On-Demand CRM Will Mature in Four Generational Steps

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Despite the market hype, customer relationship management functionality from the on-demand CRM vendors is a commoditized set of capabilities with little competitive business value. During the next six years, three new generations of products will bring improvements.

WHAT YOU NEED TO KNOW

The customer relationship management functionality in the current generation of on-demand CRM products offers little competitive value to business. Improved graphical user interfaces, lower maintenance complexity and reduced upfront costs mask the limitations, which include poor integration, low transactional capabilities and rudimentary real-time decision support. As the products improve in the subsequent generations, business must involve the IT organization, because IT will be essential to closing product gaps, ensuring that security features are solid, and enabling the system to integrate with other enterprise or partner systems. Business users should resist the temptation to work with on-demand providers directly. The internal IT organization must be a part of the process.

STRATEGIC PLANNING ASSUMPTION(S)

Through 2007, 70 percent of the organizations that adopt on-demand CRM components will do so with commoditized functionality and limited integration (0.7 probability).

By 2010, 20 percent of on-demand CRM customers will achieve third-generation capabilities (0.7 probability).

ANALYSIS

Most of the customer relationship management (CRM) functionalities delivered by prominent on-demand (see Note 1) providers will be commoditized and offer little competitive value to business. The products are an improvement on stand-alone, inflexible graphical user interfaces (GUIs) atop unsynchronized databases. These new-generation products are Web-based and service-oriented, with intuitive interfaces. However, in the long term, the total cost of ownership (TCO) of these offerings won't be much better than on-premise software, and the functionality won't give you a competitive advantage.

The advantages of lower maintenance complexity, decreased upfront budgetary outlays, and reduced islands of information mask the reality that these on-demand products are no less expensive over five years than the systems they replace (such as Act!, FrontRange, Sage and Saratoga Systems) and are no more effective for the sales force. Through 2007, 70 percent of the organizations that adopt on-demand CRM components will do so with commoditized functionality and limited integration (0.7 probability).

This does not hold true for marketing relationship management (MRM) systems. (For an in-depth analysis of the marketing automation space, see "Eight Reasons to Consider Hosted or On-Demand MRM Applications.") Many of the MRM vendors offer hosted and/or on-demand models, some of which have robust capabilities. However, most of the upper-end MRM applications are expensive on a monthly basis, and they tend to be hosted, rather than on-demand. These tools have heavy customization and more configurability than most CRM offerings.

The market is in an intermediate phase, with software providers such as Entellium, RightNow Technologies, Salesforce.com, Sage and dozens of others helping a new generation of buyers replace their legacy systems. However, the current generation of on-demand CRM productS fails to improve on the basic functionality of the previous generation in sales and service. To improve sales or service effectiveness, for example, on-demand CRM products require:

- Power-threaded e-mail and presence detection

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- Built-in decision support capabilities

- Advanced workflow

- Strong integration tools for internal legacy systems and external, service-oriented products

- Business process modeling

- Cross-departmental functionality

- Multilingual design capabilities for all components, including custom components

- Transactional e-commerce engines

New on-demand products lack most of the deeper capabilities, but the providers tout the lack of these functions as strengths — the better to allow for partnerships with best-of-breed experts, and to provide modularity and flexibility. However, Gartner believes that, without these features, none of the current set of on-demand CRM vendors will be independent in 2012.

The First Generation of On-Demand CRM

We see these solutions evolving during the next five years. The first generation of on-demand CRM products, which are currently available, enable basic competence. In this generation, initiatives are departmental and siloed (for example, in the sales organization). The technology delivers basic sales force automation (SFA), basic customer service, limited field service and/or marketing functionality. There is limited IT involvement because minimal integration and customization are required. The TCO for such solutions averages $75 per user, per month.

We believe that 90 percent of the users of this generation of product are well-matched to the products, because they're looking for non-complex solutions that can be provisioned and maintained with little IT consultation or ongoing support. Table 1 provides an overview of the product generations.

Table 1. Generational Overview

	First Generation: Basic Competence	Second Generation: Functional Effectiveness	Third Generation: Intraenterprise Integration	Fourth Generation: Business "Ecosystem"
Strategy	• Departmental or siloed • Baseline capabilities	• Departmental or siloed • Competitive differentiation	• Cross-departmental • 360-degree view of the customer	• Collaborative processes among multiple enterprises
Technology	• Limited to no configuration and customization • Limited to no integration	• Configuration and customization required • Integration with applications and data	• Business process modeling • Customer data integration	• Broad availability of application services
Adoption				
2005	90%	10%	0%	0%

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2007	70%	20%	8%	2%
2010	40%	30%	20%	10%

Source: Gartner (November 2005)

The Second Generation of On-Demand CRM

During the next two years, two factors — organizations becoming more comfortable with on-demand software and improvements in service-oriented applications — will lead another 20 percent of user organizations to consider integrating enterprise data and third-party on-demand CRM applications into their CRM solutions. This move to the second generation will help incorporate customizations and business intelligence (BI), which will enable competitive differentiation through a focus on functional effectiveness. Although the deployment is still departmental, there will be integration requirements with other customer data repositories and across communication channels.

