

CRM SPECIAL REPORT:

How Low Can CRM Go?

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The major complaint about CRM is the high price of its licensed software and the even higher costs of integration, implementation and, ultimately, total cost of ownership. (The often-unexpected bites that training and maintenance take out of a IT budget come to mind.)

The hosted application model, proponents say, is the answer. Vendors like Salesforce.com, Salesnet, UpShot, ChannelWave, digiMine, WhiteCross and even such IT stalwarts as IBM and Oracle offer hosted services to business customers who want enterprise software functionality without paying the price of installing a system in-house. Many other CRM vendors, including Blue Martini and Pivotal, host their applications through independent service vendors.

The biggest irony is that too many companies focus on the hosted model for better or worse -- which, after all, is how vendors are able to deliver such low price points -- to the detriment of the application itself.

In some cases, per-user costs are as low as US\$50 per month and dropping fast. This prompts the question, how low can CRM actually go, and what can it really deliver at a monthly fee that is lower than many people's cable bill?

Untested and Still Elastic

Prices and functionality, of course, depend on the provider and the actual product. For example, UpShot's applications range from \$780 to \$1,500 per user per year depending on which features are included, according to Keith Raffel, the company's chairman and founder. "UpShot XE contains a workflow engine and APIs to connect to other applications," he told CRMDaily.com.

In general, products can range from whole CRM suites (such as Salesforce.com), to integrated CRM and ERP (enterprise resource planning) products (NetLedger, for example, offers this), to single applications, such as sales force automation (SalesNet), to more esoteric applications, such as Web-based analytics (WhiteCross and digiMine). Some vendors are even scaling down further to address the low end of the small business market.

Salesforce.com, for example, earlier this fall unveiled its Team Edition, a CRM suite stripped down to the bare essentials and aimed at companies or work groups with one to five users.

"We have seen enormous demand from this segment, but until now we have been unable to previously deliver a product at this price point," chairman and CEO Marc Benioff told CRMDaily. Team Edition runs \$995 for five users for one year until December 31st. After that, the standard price will be \$1,995.

It's the Application, Stupid

But even vendors are the first to admit that focusing strictly on price is a bit misguided. "The first concern of users is application functionality. The application has to do what the user needs," NetLedger president Zach Nelson told CRMDaily. "Then, and only then, does the discussion turn to price."

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"Hosting and ASPs, for the most part, got the value proposition backwards; they stressed the cost efficiencies of delivery and ignored depth of application, and that's why so many of them are no longer around today," AMR Research senior analyst Louis Columbus told CRMDaily. "Razor-thin applications that rested on the ASP model, many of which were aimed at small and medium business, prematurely exhausted much of the credibility they created through hype during the first few product generations."

End of Hype

The subsequent shakeout was the best thing that could have happened for both vendors and users, according to Columbus. "It made software companies focus on the depth of applications and actual user needs, not the hype of serving millions of small businesses with, at best, mediocre applications," he said.

"Salesforce.com has capitalized on this trend reversal," Columbus continued. "Their hosted applications have found a home in many companies that needed the convenience of the ASP model. IBM and Microsoft entering this arena is a natural extension of their respective product strategies. It's now incidental that IBM is delivering on a hosted model -- it's the applications that matter."

Beyond Price

To be sure, the hosted model is not for everyone. Some companies will always want to keep their applications in-house, because their customer data is too competitive and sensitive to put into third-party hands; other companies will want to customize beyond what a hosted application will allow.

But having said that, there are some very good bottom-line reasons to implement a hosted application that go beyond mere price:

1) Fast Time to Market. Implementation averages about 30 days, if that, compared with the exceedingly generous estimate of seven months to a year for most licensed applications. Enough said.

2) Cheap and Easy. Heidi Shigematsu, director of global enterprise lead development at San Francisco-based financial service company Business Engine, said her company was not hit with any unexpected implementation costs when it installed UpShot. "It went very quickly, and to this date we have not spent any additional dollars on customization or consulting," she told CRMDaily -- words that have never, ever been uttered in conjunction with a licensed software project.

3) Less Hassle. Two years ago, San Francisco-based investment bank Putnam Lovell decided for efficiency's sake to use the Internet to outsource most of its IT infrastructure and applications that were not directly related to its core competency. For CRM, it tapped Salesforce.com. "We kept our trading environment inside our firewall," chief technology officer Rodric O'Connor told CRMDaily, "but anything that didn't touch a financial transaction with a client, we outsourced for peace of mind."

All in all, the strategy and services provided have worked out well, O'Connor said. **END**

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