A Canalys Special Report

Partner Ecosystem Multiplier: The AWS Opportunity – Germany in Focus

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Global summary

Cloud adoption continues to expand rapidly, with the market for cloud infrastructure services reaching a value of US$250 billion in 2022, according to Canalys estimates. In combination with this infrastructure is an entire ecosystem of partners that work with end customers to create functional cloud environments. Without these partners, customers would not be able to fully realize the potential of their cloud infrastructure. AWS provides a technology foundation to help customers solve key problems, but increasingly it relies on the contributions and offerings of their partners to complete the overall value stack. Canalys refers to these partner revenue opportunities as the Partner Ecosystem Multiplier (PEM). There are, of course, regional variances and this in focus series will highlight the key markets studied by Canalys in assessing the AWS Opportunity.

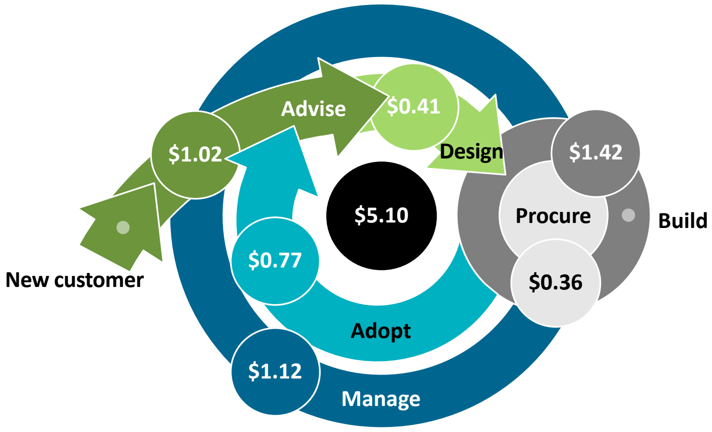
"We are focused on transforming our customers' business. Cloud is the key component of that change, and we see AWS as the backbone of the whole thing."

Key findings in Germany

- AWS partners in Germany can reach a multiplier of US$5.10 per US$1 of AWS sold. This is compared with the global figure of US$6.40 per $US1 of AWS sold.
- When compared with the other EMEA markets highlighted in this study, Germany had the lowest PEM score. But the German market's PEM exceeds that of all APAC- and LATAM-based markets included in the scope of this research.
- Germany saw a cloud adoption growth rate of 32.5% year on year in 2022 according to Canalys estimates, with a total cloud infrastructure of US$8.67 billion. Canalys estimates this will slow to 24% in 2023 for an overall market size of US$10.75 billion.

- Overall, companies in Germany take a rather conservative approach to data storage, limiting the total addressable market for partners offering cloud services. But partners in this country have an opportunity to challenge the market's concerns and conservatism toward cloud services, enabling further growth across cloud segments.

Partner Ecosystem Flywheel: Germany



Build and Adopt – Germany's largest segments

The Build segment is the single largest segment in Germany's PEM score, at 28%. As the broadest and most diverse segment of services in the Partner Ecosystem Flywheel, Build services help partners leverage the wider ecosystem in the German market. Through the versatile Build segment, partners in Germany support customers by developing business solutions, such as designing secure cloud storage environments to create value for customers. **50% of partners interviewed identified application modernization as the largest sub-segment within the Build segment,** as partners look to continue end customer transition to the cloud in the most effective way possible. This, combined with the wider Build segment, will play a key role in the expansion of other cloud service segments in the country, despite its lagging performance compared with its European peers.

Adopt is the second-largest segment in the country, representing 22% of the total PEM for the German market. Through Adopt services, partners in Germany are helping customers to identify and generate value from cloud investments. Continuing to focus on the Adopt segment will enable partners to ensure customer success by offering ongoing support, creating long-term revenue-generation opportunities for partners. The segment also marks an opportunity for partners to generate their own revenue through cross-selling and upselling while increasing efficiency for end customers.

When combined with the largest segment, **Build and Adopt services make up 50% of Germany's PEM.**

Smaller segments collectively contribute half of Germany's total PEM

A broad mix of services comprise the remaining half of the German PEM, notably including Advise, Design, Procure and Manage segments, and this breadth of services highlights the maturity of the German ecosystem in comparison to other global markets.

In Germany's PEM, **the pre-procurement services of Advise and Design comprise 28% of the total PEM.** This is a smaller proportion than the global PEM, where Advise and Design services contribute 34% of the total services opportunity. The larger of these two pre-procurement services is Advise, representing a fifth of the total multiplier. The growth of **the Advise segment has been limited by the German market's reluctance to pursue cloud business solutions** in the first instance; this is largely influenced by organizational and cultural concerns over where data resides. But the previous lagging of this sector will likely result in an upcoming increase in the value of Advise services for customers, which will rely on partners' advice to implement cloud strategies. Cloud adoption will become increasingly important to business customers as they try to remain internationally competitive, as cloud services offer better flexibility to their customers while driving improvements in efficiency.

