



MARKET PERSPECTIVE

Amazon Web Services Marketplace: A Value Proposition for ISVs

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: Amazon Web Services Marketplace – A Value Proposition for ISVs

Since 2012, the AWS Marketplace has been an online distribution hub where ISVs publish, sell, and distribute their software to an audience of over 135,000 active buyers. This document provides insight on the key capabilities that the AWS Marketplace offers to ISVs and shares perspectives from three ISVs on how they get the most out of participation.

Key Takeaways

- IT buyers are rapidly moving to the cloud. However, many ISVs are finding that meeting them there is too costly and time consuming.
- For SaaS providers, the cost of customer acquisition relative to lifetime value is an inhibitor to long-term profitability and viability. ISVs are looking to reach as many buyers as efficiently as possible.
- The AWS Marketplace provides expanded reach to qualified cloud buyers, a robust cloud platform on which to publish applications and APIs, and an operational foundation for transacting with buyers.
- The AWS Marketplace enables participation in a broad, cloud-based product and service ecosystem.

Recommended Actions

- **Don't preserve the past; reinvent the future.** Traditional business models are likely not appropriate in a digital economy dominated by cloud. Letting go of the idea that all businesses will be driven through traditional sales will allow organizations to capture marketplace opportunities.
- **Run and reinvent at the same time.** Most ISVs have customers with existing investments. BYOL can be an important step for ISVs – and their customers – that are making the transition to cloud.
- **Allow choice and flexibility.** Give customers choice in the way they buy and in how software is deployed. Work with AWS and customers to find the right pricing metrics, which might include pay-as-you-go options.

Source: IDC, 2017

NEW MARKET DEVELOPMENTS AND DYNAMICS

Organizations are rapidly accelerating their cloud services adoption. According to IDC research, SaaS and cloud software revenue is expected to grow at a CAGR of 18.6% through 2020, when total revenue will surpass \$150 billion. The majority of net-new software revenue is coming from the cloud, and more than 90% of new software offerings are being built for cloud deployment in response to growing demand by end-user organizations.

How are organizations sourcing this cloud software? Sometimes, organizations are working directly with an independent software vendor (ISV) or a SaaS provider, sometimes they go to a traditional channel partner and, increasingly, they are going to a cloud services marketplace.

Amazon Web Services (AWS) offers public cloud infrastructure solutions, including Amazon Elastic Compute Cloud (EC2) and Simple Storage Service (S3), among many other offerings. AWS has grown to have over 1 million active customers in its user community since its launch in 2006.

In April 2012, AWS launched the AWS Marketplace, an online distribution hub where ISVs can publish, sell, and distribute their software via the AWS infrastructure. The AWS Marketplace provides a means for ISVs and SaaS providers to distribute cloud-enabled software to an audience of over 135,000 active buyers. The AWS Marketplace provides a platform that enables accelerated evaluation and procurement of software, simplifies the buying and contracting process, and automates deployment. The AWS Marketplace currently has over 3,800 product listings from over 1,200 distinct ISVs and is onboarding close to an average of one new seller every day. The AWS global infrastructure is made up of 42 Availability Zones across 16 geographic regions and 87 local points of presence.

Given the maturity and scale of the AWS Marketplace, ISVs that have not already listed software offerings on the AWS Marketplace are strongly considering doing so. The sections that follow are based on information gathered through conversations with AWS, as well as interviews with three ISVs that sell cloud solutions on the AWS Marketplace: Trend Micro, F5 Networks, and Palo Alto Networks.

Why AWS Marketplace?

According to IDC's 2016 *CloudView Survey*, 92% of IT organizations are considering cloud computing choices, with nearly 80% already deploying via the cloud. With the strong trend of organizations transitioning to the cloud, ISVs must offer more cloud solutions to increase, or at least maintain, their customer bases. Customers' demand for cloud solutions indicates that organizations buying net-new traditional software will be in a rapidly shrinking minority, and cloud will be the major software distribution channel for ISVs going forward. However, for many ISVs, it has been difficult to make the transition from traditional software provider to SaaS provider.

