ARE SMES READY FOR SaaS

The software market is undergoing a transformation and the foremost emerging trend and disruptive technology SaaS today features in software vendors overall business strategy, and needs to be seen if SMEs too are ready.

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The changing business ecosystem in recent times is compelling the CIOs to rethink about the software development strategy for their customers. The increasing IT adoption, need to strengthen customer services, increase efficiency and limit costs are all driving the market towards the adoption of enterprise software. Even disruptive trends like the cloud, mobility and social media are increasingly being adopted and fuelling the enterprise software market.

The enterprise software market in India is projected to reach $3.92 billion in 2013, a 13.9 percent growth over 2012 revenue of $3.45 billion, finds the latest Gartner survey. The reason for this is the combination of both demand and supply in the enterprise software market space. India has a very mature enterprise software market, and is said to be the fourth largest in the Asia-Pacific region.

The market is dominated by both big and small players; and both global vendors along with small vendors like Microsoft, SAP, IBM, Oracle, HP, QlikTech, Ramco, Sage, Tally, Busy etc. are reshaping the market.

Businesses today are looking at safe and easy to deploy solutions, which are scalable as well as flexible to meet the demands of today's highly mobile workforce. Some of the leading enterprise software includes CRM, ERP, SCM, Security, BI etc. According to AMI the key drivers for the Enterprise Software market in India is still the ERP and CRM markets. "SCM or Supply-Chain-Management is mostly available as a part and parcel of ERP suites. In fact – nowadays most
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of the ERP suites also contain an inbuilt CRM suite," says Dev Chakravarty, Manager (Research), AMI-Partners.

The emergence of Cloud is also driving this market and software-as-a-service (SaaS) based ERP is expected to grow at a CAGR of 13.93% over the period of 2012-2016, as per TechNavio, and further adds that SMEs will be one of the key factors driving this growth. The increasing number of small and mid-range enterprise software vendors, has also allowed SMEs access to cost effective enterprise services, providing customized ERP services and IT system development with dedicated focus on business growth.

"Highly dynamic and volatile business environment has led organizations across India to re-think about the implementation & the need of complex and costly upgrade projects. Parallelly, the ability to implement platform and infrastructure services in the cloud quickly and cost-effectively has led to a profusion of scalable pay-as-you-go SaaS applications," says Moham-mad Salman, Senior VP & Head (EAS Business), HCL Infosystems Ltd.

The key verticals driving markets for enterprise software include Government, Banking and financial services, IT & ITes, Telecom, Retail and Manufacturing, Healthcare & LifeSciences.

With an increasing focus on the infrastructure development, the enterprise market is seeing investments from the government too. "Today, Government and the public sector are the largest verticals for Indian IT. With the move towards digitisation of most governance related processes, there has been a focus on developing infrastructure that simplifies governance," replies Amit Singh, Country Manager, Dell SonicWall.

Security is another vertical driving the enterprise software market. "Various Indian start-ups have created products and services for the Indian security market. Customized products are being created by the global software majors for the Indian markets with enhanced security specifications to control against piracy as well as protecting enterprise data," informs H Senthumadhavan Srinivasan, Director (Corporate Affairs), Huawei.

For Symantec the biggest transformation in enterprise software is the impact of strategic IT trends - cloud and virtualization, mobility and information explosion. "These trends are spurring the evolution of IT from a business enabler to a value driver," says Tarun Kaura, Director (Technologies, Sales, India and SAARC), Symantec.

With regards to the adoption of cloud technology, Symantec’s ‘Avoiding the Hidden Costs of Cloud 2013 Survey’, shows that Indian organisations are widely migrating to the cloud to gain competitive advantages around speed, agility and flexibility. In fact, nearly all the surveyed large and small businesses in the country are at least discussing cloud.

"Large companies are shifting to the Cloud. While most large companies today are still generally wary of moving to the cloud, they have warmed up to it to the extent that they are moving their non-core apps to the cloud while keeping their core apps out of it," says Singh.

He further adds that BI is becoming critical to business. The rise of enterprise mobility is further giving rise to the trend of mobile BI and enterprise software vendors are building their expertise in this space as well.

