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Oracle vs. salesforce.com

It was February 2006 and Oracle had just closed on its $5.85 billion acquisition of Siebel Systems Inc. ("Siebel"), the largest vendor of customer resource management (CRM) software. Buying the company, however, was the easy part for Larry Ellison, Oracle's flamboyant CEO. Siebel had been struggling for almost five years, making it vulnerable to a takeover. Ellison needed to integrate the two companies quickly as well as devise a strategy to turn Siebel around. Perhaps the biggest question was how to address the most rapidly growing segment of CRM, called "on-demand." Analysts, investors, customers, and employees all wondered how aggressively Oracle would invest in software as a service delivered via the Web, particularly if it risked cannibalizing traditional licensed software sales.

Although this question was hotly debated in the media, Ellison stated that Siebel's OnDemand platform was one of the key reasons that Oracle purchased Siebel. He explained to analysts when the acquisition was announced:

> We think OnDemand is going to be increasingly important. We think the Siebel OnDemand products are improving at a very, very rapid rate and we intend to invest in them heavily. In fact, we expect that all of the Siebel product features and functions that they have in the software products will migrate to the OnDemand products. So we think it is a very important asset that we want to preserve and invest in as the acquisition is concluded.[1]

Historically, most companies believed that the only way to buy enterprise software was by purchasing seat licenses and working with a network of consultants to configure the software to be used in an on-premises setting. Salesforce.com CEO Marc Benioff founded his company to change this notion. By early 2004, his hosted, on-demand application started gaining significant traction. Although salesforce.com's base of 399,000 users in early 2006 was dwarfed by Siebel's installed base of over 3.8 million users for its packaged software, salesforce.com was demonstrating an impressive growth rate with 48,000 new users during the latest quarter.[2]

Siebel entered the hosted CRM market with its own product in late 2003, but it wasn't until 2005 with releases 7.0, 8.0, and 9.0 that the Siebel CRM OnDemand feature set was becoming competitive with salesforce.com. User growth was starting to reflect the product improvements, but Siebel still had substantially fewer hosted users than salesforce.com. During the fourth quarter of 2005, Siebel added approximately 5,000 OnDemand users (11% growth relative to the previous quarter), bringing the total subscriber number to approximately 49,000.[3] Earlier in 2005, Siebel senior vice president,

Professor David B. Yoffie and Alison Berkley Wagonfeld, Executive Director of the HBS California Research Center, prepared this case. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Bruce Cleveland, who was in charge of the OnDemand business, stated, "I've got hundreds of people focused on taking our entire product line and delivering it as a hosted platform. We had about a five-year catch-up to do versus salesforce.com, but now we are delivering products."[4] Juergen Rottler, executive vice president of Oracle On Demand believed that Oracle would be able to further increase market penetration for Siebel's product by enabling the combined companies to provide a "complete" solution. He explained:

> Siebel has been successful in head-to-head competition against salesforce.com, exposing the weaknesses and limitations of that offering. We can leverage that capability to provide an even stronger offering for CRM while giving customers the option to expand their service to cover all business processes and functions through Oracle's much more complete On Demand offering. That's something that niche players, like salesforce.com, can't deliver.[5]

Benioff, however, was hoping to augment his leadership position in the hosted CRM market and expand from there. He had lofty goals for salesforce.com: "We want to be the ones that replace SAP and Siebel and PeopleSoft. Someone needs to, and it might as well be us."[6] And upon hearing about the Oracle acquisition of Siebel, he stated, "Now, the same thing that happened to PeopleSoft [previously acquired by Oracle] will happen to Siebel, it will die. Customers will look for new solutions and new providers. Employees will look for new employers. Siebel OnDemand . . . will be the first to be buried."[7] Oracle now had to prove Benioff wrong and slow down salesforce.com's strong momentum.

CRM Industry Overview

Customer relationship management software helped businesses automate the customer-facing processes within an organization. Companies used the software to identify, acquire, and retain customers across lines of business and across multiple channels such as face-to-face, phone, fax, and e-mail. CRM software primarily included: sales force automation (e.g., lead management, forecasting, work-flow automation, real-time alerts, deal status, territory management); marketing automation (e.g., campaign management, e-mail marketing, customer acquisition cost analytics), customer service and support automation (e.g., customer contact information, billing information) and analytics (e.g., dashboards, sales status information).

The worldwide CRM software market was estimated to be approximately \$10–\$12 billion in 2005.[8] Packaged, on-premise applications represented the largest segment of the market and served over 7,000,000 users.[9] (See **Exhibit 1** for packaged CRM vendor data.) The hosted, on-demand segment was small in comparison, serving approximately 600,000 users, but it was considered the highest-growth segment of the CRM market in terms of number of users. AMR Research projected that hosted CRM services would represent 12% of the U.S. market by 2009.[10] Some analysts, however, believed that the on-demand market could ultimately be as big, or even bigger, than the on-premises market given all of the users who might switch over to a hosted solution. Many companies also created their own custom-built CRM applications, hoping they would be less expensive to develop and maintain. In-house solutions ranged in price and complexity from small applications built through low-end database software to massive multiyear infrastructure projects. It was estimated that custom-built in-house solutions represented as much as 75% of the total market for CRM solutions.

Packaged, On-Premise Market

Tom Siebel pioneered the CRM market when he left Oracle and cofounded Siebel with Patricia House in 1993. By then, many companies had automated their "back-office" functions with packaged enterprise resource planning (ERP) software and realized significant cost savings. Few companies, however, had automated their "front-office" operations—sales and marketing—to maximize the value of customer interactions. Siebel and its primary competitors at the time—SAP AG, Oracle, PeopleSoft, and Amdocs—initially targeted the enterprise CRM market, companies with over $1 billion in annual revenues. (See **Exhibit 2** for public CRM software companies.)

Packaged CRM software followed the traditional enterprise software business model, which consisted of selling perpetual licenses on a per-user basis and adding ongoing maintenance/upgrade fees that were usually 20% of the total costs of the licenses. These software costs were typically 25%–30% of the overall costs; additional costs included middleware and hardware costs, and fees for internal or external consultants to implement (integrate and customize) the software, train users, and provide support.[11] (See **Exhibit 3** for estimated costs by category for packaged CRM deployments at large companies.)[12] The software was deployed on-premise in a client/server environment, and the customer owned the software and its internal data.

These CRM solutions had complex and robust functionality that necessitated significant customization and integration with existing systems. CRM software vendors formed strategic alliances with external service providers (ESPs) that implemented the software and also played an important role in the purchase decision. Their services ranged from business consulting to systems integration, and the largest ESPs were Accenture, IBM Business Consulting Services, BearingPoint, Cap Gemini Ernst & Young, and Deloitte Consulting.

Many customers bought industry-specific versions of the CRM applications (particularly from Siebel) to reduce the level of customization needed, but implementation was time-consuming and expensive. It often took 18–24 months for most companies to achieve 80% to 100% functionality, and implementation represented over half of the total costs of ownership over a five-year period.[13] Although companies incurred the majority of their CRM expenses during the first two years of implementation, a company could expect to pay 35%–45% of total costs during years three through five. Upgrades, typically released every two to three years, were also costly because of the additional implementation. (See **Exhibit 4a** for total cost of ownership for a packaged CRM software large installation (~2,500 users) over five years, and **Exhibit 4b** for mid-sized installation (~200 users) over five years.) Once the software was installed, companies often had to work hard to get their salesepeople to use the new system.

Hosted, On-Demand Market (Software as a Service)

Hosted CRM applications started appearing in the market in the late 1990s through Application Service Providers (ASPs). ASPs enabled companies to get the benefits of expensive applications by amortizing the up-front costs for their implementation—software, hardware, and data center—by only paying for access on a monthly basis. This model helped smaller companies avoid the up-front expense and IT headcount necessary to benefit from enterprise applications. Customers "owned" their data, but it resided on servers with the company that hosted the application. Costs were spread out over a five-year period, and total costs of ownership for small to mid-sized companies were typically lower for hosted solutions. (See **Exhibit 5** for total cost of ownership for hosted CRM application for a mid-sized company (~200 users).) In addition, most ASP providers did not charge for upgrades. In this model, however, implementations were company specific, or "single tenant."

Although various ASPs became popular in the late 1990s, particularly amidst the Internet hype when start-ups wanted to get big quickly, the CRM industry was slow to adopt this model. Companies such as Corio offered a range of hosted applications, including enterprise software from PeopleSoft, Oracle, and Siebel. These ASP providers enabled customers to pay on a monthly basis, but customers still had to rely on consultants to help configure each type of software. In addition, the enterprise software was never designed specifically for a hosted setting, as each deployment was essentially a separate set of hardware and software that was leased by the customer and housed at the provider's hosting facility.

