2022

SaaS Management Index Report

ZYLO

Trends and actionable insights from the industry's largest database of SaaS spend, license, and usage.

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Introduction

It wasn't long ago that on-premise software was king. But those days are long behind us. Increasingly, organizations are forgoing on-premise solutions, opting instead for the convenience, flexibility, and affordability of SaaS. And if they aren't moving to the cloud on their own, providers are spurring them along by shifting to more subscription-based SaaS offerings. As a result, SaaS experienced steady growth over the last decade.

Then, the COVID-19 pandemic hit, forcing organizations to adapt to remote working and accelerate their digital transformation initiatives, putting SaaS growth into overdrive.

And while we're nearly two years into the pandemic, the rapid growth of SaaS shows no signs of stopping.

Whether employees are back in the office, fully remote, or a hybrid of the two, one thing is clear — SaaS plays a critical role in our workplaces, keeping teams connected and productive no matter where they are.

How exactly are companies purchasing SaaS, managing these investments, and defining success? And, more importantly, how can you use these key data points to benchmark against peers — and start taking action to optimize your own SaaS investments?

In this report, we answer these questions and more.

About the SaaS Management Index

As the leader in SaaS Management, Zylo is fueled by more data than any other vendor. Our AI-powered Discovery Engine has processed five years of SaaS spend, license, and usage data, equating to more than $21B in SaaS spend under management.

Our annual SaaS Management Index shares key SaaS trends we've identified from this data. This year's report empowers businesses to benchmark their SaaS investment — and translate this information into action, identifying powerful optimization and cost savings opportunities.

Executive Summary

Two years into the pandemic, SaaS growth continues to accelerate

- The average organization has 323 SaaS applications in its portfolio.
- On average, organizations spend nearly $65M on SaaS each year.

The decentralization of SaaS continues, presenting challenges and opportunity

- Business units are managing more SaaS, while IT is managing less.
- IT now manages 27% of SaaS spend, a 35% decrease year-over-year.
- Business units manage 66% of SaaS spend, a 22% increase.

Growing SaaS portfolios require effective, ongoing SaaS Management

- About 1 in every 5 employees expenses SaaS applications.
- The average organization is only utilizing 60% of their provisioned SaaS licenses.
- Opportunities for SaaS optimization abound, yet must be addressed while keeping employee experience in mind.

The SaaS Explosion Continues

If you had any doubt about the continued rise of SaaS, let this be your reassurance.

SaaS is here to stay.

As TechCrunch writer Ron Miller recently wrote, “The cloud is not a passing fad. It is not some pandemic-driven flash in the pan. It is, in fact, the future of work, the future of computing and anything that’s not digitized now will be sooner than later.”

Though the initial race for organizations to tool up is nearly two years in the past, the accelerated growth of SaaS isn’t slowing down. SaaS is the future — and it plays a critical role in a business’s success, regardless of what the “workplace” looks like.

In fact, in many ways, SaaS has become the new workplace. Employees turn to SaaS to communicate with customers, collaborate with colleagues, and drive business outcomes. The right SaaS empowers employees to do their jobs and do them well, whether they’re working from the office, home, or some combination of the two.

Organizations Rely on Hundreds of SaaS Applications

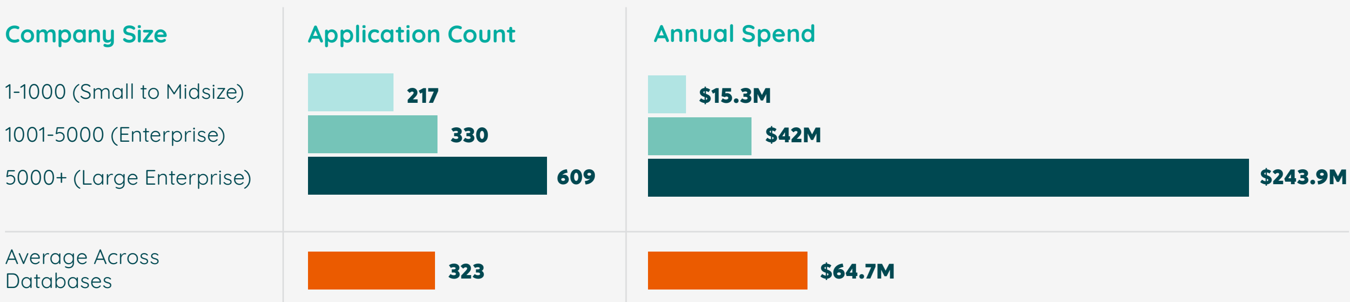
SaaS is easy to acquire. Oftentimes, signing up for a free trial using a credit card is all that it takes. It’s not uncommon for business units and even individuals to procure their own SaaS — especially when they’re working from home. As a result, SaaS portfolios continue to grow.

