MARKET RESEARCH
OVERVIEW

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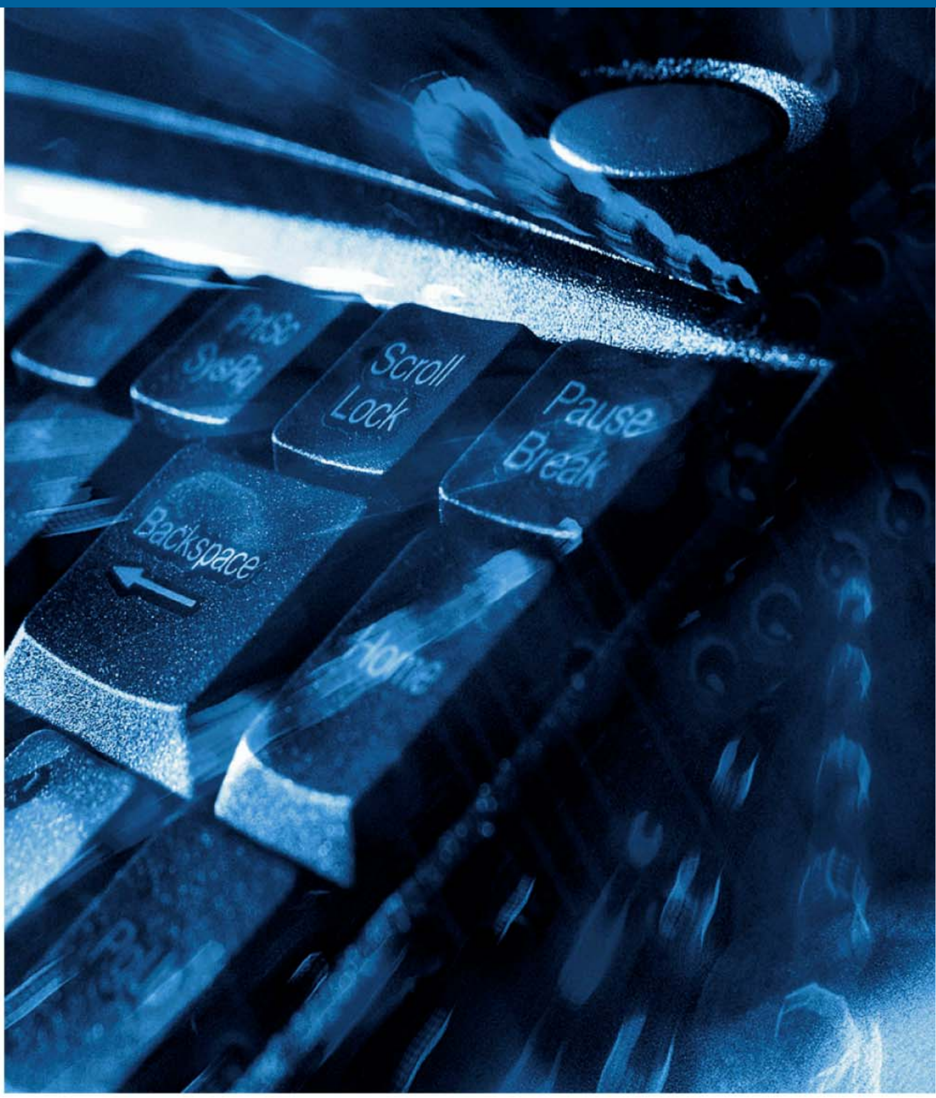
The Software as a Service Market in Asia Pacific, 2005 to 2008: Executive Overview



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INTRODUCTION

Software as a Service (SaaS) has been one of the IT industry's hottest buzzwords over the past several years, and for good reason. The success of firms such as Salesforce.com, Web Ex and RightNow Technologies has shown the power of the on-demand software delivery model. Cost benefits, ease of implementation and management, and better coordination across branch offices have been key drivers for the early success of SaaS vendors. Although some high-level research has been conducted at the global level, very little information exists on the Asia Pacific SaaS marketplace.

