



THE CLOUD IMPERATIVE FOR THE SOFTWARE & PLATFORMS INDUSTRY



CONTENTS

03 Executive Summary

04 Industry Context

06 State of Cloud in
Software & Platforms Today

08 Value Case for Cloud Now

12 Moving to Action

EXECUTIVE SUMMARY

Cloud platforms, including Amazon Web Services, Alibaba Cloud, Google Cloud Platform, and Microsoft Azure, have proven how central they are to the world's organizations as they have managed the exceptional challenges of the COVID-19 pandemic. As cloud platforms experience a surge in demand for their services now and in the post-pandemic world, they have a unique opportunity to grow to the next level.

However, addressing exploding demand while navigating tough economic conditions and increasingly intense competition places considerable pressure on cloud platforms. Hence, these platforms must continue pushing to enhance their offerings in areas such as industry-specific services, ecosystem integration, and user experience.

Ensuring an agile, resilient engineering foundation and cloud infrastructure, while building modern back-office functions that can scale with business needs, will prove essential.

INDUSTRY CONTEXT

Backdrop

2020 has been an exceptionally challenging year for many organizations. COVID-19 has affected nearly every community and business across the world—and the situation continues to evolve rapidly and unpredictably.

The pandemic has also provided a poignant reminder of the power of cloud technology. When COVID-19 hit suddenly and unexpectedly, systems resilience, agility, adaptability, and scalability were the fundamental capabilities needed by governments, businesses, and other organizations to navigate the crisis. Certain segments needed to scale immediately to meet explosions in demand (e.g., telemedicine, videoconferencing, and eCommerce), while others struggled to right-size their businesses faced with near-overnight elimination of demand (e.g., show tickets, travel, and ridesharing).

Cloud platform companies have been central in helping businesses manage these impacts. Collaboration platforms have allowed workforces to stay connected and operational, even under lockdown. Socially, too, they have provided a crucial bridge between friends and family who would otherwise have been left isolated by social distancing. Companies built on cloud infrastructure have been more easily able to scale their businesses without adding proportionate incremental cost.

WHAT IS A CLOUD PLATFORM?

Cloud platforms provide the IT environments that the world's organizations rely upon. From public clouds to managed private clouds, these services extract, pool, and share scalable resources across a network both for internal and third-party consumption. Some offer enterprise cloud services from Infrastructure as a Service (IaaS) and Platform as a Service (PaaS) to Software as a Service (SaaS). Others leverage massive business-to-consumer (B2C) footprints to extend their reach across multiple markets. Examples of cloud platforms include Alibaba Cloud, Google, and SAP.



Amid this rapidly-evolving landscape, cloud platforms continue to invest aggressively in capacity and innovation as they jockey for market share and work to accelerate their clients' digital transformations.

While most cloud platforms will likely see revenues grow, there is a race to land large enterprise IT and data estates due to the long-term challenges and costs associated with migration.

Path forward

In the context of this battle for market position, cloud platforms are working to address a number of key challenges in the near term:



How can we reduce time to cloud consumption? Closing the cloud deal is one thing. But getting customers to consume services at scale is another thing entirely. Cloud platforms are investing in service organization tools and best practices to create more repeatable migration experiences. They are working with global system integrator (GSI) communities to focus beyond the technology and on full business transformation to help ensure organizations can sustain cloud operations—both culturally and procedurally. Also, technology partner ecosystems are proving to be key go-to-market accelerators and value creators. These relationships can help make onboarding easier and the path to rapid growth smoother.

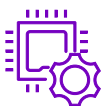


Are industry needs actually being met? Many cloud platforms are already embedding vertical use cases into the cloud experience. Building out industry use cases helps ensure that regulatory needs are met, such as in finance or healthcare, and reduces the time to solution and deployment. As core infrastructure service differentiation becomes more challenging due to widespread advances in innovation, industry relevance and experience provides customers with peace of mind that the cloud platform can address their unique needs.



Can infrastructure and operations scale with exploding demand?

