

COMPETITIVE ANALYSIS

Worldwide Software as a Service 2003 Vendor Shares: SaaS and Enterprise ASP Competitive Analysis

Amy Mizoras Konary

IDC OPINION

The software as a service (SaaS) market continues to mature and has attracted vendors from different segments of the overall IT market, as well as a diverse set of customers. To evaluate the market landscape, IDC has used traditional market share to assess the current market condition for SaaS and a competitive market map to analyze the more established enterprise ASP marketplace — the most mature segment of the SaaS market. Key findings include:

- ☒ Industry-specific SaaS offerings continue to be successful; the top 3 vendors in the SaaS market according to revenue have strong vertical alignments.
 - ☒ For SaaS providers hoping to convert nonadopters, the competitive environment continues to be challenging. Although the size of the SaaS market is relatively small, customers have many options to choose from in terms of what is provided and who is best suited to provide it.
 - ☒ Although the competitive environment in the enterprise ASP market is volatile, a few vendors have consistently held leadership positions.
-

IN THIS STUDY

This IDC study presents a competitive assessment of the software as a service (SaaS) market based on year-end 2003 results. It includes a market share analysis of the overall SaaS market as well as a competitive market map of the enterprise ASP segment. The competitive market map and its methodology are introduced as a tool for evaluating the competitive positioning of providers of enterprise ASP services in an increasingly complex market.

Methodology

The vendor revenue presented in this study represents IDC's best estimates based on the following methodology.

Bottom-up/company-level data collection began in November 2003 with in-depth vendor surveys and analysis to develop detailed 2003 company models. Specifically, we asked vendors to provide the following information:

- Reported revenue
- Number of customers
- Average contract size
- Year-over-year historical and expected growth

For public vendors, IDC evaluated financial data and adjusted 2003 estimates accordingly. Additional information was provided through an analysis of companies' financial statements, annual reports, press releases, position statements, vendor interviews, customer case studies, and other public information. This activity forms the basis of vendor-share estimates reported in this document.

We combined this information with data collected throughout the year about each vendor, its customers, and comparable vendors to estimate SaaS revenue for each of the companies in this document. All figures in this document are IDC estimates.

All revenue is stated in U.S. dollars. Currency conversions are therefore required for companies that report outside the United States. IDC has standardized its exchange rates and converts currency quarterly based on the latest calendar quarter rates and annually based on an average of the quarterly rates.

Note: All numbers in this document may not be exact due to rounding.

Criteria Used to Measure Software as a Service Revenue

In compiling the list of the top 10 software as a service companies, we measured the following factors:

- ☒ **Worldwide customer spending on SaaS during the calendar year 2003 (not booked contract values).** Customer spending can include the up-front implementation fee, training of the customer on the application being delivered through the service, and the monthly reoccurring revenue (which typically includes ongoing management of the application, service level agreements [SLAs], or help desk support).

- ☒ **The fees that a single vendor collected from its customers.** For example, if an SaaS vendor uses a systems integrator (SI) to do the application implementation and the SI receives payment for its services, we do not include this as part of the SaaS vendor's revenue. By the same token, if an independent software vendor (ISV) provides its own direct SaaS offering, we count only the SaaS revenue the ISV received from its direct SaaS service. We do not include incremental application license sales that the ISV received through its SaaS partners.

- ☒ **SaaS retail revenue, meaning revenue collected directly from an end-user organization.** We are not counting SaaS wholesale revenue (revenue collected from an organization that plans to resell the SaaS service) or enablement revenue (revenue from arrangements in which the service provider is responsible for the management of the IT stack but does not hold a contract with the actual end user).

IDC's software research group measures software license and maintenance revenue. To avoid double counting with the software group — and to allow for a more accurate comparison between vendors — IDC's SaaS revenue measurements do not include software license and maintenance revenue.

Competitive Market Map Methodology

The enterprise ASP space is the most mature segment of the SaaS industry. In addition, most of the vendors in the space compete with one another on a frequent basis. Because of these factors, IDC chooses to analyze this specific segment of the SaaS market in additional detail with a competitive market map.