How does your SaaS portfolio stack up?

Today, the average organization has 323 SaaS applications in their portfolio and spends nearly $65M on SaaS every

SaaS Portfolio Size and Spend by Company Size

As the size of the company grows, so too does its SaaS portfolio.



year. Of course, these numbers vary greatly based on the size of the organization. While small to midsize organizations (those with 1-1,000 employees) have an average of 217 SaaS applications and around $15M in annual spend, large enterprises (those with 5,000+ employees) average 609 applications and $243M in annual spend.

Certain SaaS Categories are Experiencing Significant Growth

Clearly, organizations are investing heavily in SaaS. But which categories are benefiting the most from organizations' increased spending?

Many of the SaaS categories experiencing the most growth are those that enable hybrid or remote work — such as VPN, screen and video capture, and digital content. Others are indicative of continued efforts toward digital transformation — such as business process management, email marketing, and data warehouses.

As SaaS Continues to Grow, Decentralization Continues

As SaaS portfolios grow, we're seeing a significant shift in how these applications are purchased and managed. Namely, IT teams are less involved in the ownership and direct management of SaaS — while lines of business and individuals are empowered to purchase, own, and manage an increasing percentage of the portfolio.

IT Manages a Rapidly Decreasing Portion of SaaS

The days when all software purchases were funneled through the IT team are long gone. Today, IT controls just over a quarter (27%) of SaaS spend — and directly manages just 23% of the average organization's SaaS applications. That's a 35% decrease in control of spend and a 9% decrease in control of quantity, year over year.

10 SaaS Categories Experiencing the Greatest Growth

SaaS applications supporting remote/hybrid work and digital transformation initiatives are seeing the largest growth.

- Business Process Management
- Digital Content
- VPN Client
- Screen & Video Capture
- Email Marketing
- Data Warehouse
- Authoring and Publishing
- Surveys & Forms
- Predictive Analytics & Forecasting
- Design

On the other hand, the portion of SaaS controlled by business units is growing at a rapid clip. Today, lines of business control 66% of SaaS spend, a whopping 22% increase year over year.

Shadow IT — defined as applications purchased by teams and individuals and reimbursed as expenses — also continues to grow both in terms of spend and application quantity. This isn't surprising, as there's been a big shift as many organizations empower and enable employees to research and procure the tools they need on their own.

Organizations must strike the right balance between business innovation and risk.

At the average organization, about one in five employees expenses SaaS. Interestingly, the likelihood of employees expensing SaaS decreases as company size grows.

The Democratization of SaaS Presents Both Opportunities and Challenges

This shift in SaaS spending isn't exactly new. IT's share of SaaS spend has steadily been decreasing for quite some time — a trend we predict will continue. The shift isn't necessarily a bad thing. In fact, there are many upsides.

More than ever, organizations are putting decision-making power directly into the hands of teams and employees, empowering them to buy the tools they need to do their jobs, when they need them. This decentralized approach can increase organizational agility and introduce new opportunities for innovation.

However, there's no denying that a decentralized approach to SaaS procurement and management also presents some significant challenges. When SaaS is purchased and managed throughout business units, it often creates a lack of visibility across the organization which makes it difficult — if not impossible — to manage this unique asset type. And a lack of proper SaaS management

THEIR TAKE

"While the centralization of SaaS purchases is ideal for many purposes within an organization, the ability to have the unique needs of different areas of the business be empowered to find the best solutions can help in driving innovation, nimbleness and productivity in general."

- Debby Leisner, VP of Business Operations, Widen an Acquia company often leads to inefficient spend, unnecessary costs, and steep security and compliance risks.

