

A sinking ship or a flying fortress?

## On-premise CRM

Whitepaper

The CRM market has gone through its phases of hype, disappointment and recovery. Now a returning wave of interest based on a more realistic approach to customers and vendors offers reasonable alternatives to the big CRM implementations that have historically been expensive, troublesome and time-consuming. One such interesting alternative is CRM on-demand.

What is on-demand CRM? What are the advantages and risks? The do's and don'ts? For a telecom operator, is on-demand worth considering?

### The rise and fall of CRM

What comes to mind when you hear the acronym CRM? Is it: „a single view of a customer, driving customer satisfaction, enhancing the bottom line by being better able to understand and fulfill customer needs“? These all sound promising. However, maybe you have other associations, ones more difficult to find in marketing brochures but more easily heard by listening to those actually involved in CRM projects in recent years. They would say that the hard reality is that CRM is a never-ending project, an initiative with a colossal budget and a high risk of failure. Eventually, even if a CRM system does get successfully deployed, it is often used improperly (if at all), not taking advantage of its strengths, leading to results that are far from expected, especially in terms of return on investment.

These negative associations we may still have of CRM aren't coming out of nowhere. As of the end of 2002 Gartner, as well as several other analysts, informed us that 70% of all CRM projects fail. The top reasons for these failures include: lack of a strategic, enterprise wide approach with little or no board-level commitment, undefined success metrics, poor methodology and a fo-

cus on technology instead of customer and business processes. Clearly, most of the problems companies had with the implementation of CRM were not particularly technology-related. The problems were organizational, often boiling down to a single misconception, a misunderstanding of the CRM concept. The CRM market had to fall.

But what can we say today? CRM is not dead - it may be bruised, but it's back. Large-scale, long-term CRM initiatives are beginning to be approved again. Spending on open-source CRM is projected to increase threefold, there is a comeback of in-house built CRM applications and vendors are transitioning to new service-oriented architectures (source: Gartner 2006). Having learned their lesson, vendors as well as their clients are increasingly cautious while attempting to reduce the risk associated with a CRM initiative by seeking new models and approaches. On-demand CRM is one of the most meaningful and influential new models.

### Some like it hosted

The idea behind on-demand CRM (or in other words, hosted CRM) is simple: we don't buy the software, we buy the services – this is precisely the concept of Software-as-a-Service (SaaS) or Application Service Providing - ASP (for various reasons ASP, like CRM, also has negative connotations which is why the term SaaS tends to be used instead). We don't care about the technical details too much, the provider does. CRM software is available through the Internet and less often via a dedicated line. In on-demand CRM, multiple end-customers share the same hardware, databases and functionality with various customization options (This is called the multi-tenancy model. There is also a single-tenancy model, where each customer has his own database and server, but purists say that in such a case software cannot be considered as a service). In this way, vendors achieve an economy of scale, allowing them to set lower prices for services of guaranteed quality.

On-demand differs from traditional on-site or on-premise CRM when we purchase licenses and own the software (another possibility is when we own a home-grown application). Commonly, we have to take care of all the technical details, maintain the software and infrastructure, keep dedicated IT personnel and train them so they don't get behind. No two clients of a CRM vendor have the same on-premise system. Usually only 30-50% of the enterprise CRM software is standard, the rest represents customer specific functionality, customization and integration. This is probably why it always takes so long to deploy an on-premise CRM system – because 50% must be built from scratch! On-demand differs from on-premise in that it aims to make you switch-off the functionality you don't need rather than build-up the functionality you do (in the on-premise model). Which approach sounds easier?

