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How AI is changing cloud services

Article

The news: The rapid adoption of artificial intelligence (AI) is ushering potential data center industry growth as it transitions to serve growing AI demand.

Hyperscalers like **Amazon Web Services** (AWS), **Microsoft Azure**, **Google Cloud**, and **Oracle** are expected to drive sales of chips made by **Nvidia, AMD**, and **Intel** to build out data centers to accommodate increasingly demanding AI workloads.

Why it's worth watching: The move to AI-specific data center services ushers in an "AI Era" that is transitioning away from the "Cloud Era," or the previous decade's focus on cloud computing and mobile platforms, per VentureBeat.

- Leading cloud services provider AWS owns half of the Arm-based servers ideal for emerging technologies including AI, machine learning (ML), Internet of Things (IoT), and edge computing.
- Data center operators and component makers are cashing in on the high demand for generative AI solutions.
- Companies such as **Unilever**, **Siemens**, **Maersk**, and others are adopting AI to negotiate contracts, find new suppliers, and navigate complex supply chains—requiring massive and increasingly costly AI-focused data center operations.

The AI Era will cost more: Over the past year, the industry has seen rising financing and building costs, longer build times, and severe power limitations in key markets.

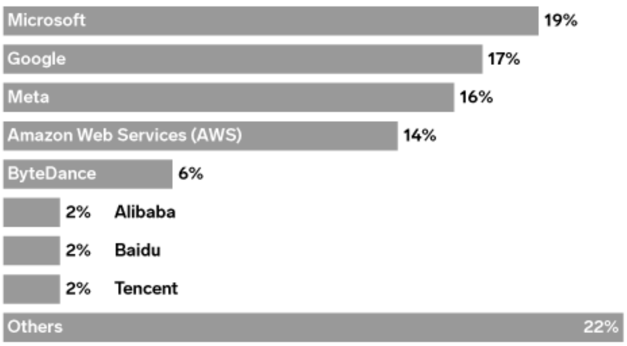
- **End-user spending on cloud services is forecast to grow 21.7% to $597 billion globally in 2023.** That's up from $491 billion in 2022, per Gartner.
- 98% of companies worldwide use the cloud in some way, including SaaS services and cloud storage, per AAG.
- The boom in AI investments will result in increasing demand for cloud services catering specifically to this market opportunity.

Our take: Cloud services will continue to see disruption as interest and investments in generative AI grow. Cloud providers will need to carefully balance serving existing customers while creating new opportunities for the ongoing surge in AI interest.

The cost of adopting net new AI technologies and increasing capacity will likely be passed on to customers as the cloud industry transitions to serve AI needs.

Distribution of AI Server Shipments Among Cloud Service Providers (CSPs) Worldwide, 2022

% of total



Note: read as Microsoft received 19% of AI server shipments during 2022
Source: TrendForce as cited in press release, March 8, 2023

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