

The Best is Still Ahead: Investors May Have Not Missed the Cloud Computing Investment Opportunity

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Bessemer Venture Partners (BVP), a leading venture capital firm in the cloud computing industry, recently released its annual update on the [State of the Cloud](#) for 2020.

The presentation's focus is the cloud industry, but there are valuable insights for investors and businesses in all industries which we summarize below.

Source: Bessemer Venture Partners, 22/04.2020. The views expressed in this video are those of Bessemer Venture Partners.

The cloud computing industry has experienced exponential growth but has hardly penetrated its total addressable market. All businesses must undergo a digital transformation, especially amid the current health crisis. BVP expects cloud computing to become the underlying connectivity source for our entire \$88tn global economy.

From 2008 to 2020 the total market capitalization¹ of the top five public cloud companies increased by 44x from \$14bn to \$616bn. The market capitalization of publicly traded cloud companies grew 35% annually from 2015 to 2018, above BVP's 25% expectation. Total cloud market cap also reached \$1tn in 2020, doubling the size of BVP's original expectation for \$500bn by 2020. The industry generated more than \$200bn in annual revenue in 2019 with Cloud computing segments driving profitable growth for tech-giants operating multiple lines of business (ex: Amazon, Microsoft and Alphabet). Today, cloud software accounts for approximately 30% of the overall software market and by 2030, BVP anticipates cloud will power 83% of the software market.

Importantly, BVP does not believe that cloud investors and stakeholders have missed the opportunity – the greatest potential lies ahead. Indeed, they expect cloud penetration to extend beyond the software market. Cloud computing is powering technological innovations that are transforming non-tech sectors and the digitization of medicine and automobile connectivity are just two notable developments that will impact the healthcare and transportation industries, respectively.

The most successful cloud companies have demonstrated the ability to efficiently scale their business. They diversify their revenue sources and execute appropriately timed investments in sales and marketing.

Cloud companies are scaling more rapidly than ever – cloud market leaders have grown from generating \$1mn to \$100mn in annual revenue in under 5 years. Zoom Video Communication is an example of cloud computing company with dominant scale. BVP estimates that Zoom controls 64% of the video conferencing market.

Successful cloud companies have had a “Second Act” that drives scale. Shopify is an example of a company that had initial success providing e-commerce platforms for merchants, and later launched solutions for payments, shipping, and fulfilment. However, Cloud companies should limit additional investments in sales and marketing until current initiatives are generating more in revenue than the total costs.

The common theme across BVP’s 2020 predictions is the proliferation of cloud computing across sectors and geographies.

Cloud computing’s global footprint is expected to expand. BVP predicts that Western Europe, China, Asia, Latin America, and Africa will continue to drive the cloud revolution. BVP also believes the future of work will be remote, with a mega wave of cloud software to support a decentralized workforce, including tools for HR & payroll, onboarding, training, culture management, and knowledge sharing.

Business-to-business (B2B) commerce has been largely executed offline through intermediaries (ex: payment via check). BVP predicts cloud companies will offer solutions to digitize and drive efficiencies in B2B workflows, which represents a \$100tn market opportunity.

Consumers will demand higher data privacy standards, forcing businesses to reduce their “privacy debt” since many companies do not have the infrastructure to safely collect and store data. BVP envisions a greater need for solutions that help enterprises protect data.

Cloud computing will drive digital transformation across industries, primarily through the use of application programming interfaces (APIs) that simplify software development and it will increasingly be used to reduce operational complexity and to automate entire business processes.

Unless otherwise stated, data source is CapIQ, Bessemer Venture Partners analysis.

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¹ The aggregate market value of a company represented in dollar amount.

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