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Breaking Analysis: Big Three Cloud Momentum in the Post-COVID Era by, David Vellante
AWS, Azure & Google Cloud Momentum in the Post-COVID Era

Analysis from company earnings reports and customer surveys continues to show that Microsoft Azure and Google Cloud Platform (GCP) are closing the gap on AWS’ cloud dominance. While reporting definitions of cloud remain fuzzy, it’s clear that the big three U.S. cloud players are leading the steady march into the stronghold of on-premises workloads. The global coronavirus pandemic has only strengthened the cloud’s position in the marketplace according to our data.

As we reported last week, the story of the haves and have nots is playing out in several sectors and in this Breaking Analysis we take closer look at the largest cloud players. We will specifically do a deeper investigation of AWS spending momentum within its growing portfolio of services.

Quantifying the Cloud’s Impact

Welcome everyone to this week’s Wikibon CUBE Insights, powered by ETR. Today we will try to accomplish three things:

1. We frame how the cloud is impacting on-prem players as we enter this decade. We take a snapshot of some of the vendors that are well-positioned and those that are facing greater headwinds.
2. Next we want to update you on the latest market data for the big three cloud players.
3. Finally we dig into the business of AWS in more depth to see where they are seeing the most strength and where perhaps there are some cracks in its substantial armor.

The IT Landscape in 2020

The first data point we want to share with you tells a familiar story and drafts off of the theme we’ve set for the past several weeks – the bifurcation in the market.

This chart is ETRs version of a magic quadrant – but it uses survey data to plot the vendors. On the Y-Axis is the metric of Net Score which is a measure of spending momentum. To review, each quarter ETR surveys
more than 1200 CIOs and IT pros and asks them are you spending more or less on a particular supplier. We subtract the less from the more and the remainder is the Net Score. It’s sort of like Net Promoter Score (NPS) and we’ll go into that a bit later but that’s the vertical axis.

The X-Axis is called Market Share. It’s not market share like IDC measures share rather it’s a measure of pervasiveness in the survey. It’s calculated by dividing the mentions of a particular company by the total mentions in the survey or segment. That’s plotted on the horizontal axis.

Several points are notable here.

- First, this is the April 2020 survey of more than 1,200 IT buyers.
- We’ve plotted several companies including the Big Three cloud players. Microsoft and AWS show up strong in the upper right and Google with much lower presence but decent spending momentum.
- This survey was taken at the height of the U.S. lockdown and reflects the negative sentiment at the time; which we believe is prudent from a forecasting perspective.

Legacy Player Positions

We’ve plotted a number of other enterprise players including many on-prem leaders like Dell EMC, IBM, Oracle and Cisco. We’ve also included some of the companies that are showing real promise from a momentum, penetration and business model standpoint. These companies include Snowflake, the analytic database disruptor, UiPath, the specialist in robotic process automation (RPA), Okta and Crowdstrike who are thriving in security and Datadog, the cloud monitoring service.

We’ve superimposed in the upper right a table showing the net scores and Shared N data for each of the companies– meaning the number of mentions in the data cut for each company. Based on the Net Scores, and the Shared N’s, the story quantifies that cloud has both momentum and is penetrating the enterprise market. We believe this will continue to grow at a rate 10X faster than the traditional enterprise space.

As we’ve reported many times, downturns have historically been good for cloud computing. But the on-prem leaders as you can see by Cisco’s position for example are still positioned to compete with their large installed bases and resources...we will be covering winning strategies for legacy players in a later segment but for now we’ll just stress that if you’re a customer with lots of on-prem infrastructure and you’re building data centers...unless you’re a big cloud provider, you’re probably going to be on the wrong side of history.

IaaS and PaaS Market Shares

Let’s take a look at the Big Three and update their IaaS and PaaS numbers. All three recently reported earnings and the chart below shows the data for each.
As you can see, all three have substantial businesses with AWS by far the largest and GCP growing the fastest. What’s notable is that AWS in 2018 was 2.7 X larger than Azure and today that delta is under 2X based on our Q1 estimates and just about 2X on a trailing 12 month basis.

