

Siebel in Perspective

April 28, 2005

I really wanted to write about something other than Siebel this week. No such luck, there's so much news swirling around the CRM leader that you can do pretty well as a columnist just analyzing the analysis that has come forward so far.

In case you've been time traveling or stuck in another dimension, over the last month the company has generated what for many would seem like a year's worth of bad headlines. First the company announced it would miss its quarterly revenue number, then it did and it managed to exceed its own prediction while doing so. The company lost about \$9 million in that process. And as if that wasn't enough the board decided to swap leadership not quite a year after founder Tom Siebel quit while retaining his title of chairman of the board — so if you're counting that's three CEOs within the course of 12 months.

Oh, and there was a "shareholders" meeting, or maybe it was a shareholder meeting organized by Providence Capital, Inc. holder of one percent of Siebel stock. The company currently has about \$2 billion in cash and some are grumbling that the money should be used to directly benefit shareholders.

Got it? Good. Now the fun starts.

Sample analysis

I received an email synopsis of analyst opinion — including mine — the other day and it was amazing. Two weeks ago in this space I said that Siebel should take itself private because it needed to revamp its business model quickly. Siebel is becoming an on-demand solutions company and that means a very different way of counting revenue and that kind of transition is tough on investors.

If you are a public company, changing business models is a little like taking a bath on Main Street, at high noon, it can be done but.... Investors don't like this kind of change because it disrupts the cash flow and craters the stock price. That's why it's something that's best done in private and that's what I've been advocating.

But to hear what others are saying makes you wonder if we're all talking about the same company. Hurwitz and Associates is a case in point. They were quoted as saying that Siebel "...had forgotten that success is based more on pleasing customers, than trying to grow faster than the competition at the customer's expense. In recent years Siebel was under pressure to maintain its leadership position over competitors like Salesforce.com, SAP AG, and Oracle/Peoplesoft. In its desperation to maintain its market share Siebel became indifferent to its customers needs and demands. The company ignored complaints that the software was difficult to install, learn, and use. Worse, the company became indifferent to customer complaints that they weren't getting what they expected from their investments. Siebel appeared to be more focused on selling additional seats, than adding value to its customers' businesses."

But wait a minute, this is America, can't we have both growth and happy customers?

Full disclosure

In the full disclosure department I would like to point out that I recently attended the Siebel EMEA user meeting in Barcelona — along with representatives from Gartner, IDC, and many others — so you could say my objectivity suffers. But the only problem with my objectivity might be that I spoke with some of the more than 2,000 people who showed up in Barcelona.

Know what? It was a professional gathering of people who really wanted to learn new ways of maximizing their investments in CRM. No one threw tomatoes and there were no lynch mobs.

All about the customer

Over the last few years I have noticed definite movement by Siebel to better understand and please its customers. That initiative is evidenced by the Siebel Services SVP Eileen McPartland's 'Blueprint' for success, a multi-step methodology for helping customers get it right the first time. It is also evidenced by the company's efforts with Microsoft to improve the usability of the UI and incorporate desktop applications like Outlook (a similar initiative is also ongoing with IBM).

And as for market share, I would assume Siebel would plead guilty on that one. Siebel now has over 3 million seats deployed and they deployed more than one million last year alone — more in the last year than its major competition's customer bases combined. Forgive me if I repeat myself but you don't sell that many seats and become the market leader by building products that don't work or by having a company full of arrogant people who don't care.

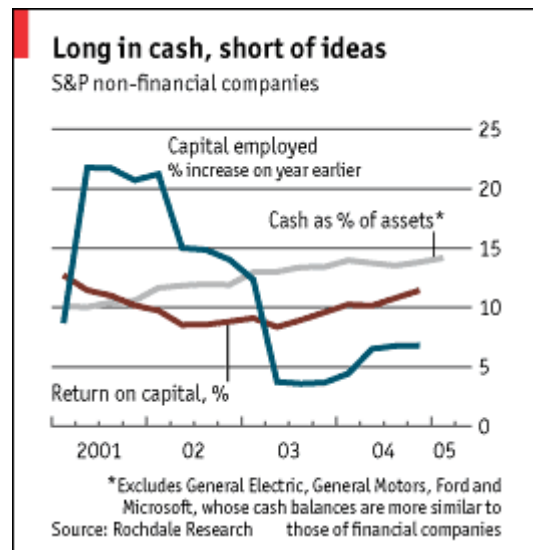
Far from perfect

So is Siebel perfect? Far from it. Tom is not a cuddly character, he gives bad sound bites, and he could learn a thing or two in the human relations department from someone like Bill Clinton. But it strikes me that Siebel's primary problem right now is a combination of finance and PR. The company has more shares outstanding than Oracle and its PE ratio is about 43. I am not a financial analyst but I know a PE ratio of 43 is about double the market average but about average for tech stocks.

Siebel's troubles could be neatly summarized by an article in the April 23 edition of *The Economist* titled "Looking for Trouble". The article references Nicholas Colas, head of research at Roachdale Research, a boutique broker dealer in New York. Colas contends

that companies have improved their financial positions at the expense of under investing in operations, which is to say investing in their future growth (see Figure 1 below). These companies have strong balance sheets and a high proportion of cash but, meanwhile their capital investments have declined. The translation — growth is increasingly due to macroeconomic trends rather than internally generated i.e. the old fashioned way.

Figure 1: Capital investment decline



Pulled in different directions

There's a double whammy at work here. Companies could be investing more in all kinds of things — including software — to drive their future growth. But instead they're sitting on their cash which has a ripple effect in the economy causing smaller companies to reduce their revenue estimates and hoard cash to help them get through what they hope will be a short dry spell.

In a stagnant economy investors have refused to give up on the idea that tech stocks will rise again and become worth the prices they now command. That might happen over the next few years, but investors that have been hanging on in recent years are becoming restless. In such an environment it's hard to miss your revenue forecast. Add



to that the complexity of changing your business model and you have what you have.

Siebel's error

Perhaps Siebel's biggest 'mistake' was changing CEO's because it drew additional attention to Siebel even while other companies were generating weak numbers as well (ever hear of IBM, Coca-Cola, GM, Ford and Continental Airlines?). The easier road to take might have been to blame it on Mike Lowry's relative newness in the position and to say "It's only \$9 million". A company sitting on \$2 billion can say that. Once. But with all his fine points I thought Lowry lacked what was needed to drive this successful entrepreneurial company. With a major user meeting coming up (Barcelona) it would have been far worse to wait a few weeks only to do the same thing. You have to give Siebel some credit for biting that bullet.

So, where does that leave us? From what I can see the company has plenty of product as well as a clear idea of where it wants to go and where it wants to take the industry. The collective ego may be bruised from recent events and that's something the new CEO, George Shaheen, needs to attend to.

On a larger scale, the company is still in the midst of changing its business model, a change that will continue to drive Maalox sales in the investment community. That's why I still think it would be smart for Siebel to do what it needs to do to the business model — in private.



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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