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A Canalys Special Report

Now and next for hyperscaler marketplaces

Hyperscaler cloud marketplaces are accelerating as a critical route to market for software and SaaS

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Introduction

The explosive growth of hyperscaler marketplaces as a route to market for software and SaaS companies, led by AWS Marketplace, Microsoft Azure Marketplace and Google Cloud Marketplace, is reshaping enterprise procurement behavior, vendor go-to-market strategies and channel models. In 2023, worldwide sales of third-party vendor products through hyperscaler marketplaces more than doubled to US$16 billion. Canalys forecasts that sales will exceed US$45 billion by 2025 and reach US$85 billion by 2028. The ability for customers to use third-party marketplace purchases to “burn down” their commitments with the hyperscalers, helping them to maintain lucrative discounts on cloud spending, is driving both large software procurement deals and run-rate software transactions through marketplaces. With core IT budgets under pressure, and IT buyers seeking to control rising IT costs, the ability to use pre-approved cloud budgets to source a wide array of their current (and new) software and cybersecurity products can be highly compelling. This is being disproportionately driven by large enterprises, which have typically negotiated the largest cloud commits with the hyperscalers. But customers are identifying other benefits, including simplified purchasing (from a single platform), consolidated billing (the ability to combine purchases of multiple products and services under a single monthly bill from a hyperscaler), faster procurement and lower deployment cost. With an increasing proportion of “digital first” buyers, adoption is growing among smaller businesses, which are less likely to have a cloud commitment. This momentum is being fueled by the hyperscalers, which are investing millions of dollars in co-sell resources for vendors, increasing incentives for their own salesforces and using sizeable marketing funds to drive demand as they battle for customer cloud consumption and ISV platform investments.

The relentless rise of hyperscaler marketplaces has major implications for the wider IT industry. It hands ever more power to the top three public cloud hyperscalers, all of which have placed their cloud marketplaces at the center of overall growth strategies. For vendors, a growing reliance on hyperscalers as a route to market creates risk and the challenge of managing conflict with existing partners. And hyperscaler marketplaces represent a clear threat to established channels, as greater volumes of software and cybersecurity sales are diverted away from traditional resell and distribution models.

But with hundreds of billions of dollars in committed customer cloud spend up for grabs, and lucrative benefits on offer from the hyperscalers, vendors are flocking to marketplaces. In 2023, CrowdStrike, Palo Alto, Splunk and Snowflake were the first to claim US$1 billion of cumulative (multi-year) sales through AWS Marketplace alone. Microsoft and Google Cloud are expected to reach their first billion-dollar vendors soon. Cisco, Citrix, IBM, NetApp, Nutanix, Red Hat, Salesforce, ServiceNow, Workday and Zoom are just some that have launched or expanded in the hyperscalers' marketplaces since the start of 2024. At the same time, thousands of smaller, often VC-funded digital native ISVs are using the hyperscalers' marketplaces as their primary (or only) go-to-market model. That's even creating an incentive for larger legacy vendors to invest in this route for fear of losing new customer opportunities to smaller digital natives.

And while the channel has concerns about the implications of the rise of marketplaces, both hyperscalers and vendors recognize that the channel will play a vital role in driving customer adoption and growth. Customers want to buy through trusted partners, to get help managing multiple cloud commits, and access partners' professional services and technical skills as they source more complex technologies from (multiple) hyperscalers' marketplaces. The channel is becoming a key focal point in the battle between the top hyperscalers. AWS Marketplace has established a clear lead with its Channel Partner Private Offers (CPPO) model. Microsoft and Google Cloud are now seeking to challenge this with their own versions, Microsoft Multiparty Private Offers, now being rolled out globally beyond the US, and Google Cloud's Marketplace Channel Private Offers, launched in June 2024. Many of the largest resellers and systems integrators are now building marketplace practices to capture this opportunity. Marketplace growth via channel partners is already outpacing direct sales (as originally predicted by Canalys), and this is set to accelerate as more vendors commit to partner-first strategies. By 2027, Canalys expects more than half of marketplace transactions to flow through the channel. But this can be a double-edged sword for channel partners, bringing new investment requirements, potential margin pressure and the fear that once established, vendors will use marketplaces to bypass the channel.

Distributors face a more distinct competitive threat as the hyperscalers themselves become digital distribution platforms. The hyperscalers are challenging the established economics of IT distribution, often competing directly for vendor dollars. Yet as marketplace adoption accelerates globally, the need for independent distributors becomes greater, to deal with operational complexities such as taxation, currency and channel financing, and to manage and support a broad base of second-tier partners whose customers are choosing to source via this route. The hyperscalers that embrace distribution will find themselves at an advantage. But distributors themselves must quickly adapt and redefine value propositions to maintain their relevance. This report assesses the current dynamics and the future potential consequences of this model for the wider IT industry.

Cloud marketplaces gain ground with the shift to SaaS

The IT industry continues to shift rapidly toward SaaS, cloud and subscription models for software, cybersecurity and even hardware. This shift is driving the prominence of cloud marketplaces, which provide simplified, self-service and "click to buy" purchase options suited to a new generation of digital-first buyers, comfortable with subscriptions and pay-per-use models. These buyers often operate outside traditional IT procurement teams and demand quick, easy access to the tools they need. At the same time, enterprise procurement departments are attracted to benefits, including consolidated purchasing and billing (removing the need for lengthy RFPs, for example), flexible payment models (including pay as you go, subscriptions and bring your own license), technical integrations and analytics-led insights, as well as quick technology deployments. Most important for many enterprise buyers, however, is the availability of "private offers" via marketplaces, providing customized pricing, bespoke terms and contractual purchasing from vendors, either directly or through channel partners. These now account for a greater share of hyperscaler marketplace sales than self-service public offers and are growing faster.

Cloud marketplaces cover a wide range of business models but commonly act as online platforms for the discovery, trial, purchase and provisioning of third-party products and services. Hyperscaler marketplaces are the dominant forces in this space, but other examples include:

- **Vendor-operated marketplaces:** these include Salesforce AppExchange, CrowdStrike Marketplace, Red Hat Marketplace and ServiceNow Marketplace. They are typically designed to offer third-party applications, plugins and tools that integrate with vendors' own platforms, products or solutions.
- **Distributor marketplaces:** most of the major IT distributors have built (or are "renting" access to) their own cloud marketplace platforms. These include Arrow ArrowSphere, ALSO Cloud Marketplace, Ingram Micro Cloud Marketplace, Pax8 Marketplace, TD Synnex StreamOne Ion and Westcon-Comstor's PartnerCentral, and are aimed predominantly at serving second-tier resellers and MSPs. The most advanced offer digital tools and API integrations for channel partners and vendors, supported by data-led insights and analytics, and increasingly are being integrated with the hyperscalers' own marketplaces.
- **Channel partner marketplaces:** SoftwareOne PyraCloud, Crayon Cloud-IQ, Bechtle Clouds and other channel partner marketplaces are operated by independent channel partners and typically designed to allow end customers to buy vendor

software products and other digital technologies, and provide an automated procurement platform for a wide range of ISVs.