COVID-19 has revealed a plethora of operational and capacity challenges. Even cloud platforms must consider improvements across data centers, networks and hardware, customer and partner support, and operations to help ensure uninterrupted service in the future. And these enhancements must be made quickly, at scale, and with non-linear increases in costs.



How can we push engineering to the next level? While newer aspects of platforms might be designed with the cloud in mind, not all applications may have been developed similarly. Many platform companies still have legacy applications and processes lingering throughout their businesses. Cloud platforms should consider what additional opportunities exist to further optimize and take advantage of capabilities such as machine learning, security, and data analytics.



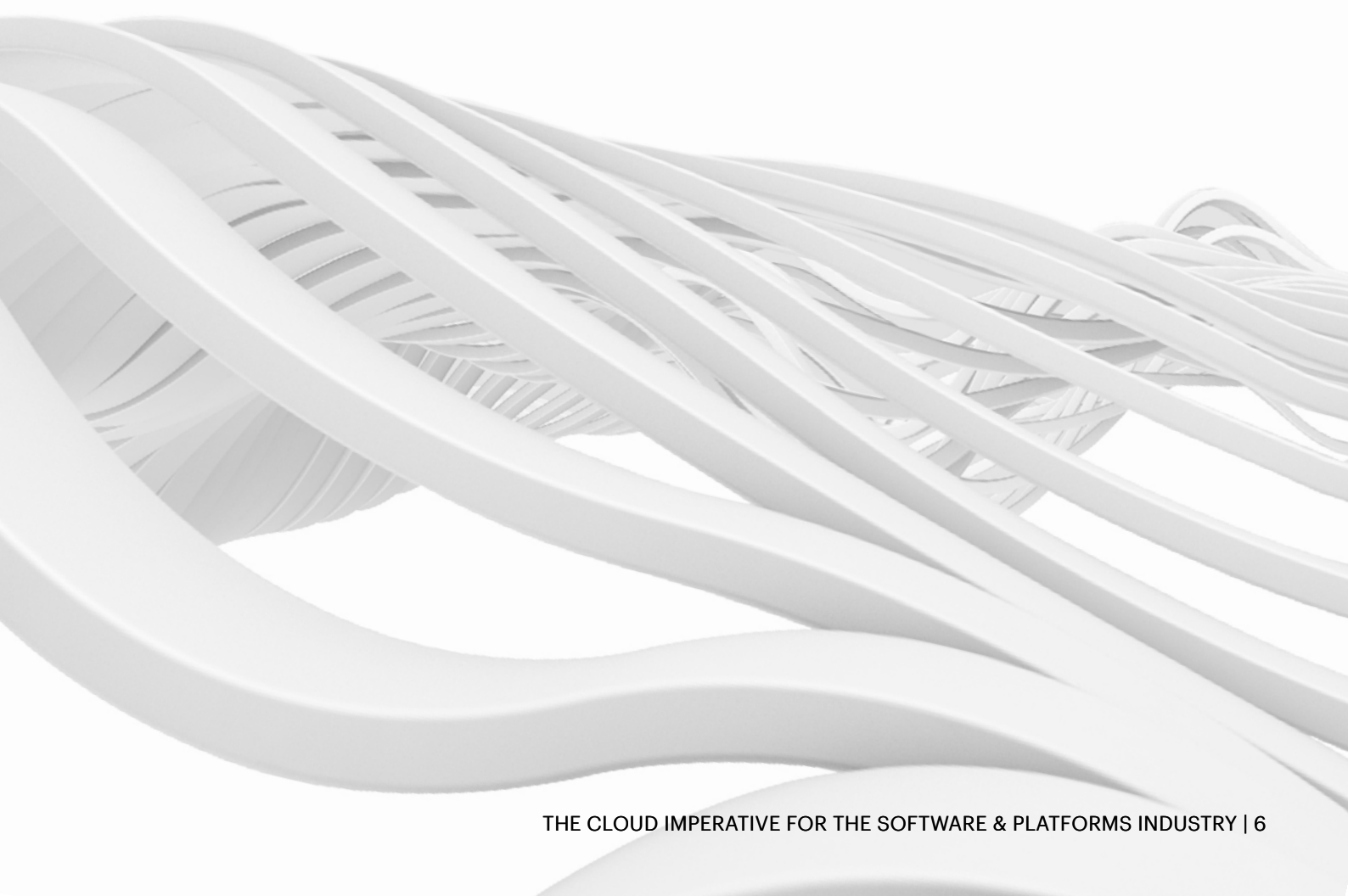
Will the back office scale with the business? Building a resilient and scalable back office means transforming complex processes on a massive scale (covering finance, human resources/workforce, supply chain, sales, support, and more). Opportunities often exist to flatten the cost curve of scale and improve the end-customer experience by transforming manual, inflexible processes into optimized, automated best practices.