We caution that AWS numbers are the cleanest. Amazon religiously reports an easy to understand revenue and operating profit number each quarter for AWS. Microsoft and Google are much more fuzzy. For example, in reading through the Microsoft 10K reports you’ll see that their Intelligent Cloud revenue comprises public and private clouds, hybrid, SQL Server, Windows Server, Systems Center, GitHub, Enterprise support and consulting services…and oh yes…Azure.

So we have to estimate how much of that hairball is actually pure IaaS and PaaS in the public cloud.

Google similarly just started breaking out its cloud revenue and bundles more than just IaaS and PaaS in its numbers.

Having stated that, both Microsoft and Google do give tidbits of guidance in the form of growth rates or commentary on growth rates for their respective IaaS and PaaS businesses (i.e. Azure and GCP). As such, this is our best estimate given all that is reported and what we know from survey data.

Not all Clouds are the Same

We also want to point out that these clouds are different in quality and fit for specific use cases. For example, Microsoft is building a cloud to support its huge installed base of customers and make it convenient for them to tap its cloud services. But it may not be the most robust cloud. As has been widely analyzed in the press, Microsoft is struggling to provide adequate capacity for its customers. It’s using the COVID pandemic as a bit of a heat shield on this issue.

Microsoft put out a blog post essentially saying that it will prioritize first responders, health workers and essential businesses during the COVID pandemic. And Teams customers. So okay – that’s one of those caveat emptor situations if you’re not in one of those camps – or maybe even if you are.
Microsoft Momentum Surpasses AWS

But clearly Microsoft has momentum across its vast portfolio including cloud and that’s what we want to get to in this next data point below.

As we’ve been reporting for quite some time based on the ETR survey data, the big cloud players have very good momentum as measured by Net Scores. The chart above shows the most recent survey results of more than 1,200 IT buyers - 1269 to be exact. And you can see broadly that all of the Big 3 are well in the green for Net scores as shown in the upper right hand box. Well over 50% Net Scores for all three and Microsoft Azure in the 70% range – so very strong demand across the board.

Remember, ETR is asking buyers to comment on the areas with which they are familiar. So a buyer might be interpreting “cloud” to include things in Microsoft and Google that may not be in the AWS responses (e.g. Azure Stack or G Suite). But it doesn’t matter; the point is they all have momentum and you can see, even though there’s a dip in the most recent survey - which ran during the peak of the shutdown in the US, relative to other parts of the survey, cloud is very strong with Net Scores well above 50%.

What’s more, the data doesn’t lie. Recent customer data shows that Microsoft’s customers are reporting greater sustained spending velocity for Azure relative to AWS and GCP.

The Picture Flips in the Largest U.S. Customers

Digging into the data a bit more, let’s take a look at the Net Score data in the F500 below:
So of course this is an indicator of spending within larger companies and you can see AWS overtakes Azure by a small margin -noting the same caveats we mentioned earlier. But the strength of Net Scores for all three is meaningful as they all increase within these larger buying bases at 60 - 70%+ or above.

If we extend that cut to include the F1000, you can see in the chart below that all three companies continue to show strength.
Notice that there’s a convergence which says to us that you have this multi-cloud picture that’s emerged. CIOs are now starting to see that whether through M&A or shadow IT or whatever, they’re faced with a variety of choices that are viable. And despite our sometimes snarky comments that multi-cloud has been more of a symptom of multi-vendor versus a clear strategy, that perhaps is beginning to change.

To date, in our opinion, multi-cloud has been more of a symptom of multi-vendor versus a sensible CIO strategy. But that’s beginning to change as IT is being asked to bring coherence, governance and best practices across clouds.

A Closer Look at AWS Shows Strong Customer Loyalty

We want to close by taking a closer look at AWS’ business specifically. And we want to come back to that notion of Net Score.

