Customer Relationship Management:

Mid-Market Holds Surprises

June 2002

Aberdeen Group, Inc.

Aberdeen Group is a leading IT market analysis and positioning services firm that helps Information Technology vendors establish leadership in emerging markets.

Aberdeen Group performs specific projects for a select group of domestic and international clients. Each project requires a combination of strategic advice and pragmatic, experience-based action plans. Assignments range from corporate and product positioning and organizational planning to in-depth market segment research. Aberdeen consults on mergers and acquisitions, corporate positioning and investor relations, and transaction-processing benchmarks; in addition, it offers special expertise in software and midrange computer markets.

In carrying out assignments, Aberdeen uses a proprietary, comprehensive, analytical framework providing fresh insight into the complex future of computing and communications, both from technological and market-dynamics perspectives. Aberdeen also offers retainer-fee programs to a group of continuing clients.

Aberdeen principals and staff are recognized industry figures with hundreds of years of combined high-tech industry, research, and financial community experience among them. They are quoted extensively in industry trade and business publications. Each staff member is a frequent conference and seminar speaker.

In addition to client-related research and consulting, Aberdeen publishes several periodicals, Aberdeen Viewpoints, and Profiles, which summarize its analysis and research findings.

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Chapter One: **Survey Background**

Between April 9 and May 9, 2002, Aberdeen conducted an end-user-based survey on Customer Relationship Management (CRM) applications.

Aberdeen defines CRM applications as software that deals with direct interaction between the customer and the vendor organization. Appendix B offers a full list of CRM subsegments.

The survey base consisted of Aberdeen's Technology Forecasting Consortium (TFC), an end-user advisory council that assists in early identification of technology trends and buying intentions. Members of this council include chief information officers (CIOs), chief technology officers (CTOs), and other senior Information Technology (IT) executives.

The data in this report is based on input from 42 respondents. Although the study size does not permit the use of statistical analysis, Aberdeen does believe the study accurately represents the CRM market and provides a number of insights into the future of this dynamic application category. We have combined the raw data from the survey with additional observations gained from Aberdeen's ongoing CRM research practice. Due to rounding errors, all pie charts may not sum to 100%.

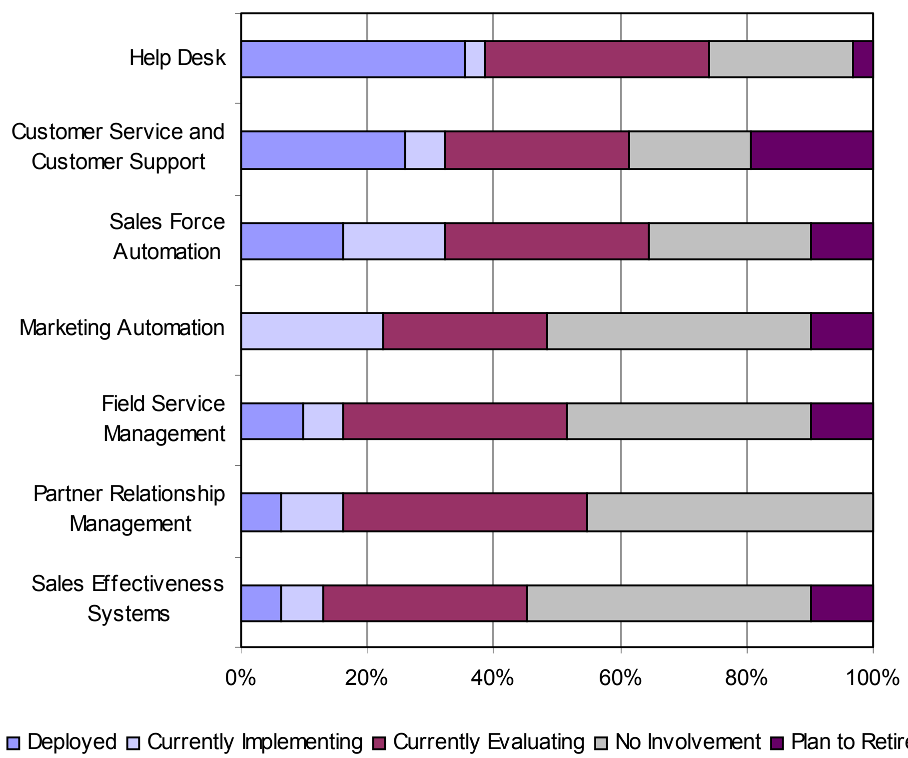
Chapter Two:
Survey Results

Aberdeen designed the survey to address a number of basic questions about user knowledge, usage, and acceptance of CRM applications and tools.

The results of the survey are described below, along with Aberdeen's observations and conclusions.

The first question asked by Aberdeen was:

Figure 1: What is your firm's involvement, if any, with the following CRM applications?

