SUGARCRM™

CRM Total Cost of Ownership
Comparing Open Source Solutions to Proprietary Solutions

BUSINESS WHITE PAPER

Contents

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EXECUTIVE SUMMARY

Customer Relationship Management (CRM) systems improve interaction efficiency and effectiveness when acquiring, supporting, selling and managing customers. By offering organizations a complete view of all customer interactions, CRM allows companies to benefit from effective marketing campaigns, faster sales cycles, and improved customer service.

CRM products are not perfect, however, and stories abound of failed implementations, negative ROI and exorbitant TCO (total cost of ownership).

First generation CRM systems, best exemplified by Siebel CRM™, were expensive to purchase, difficult to install, and costly to customize and administer. These were closed, proprietary systems that provided limited, restrictive interfaces to other critical business applications. They also required armies of expensive consultants. Not surprisingly then, only large organizations could take advantage of first generation CRM. Many of these efforts resulted in spectacular failures.

A second generation of CRM vendors has demonstrated some success in addressing many of the cost issues associated with first generation offerings. Sold as a subscription-based service and hosted by the vendor, second generation CRM systems like salesforce.com™ require a comparatively small upfront capital commitment and impose no infrastructure burden. But this approach is not without its drawbacks, most notably in security and IT control, scalability, and inflexible customization frameworks due to the proprietary architecture base. As a result, second generation CRM systems are most appealing to small businesses while larger organizations find they lack the capability to address their complex requirements.

CRM is entering a third generation, a way to address the needs of all organizations large and small, offering the best mix of flexibility, control, and price. Third generation CRM blends the benefits of first generation CRM (customizability, control, security, on-premise) with the advantages of second generation systems (low or no initial capital expenditures, easy-on service model, upgradeability). Additionally, third generation CRM systems provide a wider range of deployment options that allow any organization to effortlessly progress from one deployment model to the other as business conditions change. Finally, because third generation CRM vendors couple enterprise open source platforms with modern internet-based development languages like PHP, XML and Java, they provide customers the freedom to extend their implementation in any way that makes sense to them.

A recent entrant into the CRM market—SugarCRM—exemplifies this third generation CRM offering.

The purpose of this white paper is to identify and compare the total cost of ownership between the three generations of CRM implementations based on the inherent costs in acquisition (pricing), implementation (integration control), and maintenance and upgrades (deployment flexibility). SugarCRM is offering all readers of this white paper a financial comparison of any CRM solution to Sugar Suite, free of charge, to show how the white paper fundamentals apply to CRM implementations. To go through the TCO comparison exercise and receive a comparison report, call SugarCRM sales at +1 (408) 454-6900.

1st Generation CRM:

Client / Server Applications

Complex System Infrastructure

High Development and Deployment Expense

More Failed than Succeeded Implementations

2nd Generation CRM:

Hosted On Demand Applications

One-Size-Fits-All Solution

No Database or Application Control

High Cost for Large Deployments

3rd Generation CRM:

Open Source Applications

Entirely Customizable and Flexible

Full Database and Application Control

No Vendor Lock-Ins

Interested in seeing hard numbers?

