

EXCERPT

Western Europe CRM Applications Competitive Analysis 2007

Bo Lykkegaard

IDC OPINION

Western European customer relationship management (CRM) application revenue reached €2.2 billion in 2006 after annual growth of 8.0%. Oracle occupied the top position with a 15% market share after a slight decline in revenue on a pro-forma basis, which is common in the first year of major acquisitions, such as Oracle's January 2006 acquisition of Siebel. The relatively minor setback reflected solid Siebel revenue traction helped by a well-executed acquisition and healthy CRM demand. The next four places were occupied by SAP, Aspect Software, SAS Institute, and Genesys Labs. Among the top 20 vendors, the growth champions of 2006 were SAS Institute, Salesforce.com, Microsoft, WebTrends, and Update Software.

Marketing applications grew 14% in 2006; sales applications grew 10%, followed by customer service and contact center applications growing 4% each. The suite vendors, such as Oracle and SAP, did well in sales and customer service applications, while the specialists, such as SAS Institute, SPSS, and Aprimo, excelled in marketing applications. A company size segmentation revealed that while Sage was the largest vendor for the 1–99 segment, leadership in the 100–499 segment was tied between Microsoft, Salesforce.com, and Front Range.

Overall, the information in this study leads IDC to conclude the following:

- ☒ *Software as a service is a critical driver in the CRM applications market.* On-demand CRM applications currently make up 4.4% of all software revenue in the CRM market in Western Europe. CRM on-demand revenue grew 44% in 2006 and with no slowdown in sight, the on-demand delivery model must be on the radar screen of all market participants. Although certain markets in the marketing and contact center space are traditionally in-house markets, disruptive new competitors can knock on the door of customers sooner than the established vendors might expect.
- ☒ *The largest CRM application vendors (excluding contact center applications) are best positioned for future market share gains.* IDC believes focus on CRM software, financial health, ease of deployment, and current revenue momentum will be among the key determinants for future competitive strength. An IDC leadership grid analysis revealed that the largest vendors are likely to take market share in the future.

The European CRM market still contains plenty of pockets where smaller best of breed vendors thrive. These pockets include Web analytics, Web marketing, high-end enterprise marketing management, business intelligence-based marketing analytics, hosted ecommerce, and advanced pricing.

IN THIS EXCERPT

This IDC excerpt is taken from the Western Europe CRM Applications Competitive Analysis 2007 (IDC #LC06P, October 2007), by Bo Lykkegaard. All or part of the following sections are included in this excerpt: IDC Opinion, Situation Overview and Future Outlook. Also included are Table 1, Figure 1, Figure 2, and Figure 8.

SITUATION OVERVIEW

Top 20 Vendor Performance in 2006 and First Half 2007

The top 20 CRM applications vendors with the largest Western European revenues are shown in Table 1. When compared to 2005, Oracle has now taken the lead over SAP following the acquisition of Siebel. In 2006, **Oracle** saw good traction for its Siebel products, although revenues showed a slight decline on a pro-forma basis. The E-Business Suite CRM modules and PeopleSoft CRM sales lost some momentum in 2006. IDC expects Oracle to grow its CRM applications revenue in 2007 mainly due to strong demand for the company's Siebel products, in particular in financial services, CPG, and public sector. Going forward, Oracle also plans to grow Siebel CRM On Demand sales in Europe pushed by telesales, presales specialists, and local specialist field representatives.

SAP saw solid demand in 2006 for its SAP CRM solution as CRM continues to perform in line or above overall company growth. Interestingly, SAP's European CRM penetration continues to be significantly below its U.S. penetration, where SAP generates most of its CRM revenues. In Europe, SAP experienced good CRM demand in the sectors of consumer packaged goods, utilities, and discrete manufacturing. It also made some inroads in local government. The main purchase driver of new deals is services applications, followed by integration into sales processes.

Contact center specialist **Aspect Software** held third place during 2006 and experienced a slight revenue decline following the merger with Concerto Systems. The decline of the combined revenue streams of two companies normally follows large mergers and is caused by customer uncertainty and organizational change. Other contact center vendors in the top 20 list, such as Genesys Labs, Avaya, and Witness Systems all experienced positive growth, with Genesys leading in terms of relative growth.

