SALESFORCE.COM
EXECUTIVES (L TO R)
STEVE CAKEBREAD,
PATRICIA SUELTZ
AND JIM STEELE JOIN
CEO MARC BENIOFF
IN A "RADICAL NEW
BUSINESS MODEL."

it takes a
salesforce

ceo marc benioff reveals the secrets behind salesforce.com and "the end of software as we know it."

BY JULIE MOLINE

PHOTOGRAPHY BY FELIPE DUPOUY

Last November, when a persistent job recruiter scheduled a 45-minute "exploratory" lunch for Patricia C. Sueltz with Marc Benioff, the 39-year-old chairman and CEO of **salesforce.com** (CRM), the 45 minutes "turned into two and a half hours and a $35 parking ticket," she recalls. It also turned into a job offer for Sueltz, former executive vice president of Sun Microsystems' software systems group, who is now executive vice president and president of technology, marketing and systems for the five-year-old salesforce.com.

Much of what Benioff talked about during lunch, recalls Sueltz, was his view of the future of software. Instead of buying technology, salesforce.com says, its customers pay a monthly fee to tap into a Web-based customer relationship management (CRM) service. There are no lengthy — and costly — installations, few if any integration issues, no new hardware to buy and no up front licensing charges for the product, Benioff explains. Customers simply pay for the number of users who access the company's software via the Internet. "If I'm right — and I'm convinced I am — this on-demand model will totally change the way technology is bought and sold," says Benioff. "In other words, it's the end of software as we know it."

ADDITIONAL REPORTING BY JULIE CONNELLY

Why was Benioff so eager for Sueltz to join his management team? He explains he needed to expand the group of executives at his quickly growing San Francisco-based company. Benioff points out that over the past five years his company has bucked every downward trend that the software industry has faced. When salesforce.com reported a strong second quarter in August, revenue was up 88 percent from the same time last year.

In addition, the company reported adding more than 1,300 customers and hiring more than 75 employees in the second quarter — giving salesforce.com approximately 11,100 corporate customers, including 168,000 users. Salesforce.com says it just might be the fastest-growing enterprise software company traded on the New York Stock Exchange today.

Sueltz, a former executive at Sun Microsystems and **IBM Corp.** (IBM), signed on with salesforce.com in February 2004. She joined numerous other top executives Benioff had already assembled, including CFO Steve Cakebread, formerly of Autodesk Inc. and **Hewlett-Packard Co.** (HPQ), and Jim Steele, president, worldwide operations, and a former executive at both Ariba Inc. and IBM.

Cakebread joined salesforce.com in May 2002 after serving as senior vice president and CFO at Autodesk, where he says he was responsible for all of the company's accounting and corporate finance functions. Prior to that, Cakebread points out, he spent 18 years at Hewlett-Packard, running various global divisions, and time at **Silicon Graphics Inc.** (SGI) as vice president of finance.

Steele joined salesforce.com in October 2002 from Ariba, where he served as executive vice president of worldwide sales. Previously, Steele says he served in a variety of internationally focused executive roles at IBM, including vice president of the North America western region and general manager of telecommunications in the Asia Pacific region.

friendly users

as of July 31, salesforce.com reports approximately 11,100 client companies, which in turn employ 168,000 paying subscribers, representing an assortment of company sizes, industries, geographies, business longevity and sales styles, from blue-chip banks, manufacturers and insurance firms to small businesses. Their needs also vary, the company says. For example:

- Adhesive-label maker **Avery Dennison Corp.** (AVY) wanted to collect information on both distributors and customers. The real-time sharing of sales information eliminated thousands of internal e-mails and allowed the company to create cost-effective, highly targeted promotional end-user campaigns.
- **Cendant Corp.** (CD) needed to support a field sales force representing two brands, Avis and Budget, in the U.S., Australia and New Zealand. Salesforce.com centralized the tracking of sales leads and activities and improved visibility into existing relationships across both brands for quick identification of new opportunities.
- **Time Warner Inc.** (TWX) wanted greater visibility into the sales pipeline, and the ability to share customer information between its sales and customer service departments. Following the integration of sales and customer service records, callers no longer have to recount their history every time they phone, and management can track customers through all sales stages and service issues. Time Warner reports a rise in satisfaction levels across more than 2,200 business customers thanks to cutting the average response time to customer queries in half, and improved coordination between sales, customer service and other teams.

DEMOCRATIZING SOFTWARE

benioff says, "After years of listening to our customers, I know what they want and how to deliver it to them." From the start, he described salesforce.com's mission as straightforward: "to deliver software to companies of all sizes in the most effective way possible — over the Web." Citing salesforce.com's success, Benioff notes that the revolution is well under way. Salesforce.com characterizes itself as the on-demand CRM market leader with the most mature (16th generation) product.

The company reports that it offers three versions of its on-demand application, depending on a company's size and needs. All versions, explains Benioff, automate various CRM functions, including lead development, account management, customer service and support, reporting and analytics. A marketing module, he says, lets companies know whether an article, advertisement or direct-mail piece generated a particular lead. At the most basic level, salesforce.com customers can synchronize calendars, contacts, reports, sales oppor-

tunities, alerts and current cases, the company says. No matter what the size of the company, salesforce.com's value proposition, explains Benioff, is the same: low cost of entry, quick deployment, scalability and ease of use. "If you've got five sales people, you can use the same tool as a company with 500. Essentially," he argues, "what we're doing is democratizing software — making it available to the little guy as well as to the elite."

