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Trends 2007: Customer Relationship Management

by **William Band**

with Sharyn Leaver and Mary Ann Rogan

EXECUTIVE SUMMARY

Customer relationship management (CRM) is now a core element of enterprise competitive strategy. Organizations of all types are striving to improve their customer experience. Decisions about new spending on CRM must take into account significant changes in the vendor landscape. In 2007, important considerations driving customer-facing process improvement include: 1) getting more value out of CRM technology; 2) coping with the rise of Social Computing; 3) meeting increased demand for end user mobility; 4) making greater use of business process management-centric solutions; 5) resolving customer data management challenges; and 6) adapting to global standards and service-oriented architecture (SOA). Enterprise buyers should invest selectively in high-value upgrades, focus on customer-process optimization, and demand vendor support to optimize existing CRM infrastructures.

TARGET AUDIENCE

Business process and applications professional, customer experience professional, marketing leadership professional

EXPERIENCE-BASED DIFFERENTIATION FUELS DEMAND FOR CRM SOLUTIONS

The intense pressure on organizations to improve their customer experience and drive top-line growth creates sustained demand for CRM software solutions. Although the CRM application market has been in some turmoil during the past 24 months, Forrester estimates that worldwide revenues for solution providers reached nearly \$8.4 billion in 2006 and will grow to \$10.9 billion by 2010 (see Figure 1).¹

CUSTOMER RELATIONSHIP MANAGEMENT DRIVERS

What's behind the growth curve? Findings from our surveys and interviews with customer-oriented business and IT executives highlight the business needs spurring continuing investment in CRM solutions. These include:

- **Fostering innovation and top-line growth.** A recent survey of CEOs by Accenture Consulting confirms that driving growth and innovation are critical concerns for chief executives.² Their top four priorities were: 1) acquiring new customers (53% of those surveyed picked this as top priority); 2) increasing customer loyalty and retention (49%); 3) increasing revenue from current customers

(49%); and 4) increasing customer service capabilities (39%). Revenue growth is achieved through attracting new customers, selling more to customers, and retaining these customers longer. Customer process improvement, supported by advanced business technologies, is critical to achieving these objectives.

- **Improving the customer experience.** Customer-facing managers are taking a harder look at how new processes and services affect the end customer experience. In a recent survey of senior executives at 176 large firms in North America, we found that 60% felt that it was “critical” and 36% felt that it was “very important” to improve the customer experience.³ As companies add more interfaces to their growing portfolios of products and services, they are touching customers’ lives more every day — and creating a growing opportunity to weave those touches into an overarching, branded customer experience that sets them apart from the competition. CRM initiatives are being refocused on creating experience-based differentiation: systematically integrating experience as a feature within the design of products and services.
- **Re-engineering customer-facing business processes.** Forrester has long maintained that the successful selection, implementation, and adoption of technology require a major emphasis on business processes. Customer demand, market dynamics, and technology are driving CRM functionalities to more easily integrate with the enterprise resource planning (ERP) and supply chain management (SCM) functions. The result: better support for end-to-end business processes, even those originating from customer-facing interactions.⁴
- **Boosting productivity of customer-facing workers.** Sales, customer service, and marketing executives want application user interface (UI) and workflow designs that align with the working practices of day-to-day users.⁵ This desire for more user-friendly applications is driving interest in CRM application upgrades as vendors make better UIs available in new releases.

Figure 1 Forecast: Global CRM Software Market, 2003 To 2010

 The spreadsheet detailing this forecast is available online.

