

## Has CRM Bottomed Out?

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Forgive me, but from this parochial perch and amid all the excitement of the baseball post season it's hard to believe there are other important things going on in the world. Last week some important earnings numbers came out of the communications departments of arch rivals SAP and Siebel which I only got to after reading the expanded sports section of my hometown paper, *Boston Globe*. I also haven't slept much lately.

Last week both SAP and Siebel said that their businesses were performing better. SAP's revenues were up 17% year-over-year and income was up 12% for the same period. Earnings looked particularly strong in the EMEA region where software revenues increased 24%. Third quarter license revenue was up 10% over 2004's second quarter for Siebel while operating income was up 500% for the same period.

### INSIDE BASEBALL

SAP continues to compare itself against a "peer group" that it makes up to compare its progress. According to the footnotes of the earnings announcement, the group consists of "Microsoft (business solutions segment only), Oracle Corp. (business applications only), Peoplesoft and Siebel Systems, Inc." Sounds like comparing Gravensteins and Valencias to me but I'm just an analyst. According to SAP its share of revenues generated by these five companies including itself was up from 53% at the end of 2003's third quarter to 56% at the end of this year's third quarter.

To be sure, earnings for many CRM vendors have been inching up this year. With all this positive earnings momentum the question begging to be asked is whether or not CRM revenues in general will see a more bullish upswing and whether the economic underpinnings will enable more robust growth in

the future. As I mentioned above, I'm just an analyst but on that topic I am also a skeptic. Much as I would like to see a return to double digit growth in the CRM sector, something tells me we need a more reliable growth scenario for the rest of the economy before CRM is out of the woods.

### STRIKING OUT

My reasoning is not that complicated. CRM addresses the business issues vendors have in dealing with consumers — sales, marketing, service. But while consumers have been gamely pursuing their purchasing habits over the last few years job growth has been nonexistent. In comparison, the economy added 23 million new jobs in the decade of the 1990s, a raw average of 2.3 million per year. Since we've added no net new jobs in the last few years you could say that there is a "consumer gap" of roughly 7 to 10 million consumers. That translates into 7 to 10 million customers in need of service.

Some economists say that what has kept the consuming engine of the economy going has been mortgage refinancing especially when people take equity out of their homes to finance current expenses. Those same economists tell us that our debt to equity ratio is rising and that this refinancing boom simply won't go on forever. Sooner or later interest rates will rise to finance the national debt, or the last consumer will refinance and access to easy money will be over. And there is also the issue of inflation in things like fuel — and everything it touches — and healthcare. So the consumer dollar does not travel as far as it did a short while ago.

### LONG RELIEF

At some point consumers will need another way to get the money to buy the goods and all of that leads to CRM. The slowdown we

have experienced in the CRM sector over the last few years might not be exclusively caused by penny-pinching executives trying to ride out the economic turbulence. Part of it might simply accrue to the fact that at present levels of consumption companies do not need to buy lots more. To be clear the CRM industry is not going away; our best estimate is that CRM is a \$13 billion market this year. But the problem is that CRM was about a \$13 billion market last year too.



We see many examples of new companies with innovative approaches to customer centric processes and business problems entering the market. And the mainstream market, made up of smaller companies adopting CRM for the first time, continues to be strong according to Gartner's 2003 market study. But these buyers are exerting downward pressure on prices which is normal in this phase of a market.

To reinvigorate consumer spending which would create more demand for CRM products, we need a growing jobs market and a reduction in inflation for items that we cannot live without like gas for the car and pills for granny. We have tried stimulating job growth with tax cuts but the numbers tell us the approach didn't work. We need to try something different, and soon.

## About the Author



### Denis Pombriant

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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## About Beagle Research Group

Beagle Research Group is a consulting and market research organization focused on emerging companies and technologies 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.

This document was researched and written by Beagle Research Group.

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