



Cloud Computing, SaaS Boom Fueled By Recession

By [Andrew R Hickey](#), CRN

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Typically, when the economy goes bust, tech sales suffer.

Not so with cloud computing. Quite the contrary, actually. When the economy took a tumble, cloud sales rose -- and will continue to rise -- creating new opportunities for solution providers as their clients look to cut costs, reduce their IT footprints, eliminate unnecessary resources and work more lean and mean.

But the cloud's success, despite the global financial shortfall, is multilayered. According to Eric Berridge, co-founder of New York-based solution provider Bluewolf, a confluence of cost savings, quicker time to value and tighter IT budgets were all catalysts for the mass cloud adoption.

"You don't have to buy all of that infrastructure," Berridge said, adding that with an economic downturn CFOs can't stomach shelling out the dough for bulky and pricey hardware and [software](#) and, even if they can, money is so tight that managing it all just creates more headaches.

"With cloud, it's pretty easy to go to the CFO and say, 'I can still do all of the same things with no additional [infrastructure](#) and no new hires,'" Berridge said.

In Bluewolf's case, revenue was flat from 2008 to 2009, when revenue dipped for companies that didn't embrace the cloud. Berridge said some of Bluewolf's contemporaries saw revenue drop 15 percent to 30 percent in that same stretch of time. And now that the economy is showing signs of stabilization, or perhaps recovery, Berridge predicts a 30 percent to 40 percent revenue increase as clients find their feet and embrace the cloud.

Gartner also anticipates a massive cloud computing explosion, fueled mainly by economic turmoil. In a report released this week, [Gartner said global cloud computing services revenue will rise from \\$58.6 billion in 2009 to \\$68.3 billion this year](#). By 2014, Gartner expects the global cloud services revenue to reach nearly \$150 billion.

Meanwhile, Gartner estimates that over the course of the next five years enterprises will spend \$112 billion cumulatively on software as a service (SaaS), platform as a service (PaaS), and infrastructure as a service (IaaS), combined. That spending is in direct relation to increased economic pressures.

"In part, this can be explained by macroeconomic factors," Ben Pring, Gartner research vice president, said in a statement. "The financial turbulence of the last 18 months has meant every organization has been scrutinizing every expenditure. An IT solution that can deliver functionality less expensively and with more agility (remembering that time is money) is hard to ignore against this backdrop."

Next: SaaS Seeing Increased Adoption

And while solution providers are experiencing an upswing in the downturn, software-as-a-Service vendors also saw a spark when the economy fizzled.

"Arguably, the tipping point for SaaS was the recession. We've benefitted from the downturn," said William Soward, CEO of Adaptive Planning, a Mountain View, Calif.-based SaaS vendor.

Soward said the up-front licensing investment of massive software installations gave SaaS and cloud computing new footing as the economic decline forced enterprises to focus on how much they had in the bank and seek out predictable monthly operating costs instead of massive up-front licensing and hardware expenses.

Adaptive has witnessed it first-hand. The company more than doubled its SaaS customer base from the summer of 2008, which is around the same time its on-premise offerings started to dip. Soward added that on-premise offerings aren't going away, but "all through 2009 companies were focused on how much money they had" and that's carried through to 2010.

"It's been an evolution over time," he said. "The writing's on the wall that the old days are gone. The reason we're able to sell so much in a lousy market is the faster time to value."

Same goes for Cloud9 Analytics, which saw a similar boost, and is currently experiencing 50 percent quarter over quarter revenue growth amid the downturn, according to Cloud9 CEO Swayne Hill. For the fiscal year ending January 31, 2010, Cloud9, which makes SaaS performance management applications, grew its subscriber base by 400 percent over the previous fiscal year while experiencing triple-digit growth in monthly recurring revenue over the preceding fiscal year.

In his keynote address at the All About The Cloud conference in San Francisco last month Microsoft (NSDQ:[MSFT](#))'s Doug Hauger, general manager of Microsoft Windows Azure, Microsoft's cloud platform, said the decision-making process has been accelerated as companies require faster time to value. "The economy is really pushing people in this direction," Hauger said of the cloud.

Next: Cost Savings And Ubiquitous Web Mean Cloud Growth

And companies that kill two birds with one stone, like Fiberlink, a vendor that offers cloud-based mobile device management tools, is seeing great success, partially fueled by enterprise needs to control costs due to reduced cash flow. Fiberlink vice president of Customer Platform Services Jim Szafranski said mobility exploded in 2007 and 2008 and when the recession hit, enterprises turned to hosted platforms to whittle down costs.

"Because of the recession, anybody doing mobility will look at SaaS now," Szafranski said. "The [TCO](#) story helped a ton in the recession."

And VARs can take advantage, as cloud computing offers a high margin while enabling solution providers to cut their clients' costs by leaps and bounds.

"You get 50 points for reselling something. You can't get that selling hardware ... the cloud is a high-margin product," said Treb Ryan, CEO of OpSource.

Bluewolf's Berridge noted that the market is still ripe. He said that less than 1 percent of data is currently in the cloud and while the economy spurred the move to the cloud, "there's still so much market out there."

Michael Cohn, founder of Atlanta-based [Google](#) Apps and cloud solution provider Cloud Sherpas, agreed.

"Cost savings has been the main [driver](#) for our customers for the last two years," he said. Cohn said it's most noticeable in certain verticals and industries that took budget hits when the bottom fell out. He said state and local governments, real estate and manufacturing -- all industries hit particularly hard by the downturn -- flocked to the cloud in droves.

But it is not just the cost savings. Cohn said the ubiquity of cheap [bandwidth](#) also made it more feasible for business applications to be leveraged in a Web browser.

"We have the Web wherever we go. Five years ago accessing business applications through a browser wasn't feasible," Cohn said. "Take that and a bad economy and it's a recipe for big changes, for lots of disruption."
