



A Whitepaper for IT and Business Unit Decision-Makers

Overcoming the Hassles of Traditional CRM Applications by Leveraging Software-as-a-Service

*Eight Ways On-Demand Solutions
Generate a Faster ROI at a Lower TCO
than Legacy Applications*

An Independent analysis published on behalf of Salesforce.com.



Executive Overview

A confluence of changing customer requirements and rapidly evolving technological advancements is driving a growing number of organizations of all sizes to adopt a new generation of on-demand applications to meet their business objectives.

Rather than contend with the escalating costs and hassles historically associated with traditional, on-premise, 'shrink-wrapped' software products such as customer relationship management (CRM), today's 'on-demand' Software-as-a-Service (SaaS) alternatives enable organizations to quickly harness the added functionality of more robust applications so they can fully achieve their business objectives.

SaaS leverages the ubiquity and real-time availability of the web to deliver a new breed of business applications that offer greater collaboration and productivity features via a subscription service on a 'pay-as-you-go' basis. SaaS also meets the variable demands of today's organizations.

And while SaaS provides a new level of functionality, it also eliminates the infrastructure, installation, maintenance and support costs of legacy applications in the past. Organizations no longer have to acquire additional servers or hire additional staff to handle their application requirements. Instead, the SaaS provider assumes this responsibility and expense by hosting its applications in a 'multi-tenant' data center and guaranteeing availability and performance.

SaaS also removes the hassles and unpredictability of traditional software, whether it is contending with continuous operating problems or wondering when the independent software vendor (ISV) will fulfill their promises and deliver new software versions. SaaS also enables organizations to avoid the added cost and disruption of migrating to new software versions, or losing their custom features in the migration process.

It is for these reasons that ***THINKstrategies has found that over 90% of SaaS users are so satisfied with their on-demand applications that they intend to expand their use of SaaS and recommend that others also take advantage of on-demand applications.***

While nearly every major legacy application vendor is guilty of developing software products which take longer to deploy and cost more to manage than initially promised, Microsoft's operating systems and business applications have been especially susceptible to security issues and plagued by new version rollout delays. As a result, Microsoft has found itself at particular risk with the growing SaaS movement.

Microsoft's founder and chairman, Bill Gates, acknowledged this challenge in an internal memo which became public in October, 2005:

"This coming 'services wave' will be very disruptive...Services designed to scale to tens or hundreds of millions will dramatically change the nature and cost of solutions deliverable to enterprises or small businesses."

Although Microsoft and the other major ISVs are frantically working to deliver their own 'hosted' applications, these offerings fall short of the features and benefits provided by today's leading SaaS solutions.

This whitepaper will examine eight ways that SaaS solutions, such as *Salesforce.com*, liberate customers from the typical hassles and unnecessary costs associated with traditional, on-premise CRM applications.

Macro-Market Trends Driving Customer Adoption of SaaS

There are three primary forces driving customer acceptance and demand for SaaS.

1. Globalization, Expanding Markets and Escalating Competition

The lowering of geographic barriers, both diplomatically and virtually via the web, has dramatically widened the playing field and addressable market for companies of all sizes.

But as Thomas Friedman clearly articulated in his book, *The World is Flat*, globalization has also created more intense competition. The most obvious manifestations of this trend are the commodization of higher ticket products and offshoring of higher level jobs. But, globalization is also putting more pressure on organizations to create tighter bonds with their customers because the impediments to customer defection are also being lowered.

The bottom line is that globalization and rising competition are forcing organizations of all sizes to refocus on their core businesses and deliver better quality products and services. As a result, many organizations are offloading parts of their operations to reduce costs or gain greater functionality to be successful.

2. The Nicholas Carr Syndrome and Out-Tasking Specific IT Functions

Although a whipping boy for IT professionals, Nicholas Carr is still finding a receptive audience among business executives who agree with the notion he first advocated in the Harvard Business Review that "IT Doesn't Matter."

Rather than serve as an essential competitive weapon, many executives have been disappointed that IT has failed to generate the return on investment (ROI) they expected and is hasn't become the enabler of innovation they hoped.

However, many organizations are still unwilling to give up on this important asset, outsource their entire IT operations and lose complete control of this important asset. Instead, a growing number of business executives are willing to selectively 'out-task' specific IT functions, such as software management, to achieve their corporate objectives.

