



Outsourcing Customer Relationship Management (CRM) Functions

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“Successful outsourcing enables organizations to focus on what they do best - accomplish their mission.”¹

This statement from the General Services Administration is at the core of an organization's decision to staff an internal Information Technologies (IT) function for a particular mission-critical task, or trust some other entity to do it.

Information and communication technologies are becoming more critical in the age of the Internet. Realizing the disparities between the potential of these technologies and the ability of their own in-house staffs, software and equipment, organizations must make critical choices.

Information is the catalyst for change. As more and more data become available, IT functions will be hard pressed to supply management with the analytic capability to provide information quickly and accurately to assure competitive superiority.

In this paper, we will review trends in issues in organizations' outsourcing IT functions generally. Then we will discuss outsourcing Customer Relationship Management (CRM) in the Application Service Provider (ASP) business model, particularly for marketing analysis.

Growth of IT Outsourcing

Throughout the 1970s and 1980s, only low-level functions such as keypunching were outsourced. Organizations preferred to manage all complex computer tasks on in-house systems with dedicated personnel. However, in 1989, Kodak surprised the information systems community by selling its mainframes to IBM and hiring that firm to do its data processing for the next ten years. This action prompted IT organizations across the country to consider outsourcing higher-level functions, such as facility management and payroll processing.

The growth of outsourcing of IT functions has been enormous. In 1990, U.S. businesses spent \$7.2 billion on outsourcing computer operations.² International Data Corporation estimates that global outsourcing of processing services will hit \$151 billion by 2003.³

Why Outsource?

Outsourcing relieves corporations of numerous difficult management problems. Cost savings are certainly one of the benefits. The Congressional Budget Office estimated in 1995 that cost savings between 20% and 40% could be achieved through outsourcing.⁴

In a study by Benchmark Research for Integris (the UK outsourcing arm of Groupe Bull), more than 50 percent of the organizations found that outsourcing cut costs. In the public sector, 83 percent reported cost savings through outsourcing. Not only were the savings significant, often the organizations also reported an improvement in the quality of the IT services.⁵

Besides costs, the shortage of skilled personnel makes outsourcing even more compelling. It transfers the need for recruiting, training and maintaining experts to vendors, allowing companies to focus on their staffs for more essential functions.

Outsourcing also transfers the responsibility of keeping up-to-date on technological change to vendors who specialize in particular services.

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Barriers To Outsourcing

The barriers to outsourcing have primarily been concerns for security, control, corporate knowledge, and reversibility after contracting for services.⁶

Security concerns involve a fear that the confidentiality of client data will be compromised. To insure protection of data, the clients of outsourcing firms must incorporate the need for secure environments in contracts, train and supervise staff with respect to confidentiality, and audit their contractors.

Control issues relate to responsiveness and flexibility. Many clients doubt that vendors can respond as quickly as an in-house staff.

However, the truth of the matter is that many in-house staffs are overburdened and are less responsive than vendors offering particular services. Performance-based contracts and client proficiency at measuring and benchmarking key deliverables will insure that vendors are responsive and flexible.

There is a concern that vendors do not have enough corporate knowledge to accommodate the needs of the enterprise. However, by choosing vendors who will act as long-term partners, this problem is overcome.

Lastly, reversibility relates to the concern that IT functions turned over to a supplier cannot be returned in-house except at great expense. Many managers believe that turning over critical functions to an outside source will cause them to lose critical skills, equipment and software. By keeping current with skills and technologies, clients can be assured that they will have a variety of options for most situations. Also, some clients fear outsourcing will lock them into a vendor. This problem can be approached by assigning key internal personnel to the project.

Application Service Providers (ASPs)

Network World defines an ASP as...

“a company that offers rental applications to multiple business users from a shared data center over the Internet, an ATM, frame relay or even a private-line network. The applications are typically accessed from a user’s PC in one of three ways: via a standard Web browser, a thin client or an application-specific client.”⁷

Gartner Group’s Dataquest research arm believes that ASPs grossed \$2.7 billion revenues in 1999 and will book \$22.7 billion by 2003.⁸

Customers of ASPs typically pay a flat monthly fee that covers hardware, software license(s), network facilities, and the technical personnel that provide services. Clients obtain state-of-the-art services from specialists without having to develop them internally.