Salesforce.com was one of the first service providers that focused exclusively on the CRM market in a shared or "multi-tenant" environment. It developed its software so that customers did not need third-party providers to get started and claimed that customers could often start using the application within 30 days—a significant time-savings relative to packaged solutions. The hosted market was also referred to as "Software as a Service." As of February 2006, salesforce.com represented the largest provider in the hosted segment of the CRM market.[14] (See **Exhibit 6** for hosted CRM vendor data.)

Siebel Background and Company Overview

When Siebel and House founded Siebel Systems in 1993, they essentially defined the category of customer relationship management software. Siebel showed customers how they could manage their data and processes to enhance marketing productivity and generate higher customer satisfaction and retention. Siebel launched its first basic CRM product in 1995, and expanded its offerings over the years to include call center, vertical applications, and business analytics software as well as data integration solutions. Siebel's revenues came from two main areas: sales of Siebel Enterprise Applications via perpetual license fees; and sales of services, primarily implementation consulting, training, and maintenance, which included access to product upgrades and some technical support. Siebel generally charged license fees of approximately $1,000 to $2,000 per user, depending on the number of "seats" purchased for the specific software desired. Typical license fees for a Siebel enterprise application ranged from $500,000 to $1 million.[15] First-year maintenance was typically sold with the original license with maintenance renewed annually at the option of the customer based on the number of seats deployed.

Financials

Siebel went public on the NASDAQ in 1996 and by 2000, total revenues of $1.8 billion were split between software license revenue of $1.1 billion and service revenue of $0.7 billion. Siebel led the packaged CRM software industry with an 18% market share.[16] Like most software companies, Siebel's cost of goods was low, and the cost of its software amounted to less than 2% of license revenues in 2000. This combination of growth and profitability pushed Siebel's stock market capitalization to approximately $53 billion and its stock price to $119.31 on November 7, 2000.

In 2001, the global economy was in a downturn, particularly in the information technology (IT) sector. Like many technology companies, Siebel's revenue dropped, but Siebel also faced stronger competition from the large ERP vendors (SAP AG, Oracle, and PeopleSoft) that offered improved CRM and seamless integration with their "back-office" software suites at a time when companies preferred to consolidate vendors and platforms.[17] Siebel cut costs during 2002–2004 as a means of adjusting to the market conditions, and by the end of 2004, Siebel had finally returned to profitability. However, Siebel's stock price never recovered. Although Siebel remained the industry leader in terms of number of active licensed CRM seats, the stock price in 2005 was less than 10% of its all-time high in 2001. (See **Exhibit 7** for Siebel's stock price history.)

Siebel had a tough first quarter in 2005, which contributed to board member George Shaheen taking over as CEO in April 2005. Shaheen helped negotiate the deal with Oracle, while also driving business growth in the second half of 2005. Total fourth-quarter revenues were $469 million, a 91% increase over the 3Q 2005 and 33% higher than 4Q 2004. (See **Exhibit 8** for Siebel's annual financials.) Total fourth-quarter contract value for Siebel OnDemand was $16 million, 42% over 3Q 2005 and up 65% relative to 4Q 2004.[18] Siebel executives were pleased with the company's final year results as an independent company.

Purchase by Oracle

Throughout 2005 it was rumored that Siebel might be up for sale. In September 2005, Oracle and Siebel announced that Oracle would be purchasing Siebel for $5.8 billion, or $3.6 billion net of Siebel's $2.2 billion cash on hand. According to Oracle President Charles Phillips, "This is a customer driven event. Our joint customers have consistently recommended this transaction to both companies for over a year."[19] The acquisition of Siebel represented Oracle's ninth acquisition in the previous year. Oracle's headquarters were in Redwood City, California, just several miles from Siebel's offices.

In 2005, Oracle had sales of $11.8 billion, making it one of the largest software companies in the world, behind Microsoft and ahead of SAP. (See **Exhibit 9** for Oracle financials.) In early 2005, Oracle closed on its purchase of PeopleSoft, another enterprise software company with over $2 billion in sales. The combined company had over 50,000 people.

Oracle was founded as a database company in 1977. Larry Ellison was a cofounder and the original CEO, and he had been leading the company for nearly 30 years. Oracle was one of the first companies that developed and commercialized software to help companies build, maintain, and access databases. In the 1990s and 2000s, Oracle expanded to develop and sell applications that could be run on Oracle databases. For example, Oracle offered software to help manage company functions such as human resources, procurement, and financial reporting. In 2005, database and middleware represented 81% of revenues, and applications made up the remaining 19%.

Oracle also provided consulting to companies to help implement Oracle databases and applications; consulting constituted 20% of the Oracle's revenues in 2005. Oracle primarily marketed its products and services to large companies through its own direct sales force, though it did have a partner network program in place. In 2005, approximately 49% of Oracle's sales were in the Americas; Europe, Middle East and Africa (EMEA) represented 36%, and Asia-Pacific represented the remaining 15%. Oracle products were used by 98 of the Fortune 100 companies.

Oracle also had its own CRM business, but Ellison said, "Siebel's software would form the core of our [CRM] strategy over the next few years and provide a foundation for a CRM suite Oracle plans to develop as part of Project Fusion, the company's initiative to combine its acquired technologies in a single software suite."[20] Project Fusion was Oracle's vision for the future of database applications: Oracle planned to offer a comprehensive suite of applications (many of which were acquired) on a single, open architecture that was designed to be extensible by customers and partners.[21]

In 2004 Oracle started offering Oracle On Demand which allowed customers to purchase Oracle software in a hosted setting. According to Rottler:

Oracle provides a complete operational solution that covers ongoing software management, planning and rollout. In many cases, we handle the actual data center operations, IT infrastructure management, and a host of services ranging from help desk to application management, disaster recovery, and IT governance and compliance. Our slogan—"Who better to manage Oracle than Oracle?"—holds true, thanks to the strategic focus and investment Oracle has been making for the past six years in pioneering ways to transform the industry toward a software-as-a-service model.[22]

Siebel CRM OnDemand

Siebel's on-demand initiative dated back to 1999 when Siebel started a project under the name of sales.com. This was expected to be a hosted version of its software designed to go after small and mid-sized businesses. However, the offering was considered distracting to the company's core business, and Tom Siebel proclaimed in spring 2003 that hosted CRM was not a threat to Siebel because of Siebel's deep vertical solutions to customers.[23] Nevertheless, in fall 2003 Siebel looked at the hosted market again and purchased UpShot Corporation (UpShot), the number-two CRM provider behind salesforce.com, for approximately $70 million. According to Siebel's press release in connection with the deal: "The acquisition is expected to accelerate Siebel's penetration of the hosted CRM market. . . . The employees of UpShot bring us years of experience that will enable us to rapidly take a leadership position in the hosted CRM market."[24] UpShot had approximately 1,000 customers at the time and Siebel planned to merge UpShot's product offering into Siebel's own on-demand solution that it had started building in 2003.

Over the course of 2004, Siebel committed a great deal of engineering resources to Siebel CRM OnDemand and released several new versions of the product. At the end of 2004, Siebel announced that the total contract value for its on-demand business was $26.1 million. According to Siebel, "The total contract value is the number of seats and the price we charge per seat times the number of months that they sign up under the contract. . . . We recognize revenue as it is actually billed [over the course of the deal]. . . . Many of the deals are in the order of 6–12 months."[25] (In comparison, packaged software companies recognized revenues when licenses were sold, regardless of when they were deployed.) [26] Siebel CRM OnDemand saw substantial growth in its large deals in the fourth quarter 2005, with 14 deals over $250,000 compared to 7 deals in the third quarter 2005. Total OnDemand contract value in 2005 was $58 million, up 123% from 2004.[27]

Product Description

The Siebel CRM OnDemand application allowed authorized users to access a company's customer relationship management database through any Internet connection. Although the data belonged to the company, the underlying software was maintained and hosted by Siebel and IBM in a secure multi-tenant environment. The software was designed so that administrators within the customer company could configure aspects of the software without requiring computer programming skills. For example, a customer could rename default fields, change the dashboard metrics, show information in different languages and currencies, and develop a customized sales pipeline analysis. (See **Exhibit 10** for a screen shot.) Core functionality included sales, marketing, customer service, and analytics/business intelligence, and the basic application subscription was priced at $70/user per month.

