Telecoms operators could benefit from the growth in cloud markets that is driven by global IT players

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The market for cloud-related services continues to increase rapidly, as evidenced by the double-digit revenue growth rates enjoyed by many global IT market players. This presents both an opportunity and a challenge for telecoms operators that are seeking to capture a share of this growing market and its associated connectivity revenue.

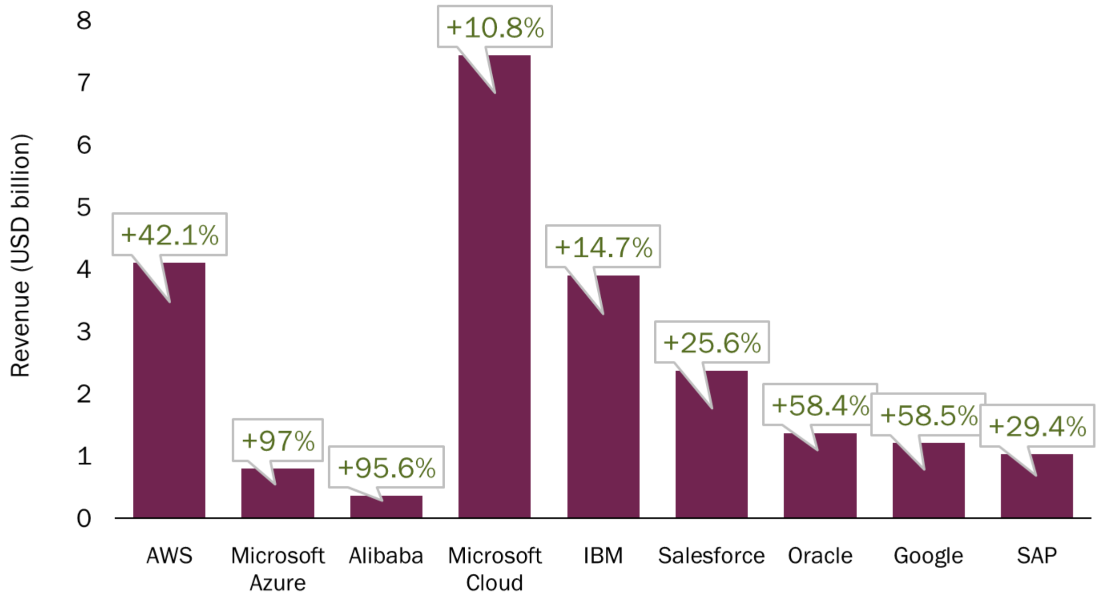
This article compares the financial performances of cloud services from well-established global IT players with those of telecoms operators and discusses what operators are doing to take advantage of the growth trend in the cloud market. The reporting of cloud revenue is opaque – it is not always clear what is or is not included and exact comparisons are impossible. However, the reported figures give us a reasonable sense of how the different cloud divisions, broadly defined, are performing.

Alphabet, Amazon, IBM and Microsoft dominate the rapidly growing cloud market

Global IT players continue to report huge increases in year-on-year revenue for their cloud services (see Figure 1). Microsoft Azure and Alibaba Cloud are particularly notable, with growth rates of above 90%, but many others including AWS, Google Cloud and Oracle Cloud are also growing at more than 40% year-on-year.

Revenue is shifting from legacy IT offerings to cloud-based services. For example, IBM Cloud's revenue (which includes Bluemix) grew by 14.7% between 2Q 2016 and 2Q 2017 while the overall revenue for IBM Technology Services and Cloud Platforms (which includes infrastructure services, technical support services and integration software) fell by 5.1% in the same period.

Figure 1: Cloud revenue and year-on-year growth, by global IT player, 2Q 2017[1]



Source: Analysys Mason

Key: AWS = Amazon Web Services; Alibaba = Alibaba Cloud; IBM = IBM Cloud; Salesforce = Salesforce Cloud Subscription and Support; Oracle = Oracle Cloud; Google = Google Cloud; SAP = SAP Cloud Subscriptions and Support.

The cloud market positions of the companies represented in Figure 1 can be summarised as follows.

- AWS is a strong leader in the infrastructure-as-a-service (IaaS) market, followed by Microsoft Azure, Alibaba Cloud and Google Cloud, which are behind, but closing the gap.
- Microsoft Azure and Alibaba Cloud have outperformed their competitors by a large margin when it comes to cloud revenue year-on-year growth rates. However, this growth comes from a low base compared to that of AWS, for instance. In fact, AWS's revenue grew by USD1.21 billion in 2Q 2017 while the combined revenue growth of Azure, Alibaba Cloud and Google Cloud was USD1.33 billion in the same period.
- Alphabet reported that its cloud unit accounted for more of the company's headcount additions than any other areas of the business in 2Q 2017 and that the unit is one of Alphabet's fastest growing businesses. Further inclusion of artificial intelligence services in Google Cloud is its potential key differentiator in the cloud market in the future.
- Alibaba Cloud's biggest market is China, where the market for cloud computing services is still a few years behind the USA and Western Europe. This, along with other less developed cloud markets, such as India and Indonesia, is where the company sees its chance to capture further revenue growth and gradually catch up with its competitors in IaaS. Alibaba Cloud is one of the conglomerate's fastest growing units and it is focusing on growth and international expansion, rather than profitability.
- IBM is not within the top-five companies by revenue in the IaaS market – it makes most of its cloud revenue from software-as-a-service (SaaS) and platform-as-a-service (PaaS) offerings. The same is true for Oracle, Salesforce and SAP.