Organizations must strike the right balance between business innovation and risk. Software is now owned and managed by the business; that's not going to change. CIOs, CFOs, and business units must come together to ensure employees have the tools they need, while identifying opportunities to empower and optimize. Central visibility — made possible by a single source of SaaS truth — enables an ideal partnership among these groups to deliver the right technologies to employees at an optimal cost.

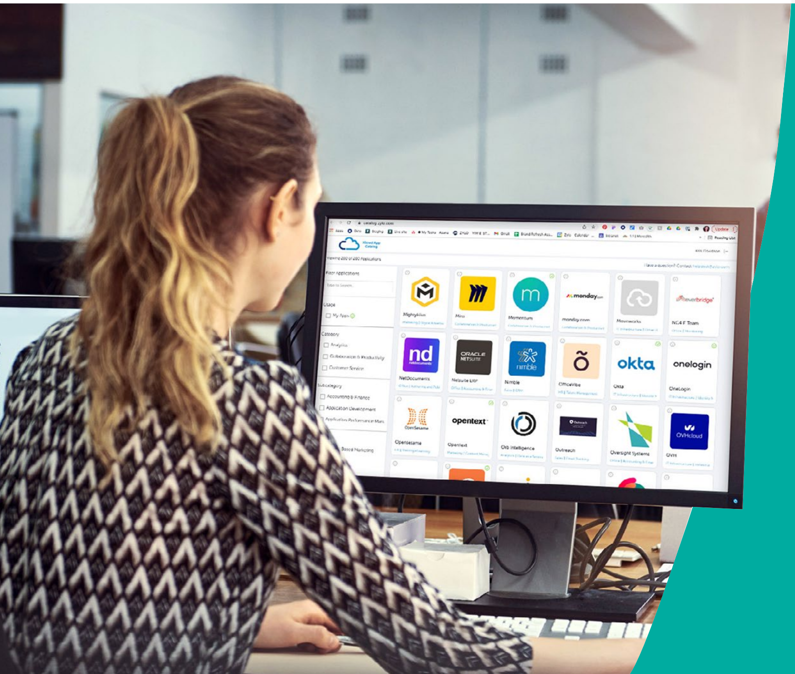
Shifting Perspectives

From governance to empowerment: Freedom within a Framework”

For many organizations, governing SaaS investments can feel like a balancing act. On one hand, companies want to enable and empower employees to choose the tools they want to use. This is especially true as we see the rise of trends like Tool Autonomy and employers struggling to attract and retain talent.

On the flip side, CIOs, CFOs, and IT leaders are still on the hook to keep the organization within budget and safe from harm.

Progressive, employee-centric organizations are rejecting the age-old debate of centralized versus decentralized governance. Instead, they're finding a sweet spot where employees are empowered to choose the SaaS tools they want — while the organization can still effectively manage risk, compliance, and costs. In other words, these organizations are providing their employees with “Freedom within a Framework.”



How can you create “Freedom within a Framework” in your organization? Here are three steps to make it a reality.

- Establish ongoing visibility into all the SaaS applications purchased by the organization.
- Increase awareness of the applications already available to employees.
- Empower employees to select the tools they need, without opening up the business to risk or wasted spend.

The State of SaaS and 5 Top Opportunities for Optimization

SaaS is growing, both in terms of portfolio sizes and dollars spent — and shows no signs of stopping. At the same time, the way SaaS is obtained and managed is shifting. Combined, these factors present challenges — as well as opportunities for optimization.

With more than $21B in SaaS spend and 29 million licenses under management, Zylo has the largest dataset of any SaaS Management provider. This comprehensive dataset, paired with our unparalleled SaaS expertise, enables us to identify the top opportunities for SaaS optimization.

Opportunity #1: Start with Visibility

Recent SaaS growth is driven primarily by business units and individuals, rather than the IT department. While there are upsides to empowering employees to obtain their own solution, an unfortunate side effect is a lack of central visibility into all SaaS in use across the organization. This is a big problem, as you can't optimize what you don't know exists.

Organizations must put a strategy around SaaS. The first step of such a strategy is taking inventory of what SaaS you have, how much you're spending, and who is purchasing and using each solution.