In January 2005 (with release 6.0), Siebel began offering Siebel CRM OnDemand Industry Editions for the financial services, high technology, life sciences and automotive industries. These vertical editions were more expensive per user ($100/user), but they were designed to further reduce the need to configure the software. At the time of the release, Siebel was offering customers a $30/user discount for the first month of the subscription period for anyone signing up for the industry verticals before February 11, 2005.[28]

According to one media source, "Company officials make no secret that the competitive target of this release [version 6.0] is salesforce.com, which offers customers a hosted application development environment and tool set through its CustomForce service to build their own customizations and vertical functionality, rather than offering prepackaged vertical application services."[29] Cleveland explained, "We did [the industry-specific versions] because customers told us this is what we needed to have when we walked in the door."[30] Benioff responded, "The entire concept of vertical [application services] is ridiculous . . . . We don't give customers a vertical product, we give them their own product."[31] However, as salesforce.com released more sophisticated customization tools and focused on larger deployments, there was some debate as to how much it could cost a large company to achieve the desired customization levels. According to Gartner research, "Total cost of ownership data for complex sales organizations indicate that once the budget for salesforce.com is calculated beyond three years, the cost will be greater than that of a complete prepackaged solution."[32]

Siebel's next version (CRM OnDemand 7.0, released March 29, 2005) added integrated phone support and contact center management to its four other core functions with a new application called Contact OnDemand. The new release—built through Siebel's $5.0 million acquisition of a start-up called Ineto—enabled customer service agents to manage all customer interactions, regardless of the channel (phone, e-mail and Internet), from their desktop in a hosted setting. In addition, the release included functionality to route calls and e-mails based on agent skill, availability, and customer need. As one journalist observed, "The functionality integrated into Contact OnDemand requires third-party add-ons for customers of its archrival salesforce.com."[33] Mike Betzer, vice president of Contact OnDemand at Siebel, explained, "If companies tried to build all of this on their own, it's a million bucks and six months to even attempt to get something like this launched."[34] The release with Contact OnDemand was priced at $150/user per month, though analysts speculated that Siebel offered discounts on all of its pricing.

Later in 2005, Siebel released versions 8.0 (June 15, 2005) and 9.0 (September 12, 2005), which offered features such as group calendaring, marketing segmentation, integration with Lotus Notes, and integration with Siebel's on-premises products. In addition, Release 9.0 allowed customers to create branded applications.

Sales and Marketing

In 2004 Siebel announced its intention to market a hybrid approach incorporating its licensed software and its Siebel OnDemand application. For example, a company might choose to use the OnDemand in a new sales division that wanted to get going quickly and didn't require extensive integration. The same company, however, might choose the packaged software for its call center which needed deep integration with other enterprise software. The Siebel CRM software was designed so that the two applications could share data without a great deal of additional IT support. Also during 2004, Siebel began talking about the strategic importance of small and medium-sized businesses (SMBs). This was a big shift for the company, particularly for its sales team which had typically not approached companies with less than $500 million of revenues. Siebel was targeting this growing and important market segment, but analysts speculated that Siebel might be forced to cannibalize its packaged software business in order to make room for Siebel OnDemand.

In a December 7, 2004 press release, Siebel announced a "three-pronged" strategy for pursuing the SMB market: Aligning Siebel's new SMB sales force with resellers and channel-partners; continuing to work with consulting, software and platform partners; and offering the CRM on-demand solution hosted by IBM along with its traditional on-premises solution. In addition, a portion of Siebel's CRM OnDemand revenue would be shared with IBM, and for some customers, a portion was shared with Siebel's value added resellers (VARs). Cleveland explained aspects of Siebel's SMB channel strategy:

> Smaller companies, in general, don't want to buy through a large manufacturer. So you have to create a channel. I have 100 people dedicated exclusively to the SMB market, which we define as [any company with annual sales of] less than $500 million. We created a new function called a territory manager, who is an account executive who would be partnered with the VARs. From an economic standpoint, we had to figure out how to get 25% pretax profit out of that. The secret sauce is, what do we do well and what does the VAR do well and to try to match that up. . . . If we let the VAR borrow our brand, we can contract for hundreds of events at a relatively low cost because we can get economies of scale. They can create a demand-generation event with us. They finance it, but the cost is a quarter to half of what they would pay if they did it alone. And the results are two to four times better.
>
> It's my intention over the next two years to push everything through the channel. It's [time] to get out of the direct-sales business in the SMB space . . . . VARs get paid get paid on the total contract value. So if the contract is for three years, that's what they get paid for all up front.[35]

It was generally believed that the acquisition by Oracle would change Siebel's marketing approach, but as of February 2006, Oracle and Siebel had not made any announcements about its new sales strategy. A list of Siebel's largest OnDemand customers included Cendant, France Telecom, Ingersoll-Rand, Nine West, Kodak, Countrywide, Mont Blanc, T-Systems, and General Electric.[36]

Merger Challenges

One of Siebel's biggest distribution and technical partners was Oracle competitor IBM. Oracle competed head-to-head with IBM in databases and Web services, but at the same time, IBM hosted Siebel's On Demand offering. In addition, Siebel and Oracle had different code bases. Oracle wanted to embrace best-in-class from both Siebel and its own software with Project Fusion CRM, but Oracle planned to port the features and not the underlying code. Any useful technology that drew from IBM's hosting service or the underlying code could be lost in translation. Finally, Oracle had invested in re-engineering its architecture for on demand, but had not changed its underlying business model. Oracle On Demand customers did not have a pay-as-you-go monthly fee, the way salesforce.com and Siebel CRM OnDemand customers did. Oracle followed the traditional path of customers buying conventional software licenses, which Oracle would host for a fee. No decisions had yet been made on the future business model and the impact on the current Siebel CRM OnDemand customers.

Competitive Landscape

Oracle's acquisition of Siebel enabled Oracle to become the "the number one CRM applications company in the world."[37] In the market for licensed enterprise solutions for larger companies, SAP represented the biggest competitor. In the SMB market, Siebel/Oracle faced competition from licensed software providers such as Microsoft and Best Software as well as the other hosted providers salesforce.com, RightNow, NetSuite, and SalesNet. Based on press releases and news articles, Siebel's

CRM OnDemand business was clearly facing its greatest competition from salesforce.com. According to Cleveland, "Salesforce is [a competitor] in virtually every one of my [SMB] deals."[38]

Salesforce.com

Salesforce.com was started in 1999 by Marc Benioff and a small team of engineers. Benioff had come up with the idea for the company while he was a senior executive at Oracle. As reported in *The Economist*, "[Benioff] had his epiphany in 1996, while working at Oracle. While browsing one day on Amazon.com, he asked himself why business software could not be delivered the same way: via a Web browser. People who shop at Amazon do not, after all, have to worry about installing, upgrading or maintaining anything: they just fire up their browsers, and it works. The service is secure and reliable, and has millions of users. 'Amazon showed it was possible,' says Mr Benioff."[39]

The company launched the first version of its product in 2000, and by early 2006, salesforce.com had released over 20 versions. Since the company's inception, Benioff drew attention to salesforce.com in a variety of innovative ways. Rather than choosing to stay under the radar screen, he openly challenged traditional enterprise software companies with advertisements trumpeting "the end of software." (See **Exhibit 11** for the salesforce.com company logo.) He even hired protesters to picket outside of an event hosted by Siebel.

Salesforce.com went public in July 2004 under the ticker CRM. The offering was priced at $11.00 per share—as of March 7, 2006 the price was at $37.02, with an implied market capitalization of $4 billion. For the year ending on January 31, 2006, salesforce.com had $309.9 million of revenues representing a 76% increase over the previous year.[40] Profits for the FY 2006 were $28.5 million. (See **Exhibit 12** for salesforce.com financial data.) During the fourth quarter of 2006 (ending January 2006), subscribers increased from by 48,000 to 399,000 and total customers increased to 20,500. (See **Exhibit 13** for salesforce.com subscriber data.) Subscription and support fees represented 91% of revenue with the remaining 9% derived from professional services, training, and other. Approximately 80% of revenue could be attributed to North American customers.

Salesforce.com charged customers on a per-subscriber basis, and customers could choose from three different "editions":

- Team Edition ($995/year for five users)—targeted at small businesses wanting a basic out-of-the-box sales force automation solution.

- Professional Edition ($65 per subscriber per month)—targeted at medium-sized ($500 million to $1 billion revenues) and large businesses (over $1 billion revenues) that wanted a relatively standalone CRM solution with only basic administrative capabilities. Multi-language, multi-currency, and analytics were available, but the edition did not include offline availability and integration features.

- Enterprise Edition ($125 per subscriber per month)—targeted primarily at large companies. Included offline, wireless and workflow features as well as integration components in order to facilitate data sharing with other enterprise applications. Administrative features enabled customized views for different divisions or departments, and controls to limit selected user access and modification rights.

Analysts reported that salesforce.com's customer base was split almost evenly among the three editions. Salesforce.com also offered a product called Supportforce that focused on contact center needs. In addition, salesforce.com offered all customers its customization platform called Appforce Builder. The costs for these add-ons were included for customers that subscribed to the enterprise edition. Salesforce.com also offered a development platform called sforce.com that it expanded into an application environment called Appforce (which included Appforce Builder). The goal of Appforce was to help consumers use salesforce.com as a hub for managing all types of business applications—not just CRM.[41] Salesforce.com referred to Appforce as an operating system. In January 2006, salesforce.com released another new service called AppExchange, designed to let salesforce.com customers share custom-built applications and modules built on the salesforce.com platform.

