

**An Analysis of Salesforce.com, a Cloud Based Solutions Provider, Best Known For Its
Customer Relationship Management (CRM) products.**

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Spring 2012

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Introduction

The Software as a Service (SaaS) industry is under attack by the likes of companies like Salesforce.com. Salesforce.com, founded in 1999, has taken advantage of a disruptive business model innovation to gain significant market penetration for the Customer Relationship Management (CRM) arena. The company went public in 2004 and up until December 2011 has acquired numerous other technology companies, which individually introduced disruptive innovation solutions, to enhance Salesforce.com's ability to offer cloud based technology and solutions to its customers.

This article will analyze, Salesforce.com, one of the most successful examples of a company that has been able to transition from a traditional management model to a radical management model. The factors affecting the transformation influenced every aspect of the organization from strategy development through execution.

Innovation

Salesforce.com, according to Denning (2011), was in decline as an organization five years ago. The reason for the decline was explained as the traditional symptoms of the dysfunctional creep of hierarchical bureaucracy. Salesforce.com entered the CRM market with their software solution that provided business the ability to gather and track interactions with their customers. The platform they built the solution upon, was software based, SaaS, and would require periodic updates to address industry changes, and customer needs, to list a few. As competition improved and customers needs changed the amount of work necessary to remain competitive required continuous software updates.

The initial product offering of Salesforce.com was a server based software solution that companies would purchase to link their remote employees to a common CRM solution. This solution was designed to provide the ability of a large organization to support all of the CRM requirements. The solution would be able to reside on the customers' servers; therefore, customization was enabled to facilitate the unique requirements of that customer. Salesforce.com provided a complimentary product, which resided on the web and was maintained by Salesforce.com rather than the customer. Customers found use of the complimentary product problematic because of the concerns expressed with security of data. Offering multiple versions of the Salesforce.com software solution made software version control highly problematic for Salesforce.com.

Another problematic area using the server based CRM solution was server capacity. A non-scientific analysis would readily conclude that as a customer used the software, the amount of information would grow creating a need for incremental storage space. As storage requirements increased so did vulnerability to damage and access by unauthorized personnel, not to mention cost for upgrading memory or server capability. Tellis (2006) would describe this as a further detailed elaboration of Christensen's thesis that disruptive technology underperforms dominant technology on the dimensions most preferred by the market. However, Salesforce.com perceived it differently by listening to their customers, which is in alignment with Kim and Mauborgne's (2009) Blue ocean market value innovation theory. The disruptive technology, cloud or web based solution, would provide other features that most customers would not originally consider.

Traditional management to radical management

To this day, the only vision statement available is gleaned from the bio of the company founder and CEO Marc Benioff “to create an on-demand information management service to replace traditional enterprise software technology.” His only reference to what appears as a mission was obtained from a Forbes 400 September 2011 article that “the end of software mission is to take traditional software online” (Barret, 2011). A review of the company website does not provide any additional insight into the nature or scope of the vision, mission or objectives of Salesforce.com.

Salesforce.com has a philanthropic organization that has all of the components of a traditional strategy management planning and execution process. The foundation’s vision and mission focus nonprofits as an enabler for them to accomplish their mission through an innovative social model. Reviewing the products tab, the target markets for the foundation are not-for profit organizations and educational institutions. Providing access to the CRM capability in these two markets can set the condition for the establishment of barriers to entry for competition through the offering of free technology and training for future users. Salesforce.com encourages the paying customers to contribute to the foundation and offers assistance to other organizations that would like to set up their own philanthropic programs.

Salesforce.com “experienced the traditional maturing process by introducing systems intended to promote disciplined execution but which also put a brake on innovation” (Denning, 2011). As the organization grew, communication across internal silos and around the global to different office locations reduced the capacity to collaborate.

A couple years ago, entrants into the CRM market threatened the innovativeness of Salesforce.com. Denning (2011) describes how Salesforce.com implemented a radically different approach to managing the company and their work. They employed a management practice referred to as Scrum, which traditionally is applied to software development. Employing the Scrum methodology sets an agile, customer-driven, outcome-oriented, iterative management practice (Denning, 2011). Linking the processes together is different than the hierarchical bureaucracy of traditional management. Clutterbuck, Rowlands, and Seamons describe Scrum as “a simple low overhead process for managing and tracking software development (p. 16).” This approach is based upon the Project management Model for work completion (figure 1).