Organizations will incrementally improve their functionality through customization or integration with third-party CRM applications. This will raise their TCO to $100 per user per month, and will also require the use of the on-demand provider's professional-service teams, which drives up project costs.

Third-Generation On-Demand CRM

The move to third-generation solutions involves cross-departmental coordination, business process modeling and customer data integration. The goal of this generation is to provide a 360-degree view of the customer to all customer-facing organizations, as well as real-time decision support tools. By 2010, 20 percent of on-demand CRM customers will achieve third-generation capabilities (0.7 probability). The hidden costs that will drive the price of implementing and supporting each user to more than $175 per month will be the tools to integrate cleansed customer data and use it to model marketing, sales and service processes.

Fourth-Generation On-Demand CRM

The fourth generation assumes that there is broad availability of functionality through application services. It also depends on further advances in service-oriented architecture (SOA) standards. In this environment, the organizations will evolve from a focus on the CRM systems and processes inside the enterprise to the broader business ecosystem that assists suppliers and selling partners. We anticipate that only 10 percent of on-demand CRM organizations will want or need this level of sophistication.

Fourth-generation on-demand CRM will carry an average cost of more than $300 per user, per month, when assessed from a five-year perspective. The source of the additional costs will be the integration of multiple communication channels (such as the Web, telephone, wireless and high-transaction call center), as well as the integration of collaboration tools, security and associated business process workflow, and BI.

The Third Generation Will Require External Service Providers

Companies looking for second-generation or higher on-demand CRM capabilities will discover that IT organizations, on-demand providers and professional-service partners will have only the most elementary collaboration capabilities, lacking a mutually agreed-on architectural plan to fill functional gaps and perform integrations. Although each group may execute well, because of a lack of coordination among groups, the end project will be unlikely to meet customers' requirements. We expect to see significant losses in productivity and efficiency of the sales, service or marketing organizations, resulting from poorly designed products and processes.

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Fully identify and document complete CRM requirements with a three- to five-year planning horizon to maximize end-user productivity and minimize IT TCO. Effective on-demand CRM projects will involve a focused mission statement, clearly defined policies and procedures, and approaches for working with customers. Vendor-provided professional-service teams often suffer from one or both of these problems:

- Too few trained resources

- Too little geographic and industry exposure

Move Forward Cautiously, Using a Strong Checklist

The top issues that an enterprise must examine when assessing on-demand vendors are:

- The viability of the on-demand provider

- Functional compatibility of the offering

- Competency of the professional-service staff

- Customer service and technical-support performance

- Security

- Integration

When contracting with these providers, companies should include representatives from their IT organization and follow a defined evaluation and selection process:

- Identify the right solutions and suppliers

- Ensure integration with on-premise systems and that the legacy data is specified properly

- Negotiate favorable terms and conditions (see Note 2)

- Ensure adequate security

- Ensure adequate disaster recovery

We recommend that business users resist the temptation to work with on-demand providers directly. The internal IT organization must be a part of the evaluation and deployment process.

Key Issues

Which emerging technologies will have the most impact on software users, vendors or markets?

Note 1

On-Demand CRM

The specific definition for "CRM on demand" is the delivery of pre-configured CRM software from a remote location over an IP network as part of a subscription-based outsourcing contract. In the on-demand model, a user organization signs up for a subscription that includes a pre-set number of user IDs with an on-demand vendor. This vendor then enables the users to access the service. Often, configuration, security setting and integration are required to personalize the service to a company's needs before the formal rollout. Once rollout is complete, users have access to the service without the need to install software or a database.

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Note 2

Contracting and IT

Lured by seemingly simple contracts and ease of project startup, business units often bypass the IT organization when contracting with on-demand providers. This can result in contracts that don't align with corporate IT strategies. Gartner believes that, despite the attraction to business units, it is still prudent to involve the IT organization.

Acronym Key

BI	business intelligence
CRM	customer relationship management
GUI	graphical user interface
SFA	sales force automation
SOA	service-oriented architecture
TCO	total cost of ownership

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