The competition between Siebel and salesforce.com often played out in the media, and the same was now true for the competition between salesforce.com and Oracle. Although Larry Ellison was an early investor in salesforce.com, after the announced acquisition he stated that he hoped his investment would "dwindle to zero."[42] In one exchange between Siebel and salesforce.com, a Siebel executive noted that "there are some [companies] who say 'we only lease and if you don't like it, then you're an idiot.' Our strategy at Siebel Systems is one product, two deployment options." Benioff responded: "Their vertical approach is a vestige of their shameful legacy of failure. They've been trying to shove people into little Siebel boxes for a long time. Customers don't want to develop [applications] but they do want to make the system completely for them, make their technology fit their business and not the business fit their technology."[43]

Similarly, after Siebel's Cleveland claimed that he would beat salesforce.com within two years, Benioff responded, "[Siebel] said they added 5,000 on-demand seat licenses in the quarter. We added more in the last quarter than they have total users. How does that work out to somehow overtake us? I think [Cleveland's] calculator is broken."[44] Much of the public debate between the two companies centered on the question as to whether it was better for customers to provide verticals (Siebel), to offer extensive development platforms (salesforce.com). Phil Robinson, senior vice president of global marketing at salesforce.com, explained:

> We have a very different strategy than Siebel. We give customers the ability to make our product unique to the way their businesses work. It takes hours, not days or months or years to implement. Siebel has cookie cutter vertical editions that won't be specific enough to meet customer needs.[45]

In contrast, Cleveland stated, "'We're committed to delivering companies at least 80% of the functionality customers need, and then provide them with the ability to configure those applications to make up the last 20%.'"[46] He expanded: "'Marc outsources engineering work to his customers to create industry verticals. He has only 50 engineers—we have 1,000 engineers.'"[47] The early news post-acquisition was that Oracle would continue on the path set by Siebel. As one journalist wrote after listening to presentations by salesforce.com and Oracle: "The companies may compete in the same market, but their messages to customers were worlds apart. While Oracle executives urged customers to "retire" custom-built programs so they can migrate more smoothly to next generation releases, salesforce.com actually encouraged customers to build custom programs on top of its software."[48]

After Oracle announced its planned acquisition of Siebel, Benioff sent an e-mail out to his employees stating, "Oracle put Siebel investors out of their misery today. We have been doing that for Siebel customers for years. Now, the opportunity to be the global leader in the CRM market has opened for salesforce.com. Our dream is becoming a reality as the world will move to new on demand solutions. . . . Even dinosaurs mate a few times before they die. It's the end of software. It's the end of Siebel."[49] Cleveland responded with a letter saying, "Siebel added more than 500,000 'live' users of its CRM applications since the beginning of 2005, while salesforce.com has added approximately 100,000 subscribers. And our win rate in OnDemand software versus salesforce.com was approximately 58% in our most recent financial quarter."[50]

According to a 2005 industry report from Forrester, both Siebel and salesforce.com were considered "leaders" in the on-demand space. (See **Exhibit 14**.) In Forrester's numerical rankings of the competitors, salesforce.com edged out Siebel CRM OnDemand with an average score of 3.81 to Siebel's 3.67 in all categories. However, Siebel received the highest score in the strategy sub-category.[51] Salesforce.com prided itself on its customer satisfaction rating: an Infotech survey found that salesforce.com had the highest customer satisfaction rating among CRM vendors.[52] Customer satisfaction was critical in the subscription software business, as contracts tended to be 6–12 months in length, and switching costs were substantially lower than in the packaged, on-premise market.

SAP

SAP was best known for its leading enterprise resource planning software which was used at many of the Fortune 500 companies. In 2000, SAP began aggressively marketing its own integrated CRM solution to its installed base, and in 2004, SAP sold more new CRM licenses for enterprise customers than Siebel.[53] The majority of SAP's software was sold into large companies; however, SAP began focusing more on small and mid-sized companies in 2004 and 2005.

In February 2006, SAP announced its first plans to offer an on-demand platform called the "SAP CRM on-demand solution." The solution offered a hybrid between on-demand and on-premise applications, and targeted SAP's existing large and mid-sized organizations that wanted an Internet-based option. The company's first release was focused on sales functions. According to Shai Agassi, president of SAP's product and technology group, "This is not the end of software. It's just another way of deploying it."[54] Analysts described the plans as a "tentative" step into the market. "They're positioning on-demand as a niche offer," stated analyst Jason Maynard of Credit Suisse First Boston. "If I was SAP, the last thing I'd do is validate on-demand as the biggest trend in the software industry. They'd be crazy to do that."[55]

According to Benioff, "This is very much a defensive move by SAP. We're penetrating their customer base. Customers realize they're not getting what they need from SAP." However, as one reporter explained:

> While SAP's battle with salesforce.com is lively, its most ferocious competition is with Oracle, the number two corporate applications company. With the completion of its takeover of Siebel, Oracle overtook SAP to become the leading traditional CRM software supplier. Oracle already has both the traditional and on-demand CRM products, as does Siebel. Now, with the combination, it expects to make headway against SAP in both spheres. Juergen Rottler, executive vice president of Oracle On Demand, says Oracle will be much more aggressive about pushing on-demand services than SAP.[56]

Microsoft

Microsoft first introduced its own packaged CRM solution (Microsoft CRM 1.2) in 2003 and released its latest version—Microsoft Dynamics CRM 3.0—in December 2005. The latest version was closely integrated with the Microsoft Office Suite, making it easy for new users who were already familiar with Microsoft software. Although Microsoft was a relatively small player in the CRM market with 5,500 customers in early 2006, the newest release "was quickly making headway in the market."[57] H&R Block was Microsoft's largest announced CRM customer with 1,500 users, and it had 400 independent software vendor partners who were adding extensions to and/or reselling its CRM product.[58] Industry analysts at both Gartner and AMR research expected Microsoft to become a substantial player in the CRM market by 2006. At a summit for 400 Chief Information Officers (CIOs) of mid-sized enterprises hosted by Gartner Research in early 2004, Microsoft was the most commonly mentioned CRM solution that the CIOs planned to use in the future, once Microsoft enhanced its offering.[59] As of February 2006, the company did not specifically offer an on-demand version of its software. The company left the hosting up to its partners and customers. Microsoft was planning its next release (Titan) for 2007, which was likely to include an on-demand component.

Other Hosted Solutions: RightNow, NetSuite, and Salesnet

Siebel CRM OnDemand also competed with several other on-demand CRM companies including RightNow Technologies, NetSuite, and Salesnet. RightNow went public in August 2004 and had approximately $87 million of revenues in 2005, a 41% increase over 2004. The company focused primarily on providing hosted customer service and support software, although it had recently added sales force automation functionality. From an ROI standpoint, RightNow received high rankings from Nucleus Research, and tied Siebel CRM OnDemand as the leader in ROI based on five categories: ease and speed of deployment; usability and scalability of adoption; internal support costs; clear and repeatable business benefits; and vendor's track record and ability to help customer maximize ROI.[60] RightNow announced it had 1,400 customers in December 2005.

Founded in 1998 and privately held, NetSuite offered Web-based ERP, CRM, and e-commerce services for mid-sized businesses. Originally named NetLedger, the company charged approximately $79/user per month[61] and had "thousands of customers worldwide."[62] Its revenue was $41 million and the company was ranked 27 on the 2005 Inc. 500 list for the fastest-growing privately held companies.[63] NetSuite was based in San Mateo, California, and had approximately 400 employees.

Salesnet was a small company (~50 employees) founded in the late 1990s that provided hosted CRM solutions, primarily focused on sales processes. The company had approximately 1,000 customers.[64]

Other On-Premises Solutions for SMB Market: Best Software

Best Software's CRM solution, SalesLogix, was one of the leading on-premises CRM offering for small to mid-sized companies. (The company also owned ACT!, a contact management database for smaller companies.) SalesLogix was used by over 6,000 companies and was frequently praised for its ease-of-use and user-adoption. Mid-sized companies that were deciding between on-demand and on-premises application often evaluated SalesLogix as a potential solution. -A recent study had compared the total cost of ownership over a five-year period for a 200-person deployment at salesforce.com and SalesLogix, and had found SalesLogix to be $4.1 million compared with $2.1 million at salesforce.com. (See **Exhibit 4b** and **Exhibit 5**.)[65]

Conclusion

Larry Ellison was famous for his bold pronouncements about software and Oracle's rightful place in the industry. He stated publicly that the software business needed to be consolidated, and that Oracle would drive that consolidation. 2005 was the year of consolidation: the combined purchases of PeopleSoft and Siebel had given Oracle the leading positions in human resource software as well as CRM. But Ellison would not be satisfied until Oracle was the leader in on-demand CRM as well. It was now up to Rottler and Cleveland to recommend a strategy to Ellison for beating salesforce.com and the other hosted providers while also keeping an eye on Siebel's packaged software competitors such as SAP and Microsoft.

