2016 Top Markets Report Cloud Computing
Country Case Study

United Kingdom

The United Kingdom is an important market for U.S. cloud vendors because of its developed economy, established base of business customers who understand the cloud value proposition and the lack of infrastructural hurdles present in other countries. However, UK-based users harbor some deep security concerns and this has a clear impact on how cloud services are adopted and deployed.

Overall
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With an advanced economy and mature IT market, the United Kingdom has been a notable destination for cloud services. National, regional and local governments, as well as private companies are major buyers of cloud services. While there are few estimates of the overall size of the UK cloud sector, credible research indicates that its 2014 value may have been around $9.5 billion.[1] Separate sources posit that SMEs contributed $3.2 billion in cloud related spending in 2014.[2]

Most market intelligence about enterprise cloud adoption in the United Kingdom comes from industry surveys. In one survey, eighty-four percent of UK firms said they use at least one cloud-based service in 2015, which is up six percent from 2014.[3] The cloud trade association, who created the poll, found that overall cloud adoption had increased by six percent between 2014 and 2015 and jumped an impressive 75 percent since 2010.[4] Large companies are adopting cloud technology more quickly than smaller firms (those with less than 200 employees), with uptake rates around 96 percent and 76 percent, respectively. IaaS has generated particular interest among IT decision makers, particularly in SMEs, which have reportedly helped drive the value of this cloud segment to at least $1.2 billion.[5, 6]

Government cloud spending is expected to grow quickly as the public sector is seeking to catch up with private sector cloud adoption. The UK government's G-Cloud frameworks allow the government to buy directly from suppliers after reaching an agreement on basic terms of use. This saves government officials and companies the cost of individual procurement contracts, although a "call-off contract" is still required for every procurement deal and the government ensures the value of each sale is publically available.[7]

It is clear from the above statistics and by at least two major U.S. cloud vendors' recent commitments to local data centers that the United Kingdom is an important destination for cloud providers.[8, 9] Most major U.S. providers offer services in this competitive market and are well represented in key UK industry groups.[10, 11] However, as is true elsewhere, concerns about data protection and security, as well as regulatory compliance make UK clients wary of handing over control of their data. When asked about these two issues, five out of six business decision makers believed that these issues are at least partially slowing cloud uptake .[12] Additional polls have found the related data sovereignty and privacy worries paramount.[13]

Such results have extremely significant implications for cloud uptake. "Data location, security and privacy risks" were the concerns most prominently cited by UK-based respondents to a recent KPMG survey,

with legal compliance and doubts about integration with existing technology infrastructure emerging as secondary challenges.[14] According to KPMG, the result is that seven out of 10 UK firms allocate no more than one tenth of their technology budgets to cloud solutions. This figure offers a sober assessment of the impact of these misgivings on adoption.

Due to concerns about the viability of transatlantic data transfers, some U.S. companies have built or are considering establishing data centers in the United Kingdom and other European countries.[15] However, this alternative is not viable for many U.S. companies, especially SMEs. The U.S. Government is working with its counterparts in the European Commission to successfully implement the EU-U.S. Privacy Shield Framework for transatlantic data transfers in order to provide certainty for U.S. cloud service companies conducting business in the United Kingdom.

In other instances, firms of all sizes cited budgetary constraints (which have a greater impact on public sector and smaller organizations), investments in legacy IT and integration between existing and new cloud systems as stumbling blocks.[16]

Additional challenges holding back adoption include supplier reliability questions, fears (particularly among smaller companies) of vendor lock-in and reluctance to depend on an Internet connection for access to company data.[17-19] There is also a general preference for this data to be physically stored in the United Kingdom or at least in Europe, especially among public sector and smaller clients.[20] This confluence of factors has led many British business decision makers, approximately 30 percent according to one survey, to assert that they will never shift their data to the cloud, even if plurality still indicates plans to do so.[21]