The goal of the competitive market map is to present a quantitative SaaS vendor comparison tool based on IDC's rigorous SaaS taxonomy and the depth and breadth of data in the SaaS market. It eliminates the subjective characteristics found in other competitive mappings. The competitive market map enables the development of IDC's qualitative analysis based on quantitative multidimensional data visualization.

The competitive market map depicts the competitive positioning of the leading enterprise ASP vendors based on four dimensions: size, dependence, momentum, and scope.

Size

Company size is shown by the size of the bubble, which is based on total estimated worldwide enterprise ASP services revenue in U.S. dollars.

Dependence

Dependence refers to the extent that a vendor's total company revenue (any applicable software, services, hardware, and content) is dependent on its enterprise ASP services revenue. It is calculated as total enterprise ASP revenue divided by total company revenue. Dependence level is represented with color based on ranges.

Momentum

Momentum is a function of a vendor's annual enterprise ASP revenue growth rate and company size in the enterprise ASP market (i.e., revenue). It is calculated by multiplying the one-year growth rate of total enterprise ASP revenue by the company size (i.e., an adaptation of the formula for momentum in physics, which multiplies mass by speed). Note that multiplication by size allows for discounting of high growth rates for small vendors and low growth rates for large vendors.

Scope

Scope is a metric that accounts for a vendor's breadth of enterprise ASP offerings as well as depth in any of the four enterprise ASP market segments by application type. The point allocation for scope values is based on the ranking or position of a vendor within each of five application service markets (i.e., how deep each vendor's presence is in a market). Each market is evaluated individually based on its concentration, or the share of the top 10 vendors. Depth point allocation is thus derived based on a vendor's share in each of the markets based on each market's concentration. The markets used in this analysis include enterprise ASP services around:

- Human resource applications
- Financial applications
- Customer relationship management (CRM) applications
- Supply chain management (SCM) applications
- Other applications

The cumulative scope value represents the second part of the measure of scope. Different market concentrations are important because the significance of any given market share in a highly concentrated market is higher than the share in a less concentrated market.

Note that IDC tracks SaaS revenue for software other than these application types; however, in order to plot companies on the same grid in an apples-to-apples comparison, IDC has chosen the most mature SaaS application segments.

SITUATION OVERVIEW

SaaS is gaining momentum as an alternative to traditional software deployment as customers grapple with a number of challenges. Key drivers for SaaS adoption include cost savings initiatives and major software upgrades (see Table 1).

TABLE 1

Software as a Service Adoption Triggers by Current SaaS Buyer Status
(% of Respondents)

Q. Which of the following events prompted you to consider SaaS or may prompt you to consider SaaS?

	Total	Currently Buys SaaS	Currently Does Not Buy SaaS
A drive to reduce IT costs	46.0	51.9	43.2
The need for a major software upgrade	37.0	43.7	33.8
A request by your senior management or your board	17.3	15.6	18.1
A failed in-house implementation	16.8	15.6	17.4
Enforcement of regulatory compliance	16.6	14.1	17.8
A merger or acquisition	10.2	12.6	9.1
Advice from your peers	10.0	10.4	9.8
Not sure	15.4	11.1	17.4
Other	11.1	14.8	9.4

n = 422

Notes:

Respondents who did not know if their company currently buys SaaS were excluded from this table.
Multiple responses were allowed.

Source: IDC's *Software as a Service QuickLook IT Survey*, May 2004

At the same time, the audience of potential adopters far exceeds the number of current adopters. Factors that would make SaaS more attractive to these companies include improved integration with in-house software, increased customization options, and a higher confidence that customer data is secure.

For SaaS providers hoping to convert nonadopters, the competitive environment continues to be challenging. Although the market is relatively small, customers have many options to choose from in terms of what is provided and who provides it. For some customers, these options make it more difficult to determine who is really the expert, who can be trusted, and who is going to give them personalized attention. Increased competition in the market also helps put customers in the driver's seat at negotiations.

