Rebranded OVHcloud sticks to vertical integration to build a cloud that is free, fair and friendly

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Introduction

At its annual summit in Paris, French hosting and cloud services provider OVH announced the changing of its name to OVHcloud in a step designed to signify the shift in its business but perhaps more significantly, its ambition to challenge hyperscalers. While neither this aim nor the underlying component parts to its realization is completely new, the company struck an ever more energetic tone and also received verbal support from French government officials on- and offstage who called for the need for European expertise in mastering the latest technologies. OVHcloud is confident in its ability to stay cost-competitive with hyperscale offerings via its vertical integration of infrastructure design and build, and also urges third-party IT services providers to use its bare metal infrastructure to create and run cloud environments on behalf of their enterprise customers, rather than build their own.

The 451 Take

OVHcloud may have revealed a new name, but its messaging remains similar to what it has told the market over the past couple of years. It wants to go head-to-head with hyperscalers, in the belief that it can compete on cost while appealing to companies that are more sensitive to risks around data sovereignty and vendor lock-in. Our research shows that is a sizeable chunk of the total cloud market, at about one in five enterprises citing such considerations as top-of-mind barriers to cloud adoption. A typical response, however, is opting for multiple cloud operators. With this in mind, OVHcloud may want to keep its (hyperscale) enemies closer because many customers and MSPs – which the company is targeting through new partner initiatives – do not want to be forced to choose. More active support for cloud interoperability and services integration with hyperscale offerings would likely win over even more customers.

Context

OVHcloud was born in 1999 as a web hosting provider in France, launched by Octave Klaba, who currently serves as a chairman and general manager of the company. From early on, the company showed strong preference for bringing its infrastructure supply chain in-house – it started making its own servers in 2002, developed its first water-cooling system in 2003, built its first datacenter in 2005 and started to operate its own fiber network in 2006.

In 2016, the company raised €250m ($279m) with private equity firms KKR and Towerbrook to accelerate international expansion. OVHcloud acquired VMware's vCloudAir operation in 2017 to strengthen its US business in which it plans to invest an additional €500m through 2025. A key feature of the US business is that it operates completely separate from the rest of the group to create a legal air gap that protects against the US Patriot Act, which gives the US government broad surveillance powers on data located in the US. Most North American capacity is in the area of Montreal, Canada.

Today, the privately held company employs a total of 2,200 staff and operates about 380,000 servers in 30 datacenters across 12 locations. OVHcloud says its revenues are on track to reach €600m ($668m) in 2019, a growth of about 20% over the past year, and that it is profitable. It is currently in the process of adding datacenter locations in Amsterdam, Milan and Madrid as part of its €1.5bn capital plan for the five years running to 2021. The company maintains it will dramatically ramp up capital expenditures from 2021 as it builds out its global presence, calling for a plan to invest up to €7bn ($7.8bn) over five years.

Strategy update

For the past few years OVHcloud has been telling the world that while it wanted to take on the US and Chinese hyperscale cloud providers, it wouldn't want to become anything like them – running proprietary technology stacks, deploying complex pricing and operating under intrusive data surveillance laws. The French company maintains there is real demand for an alternative to current hyperscalers on grounds of data sovereignty and vendor lock-in.

451 Research's Voice of the Enterprise: Cloud, Hosting and Managed Services Q1 2019 survey shows that 19% of digital transformation leaders report control of data locality as a barrier to public cloud implementation, while 20% say vendor lock-in is a major concern. To combat this, 32% of organizations we surveyed said they address vendor lock-in concerns by opting for multi-cloud environments. This is a sizeable target market already, yet it is not just end users but also services provider partners that OVHcloud wants to attract to its platform, bowing to the fact that it needs allies if it wants to give success a chance.

451 Research sees three major areas of differentiation that continue to underpin OVHcloud's ambition. First, it's the openness of the OVHcloud platform. The company's public cloud offering is likely to be the world's largest open source cloud platform, running about 300,000 OpenStack instances (up from around 190,000 instances in 2017) on roughly 30,000 servers at the end of Q3 2019 (another big OpenStack cloud provider is Rackspace). OVHcloud deploys its own OpenStack distribution but contributes its code to the developer community. Keeping the code open allows for thorough security audits and the hybrid cloud installations where an on-premises private cloud runs an identical software stack.

