

Alibaba Group Holding Ltd.'s Aliyun

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HUAWEI TECHNOLOGIES CO. LTD.

Aliyun Seeks Enterprise Growth

Alibaba cut prices across its Aliyun cloud services segment in October and is turning its attention to larger enterprises, moves that are expected to strengthen its competitive position in China.

- Aliyun-related business met expectations during FY2Q18 for 10 of 12 partners, exceeded for 2
- Aggressive pricing, expanded functionality expected to help spur Aliyun platform adoption; FY3Q18 pipeline meeting expectations for all 12 partners
- Partners expect Aliyun to gain business among large Chinese enterprises because of price cuts, new enterprise focus, potentially cutting into Chinese market share of AMZN's AWS, MSFT's Azure
- Partners expect strong prospects for Aliyun expansion in APAC outside of China, helped by regional brand awareness, aggressive pricing

KEY DATA

FY2Q18 Aliyun-Related Business vs. Expectations

(number of sources)

Exceeded	2
Met	10

"I think Aliyun will expand in high-end markets, such as financial services, media, entertainment and energy, in the next quarter. Aliyun may experience significant improvement in the high-end cloud market as well."

China Aliyun partner

BY JOYCE ZHANG
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SOURCES & BACKGROUND

12 IT executives selling cloud services, representing more than \$189 million in 2016 Aliyun-related business in China

REPEAT SOURCES 8 from OTR Global's Aug. 14 note

INTERVIEWS Sept. 26 through Oct. 18

See last page for Important Disclosures and Analyst Certification

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Aliyun Continues to Dominate

Seven of 12 service partners working with **Alibaba Group Holding Ltd.**'s Aliyun cloud platform said Aliyun's FY2Q18 competitive position improved qq, while five reported no change in the company's already-dominant market position. Six partners said lower prices were the most significant change affecting Aliyun's competitive position during FY2Q18 qq. "With its lower prices, Aliyun's client base is expanding to high-end enterprises now," one said. Likewise, six partners cited expanded functionality as a reason for competitive improvement during the quarter, two of whom cited the new Shenlong ("Dragon") Cloud Server and a relational database product called PolarDB. One said, "Aliyun improved its cloud solutions with more smart functions. Also, customers can deploy and use the cloud service easily."

Business Meeting Expectations

Aliyun-related business met expectations for 10 partners during FY2Q18 and exceeded for two. All 12 said their FY3Q18 deal pipeline is meeting expectations, and several partners expect stronger demand from larger enterprises. One said, "I think Aliyun will expand in high-end markets, such as financial services, media, entertainment and energy next quarter. Aliyun may experience significant improvement in the high-end cloud market as well."

Basic Cloud Services Driving Demand

Most partners said basic cloud products, such as big data and storage are still Aliyun's main growth drivers in China. All but one partner said big data drove demand and eight cited storage. Likewise, nine said Aliyun's big data solutions are superior relative to competitors. One said, "Aliyun's big data products are popular based on their good performance and low price." Digital entertainment, application development and Elastic Compute Service were also named as driving Aliyun demand during the quarter.

Likely Price Pressure on Competitors

Citing Aliyun's widespread 50%-plus price cut, effective Oct. 2, 11 of 12 partners expect Aliyun to gain share during FY3Q18. Eight partners said **Amazon.com Inc.**'s AWS and **Microsoft Corp.**'s Azure's competitive positions had deteriorated relative to Aliyun, mainly because of the price cuts, and price competition between Aliyun and Chinese vendors **Huawei Technologies Co. Ltd.** and **Tencent Holdings Ltd.** intensified during FY2Q18, according to seven. One partner said, "Aliyun's price cuts on its relational database service, network attached storage and web firewall products will help Aliyun gain further market share." Another said, "Compared to the low-end and midrange, the high-end cloud market has better margins; I expect Aliyun to put more money and energy into expanding this market in the next three months."

Large-Enterprise Gains Expected

Helped by Aliyun's ongoing price cuts and new focus on large enterprise and hybrid cloud customers, 11 partners said they expect Aliyun to gain share among large multinational companies during FY3Q18. One said, "I expect Aliyun to become more competitive in the next three months relative to **Amazon.com Inc.**'s Amazon Web Services (AWS) and **Microsoft Corp.**'s Azure because of Aliyun's new round of price cuts and the company's strategy of expanding its business among large enterprise customers."

