

Build or Buy?

Evaluating the Options for Vertical Hosted CRM

Introduction

January 10, 2005 — The popularity of application hosting has revived a debate last seen in the early days of CRM. Namely, should a company try to customize a horizontal CRM application to suit its needs or is it better for it to begin with a pre-built industry-specific CRM solution and configure only those areas that are truly unique to its business?

Solution cost and availability have often been the driving forces in answering these questions, and the resolution ultimately depends on several factors such as the functional requirements of the organization, integration requirements and the processes that need to be supported as well as the built-in capabilities of the application under consideration. Modern configuration tools can decrease the work involved in some basic system modifications, but is this enough?

The value of embedded industry expertise

Pre-built vertical CRM solutions stack up well against specialized industry-specific requirements for several good reasons. First, pre-built vertical solutions are easier to implement — since they embody more of a company's business requirements than generic applications, they implement with less customization effort. Second, vertical market CRM solutions address the specific needs of their users by incorporating industry expertise as best practices which often require extensions to their underlying databases. Third, their workflows match, to a far greater degree, the business needs of their users for similar reasons.

But with the advent of modern hosted CRM applications and their supporting configuration tools, some vendors expect companies themselves to customize generic CRM appli-

cations to satisfy their exact requirements. They claim that these new technologies call into question the need for starting with a vertical application that may already deliver 80% to 90% of the functionality a company might need in favor of delivering a completely customized version of a generalized product. But even if the configuration work is easy, many experts will remind buyers that there are many fundamental database and business logic elements that should be pre-built into a solution that cannot be added later. Moreover, to the extent that one could customize a generic solution, the analysis and design work can be costly and time consuming and this "up-front" work alone can justify the value of pre-built vertical market CRM.

Specialized requirements

The definition of vertical CRM and what it requires is very much specific to the particular industry under consideration. For example, SFA alone can mean very different things in different vertical markets. For an insurance agent, SFA requires household management capabilities to enable a complete understanding of the client's risk profile. On the other hand, high tech companies rely on their channel partners to drive revenue and market share, making MDF (marketing development funds) management a key requirement for any SFA solution. And sales reps for media companies must have visibility into advertiser-agency relationships to effectively manage and sell ads to their customers.

Can these and other specialized requirements be addressed with simple configuration? Practically speaking the answer is no, these requirements necessitate linkages within the database but many companies ignore these complexities and forge ahead making do with partial solutions. Historically

those companies have been large enterprises with specialized requirements in small departments or small companies forced to settle for partial fixes due to their smaller budgets and lack of IT resources. For them a low cost hosted solution with a user interface (UI) re-arranged to support part of their most important processes is a better solution than the paper based systems they may have used in the past.

But the fact remains that supporting industry-specific CRM requirements demands more than modifying the user interface; many changes must be made at the database and/or workflow levels — well beyond the reach of most configuration tools. Pre-built vertical market CRM solutions are the best way to get the solutions needed while staying within budgets.

Half-way measures

The introduction of hosted or on demand CRM may have changed the way we think about implementation but it has not changed the realities of customization. With its emphasis on ultra-fast deployment, low overall costs, and quick configuration some confusion can almost be expected.

A very small company or one with a simple process involving only a few individuals located in the same office might conclude that, for its purposes, many of its process specific rules and procedures can reside in the people who perform the work rather than in business rules embedded in the software. In such situations a generic CRM system with a few changes to the user interface to reflect the company's business terms might be sufficient.

But in most settings this "half way" approach is unlikely to provide the expected return on investment. A small financial services company, for example, still must deal with the complex needs of households in the same way as a larger financial services company. In effect there are no "small" needs where the software functionality is concerned, only smaller or larger companies. The challenge

then, is to identify affordable CRM solutions that can support these industry-specific requirements which can best be found in pre-built vertical market solutions.

To accurately reflect the business of a vertical market, changes to the database and the process logic of a generic CRM application will be required and it is at these levels that it becomes important to seriously contemplate use of pre-built vertical market CRM applications whose developers have already considered these business needs.

