

Feature

Cloud on the horizon

Cloud computing is the technology of the future, but how long will it take to arrive?

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Cloud computing can broadly be described as Information Technology (IT) supplied over the internet rather than from a desktop computer. Put simply, we would access our computer memory, with all the files and applications, in the same way we now use web-based email addresses such as Gmail or Hotmail: by logging on from any location and accessing everything across a server network located potentially thousands of miles away.

The UK currently has only one quoted cloud computing pure play in the form of £5 million cap **Nasstar (NASA:AIM)**. Its Hosted Desktop product is up and running and used mainly by small and medium-sized companies, as well as some bigger businesses such as easyGroup and Allied Healthcare. After five years of development, chief executive Charles Black is now rolling out plans to license the platform to other service providers.

'This will enable partners to go to market in months rather than years,' explains Black. 'It removes risk and it removes development time.' While private users would do fine with Google's upcoming GDrive cloud service, Nasstar offers an enterprise-grade product where a desktop would have the same look as it does presently, and incorporate familiar products such as Microsoft Office. Significantly, users would not need to change their habits, as the only difference would be that the memory was stored not in a box under the desk, but in the 'cloud'.

While Nasstar remains a high-risk stock, November's finals showed the group has achieved its first operating profit – at £32,000 compared with a £365,000 operating loss the previous year. Neither Nasstar nor its house broker Ambrian Capital will commit to any numbers for 2009 but the broker emphasises

the group's impressive sales growth, which was 75% in 2008 in spite of the downturn. Analyst Gurpreet Gujral notes how the growth in the subscriber base should be boosted this year following the implementation of Nasstar's partner programme.

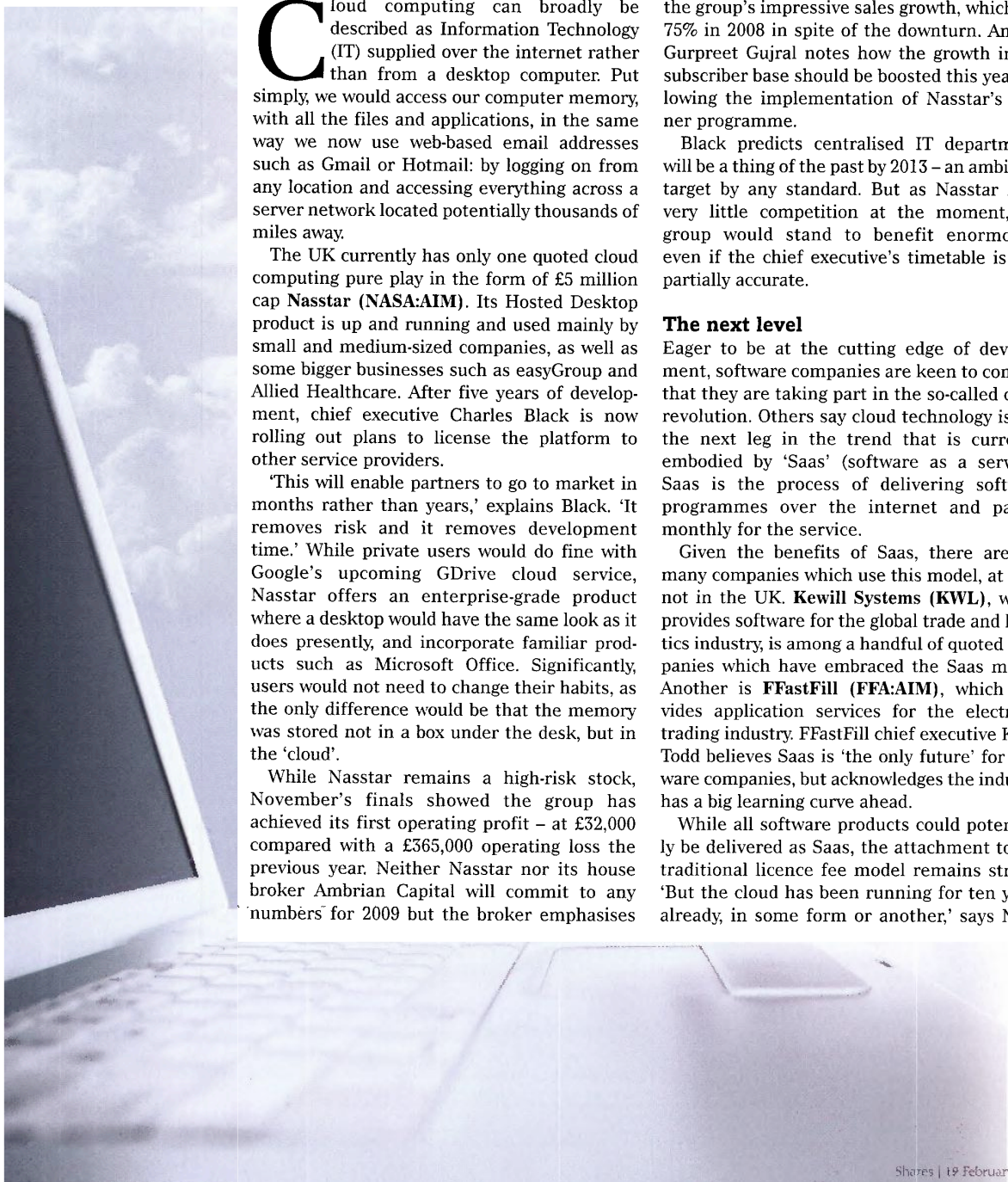
Black predicts centralised IT departments will be a thing of the past by 2013 – an ambitious target by any standard. But as Nasstar faces very little competition at the moment, the group would stand to benefit enormously, even if the chief executive's timetable is only partially accurate.