This Springboard Research report addresses the lack of coverage by examining the key trends in the Asia Pacific Enterprise SaaS market. A key focus area of this executive overview is in providing some topline market data including market size and growth forecasts for key application segments of the enterprise SaaS market in Asia Pacific excluding Japan. A survey of 210 CIOs and IT decision-makers at small and medium enterprises in Australia, China, India, Korea, Malaysia, the Philippines and Singapore helps to contribute to this executive overview. Springboard additionally has a more extensive report available that will provide country level detail, the full results of the survey, along with detailed market sizing of specific application segments.

Executive Summary

Our review of the Asian SaaS market revealed a particularly dynamic, promising and exciting corner of the IT market. Many segments of the market are doubling in size every year, and the pace of strategic experimentation is astounding. Most vendors are approaching the market in a different way, viewing it through a lens that can help them benefit from this new market dynamic to the largest extent possible. Young SaaS-founded companies are moving at a fast and furious pace to stake their claim, as traditional IT firms delve into the SaaS landscape more cautiously. Regardless of the approach, all vendors we encountered have a healthy dose of respect for the power and force of the SaaS dynamic, and its ability to reshape their fortunes in the long term. Our five key findings from this research study are provided below:

1. **The SaaS Market is Here to Stay:** Unlike many hot IT industry buzzwords that come and go, all evidence we gathered points to the long term staying power of the SaaS model. Early adopters report significant savings and high satisfaction, vendors are investing heavily, and ecosystems to support SaaS growth are taking shape quickly. We do not believe SaaS will replace the traditional software license model any time soon and we envision an environment where both models coexist; however, SaaS will eat into the share of the traditional model and the traditional software license approach will need to adapt.

2. **SaaS is not Just for Asia's Small and Medium-sized Businesses:** Although adoption levels for SaaS will be greater in the SMB market sector, vendors indicated there is activity in the large enterprise sector as well, and that upper mid-market and large businesses represent some of their largest and most important clients. Large enterprises are far less likely to leverage the SaaS model for core applications such as ERP, but for applications deemed less mission-critical and those on the edge of their infrastructures, SaaS is receiving considerable interest.

3. **Competitive Frameworks in the Enterprise Application Industry will be Reshaped by SaaS:** Traditional enterprise application vendors are already adjusting their offerings to address the SaaS dynamic, and new formidable competitors are emerging at a rapid pace. In many ways, SaaS – enabled by its ease of implementation, maintenance and support – levels the playing field and allows vendors to compete more effectively across borders based on the merit and ease of use of their applications.

4. **SaaS is in the Process of Branching out of the Core CRM Segment to other Application Markets:** CRM has been the pioneer and largest segment of the SaaS market, but a myriad of other markets are now gearing up for a SaaS push. Two segments in particular that we believe are on the threshold of strong SaaS advances over the next several years are Security and Collaboration; however, the spread of the SaaS dynamic can be expected far and wide in the years to come.

5. **A SaaS Channel and Ecosystem is Emerging in Asia Rapidly, but it is Marked by Experimentation and Fear:** The race is on as traditional software firms and SaaS vendors are working hard to develop extended regional networks of resellers, system integrators (SIs) and developers. Experimentation has been common with several tie-ups between software vendors and telecommunication firms and the rollout of innovative referral models. However, traditional SIs are weary of embracing the models too firmly out of fear that it could cannibalize their existing sources of profit.

In addition to these key findings, other prominent study results are outlined below:

- The Asia Pacific SaaS enterprise applications market amounted to US$80 million in 2005, and generated 82% revenue growth over the previous year. The market is projected to grow at a CAGR of 84% from 2005 to 2008.

- CRM is the largest SaaS application segment in the region, representing 50% of total SaaS revenue in 2005. CRM is trailed by Web Conferencing and Collaboration (30%) and back-office applications such as ERP (9%)

- Australia is the largest regional SaaS market with a 36% share of 2005 Asia Pacific revenues. China/Hong Kong (16%) and Korea (10%) are the next largest regional SaaS markets.

- Salesforce.com leads the regional SaaS market with a 21% revenue market share. WebEx (11%), RightNow Technologies (9%), Oracle (6%) and NetSuite (4%) follow the market leader.

- Based on a survey of Asian Small and Medium-sized enterprises, 41% were aware of the SaaS concept. Only 29% of SMEs surveyed had reported adopting SaaS; however, many likely did not fall into Springboard's official SaaS definition, which would lower this figure.

