THE STATE OF THE CRM MARKET: 2018

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THE BOTTOM LINE

Technology innovations – both new and old – continue to transform the technical requirements for customers relationship management (CRM). The focus of 2017 on orchestration, industry accelerators, and developer democratization made faster, better CRM deployments possible. The blurring of business-to-business and business-to-consumer are creating new challenges in 2018 while embedded artificial intelligence (AI) will be table stakes for leading vendors. Looking ahead five years, Nucleus sees the full realization of orchestration, dramatic changes in pricing models, and the dominance of AI and bots presenting new opportunities – and challenges – for CRM vendors and decision makers.

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WHAT WAS INTERESTING IN 2017

With most leading CRM vendors issuing at least two significant product updates per year, decision makers were challenged to sift through the hype and identify the greatest opportunities for wringing more value from their CRM deployments. Beyond the functional expansion into field service and e-commerce, other key technology innovations driving change in 2017 included:

▪ Orchestration. Broadly defined as the combination of real-time data integration and business process rules-based workflows (sometimes with the addition of AI), vendors touted orchestration as the key to automating and scaling complex CRM processes. Most leading vendors have significant BPM and workflow management capabilities in their product offering today, and also have a platform and application programming interface (API) strategy to begin to

address orchestration needs. For customers with multiple disparate systems across sales, marketing, and service, orchestration promises to enable everyone to sing the same tune without throwing out all the old songbooks.

- Industry accelerators. With pre-built industry capabilities, templates, and centers of expertise, vendors are showcasing their strengths in particular industries. They're also showing their ability to deliver faster time-to-value and lower ongoing administrator support costs by reducing the need for custom code and objects (Nucleus *Research r119 – Industry accelerators increase CRM value*, June 2017). Look to micro-industry capabilities and horizontal micro-processes to be addressed next.

- Low code to no code development frameworks. As Salesforce has evolved to provide development options across the spectrum for power users, administrators, and hard-core developers, others such as Microsoft (with PowerApps) and Sugar (with its mobile software developer kit (SDK) are putting more power into the hands of non-developers. We expect leading vendors to continue to enhance the tools and training for groups across the development spectrum.

- The rise of the community ecosystem. Beyond just the partner ecosystem, the rise of individual developers as ecosystem contributors is just beginning. Today it takes the shape of developer-led courses, shared code, and community troubleshooting and advice. Vendors that embrace and provide structure for their communities benefit from additional support resources and tribe identity that you can't buy with branding dollars.

WHAT TO LOOK FOR IN 2018

The difference between AI hype and reality is becoming clear. Expect vendors that already have AI embedded in their applications – and real customers in production – such as Apttus to leap ahead of those that are still talking about frameworks and potential use cases. In the short term, CRM decision makers will eschew broad-brush capabilities in favor of prebuilt, pretrained models that meet their specific needs. As in the early days of predictive analytics, it's not always the perfect algorithm but the one that can be explained and trusted that gains adoption in areas such as sales forecasting, predictive recommendations, and whitespace analysis. Embedded AI is now table stakes for leading CRM vendors.

Recognizing the need to support no-code, low-code, and all-code developer requirements, vendors are continuing to invest in not just tools at each point on the

spectrum but sandbox, packaging, and other tools to make a blended-code environment easier to manage, adapt, and upgrade.

On the user side, the addition of automation and orchestration as well as the expansion of CRM into the broader "edge" footprint means new classes of users are arising that may only need access to a slice of CRM functionality. At the same time, traditional per-seat pricing is diminishing in favor of other models (in service, for example, when agents are supplemented or supplanted by bots, a per-seat model has decreasing relevance to customer service decision makers). We expect some vendors will struggle to get it right and risk confusing or alienating customers in the process.

WATCHLIST

Based on this environment, who will likely struggle in 2018 (and potentially beyond)? Nucleus will be watching:

- PegaSystems. With some of the strongest AI capabilities in the business, Pega also has long been the leader in BPM. However, with other vendors investing heavily in orchestration and low-code options, Pega's sales cycles will be slowed by competitors with new things to say. Pega doesn't seem inclined to make the kinds of investments in user communities that could sustain its momentum in key verticals.

