Beyond the Big Names: The Growing Importance of Regional Cloud Service Providers in Southeast Asia

Public cloud platforms and services in SEA: unwavering growth and potential
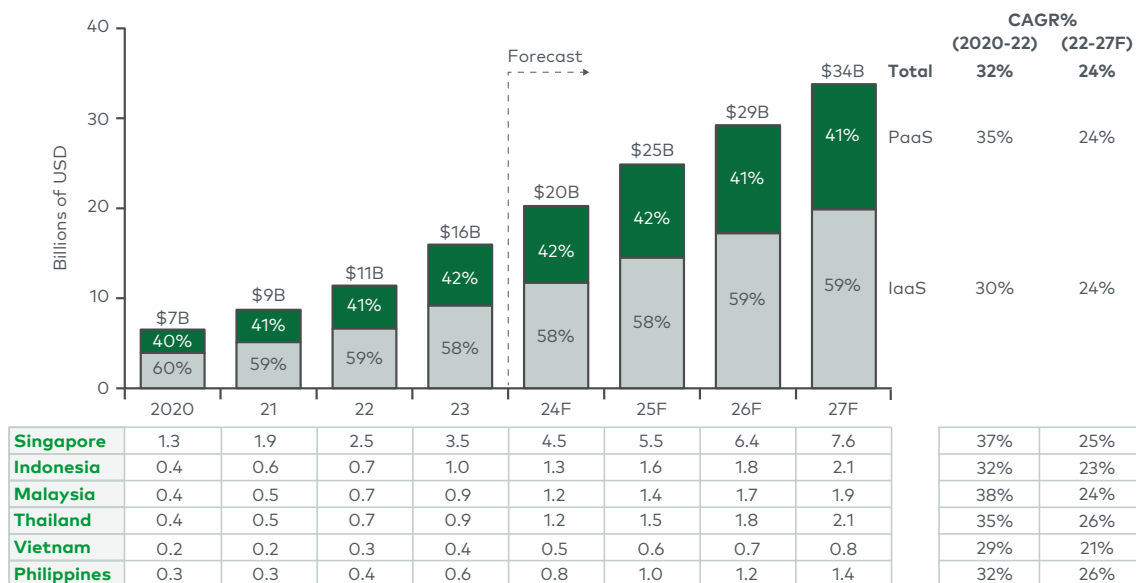
The Southeast Asia (SEA) region has seen a recent, rapid growth in the number of organisations moving to public cloud platforms as they modernise and digitise their businesses.

This trend received a huge boost through the COVID-19 pandemic, which acted as a catalyst around the world to push organisations to shift their business activities to digital, cloud-based applications.

Typically, these have been provided by global, hyperscale vendors such as AWS, Microsoft and Google Cloud, and within SEA by Ali Baba and Huawei (who have found the region an easier market to penetrate, given the restrictions on their operations in other parts of the world). All these vendors have taken advantage of the increased spend on public cloud computing in SEA countries like Singapore and Indonesia since the start of 2020, as shown in Figure 1.

L E K™

Figure 1

SEA total public cloud spend (IaaS and PaaS) is expected to grow from around $7B in 2020 to roughly $34B in 2027

	2020	21	22	23	24F	25F	26F	27F		CAGR% (2020-22) 32%	(22-27F) 24%
Singapore	1.3	1.9	2.5	3.5	4.5	5.5	6.4	7.6		37%	25%
Indonesia	0.4	0.6	0.7	1.0	1.3	1.6	1.8	2.1		32%	23%
Malaysia	0.4	0.5	0.7	0.9	1.2	1.4	1.7	1.9		38%	24%
Thailand	0.4	0.5	0.7	0.9	1.2	1.5	1.8	2.1		35%	26%
Vietnam	0.2	0.2	0.3	0.4	0.5	0.6	0.7	0.8		29%	21%
Philippines	0.3	0.3	0.4	0.6	0.8	1.0	1.2	1.4		32%	26%

Note: SEA=Southeast Asia; IaaS=Infrastructure as a service; PaaS=Platform as a service
Source: Statista; Gartner; IDC; L.E.K. interview and analysis

But another factor is also at play in the SEA market: the growing need for regionally based, scalable infrastructure to handle this shift to the cloud and service this rising number of internet and cloud-services users in SEA countries.

