Blueshift RESEARCH TECH TRENDS YOU NEED TO KNOW

Senior Tech Editor John Harrington

Software's Rough Ride Is Getting Rougher By The Week

Companies: ADBE, AMZN, CRM, CRWD, DDOG, DOCU, GOOG/GOOGL, IBM, MDB, MSFT, OKTA, ORCL, SAP, SNOW, SPLK, VMW, WDAY, ZS

November 18, 2022

"Heard, tracked, understood, witnessed, confirmed, and you should really think about paying attention to this stuff."

Research Question:

What has been happening to spending on enterprise technology software applications since the middle of the third quarter, and what is the projection for that spending heading into the new year?

John Harrington reports from the E.U. and UK

Key Findings

- Sources are uniformly reporting that businesses of all sizes are cutting software application spending to levels not seen in more than 10 years. This includes software as a service (SaaS) mounted in the cloud as well as on-premise deployments. It extends across all areas—including security software, which has usually been immune to large falloffs in spending.
- Companies that are active in key transactional functions, supply chain management, logistics, and critical infrastructure and firmly entrenched with large clients—such SAP SE (SAP) and IBM Corp. (IBM)—are less exposed. Standalone vendors that supply database and data analysis or redundant software that cloud customers can get less expensively have problems. Bundled applications natively available in Microsoft Corp.'s (MSFT) Azure, Amazon.com Inc.'s (AMZN) Amazon Web Services, or Alphabet Inc.'s (GOOG/GOOGL) Google Cloud Platform duplicate what outside vendors offer and thus are hurting those vendors more than ever, sources said.
- Sources also warn that companies that have been steadily losing money for years are not going to find a way to profitability in the next year—if ever. Snowflake Inc. (SNOW), Okta Inc. (OKTA), MongoDB Inc. (MDB), Zscsaler Inc. (ZS), Splunk Inc. (SPLK), Workday Inc. (WDAY), DataDog Inc. (DDOG), and DocuSign Inc. (DOCU) were among the companies that sources said are being pushed to the spending back burner as their clients struggle to find new business amid steady losses.
- Established companies that also were given negative outlooks include Salesforce Inc. (CRM), VMware Inc. (VMW), Oracle Corp. (ORCL), and Adobe Inc. (ADBE).
- Sources said clients are slowing down new cloud migration plans until after the new year as they assess what they will need in order to deal with hybrid environments between office and remote workers, some of whom will likely be laid off.
- For the first time since Blueshift Tech Trends started covering the expansion of cloud computing in 2015, sources said they see a reduction in the need for both on-premise and cloud-based software apps and services, because customers oversubscribed during the pandemic to keep operations running. "The overspend was, as it turns out, overkill by magnitudes of order," said the CEO of a West Coast IT integration company that helped clients make it through the pandemic by shifting workloads to the cloud, particularly Microsoft. "Nobody really knew what was needed because it was completely new territory."
- "It is a shock to the system because it is not going to bounce back into some growth binge once it levels out, and I don't see it leveling out until the middle of next year," said another senior executive at a security and data services business that deals with several big software vendors. "The cloud is still the ultimate destination for almost everything. That will not change. What is changing is how carefully customers are looking at what they are spending there, because they went over the top lighting up too many resources so fast that the price tag they have run up is scaring the hell out of them. … If you already are working, don't buy more and then try to cut what you don't need. That's where we are. Slow growth becomes no growth, and no growth becomes negative growth. And if you were already losing money, look out. Layoffs follow."
- "Even big projects are being stopped," said a senior sales executive at a national integration/value-added-reseller company. "The sales pipeline is looking very bad, and it was OK just three or four months ago. Customers are letting go of senior IT executives they hired during the pandemic because business is slowing down in all areas. I think the first couple of quarters next year are shaping up to be nuclear winter as far as what expectations were in the summer for the second half of this year. This is a very abrupt turn of events."

Positive: AMZN (AWS), IBM, MSFT (cloud divisions), SAP

Negative: ADBE, CRM, CRWD, DDOG, DOCU, GOOG/GOOGL (Google Cloud Platform), MDB, OKTA, ORCL, SNOW, SPLK, VMW, WDAY, ZS

The Data Keeps Flowing, And Business Keeps Going; But If You Can Cut IT Spending, You Will

"It doesn't matter what any of the software companies tell your readers, they can't hide from what is happening. It is slowing down faster than anything I have seen since 2008," said the CEO of an IT services company that since 2017 has been specializing in cloud application workload migrations into Microsoft and AWS. "You are absolutely right that there is a direct correlation between cloud adoption and software sales. The cloud is nothing but hosted software and data storage. Any slowdown there is mirrored across the broader spectrum of IT—particularly in places like database and analytics, where you have outside companies that rely on the cloud, like Snowflake and Mongo, to keep going." That source, along with several others, said it is clear in the cloud integration world that Google Cloud Platform, after starting to pick up at the onset of the pandemic, is starting to lag further behind AWS and Microsoft.

Sources mentioned software that, as one source put it, "clogs" processes with more processes. Splunk was specifically cited in that category. This software faces a marketplace of companies looking to streamline IT processes, not add to them.

Solid companies with a good offering, such as Crowdstrike Holdings Inc.'s (CRWD) endpoint and other security products, are leveling off, sources said. ID company Okta was seen as having missed its market opportunity, said several security-facing sources. "Okta really blew it by not narrowing its focus and going for the highest end of the market," said the CEO of a security management company in the Midwest. "Now, identity is being baked into the cloud, and Microsoft is going to win that game. I do not see how Okta can rebound in this climate."