STATE OF CLOUD IN SOFTWARE & PLATFORMS TODAY

The cloud ecosystem is rapidly evolving, and cloud platforms are at the epicenter. Worldwide, IDC forecasts “whole cloud” revenues will top \$550 billion in 2021,¹ with virtually all (93 percent) of enterprises now adopting a multi-cloud strategy.²

WHO'S WHO IN CLOUD PLATFORMS?

- **Hyperscalers** offer large public cloud infrastructures utilized by companies and customers globally. Examples include: Amazon Web Services, Alibaba Cloud, Google Cloud Platform, and Microsoft Azure.
- **Enterprise leaders** target cloud services to large enterprise customers, focusing on business-to-business (B2B) products and features. Examples include: SAP, Salesforce, IBM, and Oracle.
- **Challengers** are traditional, consumer-facing companies with their own private clouds who are beginning to leverage their scale and reach to extend into other markets. Examples include: Apple, Facebook, Uber, and Twitter.



Competition is fierce, both between market-leading cloud platforms and challengers. Among the cloud hyperscalers, massive investments are being made in data centers, ecosystems, go-to-market strategies, and new platform services (e.g., analytics, machine learning, and security).

To sustain growth and market penetration, hyperscalers often include a mix of enterprise and consumer-based businesses in their portfolios. Enterprise leaders are investing heavily in their product catalogs and partner ecosystems. Traditional consumer-facing platforms looking to capitalize on their size and vast user base are developing solutions that put them squarely in competition with hyperscalers.

Regardless of provider-type, cloud platforms have varying needs depending on their business maturity. However, many face common challenges, including:



Frictionless adoption. Attracting customers onto their platforms and then expanding consumption.



Network effects. Growing the partner ecosystem and scaling adoption globally.



Verticalized cloud. Building complex use cases for specific vertical industry and regulatory scenarios (e.g., healthcare, manufacturing, supply chain, financial services, etc.).



Innovation speed. Nurturing a products-to-platforms mindset, creating new business models, and building growth-focused back office functions that can flex yet keep up with demand.



Resilient and scalable infrastructure. Developing the building blocks of cloud, emphasizing technology-driven services.

VALUE CASE FOR CLOUD NOW

The value case for cloud

Cloud platforms understand the value of a digital-everywhere mindset better than anyone. And as the keystone for other industries' business transformations, providers of cloud platform solutions must seek out and address opportunities to:

- Improve go-to-market strategies
- Enhance existing services
- Upgrade engineering and infrastructure

These essential improvements combine to create a compelling value case for the next wave of cloud platform growth. Recommended imperative actions are described below.



Cloud Platform Acceleration

Define and implement the right go-to-market strategy with customer-relevant services that shorten the time to service consumption and lead to longer-term adoption.

Imperatives:

- Develop industry-specific solutions that address enterprise needs.
- Offer migration consulting and implementation services.
- Deploy compelling third-party developer and customer experiences that accelerate platform adoption and satisfaction, and support rapid ecosystem integration.



Cloud Engineering Foundation

Secure and scale the cloud foundation across operations and product engineering.

Imperatives:

- Develop and/or modernize cloud platforms to capitalize on the latest technologies from machine learning to big data analytics and security.
- Accelerate the implementation of high demand areas such as security and artificial intelligence (AI) to gain or sustain industry leadership.
- Create a resilient and scalable back office with systems and processes that support, not inhibit, business growth.
- Establish efficient testing operations to redirect client engineering efforts toward core innovation.