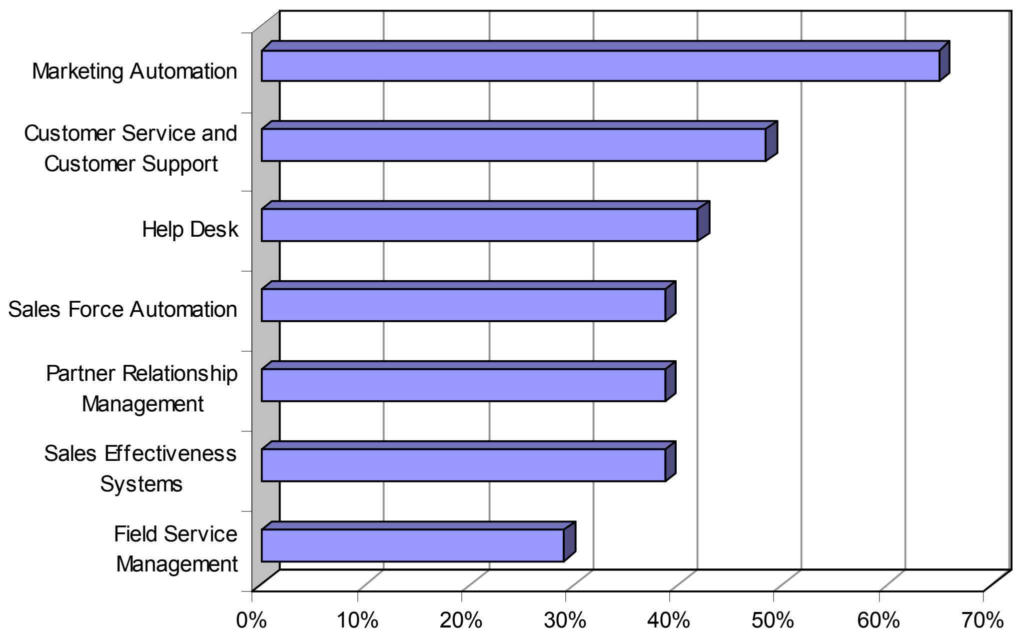


Source: Aberdeen Group, June 2002

Aberdeen has two takeaways from this question. The first is that the top two application areas: Help Desk, and Customer Service and Customer Support, are concerned with maintaining existing customers and business processes rather than acquiring new business. These two application categories are designed to cut costs in order to achieve a return on investment (ROI), which historically has been an easier argument for proponents to make.

The second is the fact that Marketing Automation (MA) registered no currently deployed solutions among the sample population. Although this clearly is not true for the industry as a whole and is more a reflection of the small sample size, it does indicate that MA lags behind Help Desk, Customer Service and Customer Support, and Sales Force Automation (SFA). Again, this points to the fact that there is less hard evidence and/or caché behind a marketing-based CRM initiative than one based on service or sales.

Figure 2: Please indicate if your firm intends to purchase the following CRM solutions over the next 12 months.

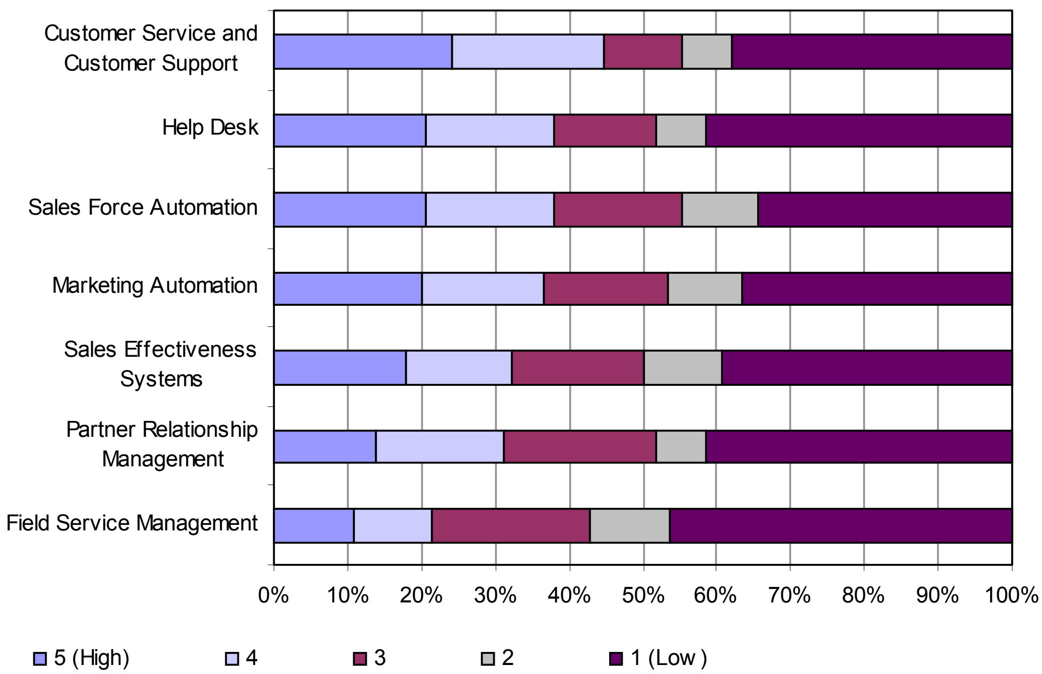


Source: Aberdeen Group, June 2002

The most significant finding here is that MA is ranked number one in users' intent to purchase. This point is reinforced by Aberdeen's quantitative measurement of supplier revenues over the last two years. It is also important to note, however, that with the exception of Field Service Management, which has a distinct set of specialized functionality and demand curve, every other application category was closely bunched between 38% and 48%. Aberdeen believes that this is indicative of the growing demand for integrated application suites. This also points to a converging of functionalities between

SFA, Partner Relationship Management (PRM), and sales effectiveness systems (SES).