In addition, many customers are increasingly looking for more flexible and efficient ways to pay for their IT solutions, including pricing based on various dimensions of usage. Without the capability to meter many of these dimensions, ISVs are also struggling to adapt the way they price their products to meet changing customer preferences.

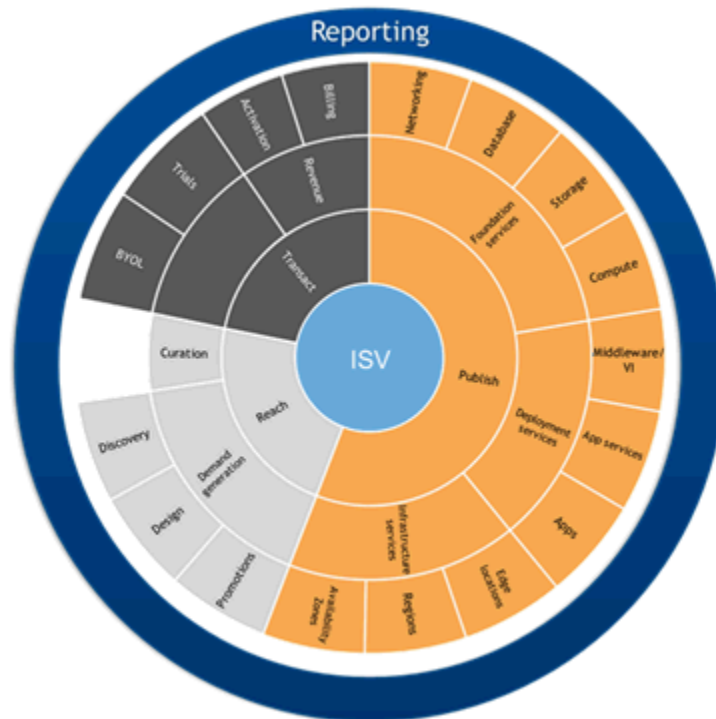
Finally, building a thriving cloud business from the ground up can be cost prohibitive. In particular, many ISVs that have relied on direct sales or traditional channel partners may find that they aren't able to grow their base of cloud customers fast enough. Their cost of customer acquisition relative to lifetime value is an inhibitor to long-term profitability and viability. ISVs are looking for the ability to reach as many cloud buyers as efficiently as possible. The AWS Marketplace provides expanded

reach to qualified cloud buyers. In addition, the AWS Marketplace enables participation in a broad ecosystem of complementary cloud-based products and services. Participation in this ecosystem can help bring new customers in and create partner and alliance opportunities.

IDC has summarized the primary capabilities offered by the AWS Marketplace into four main customer impacting categories: Reach, Publish, Transact, and Report (see Figure 2). Reporting capabilities for ISVs are a key part of the AWS Marketplace value proposition.

FIGURE 2

AWS Marketplace's Key Capabilities for ISVs



BYOL = bring your own license

Source: IDC, 2017

Reach

For many ISVs, the AWS Marketplace is first and foremost a distribution channel, offering a curated list of over 1,100 ISVs and more than 130,000 "intentional buyers," which is how AWS refers to active customers. Participation in the AWS Marketplace can help ISVs connect with brand-new customers and with existing customers in new and different ways. The AWS Marketplace also offers a platform for ISVs that want to transition current on-premises customers to the cloud via bring-your-own-license (BYOL) capabilities and improved, AWS-optimized versions of the software that they have already licensed. AWS requires that BYOL products also be listed on the AWS Marketplace, giving customers that don't have existing licenses the option to deploy the product out of the AWS Marketplace because it has already been architected for AWS.

Many of the ISVs that we spoke with for this document said that their main reason for participation in the AWS Marketplace is that their customers are asking them to be there. More to the point, it is their customers' need for speed that is helping make the AWS Marketplace participation a priority. IT organizations that are moving to the cloud are often doing so at a level of speed and agility that does not line up with that of the traditional software procurement process. They are looking for new ways of transacting and accessing capabilities that enable them to move and iterate quickly in the cloud.

