MARKET PERSPECTIVE

Why Cloud Adoption Follows a Different Pattern in Europe

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: Why Cloud Adoption is Different in Europe

This IDC Market Perspective outlines the cultural, technical, and geopolitical factors that influence cloud adoption in Europe and how to respond to them. It explains how cloud adoption follows a different pattern in Europe.

Key Takeaways

- Cultural reasons include pragmatism and conservatism of cloud buyers, differences in cloud strategy, organizational change, skills shortage and labor unions, data sovereignty, and data privacy concerns.
- Technical reasons include data security concerns, portability, lock-in and exit strategy considerations, standardization, and multicloud strategies.
- Geopolitical reasons include European Union (EU) cloud strategies, national cloud initiatives, cloud code of conduct initiatives, and incumbent player market influence.

Recommended Actions

- Adjust your messaging to the European audience. A cloud-first message will not necessarily resonate. European customers view cloud as one of many options and want advice on which workload goes into which IT environment and why.
- Understand the maturity of the customer you are speaking with. Adjust your messages to the customer's problem, so that you are perceived as a trusted partner.
- If you want to offer a cloud service, make sure to address security and data sovereignty concerns upfront and demonstrate that you take them seriously.

Source: IDC, 2018

NEW MARKET DEVELOPMENTS AND DYNAMICS

Over the past 10 years, cloud has fundamentally transformed the IT industry in Europe. New mega-players such as Amazon Web Services (AWS), Google, Salesforce, and ServiceNow have emerged, while incumbents like Microsoft, IBM, SAP, and Oracle have made cloud their strategic priority.

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Cloud has also changed how we architect and operate IT and has driven organizational change in IT departments, line-of-business purchasing processes, and software test and development teams, and so on; it touches on all aspects of an organization. Cloud is the foundation for digital transformation in European organizations, and new innovative products and services such as Internet-of-Things solutions, customer experience solutions, and machine learning and artificial intelligence solutions are built primarily on the cloud.

Consequently, it is important for cloud service providers to understand how European organizations are adopting the cloud, to support them with the right products and services along their cloud journeys, and to place winning bets.

The most common assumption about cloud adoption of European organizations is that Europe trails the U.S. by approximately 18 to 24 months. In essence, the assumption is that cloud adoption will follow the same pattern, just 18 to 24 months later. From years of research on the European cloud market, IDC knows that this is not the case. Cloud adoption by European organizations follows a different pattern. The reasons for this difference in adoption fall into three categories: cultural, technical, and geopolitical.

Cultural Reasons

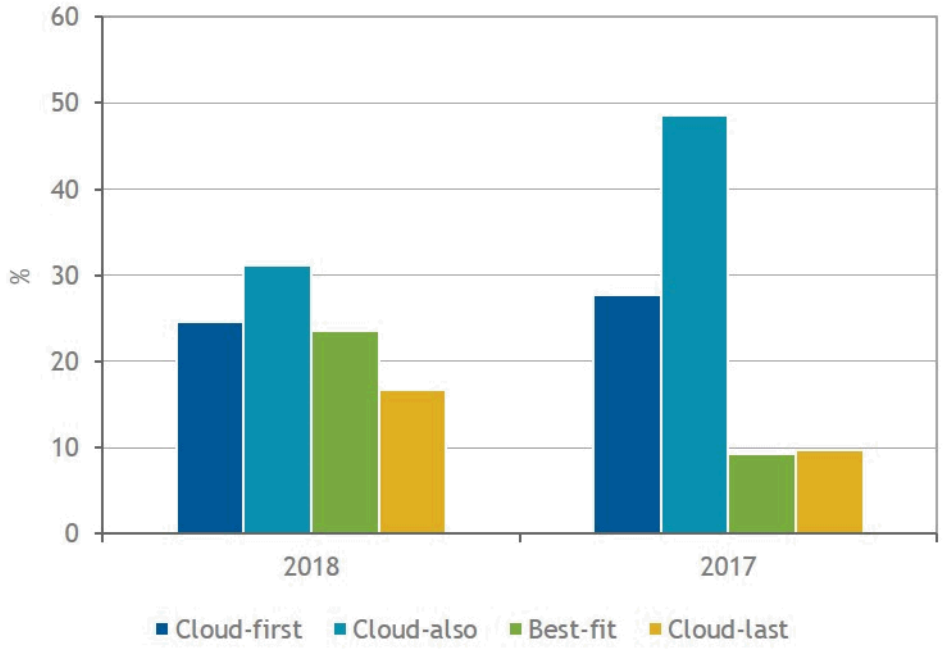
Europe is not one country, but a very diverse region, with different work cultures, different languages, and different attitudes toward data privacy. Decision making is distributed across the different countries and regions, and cloud strategies are different by country. Attitudes toward the cloud are shaped by many factors, including:

- **Pragmatism.** European IT staff typically have a strong engineering background and thoroughly test new technology and services such as cloud before implementing them at a larger scale. New IT solutions need to have significant cost and efficiency benefits before they are applied. Cloud solutions are always compared with a do-it-yourself approach and the current IT setup. European organizations don't rush to the cloud just because it is a trend; they typically start from a position of skepticism. Only if and where cloud makes sense and is technically and economically superior to the current solution will they adopt it.
- **Conservatism.** Europe has a large proportion of midsize organizations that are typically led by the founder or the founder's family. They tend to be more conservative in their approach to IT because IT has not been their core competence in the past, and they cannot afford to hire the top IT specialists. They prefer solutions that they know and trust and are only slowly embracing new technologies such as cloud services. They prefer to have on-premise IT solutions even though they cannot achieve the same levels of security that a cloud service provider can. They also don't understand the consequences of switching to a cloud model because their IT maturity is generally low, so they keep doing what they are used to, unless they have a crisis. Small and midsize organizations tend to start with email from the cloud and stop there, until they feel comfortable to move more complex and business critical workloads to the cloud.
- **Cloud-first strategy versus cloud-also strategy.** European organizations have moved away from cloud-first strategies and consider cloud as a possible option, but not necessarily the only or primary option to deploy new IT services. With growing maturity, the percentage of European organizations executing a cloud-first strategy is declining, from 27.8% in 2017 to 24.6% in 2018. Cloud-also and best-fit strategies are more common among European organizations and are also gaining traction in the U.S. In conversations with IDC, European IT leaders revealed that they have turned away from a cloud-first strategy, as it was not cost effective and did not account for their regulatory compliance requirements. They turned back to a more pragmatic cloud-also strategy or the more mature best-fit strategy.

The consideration of which workloads/parts of a workload can go to the cloud and which parts are better done on-premise is more important than implementing a generic and dogmatic cloud-first strategy. The more mature an organization becomes in its cloud journey, the more likely it will have implemented a best-fit strategy. Flexible consumption models for on-premise IT are gaining popularity for workloads that are not seen to be a good fit for public cloud deployments, as they provide the flexibility of public cloud for an on-premise location.

FIGURE 2

Evolution of Cloud Strategy in Europe, 2018 Versus 2017



Source: IDC, 2018

- **Organizational change, cloud skills, and labor unions.** One of the key concerns frequently raised by CIOs in conversations with IDC is the organizational change necessary to make a cloud strategy work. IT staff trained for IT operational excellence now need to look beyond their areas of server, storage, networking, and security expertise and start to think in end-to-end services, service levels, and end-user experience. Managing this organizational change takes time, requires investments in new cloud-related skills, and entails getting labor unions involved, as they need to approve of changes in job descriptions. This problem is exacerbated by the fact that employees with cloud architecture and cloud operations skills are in short demand, and it takes time to upskill current employees. However, the importance of labor unions varies significantly between countries, with Germany and France having stricter regulations than the U.K. and the Nordics.
- **Compliance concerns and GDPR**. With the General Data Protection Regulation (GDPR) in full effect since May 2018, European organizations are rethinking their cloud strategies to ensure that they are compliant. The key concern is about cataloguing and managing data across multiple cloud services and being able to account for where the data resides.