Organizations must gain visibility into all SaaS in their tech environment. This includes applications purchased and managed by lines of business, as well as those purchased and managed by individuals. After all, about one in five employees in the average organization expense SaaS.

TOP 10 Most Expensed SaaS Applications

One in five employees expenses SaaS. Here's what they're purchasing most.

- LinkedIn Premium
- Adobe Creative Cloud
- Spotify
- Twilio
- Dropbox
- Github
- Adobe Acrobat
- MailChimp
- Momentive (SurveyMonkey)
- Google Workspace

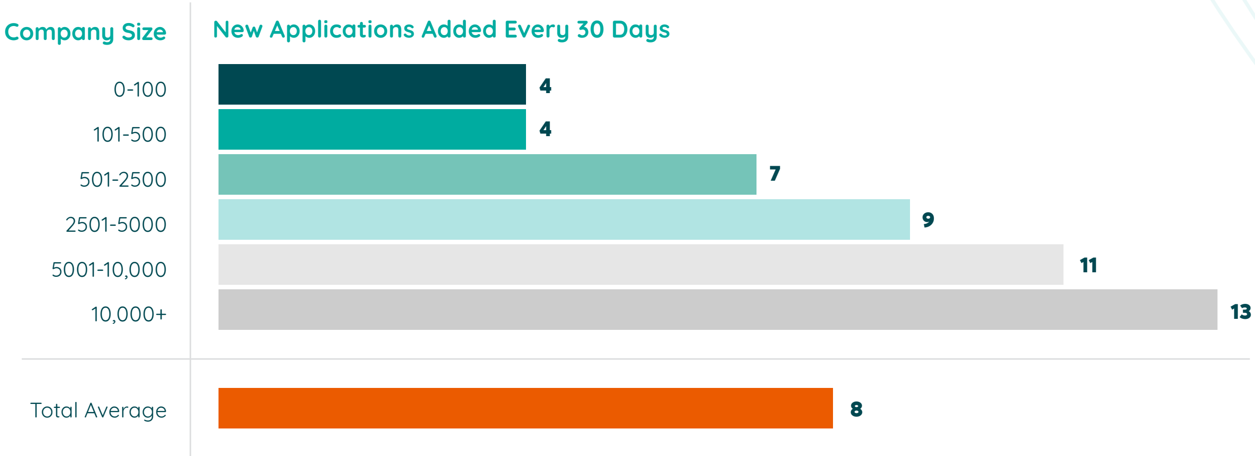
Once an organization has gained visibility into all SaaS, a best practice is to create a single system of record to manage and track it.

Of course, gaining visibility isn't a one-time event. SaaS is easy to acquire, creating a highly dynamic environment. In fact, the average organization sees eight apps entering its environment every 30 days. As such, organizations must consistently monitor for new SaaS entering the environment and ensure their SaaS system of record is updated in real-time.

THE BOTTOM LINE: You can't optimize what you don't know exists. Create a single system of record for all SaaS applications and ensure it's updated in real-time.

SaaS Portfolios are Dynamic

SaaS solutions enter the tech environment on an ongoing basis. Here's the average number of applications acquired per month by company size.



THEIR TAKE

"Before implementing Zylo our SaaS spend was unknown, unruly, and unattractive. Zylo helped us identify, track, and action our SaaS spend allowing us to consolidate and trim our SaaS footprint considerably. It is now an integral tool in our ongoing SaaS management efforts."

- Joe Doperalski, Director of IT InvisionApp

Opportunity #2: Rationalize Your SaaS Portfolio

The majority of organizations have multiple SaaS applications that compete to serve the same (or largely similar) function. For example, a company might have one project management tool used by the engineering team, one preferred by the marketing team, and a third widely adopted by the product team.

Most Redundant SaaS Functions

Most organizations have multiple SaaS applications that serve the same function. Here are the most redundant functions.

- Online Training Classes
- Digital Assets
- Team Collaboration
- Project Management
- Recruiting
- Web Conferencing
- File Storage & Sharing
- Governance, Risk & Compliance
- Digital Analytics
- Domain Registration

This is a prime example of SaaS sprawl. As the purchasing and management of SaaS becomes more distributed, it becomes more difficult to control SaaS sprawl — especially without visibility and guidelines for bringing new applications into an organization.

