Accelerating cloud native adoption will spur more consolidation as work habits change

The shift towards cloud native platforms is accelerating as COVID-19 increases the need for streamlined and unified data environments. It is set to drive more consolidation in a market that is already evolving through transformative acquisitions.

Cloud native platforms enable the mashup of different applications, fashioned within a container-based infrastructure and an architecture built around microservices, helping foster more innovation and greater business agility compared with earlier, monolithic processes.

Enterprises and companies that provide services to them have been adopting these platforms in recent years, boosted by the Kubernetes open-source container-orchestration system that was originally developed by Google (NASDAQ:GOOGL).

Demand for cloud native technology is rising as the pandemic forces businesses to accelerate their digital transformation, according to Dmitry Netis, managing director of business development at US-based boutique investment bank **Q Advisors**.

This is already evident around services tied to collaboration, which is seeing an uptick in usage and in stock market prices as applications such as **Zoom** (NASDAQ:ZM) are used to ensure productivity amid shelter-in-place orders.

"Every vertical has its own set of monolithic, on premise software components, or recurring SaaS components that are either built on a monolithic technology or on a cloud native technology," Netis told Connectivity Business in an interview.

"I believe that to keep this [digital] migration going, particularly for work-from-home deployments where moving one tool doesn't necessarily solve the issue – you ought to be able to bring the entire workload – mashing up all these technologies into one solution architecture is really the holy grail that the digital transformation entails."

While collaborative technologies and unified communications are obvious first-movers in the current environment, Netis believes other verticals will soon follow as success is shown.

Long-lasting COVID-19 effects

Driving a significant amount of the activity under COVID-19 is the rising penetration of remote agents, who are working from home to keep businesses in contact with existing and potential customers.

These agents require software on their computers that can be made more productive with cloud native services such as virtual assistants and others enabled by AI.

In a Gartner survey of 229 HR leaders on 2 April, nearly 50% of the organisations reported 81% or more of their employees are working remotely during the coronavirus pandemic. Another 15% of respondents said 61-80% of employees are working remotely at this time.

In line with industry forecasts and the consensus of analysts, the survey also suggests permanent changes to workplace environments after the current pandemic subsides.

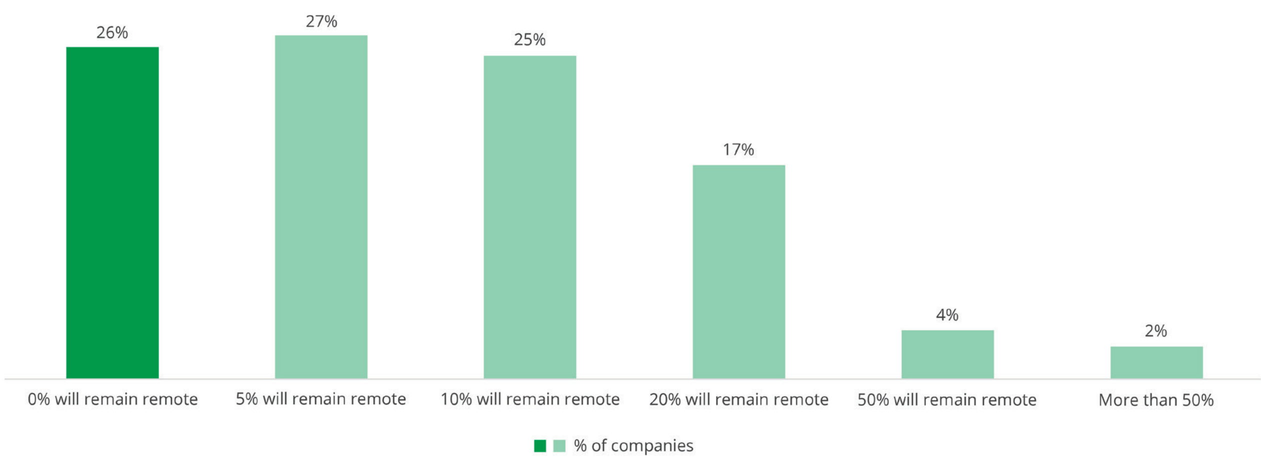
Brian Kropp, chief of research for Gartner's HR practice, said: "While 30% of employees surveyed worked remotely at least part of the time before the pandemic, Gartner analysis reveals that post-pandemic, 41% of employees are likely to work remotely at least some of the time.

"Ultimately, the COVID-19 pandemic has many employees planning to work in a way that they hadn't previously considered."

Netis is among those who see permanent transitions after the current crisis ultimately settles.

He highlighted the evolving financial ecosystem as an example, pointing to how traders "forced with change" have been adopting virtual, software-based solutions to continue being productive at home amid the New York Stock

Some 74% of companies plan to permanently shift to more remote work post-COVID-19



Source: *Gartner*

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Exchange's closure.

