



Status Report on Microsoft Dynamics CRM 3.0

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Well into its first year on the market, Microsoft Dynamics CRM Version 3.0 is proving to be more successful than earlier releases; however, it still faces competitive challenges with its hosting strategy.

Analysis

Since its release in December 2005, Microsoft Dynamics CRM v.3.0 has caused a significant increase in interest, as compared to its predecessor, Microsoft CRM 1.2. We've seen a good deal of anecdotal information to confirm this:

- Growth in the number of client requests for information on the product
- High attendance rates at sessions on Microsoft Dynamics CRM v.3.0 at our CRM Summit
- Observations of customer and partner interest at Microsoft events, such as the Convergence and Worldwide Partner Conference.

Microsoft sold more than 50,000 seats worldwide in 2Q06, but its total market share is still small (1.4 percent of the total CRM license sales). However, Gartner believes that new license sales are likely to be accelerating beyond the 82 percent annual growth rate seen in 2005 to more than 140 percent in 2006.

User and Prospect Profiles

Based on our interactions with Microsoft Dynamics users and prospects, Gartner has not noticed any specific industry or geography driving a disproportionate interest in the product, nor is the Microsoft Dynamics team focusing its sales and marketing efforts on any single constituent group over another. In other words, Microsoft Dynamics is not executing poorly on a vertical or country-specific sales strategy. The interest in the product would appear to be broad; however, unlike previous versions, 40 percent of seats are now coming from Microsoft Enterprise accounts, while the average number of seats per customer has risen from 23 to 33.

Although there doesn't seem to be a discernible pattern in the types of organizations considering or buying the product, there do seem to be a number of recurring themes in relation to the deployment approach being taken by those with which we've been in contact. They are:

- A desire to replace established CRM systems that have low user adoption
- A focus on pragmatic deployments using a small number of core CRM functional capabilities
- A reticence to undertake significant customization work to automate complex business processes
- Plans to adopt in smaller countries where there has been no previous local language support for CRM

It might be argued that this is simply a result of the limitations of Microsoft Dynamics CRM 3.0, relative to enterprise-focused CRM products from Siebel Systems or SAP. However, we don't believe that users and prospects are scaling down their expectations to meet the capabilities of the products, nor is this a result of a high percentage of "undeveloped" sites. The customers with which we've been speaking generally have experience with CRM, and almost all are aware of the challenges and potential pitfalls of initiating a CRM deployment.

Instead, Gartner believes there's a growing market for "pragmatic CRM." This involves deployments, usually in subsidiaries and business units of Global 2000 organizations, along with discrete midsize businesses, in which the goal is to achieve higher user adoption rates for a system that automates one or two straightforward end-to-end sales, marketing and service processes, or a broader set of department-specific processes. Examples include contact management, opportunity management, pipeline and forecasting, some forms of case management and basic e-mail campaign management.

Pragmatic CRM doesn't involve the consolidation of multiple operational CRM systems to achieve a single source for customer data, which is a high-risk deployment strategy that requires more-complex technology, longer lead times and ideal internal political conditions. The rapid increase of interest in Microsoft Dynamics CRM 3.0 results from the product finally meeting the functional/performance bar required to satisfy a changing market mixed with the enormous brand power that Microsoft can bring to bear.

Microsoft Dynamics CRM 3.0 also seems to be garnering interest in deployments of more than 500 seats and, in several cases, more than 1,000 seats. Seven months into the release of the product is still early, because such deals naturally have a longer sales cycles. Gartner believes that more large deployments have been sold during the last quarter than during the previous two years that v.1.x was on the market.

It's still too early to make a definitive statement on the efficacy of the product in such conditions. In particular, we're still waiting for a verifiable, large-scale deployment requiring significant transaction volumes. Implementation partners Avanade and ePartners have been touting test environments that demonstrate Microsoft CRM scaling to 2,000 users on a single server as a proof point; however, completed real-world installations are needed.

User Advice: Microsoft Dynamics CRM 3.0 is best suited for pragmatic CRM deployments in a wide number of geographies. However, should potential deployments exceed 500 seats, Gartner recommends that, prior to purchasing, users should build in organization-specific, contractually obligated service-level agreements (SLAs) concerning performance requirements.

Outlook Integration

One of the bigger surprises for Gartner has been the support that users have expressed for the deep integration between Microsoft Dynamics CRM 3.0 and Microsoft Office Outlook. The messaging product has been a key component in many CRM vendors' mobility efforts, particularly as a client for offline use. Mobile device support in Microsoft Dynamics CRM 3.0 comes in two versions:

- A thin-browser client that supports all HTML-4.0-compatible phones and other devices
- A Windows Mobile client that provides offline synchronization of CRM data

If offline support is required for non-CE devices, third-party products, such as those from Scribe, will need to be purchased.

However, Microsoft Dynamics CRM 3.0 takes Outlook integration to the level where it becomes a primary desktop client for the product. Interest in using Microsoft Dynamics CRM 3.0 via Outlook

comes despite the fact that the product's Internet Explorer access looks more like a Windows application than it does a traditional Web interface.