	Actual			Forecasted				
	2003	2004	2005	2006	2007	2008	2009	2010
License revenues	\$2,301	\$2,597	\$2,661	\$2,714	\$2,606	\$2,684	\$2,737	\$2,765
% growth	—	13%	2%	2%	-4%	3%	2%	1%
% of total	37%	36%	34%	32%	30%	29%	27%	25%
Maintenance revenues	\$2,039	\$2,486	\$2,727	\$3,000	\$3,180	\$3,370	\$3,539	\$3,716
% growth	—	22%	10%	10%	6%	6%	5%	5%
% of total	33%	35%	35%	36%	37%	36%	35%	34%
Subscription revenues	\$135	\$312	\$514	\$750	\$1,050	\$1,470	\$1,911	\$2,389
% growth	—	132%	65%	46%	40%	40%	30%	25%
% of total	2%	4%	7%	9%	12%	16%	19%	22%
Services revenues	\$1,727	\$1,770	\$1,872	\$1,891	\$1,770	\$1,856	\$2,037	\$2,071
% growth	—	2%	6%	1%	-6%	5%	10%	2%
% of total	28%	25%	24%	23%	21%	20%	20%	19%
Total revenues (US\$ millions)	\$6,202	\$7,165	\$7,773	\$8,354	\$8,605	\$9,380	\$10,224	\$10,940
% growth	-1%	16%	8%	7%	3%	9%	9%	7%

Based on company reports and Forrester estimates

41456

Source: Forrester Research, Inc.

THE EVOLVING SOLUTION PROVIDER LANDSCAPE

In addition to the above challenges, executives must cope with tumult in the CRM applications vendor space that is changing the solution landscape. Larger players have acquired smaller vendors to gain access to customers and fill in product gaps and disruptive technologies, such as software-as-a-service (SaaS), that have emerged.⁶ New spending decisions on CRM must take into account:

- **New offerings from leading vendors.** Oracle completed its acquisition of PeopleSoft in early 2005 and then swallowed Siebel in early 2006. SSA Global acquired Epiphany in August 2005 and was in turn acquired by Infor Global in mid-2006. M2M Holdings acquired Onyx in August 2006. Meanwhile, SAP continues its drive to become the CRM market leader through functionality enhancements and aggressive marketing to the SAP user base. Lastly, Microsoft's launch of Microsoft Dynamics CRM 3.0 marks a renewed effort to win a bigger piece of the enterprise applications market.
- **Growing acceptance of SaaS for CRM.** Salesforce.com and RightNow Technologies have posted impressive sales gains as buyers increasingly adopt the SaaS deployment option. Other CRM vendors have responded with their own SaaS offerings like Siebel's — now Oracle's — Siebel CRM On Demand and SAP's new CRM SaaS offering. With more frequent upgrades, lower risk, and lower upfront costs, customer demand for this deployment option shows no signs of slowing down.

- **Midmarket players pushing for more enterprise deals.** CRM vendors who have traditionally served midmarket organizations are leveraging modern architectures and business process management capabilities, and offering new deployment options to gain a stronger foothold with enterprise-class organizations. Examples include Onyx, which offers a flexible, business process-centric architecture, and RightNow and salesforce.com that are pioneering CRM SaaS deployment. At the same time, Microsoft is trying to exploit its desktop applications hegemony advantage in large enterprises and promote its now more robust business applications to this sector.
- **More choices for midsize organizations.** Although midmarket CRM vendors are pushing up into the enterprise market, all vendors are giving more attention to small and medium-size businesses (SMBs). The SMB segment — organizations with fewer than 1,000 employees — accounts for about one-third of the total CRM market now, and many tech vendors view it as an area of growth in an otherwise mature IT market. We expect the SMB share of vendor revenues will have expanded from 32% of the total market in 2003 to 38% of the total market by 2010, reaching \$4.2 billion. As a result, vendors such as SAP, by improving UIs, and Oracle, through its Siebel CRM Professional Edition and Siebel CRM On Demand products, are tailoring their products to better meet the needs of smaller organizations.
- **Specialty tools still required to fill the gaps.** Notwithstanding the trend toward consolidation of CRM vendors into suite solutions, specialty players continue to innovate by offering new functionality for special requirements. For example, BlueRoads offers partner channel management through the SaaS deployment model. And in the contact center/eService sector, KANA, eGain, and Talisma offer unique capabilities.