- **Independent marketplaces:** these are vendor-independent or vendor-neutral and/or channel-independent players that provide platforms and tools enabling vendors and channel partners to create their own marketplaces. Examples include interworks.cloud, Mirakl, AppDirect and Cloudmore. Some are owned by channel partners (AppXite was formerly part of Atea, while CloudBlue is an Ingram Micro subsidiary) but act independently. Some operate their own cloud marketplaces, aimed at end-user buyers.

The hyperscalers are building a clear dominance in terms of transacted sales volumes, scale and market impact. With thousands of "sellers" (ISVs and software vendors), tens of thousands of available products spanning a wide spectrum of technology segments, and hundreds of thousands of end-customer buyers, the scale of their combined marketplace reach is unmatched. Sales via these platforms were initially focused on cloud and development tools, giving the hyperscalers' customers access to the products to secure and manage their cloud environments. Now, hyperscaler marketplaces span multiple categories of technologies, from operating systems to business applications, infrastructure software, networking, cybersecurity, data products, AI and machine learning, IoT, DevOps and, increasingly, professional services. By 2025, the hyperscalers, through their marketplaces, are set to account for almost 5% of all commercial software and cybersecurity sales, more than doubling on 2023, though much of this represents a shift in spend from on-premises licensing, rather than incremental or net new growth.

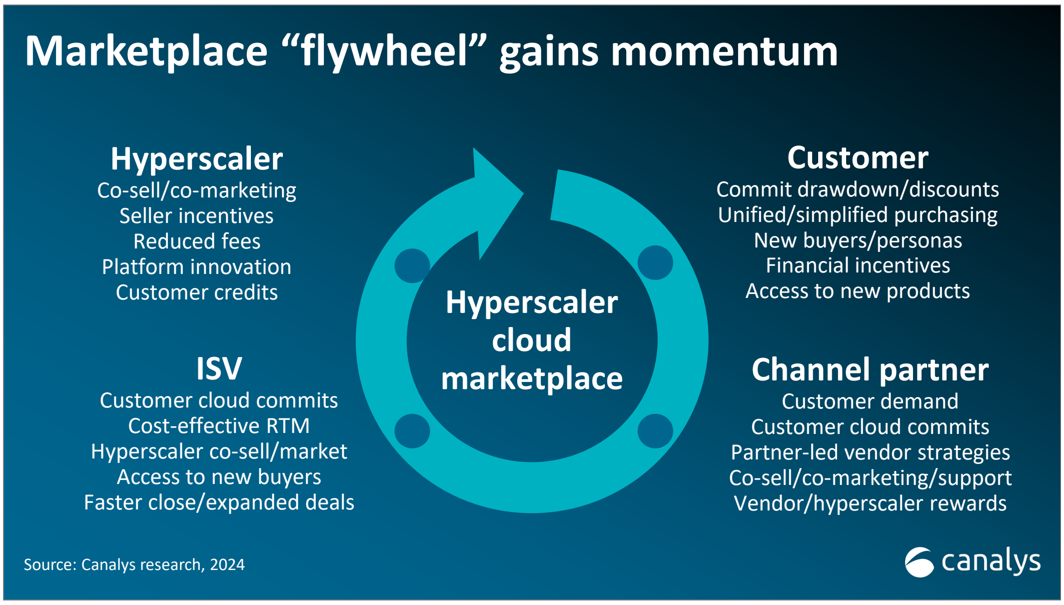
Of the top three, AWS remains the clear leader in terms of marketplace sales and reach. It has pioneered many marketplace innovations – leveraging digital expertise from the Amazon platform – from automation tools for procurement, billing, reporting and analytics, to developing private marketplaces to give customers greater control over procurement, to customized private offers. But both Microsoft and Google Cloud are intent on closing this gap, through their own investments in digital innovation and business model transformation. Increasingly the hyperscalers are supporting API integrations with the other marketplace categories – including distributor and partner marketplaces – to provide increased customer choice, but also reinforce their position at the center of the wider marketplace universe.

Marketplaces are core to hyperscalers' growth strategies

All three of the top hyperscalers have positioned their marketplaces as strategic pillars of their overall cloud growth plans, reflecting their role both in driving customer cloud consumption, and attracting ISVs to build and run on their cloud platforms.

AWS, Google Cloud and Microsoft are themselves stoking this momentum with millions of dollars of investment in demand generation and co-sell, along with other initiatives to attract and retain both customers and ISVs. These include:

- **Reduced marketplace fees:** AWS cut its marketplace fees in January 2024 from around 10% to a maximum of 3%, bringing it in line with Google Cloud and



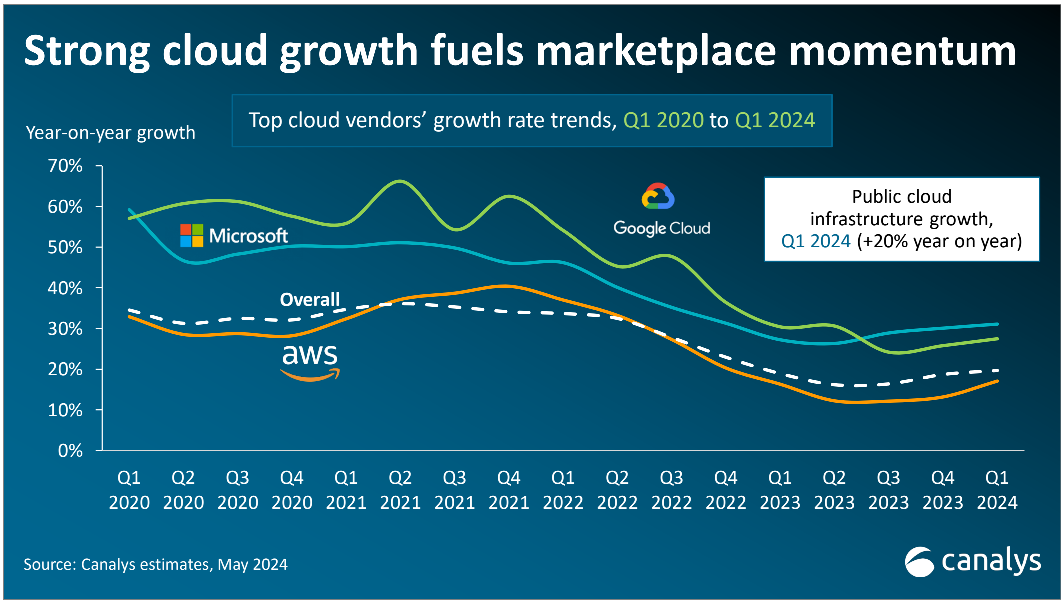
Microsoft, which made similar changes in 2021. This has been a multi-year journey from the early days, when marketplace fees hovered between 20% and 30%. This latest cut by AWS has acted as a significant stimulant, attracting new vendors and improving AWS' competitiveness against not just other marketplaces but also traditional distribution channels. This also shows that the economics funding these hyperscaler marketplaces are centered on customer cloud consumption, rather than sell-through margin.