In our conversations with customers and prospects, interest in using Outlook as the primary desktop client for Microsoft Dynamics CRM 3.0 results from end users seeing this combination as some kind of portal. Essentially, they're receiving a single application that takes care of a large percentage of their business process requirements. This is logical, because e-mail-based communications, task management and time management are significant parts of most CRM users' daily chores. It appears that Microsoft Dynamics' strategy of extending Outlook beyond what has traditionally been offline client use is proving to be popular with users — certainly more than integrating task and time management into a central CRM client.

Although Outlook appears to be proving effective in driving adoption as a coordinating point for CRM, Gartner still recommends that users be careful. Microsoft Office Outlook was never designed to be a business application portal. (Microsoft abandoned this effort with the demise of Web Parts in Microsoft Office Outlook 2003.) Unchecked additions of CRM capability into the Microsoft Office Outlook client can create a functional bloat that can make the client unwieldy and, ultimately, defeat the purpose of using it in the first place.

User Advice: Tight CRM integration with Microsoft Office Outlook, as implemented by Microsoft Dynamics CRM 3.0, can increase user adoption rates. However, users should be judicious when integrating additional CRM processes into Microsoft Outlook, beyond those processes supplied directly in Microsoft Dynamics CRM 3.0. It's critical for users to retain a usable environment. IT departments should conduct user acceptance testing on any new extension (either built internally or sourced through third-party partners) to Microsoft Dynamics CRM 3.0 where it is deployed through Outlook. The Web client should be considered an important component in a complete Microsoft Dynamics CRM 3.0 deployment.

Hosted CRM — A Work in Progress

Microsoft is maintaining a commitment to provide Microsoft Dynamics CRM with a range of deployment options, including hosting; however, its market traction has been limited. Our discussions with Microsoft have indicated that fewer than 1 percent of new licenses sold have been deployed in a hosted model.

Microsoft Dynamics relies on the company's partner channel to provide the solution, instead of provisioning it directly. As we noted in previous research (see "Dissecting the Microsoft CRM 3.0 Announcement"), users need to take particular care when considering the hosted option for the product because "... Microsoft is not providing a shared server farm for its partners to use. Each partner will need to establish (or source) its own hosting infrastructure ..."

These concerns have been mitigated to some extent by the release of Microsoft Dynamics CRM 3.0 Professional for Service Providers. The intent has been to provide hosting extensions, including an OEM pricing structure, that would extend the product's appeal to organizations interested in providing a complete hosted environment (examples include Philippine Long Distance Telephone, TDC Hosting A/S and Telecom Italia SPA) to resale partners, which then sell it to customers with their own value-added components. If partner-hosted CRM is to work for Microsoft Dynamics, then service providers will be critical, because, even with the release of the new product, there has been discussion that setting up and maintaining a stable and optimized hosted version of Microsoft Dynamics CRM 3.0 is complex and requires specialized skills.

Microsoft Dynamics has since developed its hosting strategy with the announcement of Microsoft Dynamics CRM Live. This service will be operated and managed by Microsoft in its Windows Live data centers. It will be based on a future release of Microsoft Dynamics CRM (currently codenamed

"Titan"), which will provide a true multitenant architecture. It's likely that CRM Live will improve the uptake of hosted licenses purchased directly by end users, because they're likely to welcome Microsoft's direct involvement in service provisioning.

However, this next stage is not slated for release in the United States until mid-2007, and other countries will probably have to wait until the end of 2007. Although Microsoft is working on Titan and CRM Live, its competition in the hosted CRM space is pulling well ahead. Salesforce.com has developed its offering to include AppExchange (see "Salesforce.com's AppExchange Community Will Take Time to Develop"). This is an innovative platform that enables third parties to extend the core application with solutions ultimately run on Salesforce.com's infrastructure, thereby creating an immediate global distribution system for those undertaking such work.

Salesforce.com will become a significant competitive force for the acquisition of partners. This will be a critical factor in the long-term sustainability of CRM platforms. In addition, Microsoft Dynamics will face increased competition from NetSuite. Not only is NetSuite starting to build out its own platform with NetFlex, but also its CRM offering boasts tight integration across a range of hosted ERP capabilities. Microsoft Dynamics Live strategy has not been extended to its ERP offerings, putting Microsoft at a disadvantage for customers seeking a more-comprehensive, hosted business application solution.

User Advice: Microsoft Dynamics CRM 3.0 is best suited for on-premise deployments. Deploying licenses in a hosted model requires a stringent assessment of the partners involved in delivering the service. This potentially extends to the direct-provisioning partner and the partner implementing the Service Providers edition. Users should also be aware that Microsoft Dynamics' strategy is pragmatic, and is focused on improving the quality of a hosted delivery model for CRM. Microsoft Dynamics CRM is not well-suited to organizations looking at software-as-a-service (SaaS) for a more-comprehensive provision of business application requirements.

Bottom Line

Expect Microsoft CRM to be the fastest-growing CRM product in 2006 and 2007. This growth is due to Microsoft's tight integration with Outlook, a focus by its sales force in more countries and languages than its competitors, and its delivery of a basic, pragmatic solution. Users should be careful not to overextend the use of Outlook as a portal, diligently check the claims of hosting partners, be careful of how far Microsoft Dynamics CRM 3.0 scales beyond 500 users, be aware of the costs incurred by its requirement to have a separate server per language and recognize the costs of third-party software to support wireless users that want offline access on non-Windows Mobile devices.

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