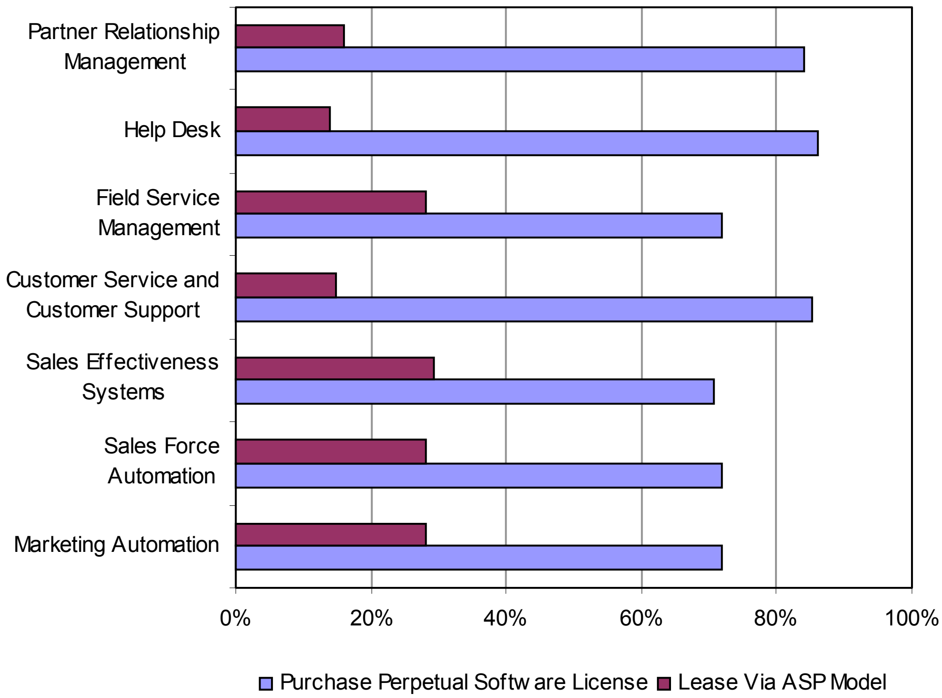
Figure 3: Please rank the priority of the purchase as low priority (1) to high priority (5).



Source: Aberdeen Group, June 2002

Confirming previous points, the first four categories (Customer Service and Customer Support, Help Desk, SFA, and MA) are those that have consistently been demonstrated to deliver value to user organizations. The next two categories (SES and PRM) are relatively new technology areas that have yet to be proven on a large scale. Finally, FSM applications apply to a sub-population of organizations— those that manufacture and need to support physical products at the customer's site.

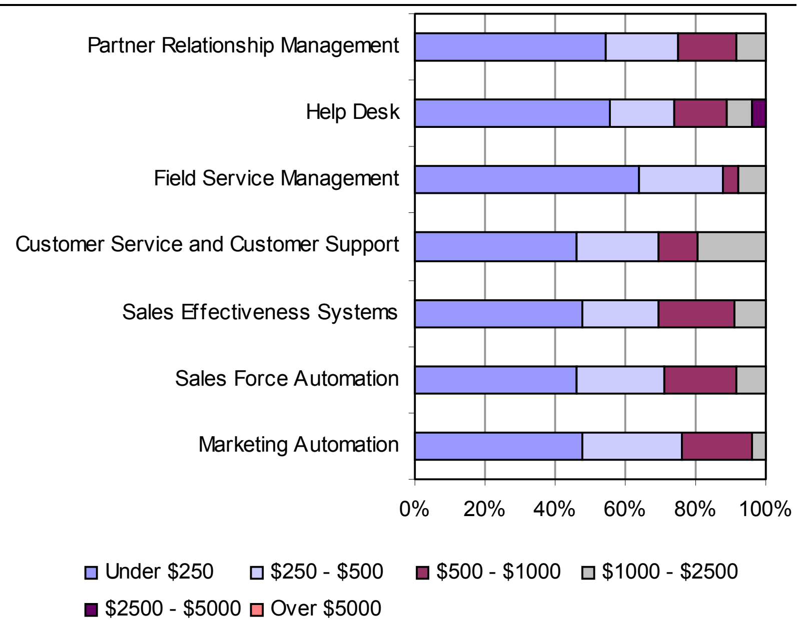
Figure 4: Please indicate whether your firm would prefer to purchase a perpetual software license or lease a solution through an ASP model.