The lack of a "killer app" on the horizon is another contributor to the increased negotiating power of customers. With a few exceptions, such as increased demands due to regulatory compliance, customers don't have as many compelling reasons to buy new software as in the past (e.g., Y2K). As a result, many SaaS providers must focus on customers that already have software installed and are looking to upgrade or those that wish to run a hybrid environment.

When a new application purchase is on the table, an SaaS option is starting to become a competitive differentiator for software applications, but most software customers choose to implement their software in-house. Finding companies that are in the midst of making a software decision, and helping to persuade them to consider SaaS delivery, takes foresight, trusted advisor status, skill, and a bit of luck.

For those providers that aren't typically part of the software decision-making process, strong partnerships will be key. Training account reps or technical consultants who are regularly privy to the early stages of the software decision-making process is also key, as is providing incentives to these individuals to propose SaaS as an option. Software sales reps that are only compensated on the software licenses they sell will be hesitant to push SaaS, especially if they feel it might add time or risk to the sales cycle, unless SaaS is a precursor to the license purchase.

Finally, customers have a perception of the type of company that is best suited to provide SaaS. This can differ according to philosophy of the customer; however, IDC survey data has demonstrated that customers in the midmarket often look to traditional software and service firms to provide SaaS (see *Software as a Service in the Midmarket: Adoption Trends and Customer Preferences*, IDC #31573, July 2004). Most traditional firms minimize their direct efforts in the SaaS space today, relying on partners to bring them into SaaS deals that help them sell software licenses, consulting, systems integration, or infrastructure products and services. However, as increasing attention is paid to the access SaaS can provide to midmarket prospects, IDC expects traditional firms to move into this space with increased fervor.

Vendor Performance Evaluation

SaaS Market Share

Table 2 shows a list of the top 10 SaaS providers by 2003 revenue. All revenue numbers are IDC estimates.

In this document, IDC has estimated revenue associated with the service provisioning (i.e., hosting) of the software only — market share data excludes implementation and professional services fees, as well as software license fees.

Companies that fell just outside the top 10 cutoff include BlueStar Solutions (acquired by Affiliated Computer Services [ACS] in August 2004), with an IDC-estimated \$46 million in SaaS revenue in 2003, as well as PeopleSoft, with an estimated \$44.8 million in SaaS revenue in 2003 including the acquisition of WTS (a bonus of the J.D. Edwards acquisition). In addition, IDC estimates that Microsoft brought in \$44 million in SaaS revenue, primarily generated from the LiveMeeting Webconferencing service.

TABLE 2

Worldwide Software as a Service Revenue for the Top 10 Vendors, 2003

	Revenue (\$M)	2002–2003 Growth (%)
Digital Insight	154.0	18.5
Trizetto Group	108.9	9.4
CSC	104.0	10.2
Salesforce.com	96.0	88.2
Oracle	78.9	14.3
USInternetworking	66.7	-21.3
EDS	54.5	31.3
SAP Hosting	53.4	24.5
Corio	50.1	15.2
IBM	46.7	32.7

Note: All SaaS revenue represents IDC estimates.

Source: IDC, 2004

This names on this list of top 10 SaaS providers have not changed much from the previous year, although it is interesting to note the rapid rise of Salesforce.com, which grew 88% from 2002 to 2003. Given the relatively low revenue of even the top service providers on this list, it is possible for a company such as Salesforce.com to catapult ahead of the pack in the next few years.

USInternetworking (USi) experienced a negative growth rate from 2002 to 2003, partially due to pricing pressure from existing customers at renewal time. This practice is common in service industries, where customers expect to negotiate down their service contracts at renewal. In 2004, USi acquired Appshop, a company which IDC estimates had approximately \$30 million in SaaS revenue in 2003.