In the meantime, salesforce.com was expanding its product beyond the CRM realm and pressing ahead with larger customer wins. Oracle clearly had more resources than its chief competitor in the hosted market, but Benioff wanted nothing better than to beat his former employer. He had taken on the much larger Siebel, and felt that he had won. Now, he was ready to do battle with Oracle and Ellison. For Rottler and Cleveland, losing to Benioff was not an option. They had many possible levers to pull: they could push the product frontier forward; they could try to leverage the Oracle global sales team and/or line up more third parties to sell the Siebel CRM OnDemand product; and they could drive prices down to accelerate market penetration (but risk cannibalizing their packaged software profitability). Ellison was known to be a demanding boss: Rottler and Cleveland's plan had to be good.

Exhibit 1 Packaged CRM Vendor Data

Name	Estimated Total Customers	Estimated Total Users
FrontRange: Goldmine[a]	120,000	1,300,000
FrontRange: HEAT[a]	7,500	125,000
Microsoft[b]	5,500	220,000
Sage:ACT! (Best Software)[a]	NA	2,100,000
Sage: SalesLogix (Best Software)[a]	6,000	NA
SAP[a, c]	2,800	160,000
Oracle/Siebel[d]	4,500+	3,900,000+

Sources: [a]Ross MacMillan, Mary Meeker, and Evan Bloomberg, "Salesforce.com: Breaking Ground with On-Demand CRM," Morgan Stanley, August 2, 2004, p. 12.

[b]Customer numbers based on publicly available data in early 2006; user data based on a ratio of users to sales from publicly available data in late 2004.

[c]SAP user data from article published on May 12, 2005 (Barney Beal, "SAP CRM could have big year ahead," SearchCRM.com); customer data based on ratio in Morgan Stanley report from August 2004 (see note "a," above.)

[d]Based on Siebel company data in Q4 2005 earnings announcement. Does not include Oracle CRM numbers, as they are not publicly available.

Exhibit 2 Selected Statistics for Public CRM Companies ($ millions, except as noted)

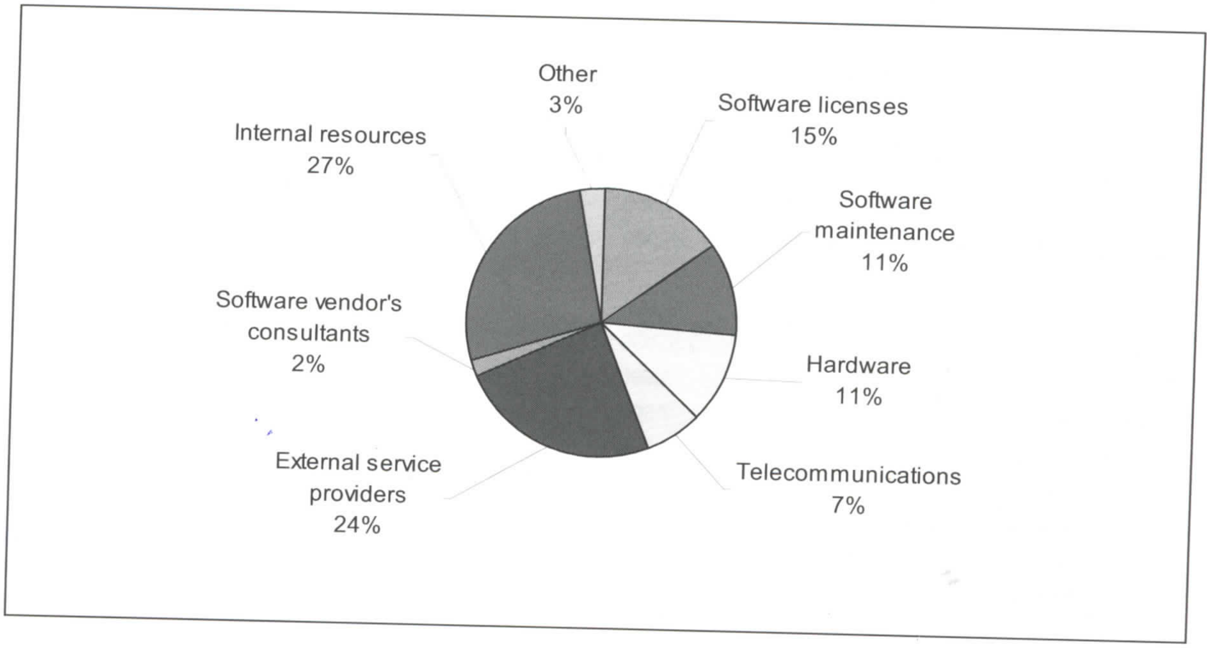
Company	Fiscal Year	Annual Sales	Annual Net Income	Cash and Short-Term Investments	Market Cap[a]
Oracle	May-05	$11,799.0	$2,866.0	$4,802.0	$66.4 billion
RightNow	Dec-05	87.1	7.7	68.2	$531.6
Salesforce.com	Jan-06	309.9	28.5	207.5	$4.0 billion
SAP	Dec-05	10,215.6	1,795.2	4,107.6	$63.4 billion
Siebel Systems	Dec-05	1,429.1	69.5	2,390.0	n/a

Source: Company data.

Note: Oracle numbers do not include Siebel financials.

[a]Market capitalization as of March 7, 2006.

Exhibit 3 Costs per Category for Packaged CRM Deployments for a Large Company



Source: S. Nelson, "How to Justify CRM Spending and Boost Return on Investment," Gartner Research, December 3, 2004, p. 13, Figure 5.

Note: Based on a company with revenues over $1 billion and between 2,000–3,000 users. Assumes a 7-module CRM suite.

Exhibit 4a Packaged CRM Software—Total Cost of Ownership Over Five Years, Large Company (2,000–3,000 users)

	Annual Costs (dollars in thousands)					
Category	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Five-Year Total**
Software licenses	$1,500	$2,000	$ --	$ 750	$ --	$ 4,250
Software maintenance	270	684	684	820	820	3,278
Hardware	1,120	1,000	500	400	250	3,270
Telecommunications	60	475	550	450	375	1,910
External service providers	3,100	2,200	1,500	-	-	6,800
Software vendor's consultants	70	500	-	100	-	670
Internal resources	750	2,000	1,500	1,800	1,500	7,550
Other	250	300	150	150	75	925
TOTAL	$7,120	$9,159	$4,884	$4,470	$3,020	$28,653

Source: S. Nelson, "How to Justify CRM Spending and Boost Return on Investment," Gartner Research, December 3, 2004, p. 12, Figure 4.

Exhibit 4b Packaged CRM Software—Total Cost of Ownership over Five Years, Mid-sized Company (~200 users)

	Annual Costs					
Category	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Five-Year Total**
Needs Analysis and Site Prep						
Site Assessment & Testing	$ 14,000					$ 14,000
Strategy and Business Process Consultation	28,000					28,000
Software Purchases and License Support						
Web/Wireless Servers	9,995					9,995
User Licenses/Subscription	230,000					230,000
Synchronization Module	3,995					3,995
Other Modules	7,900					7,900
External Web Access	1,250					1,250
Maintenance and Tech Support	50,628	50,628	50,628	50,628	50,628	253,140
Implementation and Deployment Costs						
Hardware Procurement and Selection	120,280				15,000	135,280
Basic Infrastructure Testing and Deployment	52,500					52,500
Application Testing and Deployment	24,609					24,609
Basic Customization and Integration	63,984					63,984
Ongoing Operational Support						
Basic Data Center Operations	16,335	16,335	16,320	16,320	16,320	81,630
Patches, Performance, User Interface	15,600	15,600	15,600	15,600	15,600	78,000
Upgrades			165,620			165,620
Business Process Change Management		61,523		61,523	61,523	184,569
Dedicated IT staff	120,000	120,000	120,000	120,000	120,000	600,000
Training	50,000	50,000	50,000	50,000	50,000	250,000
TOTAL BASIC COSTS	**$ 809,076**	**$314,086**	**$418,168**	**$314,071**	**$329,071**	**$2,184,472**
Other Strategic Costs						
Advanced Integration and Customization	68,359					68,359
Downtime	240,000	240,000	240,000	240,000	240,000	1,200,000
Advanced Data Center Buildout	425,000					425,000
Interactive Dashboards	120,000					120,000
Custom Reporting	--	43,750	43,750	43,750	43,750	175,000
Subtotal	$ 853,359	$283,750	$283,750	$283,750	$283,750	$ 1,920,000
FULLY LOADED COSTS	**$1,662,435**	**$597,836**	**$701,918**	**$597,821**	**$612,821**	**$4,172,831**

Source: Sheryl Kingstone, "Understanding Total Cost of Ownership of a Hosted vs. Premises-Based CRM Solution," Yankee Group, June 2004, pp. 7–8, Exhibit 4. Based on SalesLogix data.

