canalys

A Canalys Special Report

Now and next: Cloud marketplaces as a channel to market

How are hyperscaler cloud marketplaces developing as a route to market?

September 2021

- **Public cloud marketplaces are growing rapidly as a channel for software as consumption of cloud infrastructure services expands, though their impact should not be overestimated.**
- **The availability of billions of dollars of committed upfront cloud investments by enterprises for use against marketplace purchases is providing an accelerant to marketplace transactions.**
- **Indirect channel partners will play a key role in managing cloud marketplace use on behalf of customers, with a third of marketplace purchases flowing through partners by 2025.**
- **Vendors should actively explore cloud marketplaces as a route to market but must carefully manage relationships with existing partners.**

Executive summary: the rise of hyperscaler cloud marketplaces

Cloud marketplaces have rapidly emerged as a disruptive force in software and cybersecurity channels, dominated by the top three cloud hyperscalers: AWS, Microsoft and Google Cloud. A fast-growing share – albeit still small – of software and software-defined technologies is now being purchased via these three cloud marketplaces, across storage, backup, data analytics, AI/ML, networking, cybersecurity and specific applications. Greater numbers of enterprise buyers are turning to cloud marketplaces as they migrate to the public cloud, attracted by the promise of simple purchasing processes, technologies that are pre-integrated with their cloud stack, new lines of budget (including the ability to use committed cloud credits for marketplace purchases) and hyperscaler incentives. These trends are prompting more vendors to develop strategies to engage with marketplaces as a route to market, though many are still at an experimental stage. Canalys estimates that in 2021, US$4.1 billion of sales will flow through these cloud marketplaces, representing growth of 71% on 2020. This growth will accelerate in the coming years and by 2025 will account for approximately US$25 billion, representing a five-year CAGR of 59% from 2020. In specific software segments and geographies this growth will be even higher.

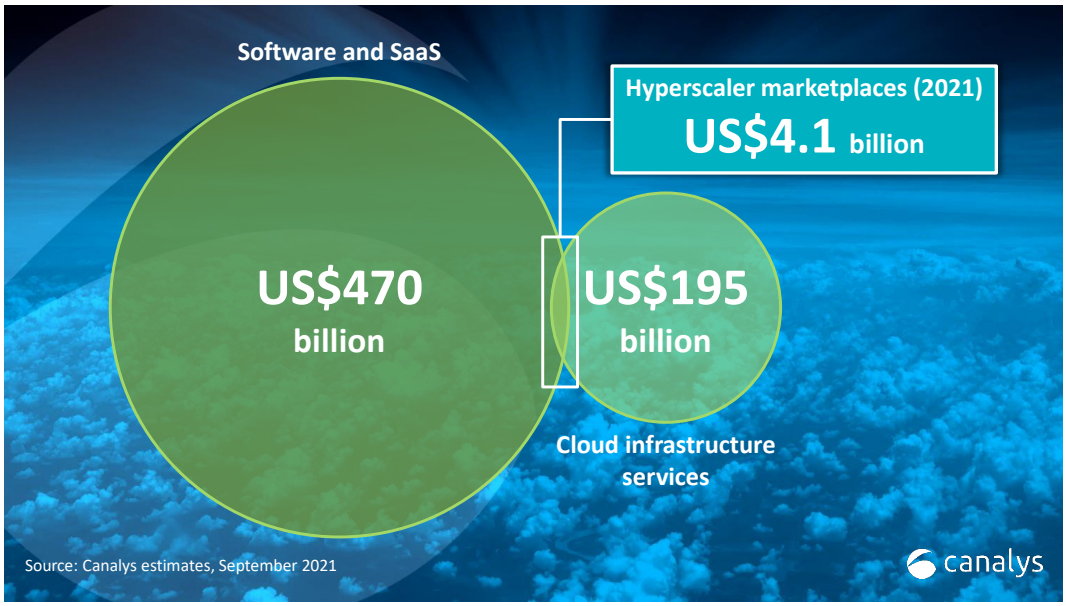
Public cloud marketplaces are starting to compete directly with established channels, as a greater proportion of business shifts this way. This trend is intensifying as cloud providers aggressively attract new customers and vendors to their marketplaces. Simultaneously, however, channel partners are playing an increasingly important role, as cloud marketplaces become a source of more complex (and multiple) technologies. Customers are choosing to consolidate purchases through trusted resellers, and turning to them to simplify, manage, secure and support their ongoing marketplace use. With customers increasingly adopting multi-cloud strategies, channel partners can play a role in managing multiple hyperscaler marketplaces on behalf of customers, to reduce complexity. At the same time, more channel partners are creating their own marketplace offers (tailored solutions or subscriptions) in partnership with specific vendors, and selling those, along with their professional services, on, for example, AWS Marketplace. Cloud marketplace providers themselves are recognizing the importance of indirect partners to increase their reach, and to draw on the professional services skills of the channel. AWS, Google Cloud and Microsoft are actively recruiting channel partners to their marketplaces and

