

# SugarCRM Inc.

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*Private Company*  
*Founded: 2004*  
*Employees: 450 (est.)*  
*Sales: \$100 million (est.)*  
*NAICS: 511210 Software Publishers*



SugarCRM, Inc., produces customer relationship management (CRM) software. The software, known as Sugar, runs on multiple operating systems and computer platforms, including personal computers, mobile devices, and cloud computing sites. Sugar is available as a free open-source application, as well as through two paid versions of the software with additional features for larger companies. Most of its customers are small and midsized enterprises.

In the mid-2010s, Sugar software was being used by more than 1.5 million people in 120 countries. Although frequently mentioned as a potential buyout target, SugarCRM executives stated they were preparing to launch an initial public offering (IPO) in the near future.

## PIONEERING COMMERCIAL OPEN-SOURCE SOFTWARE

SugarCRM, Inc., was founded in 2004 in Cupertino, California, by three Silicon Valley veterans of the technology industry: John Roberts, Clint Oram, and Jacob Taylor. A 2014 profile in *CRM Switch* noted that the three had previously worked at such companies as IBM and Hewlett-Packard. They met while employed at Epiphany, a California software firm. Roberts “conceived of the idea and name of SugarCRM while riding his mountain bike named Sugar in the Santa Cruz Mountains,” the report noted. Roberts told Matt Marshall for the *San Jose Mercury News* that he “wasn’t impressed with [CRM vendors] Siebel or Salesforce.com, which he said had glitches and spent a large percentage of their revenue on marketing.”

In early 2004, the trio resigned their jobs at Epiphany, “bought laptops and started writing code,” the report continued. “They worked out of their homes, chatting through the night on their headsets via their VOIP hookup” and “met once a week at a small office borrowed from the SDForum, a software development group in San Jose,” Marshall reported. In a later report for the *Seattle Times*, Marshall noted that in the beginning, “SugarCRM’s software was done dirt cheap.”

Their original project in the spring of 2004 was called Sugar Open Source and was hosted on SourceForge, a development platform for free, open-source software. “By June of 2004,” *CRM Switch* stated, “the success of the project allowed them to found SugarCRM and raise \$2 million in venture capital” from Josh Stein of venture capital firm Draper Fisher Jurvetson (DFJ).

## COMPANY PERSPECTIVES

SugarCRM enables businesses to create extraordinary customer relationships with the most innovative and affordable CRM product solution in the market.

Sugar is positioned to fully unleash the promise of CRM with our innovative CRM system designed for every individual who engages with customers: sellers, marketers, customer support agents, receptionists, and executives. The company is delivering a completely transformed, individualized CRM user experience that is immersive, engaging, and intuitive. Sugar fuses the straightforward simplicity, mobility, and social aspects of a consumer app with the business process optimization of conventional CRM.

Roberts became the first CEO of SugarCRM, with Oram named vice president. Taylor served as chief technology officer (CTO) and vice president of engineering. In July 2004, the company released Sugar Open Source Version 1.0. By October “more than 25,000 people had downloaded the software, which had been upgraded to Version 2.0,” the article added.

In later years, SugarCRM would become recognized as a pioneer in the commercial open-source software industry because it offered the first such free applications designed specifically for businesses. Customer relationship management (CRM) software allows companies to perform such tasks as maintaining contact information for customers, tracking sales calls, and managing marketing campaigns. While CRM applications had been sold to businesses for many years, SourceCRM was the first to offer a free open-source application which companies could download for free and have their programmers customize for their own use.

On September 13, 2004, *Information Week* reported SugarCRM was rolling out Sugar Sales 1.5, a Linux-based CRM application priced at \$149 per year per use. The early Sugar application was “built for compatibility with Apache servers, MySQL databases and the PHP programming language,” Tony Kontzer reported.

In February 2005, SugarCRM received a second funding round of \$5.8 million led by new investor Walden Venture Capital. By that time, Roberts said the company had 100 paying customers who paid \$235 annually for each user. Marshall wrote in the *San Jose Mercury News* that Roberts was optimistic SugarCRM could grow into a \$100 million company and compete

with industry heavyweights like Salesforce.com. Some industry observers agreed the company stood a good chance of success, with two JPM Securities analysts telling Marshall, “If it succeeds, this model might very well turn the application software industry upside down.” However, others were skeptical that open-source companies could be financially successful, with one calling the trend a “fad on steroids.”

By April the company was unveiling plans for Sugar Professional 3.0, a paid version for companies that would include such new capabilities as document management, calendaring, project management, and task reminders. Gary Rivlin reported for the *New York Times* that the SugarCRM hybrid model (free software or a more robust paid version) was creating “quite a buzz” in the industry. If the SugarCRM model worked, Matt Asay of the Open Source Business Conference told Rivlin, “You can guarantee that a year from now, there’ll be dozens of companies using the Sugar model.” Investors remained bullish on SugarCRM as well, with New Enterprise Associates joining DFJ and Walden in an \$18.8 million third funding round in October 2005.

