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### [The CRM SaaS Model and 'Lost Opportunity' Costs](#)

Posted by Ann All on May 5, 2008 at 1:20 pm

Though software-as-a-service appears to be [driving much of the growth](#) in what was, until recently, a pretty stagnant CRM market, it's not always the most appropriate choice.

In fact, two of SaaS' primary selling points, its low cost and quick implementation times, may [end up hampering CRM efforts](#) in the long run, writes J. David Lashar, an associate partner in IBM Global Business Services' CRM practice and leader of the IBM SaaS Center of Excellence on [destinationCRM.com](#).

This [isn't exactly a new idea](#). In late 2006, a Gartner analyst predicted companies would likely experience problems — and added expense — if they tried to expand SaaS use beyond departmental CRM deployments to larger enterprise efforts.

Because annual SaaS subscription costs are significantly higher than annual maintenance fees for most on-premise software, SaaS becomes more expensive than on-premise software over time, typically within five to seven years, says Lashar. And companies may end up sacrificing even more, he contends, due to the "lost CRM benefits" that can result from SaaS' limited functionality.

Indeed, some companies find that SaaS — or any off-the-shelf solution, for that matter — just [does not meet their CRM needs](#) as well as a custom-built system, as I wrote in February, offering the example of a proprietary system used by JP Morgan Chase.

Also, says Lashar, contact centers that typically offer support for SaaS solutions may not be able to provide the levels of support to which larger companies are accustomed.

While SaaS is a great option for SMBs and may offer value to enterprises as well, Lashar suggests that companies should look beyond upfront costs and other short-term considerations as they evaluate SaaS. Otherwise, he says, they risk making "an expensive long-term mistake."

Siamak Farah, founder and CEO of InfoStreet, a provider of IT and productivity software-as-a-service, [addressed some of Lashar's points](#) in our interview back in February. Regarding the cost question, Farah says analysts do not fully consider the infrastructure and staffing resources required for on-premise deployments or the cost of upgrades. He says:

*We have a solution that does Exchange replacement. When you think about what it would take to buy the hardware, the software and a person to manage that Exchange, the cost that we charge is roughly 5 percent to 10 percent of what it would take (to run Exchange). So it's arguable that you would have to pay us 10 years to get the same thing you get for a year with Exchange. Since you pay monthly or bimonthly, yes (the costs) do add up over time. But the service doesn't last forever. Every three years, you have to upgrade (something like Exchange).*

Farah concedes that SaaS isn't the best choice for "a model where a tremendous amount of customization may be required."

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1. *Comment by Debra Kramerage — May 5, 2008 at 4:37 pm*

Thanks for the insightful article. After reading Farah's comments, I was curious to see more about his company. Had to google it a bit but thought I'd share in case others were likewise interested: [www.InfoStreet.com](http://www.InfoStreet.com) ...

Cheers,  
Deb

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Ann was a leading media authority on automated teller machines before coming to IT Business Edge to cover tech alignment and business value.

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