developing business models to support indirect models. This is leading marketplaces to take on more of a "distribution" role for vendors, putting them in direct competition with existing distributors. By 2025, Canalys predicts that nearly a third of all marketplace purchases will flow through partners. This report assesses the drivers of marketplace momentum, the implications for vendors, channel partners and customers, and considers how significant this model will become as a channel in future.

Cloud marketplaces are rapidly disrupting parts of the software channel

A major cybersecurity vendor reports an increasingly common story: an established enterprise customer in the US buying through a leading national reseller had requested that the vendor reverse its latest renewal order so that it could buy the vendor's same licenses via AWS Marketplace. The customer was an existing AWS cloud user, and AWS had actively convinced it to switch to AWS Marketplace, by demonstrating how it could apply its AWS EDP (Enterprise Discount Program) to these purchases for significant savings.

This created an immediate dilemma for the vendor, triggering some tough questions. Should it agree to reverse the deal, putting its partner business in jeopardy? Should the reseller still be recognized, and how? What about the distributor managing the transaction? How would its own salespeople be recognized for the deal? The vendor had no rules of engagement to deal with this scenario. Given the importance of the customer, the vendor agreed to recredit the original deal and funnel it through AWS Marketplace, on the agreement that it was still transacted through the reseller, allowing the partner to be recognized for the revenue. The distributor, meanwhile, lost the deal and the recognition. Even more importantly, this vendor has now established a dedicated team to manage its AWS Marketplace business, reflecting a rapid expansion in customer demand. It plans to double sales this year through the marketplace channel on last year, with an expectation that this number will double again in 2022.



This scenario is being repeated with greater frequency for vendors across the industry. Cisco, CrowdStrike, NetApp, New Relic, Snowflake, Trend Micro and a host of other software and cybersecurity vendors are building plans to drive hundreds of millions of dollars of business through hyperscaler marketplaces in the next two to three years.

Multiple factors are driving cloud marketplace momentum:

- The rapid increase in public cloud adoption is significantly expanding the total installed base of cloud users, who are seeking access – via cloud marketplaces – to the third-party software and services needed to help them migrate to, operate, optimize and secure those cloud environments. Customers want to integrate with the same technologies they have already deployed in their on-premises environments, while also deploying new cloud applications and technologies as they digitalize their businesses. Canalys forecasts that total worldwide cloud infrastructure sales will hit US$195 billion in 2021, up 37% year on year.

- Hyperscalers are encouraging customers to burn down committed cloud investments using marketplace purchases. AWS, Microsoft and Google Cloud are generating huge backlogs of cloud orders – totaling tens if not hundreds of billions of dollars – as enterprise customers invest in multi-year cloud commitments to access substantial discounts on the hyperscalers' own cloud services. All three allow customers to apply these committed cloud credits to purchasing third-party technologies via their cloud marketplaces (either partially or fully). This can offer new lines of budget for a wide range of users, when core IT budgets have come under pressure due to the pandemic, leading to an expansion of users and buyers seeking to procure via marketplaces. This is driving a boom in sales volumes transacted via their marketplaces, as customers seek to make use of these (new) budgets, while the hyperscalers actively seek to convert end customers to buy via their cloud marketplaces. The importance of these cloud credits (and other established agreements) to marketplaces should not be understated (as demonstrated by the experience of the unnamed cybersecurity vendor we talked about earlier). But as these commitments are pre-negotiated by sales forces, and subject to specific programs from the hyperscalers – which could quickly change – they also risk inflating the true impact of marketplaces.

- Technology vendors are quickly waking up to new growth opportunities offered by cloud marketplaces as customers tap into available cloud credits, and as demand increases for marketplace availability for their offerings. Alongside this, hyperscalers are offering attractive financial resources to vendors, in the form of co-sell resources or marketing funds, to sell through their marketplaces, as well as providing access to channel partners selling via marketplaces. When vendors are normally expected to provide funds to channel partners and distributors for sales and lead-generation activities, this reversal in roles can lead to significantly lower channel costs for vendors compared with selling via standard distribution. Vendors are reporting other benefits from this switch, including faster time to market (with marketplaces removing procurement friction for customers already purchasing this way), shorter sales cycles and volume incentives in the form of reduced marketplace fees.