Steve Ballmer, Microsoft CEO, recently said „people want hosted CRM”. Although some analysts see the future of on-demand CRM as not that bright (AMR Research predicts that even by 2009, hosted CRM applications will account for only 12% of the total U.S. CRM market) there definitely is something to it. Why do people want hosted CRM? Because it is low risk, low cost and high ROI. There is no enormous up front investment and only a low monthly rental fee with minimal or no service fees. The risk is low, because the service provider takes it on and delivers guaranteed system availability and performance (usually providers agree to an SLA much more willingly than the internal IT departments of their customers). It is very easy to get users quickly up and running, a provider's implementation processes are mostly uniform and are often repeated – deployment of a single department package takes from 30 to 90 days. On demand CRM provides a lot of flexibility in upgrades – behind the scenes, developers have on-line access to the system giving them unprecedented possibilities for continuous software improvement. They can observe and track usage patterns to optimize and automate the most popular instances of use. When the amount of tasks, client base and data size grows, we don't need a complex process for explaining the need, getting approval and purchasing additional hardware or technologies. We just let the provider know that we need additional users or functionality and they assume the challenge and responsibility for which they receive a payment.

### **The future, or what the CRM crystal ball told me:**

“Dispersed CRM” – a single view of a customer, but across multiple dispersed packages – a multi-sourcing and hybrid approach – on-demand solutions for one or more service providers mixed with on-premise installations.

Convergence of on-demand and on-premise - migration between models will be possible (it is already possible for some vendors), infrastructure will get more and more robust and „invisible”, outsourcing will start to pay off not only on paper but also in reality.

Commoditization – The commoditization of CRM functional areas, such as sales force automation or customer service and support will be driven by on-demand vendors, the difference between their offerings will be in their ability and willingness to act globally, effectively customize software and integrate with a customer's systems. We will get cheaper, more rapidly implemented and more useful CRM.

### **The third way**

It seems on-demand CRM allows you to focus on your customers and not on the technology while relieving you from the risk and overhead of an on-premise approach. But is on-demand really this attractive? What's the catch? As always, the devil is in the details - what constitutes an advantage can also pose a threat. Short deployment time is only a promise, getting the system to work could take longer than expected because of problematic customization. Possibilities offered by the API are usually limited and once we want something more, we fall into the trap of an on-premise model – the vendor sends a team to work through a solution, extending the implementation time tremendously. Moreover, upgrades can be tricky – and tend to break existing customization and integration, which leads to abandon-

ing valuable new functionality. Some institutions may be wary of being over-dependent on the service provider. They have all the data which sometimes can be sensitive (banks, health care), difficult to protect from unauthorized access when out of your control and difficult to get back from the vendor should relations go south. Other organizations may feel like opting for on-demand results in losing their competitive advantage – everyone has the same software, so where’s the difference? However, the greatest problem with on-demand CRM is the time scale. Surely, we can achieve the lowest initial cost, the lowest risk, but all in the short term. In a three-year period, the cost can be the same for on-demand and on-premise, yet in the on-demand model the organization doesn’t own the system, it can’t be customized to grow along with the needs of the business. All in all, we might end up with our hands tied and a miserable ROI.

A mixed approach is the best method to avoid, or at least compensate for most of the risks related to implementing CRM in either of the models: on-premise and on-demand. There are at least three blends of mixed approaches: the hybrid, “first host, then buy” and “first buy, then host”. Under the hybrid model, companies could use hosted CRM at one site, such as a small division, or a distant office, while keeping the rest of the company on an enterprise, on-premise CRM application. It is currently possible with Siebel, RightNow and SAP solutions. The hybrid model can be applied not only to geographical locations, but to functional areas of CRM since many vendors offer specialized software packages. A company could use the hosted solution for sales automation or customer service & support, and an on-premise application for the rest. The best candidate for on-demand CRM is the area where requirements are changing least often, where processes are rather stable and mature and there is no need for a high degree of non-standard customization or integration. In the “first host, then buy” approach, we initially buy on-demand CRM services from a provider and if all goes well, we purchase the software and begin to manage it ourselves. This way, we benefit from the “low cost, low risk, high ROI” advantages during the first two or three years

Knowing the negative connotations of the CRM term, and that it can be associated purely with a technology investment, other terms begin to be used instead:

- Customer Management,
- Customer Centricity
  - Relationship Management,
  - Relationship Marketing
  - Customer Experience Management
  - Customer Service Excellence
  - Single view of a customer,
  - Sales productivity growth
  - ...