3. On-Demand Solutions in the Consumer World

The rapid rise of on-demand services in the consumer sector is making a comparable set of solutions in the commercial sector more palatable to business executives and end-users.

The mainstream acceptance of Amazon and Apple I-Tunes, as well as the phenomenal growth of MySpace and YouTube, clearly indicate that consumers of all ages are becoming more adept with a new generation of web services. As consumers become more comfortable with the myriad of on-demand audio, video and social networking services that are available today, they are recognizing how a similar set of services with some of the same attributes could make them more productive in the workplace.

These trends are combining to make a growing proportion of organizations more cognizant of the advantages of on-demand solutions for an expanding assortment of business requirements. For instance, many business professionals are already using subscription security services and low-cost webmail solutions, while others are out-tasking specific business functions, such as payroll to companies like ADP.

As a result of these trends, THINKstrategies believes SaaS is quickly becoming a mainstream solution which is producing immediate benefits for organizations of all sizes.

Eight Ways On-Demand CRM SaaS Can Overcome the Shortcomings of Traditional, Legacy Applications

At a time when it is imperative that organizations adopt business practices which enable them to become closer to their customers and better target their prospects, they can no longer afford the ongoing hassles and added costs associated with legacy customer relationship management (CRM) applications which fail to meet their corporate objectives.

While the fundamental value proposition of CRM software is clear, the practical problems associated with implementing and administering traditional on-premise CRM applications have made them counterproductive in many cases.

Here are eight ways that today's on-demand CRM SaaS solutions can overcome the historic hassles and typical pitfalls of the legacy applications of the past:

1. Quicker Deployment Times and Time to Value

One of the primary complaints about traditional CRM applications has been the extended period of time necessary to deploy them and cost overruns typically incurred in the initial rollout process.

In fact, the U.S. Government Accountability Office (GAO) and National Institute of Standards and Technology has estimated that over half (52.7%) of the enterprise software projects take far longer to complete than planned and can cost nearly twice as much as originally budgeted. As a consequence, it is not surprising that 31.1% of major software projects are cancelled before completion.

In the case of Microsoft's CRM 3.0 offering, the challenge of cobbling together the right combination of hardware, operating systems, databases and support skills to make it work has been compounded by extended product delays. While Microsoft has made some strides with the installation part of getting its software up and running, it remains a challenge to make it work effectively with related enterprise applications.

In contrast, rapid deployment and time to value is one of the clearest benefits of SaaS. Many of the simpler SaaS solutions can be activated immediately after the service fee has been billed. Other SaaS solutions may take a few days or weeks to be properly configured to meet the organization's specific needs.

An Aberdeen study of 631 companies, conducted from March to July 2006, found that deployments of on-demand CRM are typically in less than 2 months. And, once the SaaS solution has been activated organizations can add new users, acquire additional modules or adopt new updates quickly and easily.

In addition, organizations don't have to dedicate an internal team or enlist an army of outside consultants to adopt a SaaS solution. This reduces the cost of the deployment process, making it that much easier to generate a quicker ROI.

2. Lower Capital and Operating Costs

Eliminating the bulk of the consulting fees associated with deploying traditional CRM applications is just part of the cost-savings that come with SaaS. Traditional CRM products also demand significant hardware, maintenance and staff support investments, not only during the initial deployment phase but also as application usage increases within the organization and with each major software 'upgrade'.

In fact, **AMR estimates that an organization can pay ten times the cost of the original software license fee to keep the application up and running over the course of its useful life.**

A Yankee Group study found cost-savings of approximately 90% over a ten-year period with Salesforce.com's on-demand solutions compared to legacy, on-premise applications. Forrester Research also found SaaS applications provide better total economic impact (TEI) than traditional on-premise applications through a 10-year lifecycle of ownership, especially among organizations with up to 250 to 499 employees and 100 users. And, Aberdeen's survey found that companies using SaaS CRM generated a ROI in less than 6 months.

3. Greater Flexibility and Ease of Use

Traditional CRM products, such as Microsoft CRM, are not only difficult to deploy, they are often cumbersome to use because they have been designed to comply with legacy computing environments rather than to satisfy the business requirements of today's mobile workers.