These factors make SEA cloud services a particularly dynamic space. Additionally, as organisations in SEA increasingly migrate to the cloud, they are drawn to regional CSPs who appear poised to take a position as providers of choice in the region.

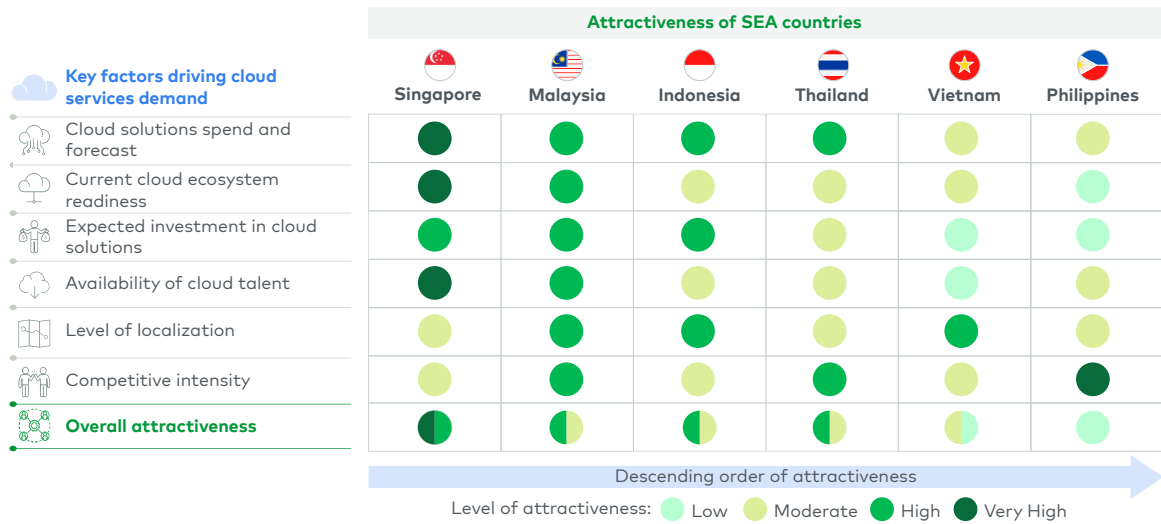## Who is leading the pack in cloud-based activity across the SEA region?

SEA nations are at different levels of cloud adoption, depending on a range of social, economic and political factors, some of which are outlined in Figure 2.

At the forefront of this is Singapore, which is deeply committed to cloud computing and technology generally. Malaysia, Indonesia and Thailand are close runners-up and hugely enthusiastic about the transformational potential offered by cloud computing.

All these countries have fast-growing digital economies, with governments that support digitisation and infrastructure that encourages rapid digital start-ups. Indonesia in particular has seen a rapid rise in the number of regional tech 'unicorns', fuelled by that country's commitment to growing its technology base.

Conversely, the Philippines and Vietnam are in more nascent stages of their cloud journeys. Although they are grappling with various infrastructure and regulatory challenges, their untapped digital markets provide huge opportunities for CSPs to expand and grow their operations in those countries.

Figure 2
The Southeast Asian region ticks many boxes for the growth of cloud services providers.