Procure and Manage services represent a combined 22% of the total PEM, with Procure contributing just 7%, which is slightly more than in the other EMEA markets. The German market's Manage segment is proportional with that of the global multiplier, suggesting that there is a clear opportunity for recurring revenue from these Manage services. But, besides volume discount programs, partners are limited in their ability to change the multiplier effect generated by the Procure segments.

Growing the Advise segment should be a priority to increase Germany's PEM

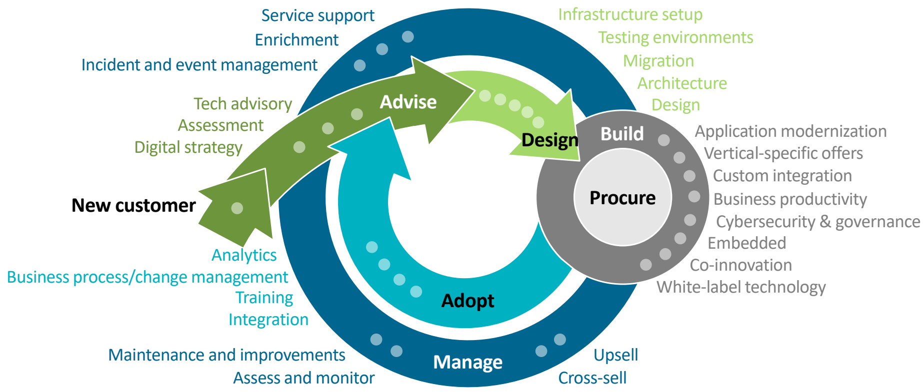
Currently, **Advise services contribute 20% of the overall multiplier for the German market.** The size of this segment is affected by the often skeptical approach of potential customers in the country, with regulatory pressures and the increased dissemination of cloud services restricting the total potential market. But this segment marks a key opportunity for the expansion of partners' cloud service offerings.

Though regulations currently represent a challenge for the expansion of the cloud services market in Germany, partners can generate revenue across segments by tackling customers' concerns. By expanding their professional service capabilities and focusing on Advise services, partners can support potential customers by addressing their regulatory concerns. Reducing the market's hesitancy toward cloud transitions at the pre-sale stage will be a key priority for partners, as this allows them to recruit new customers, which will need ongoing support with their cloud strategies. This will help the German multiplier grow and more closely rival the PEM scores of France, the UK and the US, as focusing on Advise services will unlock customers' interest in services offered later in the Flywheel.

Summary

The German cloud market's PEM is comfortably ahead of markets in APAC and LATAM, but lags behind comparable EMEA markets, limited by attitudes of skepticism toward cloud services. Regulatory pressures and conservative approaches toward cloud storage have also limited partners' ability to generate revenue from the market. But the German PEM has been supported by strong Build and Adopt segments, through which partners leverage the wider ecosystem to provide value for customers. While this remains a challenge for partners providing cloud services in Germany, there is an opportunity for them to leverage the Advise segment to encourage potential customers to adopt cloud solutions as part of their digital transformation strategies. While German cloud adoption has been showing year-on-year growth of 38.4% in 2021 and 32.5% in 2022 according to Canalys estimates, the estimated fall in 2023 to 24% year-on-year growth means that German partners will need to leverage their build and adopt segments to ensure already skeptical customers are able to continue to spend on wider cloud services, which allow partners to maintain their own cloud services revenue growth.

Appendix – defining the Partner Ecosystem Flywheel



- **Advise services** capture the consulting and professional services activities held either with new customers, or existing customers that are embarking on new cloud projects. This typically involves an understanding of the customer's digital strategy, an assessment of the existing infrastructure and systems, as well as advisory on the specific technology solutions that will need to be built or procured.
- **Design services** capture the set-up activities needed for customers to establish or expand their cloud capabilities. This involves designing and testing the environment that will be used and ultimately migrating customer data onto the public cloud infrastructure.
- **Procure services** are the activities that partners conduct to acquire the necessary infrastructure for setting up cloud environments. Revenue from these activities typically occurs in the form of resell or through procurement services offered by partners.
- **Build services** are the broadest and most diverse set of services within the Flywheel. Inclusive of industry and functionally focused software stacks, these services leverage the widest variety of partners within the ecosystem. Partners leverage these services to, for example, transform a cloud environment from a storage solution into a business solution that adds value to customers, while also ensuring that the environment is safe and functional against growing external threats and challenges. This segments also includes the partners' own IP creation and IP software development, for example, as part of a customized solution.
- **Adopt services** can be understood as the services that let partners help customers use and unlock value from their cloud investments. This could be in the form of ongoing customer success engagements or dedicated workshops to train customers in usage.

Business process and change management services allow partners to fine-tune these environments depending on customer demand, while data analytics are leveraged to identify opportunities, both for efficiency and further cloud revenue in the future.

- **Manage services** for many partners are the end goal for cloud projects that they undertake and are by far the most operational of the services featured within the Flywheel. They can also be a key revenue driver as they offer an opportunity for consistent recurring revenue beyond the initial set-up of the cloud environment.