Genesys Labs grew 10% in 2006 and has continued its European momentum into 2007. Of the two key verticals it targets, telecommunications and financial services, the latter grew significantly faster, driven by an M&A wave in retail banking in Europe. The call center product based on the open SIP protocol was the key growth driver for Genesys for companies trying to lower cost of hardware-specific software. Its largest markets include the U.K., France, and Germany.

Avaya experienced 1% revenue growth in Europe in 2006, selling its IP-based Customer Interaction Suite to midsize and large enterprises.

Witness Systems grew 6% in 2006 selling mostly to customers in the U.K. and Spain. Most revenues were generated in financial services and telecommunications. The growth focus is mostly on financial services following the two acquisitions of Demos Solutions (U.S.) and Exametric (U.S.) in 2006. Witness seeks to sell its workforce management software outside call centers to branch offices of financial retailers. In May 2007, Verint acquired Witness Systems, an acquisition that is expected to further strengthen the focus on workforce management and weaken the focus on call center applications.

Business intelligence vendor **SAS** enjoyed a strong 28% growth of its Customer Intelligence marketing automation solution sold to large organizations in sectors such as financial services, telecommunications, and public sector.

Amdocs grew 9% in 2006 and experienced continued success in selling its Clarify-based CRM solution as part of its full-scope software offering for telecommunications companies, which spans from provisioning and service over billing to CRM.

Salesforce.com experienced 61% growth in Europe in 2006 and climbed to seventh position in a continued momentum driven by solid demand for its on-demand CRM application suite. A significant proportion of revenues stem from small and midsize businesses, but 2006 also showed significant growth in sales to larger enterprises, such as Nokia (Finland), Misys (U.K.), ABN AMRO (Netherlands), Bohler-Uddeholm (Austria), and KONE (Finland).

Microsoft managed 35% growth in Western Europe as customers responded well to the introduction of Microsoft CRM version 3.0, which represented a major step forward in terms of achieving functional depth. Microsoft CRM is very much sold as a standalone offering as opposed to an add-on for ERP customers. The adoption has been excellent in industries that are relatively new to Microsoft Business Solutions, such as financial services, public sector, and services companies and worldwide growth for the product has exceeded 100% in each of the past two fiscal years. Furthermore, Microsoft CRM typically sells into somewhat larger companies than the ERP products, with the typical user deal ranging from 200 users and above.

France-based **Cegedim** grew 7% in 2006 based on sales of the OneKey (physician database and marketing) and Teams (salesforce automation) solutions to larger pharmaceutical companies. In May 2007, Cegedim completed its \$751 million acquisition of U.S.-based pharmaceutical specialist Dentrith in a move to improve its presence in North America.

SuperOffice grew 11% in 2006 and made strong inroads in certain markets such as Norway, Germany, and Denmark, while it experienced a decline in Switzerland and the U.K. SuperOffice's bet on office automation through tight integration with Microsoft Office drove new sales and the company saw good momentum among larger enterprises in the 1,000 plus employees segment. In 2007, SuperOffice acquired a Norwegian vendor of customer service applications, eJournal, in a move to strengthen its SuperOffice CRM suite, but it decided not to acquire the Austrian CRM

company Update Software. Finally, in 2006, SuperOffice made further progress in its collaboration with SAP around reselling SuperOffice through the SAP Business One reseller channel.

Infor lost ground in Western Europe with a 13% revenue decline following its acquisition of U.S.-base Epiphany. One reason for this decline, which is quite typical in the post-acquisition year, is the fact that Epiphany mainly sells in verticals such as financial services and telecommunications, where Infor has relatively small presence. However, for 2007, in particular the second half of 2007, Infor is likely to see a significant rebound in terms of sales of the Infor CRM product (based on Epiphany) in Europe. This expected growth is propelled by established specialist sales teams with the domain knowledge needed to sell into financial services and telecommunications.

