



## 451 Research: In the cloud price war, cloud storage has become the new battleground

### Despite continuing price cuts, analyst firm finds margins still healthy for cloud providers

NEW YORK, April 20, 2017 – In its latest analysis of cloud pricing, 451 Research reveals that the cloud price battlefield has shifted from virtual machines (VMs) to object storage. The analyst firm predicts that other services, particularly databases, will undergo the same pricing pressures over the next 18 months.

Until recently, the prices of services beyond compute held steady in the face of intense competition, according to 451 Research's [Cloud Price Index](#). Virtual machines have been the traditional battleground for price cuts as providers have sought to gain attention and differentiation. The tide has now turned, with object storage pricing declining in every region, including a drop of 14% over the past 12 months. For comparison, the cloud mainstay of VMs has dropped a relatively small 5% over the same period.

Analysts believe market maturity is leading to price cuts moving beyond compute. Other factors include increasing cloud-native development and faith in the cloud model, as well as a competitive scrum to capture data migrating out of on-premises infrastructure.

While some in the industry have speculated that cloud providers have been using cheap VMs as 'loss leaders' in their cloud portfolios, 451 Research [finds](#) that, even in the worst case, margins for VMs are at least 30%. There is little data suggesting cloud is anywhere near a commodity yet. Analysts believe the cloud market is not highly price-sensitive at this time, although naturally, end users want to make sure they are paying a reasonable price.

“The big cloud providers appear to be playing an aggressive game of tit for tat, cutting object storage prices to avoid standing out as expensive,” said Jean Atelsek, Analyst, Digital Economics Unit at 451 Research. “This is the first time there has been a big price war outside compute, and it reflects object storage’s move into the mainstream. While price cuts are good news for cloud buyers, they are now faced with a new level of complexity when comparing providers.”

The cloud storage battle started in Q3 2016 when 451 Research’s Digital Economics Unit identified a reduction in IBM SoftLayer’s object storage prices. Google, AWS and then Microsoft followed suit with cuts as well. The 451 Research Digital Economics Unit predicts that prices for virtual machines and object storage will continue to come down, with relational databases likely to be the next competitive front.

### About the CPI and Methodology

The Cloud Price Index is the industry's most rigorous analysis of the cost of cloud computing. It explores the external costs associated with ownership of public and private cloud, including colocation, hardware and software. It provides benchmark indicators for the costs of deploying and operating private cloud infrastructure to help service providers appropriately price their services and help end users assess and compare their procurement options.

The CPI uses a transparent 'basket of goods' approach to track price, services and economic data on the cloud market, covering 30 private and public cloud services from 60 providers, and representing 90% of global IaaS revenue.

An upcoming CPI Web Tool will enable enterprises, service providers and vendors to analyze the cloud market, and compare the price and availability of cloud services in the past, present and future.

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