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Salesforce.com Aims to Replicate Merrill Lynch Deal

BY KATHERINE HEIRES

Financial services giant Merrill Lynch & Co. deliberated and weighed options for months as it looked for a new way to help 25,000 geographically dispersed investment advisers better manage their customer communications, contact data and work processes. In the end they signed a contract with a one-time Internet upstart that has become a standard-setter in Web-based customer relationship management (CRM), San Francisco-based Salesforce.com.

The news was announced Feb. 27 at a press conference packed with Salesforce.com partners Cisco Systems, Dell, Dow Jones & Co. and Thomson Financial in New York. It gives eight-year-old Salesforce.com a major financial industry showcase for its software-as-a-service model, where customers access software applications via the Web while the software and hardware operations are outsourced and managed off-site. Merrill is Salesforce.com's biggest enterprise client to date.

The megadeal comes at a time when Salesforce.com has been growing impressively, currently claiming 29,800 customers and 646,000 individual subscribers to its Web-based services. These include users in 1,200 financial firms such as Aon, Bear Stearns and Deutsche Bank. Subscription numbers were particularly upbeat in the fourth quarter of fiscal 2007, when the technology company reported a record 90,000 new subscribers to its services. Since its initial public offering in 2004, the firm's share price has nearly tripled; it closed Thursday at \$42.72. Revenue rose 60 percent in the fiscal year ended Jan. 31, to \$497.1 million.

No doubt about it, Merrill Lynch is the sort of impressive client win that Salesforce.com CEO Marc Benioff could not help but gloat about at the New York unveiling. There was even a bit of theatrics when Benioff apologized and then pulled a somewhat startled looking Merrill Lynch executive—Brooke Allen, director of hosted management solutions—to the stage at the Pierre Hotel for an impromptu handshake and congratulatory banter. He then proceeded to discuss how the financial services



Marc Benioff

industry is "ripe for change." "Software as we know it is dead" is a constant Salesforce.com refrain, and the financial services sector is clearly ready to embrace the benefits of "on-demand applications," Salesforce.com-speak for Web-delivered software-as-a-service.

Clearly, Benioff wants to do more along the lines of what the company has accomplished with Merrill Lynch. Salesforce.com has drawn on mashup technology, one of the Web 2.0 generation of systems that consolidate multiple applications (see page 10), to develop a new version of its CRM product for wealth managers, integrated with news feeds from Dow Jones and Thomson Financial.

But analysts say that to sustain the momentum, Salesforce.com needs to develop a new Web application still more specific to the needs of the financial services industry. "Where is the really compelling product for financial firms?" says Ben Pring, a research VP and Salesforce.com watcher at Stamford, Conn.-based Gartner. He views the new wealth management product going into Merrill Lynch as merely an incremental step in serving the needs of the Wall Street "vertical."

Development Facility

Salesforce.com executives say that with the launch and beta test of their new development

platform and proprietary language, Apex, they are on the way to achieving that goal. "We now think of ourselves as having two core applications," says Tien Tzuo, SVP of financial services at Salesforce.com. "The first is our customer relationship management application, and the second is the new Apex platform, which we now think of as our big differentiator."

Analysts and Salesforce.com executives agree that there is definite room for growth in the adoption of software-as-a-service. However, it remains to be seen how much of that growth will be won by Salesforce.com, particularly as heavyweights such as Microsoft Corp., Oracle Corp. and SAP come out with their own software-as-a-service approaches in the months ahead. Mid-market competitors in the field include Bozeman, Mont.-based RightNow Technologies, NetSuite of San Mateo, Calif. and SugarCRM in Cupertino, Calif.

The overall outlook for software delivered over the Internet on a subscription basis looks bright. This delivery model currently accounts for about 5 percent to 6 percent of the enterprise software marketplace; Gartner sees it rising to 20 percent by 2011.

Liz Herbert, an analyst with Forrester Research in Cambridge, Mass., says that divisions of large corporations are increasingly attracted to software-as-a-service because it can be quick to deploy, the upfront costs are relatively low and the pay-as-you-go subscription is appealing, and large IT staffs are not needed to run and maintain it.

On the downside, Herbert says it is unclear if it's truly cost-effective over time to have a third party managing the software and hardware for one's business operations.

Nevertheless, "There is a lot of growth opportunity ahead for software-as-a-service in the enterprise sector," says Pring of Gartner. "But it's not the sort of binary switch where everyone will suddenly go and shift to this model." He views software-as-a-service as a customer option that will find a following for certain applications and vertical niches. "We're not

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looking at the end of software,” Pring asserts, disputing the Salesforce.com mantra. He does, however, see the logic of Salesforce.com’s current goal of growing its customer base in financial services.

