

# **CRM: On-Demand or On-Site?**

**A Decision  
Framework for  
Choosing the  
Right Deployment**

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## EXECUTIVE SUMMARY

The rise of Software-as-a-Service (SaaS) is changing the way enterprises pay for and use customer relationship management (CRM) software. Should your company's CRM system be managed by an outside vendor or managed internally by your own IT staff? The answer depends on factors that vary depending on company, size, competitive environment and strategic goals.

Business leaders should assess their CRM options based on software functionality, customization, integration, vendor lock-in and strategic fit. This white paper identifies issues that buyers should analyze to decide which CRM deployment option best suits their specific needs.

Two principles should inform any CRM decision.

- Seek vendors that offer multiple deployment options (SaaS, On-Site) with the ability to move between those options. As the business landscape changes, your CRM requirements will too. Flexibility is paramount.
- Avoid vendor lock-in. Proprietary "platforms" are designed to benefit the vendor, not the customer. Assess how much pain you will endure if you want to switch CRM vendors.

The following outlines a decision-making framework to help companies decide which delivery option suits them best. It also offers case studies of SugarCRM customers to show how and why they chose a specific deployment option.

## SAAS AND THE CRM MARKET

SaaS has quickly gained traction as a valuable technology but remains a relatively modest part of the overall CRM market. The Silicon Valley hype cycle has tried to convince customers that all CRM software will be delivered as a service in the near future, but that reality is somewhat different still a ways off. A 2008 study by AMI Partners points to substantial growth of SaaS adoption by small and mid size businesses, but still falls short of some analysts early bullish outlooks on SaaS.

*"SaaS adoption is rising steadily among U.S. small (SBs, 1-99 employees) and medium businesses (MBs, 100-999 employees), according to a study by AMI-Partners. The study finds 21 percent of SBs and 31 percent of MBs currently use SaaS solutions, which is double the percentage of adoption in 2004."*

—The Industry Analyst Reporter, March 3, 2008

For companies evaluating CRM software, On-Demand is one option, but it's not the answer for everyone. On-Demand is an attractive option for companies with basic CRM needs, especially those with scant IT resources in-house. As companies' customer management strategies grow more complex, the On-Site deployment option may offer a better solution.

Companies that require greater flexibility or customized CRM capabilities may find On-Premise more suitable. Companies with corporate or regulatory requirements about controlling sensitive customer data may need an on-site solution, either an installed application or a CRM appliance. Likewise, enterprises that must integrate CRM data to other enterprise applications may prefer installed CRM software rather than working through narrow APIs residing in a third-party data center. Companies with quality programs such as Six Sigma may lean toward On-Site because they control the code. The customer doesn't control upgrades to a hosted solution so they can't run Six Sigma processes.

With companies CRM priorities shifting over time, some vendors like SugarCRM have migrated customers from On-Site to On-Demand or vice versa, allowing customers to change their CRM deployment strategy without going through the hassle of changing CRM solutions.

Power Efficiency, a Las Vegas based provider of energy efficient industrial motors, initially selected to deploy SugarCRM On-Site. A year after the initial deployment, Power Efficiency opted to migrate their instance into an On-Demand account in an effort to lower their IT burden while improving performance and consistency.

The transition was completed over a two day period with no data interruption allowing Power Efficiency's IT department to focus on other areas of need. "The transition required almost no effort on our side. The move has allowed us to take advantage of SugarCRM's best in class maintenance and security," says Power Efficiency CFO B.J. Lackland.

Because business needs change over time, decision-makers should ask any prospective vendor whether they offer the flexibility to move from one deployment option to another. Control of customer data becomes another key requirement for buyers who want the option of maintaining a flexible CRM strategy

Statements	1=Strongly Agree 5=Strongly Disagree				
	1	2	3	4	5
IT is a source of competitive advantage for my company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
We have the IT resources to manage the CRM application.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My physical IT infrastructure is able to run the CRM application.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The CRM application will be customized to match our business processes.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CRM must integrate with other enterprise applications (ERP, Web site, etc...).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate policies prohibit customer information outside the firewall.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
CRM is a strategic initiative across all departments (sales, marketing, support).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Total</b>					

**QUICK CALCULATOR: SHORTCUT TO A SPEEDY DECISION**

The Quick Calculator shown above is your shortcut to a speedy decision on how to deploy CRM. If this tool doesn't provide clear guidance, read the rest of the paper for a fuller explanation of how to approach your CRM deployment decision.