Participate in a **FREE** TCO Evaluation

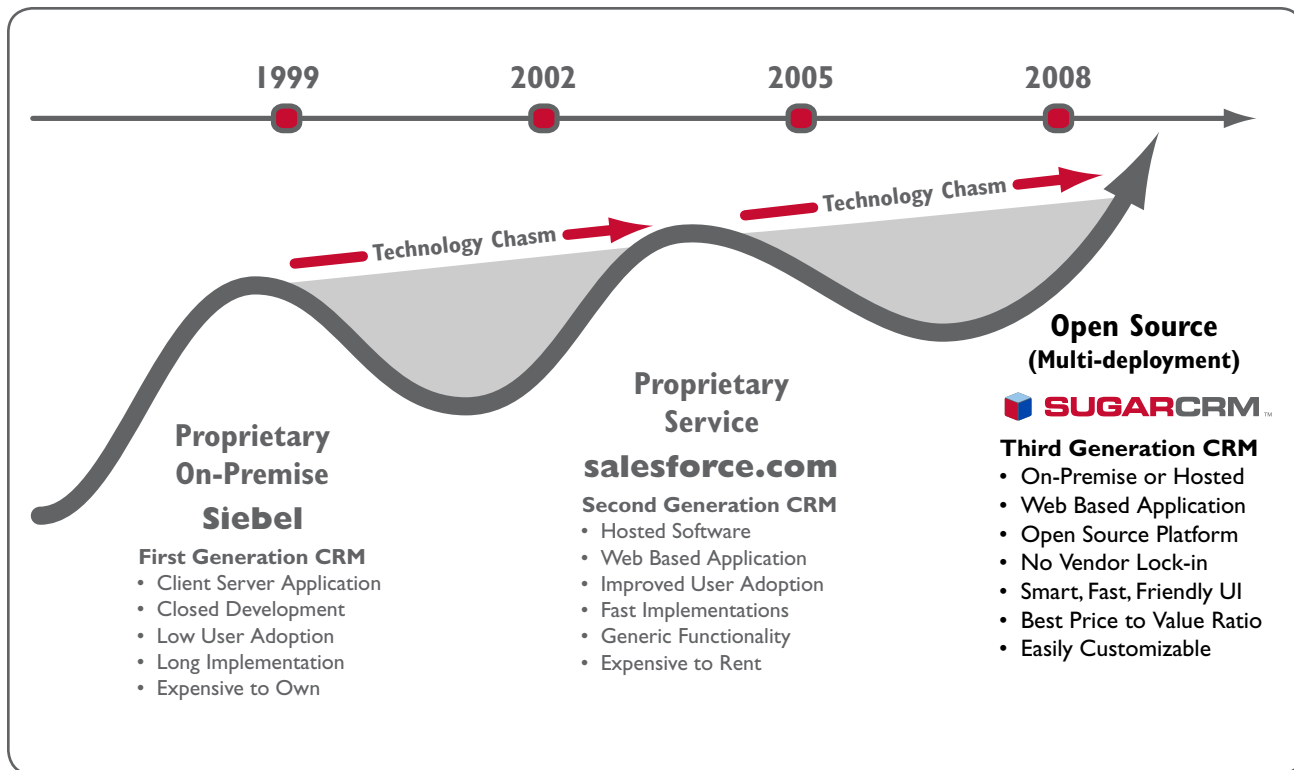Call SugarCRM for a 3 year

CRM TCO comparison report.

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INTRODUCTION

Today's competitive business environment requires companies to stretch their capabilities like never before. The increasing pace of today's global economy encourages innovation and advanced resource utilization as new entrants enter a market or existing competitors launch newer, more compelling offerings.

For over a decade companies have used CRM to help meet these challenges. CRM software provides companies with a "360-degree" view of their customers by supplying a centralized repository of customer interaction history where every customer interaction has an ongoing context. This ensures consistent customer communication and raises customer satisfaction. CRM systems also allow businesses to detect early warning signs of competitive advances.

However, first generation CRM software systems were not completely satisfactory. These systems were expensive to purchase and even more expensive to customize and administer, putting them financially out of reach for all but the largest organizations.

1999   **2002**   **2005**   **2008**

Technology Chasm

Technology Chasm

Open Source
(Multi-deployment)

SUGARCRM™

Proprietary
On-Premise
Siebel

Proprietary
Service
salesforce.com

Third Generation CRM
• On-Premise or Hosted
• Web Based Application
• Open Source Platform
• No Vendor Lock-in
• Smart, Fast, Friendly UI
• Best Price to Value Ratio
• Easily Customizable

First Generation CRM
• Client Server Application
• Closed Development
• Low User Adoption
• Long Implementation
• Expensive to Own

Second Generation CRM
• Hosted Software
• Web Based Application
• Improved User Adoption
• Fast Implementations
• Generic Functionality
• Expensive to Rent

Historically CRM has been strongly influenced by technology shifts. As each enterprise application technology waves affect the CRM marketplace, new industry leaders emerge with stronger and more advanced solutions than the last generation. This graph shows the leading CRM solutions associated with each technology wave.

A recent wave of vendors now offer CRM as a service, otherwise known as a hosted application. More popular vendors who deliver on this model are salesforce.com™ and NetSuite™. Their offerings require little up-front capital investment from companies and typically look very appealing because of the quick launch time with very little investment. Because of their low initial price point and fast up-time, these providers legitimately claim a TCO advantage compared with first generation of CRM software.

