



Hosted CRM's Necessary Divergence

Executive White Paper

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Introduction

As the web based hosted application model has taken hold, a raft of new CRM applications has evolved to exploit the new paradigm. Like the earliest hosted applications, the latest generation of applications establishes new niches and new ways of doing business. But many of these applications differ from their earlier counterparts in the way they leverage the Internet. In fact these applications are so different from the first generation of “Web Friendly” applications that a new category is emerging that we refer to as “Web Necessary”. This Beagle Research Group *Executive White Paper* explores the growing divergence in hosted CRM between Web Friendly (WF) and Web Necessary (WN) applications and examines a few applications as well as the business impacts these applications are expected to have.

Paying by the Drink in an On-Demand World

The “Utility Model” is a term often used to describe hosted applications and the implied comparison is apt. Users of hosted CRM applications pay for their applications as they use them rather than purchasing traditional licenses. Just as a homeowner does not need to build an electric power plant to get electricity or dig a well to get water, the application user does not need to buy a license to use hosted application software. Instead the user pays a subscription fee in increments mutually agreed on by the vendor and customer. This innovation in application deployment has had significant effects — both positive and negative — on vendors and users. According to recent Beagle Research Group market research, the software vendors who have been nimble enough to adapt to this new way of doing business have been able to offer their customers order of magnitude better total cost of ownership (TCO), faster deployments, and simplified administration and management of their CRM systems.

Hosting also has a down side according to many users. For example, hosted applications typically require a connection to the Internet — either traditional wire line or wireless — which some users find inconvenient when they are out of reach of the Internet. Also, some users are uncomfortable with the fact that, by definition, their data resides outside of their firewalls at a location convenient to the vendor. On balance, however, users of hosted CRM view their experiences positively and a majority of purchasers entering the market say they will evaluate hosted solutions for their CRM needs.

Until fairly recently CRM applications delivered through the hosted model have been simple analogs of the applications that they most directly competed against such as Sales Force Automation (SFA), marketing automation, or customer service applications. In fact, the functionality they delivered was more or less identical to licensed versions of the same application types, for example SFA can run equally well in either mode. For this reason we refer to the first generation of hosted CRM applications as being “web friendly” meaning that they were well acclimated to the requirements of operating on the Internet and executing in a browser.

Web Necessary Applications

Recently a new class of CRM applications has become visible in the CRM market. Unlike other applications that have a particular business function in common such as sales or marketing, this new class is differentiated by the way it utilizes the Internet and the value the various applications are able to deliver from their closer integration with the Internet. Web Necessary (WN) applications, which this white paper describes, actually integrate the Internet as a part of the value proposition delivered to customers and differ from earlier hosted applications in several important ways:

- They involve the Internet as an active part of the value proposition
- They support innovative business processes that in most cases could not be easily supported any other way
- They are collaborative, bringing together people from disparate roles, geographies, and organizations to participate in these business processes

The Integral Internet

WN applications use the Internet for more than a simple transport mechanism. Whereas conventional WF hosted CRM applications behave much as they would if they were behind the firewall, WN applications leverage the Internet to deliver value beyond simply transporting data. For example, by hosting an application and making it available on the web to multiple users WN applications can bring together experts from diverse geographies, specialty areas, and time zones in synchronous or asynchronous collaboration. WN applications have also spawned many new business processes that frequently have no direct analog in the non-hosted world because the Internet is such an integral part of their value proposition that it is either impossible to deliver the same functionality from behind a firewall or the service delivered would be significantly degraded.

Many of the business processes we have observed are marketing related though there is no stipulation that marketing be the only application area capable of leveraging the WN paradigm. Nonetheless, marketing may be one discipline that is particularly well suited to take advantage of the benefits of hosting and the WN paradigm in particular.

Marketing Under a Microscope

Of the three major application areas in the CRM suite — sales, marketing, and service — marketing has been the perennial stepchild at least in part because the results of marketing's business processes are so hard to quantify in dollars. Sales systems have their own justification — they help organizations make money and the same can be said for service applications because they help organizations save money. In each discipline computing a return on investment (ROI) is fairly straightforward. But marketing applications neither save money nor do they directly make it; they assist in spending money for projects that often fail to show direct returns and marketing programs are often the first things cut during lean times. Although marketers have become adept at squeezing every resource, some executives still muse about the old marketing adage: "Half my marketing budget is wasted, I just don't know which half."

WN applications are cost effective relative to the costs of analogous manual business processes and relative to the cost of traditional licensed applications. The innovative business processes they support fit marketing's needs well. For example, WN applications frequently support business processes that involve multiple people potentially working in different locations and different times — a good fit for marketing departments that may outsource design, collateral development, survey work, public relations, and other specialized tasks to subcontractors. Taken to a logical end point, this enables business processes between company employees and non-employees in an ad hoc collaboration that can go well beyond conventional geographies and provide users with access to a greater number of resources.