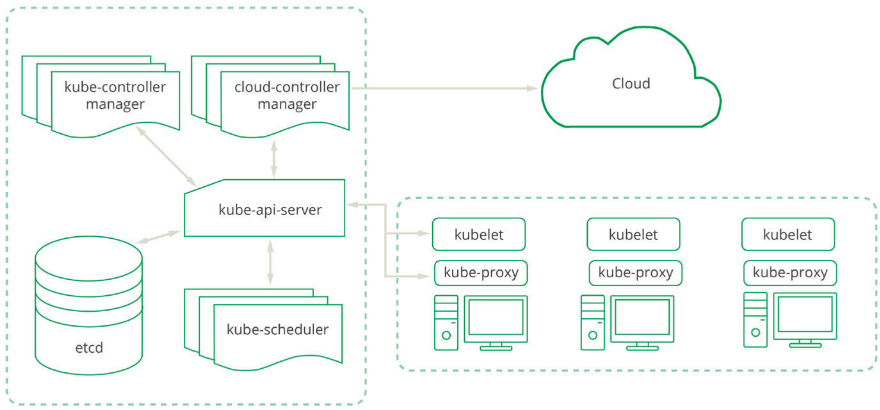
While cutting out significant commuting time in New York has clear workflow advantages, changing behaviours could also uncover untapped opportunities for businesses.

"I do believe there'll be long-lasting repercussions from this pandemic on how people operate – how they work from home or how they potentially can be more productive by doing things with more tools in their possession that they did not have before," he said.

"New use cases are being discovered as new productivity components are also coming together."

Chief among these perhaps are the video solutions that have come front and centre for business communication.

Diagram of a Kubernetes cluster



Source: *Linux Foundation*

Acquisition landscape

The mission critical change in priorities is boosting cloud companies and in turn will drive more deal-making in the vendor and service ecosystems, according to Netis.

Also helping to shake up the state of play are two transformative deals in the space: **Microsoft**'s (NASDAQ:MSFT) US$7.5bn acquisition of **GitHub** in 2018 and **IBM**'s (NYSE:IBM) US$34bn **Red Hat** buy.

Netis described IBM's acquisition as particularly ground-breaking, speaking "a lot to where the market is going".

Red Hat's enterprise-grade Kubernetes management platform, called OpenShift, enables developers to build cloud native applications using discrete containers provisioned on any cloud infrastructure.

The acquisition appears set to give IBM an edge in advancing the open source and cloud native applications that are becoming increasingly important.

Netis said smaller, regional players are likely to follow suit as cloud native managed service providers also attract attention from larger peers.

Q Advisors tracks more than 100 startups that it believes are primed for consolidation in this area.

Those helping to blend security and IT infrastructure are tipped to be ahead of the pack.

"I see infrastructure VARs that haven't really done much in security taking on a lot more of those components and putting them all together as one workflow, one solution, as they move the enterprise through its digital transformation," Netis said.

Regionally, the US, Europe and other regions where digital transformation is being facilitated through last mile access, fibre and other advanced connectivity capabilities are set to be hotspots of deal activity.

Wider backdrop

Although presenting challenges, the tougher economic climate could also be a boon for acquisitions across the cloud landscape.

Declining valuations and a liquidity crunch are likely to push companies to the deal table, potentially seeing those in public markets as acquirers as private equity firms consider exit options for software firms – particularly in the cloud and SaaS environment – that they had paid big multiples for.

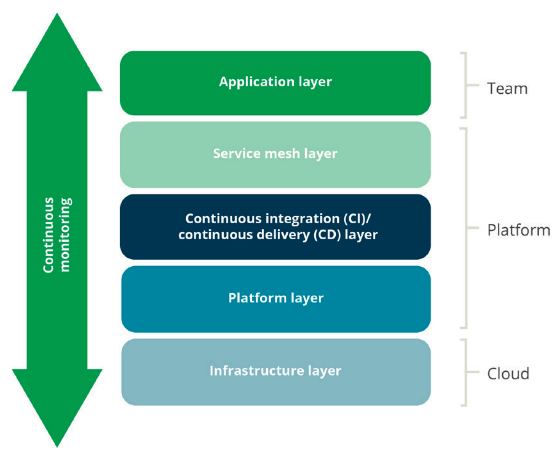
The need for rapid digital transformation also comes amid the build-out of 5G networks that will push cloud native adoption into an even higher gear.

Verizon (NYSE:VZ) recently announced plans to increase capex spending to accelerate its roll-out plans, potentially boosting the participation of more rural communities.

Another potential bellwether, on 26 March Microsoft announced it had acquired US-based network infrastructure company **Affirmed Networks** for an undisclosed sum. The deal is part of Microsoft's strategy to support telcos that are increasingly managing 5G and other network workloads in the cloud.

While there are questions around whether quality of service under a virtual network infrastructure can keep up with other systems, the move underlines how Microsoft and other major cloud providers such as Amazon (NASDAQ:AMZN) are positioning themselves to speed up 5G deployments.

DevOps layers



Source: *Q Advisors*

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