

# IBISWorld Procurement Report: 31275824

## CRM Software

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### About this Report

This report is intended to assist buyers of customer relationship management (CRM) systems, which are designed to manage a company's sales and marketing, as well as the customer and technical support processes. CRM systems generally come with tools to track activities, manage and analyze customer data, and oversee workflows and processes. This software is used to improve business relationships, increase sales and maintain customer retention. This report focuses on software-as-a-service (SaaS), or on-demand CRM systems, rather than software-as-a-product (SaaP), or on-premise CRM systems. SaaS CRM systems are installed and managed on the provider's premises but accessed through the internet. This report does not include ERP software.

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# At a Glance

## Recent Price

1.1%

Although demand for CRM systems has risen, a rise in competition and subscription-based pricing has mitigated price growth. Prices have, consequently, risen slowly in the three years to 2016.

2013-2016

## Forecast Price

1.3%

Through 2019, continued economic improvement will boost demand for CRM systems and market share concentration will rise, reducing pressure on providers to keep prices competitive. As a result, prices will rise at a slightly faster rate.

2016-2019

Growth percentages represent annualized data.

## Market Characteristics

Availability of Substitutes



Market Share Concentration



Product Specialization



Switching Costs



## Market Risk

Recent Demand Driver Volatility



Recent Price Volatility



Vendor Financial Risk



Supply Chain Risk



## Buyer Power Score

3.7

See p. 26 for details.

## Benchmark Price

\$163

per month per user

## Key Price Drivers

Price of computers and electronic product manufacturing

Average wages – software publishing

Overhead costs – advertising

Overhead costs – R&D

Private investment in computers and software

## Major Vendors

Oracle Corp. 10-15%

SAP SE 10-15%

Salesforce 10-15%

Microsoft Corporation 5-10%

International Business

Machines Corp. <5%

## Vendor Cost Benchmarks



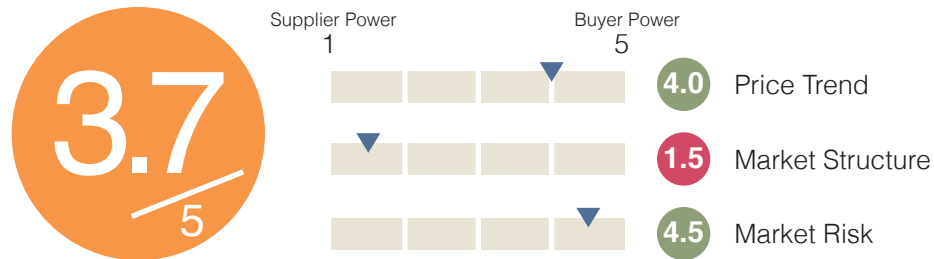
Arrow indicates trend during past year and next year.

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# Executive Summary

## Buyer Power Score



The IBISWorld Buyer Power Score is a weighted score based on a number of quantitative and qualitative criteria associated with buying a product or service. The score is calculated between 1 and 5, with 1

signifying low buyer power and 5 meaning high buyer power. The more power a buyer has the greater leverage they have to get lower prices and better contract terms. For more information see page 26.

## Executive Summary

The CRM systems market has a buyer power score of 3.7 out of 5, indicating that buyers have a slight edge over suppliers during negotiations. Buyers benefit from low market risks and favorable price trends, although the market's structure keeps buyer power from being higher.

Prices have remained more or less stable and have exhibited low volatility in the three years to 2016. And although prices are expected to grow at a slightly faster rate from 2016 to 2019, this growth will remain steady. Buyers will, thus, continue to benefit from the stability of the purchasing environment.

Many CRM system providers are well-established corporations with low bankruptcy risk. Providers also face low supply chain risk because they do not depend on any critical inputs to produce software. In addition, general economic improvement has led to an increase in the number of businesses in the United States and encouraged investment in computers and software, including CRM systems. Thus, the low risk of demand disruptions has further reduced the likelihood of supplier bankruptcy or

discontinuity of service. As a result, buyers can expect reliable and steady access to CRM systems.

In the past three years, market share concentration has increased as large companies have acquired smaller firms; but a decline in barriers to entry due to the rise of cloud computing has somewhat offset this growth in concentration. In turn, the number of suppliers has risen, boosting market competition. Competition has placed downward pressure on price from 2013 to 2016. Concentration will, however, remain moderate in the next three years, meaning that larger suppliers will maintain some negotiation leverage due to their size and control of the market. In addition, increasing demand will allow providers to raise prices without sacrificing business.

Furthermore, there are no viable substitutes for CRM systems. Midsize and large businesses generally cannot operate without CRM systems to manage their sales, marketing and customer support services. As a result, buyers cannot leverage the availability of alternatives during the negotiation process.

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# Price Environment

## Price Summary

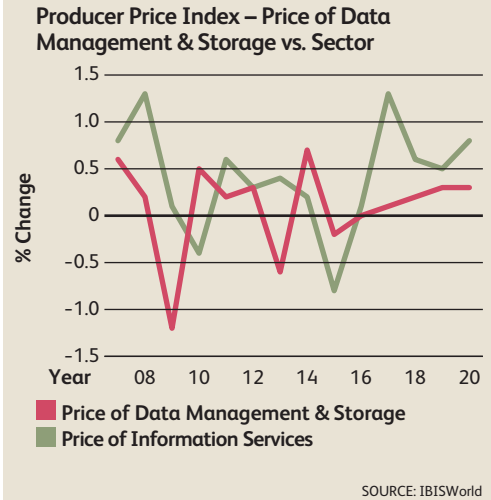
Three-year Price Trend

1.1%

Three-year Price Forecast

1.3%

- Factor is a threat to buyer
- Factor should be investigated
- Factor is not a threat to buyer



## Price Fundamentals

<b>Average Price</b>	\$162.50 per user per month
<b>Price Range</b>	WIDE: \$25 to \$600 per user per month
<b>Key Pricing Factors</b>	Tracking Analytics Customization Storage

### Benchmark Price

Buyers pay for the use of CRM systems on a monthly basis. The average subscription rate is \$162.50 per month per user, but varies widely from \$25.00 to \$600 per user per month. The main determinants of CRM system prices are the type of tracking and analytical features included with the system. Other factors that affect subscription rates include the level of customization, and available data and file storage. The average subscription gives buyers basic CRM functionality such as client data organization, but lacks the extra data storage and access to online training that higher tiered plans provide.

Tracking is one of the basic functions of CRM systems; most systems are able to record the time spent on tasks and basic activities. However, for an extra cost, the system can include more

powerful tracking capabilities, such as opportunity, product and competitor tracking. These additional functionalities allow the buyer to better understand developments inside and outside their organization.

Higher-priced CRM systems also include powerful analytical tools that can help deliver key insights into customer behavior and help improve the decision-making process in regards to contract renewals and client retention. If buyers are interested in analytics software, they should look into package deals that include these extra solutions with the purchase of the CRM software.

Customization can help buyers create a CRM system that captures their sales and marketing processes, changes the user interface and delivers critical information. Lower-priced CRM options offer limited customizability, where only

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# Price Environment

## Price Fundamentals continued

the sales process can be customized, while higher-priced CRM systems offer more extensive and powerful customization options, such as the ability to customize dashboards, forecasts, mobile applications and websites.