Source: Aberdeen Group, June 2002

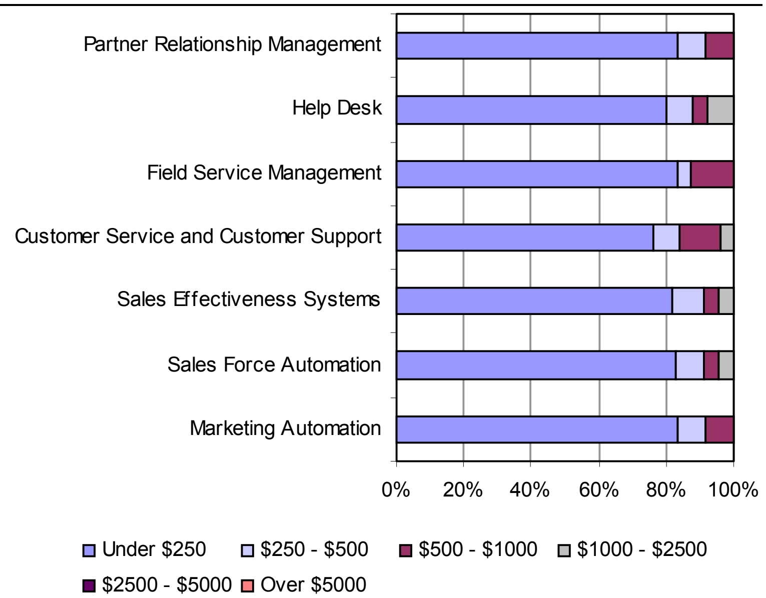
Aberdeen regards the responses to this question as relatively positive for the application service provider (ASP) model. Constrained budgets and the need to preserve capital cause organizations to explore alternative means for deploying business application solutions. Aberdeen expects this trend to continue as risk-averse, mid-market companies look toward implementing CRM solutions and avoiding the pitfalls that have been documented at the large enterprise level.

Figure 5: Please indicate how much your organization would be willing to pay (per user) for the following CRM software license purchases.



Source: Aberdeen Group, June 2002

Figure 6: Please indicate how much your organization would be willing to pay (per user/per year) for the following CRM software leased through an ASP model.

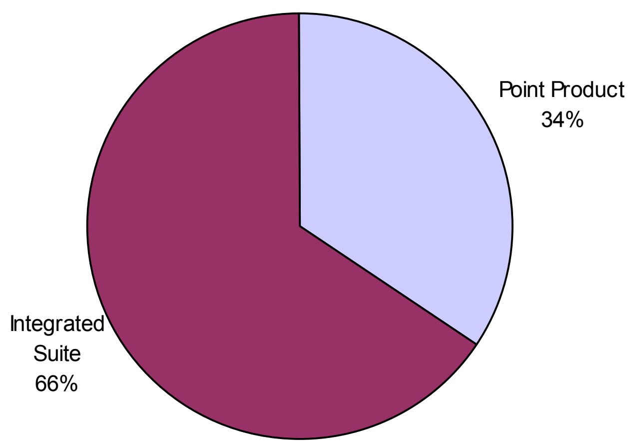


Source: Aberdeen Group, June 2002

Figures 5 and 6 reflect a cultural disconnect between users and suppliers on the perception versus the value of CRM applications. Quite simply, over 70% of users are willing to pay less than $500 for a perpetual license, and over 75% are willing to pay less than $250 under a leased ASP model, which are levels that are not accounted for in most software vendors' business plans. Many software suppliers are accustomed to getting several thousand dollars per seat for a perpetual license. Suppliers will either need to modify their financial models or spend significant resources educating mid-market users on the value of their solutions. Additionally, Aberdeen research indicates that to meet the expectations of end-users, software vendors will need to streamline their product delivery and implementation costs.

Aberdeen would note that this price threshold would favor software suppliers that have mastered mass-market distribution.

Figure 7: Does your organization prefer to purchase point product solutions or integrated suite solutions for CRM?