Chordiant had a 12% decline in 2006, when the company suffered in Western Europe. Several factors negatively affected Chordiant's ability to sell, including vendor viability issues following a sharp increase in net losses and employee layoffs (10% of total employees during 2005) and local sales execution. However, under the leadership of the new CEO, Steven Springsteel, Chordiant is about to close its current fiscal year with net profitability and strong revenue progress in Europe. Key European customers include HSBC, Barclays, and BskyB.

Sage Group logged 11% revenue growth in 2006 following a mixed year. Act! sales grew well in the U.K. but failed to create strong revenue momentum in continental Europe. SalesLogix sales were held back somewhat by the version 7 release, while the ACCPAC-based SageCRM product sold well in Western Europe. Another sales driver is the improved integration of CRM products into the midmarket ERP solutions from Sage, which has spurred more cross-sell activity. In general, Sage saw most CRM success in 2006 in its U.K. home market.

Coheris experienced 14% growth in 2006 in its transition from a solutions and services company into a software product company. The 2004 acquisition of business intelligence specialist, Harry Software, the 2005 rebranding of the Conso+ customer service application into Coheris CRM and the January 2006 acquisition of sales and marketing software vendor FDV Concept were critical steps toward the creation of a full-scope CRM suite spanning sales, marketing, and service.

The Web site analytics specialist, **WebTrends**, became the 2006 growth champion in Europe with an amazing 72% growth rate. The flagship product, WebTrends Analytics 8, had excellent adoption among larger European enterprises including IKEA (Sweden), Alitalia (Italy), EasyJet (U.K.), Total (France), Barclays (U.K.), Reuters (U.K.), BMW (Germany), Mercedes-Benz (Germany), and Unilever (Netherlands). On-demand versions of the Web analytics product also saw high demand.

Update Software had an excellent 2006 and experienced a 22% revenue growth. Update, which has a legacy in marketing automation applications, sells the CRM suite Update 7 mostly in the German-speaking countries in Europe. Interestingly, the company is seeing success across many industry sectors spanning manufacturing and distribution, retail, utilities, financial services, and business services. In recent years, Update acquired two specialists with industry expertise — healthcare specialist Regware in October 2005 and banking specialist Orgaplan in April 2007.

Teradata's 11% growth rate in 2006 outgrew the market as a whole. Teradata saw particular momentum for its marketing automation solution, Customer Management, in the U.K., France, Belgium, Spain, and Italy. Teradata is about to be spun out from the mother company NCR, a process expected to be concluded by September 2007. This move is expected to sharpen and clarify Teradata's profile as a business intelligence and analytics vendor.

Northgate grew 6% in 2006, slightly under the market average. Its CRM offering for local governments, Front Office, is sold across the U.K. and Ireland. In 2006, Northgate won Warrington Local Council and its existing customers include approximately 75 local government institutions in the U.K.

Finally, **Other Vendors** grew 8.5% in 2006, which is higher than the total market. The reason behind this strong growth is the relatively strong growth experienced by vendors in 21st to 100th rank in Western Europe. Examples of vendors outside the top 20 list with high (20% plus) European growth include RightNow Technologies, Aprimo, PROS Pricing Solutions, Unica, Cincom Systems, IBM (WebSphere Commerce), Exact (e-synergy CRM), Selligent, and Intershop Communications.

TABLE 1

Western Europe, CRM Applications License and Maintenance Revenues, Top 20 Vendors, 2005–2006 (€M)

