

INDUSTRY WHITE PAPER

CLOUD COMPUTING

**NAVIGATING THROUGH THE MISTS OF
REGULATION AND MARKET EVOLUTION**



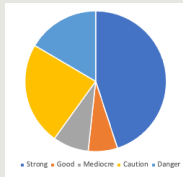
CLOUD COMPUTING INDUSTRY OVERVIEW

In the ever-evolving landscape of digital transformation, cloud computing is emerging as a cornerstone, reshaping industries and economies worldwide. This technological paradigm shift, however, is starting to be buffeted by the headwinds of regulatory frameworks and global standards. Such standards and regulations will shake up the Global market over the coming decades and demand both agility and foresight from companies within it.

As we delve into the intricacies of cloud computing's regulatory environment and juxtapose these with the latest market insights from the Plimsoll Analysis, a nuanced narrative unfolds, revealing the challenges and opportunities that lie ahead.

The latest Plimsoll Analysis provides a range of findings that delivers a comprehensive guide to the state of play in the Global Cloud Computing market. This unique analysis of the market's 1000 largest and most influential companies reveals within it:

Despite high growth in the market, 1 in 3 companies are financially vulnerable



The Plimsoll Analysis rates each of the 1000 cloud computing companies as Strong, Good, Mediocre, Caution or Danger. This graphical rating measures the stability of each company and reveals how well they are managing commercial success with financial prudence.

The companies rated as Caution or Danger need to be aware that their current configuration and performance is leaving them vulnerable to a downturn in the market.

There is a growing polarisation between profitable and loss-making companies

The latest Plimsoll Analysis also shows a growing divergence between those companies making outstanding profits and those losing money.

The most stark finding from the latest Plimsoll Analysis is that a third of the market makes almost all of the profit. The remaining companies are making either wafer thin margins or operating at a loss.

This would suggest the market is due a period of consolidation as too many companies are chasing a reduced customer base.

	No. of Companies	Average Profit Margin
Most Profitable	337	10.2%
Least Profitable	663	-1%
Industry Average	1000	4.7%

The market is overdue a period of M&A activity

Whenever a market becomes so polarised, it is inevitable that consolidation will happen. Strong companies or those with financial means will buy up the weak as they consolidate their position. The Plimsoll Analysis has picked out 4 types of acquisition target for those seeking to buy a competitor in 2024:

54 High value targets

These outstanding companies are financially strong and growing quickly. They would be an excellent acquisition, but you would need to pay a high price.

10 High growth / financially weak targets

These exciting companies are growing rapidly but their financial health is declining. Many require only small changes to be returned to profitability and financial stability.

50 Highest Potential recovery targets

These struggling companies are financially weak with many making a loss. They offer an opportunity to buy a weakened company for a low price and turn it around.

31 High profit / low growth targets

These companies are very profitable but are growing very slowly. New owners could try to get these companies back to growth or continue to enjoy their outstanding profit margin.

SETTING GLOBAL STANDARDS

The digital expanse of cloud computing, with its promise of scalability, efficiency, and innovation, is not without its share of turbulence.

These efforts, spearheaded by organizations such as the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC), have culminated in the establishment of standards like ISO/IEC 27017 and ISO/IEC 27018. These standards are not mere bureaucratic hurdles but pivotal in instilling trust, enhancing security, and ensuring privacy in cloud services: a trinity of virtues that are paramount in today's digital economy.

EU AND UK: GROWING REGULATION DEVELOPMENT

The EU is the pioneer in implementing sector-specific regulations for cloud computing through initiatives like the Digital Markets Act¹ (DMA), the Digital Services Act² (DSA), and the Data Act³ (DA Proposal). Consequently, these three Acts may become a model for other jurisdictions developing their own regulations.

The initiatives indicate a heightened focus on competition within the cloud market. They highlight specific concerns and establish new rules to address these issues. This marks a notable increase in regulatory supervision.

In general, the regulations' effects can be categorised into technical processes and standards related to switching and interoperability, the financial conditions for switching, and the regulatory supervision that will follow. This will have particular impacts on various market segments, such as customers, major established cloud service providers, and those looking to increase their market presence.

While the Digital Markets Competition and Consumers Bill, the UK's counterpart to the EU Digital Markets Act, is currently being reviewed in Parliament, the regulator for electronic communications (Ofcom) has recently referred the cloud infrastructure services market to the Competition and Markets Authority (CMA) for an investigation⁴. Ofcom concerns are based on the market characteristics that may pose challenges for customers who wish to switch providers or utilise multiple cloud services. In Ofcom's conclusions⁵, this can hinder their ability to negotiate favourable terms with their current provider or to combine top-quality services from various providers.