Exhibit 5 Hosted CRM Solution—Total Cost of Ownership over Five Years for a Mid-Sized Company (~200 users)

Category	Annual Costs Year 1	Year 2	Year 3	Year 4	Year 5	Five-Year Total
Needs Analysis and Site Prep						
Site Assessment and Testing						
Strategy and Business Process Consultation	$ 28,000					$ 28,000
Software Purchases and License Support						
Web/Wireless Servers						
User Licenses/Subscription	300,000	$300,000	$300,000	$300,000	$300,000	1,500,000
Synchronization Module						
Other Modules						
External Web Access						
Maintenance and Tech Support						
Implementation and Deployment Costs						
Hardware Procurement and Selection						
Basic Infrastructure Testing and Deployment						
Application Testing and Deployment						
Basic Customization and Integration	30,762					30,762
Ongoing Operational Support						
Basic Data Center Operations						
Patches, Performance, User Interface Upgrades						
Business Process Change Management						
Dedicated IT staff	45,000	45,000	45,000	45,000	45,000	225,000
Training	20,000	20,000	20,000	20,000	20,000	100,000
TOTAL BASIC COSTS	**$423,762**	**$365,000**	**$365,000**	**$365,000**	**$365,000**	**$1,883,762**
Other Strategic Costs						
Advanced Integration and Customization	34,180					
Downtime	60,000	60,000	60,000	60,000	60,000	240,000
Advanced Data Center Buildout						
Interactive Dashboards						
Custom Reporting						
Subtotal	94,180	60,000	60,000	60,000	60,000	240,000
FULLY LOADED COSTS	**$517,942**	**$425,000**	**$425,000**	**$425,000**	**$425,000**	**$2,123,762**

Source: Sheryl Kingstone, "Understanding Total Cost of Ownership of a Hosted vs. Premises-Based CRM Solution," Yankee Group, June 2004, pp. 7–8, Exhibit 4. Based on Salesforce.com data.

Exhibit 6 Hosted CRM Vendor Data (as of December 2005)

Company	Customers	Subscribers
Salesforce.com[a]	20,500	399,000
Salesnet[b]	1,000	NA
Siebel CRM OnDemand[c]	NA	49,000
NetSuite[d]	9,500	96,000
RightNow[e]	1,400	NA

Sources: [a]Salesforce.com company data, April 30, 2005.

[b]Salesnet company data, based on Web site data accessed May 2005.

[c]Siebel company data, December, 2005.

[d]Assumes 20% growth from numbers published in the following report: Ross MacMillan, Mary Meeker, and Evan Bloomberg, "Salesforce.com: Breaking Ground with On-Demand CRM," Morgan Stanley, August 2, 2004, p. 12. Only a portion of NetSuite's business is for CRM.

[e]RightNow company data from March 2005.

Exhibit 7 Siebel Stock Price History (1996–2005)

Source: Stock price history from finance.yahoo.com, accessed May 10, 2005.

Note: Siebel was purchased for $10.66/share.

Exhibit 8 Siebel Income Statement (2002–2005)

	Year Ended December 31,			
	2002	2003	2004	2005
Revenues:				
Software license	$ 700,344	$ 482,274	$ 487,127	$ 480,493
Professional services, maintenance and other	934,963	871,954	852,666	948,647
Total revenues	1,635,307	1,354,228	1,339,793	1,429,140
Cost of revenues:				
Software license	21,612	18,357	13,316	22,809
Professional services, maintenance and other	542,938	490,006	443,585	478,072
Total cost of revenues	564,550	508,363	456,901	500,881
Gross margin	1,070,757	845,865	882,892	928,259
Operating expenses:				
Product development	368,387	310,686	299,051	285,941
Sales and marketing	478,816	358,318	337,690	382,351
General and administrative	119,783	106,594	106,541	107,806
Restructuring and related expenses	202,398	102,310	6,789	82,629
Purchased in-process product development	--	5,312	6,000	10,890
Total operating expenses	1,169,384	883,220	754,071	869,617
Operating income (loss)	(98,627)	(37,355)	128,821	58,642
Other income, net:				
Interest and other income, net	58,491	54,071	47,765	64,216
Loss on early extinguishment of debt	--	(10,711)	--	
Interest expense	(20,016)	(14,927)	(1,019)	
Total other income, net	38,475	28,433	46,746	
Income (loss) before income taxes	(60,152)	(8,922)	175,567	122,858
Income tax provision (benefit)	(21,345)	(3,731)	64,899	53,330
Net income (loss)	$ (38,807)	$ (5,191)	$110,668	$ 69,528

Source: Siebel Systems, Inc. 10-K, March 11, 2005. 2005 numbers announced January 25, 2006.

Exhibit 9a Oracle Corporation Consolidated Statements of Operations for the Years Ended May 31, 2005, 2004, and 2003 (in millions, except per share data)

	Year Ended May 31,		
	2005	2004	2003
Revenues:			
New software licenses	$ 4,091	$ 3,541	$ 3,270
Software license updates and product support	5,330	4,529	3,929
Software revenues	9,421	8,070	7,199
Services	2,378	2,086	2,276
Total revenues	11,799	10,156	9,475
Operating expenses:			
Sales and marketing	2,511	2,123	2,050
Software license updates and product support	618	547	474
Cost of services	2,033	1,770	1,868
Research and development	1,491	1,254	1,159
General and administrative	550	508	441
Amortization of intangible assets	219	36	43
Acquisition related	208	54	--
Restructuring	147	--	--
Total operating expenses	7,777	6,292	6,035
Operating income	4,022	3,864	3,440
Interest expense	(135)	(21)	(16)
Non-operating income, net:			
Interest income	185	118	129
Net investment gains (losses) related to equity securities	2	29	(111)
Other	(23)	(45)	(17)
Total non-operating income, net	164	102	1
Income before provision for income taxes	4,051	3,945	3,425
Provision for income taxes	1,165	1,264	1,118
Net income	$ 2,886	$ 2,681	$ 2,307
Earnings per share			
Basic	$ 0.56	$ 0.51	$ 0.44
Diluted	$ 0.55	$ 0.50	$ 0.43
Weighted average common shares outstanding:			
Basic	5,136	5,215	5,302
Diluted	5,231	5,326	5,418

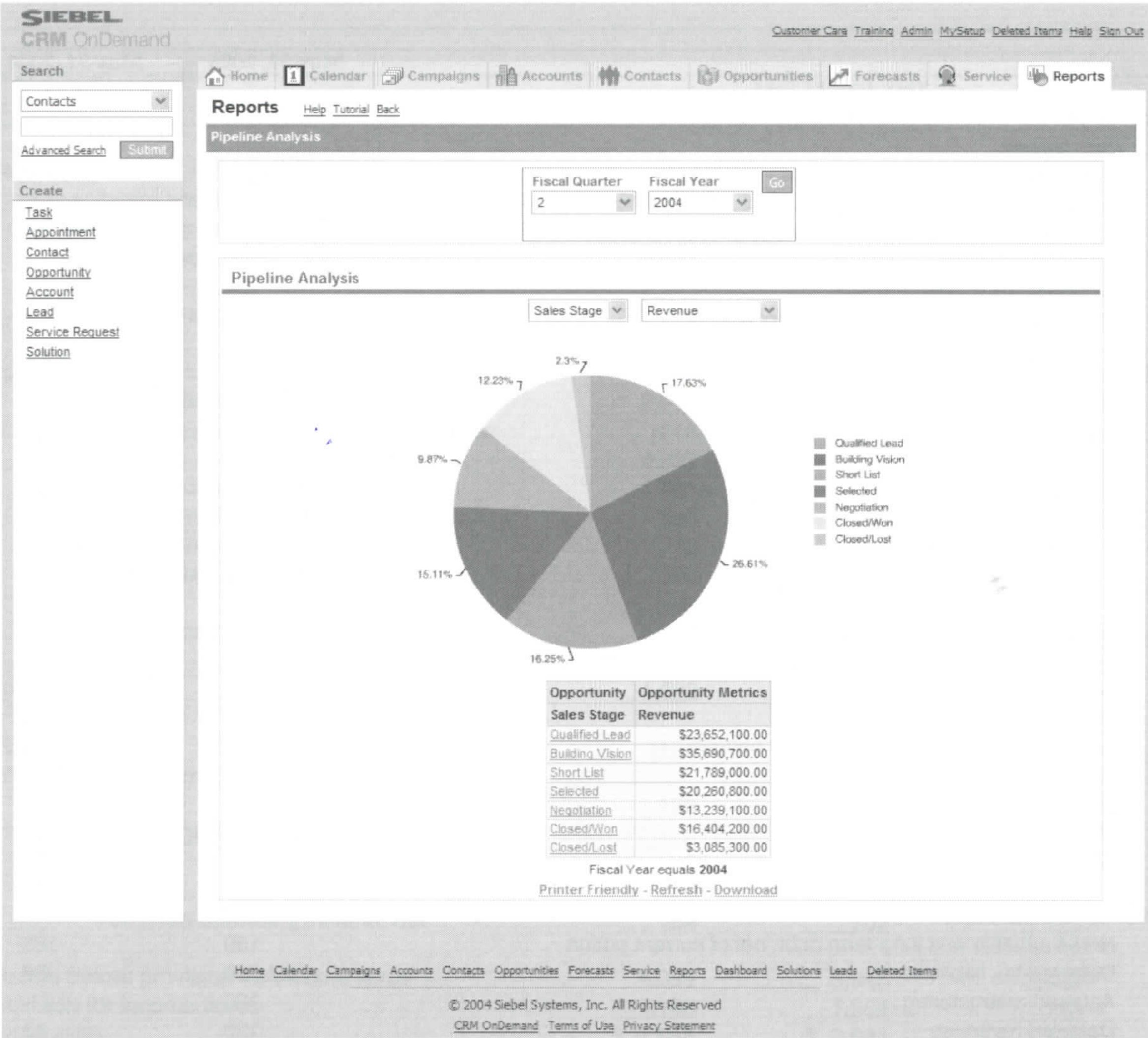
Source: Oracle company data.