Cloud Infrastructure Optimization

Enhance the building blocks of cloud computing models across hardware, data centers, and networks.

Imperatives:

- Assemble the right people, processes, and technology to help data centers and networks scale to meet growing demand.
- Create intelligent cloud back-ends (infrastructure, automation and AI).
- Develop software-defined network strategies to enable cloud neural capabilities that take advantage of multiple processors and distribute workloads efficiently across different processor types and quantities.

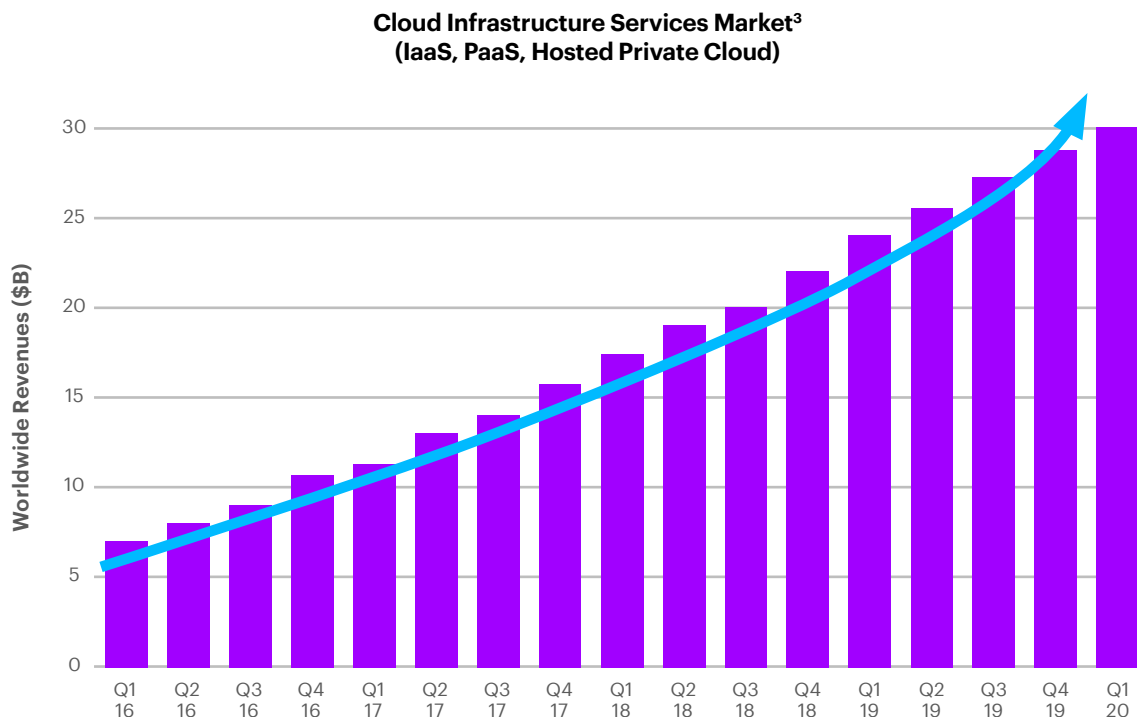
Why now?

The impacts of COVID-19 include acute cost pressures for many industries such as travel, transportation, and retail, as well as the emergence of new ones including remote working, learning, and healthcare. In both cases, these developments have driven an urgent need for digital transformation in many organizations.