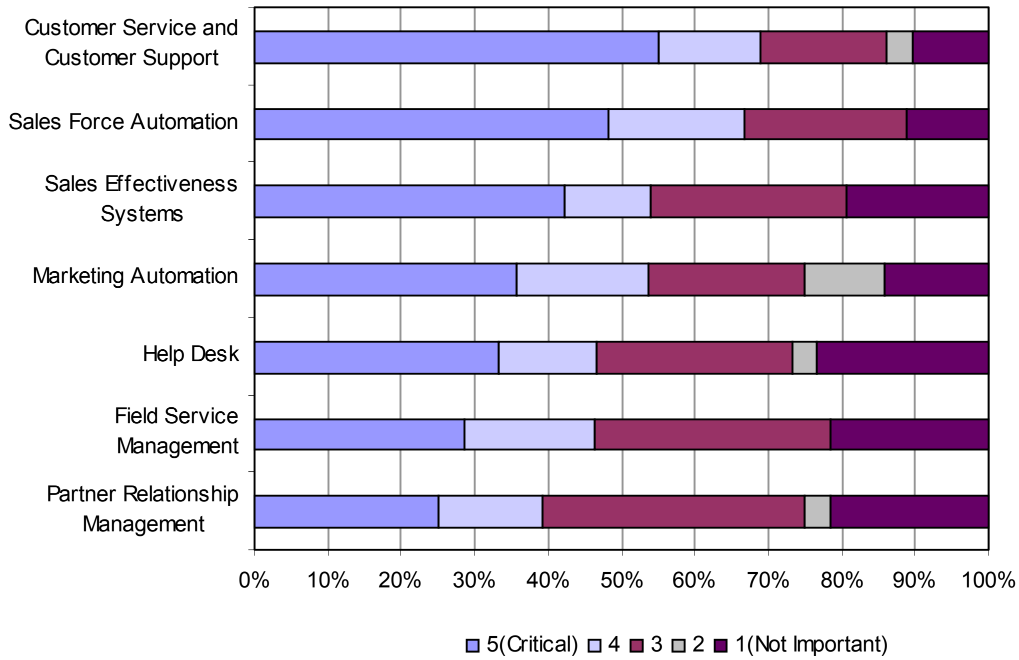


Source: Aberdeen Group, June 2002

Additionally, the integrated suites have two major drawbacks. One, they may lack the functional depth of best-of-breed solutions. Two, since it is unlikely that all the components will be used at once, users are parking money associated with these unused components for potentially years at a time. Please note that some suppliers are allowing users to step up their costs associated with integrated suites as new modules are implemented.

Despite these aforementioned drawbacks, users (by nearly a 2 to 1 ratio) prefer integrated suites. Aberdeen believes this is due to the perceived value, especially among the mid-market companies, of having the responsibility of integration transferred to the software vendors.

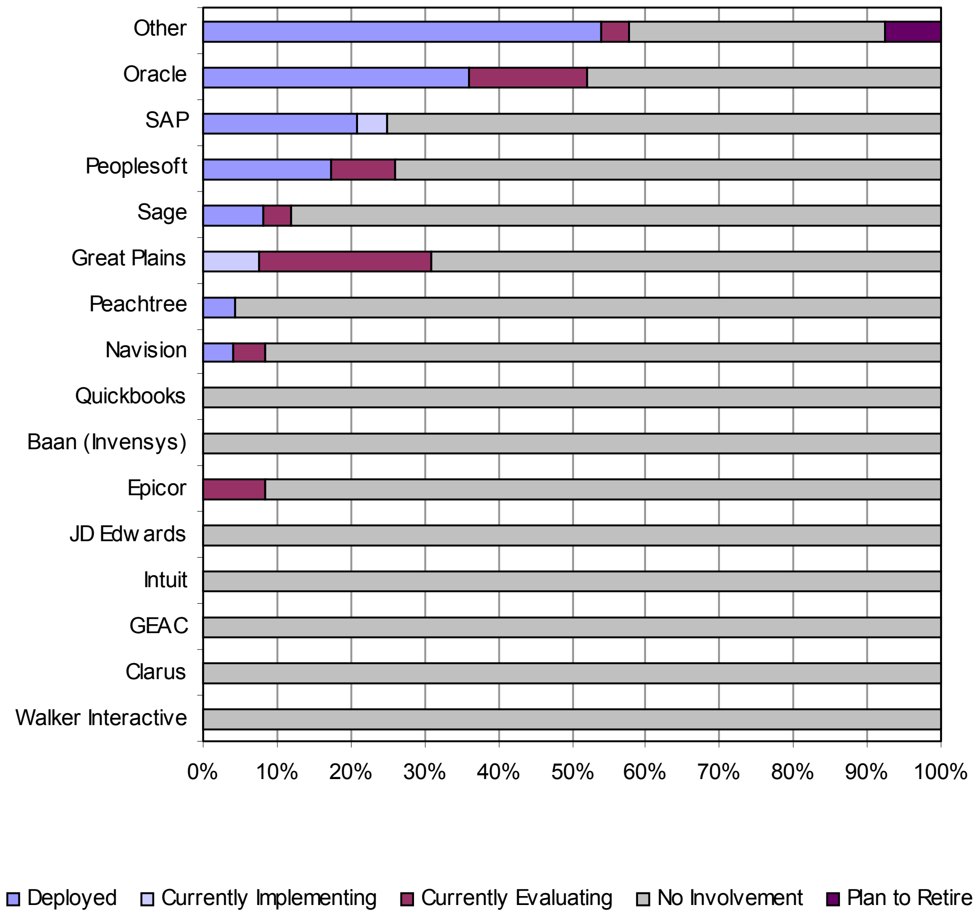
Figure 8: Please rank the importance of integration with back-office systems as not important (1) to critical (5) for the following CRM solutions.



Source: Aberdeen Group, June 2002

This ranking reflects two important trends. First, Customer Service and Customer Support and SFA are two of the oldest, and best selling, components of the CRM suite. The rest of the applications are ranked roughly in the order of their popularity in terms of the number of seats deployed. Second, PRM has the least visibility at least in part because it is among the newest components of the CRM suite, and many organizations that sell direct have no need for the technology.