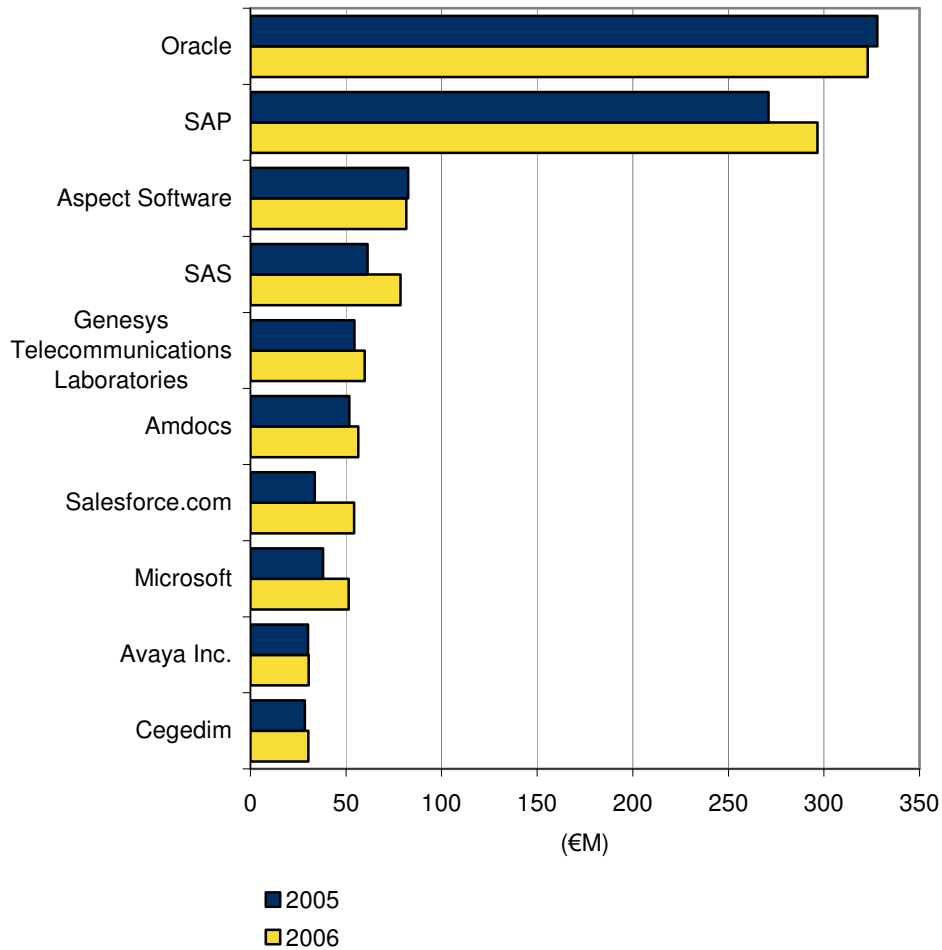
Rank	Vendor	2005	2006	Growth (%)	2006 Share (%)
1	Oracle	327.9	322.9	-1.5%	14.8%
2	SAP	271.0	296.6	9.4%	13.6%
3	Aspect Software	82.5	81.5	-1.2%	3.7%
4	SAS	61.3	78.6	28.1%	3.6%
5	Genesys Telecommunications Laboratories	54.3	59.8	10.1%	2.7%
6	Amdocs	51.7	56.3	8.9%	2.6%
7	Salesforce.com	33.7	54.2	61.0%	2.5%
8	Microsoft	38.1	51.4	35.1%	2.4%
9	Avaya Inc.	30.1	30.5	1.3%	1.4%
10	Cegedim	28.5	30.4	6.6%	1.4%
11	Witness Systems	27.2	28.8	5.5%	1.3%
12	SuperOffice ASA	23.3	25.9	11.0%	1.2%
13	Infor	27.5	23.7	-13.9%	1.1%
14	Chordiant Software Inc.	25.1	22.2	-11.8%	1.0%
15	Sage Group	19.8	21.9	10.7%	1.0%
16	Coheris	16.1	18.3	13.7%	0.8%
17	WebTrends	9.4	16.3	72.3%	0.7%
18	update software AG	11.8	14.4	21.8%	0.7%
19	NCR Teradata	12.2	13.5	10.8%	0.6%
20	Northgate Information Solutions PLC	12.6	13.4	6.4%	0.6%
	Others	861.2	926.3	7.6%	42.4%
	Total CRM Applications	2,025.6	2,186.9	8.0%	100.0%

Source: IDC, 2007

The 2006 performance of the top 10 vendors in the Western European CRM application market is illustrated in Figure 1.