The AWS Marketplace supports this requirement in multiple ways. First, AWS vets every software workload and API that is listed on its Marketplace, running a proprietary security check designed to discover vulnerabilities and provide assurances to customers. Amazon doesn't allow any beta product or one for which the ISV doesn't have a defined support process. This saves IT buyers' time in the evaluation process and allows them to focus instead on cost and fit.

Demand-generation capabilities of the AWS Marketplace include support for ISV-led promotions such as discounts or limited time trials. The AWS Marketplace is designed to enable easy discovery of applications and APIs. Buyers can search via the AWS Marketplace or standard search engines. The AWS Marketplace search can filter on options such as:

- Pricing plans
- Operating system
- Whether or not a free trial is available
- The average customer rating
- Architecture

In addition, AWS has built an underlying platform for metering, reporting, and billing that supports customers' need for speed and agility. Because customer purchases via the AWS Marketplace are aggregated into a single monthly bill, IT buyers can centrally manage visibility to all of their software and APIs purchased via this digital channel. This is vastly more efficient than managing several hundred or more one-off purchases with different billing terms. Software product metadata, added during the AWS Marketplace publishing process, can be made visible via AWS published billing APIs to complementary spend management vendors such as CloudHealth, Cloudability, and Cloudfy.

Reporting capabilities back to the ISV by the AWS Marketplace are a critical part of the value proposition here. At a minimum, ISVs want to understand who is purchasing and using their software, how customers found the software, and which channel partner or sales rep was involved. This is important in making sure that value chain participants are correctly compensated, understanding customer support entitlements, and identifying future opportunities to evolve the customer relationship. The AWS Marketplace provides this visibility to ISVs, although the companies that IDC spoke with thought there was room for improvement here, particularly on timeliness of this information.

In addition, ISVs would like to know how much software the customer is using, what the customer is using, and if a customer account is in good standing. As many ISVs believe that marketplace can be an initial step in a customer's journey that may also include upsell motions, timely information on customer behaviors is critically important. This is an area that AWS is continuing to evolve for ISV sellers on the AWS Marketplace.

Another important element of reach is the fee that the AWS Marketplace assess for transactions that take place on the Marketplace. Past policy was that the AWS Marketplace collects software charges from the software buyer on behalf of the software seller, with 80% of the collected funds disbursed to the software seller. The AWS Marketplace retains 20% of these funds as a service fee (AWS AMI).

ISVs tell us that this percentage was consistent, regardless of the size of the deal or if channel partners were involved. In response to feedback from ISVs that need to compensate channel partners on top of the 20% service fee, Amazon is now offering cascading listing fees for SaaS offerings based on which channel partner has generated the demand. Amazon is also offering a reduction in listing fees based on aggregate monthly subscription fees and negotiated fees for high-value subscriptions called "subscription value tiers." The latter is an important step in ensuring that ISVs are not disincentivized to run larger deals through the Marketplace.

Publish

Although ISVs recognize the necessity of offering SaaS solutions and are developing new commercial applications specifically for cloud, many ISVs do not own the infrastructure required to deliver cloud solutions. Meanwhile, the 2nd Platform, though not disappearing entirely, is expected to enter a recession in the future.

Given customer and market demands for cloud solutions, ISVs need to replatform their packaged software as cloud services. This requires them to buy infrastructure components and services where they can build, test, and provision their SaaS, hosting (colocation, managed hosting, or cloud infrastructure-as-a-service [IaaS] hosting), and a range of related services including customer support, networking, and release management. To respond to the needs of customers, ISVs are looking to channels that can support these needs and help them distribute cloud software to boost 3rd Platform revenue.

The AWS Marketplace is built on a robust, market-leading infrastructure-as-a-service platform. This platform features deep vertical integration and a host of traditional IT migrate/run/support capabilities that are important to support IT buyer's core requirements, including management tools, databases, batch, and centralized billing. The platform has evolved over time to be flexible enough to support various workload requirements and can appeal to a relatively diverse set of ISV sellers and IT buyers. While much of AWS' early growth has come from highly technical buyers that were not overwhelmed by the richness of the AWS portfolio, future growth will be high on the platform's (and overall Marketplace's) ability to expand to less technical and more business solution-oriented buyers.