If it sounds like Benioff is proselytizing, consider the company's customers. Salesforce.com's customers range from small companies such as Zagat Restaurant Guides and The Improv comedy clubs to mid-sized companies such as Expedia Corporate Travel and The Weather Channel. In its first two years of operation, a customer with 50 users was a big deal, says Benioff. Now, he says, bigger companies are signing up with hundreds — even thousands — of users. **SunGard Data Systems Inc.** (SDS), **SunTrust Banks Inc.** (STI) and **Automatic Data Processing Inc.** (ADP) all have more than 1,000 users, salesforce.com reports. ADP's 3,000 users make it the largest on-demand deployment in the CRM industry, according to salesforce.com executives (see "Friendly Users," previous page).

Instead of buying a software license and the hardware to operate it and allocating manpower to manage it, Benioff explains, customers "rent" salesforce.com's software, which runs on the company's servers (located in Sunnyvale, Calif.). The only technological requirement, the company says, is a Web browser on a desktop, laptop or personal data assistant. Salesforce.com requires only a few hours of training and provides a much faster return on investment, insists Benioff. According to Steele, salesforce.com has provided all customers free upgrades to newer versions three times a year. Deployment is automatic and made so seamlessly that many customers aren't aware the upgrade has taken place until they see new tabs on their dashboard, he adds. This development cycle is a major departure from that of traditional software, in which major upgrades are made every year or two and are extremely costly and difficult for the customer, Steele explains.

The major advantage, according to salesforce.com customers, is significantly greater value from salesforce.com. Bettina Slusar, head

an on-demand model that views software as a utility "will change the way technology is bought and sold," says benioff.

of global accounts management at SunGard Data Systems, calculates that a traditional CRM system costs $18,000 per user over the life of the license — usually two years, factoring in upfront costs and maintenance. With salesforce.com's pay-as-you-go model, she says, SunGard's startup costs are negligible, and the application's ongoing costs range from $65 to $125 per user, per month.

WHERE THE GROWTH IS

meanwhile, international growth has been intensifying, Steele says, and customers now hail from more than 60 countries. Salesforce.com says its offices in Europe and Asia have been opened over the past two years to fill the demand globally. "We're now supporting 11 languages, including Swedish, Chinese and Japanese," Steele says, adding that he expects international customers to make up 20 percent of salesforce.com's customer base by the end of 2004. Overall, for fiscal 2005 ending January 31, the company has forecast revenues of $165 million to $170 million.

A new focus on large-market clients, Cakebread says, explains the timing of its IPO, which landed salesforce.com the CRM ticker symbol, an acronym that Cakebread says is both synonymous with its business and reflects his belief that the company is the industry's standard-bearer. "Bigger companies wanted to see our financials, and we felt that listing on the NYSE would add credibility and a certain comfort factor, along with transparency," he says. Cakebread says the IPO netted over $110 million.

One way salesforce.com caters to bigger companies, says Steele, is through sforce, which he explains is a client-service application platform launched in 2003 that allows any customer to build customized on-demand applications using salesforce.com's architecture. Steele adds that sforce makes salesforce.com easier to integrate with other companies' existing software, including systems such as those offered by **SAP AG** (SAP). Part of the sforce package, he explains, is a tool kit that allows IT staff to easily link salesforce.com to legacy software already in use. Sforce, says Steele, allows partners like IBM to work easily with salesforce.com services.

▪▪ THE INSPIRATION

benioff says that the idea of on-demand business software came to him when he first realized the impact of Amazon.com Inc. It was 1998, and he was a senior vice president at Oracle Corp., which, he says, supplied the database to the then fledgling online retailer. "It was the beginning of the Internet," he recalls, "and Amazon was using an application in a completely new way — a really clean, easy interface that could be customized for each user. I thought, 'Why can't enterprise software be like this?'"

To supplement the $6 million Benioff was ready to invest, he says he raised $28 million from private investors, including $2 million from Oracle's CEO. Benioff "handed us a two-and-a-half-page business plan," says Parker Harris, senior vice president of research and development and one of three original programmers who worked on the first salesforce.com code. (All three still work at the company.) "It was just the four of us in a rented one-bedroom apartment near San Francisco's Coit Tower," recalls Harris. "Without venture capital we could take our time. Once we thought the prototype looked good, we hired sales and marketing people." Four months later the quartet signed their first customer, Harris says. Benioff says that once 20 companies signed up, he quit Oracle and never looked back.

The fact that other software companies are now working on their own on-demand products, says Benioff, speaks volumes about how they fear that salesforce.com is right. He adds: "They'll all be dinosaurs in the foreseeable future."

It's a simple matter of economics, Benioff argues: "Think about the Internet the way you think about other modern networks. You don't build your own power plant to get energy. You don't pay the electric company for five years up front based on a formula that has nothing to do with real consumption. Instead, you tap into the grid and pay for what you use. Why shouldn't you pay for software the same way you do for other utilities?"

