

Gartner says Worldwide SaaS Revenue to Grow 22 Per Cent in 2009

Stamford, Conn., May 7, 2009 — The market for software as a service (SaaS) is forecast to reach \$9.6 billion in 2009, a 21.9 per cent increase from 2008 revenue of \$6.6 billion, according to Gartner, Inc. The market will show consistent growth through 2013 when worldwide SaaS revenue will total \$16 billion for the enterprise application markets.

"The adoption of SaaS continues to grow and evolve within the enterprise application markets as tighter capital budgets in the current economic environment demand leaner alternatives, popularity increases, and interest for platform as a service and cloud computing grows," said Sharon Mertz, research director at Gartner.

"Adoption of the on-demand deployment model has grown for nearly a decade, but its popularity has increased significantly within the last five years," Ms Mertz said. "Initial concerns about security response time and service availability have diminished for many organisations. As SaaS business and computing models have matured, adoption has become more widespread."

SaaS adoption varies between and within markets. Although usage is expanding, growth remains most significant in areas characterised by horizontal applications with common processes, among distributed virtual workforce teams, and within Web 2.0 initiatives.

Office suites and digital content creation (DCC) remain the fastest-growing markets for SaaS. Office suites are projected to total \$512 million in 2009, up from \$136 million in 2008, while DCC is forecast to total \$126 million in 2009, up from \$70 million in 2008. The content, communications and collaboration (CCC) market continues to show the widest disparity of SaaS revenue across market segments, generating \$2.5 billion in 2009, up from \$2.16 billion in 2008 (see Table 1).

Table 1
Worldwide Software Revenue for SaaS Delivery Within the Enterprise Application Software Markets
(Millions of Dollars)

	2009	2008
Content, Communications and Collaboration (CCC)	2,507	2,155
Office Suites	512	136
Digital Content Creation (DCC)	126	70
Customer Relationship Management (CRM)	2,169	1,838
Enterprise Resource Planning (ERP)	1,376	1,256
Supply Chain Management (SCM)	861	748
Other Application Software	483	387
Total Enterprise Software	8,035	6,591

Source: Gartner (May 2009)

The adoption of SaaS within enterprise resource planning (ERP) and supply chain management (SCM) varies based on process complexity. SaaS is expected to represent only about 1 per cent of ERP manufacturing and operations revenue, but more than 18 per cent of human capital management (HCM) and 30 per cent of the procurement segment by 2013. The CRM market exhibits more general market adoption, ranging between 9 per cent and more than 33 per cent of total software revenue, depending on the CRM subsegment. Overall, SaaS accounted for more than 18 percent of the CRM market total revenue in 2008.

“Many factors are driving adoption of SaaS, including the benefits of rapid deployment and rapid ROI, less upfront capital investment, and a decreased reliance on limited implementation resources,” said Ms Mertz. “Greater market competition and increased focus by the "megavendors" is reinforcing the legitimacy of on-demand solutions. Many enterprises are further encouraged by the fact that with SaaS, responsibility for continuous operation, backups, updates and infrastructure maintenance shifts risk and resource requirements from internal IT to vendors or service providers.”

Certain factors can, however, work to impede adoption of SaaS including: concerns about data security, a perceived lack of competitive differentiation, increasing concerns about scalability, questions about vendor longevity, and the fact that existing investments in applications capital and organisational expertise limit SaaS growth.

Ms Mertz advised organisations to determine where SaaS is most appropriate and advantageous within an overall sourcing and applications strategy before selecting a service provider, as well as anticipating the broader costs incurred with a SaaS solution and when these are likely to occur within the life cycle. She said that identifying costs associated with the subscription, training, customization, integration or feature upgrades, and reviewing contractual terms carefully will enable organisations to determine whether SaaS is the better choice.

Additional information is available in the Gartner report “Market Trends: Software as a Service, Worldwide, 2009-2013.” The report is available on Gartner’s website at http://www.gartner.com/DisplayDocument?ref=g_search&id=965313&subref=simplesearch.

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