The inflexibility of on-premise CRM applications also makes it hard to modify the software to reflect the actual workflow of a continuously changing organization or accommodate the variability of an organization's business cycles. On-premise ISVs, such as Microsoft, claim they have made their applications more flexible by offering multiple development models and many ways of coding business rules. In reality, Microsoft and the other legacy ISVs have created more complexity that often results in greater disruption to organizations which must reconcile the modifications they've made to the CRM application when a major upgrade is introduced by the ISV.

SaaS applications have been specifically designed to address the functional requirements of a highly dispersed end-user's population rather than the nuances of a highly centralized IT operating system. The web-based architecture enables workers to access the SaaS application from anywhere at anytime, and share information with their peers internally, as well as customers and partners externally, in a highly secure environment.

SaaS solutions not only accommodate variable usage patterns, they can also respond to organizations' specific configuration requirements via their meta-customization capabilities.

For instance, Salesforce.com's on-demand CRM solution allows users to change the data fields, formats, workflows and relationships to fit the user's specific needs. The company's AppExchange Builder—a built-in, point-and-click customization tool—allows any user to customize their CRM applications, and its open Apex programming language will enable developers to create their own applications which can leverage Salesforce.com's solutions.

4. Broader Functional Capabilities

One of the common misconceptions about the SaaS movement is that it is simply about delivering software faster and cheaper via the web. As we have seen, it is certainly true that SaaS can be deployed faster and can generate considerable cost advantages. But, it would be a serious mistake to say that the benefits of SaaS stop there.

Forrester has estimated that as much as 20% of the value of typical CRM implementations is wasted due to overlapping software and lack of coordination across corporate functions like marketing, sales, and call centers.

By leveraging the web and a rapidly expanding array of web services, SaaS solutions provide an entirely new dimension real-time visibility, as well as collaborative features and functionality.

The ubiquity of the web allows users anywhere, anytime to access SaaS CRM solutions, and see and share the same information with their peers, customers and business partners. This permits workers to respond more quickly to customer requests, competitive challenges or other corporate requirements.

The real-time, shared visibility which comes with a SaaS solution also permits better reporting and accountability. In this way, web-based SaaS applications enable organizations to gain greater productivity than traditional CRM products.

Even if they are hosted by a legacy ISV, traditional CRM products suffer from the same inherent product limitations. They were not designed for multi-user, real-time utilization via the web. Instead, CRM solutions such as Microsoft's solution were made to reside in a traditional client-server environment which cannot take full advantage of the Internet. Therefore, they cannot provide the same collaborative features or enterprise-wide visibility.

Raising the bar even higher are SaaS 'ecosystems', like Salesforce.com's AppExchange, which have enabled a rapidly growing universe of SaaS providers to create their own applications to enhance and extend the basic functionality of on-demand CRM applications.

5. Seamless Third-Party Integration

Another popular myth about SaaS is that individual on-demand applications cannot be easily integrated with legacy or other SaaS solutions. Ironically, this shortcoming is far truer of legacy applications than on-demand software services.

Legacy CRM applications have been built on proprietary platforms, such as Microsoft's .Net or Oracle's database architecture for Siebel. As a consequence, organizations often spend considerable money on systems integrators, application developers or specialized software tools to integrate multiple legacy applications and databases together that can satisfy their business objectives.

In contrast, today's SaaS solutions leverage an assortment of Open Source, application programming interfaces (APIs) and common web service architectures to permit quick and easy integration of SaaS applications.

In fact, a fundamentally different mindset exists within the SaaS movement than the legacy application industry. While legacy ISVs viewed one another as competitors and created proprietary software that intentionally limited third-party integration, SaaS providers are aggressively attempting to expand their market penetration by encouraging third-parties to link with their on-demand solutions.

For example, Salesforce.com has succeeded in becoming a major player in the SaaS market by establishing a clearinghouse of certified SaaS solutions, called the AppExchange, and a common programming language, called Apex. These initiatives have significantly enhanced the integration process within the SaaS market.

In less than a year since its inception, the AppExchange has grown to include over 200 SaaS providers offering over 400 applications. Salesforce.com also has well over 20,000 developers on the AppExchange to date.

6. Product Quality and Predictable Upgrades

One of the major shortcomings of traditional, legacy applications has been the poor product quality and the unintended disruptions which often come with product 'upgrades'.