Key factors driving cloud services demand	Singapore	Malaysia	Indonesia	Thailand	Vietnam	Philippines
Cloud solutions spend and forecast	Very High	High	High	High	Moderate	Moderate
Current cloud ecosystem readiness	Very High	High	Moderate	Moderate	Moderate	Low
Expected investment in cloud solutions	High	High	High	Moderate	Low	Low
Availability of cloud talent	Very High	High	Moderate	Moderate	Low	Moderate
Level of localization	Moderate	High	High	Moderate	High	Moderate
Competitive intensity	Moderate	High	Moderate	High	Moderate	Very High
Overall attractiveness						

Descending order of attractiveness

Level of attractiveness: Low   Moderate   High   Very High

Note: SEA=Southeast Asia
Source: L.E.K. interview and analysis

Going back a step: how cloud service providers give their customers an edge

Organisations looking to move their operations to the cloud typically face a six-stage process that can span seven or more years to scope, implement and take to full operational effectiveness.

Figure 3 outlines a typical cloud journey. It starts with an organisation developing its business case and strategy for cloud migration and use, before assembling the internal resources and scoping the project and individual tasks. As an organisation moves to the cloud and develops the necessary infrastructure and applications to support this, it also needs to implement effective data security and governance processes, while optimising its cloud performance and making good analytical use of the wealth of data gained through the entire process.

Figure 3
An organisation's typical cloud journey can be defined across six broad stages
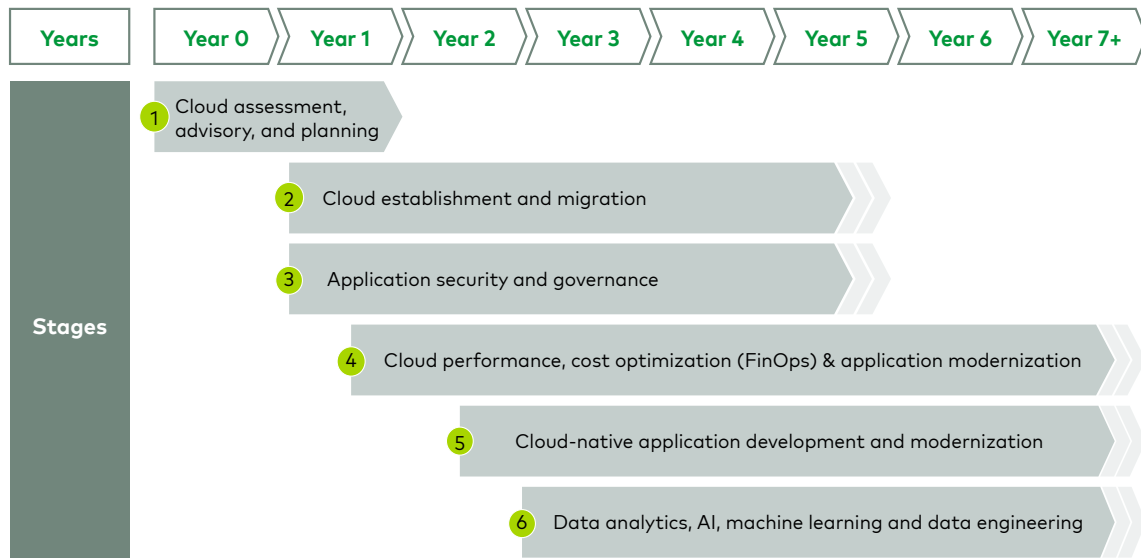
Note: CSPs=cloud service providers; PS=professional services; FinOps=financial operations; DevOps=development operations; AI/ML=artificial intelligence/machine learning
Source: Fujitsu; AWS; L.E.K. interviews and analysis

When they embark on their journey to the cloud, organisations have three paths to choose from in making this move a success. They can rely on their own in-house IT teams to shift them to the cloud, or they can deal directly with cloud vendors, or they can choose to use third parties (CSPs)—either the global hyperscalers or regionally based providers.

Whether global or regional, CSPs can provide customers with a range of services across the various stages of a cloud journey. Typically, they are engaged in the early stages to help their customer with assessing its operating environment and cloud-related 'needs' before working with them on the remaining stages of the cloud journey.

