

Personal or business? SaaS player Zoho draws a clearer distinction between its apps

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Sector: Enterprise Software

It's been a little hard to keep track of **Zoho** over the last year or so, with the company rapidly expanding its portfolio of software-as-a-service (SaaS) productivity and business apps. Now offering some 16 different apps, Zoho has shifted its focus to improving existing products, particularly how different apps hook into each other. The goal is to create a full-featured, integrated apps suite aimed at SMBs. The Zoho name is a deliberate play on small office/home office (SOHO), using a 'z' to indicate that Zoho operates at the low end of the market versus its parent, **AdventNet**, which targets enterprises.

Long the domain of **Microsoft**, the productivity apps market is turning into a lively, competitive arena thanks to the rise of a variety of SaaS and open source deployments, which provide much cheaper alternatives to the software giant's Office suite. There's also an emerging group of newer on-demand and open source players that are targeting the business apps market. Zoho is one of the players with a foot in both camps.

Zoho uses different pricing models for different apps. It has already established plenty of buzz in the market by giving many of its apps away for free. Zoho plans to retain that model for a small number of users as it begins to establish more of a distinction between its online desktop apps like Zoho Writer and Sheet and its business apps like Zoho CRM and Projects. Since we've previously examined Zoho's productivity apps, in this report we intend to focus more on its business apps and its ongoing integration work.

The 451 Take

Ask any major CRM vendor who they're keeping an eye on in their rearview mirror, and Zoho will be among the first players they name. That's pretty impressive for a vendor that has largely relied on word of mouth and user experimentation to gain notice. We're glad to see Zoho focusing more on app improvement than on rushing out more products. At present, there's still something of a work-in-progress feel about Zoho, with some key functionalities still to come. However, we do see it becoming more of a force to be reckoned with in the SMB space. The company is already well positioned to address the increasing app pricing and integration pressures from customers and has made some initial strides in establishing channel sales.

Context

Zoho is a rather different outfit than many of its apps peers. For starters, it's a division of privately held enterprise IT management software vendor AdventNet, and so can draw on its parent for much of its general administration and infrastructure needs. Founded in 1996, self-funded AdventNet started out providing management software to telecom equipment makers. After the dot-com bubble, the firm began to diversify by adding security, database-search and test-automation products. In 2003, it also started dabbling in online apps aimed at

SMBs, embarking on in-house development work on an on-demand office productivity suite and an on-demand CRM app. What became Zoho CRM, which made its beta debut in May 2005, was initially an extension of AdventNet's Java-based helpdesk software. It's interesting to note that AdventNet is also the financial backer of **vtiger**, an open-source PHP-based on-premise CRM project, which started out as a fork of **SugarCRM**. Should Zoho CRM customers express interest in an on-premise offering, they're pointed in the direction of vtiger, and vice versa.

AdventNet and its Zoho division have their headquarters in Pleasanton, California, but the bulk of their staff is based in Chennai, India. AdventNet has just over 750 employees, 20 of whom are in the US. It also has offices in China and Japan. The Zoho division has 250 employees, 95% of whom are engineers, with five employees based in the US. Zoho is on track to having 300 employees this fall.

Products

Zoho now has 16 different apps. It expects to release a couple more later this year designed to fill in some missing pieces in terms of products needed by departments such as sales, marketing and finance. On the personal productivity side, its online apps include a word processor, spreadsheet, presentation tool, wiki, organizer and chat. Zoho Mail is in private beta testing and should become generally available in a few months. Zoho is partnering with **GoDaddy** for domain registration.

On the business apps side, Zoho offers CRM, project management, invoicing, Web conferencing and a reporting tool as well as people and recruitment management. There's also Zoho Creator, a tool which allows users to create online database apps or customize existing templates. Zoho Business, currently in private beta testing, is a bundling of the productivity apps with security and the management of apps, backups, domains, locations, policies and users so the apps are more suitable for use by businesses.

Zoho Business will be free for the first 10 users and then cost \$50 per user per year. Customers can choose to add other business apps like Zoho CRM, where the license will remain free for the first three users and then rise to \$12 per user for the professional version and \$25 per user for the enterprise version. Zoho may look to release an enterprise bundle of its apps at some point. It already offers an enterprise version of Zoho CRM.

Zoho's main focus over the past few months has been on enhancing its existing apps, including ongoing work to ensure tighter integration between its products ¹/₂ for instance, between Zoho CRM and Zoho Invoice. It also is steadily eliminating duplicate features across products. For example, many Zoho apps have their own calendar. Zoho plans to release Zoho Calendars to bring all the calendars together into a single user interface and will do similar work to unify task management. It's also introducing a standard UI across its apps.