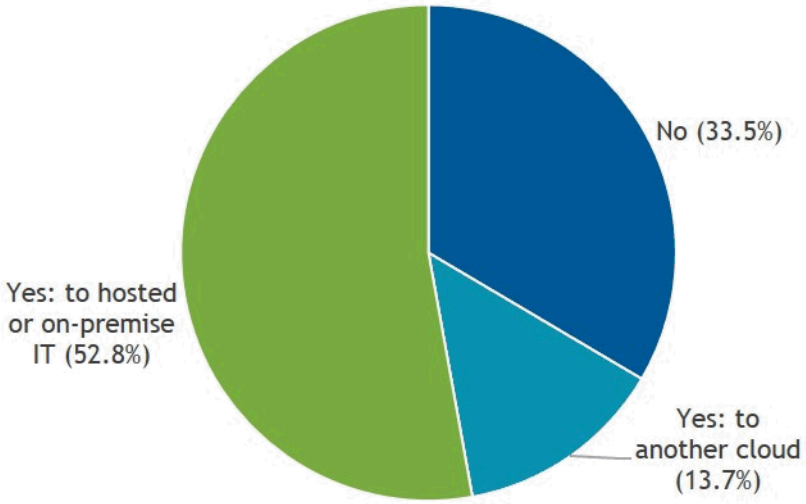
They are also educating themselves about shared liability between themselves and cloud providers as data processors.

- **Data sovereignty concerns**. Data sovereignty matters to European organizations. They want to know where their data physically resides. This is easier done at the infrastructure-as-a-service (IaaS) level, as hyperscalers are offering "availability zones" in various European countries. It gets trickier at the platform-as-a-service (PaaS) and software-as-a-service (SaaS) layers, as they were not designed to allow for geographical data segregation from the onset, and consequently stripe data across all datacenter locations for optimal performance and resilience. Consequently, European organizations prefer private cloud architectures that enable them to provide cloud-like services from a location of their choosing. Public cloud vendors are very aware of this requirement and open up datacenter locations in Europe on a regular basis and are also becoming more sophisticated in allowing data localizations at the SaaS and PaaS layers.
- **Cloud is not seen as a one-way street.** IDC's 2018 *Multicloud Survey* confirmed that European organizations don't see cloud as the final destination for all workloads. Only 33% of respondents had no plans to move workloads out of the cloud, 14% were looking to move to another cloud provider, and 53% were planning to move workloads back to hosted, managed, or on-premise environments. This relates back to the preference for pragmatic cloud-also strategies, where cloud is used only if it makes sense and if the cost and security requirements can be met. Cloud services need to prove their worth every time; otherwise they get switched out.

FIGURE 3

"Workload Repatriation:" Cloud is Not Seen as a One-Way-Street

Q. Does your organization plan to move some of your existing infrastructure workloads off your current cloud service provider over the next 12 months and if yes, where to?



Source: IDC, 2018

Technical Reasons

European organizations have a strong engineering heritage that they are also applying to IT and cloud services.

They prefer to perform thorough testing and develop proofs of concept to ensure that they are comfortable with the technology before migrating to the cloud. It might prolong the process, but it is a critical part of a sound cloud strategy. Unfortunately, we also have a severe skills shortage for security and cloud engineers in Europe, which prolongs the process of organizations getting comfortable with operating a cloud architecture. Other technology-related concerns are:

