

# *Key Findings*

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## **CRM's Coming Second Act**

Scott Fitzgerald once famously observed that there are no second acts in American life. I don't agree because for me, if anything, America is, and has always been, the land of the second chance. On this topic, William Faulkner comes much closer to the reality that I know. I've always been partial to an observation that one of his characters made on the subject — "You can always change your name and move to Texas."

Fitzgerald might have been anticipating the technology industry with his observation. Certainly the tech sector is littered with the carcasses of many dead companies — one trick enterprises that bloomed once and failed miserably as the market changed and they couldn't. I worked for my share of them and ironically it was great training for an analyst. Sometimes I think that social networking applications were specifically invented by a few techies trying to keep tabs on the alumni of some of these failures.

## ***Changing leadership in CRM?***

The context of failure and redemption provides an interesting opportunity for examining the CRM industry. CRM has existed as a discipline for a decade and in the last couple of years we've seen what was once a steep growth curve fall over on its side only to revive somewhat as the economy gains momentum. Many people wonder whether or not there might be a change of leadership coming, if the original leaders have lost their way, and whether or not CRM even has a future. Far sighted prognosticators wonder what that future might look like — will CRM continue as a free standing technology or will it become part of a few mega suites that seem to be evolving.

I am on record believing that the current state of the market in enterprise software is at a high point of complexity and that the next move is not greater consolidation but greater flexibility through modularity and improved integration facilities. We see plenty of examples from leading vendors to lend credence to this hypothesis. Salesforce.com is articulating a strategy that uses a standardized platform (Sforce) and confederation of developers to enable broad-scale development and integration of business applications from disparate sources that run as one. Siebel has been aggressively promoting its Universal Application Network (UAN) for a couple of years most recently making it available to its hosted customers as Integration OnDemand. And SAP has been touting its X-Apps for similar purposes.

## ***Or writing a new chapter in enterprise software?***

Taken to a logical conclusion, these technologies spell the beginning of a new chapter in enterprise software in which there will be a two tier business model consisting of publishers and developers of software. The tiers will produce a hub and spoke model with many developers building applications to the standards of a few publishers. It will be the publishers who deal most directly with the customers and the idea of a monolithic application suite pursued by some of the largest companies in software today will be achieved by committee, not the lone cowboy.

Last week my phone rang a lot with reporters asking me what I thought about Siebel's announcement that it would miss its quarter and others asking me about the significance of SAP's announcement that it expected growth of 15%. Was this evidence of a change of leadership in CRM? Predictably SAP's and Siebel's stock prices went in opposite directions. Given my view of the continuing evolution of the industry, it's hard to say much of anything about these data points other than to point out the obvious. SAP offers multiple lines of applications while Siebel is positioned in CRM exclusively and SAP is currently in the process of upgrading its nearly 20,000 customers to its newest product, MySAP.

## ***And further evolving CRM***

Clearly, at this point in time, the last generation of CRM has caught on with mainstream buyers and there are many vendors still standing that can articulate that vision and deliver credible solutions. But mainstream buyers are not the ones that push the envelope and someone needs to be riding ahead of the pack scouting out the next challenges and developing the solutions for the next big leap.

Historically, in CRM at least, one of those vendors has been Siebel. They were first or among the very first to consolidate a suite of CRM applications, to develop vertical market CRM applications, and to embrace analytics. They were even among the first to attempt a hosted solution and although that first attempt failed they've come back with a very credible offering.

To amend Fitzgerald, *most* companies don't have second acts but very frequently the leaders from one round get a chance to move the industry ahead in the next generation. Right now I think we are waiting for that generation of technology and its business model to get here — like surfers hanging out on their boards waiting for the next wave. And Siebel is doing a lot to make that new generation, whatever its ultimate configuration, a reality.

When a company fails to meet its projections, its stock should be punished. However, there is a distinction between a viable short term investment and a viable long term company and too often we confuse the two. If Siebel can't make its quarter its stock should sell at a discount, that's common sense. But short selling can be over done and before we write the company off all together we need to keep in mind that it is Siebel at least as much as any other company that is driving the direction of innovation in CRM.