THE OVER THE HILL GANG.

As more customers embrace a new generation of CRM applications, some old stand-bys face uncertain futures.

Written for CRM Magazine by Dick Lee

What an exciting CRM software race it's been. First a whole group of CRM applications roars off the starting line and breaks away from the pack. Then one pulls ahead, threatening to lap the field. But suddenly, competitors start catching up, and now they're within striking distance. It really *is* turning into a race, after all, despite some premature "we won" talk by several grandiose vendor execs, subsequently echoed by careless analysts who do their research reading press releases.

And now it's down to the final laps, and the jockeying for position grows more and more intense. Spinouts and wall slams have narrowed the field substantially, and several among the final contenders are looking less than road-worthy, but no matter now because the finish line is finally in sight. Everyone in the stands is glued to his or her seat—or so we're sure—waiting to see which emerges first into the final straightaway. But as we look up from the action momentarily, we see a shocking sight. The audience, a good part of it anyway, has already left or is leaving—without waiting for the climactic moment. Of course, audience or no, this race will have a winner. But to paraphrase the words of a "beat generation, existential comic, the winner is about to get the checkered flag to the sound of one hand clapping, at least figuratively speaking.

Many CRM software customers are paying less attention to the competition between the "old stand-bys" and looking elsewhere.

Where are all these footloose CRM software customers going? Many are leaving to view a different race. They're more interested in the Grand Prix type competition where the players have to adapt to the unique curves of the track, rather than barrel around an oval course with a deafening roar at ear-splitting speed. They want to see winners win with nimbleness and finesse, not by pouring every power-enhancing feature under their hoods until it takes ten software sales representatives with fat

commission checks standing on said hoods before they'll close. Precision driving and adaptability to the curves of the track are taking precedence over raw power.

Others are leaving because no matter who wins, they can't afford to pay the winner's fee to run on their track—among these many middle-market customers for whom moto-cross is more their speed. And yet others are leaving because they don't care who wins this competitive race—or any competitive race. They'll settle for an unknown team that will cozy up to them and get to know them in ways the stars of the competitive circuit never would. But whatever their reasons, these CRM customers are all departing in search of "something different." And as they're leaving, they're redefining the CRM application software market heretofore defined by leading vendors.

Customer migration away from high-profile applications is mistakenly attributed to the recession...and the slow recovery.

To make matters worse for these high-powered competitors, the customer migration towards "something different" has gone unnoticed for some time. Or to be more precise, the absence of customers surely has been noticed—but mis-attributed to the bad economy. But of course it's the economy's fault. It's always the economy's fault. Until the economy starts picking up but business doesn't—at least not nearly as fast.

But wayward audience notwithstanding, there they sit—these high-powered competitors that made it all the way through this race—Siebel and PeopleSoft, Oracle and SAP, Onyx and Pivotal, and SalesLogix and FrontRange (GoldMine) having their own little mini-race. Plus we can still see Clarify, which ran out of gas before the finish; E.piphany, which started too late to catch up; and Remedy, which inexplicably coasted onto the infield just when they started to move up. All of them wondering, "Where's our glory for competing so hard?" And, "Where's all the damn prize money?"

Backs turned, leaving the venue. That's where it is. Checkbooks walking away in search of "something different."

Surprising as it is, that this race for CRM software market dominance would end this way should not be so surprising. We've seen it happen before. Over and over again over the past twenty years. When sellers stop listening to buyers and start patronizing or mistreating them, customers walk. Only today, with chronic over-supply in most business sectors giving customers the power of choice, disregard customers and they walk much sooner, much faster and much further.

Now—I'll bet you're curious where these CRM software customers are taking their business. So am I. Although it's safe at this point in time to write about the audience leaving the oval track in increasing numbers—just look at the revenue numbers being

reported by Siebel and other race contestants if you have any doubt—we'll have to "crystal ball" it a bit to see where they'll wind up. But it's not like handicapping the Indy 500. Because the customer migration away from the traditionally dominant CRM vendors is occurring gradually, over time. Early defectors are already declaring their winners, and if we look carefully at what customers are buying, we can see the pattern developing.

What *are* CRM application customers buying? Just what they've been telling consultants and software sellers alike for a good while they wanted. Just what they told us in the recent customer satisfaction study, "Multi-function CRM Software: How good is it?"[1] When asked about the relative importance of individual components of functionality, they responded:

- Meets our CRM needs .91
- Adaptable to business processes .82
- Full-featured solution .73
- Excellent reputation .62

Not a good time to be relying on breadth of pre-built functionality and reputation, as the old stand-by vendors are doing. Not when customers favor applications designed to fit *their* company—fit their business strategies, fit their workflow, fit their user sophistication level and fit into their native systems environment. And since no two companies are alike—not even two companies in the same industry—*adaptability* is what more and more customers are after. Not shovel-loads of pre-packaged functionality, but small building blocks and big tool sets.

Oh, and one more "fit" requirement. The system had better fit their budget, because the new breed of CRM software customers isn't about to pay for shovel-loads of functionality they'll never use—gobs of functionality that radically increase customization costs because every fixed feature is potentially a barrier to where customers want to go. Reflecting that, only ease of implementation and customer focus (how ironic the CRM industry) drew lower customer satisfaction ratings than pricing in the "Multi-function CRM Software" study—and the dissatisfaction was almost as high with value delivered as with absolute cost, reflecting customer opinion that they're paying too much *and* not getting the benefit of their high spending.