About 1 in every 5 employees expenses SaaS.

To solve SaaS sprawl, examine your portfolio on an ongoing basis and evaluate whether all applications are necessary — or if some of the functional overlap can be eliminated by rationalizing your portfolio. This sounds simple enough. But it's likely to be a struggle for organizations without a dedicated SaaS Management discipline, especially as business units manage a growing portion of SaaS.

When business units have SaaS decision-making power, they tend to seek out best in breed solutions for their functional area. For example, the best project management tool for marketing might not be the same as the best tool for product teams. But more tools don't necessarily mean more output and greater productivity.

Of course, the level of autonomy and choice afforded to departments seeking out technology varies from organization to organization. It's a delicate balance between empowering these business units and ensuring new solutions are compliant, secure, and within budget. Ongoing portfolio rationalization helps ensure your organization doesn't end up with 25 project management applications!

THE BOTTOM LINE: Portfolio rationalization is about making sense of the SaaS applications you have and driving a clear enterprise architecture strategy. A clear understanding of what technology you have and why you have it enables a more strategic approach.

Opportunity #3: Optimize SaaS Licenses and Subscriptions

Far too often, organizations pay for SaaS licenses and subscriptions they don't actually need. The average organization is only utilizing 60% of their provisioned licenses, leaving 40% wasted, unused, and ripe for optimization.

The average organization is only utilizing 60% of their provisioned SaaS licenses, leaving 40% wasted, unused, and ripe for optimization.

Once you've gained visibility into all SaaS and understand your investments in each tool, the next opportunity is to drive ongoing optimization of your licenses and subscriptions.

In order to optimize licenses, you must understand how many licenses you have purchased and provisioned. Then, you can analyze user behavior to understand if and how those licenses are being used. In general, we advise aiming for a target utilization rate of 90% or higher. This ensures wide adoption and use, with a small buffer built in for reassigning and provisioning licenses.

THE BOTTOM LINE: Don't let your SaaS investments go to waste. Leverage usage data to understand who is using your SaaS licenses — and how. This data is essential to rightsizing your SaaS portfolio.

A best practice is to aim for a target SaaS utilization rate of 90% or higher.

