: CRM involves the gathering and analysis of large amounts of customer data. In some industries, this is easier to accomplish than in others. Heavily regulated industries such as health care and banking need to pay particular attention to privacy and compliance issues. Whether choosing an on-premise or SaaS solution, look for vendors with significant expertise in these industries.

Control: Some companies are reluctant to give up control over a precious asset like customer data. Although most SaaS vendors offer excellent security, backup and data protection, customers must still make a leap of faith by putting data in the hands of a third party. Many customers also will want control over downtime and upgrades. Integration projects may require special testing and training on a schedule that the IT organization needs to control, or projects may need to be released in stages to production. SaaS vendors usually are willing to preview planned upgrades to customers. However, they have the needs of many customers to consider, so the availability of staging sites should be negotiated carefully in advance. While many users are delighted to log in and find new features available to them, IT organizations aren't always comfortable with this idea. If control is an important issue, then an on-premise or privately managed on-demand service provides extra peace of mind.

Best of both worlds

Choosing a CRM solution involves making tradeoffs in flexibility, customizability, cost, convenience and speed of deployment. Few customers will find the perfect match for all their needs, but there is an intriguing new option emerging that may satisfy most requirements. It's called ñhybrid deployment,ò and it delivers the best features of SaaS and on-premise solutions with few of the downsides.

A hybrid deployment uses both on-demand and on-premise solutions with a high degree of back-end integration and database sharing. Users mix solutions according to their needs and may even intermingle deployment models within the same department or workgroup. The use of a consistent data model and user interface minimizes user confusion and IT helpdesk expense. The CRM solution may thus be more easily mapped to specific business units needs.

A hybrid CRM deployment offers the following benefits:

Maximum flexibility ï IT organizations can deploy the CRM approach that makes the most sense for their customers. Workgroups or business units that are transaction intensive, such as call centers, or business units that need a high level of customization may choose the on-premise option, while highly collaborative field representatives or occasional CRM users can opt for the on-

demand model. In all cases, users share a common database that can be located on site, at the hosting provider's location or a combination of the two. The choice is up to the customer.

Superior business alignment – Each business function may choose the deployment option that makes sense for its particular needs. This puts more decision-making capability in the hands of the business units without requiring IT to maintain and synchronize separate database functions and business rules. Features are matched to user requirements and users can move easily between on-premise and on-demand options without extensive education or administrative expenses.

Best-of-breed functionality – Only a few vendors have the resources and market experience to compete in both the on-premise and SaaS businesses. Each requires a different set of skills and industry focus. The vendors who can successfully address both markets are more likely to bring a broad range of capabilities to bear to solve a specific customer need.

IT control: A hybrid deployment provides IT organizations with the highest degree of control over costs and configuration. Because customers can freely move between on-premise and on-demand models, they can tune their configuration to match budgetary and strategic needs. They can also locate customer data where they wish.

Considerations in hybrid deployment

A hybrid deployment isn't right for everyone, and businesses should carefully assess their long-term needs before choosing this approach. Large, diversified organizations are most likely to benefit from a hybrid approach because their needs are so variable. However, even small organizations may find the hybrid model attractive as a way to "bridge" into a full on-premise solution.

When investigating this option, there are a few key questions to ask:

- Does the vendor have the expertise and resources to fully support both models and to provide world-class service no matter what the deployment scenario?
- Is the vendor truly neutral in its approach to this option, or does it have a bias toward a particular model and is merely offering the hybrid choice as an obligation or trial balloon?
- Are the on-premise and on-demand solutions truly integrated? If either was the result of an acquisition, they probably aren't. The ideal hybrid model involves a single solution that has evolved to support multiple deployment scenarios.
- Do product features match the customer's need in all cases?
- Do you need on-demand an on-premise versioning to be synchronized? Typically, on-demand customers have quicker access to new features, a key benefit of that approach that they would lose with synchronization.
- Can legacy integration be handled flexibly on both the on-premise and on-demand sides? Equally important, does the vendor already have a presence in the customer's legacy computing infrastructure?
- Does the vendor maintain a world-class infrastructure to deliver its on-demand services?
- Does the vendor enforce the highest standards of data protection and security, keeping in line with government and regulatory agency mandates in these areas?
- Does the vendor offer 24/ 7 support and on-site field service to meet the demands of real-time business?
- Does the vendor help the customer calculate return on investment and total cost of ownership to determine the optimal deployment scenario?

About Oracle's Siebel CRM Solutions

Oracle offers information-driven CRM applications that leverage enterprise data to drive profitable customer interactions. Oracle's Siebel CRM products cover the breadth of CRM functionality, from sales, marketing and e-commerce, to customer service, multi-channel interaction and analytics. Oracle's information-driven CRM applications leverage enterprise information from all areas within organizations to help achieve optimal business performance and create new revenue opportunities. Solutions help customers drive incremental revenue, reduce interaction costs and increase customer value.

Oracle

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IT Business Edge

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About the Author

Paul Gillin has chronicled the information technology revolution since the dawn of the PC era. He joined Computerworld as a staff writer in 1982 and served as senior software editor at PC Week and founding news editor at Digital Review before returning to Computerworld in 1987. In 1999, he became the sixth employee at a startup soon renamed TechTarget, where he engineered its transition into a leading source of original news and technical advice. He now operates his own firm, helping technology companies connect with their customers through quality content and innovative communications strategies.