## FROM START-UP TO INDUSTRY LEADER

In 2006 SugarCRM continued to expand its offerings. The company joined the Microsoft Interoperability Vendor Alliance, allowing it to offer its software on the Windows operating system platform. A case study in *CRM Magazine* detailed how SugarCRM was luring former customers from industry leader Salesforce.com by providing CRM software that offered employees better customer data visibility at a lower cost through easy-to-use interfaces. Several trade publications named SugarCRM as the leader of the open-source CRM industry it had pioneered.

However, the long-range outlook for open-source software in general (and CRM applications in particular) remained uncertain. “Open source CRM is a tiny portion of the \$5.7 billion-a-year CRM software market,” Rick Whiting reported for *Information Week*, with most deployments serving fewer than 50 users. Vendors “face an uphill battle to convince large businesses that their software is as scalable and functional as commercial CRM apps,” Whiting added. For example, SugarCRM offered three versions of its software: the free version (renamed Sugar Community), which only supported 20 users; Sugar Professional, supporting up to 500 users; and the new Sugar Enterprise for companies with up to 5,000 users. Companies could install the software on their own equipment or have SugarCRM host the applications. “On-demand versions of SugarCRM Professional and Enterprise are priced at \$40 and

## KEY DATES

- 2004:** SugarCRM, Inc., founded by three Silicon Valley veterans.
- 2005:** Firm receives second round of venture capital funding, adds collaboration tools.
- 2007:** First annual SugarCon user group meeting is hosted.
- 2009:** CEO Roberts becomes second of three cofounders to leave company.
- 2011:** SugarCRM partners with IBM, gaining access to large-enterprise clients.
- 2013:** Goldman Sachs invests \$40 million in SugarCRM's sixth funding round.
- 2014:** Company mulls initial public offering (IPO).

\$75 per user per month, respectively,” Whiting noted, “while on-premises versions are priced at \$239 and \$449 annually per user.”

With open-source vendors gaining steam, a number of large companies began buying up those smaller firms. Charles Babcock reported for *Information Week* in February 2006 that Oracle Corporation and other larger players had begun making acquisitions in the market, while “IBM has proven open source can thrive with the help of a large commercial developer.” However, other industry giants disagreed about the future of those smaller businesses. Babcock quoted Peter Graf of SAP as predicting SugarCRM and many of its peers would “disappear in an upcoming wave of industry consolidations.”

During the latter part of the first decade of the 21st century, SugarCRM continued to grow. Roberts told the *San Francisco Chronicle* in 2007 that the company had 100 employees and more than 1,000 paying customers, plus millions of developers and companies using Sugar software. “SugarCRM will do for the software industry what Southwest Airlines did for the airline industry,” Roberts added, providing a lower cost, more efficient alternative to conventional applications. The following year, Daniel Lyons reported for *Forbes* that SugarCRM “gladly runs its free code on closed source databases made by Microsoft and Oracle, and counts those old-guard companies among its best partners.” The CEO of Sun Microsystems was a 2008 keynote speaker for SugarCon, the user conference that SugarCRM launched the previous year. Also in 2008, its previous investors added \$20 million in new funding to support SugarCRM’s expansion into new services, including mobile

support for BlackBerry devices and a larger presence in Europe and Asia. At its 2009 SugarCon, Roberts announced enhancements such as cloud computing capabilities and enhanced third-party software development tools. It had also added offices in China, Germany, and Ireland, according to a company press release.

### EXECUTIVE DEPARTURES, NEW STRATEGIC FOCUS

Despite its competitive successes and growth during its first five years in business, SugarCRM faced other problems with profitability and business performance. Beginning in early 2008, “SugarCRM suffered a mysterious exodus of senior and experienced business staff,” Gavin Clarke reported for the *Register*. Clarke cited sources who said some of those exits “involved personal clashes with Roberts.” While the four top sales and marketing executives who left during the first half of 2008 might be “considered expendable,” Clarke continued, “The loss of a co-founder is seen as a sign of something more troubling.” CTO Taylor, one of the three founders, departed in June 2008 along with Lars Nordwell, senior vice president of business development and a key employee since 2005.

In May 2009, Roberts also left SugarCRM, resigning for undisclosed reasons “to pursue new opportunities.” He was immediately replaced by board member Larry Augustin, who was named interim CEO (and later took on the role permanently). Clarke reported rumors had been circulating for months that Roberts would be “ousted” and that the departure was tied to the company’s “business performance.” While SugarCRM was considered a “model startup,” he continued, the company “has failed to grow or develop along the same explosive trajectory of Salesforce.com, which has eclipsed SugarCRM in revenue, customer numbers, and deal size. This will have frustrated the company’s three investors,” the VC firms that had put \$46 million into SugarCRM over the previous five years. Another issue cited by Clarke was that SugarCRM’s “operational costs are understood to be high, while the PHP-based CRM software itself is relatively complicated to install and run.”