- **Co-sell and co-marketing initiatives:** co-sell is seen as a fundamental component of marketplace success. All three hyperscalers have prioritized co-sell strategies, enabling (and targeting and rewarding) their salesforces to collaborate with the vendors' field sellers and channel partners to win deals. Vendors that are active on the marketplaces often report that effective co-selling with the hyperscalers contributes to bigger deals and faster close rates. But this tends to be focused on a subset of the largest or most engaged vendors – not all vendors benefit equally.
- **Increased seller incentives:** hyperscalers are enhancing incentives for their sellers (to support co-sell strategies) and channel partners to win vendor share and accelerate marketplace growth. In 2023, Microsoft launched new Marketplace Billed Sales (MBS) as a sales metric for its field sellers for the first time, which allowed sales quotas to be retired against MBS. Both AWS and Google Cloud have applied a similar approach to their own sales incentives.
- **Competitive credits and rewards:** customer cloud credits (either in the form of extra cloud capacity, financial benefits or accelerated marketplace burndown) have become part of the competitive arsenal for hyperscalers as they battle for customer share and retention. Switch-sell credits are common – for example, Google Cloud is providing additional discounts or cloud credits on marketplace purchases for new customers purchasing a vendor solution for the first time. Another model is providing credits for vendors and channel partners to offer to prospective customers in sales negotiations.

Microsoft, meanwhile, extends Azure credits to partners (Marketplace "rewards") based on volumes of marketplace sales, which they can pass on to their customers.

Customer cloud commits have become a high-value currency in the marketplace battle

AWS, Google Cloud and Microsoft are exerting an immense (and increasingly powerful) force on the IT industry, driven by the size and speed of cloud adoption. Public cloud growth has re-accelerated around the world after a brief cooling in 2023, influenced heavily by the growth in AI services. By 2028, the public cloud market is on track to hit full-year sales of US$590 billion, led by demand for compute capacity to support AI growth. This phenomenal rise is being underpinned by the number and size of multi-year cloud

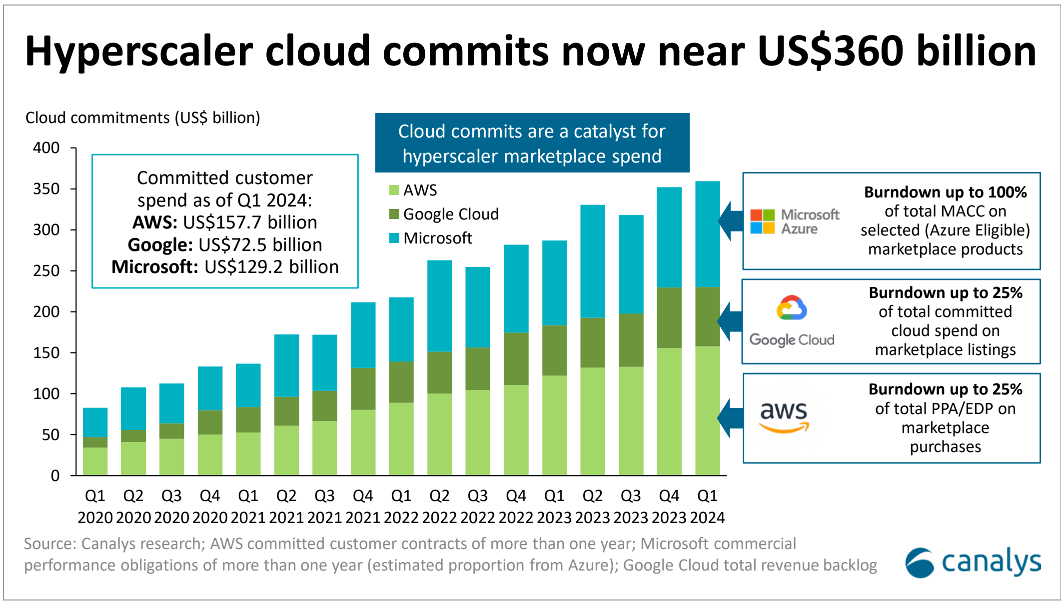


contracts that all three hyperscalers are securing with enterprise customers in anticipation of new compute-intensive AI workloads, an acceleration in cloud migration to support greater digitalization, as well as software vendors migrating to public cloud platforms.

Winning (and expanding) these long-term commitments has become a strategic priority for all three hyperscalers in the battle for enterprise share and future customer spend, with substantial discounts available to customers that commit to the longest and largest deals. In the first quarter of 2024 alone, Microsoft reported an 80% rise in US$100 million-plus Azure deals. The number of US$10 million-plus deals more than doubled. Some of the largest global multinationals and ISVs (such as Coca-Cola and Cloud Software Group) are now signing multi-year commitments worth billions of dollars. AWS and Google Cloud are on a similar trajectory. On a combined basis for AWS, Microsoft Azure and Google Cloud, total commitments reached almost US$360 billion by the end of Q1 2024 (measured as outstanding commitments over a year, remaining purchase obligations or cloud backlog), and these commits continue to grow by tens of billions of dollars each quarter. In Q2, these commitments are estimated to have grown to over US$360 billion, driven particularly by quarter-on-quarter growth for Microsoft Azure and Google Cloud.

