AMAZON JOINS CHINA'S CLOUD-SERVICE MARKET

As the largest cloud-service supplier in the world entering the Chinese market, Amazon will face enormous challenges from localization.

By Ji Yongqing

The fact that the "shark" Amazon is entering the China market has stirred its counterparts at home and abroad.

On Dec., 18, 2013, AWS (Amazon Web Services) announced it would enter China soon, which would be its 10th national market globally. On that day, Andy Jassy, the Senior Vice President of AWS, visited Beijing, signing a Four-Party Memorandum of Understanding (MOU) with the Beijing Municipal Government, the Ningxia Hui Autonomous Regional Government, and CBC Partners. AWS will provide public cloud service to Chinese clients by cooperating with CBC and utilizing the infrastructure and resources of Beijing and Ningxia.

Face-off

Previously, as a result of policy restrictions on public cloud services, only Windows Azure, the public cloud service launched by

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Microsoft, managed to land China by cooperating with a local company, 21ViaNet Group, Inc. However, it seems that Amazon has a more powerful background. In fact, Amazon at present is maintaining its leading position in the field of global public cloud service. According to a report released by John Dinsdale, an analyst at the market research company Synergy, the total revenue for the fourth quarter of 2013 for AWS will exceed $700 million, which is 15% more than the sum total of all its competitors, including Microsoft, IBM and Salesforce. In June, 2012, Amazon managed to sign a cloud-service contract with the CIA worth $600 million, beating traditional IT champion IBM.

On the same day that AWS announced its entry to the China market, Microsoft announced that Lenovo had become the first Chinese strategic partner of Cloud OS, allowing Lenovo to offer service to its clients using the Microsoft cloud platform. Before this, Ke Wenda, president of the Microsoft Cloud business department at 21ViaNet Group, Inc., announced that 2,000 companies in China were using Windows Azure.

The leading company of China's public-cloud market, Ali Cloud, a subsidiary company of Alibaba Group, adopted a price-reduction strategy to deal with the entry of AWS into the China market. Also that same day, Ali Cloud announced the prices of all its public-cloud products would be reduced by up to 50%. The next day, Ali Cloud further released a preferential plan designed for its longtime customers: Customers who have used Ali Cloud ECS/RDS for consecutive 10 months will obtain 10% discount for re-subscribing; for 22 consecutive months, a 15% discount was offered.

Before entering the Chinese market, AWS had already won a group of Chinese firms. At the release conference, Jassy revealed that thousands of Chinese companies had used the service offered by AWS in other regions (including America, Europe, South America and Asia) and were satisfied with it. Included were Xiaomi, Qihoo 360, TCL, TIENS, Netqin, FunPlus Game, Kingsoft, Mobo Tap, Hisense, Lightinthebox, Papaya Developer, Madhouse, DerbySoft, Sungy Mobile Limited (a 3G portal operating company) and other well-known Chinese enterprises. "It is only AWS that has the ability to provide its global users with reliable infrastructure and service for rapidly connecting the world. There were over 100 million downloads by users five months after our app store was formally launched using AWS public-cloud service. The AWS platform has not only helped us increase the downloading speed by 30%, but also reduce our capital cost to zero," said Li Yongbin, the director of the IT infrastructure department at Xiaomi.

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AWS has already targeted the firms mentioned above as its first customers in China, including the multinationals that have been the customers of AWS abroad. At the beginning of 2014, these companies will be invited to use AWS4 and operating their applications on the AWS cloud-service platform. Starting Dec. 18, other enterprise customers and software developers were able to apply for a limited preview of AWS within China through Amazon's related websites.

"We have submitted our application to AWS, but we haven't been approved yet. According to my experience using AWS service overseas, AWS is more developed and more stable and offers better service," said Han Zuli, technical director of Huxiu.com. As a news website, huxiu.com encountered the rigorous challenge of rocketing traffic last year. Previously, huxiu.com had been primarily constructed on the Ali Cloud platform.

The Biggest Challenge

AWS has not released prices for its public-cloud service in China, however, its prices in the American market are slightly higher than those previously set by Ali Cloud. But with the recent sharp price reduction by Ali Cloud, the price difference between the two has widened. "Actually, our price strategy has remained the same, as does our price strategy in China. One feature of our service is in our scale. We are expanding our business scale in China, which will definitely create the scale benefits that we will eventually transfer to our customers," said Ariel Kelman, the global marketing director of AWS at Amazon. He seemed to suggest that AWS will not adopt a low-price strategy and may consider price reductions only after user size has gradually increased. This strategy is different from the radical moves designed for the American market, where AWS public-cloud service accounts for the largest market share. When competitors like Google adopted a strategy of price cutting, Amazon followed suit.

In fact, for AWS Amazon, it is not the price but the localization of products and

service that poses its biggest challenge. "Ali Cloud understands Chinese users better than us, and their whole interactive process and product mix are most needed by the Chinese customers," said Han Zuli. Previously, almost all overseas Internet giants, such as Yahoo, Google and eBay, encountered big setbacks in China. The largest e-commerce business of Amazon did not develop smoothly: Although Amazon managed to enter China through acquisition of joyo.com, as of the first half of 2013, Amazon (China) only accounted for 2.3% of the B2C Internet market share in China; it is ranked 6th, far behind local competitors like Tmall.com and JD.com.

Those who are already AWS customers for overseas public-cloud service will still face challenges when they start using AWS service in China. Ariel Kelman, global marketing director of AWS Amazon, suggested that those customers need to set up an account in China, but AWS would not be responsible for their data transfer; thus they would have to turn to other service suppliers for data backup, transfer and technical transcoding work. This also indicates that Amazon will not establish a sizable cloud-service team dedicated to the China market. Instead, Amazon will provide standard products and service basically similar to those deployed in the USA. Moreover, Amazon will need to structure a better ecological system by cooperating with its partners in order to meet the more personalized demands of its enterprise customers in China.

The Dec. 18 press conference showed that Amazon was well prepared. In order to tackle the problems related to infrastructure, Amazon has already rented data centers from network infrastructure suppliers in Beijing and is preparing for the establishment of a large-scale data center in the city of Zhongwei in Ningxia Province by cooperating with the CBC Partners. In light of the extremely high cost of interconnection and interworking services offered by China's two largest broadband operators (Telecom and Unicom), Amazon has cooperated with two local technology companies, SINNET and ChinaNetCenter, which will offer speed-up service for CDN, guaranteeing users' experience of network usage. Moreover, Amazon has also cooperated with local partners such as Cloud GO TECH, Bamboo Cloud, BAMBOO TECHNOLOGY, ChinaNetCloud, Hitachi Consulting (China), and Neusoft, along with with its global partners such as Accenture and Cap Gemini, to develop more personalized products and service for Chinese customers.

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Where there is competition, there is motivation. The entry of Yahoo, Google and eBay into China has stimulated the competitive force of local Internet companies in China, as will AWS.

"As a significant supplier of cloud-computing service, AWS is entering China and will thus drive the development of other Chinese companies, which benefits the more benign development of the China market," said Liu Hongtao, Vice President of ChinaNetCenter which was the Chinese partner of AWS.