Matt Asay reported for *CNET* that Roberts “has made a huge impact on the open-source world, innovating the ‘Open Core’ business model and helping drive open-source applications into the enterprise.” However, he added, SugarCRM would “be in good hands” with Augustin, the former CEO of VA Software (later VA Linux). Augustin stated that his priority would be helping the employees execute and taking “the company to the next level.” Asay noted that SugarCRM was bring-

ing in tens of millions of dollars in annual revenues and was considering an initial public offering (IPO).

Alongside the management changes, SugarCRM also experienced a transition in strategy. Under Roberts, the company was positioned as an open-source software company that was in the CRM business. Soon its strategic focus shifted to being a CRM software company, with less emphasis placed on the technological and development platforms. “Sugar pioneered the open-source movement in CRM, but has seen criticism in the past for not prioritizing CRM itself,” *CRM Magazine* wrote in 2010. SugarCRM had just topped its annual rankings of Open Source CRM vendors for a third consecutive year, but the magazine stated it felt “more enthusiasm for the company’s direction this time around.” Analysts told the magazine that a new direction and expanded partnerships meant SugarCRM was “doing a lot of innovative things, particularly in social CRM” and it now had “really engaged, exciting customers.”

#### SUSTAINED GROWTH, NEW PROFITABILITY

In November 2010, SugarCRM introduced Sugar Mobile for iPhone, expanded its social media support, and added another 13 languages to its global deployment options. Early the next year, the company rolled out Sugar 6.0, which included a new user interface for the Professional and Enterprise offerings. The products at that time featured 25 global languages, plus support for Facebook, LinkedIn, GoToMeeting, Google Docs, and other applications. Also in 2011, SugarCRM became an IBM Global Alliance Partner for Cloud Services. The company soon added more support for IBM hardware and software platforms (such as the DB2 database application popular in large corporations) when it rolled out Sugar 6.5 in 2012.

The revamped strategy also paid off with additional venture capital investments. In April 2012, a \$14 million round of funding included new investors Silicon Valley Bank and Gold Hill Capital. That was followed in August 2013 by a \$40 million investment by Goldman Sachs. That sixth round of funding meant SugarCRM had received more than \$100 million during its first nine years of operation.

While SugarCRM does not disclose its financials, most industry observers believed the company’s annual revenues had reached at least \$100 million by 2014. *Bloomberg* quoted CEO Augustin as saying SugarCRM had become cash-flow positive in 2011. In February 2014, a company press release stated it had “achieved more than 75 percent year-over-year revenue growth,”

including a 28 percent sales increase in the Asia-Pacific region alone. In July 2014, SugarCRM stated it had achieved 19 consecutive quarters of consecutive growth, adding more than 1,000 new customers in the first half of 2014. That brought its total number of clients to almost 7,500, with more than 1.5 million end users worldwide. Its paying customer list included Reebok, Mitsubishi Motors Brazil, Seguros Monterey New York Life, and Wilson Sporting Goods.

SugarCRM also reported that its market share continued to grow. Although it did not disclose that share, surveys by *CRM Magazine* indicated SugarCRM held about 1.6 to 1.8 percent of the U.S. market. Salesforce.com was the market leader, but only had a 16 percent market share in 2013, according to Gartner. That lack of a dominant player indicated to industry observers that there was still plenty of room for competitors to grow in the sector. Augustin told *Forbes* in June 2014 that CRM was “a very large, under-penetrated market with tremendous opportunity for business transformation.”

With its sound financial performance and the new infusion of capital, observers wondered what exit strategy (if any) SugarCRM’s; investors were considering for the future. Speculation swirled over whether the company would remain a privately held independent firm, put itself on the merger and acquisition market, or list its stock publicly and tap into the public markets. During its early days, SugarCRM was often mentioned as a possible takeover target for larger competitors or technology industry giants. With its larger growth and solid balance sheet, selling the company remained a viable option.

For their part, SugarCRM executives publicly stated they wanted an IPO that would make their organization a publicly traded company. In November 2012, *Bloomberg* reported that Augustin had stated, “Our goal is to be a public company.” Augustin hoped the IPO might happen in 2013. Instead, SugarCRM got a \$40 million capital infusion from Goldman Sachs that summer.

Oram, the sole remaining SugarCRM cofounder, made similar comments on the company’s 10th anniversary in July 2014. Oram, who was CTO, told *Between the Lines* that he could not say if or when SugarCRM would become a public company. “I don’t personally spend a lot of time worrying about when and how an IPO happens,” Oram added. “When it makes sense in the context of our business and the market as a whole, I totally envision Sugar as a public company.”

*Bobby L. Hickman*

## PRINCIPAL DIVISIONS

Sales; Marketing; Support; Platform.

## PRINCIPAL COMPETITORS

Microsoft Corporation; NetSuite, Inc.; Oracle Corporation; Salesforce.com, Inc.; SAP SE.

## FURTHER READING

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