"BI & Analytics is playing a key role in enabling decision makers across an organisation the ability to harness data to draw insights and come to meaningful conclusions. Enterprises today want a user-driven BI approach that helps all its employees make decisions based on multiple
sources of insight. There is a need to create and share knowledge and analysis in groups as well as across the company," says Philip Bentac, Regional VP (APAC), QlikTech.

Even SMEs are warming up to Cloud technology as they realize the importance of investing in technology to market themselves and to compete in the global and domestic markets.

**Transition from Traditional to Cloud**

No doubt, traditional enterprise software suffers from its own disadvantages like inflexibility and agility, high licensing and support costs, but as large enterprises have already made significant investments in on-premise software it is unlikely they will shift to cloud says AMI. "There has been relatively less uptake of SaaS," adds Chakravarty.

While legacy enterprise software can simply be installed and run on instances on the cloud using cloud based infrastructure services, maximum benefits are realized by end users when these applications itself are provided as a service in the form of a platform or software says Singh. He further adds, "Enterprise software vendors would also have to change their current business models where large license revenues, high maintenance cost of antiquated versions and heavily invested customers are the standard and move to pay-per-use cloud computing model."

Varun Yadav, Senior Manager (Marketing & International Business), Busy, pitches in, "Enterprises still have concerns related to data security with cloud applications. Moreover, most of the organizations have already done investment in legacy solutions. The growth of cloud applications would largely depend on how the ecosystem matures to address these concerns."

All will not adopt cloud model and for all applications, says Deepak Jadhav, Director, VDA Infosolutions, enterprise customer won't go to public cloud so easily but going for private clouds, certain CRM and productivity applications etc. will see good growth in cloud model.

Manish Manocha, Director (Technology), Fl Infotech Pvt. Ltd., opines, "The traditional software is needed to be installed on local infrastructure. In this case it is really unjustifiable to get data on cloud for backup. OEMs need to have an interlocking solution on cloud for the same. Data integrity is the largest concern here because customer would be storing very business sensitive data on cloud."

On the face of shift from traditional enterprise software model will entail challenges of its own for the Vendors. Security and integration remain prerequisites for organisations. The onus of deployment, training and maintenance will remain on the vendors says the industry.

Chakravarty says, "Clearly the challenge will be immense since in the cloud model the onus is on the vendor for almost all aspects right from deployment, training and maintenance, is usually hassle-free for the end-users to a great extent. Hence the vendor as well as his Service-provider partner must ensure quality 24x7 services to the end-user in the ERP cloud model. There are also issues like ensuring transparency in payment since the amount is to be decided on the pay-per-use model usually."

Senior programmer of ERPnext's Anand Doshi says, "Vendors will face increased competition especially due to pricing. However, this will also lead to more innovation. Vendors may need to maintain compatibility with different browsers and make sure that their application is easy to use."

Cloud is still catching-up vis-a-vis on-premise. With the present ratio of 80% versus 20% of on-
"CRM APPLICATIONS SMB SPENDING ON SAAS HAS INCREASED BY OVER 80%. "WE BELIEVE SMBS ARE already OPEN FOR CLOUD APPLICATIONS AND EMBRACE THE BENEFITS THEY OFFER" SUSHIL TYAGI, DIRECTOR (GLOBAL SALES AND MARKETING), CRMNEXT

While the Cloud-based CRM has performed better, the Cloud-ERP's share is not more than 10-15% of the overall market but AMI predicts a gradual rise vis-à-vis its on-premise version since the former enjoys an annual growth rate of more than double its on-premise counterpart.

As businesses diversify in various geographies, and organizations look at optimizing the IT objectives with limited investments, saas is enabling them in reducing the capex for organizations bringing in flexibility in organizational IT budgets.

Businesses are re-thinking the need to implement and the need of complex and costly upgrade projects are hence are turning towards SaaS as a quick and cost effective solution. It also gives them the flexibility to integrate and customize as per their business needs. And businesses both big and small are turning towards SaaS as a business model.

As Srini says, "Subscription based services allow for quick movement between providers, and thus there is a constant need for up-gradation of enterprise software services, in accordance with demands from the users. The second thing that SaaS does is make way for simplicity. The association of enterprise software with complexity and expert management has been trumped."

PwC's Global 100 Software Leaders report found that SaaS now accounts for at least 40% of the software revenue for 10 major companies listed Global 100. It also adds that with the popularity of the SaaS mode software companies are now evaluating their business models, including delivery methods, pricing strategies and sales compensation options.