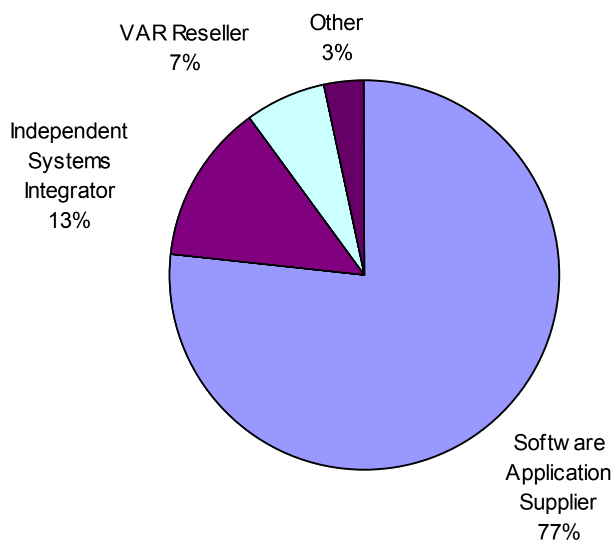
Figure 9: Please identify which back-office systems you have deployed or are currently implementing.



Source: Aberdeen Group, June 2002

"Other" leads the list, as it should since there are many different types of applications that enterprises can potentially use. Additionally, Aberdeen suspects that homegrown applications comprise a significant proportion of the software portfolio of the survey respondents. Parenthetically, a recent study commissioned by Siebel of over 300 organizations revealed that a typical enterprise has about 50 applications in its IT environment, and roughly 10% of user organizations have as many as 1,000 applications or more. In this light, the small population surveyed reveals a reasonable dispersal pattern.

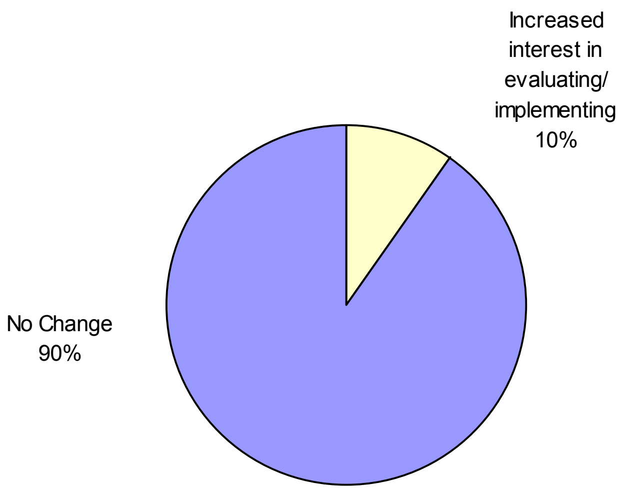
Figure 10: Please identify your organization's primary point of contact for purchasing CRM solutions.



Source: Aberdeen Group, June 2002

Aberdeen's user survey indicates that the vast majority of users want to purchase CRM solution suites directly from the software supplier. However, since the traditional means of providing a low cost solution to the mass market (see user response to Figures 5 and 6) is to sell software through a channel, there again is a disconnect between user and supplier preferences. Quite simply, users want a complete suite at a low price point and want perpetual service from the software suppliers themselves.

Figure 11: How has the Microsoft/Great Plains announcement changed your interest in CRM?

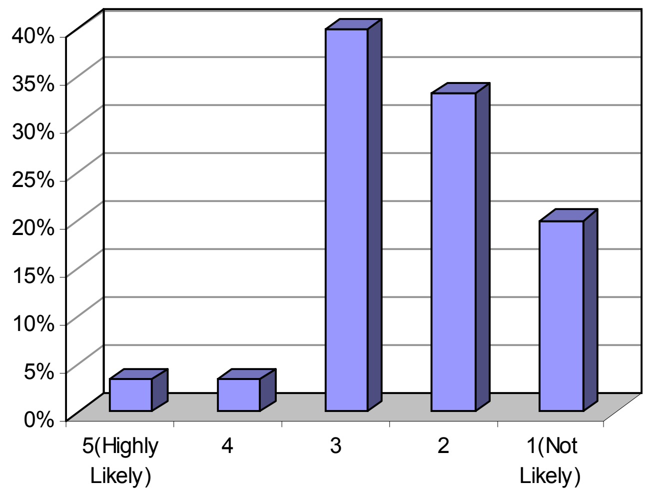


Source: Aberdeen Group, June 2002

To date, Microsoft's efforts have yielded minimal impact. As seen in Figure 11, only 10% of respondents indicated that their interest in CRM had increased as a result of Microsoft's activities. However, as Figure 12 indicates, the interest in Microsoft's own solution was tepid. As a caveat to Microsoft, Aberdeen believes this data suggests that a pragmatic market wants to see a real product before jumping on the bandwagon.

However, Aberdeen notes that 10% of the population demonstrating heightened interest as reflected in Figure 11 could represent the tip of a Microsoft iceberg.

Figure 12: Is a CRM solution from Microsoft something that you would consider purchasing, not likely (1) to highly likely (5)?



Source: Aberdeen Group, June 2002

Chapter Three:
Aberdeen Conclusions

Aberdeen draws several conclusions from this study. The first is that the CRM market for mid-sized user organizations is still in its early stages. As shown in Figure 1, with the exception of Help Desk applications (which are usually driven by the IT department and not a line-of-business unit), no application category had a deployment rate of over 25%. This low penetration level indicates that CRM adoption for the mid-market is just starting, which is good news for CRM suppliers looking for future growth opportunities.