Finally, file storage capacity also affects prices. Users of CRM systems may need to store files and data on the system. Higher data and file storage limits cost more. For example, a \$25.00 monthly plan from Salesforce only provides 612 megabytes of file storage per user, whereas a \$300 monthly plan provides 2 gigabytes (2,000 megabytes) of file storage per user.

### Pricing Model

CRM system providers primarily use a value-based pricing model, where buyers are charged based on the features and benefits offered. Suppliers offer packages that bundle together features and tools. Each package has a monthly subscription fee, and packages with more powerful features and tools command higher monthly rates. Buyers select a package that fits their needs and then pay the monthly fee for each user.

This pricing model gives buyers flexibility in choosing CRM systems that match their needs as well as the ability to upgrade to more powerful packages if necessary. Different packages clearly state their features and benefits, helping buyers decide which suppliers can provide needed functionalities. The solution is generally paid for on a monthly basis, rather than in a large up-front sum, which is favorable for most buyers.

Use of the CRM software lasts as long as the buyer continues to pay the monthly fee, which encourages software providers to form long-term relationships with their customers. Since buyers are charged per user per month, buyers should seek to lower the monthly rate, which can greatly reduce costs in the long run.

A few CRM providers offer only one package option that includes all features and benefits. These CRM systems tend to be less powerful and flexible than CRM systems with more varied pricing options. Nevertheless, pricing for these systems are some of the most competitive in the market and may be ideal for buyers who do not need very powerful features.

## Price Drivers

Price Driver  
Volatility Level

LOW

Price driver volatility in the CRM systems market is low, which is favorable for buyers because it helps ensure that prices will not suddenly change. Specifically, demand drivers such as the level of private investment in computers and software and the number of businesses have exhibited low volatility in the three years to 2016. Suppliers' purchase and overhead costs have also exhibited a low level of volatility, further contributing to overall price stability in the market. While the percentage of services conducted online and wages have experienced some volatility, the overall price driver volatility remains low.

Consequently, buyers can better project prices, and plan budgets and forecasts.

### Input Cost Drivers

**Price of computers and electronic product manufacturing :** Purchases make up roughly 11.2% of total revenue and mainly consist of software licenses and computer servers, which are composed of semiconductors and related hardware like transistors. Most CRM system providers lease software from other software publishers to incorporate into their own CRM systems. For example, many CRM providers license database software from Oracle. Suppliers

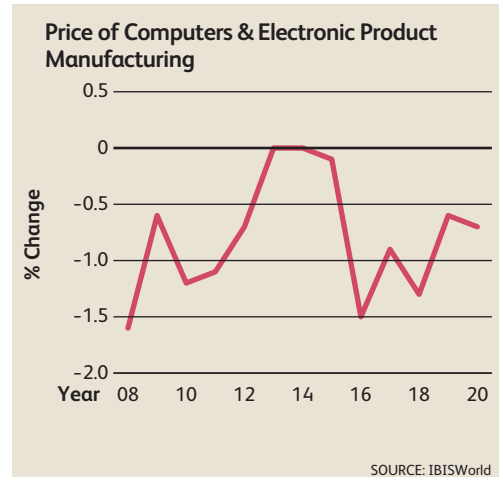
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# Price Environment

## Price Drivers continued

also purchase or lease the use of computer servers, which are used to host and manage their customers' CRM systems. In the three years to 2016, the price of computers and electronic products has fallen at an estimated average annual rate of 0.5% due to intense competition from overseas manufacturers. Despite falling computer prices, purchases have increased as a share of supplier revenue in the three years to 2016 as more companies have turned to CRM SaaS, which has forced providers to purchase more hardware to manage systems. These trends are expected to persist in the three years to 2019; IBISWorld forecasts that purchases as a share of revenue will keep rising, even as the price of computers and electronic products falls at a projected average annual rate of 0.9%. Rising purchases as a share of revenue are projected to further raise costs for suppliers and place upward pressure on price.



**Average wages – software publishing:** Wages make up an estimated 28.0% of the average software supplier's revenue in 2016. Wages as a share of revenue have remained largely stable in the past three years, having represented 27.9% of revenue in 2013. The development of CRM systems requires skilled computer engineers and

## Price Driver Statistics

	Price of Computers & Electronic Product Manufacturing		Average Wages – Software Publishing		Overhead Costs – Advertising		Overhead Costs – R&D		Private Investment in Computers & Software	
	(Index)	Change (%)	(\$)	Change (%)	(Index)	Change (%)	(Index)	Change (%)	(\$b)	Change (%)
2007	94.20	-2.40	139,255.11	7.68	105.00	0.90	98.00	2.90	524.10	8.90
2008	92.70	-1.60	134,272.43	-3.57	106.00	1.00	100.90	3.00	537.20	2.50
2009	92.10	-0.60	132,053.65	-1.65	105.10	-0.80	100.00	-0.90	512.90	-4.50
2010	91.00	-1.20	142,050.31	7.57	105.10	0.00	102.40	2.40	535.60	4.40
2011	90.00	-1.10	143,374.33	0.93	105.90	0.80	105.50	3.00	557.70	4.10
2012	89.40	-0.70	142,667.12	-0.49	107.40	1.40	108.10	2.50	589.70	5.70
2013	89.40	0.00	141,920.62	-0.52	109.10	1.60	109.20	1.00	613.20	4.00
2014	89.40	0.00	148,740.33	4.80	111.40	2.10	111.60	2.20	639.10	4.20
2015	89.30	-0.10	148,857.88	0.07	112.80	1.30	112.20	0.50	671.80	5.10
2016	88.00	-1.50	148,719.22	-0.09	113.70	0.80	113.60	1.20	695.65	3.60
2017	87.20	-0.90	149,004.70	0.19	115.80	1.80	115.70	1.80	718.95	3.30
2018	86.10	-1.30	149,028.13	0.01	117.60	1.60	118.10	2.10	746.27	3.80
2019	85.60	-0.60	149,190.14	0.10	118.20	0.50	120.30	1.90	776.79	4.10
2020	85.00	-0.70	149,165.03	-0.01	119.70	1.30	121.50	1.00	801.66	3.20

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# Price Environment

## Price Drivers continued

programmers. CRM system providers must compete with many other software providers and developers to hire computer programmers, so wages for computer programmers are extremely competitive. During the three years to 2016, average wages have grown at an estimated average annual rate of just 1.6% due to a slight uptick in demand from software companies during the period. However, wages as a percentage of revenue have remained stable because revenue has grown in line with average wages. Therefore, wage trends have not had much of an effect on prices or buyer power. As more students graduate with degrees in computer science and the supply of computer programmers increases, wages will remain fairly stable in the coming years. Average wages for computer programmers are only expected to increase at an average annual rate of 0.1% in the three years to 2019, thereby having a negligible effect on price.