Doing it right the first time

As many people already know from personal experience, even a totally customized solution may not be able to deliver 100%

of customer requirements if the underlying platform is not flexible enough and even if it is, the time and resource costs of a custom solution may not reward the effort.

Several major criteria should be considered whenever evaluating the pros and cons of pre-built vertical and generic solutions including the ability to support key requirements, the amount of time and effort involved in each approach, and the costs associated with each.

Supporting key requirements

While support for some attributes can be addressed at the user interface level, others require more depth to treat adequately — they require changes at the database and workflow levels of applications. It is the uniqueness found in the database and in the workflows that proves the worth of pre-built vertical applications because these foundational elements make other system attributes possible. Also, changes at these levels, to the extent that they can be done, are time consuming and can be costly. So before embarking on a customization effort, it is wise to evaluate how the base product supports customization at three critical levels:

- At the UI level — custom fields may need to be added to track industry specific data such as fund names and fund bal-

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ances for financial services or HIN numbers for medical companies.

- At the database level — supporting the way data types relate to each other such as enabling relationships between accounts to reflect Group Purchasing Organization (GPO) relationships in the medical industry or the many-to-many relationships between policies and the policy holders and beneficiaries that need to be tracked in insurance.
- At the workflow level — workflows must support industry-specific processes such as collaborative channel marketing for high tech companies and, increasingly, managing workflows requires support from analytics modules.

Time, effort and cost

We have found that some organizations have already analyzed the time, effort, and costs associated with delivering a solution associated with two different starting points — pre-built vertical market CRM vs. generic CRM. These parties engaged in this exercise out of a need to find the fastest and least expensive routes to solutions while maintaining the highest values for functionality.

What these users found varied by vertical market but in all cases as more extensive modifications were needed to the underlying database and processes, greater effort and expense went into modifying the generic CRM application. This should come as no surprise to anyone familiar with application development.

Specifically, these companies found that the additional time and investment is needed to perform the business analysis necessary to determine what functionality to build, then to develop the functionality, and finally to test it, before moving the system into production was significant. The group found that this process can easily take several months, increasing the time until a company begins to gain any benefit from the solution.

Making a choice

Several users that made their own build vs. buy comparisons recently shared their in-

sights on why they chose Siebel’s vertical OnDemand applications over customizing another leading but generic hosted CRM system. According to the group, whose data is summarized below, it generally takes between four and six months *longer* to customize and deploy a generic hosted SFA solution in financial services, high tech, or life sciences than it takes to deploy a Siebel CRM OnDemand vertical market edition solution with equivalent or greater functionality.

Table 1 shows the time estimates that Siebel high tech customers determined would be needed to customize a leading generic hosted CRM solution to provide the out of the box functionality that came with Siebel’s CRM OnDemand High Tech Edition. The results for life sciences and financial services were similar and all estimates are based on an eight hour work day.

Table 1: Incremental labor estimates for customizing generic CRM to support industry requirements

Category	Person Days
Business requirements	84
Design	175
• UI (new fields, views)	13
• Database (new objects, relationships between objects)	42
• Workflows, business logic	120
Engineering, Development, Unit test	160
QA	60
Deployment/Field Test	20
TOTAL	500

Source: Beagle Research Group, January 2005

Based on the labor estimates in Table 1, Table 2 shows that customizing a generic CRM solution to support industry-specific capabilities such as those required in high tech, or financial services, will cost much more than half a million dollars. This cost is likely to increase as the complexity of a deployment increases.

Table 2 Costs to customize generic CRM

Development Personnel	Cost
Business analyst 680 hours @ \$200/hr	\$136,000
Database expert, 1,400 hours @ \$150/hr	\$210,000
Software engineer, 1,280 hours @ \$150/hr	\$192,000
QA test engineer, 480 hours @ \$125/hour	\$ 60,000
TOTAL	\$598,000

Source: Beagle Research Group, January 2005

Ongoing support

Any significant customization will also require an expensive resource to support and maintain the custom deployment indefinitely (our estimate \$150,000 per year for one full time employee, benefits included). Ongoing maintenance requirements further reduce the benefit of choosing a hosted solution since a major benefit of hosted CRM is the ability to get the benefits of CRM without the need to dedicate IT resources to developing and maintaining the system.