- Customers are gradually uncovering more benefits from purchasing via marketplaces. With pre-agreed pricing, discounts and licensing terms, many software customers are finding that procurement can be faster and simpler through a cloud marketplace than negotiating new terms each time directly with a vendor. To comply with marketplace terms, listing vendors are often required to agree to blanket contract license terms as laid out by the hyperscalers. Purchases via a hyperscaler's cloud marketplace are typically consolidated in a single bill, which simplifies payment and tracking. But benefits can extend beyond billing and speed. Cloud marketplaces increasingly offer additional levels of management and governance, to help customers manage their software assets post-purchase, or,

for example, to build curated "private marketplaces", which allow customers (or channel partners) to offer customized catalogs – or multiple catalogs – for different groups of buyers.

Yet selling through cloud marketplaces also presents vendors with significant challenges and dilemmas. They can threaten established channel models and relationships, which most vendors still rely on for the majority of their revenue. The experience of the cybersecurity vendor mentioned earlier highlights a common frustration: marketplaces aren't always expanding a vendor's customer reach but can simply move existing customers from one sales channel to another. That can leave a wake of frustrated (and often long-standing) partner relationships. It is also important to consider that each cloud marketplace has a finite reach, typically limited to the cloud customer bases of the cloud providers that operate them. Their relevance globally also varies widely, with the biggest share of marketplace sales currently in North America. Their suitability can vary significantly for different technologies and vendors. Vendors can find their margin stack under pressure due to marketplace fees, which are often in the range of 10% to 20%.

Vendors must weigh up the addressable opportunity of each marketplace against the reality that selling via cloud marketplaces can be technically challenging, requiring costly integration investments with each individual marketplace and dedicated resources to manage listings. Pricing, billing and invoicing tend to be unique for each marketplace. Listing on a marketplace is just the first step: driving actual sales traction requires active demand-generation and awareness, which for some vendors will involve a huge effort. From a software vendor's vantage point (apart from the very largest), it can be incredibly difficult to grow via multiple marketplace channels; most are undoubtedly choosing to focus on the large ones.

This leads to the next conundrum. In the longer term, a greater reliance on a small pool of hyperscalers as a route to market is a risk for vendors, as it shifts a greater degree of power to a few very large companies. While AWS and others dangle attractive financial incentives (reduced transaction fees, subsidized sales and marketing costs, co-sell resources) to recruit vendors and customers, that could change in future as buyers and sellers become increasingly tied into the go-to-market motion.

What are cloud marketplaces?

The "marketplace" term is apt. A cloud marketplace is a digital catalog of third-party products and services, operated by an independent owner/operator that typically charges a transaction fee to sellers. In return, the operator provides a range of services, ranging from consolidated billing, reporting, analytics and other forms of data to the APIs and tools for "sellers" to integrate with the marketplace. From the basic platforms of the past, today cloud marketplaces are developing into highly sophisticated platforms offering advanced – and constantly improving – arrays of procurement, consumption and management tools, designed to serve a widening spectrum of users.

Many forms of cloud marketplace have emerged, from vendor cloud marketplaces (VMware, Red Hat, IBM, Cisco, etc), to distributor marketplaces (Ingram Micro Cloud Marketplace, ALSO Cloud Marketplace, ArrowSphere, etc), to channel partner and independent third-party cloud marketplaces. But the hyperscalers' are the most important, of which AWS Marketplace remains by far the largest in transaction volumes, followed by Microsoft Commercial Marketplace and Google Cloud Marketplace. Canalys estimates that 60% of all transactions through public cloud marketplaces are via AWS. Vendors may choose to initiate their marketplace strategy with one of the top three, but as they achieve maturity, many will choose to work through two or all three of the top platforms.