FIGURE 1

Western Europe, CRM Applications License and Maintenance Revenues, Top 10 Vendors, 2005–2006 (€M)



Source: IDC, 2007

Software as a Service Growth Acceleration Continues

In 2006, CRM applications delivered on-demand accelerated in Western Europe compared to 2005. IDC defines on-demand as packaged software, which is:

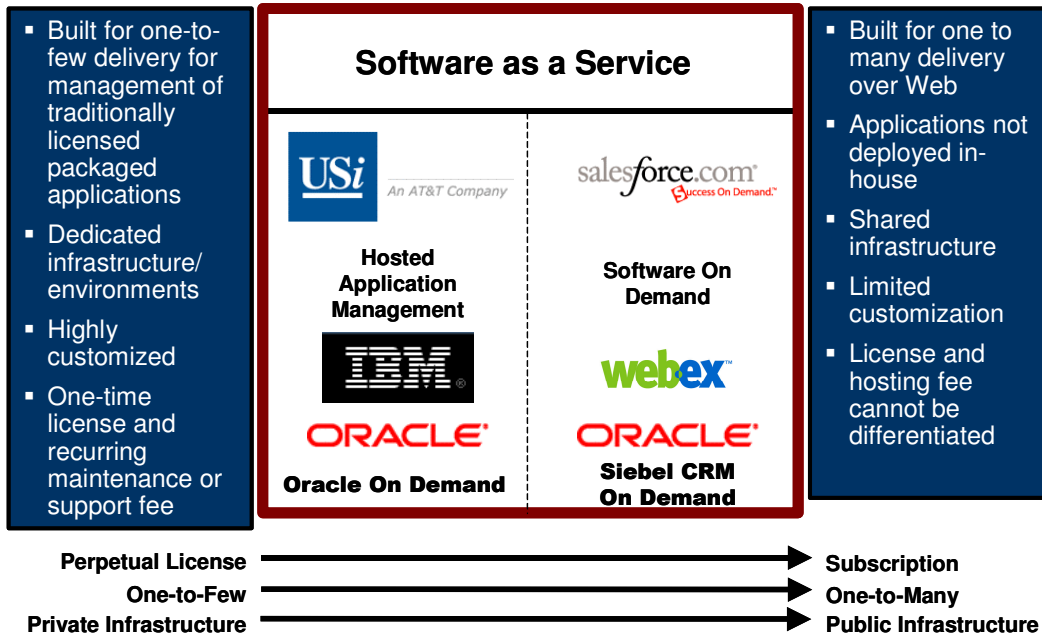
- Built for one to many delivery over Internet
- Not deployed in-house
- Limited customization options

☒ Licensed via periodic subscription fees

This definition is illustrated in Figure 2.

FIGURE 2

IDC Software as a Service Taxonomy



Source: IDC, 2007

The momentum occurred across functional areas (sales, marketing, and customer service) and across company sizes. Salesforce.com saw significant growth coming from small businesses, while Rightnow, Digital River, and Omniture, and WebTrends saw traction from larger enterprises.

Meanwhile, behind the scenes information hints at further future momentum for CRM on-demand. Initiatives include Oracle investments in Siebel CRM On Demand, Microsoft's planned Dynamics CRM Live offering, and SuperOffice's planned hosted solution.

Interestingly, the shift towards the hosted on-demand model is not universal. Data-intensive, business intelligence-based CRM analytics, hardware-agnostic contact centers, entry-level CRM, and CRM with tight Microsoft Office integration were among the areas, where On Premise CRM saw excellent traction in 2006.

Software Delivery and Architecture Take on New Shapes

In the space between the two extremes of software delivery, as illustrated in Figure 2, new mutations and variants have emerged. One example is open source CRM applications. U.S.-based Sugar CRM has over 300 customers in Europe, who are paying a periodic maintenance fee for Sugar CRM. Sugar CRM has also started offering hosted CRM open source applications.

Another, perhaps more important new variant is called — by some — *intra enterprise hosting*; i.e., multitenant hosting within the enterprise. One could consider a large multinational enterprise wanting to at the same time reap the benefits of fast on-demand deployment and in-house control and customization flexibility. Another example could be an industry association wanted to host, control, and customize a CRM application for its member organizations. Upcoming hosted CRM solutions by Microsoft Business Solutions, SuperOffice, and Sugar CRM aim at this segment, which they believe is poorly served by hosted-only solutions.