However, the emphasis on initial price, while particularly appealing to smaller organizations, fails to account for the variety of other factors that

influence TCO. This paper examines CRM Total Cost of Ownership from a complete perspective—one that considers system flexibility, control, and, of course, price. One CRM solution, Sugar Suite provided by SugarCRM, is discussed as offering the best TCO on all three dimensions.

TOTAL COST OF OWNERSHIP FACTOR ONE: DEPLOYMENT FLEXIBILITY

Today's businesses operate in a competitive and dynamic economic environment and the computing systems they deploy must easily adapt to rapidly changing business requirements. While first generation CRM was adaptable to business conditions, doing so was expensive and very lengthy with client-server applications. Second generation CRM vendors, who offer standardized web browser accessible services, purposefully restrict adaptive capabilities in order to sustain a standardized delivery platform to maintain low costs. The third generation CRM web based solutions have very little set up cost due to the versatility of the open source architecture stack, and flexibility for deploying in many different environments.

Evaluating Deployment Costs

Assessing deployment flexibility costs should be evaluated upon business needs and the ability for a CRM deployment to constantly change to meet those needs. Evaluate the CRM solution's cost and capability of the following scenarios:

- What is the CRM deployment cycle timelines? How much upfront testing can be done before making a purchasing decision?
- What is the total cost of the software from a platform, database and services layer?
- Are there additional costs for end user tools? Data Storage? Data Access?
- What is the migration path, and what are the costs associated with transferring a deployment to a hosted or an on-premise facility?
- Are business requirements met regarding data accessibility, application customization, and system integration? If not, what are the costs associated for attaining those requirements?
- What are the maintenance and support costs of the deployment?
- Is there a vendor restriction on CRM enhancements or components for your deployment?

Sugar Professional offers four deployment options as described next. Unlike previous CRM generation offerings, Sugar Professional allows organizations to seamlessly and transparently move among different deployment options as business conditions warrant.

Packaged Software

Some IT organizations may have in-house application expertise coupled with IT standards and data confidentiality requirements, or may plan significant application integration efforts—either of which may warrant the use of on-premise software versions of Sugar Professional. This option affords IT complete control over Sugar Professional's implementation no matter the motivation.

Interested in seeing hard numbers?

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Appliance

For data confidentiality reasons some organizations are disinclined to use a hosted service, favoring a behind the firewall implementation instead. However they still wish to avoid significant infrastructure investments, including server installation and configuration as well as system administration overhead. For those companies, Sugar Professional is available as an appliance. Sugar Cube, the 1U rack-mountable CRM appliance from SugarCRM, can be installed in minutes, is fully scaleable, and requires no maintenance.

On–Demand Service

Companies desiring a low-cost, easy-on implementation may deploy Sugar Professional as Sugar On–Demand. Available as a monthly subscription service with pricing based on the number of users companies can operate Sugar On–Demand in less than 48 hours. Unlike other hosted CRM offerings, Sugar On–Demand implementations permit unlimited customizations. Furthermore, your security is assured through the use of a separate database and application known as single-tenant installations, rather than the multi-tenant installations typical of second generation CRM solutions.

Dedicated On–Demand Service

Building on the benefits of Sugar On–Demand, Sugar Dedicated On–Demand provides companies with a completely isolated hosted environment running on a dedicated Sugar Cube—SugarCRM's unique CRM computing appliance. Not only are your database and applications private, but your entire hosted environment is dedicated exclusively to your CRM implementation. Like Sugar On–Demand, Sugar Dedicated On–Demand also permits unlimited customization, and SugarCRM provides a migration strategy if your company chooses to manage the application on–premise. Sugar Dedicated On–Demand is available as an annual subscription service with pricing based on the number of users and server capacity.

In the CRM marketplace, Sugar Professional alone offers this wide range of deployment options. A comparison of deployment options offered by the major CRM vendors is shown here for reference.