AWS Marketplace: AWS claims 310,000 active marketplace customers and over 2 million subscriptions across 24 geographic regions. Marketplace availability is now automatically added in every new geographic region. The AWS marketplace hosts over 1,600 "sellers" (ISVs/vendors), with 10,000 offerings listed across 50 product categories, the most important of which include DevOps, data and infrastructure tools, cybersecurity and an expanding portfolio of business applications. Top-selling vendors include NetApp, F5, Trend Micro, Splunk and Red Hat. AWS' worldwide leadership in cloud infrastructure services has given it a head start with its marketplace, but it is also most advanced in terms of developing new purchasing models and channel engagement, with others tending to follow its lead. Marketplace was initially launched as a direct sales model, but AWS has since recognized the vital importance of channel partners to scaling marketplace volumes, through resell, managed services and SI motions, and is actively recruiting partners. It launched Consulting Partner Private Offers in 2018, allowing vendors to set specific pricing and marketplace offers for channel partners to resell, well ahead of the competition. AWS tiers its sellers, providing incentives for vendors to drive up volume transactions, including lower transaction fees (in low single digits for the highest-volume sellers). Customers report that AWS allows 50% of its marketplace purchases to be recognized within a customer's committed cloud spend. Where AWS is directing perhaps most of its energy is at the level of co-sell support, demand-generation and marketing resources it is making available to sellers. Vendors report the availability of significant funds for marketing activities and co-sell resources. Attracting new ISVs is a key focus, with AWS positioning its marketplace as a "channel-as-a-service" model to help ISVs – particularly those without an existing indirect model or channel – grow globally, by connecting them to its channel partners in different regions.

Microsoft Commercial Marketplace: Microsoft's marketplace has two storefronts, Azure Marketplace and AppSource, aimed at different buyer profiles, though they are essentially front ends to the same marketplace platform. With its ISV reach, and a focus on encouraging its partners to develop their own IP to sell on its marketplace, Microsoft claims over 30,000 applications and services available across both stores and a reach of several million customers. But transaction revenue remains behind AWS. Customers and vendors can be frustrated by the complexity of multiple platforms and payment systems, and its co-sell model has proved difficult for ISVs to access. Despite the global scale of its channel partner ecosystem, it remains behind AWS in terms of building an indirect model for its commercial marketplace. But Microsoft is now seeking to accelerate marketplace momentum – in July it announced it was cutting transaction fees for sellers from 10% to 3%, giving it an advantage over its competition. Compared with AWS, 100% of marketplace purchases can be offset against a customer's committed Azure spend, though only for solutions meeting specific criteria under the MAC (Microsoft Azure Commit) model. Last year it announced a 10% co-sell incentive for its 90,000 CSP partners reselling qualified IP solutions from sellers on its commercial marketplace. From the Fall, it will allow ISVs to create specific pricing for CSP partners and allow partners to set their own margin when pricing (though lagging behind earlier moves by AWS). With a more established global channel than AWS, and the success of its CSP partner model, Microsoft has the potential to close the gap with AWS, particularly outside the US, if it successfully builds an indirect marketplace model.

Google Cloud Marketplace: Google's Cloud Marketplace is by far the smallest of the three in transacted revenue, but its strategy is to be more focused and selective than either, with ISV partnerships chosen based on their alignment with GCP's key industry solutions. Its message to ISVs is this allows it to work more proactively and collaboratively with its sellers on their go-to-market strategies and to co-innovate on solutions. Google Cloud also sees its marketplace approach as a way to further differentiate GCP from AWS and Microsoft – by giving customers access to the applications and solu-

tions that will drive their digital transformation in their specific industries. Marketplace engagement with channel partners remains nascent, and Google Cloud is looking to find ways to allow partners to transact more easily on the marketplace on behalf of customers. This will be important to enhance its relevance to both vendors and partners. Google Cloud currently offers the most attractive in terms of cloud credits, allowing 100% of all marketplace spend to count against the customer's committed cloud spend, as it seeks to burn down a cloud order backlog of more than US$30 billion.

Common to all three of the hyperscalers – and what sets them apart from other marketplaces – is a goal to use their marketplaces as a driver for consumption of their own cloud services. On one hand, providing their customers with a complementary portfolio of technologies that either help them maximize that cloud investment or improve the cloud experience helps to enhance customer satisfaction and retention, which leads to greater cloud use and higher consumption by those customers. On the other hand, when those third-party technology providers listed on the marketplace are also running on the hyperscaler's cloud platform, more of these applications or SaaS products are bought by end customers, which contributes to greater consumption of the hyperscalers' own cloud platform services.

As marketplaces become more important to vendors' go-to-market strategies, some important findings are starting to emerge, which will define successful approaches:

1. Listing on marketplaces is resource-intensive

Even for the largest vendors, integrating with the hyperscalers' marketplaces is complex and technically challenging. Every platform is also different for each marketplace. API integrations are unique. Marketplace systems can be incompatible with the pricing and reporting models of the vendor. Licensing models for vendors may not align with cloud consumption models. Considering all these factors, listing in each marketplace requires significant effort. For smaller vendors and ISVs, this can be a huge drain in terms of cost and resources. ISVs are finding they have to build dedicated cloud overlay teams just to manage the process of translating their software for the different marketplaces, as well as managing CSP relationships and partners. This is creating the need for an ecosystem of technical partners who can help vendors to build a consistent go-to-market model across different marketplaces. One such company is Tackle.io, which has proved essential for hundreds of vendors to access the different marketplaces effectively.