Exhibit 9b Oracle Corporation Consolidated Balance Sheets as of May 31, 2005 and 2004 (in millions, except per share data)

	May 31, 2005	May 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,894	$ 4,138
Marketable securities	908	4,449
Trade receivables, net of allowances of $269 and $364	2,570	2,012
Other receivables	330	322
Deferred tax assets	486	301
Prepaid expenses and other current assets	291	114
Total current assets	8,479	11,336
Noncurrent assets:		
Property, net	1,442	1,068
Intangible assets, net	3,373	39
Goodwill	7,003	41
Deferred tax assets	32	92
Other assets	358	187
Total noncurrent assets	12,208	1,427
Total assets	$20,687	$12,763
LIABILITIES AND STOCKHOLDERS EQUITY		
Short-term borrowings and current portion of long-term debt	$ 2,693	$ 9
Accounts payable	230	191
Income taxes payable	904	929
Accrued compensation and related benefits	923	816
Accrued restructuring	156	--
Deferred restructuring	2,289	1,497
Deferred tax liabilities	12	21
Other current liabilities	856	809
Total current liabilities	8,063	4,272
Noncurrent liabilities:		
Notes payable and long-term debt, net of current potion	159	163
Deferred tax liabilities	1,010	59
Accrued restructuring	120	--
Deferred revenues	126	43
Other long-term liabilities	372	231
Total noncurrent liabilities	1,787	496
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value—authorized: 1.0 shares; outstanding: none	--	--
Common stock, $0.01 par value and additional paid-in capital—authorized; 11,000 shares; outstanding: 5,145 shares at May 31, 2005 and 5,171 shares as of May 31, 2004	6,596	5,456
Retained earnings	4,043	2,383
Deferred compensation	(45	--
Accumulated other comprehensive income	243	156
Total stockholders' equity	10,837	7,995
Total liabilities and stockholders' equity	$20,687	$12,763

Source: Oracle company data.

Exhibit 10 Siebel CRM OnDemand Screen Shot



Source: Siebel OnDemand Web site, http://www.crmondemand.com/products/sales/sales-reports/index.jsp, accessed May 10, 2005.

Exhibit 11 Salesforce.com Logo

1-800-NO-SOFTWARE
(CALL: 1-800-667-6389)

Source: Salesforce.com Web site, accessed May 9, 2005.

Exhibit 12a Salesforce.com, Inc.—Consolidated Statements of Operations (in thousands, except per share data)

	Fiscal Year Ended January 31,			
	2006	2005	2004	2003
Revenues:				
Subscription and support	$280,639	$157,977	$85,796	$47,656
Professional services and other	29,218	18,398	10,227	3,335
Total Revenues	309,857	176,375	96,023	50,991
Cost of revenues:				
Subscription and support	34,457	12,727	7,782	7,199
Professional services and other	34,669	20,727	9,491	3,164
Total Cost of Revenues	69,126	33,454	17,273	10,363
Gross profit	240,731	142,921	78,750	40,628
Operating expenses:				
Research and development	23,330	9,822	6,962	4,648
Marketing and sales	149,598	96,311	54,600	33,522
General and administrative	47,986	30,268	16,915	12,958
Lease abandonment (recovery)	(285)	—	(3,445)	--
Total Operating Expenses	220,629	136,401	75,032	51,128
Income from operations	20,102	6,520	3,718	(10,500)
Interest income	7,657	2,621	379	471
Interest expense		(37)	(22)	(77)
Other income (expense)	439	12	164	98
Income before provision for income taxes and minority interest	28,198	9,153	4,239	(10,008)
Provision for income taxes	1,310	1,217	541	--
Income before minority interest	29,508	7,936	3,698	(10,008)
Minority interest in consolidated joint venture	(1,034)	(590)	(184)	(292)
Net income	$28,474	$ 7,346	$ 3,514	$ (9,716)

Source: Salesforce.com 10-K, March 25, 2005. 2006 data is based on results announced on February 22, 2006.

Exhibit 12b Salesforce.com, Inc. Condensed Consolidated Balance Sheets (in thousands)

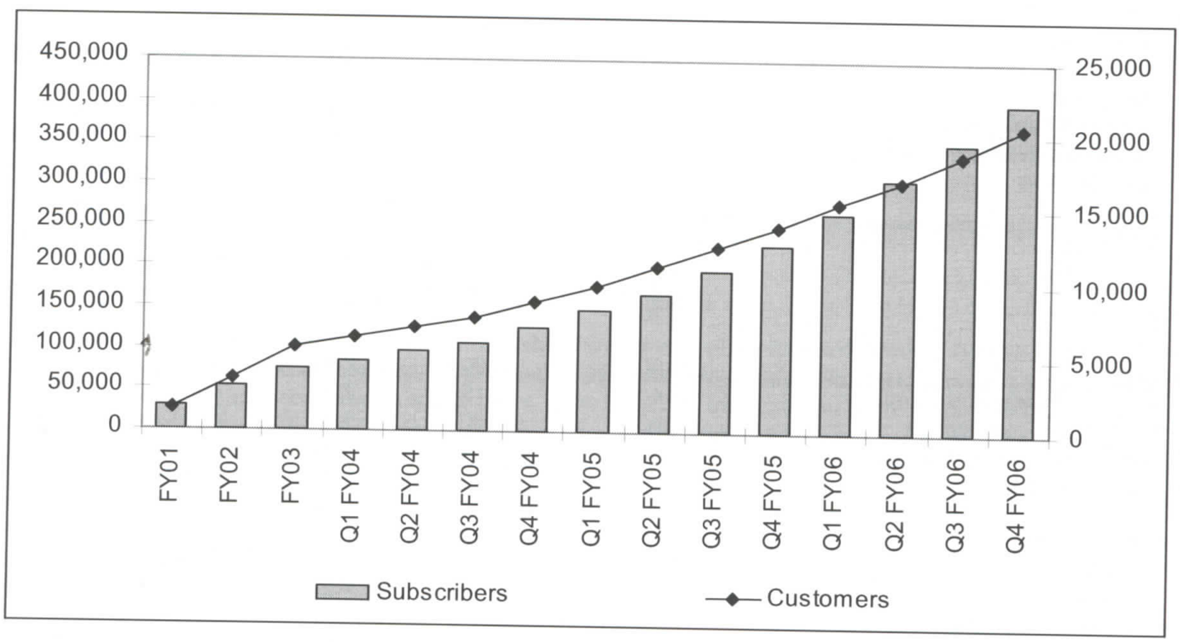
	January 31, 2005 (unaudited)	January 31, 2006 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,731	$ 99,842
Short-term marketable securities	83,087	107,723
Accounts receivable	48,874	76,128
Deferred commissions	7,556	13,186
Prepaid expenses and other current assets	3,467	6,338
Total Current Assets	$178,715	$303,217
Marketable securities, noncurrent	87,120	89,227
Restricted cash	3,191	0
Fixed assets, net	7,637	24,216
Deferred commissions, noncurrent	2,057	3,889
Deferred income taxes, noncurrent	0	10,416
Other assets	1,779	3,784
Total Assets	$280,499	$434,749
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 2,525	$10,212
Accrued expenses and other current liabilities	32,467	48,782
Income taxes payable	216	2,650
Deferred income tax liabilities	0	3,191
Deferred revenue	95,900	169,175
Current portion of capital lease obligation	563	615
Total Current Liabilities	$131,671	$234,625
Capital lease obligations, net of current portion	721	184
Long-term lease abandonment liability and other	1,596	1,155
Minority interest	1,380	2,414
Total Liabilities	$135,368	$238,378
Commitments and contingencies		
Convertible preferred stock		
Stockholders' Equity (Deficit):		
Common stock	105	111
Additional paid-in capital	217,248	237,010
Deferred stock-based compensation	(5,908)	(2,531)
Notes receivables from stockholders	(727)	0
Accumulated other comprehensive income	(999)	(2,105)
Accumulated deficit	(64,588)	(36,114)
Total Stockholders' Equity (Deficit)	$145,131	$196,371
Total Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit)	$280,499	$434,749

Source: Salesforce.com 10-K, March 25, 2005. 2006 data based on salesforce.com press release, February 22, 2006.