First, determine whether it's even a contest between On-Premise and On-Demand by answering these two deal-breakers:

- **Is the cost (TCO) of the two solutions comparable?** Do a TCO analysis for each deployment option. Even if money is no object in your situation, someone in your company still will ask about total cost of ownership.
- **Do all CRM solutions offer the key functionality that your company needs?** The more your needs are met out of the box, the less time and money you will spend on customization.

If one solution is far ahead on cost or features, your decision may be easy. But if those two answers don't yield a quick verdict, rate your company on the seven statements in the calculator.

Total up the scores from your answers above.

- If your score is between 7 and 14, On-Site CRM is the correct solution for your organization.
- If you score between 28 and 35, an On-Demand system is the right fit for your company.

Scores between 14 to 28 indicate that either On-Site or an On-Demand solution might work for your company. Weigh all 16 issues explored in this white paper to help with the decision.

**THE DECISION FRAMEWORK: ON-SITE VS. ON-DEMAND**

In approaching a decision about implementing CRM software, corporate decision-makers must assess three sets of factors:

- Business requirements
- IT capabilities
- Security



**Data Security With SugarCRM**

Avid Technology is the industry leader in digital media creation tools for film, video, audio, animation, games and broadcast professionals employs over 250 sales professionals.

In choosing a CRM solution, Avid Technology had to decide between extending an already significant investment in SAP, standardizing on one of the many hosted solutions used within various departments or finding a more user-friendly on-site solution.

After a careful return on investment analysis and security evaluation, Avid decided to keep its CRM solution in-house with SugarCRM On-Premise. With big plans for growth and a premium placed on protecting customer data, a flexible in-house solution best fit the company needs.

Says James Sullivan, CRM Analyst at Avid, "I don't think the business was really dead set on finding an open source system...It just so happened that SugarCRM was open source and was a superior product at a superior price."

## BUSINESS REQUIREMENTS

**Cost:** To compare deployment options, perform a Total Cost of Ownership (TCO) study on each option you are considering. Include costs of hardware, software, IT resources to manage the application and any internal charges from your IT department for hosting the CRM application or appliance.

If you compare a traditional software license for On-Premise software, the upfront cost for the On-Demand option will look quite inexpensive. However, some On-Site software providers sell On-Premise software as a subscription, which may make these solutions even less expensive than On-Demand offerings.

Watch out for hidden costs. Some SaaS providers offer teaser prices, then hit customers with hidden charges for data storage and back-up, add-on modules of key



### Superior Switches From Salesforce.com and Saves \$100,000

Founded in 1972, Superior Industries designs and fabricates a full line of conveying equipment for industrial manufacturers.

In 2005, Superior management reviewed the return on investment of its Salesforce.com CRM service and decided to reevaluate. "We began using Salesforce.com as a patch in 2000 because we did not have the resources in place to manage a CRM system. Over time, the costs of Salesforce.com grew but the value they provided did not," says Mary Erholtz, Marketing Manager at Superior Industries.

As Superior looked to replace its CRM system, the company focused on solutions that it could customize and integrate more cost-effectively than On-Demand CRM applications. After careful evaluation, Superior Industries chose Sugar Professional On-Site to gain more control over its CRM deployment.

With SugarCRM, the company has more control over its information. The cost savings provide an additional benefit: Superior expects to save \$100,000 by switching from Salesforce.com to SugarCRM.

CRM functionality, activation charges, data migration, etc. These extras often go beyond the hosted vendor's price list. Charges for "extras" can quickly drive your costs sky high.

**Urgency:** How urgent is the business need? In time to implement, a hosted service is generally fastest (though not instantaneous). Large implementations, no matter what the form of deployment, generally start with a pilot project. On the flip side, if you need a stop-gap CRM system for a limited time, a hosted solution can buy time to carry you to the next phase.