These commitments have become the primary fuel source powering cloud marketplace growth. With customers able to use their commitments to "spend" on third-party purchases via the hyperscalers' respective marketplaces, this represents a vast, pre-approved budget pot for vendors to target. The motivation for customers to use these commits can be powerful. Enterprises negotiating multiyear contracts with the hyperscalers need to achieve their agreed spending targets to maintain lucrative discounts on their commitments. Yet customers often find they have overcommitted (in seeking the deepest discounts) or are struggling to meet expected cloud consumption targets. "Burning down" (or decrementing) their committed spend through third-party purchases on the hyperscalers' marketplaces offers the dual benefit of helping them meet their targets while providing an alternative source of spending when allocated budgets for software and cybersecurity are under pressure.

In reality, only a proportion of the total US$360 billion of committed spend is available for marketplace burndown. All three hyperscalers use specific discount programs to allow customers to secure long-term commitments. These typically require a minimum



commitment (usually between US$500,000 and US$1 million), which tends to limit them to larger enterprise customers. While all three hyperscalers allow customers to burn down these commitments through marketplace purchases, each has different terms and requirements, which influence the true availability of those commits. Significantly, both AWS and Google Cloud have capped the burndown of commits at 25%, as they aim to move customers away from focusing purely on applying committed spend to marketplace purchasing.

AWS Committed Spend/Private Purchase Agreements (PPAs): AWS allows PPAs (formerly EDPs) to be burned down against any purchased listing on AWS Marketplace (though third-party Professional Services are still excluded). But customers can burn down only up to 25% of their total commitment via third-party marketplace purchases. Of the US$158 billion multi-year committed spend reported by AWS at the end of Q1 2024, in real terms, this equates to around US$39 billion of available budget, split over an estimated average customer contract of three or four years. This partially reflects the fact that AWS is seeking to put less emphasis than Microsoft on commitments as a driver of customer spend, with a greater focus on wider marketplace benefits. It points to the growing number of smaller customers that do not qualify for PPAs, which are now buying via AWS Marketplace.

Microsoft MACC (Microsoft Azure Committed Consumption): Microsoft, in contrast to AWS, allows 100% of marketplace spend to retire a customer MACC. But this can only be done against listings that meet specific requirements – these must be qualified as "Azure benefit eligible" (platformed on Azure and meet a minimum revenue threshold for the ISV), so represent only a proportion of total available offers. MACCs are also only available for customers holding Enterprise Agreements or Microsoft Customer Agreements (MCAs), not those purchasing via CSP, Microsoft's purchasing model for small and medium-sized businesses. With most channel business transacted via CSP, this can be a frustration for Microsoft partners whose customers don't have the opportunity to use commit burndown. Nonetheless, Microsoft has big ambitions to leverage its global partner ecosystem for growth with the global expansion of MPO. Microsoft doesn't break out multiyear Azure commitments from its remaining purchase obligations, but they were estimated to be worth almost US$130 billion by the end of Q1 2024. In real terms, this makes it the largest of the top three hyperscalers in terms of available marketplace spend, though, anecdotally, it remains further behind due to operational complexity.

Google Cloud Commit Agreements or Enterprise Agreements: Google Cloud customers can sign up to spending commitments under Cloud Commitment Agreements (legacy) or Enterprise Agreements (as of 2024). Google Cloud reported total customer commitments of almost US$73 billion by the end of Q1 2024. But, from the start of 2024, Google Cloud also introduced a 25% cap on committed spend for marketplace purchases, following in AWS' footsteps. This effectively limits the available committed multiyear spend for marketplace purchases to US$18 billion (of the US$73 billion). Almost all solutions listed on Google Cloud Marketplace are eligible for commit drawdown. Google Cloud is consistently reporting strong double- or triple-digit growth in its marketplace revenue as it recruits more ISVs to its platform and extends its routes to market. Increasingly, that will be through channel partners via the new Marketplace Channel Private Offers.

A new buying motion for customers

The opportunity to apply committed spend is proving a powerful draw for enterprise customers to shift procurement of third-party software to the hyperscalers' marketplaces. Procurement teams are increasingly seeking to divert large license deals (often multi-million-dollar in size) through the hyperscalers' marketplaces, as they seek to reduce their cloud commits. With many organizations facing budgetary pressures in the face of an uncertain macroeconomic environment, this can also attract the attention of finance heads within customers, who recognize the benefits of leveraging existing cloud budgets for an increasingly wide range of "legacy" software products, while also taking advantage of cuts to procurement costs through consolidated purchasing and invoicing. One of the benefits of buying via marketplaces can be reducing the need for costly RFPs with each new software purchase, for example. The most advanced are taking a proactive approach to procurement planning as they negotiate cloud commitments with their hyperscalers. That means, for example, building the purchase of their existing software and cybersecurity subscriptions into those commitments, rather than reactively using marketplace purchases to "use up" over-committed cloud spend, which has been a more common approach in the past.

Enterprise adoption is being helped by the availability of more sophisticated "private offers" from the hyperscalers, allowing customers to negotiate customized pricing and terms with vendors, either directly or through channel partners. Private offers are now estimated by Canalys to account for over 70% of AWS Marketplace sales and 50% of Microsoft's. Of these, private offers through channel partners are growing fastest. Customers are turning to systems integrators, consultants and resellers to help them adapt their internal procurement strategies, identify the key benefits of marketplaces, and define which parts of their software estates to move to which marketplaces (and with which hyperscalers), as well as negotiate these private marketplace offers. The hyperscalers themselves are playing a role in this customer transition as part of their own sales strategies, working with customers on actively building marketplace procurement into their PPA/MACC/EA renewal negotiations, often in co-sell partnership with vendors.

This is helping to attract the attention of more vendors, which are working with the hyperscalers on those planning cycles. If this mindset persists, marketplaces will become a key catalyst for future cloud spend commitments. One of the consequences of this is that a large (and potentially growing) proportion of total third-party sales via marketplaces is now a "share shift" of vendor sales from traditional channels to marketplaces, rather than net new business. Once on board as a marketplace customer, however, enterprises find they can access a wider set of ISVs and product categories, which is further driving adoption and momentum.

It is important to note, however, that not every customer is moving toward marketplaces. Many lack an awareness of how to make use of this model. Customers with low adoption of cloud are of course least likely to source via marketplaces, which is also reflected in geographic variations around the world. But many will also be resistant to buying this way. This can be due to multiple factors. Internal culture is one: established purchasing processes can often be too entrenched within customer procurement teams to allow them to actively move toward marketplaces. Some customers will also be reluctant to become overdependent on a few large hyperscalers, due to the perceived risks of lock-in and loss of control. And certain customer groups are restricted by compliance rules. Public sector segments in many countries must legally buy through approved frameworks or submit RFPs for each software tender, which can limit the use of marketplaces. This again points to the importance of channel partners to help facilitate marketplace adoption, where the partners are part of these frameworks.