In the Microsoft world, customers have come to expect a continuous stream of bugs fixes and patches to address an endless array of application problems and security holes. And, once an organization has gained some stability in their application performance they are hesitant to adopt a new version of the software or even routine updates for fear that they could short-circuit the application and disrupt their operations.

Microsoft is attempting to address some of these concerns by releasing a hosted version of its CRM 3.0 via its partners. However, this offering is just the same application hosted else. **Gartner has even warned its clients "to take particular care when considering [Microsoft's] hosted [CRM 3.0] option for the product because...Microsoft is not providing a shared server farm for its partners to use. Each partner will need to establish (or source) its own hosting infrastructure ..."**¹ This obviously raises concerns about the quality of service across its partner base.

Although Microsoft is promising to deliver CRM Live via its own Windows Live data centers, the company will not roll out the new service until mid-2007 in the United States and the end of 2007 in other countries. This phased, and very likely delayed, deployment schedule will not satisfy the needs of multi-national organizations that would prefer to adopt a new CRM application across their entire operation on a global basis. Even then, Microsoft admits that its CRM Live will primarily be aimed at small organizations with limited needs.

As a result, Gartner states in the same report, **"Microsoft Dynamics CRM 3.0 is best suited for on-premise deployments. [It] is not well-suited to organizations looking at software-as-a-service (SaaS) for a more comprehensive provision of business application requirements."**

These considerations are somewhat secondary when customers are forced to adjust their deployment schedules to accommodate the endless delays in the rollout of new CRM versions by Microsoft and other legacy ISVs. In Microsoft's case customers waited approximately two years for an upgrade of its initial on-premise CRM package as Microsoft ultimately decided to skip an entire upgrade round to finally bring its 3.0 version to market.

Conversely, on-demand CRM vendors such as Salesforce.com leverage agile application development techniques, and their close working relationship with customers and partners, to rollout a new version of their software every six months, at a minimum.

And, the upgrade process is uniform and unobtrusive via the web. The web-based delivery mechanism allows multi-national organizations to obtain the same version of the SaaS application and the same quality of service on a worldwide basis.

7. Achieving Compliance

One of the unintended consequences of the SaaS industry's rapid rise has been its ability to help corporate users achieve greater compliance with governmental regulations. It wasn't long ago when most corporate executives would have been apprehensive about the viability using a SaaS solution in a period of escalating regulations. But, circumstances have quickly changed.

¹ Gartner Report on Dynamics CRM 3.0; by, Brian Prentice; Research Note Number: G00142294; 08/17/06.

The corporate scandals surrounding Enron, WorldCom and other major corporations has led to a series of new rules and regulations requiring businesses of all sizes to follow stricter policies and procedures, and maintain more detailed records of their transactions and other activities. Today's regulations even require corporations to ensure a higher level of service availability.

Traditional on-premise CRM applications cannot respond to these requirements. They provide only limited built-in activity monitoring or reporting capabilities. And, the legacy ISVs cannot guarantee the availability and performance of their on-premise applications.

This is one of the biggest headaches facing businesses of all sizes. There are many applications running in organizations that were written long before today's reporting requirements were an issue. Not only did the legacy ISVs not take these compliance issues into account, they also enabled developers and value-added resellers (VARs) to restructure their applications in ways which make it impossible for the ISVs to provide consistent data back-up and activity reporting capabilities.

On the other hand, SaaS solutions enable corporations to monitor and track application usage. And, SaaS users can leverage on-demand providers who have SAS 70 and other industry certifications to store their transaction records for regulatory purposes.

The SaaS providers can also document their service availability, which often exceeds the performance of many internal IT departments, as Salesforce.com has done with its trust.salesforce.com website. In fact, many SaaS providers are offering service level agreements (SLAs) which clearly delineate their service availability and performance expectations.

8. Lower Risk and Higher Returns

As we have seen, at every stage of the software deployment and utilization cycle traditional, on-premise CRM applications have been plagued with problems. Whether it is delays in the rollout of new versions of the software or unanticipated problems installing it in specific user environments, just getting the software in place can be a frustrating process. And once the CRM application is up, keeping it running and making sure it satisfies an organization's evolving needs is a costly and time-consuming effort.

AMR Research estimates that nearly half (47%) of legacy CRM implementations have experienced significant end-user adoption problems and another 25% have failed to generate greater value than the systems that were already in place.

