



SMEs Offer Renewed Hope to EAS Market

SMEs are spending more on IT and ISVs are preparing a slew of new offerings for them. SMEs are also attracted to the SaaS delivery model

1. By Brian Pereira

There was a time when the Enterprise Application Software (EAS) market enjoyed healthy 22 to 24 percent year-on-year growth rates. But in 2008 the economic downturn played spoilsport and growth slowed down. According to Gartner, the EAS market in India saw revenue of USD 740.1 million in 2008. Compare that with 2007 revenues of USD 647.5 million. But the return to good times is not far away and it is the SME/SMB sector that offers new hope. ISVs are also preparing to address new focus areas of large enterprises. They are gearing up for new delivery models and licensing and maintenance structures.

We revised our market forecasts due to the recession and the budget cuts that followed. Projects were deferred by two quarters this calendar year (from Q1 to Q3). We expect the EAS market in India to pick up in early 2010," says Asheesh Raina, Principal Research Analyst, (Asia Pacific), Gartner.

The EAS market comprises applications such as ERP, SCM, CRM, BI/CPM, office suites, project/portfolio management, Web conferencing and team collaboration tools and other applications. Traditionally, the bulk of revenues come from ERP. For 2008, ERP represented 26 percent of the spending with USD 192.5 million.

Large enterprises, which had put their underlying IT infrastructure in place in the 1990s by adopting ERP solutions, have already completed their ERP deployments and now want to move up the value chain (See the section 'Emerging Trends' in this story). So pure ERP deployments are being done only by first-time software users, usually in medium-sized, high-growth companies. Large enterprises are adopting solutions that go beyond the basic IT framework, such as CRM, SCM, human capital management, grid computing, service-orientated architecture and identity management among others.

Says Krishan Dhawan, MD, Oracle India, "Most top-tier companies who already deployed some form of ERP are now looking at more sophisticated application

functionality, encompassing the 'demand,' 'design' and 'supply' value chains. Companies are looking at solutions that address critical requirements in demand management, innovation and supply chain execution."

Gartner analyst Raina shares a similar view. "The large enterprises are done with their application implementation and they have processes and workflows in place. Most of their departments are part of this larger implementation. Going forward, they require the agility—everything changes so quickly. There are compliance changes and process changes. Consultants look into optimization aspects and make recommendations. The software must be agile to incorporate these recommended changes," he says.

Emerging Trends

With ERP deployments now in place large enterprises are looking to move up the value chain through integration.

Says Gartner's Raina, "The emerging trend is to integrate Business Process Management (BPM) with ERP. There is another segment where you require some BI. Businesses have workflow and data repositories in place and perhaps a CRM too. They are trying to understand how to segregate captured data using analytics. So this kind of BI is also upcoming and it is getting integrated. Both large enterprises and SMEs are looking at this."

Adds Simon Dale, Senior VP, Business User Organization, SAP Asia Pacific & Japan, "End-to-end integration along with key business processes crossing boundaries of the different applications will become even more important in the future. Enterprises of all sizes will be looking for solutions that have strong native integration to enable process optimization including closer collaboration with suppliers and customers."

Analyst View

Asheesh Raina, Principal Research Analyst, Gartner

SME has always been an emerging market, especially in the last two years. The definition of SME is different in the west whereas the term SME has a realistic meaning in developing markets. [In the SME sector] there is a large ecosystem that requires rich functionality and at the same time SMEs need to be competitive. So it was a real challenge for vendors to maintain a balance while selling to these SMEs. Yet they have done a commendable job. They have tuned down the functionality, repackaged their products, and relaunched with special SME incentives. Also many solutions are tailored specially for SME requirements. They have dedicated channels to service the SME and there are ISVs who focus on solutions required by SMEs. The pricing also is done in such a way so as to offer flexibility in payment perhaps with a component like training bundled in.



SME Drive

Since the large enterprises are more or less done with fresh application deployments, the focus is now on small and medium enterprises. A Microsoft-AMI Partners report released last year, confirms that Indian SMEs are spending more on IT over the last few years. The report projects growth in the Indian SME IT spend to continue at a robust 24 percent. This growth rate is the fastest amongst all BRIC (Brazil, Russia, India and China) countries. Russia, China and Brazil follow at 22.9 percent, 20.4 percent and 19.4 percent respectively.

This report on IT adoption in Indian SMEs reveals that half of the 250 surveyed businesses cited the need to manage rapid growth as the key reason for adopting IT; 41 percent stated that IT helped them improve efficiency; a high 39 percent finally adopted technology to meet the need for regular interaction with large Indian or international customers.

The Indian SMEs are on a firm growth trajectory, according to the report, with 60 percent of PC-using businesses expecting 20 percent growth and 16 percent planning to add branch offices to expand operations. While SMEs are deploying applications that will give them a better view of their businesses and improve decision making, they look for affordable applications with simpler implementations, standard templates, tools and methodologies. SMEs also expect ROI sooner, lower TCO, and less time to implement.

Vendors like Oracle, for instance, are responding to these requirements with business accelerators that facilitate faster and standard implementation. Oracle Business Accelerators (OBAs) is an implementation methodology that makes the implementation faster, more structured and it enables less costly implementations. It has a configuration tool that helps in quickly configuring the applications. Oracle has launched promotional bundles to support this with its partners, HP and IBM. It also distributes these bundles through its VAD Redington and partners for the mid-market space.

ISVs are preparing new enterprise applications to cater to the SME demand. Indian accounting software maker Tally solutions, for instance, has been offering Tally.ERP 9 for sometime. It now plans to enter the top tier with the launch of the Diamond and Platinum edition of its ERP software over the next three quarters.

Delivery Models

As the focus shifts to the SME segment, ISVs are compelled to look at new software delivery and licensing models. SaaS is an attractive proposition for SMEs—the pay-as-you-use model makes for lower TCO and faster ROI.

A report by Springboard Research predicts that India will be the fastest growth market for SaaS. From under USD 55 million in 2007, SaaS revenues from India are

expected to grow at a CAGR of 76 percent to reach USD 260 million by 2011. Affirms Raina, "We were expecting SMEs to go in for SaaS in a big way, but we also saw the large enterprises embracing this delivery model."

But SaaS needs to be supported by a strong infrastructure. For instance, if a large enterprise with offices in multiple cities needs to have software licenses at multiple locations, and if the location at the smaller city does not have good Internet bandwidth, then this delivery model will fail. So enterprises need to take a cautious approach.

ISVs are now rising to meet the demand with a slew of new SaaS offerings targeted primarily at the SMEs. Indian ERP vendor Ramco offers OnDemand ERP—a suite of modules that organizations can cherry pick and then pay on the basis of usage, every month.

Microsoft will soon commercialize its SaaS offering, the Business Productivity Online Suite (BPOS). It includes SaaS versions of MS Exchange, SharePoint, Office Communications Server (OCS) and Office LiveMeeting. It is currently conducting customer trials for this solution.

Emerging Opportunities

As we mentioned earlier, there will be a new focus on integration and BI. But there are new opportunities for ISVs such as Virtualization, Cloud Computing and collaborative tools. Microsoft will be launching Azure, its cloud platform at the end of the year. ISVs are preparing to launch applications for this platform.

Collaborative Web 2.0 technologies and tools are increasingly being used in organizations that have distributed workforces. They are using tools such as Weblogic, IBM Websphere, IBM LotusLive, Visible Path, Microsoft Office Live Meeting and others.