A Canalys Special Report

Partner Ecosystem Multiplier: The AWS Opportunity – UK 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.

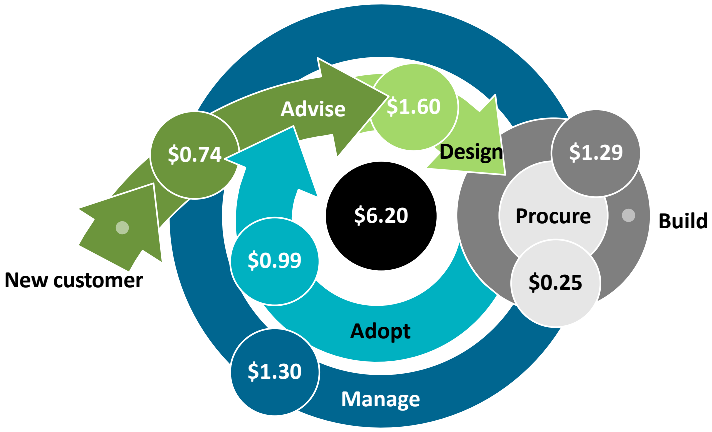
"The opportunity that comes from AWS is that they are customer-obsessed, customer-centric. And as an MSP, you can't be successful if you aren't."

Key findings in the UK

- AWS partners in the United Kingdom can reach a multiplier of US$6.20 per US$1 of AWS sold. This is compared with the global figure of US$6.40 per $US1 of AWS sold.

- Scoring the second-highest PEM value in this study after the USA, the United Kingdom has the highest multiplier in the EMEA region.
- More than Germany and France, the UK market has largely embraced the cloud, with minimal concern over data sovereignty. UK partners see vast opportunities to deliver tailored cloud solutions to customers, which are often willing to accelerate their cloud transitions. This has resulted in high cloud adoption growth. For the UK market, Canalys estimates that cloud adoption has seen year-on-year growth of 32% in 2022, with the UK cloud infrastructure value estimated at US$8.76 billion. This is expected to grow, according to Canalys estimates, by 21.4% year on year in 2023 to US$10.63 billion.
- In the UK, cloud adoption is common and popular among SMB customers, presenting many opportunities for partners to deliver bespoke cloud-native solutions and offer long-term support to customers' digital strategies.

Partner Ecosystem Flywheel: UK



Design – the UK's largest segment

The Design segment represents 26% of the revenue-generating opportunities for partners in the UK market. The dominance of Design services in the multiplier is unique among the EMEA markets considered in this study; in both Germany and France, Build was the largest overall segment.

The Design segment consists of some of the most technically complex services in the multiplier ecosystem and is also indicative of cloud adoption rates. With Design taking such a prominent role in the UK market, it is clear the rate of growth in cloud adoption is high. **Many customers are focusing on designing their architecture and setups as they work toward building their long-term cloud solutions.** The size of the Design segment also highlights the advanced technical proficiency many partners have, especially in terms of infrastructure. **For 75% of partners, migration was the largest sub-segment of the Design services,** highlighting the shift to cloud as a core priority for UK businesses of all sizes as they move away from legacy storage systems. Generating long-term revenue from cloud solutions will need to be a core focus for partners to increase the UK's PEM further, as the dominating Design segment does not generate long-term revenue opportunities for partners in isolation.

Build and Adopt are evidence of a breadth of available PEM services

Though Design is the UK's largest cloud services segment at 26%, **the Build and Adopt segments are both only slightly smaller at 21% each.** This breadth of service segments is critical to the competitive PEM figure for the UK market. As the UK market continues to mature, the Build and Adopt segments are each likely to grow larger than the Design segment. As customers become more digitally mature, they will increasingly prioritize key areas, such as modernization and cybersecurity, as they maintain and ultimately improve their cloud infrastructure.

