

## DUE DILIGENCE

# As Japan lets go of legacy practices, digital push opens door for business software market

Adoption of software-as-a-service is set to take off in country's corporate sector, but the playbook is not about speed. BY DARSA JHANWAR

WHILE the world obsesses over the noisy hype of artificial intelligence (AI)-led advances, billion-dollar opportunities may be quietly opening up in an area where Japan has lagged many others.

Adoption of software-as-a-service (SaaS) is at an inflexion point in Japan, as the country starts to move past conservative business practices to finally get on board with cloud-based enterprise software.

The market is expected to double from US\$14.5 billion in 2024 to US\$32.5 billion by 2030, a 14 per cent compound annual growth rate (CAGR) that rivals the world's hottest tech economies.

Two powerful tailwinds are driving this growth—a 2.3 million worker shortfall by 2030 caused by demographic decline, and a top-down digitalisation push led by the establishment of the Digital Agency in 2021.

## A structural difference

Unlike in other markets where growth is driven by speed and disruption, Japan's expansion is defined by trust, patience and precision. Digital transformation there is not a sprint to replace legacy systems. It is a methodical process of earning confidence, aligning internal hierarchies and proving reliability over time.

Consensus-driven governance means that change travels slowly but deliberately. A typical SaaS purchase may pass through 10 or more internal approvals across IT, compliance, procurement and legal. Once trust is earned, though, partnerships tend to endure for years, even decades.

Unlike in Silicon Valley, where procurement is bottom-up and experimental, Japanese adoption remains top-down and risk-averse. Many enterprises still maintain on-premise servers simply because they have always worked. This conservatism has delayed cloud penetration, but it also means that the next wave of adoption will stick and have high retention once it arrives.

There is also a cultural dimension to vendor relationships.

Local presence and responsiveness are viewed as signals of respect. In some cases, enterprise clients expect vendors to assign dedicated account managers or even share office hours for joint troubleshooting. This expectation reshapes SaaS unit economics, but also creates extremely loyal customers.

At the other end of the spectrum lie the opportunities within small and medium-sized enterprises (SMEs). Only 34 per cent of SMEs had adopted SaaS by 2023, but that number is expected to exceed 80 per cent by 2030.

These businesses are not digital natives. Many still use fax ma-



A distinctive operating environment does not make Japan harder, just different. It is a market that rewards builders who think in decades, not quarters. PHOTO: AFP

chines and paper invoicing. Yet, they are pragmatic and open to affordable tools that solve immediate pain points. Winning this segment requires products that are intuitive, low-maintenance and built for everyday workflows rather than enterprise complexity.

Japan's SaaS market is defined by unique pricing dynamics and deep localisation.

Pricing is the first major differentiator. Japanese customers typically pay 30 to 50 per cent less than their US counterparts for similar software. Even global names such as Salesforce and HubSpot routinely offer discounts above 25 per cent to win local business.

This is not a sign of frugality but of rigorous value benchmarking. Japanese buyers pay once they are convinced of long-term utility.

But localisation runs far deeper than pricing. True localisation means speaking the customer's language in every sense. This includes domestic-language support, relationship-led sales, and hands-on onboarding. The market values reliability, humility and trust over aggressive expansion.

The Docusign story captures this perfectly. Despite its world-class technology, the company lost share to CloudSign, a home-grown rival that built credibility through Japanese-language support, face-to-face engagement and culturally aligned service. In Japan, how you sell often matters more than what you sell.

Interestingly, this localisation premium has given rise to a new generation of SaaS founders who are both globally minded and do-

mestically rooted. Many are alumni of Rakuten, Line and SoftBank, who understand that building for Japan means reimagining product design around customer psychology, not just user interface.

## Depth over breadth

This distinctive operating environment does not make Japan harder, just different. It is a market that rewards builders who think in decades, not quarters.

The next wave of Japanese SaaS success stories will emerge not from horizontal products chasing scale, but from deep vertical players solving specific, high-friction problems within traditional industries such as legal, healthcare, logistics, manufacturing and human resources.

These are sectors where analogue processes persist because precision has always been valued over speed. Yet, they now stand on the cusp of digitisation driven by necessity, ageing workforces, regulatory compliance and the need to preserve institutional knowledge.

And unlike consumer Internet markets where global incumbents dominate, enterprise SaaS in Japan remains surprisingly open. The top three players in most categories control roughly 60 per cent of revenue, leaving meaningful space for challengers who combine local empathy with modern product DNA.

One vertical that illustrates this transformation is legal tech, particularly contract lifecycle management (CLM).

Most Japanese legal teams still run on e-mail threads, printed doc-

uments and manual approvals for drafting, negotiation and storage. It is slow, opaque and increasingly untenable.

Globally, Gartner expects the CLM market to grow from US\$3.6 billion in 2024 to US\$11.9 billion by 2033, a 13.6 per cent CAGR.

Yet in Japan, adoption remains below 5 per cent.

The convergence of three forces: tighter regulatory scrutiny, la-

bour shortages, and the maturation of AI-powered document tools is creating a perfect moment for adoption. Unlike in Western markets, where CLM tools are often purchased for speed and efficiency, Japanese enterprises view them as compliance infrastructure, integral to transparency and governance.

Amid this shift, companies such as Hubble exemplify how Japan-

first design thinking can translate into long-term advantage. Their traction underscores the broader thesis that when products are built for Japan's rhythm rather than against it, adoption follows naturally.

Competition is intensifying. Local champions such as LegalOn Technologies and MNTSQ have an instinctive grasp of the Japanese legal environment, while global entrants such as Icertis and Ironclad are still learning to adapt their playbooks.

## "Decisive" period

The next few years will be decisive. Government-led digitalisation needs to move from policy to implementation. SME adoption will determine the true depth of the market, and every SaaS company must find equilibrium between discounted pricing and sustainable margins.

Japan's SaaS market is one of Asia's most under-told stories. It is vast, patient and full of hidden complexity.

But beneath the surface lies a rare opportunity: a multitrillion-dollar economy actively rewriting its enterprise software stack.

Winning here demands humility, endurance and cultural empathy.

The playbook is not about speed; it is about sincerity.

Technology may open the door, but in Japan, trust is what keeps it open.

The writer is an associate, investment, at Vertex Ventures South-east Asia and India

# BTClub.

## Dining Experience @ Proud Potato Peeler

