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A Canalys Special Report

Partner Ecosystem Multiplier: The AWS Opportunity

Japan in focus

Global Summary

Cloud adoption continues to expand rapidly, with the market for cloud infrastructure services expected to have been worth 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.

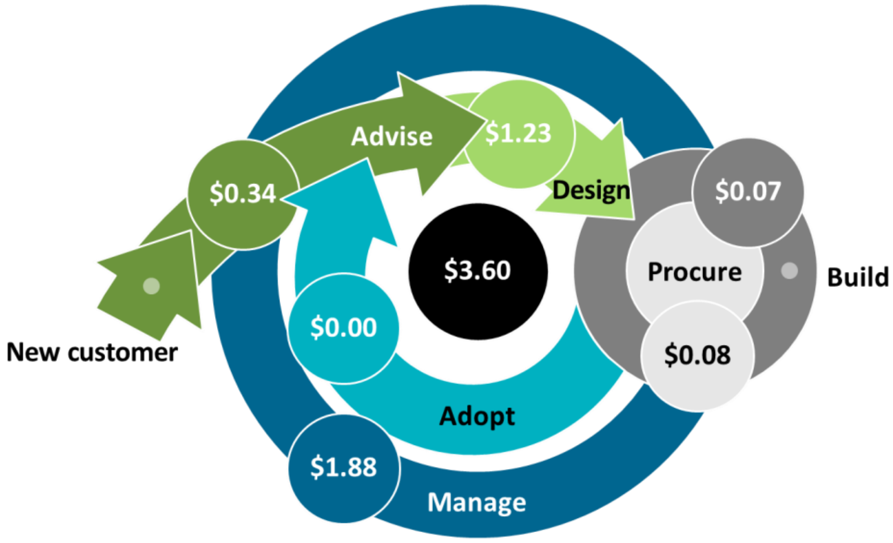
> ***"Our revenue and profitability saw significant growth since we placed more emphasis on selling AWS, especially in the services segment."***

Key findings in Japan

- AWS partners in Japan can reach a multiplier of US$3.60 per US$1 of AWS sold. This is compared to the global figure of US$6.40 per US$1 of AWS sold.

- Canalys estimates show Japan saw year-on-year cloud adoption growth of 27.7% in 2022 for a total cloud infrastructure value of US$7.35 billion. This growth will continue into 2023 at a year-on-year rate of 20.8% meaning Japan's cloud infrastructure market will have expanded to US$8.89 billion by the end of 2023.
- 52% of Japan's PEM comes from the Manage segment, evidencing a clear reliance of customers on the technical capabilities of their partners when it comes to managing their new and expanding cloud environments.
- Pre-procurement activities account for 44% of Japan's total PEM. Partners are being relied upon to help businesses start on their cloud journey in the Japanese market.

Partner Ecosystem Flywheel: Japan



Managing the new environments

The Manage segment accounts for 52% of the total PEM in Japan, the largest individual segment in the Japanese PEM flywheel. As businesses shift from their legacy on-premise solutions into the cloud, they are reliant on their partners to manage these new environments, as they do not possess the requisite skills internally to manage their expanding cloud infrastructure. Partners interviewed in the Japan market focused their managed service offerings on assessing and monitoring, as well as necessary maintenance. Partners with the necessary skills to provide a managed service offering stand not only to unlock a significant portion of Japan's current PEM, but also to take advantage of long-term growth opportunities and recurring revenue from their customers, which could help establish their cloud practices.

Pre-procurement activities a huge driving force of the Japan multiplier

As Japan continues its shift to the cloud, pre-procurement activities are in high demand by businesses. **Pre-procurement activities account for 44% of the total Japan PEM.** The majority of this revenue is found in the **Design** segment of the Japan PEM, which accounts for US$1.23 of the total Japanese PEM figure. Design services, such as migration and infrastructure setup services, are the core of the flywheel activities and serve as the stepping stone for partners who are looking to land and expand their services. With government investment and policies encouraging companies to accelerate their digital transformation, especially regarding the cloud, this is an encouraging sign for partners in Japan. Once a partner has established themselves with a customer by providing their migration services, they put themselves in a position to upsell into other service segments, creating further revenue opportunities and increasing their PEM figures.

The Japanese market shows relative maturity in the Advise segment when compared to the APAC markets in this study. Though it accounts for 9% of the Japan PEM, **the US$0.34 value of the Advise segment is**

the second highest for APAC in this study. While digital strategy services are an essential part of the Advise segment, infrastructure assessment services are the prominent Advise service in the Japanese market, accounting for a majority of the revenue in this segment.

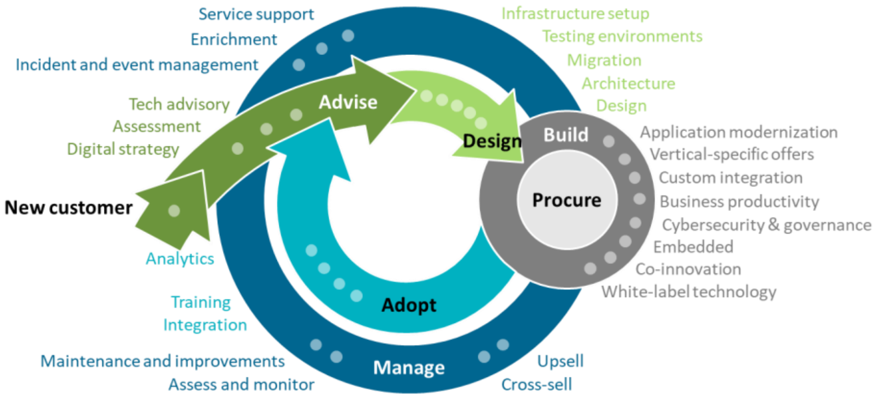
Room to build breadth and maturity

The Manage and Design segments account for 86% of the total PEM figure in Japan. While the revenues generated from these segments are internationally competitive, there is room for partners in the region to expand the breadth of their service offerings. For example, the Build segment (US$0.07) accounts for only 2% of the total PEM figure in this market. There is a clear opportunity for the expansion of Build services to match current cloud adoption rates. Partners who become early adopters of this opportunity will put themselves in a strong position to take advantage of a large potential market. This is also true for partners who look to offer Adopt services, such as analytics. Of the partners in Japan who were interviewed for this study, none yet offered any analytics services.

Summary

Despite a previously limited willingness to adopt cloud in Japan, government policy and the COVID-19 pandemic have accelerated cloud adoption in this market, with cloud adoption rates growing year-on-year at 27.7% in 2022. This means that at the end of 2022, the cloud infrastructure market in Japan was worth US$7.35 billion. Partners offering cloud services, in turn, have unlocked revenue opportunities in migration services and subsequently managed services. To this end, customers have shown the willingness to leverage the technical expertise of partners when they do not possess these skills themselves. Partners in Japan can continue to prove this technical expertise by investing in further training and certifications for their staff. Partners should also look to broaden their service offerings across a number of different flywheel segments, including the Build and Adopt segments. These segments will not only offer short-term increases in immediate revenue, but they will also offer further opportunities for recurring revenue. As Canalys estimates suggest that cloud adoption growth in Japan will show a 20.8% year-on-year rise, by broadening their portfolio of services, partners will be able to increase their revenues.

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 required 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 segment also includes the partner's own IP creation and IP software development, for example, as part of a customized solution.

- **Adopt services** can be understood as the services that allow partners to 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.