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A Canalys Special Report

# Partner Ecosystem Multiplier:
The AWS Opportunity –
US in Focus

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.

"Where we have established relationships with our customer leadership, the AWS leadership and our leadership, we get the most effective results."

Key findings in the US

- AWS partners in the US market can reach a multiplier of US$6.40 for per US$1 of AWS sold. This is the highest PEM figure of the markets surveyed in this study.

- Cloud growth in the US market grew 32.2% year on year in 2022, according to Canalys estimates, with the total market being responsible for 47.8% of the worldwide total cloud infrastructure, with a value of US$112.86 billion. Canalys estimates suggest that this will slow to 23.7% in 2023, for an infrastructure market total of US$139.64 billion.

- 60% of US partners are categorized as progressive or expert partners. This means that the majority of US partners are achieving a PEM figure above US$4 per US$1 of AWS sold.

- US markets were identified to have the highest cost structures in the study, especially among partners leveraging local developer resources.
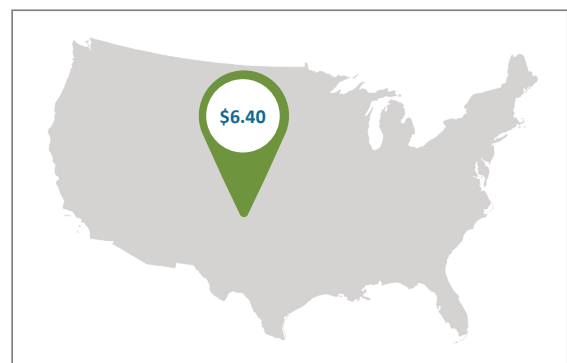
Partner Ecosystem Flywheel: US
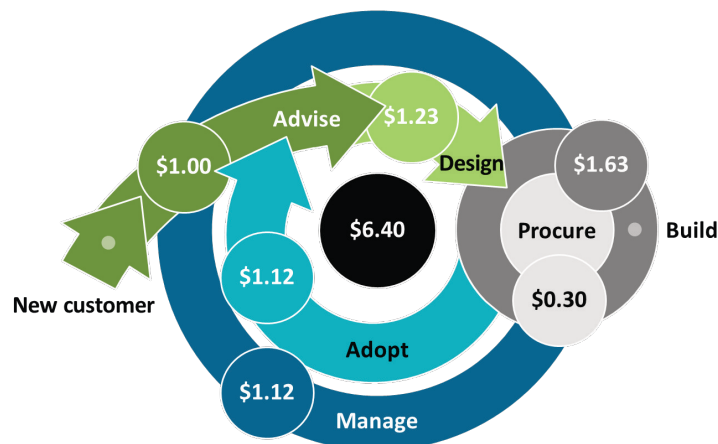
The majority of US PEM provides an opportunity for recurring revenue

Across the Flywheel, the Build and Manage segments are the clearest opportunities for partners to achieve recurring revenue. When analyzing the US PEM, **52% of the total achievable revenue occurred in the Build and Manage segments, resulting in the majority of revenue in the PEM being recurring for US partners.** This is vital for partners looking to create a long-term and sustainable return on investment from their cloud projects. By focusing on recurring revenue, partners can create revenue beyond any initial engagement.

29% of all PEM revenue in the US originates from the Manage segment. In a market with such high cloud adoption, the complexity of cloud projects is only increasing. With this comes an increased need for technical expertise beyond the capabilities of end customers. As a result, customers have been increasingly reliant on the expertise of partners to manage their cloud environments. **73% of the US partners interviewed for this study attributed some form of revenue to the Manage segment.** While not the largest Manage segment in this study (Singapore also has a Manage segment of US$1.86, while India's Manage segment has a value of US$1.95), it is still significant that the Manage segment is the largest single segment in the US PEM. For many partners, the Manage segment stands as the end goal for their cloud projects as it allows them to have a consistent stream of revenue years beyond their initial engagement.

