OVHcloud pushes for investment, partners, vertical integration and trust to expand its base

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Introduction

OVHcloud has laid out a strategy for growth that involves a mix of its own vertically integrated IT infrastructure business selling compute and storage, as well as partners and significant financial engineering and acquisitions to bolster a push for more enterprise business on top of its traditional cloud-native base. OVHcloud's largest step in this direction was the underline acquisition of VMware's vCloud Air business, where the software maker sold off its partner-led hosted private cloud business to OVHcloud, which then migrated all previous VMware customers into its own datacenters on the vCloud platform. OVHcloud also says that it has a particular regional advantage thanks to its stance on data sovereignty and data protection that will appeal to enterprises and partners operating in the European theater. To further that end, it has announced a partnership with T-Systems (Deutsche Telekom) for the GAIA-X project. It has also announced a partnership with Google to sell the Anthos hardware appliance that links to Google Cloud Platform services.

The 451 Take

OVHcloud can claim to be a leading cloud infrastructure provider – it ticks all the boxes on the technical and customer experience ends, and internally operates similarly to the other leading providers. It is trying to boost its vanilla core offerings with advanced infrastructure services and a value proposition from the bottom to the top of the stack. Others have attempted this strategy – a unified front based on a core strength plus partners and outside technologies layered on top – such as the former Dimension Data (now NTT) with its OneCloud initiative. OVHcloud says it will pursue acquisitions to round out the portfolio; conventional wisdom suggests that would be a better way to go. After all, the leading hyperscalers built or bought their technology according to taste, and partners served primarily as distribution vehicles and tool-development ecosystems. Like the hyperscalers, OVH has a strong track record in making money selling infrastructure capacity, so the fundamentals are not in doubt. However, key elements are lacking – notably, articulated infrastructure-focused strategies for supporting mobile/IoT/edge computing. Additionally, it remains

to be seen how well and how fast it can match the capabilities of the major public cloud platforms in areas such as AI/machine learning and data analytics.

Context

Founded just over 20 years ago, OVHcloud has been a longtime player in the web and application hosting market. In the last several years, it has positioned itself as a cloud computing provider selling fully abstracted IT infrastructure as programmatically accessible compute, storage and networking, patterning itself after AWS, which turned the hosting market on its head more than 10 years ago. OVHcloud has 30 datacenters, primarily in the EU and US, with 34 additional points of presence and 20TB of network capacity across its platform. It has 1.5 million customers (60% of which are outside France) and about 3,000 employees. Privately held, OVH took on outside investors KKR and TowerBrook in 2016.

Strategy

OVHcloud has been operating in the generally accepted cloud model for several years now, having unified its operations and customer interface in a software-centric architecture to sell its services in an on-demand and fully automated fashion. The company also touts itself as a 'trusted cloud provider' with a focus on upholding European data privacy rules as spelled out in the EU's GDPR.

However, OVH noticeably lacks the breadth and depth of services offered by leading cloud providers like AWS and Microsoft Azure. The hyperscalers' vast portfolios of services and feature functionality (collectively amounting to nearly two million individual SKUs) have a strong gravitational pull for attracting and retaining customers. OVHcloud looks to close the gap through partnerships and acquisitions, with more of an emphasis on the former than the latter. OVH is beefing up its own service portfolio, adding/improving offerings in storage, database as a service, security and machine learning. It has made two strategic acquisitions in storage – OpenIO (object storage) and EXTEN (block storage) – and is looking to technical partners for the rest. OVH's partner program has more than 350 members worldwide, ranging from global systems integrators to regional players, and it has more than 300 SaaS applications running on its infrastructure worldwide for partners to distribute and a public cloud marketplace with about 250+ fully digital SaaS/PaaS offerings from 70 vendors.

OVH views the enterprise cloud market (and movement beyond its historic tech/web customer base) as vital to continued growth and expansion outside France. The company says that along with its existing cloud-native web hosting customers, it has identified enterprises with cloud-migration needs as a top target, along with partners looking for wholesale/white-label infrastructure and datacenter capacity. It says it is working to identify and support new kinds of uses across its portfolio, which it divides into four segments: high-performance bare-metal cloud, hosted private cloud, shared public cloud and web hosting services. With its focus on core infrastructure services, OVHcloud doesn't have much to say about how it can support or develop new services for distributed mobile and IoT workloads, something the leading cloud providers have taken a stab at in various forms.

Technology

Vertically integrated: The firm also designs and builds its own computing hardware and datacenters for efficiency, similar to how other cloud service providers like Google, AWS and Facebook do, and says it carries out ongoing development and deployment cycles in software and hardware to stay competitive. It says its datacenters operate at a power usage effectiveness (PUE) rating of 1.1-1.25 (lower is better; 1 is the lowest possible) and, unusually, uses water cooling at scale for its servers,

which allows it to operate datacenters without air conditioning. OVH also runs a startup incubator with about 200 active ventures currently.

Its four product categories – managed by a common control panel – are bare metal, hosted private cloud (single-tenant hardware running VMware in OVHcloud facilities), OpenStack-based public cloud (multi-tenant), and web cloud (multi-tenant). It is considering providing its hosted private cloud to customers that want to deploy it in their own datacenters and at the edge.

OVHcloud has a made significant move up the stack, integrating partners into the OVHcloud platform to facilitate packaged joint offerings (an AI suite will be first out of the gate sometime in 2021). Managed Kubernetes may also be on the product roadmap, where it will work with a number of offerings. It is also seeking to understand the appetite for this among its 'traditional' SMB customer base.

