

IT'S NOT ABOUT  
THE CLOUD

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IT'S ABOUT THE  
DISRUPTION

a whitepaper written by

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## LET ME TELL YOU A STORY.

In October of 1985 in the city of Dallas, Texas, David Cook opened an unassuming video rental store by the name of Blockbuster Video. One of the first of its kind, Blockbuster grew steadily, largely in part to analytics that allowed them to profile neighborhoods and determine how to best stock individual stores. Renting videos and DVDs as well as video games, the company totaled over 9,000 stores in 2004.

In 1997, Reed Hastings was charged \$40 in fines by Blockbuster after returning a movie past its due date. Out of the fury, Netflix was born. Built on the idea of mail-order DVD rentals without late fees, Hastings began a business model that defied traditional video rental rules. In 1999, they moved to a monthly subscription model and dropped out of the single rental business; they have since built their reputation on flat-fee unlimited rentals without due dates, late fees, and shipping and handling fees.

The landscape of the world has changed. The internet revolution of the early 2000s (notably: the accessibility of the World Wide Web, the arrival of the Google search engine, and the prominence of the Amazon.com marketplace) has had an effect on not only individuals, but on businesses and the economy as well. With the rise and mass adoption of the smartphone, each of us has unintentionally become mobile inhabitants in a mobilized world.

In 2007, the same year Apple Inc. released their smartphone and instantly created a more connected world, Netflix delivered its billionth DVD and moved away from their mail-order rental model by introducing video-on-demand. Blockbuster expanded to the UK, but continued to experience a decline in the traditional video business. In 2010, after 25 years of business, the only remaining national video chain filed for bankruptcy. That same year, Netflix's streaming business became the biggest source of Internet traffic in North America. They now have over 50 million global subscribers.

The over-used and mystifying term "cloud" means different things to different people. As a result, it is often perceived as something that it simply is not. To some, the Cloud is purely a new marketing term for something that already exists. At a high level, there certainly are commonalities - like paying for compute as a monthly service. However, the level of technology abstraction, the endless options and the variability of the cost models available provide an argument that the cloud has a functionally different and more compelling meaning.

Simply put, the Cloud is a platform that exposes all the ingredients of the data center to a secured network, but with a variable cost model that enables business efficiency, optimization, and speed to market. It gives businesses the ability to quickly adapt to the new world of mobilization and the "Internet of Things" revolution.

This next generation of Cloud can and will result in meaningful change for every industry, company, profession and job. The undeniable power and benefits of the true hybrid model prove that it is sustainable. Whether we like it or not (and – in case you're still on the fence – you should like it), it is here to stay.

The opportunity for businesses and investors is found in the ability to utilize these ingredients to build disruptive technologies that enable paradigm shifts. Allowing users to efficiently solve problems from the palm of their hands, the cloud ultimately functions as the center pillar upon which the bridge to mobilization - the main driver for the current Internet of Things revolution – is built.

Let me be clear: the conversation we want to have is NOT about the Cloud. What the conversation IS about is **disruption**. Reinvention does not equate to transformation; transformation is often a result of disrupting the conventional way of doing things.

But what do we mean by disruption? It is here that we return to the Netflix story. Let's explore their success - and others like it - a little further.



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## NETFLIX: A VIDEO REVOLUTION

Netflix took the concept of video rental and extended it to the internet. From a consumer perspective, they simply created a video streaming library. However, from a business perspective, they revolutionized the advertising space by using analytics to enable monetization.

Netflix realized the value of user-built profiles based on personal viewing preferences. They created a system where advertisers host their own ads and, when needed for presentation, the user profile is presented to the group of relevant bidders for slot purchase. The result is a more targeted and thus more relevant ad in a just-in-time delivery fashion. By leveraging the on-demand nature of the cloud pricing structure and creating a content delivery model built on relevant preference alignment, Netflix achieved the scalability required to grow as the business demanded while enabling contraction without loss. They utilized the relevant ingredients to create disruption in an industry that had existed for over two decades and was seemingly protected by high barriers to entry.

In 2000, Netflix was offered to Blockbuster for \$50M. Blockbuster declined and is no longer in business. Netflix went public in 2002 at \$15 per share and is now trading at around \$570 per share. By building an operating system on the cloud to enable scalability and a variable cost-based infrastructure, they created a video streaming model that forever changed the world of media delivery.