Industry-Specific CRM Reemerges

The strong growth of horizontal CRM solutions, such as Microsoft Dynamics CRM and Salesforce.com, suggests that customers preferred adapting solutions to buying a prepackaged industry-specific solution. However, industry-specific CRM packages offered by Oracle, SAP, and marketing specialists have also sold well, which indicates continued demand for such preconfigured applications, in particular in verticals such as financial services and telecommunications.

Customers have also reacted positively to vendors that are tying together CRM applications with industry-specific applications, such as Amdocs billing/Amdocs CRM and Oracle Siebel CRM and Portal for telecommunications.

Best of Breed Marketing Applications Boom

Best of breed marketing specialists including SAS Institute, Unica, Aprimo, SPSS, WebTrends, Omniture, and Digital River, experienced solid growth beyond that of the overall marketing applications market and significantly better than the suite vendors, SAP and Oracle. As opposed to sales and customer service applications that can be tightly linked to other administrative applications, marketing applications tend to exist in their own realm, outside the transactional, end-to-end business processes. This relative isolation of the marketing processes benefits the marketing specialists.

The marketing area is also relatively immature for packaged applications. Larger consumer-focused organizations with large marketing budgets operate on top of Excel-based, manual, and custom-built applications. Therefore, IDC sees significant potential for additional growth among the early adopters of marketing applications in financial services and telecommunications.

FUTURE OUTLOOK

IDC's Leadership Grid

IDC uses the IDC Leadership Grid to measure how well individual vendors are aligned with the market opportunity and how well each company is positioned to capture market share. This benchmarking analysis is meant to provide a comparative overview of vendors' current market position and their ability to achieve future growth. Furthermore, the IDC Leadership Grid is intended to help vendors as they position themselves in the market through marketing messages and activities.

The IDC Leadership Grid is a matrix based on evaluating vendors in a market on two dimensions:

- ☒ *Opportunity alignment*: The current position of the vendor with regard to the market.
- ☒ *Ability to gain share*: How the company is positioned and prepared for the market's future condition compared to the competitors in the market.

Each vendor is positioned in the grid based on a number of weighted criteria. Current market share, for example, is a key criterion for determining opportunity alignment.

Eight vendors were selected for the IDC leadership for CRM applications, based on 2006 market share. The vendors were benchmarked irrespective of differences in company size focus, for example between SAP and SuperOffice.

IDC Leadership Grid: Western Europe CRM Applications Market

The Leadership Grid analysis shows that especially SAP, Oracle, Salesforce.com, and SAS Institute are well positioned for future market share gains. IDC also expects Microsoft Business Solutions and SuperOffice to be well positioned for market share expansion, while the industry specialists Amdocs (telecommunications) and Cegedim (pharmaceutical industry) are positioned to maintain share.

That fact that all eight leading CRM vendors are positioned to grow or maintain current market share hints a market in consolidation, in which market leaders gain share. Looking at the vendors belonging to the Other category, IDC believes that some tier-2 vendors will realign to pursue growth outside CRM, for example in related areas such as content management applications, industry-specific front office applications, industry-specific back office applications and collaborative applications. Such realignments and partial CRM exits will more than offset the revenue growth created by high-growth vendors in the tier-2 space.

Oracle excels in terms of partnership with service providers (the main European partners are IBM and Accenture), financial strength, and industry depth. The high degree of industry depth is achieved through deep industry solutions for Siebel in industries such as banking, high tech, and consumer packaged goods, as well as pre-integration with acquired vertical solutions. Oracle, for example, has integrated Siebel CRM with the Portal billing solution for telecommunications companies. Oracle,

furthermore, scores well in most other categories, except for ease of deployment and momentum. Ease of deployment is the traditional Achilles' heel of Siebel and time-to-market continues to be a challenge for large Siebel deployments. Siebel 8 contained significant improvements in configurability and usability, which could improve the ease of deployment score. So could additional market progress of Oracle's Siebel CRM On Demand offering, which is designed for simple deployment and end-user adoption. Oracle's score in momentum is low, due to the pro-forma revenue decline in 2006. This decline is expected to reverse in 2007, a change which would significantly improve Oracle's score in terms of ability to gain share.