A New Business Model for a New Century

The fact that this new application type is coming to market says a good deal about changes that are beginning to surface in the economy as a whole. According to a new book, *The Support Economy*¹ by Shoshana Zuboff, professor of business administration at Harvard Business School and James Maxmin, an investment banker, the 20th century business model based on production and transactions is giving way to a new model. The old model is based on productivity standards that emanated from the auto industry. The evolving 21st century model focuses on individuals and the fact that each person expects to be treated in a unique way based on that person's unique needs. So SFA

¹ *The Support Economy: Why Corporations Are Failing Individuals and The Next Episode of Capitalism*, by Shoshana Zuboff, James Maxmin. © October 10, 2002, Viking Press.

systems that offload administrative tasks so that a sales reps can attempt to deliver the same product or service to more people will not be as successful according to Zuboff and Maxmin as systems that helps organizations understand specific customer needs and then support employees in delivering unique solutions. Such a system is collaborative by its nature and seeks to draw out the needs that make the individual unique and frequently the solution to the unique need must come from a collaboration of sources.

This is not the first time this message has been delivered. In 1995 Don Peppers, Martha Rogers along with Kim Clark of Harvard business School, made a similar point with the idea of the “learning relationship” in their book *The One to One Future: Building Relationships One Customer at a Time*. The difference today is that there is a growing collection of technology available to enable the theory to become practice. With the innovative and collaborative business processes that WN applications enable it is reasonable to expect that WN applications will have a great deal to do with enabling the new 21st century business processes that Zuboff and Maxmin envision.

Examples of Web Necessary Applications

Many of the new applications coming to market today can be thought of as web necessary, though few if any of their developers would admit to building applications specifically within this paradigm. The sample of companies described here was discovered in our routine studies of the market and no vendor identified here was solicited for inclusion in this report, nor did any pay a fee.

Build Customer Focus Groups

Communispace, (www.communispace.com) a Boston based company specializing in online customer communities, provides an application for companies that need deep and instant market research and a constant stream of customer feedback such as consumer goods companies and many others. The analog alternatives of this application are either traditional focus groups or community portals sponsored by a company. But focus groups are fraught with problems of small sample size, economic inefficiencies, and an inability to circle back to participants once the focus group is over. By the same token, sponsored community portals can provide fast results but they lack a true sense of independence and some people may not feel entirely free to speak their minds in such a situation. The participants in these portals are anonymous, and thus it is difficult for marketers to interpret what they are saying, and the resulting insights tend to be superficial. By using the Internet to provide a WN environment for private networks of targeted customers, Communispace has redefined the business problem and delivered a higher value solution. Companies that use Communispace are able to access a customized community of target customers on a frequent basis and receive credible market insight in

hours rather than weeks. The result is the potential for a faster and more iterative collaboration with customers on product design, pricing, programs, and more.

Store and Access Marketing Resources Repository

Leopard, based in Boulder, CO, is a marketing communications company that developed an online repository for marketing content, resources, imagery, information, source files and final materials. In its experience in marketing communications, Leopard observed that often companies would lose or misplace source files for marketing materials causing the company to redevelop the materials — an expensive proposition. Further, content and materials that already existed were often inaccessible to disparate sales and marketing organizations within the company causing the redevelopment of materials resulting in a diluted control over marketing messages and brand consistency in the marketplace.

Leopard em is a web-based marketing resources repository that can act as a central source for the management and distribution of materials developed by marketing. By making marketing materials available online, users around the world can collaborate on projects and a company can maintain better control of its marketing messages and its marketing budgets. In addition, sales users and other constituents have 24x7 self-service access to the materials they need, delivered in printed format or electronically via direct download, email or CD. It has built-in analytics to help marketing professionals better understand use of materials and to help them manage their budgets.

Leopard em also interfaces with corporate websites and databases, giving marketers an automated way to publish up-to-date materials to multiple information sources, such as the sales and partner portals. The result is that materials are never lost, they can be inexpensively fine tuned to the specific needs of a sales opportunity and distributed to the sales force and partner community the instant they are published.

Survey a Market Faster

CustomerSat, a company located in Mountain View, CA, is one of several companies that provide software for building and hosting online surveys. This hosted application enables users from any location to develop, support, and analyze quantitative market studies. The alternatives could be direct phone surveys, which tend to be expensive or paper based surveys administered through the postal service that can take weeks to administer and analyze. With CustomerSat's online capability companies can reach out to their customers with detailed questions and have quantitative results in a few days to a few weeks. The system's built in analytics make it easy to cross tabulate and follow trends — two very time consuming processes that the online system makes routine.

Enhance Indirect Channel Sales and Marketing

BlueRoads of San Mateo, CA, produces applications that are specifically tailored to the needs of complex sales channels including the original manufacturer, distributor, reseller, and channel person. Unlike conventional Partner Relationship Management (PRM) software that primarily manages the interface between the manufacturer and the first line of the channel, BlueRoads' solution delivers lead information directly to the sales people most qualified to manage the lead. The system also captures feedback information from the field and using analytics collates it for managers to use in fine-tuning strategies and programs. Naturally, in a dynamic indirect sales channel, there is a great need to move information in a timely way so that no sales lead, for example, be allowed to go cold. Research shows that when organizations make attempts to manually duplicate this robust environment, they fail because information flow is simply too slow. BlueRoads' approach is to leverage the Internet to make the information flow as instantaneous as possible both within a channel and across stovepipes. For the first time, OEM's and distributors have a reliable way to proactively see into the activities of their channels rather than simply waiting for results at the end of the quarter.