The chart above shows the breakdown of responses across more than 600 AWS customers in the April ETR survey. Remember again, this survey ran at the height of the lockdown in the US. It is a global survey with well over AWS 100 responses outside of the U.S. But what’s relevant here is the strength of the AWS business.

This chart shows how Net Score is derived. ETR asks customers are you: 1) Adopting New; 2) Increasing spend – meaning 6 percent or more; 3) Spending flat (+/- 5%); 4) Decreasing spend by more than 6 %; or 5) Leaving the platform – Replacing? Subtracting the reds from the greens yields Net Score.

The bottom line is nearly 70% of customers plan to spend more in 2020 on AWS than they spent last year; and only 4 % of AWS customers in the sample plan to spend less.

That is pretty impressive for a player with a $38B dollar business.
The AWS Portfolio - Spending Momentum Across the Board

The next data point we want to share shows where the action is across the AWS portfolio.

The chart above shows Net Score or spending momentum calculations based on responses from an N of more than 700 using AWS services. The bars compare the results of three surveys - last April, Jan 2020 and April 2020. As you can see, AWS is seeing highly elevated spending velocity across most if not all of its key business lines. This includes cloud functions, data stores, AI/ML and WorkSpaces with the work from home (WFH) pivot.

In the gray zone, there are some areas that are less robust but nothing in the red zone. Red zone for Net Scores would be roughly range below 25% and as you can see, there’s nothing close to that in the AWS portfolio.

There is some concern in the data that the core AWS cloud computing category (third set of bars from the right) are down whereas the survey data (not shown above) indicate that Microsoft Azure is not facing a similar deceleration (e.g. Microsoft Azure’s Net Scores are roughly flat from the January survey).

But AWS bottom line is very large and still very strong.

Cloud Momentum Building for the Post-COVID Era – Server Huggers Beware

As we’ve stated many times, historically, downturns have helped cloud. We saw this in 2008 when CFOs pivoted from CAPEX to OPEX and we’re seeing today that cloud is gaining even more traction. The idea of being able to experiment cheaply, dial up and dial down resources and add capacity in an environment of social distancing is appealing and has momentum. Building out data centers is just not a good use of capital unless you’re in the business of selling that capacity at massive scale.

Watch for more software companies testing “true cloud” pricing models where they’re not forcing you to lock in for 1, 2 or 3 year terms. Rather they’ll let their products and customer intimacy/value create stickiness. They will use analytics to predict churn rates and they’ll allow customer loyalty to help them
predict future revenue streams.

We’ll end on multi-cloud. It appears to be gaining momentum if for no other reason than it gives customers choice. While an all-homogenous environment would probably lower costs by 15%+ and create a more secure environment, mandating a one-size fits all cloud is just not practical.

Next week – more sector drilldowns.

Remember these episodes are all available as podcasts wherever you listen.

Ways to get in touch: Email david.vellante@siliconangle.com | DM @dvellante on Twitter | Comment on our LinkedIn posts.

Also, check out this ETR Tutorial we created, which explains the spending methodology in more detail.

Stay safe and we’ll see you next time.

Watch this week’s full video analysis:
https://www.youtube.com/watch?v=j1njx7PSHgk&feature=youtu.be
David Vellante is co-CEO of SiliconANGLE Media, as well as co-founder and Chief Analyst at The Wikibon Project, the world’s leading open source technology research community. Dave is a long-time tech industry analyst, entrepreneur, writer and speaker. As co-host of theCUBE – “The ESPN of Tech,” Vellante has interviewed over 5,000 experts since 2010. He is also a co-founder of CrowdChat, an angel funded startup based in Palo Alto using big data techniques to extract business value from social data. Prior to these exploits, Dave founded a CIO consultancy and spent a decade growing and managing IDC’s largest business unit. He lives in Massachusetts with his wife and four children where he is active in town activities including serving as the president of his town’s local “Kiddie Sports” association. Dave holds a B.S. in Applied Mathematics from Union College.