SAP is well positioned to gain share, driven by excellent scores in partnerships, back-end integration, and momentum. Key SAP partnerships in the CRM area include service provider alliances as well as ISV alliances, for example with Sungard and Misys in the banking sector. SAP managed to secure a top score in momentum driven by CRM adoption, almost exclusively among existing customers. SAP scores well in most categories except for ease of deployment, where it is challenged compared to other nimbler vendors. SAP CRM On Demand Solution has eased adoption the SAP CRM solutions for some customers, but overall — in relative terms — lags behind competition in terms of ease of deployment.

IDC considers **SAS Institute** well positioned for future market share gains, due to strengths in industry depth, financial position, and momentum. The functionality of the packaged analytical solutions of the Customer Intelligence marketing solution has proven to have good fit for the needs of consumer-facing organizations, in particular in financial services. IDC scores SAS Institute high in terms of its financial position although the privately held company has not disclosed information regarding its profitability. The high scores stem from third-party estimates and from other indicators such as a relatively high R&D level as a percentage of revenues. SAS Institute also scores well in all other categories that IDC believes are critical to future market share gains.

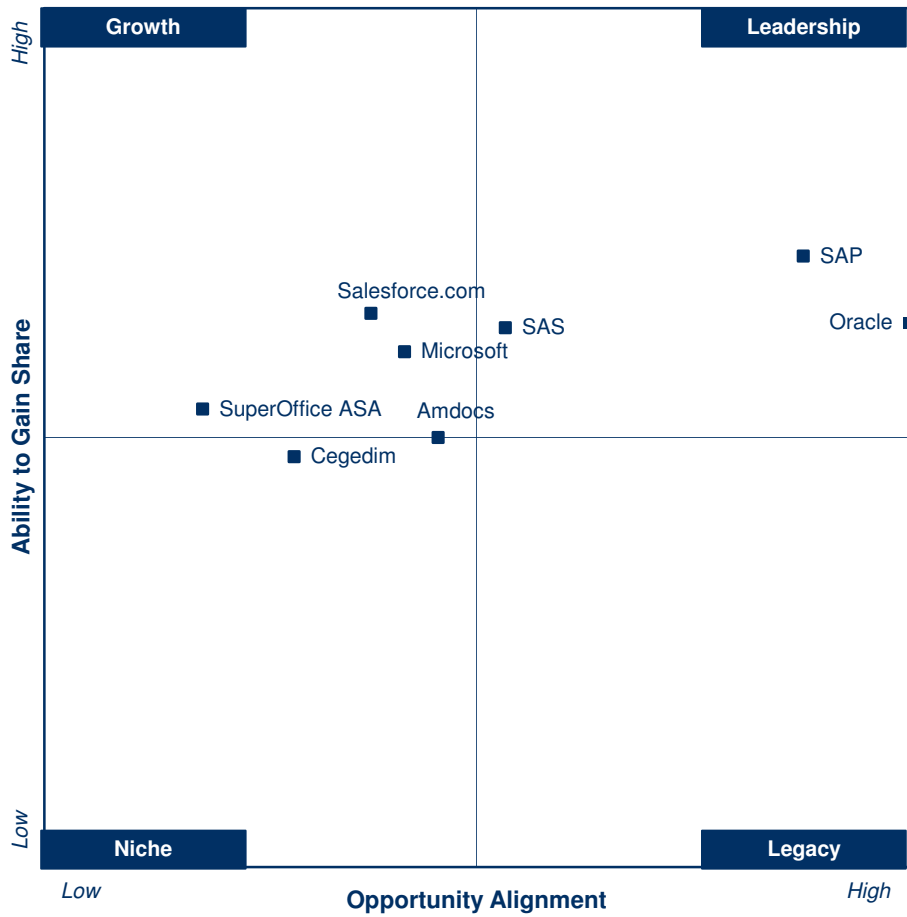
Amdocs scores well in terms of industry depth due to persistent focus on the telecommunications industry and its ability to link CRM into billing and services provision processes. This ability to support end-to-end operational processes for telecommunications providers also secures a relatively good score in the category of back-end integration. In other categories, such as management focus, partnerships, ease of deployment, and financial strength, Amdocs is rated less favorably. The Amdocs business model revolves around services, and industry-specific applications and the CRM applications, based on the 2001 acquisition of Clarify, are part of a broader solutions portfolio for telecommunications organizations. As a service-intensive vendor, Amdocs does not benefit from a wide range of implementation and ISV partners. The platform-oriented approach of Amdocs, furthermore, implies a relatively low score in terms of ease of implementation.

