

Is Zoho's AI Gambit a Masterstroke or a March into a Quagmire?

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Zoho, a company that has long prided itself on a vertically integrated, "own-the-stack" philosophy, has thrown down a significant gauntlet in the AI arena. While the rest of the industry has been loudly proclaiming AI capabilities, often built on a handful of mega-scale Large Language Models (LLMs), Zoho has been quietly building. Now, the curtain has been pulled back, revealing a comprehensive, multi-layered AI strategy that culminates in a move few might have predicted: their own homegrown, built-from-scratch LLM.

As an industry analyst, the immediate question is whether this audacious strategy is a masterstroke of vertical integration that will deliver unparalleled value, or a resource-intensive march into a highly competitive and rapidly evolving quagmire dominated by tech giants.

Zia LLM: Power Meets Privacy

Zia LLM is Zoho's proprietary large language model, engineered from the ground up to deliver powerful, context-aware intelligence across our entire suite of applications. It runs securely on Nvidia GPUs within Zoho's private data centers—never relying on third-party providers. That means your business data stays exactly where it belongs: with you.



No data harvesting No shadow training No surveillance No ads

The Full Stack Unveiled: More Than Just an LLM

Zoho's recent announcements, detailed in their fourth monthly AI forum, reveal a strategy that is as deep as it is broad. The company is not merely integrating third-party AI; it's building the entire engine, from the foundational infrastructure to the user-facing agents. This initiative is already handling significant volume, with Zoho reporting over 16 billion AI API calls in the first half of the year, a 50% increase that signals strong customer adoption.

The strategy unfolds across three distinct layers:

- 1. AI Capabilities:** At the top layer, Zoho is enhancing its user-facing AI. This includes improvements to contextual AI, the introduction of hundreds of pre-built, contextually embedded "Zia Agents" included within existing product editions, and a significant up-skilling of "Ask Zia." This Zoho-wide agent is gaining deep new skills in data engineering and analytics. Users can now instruct Ask Zia to perform complex tasks like importing data from both Zoho and third-party sources (e.g., Amazon RDS), joining disparate datasets, and pushing the transformed data into Zoho Analytics. Furthermore, Ask Zia is moving beyond simple data presentation to provide reasoning and suggestions, answering questions like, "Why did my sales drop in June 2025?" and offering potential solutions based on historical data.
- 2. AI Tooling:** For developers and the broader ecosystem, Zoho is launching the **Agent Studio**. This low-code tool empowers customers to build their own custom agents, defining their functions, knowledge base, and guardrails. In a clever demonstration of its own capability, the Agent Studio can even be used to create an agent. These custom-built agents can then be deployed as "digital employees" within applications like Zoho CRM, inheriting the existing permission structures.
- 3. AI Infrastructure:** This is where Zoho makes its most defiant move. The company is adding two critical components:
 - **MCP Server:** Adopting the standard defined by Anthropic and supported by OpenAI, Zoho is enabling customers to quickly create a Machine-Composable Personalization (MCP) server. This allows them to securely expose their data—from Zoho and over 200 integrated third-party apps—to any MCP-compliant client, such as GitHub Copilot. This gives customers control over how their data is accessed and used by external AI tools.
 - **The Zia LLM:** The centerpiece of the announcement is Zoho's own LLM. This is not a rebranded open-source model; it is a "completely built from scratch, homegrown" effort. The initial launch includes three models (1.3B, 2.6B, and 7B parameters), with a larger 70 billion parameter model promised for later this year. Zoho is also launching its own homegrown Automatic Speech Recognition (ASR) models for English and Hindi.

The "Why": A Calculated Bet on B2B and Privacy

Zoho is explicit about its intentions. "We are not going after the B2C market," stated Chief Evangelist Raju Vegesna, "We are focusing really on the B2B market." This B2B focus informs every aspect of the strategy.

The company argues that generic, mega-scale models carry a "performance penalty" when applied to specific B2B use cases. By owning the model, Zoho believes it can optimize for the right price-to-performance ratio and tailor models for specific business scenarios without the bloat of consumer-focused capabilities. Their ASR model benchmark is a case in point: achieving superior or comparable performance to Whisper V3 with significantly fewer parameters (0.2B vs. 1.5B), which is a critical factor for efficiency and cost.