- Oracle Siebel. Nucleus sees 2018 as the watershed year for Siebel customers for three reasons. First, cloud CRM capabilities have caught up with the data complexity and modeling of traditional Siebel industry applications that made them irreplaceable before. Second, the adoption of independent support for Siebel is growing, making that revenue stream less important to Oracle. Finally, the inertia that kept customers hobbling along on their 20th century CRM simply doesn't play in an environment where agility and transformation are de rigueur. For those with critical data in Siebel, that data is old and less than pristine, so migration is not a non-issue. However, the benefits of reducing the costs of support by a significant amount while moving to 21st century technologies – now that we have real examples of others who have successfully made the leap – is more tangible.

- Veeva. Built on the Salesforce platform, Veeva has become much more than just a life-sciences focused CRM solution. The company has made significant investments in building out capabilities beyond just CRM – in content management and other areas – that are critical to life sciences. However, Veeva has had no real competitor (from a life sciences perspective) for most of its life.

Nucleus expects its sales cycles to be challenged by IQVIA's emerging story that is just as strong on Salesforce from a platform perspective and much stronger on industry expertise and reach of capabilities for the overall drug discovery, clinical trials, and commercialization process.

▪ Microsoft. In 2018, it's Microsoft's game to lose in CRM. The field service capabilities, Adobe partnership for marketing automation, and integration of LinkedIn have great potential, as does Dynamics 365's blending of personal productivity, CRM, and enterprise application functionality. That said, Microsoft is still struggling with communicating its overall value proposition to the new CRM-ERP buyer, and on making its pricing both compelling and clear for the marketplace.

LOOKING AHEAD TO 2023

As CRM technologies and strategies are rapidly evolving, companies that are making new CRM investments today will likely find their footprint will radically change over the next five years. That means they should focus on investments that leverage their unique strengths (developer and administrator skills and ambition), take advantage of vendor investments in productization of industry capabilities (so they're not rebuilding and retesting the wheel on an ongoing basis), and keep support burdens low so they can devote resources to adopting new innovations (and manage the change management that those imply).

On the service side, expect that – with the exception of those "one percenters" with a platinum or black card in their wallet – bots will take over customer service agents. Although agents won't disappear, they'll be fewer, focused on higher-tier support escalations, and tasked with not just support but selling and relationship building. This is happening for three reasons:

▪ First, innovations in chatbot development where a bottom-up approach (analyzing large volumes of contact center records to understand customer support requirements and bubbling up the appropriate dialogue trees) instead of the top-down model currently in use (where admins or business users script what they expect customer case conversations to look like) will deliver a more broadly usable automated vocabulary and better results.

▪ Second, as more and more consumers adopt text, SMS, and other channels as their support channel of choice, bots are uniquely able to manage those cases – and multiple cases at the same time – while the data culled from those interactions can be rapidly integrated into training of future bots.

- Third, bots don't call in sick. As employers grapple with the changing economic, immigration, and tax landscape, the appetite for hiring and training in high-turnover areas such as customer service and support is already low. Bots that support sales, as well, can streamline inside sales organizations.

On the sales side, the promise of the AI sales assistant will become real, but the impact of AI will reach far beyond the sales rep's desktop. Better data gathering and intelligence applied to forecasting will enable sales managers not just to improve the accuracy of forecasting but align specific sales people and teams with specific opportunities and accounts, adjust territories without political fallout (because adjustments are data-driven), and accelerate ramp-up time for new reps (while more rapidly weeding out ones that will never make the learning curve).

For marketing, a focus on targeting – the right customer at the right time with the right message through the right channel – will shift to a sharper focus on the right message. Applying AI to content creation on the messaging side will deliver significant economies of scale in content development and review and enable brand and marketing higher-ups to focus on strategic content and tone instead of tactical content and copy reviews. Much of the low-level content for ads will be automatically generated by virtual copywriters as well, reducing the reliance on low-level contractors and copy writers. This will extend beyond e-mail marketing and ad messaging to Web site content, product collateral and brochures, and blogs and other Web communications.

CONCLUSION

Today there's a significant gap between the potential opportunities for CRM value in areas such as AI, orchestration, and developer tools and their actual deployment in customer reality. Nucleus expects 2018 will be the year that AI moves from beyond "shiny object syndrome" to enough real customer deployments to provide the pack with a concrete understanding of what's real – and more importantly, what's valuable. The most common theme we find across the board in talking with CRM decision makers today is change management, as they recognize some of the greatest innovations will have a significant impact in the daily roles of sales, service, and marketing users. The good news is that the promise of orchestration and AI is not just for corporate performance, but also for increased personal productivity and performance for those that rise to the challenge.