Summary

So, even if it is possible to partially modify a generic CRM solution to meet the needs of a company's vertical market environment, the question becomes, "At what cost?" Analyzing a company's industry-specific needs and building the appropriate data structures and workflows was once a necessity but with the introduction of pre-built vertical market CRM, it falls to the level of reinventing the wheel. And the costs in time, money, and missed opportunity make it a dubious proposition.

Beagle Research Group Analysis

Although on demand CRM offers many advantages in speed of deployment and low cost, modifying software — even hosted software — is the same costly and time consuming exercise it has always been. Developing a CRM solution from scratch is an inherently risky proposition because it requires expertise that lies outside the core capabilities of most companies, and much the same

can be said for customizing a generic CRM application.

It is hard to imagine a situation where it is preferable to customize a generic CRM system for a vertical market rather than starting with an application whose underlying database and business processes already support the majority of requirements of a particular vertical market. Larger companies learned this lesson a long time ago, but as smaller companies enter the market the learning is repeated. In that light some users' breakdown of the analysis and design work indicate it could take four to six months and cost as much as \$600,000 to convert a generic hosted CRM application to one suited to a vertical market.

Given the time and cost exposure documented by real users to customize generic CRM it seems clear that few situations would warrant such a measure. In a world that prizes "getting it right the first time", it makes sense to start with as fully articulated a solution as possible and using configuration tools only where needed.

New pre-built industry-specific hosted CRM options provide a fast, easy, affordable way to deploy CRM in demanding vertical market situations. The alternative of building or customizing from scratch seems like reinventing the wheel by comparison. Starting with pre-built vertical CRM enables smaller companies and dispersed user groups in larger companies to manage their key industry specific business processes without the risk and expense associated with extensive customization. For these reasons, vertical market CRM solutions should be the first option for companies with industry-specific requirements.

About the Author



Denis Pombriant

After a very successful career as an analyst, managing director of the CRM practice and thought leader at Aberdeen Group, Denis Pombriant founded Beagle Research Group to better direct his full attention to analyzing the CRM market and providing deep insight to vendor and end user customers.

As a recognized CRM thought leader, Pombriant's analysis of the CRM market has resulted in numerous insights. Beginning in 2000 he studied the CRM hosting industry and he was an early advocate of the business model. In 2003 he conducted significant new research in hosting and discovered a tipping point in user acceptance of the hosting model during the first half of 2003 that has led to rapid expansion in the industry.

Pombriant was the originator of the "What Works" series of best practices reports — a format that has been widely emulated throughout the industry. Pombriant has led numerous research efforts and has authored or co-authored major research reports on relevant CRM topics including hosting, CRM in the insurance industry, several spending and satisfaction surveys, and best practices reports. He continues pursuing an active research calendar and is currently investigating social networking and the future of application hosting in CRM.

Pombriant has been quoted in such publications as CRMDaily, DestinationCRM, Fortune, The Wall Street Journal, Investors Business Daily, CIO, Computerworld, E-Week, InformationWeek, and other industry publications.

The recently published third edition of *CRM at the Speed of Light*, quotes several research reports authored by Pombriant and author Paul Greenberg describes Pombriant as "...an innovative thinker and the one who...characterized the ASP market as a 'disruptive innovation.' He is one of the smarter analysts out there, willing to be an iconoclast who is often proven right.

In 2003, CRM Magazine named Pombriant one of the most influential executives in the CRM industry.

About Beagle Research Group

Beagle Research Group is a consulting and market research organization focused on emerging technologies and companies that will have an important impact on the way business is conducted in the years ahead. Our work is based on professional standards of quantitative and qualitative research which informs all of our publications.

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