In the process, CSPs assist clients in achieving peak cloud performance, ensuring their cloud operations and apps are optimised, and facilitating the extraction of actionable insights from available data, enabling businesses to maintain a competitive edge in this evolving digital landscape.

What does the competitive landscape look like for cloud services?

There are four main types of cloud service providers: GSIs (global system integrators), large consulting firms, general IT CSPs (who typically provide a broad set of IT outsourcing services) and a long tail of small to mid-market regional CSPs (e.g. Cloud Ace, Rhipe, Fixer, CloudMethod, GoPomelo and CloudComrade).
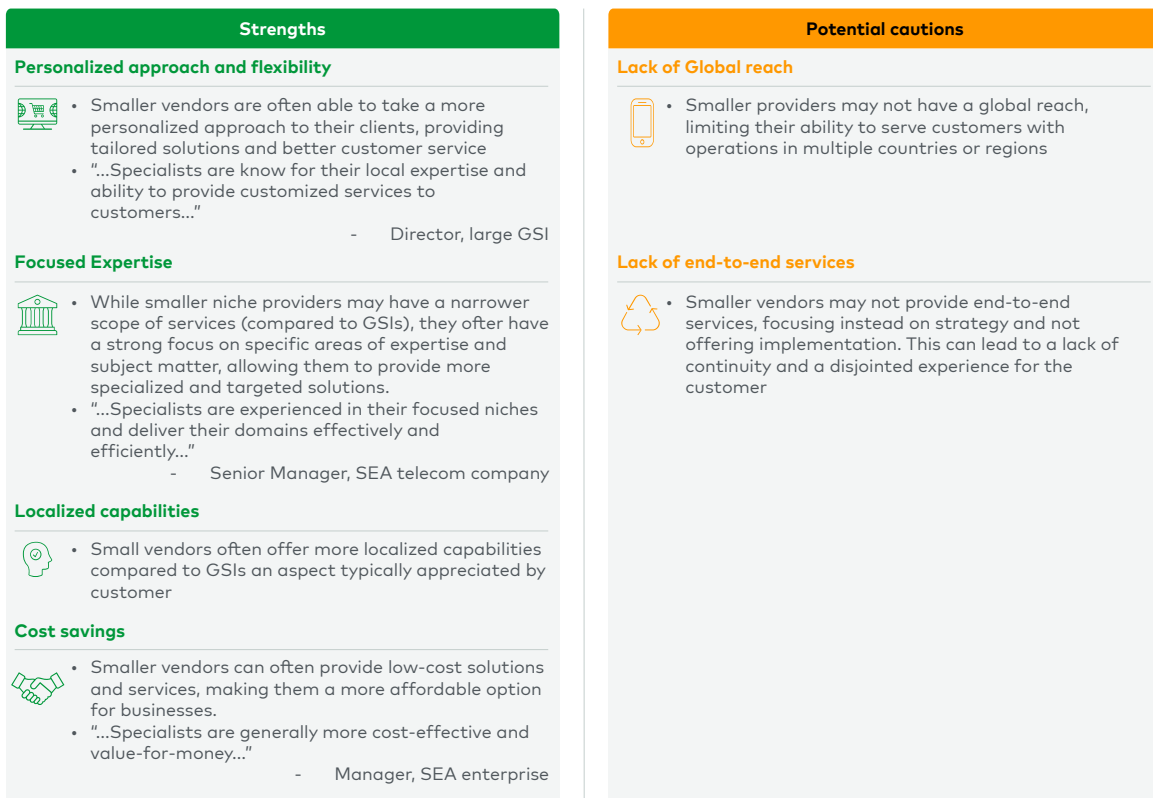
As Figure 4 shows, SEA customers in this increasingly complex market are moving more towards using regional CSPs, thanks in part to their deep local expertise, highly personalised approach and ability to be responsive and nimble. These regional CSPs are

also closer to their customers and their needs, enabling them to deliver more tailored solutions and a heightened level of customer service.

