

Salesforce.Com: Cloud Services Go Mainstream

CASE STUDY

Salesforce.com, one of the most disruptive technology companies of the past few years, has single-handedly shaken up the software industry with its innovative business model and resounding success. Salesforce provides customer relationship management (CRM) and other application software solutions in the form of software as a service leased over the Internet, as opposed to software bought and installed on machines locally.

The company was founded in 1999 by former Oracle executive Marc Benioff, and has since grown to over 3,900 employees, 82,400 corporate customers, and 2.1 million subscribers. It earned \$1.3 billion in revenue in 2009, making it one of the top 50 software companies in the world. Salesforce attributes its success to the many benefits of its on-demand model of software distribution.

The on-demand model eliminates the need for large up-front hardware and software investments in systems and lengthy implementations on corporate computers. Subscriptions start as low as \$9 per user per month for the pared-down Group version for small sales and marketing teams, with monthly subscriptions for more advanced versions for large enterprises starting around \$65 per user.

For example, the Minneapolis-based Haagen-Dazs Shoppe owned by Nestle USA calculated it would have had to spend \$65,000 for a custom-designed database to help management stay in contact with the company's retail franchises. The company only had to pay \$20,000 to establish service with Salesforce, plus a monthly charge of \$125 per month for 20 users to use wireless handhelds or the Web to remotely monitor all the Haagen-Dazs franchises across the United States.

Salesforce.com implementations take three months at the longest, and usually less than a month. There is no hardware for subscribers to purchase, scale, and maintain. There are no operating systems, database servers, or application servers to install, no consultants and staff, and no expensive licensing and maintenance fees. The system is accessible via a standard Web browser, with some functions accessible by mobile handheld devices. Salesforce.com continually updates its software behind the scenes. There are tools for customizing some features of the software to support a company's

unique business processes. Subscribers can leave if business turns sour or a better system comes along. If they lay people off, they can cut down on the number of Salesforce subscriptions they buy.

Salesforce faces significant challenges as it continues to grow and refine its business. The first challenge comes from increased competition, both from traditional industry leaders and new challengers hoping to replicate Salesforce's success. Microsoft, SAP, and Oracle have rolled out subscription-based versions of their CRM products in response to Salesforce. Smaller competitors like NetSuite, Salesboom.com, and RightNow also have made some inroads against Salesforce's market share.

Salesforce still has plenty of catching up to do to reach the size and market share of its larger competitors. As recently as 2007, SAP's market share was nearly four times as large as Salesforce's, and IBM's customer base includes 9,000 software companies that run their applications on their software and that are likelier to choose a solution offered by IBM over Salesforce.

Salesforce needs to continually prove to customers that it is reliable and secure enough to remotely handle their corporate data and applications. The company has experienced a number of service outages. For example, on January 6, 2009, a core network device failed and prevented data in Europe, Japan, and North America from being processed for 38 minutes. Over 177 million transactions were affected. While most of Salesforce's customers accept that IT services provided through the cloud are going to be available slightly less than full time, some customers and critics used the outage as an opportunity to question the soundness of the entire concept of cloud computing. In February 2009, a similar outage occurred, affecting Europe and as well as North America a few hours later.

Thus far, Salesforce has experienced only one security breach. In November 2007, a Salesforce employee was tricked into divulging his corporate password to scammers, exposing Salesforce's customer list. Salesforce clients were subjected to a barrage of highly targeted scams and hacking attempts that appeared authentic. Although this incident raised a red flag, many customers reported that Salesforce's handling of the situation was satisfactory. All of Salesforce's major customers

regularly send auditors to Salesforce to check security.

Another challenge for Salesforce is to expand its business model into other areas. Salesforce is currently used mostly by sales staff needing to keep track of leads and customer lists. One way the company is trying to provide additional functionality is through a partnership with Google and more specifically Google Apps. Salesforce is combining its services with Gmail, Google Docs, Google Talk, and Google Calendar to allow its customers to accomplish more tasks via the Web. Salesforce and Google both hope that their Salesforce.com for Google Apps initiative will galvanize further growth in on-demand software.

Salesforce has also partnered with Apple to distribute its applications for use on the iPhone. The company hopes that it can tap into the large market of iPhone users, pitching the ability to use Salesforce applications any time, anywhere. And Salesforce introduced a development tool for integrating with Facebook's social network to enable customers to build applications that call functions at the Facebook site. (In early 2010, Salesforce introduced its own social networking application called Chatter, which enables employees to create profiles and make status updates that appear in colleagues' news feeds, similar to Facebook and Twitter.)

In order to grow its revenues to the levels that industry observers and Wall Street eventually expects Salesforce is changing its focus from selling a suite of software applications to providing a broader cloud computing "platform" on which many software companies deliver applications. As CEO Marc Benioff put it, over the past decade, "we focused on software as a service...In the next decade, Salesforce.com will really be focused on the platform as a service."

