



PwC'S INDUSTRY CLOUD STRATEGY DELIVERS ON 3 MAJOR CLOUD TRENDS: INDUSTRY CUSTOMIZATION, COLLABORATION WITH PARTNERS, AND SERVICES

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PWC'S AMBITIOUS INDUSTRY CLOUD STRATEGY AIMS DIRECTLY AT HEART OF CURRENT TRENDS

After spending an afternoon at PwC's Boston Seaport offices in late March, TBR came away with a clearer picture of how the firm is centralizing its capabilities into solutions to be utilized in client engagements. It is a strategy that has been developed cautiously and thoughtfully over time, mirroring the firm's overall evolution of the last few years, which has been both methodical and ambitious. The new Industry Cloud strategy is firmly in line with the company's DNA but is also aligned with the most current trends in the cloud market, namely services, collaboration with partners, and industry alliances and preconfigured ecosystems.



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The importance of services in cloud adoption and utilization has only increased over the last two years. The migration of mission-critical workloads and skills shortages have stoked demand for third-party firms to help implement and manage



cloud solutions. PwC is tightly integrating services with all the cloud assets being deployed for the firm's customers, which is an evolution of the long-standing Integrated Solutions program, incorporating the best of PwC's consulting business across all platforms.

PwC's Alliance strategy is integral to the Industry Cloud strategy, and through these collaborations, PwC is selecting well accepted and widely adopted cloud technologies to include in the firm's recommended cloud solution frameworks, then filling the gaps between those individual technologies. The key is not trying to recreate the wheel with technology that already exists but using alliances to bring the leading solutions together across multiple vendors. It ties into broader PwC strategies to use automation, scale and commonalities to reduce deployments times by as much as half in some cases.

A key tenet of PwC's strategy is also to build common cloud services that bring industry and sector-specific practices and prebuilt configurations to accelerate adoption timelines and reduce custom work. For a variety of reasons, customers are looking for diversity in their IT and cloud vendor landscapes, and PwC's open solution frameworks cater to that desire. Lastly, industry specificity is an emergent trend in cloud. PwC is addressing the industry specialization void in the market by bringing together industry-leading technologies, tying them together with an integration fabric, and filling any gaps with its own services and innovation based on PwC's deep experience and investments. These solutions can then enable customer business transformation spanning the front, middle and back office.

Industry customization ties the solutions together, as it reduces the need for custom services and is done in tight collaboration with cloud vendors' technology. In this special report we detail these trends and PwC's cloud strategy. However, in short, we see PwC's strategy as being well developed and aligned not only to its core DNA but also to some of the most current trends and developments occurring in the market.

INDUSTRY CLOUD IS MOVING FROM A NICE-TO-HAVE TO A MUST-HAVE

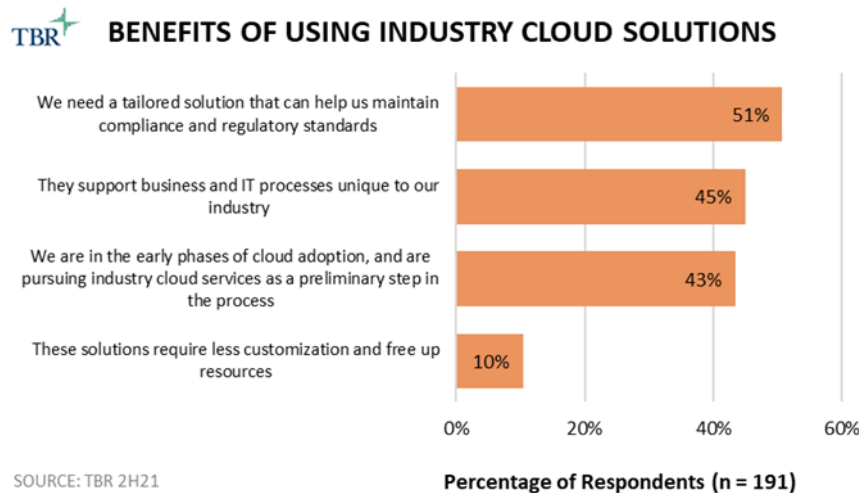
Enterprise maturity around horizontal cloud capabilities has resulted in a growing appetite for solution customization built around highly nuanced, industry-centric needs. This rising need will be addressed by both cloud vendors and services firms like PwC. Vendors have traditionally leveraged partnerships to add vertical functionality and go-to-market support to their solution sets, but that strategy has become even more aggressive recently, with multiple acquisitions being announced.