### Overhead costs – advertising:

Overhead is the largest cost category for CRM system providers, making up about 39.1% of the average supplier's revenue in 2016. Due to the intensity of competition in the market, marketing and sales efforts make up the largest share of overhead costs, at an estimated 21.0% of supplier revenue. Although CRM system offerings differ across suppliers, certain features are becoming standardized, so increases in sales and market share are driven more by marketing than technological breakthroughs. Advertising costs have risen at an estimated annualized rate of 1.4% during the three years to 2016 and are projected to continue growing at an average annual rate of 1.3% in the three years to 2019. These costs have grown due to the increasing use of technology in advertising, which requires more skilled software engineers and graphic designers. To protect their profit,

Vendor Average Cost Structure	Proportion of Revenue (%)
<b>Profit</b>	<b>21.7</b>
<b>Wages</b>	<b>28.0</b>
<b>Purchases</b>	<b>11.2</b>
Computers & Electronic Products	9.5
Other	1.7
<b>Overhead</b>	<b>39.1</b>
Marketing & Sales	21.0
Research & Development	12.3
Rent & Utilities	2.0
Other	3.8
<b>Total</b>	<b>100.0</b>

SOURCE: IBISWorld

suppliers will pass the increase in advertising costs to buyers in the form of higher prices.

**Overhead costs – R&D:** Research and development (R&D) is another significant cost for CRM software suppliers, making up an estimated 12.3% of revenue. CRM systems are very complex and require extensive software development. During the three years to 2016, R&D costs have increased at an estimated annualized rate of 1.3%. R&D costs have grown as new technology used for R&D has become increasingly expensive. Similarly, R&D costs are forecast to rise at an average annual rate of 1.9% through 2019, further boosting prices. Fortunately, overall growth in suppliers' revenue has outpaced growth in supplier overhead costs. As a result, overall overhead costs have declined during the past three years despite growth in R&D and advertising costs, having a negligible effect on prices and buyer power.

### External Demand Drivers

**Private investment in computers and software:** Private investment in computers and software, which measures business spending on information

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# Price Environment

## Price Drivers continued

processing equipment and software, is a macroeconomic indicator of buyer expenditure on CRM systems. As the domestic technology sector expands, businesses invest more to upgrade their IT systems. In the three years to 2016, private investment has grown at an estimated average annual rate of 4.3%. Growth in integration of technology among all types of businesses is expected to accelerate at an average annual rate of 3.7% in the three years to 2019, giving companies the resources and confidence to increase their investments. In response to the rise in demand, CRM system providers will have increased leverage to raise prices, harming buyers.

**Number of businesses:** Because CRM software systems have become increasingly necessary for businesses to manage marketing, sales and customer service processes, the number of US businesses represents a measure of suppliers' potential customer base. As business activity in the technology sector has grown during the three years to 2016, new business growth has picked up and the number of businesses has risen at an estimated average annual rate of 1.5%. The number of businesses is forecast to continue rising at an average annual rate of 0.8% in the three years to 2019 due to increased consumer spending and business lending. Further business growth will contribute to higher demand for CRM systems,

allowing suppliers to increase in the coming years.

**Percentage of services conducted online:** Online media and services have provided businesses with many new ways to interact with and gather information from customers. As more business activity has shifted online, CRM systems have increasingly been needed to manage interactions, track leads and consolidate and analyze information. Internet use has grown steadily with rising data capacity and improving network connectivity in the past three years. As a result, the percentage of services conducted online has increased an estimated 4.6 percentage points during the three years to 2016. This growth in online business activity has increased demand for the software and placed upward pressure on price. The use of online services will increase further as internet speeds accelerate and more people use smartphones and tablets in the coming years. IBISWorld forecasts that the percentage of services conducted online will rise an estimated 3.5 percentage points from 2016 to 2019. This shift to online services will raise demand for CRM systems and incentivize suppliers to raise prices, because more businesses will depend on this technology to manage their online interactions. Also, the percentage of services conducted online has grown at a volatile rate due to the fast adoption of smartphones, increasing the likelihood of price fluctuations in the market.

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# Price Environment

## Recent Price Trend

Three-Year Average Annual Price Trend:

**1.1%**

Price Volatility

**LOW**

The recent price trend for CRM systems has been favorable for buyers. In the three years to 2016, prices have remained stable, increasing at an estimated annual average of just 1.1% with low volatility. Despite rising demand for CRM systems, competition in the market and changes in supplier pricing models have kept prices from increasing substantially. Stable pricing is very beneficial because it makes it easier for buyers to budget for software costs with a reduced risk of price fluctuations.

The recovering economy has spurred demand for CRM systems in recent years. Namely, growth in the number of US businesses has expanded the potential market for CRM systems, and many existing companies have gained the financial resources and confidence to invest more in computers and software. Additionally, the internet has become a vital platform for businesses to connect with their customers, resulting in a rise in the percentage of services conducted online and growth in SaaS-based solutions. As CRM systems have increasingly been needed to manage and

consolidate customer data, demand has risen and placed slight upward pressure on price.

Meanwhile, market share concentration has been on the rise as large companies have acquired smaller firms to gain access to innovative technology and accumulate software patents. The rise in market share concentration has somewhat reduced competitive pressures in the market. However, although barriers to entry are high, the development of cloud-computing technology has somewhat lowered barriers to entry in recent years. Specifically, these new technologies have reduced startup costs for new suppliers, easing the path to market entry and helping boost the number of operators available to buyers.

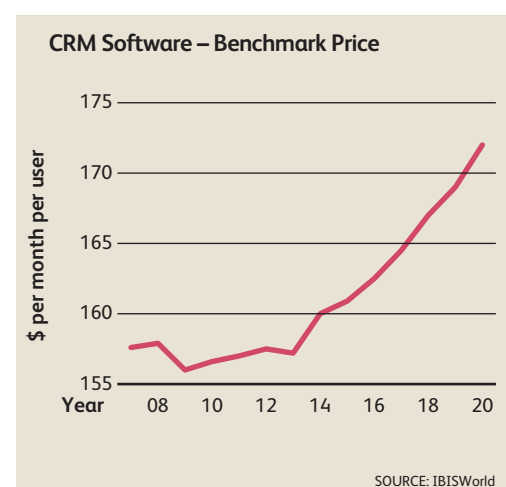
As the number of providers with accessible pricing has gone up, buyers have been better equipped to compare suppliers to determine which have the most competitive rates. The rise in the number of supplier, in conjunction with fierce competition among established providers, has helped keep prices stable in the past three years.

## Price Forecast

Three-Year Average Annual Price Forecast:

**1.3%**

During the next three years, CRM software prices are expected to rise as demand increases in line with the economic recovery. IBISWorld forecasts prices will increase an average 1.3% per year through 2019; fortunately for buyers, this price growth is projected to be steady and predictable. Continued low price volatility means that buyers should not expect substantial price hikes for CRM software. Although volatility will remain low, buyers should consider signing long-term contracts sooner than later to avoid the steady upward trend in prices. If buyers do choose to delay purchases, they should take action to combat rising prices. For example, buyers can inquire if volume discounts or lower



rates are available if they have a larger user base for the software. Additionally, if

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# Price Environment

## Price Forecast continued

buyers do not need sophisticated features or tools, they can opt for cheaper basic packages.

Through 2019, demand is expected to increase as the economy improves and businesses increasingly implement IT solutions to manage their customer data. During the period, the number of businesses is projected to grow broadening the potential customer base for CRM software. Private investment in computers and software is also projected to grow more rapidly, indicating that businesses will spend more on CRM systems. Moreover, the percentage of services conducted online is expected to increase, furthering businesses' need for CRM systems to manage and track data from online interactions. As demand

rises, suppliers will be incentivized to raise prices.