- The primary factor driving SMEs to adopt SaaS applications is cost benefit (33%), followed by ease of use and business benefits.

- Of the surveyed SMEs that had adopted SaaS, they reported savings ranging from 5-55% compared to the traditional licensed model, with the majority (58%) reporting estimated savings of between 20-30%.

- The primary factor preventing SMEs from adopting SaaS is the perception that it is more expensive than licensed software. The next most important inhibitors are a lack of SaaS understanding and security concerns.

- Among SMEs that had not adopted SaaS, 25% indicated plans to do so within the next 12 months. The primary application being planned is CRM, followed by web collaboration, security and HR applications.

TAXONOMY

What is Software as a Service (SaaS)?

Defining SaaS is a tricky issue, in part because different stakeholders in the SaaS market want to define it in the way it suits them. In spite of these challenges, Springboard Research defines Software as a Service (SaaS) as a model in which application software is delivered remotely through a subscription-based fee rather than being sold for perpetual use. The users do not buy the license of the software, but only a right to use it. A user may subscribe to all the features / functionalities or just some of them for use. We have also referred to the model as On-Demand Software and On-Demand Application.

The key characteristics of SaaS are:

- The software application is not owned by the customer, and is only rented for use.

- The software resides at a central server and not on customers' machines. The user accesses the application through a web browser. The SaaS provider is responsible for the performance of the software.

- The primary value delivered is the continuous and ongoing support for the application by the service provider. Network based access allows maintenance, support and upgrades to the software from the data center. The SaaS provider is responsible for the maintenance and upgrade of the software.

- The architecture of the application, management thereof and the pricing mimic the one-to-many model rather than the one-to-one model.

Enterprise Software Applications delivered as SaaS include business applications such as customer relationship management (CRM), web conferencing and collaboration applications, HR applications like talent management and payroll, enterprise resource management applications like ERP, supply chain management (SCM), product lifecycle management (PLM) and so on.

This report excludes software applications or services aimed mainly at the consumer market. It is true that online companies like Yahoo and Google also deliver software as a service; however, we have excluded them for two reasons: a.) those services are mostly used by consumers, which is a distinct market with unique characteristics and, b.) their revenue is not exclusively derived from selling software services but often provided for free or subsidized by advertising.

We have also excluded the business of application hosting from the scope of this report as the model does not meet our definition of SaaS. In the application hosting model, the customer has to pay for the software license. The customer therefore owns the software application and is responsible for upgrades and maintenance.

Who is a SaaS Provider?

A SaaS Provider is any company that delivers SaaS over the Internet and is accountable for the software maintenance, upgrade and associated services. The SaaS Provider is responsible for hosting, deploying, customizing, configuring and delivering the service.

RESEARCH METHODOLOGY

The research conducted for this report was executed from February to April of 2006. The methodology employed included secondary research, and both supply and demand side primary research. Additional details on each of these research elements are provided below.

Secondary Research

The first research phase involved an extensive secondary research exercise to scan public information sources on the Internet and elsewhere. Key information sources included SaaS vendor websites, earnings statements and white papers. In addition, reports, articles, websites, blogs and journals from other research bodies, associations and government entities were used to create an initial framework of understanding on the SaaS dynamics globally and in Asia Pacific.

Supply-side Primary Research

Research interviews were then conducted with the heads of Asia Pacific operations for leading SaaS vendors and large traditional software providers. In several cases, global CEOs of prominent SaaS companies were interviewed for their insights. Respondents were led through a structured questionnaire to gather quantitative and qualitative inputs on their operations, performance, strategies and views on the overall Asia Pacific SaaS marketplace. Data from interviews was consolidated, checked for consistency and accuracy, and then inserted into Springboard's SaaS data model.