Improve On-line Selling Results

Proficient Systems of Atlanta, GA, capitalizes on the Internet's unique attributes to enable Financial Institutions ("FIs") to close more business through their e-commerce sites. While many FI e-commerce sites are very popular, they generally do not generate the direct business their sponsors expect. Instead of applying for loans online, purchasing investments or insurance policies, or signing up for online banking, most consumers research offers online, but use a different channel to make a purchase or submit an application after their Internet research is completed. Frequently, consumers research loans and other financial products on one site but transact with another FI. Some of the reasons for this lack of "stickiness" can be traced to unfamiliarity with both consumer and technical information about financial products or the Website — in other words, consumers need help.

The Proficient *Sales Server's* real-time analytics identifies the best prospects relative to the available pool of browsers. This capability provides real-time scoring of each visitor as compared to the alternatives. Finally, the system matches the best-qualified representatives to specific customer needs and uses co-browsing and chat technologies to communicate with people browsing the site. So, for example, specialists in 30-year adjustable rate mortgages work only with customers who need such products. Early results indicate that the Proficient solution provides more than 80% lift over sites not utilizing this technology.

Build a Virtual Team

ePeople, of Mountain View, CA is changing customer service and support. Customer service is a good example of the front line in the business model changes now taking place. Customer service is highly oriented toward a factory automation model — productivity is measured in how fast workers (or automated systems) can distribute available information to solve problems. But the current model does nothing to support the unique needs of a high value enterprise customer with a unique problem. The ePeople solution automatically searches information mechanisms such as email and instant messengers as well its own knowledge store for known solutions. If there are no close matches ePeople organizes a cross-functional team and recommends the best people to work on the problem. The system knits together the team capturing not only the solution to the problem but the steps that went into crafting the solution. The solution also captures the context to these threaded discussions so organizations can continually improve processes and productivity. Once a resolution is achieved ePeople's knowledge store is updated with the new problem and solution.

It's Not Who You Know, It's Who Knows You

Numerous companies such as **Plaxo**, Mountain View, CA, **Spoke**, Palo Alto, CA, and **Interface Software**, Chicago, IL, have developed social networking technologies that help companies involved in sales processes to locate and contact decision makers. Others such as **Friendster**, Sunnyvale, CA focus on facilitating introductions for strictly social reasons like dating. Social networking may be the archetypical WN application type. While each product addresses a somewhat different niche, as a class social networking applications attempt to enable effective networking among people who may be strangers but who, nevertheless, have common contacts. Many social networking sites function as Web based utilities that anyone with a browser can long into and share contact information with. These applications enable a degree of transparency and efficiency in discovering relationships that is hard to imagine without technology. The net result is faster and more reliable introductions and accelerated sales cycles.

Beagle Research Analysis and Conclusions

With the success of numerous hosted CRM vendors, it is fair to say the hosted paradigm has been proven and now the next stage in the evolution of applications delivered as a service has arrived. The new generation of Web Necessary applications makes more highly leveraged use of the Internet to deliver value well beyond low cost which has been the hallmark of Web Friendly applications. This new generation of hosted applications points out a new direction for collaboration and outsourcing across business processes, especially though not exclusively for marketing departments seeking ways to get closer to customers and stay within budgets.

Dynamic pressures in the market, especially the individuation of each consumer, are changing the ways customers will allow themselves to be sold to. Collaborative, innovative solutions supported by dynamic applications that can bring together multiple people to provide customer solutions will do a lot to shape 21st century business processes. WN applications may be the leading edge of applications capable of supporting the changes we envision.

It remains to be seen whether or not the companies that have developed these applications will remain viable in the long run. Many but not all of the WN companies offer only a single application and the situation is reminiscent of the early CRM market in which there were many companies that offered only SFA or only customer service applications, for example. Many of those single use application companies disappeared in a wave of mergers that resulted in the enterprise CRM suites we know today.

WN companies that survive the inevitable winnowing process will need two factors in their favor — a strong niche in which to differentiate their offerings and a greater than average commitment to collaboration with their customers through professional services. Many of these applications are as much about technology as they are about providing domain expertise down to the end user. One consequence of this approach will no doubt be that the fees charged for application services will be small in proportion to the steady stream of professional services revenue generated by practitioners who rely on these systems to deliver value.

Beagle Research Group is a consulting and research organization focused on emerging companies and technologies that will have an important impact on the way business is conducted in the years ahead. Our work is based on professional standards of quantitative and qualitative research which informs all of our publications.

*This document was researched and written by Beagle Research Group.
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