IDC has observed in the past that a number of the top SaaS providers have industry-specific strategies. This year is no different, as the top 3 vendors in the SaaS market all have industry-specific strategies. Digital Insight targets financial services; Trizetto targets healthcare; and CSC offers SaaS around industry-specific software for a number of verticals, with particular focus on the financial services, public sector, and healthcare segments. Customers indicate that it is important that their service providers have experience with their industries. In addition, service providers with industry-specific strategies may also have an easier time targeting their sales and

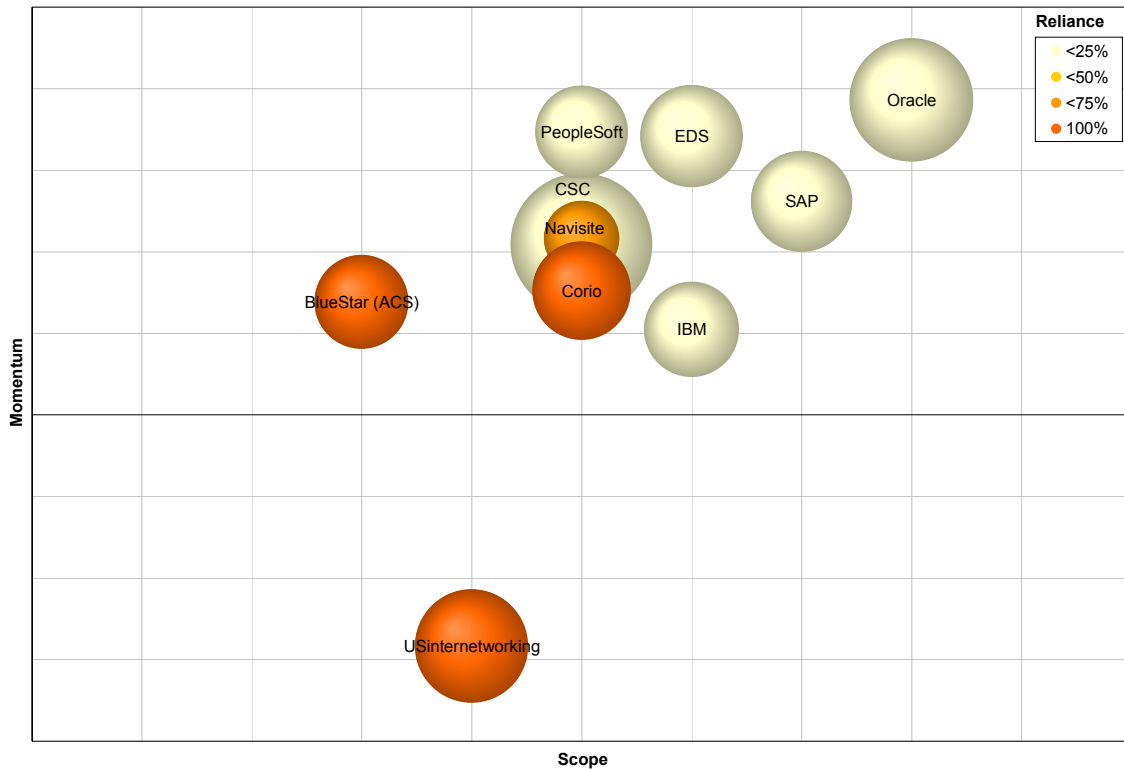
marketing approaches than horizontally focused service providers because they can fine-tune these approaches to the needs of only one or a few industries. IDC expects that all of the companies on this top 10 list will take steps toward industry-driven strategies if they have not done so already.

Competitive Market Map of Enterprise ASP

The goal of the enterprise ASP competitive market map (see Figure 1) is to present a quantitative vendor comparison tool based on IDC's rigorous taxonomy and the depth and breadth of data in this market. It eliminates the subjective characteristics found in other competitive mappings. The competitive market map enables the development of IDC's qualitative analysis based on quantitative multidimensional data visualization.

FIGURE 1

IDC Software as a Service Competitive Market Map, 2003



Source: IDC, 2004

As described in the methodology, the competitive market map evaluates enterprise ASP vendors based on the following four dimensions:

- Enterprise ASP revenue
- Momentum in the enterprise ASP market

- ☒ Scope of enterprise ASP offerings
- ☒ Company dependence on enterprise ASP revenue

Size

In 2003, CSC was the largest enterprise ASP service provider, with \$104 million in enterprise ASP revenue. CSC was followed by Oracle, USi, EDS, SAP, and Corio.