Vendors are racing to capitalize on the hyperscaler marketplace opportunity

For vendors across the technology spectrum, hyperscaler marketplaces are sending out irresistible siren calls. As well as access to cloud commits, vendors are being enticed by the promise of a faster time to market (from simpler deployments and buying mechanisms for customers), larger deal sizes and access to lucrative co-sell and marketing resources from the hyperscalers. Selling via marketplaces can give vendors exposure to an expanded customer base in the form of companies using the hyperscalers' cloud services, but also new buying personas that don't typically use more "traditional" routes to market (which could even include some within a vendor's existing customers). Another key – but less visible – motivation is that selling via marketplaces can help ISVs meet their own cloud commitments with the hyperscalers, when they are running parts or all of their business on a hyperscaler's cloud platform.

The roster of vendors embracing one or more of the hyperscalers' marketplaces continues to grow. These range from small niche or targeted vendors – think of the host of ISVs aligned to Microsoft's tech stack, such as Solgari (UC) or Nerdio (AVD management), or the network of vertical ISVs built on Google Cloud – to very large tier-one vendors across applications, cybersecurity, networking, storage, backup and infrastructure. Cybersecurity vendors have been among the fastest to move to marketplaces: most of the top 20 cybersecurity vendors, and many smaller players, now have a marketplace strategy, with a growing number generating over 10% of revenue this way. The implications of these relationships will become more noticeable over time. Google Cloud's failed US$23 billion acquisition of cybersecurity vendor Wiz highlighted the high dependence that Wiz has on AWS Marketplace as a route to market, estimated by Canalys to account for close to half of its total ARR of around US$350 million, for example. Many cybersecurity vendors are unwilling to use Microsoft's marketplace, due to competitive tensions, creating an advantage for AWS and Google Cloud. Some prominent examples of vendors with varying degrees of marketplace maturity and strategic focus include:

- **Cisco**, through its acquisition of Splunk, is now one of the largest vendors selling through hyperscaler marketplaces – Splunk is estimated to have generated over a billion dollars in sales through AWS Marketplace since launch. Cisco is now strategically embracing marketplaces as a key route to market for other parts of its portfolio, including cybersecurity and observability, and has seen initial success leveraging AWS co-sell. As a majority partner-led vendor, Cisco's challenge is avoiding conflict with existing channel partners – it aims to involve partners through CPPO. It was AWS' Global ISV Partner of the Year in 2023.
- **CrowdStrike**, having achieved US$1 billion in TCV since launching in 2016 on AWS Marketplace, claims to be on track to double this to US$2 billion within 12 to 15 months. CrowdStrike is also seeing rapid growth through Google Cloud Marketplace, though from a smaller base. CrowdStrike has embraced a partner-first strategy for

marketplaces (via AWS CPPO, for example), mandating that direct deals require internal approvals. As a result, it claims that over 70% of total marketplace sales are now flowing through its channel partners.

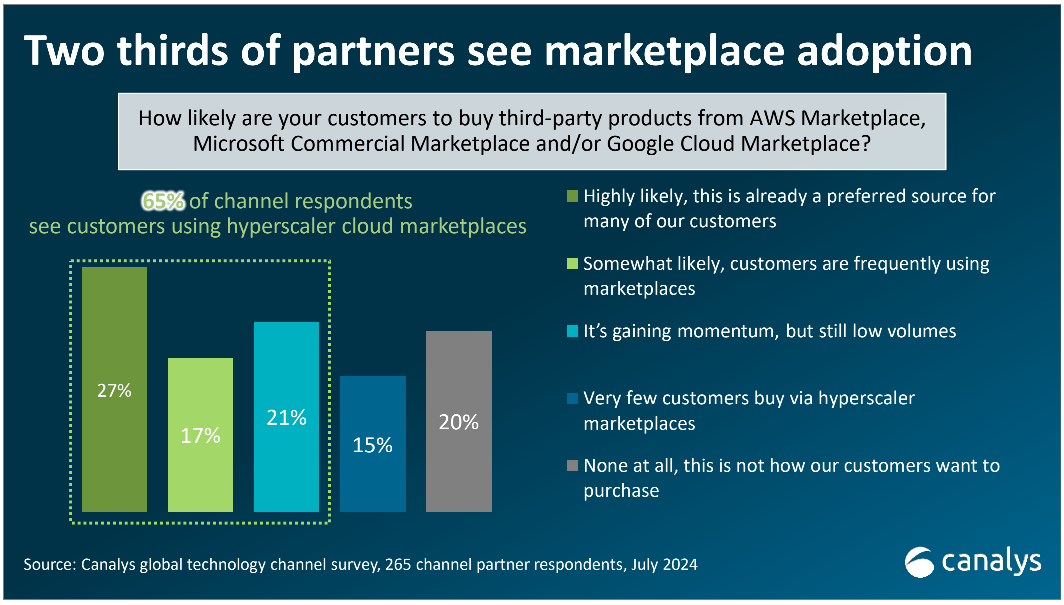
- **IBM** has expanded its presence in AWS Marketplace to 92 countries since the start of 2024, offering a broad range of SaaS and software products, spanning AI, automation, cybersecurity and sustainability software. With a majority two-tier model, IBM's dilemma has been how to avoid displacing its distributors as it expands its marketplace strategy. It has launched AWS DSOR (AWS' distribution model for Marketplace) in 15 major markets, and plans to expand this to more than 20 this year, supporting channel partners selling via CPPO.
- **Nutanix** has embraced hyperscaler marketplaces as a strategic route to market as it has continued to transition its portfolio to SaaS. Nutanix, which sells almost entirely via a two-tier channel, has committed fully to a partner-led model for marketplaces. It was the first vendor to create an MPO with Microsoft on Azure in the UK. As a sweetener for both customers and partners, Nutanix has pledged to absorb hyperscaler marketplace fees rather than pass them on to customers or partners.
- **Salesforce**, one of the pioneers of the cloud marketplace model with its AppExchange platform, launched a range of its SaaS products on AWS Marketplace across Europe and the US at the start of 2024 and expanded this to the UK in the second quarter of 2024. This is a significant shift for Salesforce, which has seen AWS Marketplace as a direct competitor in the past. Its rationale is that more and more of its customers are buying via AWS Marketplace (and requesting access to buy via this route) and presence on the platform potentially gives it exposure to an entirely new set of customers.
- **Trend Micro** was one of the first vendors to strategically embrace hyperscaler marketplaces as a key global route to market. This has driven a significant shift in its revenue and partner mix: AWS Marketplace is now its largest global distributor, estimated by Canalys to account for over a quarter of total worldwide sales. But Trend remains committed to its indirect channel model, prioritizing marketplace sales through its partners.