The Build segment is not as large as it is in the German and French markets, but it **still represents over a fifth of the UK's PEM.** While not insignificant, its proportion of the

UK's PEM could expand through increased partner emphasis on the wider ecosystem and how this can be leveraged to enhance customer success. Moreover, **this segment serves as a platform for partners to generate recurring revenue** as they provide ongoing support with application modernization and cybersecurity solutions.

The Adopt segment is another key area in the UK cloud services market. Despite this, only **25% of partners offer change management and analytics services for their customers.** The promise of the Adopt segment is supported by UK customers' eagerness to expand their use of cloud services; this attitude among businesses will continue to enable the expansion of the UK cloud market, as hesitancy toward cloud solutions is less common than it is in competing European markets.

Manage and Advise activities the quickest way for UK partners to grow PEM

Advise represents 12% of the UK multiplier, while Manage represents 16%. These segments are smaller in the UK than they are in the global PEM, but given the high levels of maturity in the UK market and businesses' willingness to transition toward cloud services, growth in these areas is expected.

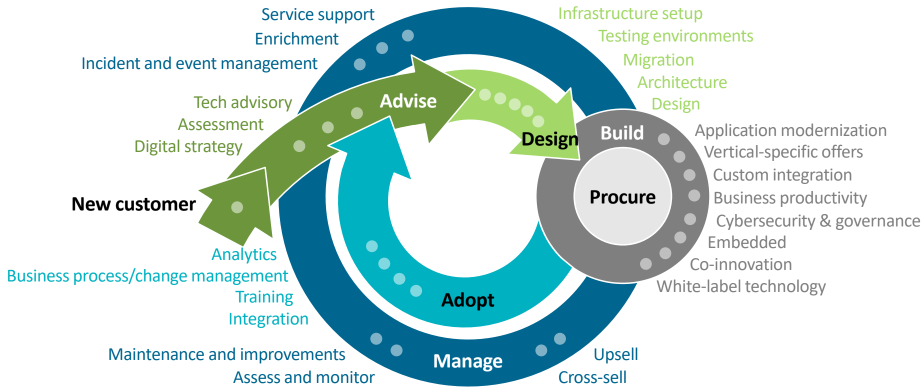
Currently, some UK partners miss out on potential Advise revenue by offering these types of services free of charge, with **25% of partners interviewed indicating that they offered Advise services free of charge pre-sales.** As digital transformations and transitions to the cloud become an inherent part of overall growth strategies, end customers will need partners that can guide them from concept to delivery in a more significant manner. As a result, partners have an opportunity to provide digital strategy services that will allow them to expand their PEM. Though Advise services are unlikely to be partners' largest source of revenue directly, they will benefit from the value these services provide to customers, which will drive their uptake of post-procurement services that offer opportunities for recurring revenue.

As SMB customers, which often lack internal cloud expertise, continue to pursue cloud solutions as part of their digital strategies, they will continue to heavily rely on supportive management from partners. Managed services can create further recurring revenue opportunities for UK partners, as partners offer vital ongoing maintenance and monitoring services to support their UK customers – especially those with lower levels of digital maturity. Customer support from partners is essential to maintaining customer satisfaction, making the Manage segment vital for long-term relationships with customers.

Summary

As the market with the highest multiplier in the EMEA, and the second-highest PEM overall, the United Kingdom is highly mature. Businesses of all sizes, especially SMBs, are keenly embracing the opportunities that cloud services provide for their them in support of their digital transformation strategies. Partners are already capitalizing on customers' needs for support with designing and building their cloud infrastructure. As the UK market continues to mature, the growth of the country's PEM will likely be driven by the expansion of Manage and Advise services. Partners will continue to drive new business as they support customers from early stages, including the Advise phase, to the later Manage stages, where partners can nourish ongoing, revenue-generating customer relationships by offering their continued support. This breadth of services will become critical as macroeconomic conditions will cause a slowdown in cloud adoption. In 2023, Canalys estimates that cloud adoption growth in the UK will slow to a year-on-year figure of 21.4% (for a total market size of US$10.63 billion), against a figure of 32% in 2022.

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.

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