So where else than to the old stand-bys can CRM software customers go to have it *their* way? If you believe the traditional vendors, they have nowhere else to go. But

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[1] "Multi-function CRM Software: How good is it?" Dick Lee, David Mangen, Bob Thompson, 2001, HYM Press.

don't believe them for a minute, because a mix of new players and newly popular, formerly second tier players are flashing on the radar screen.

J.D. Edwards, Optima Technologies, Salesforce.com, and Microsoft—among others—stand to gain from the changes in CRM software buying patterns.

J.D. Edwards: Having purchased from the former YOUcentric a CRM application architecture that ranks at the very high-end of the adaptability scale, then leveraged it with a common data model that reduces the need to replicate front-office and back-office data all over the enterprise, JDE has successfully launched its new CRM rep in the depths of our mild recession. Plus, JDE's focus on below enterprise-size implementations positions it midstream in the customer migration. It's hard to imagine enterprise system sellers including PeopleSoft, Oracle, SAP or Siebel dropping their prices dramatically below current levels—without first taking a meat ax to their systems. Otherwise, some full-freight enterprise folks will have some choice words for them. Oh, and if you're wondering whether JDE's appeal is limited to its previous back-office implementation sites, according to Director of CRM Product Marketing Joel Reed, "70% of JDE's CRM implementations are to new customers."

Optima Technologies: They've complemented their core CRM app, ExSellence, with a bevy of intensive functionalities that work both within and without the core system. Industry analyst Jim Dickie of Insight Technology Group describes it as a shift from the "mile wide but only a foot deep capability" of the past—which is being replaced in part by "tools that are only a foot wide, addressing just a single process or sub-process of the CRM challenge."[2] The combination of basic tools together with drill-down capabilities to support certain narrowly defined requirements gives Optima a differentiated profile in a largely undifferentiated market. With an architecture bearing an uncanny resemblance conceptually to JDE's (although developed earlier and independently), Optima is moving from the periphery of the market to the sweet spot. Or is that the customers moving, not the company?

Salesforce.com: Starting with a base of affordable sales force automation functionality, by the mid-2002 this app will expand to include customer service and marketing operations functionality. Scalability will also increase, and functionality for disconnected remote users will come on line, claims company VP Marketing Cary Fulbright. Although as an ASP, Salesforce.com's application will never offer the adaptability of customer-hosted apps, many small- to mid-sized businesses (SMBs in current jargon) with relatively straightforward selling processes find it to their liking. And according to the folks at Jupiter Media Metrix, "Spending on CRM software by

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[2] "CRM 2002 – State of the Marketplace Review," CRMguru.com, April 4, 2002.

SMBs will reach $651 million make up 19 percent of the market by 2006."[3] Nice, when the old stand-by systems are too cumbersome and too expensive for this niche.

Microsoft: What's about the first thing a CRM consultant sees when getting out into the field? Nefarious Excel and Access programs performing critical tasks, but forming islands of data. Hey, fully tie the Outlook calendar to contact records, stick a relational database under the hood and bridge the information islands over the web and through remote synchronization for disconnected users, and many SMBs have the technology support they need to overcome constraints in dealing effectively with customers. According to CRM analysts at Aberdeen Group, "Microsoft is redefining the entire CRM and e-business market, and it is happening faster than most companies recognize."[4] A bit extreme? Perhaps. But tone that statement down by 50%, and you still get the feeling that some long-time CRM players are racing on a slippery track.

So that's my endgame scenario. But this "winners" list could get lots longer. For example, Dickie mentions as up and coming, specialized function players Deuxo in lead incubation, Eloqua in call center optimization and New Channel in web site optimization—and MobilePoint in property and casualty insurance, SellTis in industrial equipment sales and ScenarioNow in financial service sales (where Optima also has a presence) as rising point solution players.

And how are the old stand-bys reacting to all the new competition? Dickie describes them as "acting like deer in headlights, changing their strategies every week or not having game plans at all, while newer and more focused players are still making sales." And veteran CRM consultant and former analyst Chris Selland, now of Reservoir Partners, underscores the competitive threat, saying, "Companies that stop and do their business analysis—which everyone knows they *need* to do before even thinking about software—will often find themselves with a much better fit from the 'new guys' in CRM."

But lest we think the traditional industry players are totally asleep at the switch, even Oracle is now talking about leaving the bells and whistles race and going for extensibility instead. And if that leopard can change its spots, this whole market could be in for one, wild roller coaster ride.

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[3] "Enterprise Software Adoption in the SMB Market," Jupiter Media Metrix, February 2002.

[4] "Microsoft: Changing the Face of CRM," Aberdeen Group, November 2001

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At what cost comes out-of-the-box functionality?

	Traditional Players	New Wave
Adaptability	+ Powerful toolboxes – Lots of built-in structure – Encourages user to use "best practices"	+ Powerful toolboxes + Less built-in structure + Encourages user to use native practices
Ease of implementation	+ Start with lots of functionality - Difficult to add functionality not native to application - Tendency to use marginal value functionality - Preset functionality gets in way of adaptation	- Start with less functionality + Easier to add functionality not native to application + Less temptation to use low value functionality + Few barriers to adaptation
Implementation cost	- Expensive to adapt. - Major hardware investment - Major training expense	+ Easier to adapt. + Relatively low hardware cost + Relatively easy to use
Ease of integration	- Complex system and data integration	+ Less structural integration, more communicating
Operator issues	- Complex for users with over-abundance of functionality - Often low compliance	+ Easier to use with less interface clutter + Easier to gain compliance