Opportunity #4: Take Proactive Control of SaaS Renewals

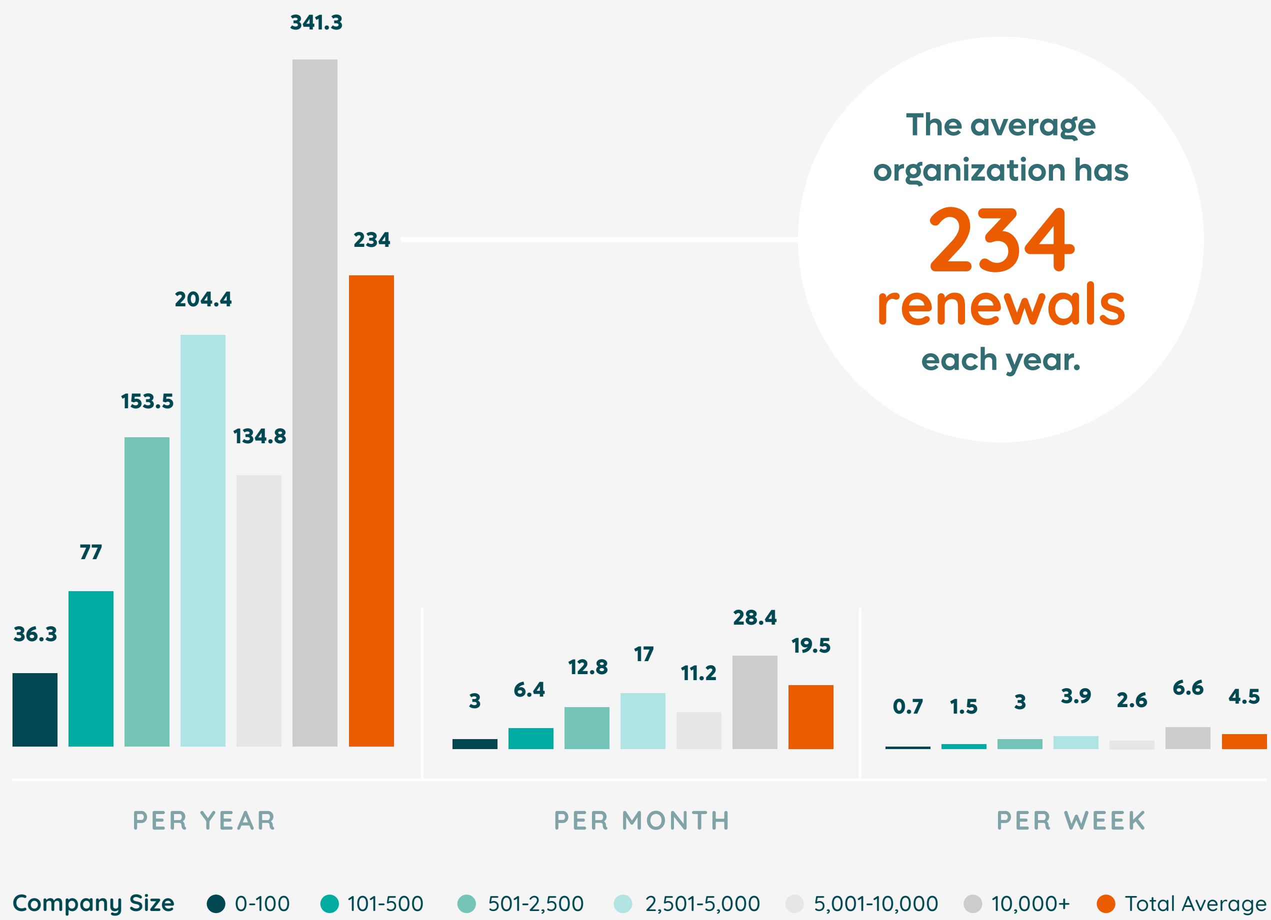
With the sprawl of SaaS comes the sprawl of SaaS renewals. Renewals happen all the time, throughout the organization, and often at the same time. The average organization experiences 234 SaaS renewals a year, which equates to nearly 20 each month — or nearly 1 renewal every business day.

Because organizations have so many SaaS applications — and they're purchased and managed throughout the organization — it's easy to lose track of when each application is set to renew. When organizations are caught off guard by a SaaS renewal, hasty renewal decisions are made — without data to back them up. That means applications are being renewed that shouldn't be, and teams aren't negotiating price or terms as much as they could be.

SaaS Renewals Happen Frequently

With SaaS sprawl comes renewals sprawl

Average Renewals



Organizations must make it a priority to take control of renewals. This starts with preparing well in advance. We recommend starting to prepare for a renewal 30-90 days in advance. However, widely available, high investment applications (think CRM tools and workplace and collaboration suites) can take even longer.

A best practice is to start preparing for SaaS renewal discussions 30-90 days in advance.

Come to renewal discussions armed with the right data. For starters, get insights from your usage data to understand how employees are currently using the application in question — and identify areas for de-provisioning and downgrading. In addition, leverage benchmarking data to see what other organizations are paying for the same application — or what tools they're using instead.

THE BOTTOM LINE: Come to renewal discussions ready to negotiate, equipped with the data on application usage and benchmarks on pricing, for the best outcomes.

THEIR TAKE

"Zylo's SaaS Management Index proves how imperative managing SaaS is becoming for all organisations. Spend is continuing to rise alongside a reduction in operational control from IT departments. This brings forth a perfect storm of inefficiency, uncontrolled costs, and risk. **SaaS Management helps you navigate this storm by gaining visibility and using data insights to empower people to make the right decisions when selecting software."**

- AJ Witt, ITAM Industry Analyst, *The ITAM Review*

Opportunity #5: Empower an Optimal Employee Experience By Balancing Choice and Compliance

As we examined this year's data, we made an interesting observation. Large enterprises (organizations with 5,000+ employees) have a far fewer percentage of employees expensing SaaS applications — only 8-10%. However, these large enterprises also see much lower utilization rates — 45-49%.