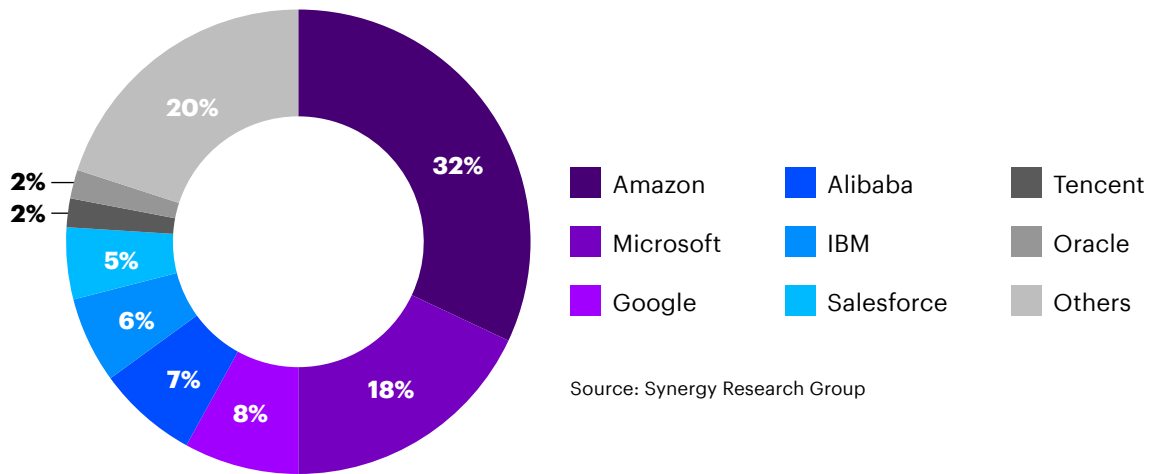
Every industry is being pressured by technology disruption. And in this environment, cloud is a foundational element for agile and relevant businesses. The pandemic has exposed the brittle vulnerabilities of many business and operating models as well as the dependency of some on physical bricks-and-mortar locations. These issues pose a serious threat as most commerce exchanges move to a virtual environment.

When COVID-19 created “work from home” and “shelter in place” mandates, businesses that could rapidly scale down their infrastructures were able to prevent limited free cash from funding under-utilized resources. Similarly, organizations that could pivot quickly to provide new products and services were able to stay afloat. In both cases, cloud played a vital role—enabling scalable infrastructures and supporting high-speed innovation.

The result? Spend on cloud infrastructure is soaring and reached \$29 billion in the first quarter of 2020. That’s more than a third higher than the figure from Q1 2019 and is primarily driven by enterprises migrating increased workloads to the cloud.³



Market Share Q1 2020⁴



Cloud platform leaders and challengers are jockeying for market position within this landscape. Amazon's lead is stable, yet Google has steadily increased its market share while Microsoft continues to be relevant in the boardroom of nearly every large enterprise. Meanwhile, large Chinese consumer companies have extended their service catalogs with cloud services.

While IBM and Oracle are nascent in this space, they continue to invest. Companies like Salesforce and ServiceNow are growing aggressively, and other consumer platforms like Facebook are looking for new ways to capitalize on their infrastructure to expand even further and take on hyperscalers in select segments.

MOVING TO ACTION

Looking ahead, competition for market share and top talent in the cloud market is expected to intensify. Achieving differentiation in this space is difficult and based primarily on product innovation. Cloud platforms that can drive an effective go-to-market strategy, innovate at pace, provide customer-centric experiences, and rapidly scale cost-effectively will be likely positioned for success.

The following provides additional guidance to help you tailor your cloud platform improvement strategy:



Drive scale and effectiveness with joint go-to-market relationships, professional services cloud consulting, industry solutions development, and partner and developer ecosystem support. These levers can help drive deeper customer relationships and reduce time to value, setting up your cloud platform for long-term growth.



Strengthen the engineering foundation. To stay on the forefront of global innovation, actively seek areas for modernization of your cloud platform, review and establish new development and testing platforms, and scale enhanced products and services rapidly.



Optimize infrastructure. While cloud platforms are expected to spend billions to expand their global footprints, they are also under pressure to reduce cost to serve both in infrastructure and support (a key area of growth-inhibiting expenses is often embedded in back-office functions). Automation of processes and workflows is one way to reduce costs and help drive better customer experiences. Collaboration with data center, hardware, and supply chain teams is also important to develop better processes and support innovation on application stacks.

Demand for cloud services is here to stay, and as more cloud providers enter the field of choice, business and consumer users will push for new features, products, easy onboarding, and assurance they've chosen the right platform. This is the critical inflection point for cloud platform providers. The ability to pick up on new opportunities quickly—and deliver—will distance leaders from the rest of the pack.

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