The Build segment is also a key feature of the US PEM, and its US$1.47 contribution to the overall PEM is evidence of a healthy AWS cloud ecosystem in the US. As with other markets, there is a significant portion of this segment that is attributable to application modernization; **of those partners in the US that attributed revenue to the Build segment, all of them saw application modernization as their largest sub-segment of revenue in the Build segment.** Beyond this, **57% of partners in the US that attributed revenue to the Build segment gained revenue through activities that provided recurring revenue through as-a-Service offerings.** Overall, the Build and Manage segments in the US provide clear evidence of the current opportunity available to partners that can provide a broad range of services that include these segments.

Pre-procurement activities have room to grow

Pre-procurement activities account for only 29% of the total US PEM. One of the reasons for a lower figure for the Advise segment, relative to the maturity of the US services market, is the free services offered by some partners at the start of a cloud project cycle. **27% of US partners offered Advise services as pre-sales activities.** While many partners saw these offers as a cost of doing business of greater value further down the value chain, it is important to note that these are clear revenue opportunities for partners. This is particularly significant as **these types of services offer margins of up to 70%.**

The Design segment of the US market is not overly remarkable when compared with other markets in this study. **At US$1.02, it sits only as the fourth largest Design segment across the entire study.** While the technical proficiency of the US in the cloud market is clear, **the smaller Design segment is likely an indication of the extended maturity of the overall market.** As the US has long led the global economy in terms of cloud adoption, there are relatively fewer simple "lift and shift" migrations with larger clients, which have already invested heavily in their cloud and digital transformation journeys.

Adoption key to maturity and further growth

US partners are the clear global leader in the Adopt segment, with US$1.15 of the US PEM attributed to Adopt activities. It is this segment where the activities key to identifying the next multiplier activity lie. Not only do the Adopt activities allow partners to assist customers in identifying efficiencies for the end customers through business process and change management, they include data analytics activities that are key accelerants to the end customer's overall cloud transformation. Beyond identifying and analyzing the current project's strengths and opportunities for improvement, the use of data analytics by partners in this segment allows them to educate customers in where cloud can assist them in other parts of their overall business. The emphasis placed on Adopt activities by partners in the US is a key driver in the overall worldwide leading PEM figure.

Summary

With 47.8% of the worldwide cloud infrastructure, the US sets the global standard in terms of cloud adoption. What has also developed is a world-leading cloud services economy, as is made clear by the largest AWS PEM figure of US$6.40 per US$1 of AWS sold. Partners in the region set a strong example of how partners in other geographies should operate. They provide a breadth of services that allows them to set the agenda from the beginning of a cloud project to its conclusion. Furthermore, the use of data analytics allows some partners to even set the agenda when it comes to increasing overall cloud spend. This will become more difficult as macroeconomic conditions will cause a slowdown in growth in cloud adoption in the US market. In 2023, Canalys estimates that cloud adoption will slow to 23.7% year on year. As a result, partners in the US will need to embrace a breadth of services to ensure they are able to continue to grow their own revenue within the cloud ecosystem.

Appendix – defining the Partner Ecosystem Flywheel
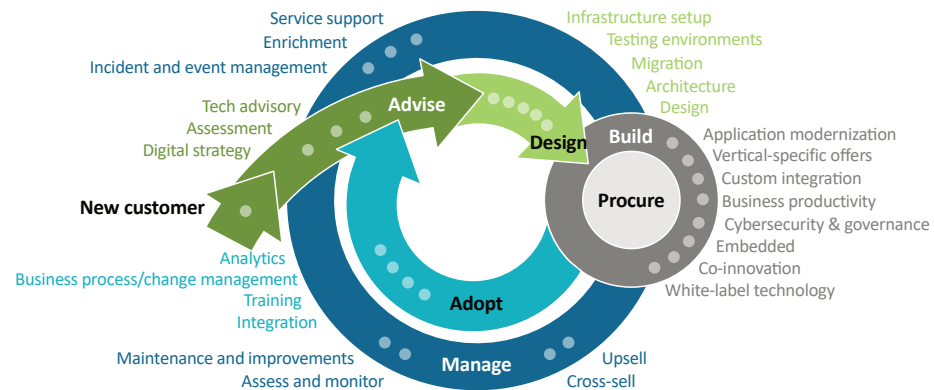
- **Advise services** capture the consulting and professional services activities held either with new customers, or existing customers that are embarking on new cloud projects. This typically involves an understanding of the customer's digital strategy, an assessment of the existing infrastructure and 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.