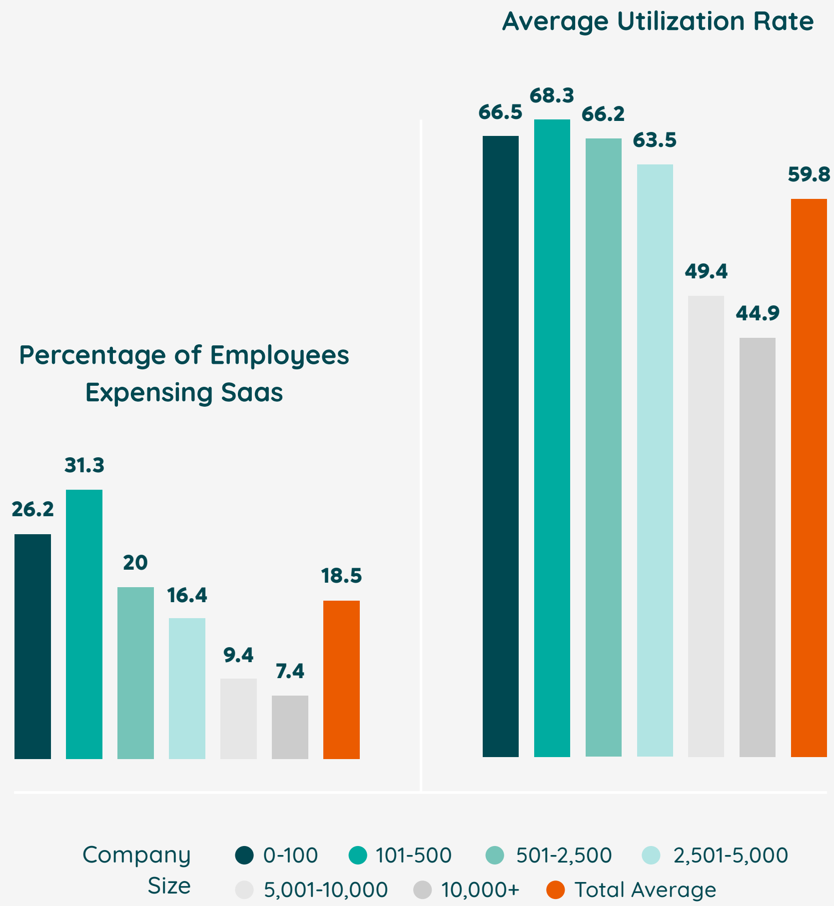
On the other end of the spectrum, smaller organizations have a higher percentage of employees expensing SaaS applications. But they also experience higher utilization rates.

What does this mean? Our interpretation of this data is that the more choice employees have in the SaaS tools they use, the more likely they are to use them. To be clear, we don't advise organizations to let their employees expense software at whim. Rather, we're seeing the most progressive organizations strike the right balance by instituting freedom within a framework.

THE BOTTOM LINE: It's all about balance. Enable freedom within a framework to allow employee choice — while still implementing governance to manage cost, compliance, and risk. See page 9 for more information on how to do so.

Balancing Employee Choice and Compliance

As the percentage of employees expensing SaaS grows, so does the average utilization rate.