2007 TRENDS TO WATCH IN CRM

Looking ahead, we see process and applications professionals responsible for improving customer interactions, paying more attention to:

- **Getting more value from previous CRM investments.** We surveyed 94 business and IT executives about their satisfaction with CRM applications.⁷ Less than half felt that the business benefits achieved met their expectations or stated that they were able to quickly realize value from the applications. This means CRM decision-makers clearly feel that they have more work to do to unlock capabilities still latent in previous CRM investments. CRM managers point to five fundamentals for successful CRM deployment: 1) Define the right metrics; 2) focus on improving business processes; 3) place a high priority on supporting user adoption; 4) plan for effective data management practices early in the project; and 5) ensure executive sponsorship is highly visible in support of the initiative.⁸

- **Coping with the rise of Social Computing.** Are user-generated content and communication fundamentally changing the rules of business? We think they are — in a big way. Technology and social changes are creating a potent mix of forces that will transform the way all businesses — not just media firms — operate, create products, and relate to customers.⁹ Social Computing encompasses fast-growing peer-to-peer (P2P) activities like blogging, RSS, file sharing, open source software, podcasting, search engines, and user-generated content. As organizations continue to evolve their experience-based differentiation strategies, those that sell products in a Social Computing environment will need to learn how to become trusted and active participants in an ever-more interconnected “society” of users and suppliers.
- **Supporting increased demands for end user mobility.** Leading firms are embracing mobile CRM to improve productivity, increase CRM system adoption, and enhance the customer experience.¹⁰ Mobile CRM is now a high priority for many field sales and service organizations because it allows reps to access and update CRM information anywhere they can use a mobile device, such as a BlackBerry. Firms that we talk with cite several key benefits including improved service scheduling, more professional sales interactions, and shorter cycle times in areas such as quote generation.
- **Capitalizing on new business process management solutions.** Buyer interest in business process management solutions is high, as evidenced by the rapid growth in spending in this sector. We forecast that business process management suites’ (BPMS) revenue from software vendors will grow from \$1.2 billion in 2005 to more than \$2.7 billion by 2009.¹¹ In addition, the rapid consolidation of the enterprise applications vendors during the past few years has made it possible for companies to go to a single vendor to buy cross-enterprise enabling functionality based on a single data source.
- **Resolving customer data management dilemmas.** Information and knowledge management professionals have explored a variety of approaches to managing customer data across the enterprise.¹² Some believed that data warehouses would become “real-time” sources while others hoped CRM applications themselves would provide the “single customer view.” Instead, multiple instances, disparate ERP systems, and poor data integration have left enterprises with “yet another view.” Meanwhile, business intelligence (BI) enthusiasts believe BI tools will provide the focal point to customer intelligence across multiple data sources, but the integration required remains very costly. Finally, trusted data sources can augment and cleanse customer data, but the accuracy of freshly scrubbed data quickly fades. The right answer for your organization is highly dependent on the specific circumstances facing the enterprise. A thoughtful customer data management strategy must be developed early in your thinking about CRM deployment approaches.

- **Adapting to global CRM standards and SOA.** In recent years, most vendors began to deploy Web services technology primarily as an extension of existing platforms, applications, and tools, not as a foundation technology for completely new applications and environments. This caution reflects both the vendors' need to re-architect their products around a more service-oriented architecture and current limited levels of enterprise usage, where Web services-based platforms are usually not the primary environments used to produce or execute applications. However, Web services and service-oriented technology will become more central in both the users' and vendors' platform architectures, and such Web services environments will become the focal point for most application development and integration.¹³

RECOMMENDATIONS

ALIGN FOR SUCCESS IN THE EVOLVING CRM ECOSYSTEM

What should you do to take advantage of the evolving CRM ecosystem? Here are five guidelines:

- **Spend selectively on upgrades.** The imperative to deliver unique customer experiences through optimized customer-facing processes continues to be acute. Despite the relative maturity and parity of many CRM solutions, buyers should continuously review the new offerings from vendors and adopt specific enhancements that can create a competitive edge. For example, new capabilities in the areas of eService, analytics and reporting, industry-specific business process management solutions, and better UIs to increase user adoption warrant a second look.
- **Spotlight customer-process optimization.** Today, CRM solutions are offered in four categories of functional capabilities: marketing, sales, service, and customer data and analytics. These categories form the traditional basis for vendor feature/function comparisons. However, CRM solution buyers should move away from this framework and evaluate CRM capabilities using a customer process management perspective. Companies shopping for CRM software should determine which vendor best supports the business processes being addressed by current initiatives, as well as how well the vendor solution can support business process improvements anticipated for the future.
- **Consider new deployment options.** As enterprises mature their deployment of customer-facing solutions, they seek to bring smaller business units and new geographies into scope. Because SaaS for CRM has become more proven and is becoming available from all major solution providers, buyers should explore hybrid deployment models (a mix of on-premise, on-premise hosted, and SaaS) that provide a better solution tailored for all parts of the business.

