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Siebel Systems: Anatomy of a Sale, Part 1

This case series describes the relationship between Siebel Systems and the discount stockbroker Quick & Reilly from 1998 to 2001. Part 1 gives the perspectives of the Siebel Systems salesperson, and Part 2 (503-022) the perspective of a Quick & Reilly executive. Part 3 (503-023) is to be distributed in class. At various points in this case series we pose questions in boxes such as this one. The reader is asked to pause at these points and reflect on the answer before reading on.

Tom Siebel founded Siebel Systems in 1993 to address the growing need of organizations of all sizes to acquire, retain, and better serve their customers. He described his purpose as uniquely different from that of several other software companies founded at the time, in that he had set out to build a company that would endure over time because it was based on traditional values and a commitment to making its customers successful. By 2000 revenues had reached $2 billion, the company employed approximately 8,000 people, and *Fortune Magazine* had rated it as one of the fastest growing companies in America for the past three years. Other popular business magazines hailed the firm as "the world leader in software for CRM [customer relationship management]" and "the fastest growing application software company in history," further underscoring the firm's rapid growth and success.

By 2001 Siebel Systems had become the world's leader in CRM software with a 50% market share in sales management, marketing automation, customer service, and support. In addition, the company was pioneering the market for employee relationship management (ERM). Siebel Systems had more than 200 products and went to market through a direct sales force operating out of 139 offices in 40 countries around the world.

In the Burlington, Massachusetts, sales office, Gregg Carman pondered a dilemma. His job was to serve financial services clients in the New England region. The largest was FleetBoston, the ninth-largest bank in the United States, which had recently acquired the discount stockbroker Quick & Reilly. Carman was negotiating a $2.1 million sale to Quick & Reilly. Now FleetBoston wanted to veto the purchase, and Carman faced a difficult decision. Should he stand by Quick & Reilly or bow to FleetBoston's wishes?

On Carman's desk lay a small blue book titled *Siebel Core Values.* Written by a handpicked group of Tom Siebel's most trusted employees, the book articulated the fundamental value system underlying the corporate culture that Tom Siebel had created. Carman thumbed through the pages. What guidance would it provide? How would Tom Siebel handle a situation like this?

Professors John Deighton and Das Narayandas prepared this case. 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.

Founding Siebel Systems

In an interview, Tom Siebel articulated two goals that had guided the company since its inception—to build a high-technology company focused entirely on customer satisfaction, and to build a company with enduring value. Siebel expanded on the initial business opportunity that he identified in the early days:

> We founded Siebel Systems to pursue a market opportunity that I had thought about for many, many years—a market that had to happen, as sure as the sun was going to come up tomorrow. At the time 400 vendors were competing in the emerging sales force automation space, but none offered much beyond electronic contact management.
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> Given that customer satisfaction was fundamental to our vision, we went out and spoke to potential customers to understand their needs before building our products. We talked to Cisco, Sun, Clorox, Unisys, and Charles Schwab. We asked them if there was a way to apply information technology to sales and marketing, just as it had been applied to the back office and to the factory floor. If you could do it, what would it look like? We listened to them and from that we wrote the first product spec. We took it back to them and said, is this what you meant? They said no, and we revised. They got involved in the product design process from the start.

By 2001 Siebel assessed that there had been a significant change in the way firms thought about software decisions. Companies were shifting their focus from cost reduction to what software could do for revenue, customer loyalty, customer retention, and even employee satisfaction. The Internet was elevating e-business applications to the attention of a new level of decision maker, the chief executive. Siebel elaborated:

> Information technology used to be a CIO-level discussion, but not any longer. Today, e-business is a CEO issue. Why? Because CEOs are realizing that they must use information technology to manage their demand chain. They must be able to maintain a continuous dialogue with their customers, regardless of how or when the interactions occur. At Charles Schwab, at Wells Fargo Bank, at IBM, at Ford, there used to be one distribution channel. Now there are many ways for a customer to do business—the retail outlet, the kiosk on Market Street, the Internet at 2:00 in the morning, the call center, any way the customer wants it. Multiple channels make business significantly more complex than in the past.

There was general consensus among industry consultants that Siebel Systems' multichannel approach significantly benefited its customers. Independent research studies found that Siebel's customers achieved a return on their CRM investments within 9.6 months. Further, these customers achieved:

- an increase of over 20% in their customers' average satisfaction levels,
- an increase of over 19% in their employees' productivity levels, and
- an increase of 16% in customer retention.

