

Businesses should consider infrastructure-based strategic partnerships with cloud service providers

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Businesses typically rely on channel or technical partnerships with large cloud service providers (CSPs) to address the burgeoning cloud opportunity. However, businesses could also consider an infrastructure-based strategic partnership, especially in markets where CSPs’ presence is lacking, thereby allowing them to take a greater share of the business venture.

In an infrastructure-based strategic partnership, the business partner typically invests in all or part of the cloud computing hardware (for example, servers and networking equipment), as well as in other third-party services (such as data centre capacity and network connectivity), while adhering to the technical specifications from the CSP. The strategic partner may also take on various responsibilities in the management of commercial and technical operations (for example, leading the sales effort, providing basic customer support and navigating local regulations), depending on their expertise.

The CSP is in turn responsible for the cloud technology, R&D, orchestration and operation, capitalising on its international scale and breadth of services developed over years of R&D and operations. The revenue from the joint operations can then be shared between the strategic infrastructure partner and the CSP at a pre-determined rate that balances the potential return on investment to each party.

An infrastructure-based strategic partnership is potentially beneficial for both parties

The public cloud market is growing, and more and more businesses are outsourcing their IT workloads to the cloud. Large CSPs are often well-funded, but will probably have to carefully balance investment requirements to support the increasing demand. CSPs’ finite resources will be stretched further as more countries impose data localisation requirements; CSPs will have to build more regions and availability zones on top of their existing networks (see Figure 1) to support customers in the countries affected.

Figure 1: Number of regions and availability zones for various cloud service providers

Cloud service provider	Number of regions (planned)	Number of availability zones
Alibaba Cloud	21	61
Amazon Web Services	22 (5)	69
Google Cloud Platform	22 (3)	67
IBM Cloud	29	Approximately 45
Microsoft Azure	52 (4)	62 (4) ¹
Oracle Cloud	22	66

¹ The actual figure may be higher because 10 of the regions have an undisclosed number of availability zones.

Cloud service provider	Number of regions (planned)	Number of availability zones
Tencent Cloud	26 ²	53

Source: Company websites, March 2020

An infrastructure partnership with a local business can enable a CSP to share the investment risk with a third party, while at the same time dealing with the complex local regulatory requirements (such as foreign ownership and import restrictions) for launching availability zones in a new market. Tencent Cloud is an example of a CSP that has taken advantage of infrastructure-based partnerships in its global expansion: it has partnered with at least six local partners across the Americas, Australia, Europe and India to date in order to deliver its cloud computing platform (see Figure 1).

The strategic infrastructure partner can, in turn, make use of the CSP's scale, breath of offerings and brand name to enter the public cloud infrastructure market, thereby unlocking an opportunity to expand into other parts of the cloud value chain (such as managed services).

An infrastructure partnership comes with higher returns than a channel or technical partnership, but these returns are commensurate with the larger risk that the business partner must take to invest in cloud infrastructure. Indeed, the upfront investment required may be substantial because cloud infrastructure provision derives most of its strategic advantage from the scale of its operations. As such, a long-term exclusive commitment may be needed to make the business case viable for the strategic partner.

Infrastructure and network providers are the obvious targets for strategic partnerships, but the opportunity is also interesting for online service providers

Infrastructure and network providers already control the key inputs for cloud service operation and can use strategic partnership opportunities to move from being a third-party supplier to having a more-inclusive role within the value chain. An example is SB Cloud, a joint venture between SoftBank and Alibaba Cloud in Japan, that was launched in 2016. SB Cloud provides cloud services, including data storage and compute, from data centres in Tokyo, and allows SoftBank to diversify into providing cloud services to its extensive business customer base in Japan.

Infrastructure and network providers are the obvious targets for a strategic partnership with a CSP, but this opportunity may also be interesting to online service providers (OSPs) that have a large internal demand. These players are looking to manage costs while continuing to benefit from the operational and cost efficiencies that cloud computing can provide. A strategic partnership with a CSP can bring the advantages of lower latency to the OSP's daily operations. More importantly, it can facilitate the transformation of the OSP's computing requirements from being an operating cost, into being a revenue-generating function, further contributing to the diversification strategies of OSPs today.

Analysys Mason has extensive experience in the cloud and data centre markets worldwide, and is familiar with the unique opportunities and challenges that these markets present. We work with companies to evaluate cloud business opportunities, develop business plans and identify synergies in potential partnerships. For further information, please contact Lim Jia Yee (Manager) at jia.yee.lim@analysismason.com.

² Six of which are in the form of 'overseas co-operative infrastructure', that is, they are delivered in partnership with a local player.