

25-year-old Zoho bolsters its 'operating system for business' and looks to the future

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Introduction

Zoho Corporation, a private subscription software company based in Chennai, India, recently celebrated 25 years in business. Best known for its CRM offering, the company has continued to roll out additional business applications that primarily target small and midsize organizations. Having a broad product portfolio is noteworthy, given that 50% of respondents in our [Voice of the Enterprise: Customer Experience & Commerce, Budgets & Organizational Dynamics 2020](#) survey said that reducing the number of software companies they work with is strategically important.

In a period of global transformation, Zoho is taking a hard look at what it will need to sustain its business over the next 25 years, and its founders say they are not looking for a financial exit anytime soon. Instead, they are making plans for Zoho's continued existence as an independent operating entity.

The 451 Take

Zoho's product line is comprehensive, running from CRM to financial applications to datacenter operations – almost everything that a generic business with CRM at the core would need in a platform. At the start of the COVID-19 pandemic, Zoho made plans for the worst, including cuts to executive compensation to help cash flow. But its subscription base expanded rather than contracted, and it offered free access to many of its productivity applications for remote work early in the pandemic. This effectively boosted the visibility of its brand, and Zoho has emerged more ambitious on the other side. Its 62 million reported users at the end of 2020 represents an 18% increase over 2019, while customer retention has improved from a churn rate of 4.4% in 2015 to 2.9% in 2020. As a profitable private company with no debt, Zoho appears poised to play the long game, and despite its lack of universal name recognition, there is relatively little business risk in adopting Zoho products.

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Context

Zoho recently hosted a ZohoDay virtual event to celebrate its 25th anniversary. Throughout the company's life, cofounder and CEO Sridhar Vembu has cast a large shadow over the business. At age 53, he could conceivably still be at the helm 25 years from now – although he did allude to practicing the Hindu concept of Vanaprastha, referring to a life transition in which a person hands over responsibility to the next generation in order to take a more advisory role. Sridhar recently relocated from Pleasanton, California, back to India's Tamal province, where he spends part of his time teaching grade school.

Yet Sridhar is still very much a force at the company. During the ZohoDay conference, he articulated four macro trends he sees as driving the software business over the next 25 years:

- Managing the challenges of building a distributed company
- Compressing the tech stack
- Avoiding financial bubbles
- Accepting the turn toward regional and national self-sufficiency.

Zoho has been bootstrapped from the beginning, is profitable and has never taken on outside capital. Sridhar sees the software markets Zoho competes in as subject to potential financial bubbles caused by special-purpose acquisition companies (SPAC), so it manages its finances very conservatively to avoid getting caught in those whirlpools. Zoho currently has roughly 9,000 employees worldwide.

Products

As COVID-19 has demonstrated, organizations will have to think differently about their business as they embrace a workplace where much of the work is done remotely. Zoho's own challenges managing a distributed business have figured prominently in its recent product development direction.

Since 2005, Zoho has introduced new functionality in its CRM product line, and this year was no exception. It introduced three new products – CommandCenter, Lens and Bigin. CommandCenter (known as Canvas within Zoho CRM) is an outward-facing workflow management tool designed to automate customer follow-ups. Lens is a field service application that enables off-site troubleshooting by allowing remote access to smartphone cameras, while Bigin is a carefully pruned version of Zoho CRM targeted at the low end of the market and offering a new pricing plan.

The CommandCenter high-end customer automation tool will likely have the most appeal for larger organizations. To set it up, Zoho CommandCenter customers first have to gather all the required content and then map it fairly precisely into their customer-facing workflow. All this work may make the product appealing to Zoho partners that can offer add-on services to implement it.

Lens, on the other hand, saves up-front work by helping field-service organizations examine problems remotely – very handy in a pandemic. Featuring a flavor of augmented reality, Lens offers comprehensive remote assessment and assistance for a range of physical equipment, which can reduce downtime and enhance worker safety.

Bigin is a scaled-back version of Zoho's flagship CRM product centered on pipeline management. The product also adopts a different pricing model based on the number of records as opposed to the number of seats. The multiuser version of Bigin starts at \$84 a year with up to 50,000 records, which should be an attractive price point for solo entrepreneurs, startups and side businesses.