Partnerships were crucial to Siebel Systems' go-to-market strategy. Unlike its competitors, Siebel Systems did not attempt to capture value from all the components of a CRM implementation—that is, implementation services, hardware, and software—but rather from only the software component. As a result, only 16% of the CRM investment a client made went to Siebel Systems itself—the balance was spent on systems integration services, hardware, and other enterprise application integration software. By August 2001 Siebel Systems had 729 partners classified and resourced by go-to-market importance. The key integration alliance partners included Accenture, Cap Gemini Ernst & Young, Deloitte Consulting, IBM, and PricewaterhouseCoopers. The key hardware and software partners included Alcatel, AT&T Wireless, Avaya, Cisco, Compaq, Microsoft, Palm, Sun, and Unisys.

Because a large proportion of the success of a client's software implementation was contingent on the performance of alliance partners, sales had to work closely with the alliance organizations during and after the sales process to achieve 100% customer satisfaction. For Tom Siebel, the global and scalable "ecosystem of partners" strategy was another way to differentiate Siebel Systems from competitors, offering best-of-breed services to complement its products and thus ultimately leading to the highest levels of customer satisfaction in the industry.

Tom Siebel's Core Values

Tom Siebel pulled a copy of *Siebel Core Values* from his briefcase. (See **Exhibit 1** for extracts.) "This is a really important document," he emphasized. "It's what I take with me whenever I call on a client. We've experienced some growth in recent years, doubling our employee base each year, so we wrote this book to capture these values and our culture and pass them on." Siebel went on:

> Customer satisfaction is the first of our core values. We make 100% customer satisfaction our overriding priority. But the difference between a satisfied customer and a dissatisfied customer isn't how fast the software installs or how inexpensive it is—it's what were their expectations, and how did you measure up? We must be sure that we share the same expectations from the start. When customers buy a CRM system they should be prepared to make a significant investment of both organizational and financial resources, given the complex nature of the problem being solved. Our absolute commitment to customer satisfaction distinguishes us in the software industry. We continue to maintain the highest levels of customer satisfaction in the industry, with 98% of our customers ready to buy from us again. We have achieved such success because our products deliver what our customers want.

Indeed, by 2001 Siebel Systems had achieved significant CRM market leadership by focusing on products driven solely by customer needs. The company's success was fueled by a market for CRM software that had exploded in recent years, having grown nearly 400% from 1997 to 2000 and having been projected by one research firm to grow at nearly 32% compounded annually through 2005.[1]

Tom Siebel elaborated on the other core values of his company:

> Another one of our values is professionalism. We are saying to our customers, "We will do absolutely everything it takes to make sure you succeed with our product," and it's true. We will do that. It's not that we don't have problems with implementations. We do. But we will do whatever it takes to resolve a customer's problem. I'm the president of customer satisfaction. That's what I do here.
>
> Lastly, our last two values of "professional courtesy" and "bias for action" ensure that within our company we strive to solve these customer satisfaction needs with world-class efficiency and speed of response, coupled with unmatched levels of mutual respect among our employees no matter what the situation.

[1] "Dynamic Shifts in Spending for Enterprise Applications Software: Market Share and Forecast, 2000," Gartner Research, August 9, 2001, p. 2.

Carman's Approach to Selling

Carman was a 31-year-old graduate of Ohio State University with 10 years' experience in sales-related jobs and a promising career trajectory that had led him to Siebel Systems. He described his selling style as "subtle and personable." Like others in the firm's sales force, Carman used Siebel Systems' internally developed targeted account selling processes (summarized in **Exhibit 2**).

Carman observed that buying centers were usually made up of two parts: the project team (a group of staff people responsible for implementing the business solution), and senior management (line managers who were responsible for business results, controlled funding, and needed to be convinced that the project would benefit the business). He explained that he liked to build rapport and consensus with the project team and help the team leader to look like a champion, while at the same time selling senior management on the benefits. Carman referred to the project team leader as "my coach" and the controller of the budget as "my executive manager." Carman explained:

> I expect that the first meeting or two on any sale will be with the project team. If, after a few such meetings, I have not seen any executive management, I'll ask my coach, "Where is the line manager?" Danger signs on a sale are a weak coach or an uncommitted executive manager. If your coach is naïve, in over his or her head, indecisive, doesn't have a clue, you're in trouble. On the other hand, when an executive manager asks a naïve question like "Tell me again, what exactly is CRM?" that's good. They are asking for the business case. They want to feel good that the business will be positively impacted.

On the use of Siebel's targeted account selling process, he commented:

> Methodologies cannot make a salesperson out of someone off the street. But they can make a good salesperson much more effective. The power of these methodologies is twofold. First, by forcing you to answer a number of questions about the customer, the methodologies help you to structure all the information that you have on the customer. Second, they make sure that you did not miss any important information that could potentially affect the sale. In my experience, sales go wrong because the salesperson did not anticipate the sleeper.