Privacy is the other pillar of this strategy. Zoho emphatically states that "customer data was not used to train any of our models." In an era of rampant data privacy concerns, building a proprietary LLM allows Zoho to bake in privacy and data governance from the ground up, making its models inherently aware of individual and organizational boundaries. This is a powerful message for businesses wary of feeding sensitive information into black-box AI services.

This vertical integration is a classic Zoho play, mirroring its investments in its own data centers. By owning the hardware and the software, from the silicon partnerships with NVIDIA to the AI algorithms, Zoho gains the "freedom to innovate" and control its own destiny. They are not just using AI; they are building the factory.

Guidance for the Tech Ecosystem

For **technology vendors**, Zoho's move is a stark reminder that there is more than one way to win in AI. While partnering with hyperscale AI providers is the dominant strategy, vertical integration offers a path to differentiation on privacy, cost, and specialization. Vendors should question whether a one-size-fits-all LLM truly serves the nuanced needs of their business customers.

For **channel partners**, the introduction of tools like Agent Studio is a significant opportunity. It opens the door for a new wave of consultancy and custom development services, enabling partners to build highly tailored "digital employees" and workflows that solve specific client problems, thereby creating immense value and stickiness.

For **customers**, Zoho's AI stack presents a compelling proposition. It offers a choice. Businesses are not locked into a single AI provider; the Zia LLM is an *option* within Zoho's AI Bridge, alongside models from OpenAI, Anthropic, and others. This provides a path to leverage powerful AI capabilities within a privacy-conscious framework, with the potential for better performance on B2B tasks at a more efficient cost.

This strategy is particularly beneficial for the SMB and midmarket segments that form Zoho's core constituency. Techaisle research consistently shows that these businesses prioritize practical, affordable, and secure solutions

that deliver immediate value. Zoho's approach hits these marks precisely. By including a large percentage of AI agents within existing paid editions, Zoho avoids the sticker shock that often deters smaller firms from adopting new technology. The emphasis on privacy and not using customer data for training directly addresses a primary security concern for SMBs. Furthermore, the focus on pre-built, contextual agents and low-code platforms like Agent Studio demystifies AI, making it accessible and deployable for organizations that lack dedicated data science teams.

Delving deeper, Zoho is demonstrating a remarkably mature understanding of what businesses need to trust and adopt agentic AI. This isn't a tech-for-tech's-sake rollout. The company is building critical guardrails for enterprise readiness. Plans are in place for a dedicated "Agent Observability" section to monitor performance and explain agent actions. Crucially, Zoho has implemented a robust guardrail mechanism, using fine-tuned LLMs to evaluate responses for compliance and appropriateness before they are delivered. Recognizing that full automation can be daunting, the Agent Studio also explicitly supports architecting "human-in-the-loop" interactions, ensuring that businesses can maintain oversight and control where needed. This is complemented by a pragmatic go-to-market plan: lead with a formidable roster of pre-built, horizontal agents to drive initial adoption, and then foster a vibrant ecosystem by opening a dedicated marketplace for partners and ISVs to monetize their own creations in the future.

Zoho's greatest challenge, however, will be to capture the mindshare of a market saturated with AI hype from competitors with larger marketing budgets. Yet, this challenge is matched by an immense opportunity. The company has a massive, loyal installed base that serves as the perfect ground for a grassroots AI adoption movement. By delivering tangible value and enhanced productivity directly within the applications these customers use every day, Zoho can drive adoption from the inside out. The key will be to empower its dedicated channel partner ecosystem and its passionate user community to become evangelists, clearly articulating how Zoho's privacy-first, vertically-integrated AI delivers uniquely practical and trustworthy business outcomes.

Zoho itself acknowledges this is a "marathon." They are planting a seed, fully aware that it will take years to grow into a tree. While their initial LLM benchmarks show it performing better than Llama 2 but not yet at Llama 3 levels, their confidence lies in the long-term trajectory of optimization for the B2B use cases they know intimately.

The question remains: will owning the entire stack give Zoho an unbeatable advantage in the business application market, or will they be outpaced by the sheer scale and velocity of the larger AI players? For now, from my vantage point as an analyst, Zoho has crafted a narrative that is powerfully differentiated, technically ambitious, and deeply aligned with its core identity. This is not just an AI product launch; it's a declaration of independence. And in the current AI gold rush, that makes Zoho's gambit one of the most fascinating developments to watch.

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