Another infrastructure component to the openness is OVHcloud's emphasis on its bare metal services and the soon-to-be added OpenStack bare-metal option. Dedicated non-virtualized servers let customers run performance-critical applications but also to create custom private cloud environments. The company hopes the proposition will attract considerable business from partners such as managed services providers that will use bare-metal servers rather than spending on building or leasing their own physical infrastructure – the French cloud bets on the sales, consulting and software development resources of a network of such partners to help it grow faster than it could solely on its own. To that end, the company has streamlined its partner program that launched in August 2018, going from a four-tier model to two separate levels: Partners resell OVH services, while Advanced Partners benefit from a dedicated account manager, premium support and training.

This leads to the second point, vertical integration. OVHcloud maintains that its in-house manufacturing of fully customized server and storage systems keeps it cost-competitive even compared with much larger hyperscaler operators, and it regularly benchmarks its own cost against more outsourced supply chains. Perhaps more important than the cost is the speed at which OVHcloud can react to customer requirements both in capacity (keeping its infrastructure lean as it grows) and configuration (matching the profile of capacity to demand).

The company says it typically powers up systems in about two weeks from the start of manufacturing, and also caters to customers with specific system requirements, such as building large servers with lots of flash capacity for high-volume transaction processing and analytics, or GPU-heavy nodes for gaming, technical computing and neural network training. As we noted before, these benefits should attract IT services providers and likely resonates with enterprises, particularly in Europe, where there is a stronger-than-average preference for dedicated environments over public clouds when it comes to mission-critical applications. OVHcloud also offers VMware-based private cloud. According to 451 Research's latest VotE: Cloud, Hosting and Managed Services, Workloads and Key Projects 2019 survey, private cloud will be the primary cloud environment for 25% of enterprises in 2021, up from 22% today.

The third major piece of differentiation in some ways is probably the most fundamental of all: the OVHcloud network. Not only does OVHcloud prefer to use its own dark fiber network between its datacenters, which means it also largely dictates datacenter buildouts, but it is also a key to OVHcloud's promise not to charge for data traffic on top of bandwidth whether it enters or leaves its cloud, unlike offerings from hyperscale operators that charge for outbound data. This is a cost benefit for users with heavy traffic flows and also supports the OVHcloud commitment to reversibility – which means the customer should be able to transfer workloads and data out of OVHcloud without data export tariffs.

Competition

OVH competes in a broad range of markets in terms of products and geography. In the public and private cloud arena globally, it is up against hyperscalers AWS, Azure, Google and Alibaba as well as telecom players CenturyLink and NTT. For enterprise business in Europe, it competes with local and pan-European providers such as Exoscale, CloudSigma, Orange Business Services, Leaseweb and DT's Open Telekom Cloud. The recent acquisition of open source pioneer Red Hat by IBM creates a hybrid cloud powerhouse with infrastructure assets and sales resources on the ground in Europe and globally. For small business and e-commerce hosting and managed services, it contends with GoDaddy, 1&1 Internet, Rackspace and Host Europe.

SWOT Analysis

Strengths	Weaknesses
OVHcloud continues to manufacture its own servers and has stood up a fiber network, both moves that allow it more cost flexibility in its competition with hyperscalers. It's legally shielded against US data overreach.	While the name is new, OVHcloud has held onto messaging that it has used for the past few years around competing with hyperscalers. To stand out, OVHcloud needs to refine its message to the market and refresh its pitch as an alternative cloud provider in the hybrid cloud world.

Opportunities	Threats
The company's investment in the OpenStack ecosystem indicates that it has a strategy that spans public and private cloud so customers can select the right environment for their workloads. OVHcloud could see more interest in its bare-metal services because some companies require dedicated environments.	Most hyperscalers have strong, growing channel programs that include partners from all over the world. This could make it more difficult for OVHcloud to recruit MSPs that are involved in existing cloud partner programs, especially because these programs (like the AWS Managed Service Provider Partner Program, for example) demand more from partners to guarantee continued engagement.

Source: 451 Research, LLC