Aliyun's Competitive Position QQ

(number of sources)

	FY1Q18	FY2Q18
Better	5	7
Same	3	5
Worse	-	-

"Compared to the low-end and midrange, the high-end cloud market has better margins; I expect Aliyun to put more money and energy into expanding this market in the next three months."

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Strong Prospects for APAC Expansion

Ten of 12 partners said Aliyun has positive prospects for APAC expansion outside of China, citing the platform's strong technology, aggressive pricing and dominant brand awareness. One partner said, "I think Aliyun will continue to offer big discounts. This is one advantage for Aliyun, along with its full-service ability in the public cloud market."

Contributors: Xing Cheng and Liz Frey

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ON ALIYUN'S COMPETITIVE POSITION

"Aliyun price is very flexible: They can offer 'zero' pricing for the big enterprises and other upcoming deals."

"Aliyun cut prices by about 53% qq on a wide range of its products to attract large enterprise customers and compete with other international vendors."

"Aliyun products cover IaaS, PaaS and SaaS services for all kinds of clients. This means that Aliyun can meet all kinds of cloud demand."

"As of Oct. 2, Aliyun applied price cuts on its relational database service, network attached storage and web firewall products for about a 50% decrease qq. This will help Aliyun gain additional market share during 4Q17."

"To keep its leading position, Aliyun is always developing new products and technology and continuing its price war with rivals. I think this is Aliyun's main strategy."

ON AWS AND AZURE

"In the high-end cloud market, AWS is popular for its professional functions and architecture. For the midrange and low-end cloud market, AWS's professional architecture is not easy to use for ordinary users. Overall, AWS's position is unchanged [qq]."

"I think Aliyun will remain aggressive on pricing in order to expand its market share next quarter. AWS and Azure's positions will likely worsen due to Aliyun aggressive pricing and strong reputation."

Alibaba Group Holding Ltd.'s Aliyun

1. Is Aliyun's FY2Q18 (July–September) competitive position better, the same or worse compared with FY1Q18?

Better:	7
Same:	5
Worse:	-

2. What were the most significant changes to Aliyun's competitive position during FY2Q18 qq?

Improved functionality:	6
Lower prices:	6
None:	4

Note: Some sources gave more than one answer.

3. Did your company's FY2Q18 Aliyun-related business exceed, meet or fall below your expectations?

Exceeded:	2
Met:	10
Fell below:	-

4. What types of workloads are your clients running on Aliyun?

Big data:	11
Storage/disaster recovery:	8
Digital entertainment:	6
Application development:	5
Elastic Compute Services:	5
Web applications:	4
Ecommerce:	3
Database management:	2
Internet of things:	2

Note: Some sources gave more than one answer.

5. What workloads are better suited for Aliyun relative to leading competitors?

Big data:	9
Database management:	3
Ecommerce:	2
Storage/disaster recovery:	2

Note: Some sources gave more than one answer.

6. Is your FY3Q18 pipeline for Aliyun deals exceeding, meeting or falling below your expectations?

Exceeding:	-
Meeting:	12
Falling below:	-

7. Is Amazon Web Services' 3Q17 competitive position relative to Aliyun better, the same or worse qq?

Better:	-
Same:	4
Worse:	8

8. Is Microsoft Azure's 3Q17 competitive position relative to Aliyun better, the same or worse qq?

Better:	-
Same:	4
Worse:	8

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9. Do you expect any change to Aliyun's competitive position relative to AWS or Azure in the next three months?

Yes:	7
No:	5

10. Do you expect Aliyun to gain, maintain or lose market share among multinational companies in China during FY3Q18 (October–December)?

Gain:	11
Maintain:	1
Lose:	-

11. Are Aliyun's prospects for expansion outside of China in the APAC region positive, neutral or negative?

Positive:	10
Neutral:	2
Negative:	-

12. Was price competition from China-based competitors, such as Tencent and Huawei, more intense, as intense or less intense during FY2Q18 qq?

More intense:	7
Same:	5
Less intense:	-

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