"Salesforce.com is a disruptive business model in the good sense of the word: leading to radical, and positive, change," says Evan M. Newmark*, global head of technology banking at **UBS AG** (UBS). "Its innovation introduces a smarter, faster, cheaper, more flexible way of doing business."

Benioff says he is also working on making salesforce.com a disruptive business leader. "When we started, we wanted to do three things differently. First, we were going to have a new technology model — software services delivered as a utility. Second was to have a different business model — to pay for software as you go. The third was to have a radically different approach to corporate philanthropy." (See "The Salesforce.com Do-Good Model," next page.) "It's not so far a leap from caring about the community to caring about customers," Benioff says. "We think our philosophy will attract and retain better people, and they'll work more productively." For Benioff, he says the payoff for his company's success isn't just profits: "It's never been about the money. It's more about being right." ▯

the salesforce.com do-good model

■ BY JULIE CONNELLY
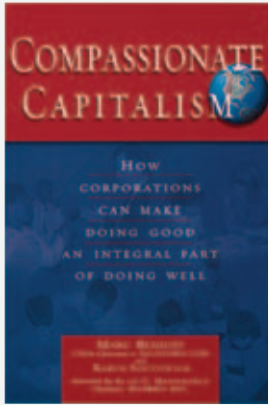
When Marc Benioff started salesforce.com in 1999, he inaugurated the company's philanthropic model at the same time, so that philanthropy and business would go hand in hand from the very beginning, he says. "Not only are we a leader in the technology industry," Benioff explains, "but in the communities we work in as well." In July 2000, after being in business less than one year, he says he launched the salesforce.com/foundation with a mission to provide technology and training in after-school programs for at-risk young people in communities where the company has a presence.

The Foundation currently supports 63 technology and multimedia centers in schools and after-school programs in cities across the U.S. and various programs globally in areas such as Japan, Ireland, Africa and Laos, points out Suzanne DiBianca, chief service officer and executive director. She notes the Foundation is working hard to provide youth globally with the resources to express themselves through multimedia. "In fact," says DiBianca, "this September we are bringing together more than 50 young filmmakers from 10 countries to share films, digital works and ideas at our second annual youth media festival." In addition, she says some of the Foundation's higher-profile grants have underwritten computer centers in Israel, where Jewish and Arab youngsters sit in classes together, and computer centers for women in Afghanistan.

The operating model relies on what Benioff calls "the 1 percent solution." He explains that the Foundation's assets — now about $5 million — come from a goal of donating 1 percent of profits to the community annually through the gift of salesforce.com's product, 1 percent of salesforce.com equity to its programs and 1 percent of employee working hours, six paid days of annual leave, to spend on charitable projects.

The Foundation reports the donations of money, services and employee time amounted to well over $2 million in 2004. "Every time a salesforce.com office has at least 40 workers in one place," says DiBianca, "we'll hire a Foundation person to work with those employees. But you need critical mass because an office has to be large enough to cover for those employees who are out volunteering their time."

Of the company's roughly 500 employees, 85 percent are reportedly active in philanthropic work. "We don't dictate what people should care about, and we think that's why we have such a high participation rate," says DiBianca. Employees, she adds, get the same six days of paid leave to work on charitable activities, such as AIDS walks, that the Foundation doesn't sponsor through its grants program.

Benioff has even authored a book about his 1 percent model. Drawing from the experience of companies including **Hasbro Inc.** (HAS), IBM, **The Charles Schwab Corp.** (SCH) and, of course, salesforce.com, *Compassionate Capitalism* is a blueprint for outfits looking to implement Benioff's model for closely aligning "business and community goals," he says.

The book concludes with 10 best corporate philanthropy practices:

1. **Develop a program today.** No matter how small or strapped for resources, helping someone else will raise morale and make the company feel in charge of its own destiny.
2. **Define a mission.** Set clear guidelines about what the company will and will not fund.
3. **Integrate service with your corporate culture.** Philanthropy should become part of your "brand."
4. **Demonstrate commitment from the top down**, and involve employees from the bottom up. Develop written policies about flexible scheduling to accommodate volunteerism.
5. **Define your community broadly**, in ways that make sense for the corporation. Benioff cites an eyewear maker whose program provides glasses to those who need them.
6. **Forge strong partnerships** with nonprofit organizations. This will help companies achieve their vision.
7. **Consider your business goals** in developing your philanthropy. But don't permit a potential business opportunity to color the underlying commitment to make the community a better place.
8. **Find ways to measure and celebrate the impact** of your philanthropy. Benchmark best practices at other companies.
9. **Sustain your philanthropy** even when the company is going through tough times. Benioff suggests that companies needing to reduce cash donations during a financial downturn pledge more time or product as an offset.
10. **Don't be afraid to try new things.** Companies constantly need to tweak and improve programs and dig deeper into community needs.

■ EDITOR'S NOTE: LOOK FOR MORE COVERAGE OF CORPORATE PHILANTHROPY IN AN UPCOMING ISSUE.