For most vendors, this model is still in a new and experimental stage. Effective marketplace selling is operationally complex and requires vendors to invest in big changes to sales cultures, internal processes and operating models. Execution can be difficult and requires allocating significant time, people and internal investment. Vendors that attempt this opportunistically or tactically tend to fail, while the most successful are focusing on building deep strategic engagements with the hyperscalers. Key challenges range from the complexity of technical integrations and listings to generating marketplace visibility, adapting pricing models, driving effective demand generation, and aligning sales strategies and customer engagement. With thousands of other vendor offerings listed across the different marketplaces, creating differentiation, visibility and customer preference is a major issue for many. As customers embrace multi-cloud environments, vendors are recognizing the need to engage with more than one hyperscaler marketplace. But each hyperscaler marketplace tends to operate differently, adding to the cost and complexity for vendors. From a technical and engagement perspective, many vendors are engaging third-party companies, such as Tackle and CloudBlue to help them with migration, integration and acceleration.

The other big challenge for channel-led vendors is how to develop a marketplace strategy while minimizing conflict with existing partners. Tensions can quickly arise if partners find themselves cut out of marketplace deals with their customers. Most vendors – even those with a legacy direct focus – are now recognizing that partners will be needed to drive market reach through marketplaces and for customer sales engagement (and education), as well as for customer adoption, expansion and management. But the next phase of development will focus on how to balance an existing channel model with an effective marketplace strategy, given the additional cost (for example, absorbing additional marketplace fees along with paying channel and distributor margins) and operational adjustments required.

The emerging role of the channel: the power of three

With marketplace momentum on the rise, the focus is shifting to the future role of partners and distributors within this model. For channel partners, this can represent



a dilemma. Embracing marketplaces will be important to reinforce relevance for both customers and vendors. 65% of channel partners surveyed globally by Canalys see that their customers are buying through hyperscaler marketplaces, either frequently or occasionally (and this is increasing). But this brings potential longer-term consequences, ranging from handing greater control over customer billing and ownership to hyperscalers (and with it the risk of disintermediation), to adding greater complexity and cost to the sales process – translating into greater margin and profit pressure – to dealing with operational challenges around currency, taxation, internal accounting, compensation models and other processes. Simple issues, such as the hyperscalers (apart from Google Cloud) billing customers directly and "disbursing" the margin to partners, create challenges for revenue reporting and internal compensation models, for example (though, at the same time, this creates the advantage of faster payment and improved cash flow for the partner, while removing the cost of customer collection). As a result, channel partners are moving toward marketplaces at very different speeds. Some are embracing this model enthusiastically, encouraged by the investment of both vendors and the hyperscalers in strategies and programs. Many still don't see significant customer interest, so remain indifferent. But a significant proportion of partners are still cautious – or highly resistant. It is interesting to note that some of the largest channel partners – even those that have been at the forefront of building marketplace practices and engagement with the hyperscalers – privately express deep concerns about the possible negative implications of this strategy. In certain cases, these partners will actively encourage only a reactive approach to marketplace transactions – supporting marketplace purchasing only when the customer requests it and otherwise driving a strategic preference for traditional licensing.

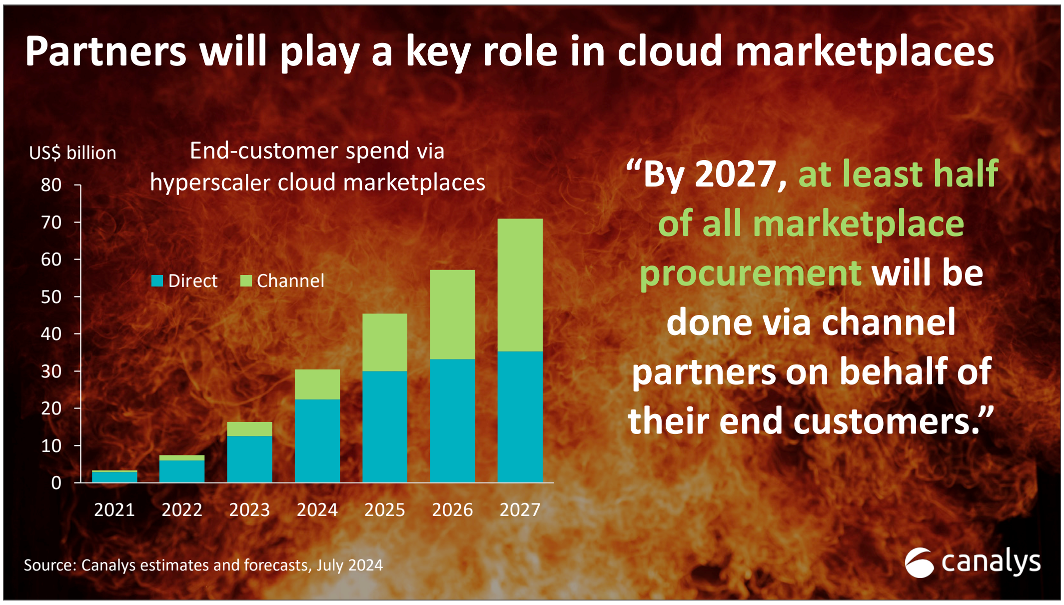
Yet despite these concerns, Canalys believes that partners have an opportunity to benefit from this trend, by building hyperscaler marketplaces into a multi-modal sales approach and investing in managed and professional services capabilities to maintain differentiation. Customers often have a preference – or regulatory requirement, in the case of the public sector – to work with channel partners rather than sourcing directly from marketplaces. As these end-user organizations seek to consume more complex products and services via marketplaces, from growing numbers of vendors, the need for partners increases to navigate catalogues of products and solutions, negotiate pricing, manage procurement across multiple vendors (and often multiple hyperscaler marketplaces) and provide ongoing support. Partners are increasingly playing a role in managing cloud commits on behalf of their customers, which are now turning to trusted partners to help them manage their marketplace spend – either through consolidating spend for greater purchasing power, or simply to help customers navigate the complexity of sourcing multiple vendors' products, with different subscription terms and SaaS models. This management role will increase in importance as customers embrace multi-cloud strategies and seek to source from multiple marketplaces – they will need advice on how to approach this, and how to identify which is the best cloud and marketplace for differing requirements. In addition, the channel has a growing opportunity to use the hyperscalers' marketplaces as a route to market for their services and solutions. AWS enables channel partners and systems integrators to sell their own professional services through its marketplace, for example, giving potential access to a vastly expanded customer base.