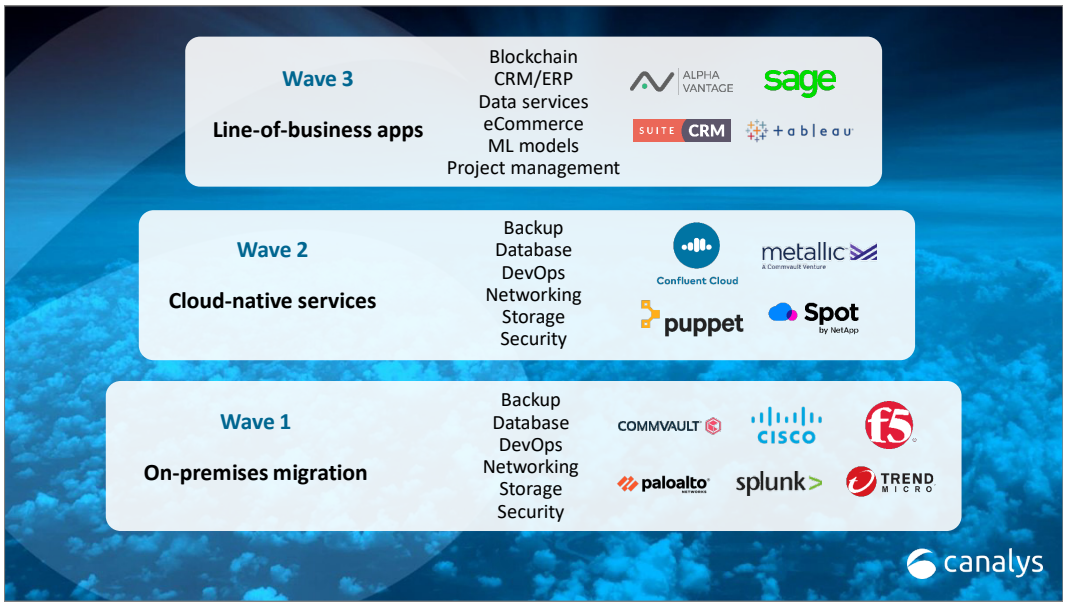
2. The self-service "vision" has not materialized

Cloud marketplaces were initially conceived as automated, self-service and click-to-buy app stores, where customers would autonomously buy and provision apps and services, with little to no involvement from the seller or channel partners. This vision has largely not materialized. Enterprise customers are typically not geared up to buy this way. They often require customized solutions, both from a technical and a commercial standpoint. Finance and procurement departments prefer to negotiate discounts on large volume licensing deals. Similarly, demand for consumption-based use and pricing remains low. Much of the business now transacted via all three cloud marketplaces is therefore "fulfilment" of large-volume, pre-agreed enterprise contracts, including multi-year subscriptions. This trend is being bolstered substantially by the hyperscalers allowing customers to burn down their cloud credits through their marketplaces. But it also means that driving business via cloud marketplaces requires much of the same effort, if not more, for vendors as selling offline: with pre-sales and sales teams, marketing and demand-generation investments, and in partnership with the channel.

As more customers have started to make greater use of marketplaces in this way, marketplaces are evolving to offer a broader set of purchasing models to cater to user demands. This can range from pure consumption-based pricing, through to monthly, annual or multiyear subscriptions. Bring your own license (BYOL) is commonly requested (though this circumvents the transactional element of marketplaces). Flexibility is key. There is a greater focus by all three hyperscalers on marketing to new marketplace customers, with free trial options and proof of concept. Purchasing models are becoming more sophisticated, and multi-tier, to incorporate indirect partners. Hyperscalers have launched "private offer" models for customers – led by AWS in 2017 – allowing the seller to create a specific pricing model for individual customers. This is now extending to channel partners (Channel Partner Private Offers) allowing partners to provide a customized quote to a customer on behalf of the seller through the marketplace, and for partners to create their own marketplace listings.