Microsoft Business Solutions scores extremely well in financial strength, representing not only the overall profitability of Microsoft Corp., but also the willingness of Microsoft to reinvest profits in product development. Microsoft also scores well in management focus, since the Microsoft Business Solution is still run as a business unit inside the Microsoft Business Division and because of Microsoft's pure play software focus. Finally, Microsoft scores well in revenue momentum and

ease of deployment because of the Microsoft Office-based and role-based user interface and relatively thin server footprint.

FIGURE 8

IDC Leadership Grid: Western European CRM Applications



Source: IDC, 2007

Factors Behind the IDC Leadership Grid

A number of factors with different weights determine the position of each vendor on the grid.

X-Axis: Opportunity Alignment

- ☑ European coverage (15%). A relative ranking based on the degree of Western European market coverage by the vendor.

- ☒ Customer perception and mindshare (10%). A relative measure of the degree of mindshare a vendor has in its specific market segment and related market segments. Oracle and Microsoft are examples of companies with very high brand awareness.
- ☒ Product breadth and depth (15%). How complete, mature, proven, deep, and broad is the European vendor offering for the specific functional market in question?
- ☒ Market share (60%). A relative ranking based on 2006 Western European market share for the specific functional market in question.

Y-Axis: Ability to Gain Share

- ☒ Management focus (15%). A relative evaluation of the degree of vendor management focus on the particular market in question. If the vendor is very focused on the particular market, for example SuperOffice's focus on the CRM application market, the vendor scores high. If the market represents a very small portion of the company's revenues and it does not appear to be of critical importance for the company, the vendor scores low.
- ☒ Partnerships (15%). A relative evaluation of the strength of the partner network of the vendor in terms of driving future revenue growth. The partner network includes channel partners, implementation partners, OEM partners, technology partners, and outsourcing partners.
- ☒ Ease of deployment (15%). A relative ranking based on the perceived ease with which the vendor solution can be purchased, implemented, and maintained.
- ☒ Industry depth (15%). A relative ranking based on how well the product matches industry-specific requirements for its target verticals. IDC believes a significant opportunity exists for vendors that offer industry-specific CRM applications.
- ☒ Back-end integration (15%). A relative measure of both packaged pre-integration and custom integration capabilities between the CRM application and the critical back-office applications. The ability of CRM applications to support end-to-end business scenarios is critical for CRM success and for the vendor's ability to sell.
- ☒ Financial strength (10%). A relative measure of the profitability of the vendor. IDC assumes that profitable vendors over time will be able to reinvest significant resources compared to unprofitable vendors.
- ☒ Momentum (15%). A relative ranking based on absolute CRM revenue growth in 2006.

Copyright Notice

This IDC research document was published as part of an IDC continuous intelligence service, providing written research, analyst interactions, telebriefings, and conferences. Visit www.idc.com to learn more about IDC subscription and consulting services. To view a list of IDC offices worldwide, visit www.idc.com/offices. Please contact the IDC Hotline at 800.343.4952, ext. 7988 (or +1.508.988.7988) or sales@idc.com for information on applying the price of this document toward the purchase of an IDC service or for information on additional copies or Web rights.

Copyright 2007 IDC. Reproduction is forbidden unless authorized. All rights reserved.