- **Security concerns and data privacy concerns.** Security is a multifaceted topic. Security concerns remain the number 1 reason European organizations cite for not adopting cloud, though the share of organizations that cite security reasons has dropped significantly over the past three years and attitudes are changing. Security is also cited as the number 2 reason for moving to the public cloud, as a broader audience understands that cloud service providers are investing heavily in security and can, in most cases, provide better security than an internal IT security team. However, the challenge around cloud security is the connection from on-premise IT infrastructure to the cloud, user management, identity and access management, and the data management across multiple cloud environments.
- **Portability, vendor lock-in, and exit strategy.** Lock-in is a key concern of European organizations when considering public cloud services. Many have already burned their fingers, getting a great contract for the first three years, and then prices start to increase and they have no way of exiting the cloud service. This is mainly true at the SaaS layer and, to some extent, at the PaaS layer, where moving data out of the cloud is particularly painful, especially when you have built custom code. The European Commission is very concerned about lock-in and will educate about the importance of portability of data and applications, building portability clauses in the original contracts, and the importance of an exit strategy before entering the public cloud.
- **Multicloud.** As a means to avoid lock-in, European organizations are focused on implementing a multicloud architecture. However, that is not an easy endeavor and requires skills all the way from the networking layer to the container layer to the cloud orchestration, automation, and management layer. Multicloud strategies need to be well implemented and orchestrated to ward off the additional complexity.
- **Standardization versus customization and technical debt (legacy IT)**. The majority of European organizations does not start from a greenfield but has invested for many years in optimizing an existing IT infrastructure. Cloud needs to fit in, as they are not prepared to just throw away their existing infrastructure. They have also invested heavily in application customization to support their specific processes and rely on custom applications to run their businesses. These applications are not moving easily to the cloud, if at all. Some see cloud as an opportunity to move away from customization and take advantage of a highly standardized application as offered by the cloud and leave their technical debt behind. Others only consider cloud for net-new applications and will run their customized legacy applications on-premise for the foreseeable future. This will have a big impact on the European partner ecosystem, as partners have made a good income running these customizations for their customers; they might lose their customers if they move to an off-the-shelf public cloud solution. However, many SaaS applications have not been properly localized yet to account for local regulations, which is an opportunity for partners to write extensions for public cloud services.

Geopolitical Reasons

Europe is a multifaceted continent, consisting of many nation states with their individual interests and agendas. On top, there is the EU, trying to carve out a piece of public cloud for European providers. Brexit is also happening, with possible implications for the free flow of data between the U.K. and continental Europe. Consequently, there are some complex dynamics at play, trying to shape cloud adoption in Europe:

- **EU intervention.** The EU is concerned that EU citizens and companies are not benefitting from the boom in cloud service provision because the major cloud hyperscalers are all U.S.- and China-based companies. It is trying to champion European initiatives to enable European service providers to compete effectively in the cloud market.
- **National cloud initiatives.** European governments are now pursuing their own cloud strategies, (e.g., U.K. G-Cloud, public sector cloud initiatives in Germany and France) to enable public sector organizations to take advantage of the speed, scalability, and economics government of cloud solutions. Typically, these public sector cloud initiatives have a requirement for in-country cloud service provisioning, high security standards, and regulatory compliance. But they also drive general acceptance of cloud services among European organizations, because if cloud can be used for public sector projects, why should it not be good enough for private organizations, which typically have lower security and compliance demands to fulfill? Overall, organic development and acceptance improves, but mirrors government preference for local service providers.
- **Cloud code of conduct.** Data protection regulations are a complex issue for service providers and organizations alike. The cloud code of conduct for GDPR compliance can therefore serve as a useful means to gain data protection information, query certified providers, and establish a compliance framework for different levels of cloud security. There are three candidate cloud codes of conduct in Europe, but there remains uncertainty around which — if any — will emerge as the preferred certification for European organizations. A lack of data around certification adoption is part of this problem. In addition, some major vendors and service providers (e.g., Microsoft) are ensuring a cloud-guarantee with their own services (e.g., Azure). Customers choosing these options are given a guarantee by the provider that the service used to handle their data are above and beyond what GDPR requires, bypassing a third-party certification altogether. Given that no cloud code of conduct is currently in the lead, alongside growing concerns over data security in Europe, IDC believes that service providers should look at the different cloud data protection conducts on the market and evaluate which would best suit their business cases. Prospective cloud customers will often consider security as one of their highest priorities when selecting a cloud provider. Having a cloud "badge of approval" with easy access to supporting evidence may mean the difference between gaining or losing a major cloud customer. For more information, refer to *Implications of the Cloud Security Alliance Code of Conduct on GDPR Compliance for European Cloud Infrastructure* (IDC #EMEA43660218, March 2018)
- **Changing supplier landscape.** Incumbent telcos and managed services providers (MSPs) still have a big influence on the European customer base due to long-standing customer relationships through their hosting businesses. Telcos and MSPs influence end-user organizations because of their local hosting businesses, customer trust that they have built over years, local support, and local datacenters. At the same time, they need to redefine themselves for the cloud era as cloud brokers or cloud managed service providers. VARs are also repositioning themselves, as customers are in need for third-party support to migrate and integrate cloud workloads, as well as help with regression testing, identification, and integration of new features into business processes. We are currently observing a reinvention of application and infrastructure management for public cloud. While public cloud vendors are going a long way to help customers adopt, they still need to have a one-to-many model and cannot do the handholding for every customer. This is where the ecosystem comes into play. However, IDC has found that channel partners are lagging in terms of cloud maturity behind their customers, which is a motivation for public cloud providers to develop services that they don't need handholding.

