

# SPECIALTY INDUSTRIES spotlight

# CRM Industry

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## CRM IS ANYTHING BUT DEAD

Despite several market and technological challenges, the Customer Relationship Management (CRM) industry is alive and kicking with increased sales and market penetration, moderate investment levels, and increasing M&A activity. Plagued by expensive customization, integration, and a prolonged and difficult to prove ROI, the CRM industry was feared to suffer and dry up in light of harsh market conditions and retrenchment in IT spending. However, studies conducted by AMR, Gartner Group and other research firms, reveal that **customer management and CRM remains one of the top three, if not number one, business priorities in 2001.**

Businesses surveyed on average anticipate implementing 4.5 CRM modules, of which contact center, e-mail engines, web self-service, analytics and sales force automation remain top priority. According to Data Warehousing Institute, only 7 percent of global companies have reached mature CRM deployments, indicating there is significant spending to come. Of those companies anticipating CRM deployments this year, approximately two-thirds are willing to spend up to \$1 million. Could these estimates be too optimistic? Potentially, as feedback and performance of CRM vendors represent a mixed bag. According to informal surveys, many CRM companies have been forced to slash prices 25% to 50% to close deals. On the other hand, market leader Siebel grew revenues by 84% between 1Q00 and 1Q01 to reach \$589 million, of which 52% came from new customers.

The CRM industry is highly fragmented, with an estimated 500 companies claiming to offer CRM capabilities and over 200 firms focused in CRM applications. Most of these firms are highly specialized with one or two products, and even the market leaders with broad product portfolios were estimated to only account for roughly 40% of CRM spending last year. Gartner Group estimates that the fragmented nature of CRM requires some companies to purchase software from as many as 20 separate CRM vendors to meet the entire organization's needs. The necessity for several CRM applications and integration between them and existing infrastructures, requires companies to spend \$2 to \$5 on customization and integration services per \$1 spent on CRM software. That said, customers are demanding larger, complete and integrated CRM suites that are easier to customize, and are increasingly turning to (relative) market leaders for their purchases.

These pressures, along with tighter capital markets, have led to a slowdown in CRM investments and rapid consolidation of the industry. The number of financing rounds and total dollars invested in the CRM industry have demonstrated a solid decline over the past year with the

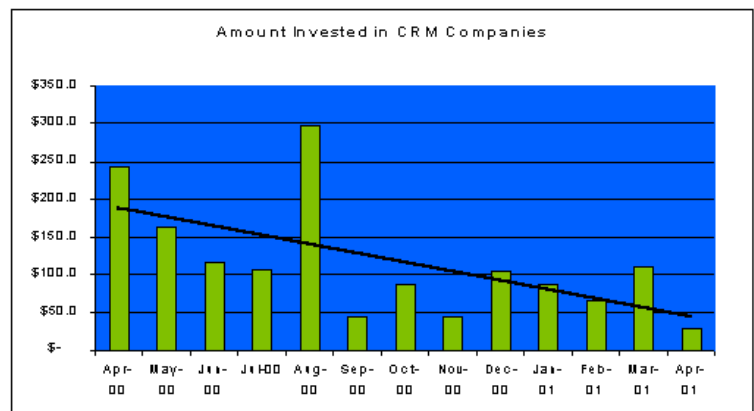
majority of investments going to later stage deals. The trend towards later stage investment reflects the closure of public markets to private technology firms. Increasingly, more mature CRM providers have been forced to bring on D and E rounds of private funding to bridge them to profitability.

With the industry maturing, declining VC dollars available, and the path to profitability ever so important, many companies are merging or being

acquired. Since the market downswing last March, M&A activity has been strong and stable, with an average of three transactions consummated per month between April 2000 and 2001. Although acquisitions are more common among smaller players, the market has witnessed several large and high profile mergers, such as Brokat/Blaze, Siebel/Janna, Broadbase/Servicesoft, Chordiant/Prime Response, Avaya/Quintus, Sage/Interact Commerce, and Kana/Broadbase.

M&A multiples and valuations have declined significantly due to the high supply and cash-needy nature of acquisition candidates, few buyers with the ability to execute, and dismal public market. Firms that were acquired last year have seen dramatic decreases in their overall valuations, as most deals were structured solely with the acquirer's stock, which on average has declined 74% since transactions closed. Current public multiples of CRM firms only average 2.9, with the median at 1.8. These declines have followed the private sector and M&A market as well, with median valuations over the past 4 months hovering between 1 and 3 times sales, even for top players. Due to these low valuations, uncertain market conditions, and the perception of many acquirers that their stock is undervalued, the market has seen a significant jump in the proportion of cash transactions.

CRM Investment Sectors	No.	Amount (\$M)
Analytics	22	\$ 394.0
eCRM & eSales	19	\$ 234.1
Multi-Channel CRM	15	\$ 293.7
Vertical	11	\$ 102.1
Web-based Customer Service/Care	10	\$ 199.6
Personalization	7	\$ 45.2
Operational & Outsourced CRM/Customer Support	6	\$ 95.6
Business Relationship Management (BRM)	4	\$ 116.5
Mobile CRM	3	\$ 16.0



For more information on the CRM industry, please contact Peter Alternative or Jocelyn Gonzalez at 617.338.1333. To view the complete set of graphs, please see *Mirus' May Newsletter* ([www.merger.com](http://www.merger.com)).