Demand-side Primary Research

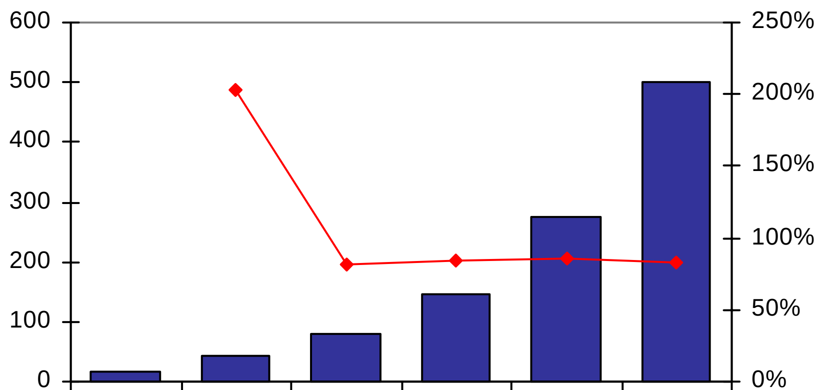
In order to inject user perceptions and adoption into the research methodology, a total of 210 CIOs and IT managers from SMBs were interviewed in Australia, China, India, South Korea, Singapore, the Philippines and Malaysia. Interviews were conducted over the phone through a structured questionnaire that gathered quantitative and qualitative inputs on SaaS adoption within the company.

Overview of Key Trends in the Asia Pacific SaaS Market

Software as a Service (SaaS) is quickly gaining momentum in the Asia Pacific region. Although the region is far behind North America and Europe in terms of awareness and adoption of this new model, Asian companies are increasingly seeing value in buying subscription-based software services. As a result, the Asia Pacific region has emerged as one of the fastest growing SaaS markets in the world, which is drawing strong attention from SaaS vendors in the US and Europe. Leading international vendors are in the midst of localizing their offerings as they strengthen their direct and indirect sales and marketing presence in the region.

Springboard Research estimates that the market for Software as a Service in Asia Pacific (excluding Japan) will grow to US$501 million in 2008 registering a CAGR of 84% from 2005 to 2008. The market was around US$80 million in 2005, which represented a growth of 82% over 2004. (Figure 1)

Figure 1: Asia Pacific SaaS Applications Market Revenue (US$M) and Annual Growth, 2004-2008



	2003	2004	2005	2006	2007	2008
Revenue	15	44	80	147	274	501
Growth		203%	82%	84%	86%	83%

Source: Springboard Research, 4/2006

SMB and Large Enterprise Trends

The benefits of SaaS are more evident in the SMB market segment, which has been identified as the first battleground for SaaS providers. SMBs who usually find it hard to invest in IT infrastructure or other technical resources like manpower are looking at SaaS as a sort of IT lifeline. SMBs in verticals like technology, trading and distribution services, software services, and business services have been early adopters of SaaS in Asia Pacific.

While many of the region's large enterprises are still in wait-and-watch mode or are using SaaS only sporadically when compared to SMBs, it would be erroneous to view SaaS as a prominent trend in the SMB sector only. One key research finding from interviews with vendors across the SaaS spectrum is that the Large Enterprise segment is a substantial and important SaaS market; however, adoption trends in this segment of the market differ when compared to the SMB sector.

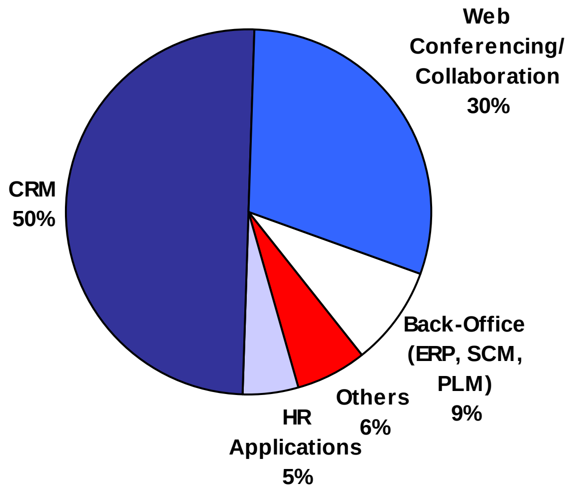
Large and to an extent medium sized organizations are showing interest in deploying non-core applications like human resource management, security and expense management applications through the SaaS model. Many large businesses are still unsure of the reliability of SaaS core applications and believe deploying non-core applications is a safer bet in the short term. However, in the case of CRM and web conferencing, a significant number of the users are large enterprises and upper mid-market businesses.