In addition, market share concentration is expected to increase as suppliers consolidate and engage in merger and acquisition activity during the period. Rising concentration will impede competition in the market and decrease pressure among suppliers to keep prices attractive. Despite a projected rise in market share concentration, the rising implementation of cloud-computing technology is expected to lower barriers to entry through 2019. These new technologies will reduce startup costs for new suppliers, helping boost the number of suppliers offering CRM software and sustaining some competition.

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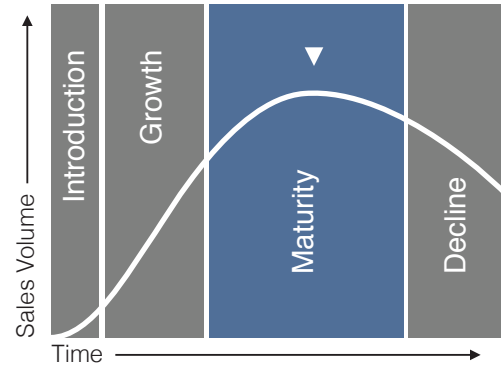
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# Product Characteristics

## Product Life Cycle

CRM systems are in the mature stage of the product life cycle. The use of CRM systems is well established because they are essential for most companies, particularly larger firms, in managing their sales and marketing processes. Sales growth has risen at a moderate rate during the three years to 2016, and increased technological adoption among businesses will continue to promote moderate sales growth in the three years to 2019. The mature phase of the product life cycle benefits buyers with predictable pricing.

Life Cycle Stage: **Maturity**



Life Cycle Factor	CRM Software Characteristics
<b>Price Trend</b>	Prices for CRM systems are very stable, which is beneficial for buyers because it allows for steady costs and budget forecasting. Although demand has risen, competition among suppliers due in part to product standardization has mitigated price growth. In addition, more CRM system providers have been using subscription-based pricing models with fixed monthly rates. The price of CRM systems has risen at an estimated annualized rate of 1.1% during the three years to 2016, and is projected to rise at an average annual rate of 1.3% through 2019.
<b>Product Change</b>	At a disadvantage to buyers, product change is high for CRM systems, with the biggest change being a shift toward cloud-based CRM systems, because buyers are then forced to upgrade CRM systems more frequently. Before cloud computing, systems had to be installed and managed on the buyer's computers. Now, however, cloud computer means systems can be installed and managed on the supplier's computers and accessed through the internet. Other significant changes include social media and mobile integration. CRM systems now manage and track social media interactions, and can be accessed through tablets and smartphones.
<b>Distribution Scope</b>	The distribution scope for CRM systems is wide due to cloud computing capabilities allowing software distribution over the internet. Therefore, the location of the buyer is not particularly important because only an internet connection is needed to access and use the software. Distribution scope has been increasing, benefiting buyers by increasing their ability to use the software from any location with an internet connection.
<b>Marketing Trends</b>	Due to fierce competition in the market, CRM software providers dedicate a significant portion of their revenue to marketing. As certain CRM features become standardized, companies increasingly rely on marketing to drive sales rather than technological innovation. Increased spending on marketing harms buyers as suppliers pass down these costs in the form of higher prices. Marketing expenditures are forecast to grow as companies continue to use marketing and branding as a source of differentiation.

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# Product Characteristics

## Total Cost of Ownership

Total Cost of Ownership

MEDIUM

The total cost of ownership for CRM systems is moderate because there are many additional costs to consider before purchasing the service. CRM systems may need significant customization as well as integration with existing software, a process that usually requires a CRM consultant and may take several months. After installation, training sessions will be required to teach end users how to use the system. Fortunately for buyers, the total cost of ownership is reduced

through the SaaS model. Buyers generally do not need to purchase new computers or software to run CRM systems because the data processing and storage are run on the supplier's servers. Furthermore, CRM systems are generally run on standardized web browsers that are highly compatible with many types of systems. The moderate level of total cost of ownership can potentially harm buyers with unforeseen costs if they are not thorough during the RFP process.

## Product Specialization

Product Specialization

HIGH

CRM software has a high level of specialization. The market's diverse range of buyers have different sales, marketing and customer support processes, so suppliers offer a variety of customization options that are optimized for specific buyers' business models. As such, CRM systems must be customized specifically for each buyer, which is a very time-consuming process that can take

months to complete. High product specialization needs on the part of the buyer decrease buying power by limiting the number of suppliers that can provide the required customization options. Furthermore, the high level of product specialization also increases the level of switching costs. As a result, suppliers can keep prices high because buyers have limited options.

## Related Goods

CRM software providers usually sell a variety of services and software products that complement their CRM systems. These related goods include analytical software, social media tracking and

management in addition to CRM training. Buyers can potentially receive bundling discounts when purchasing these related goods alongside CRM software.

Related Goods	Description
<b>Analytical Software</b>	As technology develops, companies are able to gather more information about their customers. Analytical tools can help businesses better understand their customers and predict upcoming trends. Buyers should strongly consider purchasing these tools with the CRM system and speak to the supplier about integrating them together.
<b>Social Media Tracking &amp; Management Tools</b>	Companies are increasingly using social media to reach out and connect with customers. CRM system providers may offer social media tracking and management tools that allow the buyer to keep track of data and developments regarding their social media efforts.
<b>CRM Training</b>	After the CRM system is installed, end users will need to be educated on how to use the software. While CRM system training may come with extra costs, this service is critical for building familiarity with the software and encouraging user adoption.

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# Product Characteristics

## Substitute Goods

Availability of Substitutes

**LOW**

The availability of substitutes for CRM software is low. Substitutes for CRM systems include database management systems and enterprise resource planning (ERP) systems. Although database management systems can perform some of the basic customer management tasks of CRM systems, they are much more limited in scope. Meanwhile, ERP systems are similar in scope to CRM systems and have some of the same tools, but they are ultimately designed for the

supply chain and finance departments rather than for sales and marketing. A lack of comparable substitutes means buyers are unable to easily turn to alternative products to meet their needs and are more dependent on CRM systems, lowering their buying power. Also, prices for alternative software systems are not comparable to prices for CRM software systems, which creates more difficulty for buyers to use substitutes as a negotiation tactic.

Substitutes	Description
<b>Database Management Systems</b>	Instead of dedicated CRM systems, small businesses can use database management systems to keep track of customer data. These systems are readily available and much cheaper than CRM systems. While database management systems are a viable alternative for smaller companies with a more modest customer base or a simple sales process, a CRM system will ultimately be needed as a company grows in size and scope to help integrate all of the company's separate functions and make sales processes more efficient.
<b>Enterprise Resource Planning (ERP) Systems</b>	ERP systems are used to manage the internal processes of the company. These systems can manage some of the same functions as CRM software, such as order processing and database management. ERP systems can also manage inventory and production processes. ERP system costs are comparable to those of CRM systems; however, a dedicated CRM system is a lot more cost effective in managing a company's customer contacts and data. Rather than solely used as a substitute, ERP systems can also be complementary to CRM systems. For instance, ERP systems can manage a company's internal functions while CRM systems manage external functions.

## Regulation

Regulatory Change

**LOW**

Existing regulation for CRM software providers is fairly low and mostly involves intellectual property laws. Moreover, the pace of regulatory change is slow, indicating that regulations should not greatly affect buying decisions or prices in the near future.