“Their relationship with Merrill Lynch has given them an important entrée into this sector,” says Pring, who believes that the logical next step is to try to upgrade and enrich product capabilities to better meet the needs of financial services firms.

The strategy Salesforce.com has implemented to achieve this goal is multifaceted. Its key element is the Apex platform and code, a Java-like development language that’s been available for testing since January and will officially launch this summer. It is designed to make it easier for developer partners to build sector-specific applications beyond Salesforce.com’s standard CRM tools and customize them to work seamlessly with Salesforce.com servers and systems.

Another aspect is AppExchange, a Web-based directory of more than 520 applications developed by Salesforce.com and its development partners that any subscriber can test and apply to their business. Currently, 26 listings on AppExchange are specific to financial services, including a collaboration application for hedge fund managers and a CRM system for sell-side firms to coordinate their research, sales and trading efforts.

The AppExchange offerings and participation are free, but eventually, Salesforce.com says it plans to charge developers a fee—reportedly from 10 percent to 25 percent of sales for hosted applications built on Apex—for marketing support and prominent placement on the exchange itself. In addition, when an application is created using Apex code, it will be identified as a Salesforce.com product, and there will be a fee due to Salesforce.com when users click on the site with the application.

There is also an Apex Developer Network, where developers can find tools and resources to build financial service applications; an IdeaExchange Web site where users can comment on product features and interact with Salesforce.com product managers to request

product enhancements and new tools; and an AppSpace hosted service—described as a sort of MySpace for business—where subscribing companies can interact with their customers in a secure environment hosted by Salesforce.com.

Praise From Industry

Though Merrill Lynch has declined, at this early stage, to comment on details of the Salesforce.com implementation, Rajan Govindan, senior managing director and COO of Bear Stearns Asset Management (BSAM), praises the “simplicity” of implementation and its quick results. He reports that it took BSAM five months to convert data from outdated record-keeping systems to Salesforce.com’s, as well as train internal staff and go live. The CRM platform is currently used to integrate data related to customer portfolios, bills, subscriptions and related reporting.



Asset managers find the CRM product easy to use and customize, says Govindan, and the new platform is particularly convenient for salespeople who can now easily access information via the Web when they are traveling. “The biggest pro is that the system ... does not require our very limited internal resources to maintain and operate,” says Govindan. Several other Bear Stearns divisions are converting to the Web-based platform.

Vivek Mehra, managing director of global financial services for Keane, a Boston-based IT consulting company that works with many Wall Street firms, says that any time someone at a securities industry firm is engaged in a relationship-based task involving research, sales, trading or large deals that require global collaboration, the Salesforce.com tool can be useful.

“It gives you quick access to data, a unified view of your customer, and can help in cross-selling and up-selling to multiple entities across a large, scattered global enterprise,” he says. Adoption of such solutions has been gradual to date, Mehra notes, because of security concerns, but he expects this will lessen over time. He sees the launch of the Apex platform as something that could spur a “whole new industry” and develop-

ment of software-as-a-service-type products.

Jason Keffer, a consultant with Vienna, Va. consulting firm Acumen Solutions, which has built several products using Apex, says that while Salesforce.com is the 800-pound gorilla in software-as-a-service, the jury is still out regarding the impact of Apex. He thinks many large enterprises may have problems with the on-demand model because it does not offer the same degree of flexibility and control as on-premises software. He acknowledges the advantage of the speed of deployment that comes with service offering and the ease with which technology can be adapted to new business processes, but adds, “I don’t see financial services firms running their entire business” on software-as-a-service.

Forrester’s Herbert points out that vendors such as SAP have begun to offer both on-demand and on-premises CRM, so if Salesforce.com is only selling software-as-a-service, it could be perceived as a disadvantage. “For some enterprises, the idea of being locked into the software-as-a-service model will be a deterrent,” she says.

Salesforce.com’s conviction is that “the financial services industry is going through a lot of change, shifting from a business based on commission to one based on relationships,” says Tzuo. At the same time, software has not changed fast enough to serve the changing needs of business. Salesforce.com, Tzuo insists, has found the answer: “We are supplying applications that are as easy as buying a book on Amazon. It’s all about point and click.”

Software-as-a-service has a believer in Frank Coates, a former mutual fund distribution executive who is CEO of Coates Analytics, a software and consulting company based outside Philadelphia that delivers data and analytical capabilities related to financial product sales. “The beauty of it is that IT [departments] don’t have to look at it—there is no installation or maintenance to worry about,” says Coates. “The executives that hire us love the fact that they don’t have to go to internal IT to support it.”

One stumbling block, says Coates, is security, the concern that a Web-accessed service is not as safe as one on in-house computers. He believes that this is a perception problem that will be overcome over time. ■

Jeffrey Kutler contributed to this article.