**Switching costs:** If you need to switch your kind of deployment in the future, ask your vendors whether you can control your strategic customer data. Can you move seamlessly to another method of deployment? Is the code base the same for installed and hosted versions so you can maintain your customizations? Are you charged huge fees to switch?

**Vendor consistency:** Companies that are already using enterprise software from one of the major suite vendors should evaluate whether there are advantages to adding a CRM package from that same vendor. Or CRM might be the place to make a clean start if the costs of extending your implementation are exorbitant.

**Comfort with outsourcing:** Is your company already outsourcing key business processes? Most companies already outsource payroll and retirement plans. Do you outsource HR activities, procurement or supply chain applications? If your company is already comfortable with outsourcing, then hosted CRM is not a huge leap. If your company likes to keep key functions in house, you could face an uphill battle to convince management to go with a hosted CRM application.

**CRM as differentiator:** If communicating with your customers is a strategic advantage over your competitors, then your CRM choice should reinforce that advantage. If you view CRM more as a practical way to help your sales force communicate, you may opt for On-Demand.

## IT CAPABILITIES

**IT as differentiator:** Are your IT operations a source of competitive advantage to your company? If so, you may want to install On-Premise software, then let your IT gurus work their magic to make CRM a strategic advantage. If your IT operations only create headaches, a hosted solution may make the most sense.

**Integration:** Can the CRM application be integrated with other enterprise software? If the CRM application must tightly integrate with legacy applications such as accounts receivable, warehouse management, ERP, E-Commerce, or content management applications, then an installed On-Site application may be easier to integrate. If CRM runs exclusively in sales and marketing and you need little integration, you may do well with On-Demand.

**IT skill set:** Do you have people with adequate development and management skills to host and run the application yourself? Application management requires specialized skills, so IT departments must have, hire or contract for those skills to run the On-Site app, plus budget to pay for them. Alternately you may opt for On-Demand or a CRM appliance that could be installed on your premises.

**Customization:** Check how closely your business processes match up against each CRM application you're considering. If you must heavily customize the generic CRM software, you may be better off to install the On-Site software. If out-of-the box capabilities are aligned with your business processes, you may be happy to let a vendor host the CRM software and put your IT group to work on higher priorities. Be sure to ask any hosted provider whether you can maintain your customizations when CRM upgrades are released—the right answer is, "Yes!"

**IT alignment with LOB:** Do your IT and CRM users work well together? If so, that will push you toward installing the application and running it yourself. But if IT and your CRM-using lines of business are stand-offish, why not pick On-Demand?

**Physical IT infrastructure:** Do your IT department have servers, networking equipment and database capacity to run the On-Site application? If IT must add new hardware, make sure there's adequate space in the data center. If capacity exists, the On-Site option becomes more attractive. If there's no capacity and no way to expand, that's an argument for On-Demand. A CRM appliance may prove attractive if IT has space but not people to support the CRM application.

## SECURITY CONSIDERATIONS

**Customer data:** What happens to your data about your customers when you switch to another CRM vendor or simply change how you deploy CRM? You certainly don't want to leave your customer data with a hosted CRM vendor—it's yours, not theirs.

**Security sensitivity:** How paranoid is your organization about computer security? If management is security-obsessed, you may decide against an On-Demand CRM solution. Don't automatically reject On-Demand in favor of On-Site, but calculate how many political points you want to risk by arguing to outsource.

**Data security:** Do corporate policies allow you to store customer data outside your security perimeter, outside your control? If so, then On-Demand is viable. If not, then an On-Site solution or a CRM appliance that you run inside your firewall is feasible. Data security requirements vary by your company's regulatory requirements: Sarbanes-Oxley (public companies), HIPAA (health care) and many other legal restrictions depend on where you



### Constituent Relationship Management at State of Oregon

As the largest state agency in Oregon, the Department of Human Services (DHS) manages a large number of Medicaid cases while maintaining HIPAA compliance.

To move from a manual to an automated system, State of Oregon not only looked for a cost-effective solution, but one that had a large talent pool to support the application.