SaaS Application Dynamics

Like elsewhere in the world, SaaS is moving beyond CRM, the most fashionable SaaS application made popular by vendors like Salesforce.com and RightNow Technologies. Web conferencing, HR applications, Enterprise Resource Planning (ERP), Supply Chain Management (SCM) and Product Lifecycle Management (PLM) are gaining acceptance in the region. Of these, Web conferencing and collaboration tools have been one of the fastest growing SaaS applications.

Although SaaS adoption is branching out beyond CRM, this pioneering segment represented half of total SaaS revenues in 2005. CRM is followed by Web Conferencing & Collaboration, which held a 30% share in 2005, followed at quite a distance by Back-Office and HR applications. (Figure 2)

Figure 2: Asia Pacific SaaS Revenue by Application, 2005



Others include messaging and email management, security (anti-virus, anti-spam, IDS), compliance management, Web Analytics, accounting applications
Source: Springboard Research, 4/2006

Applications like message and email management, security (anti-virus, anti-spam, IDS), compliance management, web analytics, content management and document management are also gaining traction. Even applications like web-based word processors and spreadsheets are gaining in popularity, as illustrated by Google's recent purchase of Writely, an online Word processor.

While few vendors can comfortably claim to offer the entire suite of software applications that an enterprise would typically need, SaaS vendors are definitely moving in that direction. Vendors like Salesforce.com and Webex are pushing integrated applications in the market taking software as a service beyond their core. They are also working with other application vendors and ISVs to offer a range of applications. Key SaaS applications are illustrated in greater detail in Table 1.

Table 1: SaaS Enterprise Applications by Category

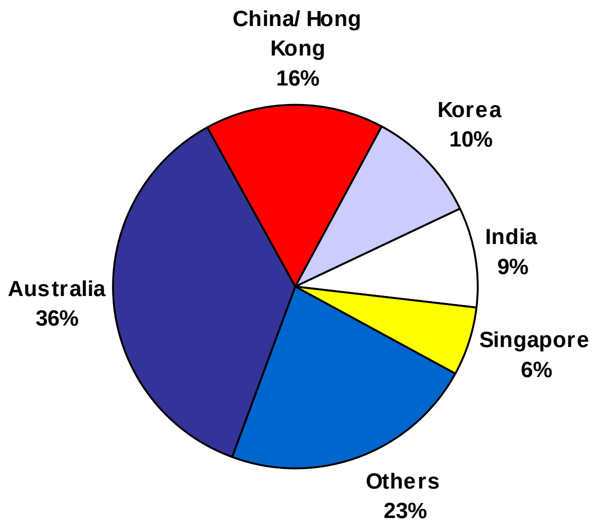
Front Office / BI	Back Office	Collaboration	Desktop
CRM	ERP	Web conferencing	Word processors
Web analytics	SCM	Document Management	Spreadsheets
	PLM	Shared calendars, contact lists & tasks	
	HR Management	Email management	
	Payroll and Accounting		

Source: Springboard Research, 4/2006

Country Adoption Trends

Given the cultural and economic complexity and diversity of the Asia Pacific region, the adoption of SaaS is not uniform across the region. Australia and New Zealand are closer to North America in terms of SaaS adoption trends. Australia is therefore the largest SaaS market in the region. Growing broadband uptake in the SMB segment, which dominates the New Zealand economy, has seen many SMB companies opting for SaaS the country.

Figure 3: Asia Pacific SaaS Revenue by Country, 2005



Source: Springboard Research, 4/2006

China and India are seen as countries with the greatest potential in the mid to long term future. Many vendors are even considering developing India as their hub for servicing their SaaS clients across Asia Pacific and other regions of the world. Singapore, Hong Kong, Korea and Taiwan are other key markets in the region.

While applications like on-demand CRM are more popular in countries like Australia, applications like on-demand SCM have found more acceptance in the manufacturing-based economies of China, Hong Kong, Taiwan, Korea and Thailand.

The growth in the region is happening despite many unfavorable factors including very low awareness of the concept of SaaS and the absence of a culture of paying for services in some countries. Additional depth on the country dynamics in key markets is provided in the *Country Profiles* chapter of this report.