Organizations are demanding solutions with different deployment needs such as On-premise and Cloud based applications informs Vijayant Rai, Director (India & SAARC), Nissoft & Data Management, CA Technologies. "Additionally, functional practices such as HR, marketing, finance and SCM are becoming integral part of business strategies. On the other hand, vertical specific enterprise software is further changing the enterprise software adoption scenario," he adds.

"Some questions that enterprises need to address before adopting cloud computing are: Who's responsible for security, compliance and governance? What kind of effect does cloud computing, which is virtual rather than physical, have on these aspects? Companies must figure out how to create holistic policies while accommodating both virtual and physical infrastructures to avoid overwhelming their IT departments with specialized solutions," says Kaura.

"Large enterprises have a good adoption rate for private cloud especially for mission-critical applications like ERP, while for less mission-critical workloads such as collaboration and content management platforms, web apps and CRM/ marketing automation there is an increasing trend towards public cloud model. The SME segment is also showing good traction and adoption towards public cloud solutions for mission-critical applications like ERP solutions," says Salman.

"In the mid and large enterprise space the major trend is Committed cloud which gives them the flexibility to own a solution on public cloud or private cloud depending on economies of scale and their readiness to manage these solutions at their own data centers," says Sushil Tyagi, Director (Global Sales and Marketing), CRMNext

Are SMEs Open to Cloud

SMEs today are seen as the growth drivers of the future. They are looking for speed, ease of deployment and an amazing user experience, and are waking up to the benefits of the enterprise software in their business growth. Vendors are leaving no stone unturned in developing software that caters to specific business functions.

A NASSCOM study on SMBs current state of Software Adoption and Outreach states that SMBs are looking at adopting enterprise software solutions. The transformation of SMBs from traditional IT infrastructure to cloud and to SaaS-based solutions will help them access content more effectively and affordably.

It is said that the next demand for IT solutions will be mainly driven by SMEs. In a recently conducted survey by Nielsen-NASSCOM also, more than 50% SMBs have shown positive intent towards the usage of business software.

"They form an important part of the cloud market and are at the heart of the SaaS growth" Parallels says.

Apart from bringing in more affordable solutions along with flexibility in overall software adoption strategy, SaaS also helps SMEs to reduce overall IT investment as solutions are on demand..."
which in turn addresses the key issue of investments in IT infrastructures in more affordable manner.

Rai of CA Technologies says, "SMBs are fast embracing SaaS solutions in order to reduce overall capex and bring in more agility in business. Today, there has been a peculiar shift in demand for vertical based customized enterprise software which will cater to unique requirements of various business verticals."

"The emergence of cloud computing has changed the way enterprise applications were delivered traditionally — business applications are now available on a SaaS model where customers have to pay as per their usage of the applications. Additionally, SMBs today can gain the benefits of enterprise software without having to upgrade, maintain and support enterprise software as vendors make such updates and fixes immediately available to the customer," says Singh.

Harsh Vardhan G says Cloud-based enterprise software offerings are found to be the forerunners in driving the enterprise software market, and 2013 is likely to see a significant increase in the number of SMBs adopting these offerings.

However, as per Yadav the penetration in SMEs is still slow but believes 2015 could be a tipping point (for the adoption of cloud and mobile applications) owing to the fact that SMEs generally wait for a technology to stabilize.

The SME sector was considered to be a significant focused segment for Cloud-based ERP, yet the uptake has been relatively less therein. The main obstacle has been a lack of awareness of the benefits of cloud-ERP among SMBs followed by a somewhat lack of a proper ecosystem. "Benefits like better manageability, any-time access, etc, are still not disseminated among SMBs. Another barrier for SMBs have been the vagaries of Internet access; many SMBs are still not convinced that their ISPs would offer them minimum downtime and thus are loath to accept any service purely dependent on connectivity," says Chakravarty.

Echoing almost the same sentiments Doshi of ERPnext feels that SMBs may show resistance to change from desktop based accounting solutions like Tally or Spreadsheets to cloud based systems. "But this perception is changing as they realize their need for data consolidation and efficiency," he adds.

"Additionally, functional practices are becoming integral part of business strategies. On the other hand, vertical specific enterprise software are further changing the enterprise software adoption scenario."