Product	Hosted	Appliance	Package
Sugar Professional	Yes	Yes	Yes
salesforce.com	Yes	No	No
NetSuite	Yes	No	No
Siebel OnDemand	Yes	No	No
Siebel CRM	No	No	Yes

Figure 1: Implementation Options for CRM Products

The CRM offerings in Figure 1 enforce that no SugarCRM competitor can match its flexibility of implementation options and customization possibilities. This freedom of choice arises from the enterprise open source architecture (based on modern technologies) typified by third generation CRM providers like SugarCRM. Only this architecture gives organizations the ability to instantly respond to changed business conditions and technology directives, insulating your business from costly redeployments and vendor lock–in.

TOTAL COST OF OWNERSHIP FACTOR TWO: CONTROL

1st Generation CRM:

Closed Source System

Web Services Layer Integration Points

Few Vendor Made Integration Sockets

Artificial Integration Costs

2nd Generation CRM:

Closed Source System

Remotely Hosted

Lengthy Local to Remote Data Exchanges

Few Vendor Made Integration Sockets

Artificial Integration Costs

3rd Generation CRM:

Visible Source Code

Integrate with Application, Database or SOAP API

No Integration Socket Restrictions

No Additional Integration Costs

Of course, the initial deployment of a CRM product is only the first step towards realizing the full benefits of the solution. Tight integration must occur between the CRM product and existing computing systems for an organization to achieve maximum effectiveness and payback. Integration was possible with first generation CRM system but these systems were closed and restrictive, and integrations were consequently expensive and time-consuming—and did not respond well to changing conditions.

Second generation systems are characterized by their lack of customization flexibility. Since a customer's CRM data is stored with the vendor, integration with other systems running in the organization's environment is difficult to achieve; this also causes most integration efforts to have lengthy implementation schedules. The hosted environment multi-tenant inhibits opportunity for customization and flexibility because many customers share the same application and database.

Sugar Professional instead allows organizations to exercise far greater control over their implementation possibilities than other first and second generation CRM.

Two key Sugar Professional capabilities afford this level of control: source code availability and SOAP integration. Each insulates an organization from vendor lock-in and each grants an organization a degree of independence not possible with other offerings.

Source Code Availability

Traditionally, the act of selecting a vendor represented a shift of control from IT to the software provider. When a company commits to a particular vendor, it looses control of implementation decisions to vendors such as: if and when a necessary piece of functionality is made available or when bugs are fixed. Vendor lock-in is inherent to the old mode of product delivery in which the vendor provides only a binary (the work product) and the product's source (the intellectual property) remains firmly in the vendor's control. Because the vendor retains exclusive control of product source, the customer is wholly dependent upon the vendor's decisions regarding release schedules and content.

Sugar Professional presents a refreshing change to this antiquated delivery model by including source code with Sugar Professional. This frees organizations from the tyranny of vendor lock-in. For instance, if a company requires an immediate bug fix, it has the ability to make the fix itself, to obtain a fix from the SugarCRM development community, or to wait for the fix to be included in a future release. Additionally, custom extensions may be added by the company even if it is not delivered in the standard Sugar Professional product. Furthermore, customer product modifications may be provided to SugarCRM for testing, certifying and inclusion in the supported product.

Easy Integration

Sugar Professional bundles a Simple Object Access Protocol (SOAP) interface that enables data to be easily accessed by external systems (external to Sugar Professional). SOAP is an industry-standard Web Services interface that uses XML (Extensible Markup Language) as its communication vehicle.

The Sugar Professional SOAP interface makes integration into a company's existing computing infrastructure easier than restrictive DLLs or COM objects. Many modern applications offer a SOAP interface and this makes integrating Sugar Professional with other applications a straightforward process.

SugarCRM is not alone in providing integration capabilities but it does provide the most complete offering. Also, Sugar Professional's deployment options provide more flexibility regarding security, performance, and scalability than other CRM vendors. Companies can elect to integrate with an on-premise SugarCRM deployment, affording them utmost security and performance as a result. This capability cannot be matched by on-demand (only) providers.

By comparison, on-demand CRM vendors like salesforce.com and Siebel OnDemand treat integration as add-on functionality that requires additional investment and a commitment to a proprietary "integration platform." Siebel CRM requires additional investment in a proprietary platform to accomplish integration with other applications.

In short, SugarCRM offers unique capabilities associated with industry-standard SOAP interfaces without requiring vendor lock-in and additional fees. SugarCRM's modern, open integration tools combined with the ability to deploy these tools in secure, high performance networks environments affords IT the most complete integration options of any CRM vendor. This, in turn, provides IT with the most control over its environment.

