

Goldilocks and CRM Adoption August 2005

Introduction

Somewhere along the line we mixed up the ideas of mid-market CRM adoption with mid-sized companies. The mid-market describes a group or cohort united by the characteristic of when they buy a type of product, just as the early adopters are the ones who typically buy first.

Generally, early adopters, are companies that invest in technology to gain a competitive advantage and because they can afford to. Usually that means early adopters are large companies but smaller, well-heeled, companies also fit this definition. Early adopters are comfortable with buying a technology solution simply to see how it works and to determine if it would be viable for their businesses. They can also afford to — and sometimes do — throw away an investment that proves unworkable. The mid-market cohort buys somewhat later driven to their purchase decisions in part by competition, especially from enterprises that have already made the investment.

Our research has shown that there is little correlation between a company's size (measured in revenues) and the life cycle cohort in which it makes a purchase. For example, we have seen many examples of small but relatively well funded companies in the early adopter ranks. Similarly, mid-market companies of all sizes are more conservative and work with fewer resources so their decisions are based much more on utility — "Does the solution work?" and "Can I make a return on it?" are the kinds of questions they ask.

Like Goldilocks who used multiple criteria like size to evaluate a chair, softness to compare beds, and temperature to taste porridge, companies need to assess their CRM needs based on multiple criteria. In CRM that means factors such as a com-

pany's resources, competitive environment, and the capacity for dealing with risk all factor into finding a CRM solution that's just right.

What the Research Shows

We conducted research in 2003 and 2004 which showed that the *average* company using CRM had revenues of about \$9 billion, which made it a very large enterprise. However, the *median* company using CRM at that point had revenues of only about \$300 million, which clearly positioned it as mid-size.

Average and median

Keep in mind that an average is a simple arithmetic relationship among the data — in this case total revenues / total population — and that it is subject to skewing by a few large data points, in this case, the number of large multi-billion dollar enterprises that had adopted CRM. On the other hand, the median is the statistical mid-point of a population — the peak of the bell curve. There are equal numbers of individuals on the bell curve to the right and to the left of, in this case, a \$300 million mid-point. The median tells a truer story.

The research clearly shows there is no mandatory relationship between the average and the median company size or when a company will buy CRM. As a matter of fact, in the case of companies using CRM there is a great divergence between the average and the median. So while company size may be one factor important to CRM adoption, like Goldilocks, CRM buyers should stay open-minded in evaluating solutions. In an Executive White Paper published in 2004 (The Z-Theory and the Mid-market) we offered three indicators that together offered better perspective.

Three Key Indicators of CRM Adoption Avidity

The implications of our findings are significant because they clearly show that small, medium, and large companies make up parts of each purchasing cohort — early, middle, and late. So if not size, what determines when a company is likely to make a CRM purchase decision? Also, by focusing on so called “mid-market” solutions are we forcing a one-size-fits-all approach on a variety of companies that simply happen to be buying at a particular point in time?

In our earlier research we found three parameters that are particularly useful for many companies when determining if they are ready for CRM:

1. They have *resources* to invest in new business technology.
2. They are *comfortable with the risks* (risk tolerance) inherent in investing in business technologies that may not be fully proven.
3. They actively seek out innovations that help them gain a *competitive advantage*.

Resources

Although abundant resources are generally associated with large companies, plentiful resources can also be found in many smaller companies that generate high margins for their products and services — regardless of their size. For example, in sectors such as finance, and some parts of technology and telecommunications high profit margins make these companies “richer” than similar sized companies in less highly leveraged industries, providing them with the resources to plow into new technology should they decide to. Also, resource availability is relative; over time prices decline progressively reaching price points that less affluent companies find attractive.

Risk Tolerance

A company's comfort level with risk is frequently overlooked in assessing CRM need and the likelihood of moving ahead with an acquisition. Risk tolerance can be influenced by several factors including an entrepreneur-

rial culture, liquidity, or simply the knowledge that the industry is highly competitive, changing rapidly and that standing still is no option. We see that comfort with risk drives companies in different ways, for example in technology companies (entrepreneurial), financial companies (liquidity), pharmaceutical companies (liquidity, rapid change), automotive (highly competitive), and many others.