- **Demand support for solution investments made in the past.** Notwithstanding the consolidation among vendors, buyers should insist that acquiring vendors support the considerable investments buyers already have in the acquired CRM solutions infrastructures. The majority of buyers are satisfied with their past choice of vendor CRM solutions. IT and business executives should demand that this investment be protected by the “new owners” of their particular brand of CRM.
- **Be mindful of the consequences of a vendor ecosystem commitment.** Buyers are increasingly anchoring their IT strategy with one of the “Big Four” (IBM, Oracle, Microsoft, and SAP) but desire to maintain some degree of competitive leverage with their vendors. Do not commit to promising new features too early, and do not commit to inflexible or outdated terms.

ENDNOTES

- ¹ Enterprises will continue to make significant investments to improve their customer-facing capabilities. However, the need to extract additional value from past expenditures and a lack of game-changing innovations from vendors will result in moderate market growth. See the October 20, 2006, Trends “[CRM Market Size And Forecast, 2006 To 2010.](#)”
- ² Organic growth is at the top of the CEO priority list. Source: “Innovation: Closing the Implementation Gap,” Accenture CEO Survey, 2006 (http://www.accenture.com/NR/rdonlyres/8563B697-E84B-4D69-A555-CB30D58895D2/0/ideas_inno_implementation.pdf).
- ³ Forrester’s evaluations confirm what companies already know — they deliver subpar experiences to customers. But it’s not for lack of trying. See the March 15, 2005, Forrester Big Idea “[The Customer Experience Value Chain.](#)”
- ⁴ Successful CRM solution selection, implementation, and adoption of technology require a major emphasis on business processes. See the December 16, 2005, Best Practices “[Use Business Process Management Thinking To Evaluate CRM Solutions.](#)”
- ⁵ The Bank of New York used a number of innovative techniques to ensure that user needs were incorporated into their CRM strategy and deployment. See the May 31, 2005, Best Practices “[People Plus Technology Determines CRM Success.](#)”
- ⁶ Forrester evaluated 13 CRM Enterprise Suites vendors against 490 criteria and found that market leaders Oracle’s Siebel CRM and mySAP are being chased by pack of strong performers who offer new deployment options and modern process-centric architectures. See the February 5, 2007, Tech Choices “[The Forrester Wave™: CRM Enterprise Suites, Q1 2007.](#)”
- ⁷ Forrester surveyed business and IT executives at 94 companies and found that satisfaction with CRM software applications was not strong. See the December 13, 2005, Best Practices “[Best Practices For CRM Deployment.](#)”
- ⁸ See the December 21, 2006, Teleconference “Five Ways To Get More Value From Your Investment In CRM.”

- ⁹ Easy connections brought about by cheap devices, modular content, and shared computing resources are having a profound impact on our global economy and social structure. See the February 13, 2006, Forrester Big Idea “[Social Computing](#).”
- ¹⁰ Leading firms embrace mobile CRM to improve productivity, increase CRM system adoption, and enhance the customer experience. See the June 16, 2006, Best Practices “[Extend CRM Value With Mobility](#).”
- ¹¹ Business process management suites’ license, services, and maintenance revenue is growing rapidly, at more than 20% per year, as enterprises seek to improve the efficiency, effectiveness, and strategic value of key business processes. See the January 26, 2006, Market Overview “[Demand For Business Process Management Suites Will Accelerate Through 2009](#).”
- ¹² Forrester evaluated leading customer hub vendors across 134 criteria in a demo-based product evaluation. See the December 22, 2006, Tech Choices “[The Forrester Wave: Customer Data Hubs, Q4 2006](#).”
- ¹³ Major application platform vendors have some vision of SOA in their futures. See the January 7, 2004, IdeaByte “[The Future Of Web Services And SOA](#).”