Currently, the CRM app isn't part of Zoho's single sign-on system as most other apps are, but that functionality is coming. "It's coming soon" is a much-repeated mantra from Zoho about new features and products, but given that in the past the company has managed to stick pretty much to its delivery schedule, we expect the same to be true in the future. In the pipeline is a one-click migration from Salesforce CRM into Zoho CRM, Zoho Search across all of Zoho's apps, and offline capabilities for all apps using **Google** Gears.

Customers

Zoho is approaching the one million mark for registered users of its apps; that's compared with around 180,000 back in February 2007. The geographic split of Zoho users is 50% in the US, 30% in Europe and 20% in Asia-Pacific.

Zoho doesn't break out the number of subscribers for each app, but the company estimates that Zoho CRM is one of its most popular products, with user numbers at around 100,000. About 70% of Zoho CRM deployments are by three people or less, meaning that they're running the app free of charge. Over the last six months, Zoho has begun to see a rise in the number of users, with more businesses having seven to eight salespeople use the app. Since Zoho launched an enterprise version of its CRM app, a handful of businesses have each signed up for 200-300 seats. The largest development team within Zoho works on scalability issues and ensuring that loads are distributed across multiple servers. Zoho is also working on improving its uptime and how it informs customers of any outages. It currently has two data centers, one in New York and one in California, both hosted by **Equinix**.

Partners

Zoho is looking to channel relationships to expand the use of its apps and as a solid source of revenue. Announced in April, its non-exclusive partnership with China's **Baihui** is likely a model Zoho will use again in China and elsewhere in the world. Baihui, a search and SaaS subsidiary of Chinese online distributor **PC Stars**, is re-branding Chinese-language versions of four Zoho apps as its own Baihui apps and hosting them in its China-based facilities. Zoho expects to expand the deal to its other apps over time.

Zoho also sees a natural marriage between telecom service providers and SaaS vendors and is in discussions with more than 10 companies outside of the US who would then either offer customers Zoho apps in combination with their own email products or include Zoho Mail, as well. Zoho has already unveiled a pilot program with **Swisscom** that allows the carrier to include Zoho products on its Teamnet portal where Swisscom customers can access business apps. The pilot is set to run through the end of October and all apps are free during that time. Zoho is also building a reseller channel around vertical markets.

Competition

For its productivity apps, Zoho faces a variety of competitors, notably on-premise incumbent Microsoft and fellow SaaS desktop apps provider Google. Microsoft has been slow to get 'SaaSy' with its apps, but earlier this month took another step in that direction with the unveiling of **Equipt**, a subscription-based version of Office bundled with some of its hosted Live tools that is aimed at consumers. Google makes its desktop apps available for free and also sells a business edition of those products. In addition, there are plenty of other desktop apps suites from the likes of **ThinkFree** and **Ajax13** as well as open source alternatives such as **OpenOffice.org**.

Turning to Zoho CRM, SaaS pioneer **Salesforce.com** is the primary competitor. Salesforce and Google have been steadily growing closer together as partners and in April announced that the CRM vendor would resell Google Apps. Prior to the intensification of that relationship, Zoho had been set to offer its apps on Salesforce's AppExchange. Should the continuing rumors about Google buying Salesforce become a reality, Zoho would have a stronger competitor in the combined entity. Setting that scenario to one side, Zoho sees Microsoft as more of a longer-term threat given that the software giant has begun rolling out its SaaS CRM product and provides tight integration between Dynamics CRM Online and its Office apps.

Strengths	Weaknesses
Zoho has managed to quickly make a name for itself in markets already saturated with players. Offering both low-cost productivity and business apps is proving intriguing to some SMBs and should become more appealing as Zoho tightens integration across its apps.	Zoho still has plenty of work to do to flesh out its vision of fully integrated apps suites for personal and business use. At the same time, it's already begun to weed out duplicate features from its apps and create more cohesion across its products.
Opportunities	Threats
Many SMBs are looking for business apps that are a simple and inexpensive upgrade from their productivity apps; for instance, those using Excel as a CRM tool. Zoho offers an easy way to test out such apps and is well positioned as an alternative to existing office suites.	Zoho faces plenty of tough competitors in each apps area it operates in, including heavyweights like Microsoft, Google and Salesforce. There are also a host of smaller players, both in the open source and SaaS arenas.

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