Impending Economic Downturn Will Likely Increase Cloud Adoption and Spending

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Tuesday, August 2, 2022

Last week, the public received its first look at the earnings reports of various cloud providers since the recession bells started ringing. Despite lower than expected revenues, executives remain optimistic about the future of cloud computing.

Many observers suspect that given the current economic environment, enterprises are likely holding off on making significant investments in technology infrastructure as they wait to see how the economy fares to better gauge demand for their own service offerings. With the cost of acquiring capital rising, enterprises are focused on preserving cash and placing big bets on technology with no guarantee of demand may not be received well by executives as market caps remain depressed.
Before cloud-based solutions were pervasive, technology investments required significant capital expenditure for purchasing hardware and other physical infrastructure. However, as cloud-based solutions have become more ubiquitous, technology investments have shifted to a pay-as-you-go model that no longer requires the large initial capital expenditure. These setups serve as a major benefit for enterprises during uncertain economic times like these. With this model, enterprises pay for services based on consumption and can set up flexible usage-based pricing plans without having to commit to a significant capital expense. Moreover, because cloud-service providers also provide additional features and functionality (e.g., security and data storage) enterprises do not have to allocate additional resources to establish and maintain those features even as consumption wanes.

Although it is possible that overall demand for cloud services decreases in the short term, it will also be likely that IT budgets get slashed. Reduced IT budgets will likely incentivize companies to adopt the pay-as-you-go model and likely cause many legacy enterprise solutions to switch over to the cloud, accelerating adoption of cloud-based services during the recession.

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National Law Review, Volume XII, Number 214

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