Siebel Systems Meets Quick & Reilly

Carman thought back to the spring day in 1998 when he met Quick & Reilly for the first time:

> I was at the Siebel booth at a trade show in New York. Two people from Quick & Reilly approached our booth, the VP of client services, whose name was Cathy Ridley, and the VP of marketing. I knew a little about Quick & Reilly because my first job out of college was with Olde Discount Brokerage. I knew they were a good place to work, with low broker turnover, but I did not know the size of the firm or much about them.
>
> We got to talking about the merger. They were curious to learn what life would be like as a part of FleetBoston and asked me what it's like to work with them. Will everything change, and how do you get budget approval? They told me that they had been working with a small software firm, Bradley Partners, to build a proprietary system for managing leads, and now with FleetBoston on the scene they were concerned that FleetBoston would take it over. The way I saw it they had been living in a vacuum created by Bradley Partners and did not know what systems and software were out there in the market to meet their needs.

> Cathy asked me what I thought of Oracle, one of our competitors. I usually do not get asked this question till much later in the sales process. I would have guessed that Quick & Reilly was using Oracle's database in its business.

Carman had two options on how to respond to Ridley's question. On the one hand, he had formed the impression that she was a knowledgeable customer who understood the complexity involved in implementing CRM systems and therefore would be able to appreciate a technical explanation of the differences between Siebel Systems and its competitors. He had in his briefcase a report from Gartner Research, a reputed industry analyst firm that showed Siebel Systems as the only vendor with both a complete CRM solution and the ability to execute large-scale projects. The report showed Oracle, SAP, PeopleSoft, Clarify and E*piphany to have incomplete point solutions and limited execution skills in the CRM space. With hundreds of vendors displaying their products in these shows and fighting for customers' attention, Carman, based on his past experience, knew that it was important to make as much of an impact on customers as possible before they left the show. On the other hand, he was not comfortable directly comparing his firm and a competitor until he knew the client well.

How should Carman respond to the invitation to tell the Quick & Reilly executives what he thought of Oracle? What features of this particular interaction influence your opinion? Would your opinion of the right response change if the circumstances were different?

Carman explained how he responded to Ridley's question: "I said something like, 'They're worth looking at.' Then I moved them over to the demo section of our booth and got someone to run the demo. I became the color commentator. They looked interested, but I didn't yet have a clear idea of the scope of their need or the size of their budget."

How should Carman qualify the prospect? Should he ask, "What's your budget?" Should he suppress his curiosity and leave it to the prospect to bring up information about the size and timing of the opportunity? If he asks for information, how will he use it?

Carman went on: I asked, "How many users will you have on the system?" I didn't catch the reply—a hundred, several hundred? I let it go.

> By this stage, about 15 minutes into the conversation, they were enjoying the demonstration. I was working to establish rapport, to break down the vendor-versus-customer mindset, to eliminate their "keep-it-close-to-the vest" attitude. Cathy was doing most of the talking. I got the sense that this was a family business, run by the Quick family, and that Cathy was like the surrogate adopted sister of the family.
>
> I didn't know at this stage whether this would be a $50,000 or $5 million sale, and I didn't care. My sense was that the business was mine to lose. At this point, I knew I had to do three things to make sure I got the sale. First, I needed to prove to them that we had a superior product. Next, I had to convince them that we would collaborate with them to make the system work. Finally, I had to meet the right set of executives at Quick & Reilly to convert this opportunity into a sale.

Evaluate Carman's interactions with the customer up to this point. Is he doing a good job? How effective is Siebel Systems' approach?

Exhibit 1 Siebel Core Values

"Markets change, so our strategies, tactics, products, and services will change as well. But our core values will endure. They have brought us to where we are today, and they will carry us into the future. They will enable us, together, to build a company in which we can take pride."