Although they offer a narrower range of services than their larger global competitors, regional CSPs are frequently experts in niche areas such as next-generation cloud platforms and can deliver specialised solutions in highly technical cloud deployment projects. They also offer a much more cost-effective option than global GSIs, providing skills and resources that deliver quality solutions without a premium price tag.

Figure 4

SEA customers are electing to use regional CSPs over large GSIs for their flexibility, local presence, focused expertise and value for money

Strengths	Potential cautions
Personalized approach and flexibility	**Lack of Global reach**
• Smaller vendors are often able to take a more personalized approach to their clients, providing tailored solutions and better customer service • "...Specialists are know for their local expertise and ability to provide customized services to customers..." - Director, large GSI	• Smaller providers may not have a global reach, limiting their ability to serve customers with operations in multiple countries or regions
Focused Expertise	**Lack of end-to-end services**
• While smaller niche providers may have a narrower scope of services (compared to GSIs), they often have a strong focus on specific areas of expertise and subject matter, allowing them to provide more specialized and targeted solutions. • "...Specialists are experienced in their focused niches and deliver their domains effectively and efficiently..." - Senior Manager, SEA telecom company	• Smaller vendors may not provide end-to-end services, focusing instead on strategy and not offering implementation. This can lead to a lack of continuity and a disjointed experience for the customer
Localized capabilities	
• Small vendors often offer more localized capabilities compared to GSIs an aspect typically appreciated by customer	
Cost savings	
• Smaller vendors can often provide low-cost solutions and services, making them a more affordable option for businesses. • "...Specialists are generally more cost-effective and value-for-money..." - Manager, SEA enterprise	

Note: SEA=Southeast Asia; CSPs=cloud service providers; GSIs=global system integrators
Source: L.E.K. interview and analysis

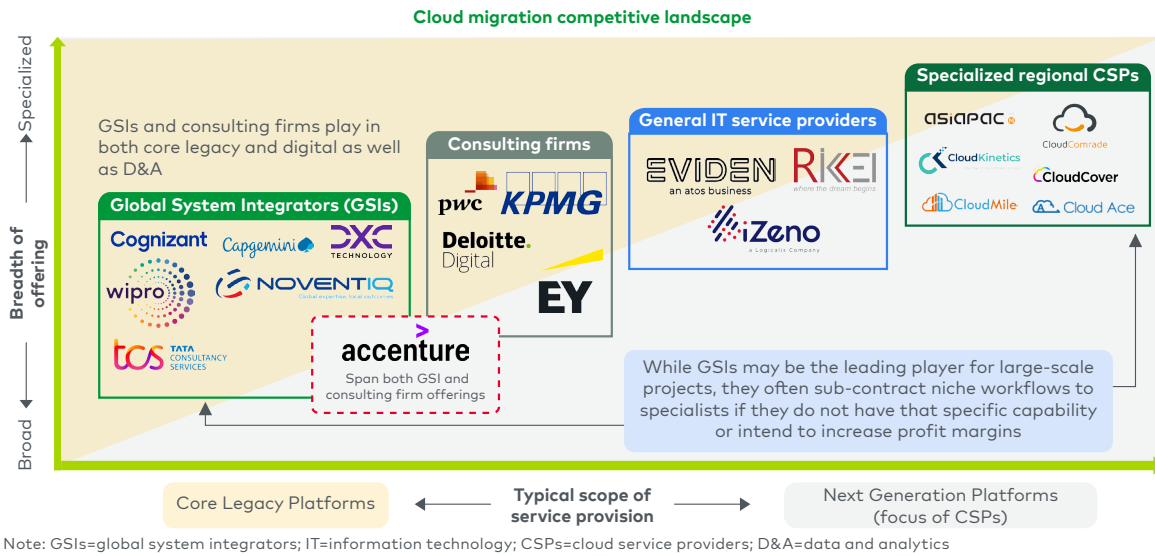## Partners as well as competitors?

