



How Purchase Decision Makers Arrive at a Fair Price Value for Subscription-Based CRM

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BACKGROUND

Internet-based technologies have been the critical driving force behind the rise of subscription-based CRM applications. In recent years, we have seen a dramatic increase in the use and deployment of subscription-based CRM solutions.

This upsurge has caused IT executives to actively investigate the most effective way to deploy CRM solutions for their businesses. These investigations have called for an incisive consideration and observation of the role of price.

Cost comparisons between providers and deployment types are business executive’s most challenging responsibilities these days.



OBJECTIVE

This research is an analysis of how purchase decision makers evaluate the price of subscription, cloud-based CRM solutions.

In the case of subscription-based solutions, service providers own, maintain, and upgrade the software applications on their servers at their locations.

Providers: Microsoft, SugarCRM, Oracle, Epiphany, Salesforce, Pivotal



HYPOTHESIS

Purchase decision makers are identifying a price point across some horizon where they will be indifferent financially to the buy-versus- rent decision.

Price Parity Model:

| | | | | | | | | | |
|--|------|-----------|----------|----------|----------|----------|----------|----------|----------|
| Cloud versus premises-based, financial parity | | | | | | | | | |
| Number of seats | | 150 | | | | | | | |
| Cloud: charge/employee/month | | \$42.00 | | | | | | | |
| Premises: 1-time expense | | \$261,250 | | | | | | | |
| Discount rate for NPV analysis | | 10.0% | | | | | | | |
| | Year | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Annual expenses, cloud CRM | | \$75,600 | \$75,600 | \$75,600 | \$75,600 | \$75,600 | \$75,600 | \$75,600 | \$75,600 |
| Annual expenses, premises-based CRM | | \$261,250 | \$37,463 | \$37,463 | \$37,463 | \$37,463 | \$37,463 | \$37,463 | \$37,463 |
| PVs, cloud | | \$75,600 | \$68,727 | \$62,479 | \$56,799 | \$51,636 | \$46,942 | \$42,674 | \$38,795 |
| PVs, premises-based | | \$261,250 | \$34,057 | \$30,961 | \$28,146 | \$25,587 | \$23,261 | \$21,147 | \$19,224 |
| NPV, cloud | | \$443,652 | | | | | | | |
| NPV, premises-based | | \$443,633 | | | | | | | |
| Cloud versus premises-based | | \$20 | | | | | | | |
| Microsoft Dynamics CRM 2011 Business Ready Licensing | | | | | | | | | |
| Server (per instance) | | \$4,999 | | | | | | | |
| User CAL | | \$999 | | | | | | | |
| External Connector (per server instance) | | \$4,999 | | | | | | | |
| Software Assurance (support and maintenance) | | 25% | | | | | | | |
| Server | | \$4,999 | | | | | | | |
| Per seat license | | \$999 | | | | | | | |
| External connector | | \$4,999 | | | | | | | |
| Software assurance | | 25.0% | | | | | | | |

METHODS

To find out how companies are leveraging the cost of both models over the long term, we interviewed five executives all with marketing or IT titles. These executives have recently facilitated deployments of CRM solutions for their businesses.

We did not select these people randomly, and the survey used was not a statistically significant survey. The evidence is directional in nature, and these people do not represent the entire population of business professionals that makes purchase decisions on CRM solutions.

In these five interviews we were able to grasp a better understanding of the role of price in their purchase decision. Findings and theoretical applications of the study are discussed.

DISCUSSION

In the interviews, we were looking to see whether or not business purchase decision makers were actively engaging in price analysis for subscription-based CRM.

Based on the interviews we found out that business purchase decision makers are not really evaluating the price of subscription-based CRM solutions using the price parity model we created.

Two out of the five participants said that they were actually doing a very structured analysis of those expenses, perhaps, something like the model we’ve created.

Here is an excerpt from the two:

“We did a six year total cost of ownership analysis.” – Director of Business Systems

“We measured the recurring annual cost for Salesforce, against what Microsoft Dynamics was providing for us” – Business Application Manager

However, the rest of the responses were close to the one listed below. This participant whose business chose a premises-based solution answered that price was not a huge factor in their purchase decision so no extra effort was put toward a price analysis of the two approaches to CRM.

“Price was a factor, but the cost of us losing client data, far outweighed any differential in price on an annual basis.” – Director of Client Management

CONCLUSION

Our research establishes the value and measure of price as a purchase decision criteria used to acquire subscription-based marketing support solutions such as CRM.

Based upon the people that we interviewed, it appears that people are not using a price parity approach to come up with a price that would make them indifferent financially to purchasing a premises-based solution.

Findings listed below:

- Price is not the only thing that business purchase decision makers are equating.
- There are other things that are of value to both subscription-based, and premises based buyers.
- There are other advantages to subscription-based solutions that allows cloud vendors to be able to charge more.
- There are advantages to premises-based solutions that allows for a price ceiling to be put in place to restrict cloud vendors from charging more.

References

1. Read, Brendan. "Entrusting the technology." *Customer Interaction Solutions* Mar. 2011: 18+. *Business Insights: Essentials*. Web. 15 July 2013.
2. "On-Demand CRM to Enable Agility for Small and Medium-Sized Businesses." *Marketwire* 19 May 2009. *Business Insights: Essentials*. Web. 15 July 2013