Oracle's (NYSE: ORCL) intended acquisition of Cerner, Microsoft's (Nasdaq: MFST) purchase of Nuance, and Salesforce's (NYSE: CRM) strong alliance with Veeva (NYSE: VEEV) are all examples of how vendors are investing to offer more industry functionality to customers. Cloud vendors are also supporting industry-based go-to-market ambitions by augmenting their approach with an increased reliance on ecosystem partners across the IT continuum.

While tech partnerships have accelerated industry-based solution design and development, evidenced by Microsoft's partnerships with both Rockwell (NYSE: ROK) and Honeywell (Nasdaq: HON), engagement with IT services entities will be just as critical to facilitating adoption among customers with industry-fluent advisory, road-mapping and implementation support services. Specifically, in venues like industrial manufacturing, client DNA is rooted in hardware legacy organizational models and waterfall innovation and many clients lack not only the knowledge to support software-driven business models but also an understanding around the outcomes emerging technology — be it cloud, IoT or AI — can bring to their operations. This knowledge gap plays to the strengths of the professional



services side of the IT spectrum, where innovation centers pair educational resources with business cases to provide prospective clients with an understanding as to what their own digital transformation (DT) could look like.



Not only has vendor activity with industry cloud picked up, so too have financial results as end customers increase adoption of these solutions. As shown above, customers see industry cloud capabilities as value-add elements of their cloud technologies, notably with the ability to free up resources being the least cited benefit. The ability of industry cloud offerings to first meet regulatory requirements and then also match the unique business and IT workflows within certain industries are the most compelling benefits, according to TBR's *2H21 Cloud Applications Customer Research*.

TBR's perspective on PwC's alignment with industry cloud trends: 'Micro alliance activation'

- PwC is not "boiling the ocean" with its approach to Industry Cloud, instead focusing on heavily regulated industries as the firm looks for ways to not only meet regulatory requirements but also leverage investments to competitively differentiate itself with enhanced time to market and ongoing operational excellence. While many vendors on the technology side have taken an even more focused approach to industries, we believe PwC's strategy is appropriate for the firm, given its partner-driven engagement focus and existing presence within the industries.
- PwC's approach aligns to the third most selected benefit of industry cloud: "We are in the early phase of cloud adoption and are pursuing industry cloud services as a preliminary step in the process." Many companies are still in an early stage of their cloud adoption. Regulations are more stringent in these industries, creating real and perceived barriers to adoption. In many ways, industry cloud is the ramp these customers need to get started using cloud in more significant ways as part of their IT strategy.

CLOUD PARTNERSHIPS ARE MOVING FROM IMPORTANT TO CRITICAL

The shift to partner-led growth is not a new trend but is being further legitimized in 2022. Growth from indirect, partner-led revenue streams have been outpacing direct go-to-market efforts for several years, but indirect revenue is reaching a new level of scale and significance in the market.



TBR estimates indirect cloud revenue is approaching 25% of the total cloud market opportunity, which is a significant milestone. For reference, in traditional IT and software, indirect revenue represents somewhere between 30% and 40% of revenue streams. We expect the indirect portion of the cloud segment to surpass that level within five years, approaching half of the market opportunity within the next decade. For all cloud vendors, the combination of short-term growth and long-term scale makes partnerships an increasingly critical element of their business strategy.

Partner ecosystems have been a core part of the IT business model for decades, but the developments around cloud will be different for various reasons, primarily because the labor-based, logistical tasks of traditional IT are largely unnecessary in the cloud model.

For cloud vendors and their partners to succeed in growing the cloud market, they both need to be focused on enabling business value for the end customer. Traditional custom development becomes cloud solution integration. Outsourcing and hosting are less valuable, while managed services are far more valuable for cloud solutions. To capture this growing and sizeable opportunity in 2022, we expect companies will adapt their partner business models and vendor program structures to align with vibrant cloud ecosystems.

