

The SERVICE PLAY

Despite huge growth prospects in India, Software as a Service has some hitches and hiccups that make the channel partners jittery.

SOMA TAH

India has emerged as one of the fastest growing SaaS markets in APEJ (Asia Pacific excluding Japan) in the last couple of years. According to a Springboard Research report, the Indian SaaS market was pegged at Rs 251 crore in 2009, and is expected to reach Rs 488 crore by 2010.

Contrary to the popular belief that SaaS primarily appeals to the SMB sector, the highest SaaS penetration is still amongst the large enterprises. While, the trend of SaaS adoption is visible across multiple segments, the requirements and purpose of adoption differ.

The leading reasons for SaaS adoption in India is ease of use, and zero or low maintenance. However, a substantial amount of the market growth can be attributed to the difficult economic conditions of 2008-09, where the cash-strapped businesses have shown a greater affinity towards the on-demand solutions, which are also cost-effective. While large enterprises are using SaaS within particular business units to enhance automation and optimization, the SME segment's preference is to have support for end-to-end processes. It allows small and medium sized businesses (SMB) and micro, small and medium enterprises (MSME) to focus on their core business instead of putting in efforts towards managing IT infrastructure. When compared to large enterprises, SMBs and MSMEs also don't have enough resources to invest upfront, and hence are the low hanging potential segments for SaaS providers. In terms of verticals, SaaS penetration is strongest in the telecom sector, and is then evenly spread across other major sectors, including education, BFSI, healthcare, manufacturing, and retail. According to a Gartner report, some of the major offerings under the SAAS model are CRM,



KEY CHALLENGES IN ADOPTION

- Lack of user maturity
- Security vulnerabilities
- Integration complexities
- Regulatory compliance management
- Long-term TCO uncertainties
- SaaS service standardization
- SLA guarantees

ERP, email, security, content, communications, and collaboration (CCC).

According to Balaka Baruah Aggarwal, senior research manager for emerging software at Springboard Research, SaaS will proliferate rapidly in the next 18-24 months, not only in top-tier towns and cities, but even to secondary places. "The SaaS-related services and consulting revenues will also grow substantially as more partners enter the ecosystem," she says. Now, the question is, how important would be the partner's role in the entire SaaS ecosystem?

Importance of channel's role

It's an imperative for the SaaS vendors to build an effective go-to-market strategy and a set of strong channel relationships, so they can rapidly and profitably extend their market reach and satisfy the needs of specific market segments. As R. Sukumar, GM – Sales, RamcoOnDemand ERP, says, "It's a volumes game and the channels are the only way to take it to the market. With their local knowledge and contacts, they can plan a vital role both in sales and implementation."

Ganesh Swaminathan, Director - Office of Innovation, CSC in India, says, "Customers are used to doing business with the people they know and trust, and hesitant to do business with new and third party suppliers. They are also trying to reduce the number of vendors they rely upon and will prefer to turn to their existing suppliers. This means SaaS and cloud-computing vendors will need to align themselves with established re-sellers and other companies who have access to customers, especially IT/business decision-makers. One of the major challenges for SaaS providers in India is the lack of knowledge about Indian workflows and IT support. In order to grow their business and to continue educating the market about the benefits of SaaS, channels play an important role." Vendors can benefit from resellers in selling horizontal software services by leveraging their domain knowledge & integration capabilities of reselling partners.

Channel apprehensions

A related study report from Springboard Research shows that SaaS is gaining significant acceptance in India at the cost of on-premise applications with 32 per cent of SaaS adopters in the country replacing an on-premise application. By 2010, around 30 per cent of new license purchases in APEJ will be in the form of SaaS or delivered through the SaaS model, predicts Gartner.

But the resellers are not so keen on the transition from an upfront revenue model to a different mode of business, where they would be selling a virtual product with a different compensation structure and support requirements.

In an upfront on the premise model, the dealer or reseller buys the software, sells the license to customers, and gets a specific amount as margin (7-10 per cent markup on software and up to 5 per cent on hardware) on sales. But, the business model with SaaS is a little bit different, as the customer has a subscription license agreement procured either directly from the vendor or through reseller referrals. In this particular model, partners get a certain percentage of the first year contract value and also a certain amount of the recurring value on renewal. Opportunities also exist to charge per transaction, event, or other unit of value to the customer. These alternative pricing models come about because customers actually "lease" the software from the vendors, and the vendors have the ability to view all transactional activity within the system.

Some of the key apprehensions with this model are the loss of customer ownership, and the declining commission structure. The margin in SaaS varies between 10-12%, which is lower than the traditional on-premise model. Besides the upfront sales revenue, resellers generally used to get a decent percentage for providing first level support in the on-premise model – a reason why SaaS is yet to find partners. The support needs in SaaS also depends on how the users want to optimize the resources, and is not about typical integration and customization requirements, which used to be a top user concern in on-premise deployments.

The biggest challenge is user maturity in understanding SaaS model. There are certain areas of genuine apprehensions in terms of security vulnerabilities, integration complexities, regulatory compliance management, long term TCO uncertainties, SaaS service standardization, and SLA guarantee, etc. B. Raghavendran, Vice President, Channel Operations



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and Commercial Strategy, Cisco India & SAARC, says, "While customers agree about the benefits of cloud computing, they have concerns about cost and flexibility, particularly about security, compatibility with existing applications, lack of a migration path from existing applications to clouds, freedom of choice, federation of internal and external resources, lack of SLAs for policy-based management, and interoperability. Additionally, while bandwidth has been a challenge in the past, over recent years, India's broadband infrastructure has matured significantly, thereby encouraging more and more businesses to explore this option."

"The SaaS adoption is increasing because most initial apprehensions are addressed. The value proposition is understood. The SaaS vendors are quite successful in demonstrating a cost-effective alternative deployment model to provide reliable services with high degree elasticity. Once the basic technology foundations and business models are in place, there would be a compelling need for SaaS vendors to engage the 'traditional' value-added resellers or system integrators to reach out to a larger customer base quickly. In the context of the Indian market, I think positioning of SaaS as a viable alternate model is not fully understood. The basic infrastructure for enabling a reliable SaaS delivery is critical in India," says Hemen Goswami, CTO InfoGain Corporation.

Newer avenues of businesses can become lucrative for a channel player. Vineet Sood, Head, Channels and Alliances, Symantec India, says, "Awareness on how SaaS can add to their revenues and offerings in terms of value addition needs to be highlighted. With the SAAS model being subscription based, a channel player may not always find it that lucrative in comparison to the license model; so it needs to be communicated that this area will see increasing adoption, and to be ahead of the curve, they will need to play a role in the same." In fact, vendors feel that channels can add huge value on top of the core offering.

Vijayant Rai, Director – Channels (India & SAARC), CA says, "SaaS is still a relatively new and evolving model. Vendors are working to enhance the core offerings as per user/market requirements and feedback. Channels should see this as an opportunity to expand beyond their current offerings. Additionally, there will definitely be opportunities to develop on-site / add-on 'services' offerings around the core SaaS application." ■

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