3. A changing mix of buyers is emerging

The pandemic has seen a broad swathe of new buyers and users shifting to cloud marketplaces, beyond the core IT and infrastructure owners (who still make up the biggest share of customers), as cloud adoption has accelerated. These could include, for example, line-of-business owners seeking specific applications or tools, marketing teams looking for analytics tools, finance teams using accounting tools, or application owners accessing containers for short-term migration tasks. These new buyers are attracted by the opportunity to access alternative budget streams through available cloud credits and by the offer of quick, simple access to the tools they need to do their jobs. If they can jump onto a committed cloud budget and sign off purchases quickly without going through lengthy procurement processes, the benefits are undeniable. Adding purchases to a single consolidated bill from the cloud provider helps to keep finance teams happy as well. This is significantly increasing the appeal of marketplaces as a route to market for a broader range of vendors.



4. A changing mix of technologies is following those buyers

There have been three distinct waves of technologies that have emerged in hyperscaler marketplaces, with each wave changing the mix of technologies sold. The first wave was driven by buyers looking

for technologies to support their infrastructure needs as they started to migrate parts of their on-premises environment to the cloud. Customers sought database, storage, networking and DevOps solutions, as well as software tools to help operate and manage those data environments. This in turn has created strong demand for cybersecurity solutions: cybersecurity remains one of the biggest categories selling via cloud marketplaces, accounting for roughly a fifth of all current marketplace sales. Across all these needs, buyers often turned to familiar technology vendors that were already catering to their on-premises needs, hence many major technology brands have flocked to the marketplaces (even if in many cases, transaction volumes are still low, or vendors are still experimenting with appropriate models).

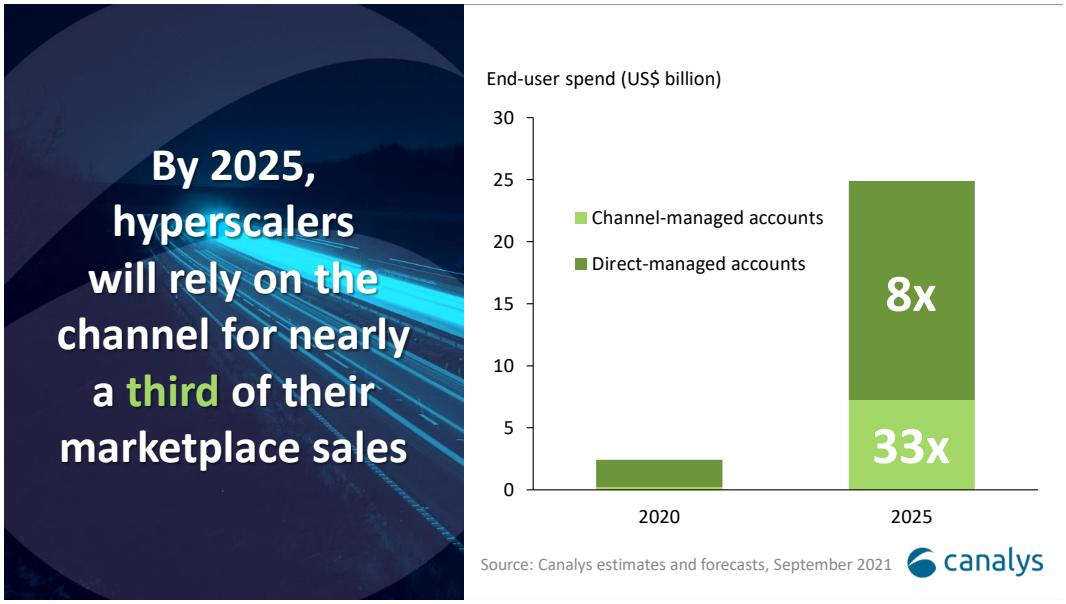
The second wave came as infrastructure became much more hybrid, with an increasing portion of workloads and applications running from the cloud. This hybrid environment is driving demand for more advanced hybrid infrastructure, data management and monitoring technologies, along with analytics and business intelligence tools, AI and ML. It is also fueling the need for advanced networking technologies that allow customers to extend their on-premises environments into the cloud, observability tools to give visibility across cloud and on-premises models, application performance monitoring, etc. This wave has seen younger technology companies emerge in marketplaces, often with point-based solutions designed specifically for cloud infrastructure support. Keen to get in on the act, infrastructure vendors are developing more software and subscription-based business models, making their offerings more suitable for a cloud marketplace go-to-market model. Cisco is a key example, as more of its technologies are delivered as software. Cisco now offers a wide range of its products via public cloud marketplaces, from cloud services routers to its Meraki cloud networking offering to security, as well as its AppDynamics application performance tool. Another notable example is Commvault, which has established a separate brand and entity called Metallic as a dedicated cloud backup and recovery provider running on Azure. Trend Micro, one of the first cybersecurity vendors to list its solutions on AWS Marketplace, extended its cloud-based offerings with the acquisition of Australian startup Cloud Conformity.