CRM providers are fiercely protective of their software because it helps differentiate them from competitors. As such, most CRM software providers pay

licensing fees to incorporate software from other publishers into their own CRM systems. If a CRM system provider uses software developed by another software publisher without paying for the required licenses, it can lead to legal troubles. There are few regulations regarding purchasing and using CRM systems, but copyright infringement laws may increase development and litigation costs, which can be passed down to buyers.

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# Product Characteristics

## Quality Control

<b>Key Quality Factors</b>	Features Customization Integration Training and service
----------------------------	--

In addition to basic features, such as contact management and sales tracking, CRM systems have a wide variety of supplementary features and tools that can bring added value to the buyer's sales and marketing processes. These tools include data analytics, social media integration, workflow management and application development. These tools can help deliver insight and make workflow more efficient.

Just as every business has its own way of managing sales and marketing processes, CRM systems should be tailored and customized accordingly. The more customization options the supplier offers, the easier it is for the buyer to create a CRM system that better captures sales and marketing processes and effectively presents critical information. Customization options can be extensive and applied to many aspects of the CRM system, such as data collection and analysis, workflow and process management and user interface.

Integration refers to how well a CRM system incorporates and accepts data from other software programs. CRM systems are designed to not only manage and improve sales, marketing and customer support operations, but also connect with other software systems in the financial, production and human resources departments. Having a CRM system that integrates well with other software systems improves the performance of the organization, as well as reduces the resources and time required for installation.

After the CRM system is installed, sales and marketing staff will need to be trained on how to use the software. Training can reduce unfamiliarity and help new users make use of all of the features and tools that the system offers. Training is also helpful for ensuring that end users readily adopt the CRM system after it is installed.

# Supply Chain & Vendors

## Supply Chain Dynamics

Supply Chain Risk

LOW

Average Vendor Risk

LOW

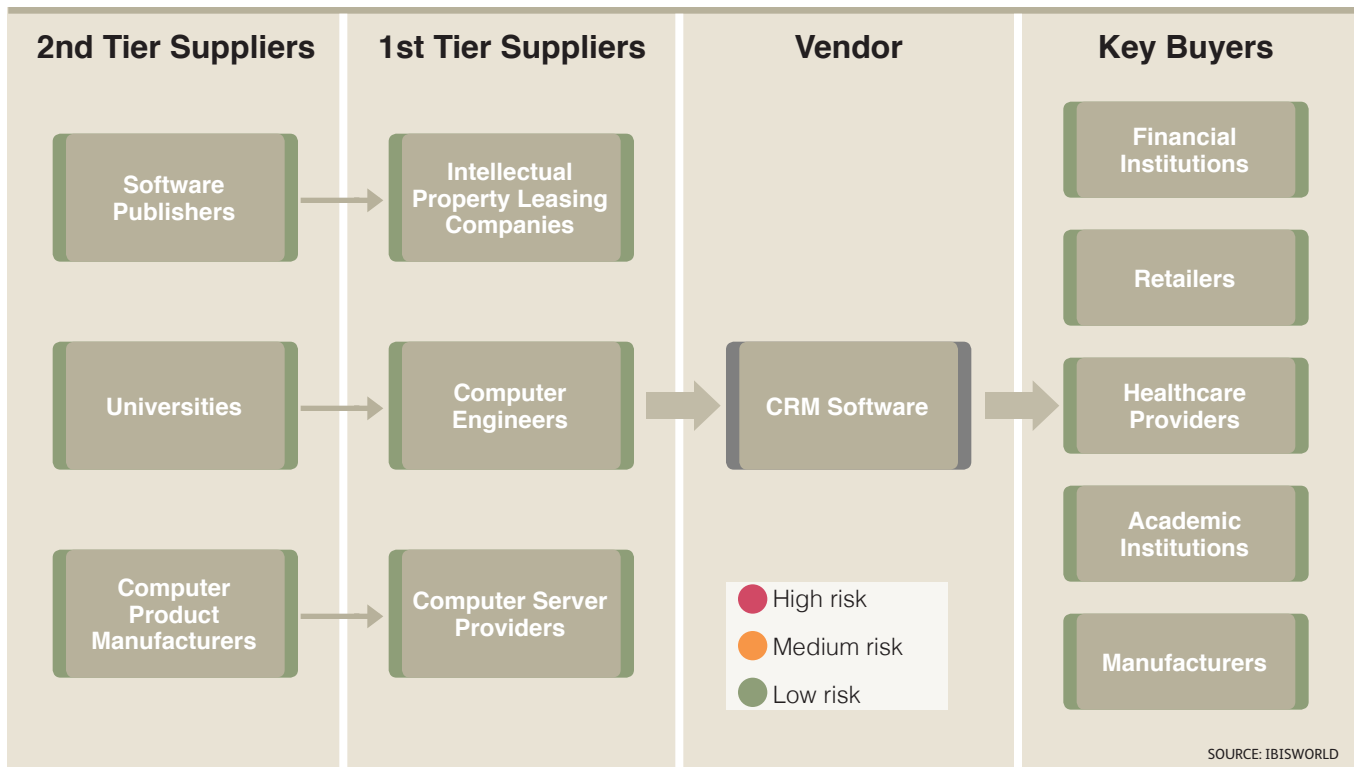
### Supply Chain Risk

CRM system providers do not depend on any critical inputs to ensure production or delivery, making supply chain risk low. The greatest risk for vendors comes from the need to hire and retain qualified programmers. As such, the hiring environment in this market is very competitive, requiring companies to pay high salaries that keep their total wage costs high. Fortunately, the number of computer science graduates has increased steadily over the past decade, so as the pool of potential qualified staff for CRM system providers has expanded, hiring has become less competitive in general, which has reduced risk for suppliers.

CRM system providers may lease software products from other software publishers, even other CRM system providers. For example, many CRM system providers lease database software from Oracle, a software corporation that

also sells its own CRM systems. If these other software and IT providers stopped offering licenses to other suppliers, CRM suppliers would potentially not be able to deliver CRM systems with all the required features. To ensure this is not an issue and reduce any potential risks, buyers should ask about their supplier's relationships with upstream software providers.

CRM system providers also face relatively low risk from potential changes in demand. Almost all large businesses require CRM systems at some point to manage their sales, marketing and customer support processes. Therefore, providers generate stable demand from organizations in a diverse range of industries, creating steady revenue and reducing supplier financial risk. Some smaller providers have more concentrated customer bases, though, and may be vulnerable to issues in their downstream markets. Amdocs, for



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# Supply Chain & Vendors

## Supply Chain Dynamics continued

example, generates almost half of its revenue from only three telecommunications customers.

### Geographic Locations

CRM system providers are highly concentrated in the western region of the United States. The West generates 48.8% of the revenue and employs 41.1% of the workforce in the CRM software market. The Southwest (10.7%), Mid-Atlantic (9.9%) and Southeast (8.9%) also have a high concentration of suppliers. However, California and Washington are headquarters to some of the largest CRM system providers. California is home to Silicon Valley, a highly concentrated area of technology companies and many of the top computer science universities in the world. However, geography is not a significant factor in accessing or procuring CRM systems. Most providers

are large public companies with operations and staff throughout the United States. In addition, CRM systems are accessed via the internet, which reduces the need for buyers to be located near providers. As long as buyers have a reliable internet connection, they should be able to access CRM systems from providers located throughout the country.