IDC adoption models for SaaS have highlighted the importance of word-of-mouth communication as a means of building up the customer base. As a result, the more customers a service provider has, the more points of contact the service provider has with potential customers. As a result, an increase in the size of a company's SaaS business is an important determinant of future success.

Momentum

The formula used to determine momentum considers a company's 2002–2003 growth rate in the enterprise ASP market as well as its enterprise ASP revenue, to calculate the equivalent of mass times velocity.

In 2003, Oracle had the highest momentum, followed by PeopleSoft, EDS, and SAP. Oracle has been building steam in the enterprise market for the past several years. The company has been successful in targeting its Oracle applications installed base and converting these customers to the SaaS model. In addition, Oracle has had success winning business with companies that are headquartered outside of North America, most notably in Latin America.

Note that the largest companies in the enterprise ASP space do not necessarily top the momentum charts. It is true for markets as it is for vendors — the larger the revenue, the more difficult it is to post high growth rates. At the same time, smaller companies typically enjoy higher growth rates. However, multiplying the size of the company by its growth rate adjusts for this reality.

With the acquisition of Appshop and other 2004 initiatives, USi has been working to reverse the negative momentum that the company's enterprise ASP business experienced in 2002–2003. USi's AppHost business, which provides application hosting and management infrastructure products and service to ISVs that provide SaaS to their end customers, is not counted in this analysis because USi does not hold the SaaS contract directly with the end user.

Unfortunately for USi, the other top 10 companies in the enterprise ASP space experienced degrees of positive momentum, making it all the more critical that USi reverse this trend.

Scope

In this study, scope is measured by a company's position or share of each of the individual enterprise ASP market segments tracked in this analysis — ASP services around HR, financial, CRM, SCM, and other applications. The vendor with the broadest scope is Oracle. This means that the company has been successful in building customer adoption of ASP services across its suite of enterprise applications.

Although Oracle offers an integrated suite of applications, IDC suspects that most of Oracle's enterprise ASP customers do not adopt the suite outright but instead choose one or two applications that meet their needs in a best-of-breed approach. Over time, some customers will migrate to the suite, but many customers prefer to pick and choose applications from different vendors. Integration is therefore a top concern for customers considering enterprise ASP services.

Dependence

Dependence on enterprise ASP revenue is another dimension of the competitive market map analysis that bears evaluation. Note that all pure-play enterprise ASP vendors (e.g., USi, Corio, and BlueStar Solutions) are shown in red. The enterprise ASP revenue of these vendors represents 75–100% of their total revenue. This means a high level of reliance on enterprise ASP revenue. At the same time, traditional software and services vendors with enterprise ASP offerings are shown in light gray (i.e., enterprise ASP revenue represents less than 25% of their total revenue). It is interesting to note that most of the top vendors in the enterprise ASP space are either very or not at all dependent on the enterprise ASP market for their company revenue.

From a customer perspective, this trend can be viewed in a few different ways. One may consider that a company that is very dependent on enterprise ASP revenue will place a high priority on obtaining and retaining enterprise ASP customers and will dedicate a large percentage of its resources to keeping enterprise ASP customers happy. This is the "big fish in a small pond" concept.

However, a company that does not have a large percentage of its overall company revenue in the enterprise ASP segment does not necessarily place a low priority on its enterprise ASP customers. In most cases, enterprise ASP is considered a high-growth and high-opportunity market area for these more traditional companies, and therefore commitment is not directly proportional to percentage of revenue. However, a small customer may question the level of support it will receive from a company that generates such a small portion of its overall revenue from enterprise ASP services. This is akin to the "small fish in a big pond" concept.

To a certain extent, the companies with the lowest dependence on enterprise ASP revenue have insulated their overall businesses from risks related to competitive pressures from other specialty service providers as well as general enterprise ASP market risks. As a result, if their enterprise ASP businesses fell on tough times, these companies could continue to support customers with resources provided by other lines of businesses. Highly dependent service providers could not be as flexible. On the other hand, a traditional business may decide to eliminate a segment of its business that is not profitable, rather than feeding it revenue from other sources. IDC has witnessed examples of both approaches in the enterprise ASP market.