ADVICE FOR THE IT VENDOR AND FOR THE CLOUD SERVICES PROVIDER

There are many reasons why cloud adoption is different in Europe, and why a cloud-first message does not necessarily resonate with European customers. To have success in the European cloud market, IDC recommend the following:

- Adjust your messaging to the European audience. A cloud-first message will not necessarily resonate. European customers view cloud as one of many options and want advice on which workload goes into which IT environment and why.
- Understand the maturity of the customer you are speaking with. Adjust your messages to the customer's problem so that you are perceived as a trusted partner.
- If you want to offer a cloud service, make sure to address security and data sovereignty concerns upfront and demonstrate that you take them seriously.

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Related Research

- *What Share of Internet-of-Things Solutions are Running on the Cloud?* (IDC #EMEA44104818, July 2018)
- *Why Does "Cloud First" not Resonate in Europe?* (IDC #EMEA43858318, June 2018)
- *What are the new Cloud KPIs?* (IDC #EMEA43886718, June 2018)
- *What are the Triggers for Cloud Adoption in Europe?* (IDC #EMEA43886218, June 2018)
- *Which Attributes are Important for Customers and Partners when Choosing Cloud Services Providers?* (IDC #EMEA44021918, June 2018)
- *What are Enterprises Looking for in a Cloud Service Provider, and How can Telcos Meet Those Needs?* (IDC #EMEA43861218, June 2018)
- *How Does Partners' Cloud Maturity Compare with Their Customers'?* (IDC #EMEA44021818, June 2018)
- *Do Partners Embrace Cloud Marketplaces as Quickly as Their Customers?* (IDC #EMEA44023418, June 2018)
- *Which Hard-to-Recruit Cloud Skills are in High Demand at Partners, and What can Partners do About it?* (IDC #EMEA43975418, June 2018)

Synopsis

This IDC Market Perspective outlines the cultural, technical, and geopolitical factors that influence cloud adoption in Europe and explains why it follows a different pattern from the U.S. It also advises on how to respond to these factors.

"European organizations are not merely behind in their cloud adoption, but they do in fact follow a different path to the cloud," said Carla Arend, senior research director, European Cloud Research. "Cloud-first messages only resonate with a quarter of European organizations, while best-fit strategies become more popular as cloud maturity increases. Defining a cloud operating and governance model is the key action necessary for a successful cloud journey, and European organizations are thorough in their approach. Once they feel comfortable that they got it right, they are ready to be very innovative in the cloud."

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