Key Adoption Drivers

There are several factors driving the adoption of SaaS in the Asia Pacific region, but the cost advantages and ease of implementation and management are the key drivers. Software buyers in Asia are beginning to look to lower IT investment risks, increase management simplicity, elevate quality and lower costs, all of which are helping SaaS find favor in the region. In addition, the strong economic growth in Asia, lack of legacy applications and low IT penetration in general makes SaaS an intriguing option for many regional firms. As is the case elsewhere around the globe, actual and perceived cost savings, especially among segments of SMBs, have been a prime driver. However, more than that, Asian companies are finding SaaS attractive because of the IT and business benefits that it offers. Each of these market accelerators is described in greater detail below.

COST ADVANTAGES

The key value propositions driving adoption of SaaS among Asian enterprises are no different from those in North America or Europe. As such, as in North America and Europe, among the primary drivers of SaaS adoption in Asia Pacific has been the cost element. User organizations are now less inclined to pay hefty license fees and have been moving towards the concept of utility on-demand services not just in the software space, but in other IT service segments as well.

In a survey of users across Asia Pacific, Springboard Research found that both users and non-users (those considering adopting the SaaS model as well those who are aware of the model but are not going for it in the next 6-12 months) consider cost as a major factor that makes SaaS attractive. These companies are mostly SMBs who can neither afford to employ dedicated IT professionals or investment in expensive software licenses.

Since SaaS vendors typically bundle licensing, implementation, customization, maintenance, upgrades, hardware and other support into their offerings, the total cost of ownership works out to be much lower in the case of subscription-based on-demand software. There is some debate on this fact when subscriber numbers reach higher levels, but in these cases SaaS providers often provide discounts against standard subscription fees. In addition, the industry can be expected to move towards more sophisticated and precise pay-per-use models as the sector matures.

Another advantage for the SaaS model is that it does not entail an upfront investment in software licenses, but only periodic subscription fees that are a fraction of the license cost. As a result, users save a significant amount on the capital expenditures involved in deploying an application by buying its license and other equipment to support the solution. This is generally more attractive to SMBs who work on smaller IT budgets. The cost factor is particularly appealing in the Asian context as the region is one of the most price sensitive markets in the world.

Ease of Implementation and Management

The speed and ease with which SaaS applications can be implemented is another key driver for this emerging market segment. IT departments in the region are challenged like never before due to the growing cost of IT manpower as well as a shortage of it. Moreover, in a region where most companies do not have dedicated IT executives, SaaS is a more convenient option as they can use sophisticated software applications without worrying as much about their maintenance and management.

Focus on Core Competencies

As more companies move their business online as a strategy and look at improving efficiency to serve their customers better and faster, SaaS is emerging as a strategic option for many enterprises in the region. A growing number of enterprises in the region are adopting SaaS because they want to focus more on business and less on IT. This essentially means that they would prefer to minimize IT investments and instead focus on IT capabilities that help them enhance their business. They want to realign IT to their business needs and hence want a more flexible application deployment model.

SMBs also cite such advantages like ease of use and scalability in case the number of users goes up, fast upgrades to new versions of the application as other benefits of deploying SaaS.

Globalization of Asian Business

As Asian business goes global and more global companies expand their presence in the region, SaaS makes it easier for deploying applications in new offices. Moreover, globalization of a workforce that is increasingly mobile has also been a key factor in the growing SaaS adoption in the region.

In many cases, it is the business needs that are driving adoption of the SaaS model. For instance, as much of the manufacturing business and some design have been steadily moving to Asia from the US, it becomes imperative for Asia Pacific companies to collaborate, effortlessly, both within the enterprise and with vendors and suppliers. Asian companies need to collaborate more effectively across multi-lingual, multi-currency, multi-time zones in a seamless fashion.

IMPROVEMENT IN BROADBAND INFRASTRUCTURE

The growth in the Asia Pacific SaaS market has also been aided by the improvement in the broadband infrastructure in the region. Broadband access has grown considerably in most Asia Pacific countries in the past couple of years. This has helped the cause of SaaS as access to high-quality broadband connectivity is a must if on-demand applications are to run smoothly.

Barriers to Adoption

Even though the market is growing in the region, there are a host of factors inhibiting a smooth take off of SaaS in Asia Pacific. Some of these reasons are country specific, others industry or application specific (which we have described in detail in chapters on applications and countries), others are common across the region. We have described the major barriers to adoption of SaaS in Asia Pacific in detail here.