Market Leadership

According to this quantitative analysis, Oracle held the strongest position in the enterprise ASP market in 2003. Although Oracle did not have the highest market share, Oracle exhibited the highest momentum and the broadest scope. It is important to note that although a relatively small gain in revenue of \$20 million or \$25 million would not

dramatically influence a company's market position in a more mature market, in the enterprise ASP market, it can make the difference between a top 10 company and a bottom 20 company. Even for the largest company in this market, a revenue increase of \$25 million from year to year would result in a whopping 25% growth rate, which is unheard of in most segments of the IT marketplace.

In addition to market leadership, the competitive market map also enables the evaluation of a relative positioning for any given service provider. For example, one would expect to see clusters of vendors with similar profiles, such as Corio, BlueStar (ACS), and USi. Although these companies are closely aligned in terms of scope, Corio and BlueStar experienced more momentum from 2002 to 2003. On the other hand, a larger portion of USi's revenue is derived from applications infrastructure services (e.g., USi AppHost), which in fact puts it into direct competition with similar offerings from traditional services vendors (e.g., EDS, IBM), as well as Oracle, which announced an ISV-targeted infrastructure initiative in 2004.

It is also interesting to take note of the relative positioning of the traditional services firms, all of which derive the majority of their company revenue from other service or product offerings:

- ☒ Of the traditional services firms, EDS has the largest momentum and scope. The company reports that a large percentage of its hosting business is derived via the hosting of nonpackaged or custom developed applications (which is counted in IDC's application management market sizing, not SaaS), and that SAP makes up the largest share of its hosted packaged software business, followed by Oracle applications.
- ☒ While CSC made it onto IDC's list of top 10 enterprise ASPs, CSC is perhaps better known for its consulting, systems integration, and IT outsourcing services than its ASP solutions. In light of the emphasis that customers are placing on the integration and customization skills of service providers, CSC's reputation as a top systems integration firm is an important asset.
- ☒ With its On Demand strategy, IBM makes understanding the evolution of the SaaS market a high priority, with the primary goal of enabling its ISV partners to deliver SaaS. As an enabler rather than a direct provider of SaaS to end customers, IBM's position in this enterprise ASP analysis understates its interests in this market.
- ☒ This is also the case for HP, which does not show up in this market assessment at all but plays an important role as an infrastructure provider to both SAP's and PeopleSoft's hosting customers.

Challenges for All SaaS Providers

Vision

Although IDC is observing that the term of the average outsourcing contract is decreasing, most customers purchasing different types of outsourcing services (including SaaS) are looking for a medium- or long-term solution. In order for

customers to make a multiyear investment in a service provider's solution, they need to feel comfortable that the company will be viable over this period.

Service providers will need to demonstrate financial viability, which is a cut-and-dried and generally anticipated exercise. Service providers will also need to sell customers on their "vision," and doing so requires more than buzzword compliance. Management must articulate this vision within an industry and customer context, clearly differentiate this vision, and explain why their company is uniquely positioned to deliver on this vision. The vision needs to be woven into every internal and external communication. Although this is Marketing 101, it is surprising how many service providers have not articulated a clear, unique, and defensible vision statement.

Adoption

With the software market increasing at single-digit growth rates and no killer app on the horizon, service providers have been focusing on customers that need to upgrade their applications. In addition, most service providers have messaging around ways in which their service offerings can assist with regulatory compliance. That said, IDC is still waiting for the knee in the adoption curve for SaaS. A critical mass of customers is purchasing these services today, and although one can easily come up with specific scenarios in which it makes common sense to purchase these services, the demand side has not given any indication that the floodgates are opening.

Terminology

The term *on demand* is thrown around in the SaaS industry and used by many vendors to describe their strategies, most of which are very different. From a customer perspective, this practice makes it difficult not only to determine what *on demand* means, but also what it means when applied to an SaaS offering.

