

How would you like your CRM? While Cloud and On Premise are well established deployment models, we consider the benefits that a Hybrid option could bring to your business

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ABOUT DAVINDER BIRK

Davinder Birk is a Customer Relationship Management Consultant who has been delivering CRM solutions for nearly 10 years. He has a wealth of experience, ranging from small luxury brands and motorsport to international Pharmaceuticals and central Government with one thing in common - a desire to improve and leverage relationships.

Engagements have included advising on CRM Technology Strategy, Multi-Channel CRM Solution Architecture and leading the delivery of CRM projects.

More recently, as CRM Capability lead for Hitachi Consulting UK, Davinder has focused on ensuring clients are making the most of the latest CRM Technology trends including working within the Cloud and leveraging the flexibility of modern CRM solutions to their best advantage.

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ABSTRACT

Over the past few years the options for buying, deploying and accessing business applications have increased dramatically, none more so than for those seeking an effective Customer Relationship Management (CRM) solution.

The following whitepaper compares the options available including Cloud, partner hosted and On Premise models, as well as the various rent, buy or finance choices, and aims to help the reader match the most suitable combination with their requirements.

The overall conclusion is that there is no 'best' method, only a most suitable depending on your business needs. Also, that the ability to move between or choose a mix deployment and cost models is becoming increasingly important to maintain an integrated and cost effective solution as times and business needs change.

CRM DEPLOYMENT MODELS

The current options for deploying a CRM solution fall broadly into three main categories – On Premise, Cloud and Partner Hosted/Managed, each with contrasting costs and benefits which suit different requirements. With ever advancing technology platforms and increasingly flexible licensing models we also introduce the concept of a 'Hybrid' model, which combines elements of these three.

On Premise

Deployed alongside existing internal infrastructure and applications on your own servers, On Premise solutions are typically bought outright or financed. This deployment model gives you complete control over your CRM solution and traditionally gives you stronger integration, control over security and the ability to leverage customisation and development of the application.

As an addition to your existing architecture, the associated hardware and internal IT hardware and software costs and process will usually increase the cost and timescales of getting the deployment up and running. Therefore, On Premise solutions typically have high up-front capital costs and an internal cost associated with managing the system, with a comparatively lower ongoing software maintenance charge in place for technical support or access to upgrades from the supplier – an annual charge of 15-20% of the initial licence outlay is typical in the marketplace.

Cloud

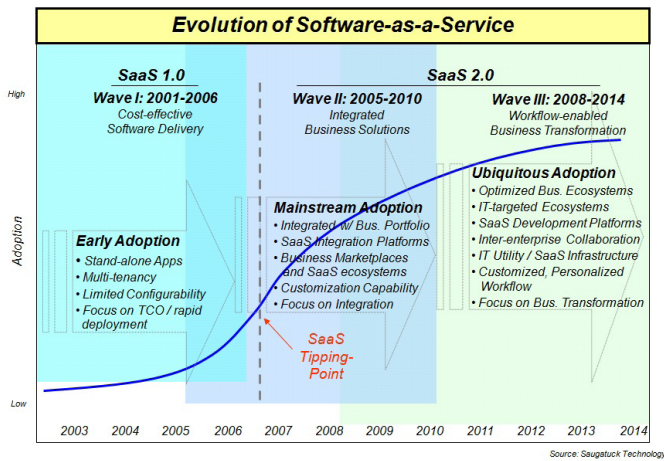
Pioneered in the early 2000's, the Cloud or 'On Demand' model is now well established and offers access to a CRM solution across the internet without the need to implement any on site hardware or software.

Cloud solutions are typically financed using a rental model, with a per-user, per month fee which allows the number of users to be flexed on a monthly basis. Because the underlying hardware and software are owned and managed by the hosting organisation, this means little or no up front costs, a reduced requirement for the support of internal IT resources and upgrades to latest version are included within the package.