The third wave is driven by an accelerating demand for enterprise applications, business-specific or line-of-business software sourced via cloud marketplaces. All three hyperscalers are doubling down on the ISV opportunity. Microsoft's model is built on driving partners to develop and sell IP via the commercial marketplace. Google Cloud is actively onboarding a selective set of ISVs to drive its vertical differentiation. AWS is seeking to build out a much richer portfolio of applications to meet the needs of the new personas it sees using its marketplace. At the same time, ISVs are recognizing the massive potential that cloud marketplaces offer to expand their customer reach, provide a ready-made channel to market, and deliver demand-generation and lucrative customer budgets. Many of these are small, specialist or vertical ISVs, which individually represent relatively small discrete transaction volumes but which add significant value to customers in their digital evolution.

This reflects an important development in the role of cloud marketplaces, beyond being just a third-party digital product catalog for vendors, to acting as a full-service channel to market – particularly for new or niche ISVs looking to grow their businesses. AWS, in particular, has embraced this concept with its offer of "channel as a service", supported by a range of resources and tools: marketing and lead-generation, co-sell, targeted solutions (including by vertical sector), and service and support. This increasingly includes access to independent channel partners that can support ISV growth.

ISV proliferation makes the channel's role in marketplaces even more important

Against many predictions, the rapid rise of public cloud marketplaces is revealing the importance of channel partners to marketplace transactions. Initial predictions that cloud marketplaces would disintermediate partners have proved wrong. All three hyperscalers see channel partners as major drivers of marketplace growth for the next five years. AWS has so far signed up over 500 channel partners to its cloud marketplace and is actively recruiting many more around the world. Both Microsoft and Google Cloud are seeking to expand the volume of cloud marketplace purchasing via partners. All three hyperscaler marketplaces are focused on enabling indirect channel business, through tools such as partner private offer models (letting partners agree customized pricing and margins with sellers), incentives for partners reselling via marketplaces, and processes such as dual disbursement (paying partners and sellers jointly). Marketplace reporting tools let vendors continue paying partners rebates and other benefits. AWS Marketplace took an important step last year by allowing channel partners to offer their own professional services via the AWS Marketplace, letting customers procure a seller's product and a partner's professional services on the same bill.



This is being driven by several factors, fueled by customers, vendors and channel partners themselves:

- Enterprise customers may have a policy of buying through a channel partner or a preference to use a single consolidated channel relationship for IT purchases. In the same way as for on-premises licensing, they want advice on buying the right software, the integration skills of a systems integrator and ongoing partner support.

- Customers are buying increasingly complex solutions from cloud marketplaces, which need partners to deliver professional services, deep technical expertise or integration with other infrastructures or technologies.

- Marketplaces are not necessarily simple for customers to use. AWS has over 200 discrete services, all of which are available via AWS Marketplace. Customers may use more than one cloud marketplace, each with its own characteristics. This requires knowledge and understanding of these different platforms and offerings, which many customers will turn to a partner to provide.

- Partners are increasingly sought to manage cloud environments for customers, which face both increased complexity in their IT models and a shortage of internal skills. Managing cloud marketplaces will be a key part of that as use grows.

- Vendors with established channel models that are shifting more sales to marketplaces risk alienating existing partners. Maintaining a partner-led approach, even for marketplace strategies, will help protect legacy relationships. But vendors need to develop new partnering models as part of their marketplace strategies that allow their existing partners to build new value propositions and services for their customers as they start to buy via these marketplaces, such as management, migration or advisory services.

