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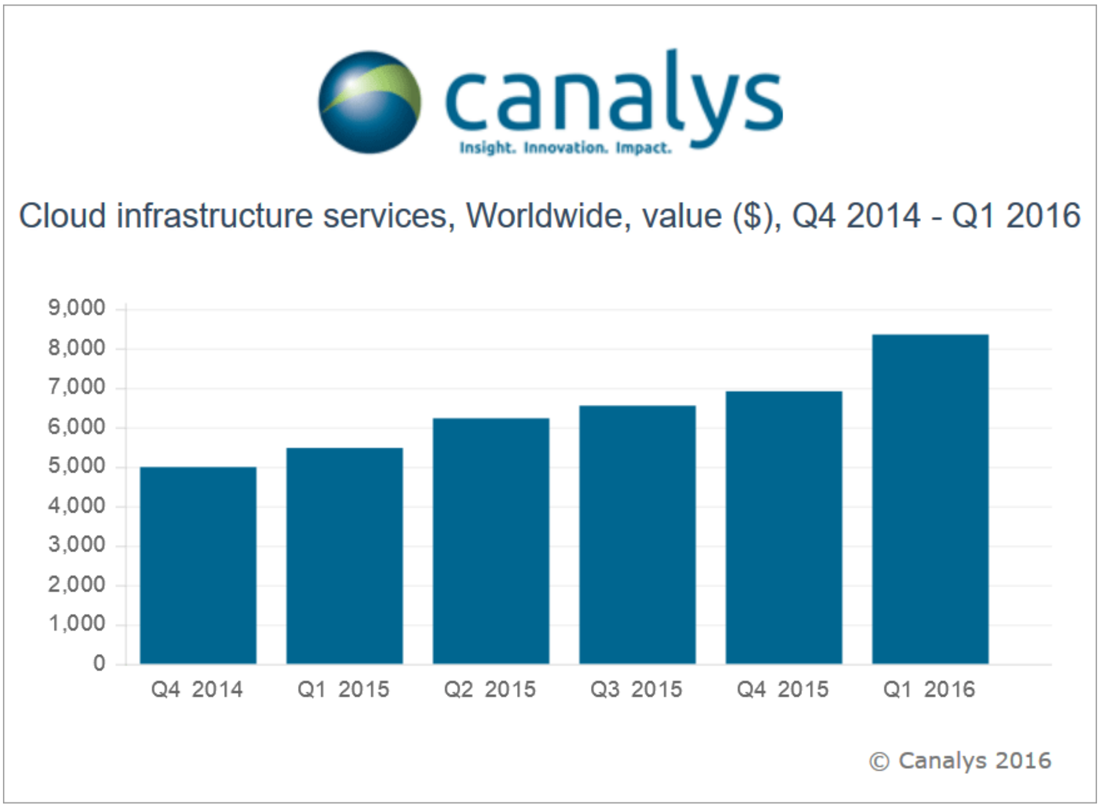
Media alert: AWS leads move to cloud infrastructure services as market exceeds US$8 billion in Q1 2016

Palo Alto, Shanghai, Singapore and Reading (UK)

The dramatic shift of data center expenditure from on-premises to service provider deployments is continuing in 2016, as use of cloud infrastructure services accelerates. Canalys estimates that worldwide expenditure on cloud infrastructure services reached US$8.2 billion in Q1 2016, up 53% year on year. Total spend is forecast to exceed US$38 billion in 2016. This includes infrastructure as a service and platform as a service delivered as part of hosted private and public cloud services.

'Business adoption is increasing fast, but it is the growth of consumer-centric services, such as video streaming, content storage, gaming and social networking services, that has been the main driver,' said Research Analyst Daniel Liu. 'Use will continue to grow as smart phone penetration increases, high-speed connectivity becomes pervasive, bandwidth restrictions ease and new content-driven apps emerge,' Liu added. 'The combination of cloud and mobile has enabled new business models and tech start-ups to emerge, giving instant access to billions of customers via online marketplaces. By 2020, the value of the cloud infrastructure services market is expected to reach US$190 billion.'



'The push by Amazon, Microsoft, Google and IBM SoftLayer to offer data center capacity to businesses is also having a major impact on the IT industry,' said Principal Analyst Matthew Ball. Over 50% of servers in 2016 will be shipped to data centers providing cloud infrastructure services. But these are typically low-margin and increasingly white box deals, which is affecting vendors and channel partners that sell compute and storage. 'These data centers are scaling rapidly and operated by an increasingly consolidated number of providers,' Ball added. 'The top four providers accounted for nearly 60% of the total market in Q1, up from just over 45% two years ago, with Amazon leading the way with 30%. This move is supported by virtually every software company prioritizing the development of their offerings for the cloud.'

But challenges remain. The massive capital investment required to sustain cloud data centers will see many providers leave the market – consolidation will be rapid. These investments are possible in an environment when capital is plentiful, and interest rates are incredibly low, but this will not always be the case. A significant chunk of cloud use is driven by loss-making, venture-backed Silicon Valley start-ups, whose future looks questionable as investors become more cautious. And the ongoing uncertainty as to whether data in the cloud can be kept hidden from the US and other government agencies will keep many enterprises wary of storing data in the public cloud.

About Canalys

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