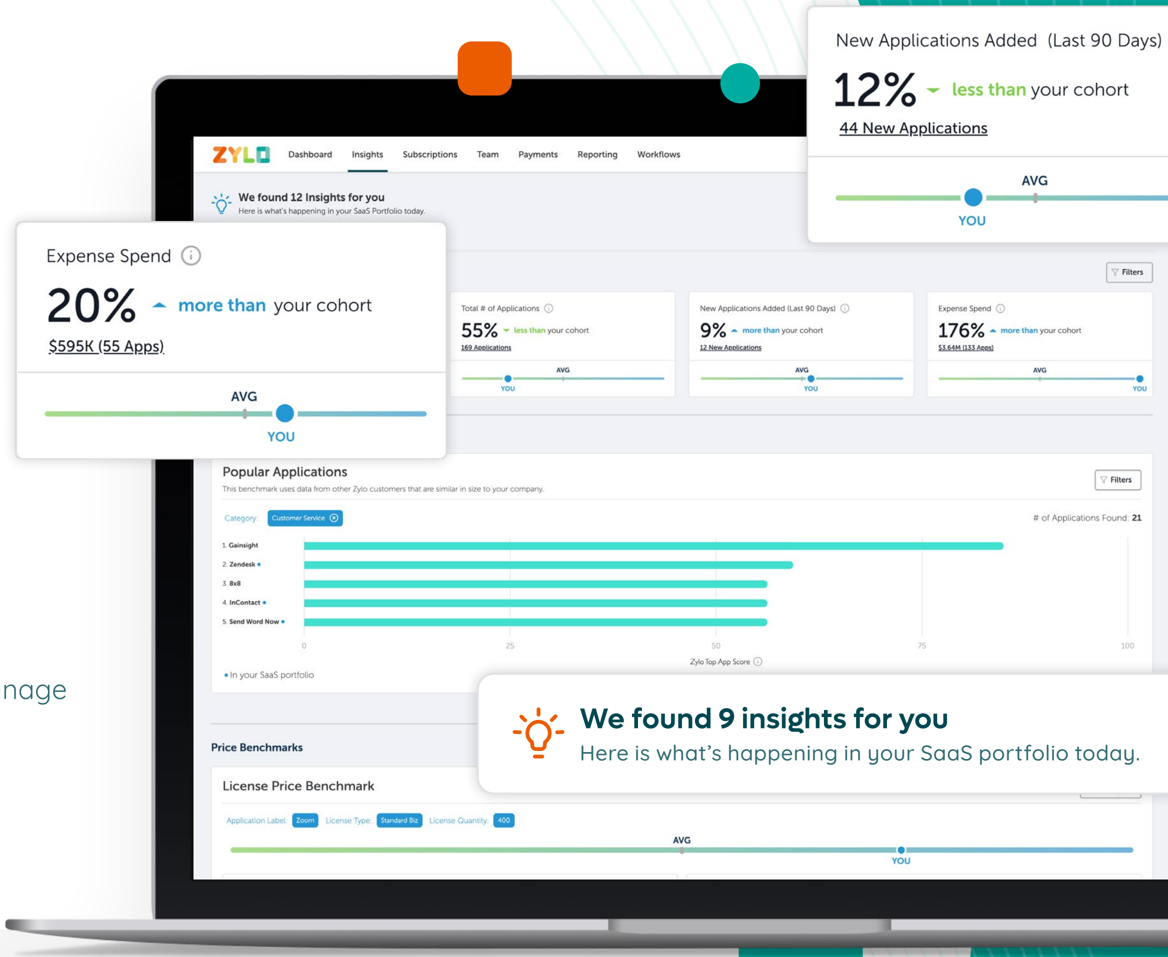


Now is the Time to Start Managing SaaS

As organizations continue to prioritize digital transformation and workplaces continue to become more digital, SaaS will continue to remain at record high levels and play an increasingly important role in businesses. To put it another way: SaaS is here to stay.

Businesses must make it a priority to manage their SaaS investments. Those that fail to do so face unnecessary costs and risk.

And the time to start is now. Organizations with a solid SaaS Management practice are best positioned to optimize costs, manage security, and empower employees as SaaS continues to grow.



To learn more about Zylo's SaaS Optimization and Management platform, visit zylo.com.

Want to get access to data like this 24/7?

Zylo Benchmarks helps you save money and improve efficiency, providing the data you need to support your SaaS strategy, renewals, and decision-making. Be confident you're choosing the best products at the best price and see how your SaaS portfolio, licenses, and pricing stack up against the best set of on-demand benchmarks in the industry.

See how you stack up. Get a demo today.

About Zylo

As the leader in SaaS Optimization and Management, Zylo empowers companies to discover, optimize, and govern their SaaS applications while elevating the employee experience.

Organizations large and small trust Zylo's enterprise-proven technology and unparalleled SaaS Management expertise to optimize more than 30 million SaaS licenses and $21 billion in SaaS spend.

Zylo's patent-pending, AI-powered Discovery Engine provides continual, frictionless monitoring of SaaS spend, licenses, and usage to create the industry's most trusted SaaS system of record. Fueled by more data than any other provider, Zylo delivers actionable insights that allow you to take action quickly to optimize growing SaaS portfolios.

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