The company has intensified its efforts to provide cloud computing offerings to its customers. The new Salesforce.com Web site places much more emphasis on cloud computing, grouping products into three types of clouds: the Sales Cloud, the Service Cloud, and the Custom Cloud. The Sales and Service clouds consist of applications meant to improve sales and customer service, respectively, but the Custom Cloud is another name for the Force.com application development platform, where customers can develop their own applications for use within the broader Salesforce network.

Force.com provides a set of development tools and IT services that enable users to customize their Salesforce customer relationship management applications or to build entirely new applications and run

them "in the cloud" on Salesforce's data center infrastructure. Salesforce opened up Force.com to other independent software developers and listed their programs on its AppExchange.

Using AppExchange, small businesses can go online and easily download over 950 software applications, some add-ons to Salesforce.com and others that are unrelated, even in non-customer-facing functions such as human resources. Force.com Sites, based on the Force.com development environment, enables users to develop Web pages and register domain names. Pricing is based on site traffic.

Salesforce's cloud infrastructure includes two data centers in the United States and a third in Singapore, with others in Europe and Japan planned for the future. Salesforce has additionally partnered with Amazon to enable Force.com customers to tap into Amazon's cloud computing services (Elastic Compute Cloud and Simple Storage Service.) Amazon's services would handle the "cloudburst computing" tasks of Force.com applications that require extra processing power or storage capacity.

An International Data Center (IDC) report estimated that the Force.com platform enables users to build and run business applications and Web sites five times faster and at half the cost of non-cloud alternatives. For instance, RehabCare, a national provider of medical rehabilitation services, used Force.com to build a mobile iPhone patient admission application for clinicians. RehabCare's information systems team built a prototype application within four days that runs on the Force.com platform. It would have taken six months to build a similar mobile application using Microsoft development tools. About 400 clinicians now use the app.

Author Solutions, a self-publishing company based in Bloomington, Minnesota, uses the Force.com platform to host the applications driving its operations. It reports saving up to 75 percent from not having to maintain and manage its own data center, e-commerce, and workflow applications, and the ability to scale as its business mushroomed. Workflow modifications that once took 30 to 120 hours are accomplished in one-fourth the time. The time and cost for adding a new product, which used to take 120 to 240 hours (and cost \$6,000 to \$12,000) has been reduced by 75 percent. The new platform is able to handle 30 percent more work volume than the old systems with the same number of employees.

The question is whether the audience for Salesforce's AppExchange and Force.com platforms will prove large enough to deliver the level of growth Salesforce wants. It still isn't clear whether the

company will generate the revenue it needs to provide cloud computing services on the same scale as Google or Amazon and also make its cloud computing investments pay off.

Some analysts believe the platform may not be attractive to larger companies for their application needs. Yet another challenge is providing constant availability. Salesforce.com subscribers depend on the service being available 24/7. But thanks to the previously described outages, many companies have rethought their dependency on software as a service. Salesforce.com provides tools to assure customers about its system reliability and also offers PC applications that tie into their services so users can work offline.

Still, a number of companies are reluctant to jump on the SaaS and cloud computing bandwagon. Moreover, it is still not clear whether software delivered over the Web will cost less in the long run. According to Gartner consultants analyst Rob DiSisto, it may be cheaper to subscribe to Salesforce.com's software services for the first few years, but what happens after that? Will the expense of upgrading and managing on-demand software become higher than the fees companies are paying to own and host their own software?

Sources: "How Salesforce.com Brings Success to the Cloud," *IT BusinessEdge.com*, accessed June 10, 2010; Lauren McKay, "Salesforce.com Extends Chatter Across the Cloud," *CRM Magazine*, April 14, 2010; Jeff Cogswell, "Salesforce.com Assembles an Array of Development Tools for Force.com," *eWeek*, February 15, 2010; Mary Hayes Weier, "Why Force.com Is Important to Cloud Computing," *Information Week*, November 23, 2009; Jessi Hempel, "Salesforce Hits Stride," *CNN Money.com*, March 2, 2009; Clint Boulton, "Salesforce.com Network Device Failure Shuts Thousands Out of SaaS Apps," *eWeek*, January 7, 2009; J. Nicholas Hoover, "Service Outages Force Cloud Adopters to Rethink Tactics," *Information Week*, August 18/25, 2008; and Charles Babcock, "Salesforce Ascends Beyond Software As Service," *Information Week*, November 10, 2008.

CASE STUDY QUESTIONS

1. How does Salesforce.com use cloud computing?
2. What are some of the challenges facing Salesforce as it continues its growth? How well will it be able to meet those challenges?
3. What kinds of businesses could benefit from switching to Salesforce and why?
4. What factors would you take into account in deciding whether to use Salesforce.com for your business?
5. Could a company run its entire business using Salesforce.com, Force.com, and App Exchange? Explain your answer.