Vijayant Rai, Director (India & SAARC), NIMSOFT & DATA MANAGEMENT, CA TECHNOLOGIES

Futuresoft Solutions' COO Harish Menon informs, "SMEs are considering enterprise software but one which is not hosted on their premise."

Even the spending on SaaS in volume terms is miniscule says Chakravarty. However, on the whole it estimates that over the next five years SaaS spending within this sector will show a significantly high growth vis-a-vis the on-premise software components. "SaaS spending is anticipated to grow at a CAGR of around 30-35% range over the next two years approximately."

Seconding him is IDC report which predicts that IT market would exhibit strong growth through 2015, and that SME spending on SaaS and security appliances will grow at double-digit rates in the coming years, offering new opportunities for technology suppliers.

However, Tyagi gives a robust number and informs that for CRM applications SMB spending.
Challenges
Without the risk of over-generalising the enterprise software market suffers from certain challenges. Finding the right talent pool is considered the biggest challenge facing this market.

Consumerisation of IT, BYOD, Cloud and Virtualisation are shaping the way business is done with flexible working patterns. However, this is further creating complexities in the IT environment.

Adoption and up-gradation of enterprise software solutions vis-a-vis global standards, adapting the software market to meet the needs of SMEs and adequately trained professionals who have business knowledge and understanding of this sector are some of the other disadvantages faced by the market.

Sage Software’s country manager Vishal Kanal adds that a majority of the Indian SMEs still perceive IT adoption as a time consuming, complex and expensive process. The frequent fluctuation in the exchange rate and the economic condition further accentuate this creating extreme price sensitivity in the Enterprise Software Market. "Therefore, giving face time to the customer and educating customer on adoption and benefits of technology is very important," he emphasises.

Kaura rates Investments as another constraint in this market. "IT requires significant investment from companies and in a budget constraint scenario it is imperative to show value for every penny spent on it. In this case a cloud based delivery model works best wherein there is no capital expenditure but only operating expenses," he adds.

Widespread homogenization and fierce competition among solutions providers, who promote quality of service as their core competitiveness, Srinivasan says is a recurring challenge faced in the market. "And yet while the business operation side sees continuous changes and improvements, it has not been matched by growth in revenue from customers," he comments.

For the VDA Infosolutions’ Jadhav implementation cost and the non-clarity on customer part when it comes to his requirements are the biggest challenges. "As a result of this he does re-installation, hence fail to see the value of the software or outcome," he remarks.

Future Perfect
According to a recent Gartner report, Cloud and CRM will drive the Enterprise software market. To make up for the economic pressures leading to worldwide resource and skill shortages, and reduce costs at the same time organizations are showing an interest in cloud computing and other options that externalize IT.

The same report also reveals that CRM is being considered more important than ERP as the top application software investment priority.

"CRM and ERP are expected to be priority areas of software spending in the next five years as Indian enterprises are looking at cost effective technology solutions. This could result in an aggressive growth of the enterprise software market," predicts Kanal.

In AMHis view both the markets will continue to grow - of course the likely growth in Cloud-based ERP is likely to be higher since it is rising from a low base. "The traditional large enterprises are more or less saturated in terms of adopting on-premise ERP and we usually do not see a possibility of their shifting en-masse to the cloud: they may be going for some upgrades. Cloud concept is going to be appreciated more by the start-ups or SMBs," responds Chakravarty.

"With the increase in demand for applications such as web conferencing, enterprise content management, CRM and security solutions, India will continue to see growth in the enterprise software market and with the widespread presence of global software and hardware vendors, system integrators, service providers and business partners, the enterprise software will continue to be on a growth trajectory," predicts Salman.

Jadhav opines that all models will co-exist, and hopefully in the next five years 30-40% applications will move to cloud, with the possibility that it will be more than this.

Harsh Meenon, COO, Futuresoft Solutions says clients will be demanding technology on the fly, pushing OEMs and Partners alike to come out with more innovative delivery models. "Future will belong to two distinct players; one who will build and offer capacity on-demand and second to service providers."

Finally
No doubt, SaaS delivery model is more efficient and cost effective than an on-premise solution. Having said that, businesses who have already invested in legacy software, may find it difficult transition from a traditional license to a subscription based model. Unless its scale and profitability are proven the reluctance to adopt it with full gusto will remain.