Said Tech Trends' most senior global data management, analysis and storage source, who is based in the UK and doing business around the world: "Anything to do with bulk data has to get less expensive by a wide margin, not more expensive. Since we have been speaking about Snowflake, MongoDB, several of the others, and the cloud platforms that compete against them, over the past few years, look what has happened to their values. The information management trends were always running against them because they can't scale. These outside companies that are so-called multicloud, like Snowflake, actually only exist because they totally rely on the clouds that also compete against them. They make revenue, but growth is elusive. They have all collectively run into a wall. That was always in the cards.

"The problems were clear to us. By the time you pull together enough developers to build on something like [MongoDB] Atlas, times are already passing you by. That is how quickly things move. These data companies that lose money, in our estimation, will never become profitable. The curve has to be downward toward less expensive, ML [machine learning] data combing. That is underway in the big clouds because they have the money to make that happen. In fact, it is the only place it will happen, or can at this point, because they have the computing and network. It will all be robotic, like Siri, only much more comprehensive. Ask the robot to compile a query for you. 'Hello, Niles, how many kippers did we sell in Scotland a year ago March?' That sort of thing. Instant analysis. Now, as spending slows down but technological advances like my robot example continue to get smarter and faster—what do you think the prospects for the bulk of these software firms might be? There are too many of them doing the same things.

"If you are watching your expenditures, you will find ways to not buy more software. You will buy less, and you will automate where you can, and that means in the cloud."

Three executive sources in the SaaS area said large customers are planning on a maintenance level of spending or paring down. Safesforce and Workday were repeatedly mentioned as facing competition from the likes of Microsoft while also seeing customers cut back on their own expansion plans. "Hiring was hot six months ago. Now it's not," said a senior executive with a West Coast company that sets up developer contracts with major clients. "The talent wars are in a cease-fire."

"When you shut down an office tower like Salesforce in San Francisco, or Meta gets stuck with the new REI campus outside Seattle that REI never occupied and Meta paid around $370 million for—and then you lay off thousands—that ought to tell you that things have been overdone for a long time," said the CEO of a network integration firm in the Pacific Northwest. "Empty offices don't need new workers."

Other sources who have been involved in significant organization of remote work since the pandemic cautioned that companies that provide tools that have been aimed primarily at consumers but which also have divisions aimed at businesses will likely suffer slowdowns. "Apps that found their way into regular workflows of businesses because of the scramble triggered by the pandemic will likely see significant drops in subscriptions," said one of the executives at a company that caters to clients that have large numbers of remote workers in the New York region. Several sources mentioned Adobe. "I think they did well with the early remote-work rush, but that is backing off as IT departments cull what they do and do not need," the remote-work specialist source said.

Sources said the problems aren't just affecting Silicon Valley. On both sides of the Atlantic, spending has been teetering on the edge for a long time, and that has been reflected in weak numbers from software vendors going back months. "It's just that it is getting worse, and it looks like it will last a lot longer than anyone wants to say out loud because people are as nervous as hell that they might get cut—like me!" said a longtime source who had been an executive at a company specializing in storage and backup systems. His former company had seen a steady shift among its large Northeastern customers toward outsourced data storage management in the cloud. "I landed on my feet because the minute I left the company, I had offers from a couple of my old customers to come in and help them rightsize their operations. That means they want to cut back as well. The whole movement in data is toward automation, and I was telling our people that for two years. Selling storage software on in-house hardware (is) a dead end. We needed to move to full-service management, and we did not. I have landed on the correct side of that equation. I suppose they got tired of me telling them what a series of mistakes we were making. They cut me. Thank God."

Background

Senior Technology Researcher John Harrington interviewed 11 key executive sources across all areas of enterprise IT networking for this spending review. All are repeats from previous Tech Trends IT spending reports. Nine are in the United States and do business from coast to coast. One is in the UK and does business globally, while another is in France. Interviews were conducted in the first two weeks of November.

About the Author

John Harrington is an award-winning investigative reporter and veteran Wall Street researcher. John previously served as senior editor and senior researcher at OTR Global and was a three-time Emmy Award-winning TV journalist.

John brings expertise and relationships in internet networking, network security, fiber-optic communications, and data center computing to Blueshift Research. John will contribute regularly, sharing deep insight into tech and communications trends, often before they are recognized by Wall Street.

Report Coverage Areas and Companies

Blueshift Research has been reporting on the following technology areas since Feb. 14, 2014, covering these public companies:

- Cloud Computing/On-Demand Hosted IT (AMZN, CRM, GOOG/GOOGL, IBM, MSFT, ORCL, WDAY)
- Enterprise IT Networking (ANET, CSCO, CTXS, DELL, FFIV, HPE, IBM, JNPR, MSFT, ORCL, RHT)
- Data Security (CHKP, FEYE, FTNT, INTC, JNPR, MSFT, PANW, SYMC)
- Data Storage/Management/Analysis (AMZN, BRCD, CSCO, GOOG/GOOGL, HPE, IBM, INTC, MSFT, NTAP, ORCL, PSTG, RHT, TDC, WDC)
- Data Centers and Fiber Optic Networking (AMZN, CONE, DFT, DLR, EQIX, GOOG/GOOGL, IBM, INTC, MSFT, NVDA, QTS, ZAYO)
- Fiber Network Construction and Implementation (ALU, CIEN, CSCO, DY, GLW, IESC, JNPR, NOK)

To access these reports, please contact your Blueshift Research sales representative or John Harrington.