As with all rental agreements, there is typically a break even point in the long term whereby you will have paid more than it would have cost to buy the software outright, but the profile of this will depend on your business needs and your user profile over time. Something to look out for within Cloud hosting agreements is committal to minimum contract time periods or user numbers and the prevalence of 'hidden' costs, such as per transaction costs for use of technical interfaces or costs for data imports and exports, which can quickly add up.

The original generation of Cloud solutions tended to be standalone, inflexible and lacking in functionality compared to their more mature On Premise peers. However, as web technologies have allowed for increased security, integration and flexibility, Cloud solutions have rapidly caught up and now offer a comparable choice in most areas.

Security and data locations are still a concern for some organisations when considering this model, although security has improved and there is more choice with regards to location, including Europe and UK based data centres.



“Software as a Service (Cloud) CRM offerings have moved beyond their previous status as a specialized deployment option and into the mainstream” William Band , Best Practices: The Smart Way To Implement CRM

Cloud, Software as a Service (SaaS), Hosted, On Demand – what’s the difference?

There are many interesting and often conflicting definitions which describe a model where the solution is run from outside of your architecture. If there are differences, then they will tend to relate to how the service is supported (eg. named servers in a data centre or distributed ‘cloud’ services) – from a business and practical perspective these terms can usually be used interchangeably.

Partner Hosted /Managed

The Partner Hosted model is actually a range of deployment options with a common theme – the involvement of a partner organisation, who may or may not be the supplier of the software, to host or manage the solution. At one end of the spectrum, it can be a Cloud like model, with the partner owning the hardware and software licensed via rental fee. At the other end of the spectrum, the hardware and software could be deployed within your infrastructure and just managed by the partner.

The chief advantages of the Partner model are the flexibility to choose which aspects you would like the Partner to supplement or manage, a range of pricing models and the fact that the solution can usually be more customised to your requirements – for example, a hosted solution accessible via a dedicated secure connection rather than on the internet may be easier to integrate with existing back office systems.

Hybrid Models

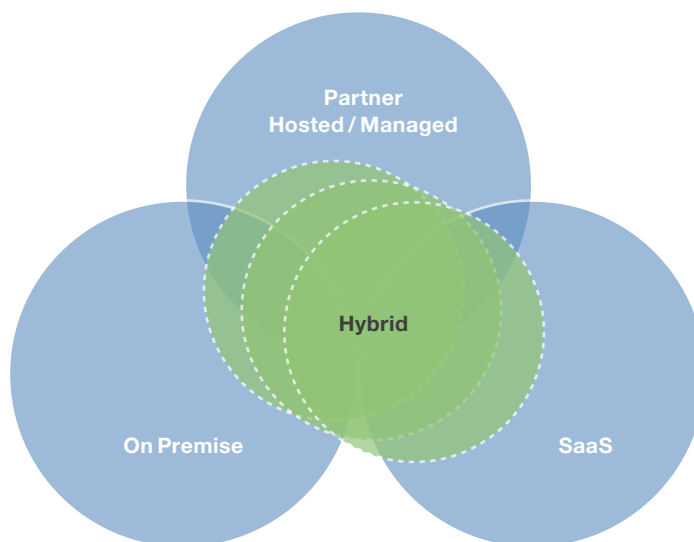
As suggested by the name, Hybrid Models offer a mix of the different models described so far. As well as offering elements of Cloud, On Premise and Partner Hosted deployment this model can potentially offer the ability to change the mix of these elements over time.

Hybrid models are becoming increasingly available as the technology develops to support it, allowing the same solution to be Hosted on the web or deployed On Premise, and reducing the barriers of moving from one model to another. Major players including Microsoft, SAP and Oracle now offer if not identical solutions, an easy migration path between their Cloud and On Premise offerings.

Licensing flexibility, including the ability to rent software that is deployed on site, or to purchase licenses outright, but have the solution platform hosted, have also led to interesting hybrid pricing propositions.

Examples of a hybrid solution could be where 80% of licenses are purchased outright, while the additional 20% of users are perhaps only required at peak times so could be managed as a monthly rental or a solution which initially starts as a Cloud model as a prototype and is brought on premise once the business case has been proven.