ASPs tend to specialize in either off-the-shelf applications or complex systems. The latter case is especially well suited to this business model because the large costs of development and implementation is shared across a number of clients, giving each advanced technology at reduced cost.

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Customer Relationship Management (CRM)

One particular complex specialty garnering great interest in the ASP industry is Customer Relationship Management (CRM). More and more customers are expecting the companies with whom they do business to respond to their needs quickly and in ways that are relevant. For example, people do not want to be called and offered a credit card from a company whose credit card they already carry. Nor do they want to wait for a problem to be solved, particularly if they are a loyal customer. By implementing CRM systems, organizations assure that their contacts with their customers are timely, relevant, and completed efficiently.

A critical function of CRM is providing analytic capability to marketing. Organizations must understand their most profitable customers and respond to them in ways that maximize business opportunities. The most advanced CRM systems provide real-time data mining capabilities for assessing the company's customer databases to reveal insights that lead to profitable strategies. In determining key opportunities with a company's customer base and acting accordingly, returns-on-investment are often immense. For a small to medium-sized organization, in particular, the relatively low cost of using an ASP that offers this sophisticated technology can produce considerable competitive advantage for the client company.

Small Versus Large Organizations

Interest in CRM products in the ASP model is growing faster among smaller companies than among larger companies. Often, within some large organizations, the major resistance to the ASP model is an IT department trying to protect its turf.

AMR research claims CRM application license fees at companies with \$50 million to \$250 million in revenue jumped 113% between 1996 and 1997, while mid-size companies with \$250 million to \$1 billion revenue grew 55%. Companies with revenues of \$1 billion and over grew 52%.⁹

A major impediment for the implementation of CRM for smaller companies' IT departments is its cost. A company with \$250 million in revenues and an IT budget of a few million cannot afford a CRM solution likely to cost several million dollars. By using an ASP, smaller organizations realize the benefits of sophisticated CRM operations enjoyed by larger competitors at relatively low cost because the smaller companies share resources with other clients of the ASP.

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Future of CRM Analysis in the ASP Model

International Data Corporation (IDC) predicts that CRM is the highest growth segment across all major software application fronts. IDC predicts that CRM, including sales, marketing and services applications, will increase at a 44% rate compared to 15.3% growth in the overall applications market. Marketing applications, with a 50% growth rate, will be the highest growth sub-segment in CRM through 2004.¹⁰

Analysis is both a critical and high-growth outsourcing area. Jupiter Strategic Planning Services found that 65 percent of Web ventures said they currently outsource usage analysis or would consider doing so. Jupiter believes that the challenges of analyzing Web data will be such that all who are considering it to actually sign outsourcing contracts.¹¹

Interelate, adds a new dimension to the customer relationship management ASP model by emphasizing analysis and industry expertise on top of the capability to host a client's data mart.

In the Jupiter study, 39 percent of respondents had difficulty integrating their usage analysis tools with existing applications. Of the businesses surveyed, 53 percent indicated that they had less than one full-time employee assigned to data collection and analysis. Twenty-three had no one assigned to the task.

Beyond clickstream data from activity over the Internet, businesses are under great pressure to increase profitability from their enterprise's assets. Customer databases represent a critical asset of every business. It makes complete business sense to outsource to experts the task of managing and providing analytical support. Businesses who do so are assured of knowing they are getting critical marketing insights and, at the same time, using their IT departments to focus on mission-critical needs unique to their businesses.

Marshall Senk, Managing Director and Senior Research Analyst for BancBoston Robertson Stephens says, "We believe two abilities have become crucial to success in the dot.com age: (1) The ability to analyze and understand the data about the customer base, through sophisticated, easy-to-use reporting tools and (2) to act on that knowledge to customize products, services, and all touchpoints (sales, call center, marketing) to fulfill customer need in the right way, at the right time, and through the right channel."¹²

The Analytic Service Provider Model

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Wade Myers, president and CEO of Interelate, uses the analogy of building a nuclear power plant to developing a full-blown customer relationship management system. As a foundation of the CRM effort companies have to install database, web, and application servers complete with the necessary software applications. They have to have sufficient storage and a comprehensive network infrastructure with high levels of security. Add to this complexity, access to third-party data providers, technically-skilled employees to provide data, industry, CRM, and analytics expertise. Lastly, numerous tools must be added to provide sales analysis and forecasting, cross-sell, channel, pricing and profitability analysis. With this level of complexity, it is easy to see the analogy.