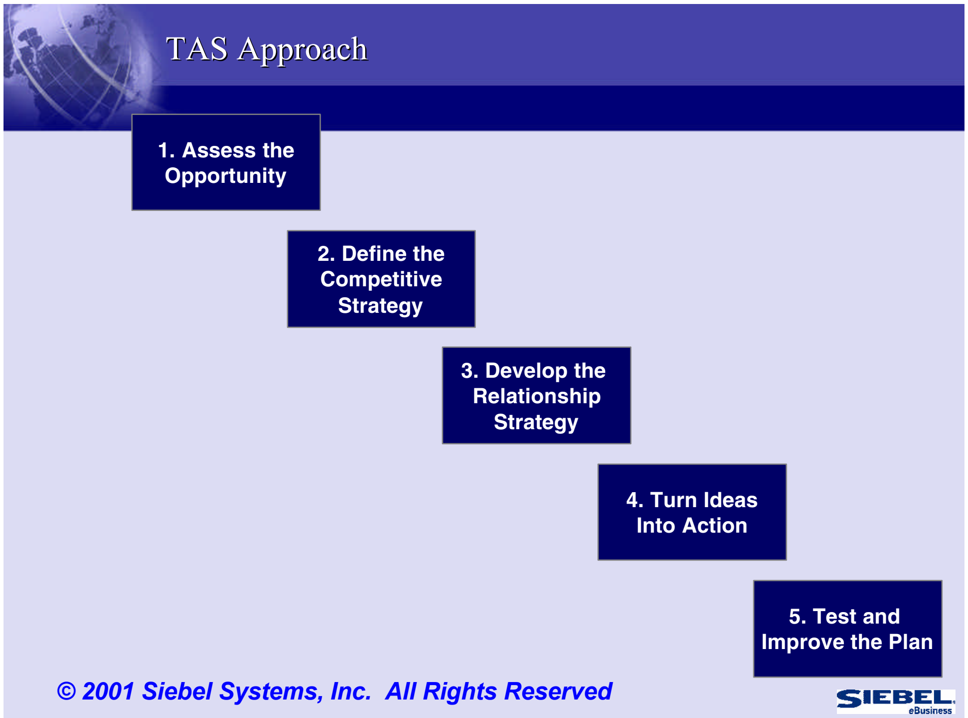
Extracts from *Siebel Core Values*:

- "Serving our customers is not simply a market opportunity—it is a personal and professional privilege for each of us. Many of the most successful organizations in the world have placed their trust in our products. We take that trust seriously. We approach the opportunity we have been granted with great humility."
- "Our respect for our customers is highly visible in everything we do. We treat our customers as we would honored guests in our own homes."
- "As a company, we will never place financial gain above ethics, lawful behavior, and good corporate citizenship. For us, success without ethics is absolute failure."
- "We choose to be leaders, but we do so with great humility. We must earn the right to market leadership every day. We believe that we can earn that right as long as we remain absolutely committed to our customers' success and work hard each day to listen to their needs."
- "Precisely what challenges we will encounter no one can say. But a spirit of tremendous optimism pervades Siebel Systems, and we are confident that, if we continue to respect our values, that spirit will grow. We do not look for problems. We propose solutions."

Source: From the introduction to *Siebel Core Values*.

Exhibit 2 Siebel Systems' Targeted Account Selling (TAS) Process

A multistep approach to building a sales strategy.



Step 1: Assess the Opportunity

Is There an Opportunity?	
1	Customer's Application or Project
2	Customer's Business Profile
3	Customer's Financial Condition
4	Access to Funds
5	Compelling Event

Can We Compete?	
6	Formal Decision Criteria
7	Solution Fit
8	Sales Resource Requirements
9	Current Relationship
10	Unique Business Value

Can We Win?	
11	Inside Support
12	Executive Credibility
13	Cultural Compatibility
14	Informal Decision Criteria
15	Political Alignment

Is It Worth Winning?	
16	Short-Term Revenue
17	Future Revenue
18	Profitability
19	Degree of Risk
20	Strategic Value

Exhibit 2 (continued)

Step 2: Define the Competitive Strategy

- Analyze the competitor's sales strategy
- Determine your sales strategy
- Anticipate competitive response
- Uncover implications for relationship strategies

If there is a compelling event <u>and</u> you can compete	Frontal Flanking Fragment
If there isn't a compelling event <u>or</u> you can't compete	Develop Defend

Step 3: Develop the Relationship Strategy

- Identify key players
- Analyze formal organization
- Define key roles in the buying process
- Assess informal organization
- Determine your current status
- Set the relationship strategy

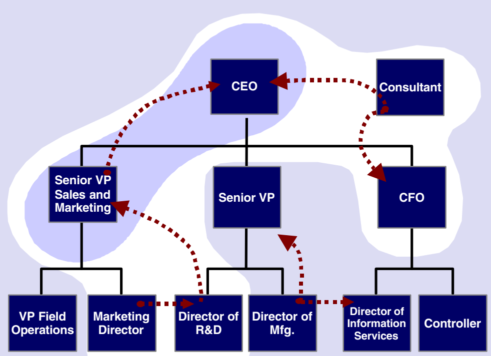


Exhibit 2 (continued)