¹https://digital-markets-act.ec.europa.eu/about-dma_en

² https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/digital-services-act_en

³ https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3491

⁴ <https://www.ofcom.org.uk/news-centre/2023/ofcom-refers-uk-cloud-market-to-cma-for-investigation>

⁵ https://www.ofcom.org.uk/___data/assets/pdf_file/0024/269124/Cloud-Services-Market-Study-Terms-of-Reference.pdf

PLIMSOLL'S PERSPECTIVE: A MARKET IN FLUX

Turning to the market dynamics, the Plimsoll Analysis offers a comprehensive overview of the cloud computing industry's financial health and competitive landscape heading into these new regulated times. According to their meticulous evaluation, the cloud computing sector is experiencing vibrant growth around the world, albeit with signs of consolidation and competitive pressures. The analysis underscores a market characterised by a dichotomy of robust growth and intensifying competition, where profitability and market share are increasingly contested.

Here are some of the latest findings from the Plimsoll Analysis:

THE CONFLUENCE OF REGULATION AND MARKET DYNAMICS

The intersection of regulatory standards and market trends in cloud computing paints a complex picture. On one hand, the imposition of global standards necessitates that companies adapt their operations to comply with enhanced security and privacy protocols, potentially imposing additional costs and operational complexities. On the other hand, these standards can serve as a catalyst for market differentiation and value creation, enabling companies to distinguish themselves in a crowded marketplace by offering compliant and secure cloud solutions.

ESG performance has become crucial for reducing carbon footprint, improving waste management, and increasing board diversity in the cloud computing sector. The expanding influence of cloud services in various industries like healthcare, automotive, media, gaming, financial services, public services, and e-commerce has emphasised the importance of strengthening sustainability practices.

The worldwide drive to meet sustainability targets has encouraged forward-thinking companies to fulfil their ESG goals. Leading industries are opting for eco-friendly equipment in data centres to lower energy usage. Additionally, businesses are anticipated to benefit from recycling and reusing practices to cut down on waste and costs.



PLIMSOLL'S PERSPECTIVE: A MARKET IN FLUX

The intersection of cloud computing and ESG offers significant opportunities and challenges to the industry. Data centres and cloud service providers are expected to face a growing legislative and regulatory burden to prioritize ESG concerns. The Corporate Sustainability Reporting Directive⁶(CSRD) aims to ensure companies provide accurate and comparable sustainability data essential for investors and other stakeholders. This directive will also help companies address the rising requirements for sustainability information.

With the increasing demand for cloud services, providers are focusing on sustainable infrastructure growth. This involves building energy-efficient data centres, using renewable energy sources, and incorporating advanced cooling methods. Embracing sustainable practices allows cloud service providers to reduce their environmental footprint and support a more eco-friendly future.

Cloud computing has the capacity to lessen the environmental effects of IT infrastructure. Unlike traditional on-premises data centres that consume significant energy and emit large amounts of carbon, cloud service providers can enhance energy efficiency, minimise waste, and employ renewable energy sources through economies of scale.

Plimsoll's findings, indicating a market ripe for consolidation, suggest that regulatory compliance could emerge as a critical factor in the survival and success of cloud computing firms. Companies that proactively embrace and integrate these standards into their service offerings are likely to gain a competitive edge, attracting a clientele that prioritises data security and privacy.

⁶<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>

LOOKING AHEAD: CLOUD COMPUTING'S STRATEGIC HORIZON

As the cloud computing sector navigates through the regulatory mists, its future will be shaped by how effectively companies can align their strategic objectives with the evolving regulatory landscape. The dual forces of market dynamics and regulatory compliance are set to redefine competitive advantages, pushing companies towards innovation in secure cloud services.

Furthermore, the trend towards market consolidation, as highlighted by Plimsoll, may lead to a landscape dominated by a few large players that can leverage economies of scale to meet regulatory demands efficiently. However, this consolidation also opens avenues for niche players that specialize in offering bespoke, compliant cloud solutions to specific industry verticals.

CONCLUSION: THE CLOUD'S SILVER LINING

In conclusion, the journey of cloud computing, set against the backdrop of new global standards and market evolution, is emblematic of the broader challenges and opportunities inherent in digital transformation. As companies chart their courses through this dynamic environment, the ability to adapt, innovate, and comply with international standards and regulations will be paramount. The insights provided by Plimsoll Analysis not only illuminate the current state of the cloud computing market but also offer a compass for navigating its future, underscoring the importance of strategic agility in the digital age.

**TO FIND OUT MORE ABOUT THE PLIMSOLL ANALYSIS COVERING THE
TOP 1000 CLOUD COMPUTING PROVIDERS, PLEASE VISIT
WWW.PLIMSOLL.CO.UK**

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