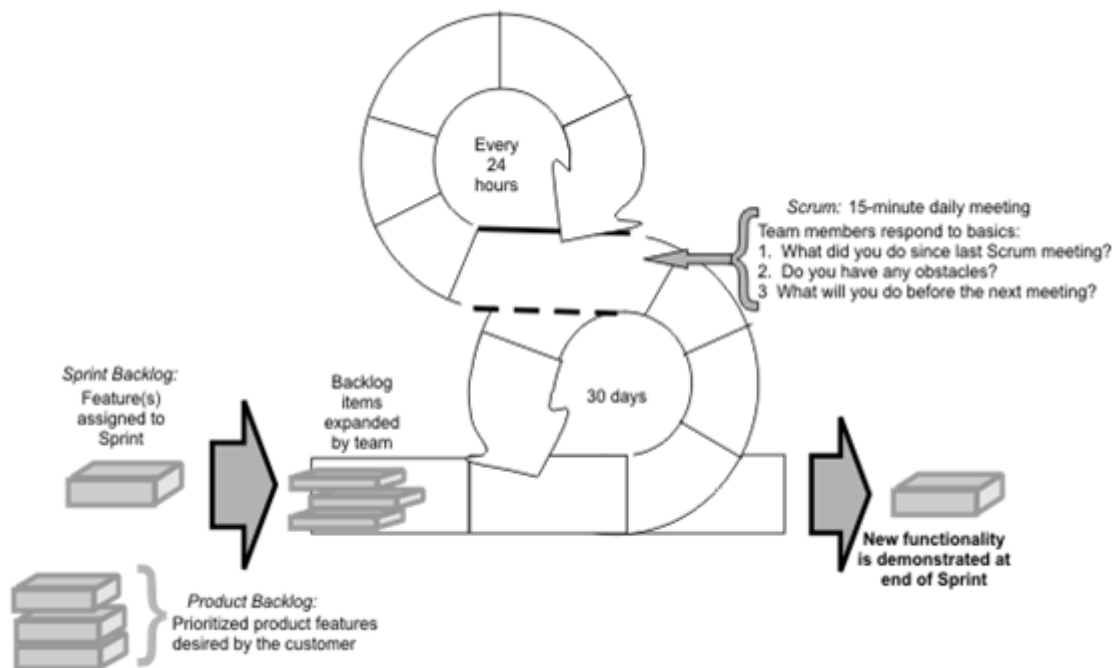


Figure 1. The Scrum process

Utilizing this methodology, management is engaged in the process and relegated to responding to the needs of the workers to ensure that projects and updates meet release timelines. Management focuses on the productivity of the team rather than individual contributors of the organization.

Salesforce.com reviewed the implementation of Radical Management Model called Scrum after fifteen months. The conclusions reported by Denning (2011) are that employees are significantly satisfied with their work and work environment. New releases contained 94% more features and they “delivered over 500 percent more value to the customers compared to the previous year” (Denning, 2011).

Scrum versus blue ocean strategy

Upon review of the key success elements for Salesforce.com’s implementation of the Scrum Model there are significant similarities with the execution section of Kim and Maurborgne’s book, Blue ocean strategy (2005) and that is Value Innovation is the cornerstone of both strategies. Like the Scrum Model, Blue ocean strategy must be a dynamic process which is customer centric. Benioff is leading the industry in taking software off of individual company servers and facilitating the population of the information in the cloud (Victoria, 2011). This process enables companies, which are using legacy systems, software, or servers to “upload” their data to a secure environment, which has minimal risk for catastrophic failure. All of the earmarks of a Blue ocean strategy value curve (Kim & Mauborgne, 2005) which sets Salesforce.com apart from the rest of the CRM industry.

The execution of the Salesforce.com module focuses providing the creation of a customer value proposition. It does not appear that Salesforce.com has a clearly defined customer value

proposition, yet they have been and continue to be successful. What Salesforce.com has done is transform a traditional software process into a web-based application. The employment of the Scrum Model has enabled the employees to get an important job done while understanding the existing module at a granular level. These two criteria have helped to define a breakthrough, game-changing product that Salesforce.com now offers (Johnson, Christensen, and Kagermann, 2008). While not specifically meeting the need of a customer, Salesforce.com has developed a tool that can be used to enable an organization to better understand the interactions between the different parts of the company with their customers. The tool also enables disparate databases to communicate by utilization of a translational tool so that legacy information can populate the database. Salesforce.com has identified their key resources, its employees, and developed a new Model to engage them in the accomplishment of the corporate goal, if that term can be applied.