Sugar Professional, because it provides customers with the "keys to the kingdom" in the form of source code, offers significantly more independence to its customers than is possible with any other proprietary CRM solution. Further, its ease of integration through modern SOAP interfaces breaks the dependency trap of previous software solutions. SugarCRM customers maintain control their own IT strategy and destiny.

Figure 2 summarizes the integration and the degree of vendor lock-in associated with Sugar Professional and other major CRM providers.

Product	Integration Mechanism	Included in Base Product?	Source Code Availability
Sugar Professional	Real-time Simple Object Access Protocol (SOAP). Database and application code accessibility	Yes	Yes
salesforce.com	SForce Platform	No	No
NetSuite	File import/ export (SOAP)	Yes	No
Siebel OnDemand	Universal Application Network Platform	No	No
Siebel CRM	Universal Application Network Platform	No	No

Figure 2: Control Options for CRM Products

TOTAL COST OF OWNERSHIP FACTOR THREE: PRICING

Pricing is of course a key customer concern and a major component of system TCO. As noted earlier, the exceedingly high costs associated with first generation CRM products precluded the vast majority of businesses the opportunity to improve customer service. On-demand CRM applications reduce initial capital expenditures but often result in large recurring fees. In fact, on-demand users often suffer sticker shock when the real cost of their CRM application comes to light:

- Increasing numbers of user accounts
- Exceeding the allocated amount of data storage
- Needing integration with non-standard systems

Furthermore, as an organization grows, particularly by acquisitions, it can quickly outstrip the ability for on-demand CRM systems to keep up with increasingly complex customization and integration requirements, more stringent security measures, and other technology initiatives. A Gartner report recently highlighted this trend:

> *"Total cost of ownership (TCO) data for complex sales organizations indicate that once the budget of salesforce.com is calculated beyond three years, the cost will be greater than that of a complete prepackaged solution. This is due to additional IT resources building future extensive customizations that are required to create a complete SFA solution."* [1]

Table 3 highlights the pricing model provided by a third generation vendor like SugarCRM compared to other vendors discussed elsewhere in this whitepaper. It is evident that on-demand products are significantly less expensive than the up-front cost of the Siebel CRM package; however, as can be seen from the column headed "Total Annual Price per User," the annual charge for hosted products can be quite significant. The additional monthly charge for including integration capabilities drives up the price for some of the products significantly. When the typical contract period required for hosted products is taken into account, it's easy to see that they may actually cost as much or more as their packaged counterparts.

SugarCRM, by contrast, offers a much lower annual cost, with no additional charge for integration capabilities. It is 88% less expensive than the next two least expensive hosted alternatives, and over 93% less expensive than Siebel CRM.

As pointed out earlier in this whitepaper, price is only one factor in an overall Total Cost of Ownership evaluation. However, Table 3 indicates that significant financial savings can be realized by looking at alternatives to the best-known on-demand CRM offerings.

[1] *Complex Salesforce.com Deployments Will Cost You*, Gartner Research, ID Number: G00127182

Product	Pricing per User	Integration Pricing	Total Yearly Price per User	Annual Price/100 Users
Sugar Professional	$239/user/year;	None	$239/user/year	$23,900.00
salesforce.com	$75/user/month	$50/user/month (via sForce integration platform)	$1500/user	$150,000.00
NetSuite	$4800/2 users; additional users $75/month	None (batch integration via file import/ export)	$4800/2 users; additional users $900/year	$145,800.00
Siebel OnDemand	$75/user/month	Unpublished (via UAN integration platform)	$900/user/year	$90,000.00
Siebel CRM	Priced per user for perpetual license: $2000	Requires purchase of UAN software: $50,000 and up	$2000/user plus $50,000 integration cost	$250,000.00