## UBER: THE MOBILIZATION OF THE TAXI

The founders of Uber recognized and capitalized on the growing smartphone movement. Founded in 2009, Uber was built to satisfy the new normal: being able to do anything from the palm of our hands. As pure Software-as-a-Service in the form of a mobile app, Uber created an alternative transportation network that leveraged the concept of crowd sourcing for taxi driver fulfillment.

For Uber, the cloud provided the ingredients necessary to create a disruptive technology-based service that achieved mass adoption by putting themselves in the hands of the user. They leverage the insights by collecting massive amounts of data from the user to create unparalleled levels of efficiencies, business optimization and monetized data services. Essentially the next-generation of the taxi industry, Uber has investments of over \$2.7B and an anticipated 2015 revenue of over \$10B – and they do not own a single cab. Uber created a disruptive, technology-driven business by leveraging the cloud and adapting to the new mobilized world. In doing so, they transformed an industry that had existed for over four centuries.

## NEST LABS: THE NEXT-GEN UTILITIES DATA SOURCE

Nest Labs wanted to reinvent things by designing and manufacturing sensor-driven, WiFi-enabled, self-learning programmable devices. They launched with a thermostat that is installed in the home, but the objective was to create and monetize a smart grid that serves to optimize many aspects of the utilities industry. The thermostat learns when the home is occupied, automatically adjusts itself to lower heating and cooling bills, and can be controlled from a phone. It connects through the home's WiFi and sends data back to a farm in the cloud. The devices essentially serve as a proxy for electrical usage in the home and enable insight into real-time electricity consumption across the globe.



... continued, NEST LABS: THE NEXT-GEN UTILITIES DATA SOURCE

Nest Labs then monetized the insights they created through big data analytics by selling the data to electric companies. Electric companies have many challenges, but the main problem lies in the fact that electricity cannot be stored. If they over-produce, it dissipates; if they under-produce, it leads to rolling blackouts and service outages. The thermostat and smart grid created by Nest Labs essentially changed the supply chain in the world of electricity while saving consumers money and mobilizing device control to give them anytime, anywhere access. As a result, suppliers to electric companies now mine less coal, and the electric companies themselves require less nuclear and wind energy. In less than four years, a \$99 thermostat created by Nest Labs has changed a 120-year-old industry by mobilizing a traditional device and creating a smart grid. The fact that their disruption led them to an exit of \$3.2B to Google is just icing on the cake.

### WHATSAPP: TEXT MESSAGING, REDEFINED

WhatsApp originated as a cross-platform social messaging company. Growing in synchronization with the iPhone, they built their instant messaging platform on a scalable, cost-controlled infrastructure enabled by the cloud. WhatsApp was purchased by Facebook in 2014 for \$19B; at the time of acquisition, they were the medium through which more text messages were sent than all the Telcos combined. Acquired not for their messaging revenue but for the users that they could bring to Facebook's social media platform for monetization through advertising, they represent 60% - 70% of all messages sent worldwide today. WhatsApp disrupted the messaging industry by leveraging the ingredients offered from the cloud to change the rules and connect users while creating and mining the new natural resource - data.

### LONG STORY SHORT:

The mobilization of our world and the advent of the Internet of Things revolution requires that the cloud be leveraged to not only deliver on the possibilities, but to capture and mine the new natural resource: data. This "new gold" opens the door to significant monetization and exit value potential. The user, be it defined as a person or a line of business application, requires the solution to a problem be either solved in or delivered to the palm of the human hand. That hand now serves as a creator of or a conduit for the creation or access to data. Bringing structure to the unstructured nature of the capturing and storing of this data through software-defined, abstracted, and analytics technologies is one of the greatest potentials for both investors and business transformers alike. The globalization opportunities that the cloud brings and the transformational experience that is aligned with the future initiates the "Business-as-a-Service" requirement that the world now demands as their reality.

The ingredients of the data center delivered via a secured network allows for the creation of disruptive technologies that enable a competitive business edge. They provide an effective and cost-controlled delivery of the "next big thing" for businesses and enable them to enter new markets previously deemed impenetrable. Risk, capital and operational expenditures become more predictable. Speed to market with scale becomes a reality. The next-generation of Cloud enables people to rethink industries and businesses. Are you ready to rethink yours?