However, behind all these different names there’s a common concept of a business strategy whose outcomes optimize profitability, revenue and customer satisfaction by organizing around customer segments, promoting customer-satisfying behaviors and implementing customer-centric processes

(source: Gartner).

and afterwards, take over the entire thing and benefit from the “greatest power, flexibility, easier integration and customizability”. The third approach is “first buy, then host”. This is when the on-premise solution, purchased or home-grown software is outsourced together with the infrastructure. Although the system is a managed service rather than becoming on-demand, the same combined positive effects occur: cost reduction, increased quality of services, increased business agility and less focus on technology and more focus on the customers. These benefits will be particularly visible for large companies that are no longer able to react to changes in the market, have enormous IT costs and are unable to fully meet internal user and customer expectations.

## Comarch Headquarters

Al. Jana Pawła II 39 a  
31-864, Krakow  
Poland

**phone:** +48 12 64 61 000

**fax:** +48 12 64 61 100

**e-mail:** info@comarch.com

[www.telecommunication.comarch.com](http://www.telecommunication.comarch.com)

[www.comarch.com](http://www.comarch.com) [www.comarch.pl](http://www.comarch.pl) [www.comarch.de](http://www.comarch.de) [www.comarch.ru](http://www.comarch.ru)

ComArch Spółka Akcyjna with its registered seat in Kraków at Aleja Jana Pawła II 39A, entered in the National Court Register kept by the District Court for Kraków-Śródmieście in Kraków, the 11th Commercial Division of the National Court Register under no. KRS 000057567. The share capital amounts to 7,960,596.00 zł. The share capital was fully paid, NIP 677-00-65-406  
Copyright © Comarch 2007. All Rights Reserved.

EN-2007.07

On-demand is the perfect choice for small and mid-sized companies able to function with standard processes and data structures, with no real-time or complex integration requirements, no internal IT support, yet who want a rapidly deployed solution. On-demand is therefore a very interesting option to consider for MVNOs and start-ups. But what about larger telecom operators? Their primary business imperative is growth signified by partnership, innovation, cost control, risk management and availability of talents. On-demand is definitely a chance for cost control, risk compensation (or at least diversification) and an increased availability of talent (as top talents continue to gather around global leaders). On-demand CRM might also be seen as a chance for innovation (when the vendor is offering outstanding and future-oriented solutions, which other vendors have yet to adopt) and partnership (this may be wishful thinking, but major hosted CRM providers are struggling hard to enter the lucrative telecommunications market and have a real interest in building long-lasting, profitable partnerships). Having said that, it is still too early, and there is probably a good reason that most telecoms stay away from on-demand CRM. Normally, for telecom operators, customer relationship management is an area of strategic importance, and experiments aren't welcome. Nevertheless, on-demand starts to be a relevant option. Gartner predicts that by 2007, 30 percent of new sales force automation (SFA) production applications will be deployed as a service. So for most telecoms, maybe the first shot at on-demand will be for SFA as it is perceived to be an easy, inexpensive and safe way to try out an on-demand CRM deployment.

## Summary

After a phase of disappointment, CRM is coming back, perhaps under different names. The on-demand model is becoming more and more popular with functionality beginning to reflect the most-wanted, tried-and-true features. At the same time, companies are ready to opt for a compromise and require merely the necessary integration and customization. So, without a doubt, on-demand is here to stay and represents a viable alternative to cumbersome and expensive licensed CRM projects. Is on-premise doomed? Definitely not. However on-demand is a warning sign to license vendors to get more realistic about CRM deployment costs and times. On-premise will continue to be the most popular type of deployment for large companies, with on-demand increasingly being chosen by less conservative telecoms as well as small and mid-sized companies, including MVNOs.

**Paweł Lamik**

Business Solutions Manager  
Comarch SA