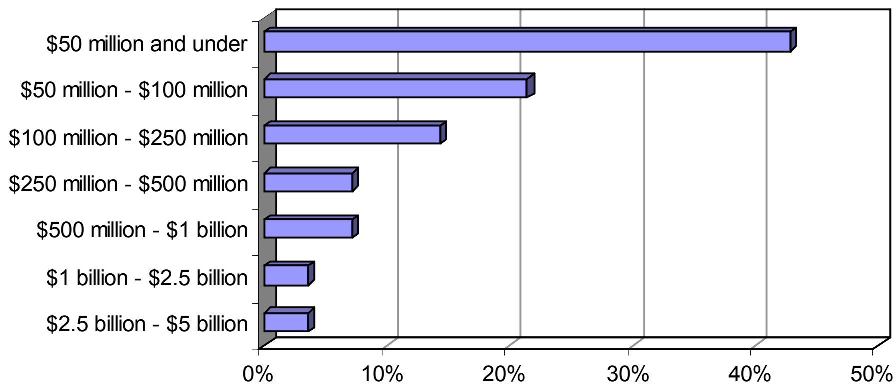
The ASP model shows enormous potential as a deployment option for CRM. Although a relatively recent alternative, several application categories (SFA, MA, SES, and FSM) demonstrated user preference levels in excess of 25%. Aberdeen research indicates that this inclination toward ASP deployments will accelerate.

The fundamental challenge facing the market is the striking disconnect between what users want to pay for CRM (Figures 5 and 6) and what suppliers are accustomed to charging. Unless this issue is resolved, adoption rates will suffer. Aberdeen believes suppliers must invest significant resources in educating users on the value proposition of their particular solution as well as master mass distribution/implementation tactics.

Finally, Microsoft has been acknowledged by a significant percentage of users as a potential future force in mid-market CRM. Most, however, are adopting a wait-and-see attitude. They are holding off until Microsoft ships products and demonstrates customer success before making a commitment.

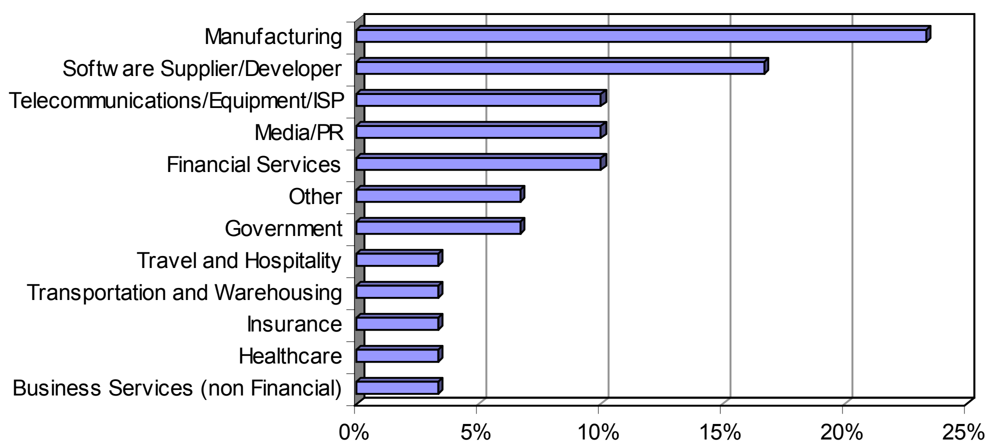
Appendix A:
Respondent Demographics

Figure 13: Respondents by Revenue



Source: Aberdeen Group, June 2002

Figure 14: Respondents by Industry



Source: Aberdeen Group, June 2002

Appendix B: Key Customer Relationship Management Categories

Marketing. Sales. Support. These three core functions, each of them integral to the concept of interacting with a customer, continue to define the fundamental disciplines of CRM. Tightly integrated into a central CRM database repository and leveraging all of the latest emerging technologies and expertise— including the Internet, wireless communications, handheld devices, and an increasingly sophisticated understanding of CRM best practices— CRM has enabled the forward-thinking enterprise to fundamentally re-think and re-architect the ways in which it markets to, sells to, and supports its customers.

Aberdeen divides the CRM market into the following seven sub-segments:

1. Sales Force Automation

Sales Force Automation is often thought of as the cornerstone of most CRM applications, providing sales professionals with access to critical customer information and tools that enhance their ability to sell and manage their time effectively.

SFA includes software application packages for contact and opportunity management, proposal generation, sales processing, customer tracking, performance analysis, and sales forecasting.

2. Marketing Automation

Marketing Automation has emerged over the last two years as the final, critical piece of the puzzle in industry's broad push toward realizing the ideal of effective CRM. In addition to its role in customer acquisition, marketing plays the central role in architecting the strategies and tactics for fostering and furthering ongoing, long-term relationships with customers.

MA includes collateral management tools, campaign management software, personalization tools, and a variety of lead management and distribution tools.

3. Customer Service and Customer Support

Customer Service and Customer Support applications address customer questions, problems, and issues either through a call center-based customer support agent or, increasingly, through Web-based customer self-service capabilities. The customer center provides a combination of telephone and Web-based support, ideally while accessing a shared CRM data repository and leveraging a consistent set of business rules to ensure the quality of service.