As hyperscalers and vendors strategically invest in the partner ecosystem for marketplaces, a dramatic shift is set to take place over the next three years, with the channel taking a greater share of influencing and transacting marketplace deals. Currently, this share is focused on the largest channel partners, which are typically serving larger enterprise customers holding the most substantial spending commitments with the hyperscalers. CDW, Presidio, Crayon, WWT, Insight, SHI, Computacenter, Softcat and SoftwareOne are just some of the companies setting sizeable annual marketplace revenue targets across all three hyperscalers, often in the hundreds of millions of dollars, with their vendor partners. And as partner-oriented vendors, such as Cisco, IBM and Nutanix, embrace this model as a route to market, they are actively encouraging more of their existing channel partners to develop marketplace practices. Large systems integrators, while less likely to participate in "resell" models via marketplaces, are playing a key role in advising customers on marketplace strategies and are often themselves offering their services via the marketplaces.

By 2027, Canalys predicts that over half of all marketplace business will flow through partners (via channel partner offers etc), with an even greater share "influenced" by services and systems integrator players. For this to happen, however, vendors and the hyperscalers need to continue reinforcing channel-led business as a strategic priority and aligning this more effectively with partners' business models. The inability of partners to bundle multi-vendor products into a solution under a single private offer remains a frustration across all three hyperscaler marketplaces.

So how do the hyperscalers compare in their channel models?

- **AWS**'s CPPO model, launched in 2019, pioneered the partner-led model for marketplaces, and it remains far ahead of both Microsoft and Google Cloud. CPPO gives vendors the ability to extend channel discounts to partners and authorize them to create customized private offers published on Marketplace for their end customers. This has helped AWS Marketplace to move from an almost fully direct model to over a third of transactions now via CPPO (according to Canalys estimates). Channel adoption has been supported by introducing much greater alignment between the marketplace and the AWS Partner Network. As a result, Canalys estimates that CPPO sales are growing significantly faster than "direct" sales through more than 2,000 CPPO-authorized channel partners around the world. AWS continues to invest in innovation. For example, the ability for channel partners to offer their own professional services via private offers allows partners to attach



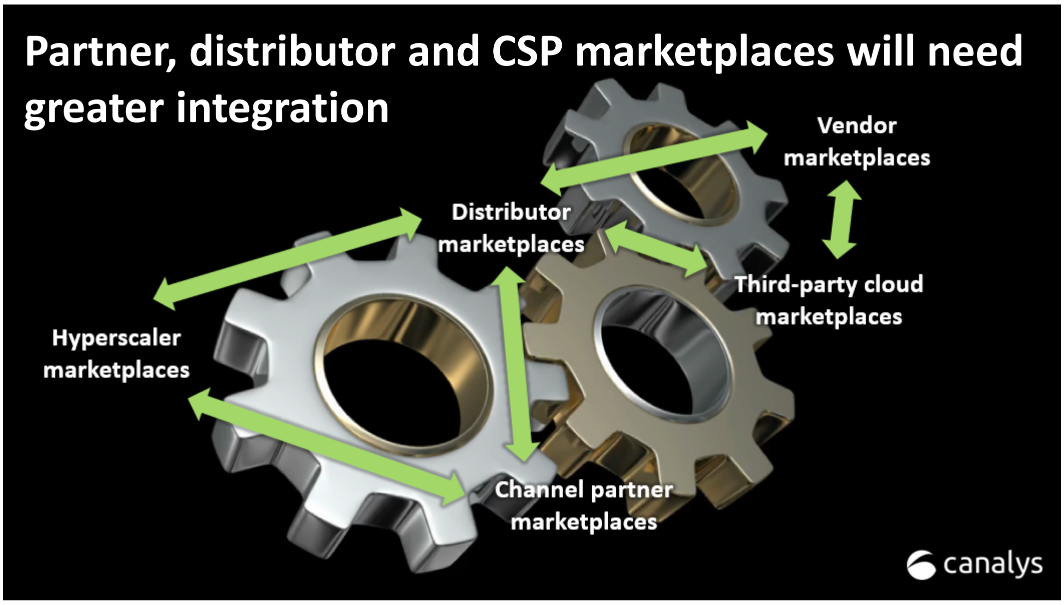
their services to software sales under one customer bill. The continued development of digital tools and APIs will support greater integration between AWS Marketplace and its partners' platforms, to streamline marketplace procurement for customers. One disadvantage is that AWS, unlike Microsoft or Google Cloud, adds a 0.5% uplift fee for marketplace sales via CPPO. Removing this would reduce costs for vendors and partners selling this way.

- **Microsoft** launched Multiparty Private Offers – its equivalent to CPPO – in the US in the summer of 2023 and is now expanding that around the world in stages as it seeks to close the gap on AWS. MPO was rolled out on a pilot basis in the UK and Canada in May and extended to general availability in July 2024. It is now actively recruiting and onboarding existing Microsoft partners – mainly large resellers in the UK and Canada, with 32 major UK partners signed up at GA, and several hundred partners targeted globally. MPO, like CPPO, allows ISVs on Microsoft Azure Marketplace to create a customized offer for partners, which they can then provide to their end customers after adding a margin. In the countries where it has been launched, Microsoft is aiming to reach two thirds of Microsoft Azure Marketplace sales flowing through partners. Microsoft has seen early traction in the US with around 140 MPO partners, but sales remain low compared with AWS. Partners are optimistic, however, particularly as many of their existing customers have large Microsoft commits and are seeking to accelerate marketplace purchasing.
- **Google Cloud**, meanwhile, introduced its own private offer for channel partners, Marketplace Channel Private Offers (MCPO), in June 2024. This is a significant step forward for Google Cloud, whose channel business has been effectively limited to partners that own customers' cloud billing models. The new MCPO program supports all channel partners, giving customers more buying options and channel partners enhanced flexibility. A key differentiator from AWS and Microsoft is that Google Cloud Marketplace gives partners the ability to collect payment from customers, giving them control over ownership and billing. For partners that want to recognize topline sales, this can be a significant advantage. Despite some operational and programmatic challenges, Google Cloud has benefited from its "partner-first" strategy with its marketplace, and a sizeable share of transactions already flow through partners. Typically, this has been concentrated on a small group of Google Cloud-focused SIs, such as SADA (now part of Insight). MCPO is now helping to attract a much broader set of large resellers, as well as new vendors selling through these partners. The opportunity for channel growth with Google Cloud looks significant, but traction will take time to build.