Exhibit 13 Salesforce.com Customer and Subscriber Growth, Subscribers per Customer

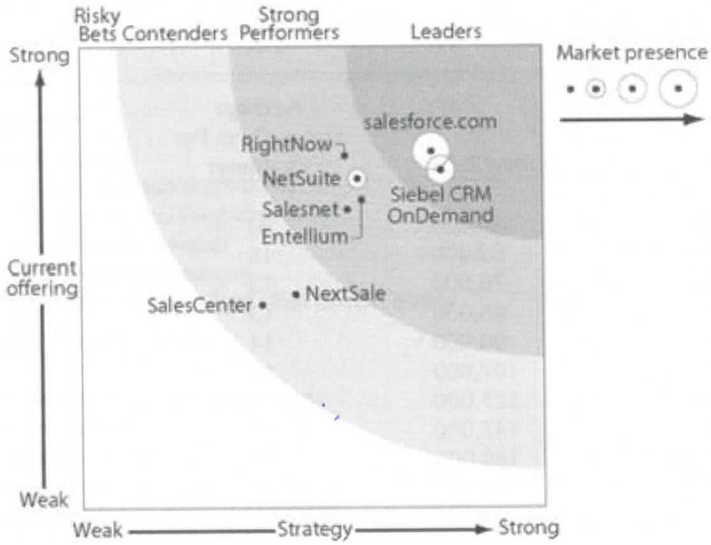
Customers and Paying Subscribers by Date (Q4 Fiscal 2001 to Q4 Fiscal 2006)

	Customers	Subscribers	Average Subscribers Per Customer
FY01	1,500	30,000	20
FY02	3,500	53,000	15
FY03	5,700	76,000	13
Q1 FY04	6,300	85,000	13
Q2 FY04	7,000	96,000	14
Q3 FY04	7,700	107,000	14
Q4 FY04	8,700	127,000	15
Q1 FY05	9,800	147,000	15
Q2 FY05	11,100	168,000	15
Q3 FY05	12,500	195,00	16
Q4 FY05	13,900	227,000	16
Q1 FY06	15,500	267,000	17
Q2 FY06	16,900	308,000	18
Q3 FY06	18,700	351,000	19
Q4 FY06	20,500	399,00	19



Source: Salesforce.com company data.

Exhibit 14 Forrester Wave: Hosted Sales Force Automation, Q1 2005



	salesforce.com	Siebel CRM OnDemand	Salesnet	RightNow	NetSuite
CURRENT OFFERING	3.82	3.62	2.18	3.78	3.55
Product breadth	3.00	2.80	1.00	3.20	5.00
Deployment options	1.00	4.00	1.00	5.00	3.00
Verticalization	3.00	5.00	4.00	2.00	2.00
Setup and configuration	4.25	3.46	3.87	4.02	3.63
Sales management	3.94	3.18	2.77	3.48	4.59
Sales analysis	4.40	4.25	3.40	4.55	3.35
Usability	4.20	3.78	3.70	4.18	3.33
Access	2.92	2.42	3.63	2.67	2.00
Integration	4.10	3.78	3.70	3.58	2.95
Services	4.00	4.67	4.33	4.32	3.67
Cost	3.20	3.70	2.90	3.20	2.50
STRATEGY	3.80	3.90	2.88	2.86	3.00
Product strategy and vision	3.40	4.15	2.85	3.15	3.00
Hosted SFA commitment	5.00	3.00	5.00	3.00	3.00
Sales and implementation strategy	3.80	3.80	2.80	3.00	3.00
Technology partners	4.00	4.00	2.00	2.00	3.00
MARKET PRESENCE	4.14	3.49	1.91	1.89	2.94
Installed base	5.00	3.20	2.00	1.40	3.40
Financials	3.00	4.50	2.00	2.50	2.50
Number of employees	3.00	5.00	1.00	2.00	2.00
Global reach	4.34	2.35	2.02	2.02	3.02

Source: Adapted from Liz Herbert, "The Forrester Wave: Hosted Sales Force Automation, Q1, 2005," Forrester Research, Inc., April 1, 2005, pp. 7–8.

Note: All scores are based on a scale of 0 (weak) to 5 (strong).

Endnotes

[1] Quote from conference call on September 12, 2005. Reprinted in letter from Bruce Cleveland at http://www.siebel.com/newsletters/oracle/050916_dreamVsReality.shtm.

[2] Salesforce.com data as of February 22, 2006. Siebel data based on Preliminary Q4 Earnings Announcement, January 21, 2006, Voxant FD.

[3] Siebel Systems Preliminary Q4 2005 Earnings Announcement, January 12, 2006, Voxant FD.

[4] Dan Farber, "Siebel and Salesforce.com: Two ways to vertical," *TechRepublic*, March 30, 2005,http://techrepublic.com.com/5102-10596-5646876.html, accessed April 28, 2005.

[5] Aaron Lazenby, "Transforming Software Management," *Profit, The Business of Technology*, Oracle Publishing, February 2006.

[6] Tony Kontzer, "Benioff's Big Bet," *InformationWeek*, November 8, 2004.

[7] Tracey E. Schelmetic, "The Enterprise Software Industry's Alamo: Remember PeopleSoft," Customer Interaction Solutions, TMCnet.com, September 12, 2005, accessed February 13, 2006.

[8] Casewriter estimates based on article by Joshua Weinberger, "CRM Market Expansion," destinationCRM.com, July 14, 2004, and on data from AMR Research.

[9] Ross MacMillan, Mary Meeker, and Evan Bloomberg, "Salesforce.com: Breaking Ground with On-Demand CRM," Morgan Stanley, August 2, 2004, p. 12.

[10] "The ABC's of CRM," Customer Relationship Management Center, http://www.cio.com/research/crm/edit/crmabc.html, accessed February 28, 2006.

[11] S. Nelson, "How to Justify CRM Spending and Boost Return on Investment," Gartner Research, December 3, 2004, p. 13.

[12] For the purposes of this case, small companies represent under 100 employees and 0–50 CRM users; mid-sized companies represent 100–1,000 employees and 50–300 CRM users; and large companies represent over 1,000 employees and over 300 CRM users.

[13] S. Nelson, "How to Justify CRM Spending and Boost Return on Investment," Gartner Research, December 3, 2004, p. 12.

[14] Casewriter estimates based on data that is publicly available.

[15] Siebel entered into strategic global partnerships with external service providers (ESPs) like Accenture that offered services ranging from business consulting to systems integration. Strategic service partners provided important credibility to Siebel, and in many cases, gave Siebel an introduction to their clients. Less than 20% of the total outlay for an enterprise-wide installation of a Siebel application went to Siebel as a license fee; the majority went to ESPs that implemented (customized and integrated) Siebel's complex software for its clients. Donald N. Sull, "Siebel Systems: Partnering to Scale," HBS Case No. 802-029 (Boston: Harvard Business School Publishing, 2001), p. 2.

[16]Melanie Warner, "Confessions of a Control Freak," *Fortune Magazine*, September 4, 2000.

[17] In September 2004, a federal judge granted Oracle permission to pursue its 15-month take-over battle of PeopleSoft, which many believed would lead to the consolidation of the software industry with Siebel as an anticipated target. See Bill Alpert, "Takeover Time?" *Barron's*, July 19, 2004.

[18] Revenues are based on preliminary results, released January 12, 2006. Final results were not released.

[19] Oracle Press Release, "Oracle Agrees to Buy Siebel for $10.66 a Share," September 12, 2005.

[20] CMP TechWeb, "CRM's New Future," CMP Media Inc., September 19, 2005,