Interelate provides this infrastructure, together with highly experienced consultants to leverage customer data, the immediacy of the Internet and advanced analytical capability to maximize efficiency and profitability for clients. In doing all of the "heavy lifting" by providing the infrastructure, technical expertise and products, Interelate's clients concentrate on the basic business problems quickly and efficiently.

The ASP model, particularly in CRM, is positioned at the convergence of two powerful trends: the IT outsourcing movement and the Internet. As our earlier quote from the U.S. General Services Administration stated, those who successfully outsource in this competitive and changing environment will focus on what they do best and accomplish their mission.

List of Resources

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- ³ International Data Corporation, “Worldwide outsourcing spending approached \$100 billion in 1998 and will surge to over \$151 billion by 2003,” 8 July 1999.
- ⁴ Gabig, Jerome S., Jr., “Privatization: A coming wave for federal information technology requirements,” *National Contract Journal*, Volume 27, Issue 1, 1996.
- ⁵ Pritchard, Stephen, “Outsourcing - the insider guide,” *Independent on Sunday*, 2 August 1998.
- ⁶ Op. Cit, “Outsourcing Information Technology”
- ⁷ Pappalardo, Denise, “ASP Attack,” *Network World*, 27 September 1999.
- ⁸ Booker, Ellis, “High Hopes for Application Outsourcing: Gartner: Everyone will use ASPs,” *Internet Week*, 18 October 1999.
- ⁹ Sweat, Jeff, “Software: Closeness Counts - Smaller businesses rely on technology to maintain close customer relations,” *Information Week*, 1 March 1999.
- ¹⁰ International Data Corporation, “Customer Relationship Management Applications,” Factsheet www.idc.com.
- ¹¹ Jupiter Communications, “Usage Analysis - Refining and Managing User Data,” 13 March 2000.
- ¹² Marshall Senk, BancBoston Robertson Stephens, 8 November 1999.

About Interelate

Introduction: Interelate is the leading customer intelligence ASP (application service provider) that rapidly delivers to decision-makers a unified view of relevant customer information and analysis. This innovative solution empowers clients to grow sales and profits through data mining, campaign management, personalization, and real-time recommendation. Interelate combines deep expertise in data analysis, customer relationship management (CRM), database marketing, and industry verticals with leading, analytics software, proven methodologies, and third-party data through a secure, Web-delivered service.

Products: Interelate's solutions include: customer acquisition, customer cross-sell, customer retention and customer profitability, sales forecasting, customer and channel profitability analysis, customer and channel behavior analysis, pricing analysis, campaign management, and real-time personalization.

Clients, Partners and Data Providers: Interelate's customers include: Goldman Sachs, GMAC, AltaVista, Nissan, Morningstar, Holland-America, Medtronic, Inc., PacificNet.com, H&R Block, and the U.S. Department of Defense. Interelate's partners include AT&T, Cisco Systems, Dell, EMC, E.piphany, Loudcloud, Microsoft, Net Perceptions, Oracle, Sun, and Yankelovich Partners. Interelate works with a variety of data partners to provide clients with the right information for their specific needs. Representative data providers include: Devonshire Associates, Scan/US, Mediamark Research Inc., Map Info, Acxiom, and ESRI.

The Company: Interelate was founded in July 1999 by Wade Myers, a Harvard MBA who is an experienced entrepreneur, application outsourcing chief executive, and CRM subject matter expert. Interelate's highly experienced management team includes partners from leading consulting firms and top executives from several Fortune 500 companies. Interelate is capitalized with funds from Goldman Sachs, Deutsche Banc Alex. Brown, Dell Computer Corporation and several other prominent venture funds and individual investors. The company is headquartered in Eden Prairie, Minnesota with offices throughout the United States and Europe.

Founded: July 1, 1999

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