Such fears are especially low in highly regulated sectors such as financial services and healthcare, two industries where UK cloud growth has been slower.[22] Sluggish cloud adoption in these sectors has been seen across Western Europe for similar reasons.[23] At least for British accounting firms, recent polls suggest that uptake may be slowly, but surely expanding.[24]

Given these concerns, it is understandable that the hybrid approach, in which both public and private cloud services are utilized by the same company, is the preferred method of deployment for as much as

89 percent of UK IT decision makers.[25] Across a wide range of cloud based solutions, including e-mail, payroll and sales management, the industry group Cloud Industry Forum (CIF) found that strong pluralities prefer on-premise options due to security, data protection and various other considerations.[26] This preference seems especially strong for accounting related applications, data storage and backup and online commerce-related functions, among several others.

Although the hybrid approach is well entrenched and unlikely to be supplanted anytime soon, nearly half of the respondents to CIF's annual survey indicated that they are open to eventually shifting to rely on off site cloud services. Furthermore, hybrid deployments may increase familiarity and comfort within cloud technologies, driving greater adoption in the future.

Guidance and Resources for Exporters

The following information is intended to provide guidance and resources for U.S. exporters looking to sell their services in the UK. The information was provided by U.S. Department of Commerce staff located in-country as well as by input from U.S. Department of Commerce industry specialists. As mentioned, the information is only intended to serve as guidance and does not guarantee sales or success in the market.

- Usual buyers of cloud computing services in the United Kingdom might include: Municipal, state and federal government and large private companies.

- Preferred business strategies to enter/expand in the market might include: Check the government's G-Cloud procurement initiative (more information below).

- Common trade barriers to enter/expand in the market might include: Small companies are slow to move to the cloud.

- Recommendations to bid and navigate government procurement processes: The British Government has set up G-Cloud frameworks, which are agreements between the government and suppliers. The basic terms of use are agreed by both parties following a formal Official Journal of the European Union (OJEU) procurement

process. This saves public sector organizations and suppliers the time and cost traditionally associated with individual procurement contracts, as they can buy directly from companies approved onto the frameworks.

- U.S. Department of Commerce Country Commercial Guide
  http://export.gov/ccg/unitedkingdom090963.asp

- Government Procurement Information
  https://www.digitalmarketplace.service.gov.uk/g-cloud/framework

- Trade Show: http://www.itshowcase.co.uk/

- Cloud Industry Forum
  https://www.cloudindustryforum.org/

- American Chamber Commerce in the EU
  http://www.amchameu.eu/

- Industry Associations
  http://www.ukita.co.uk/cloud
  http://www.eurocloud.org.uk/

Citations

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3 http://www.cloudindustryforum.org/content/uk-cloud-adoption-trends-2016
4 Ibid
5 http://sp.parallels.com/fileadmin/parallels/documents/smb-reports/2014/Parallels_SMB_report_UK_20140930_web.pdf
6 Exchange rate note: 1 GBP = 1.43820 USD (03/11/2016)
7 https://www.digitalmarketplace.service.gov.uk/g-cloud/framework
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15 http://www.theregister.co.uk/2015/11/06/aws_to_build_uk_data_centers/
16 http://cloudindustryforum.org/white-papers/581-cloud-the-normalisation-of-cloud-in-a-hybrid-it-market
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18 http://jitm.ubalt.edu/XXIV-1/article1.pdf
19 http://www.computerweekly.com/feature/Cloud-computing-UK-companies-adopt-eagerly-but-often-insecurely
20 Ibid
21 http://www.computerweekly.com/news/2240206091/UK-risks-falling-behind-in-cloud-adoption-report-reveals
22 Ibid
23 http://www.idc.com/getdoc.jsp?containerId=prUK25380115
24 https://www.xero.com/blog/2014/05/cloud-adoption-among-uk-accounting-firms/
25 http://www.cloudpro.co.uk/cloud-essentials/hybrid-cloud/4696/hybrid-cloud-adoption-gaining-ground-among-it-pros
26 http://cloudindustryforum.org/white-papers/581-cloud-the-normalisation-of-cloud-in-a-hybrid-it-market

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