The key to making hybrid models work for you is deciding how, when and where to use them, such as utilising a Cloud model for piloting and development, and then moving to On Premise for the live deployment. It is also important to find a Partner and technology solution that provides the flexibility that you need.



On Premise and SaaS models offer well defined, but contrasting options.

Partner Hosted models are able to offer elements of both, hosted or managed by a Partner.

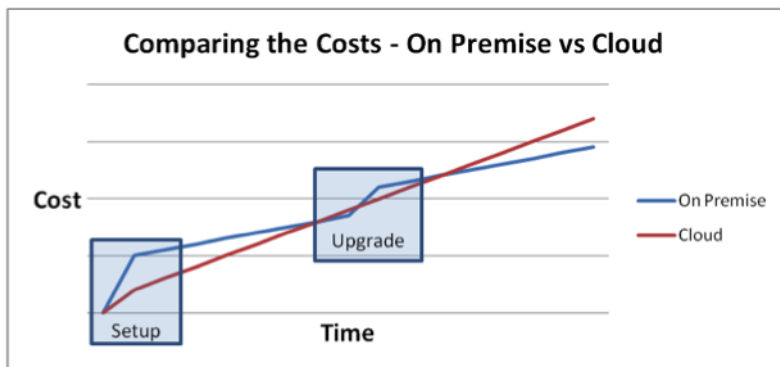
A true Hybrid model should offer both the ability to mix deployment elements and also to change the delivery and/or cost model over time as your business needs change.

COMPARING THE COSTS

The costs associated with deploying and running a CRM solution generally fall into the following categories:

- Hardware/Infrastructure
- Software
- Implementation
- Support (Internal and External)

On the face of it, a cost comparison of Cloud and On Premise models is straightforward; an on Premise solution will have a higher setup and upgrade cost, with a lower running cost, while Cloud solutions will have an almost constant cost over time, perhaps flexing slightly with the number of users.



"Having the choice between the two models is enormously beneficial as each method brings its own unique advantages and businesses can effectively benefit from the best of both worlds.", Jason Nash is Dynamics CRM product manager at Microsoft Business Solutions.

Of course this is an over simplified. In reality, costs are dependent on a range of factors, including the number and location of users, complexity of the solution required and the ability for suppliers to change the prices they charge over time.

While some research suggests that On Premise solutions are more cost effective for larger (200+ user) organisations¹, the reality is that it is often too close to call, which means that evaluating and comparing the costs for your organisation remain an essential part of the decision making process.

In some budgetary models it is also not the overall cost that is important, but the mix of capital and operational expenditure or the profile of payments over time.

One thing that is often overlooked is that the most cost effective solution in the long run is often the one that can provide the most flexibility, both in offering the right mix of rent, buy and finance options, and the ability to change the model over time.

¹ "In general, as the number of users increases, on-premise models increase in financial attractiveness. However, enterprises operating in multiple geographies with 25% or more users in remote locations benefit more from SaaS options." R Wang, Forrester Research, Comparing The ROI Of SaaS Versus On-Premise.

FINDING THE RIGHT BALANCE FOR YOU

The topics so far have focused on general assumptions and typical examples, but how can you decide which of the deployment models will be the most effective for you?

A good starting point is to consider some of the key requirement areas, which can often strongly lean towards a particular model, or rule out some options. The following questions are a sample of the kind of factors that can influence the decision:

Cost Profile

- a) “Lower Total Cost of Ownership in the longer term is the priority, we are happy to make a larger up-front investment or finance our software to achieve this”
- b) “The ability to leverage lower upfront costs and flexible ongoing charges to get things moving is ideal”

Location of Users

- a) “Most users are based in our offices or have secure access to our network already set up.”
- b) “We have a lot of field based, overseas or 3rd party users accessing the solution.”

Number of Users

- a) “The number of users will be fairly stable or increase, but it not likely to decrease.”
- b) “The number of users could be volatile, it could be increasing or decreasing in the future or fluctuate periodically.”