The next level

Eager to be at the cutting edge of development, software companies are keen to confirm that they are taking part in the so-called cloud revolution. Others say cloud technology is just the next leg in the trend that is currently embodied by 'Saas' (software as a service). Saas is the process of delivering software programmes over the internet and paying monthly for the service.

Given the benefits of Saas, there are not many companies which use this model, at least not in the UK. **Kewill Systems (KWL)**, which provides software for the global trade and logistics industry, is among a handful of quoted companies which have embraced the Saas model. Another is **FFastFill (FFA:AIM)**, which provides application services for the electronic trading industry. FFastFill chief executive Keith Todd believes Saas is 'the only future' for software companies, but acknowledges the industry has a big learning curve ahead.

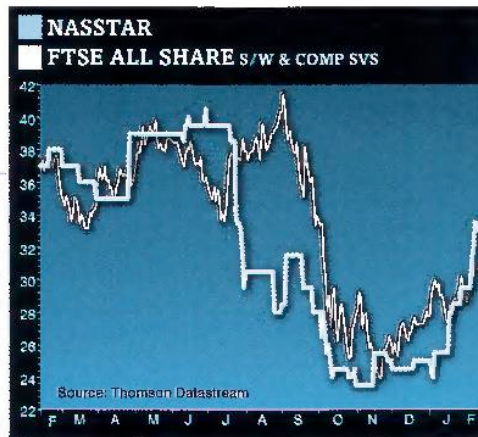
While all software products could potentially be delivered as Saas, the attachment to the traditional licence fee model remains strong. 'But the cloud has been running for ten years already, in some form or another,' says Nigel



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Hartnell, FFastFill's corporate development director.

Described as cloud's little sister, SaaS benefits from being a tangible product that has started to prove itself. Adopting cloud technology, however, represents an 'architectural shift' against which there is plenty of resistance explains Pip Coburn, former UBS analyst and founder of of technology research group Coburn Ventures. 'Since the dot.com bubble burst in 2000, there has been an intolerance to architectural shift spending because the costs and risks have been so high,' says Coburn. 'Those attributes were tolerable in the 1990s, but today pursuing such projects is considered out of touch, reckless or irresponsible.'

This is a strong argument why a step-by-step approach such as SaaS is likely to be the way forward in what is looking likely to be a path of evolution rather than revolution.

SaaS has been picking up pace as internet speeds have become faster and more reliable. Research from Canaccord Adams suggests software companies that provide services on a SaaS model stand to outperform the broader market due to factors such as accelerated growth, a steady income stream and low capital needs once the group is established. The report also points to how competition is limited: 'Many [SaaS] leaders have found themselves essentially alone in their [industry] spaces, or facing only disadvantaged legacy or non-technology players.'

Simpler is cheaper

For customers, the most obvious benefit of the cloud is the ease of access for an increasingly mobile workforce. Internet-delivered services can be deployed very quickly and at low initial cost for a company – a particularly valuable factor for start-ups. Bigger groups benefit from shifting IT responsibility

elsewhere (the IT department becomes a thing of the past), freeing them to focus resources on core operations.

Investors will also be happy to see how monthly payments lead to steadily-recurring revenue streams, meaning fewer surprises at results announcements. While customers could potentially cancel the service at any time, having outsourced all their IT they would then lack in-house technical capacity.

The generation game

As with any disruptive technology there are critics – some of whom are concerned with privacy and security and others who arguably have a vested interest in the status quo. Larry Ellison, founder of the world's largest software group Oracle, has called cloud computing 'gibberish', while Richard Stallman, founder of the Free Software Foundation, called the concept 'worse than stupidity', arguing it locks people into proprietary systems without control of their own files.

FTSE 100 companies are not going to throw out servers by the skip-load just because there is a nifty new invention available. As Harvard professor Theodore Levitt famously said: 'People don't want a quarter-inch drill. They want a quarter-inch hole.' The cloud will not become a part of our lives unless we see it as a viable solution to a need.

Coburn identifies three drivers that could prompt the architectural shift needed for mass adoption of the cloud. These are cost (finding a cheaper way of doing

something), efficiency (finding methods to make better use of data to improve business performance), and attitude (when enough people recognise the potential of a 'disruptive' technology).

Coburn argues that in order to become successful, a technology needs to be sold against at least one of these three. The first two factors are already supporting the cloud, but we may have to wait for a generational shift before any significant inroads can be made; when businesses are run by people who grew up with the internet rather than those who had to learn it later in life and are inherently more sceptical.

Recession opportunity

The recession is potentially a factor that could speed up the technology change, as it forces the issue of cost control. 'This is a great moment to be having this conversation,' says FFastFill's Todd. 'People are looking very hard at the cost of technology deployment'.

'Facing huge budget cuts, IT directors are waking up to the fact that on-site IT is an expensive overhead in a recession,' says Nasstar's Black. 'With chief executives piling on the pressure for staff to ensure the business is running lean, the hosted desktop will be a welcome addition.'

Slower and bigger

So is cloud computing the future? It would seem so. No one is really arguing this point, but ask how long this will take, in what manner it will progress, by what name we will call it and what time we get there and you will get a different answer each time. But if the speed of implementation of other fundamental technology changes are anything to go by, the cloud will most likely take much longer to arrive than anyone thinks. But by the same logic, the change it will provoke also stands to be that much bigger. ■