Customer Service and Customer Support includes: customer call and contact centers; integrated Web and e-mail management solutions; call logging, tracking, and resolution tools; and customer self-service and knowledge tools. This category does not include analytics, personalization, or data mining software solutions. Although some CRM definitions do include analytic software, Aberdeen groups those tools into a separate Data Knowledge area.

4. Field Service Management

Field Service Management applications represent a related but distinct set of customer support and service capabilities. Oriented to the needs of the external customer support and service professional who goes to the client's physical location, field service applications: provide call logging and dispatch capabilities; manage the logistics associated with the movement of technicians, spare parts, and equipment; manage inventories of spare and replacement components; and provide status and escalation procedures to achieve consistent and committed service level agreements (SLAs).

Field Service Management also includes personal digital assistant (PDA) applications for the mobile field service work force and software for tracking inventory, managing service contracts, dispatching, and coordinating the logistics surrounding field service.

5. Help Desk

Help Desk applications have evolved to become extremely robust, tightly integrated "command and control" centers for the IT organization. Today, almost all Help Desk solutions provide automatic integration with network management applications, enabling the help desk center to predict and react to potential outages or network "brown outs" even before they happen. Knowledge tools are commonly provided to the end-user for self-service, and the role of the Help Desk has moved well beyond the IT infrastructure to provide for true "infrastructure management" — the management and support of almost any mission-critical asset in the organization including facilities, buildings, vehicles and fleets, and safety and security systems, as well as the computers, networks, and software that make up the IT infrastructure.

6. Partner Relationship Management

Partner Relationship Management seeks to address several issues of channel-dependent organizations. Organizations need to establish, maintain, and increase mind share among their channel partners, a challenge exacerbated by the disruptive effects of radically new and volatile e-Business models. Just as consumers are demanding better service, so too are downstream channel partners. If organizations wish to retain partners and increase their channel efficiency, they need to provide increased levels of service— from timely and pertinent lead distribution to ongoing training and support. Organizations also need greater visibility into partner operations and a better understanding of the efficacy of channel initiatives.

PRM includes partner administration tools, lead distribution, channel compensation and forecasting, content and program management, reporting and analysis tools, training and knowledge repository solutions, and co-op and market development funds.

7. Sales Effectiveness Systems

Sales Effectiveness Systems are software tools that aid in the sales process. They can include: interactive sales coaching, presentation and proposal development support tools, and configuration tools.

Author Profiles

Hugh Bishop

As Senior Vice President of Aberdeen's Emerging Technology Intelligence (ETI) Group, Hugh Bishop directs Aberdeen's ongoing qualitative and quantitative coverage of new technology markets. As part of these activities, Bishop directs Aberdeen's Technology Forecasting Consortium (TFC), an end-user advisory panel that assists Aberdeen in early identification of trends in the Information Technology market and prediction of user buying intentions. Additionally, Bishop heads up Aberdeen's quantitative research, providing market forecasts and supplier market share estimates on a worldwide basis.

Prior to his current activities, Bishop was Senior Vice President of Aberdeen's Enterprise Business Applications practice. Additionally, Bishop was the founder and lead analyst of Aberdeen's CRM practice.

In addition to serving as the lead author of this report, Bishop's recent work includes *Worldwide IT Spending 2002-2005: Timing the Recovery* (April, 2002), *Technology Forecasting Consortium: 2002 User Buying Intentions* (February, 2002), and Worldwide *CRM Spending: Forecast and Analysis 2001-2005* (November 2001).

Prior to joining Aberdeen, Bishop worked at Ryan Associates, a marketing consulting firm. He has also served as Director of Computer Operations at a leading, Boston-based engineering firm.

Bishop holds a B.A. from Middlebury College.

Denis Pombriant

Denis Pombriant focuses on sales and sales automation in Customer Relationship Management (CRM) and provides analysis and assessment of software and services involved in sales and sales methods through direct channels. His expertise is with sales tools, sales methods, and application service provider (ASP) delivery models.

Pombriant is the author of several reports that examine the evolving role of CRM in business. His latest report, *What's Next in CRM: The Learning Relationship* (March 2002), makes the case for the expanded use of sales methodologies supported by advanced modular architectures such as J2EE. Additionally, he has authored *What Works: Ten Significant CRM Implementations of 2000* (April 2001) and *What Works: Ten Significant CRM Implementations of 2001* (March 2002), which are collections of case studies that document successful CRM implementations.

Pombriant is also the author of several *White Papers* on the influence of the ASP model on CRM. In addition, Pombriant has published several articles in trade publications on selling, sales methods, and CRM-ASP. He is frequently quoted in *CRMDaily.com, Line56.com, ComputerWorld, Executive Technology, InformationWeek*, and *The Wall Street Journal*.

Pombriant has spent 20 years in high technology, concentrating in marketing and sales. During that time, he has sold products, organized and run sales and marketing organizations, and brought products to market. He is a student of sales methodologies and is familiar with many of the popular methods in use today, including Strategic Selling and Solution Selling.

Pombriant holds a B.A. from the College of the Holy Cross.