Security and Data Locations

- a) “Our security policies dictate that corporate applications and data must be located on our corporate network or premises.”
- b) “The solution and data doesn’t have to be on our network, as long as the security, location and disaster recovery is in line with our policies, access via the internet is acceptable.”

Integration

- a) “Our solution will need to be integrated to a number of legacy systems”
- b) “We are looking for a standalone solution” or “We will need to integrate, but the systems we need to integrate with can do so securely via the web”

Infrastructure

- a) Implementing new hardware and software in our existing environment is not an issue, we would rather have the hardware owned and managed by us.
- b) “There are technical, cost or procedural barriers to implementing new hardware and software in our environment” or “We would rather leave the management of the technical environment to a 3rd party”

Looking Forwards

- a) The answers above will likely be the same in 5-10 years time.
- b) The answers above will likely be the same in 2-3 years time.
- c) Neither of the above – the answers could change in the coming years

If all of your answers are “a”, then it is likely that an On Premise solution is what you are currently considering, and the current generation of Cloud and SaaS solutions are not for you. Perhaps Cloud solutions don’t provide security or data storage that is acceptable, or the level of integration that you require.

Similarly, if all of your answers are “b” then a Cloud solution is almost certainly the way to go. The cost model flexibility and reduction in technical management overhead will suit your needs better than an On Premise solution.

If your answers included a mixture of both “a’s” and “b’s”, then the ability of Partner Hosted or Hybrid models to provide a compromise between Cloud and On Premise should be considered. By gathering more information on, and prioritising, your specific requirements, you will be able to refine the mix. For example, a solution that is hosted, but sits within your infrastructure will suit, or perhaps you would like to buy licences up front, but have a partner host the infrastructure for you.

If your answer to the final question was “c”, then, whichever model you go for at the outset, it is worth considering how your requirements could change in the future. With this in mind, you will probably want to ask your supplier or partner what options are available for changing the deployment – both technical, in terms of moving from a hosted to On Premise environment, and cost based, such as buying some licenses, while renting or financing others.

“Take advantage of hybrid deployment options that allow for switching between on-premise and Cloud. Factor in control and customization requirements addressed by an on-premise solution against the future scalability and adaptability options created by Cloud.” R Wang, Forrester Research, Comparing The ROI Of Cloud Versus On-Premise

IN CONCLUSION

On Premise and Cloud (Cloud) models are well established options for deploying Customer Relationship Management Solutions. Both offer a clearly differentiated set of benefits, cost models and limitations. Considering these will often highlight which one of these models is more suitable for your requirements.

Partner Hosted or Managed solutions, historically for those keen on outsourcing, have expanded and developed, and offer an alternative when a pure Cloud or On Premise model are not quite right. Partners add value and flexibility to On Premise or Cloud solutions, by offering different cost models, such as the hosting of owned rather than rented licenses, or technical solutions, such as secure VPN access as opposed to direct web hosting.

Hybrid models have developed as organisations have continued to demand more flexibility, such as mixing deployment models and the ability to change this mix over time. Traditional On Premise suppliers such as SAP and Oracle have introduced OnDemand ranges, Cloud vendors such as Salesforce.com are adding On Premise companies to their portfolio and some, such as Microsoft have Cloud and On Premise solutions which use the same software. All are also introducing increasingly flexible pricing models, which offer both buy and rent options across the deployment models.

If you are considering investment in a CRM solution, or evaluating the effectiveness of your existing deployment, it is certainly worth finding out more about what a hybrid deployment or cost model can offer your business.

About Hitachi Consulting

Hitachi Consulting is a technology based consultancy employing original thinkers with the talent and track record to build inventive solutions business. By delivering on this commitment Hitachi Consulting has become an innovative force in providing flexible and highly effective solutions that make an immediate and proven difference to bottom-line profitability.

Working as a trusted partner, Hitachi Consulting has an enviable track record in helping clients plan, develop and implement technology strategies and solutions. Hitachi Consulting’s holistic approach covers the complete application lifecycle for Microsoft CRM implementation and support.

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