ISVs that are looking to publish software on the AWS Marketplace are generally offering SaaS applications or packaged software that has been optimized to run on AWS. To replatform packaged software as cloud services on the AWS Marketplace, ISVs must allow customers to bring their own license. In addition, the software may need to be re-architected in order to meet AWS requirements, including security testing. When the customer wishes to deploy the software on AWS via BYOL, the customer must obtain a license key from the vendor that is entered at the time of deployment. This license key identifies the customer and validates that the customer is entitled to use the software. AWS provides ISVs with a monthly report of BYOL activities that identifies their customer and the software that is deployed.

ISVs that are looking to publish SaaS or APIs on the Marketplace must also pass a vetting process and agree to the terms of the AWS Marketplace.

Transact

IT buyers are increasingly becoming more impatient with the traditional software procurement process and are looking for faster, more efficient ways to access software. Others are interested in more flexible ways of paying for software functionality based on consumption or usage. ISVs often struggle to address these demands through their traditional sales channels and with existing operational structures and systems. To reach these potential customers, ISVs must rethink their distribution strategy and address the growing segment of nontraditional IT buyers and business models.

For example, some ISVs are taking advantage of metered pricing capabilities on the Marketplace, offering pricing on workloads and APIs that enable customers to pay only for what they need. Elastic pricing dimensions are tied to usage and value and include the number of users created or provisioned, the hosts monitored or deployed, or the data processed or stored. AWS tracks and aggregates usage of the software products that offer metered pricing options to customers and presents this information to customers via its existing AWS monthly bill.

In addition, in April 2017, AWS launched SaaS contract capabilities that enable marketplace ISVs to offer multiyear SaaS contracts, as well as increased the number of pricing dimensions available. Customers can modify, upgrade, or expand their subscriptions at any time during the term.

For ISVs, this provides them with the ability to offer flexible pricing without needing to build out the systems required to track, meter, report on, and bill for usage. While flexibility in pricing usually brings along a dose of complexity, metered pricing on the AWS Marketplace simplifies the procurement process for APIs by tracking consumption and summarizing this in a single monthly bill for the customer.

As discussed in the Reach section, reporting capabilities are incredibly important for ISVs that need visibility into transactions on the marketplace that involves their solutions, customers, and partners. As of now, the marketplace represented a small percentage of the overall software business of the ISVs that IDC spoke with for this study. For that to grow, ISVs will absolutely need to better understand customer usage, among other key metrics, as well as tools to evolve customer relationships on marketplace that are fueled by data and machine learning.

The AWS Marketplace Areas for Improvement

While the AWS Marketplace can offer a myriad of benefits to ISVs and software customers, the Marketplace is still evolving, and there are some areas for improvement. When ISVs first come to the AWS Marketplace, they must agree to the terms of participation in the Marketplace. ISVs with an existing ecosystem in which they are the center is typically used to dictating their own terms. Some ISVs have raised issues with the following:

- AWS owns the billing relationship with the customer, collecting the fees and keeping 20% for AMI-based packages (although AWS now offers subscription value tiers for SaaS offerings, and ISVs have now been notified of these new tiered listing fees).
- If customers don't pay their bills, it is up to AWS to shut the customer down, and the company does not always do this as quickly as the ISV may prefer. AWS does apply standard policies on how long a customer can run before being suspended, and ISVs don't have immediate visibility into when this happens.
- The AWS Marketplace historically hasn't had system capabilities for AWS to collect taxes and has passed the burden of geotaxation on to the ISV. AWS also requires the ISV to indemnify the company for not paying the taxes. In April 2017, AWS released a U.S. Tax and SaaS Metering tax calculation service, and a small number of ISVs have now enabled that.
- Timeliness and granularity of data reporting could improve.