Acquisitions: Earlier this year, OVHcloud acquired EXTEN Technologies, a company that developed a way to abstract and pool solid-state storage drives using the NVMe interface, an improvement over previous hard drive connector interfaces. It also acquired OpenIO, a software firm developing an object storage platform. Obviously complementary acquisitions, these point to OVHcloud's commitment to the continuous development model. They are also frugal, careful purchases that don't represent a big bet.

T-Systems

A new strategic partnership will see T-Systems offering a white-label version of the OVHcloud public cloud to its customers in a datacenter-as-a-service arrangement. Ultimately, this will also support data spaces and services created as part of the GAIA-X European federated cloud stack, of which OVHcloud and T-Systems are both members. The OVHcloud equipment is housed in half of one of the three-floor datacenter T-systems operates near Magdeburg, Germany. After a transition period, T-Systems will own, run and sell it to customers, providing connectivity, datacenter operations, public cloud operations, and Level 1 and 2 support. OVHcloud will provide Level 3 support and expects private hosted services may also be offered though this relationship over time.

Five-year plan

OVHcloud has spent the past five years building out its global reach (including OVH US). The next five years will be focused on three activities. First is developing new segments, especially around 'migrating to the cloud' in conjunction with partners. It will have a specific focus on French and German banking and insurance sectors, which can't move entirely to public clouds and require hybrid approaches. Second, it is going to build out new models, including an 'OVHcloud Inside' play for the enterprise, partnering with integrators and service providers such as T-Systems, which will build on top of OVH's infrastructure as part of a datacenter-as-a-service proposition. It will also certify third-party hardware from Dell, Lenovo, SuperMicro and other hardware vendors to work in its datacenters and with its control pane in colocation arrangements. It will build full-stack offerings around them that it and those partners will sell. Third, it plans to expand in geographies beyond France and North America organically and with partners. To this end, it has hired 300+ employees in sales and marketing.

Business model

The company expects to bring in roughly €700m ($829m) in revenue in 2020, some 16% up on its €600m 2019 revenue. Cloud accounts for the vast majority of its revenue – most of which comes from Europe – while the legacy web hosting business is slowing. OVHcloud is privately held by the Klaba family. In 2016, it raised $285m from KKR and TowerBrook, which took a minority stake in the

company. In 2017 it received a $457m line of credit from nine banks to fund international expansion. Its €1.5bn, 2016-2020 investment program is to be superseded by a new five-year plan currently targeting €3bn in investment over the period. To achieve this and its wider expansion goals, the company is examining finance options, including a 2021 IPO and/or additional institutional investment. It hopes this will enable it to fund its investment program and the acquisition of the 25+ startups it anticipates will be required to achieve the kind of growth and service expansion it is planning. OVHcloud anticipates giving up about 30% of the company through financing but retaining 70%. The pandemic hasn't impacted its supply chain – the company is still able to produce and deliver a server within 14 days – or its development plans. It says it can connect up to four racks or 200 servers per day in some of its datacenters.

Competition

On scale of deployment, OVHcloud is right up there with the largest providers, competing with AWS, Microsoft Azure, IBM, Oracle and Alibaba for infrastructure services. It also still faces web hosting mainstays like GoDaddy and 1&1 IONOS, which has not pegged out much ground in the enterprise cloud market but has continued to serve its own cloud-native consumer base with a similar portfolio to OVHcloud's basic offerings of virtual and dedicated servers and application hosting. The major difference is that OVH has settled on a marketing approach that lines up with the public cloud model as opposed to the hosting model it started with, and that OVHcloud has a significant stake in the enterprise with its VMware-hosted private cloud business. This puts it in competition with any number of managed infrastructure/hosted private cloud service providers, such as Expedient, Flexential, Internap, Flexera and Hosting.com.

SWOT Analysis

Strengths	Weaknesses
OVH's long-standing datacenter operations expertise, infrastructure intellectual property, VMware credentials, growing partner ecosystem, and commitment to open standards and interoperability provide a solid foundation for positioning itself as an alternative for customers that are wary of potential vendor lock-in with the hyperscalers. OVH's emphasis on data security and data privacy also appeals to organizations seeking open, transparent and 'reversible' cloud offerings.	The company's move up the stack into higher-level offerings (storage and database as a service and artificial intelligence) and jointly developed partnerships is just beginning. OVH will need to establish and convincingly articulate the benefits of its architecture to a discerning enterprise audience while delivering on the performance, price and ease-of-use benefits it claims as its differentiation.
Opportunities	**Threats**
Leveraging its base of vCloud Air enterprise customers, OVH looks to carve out a separate identity for the corporate market, given that the OVH brand signifies SMB-oriented web hosting. The company's 'OVH Inside' play for the enterprise (partnering with SIs and MSPs that build on top of its infrastructure as part of a datacenter-as-a-service proposition) lends itself well to both partner-driven sales and the wholesale/OEM/white-label play it is teeing up with T-Systems. Key to this effort will be continued automation/industrialization of the infrastructure stack, as well as planned professional services for architecture and cloud migration and applications developed and delivered jointly with ecosystem partners.	OVHcloud faces two threats: time and relevance. Significant portions of IT operations and infrastructure are moving beyond basic compute and storage into advanced infrastructure services, where OVHcloud is playing catch-up with the hyperscalers. It may find itself outcompeted before it has fully begun in this arena, and if it can't move quickly to exploit the vCloud customer base and expand, those customers could move on.

Source: 451 Research, LLC

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