### Imports

There are no imports of CRM software. Whether CRM software is installed on buyer's computers or accessed through the internet, delivery is done through facilities and operations in the United States. In terms of revenue and employment, US-based suppliers dominate the market. The lack of imports in the market benefits buyers by reducing the complications of tariffs and shipments.

## Competitive Environment

Market Share Concentration

**MEDIUM**

### Market Share Concentration

Market share concentration for CRM system providers is medium, whereby the top four suppliers make up about 45.0% of the US market by revenue. IBISWorld estimates there are about 180 CRM software providers operating in 2016. High barriers to entering the market make it difficult for new companies to begin offering CRM software, and high switching costs help established companies maintain their buyer base and market share. Barriers to entry are significant because CRM systems are extremely complex and require extensive IT and computer programming experience to administer. As a result, providers are usually very large companies with thousands of employees and years of experience creating software services and products. Moreover, CRM systems are deeply integrated with the buyer's business, making it extremely difficult for existing users to switch over

to a different company's CRM system. The level of market share concentration has increased in the past three years as the largest suppliers have captured more revenue due to their expansive investments in data processing services. Moderate and increasing concentration limits the number of suppliers that buyers can choose from to meet their needs. In addition, medium concentration reduces competition in the market, making suppliers less inclined to maintain attractive pricing.

However, the increasing implementation of cloud-based services has somewhat reduced barriers to entry in the past three years, allowing more suppliers to enter the market and boosting market competition even as concentration has risen.

Market share concentration is forecast to rise at a faster rate in the next three years as companies increasingly engage in merger and acquisition activity.

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# Supply Chain & Vendors

## Competitive Environment continued

CRM systems are evolving due to trends in cloud computing, social media and mobile devices. As a result, providers will merge with and acquire other firms and software publishers to quickly gain access to technology and accumulate software patents. The projected growth in market share concentration is expected to further burden buyers by reducing the number of suppliers and limiting competitive pressure. However, declining barriers to entry into the market will temper the growth of market share concentration in the next three years.

### Vendor Company Types

An estimated 180 CRM software suppliers currently operate in the United States, including software corporations, CRM-focused providers and market-focused providers. Software corporations make up the majority of the market in terms of revenue, although CRM-focused providers, such as Salesforce, also

command a large percentage of total revenue.

**Software corporations:** IBISWorld estimates that about 100 software corporations offer CRM software. Software corporations are large public companies that provide a wide array of software products and services, including CRM systems, which form a small part of their total revenue. For buyers, sourcing from these types of suppliers has two advantages. Due to their large size and economies of scale, these suppliers offer some of the most competitive pricing in the market. Additionally, because CRM systems make up only one facet of their offerings, they may also provide specialized software in analytics, business operations or operating systems. For example, SAP SE specializes in business operations software, while SAS specializes in analytic and business intelligence software. Buyers in need of

### Vendor Statistics – CRM Software

	US Product Market Share (%)	Market Share Performance (3-yr trend)	Total Revenue (\$m) <sup>1</sup>	Profit Margin (%)	Financial Risk Level <sup>2</sup>
Oracle Corp.	10-15	Steady	37,047	34.0	Low
SAP SE	10-15	Steady	23,070	20.4	Low
Salesforce	10-15	Increasing	6,667	1.7	High
Microsoft Corporation	5-10	Decreasing	85,320	23.7	Low
International Business Machines Corp.	<5	Decreasing	81,741	19.2	Low
Adobe Systems Inc.	<5	Increasing	4,796	18.8	Low
Amdocs Inc.	<5	Increasing	3,644	14.2	Low
SAS	<5	Decreasing	2,000-5,000	N/A	N/A
Cegedim SA	<5	Increasing	250-500	N/A	N/A
Verint Systems Inc.	<5	Increasing	1,130	6.0	Medium

**1:** Revenue refers to the latest financial year for which data is available. Private company revenue is expressed as a range.  
**2:** Financial Risk Level is based on the Altman Z-Score, which uses a formula to predict a company's risk of bankruptcy. See Glossary for more details.

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# Supply Chain & Vendors

## Competitive Environment continued

other software and systems in addition to CRM may be able to negotiate package solutions.

**CRM-focused providers:** In 2016, there are about 40 domestic CRM-focused providers, which are large public companies that derive the majority of their revenue from CRM systems. These types of providers, such as Salesforce, are experts with CRM systems and offer some of the most innovative features and developments in the market. CRM systems are going through many changes and advances due to cloud computing, social media and mobile devices, and these suppliers offer many of the best features and tools in line with these trends. These companies' systems typically include features, tools and extensive customization capabilities not offered by other vendor company types.

**Market-focused providers:** IBISWorld estimates that about 40 market-focused providers operate domestically. Market-focused providers are companies that design and provide CRM systems and software for a specific market. These firms tend to be smaller companies with a more concentrated customer base. For example, Cegedim

focuses on providing software for the healthcare market and Amdocs designs its software for the communications, media and entertainment markets. Pricing for these suppliers tends to be higher, but these companies are ideal for buyers that need software and capabilities unique to their market. These providers generally have the best understanding of the buyer's business and can design CRM systems accordingly.

**Supplier diversity:** The CRM software suppliers market is generally less diverse when compared with the wider economy. The percentage of companies owned by women, minorities and veterans are smaller than similarly owned businesses in the overall economy, making it difficult for buyers that need a specific percentage of their contracts to be with one of these types of suppliers. However, the proportion of suppliers owned by minorities and veterans is higher than the percentages seen in the information sector, which indicates minority or veteran-owned suppliers in the market will be relatively more accessible than other markets in the same sector. Still, purchasing CRM software from a minority- or veteran-owned supplier will remain relatively difficult.

## Supplier Diversity

Ownership Category	This Market (%)	Overall Sector (%)	Overall Economy (%)
Women	8.9	15.3	19.4
Minority	12.5	11.1	17.5
Veteran	6.9	6.1	7.5

Ownership is defined as owning at least 51 percent of a firm, which is the definition used by the Small Business Administration for government procurement programs.

SOURCE: IBISWorld and US Census Bureau

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# Supply Chain & Vendors

## Market Profitability



Profit margins for CRM software providers are high at 21.7% of revenue, which suggests there is significant room for buyers to negotiate lower prices. Larger companies tend to have higher profit margins and lower bankruptcy risk because they have their own internally developed software and have less need to purchase licenses from other companies. Larger companies can also leverage economies of scale to save on operating costs and use their brand names to attract customers that prefer established brands. These larger players hold a significant share of the market, too, which gives them more control over their prices. Furthermore, profit margins among suppliers have risen as the emergence of new technologies has made it less costly for suppliers to develop the software. Rising profit benefits buyers because it increases suppliers' ability to negotiate with buyers.

Profit margins are high overall due to several factors. As a software product, CRM systems do not require critical inputs, which can eat into profit margins; consequently, capital costs are a relatively low proportion of revenue. In addition, CRM system providers sell

directly to the end user, which cuts out wholesalers and retailers that can charge additional markups or squeeze prices.

High profit margins present opportunities for buyers to discuss lower prices and additional benefits, such as volume discounts or free accounts. Buyers can also negotiate package deals that include additional features and software with CRM system purchases. Because buyers are charged on a monthly basis and are likely to use the same supplier for a long period of time, buyers should be aggressive in negotiating lower or locked-in monthly rates. A small reduction in the monthly rate can significantly reduce long-term CRM system costs.