When an organization's business depends on the effectiveness of its CRM application, the failure rate of traditional on-premise software can no longer be tolerated. And, the efforts of legacy ISVs to provide hosted alternatives falls far short of most companies' needs because the ISVs are simply providing the same software from a remote location.

Ironically, the traditional ISVs' hosted services may even compound the risks of on-premise software because they often lack the skills, experience and proper service delivery infrastructure and procedures to ensure the availability and performance of their hosted applications.

Traditional ISVs have built their business around selling products. In most cases, they have pushed these products to market knowing that they included bugs that would have to be fixed later. Microsoft has been the most notorious in this regard and the biggest target for security attacks as a result.

The upfront licensing approach at the heart of the traditional on-premise software business has protected ISVs like Microsoft from mass customer defections because once the customer has acquired their software products, they must do all they can to justify their investment.

SaaS providers have built their business on delivering services, and as a result of their 'pay-as-you-go' subscription revenue model SaaS providers must continuously ensure the availability and quality of their on-demand applications or their customers are free to discontinue their service.

At each stage of the software lifecycle, SaaS mitigates the risks. Organizations can opt for limited deployments of a SaaS solution and then easily expand their utilization once they are comfortable with the on-demand application. They can take advantage of more frequent updates and upgrades without worrying about them disrupting their operations.

Organizations can make greater investments in more strategic initiatives to strengthen their competitive advantage by avoiding the unnecessary infrastructure, staff and consulting costs associated with deploying and maintaining traditional, on-premise applications,. They can also more fully leveraging the software functionality delivered by SaaS providers and more quickly gaining the business benefits on-demand CRM applications can provide.

Summary and Conclusions

Escalating competitive pressures posed by globalization coupled with the lowering barriers to entry created by the Internet are forcing organizations of all sizes to reevaluate their corporate strategies and IT effectiveness.

A key objective of this reevaluation process is to better understand and serve customers to ensure their satisfaction and loyalty. The promise of CRM software has been that it can help organizations achieve these business objectives. But, the reality is that traditional CRM solutions have created their own problems and failed to meet the needs of users.

Organizations can no longer afford to make due with the cumbersome and costly CRM applications of the past. Fortunately, a new generation of more robust and more cost-effective on-demand CRM SaaS alternatives has emerged.

This whitepaper has identified eight ways that this new generation of web-based applications overcome the fundamental shortcomings of on-premise CRM products and provides an entirely new dimension of business benefits.

But, it is not only the nature of the SaaS solutions which makes them more effective. It is the nature of the SaaS providers, whose entire corporate culture and organizational structure is designed to respond to customers' changing needs. As services-oriented companies, SaaS providers are working to fully leverage the power of the Internet to create closer, more collaborative relationships with their customers than legacy software vendors.

The bottomline is on-demand CRM solutions are business driven, not technology-burdened.

It is for these reasons a growing number of organizations of all sizes are adopting SaaS. In fact, ***THINKstrategies' research has found that over 90% of current SaaS customers are happy with their on-demand applications, plan to renew and expand the range of SaaS solutions they are using, and would recommend SaaS to their peers.***

This independent analysis was sponsored by Salesforce.com.

About Salesforce.com

Salesforce.com is the market and technology leader in on-demand business services. The company's Salesforce suite of on-demand applications enables customers to manage and share all of their sales, support, marketing and partner information on-demand. AppExchange, salesforce.com's on-demand platform, allows customers and partners to build powerful new applications quickly and easily, customize and integrate the Salesforce suite to meet their unique business needs, and distribute and sell on-demand apps at <http://www.appexchange.com>. Customers can also take advantage of Successforce, salesforce.com's world-class training, support, consulting and best practices offerings. For more information please visit www.salesforce.com, or call 1-800-NO-SOFTWARE.

About THINKstrategies, Inc.

THINKstrategies is a strategic consulting services company formed specifically to address the unprecedented business challenges facing IT managers, solutions providers, and investors today as the technology industry shifts toward a services orientation. The company's mission is to help our clients re-THINK their corporate strategies, and refocus their limited resources to achieve their business objectives. For more information regarding our unique services, visit www.thinkstrategies.com, or contact us at info@thinkstrategies.com.