

Paradigm Shift

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Last week a small piece of our world changed. Did you catch it? It happened Thursday, when NetSuite, with its NetFlex announcement, became the second company to offer development and customization capabilities.

The week before, in New York, Salesforce.com announced Multiforce, an ambitious addition to its already ambitious Sforce. Multiforce is an offering designed to give users of Salesforce.com's hosted CRM service the tools they need to extend the core CRM application as well as build whole new applications.

Both companies are opening up their architectures to third-party database and program additions. What each is saying in its own way is that their hosted applications are becoming platforms for further application development by their customers and partners.

Salesforce.com has been at this for over a year, starting with the introduction of Sforce, and it is probably the more articulate of the two firms when it comes to this development. But both companies are plainly equating their CRM services with conventional -- soon to be referenced as "last-generation" -- server architectures.

Effects on Developers

From now on, companies that use these hosted solutions will have additional important decisions to make when they decide to build new applications in house. Until these announcements, the options for building small applications were rather narrow. You could use databases and tools from Oracle, Microsoft and others or, if you were a single user or a smaller department, you might have captured and tracked data in spreadsheets until they got unmanageable and you began pestering IT to "do something."

But now, if you believe the publicity, regular business users can simply define new applications using the data elements of the hosted systems and a catalog of objects to run everything. And, of course, you can define new data elements and relationships as well.

As important as this development is for enterprise users, it is dwarfed by the implication that any third-party ISV can and will use the same technology to build entire new applications. Actually, it's much more than an implication, judging by the size of the partner ecosystem that Salesforce.com has put together. According to the company, more than 150 ISVs representing 5,000 developers are using its tools to build new applications. I have spoken to some of them, and these ISVs are really pushing the envelope with their creativity.

New Realities

Last year I wrote about this phenomenon, pointing out that these developers represent an army of off-the-books staff working to improve the overall offering at the same time that they are seeking to penetrate the hosting vendor's subscriber base. This development prowess has the effect of putting a small company on equal footing, more or less, with larger rivals like SAP and Siebel and a host of other enterprise application companies.

The motivation is simple: With hundreds of thousands of seats deployed to thousands of companies, and a customer base synchronized on one release of the software, an on-demand vendor's base is a very appealing target for developers of new applications.

But before we start popping champagne corks, we need to recall that customers buy more than technology; they buy solutions to business problems, and while these an-

nouncements are exciting, there's still a lot of grunt work ahead before this new model is king of the hill.

Prior to Salesforce.com's and NetSuite's announcements, there was no easy way to make a raft of independently developed applications function as one.

Dealing with Uncertainty

The new technology made it easy enough to carry the same look and feel across a portfolio, but like pre-Maastricht Europe, every time you got to a boundary you needed to whip out a passport and change your money.

The announcement of a single sign-on removes a major impediment, but there are plenty of others -- and they are not exclusively technological. Who owns the resulting third party applications? Who markets and sells the applications? How are revenues shared?

There are also issues of partner exclusivity, and deciding who services and maintains these applications. Most of these issues will be decided by contract, some by courts.

At the same time, opportunities abound. These announcements usher in a two-tier business model in which the platform vendors will "publish" while smaller vendors will serve as "developers."

If publishers do most of the up-front marketing and selling, do the third parties need to spend less in those areas? Will they be more profitable because of it? Will the ISVs turn to doing more consulting imparting their expertise to end users? What effect will this have on systems integrators? How will this affect venture capitalists and ultimately Wall Street investors?

I can envision a situation in which capital is less of a necessity for startups because they no longer need to make big investments in sales and marketing. That said, will this industry at long last become self-funding?

Taking Time

This is a big deal because it does for the enterprise software business model the same

thing that minicomputers and the client-server setup did for the mainframe. It changes everything. It makes the established kings vulnerable and gives new opportunities to everyone.

But as with the mainframe, the change will not happen overnight. This new model is something the industry will grow into. And as it grows it will change the lives of developers, marketers, integrators and investors, as well as users.

Why is NetSuite's announcement so important if they're second to Salesforce.com? It's because one company doesn't make a market. Two companies with similar ideas make two data points on a trend line, and that's when things heat up.



About the Author



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Denis Pombriant is a well known thought leader in CRM and he is the founder and managing principal of the Beagle Research Group, a CRM market research firm and consultancy. In 2003, CRM Magazine named Pombriant one of the most influential executives in the CRM industry. Pombriant's latest white paper, "The New Garage" discusses the emerging new enterprise software industry business model.

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