In addition to healthy profit margins, there is an overall low risk of bankruptcies. Low financial risk is due in part to strong and growing demand for CRM systems and, in part, to the diversified nature of most providers. Furthermore, the high profit margin allows suppliers to survive downturns in revenue. Stable vendor financials are crucial for buyers because it is necessary to have a continuous relationship with suppliers to access and use CRM systems.

## Switching Costs



Switching costs are high for CRM systems. Installing and implementing a system requires significant time and resources. Although there are no direct financial penalties, switching providers may be extremely disruptive to the buyer's business.

CRM systems are designed to be integrated with the buyer's business and to manage all marketing, sales and customer support processes. Business may shut down entirely while a new system is being installed and customized, a process that could take months. End

users will also have to be trained on how to use the new system, which may be difficult if they are accustomed to the old CRM system. In addition, the buyer's business information, customer contacts and data are stored on the supplier's computers. Transferring this data over to another supplier's CRM systems would be a difficult process, and there is a high risk of data loss.

As a result of these high switching costs, buyers are often locked in with a supplier. This circumstance lowers negotiating power because buyers

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# Supply Chain & Vendors

## Switching Costs continued

generally cannot seek lower prices by threatening to switch to another supplier. As a result, buyers should be highly

selective in choosing a provider and assume that they will be using their CRM system for a significant amount of time.

# Purchasing Process

## Buying Basics

Buying  
Lead Time

LONG

### Buying Lead Time

The buying lead time for CRM systems is long and can last well over three months. Selecting the right CRM system is not simply a technical and financial decision, but a strategic matter that may involve many departments of the company. As such, buyers should first identify the strategic initiatives of the company. Different strategic initiatives require CRM systems with complementary functionality and customization. Buyers should also analyze how their business works and what processes should be improved.

Although the system's features are generally detailed on the supplier's website, buyers will need to speak with a sales representative and technicians prior to purchase because there are many technical and financial factors to consider. Technical factors include the degree of customization and integration, the delivery and installation process and the features offered. Financial factors include monthly rates, billing practices and additional services.

Installation and implementation times depend on whether the system is installed on the buyer's computers (software on premise) or installed on the supplier's computers and accessed via the internet (software on demand). Software on demand is quicker to install and implement because there are no hardware requirements, but still requires at least two months to customize and

integrate with the buyer's other software systems. Hiring a dedicated CRM consultant can expedite the installation and implementation process.

### Selection Process

CRM software is usually purchased using a leveraged buyer-supplier relationship. The software is necessary for many buyers' daily business operations, making it essential for suppliers to ensure that the software works on a consistent basis. As a result, buyers should maintain a good working relationship with their supplier to ensure they have quick access to technical support in the event of a software malfunction. However, risk in the CRM software is low due to the relatively high number of suppliers and the low price volatility during the three years to 2016. These favorable market factors allow buyers to negotiate more aggressively to obtain the lowest prices and best contract terms.

### Buying-Decision Scorecard

The Buying-Decision Scorecard outlines the key criteria a buyer should consider when purchasing this good or service. When weighing the importance of each factor, we assume that a buyer has narrowed down potential suppliers to those that meet the technical and price criteria specified in the RFP. The criteria and weights assigned below can be used as guidelines to help further differentiate already qualified vendors.

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# Purchasing Process

## Buying Basics continued

Buying-Decision Scorecard		
Factor	Weight (%)	Description
<b>Technical Factors</b>	<b>70.0</b>	
Features & Tools	30.0	CRM systems come with many features that help buyers better track customer information, manage processes and workflow and analyze data. Buyers should ensure that a CRM system has the functionality to not only handle their current needs but also meet their future requirements.
Customization	25.0	More customization options allow the buyer to create a CRM system that better captures sales and marketing processes and presents critical information.
Integration	10.0	If the buyer already has existing software systems, they need to ensure the new CRM system can integrate with and accept data from these other systems.
Installation	5.0	Installing CRM systems can be a long and intensive process. Knowing how the installation process works can minimize disruptions to business and ensure installation proceeds smoothly.
<b>Cost</b>	<b>30.0</b>	
Price	30.0	Prices vary significantly depending on tracking and analytic features, amount of storage and level of customization required by the buyer.
<b>Total</b>	<b>100.0</b>	

## Key RFP Elements

### Specific information to impart to suppliers in the RFP includes:

- The buyer's sales and marketing processes
- The types of information collected on the buyer's customers
- The buyer's requirements for analytical software
- The security features required
- The buyer's use of social media
- The buyer's requirements for mobile device integration
- The number of employees in the buyer's organization

### Specific information to gather from suppliers in the RFP includes:

- The software's ability to create custom applications

- The software's ability to create workflows
- The CRM software's integration with other software programs (i.e. database management, marketing, security, contact center)
- The analytical tools included with the CRM software
- The software's ability to create dashboards
- The customization options included with the CRM system
- The supplier's installation process and average length of installation
- Additional services and training options offered by the supplier
- The availability of the supplier's support staff

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# Purchasing Process

## Key RFP Elements continued

### Standard Elements in an RFP

<b>Overview &amp; Scope</b>	This tells the vendor about your company, why your company needs this product and what you hope to achieve from its purchase. Deadlines for steps in the procurement process should be clearly defined in the section.
<b>Vendor Qualification</b>	This section details the features a winning company must possess, such financial size, scope of work completed or geographical reach. This section will also explain the criteria used in evaluating the bid and its relative importance in your scorecard. This section might disqualify some companies, such as suppliers to your competitors.
<b>Technical Specifications</b>	This section details the technical and functional specifications of the product you want. The more detail provided, the shorter the procurement cycle since all vendors are bidding to the same, exact specifications. Further, if all needs are specified there is less chance of additional costs will surface down the road. This section will also look at service level agreement needs.
<b>Financial Factors</b>	This section is where vendor quotes prices for the product or service being supplied. This section should specify cost breakdowns, billing frequency (with specific dates, time periods), billing methods (mode of payment, including currency) and taxes.
<b>Legal Framework</b>	This section should reference the legal jurisdiction in the event of a dispute, methods for arbitration and contract termination mechanisms. Nondisclosure agreements are also part of this section, as are escrow agreements (mainly in the event of shared proprietary knowledge).