There are still plenty of greenfield opportunities for this product, with CRM underused among small businesses. CRM implementations are moving away from historic data stores toward more value-added automation capabilities focused on strengthening account relationships. According to our Voice of the Enterprise research, only 35% of small businesses use CRM, while another third are in the consideration phase or are looking to redeploy. Almost 70% of 'digitally driven' organizations have deployed CRM, while less than half of 'digitally delayed' vendors currently use CRM.

Modern CRM suite platforms provide greater flexibility and scalability, allowing for more seamless integration with existing investments. With the maturation of core CRM offerings, we are seeing a shift in the factors that influence likelihood to recommend and to repurchase, with customers increasingly prioritizing agility of the platform and industry-specific functionality. The impact of these two factors on renewal decisions for CRM subscriptions is evident in our [Voice of the Enterprise: Customer Experience & Commerce, Vendor Evaluations 2020](#).

CX vendors are attempting to help customers overcome previous failures by applying more agile, intelligent and data-driven platforms. The pace of innovation is important for data-driven experiences using AI and machine learning, intelligent automation and usability. Where Zoho is winning is illustrated by the fact that among key factors influencing vendor selection on average, the top requirements are ease of use for lines of business and existing software investments with that vendor.

One missing component in Zoho's current product plan is the lack of industry verticalized products compared with other vendors. Although Zoho management assures us this is on the roadmap, its products most appeal to companies operating in the long tail of large business ecosystems. Many of these companies operate in niches so small there is little incentive for vendors to offer packaged solutions. Zoho's no-code platform, Zoho Creator, is appealing for these customers who need to customize their own solution, although there is an extensive partner network to help them solve more difficult problems.

As if to demonstrate the agility of its tools, Zoho ran its ZohoDay conference on an audio-video mashup platform custom built using ZohoBackstage, ZohoShowTime and ZohoMeeting. Although there were rough edges, this original approach demonstrated that the company has a clear roadmap for its product line in 2021. For Zoho, product clarity matters because its offerings range from sales, marketing and support applications to communications and collaboration tools, to finance, operations and HR functions as well as business process and personal productivity tools.

Zoho has also continued to expand its basic data management capabilities. With Zoho DataPrep, directly embedded within Zoho Analytics, users (such as business and data analysts) had already been able to perform a range of common data prep and cleansing functions to accelerate the business intelligence workflow, without needing to use third-party tools. Automation and guided functionality make the process of data prep easier. What is new is the announcement that Zoho DataPrep will also be offered as a stand-alone service beginning in Q2, further advancing Zoho's go-to-market strategy to entice customers to adopt individual parts of the Zoho product line with the expectation of more business to come. The stand-alone Zoho DataPrep offering is in private beta today.

Although some products, such as Analytics or DataPrep, are offered as stand-alone items, its flagship product, Zoho One, is bundled. Over the last 15 years, the company has added between one and six new products per year. Since Zoho runs its business on its own software, many of these products were first developed for use in-house and later commercialized.

Strategy

Zoho has generally adopted a 'fast-follower' rather than a 'first-mover' business strategy. Instead of aiming to be the first to introduce something new, Zoho copies what others are doing, putting its own spin on capabilities and embedding them into its ever-growing portfolio. It then often bundles these proven features together at a more attractive price.

Zoho One, released in 2017, is representative of this strategy: providing access to all applications via simple per-user pricing. Zoho One currently costs about \$30 per user per month and bundles over 50 applications, with more in the pipeline. A Zoho One subscription grants access to an extensive portfolio, including tools for pipeline management, surveys, remote access, project management, expenses, subscription management, recruiting, workflow management and word processing. The company positions the Zoho One mélange as an 'operating system for business.'

Zoho perceives an industry-wide trend toward shortening supply lines and is incorporating this into its strategy. To take advantage of the overall localization trend, Zoho has expanded its satellite offices. Some of those offices, in turn, have pushed their operations deeper into their respective countries by opening branches in rural areas. In the US, Zoho plans to expand a successful program it launched in India to train 1,000 qualified high school graduates to code. Focus on geographical reach and access to skills programs helps Zoho take advantage of regionalization to grow the technical talent it needs to match its ambitions.

