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The Essential Guide to Hosted vs. On-Premise CRM

Having trouble making a decision? Use this guide to learn the pros and cons of each type of solution.

By **Pam Baker** on **April 1, 2008**

In **today's tumultuous economic environment**, the efficiencies of CRM are more crucial than ever for squeezing profit from shrinking margins. On that point, there is no argument. However, the discussion heats up from there. The unending question is which path leads to the best results, **hosted or on-premise CRM**?

Perhaps that question has no single answer, because you need to consider other issues first. "I don't believe that the primary decision is **hosted** vs. on-premise," said Laef Olson, chief information officer of **RightNow Technologies Inc.** "The primary decision is what CRM package drives the best business value."

Indeed, **weighing CRM packages** against your specific business needs is the most prudent first step to take. What, precisely, do you want CRM to do, and how do you want it to do the job?

To begin to answer this very complex question, consider that CRM function is commonly divided into three categories: operational, analytical and collaborative. "Each is biased toward a particular deployment model," confided Yacine Filali, business systems analyst with Winbond Electronics Corporation America.

"Operational CRMs are often integrated with the company's public Web site, wherever it may be, but [are] usually hosted," he explained. "Analytical CRMs are often integrated with business-intelligence engines and are very often in-house, along with the **ERP (enterprise resource planning)** infrastructure. Open-source and some commercial solutions will very often try to integrate the analytical piece with the operational piece, with mostly bad results.

"The collaborative CRM will sometimes include channel management, but most often is hosted in-house," Filali continued. "Corporate paranoia is a big factor in deciding where analytical and collaborative CRMs are hosted, even if physical security of the servers at most hosting companies is far greater than that of most businesses' in-house servers."

The Basics

At the most basic level, your choices in CRM are whether to buy or to rent. If outright ownership is important to you, then on-premise CRM is the only way to go. You buy it, you use it, you control its data and you keep the whole spiel on your company grounds. However, there is a snafu with defining ownership. Unlike a hammer that you can buy and use on any job and in any way — and even lend to others or sell outright — on-premise CRM comes with strings that prevent you from truly having the final say. Those strings are found in the licensing terms. So is it really ownership if you are limited by when, what, how and who can use it?

Hosted CRM, on the other hand, is not yours and never will be. You pay — and pay, and pay — for the right to use this **SaaS (software-as-a-service)** product. However, just like renting an apartment, you never have to fork out the cash for repairs and upgrades. Also, you won't need much of an IT staff to use hosted CRM, nor will you have to buy hardware, software or innumerable upgrades for either.

“On-demand CRM allows companies to get up and running quickly by accessing software via a Web browser,” explained **Chris Harrick**, senior director of product marketing at **SugarCRM Inc.** “Because on-demand CRM software is offered under a subscription, customers do not take on as much financial risk as when paying the traditional upfront license/maintenance fee of client-server software. The subscription model, combined with upgrades and support services, make on-demand CRM software an attractive option for a lot of companies.”

Pros of Hosted CRM

“In comparing on-premise to SaaS, be aware that **SaaS solutions** offer faster time to value; frequent, automatic updates; independence from IT; and good usability,” said William Band, vice president and principal analyst of CRM applications at Forrester Research Inc.

There are a few more items in the pro column. “Putting the differences of hosted-CRM packages aside, some of the pros of a basic, hosted solution include specialized operational-management capability, inherent disaster recovery, ease of implementation, fully managed upgrades and environment changes, specialized security management and lower operating cost,” said RightNow’s Olson.

For those of you who have heard this claim before and are skeptical, be aware that times have changed.

“Hosted applications had a rapid rise and fall in the past decade,” said Bruce Francis, vice president of corporate strategy at **Salesforce.com Inc.** “Their essential flaw was that they still had all the flaws of traditional client-server apps: [they were] expensive and time-consuming to implement, costly and difficult to maintain and impossible to upgrade without breaking valuable customizations. This all has changed with software as a service.”

For small and midsized companies with limited IT staff and resources, hosted CRM is often the only choice. “All you need is an Internet connection and a Web browser, which translates to tremendous cost savings on both hardware and IT personnel to maintain the systems,” said Mini Peiris, vice president of product programs for **NetSuite Inc.** “Additionally, on-demand solutions offer a level of uptime, security and scalability that midmarket companies would otherwise not have the resources to deploy themselves.”

Cons of Hosted CRM

There are cons to using hosted CRM, of course. For starters, you will find yourself digging a hole without a shovel if you lose your Internet connection. If you decide to go with an SaaS CRM, invest in a backup ISP. But that’s just the first concern to mull over.