Along the same lines, SaaS providers stay clear of the term *outsourcing*, even though the services they provide are considered by many to fall under the outsourcing category. IDC expects that at some point, *on demand* will befall the same fate as *outsourcing*, and customers and analysts will be presented with a new term.

The rapid movement to and from various terminology makes it difficult for customers to sort hype from reality. It can also create the illusion of a rudderless strategy unless there is a clear change in the product or service that necessitates the rebranding.

FUTURE OUTLOOK

Although IDC's list of top SaaS providers has included most of the same company names in the last few years, we expect to see at least one new name in the top 10 list of SaaS providers for 2004. Contenders include:

- ☒ Siebel Systems acquired two Web-native SaaS companies — UpShot and Ineto — toward the end of 2003. IDC estimates that UpShot and Ineto had combined revenue of just under \$30 million in 2003, placing Siebel outside of the top 10 for 2003 but in excellent position for 2004. Based on Siebel's reports, revenue for its SaaS offering increased 33% from 1Q04 to 2Q04.

- ☒ RightNow Technologies did not make the list of top vendors in 2003; however, with the release of version 7.0 of its CRM platform, the company has rounded out its capabilities with sales force automation. This positions the company to compete with the likes of Siebel and Salesforce.com for CRM SaaS customers, a market segment which has proved lucrative for some of the top service providers.
- ☒ With the 2004 acquisition of BlueStar Solutions, a company that fell just outside the top 10 in 2003, ACS has a good chance at being a first-timer on the SaaS top 10 for 2004. As is the case with any acquisition, ACS will have its work cut out in keeping attrition to a minimum and in closing in-process deals.

ESSENTIAL GUIDANCE

While analyzing the current state of the SaaS market, IDC cast a look backward to understand how the competitive environment has changed in the last four years. Six of the companies on IDC's SaaS top 10 market share list for the year 2000 also appear in the top 10 for 2003 — USi, Corio, Trizetto Group, IBM, EDS, and Oracle. Two other companies in the 2000 top 10 — Qwest Cyber Solutions and Surebridge — were acquired by companies that are in leadership contention today. The top vendor in 2003, Digital Insight, did not make it into the top 10 in 2000. In addition, Interliant was the number 4 vendor in 2000, but the company went up in smoke soon afterward. This nostalgic look back in time demonstrates that although the competitive environment in the SaaS market is volatile, a few vendors have consistently held market share leadership positions.

At the same time, the market is ripe for a company such as Salesforce.com to rapidly ascend from curious distraction to serious contender. Every company in the SaaS market should be looking over its metaphorical shoulder, regardless of whether top 10 status has been consistently achieved.

In the enterprise ASP market, IDC believes the biggest long-term threat (and opportunity) comes from the business process outsourcing (BPO) marketplace. Customers that wish to outsource the entire business process rather than simply the application environment may turn to BPO firms instead of enterprise ASPs. This creates an opportunity for enterprise ASPs that partner with the BPOs because they will require a technology environment upon which they will execute the business process.

LEARN MORE

Related Research

- ☒ *2004 Software as a Service Taxonomy and Research Guide* (IDC #31576, July 2004)
- ☒ *Software as a Service in the Midmarket: Adoption Trends and Customer Preferences* (IDC #31573, July 2004)
- ☒ *U.S. Software as a Service 2004–2008 Forecast by Delivery Model* (IDC #31267, May 2004)

Copyright Notice

This IDC research document was published as part of an IDC continuous intelligence service, providing written research, analyst interactions, telebriefings, and conferences. Visit www.idc.com to learn more about IDC subscription and consulting services. To view a list of IDC offices worldwide, visit www.idc.com/offices. Please contact the IDC Hotline at 800.343.4952, ext. 7988 (or +1.508.988.7988) or sales@idc.com for information on applying the price of this document toward the purchase of an IDC service or for information on additional copies or Web rights.

Copyright 2004 IDC. Reproduction is forbidden unless authorized. All rights reserved.

Published Under Services: Software As A Service; AppSourcing; Software on Demand