Customers

The company claimed 62 million users by the end of 2020, an 18% increase over 2019. Zoho particularly appeals to smaller business-to-business companies operating in the long tail of large hardware, software, services, manufacturing, real estate, retail, and banking and financial services ecosystems. Many of these companies operate in niches where there are no packaged solutions to speak of. This is where Zoho Creator no-code tools come in, along with a partner network to help deployment. Over the last five years, Zoho claims that customer retention has improved, going from a churn rate of 4.4% in 2015 to 2.9% in 2020. Many of Zoho's customers are like the company itself: financially conservative, independent and perhaps iconoclastic.

Technology

From a technology perspective, the most important trend identified at ZohoDay was the industry tendency to compress the tech stack. Since IBM entered the PC market in 1981 by outsourcing key components to Microsoft and Intel, most hardware and software companies have fit themselves somewhere into a technology stack.

As long as applications within the layers of a stack are written to specific protocols, each layer in the stack works with the layers above and below. But with the rise of hosted platforms, some players are compressing the stack to shorten the supply chain and cut costs. This may give Zoho operational advantages over competitors like HubSpot or Salesforce that rely on Amazon Web Services for critical parts of their stack.

Perhaps the most significant product announcement at ZohoDay was news that the company intends to design its own hardware chips optimized for its applications. Although this effort mostly helps Zoho lower its operating expenses, customers should expect to see some advantages as well, such as better performance on client devices.

Competition

With such a wide-ranging portfolio, Zoho competes with most vendors in the CX marketplace. It counts among its competitors salesforce automation and CRM vendors, customer service software providers, marketing automation specialists and ERP software firms. Its Zoho CRM competes with Salesforce, HubSpot Sales Hub, Microsoft Dynamics 365 Sales, Nimble, Sugar Sell, Groove, Outreach, Freshworks CRM, XANT Playbooks, SalesLoft, Yesware and ZoomInfo, among others. Its Zoho Desk competes with Zendesk Support Suite, LiveAgent, Freshdesk, Intercom, Help Scout, Salesforce Service Cloud, Front and Podium. Zoho Marketing Hub competes with Hubspot Marketing Hub, Marketo, Terminus ABM, ActiveCampaign, Mailchimp, SharpSpring, Act-On, SALESmanago, Semrush and Show Less, among others.

As Zoho moves upstream into the enterprise market, it will face intense competition. We see a major cloud war breaking out among Salesforce, Microsoft, SAP, Oracle and Adobe. While Salesforce and Microsoft have the strongest brands, ServiceNow, Zendesk and Hubspot are significant contenders in enterprise CRM.

Zoho's application-to-application competitors are too many to list here, but in key markets such as analytics and finance they are worth calling out. For business intelligence and analytics, household names include Tableau (now part of Salesforce), Microsoft's Power BI, Qlik and Looker (now part of Google). Specialty data prep providers that complement analytics offerings include Trifacta. Finance software providers targeting the midmarket include Intuit, Quicken and Wave Financial.

SWOT Analysis

Strengths	Weaknesses
Zoho has a strong vision, solid management and a well-defined culture. Its product strategy seems to be accounting for significant economic and societal trends that will change the software business over the next decade. Attractive pricing and modular functionality are appealing to midmarket customers, which often have fewer options in a market largely vying for enterprise customers. Its low-end offering is attractive to new customers.	Compared with major competitors, Zoho is a bantamweight. By employee count, it is just 18% the size of Salesforce. Following a subscription model, Zoho assumes the business risk of its clients, which may hurt it once the market is saturated. Lack of vertical offerings hinders acceptance among enterprise customers. Conservative financial strategy and in-house development mean Zoho is somewhat limited in its ability to use M&A to expand quickly. Because of its low marketing spending, much of the potential market has not heard of the company.
Opportunities	Threats
Zoho is a family business and is subject to family dynamics. If succession and other issues can be successfully planned, Zoho One may someday be the financial heart of a much larger diversified enterprise. As Zoho expands capabilities in data management and other 'enterprise' areas, it will be better able to meet the needs of an underserved market.	As Zoho's engineering culture becomes more established over time, the 'not invented here' mindset may delay the introduction of new products, which could benefit competitors. Another re-platforming caused by advances in technology like quantum computing may give upstarts an opening.

Source: 451 Research