“CRM professionals worry about the true **TCO (total cost of ownership)** for SaaS, feel challenged by integration and customization issues, have qualms about **data security** and find SaaS pricing models and contracts confusing,” said Band. “Additional risks for SaaS solutions include loss of control, weaker integration, limited virtualization and more restricted customization capabilities compared to on-premise solutions,” he added.

These risks should be carefully weighed, because often it is difficult to **shift to another CRM product** later. Most hosted-CRM contracts are riddled with penalties and obstacles to getting out. “It’s not easy to get off if you wanted too,” warned Band. “Look at your contract before you leap; some contracts make it hard to leave or even to turn them off.”

But even fine-print traps are not necessarily the biggest obstacle to making the switch. Transferring the data can be a real nightmare. “Vendors make it sound easy, but it’s really tough to do,” said Band. “You need to figure out beforehand how to **transfer data**. It’s a real technical challenge, since it’s usually stored in a vendor environment.” So look closely at your business needs now and in the future before you decide.

“For companies who have deep customization and integration requirements, on-demand CRM may not always be the best approach. We have seen larger companies choose Sugar On-Site, instead of Sugar OnDemand, because they have more control over application customization, performance and data security,” said SugarCRM’s Harrick.

Pros of On-Premise CRM

On-premise CRM has several substantial points in its favor. “On-premise solutions offer stronger integration benefits than SaaS, resulting in enhanced integration with other IT and operational systems, especially when real-time integration is important,” said Band.

Maintaining hands-on control is the number-one reason most companies cite for choosing on-premise CRM. “On-premise or on-site CRM can deliver more control around customization and integration than on-demand CRM. If a

company wants to make substantial changes to the data model of the application, they will want to go on-site, most likely because the application is open and modifiable,” said Harrick.

Many companies feel that the control adds to security and allows faster response to threats and problems. But on-premise CRM can also be helpful to companies that are still evolving. “For those IT shops that haven’t reached a level of maturity around service-delivery management, on-premise CRM offers the security of knowing that the infrastructure is under direct company control and changes and risk management can be handled locally,” said Olson.

Cons of On-Premise CRM

The biggest drawback to using on-premise CRM is the staggering up-front cost.

“On-premise deployments typically require greater up-front costs, especially when comparing license fees with subscription fees. On-premise deployments typically also require hardware maintenance, upgrades and support costs on top of license fees, while most SaaS deployments bundle these into the subscription fees,” said Band.

But that’s not to say that hosted CRM is necessarily cheaper. “An outright purchase may result in significant savings over a 3- to 5-year term. However, if you are just looking for an interim solution, a hosted model is probably the right choice,” said Chris Caputo, director of information systems at Juggernaut Software.

There are a few problems, however, looming past the check-writing stage. “On-premise solutions have risks, primarily implementation risks, due to deployment complexities, training needs and support issues,” said Band.

It’s also best if you have a skilled and plentiful IT staff to keep up with all the details. “Complexity around customization and integration, complicated upgrades, difficult user interfaces for end users and slow time to value — all resulting in a high-risk investment — are major drawbacks,” said Salesforce.com’s Francis.

The Magic Bullet

While there is no magic bullet per se, there is a way to shoot down some of the problems before you commit.

“I would very strongly recommend that you run a pilot program to test how things work before committing,” advised Flyn Penoyer, telesales guru at Penoyer Communications. “It is crucial that you document thoroughly the user process for handling the systems and compare how that process is executed on the various programs you decide to consider. Have the vendor do a demo using your task/action script for the user’s handling of the product so that you can see exactly what is necessary for each task and the complexity of execution.”

There is a movement afoot that goes a step beyond this basic, sensible approach. “As CRM SaaS solutions have gained more acceptance and usage, buyers are starting to consider using SaaS in more creative ways. Rather than thinking about SaaS vs. on-premise CRM solutions as mutually exclusive, CRM professionals are starting to implement hybrid deployments,” said Band. “For example, implementing an on-premise solution for large user populations with complex business processes and supplementing with an SaaS solution to fill the needs of remote or specialized business units. Since many CRM solutions are now being offered as both on-premise and SaaS versions, hybrid approaches are becoming more feasible.”

Hybrids, it seems, are the wave of the future.

“A hybrid option is very possible, hosting the bulk of the software in-house with a few Web interfaces hosted along with the public Web site,” agreed Filali. “This is very common today among software and other support-intensive companies.”