ISVs are encouraged to bring their concerns to the AWS Marketplace team. As evidenced by the introduction of subscription value tiers, AWS is willing to listen and make adjustments that make increased participation in the Marketplace more attractive to ISVs, their channel partners, and ultimately their customers.

ADVICE FOR THE TECHNOLOGY SUPPLIER

Through IDC's interviews with AWS' ISV partners, several best practices emerged as key to maximizing the return on marketplace participation. ISVs presented the following as crucial to their early success on the AWS Marketplace:

- **Don't preserve the past; reinvent the future.** According to Trend Micro, much of the company's success on the AWS Marketplace is due to its willingness to change and adapt to new market conditions. Trend Micro understood that its traditional business model approach was not appropriate in a digital economy dominated by cloud and is using the AWS Marketplace to provide a platform for revolutionizing it. Letting go of the idea that all businesses will be driven through traditional sales will allow organizations to capture the business development opportunities that the cloud can present.
- **Run and reinvent at the same time.** Most ISVs have existing customers, and many of these ISVs have made previous investments that they are still seeing value from – yet they would like the benefits of running these in a cloud environment. F5 Networks has focused a portion of the company's marketplace efforts on BYOL scenarios for its customers. Offering BYOL as an option for your existing customers can be an important step for ISVs – and their customers – that are making the transition to cloud. At the same time, because AWS requires that ISVs do more than BYOL on the AWS Marketplace, companies such as F5 can grow their base of new buyers.
- **Allow choice and flexibility.** Palo Alto Networks stressed the importance of giving new customers choice in the way they buy – through the AWS Marketplace or through traditional channels – and use BYOL to deploy on the AWS public cloud. All three ISVs pointed to the importance of working with AWS and customers to find the right metrics to use to price their products in the cloud. Taking advantage of the more recent server and SaaS metering API services provided by AWS and the pay-as-you-go model allows ISVs to provide increased flexibility to their customers in how they pay.
- **Expect continued rapid innovation from the AWS Marketplace.** Chances are, by the time that you are reading this document, the numbers of ISVs and applications on the AWS Marketplace have increased. ISVs are learning that the AWS Marketplace is scaling fast as a new channel, and the velocity of innovation is increasing. Product Support Connection came out in 4Q16, U.S. Tax and SaaS Metering came out in 1Q17, and the ISVs that IDC have interviewed with expect to see more innovation in 2Q17. ISVs should consider how to align engineering resources to test and leverage new features from the AWS Marketplace as the features become available.
- **Increase your focus on cloud services marketplaces.** Customers want their software providers to offer solutions on cloud marketplaces such as the AWS Marketplace. While many ISVs have responded to customer needs with a "toe in the water" approach, as AWS makes the Marketplace a more attractive channel for SaaS offerings and heeds ISV concerns in areas such as taxation and reporting timeliness, IDC expects that both supply and demand will converge in higher numbers. ISVs should improve aligning the existing sales and channel compensation models to better leverage the AWS Marketplace as a channel.

LEARN MORE

Related Research

- *IDC PlanScape: Cloud Vision* (IDC #US42013617, March 2017)
- *IDC PlanScape: Consumption-Based Pricing Models* (IDC #US42370617, March 2017)
- *Business Models Best Practices Series: Product to Services Transition* (IDC #US42319117, February 2017)
- *How "as a Service" Gets Built 2.0* (IDC #DR2017_T1_RM, February 2017)
- *Amazon Positions AWS Marketplace for Expansion in Europe* (IDC #EMEA41182516, April 2016)

Synopsis

This IDC Market Perspective provides insight on the key capabilities that the AWS Marketplace offers to ISVs and shares perspectives from three ISVs on how they get the most out of participation.

"Cloud services marketplaces such as the one offered by AWS have become an important way for ISVs to distribute, publish, and sell cloud software to new and existing customers," said Amy Konary, program vice president, SaaS, Business Models, and Monetization with IDC. "These marketplaces are quickly evolving, building capabilities that make them more attractive to cloud software buyers, sellers, and influencers. IDC expects that most ISVs will be considering, and often expanding, the role that cloud services marketplaces play in their cloud software distribution strategies."

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