Competitive Advantage

Much the same can be said about competitive advantage — it is simply another motivator that can bias some companies to take action in adopting new technology while it can also provide a bias against standing pat. Companies seeking competitive advantage know that leveraging information technologies such as CRM are good investments in assuring future profits.

Influences on Decision Making

As a practical matter, few companies will be one-dimensional, showing a spike in only one area and the interaction of the three factors will determine a company's decision to move ahead as well as its preference for one type of solution over another. Understanding this balance will help ensure a reasonable choice and a successful outcome. It can also aid vendors in qualifying prospective customers.

For example, a company with ample resources but relatively low competitive challenges may not see a great need for investigating CRM's many advantages. On the vendor side, such a company might be described as having latent pain — a need for a solution that has not become obvious to the decision makers. In another scenario, a company with relatively low risk tolerance might wait until competitive pressures are high before making a CRM decision. This company too, might be described as having latent pain but for different reasons.

While each company may eventually buy CRM, the type of CRM each selects could very well be different. For example, the first company with low competitive challenges might opt for a point solution in sales such as contact management while the company

with low risk tolerance might select a very low cost on-demand solution.

Building a scoring system

When companies convert latent pain to active need, they can, in their haste make poor decisions so we recommend every company routinely evaluate its own needs and style of decision making to avoid hasty selections. One way to accomplish both is to construct a scoring system based on the three axes mentioned above rated on a 1 to 5 scale (1 being lowest) to determine both a company's profile in each of these areas as well as its likelihood of pursuing a CRM solution. In our earlier survey work we found that high aggregate scores were better predictors of CRM readiness than company size alone. The small companies we found in the early adopter cohort provided ample proof that these factors are predictive of CRM readiness.

Over time, as the highest scoring companies complete their CRM deployments, we should expect that average aggregate scores will decline as other buyers enter the market. This means that vendors should either be prepared to recalibrate their scoring criteria or simply target those lower scoring companies. For example, a company that is risk averse — scoring less than 3 on a 1 to 5 scale may remain risk averse but with additional proof points and a technology's success in the market, risk may be substantially mitigated and a company might find itself in a relative mainstream adopter cohort.

Vendor Advantage: Solution Types and Multiple Needs

As the market ages many CRM vendors are introducing new products designed to lower the total cost of ownership (TCO) and make implementation and maintenance easier for customers in the later cohorts. But as with any product introduction, these new products must still go through a proving process with real customers; moreover, the lines of communication within many vendor firms are at risk as potentially competing sales forces and different pricing schemes vie for essentially the same customers.

Sage Software, Inc. is an example of a company that has managed to avoid, for the most part, contention in its internal operations while offering multiple different front office solutions through its reseller channel. For example:

- Many organizations simply need a contact management solution for their sales forces and Sage fills that need with ACT! With more than 2 million seats deployed, ACT! Continues to be a just right solution for sales forces focused on contact management regardless of the size of the organization.
- For customers interested in on-demand solutions, there is SageCRM formerly AC-CPAC. Sage has renovated the product adding many new features and this on-demand solution may be a great fit for cost conscious or risk-averse companies trying full suite CRM for the first time.
- Other organizations with a need for specialized functions that can be best delivered through customization continue to work closely with Sage resellers to tailor solutions to unique vertical market demands or innovative process requirements.
- For many end user organizations, front office systems are becoming insufficient solutions on their own because so much customer information is stored in back office systems and that information must be accessed in the sales, marketing and support processes. For these customers Sage also offers a suite of back office products starting with PeachTree Accounting and progressing through the MAS family of increasingly sophisticated back office solutions. As with the front office solutions, a small army of resellers and partners stands ready to provide configuration, customization, and training as needed.

Conclusions

The old idea that markets evolve in an orderly progression starting with very large customers and progressing to smaller businesses according to company size is no

longer sufficient to explain adoption of technologies like CRM. Rather than a single differentiator, our research has shown that CRM decisions are made by companies evaluating their abilities to shoulder the costs and risks, as well as their own competitive situations. End users and vendors can both benefit from careful evaluation of these parameters on an individual basis before engaging in a sales process. This kind of evaluation will help end users better qualify their need for and comfort levels with solutions. For vendors, especially those that can offer multiple solutions, evaluating customer needs based on these parameters will reduce wasted time and effort in the sales process and potentially result in happier long-term customers.

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