TBR's perspective on PwC's partner strategy

- PwC is being proactive in how it leverages alliances, recognizing that winners in industry cloud rely on alliances and that the industry data model is only as good as the ISV solutions that run on top. Within PwC, these relationships are supported by joint business relationships and alliance groups with front-office, middle-office and back-office players, as well as the cloud service providers (CSPs) that go to market with PwC as part of the Journeys model. PwC is being selective about the vendors and technologies it recommends, focusing on leading providers like Amazon Web Services (AWS) (Nasdaq: AMZN) and Microsoft to both offer the most widely used solutions and simplify its alliances.
- By combining the IaaS and SaaS capabilities of alliances with its own products and accelerators, PwC enables integration points in a platform-like approach. While not a PaaS offering in itself, PwC's Common Cloud Services Platform, which targets custom Journeys for a specific industry in an end-to-end fashion, should create a high degree of stickiness.
- PwC is emulating some best practices of its alliances, including the leading cloud service providers (CSPs) and ERP vendors. Further, some of ServiceNow's success stems from selective innovation and deciding early on where it wishes to develop versus leveraging partners. PwC takes a similar approach, focusing custom development investments on whitespace markets while layering the capabilities of its partners on top of new solutions.
- One of the most notable obstacles facing PwC is a degree of competitive overlap between PwC and cloud vendors it has collaborated with that are similarly working with industry consortiums to stitch together end-to-end systems. Where PwC stands to benefit in this regard is through its roots as a services firm; unlike some of the product-first competitors overlapping with the Industry Cloud strategy, PwC is going to market first with tech-enabled services that can then get clients exposed to products.

TRADITIONAL DESIGNATIONS ARE MORPHING AS VALUE MOVES TO IP DEVELOPMENT AND MANAGED SERVICES

In the traditional IT partner model, the business models of partners — such as reseller, systems integrator and ISV — were used to segment partner programs. Cloud has disrupted the traditional model, with born-in-the-cloud partners



competing in various activities to optimize their revenue streams and traditional partners expanding their business models to sustain their financials. As a result, resellers can develop their own solutions and IP, while systems integrators sell and resell their own software solutions and ISVs offer their own managed services. It is common for partners to have multiple business models, making the traditional designations too restrictive.

The other area of strong demand from customers, driving enhanced focus from cloud vendors, is in managed services. Increased cloud adoption has led to higher cloud complexity for many customers, leading to more challenging tasks to provide ongoing administration, integration and operations of the environment. This increasing complexity coincides with a historic shortage of personnel with cloud expertise, driving demand for managed service offerings from third-party providers to fill the gap. As a result, we expect managed services to be the fastest-growing segment of the cloud professional services market, reaching \$75 billion by 2026.

Cloud vendors like AWS, Google (Nasdaq: GOOGL) and Microsoft have a vested interest in nurturing their managed service ecosystems to facilitate new investments from their cloud customers. Considering these trends and the likely erosion of legacy services lines by software and managed services, it is critical for consulting-led firms to diversify with serviceable assets that go beyond the underlying modules. While some of its Big Four competitors are similarly recognizing this trend, PwC appears to have caught on to the fact that software and services require vastly different sales models and dedicated teams for successful execution.

With Industry Cloud, PwC serves as consultant, ISV and managed service provider

Using the term Journeys is an apt description of how PwC intends to engage with customers around these solutions. It is not just a cloud technology implementation; there is upfront design and consulting, implementation of both off-the-shelf cloud technology and custom PwC IP to align solutions to industry, and finally provision of managed services to simplify ongoing operations. That is a lot of activity, but it reflects what customers need and want from these types of implementations. It is taking PwC beyond traditional services and value propositions with clients, but it aligns with where customers and the market are heading.

While the framework for Industry Cloud is compelling, it will no doubt be a challenge to execute on the vision. Expanding beyond traditional consulting business roles and activities and maintaining cohesiveness can be challenging, but as we have seen in recent years, PwC has been quite adept at reinventing itself, so we expect the firm to overcome these challenges. Alliance management, cloud service development, packaging and pricing are all competencies being developed within PwC to execute on more Industry Cloud opportunities.

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