LACK OF AWARENESS AND UNDERSTANDING

The biggest barrier inhibiting the adoption of SaaS beyond a small section of the market is a lack of awareness and understanding of SaaS. A large number of companies do not even know of the existence of SaaS as an alternative to the traditional model of software delivery. Hence, they do not take it into account at all while considering a software deployment.

Yet another segment of the market is aware of the concept, but do not really understand what it actually means or how it can benefit them. This lack of awareness and understanding of the concept has limited its appeal and market acceptance in Asia. As Springboard Research found in its survey of companies in the region, many strongly perceive on-premise licensed software to be cheaper than deploying SaaS and as such, do not want to go for the subscription based model. They consider purchasing software by paying upfront cheaper than paying a periodic usage charge. This is despite the fact that they do not have any documentation to support what works out cheaper for them. They usually do not take into account the cost of upgrades and maintenance including the cost of IT staff that must be added to the TCO of an on-premise application. Many consider SaaS as low-end versions of traditional software and hence cheaper. Clearly, a lack of education is an important factor restraining SaaS adoption in Asia.

A lack of understanding of the concept in the channel community has also been an inhibiting factor for SaaS in the region. Often, going to market for a SaaS provider is a challenge because there is no channel at all.

RESISTANCE TO PAYING FOR SERVICES AND PIRACY

In many countries in the region service is often taken for granted and viewed as something that must be offered with an application for free, or nearly so. Moreover, in a region where piracy is rampant and many SMBs use pirated versions of software, there is also a lack of willingness to pay for services. Why pay for a software service when you can get the software itself for free? This is the question that many vendors often encounter in the region. There are surely a growing number of companies who would not mind paying for software services provided that direct business benefits are delivered.

Lack of Trust and Perceived Reliability

Trust and reliability are key challenges because many of the SaaS vendors are small companies and startups that are little known in the region, which holds back adoption. As seen in the market survey, many companies want their traditional software vendors to offer SaaS applications because they are well known and established brands, with relationships of trust and reputations of reliability already established.

Security Concerns

Security is another key issue. Many prospective users consider SaaS applications less secure than on-premise applications. This perception exists largely because of the fact that a SaaS application resides in a server outside the user's premises in a shared environment. Security of on-demand software applications could emerge as a major worry for enterprises as it could mean more Internet-based threats to the applications they are using.

Similarly, trust of data security remains low in many countries in Asia compared to North America or Europe. Many customers are reluctant to release their financial and accounting systems to remote providers. In addition, many enterprises would not like to go for an application that is shared by others because applications can be competitive differentiation for them. Many enterprises would not like to hand over control of business applications like ERP to a third party as these applications are often deployed with considerable customization and are often seen as a competitive advantage.

Compliance related issues might also hit the adoption of SaaS. Some industries may find compliance difficult within a SaaS model, as compliance and regulatory bodies might be slow in incorporating changes in regulations favoring SaaS.

Difficulty in Integration

Many prospective users are wary of deploying SaaS applications because they believe it will be difficult to integrate them with their existing on-premise or packaged software applications. Moreover, many of the on-demand software applications are perceived as a "stripped-down" version of the traditional software applications, which makes them less attractive for potential users.

Bandwidth Issues

The quality of telecommunication infrastructure will be crucial for the growth of SaaS. Many of the SaaS applications consume substantial bandwidth. Even though bandwidth is not an issue any longer for most enterprises, bandwidth intensive applications are often problematic. As applications are accessed online, the quality of bandwidth from the enterprise end to the data center where the application is hosted could be an issue in many cases.

Telecommunications infrastructure is improving in the region; however, SaaS providers, their clients and network providers will still have to work through a maze of complex and stringent Service Level Agreements (SLAs) so that a highly available network uptime is guaranteed to ensure users have an always-on access to applications. This might lead to a situation where telecommunication service providers start charging a premium on connectivity that is used for accessing software applications.

As of now, most providers sell broadband connections for a flat fee or per megabits of download and are not bothered by what the user does. However, in the future they may resort to charging on the basis of type of application use. This might undermine cost advantages offered by many of the on-demand applications like web conferencing and collaboration. Already, some service providers are considering this option. In fact, many service providers in the US have already introduced a differential tariff for users who access online applications. Such developments could also slow down adoption of SaaS.

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