Distributors can play an important role but must redefine their value

Successful channel growth for marketplaces also means not just concentrating power in the hands of a small group of the largest, most powerful channel partners, but enabling a much wider swathe of the channel to build successful marketplace practices, supported by distribution. Distributors face a more fundamental threat from marketplaces, where hyperscalers are effectively acting as competitive digital distribution platforms, and typically at a lower cost to vendors than traditional distribution models. The rise of hyperscaler marketplaces has already resulted in the "loss" of hundreds of millions of dollars of sales in the distributor channel. As marketplace volumes continue to grow, the impact on distributor market shares will become more pronounced.

But there is growing acknowledgment of the need to maintain distribution within this motion. Vendors with a high reliance on traditional distributors are concerned about the impact of their marketplace strategies. Vendors are finding that they continue to rely on distributors for managing second-tier partners, removing operational friction (particularly caused by taxation and currency complexity) and driving channel momentum on behalf of vendors engaging with marketplaces, particularly outside of North America. Distributors continue to play a key role in channel recruitment management and support, which the hyperscalers do not typically provide. For more advanced technologies, they also offer technical expertise and services to support partners. And, fundamentally, there are still many partners that prefer using distribution over buying directly from the vendors. They have established integrated purchasing with distributors, they rely on credit lines and they value the technical support that distributors provide. Many of the big distributors also offer incentive programs for channel partners based on volume, which enhances partner profitability. Distributors will need some form of programmatic management to help them adjust their business models.



AWS has again taken the lead over the other two hyperscalers – it is now in the process of expanding its DSOR (Designated Seller of Record) pilot program for Marketplace, effectively outsourcing the vendor role to the distributor in terms of managing CPPO offers through the channel. Distributors are responsible for creating private offers for channel partners and managing the CPPO process (including managing disbursement to the ISV). Vendors are increasingly making use of this model as they seek to extend their marketplace offerings to a broader set of second-tier partners and countries, typically while managing the largest CPPO partners directly. AWS has also recognized that distributors can play a combined role in helping channel partners drive migration to and adoption of AWS cloud services within their end-customer base, helped by linking this to the benefits of using the AWS Marketplace. There are already examples of strategic success in the distribution community: Westcon is proactively driving this approach with its own DSOR model, for example. It is also proving important for serving certain key vertical segments. Carahsoft, an authorized distributor to the US federal government, was one of the first to successfully embrace the DSOR model, as this is the only way for some US government accounts to buy via AWS Marketplace. DSOR is seeing increased adoption by a range of distributors, including Exclusive Networks, TD Synnex, Ingram Micro and Crayon.

Microsoft and Google Cloud, in contrast to AWS, currently have no distributor involvement in their marketplace models. Despite its established global network of Azure distributors (indirect providers), Microsoft MPO does not support two-tier distribution. Both claim to have plans to involve distribution to a greater extent. But these strategies will take time to develop, leaving both at a disadvantage to AWS.

AWS Marketplace DSOR is still in the early stages of maturity, and challenges still exist. It is effectively an attempt to retrofit distribution into a marketplace model. But in doing so, it is creating a somewhat uncomfortable "four-tier" structure (vendor, marketplace, distributor, channel partner), which some vendors have highlighted can become a tight squeeze in the margin stack. The DSOR process can be cumbersome and resource-intensive and puts the burden of management on the distributor rather than the vendor or the hyperscaler. AWS maintains the billing relationship with the end customer and disburses to the distributor, which is then required to pay the channel partner and the vendor. It also has a reported negative impact on distributor profitability, given the investment needed by the distributor, without providing additional financial benefit to compensate for the extra cost and complexity. But the biggest issue facing distribution is that vendors are largely using DSOR to manage the long tail of smaller partners, while the largest partners are encouraged to maintain a direct CPPO engagement with AWS Marketplace. Furthermore, the customers of these smaller partners are less likely to have entered into large-scale cloud commitment agreements with the hyperscaler, meaning they lack the incentive of commitment burndown to drive marketplace purchasing. Distributors will see greater opportunity from vendors extending DSOR to larger channel partners and are seeking to educate vendors on the value of this model.

The future of marketplaces: integrated platforms

The next phase of hyperscaler marketplaces will see an increase in API integrations across distributor, partner and hyperscaler marketplace platforms (including multiple marketplaces to support customers' multi-cloud strategies). This will be supported by closer collaboration between vendors, hyperscalers and channel partners, enabling partners to deliver valuable services to customers. While still at their earliest stages, these API integrations offer the opportunity to create a much more seamless end-to-end platform approach, which simplifies a complex procurement process for the customer. One example is the intention by AWS to allow channel partners to make marketplace offers to customers within a customized, private instance of the AWS Marketplace – on their own websites. Rather than the end customer being given a link to the private offer in the AWS Marketplace, this remains within the partner's (or for the channel, the distributor's) digital estate. This would be incredibly valuable for keeping the customer on a partner's website for the entire buying journey. The next step is for AWS to enable distributors to integrate AWS Marketplace within their own marketplace platforms, allowing distributors to control the partner buying experience within their own platforms, via AWS APIs. Another example would be the ability for distributors to mirror the hyperscaler's whole marketplace on their own platform, using a content syndication model considered by Microsoft.

The channel remains cautious of hyperscalers' motives with marketplaces yet recognizes the potential of integrated digital platforms to streamline operations and drive growth in the evolving marketplace landscape. Distributors and channel partners must adapt to the new dynamics, redefine their roles and leverage digital integration to remain competitive and relevant in this rapidly changing ecosystem. The success of these marketplaces hinges on the effective collaboration between hyperscalers, vendors and channel partners, leveraging digital integration and adapting to the evolving landscape.

Cloud marketplaces are becoming a major force in the software industry and, for the first time, are having the type of impact that app stores had in the consumer world a decade ago. Hyperscaler sellers will increasingly point to a growing catalog of familiar solutions that can be purchased and consumed through those commits. Vendors, not wanting to miss out on the growing "cloud commit economy", will continue to flock to marketplaces and by doing so strengthen the hyperscaler value proposition. As marketplaces continue to grow, their impact on the IT industry will be profound. But the hyperscalers themselves are increasingly urging a focus beyond just cloud commitments as the primary driver. The key question is how sustainable can this model be without this fuel source?