

Zoho emerges from COVID-19 with more customers, revenue, products

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Introduction

Zoho Corporation sells cloud-based software to business-to-business (B2B) companies operating mainly in retail, services, hardware, software, manufacturing, real estate, banking and financial services. Zoho's customer base includes some of the very organizations hardest hit by the pandemic. Thus, most people would have expected Zoho to be adversely affected by the economic fallout from COVID-19. Instead, it is emerging from the pandemic with 18% more customers, 29% more revenue, 55% more profit and five new products.

The 451 Take

Going into the COVID-19 pandemic, Zoho expected the worst. Public health lockdowns threatened many businesses, including many of Zoho's customers, which are typically smaller firms with fewer resources. Prompt action allowed Zoho to engineer its way through the economic fallout caused by the pandemic. Instead of declining, the company expanded its customer base, revenue, profits and product line, and it has begun hiring again. In good times, the company invests more in product development and customer support than in sales and marketing. This allocation is the exact opposite of most of its competitors. Consequently, some business buyers may assume the worst, although the opposite is actually the case. Zoho is a profitable private company with no debt that has emerged from COVID-19 as a stronger entity.

Details

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic, impacting communities around the world. Responses to the outbreak varied, as the virus affected communities and economies differently, but one universal governmental response was to mandate lockdowns. At the beginning of the outbreak, Zoho made plans assuming the worst, including cutting executive compensation to conserve cash and implementing an emergency subscription assistance program (ESAP) for customers that needed relief. The company also took other steps, closing offices and sending most of its 9,400 employees home to work remotely. As part of an environmental, social and governance initiative, it offered free access to some of its applications for remote workers early

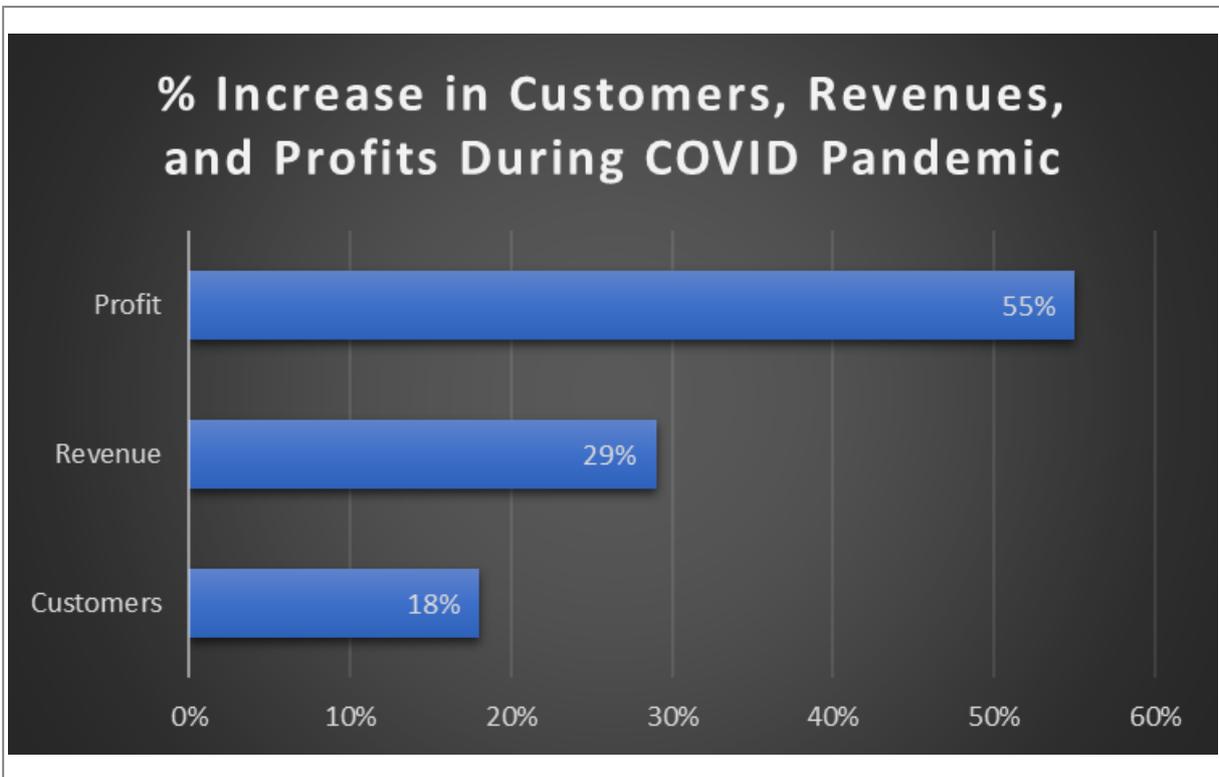
in the pandemic. Zoho also provided a free app-building program for nonprofits and governments, among other initiatives. Although it froze its marketing budget, this generous act effectively boosted its brand visibility, especially in India. Many of Zoho's COVID-19 contingency plans were never put into action because the company expanded rather than contracted during the pandemic.

At the end of 2020, it reported 62 million users, representing an 18% increase over 2019. Customer retention also improved. From a churn rate of 4.4% in 2015, Zoho enjoyed a 2.9% churn in 2020. According to 451 Research's Voice of the Customer: Macroeconomic Outlook, Business Trends, the pandemic pushed the largest businesses to increase automation investments. In that survey, which ran in August and September 2020, 55% of respondents at companies with 10,000 or more employees said their organization had accelerated automation spending in response to the pandemic, almost twice the number that said they had decreased such expenditures. Given Zoho's lower churn during the pandemic, we believe those survey results mirror IT spending for companies with fewer than 10,000 employees. Additionally, during the last two years, Zoho saw consecutive 40% year-over-year growth in customers with more than 500 employees and 30% year-over-year growth in customers with over 1,000 employees. Zoho's results suggest that the company is moving upmarket to larger customers.

Even with most of its employees working remotely, Zoho expanded its product line with five new products: CommandCenter, Lens, Begin, Lean and Voice. Zoho also gained valuable first-hand experience from managing its own business remotely, which it used to enhance some offerings, such as Zoho Backstage OnAir, a virtual event software service.

Given the disease's severity, many assume the post-COVID-19 economic recovery will be permanently hamstrung by the damage done to businesses. They fear for the timing and nature of a potential economic recovery. Zoho's numbers appear to point to a different conclusion. Many of the organizations that survived the past year of upheaval have invested in improving operations, and may emerge in the eventual recovery stronger.

Financial Impact of COVID-19 on Zoho



Source: Indian Ministry of Corporate Affairs