

Hosting about to boom

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JUNE 13, 2006 AUSTRALIA'S software hosting sector has made a quiet recovery from the dotcom crash and is poised to enter a boom, according to analysts. Analyst IDC is forecasting that applications services (or software as a service) hosting in Australia will outperform the sector's average growth by five times for the remainder of the decade.

IDC said the Australian software services market was valued at about \$93 million and would achieve compound annual growth of 20.2 per cent.

IDC verticals research manager Phillip Allen said the estimate was conservative.

"It's really, really hot and we're just waiting for the wave to hit," Mr Allen said.

Gartner Asia-Pacific vice-president Rolf Jester said there was evidence that applications hosting had quietly been making headway.

"Based on work I've done looking at the supply side of it, talking to quite a number of the providers of applications and services for hosted applications, this is a bit of an under-the-radar phenomenon that's growing quite substantially right now," Mr Jester said.

The industry was taken by surprise last month when domain name registrar Melbourne IT announced plans to acquire hosting provider WebCentral for about \$60 million.

The deal, which is yet to be approved by shareholders, values WebCentral shares at more than 40 per cent above their recent average market price.

Some have questioned the value of the deal, but Mr Jester said it was indicative that services were set to boom.

Microsoft recently announced that it would spend about \$1.4 billion adapting its software to work in a hosted (software as a service) model.

Microsoft has also introduced a service provider licensing agreement that let hosting providers rent software using a pay-as-you-go model.

Oracle recently announced a deal to buy data centre capacity in Australia and other key regional markets.

Marty Gauvin, the managing director of Sydney-based application hosting provider Hostworks said software vendors were very receptive to software hosts approaching them on behalf of customers.

"They're always keen to assist a service provider version of their software," Mr Gauvin said.

It's not clear which end of town will take up hosted applications most strongly.

WebCentral said it was focusing on small and medium organisations and generated most of its business from a hosted Microsoft Exchange email offering, which has reached 12,000 mailboxes.

WebCentral chief executive Andrew Spicer had signed up 300 small IT consultancies targeting small and medium businesses.

He said the company was expecting double digit growth for "many years" in its software services business.

Mr Jester said most of the under-the-radar growth in applications hosting had been due to specialist business service providers "popping up all over the place" to supply directly to business units, rather than conventional IT departments.

Mr Allen said the expectation that small and medium businesses would lead take-up was a mistake that providers of an earlier incarnation of software hosting, applications services, had already made during the dotcom boom.

"The thing about small and medium businesses is that they tend to be followers rather than early adopters, so it never really got any traction," he said.

Take-up would be led by the big end of town, he said.

Large enterprises had become dissatisfied with the major vendors' on-premise software licensing practices and were likely to switch to hosted applications, according to IDC.

IT managers were reticent to give the services their full support, Mr Allen said.

They had similar misgivings about outsourcing their operations to low-cost centres offshore before small bands of pioneering enterprises raised industry confidence in the practice, he said.

"The real challenge is the confidence of chief information officers to adopt this model and we're just waiting for this to happen," Mr Allen said.

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