In short order, CIO Bill Crowell was presented with SugarCRM as an application to meet the agency needs. With a Sugar Cube appliance, DHS deployed a turnkey solution on-premise. In less than a year paper-based Medicaid were cut for 60,000 to 37 with the help of SugarCRM.

In addition to this speedy return on investment, Crowell quickly saw the power of the open source community, which ensures the application will be supported for the time period DHS demands.

"SugarCRM can provide for a more robust application to serve the needs of our business. They have 45,000 developers around the world contributing to their product at no cost. I don't think Salesforce.com has 45,000 developers on staff. How are they going to keep up? The answer is, they're not," says Crowell.

operate geographically and what industry-specific mandates affect you.

**External users:** Allowing your channel partners and resellers to use the CRM application complicates the decision. Of course your sales and field staff must have access when they're working away from the office, but including partners is a separate issue. First, does each CRM deployment option allow users beyond your firewall? Second, can the CRM application implement your company's corporate security requirements?

## VENDOR EVALUATION

This white paper focuses on deciding among deployment options, but you also must judge the business



### Deployment Flexibility With SugarCRM

Founded in 1946, Sterling PCU provides specialized equipment to the appliance and automotive industry. Sterling PCU originally used Salesforce.com until the cost of customization became too much. Sterling wanted to continue with a hosted CRM application but did not want to spend their entire IT budget on CRM. "Believe me, we have a lot of priorities in IT, but a very finite budget. Any money we did not use on CRM could be put to good use somewhere else," says Christopher Edwards, General Manager, Sterling PCU.

After an extensive review, the Sterling team decided to standardize on Sugar On-Demand. The company made the transition in less than a week. Edwards call SugarCRM an "elegant solution" for managing customer relationships. The Sugar team helped Sterling implement enhanced quoting functionality, a key customer tracking feature for a company that must manage relationships across hundreds of companies on five continents.

As the company ties Sugar even deeper into its operations in the coming year, it may move from the Sugar On-Demand offering to Sugar On-Premise to connect the application more closely with its ERP system. "We will most likely move our customer assets to Sugar On-Premise. Salesforce.com cannot provide us that kind of flexibility," says Edwards.

prospects of each vendor. Does your vendor have a good track record with customers? Are its long-term prospects viable? Are you banking on the skills of a specific group of vendor employees to deliver the CRM solution? What if they quit? Was the vendor recently involved in a merger or acquisition that might strain its internal capacities?

## CONCLUSION

Choosing how to deploy CRM in your enterprise isn't easy, but this white paper provides a road map to issues you should consider. In the end, each company must decide how much weight to give each factor. Different priorities will produce different deployment decisions.

A different deployment may be appropriate for your company at different points in its life. You need flexibility and control, not vendor lock-in. Reduce the pain of outgrowing a deployment option by selecting a vendor that lets you change your mind as your requirements change. Companies should seek a CRM vendor that offers multiple delivery options and the ability to shift from one deployment option to another.

## ABOUT SUGARCRM

SugarCRM is the world's leading provider of commercial open source customer relationship management (CRM) software for companies of all sizes. SugarCRM easily adapts to any business environment by offering a more flexible, cost-effective alternative than proprietary applications. SugarCRM's open source architecture allows companies to more easily customize and integrate customer-facing business processes in order to build and maintain more profitable relationships. SugarCRM offers several deployment options, including on-demand, on-premise and appliance-based solutions to suit customers' security, integration and configuration needs.

For more information, call 408.454.6900 or 1.877.SUGARCRM toll-free in the US, email [contact@sugarcrm.com](mailto:contact@sugarcrm.com), or visit [www.sugarcrm.com](http://www.sugarcrm.com)

## ABOUT THE FACTPOINT GROUP

The FactPoint Group ([www.factpoint.com](http://www.factpoint.com)) is a Silicon Valley-based research, publishing and consulting firm specializing in the early adoption of new technologies. The FactPoint Group has been producing world class research, analysis, and consulting since 1993 and continues to help its clients sell and use new technology solutions, including Software as a Service. FactPoint participates in the SaaS Executive Council of the Software and Information Industry Association (SIIA). For more information, visit [www.factpoint.com](http://www.factpoint.com) or call 650.233.1748.

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