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# Negotiation Questions

Issue	Questions
<p><b>Vendor Experience:</b> Knowing the supplier's experience with CRM systems can help ensure that the supplier creates a system that fits the buyer's needs.</p>	<ul style="list-style-type: none"> <li>• How long has your company been offering CRM systems?</li> <li>• What companies have you recently acquired, and how has the acquisition affected the functionality of your CRM system?</li> <li>• What new features or tools have you developed?</li> <li>• Do you specialize in providing software or CRM systems for a specific market?</li> <li>• If another company acquires your company, how would this affect operations and access to the CRM system?</li> <li>• Do you have any customer case studies or testimonials that we can review?</li> <li>• Have you had any customers that switched to another supplier, and what was the reason?</li> </ul>
<p><b>Installation Process:</b> Knowing how the installation process works can minimize disruptions to business.</p>	<ul style="list-style-type: none"> <li>• What is the average time required to install CRM software?</li> <li>• Do you provide CRM consultants that install and manage the software on-site?</li> <li>• How many years of experience do your CRM consultants have?</li> <li>• What options are available for technical support?</li> <li>• Are there any costs associated with your technical support?</li> <li>• Can you provide training to explain how to properly use the CRM system? How much would this service cost?</li> </ul>
<p><b>Integration:</b> Integrating CRM software with other software systems has the potential to significantly increase time and monetary costs.</p>	<ul style="list-style-type: none"> <li>• What relationships or partnership does your company have with other software publishers?</li> <li>• Have you encountered any legal disputes with other software publishers?</li> <li>• What computing platform do you use, and what software programs are compatible with this computing platform?</li> <li>• Have your customers encountered any difficulties integrating your CRM systems with other software systems? What was the result?</li> <li>• How much downtime, if any, is there during software integration?</li> </ul>
<p><b>Security:</b> Buyers should ensure that the provider has adequate security measures to protect data stored on the CRM system.</p>	<ul style="list-style-type: none"> <li>• Do you manage the servers used to host the CRM systems, or are they hosted on another company's servers?</li> <li>• Where are the servers located?</li> <li>• What security measures do you have to protect data stored on your CRM systems?</li> <li>• Has your data ever been breached, and how was this resolved?</li> <li>• Does your system offer the ability to restrict access for certain users?</li> </ul>
<p><b>Reliability:</b> As CRM systems are hosted on the supplier's computers, buyers need to ensure that they have reliable access.</p>	<ul style="list-style-type: none"> <li>• What is the minimum internet speed required to reliably access your CRM systems?</li> <li>• Do you have limits on how many users can access your system at the same time?</li> <li>• Can your CRM system be accessed through mobile devices?</li> <li>• Do you have backup servers to ensure reliable access?</li> <li>• Have your customers ever experienced slowdowns in accessing your CRM systems?</li> </ul>

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# Negotiation Questions

Issue	Questions
<p><b>Additional Software:</b> Many CRM system providers offer additional software products and services that may be included with the purchase of a CRM system.</p>	<ul style="list-style-type: none"><li>• In addition to CRM systems, what additional software does your company provide?</li><li>• Do you provide software specializing in social media or analytics?</li><li>• Can these software products be easily integrated with the CRM system?</li><li>• Do you offer package deals that include these software products at a discount with the purchase of a CRM system?</li></ul>

# Buyer Power Score Components

## Price Trend

Factor	Definition	Weight	Score
Recent Price		40%	4
Favorable	Compound annual growth rate in benchmark price over the past three years 0.1-1.4%		
Forecast Price		60%	4
Favorable	Compound annual growth rate in benchmark price in the next three years 0.1-1.4%		
<b>Weighted Score</b>		<b>50%</b>	<b>4.0</b>

## Market Structure

Factor	Definition	Weight	Score
Availability of Substitutes		35%	1
Low	There are few viable substitutes for this product/service		
Market Share Concentration		25%	3
Medium	The top four suppliers of this product/service have 30.1-49.9% market share		
Product Specialization		25%	1
High	The product/service is assessed as having a high level of specialization		
Switching Costs		15%	1
High	The cost of switching from this product and/or supplier is assessed as high		
<b>Weighted Score</b>		<b>20%</b>	<b>1.5</b>

## Market Risk

Factor	Definition	Weight	Score
Price Driver Volatility		25%	4
Medium-Low	Average absolute difference in percentage change of external drivers 1.0-1.9%		
Recent Price Volatility		25%	4
Medium-Low	Average absolute difference in % change in price over last 3 years 1.0-1.9%		
Vendor Financial Risk		25%	5
Low	The average level of financial risk for product/service vendors is assessed as low		
Supply Chain Risk		25%	5
Low	The average level of product/service supply chain risk is assessed as low		
<b>Weighted Score</b>		<b>30%</b>	<b>4.5</b>

**Overall Buyer Power Score 3.7**

IBISWorld's Buyer Power Score is a calculation based on weighted quantitative and qualitative factors that measure a buyers' ability to negotiate lower prices and favorable contract terms. The higher the Buyer Power Score, the greater the average buyer's negotiating strength for this product. The overall score is composed of three components:

- 1) **Price Trend:** compares this product's average recent and forecast price change to the economy-wide inflation rate
- 2) **Market Structure:** assesses the availability of alternatives and ease of purchasing in this product's marketplace
- 3) **Market Risk:** measures elements of volatility and risk impacting a buyer's confidence in making long-term deals with suppliers of this product.

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# Jargon & Glossary

## Jargon

**Software-as-a-Product (SaaP)** Software applications and information stored at the buyer's location, so data and servers are all directly controlled by the business and stay within the business' physical walls; also known as software on premise.

**Software-as-a-Service (SaaS)** Software applications and information stored at the supplier's location and buyers access software through the internet; also known as software on demand.

**Cloud Computing** The delivery of computing as a service rather than a product, whereby shared resources, software and information are provided to computers and other devices as a utility over the internet.

## Glossary

**HS** The Harmonized Commodity Description and Coding System is maintained by the World Customs Organization as a standardized system of names and numbers for classifying traded products.

**Life Cycle** All products and services go through periods of growth, maturity and decline. IBISWorld determines a life cycle by considering factors such as pricing trends, the level and speed of product or service change, the extent of a product's distribution and the maturity of marketing trends.

**Market Share Concentration** Determined by the market share of the top four vendors for a given product or service: high is when the top four vendors account for more than 50.0% of the product or service market share, medium is from 30.0% to 50.0%, and low is less than 30.0%.

**NAICS** The North American Industry Classifications System is the standard by which industries (not products) in the United States, Canada and Mexico are classified.

**Price Driver Volatility Level** Determined by the average absolute difference in the percentage change of input cost items and external demand drivers over the past three years: high is 3.5% or greater for all drivers, medium is from 2.0% to 3.4% for all drivers, and low is 1.9% or less for all drivers.

**Price Range** The difference between the upper and lower price bounds divided by the benchmark price: wide is greater than 50.0%, medium is from 25.0% to 50.0%, and narrow is less than 25.0%.

**Price Volatility Level** Determined by the average absolute difference in the percentage change of the benchmark price over the past three years: high is 3.5% or greater, medium is from 2.0% to 3.4%, and low is 1.9% or less.

**Producer Price Index (PPI)** This index represents the change in the amount that producers receive for their products or services, as opposed to the prices that consumers pay for them.

**Profit** IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

**Profit Level** Determined by the average profitability of the industry in which a product or service vendor operates, compared to the average profit margin for all industries in the US. There are around 700 industries in the US classified using the NAICS taxonomy (see NAICS).

**Total Cost of Ownership Level** Determined by the total cost of ownership as a percentage of the benchmark purchase price per year: high is when the total cost of ownership is greater than 100.0% of the benchmark purchase price per year, medium is from 50.0% to 100.0%, and low is less than 50.0%.

**UNSPSC** Coding for each report title is based primarily on the United Nations Standard Products & Services Code. The code is a hierarchical classification codeset of expenditure items.

**Wages** The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.

**Z-Score** The Altman Z-score formula is used to help predict a company's chances of going bankrupt within the next two years. The Z-score uses multiple corporate income and balance sheet values to measure the financial health of a company. Z-scores above 2.9 are defined as having a low financial risk level; scores between 1.23-2.9 are at a medium risk level and scores below 1.23 are a high financial risk level.

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