Sustainability

Another area where Salesforce.com is making strides to distance themselves from their competition is in the realm of sustainability. Salesforce.com promotes heavily their efforts to reduce the carbon footprint associated with companies operating their own servers and data warehouses. They offer to help organization to measure and reduce the environmental impact of an organization. “The salesforce.com’s cloud computing model leaves a much lighter imprint than traditional IT hardware and software [being] 95% more efficient than on premises (figure 2) (salesforce.com).”

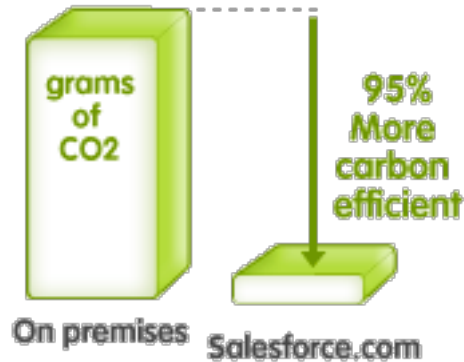


Figure 2 – reduction of CO2 when using SaaS servers versus in-house servers.

Salesforce.com makes this claim based on their ability to leverage multiple tenants on the same servers. Share rack space with other organizations, the software can be optimized to run multiple databases without the concern of data corruption. Even though the claim by Salesforce.com that they can reduce the carbon effect by 95%, Lee (2007) presented in his article that the “cooling power is often estimated at 50 to 75 percent of server power.” Consolidating servers at central facilities will reduce the total consumption of energy while increasing capacity. The reduction will occur with the design development and utilization of more energy efficient IT infrastructure with a reduced carbon emissions. Cooling systems would become more efficient with the benefit garnered from energy efficient supercomputing (Lee, 2007).

The appeal is that Salesforce.com’s web based cloud service is superior to private cloud service that a large organization would build to support their internal needs. This savings would add an additional reduction in the carbon footprint. In addition to the efforts to encourage customers to be more environmental friendly, Salesforce.com promotes, composting, recycling efforts, and bike-to-work programs for all their employees. The last area of sustainability that Salesforce.com endeavors to perform is with their Foundation. The Salesforce.com “Foundation

donates 1% of their resources to support organizations that are working to ‘make the world a better place.’” (Salesforce.com)

Prognosis for the future

Marc Benioff has set in motion an organization positioned to leverage their position in the market. Salesforce.com has developed cloud based solutions to rival the competition thus making them irrelevant. The Siebal Systems solution for CRM is an Oracle based solution that requires significant infrastructure and manpower support. Benioff upended the domination of the server based Siebel Systems while at the same time developed a new model for maintaining and upgrading software without the need to possess the solution at a corporate site. While other companies are trying to position their solutions and gain access to the cloud Benioff is headed towards the next transformational event, which he calls “the social enterprise” called Chatter (Barrett, 2011). This technology solution will enable co-workers to update group projects, communicate on issues, and solicit comments in a real time fashion. This is the by-product of Benioff’s utilization of Facebook as his personal marketing machine since 2008 (Barrett, 2011). Benioff has over 100,000 companies trying Chatter, which he is using as a loss leader to spread the Salesforce.com reach to new and existing customer.

Other trends in the market are the consolidation and establishment of large centralized IT infrastructures. The providers of these services will be able to offer energy efficient data at a fraction of the price an in-house system would cost. The data centers will provide compute and storage capabilities with scalability to meet customer demand. The infrastructure for the network connectivity, reliability and cooling will be conducted by the service organization that

specializes in this service. The efficiencies gained will be passed on to the customers with a reduction in the carbon footprint associated with proprietary or in-house servers (Lee, 2007).

Conclusion

This case study analysis of Salesforce.com enables the investigation of a radical new management module that was necessary to reinvigorate the company. One of the challenges identified was the lack of a clearly defined vision or mission for the company. The lack of clear directional instructions from senior management provided the opportunity for a hierarchical bureaucracy to infiltrate the organization. This infiltration in turn reduced the ability of the company to remain agile thus requiring a disruptive innovative to occur.

Strategic planning for Salesforce.com remains to be found in the literature; however, there is considerable information about the company's philanthropic efforts. The Salesforce.com Foundation contains a strong vision and mission statement along with clearly defined goals, a step closer to traditional planning methodologies. The employment of the Scrum Model for strategy execution reflects closely to a Blue ocean strategy model, without a strong tag line.

The prognosis for Salesforce.com is positive. With the increased interest to reduce carbon foot prints by large organization compounded by the need for increased volumes of data, capabilities like those offered by Salesforce.com will only increase. Salesforce.com has established itself in a Blue Ocean and continues to swim further out into it. With the introduction of Chatter, Salesforce.com is expanding the capability of customers while at the same time increasing their dependency on Salesforce.com.

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