

One Reason, Why SaaS Is Going to Only Grow

Energy costs.

Ask yourself, why did the economy tank last year? A popular answer is bad mortgages leading to a collapse of the financial markets...and the dominoes just fell from



there. But if so, then why did Europe and Japan head into recession (by a couple quarters, at least) *before* the US?

If you listen to the popular economist Jeff Rubin (<http://www.jeffrubinssmallerworld.com>), he'll give you an earful on why it was really triggered by 2008's run up in oil prices.

Consider that in 4 of 5 previous recessions (we can't say about this one yet, for sure), oil spikes preceded economic recession by about 12 months each time. Interestingly, 09's spike was nearly 500% prior spikes. I encourage you to read Jeff's book, or at least skim the related blog post, ***Financial Crisis or energy Shock? You Be the Judge.***

So, what happened to *us* as energy sky rocketed, before last year's collapse? We started paying attention to our energy consumption, that's what. My family certainly did. Combined with fueling a

lengthy commute, my family's monthly energy costs exceeded our mortgage payment by \$200-300/month during depths of winter. We paid attention to energy habits, and I'm willing to bet you did too.

And, if you were running a data center at the time, I *guarantee* you were paying attention to aggregate energy costs.

Based on comments by folks like Jeff Rubin, others, and my own observation, I think we're destined to see \$4, \$5, \$6/gallon gas again...fairly soon. That means triple-digits barrels of oil again and energy inflation equal to, if not exceeding, our experiences of '08. It doesn't take genius-level thinking to realize that as demand grows in India, China, and other developing countries, combined with decreased growth rates in new supply, that costs are going up. It's a simple supply/demand thing.

So, what's the future likely to hold?

The world assumes it costs nearly nothing to shuttle parts/product around the world. Yet as soon as we hit \$4/gas, we began to see news reports of textile and furniture makers in the Carolinas getting busy again. It no longer made sense to ship the frame for a sofa, from China to North Carolina, so it could be upholstered, and then sent back to China. All of a sudden, as low-cost energy went out the window, so did low-cost transportation.

Costs to run data centers have never exactly been ‘cheap.’ However their operation and design has underscored by the same low-cost energy. But that’s beginning to change. Recession-driven relief has us in the midst of a lull right now. But, have no doubt, we’re going to see energy costs for data centers start climbing rapidly again—and *soon*. This means SaaS is going to benefit--no one will want to keep growing their own data center—if they can gain economic benefit by consolidating with other (SaaS) data centers.

According to an Intel white paper, ***Dynamic Data Center Power Management: Trends, Issues, and Solutions***, one of the biggest challenges for data center operators today is the increasing cost of power and cooling as a portion of the total cost of operations. And *this* was in February, 2008. (If you run a data center, I’m preaching to the choir.)

In the past decade, cost of power and cooling increased 400%--that’s *huge!* Even before the latest energy spike was realized, concern over power and cooling limitations were a major concern for 59% of Intel’s survey respondents.

If you agree with me, the return of ever-higher energy costs are going to make it ever-harder for customers to continue deploying new services even as they’re being economically forced to decrease energy consumption. For SaaS providers, those able to effectively anticipate, scale, and secure cost-effective energy supplies, this makes for incredible new sales opportunities.

Consider some of the common applications companies self-serve today: email (often with BlackBerry boxes close-by), large datastores, intra/internets servers, ERP, HR, AP and, AR. Every one of these are functions that can be serviced through a SaaS provider.

There is plenty of opportunity to be had. Increased energy prices are likely to be a boon for SaaS providers. What do you think?

Agree? Disagree?