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The challenges facing AWS

by Janakiram MSV Nov. 20, 2013 - 11:26 AM PDT

Amazon Web Services pulled off a successful conference in Las Vegas last week, showcasing exciting new services and big, enterprise customer wins. Our analysis of these announcements and their impact on the industry is here [http://research.gigaom.com/report/awsreinvent-2013-highlights-and-analysis/]. Looking ahead, it's clear Amazon has the three and a half trillion-dollar enterprise IT market in its sights. But to get there it faces some considerable hurdles.

Fragmentation

While Amazon may be moving up in the stack with the launch of additional services like WorkSpaces [http://aws.amazon.com/workspaces/] and AppStream [http://aws.amazon.com/appstream/], it also faces the risk of fragmentation. With over 30 services ranging from basic compute offered by EC2 to advanced data ingestion provided by Kinesis [http://aws.amazon.com/kinesis/], the surface area of AWS has become much wider.

A closer look at AWS reminds us of Microsoft in the 90s. After the tremendous success of the Windows platform in the consumer space, Microsoft eyed and went after enterprise market, which was ruled by IBM, Oracle and Sun at that time. Then it went after the gaming business with Xbox and more recently got into the battle with Google. It took Microsoft 10 long years to realize that it has distanced itself from the consumer, which is now dominated by Apple and Google. With Windows 8, Windows Phone and XBox One, Microsoft is desperately trying to regain the foothold that it once had in the consumer segment, but in our opinion, it is too late.

While Amazon is certainly different from Microsoft, it does seem like AWS is trying to attack a diverse set of segments moving away from its core focus. It is trying to be everything to everyone. The AWS business is a living example of the Pareto principle, also known as the 80-20 rule, or the law of the vital few, in which 80% of its revenue is generated by 20% of its services. The majority of AWS' customer spend comes from EC2, RDS and S3. DynamoDB and Redshift are growing fast but they may not match the adoption rate of EC2 and RDS. This means that only four services out of 36 get the maximum customer traction while the remaining services are yet to become mainstream. With more services added, it will become increasingly hard for Amazon to deliver high quality on its core services, leaving room for the competition to come in and offer something better.

On the customer side, as AWS adds more and more services it gets harder for customers to map their needs to AWS. One example of this is Amazon EC2. With the recent announcement of C3 and I2 instances, the number of Instance Types crossed 20 making it extremely hard for the customer to choose the right instance type. There is very little guidance available from Amazon on selecting the right instance type based on the workload. AWS must do more to help customers align their requirements with its increasingly complex service offerings.

Transitioning from developers to CIOs

Amazon Web Services started as a set of XML Web Services in the mid 2000s, which was the era of SOA. S3 was delivered as a SOAP endpoint that developers would deal with to dump and retrieve files. SQS, EC2 and SNS followed the same philosophy. This is one of the reasons why Amazon initially added 'Web Services' to its new line of business, which eventually became a powerful brand. The self-service mechanism of swiping the credit card to subscribe to any of the services attracted many developers and soon they started loving the platform. Since most of the decision makers in the startup world are developers, it instantly became the choice of that community.

But today AWS is much more than a set of APIs. It is gaining the attention of enterprises and large businesses. But the legacy of the developer flavor is seen across the platform. It will not be an easy feat for Amazon to articulate its core value proposition to an enterprise CIO. With every new service that gets added to AWS, it will become increasingly difficult to tell a cohesive and compelling story to the enterprise. AWS has to move away from the tactical selling of individual services to positioning the value of the platform by conveying the big picture. Amazon has to borrow some of the proven solution selling techniques from IBM and Microsoft when dealing with enterprise customers. Apart from relying on its own army of solution architects and sales teams, it should tap into the partner ecosystem.

This is where the reseller, VAR and the channel become critical for Amazon. Today the majority of AWS ecosystem consists of young ISVs who are embracing and extending its cloud. But this is not the community that Amazon needs at this point. It needs the support of traditional channel partners like Ingram Micro [http://www.ingrammicro.com/] and Arrow [http://ecs.arrow.com/], who are the face of IT for a large number of businesses. Currently, the reseller channel is the weakest link in the AWS chain.

If it doesn't get this right, IBM and Microsoft will invade its space with their strong partner base and existing relationships with enterprises. Remember, relationships matter the most in the enterprise, more than technology. One may argue that IBM and Microsoft's cloud offerings are inferior to AWS. But, they are better positioned to win the enterprise cloud segment with their successful track record of selling to CIOs for decades. Also, it is never a one-vendor game in the enterprise. Most of them will invest in multiple cloud platforms along with AWS. Amazon needs to create its own channel to reach enterprise CIOs.

Breadth vs. Depth

Does Amazon's strategy of going broad makes it the best cloud in the market? Do enterprise customers really prefer AWS because of its breadth of services? Does this spell doom to other cloud providers like Microsoft, HP, IBM, Rackspace and Google? My answer is a no to all of these questions. While AWS may widen the gap with the competition with its new service offerings, it may not matter much to enterprise customers. If Microsoft, Rackspace, IBM and Google get the basics right and strengthen their core building blocks, which are compute, storage, networking and database offerings, they do stand a chance. Check with any AWS customer and they have their own wish list for basic services like EC2, RDS, EBS and ELB. These services are definitely more mature than the competitive offerings but Amazon still has work to do in this space. If any vendor delivers a rock solid cloud offering that is reliable, scalable and secure, customers are open to evaluate and adopt them. These offerings may not have the bells and whistles but if they manage to win the confidence of the customer, they will gain decent market share. Amazon should prioritize on depth rather than breadth to penetrate the enterprise market.

Challenges with Sales and Marketing

One of the other risks that Amazon faces is educating its own sales force. With AWS aggressively hiring regional sales representatives and enterprise account managers across the globe, it will find it challenging to ensure field readiness. One could argue that Microsoft and IBM have a larger portfolio of products sold by their field sales teams. But IBM and Microsoft took at least three years to ship a new version of the product giving ample time for the field to ramp up and the customers to thoroughly evaluate the product.

Given that the majority of new hires at AWS are coming from the "old guard" companies (as AWS execs like to refer to their competition) like IBM, Microsoft, Oracle and SAP, they are not ready to sell cloud on day one. The breakneck speed at which AWS is moving makes it further difficult to stabilize the sales engine at AWS. Amazon's current strength is in shipping services and features but that may not translate to selling them effectively. Its success lies in enabling the field to upsell and cross sell services to enterprise customers. This will take time, which will negatively impact the immediate revenue opportunity.

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