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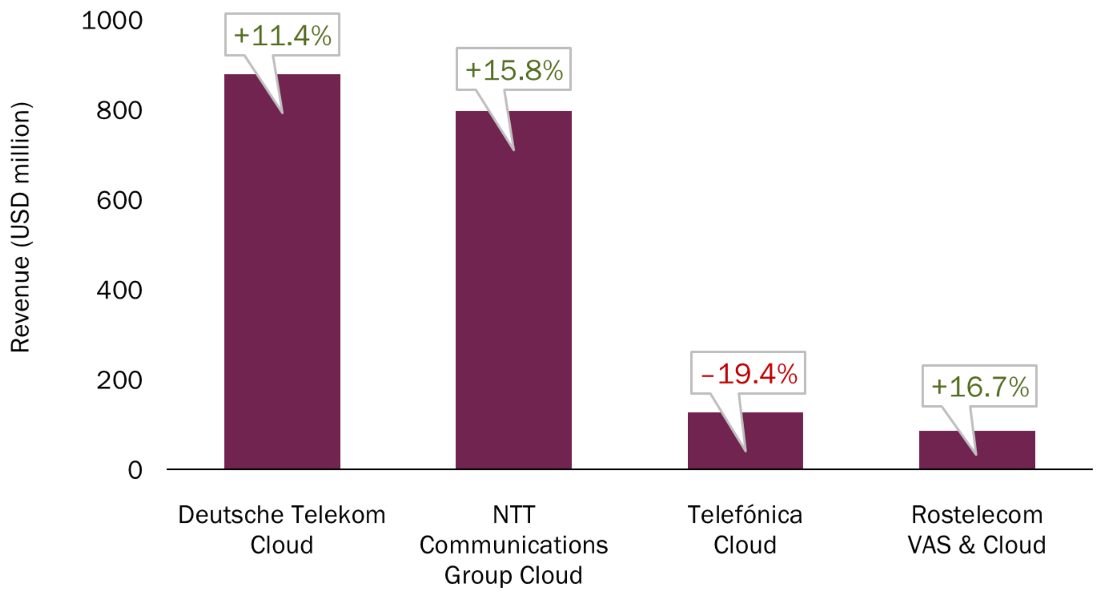
[1] Information taken from the companies' financial reports and press releases. Cloud revenue for Microsoft Azure and Google Cloud and the revenue growth for Google Cloud are estimates based on third-party reports.

Some telecoms operators also report significant growth in cloud revenue

Some of the telecoms operators that provide details of cloud revenue are also experiencing significant revenue growth rates, albeit smaller than those of the global IT players. Deutsche Telekom and NTT are the most successful in achieving year-on-year growth of over 10% from a reasonably sizeable base (see Figure 2). Orange does not report revenue figures for its enterprise cloud services, but stated that this revenue grew by 15% year-on-year in 2Q 2017 and 37% in 3Q 2017, although its IT & Integration Services revenue as a whole increased at the lower rate of 3.3%.

Figure 2: Cloud revenue and year-on-year growth, by selected operator, 2Q 2017



Source: Analysys Mason

The increased competitive pressure in Spain and Latin America meant that Telefónica's revenue declined in this area in 2Q 2017 compared to a year earlier (see Figure 2). However, a positive performance in IaaS and SaaS in Spain and the launch of new projects in Brazil in 3Q 2017 translated into a year-on-year revenue growth of 25.0% between 3Q 2016 and 3Q 2017. Pricing pressures in the USA prompted AT&T and Verizon to sell off some of their data centres, because they could not compete on a cost basis in the economy-of-scale public cloud business.

Deutsche Telekom is the market leader among telecoms operators that compete in the cloud space. Its IaaS services are popular with the German financial sector, local government and SMEs (which form a significant proportion of the country's economy) because the data is stored exclusively in Germany, which has rigorous data protection regulations. NTT's cloud revenue growth has lifted the company's profits since 2Q 2016, thanks to the company's focus on medium-to-large enterprises – a market segment that has not yet been locked up by the largest cloud providers.

Telecoms operators do not generally disclose revenue from their cloud offerings, suggesting that these typically form a small proportion of overall revenue. However, operators need not be marginalised in the cloud market. They need to play on their strengths of local presence, existing relationships and having a good understanding of customer requirements, as well as connectivity provision, to innovate and partner with IT specialists rather than try to imitate their service offerings.

The public IaaS, SaaS and PaaS cloud markets require large scale and it is therefore unlikely that telcos will be able to compete directly with Alphabet, Amazon or Microsoft. However, telcos are well positioned to play a significant role in delivering managed data, security and private cloud services, as well as services targeted at key industry verticals where they can differentiate themselves.