GSIs often partner with regional CSPs to leverage their deep technical expertise. As shown in Figure 5, GSIs will often take the lead contractor role on these projects and then sub-contract niche workflows to the regional CSPs.

This is common in situations where the larger GSIs might not have a specific expertise or capability, or where it makes better economic sense to outsource the work to the regional firm to improve the margins or cost efficiencies on a particular project. Regional CSPs also tend to offer more depth and expertise in next-generation, cloud-native platform services, as opposed to the GSIs that focus on more traditional legacy platforms.

The result is frequently a win-win for both the specialist CSPs and their larger competitors. The specialist CSPs receive regular, high-value projects from the larger GSIs, while enabling the GSIs to broaden their service offering to customers. The specialist regional CSPs might have to reduce their margins as sub-contractors, but as the market evolves and matures, the customer base typically engages directly with the CSP for future cloud projects.

Figure 5
GSIs, Big 4 consulting firms, general IT service providers and specialized CSPs all compete in the cloud-enabled market

Cloud migration competitive landscape

Note: GSIs=global system integrators; IT=information technology; CSPs=cloud service providers; D&A=data and analytics
Source: L.E.K. interview and analysis

How to pick the winners amongst CSPs in the SEA region

Picking the right CSP businesses as investment opportunities can be a challenge. The answer is to look at how they perform against several measures: the breadth and depth of services they offer, the pace of their employee growth and the service accolades they receive from industry leaders like AWS, Google Cloud and Microsoft Azure.

Regional CSPs in SEA can be further categorised around what they offer—i.e. as specialists in a particular service area or providers of holistic end-to-end solutions—and how many people they employ.

Initially, they tend to focus on a narrower set of cloud specialties, such as cloud set-up and data migration, winning customers through their profound technical expertise or competitive pricing.

However, as they continue to grow, they also target more extensive enterprise projects that need multiple specialties, requiring them to hire additional employees with those extra skills. As seen in Figure 6, regional CSPs that offer a wider array of cloud service specialisations usually boast a more substantial company headcount.

Figure 6
Regional CSPs* with expanded service specializations are generally supported by a larger headcount - but
most regional CSPs are dedicated to a single cloud

*Based on IVF cycle volume
Note: SEA=Southeast Asia
Source: L.E.K. research and analy

## End to end solutions—but across one preferred platform

The winners at this point are the SEA CSPs that can provide comprehensive end-to-end service offerings, outpacing peers that focus on delivering 'upstream' services such as cloud strategy and platform setup.

These end-to-end providers of cloud and data solutions are taking advantage of the growing market shift towards a seamless cloud customer journey. This involves providing advice and services that start with advising customers on their initial strategy as they begin their cloud journey, through to ensuring their cloud-based operations are fully optimised for efficiency and effectiveness.

To improve on this even further, leading regional CSPs typically commit to a single cloud platform that their teams can be experts in, rather than diluting their strengths across multiple cloud environments. This 'single cloud' expertise summarised in Figure 7 is key to a CSP's market growth: their customers are happy for them to concentrate their expertise in a single platform rather than stretch too thinly across multiple platform options.