Figure 3: Pricing Options for CRM Products
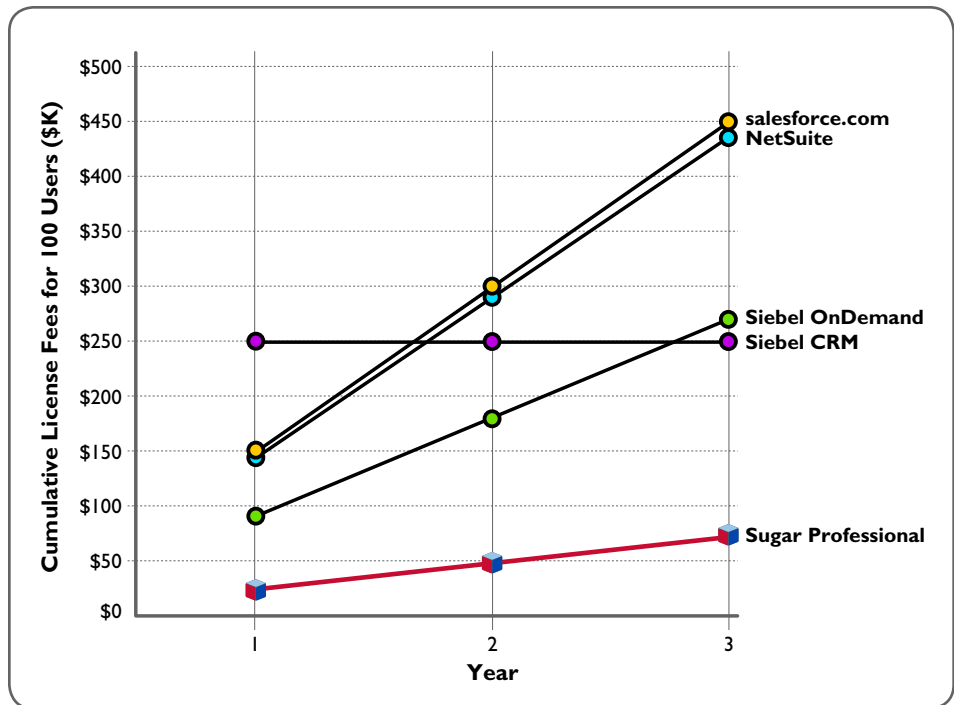
Comparing Top CRM Solution Costs for 100 Users over 3 years

This graph illustrates a 3 year license spend on the top 5 CRM solutions. Sugar Professional has the most inexpensive license fees on a long-term basis.

In addition, Sugar Professional's cost savings during deployment, customization, and integration maintain a low TCO due to the open source architecture.

CONCLUSION

Companies today must form and maintain strong profitable relationships with their customers. Failing to maintain a complete 360-degree view of all customers' interactions leaves a company in a weakened competitive position and may cause it to suffer losses to competitors.

While all CRM vendors enable companies to track customer interaction, first generation CRM products were exceedingly expensive and notoriously difficult to implement. Second generation on-demand CRM applications addressed many shortcomings of their predecessors but fail to address complex integration and customization requirements—and trade up-front savings for high monthly fees. Together these earlier generation CRM systems lack third generation capabilities:

- Flexibility of deployment to support economic and strategic changes
- Control of the application to enable customization and easy integration
- Price competitiveness to allow the firm to run as lean as possible

Only third generation CRM can radically alter the old TCO models associated with earlier generations' approaches. SugarCRM's flagship product, Sugar Professional, sets the example for third generation CRM. If you are interested in a 3 year TCO assessment, please contact SugarCRM sales for a free 3 year comparison report. This exercise measures solutions based on the white paper's thesis, and may provide in-depth insight on the actual CRM costs for your company. You can contact us at +1 (408) 454-6900.

This white paper was contributed by Bernard Golden, CEO, Navica

About Navica
Navica (www.navicasoft.com) is an open source consulting firm offering strategy, implementation, and training services. Navica's founder, Bernard Golden, is a recognized authority on open source and frequently writes and speaks on the topic. He is the author of "Succeeding with Open Source" (Addison-Wesley, 2005) and the forthcoming "Open Source Best Practices." For more information, email info@navicasoft.com.

About SugarCRM
SugarCRM is the premier open source CRM application provider, successfully breaking the rules set by conventional CRM solutions. The limitations of traditional CRM software can be summarized by lack of flexibility, high costs, and closed-source structure. This has led to a failure rate of over 70% with traditional CRM implementations. With a rapidly accelerating customer base, SugarCRM is proving why open source CRM is now recognized as a smart enterprise solution through better innovation, higher quality lower TCO. For more information about SugarCRM, visit www.sugarcrm.com or email contact@sugarcrm.com.

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