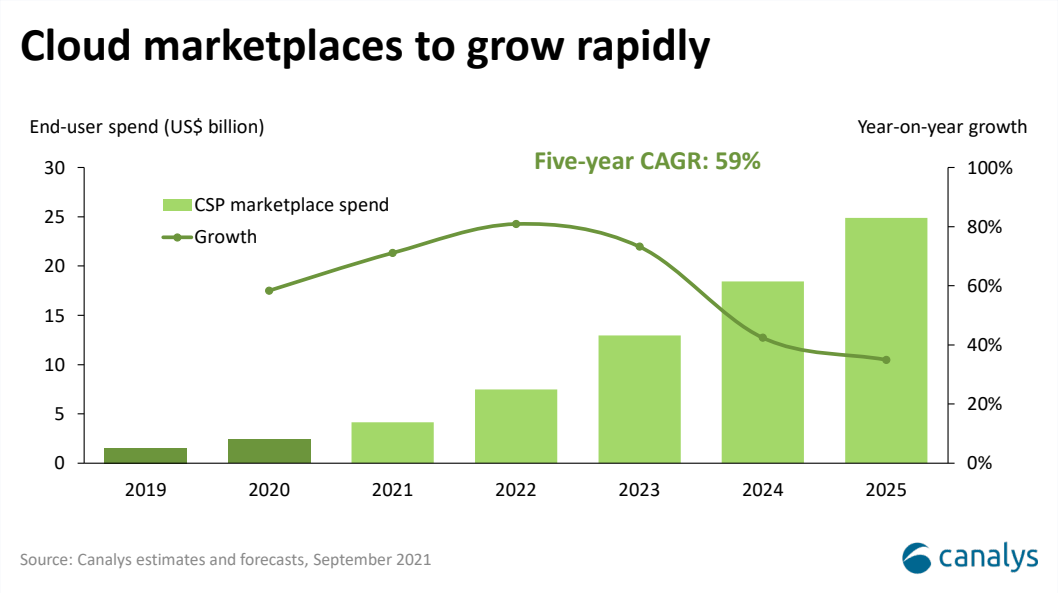
- Channel partners themselves see hyperscaler marketplaces as a way to increase the global reach of their solutions and services, enabled by programs allowing them to establish dedicated offers with their vendor partners, or for their professional and managed services. Resellers can find that selling via marketplaces is quicker and easier than an offline sales cycle when purchasing contracts and discounts are agreed with customers in advance.

Many established channel partners are, like vendors, now actively developing strategies to grow in partnership with the hyperscalers' marketplaces, as they see more of their customers moving procurement this way. Some of the largest (Computacenter, Presidio, Softcat, WWT, etc) are building strategic multi-year partnerships with the hyperscalers, with aggressive plans to drive marketplace volumes together. Yet there is also some caution. There is a recognition that migrating customers to public cloud marketplaces creates potential risk, both in terms of customer and vendor relationships. Some are piloting engagements with smaller vendors on the marketplaces, rather than risking revenue streams with their largest brands. Others have invested in their own cloud marketplaces, in competition with the hyperscalers. Channel partners selling with, via or through cloud marketplaces will play different roles – and need different skills. And this trend will benefit some more than others. The ability of channel partners to adapt pragmatically to these new opportunities will be key.

In many cases, when channel partners start sourcing via hyperscale marketplaces on behalf of their customers, the biggest negative impact is on IT distributors. AWS Marketplace is seen as a growing competitive threat to leading distributors as it continues to recruit channel partners worldwide. This reflects the need for distributors to accelerate their own digital evolution, and focus on enhancing their differentiation through, for example, partner enablement, professional services and new business model development. As the market embraces multi-cloud models, distributors may find an opportunity to act as aggregators of the different hyperscaler marketplaces through their own cloud platforms. But by effectively adding yet another tier to the marketplace model, this would put yet more pressure on channel margins.

Marketplaces are here for the long haul, but will not dominate tech sales

The hyperscaler marketplaces are here for the long haul. The cloud service providers have invested heavily in their technology, recruited a large ecosystem of software companies for their catalogs and have driven customers to the platform. Moreover, these companies are wealthy and have ample resources to continue to invest further to help drive success. Meanwhile, numerous software vendors continue to report that sales through these marketplaces are increasing at an exponential rate – it is clear there is traction.



But it is important to put this into context. Canalys estimates that in 2021, US$4.1 billion of software sales will flow through these cloud marketplaces. This is still less than 1% of enterprise software sales. By 2025, Canalys forecasts that this will increase to US$24.9 billion, which would represent a CAGR of 59%. This will account for less than 5% of the total software and SaaS sales. Different vendors will see different levels of success via hyperscaler marketplaces, with many hindered by technical challenges, the regional limitations of these platforms or a lack of customer demand. Veeam is just one example of a vendor currently seeing far greater success selling via its thousands of local CSPs around the world than through its hyperscaler marketplace channel.

It is also important to highlight that customers will spend US$195 billion on cloud infrastructure in 2021. The CSPs are in a unique position to offer marketplaces as they represent both a channel for software vendors selling into that customer base, but also an important form of platform integration. Their emergence should not be construed as a wider shift in the go-to-market makeup of the technology industry, nor does it suggest that the many software companies launching their own marketplaces will experience the same degree of success. Software vendors will (and should) remain cautious and be highly selective when identifying which marketplaces to be in.