Figure 7

The competitive landscape for cloud services is led primarily by vendors specialising in single-cloud
environments, with an emphasis on downstream services and end-to-end capabilities
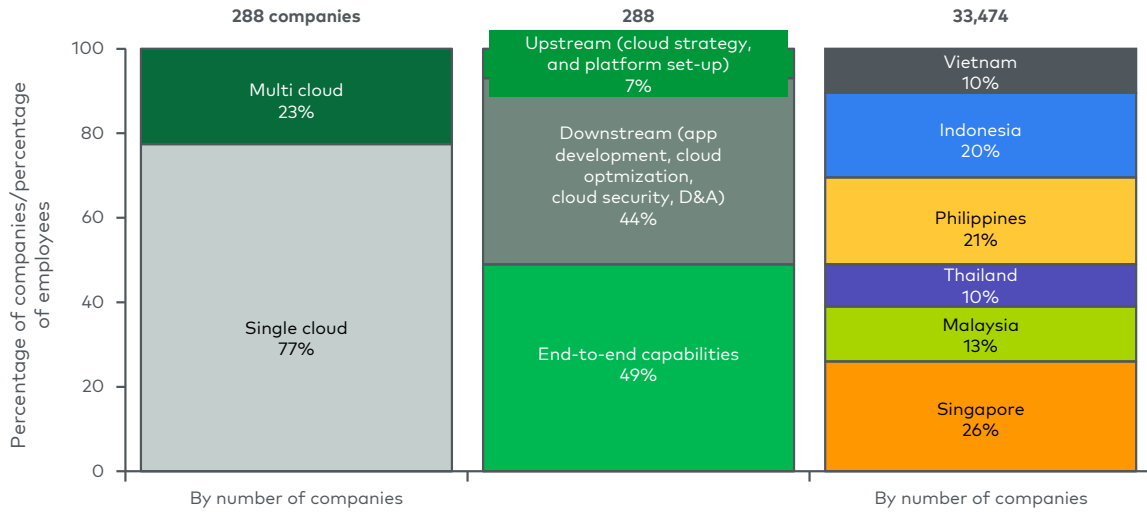
Note: CSPs=cloud service providers; D&A=data and analytics
*Excluding companies with >1,000 employees
Source: Company websites; LinkedIn; L.E.K. interview and analysis

The future is positive, although volatile

The growth in local CSPs across SEA will continue to gather pace, as cloud computing—and
its supportive technological and social infrastructures—increase their penetration in the
region.

Regional CSPs that provide the right combination of end-to-end services with specialised
abilities will be best placed to take advantage of these opportunities. But they will need to
remain competitive in a dynamic market, against competitors big and small, regional and
global. They and their investors will need to be ready to move fast to continue as leaders,
in a region with huge potential, but also with much volatility. They will likewise need advice
from business consultants who know and understand the local market and the dynamics
behind succeeding as a CSP in the region.

About the Authors

Aakash Gandhi

Aakash Gandhi is a Partner in L.E.K. Consulting's Sydney office. With more than 20 years of experience across technology and telecommunications, he advises clients on a range of issues, including technology and digital strategy, corporate growth strategy, new market development, product development and M&A. He has particular expertise in cloud computing, software/SaaS, data and analytics, digitization, communications and data centres. Aakash is also part of L.E.K.'s Major Capital Projects Advisory practice, advising major project stakeholders on digital and technology portfolio assets, including feasibility for major capital investment decisions and sustainable solutions in complex project turnarounds. Aakash holds a Bachelor degree in electronics and telecommunications engineering from MIT, University of Pune, India, an MS in network systems from Swinburne University of Technology and an Executive MBA from AGSM.

Marco Cataluffi

Marco Cataluffi is a Senior Consultant in L.E.K. Consulting's Technology, Media and Telecommunications practice, currently based in the Singapore office. Marco is an industrial engineer with considerable expertise across corporate and M&A strategy within the technology sector. After joining L.E.K.'s London office, he has successfully delivered over 40 engagements spanning various tech-centric domains, from gaming and AI applications to SaaS LMS and cybersecurity. His experience includes the evaluation of prominent graphic engines, growth assessment for embedded systems virtual manufacturers, financial modelling with an emphasis on customer churn and LTV analysis, and conjoint analysis for B2B construction management software platforms. Prior to joining L.E.K., Marco enhanced his operational and supply chain management skills at Efficio Consulting, a part of Kearney, in London. Marco has a Master's in Management and Innovation from Imperial College London and a B.A. in Industrial Engineering from the Polytechnic University of Milan.

About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private and public sector organizations, private equity firms, and emerging entrepreneurial businesses. Founded in 1983, L.E.K. employs more than 1,600 professionals across the Americas, Asia-Pacific and Europe. For more information, go to **lek.com**.