



451 Research Finds Cloud is not a Commodity

Cloud providers' race to the top more important than race to the bottom

NEW YORK – May 26, 2016 – [451 Research](#) today announced its latest [Cloud Price Index \(CPI\)](#) report, which analyzes the global availability of cloud services, uncovers regional gaps in service delivery and identifies saturated markets. The study finds that the cloud services sector is a long way from being a commodity market with price barely impacting market share as customers look for value-added services. In short, price doesn't matter.

The CPI research demonstrates that cloud providers' so-called 'race to the bottom' in cloud pricing is a red herring. Instead, it is a race to the top, with the supply of higher-value services that is key to long-term, sustainable and profitable growth. 451 Research finds that virtual machine pricing has dropped 12% on average over the past 18 months, while the price of storage, NoSQL, load balancing, bandwidth and other cloud services have remained stable and continue to provide margins.

Analysts believe that as the price for cloud compute continues to fall toward zero, the hyperscale vendors will add higher-value cloud services as quickly as they can – aka 'moving up the stack' – recognizing that the margins currently enjoyed on bulk sales of compute resources are not sustainable.

Data in the CPI report show that the lowest-cost service providers have not won greater market share as a result of their pricing strategy. Instead, customers value additional services, local hosting and support and partnering with a familiar brand.

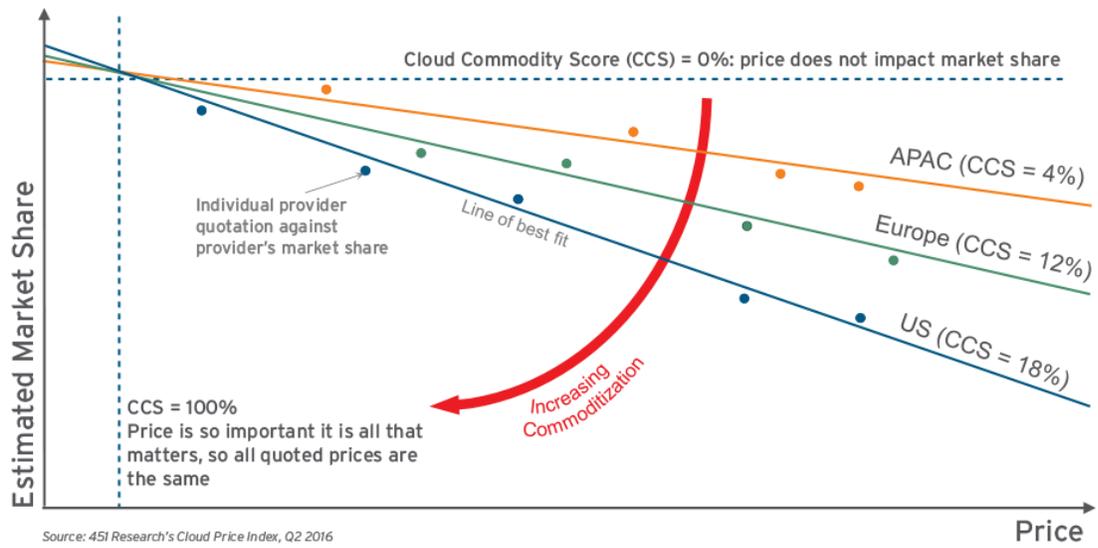
The report examines how cloud customers' sensitivity to price varies by region. 451 Research correlated global pricing for the CPI small basket of goods against market share data from 451 Research's [Market Monitor & Forecast](#). The resulting Cloud Commodity Score (CCS) measures this price sensitivity; the higher the CCS, the bigger the impact price has on market share.

The US is the region where a cheaper price is most likely to drive market share, yet even here, the CCS is only 18%. By virtue of its size and economies of scale, the US is the cheapest market for cloud. 451 Research analysts believe this low CCS score demonstrates that there are still opportunities in the US, although service providers need to find their 'X Factor' and should question whether they need their own infrastructure or should partner with a cheaper competitor.

In Europe, price has less impact on market share with a CCS of 12% and customers paying on average 3% more than the US. With a CCS of just 4%, APAC cloud price changes have minimal impact on market share, reflecting the finding that services in this fractured market cost about 19% more than in the US.

451 Research analysts believe Europe and APAC present more opportunities for service providers than the US because the markets are fractured, with concerns about data protection across borders and a need for local services to meet local performance needs.

The Market for Cloud: Does a Cheaper Price Win a Greater Market Share?



“Despite all the noise about cloud becoming a commodity, our research demonstrates a very limited relationship between price and market share. Certainly, being cheap doesn’t guarantee more revenue, and being expensive doesn’t guarantee less. Cloud is a long way from being a commodity,” said Dr. Owen Rogers, Research Director of 451 Research’s Digital Economics Unit. “In fact, the real drama is the race to the top rather than race to the bottom.”

Most cloud providers are pursuing two avenues to survive: expanding services and expanding to less mature markets. The latest Cloud Price Index helps service providers identify these opportunities. It finds those markets where margins are being driven down and where a lack of competition is driving margins up. It also unearths those markets where customers look for cheapest prices and those where they are more willing to pay a premium for quality. For cloud buyers, the index helps identify what services are available in what region, and what savings might be achievable.

About Cloud Price Index

451 Research’s Cloud Price Index is designed to give enterprises and service providers insight into the cloud pricing landscape so they can make more informed decisions when buying and selling cloud services. Like a consumer price index, 451 Research's Cloud Price Index is made up of a basket of goods, specifying the services required to operate a typical web server application including compute, storage, databases and management. For this study, 451 Research’s Digital Economics Unit surveyed more than 50 cloud providers, representing up to 90% of each region.

Webinar

The findings from this report will be presented in a webinar hosted by Dr. Owen Rogers on June 7th at 12pm ET. [Click here to register.](#)

About 451 Research

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