

Amazon's growing clout in cloud computing stirs questions

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Retailers have long feared Amazon.com and the ease with which it has undermined the business of shopping on Main Street.

Publishers have grown increasingly concerned about the online retail giant's growing power in the book business, where it has become the largest purveyor of digital and print titles.

In the past decade, Amazon has come to dominate yet another business: cloud computing. And now, as Amazon Web Services solidifies its grip on the business of selling computing services to companies over the Internet, it's having to answer the sort of questions that dogged Microsoft when it ruled desktop computing:

Will it lock customers in to its [technology](#)? Will it squish smaller tech companies that pioneer AWS niches when those businesses become lucrative?

Now nearly 10 years old, AWS has left giants such as Microsoft and Google in its wake. Market-research firm Gartner thinks AWS is "the overwhelming market share leader," running more than 10 times the infrastructure cloud-computing capacity as the next 14 largest rivals combined.

And, unlike many Amazon operations that often run red ink or eke out the slimmest of profits, AWS is a moneymaking machine. In the second quarter, sales climbed 81 percent to \$1.8 billion, while operating income

quintupled to \$391 million.

That growth is coming as AWS moves beyond being the technology favored by startups, which often rely on the service because, like utilities, it charges based on use. During its annual re:Invent conference here last week, Amazon highlighted corporate titans such as General Electric, BMW and Capital One that are using AWS for core operations.

"AWS is no longer just for startups or just for technology companies but has infiltrated mainstream business models and we expect adoption to be very strong for the foreseeable future," RBC Capital Markets analyst Mark S. Mahaney wrote in a research note.

DOMINATING MARKETS

The tech industry has often created winner-take-all markets. A federal judge found that Microsoft held monopoly power over desktop-operating systems. In Web search, despite repeated efforts to displace it, Google remains the dominant leader.

The cloud-computing market is still young, and AWS is a long way from amassing the sort of power that Microsoft held over the PC world. But AWS' early dominance in [cloud computing](#) could give it the sort of market clout that could be abused.

For now, most customers at re:Invent are thrilled with the cost savings AWS generates. And technology partners, many of them startups, are eager to hitch themselves to the rocket ship that is AWS and enjoy the ride.

But some recent moves by AWS also make it clear that the company's ambition is far from sated.

Last week, AWS unveiled Amazon QuickSight, a service that lets business customers analyze large amounts of data. The technology puts Amazon in a market where companies such as Tableau Software have already carved out a niche.

The move is the boldest bid yet for AWS to provide more than just core computing functions. In the jargon of industry, AWS is moving "up the stack" of technology, offering applications that run on top of its infrastructure base.

ELBOWING IN

In the early days of PC software, Microsoft used Windows to elbow its way into strategic or promising new markets. The federal antitrust case against the software giant stemmed from its efforts to leverage the Windows monopoly to crush the then-leading Web browser, Netscape Navigator.

AWS executives say the nature of the cloud, where customers often rent computing by the hour, makes the sort of monopolistic dominance that marked the old software world an impossibility. Instead, Amazon is "selectively targeting" niches where its customers want more capability, said Adam Selipsky, vice president of sales, marketing and support at AWS.

"Our partners can do a lot of it," Selipsky said. "We will do pieces of that ourselves, pieces that our customers think is more important."

Ashley Jaschke, Tableau's director of product management, said she's not worried by QuickSight. Tableau's technology offers far more functionality, giving customers the ability, for example, to connect to data on their own servers, as well as information stored in AWS. And the company is working with Amazon to use Tableau's technology with

QuickSight.

"Amazon is, and always will be, a good partner," Jaschke said.

AHEAD OF COMPETITION

Venture capitalists used to steer clear of investing in markets where Microsoft might enter by leveraging Windows. Amazon's moves with AWS, though, haven't risen to that level, said Frank Artale, a managing partner at Ignition Partners, a Seattle-area venture-capital firm. Amazon is just adding functionality to stay ahead of its competition.

"It's almost forcing (tech companies developing on AWS) to be better than them on the platform," said Artale, who also once worked in the Windows group at Microsoft. "This doesn't discourage me."

Amazon's market leadership is also leading to questions about the dependence it's creating for customers who use the service. In the early days of technology, customers often accused companies such as Microsoft and Oracle of locking them into technology with long-term contracts. Selipsky notes that AWS, which charges customers by their use, is the antidote to the ways of the "old guard."

"We abhor lock in," Selipsky said.

But AWS' growing clout can create more subtle barriers for customers who want to switch technologies. Customers often store terabytes of data on AWS servers, something AWS made even simpler last week when it introduced Amazon Snowball, a 47-pound storage device that customers can use to ship huge quantities of data to an AWS data center. While customers can also use Snowballs to move data off AWS servers, it's hardly a trivial undertaking. Shifting data requires significant worker time and expertise.

Bob Micielli, director of technology services for King County, the home of Seattle, considered the question of lock in as he put together plans to migrate the county's technology operations to the Web. He ultimately chose AWS because it offered the most comprehensive cloud technology at the best price, he said.

The county, which has a \$90 million annual tech budget, has already saved about \$1 million shifting its data storage from outdated servers to AWS. And Micielli estimates that it could save at least \$3 million a year more by shutting down data centers when it shifts entirely to AWS over the next five years.

He understands the concern over lock in, and recognizes that AWS could raise prices. But he thinks that's unlikely because AWS has consistently lowered prices throughout its existence.

"In IT, we have to make smart bets," Micielli said. "This is a smart bet."

AWS' Selipsky notes that customers such as Micielli have chosen to use the service because it provides the most functionality for the least amount of money.

"That's the only form of lock in that's acceptable," Selipsky said.

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