



## Market Insight Report Reprint

# Demand and opportunity in the alternative cloud provider market

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The cloud infrastructure market is dominated by a handful of large companies but there continues to be innovation and growth in the segment of alternative vendors outside the few hyperscalers. Cloud usage continues as COVID-19 drives businesses of all types to become more reliant on cloud-based resources.

451 Research

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## Introduction

As the discussion around cloud becomes increasingly focused around a small number of very large companies and the concept of a 'hyperscaler' becomes increasingly well understood, it is also becoming important to put some context around how we discuss the rest of the cloud infrastructure market, particularly the set of service providers that make up what we sometimes refer to as the 'alternative cloud' market.

451 Research does not currently have a formal definition for alternative cloud, but it is becoming a more important notion in how we talk about and examine other credible providers in the cloud space, and it is a segment we intend to define with greater clarity in a Technology and Business Insights report scheduled to be published in the first quarter of 2021.

### THE 451 TAKE

While the hyperscale public cloud vendors account for the largest part of the cloud infrastructure market, the growth of that market overall continues to benefit the alternative vendors that occupy the smaller portion. The growth of cloud usage and spending continues as the COVID-19 pandemic has driven businesses of all types to become more reliant on cloud-based resources and to adapt to more digital models for service delivery.

As the breadth of organizations seeking cloud solutions continues to grow, a gap in the skills necessary to navigate the complexities of the most advanced cloud platforms is a common limitation. This presents an opportunity for the alternative vendors to solidify the role of their services as delivering the core value proposition of cloud in a simpler, more digestible and often lower-cost configuration.

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## Alternative to what? A handful of hyperscalers dominate cloud

In order to understand and identify the alternative, we should first understand the context that would create the notion of an alternative in the first place. The cloud infrastructure market is overwhelmingly dominated (in terms of revenue) by a few very large vendors.

451 Research's Market Monitor service, our market sizing and forecasting instrument, estimates the infrastructure as a service market (one portion of the total cloud market) to have been a \$28bn market in 2020. However, the largest five vendors account for roughly 75% of that revenue.

One consequence of this concentration is that these vendors dominate the conversation around cloud, and they define the expectations for the market with their approach to services and technology.

While this brings a useful degree of consistency to how we view and discuss cloud, it also creates the risk that customers or observers may fail to notice other companies that may be succeeding or innovating in the space, creating interesting alternatives to the hyperscalers that cast the value of cloud in new ways.

While the largest cloud providers are set apart by scale and increasingly defined by large and fast-growing portfolios of advanced services, alternative providers offer the core cloud experience with a focus on simplicity, ease of use and frequently, cost.

## Why define an alternative cloud market?

It is tempting to define the alternative simply in terms of what it is not – alternative clouds are not among the small number of hyperscalers. While this is technically true, it barely narrows a field that likely includes hundreds or thousands of service providers and is mostly useless as a designation. It fails to capture the fact that businesses looking for alternatives to the offerings of hyperscale public cloud vendors are likely to be seeking credible alternatives that offer most of the critical functionality of the major cloud infrastructure competitors in a simpler format or at a lower cost. As a result, these businesses are likely seeking some criteria for establishing that credibility and identifying these alternatives.

A useful definition for alternative cloud, therefore, will identify the measures of credibility that makes this group of providers distinct from the long tail of infrastructure service providers, outlining a category that likely includes dozens of providers rather than hundreds.

## Criteria for a credible alternative

Identifying the key markers or criteria that distinguish alternative cloud providers as being credible entrants in that space will focus on the core requirements of the cloud customer. They should offer the core technical functions a customer is likely to expect from a cloud infrastructure platform – these are likely to include distinct compute and storage functions, potentially including object and block storage, as well as complementary functions such as load balancing and DNS.

Alternatives should also enable programmatic provisioning and operation via API. A quality of components that is comparable to the leading clouds, compliance with key regulatory standards and a footprint that makes it more than a regional offering (potentially offering global infrastructure locations).

This may not be an exhaustive list, but it does begin to illustrate the notion of a bar for service to clear in order to be included in the accounting of alternative clouds. This bar will continue to rise over time as functions such as effective tools for container management become more standard.

## The alternative cloud value proposition

In general, the central value of an alternative cloud offering should be mostly the same as the central value of cloud in general – that is, benefits to agility, cost, performance, availability and security of the applications and data being placed into the cloud. However, while the hyperscale cloud vendors offer additional benefits from scale, the scope of functionality and pace of new feature innovation, the alternatives frequently take an addition-by-subtraction approach to defining value.

Users of alternative cloud platforms frequently value the simplicity of the offering itself, including the interface, the pricing structure or the overall ease of use. That simplicity can also take the form of a less-steep learning curve and a shorter path for users, from starting out to being able to do what they need to. Possibly most important, alternative providers frequently position their services at a lower cost than the hyperscalers.

There are also areas in which alternative providers may offer more than the leading cloud providers, such as the level of managed service or customer service bundled with the baseline infrastructure offering.

The value of these alternative offerings would be strongest for organizations that appreciate the benefits of cloud but may lack the skills or resources to handle the level of complexity or advanced features offered by the largest players, and would benefit specifically from the simplicity of the alternatives.

## **Alternatives within the multicloud mix**

While many of the customers that see the value in alternative cloud offerings are SMBs, the appeal of the alternatives isn't limited exclusively to small or unsophisticated users. As larger organizations grow more advanced in their use of cloud, multicloud postures, where multiple different public cloud vendors are part of the cloud mix, grow more common.

Responses to 451 Research's Voice of the Enterprise cloud surveys and interviews have both suggested that one of the more common motivators behind multicloud is the ability to access the specific features of multiple platforms. So, for large organizations that may have workloads or use cases that would benefit from the specific features of ease of use, bundled management or simpler pricing, the alternative cloud vendors may find roles in larger multicloud portfolios.

In this sense, 'alternative can mean 'in addition to' rather than simply 'instead of:'

## **Competition in the alternative cloud market**

This is by no means an exhaustive list. It is impossible to map the entire market of alternative providers without a clear definition (hence the additional forthcoming work on this topic). However, there is a core group of vendors that is illustrative of the types of services being discussed – some of them independent providers and some of them sub-brands of larger infrastructure and hosting offerings.

Pure-play alternative clouds include the likes of Digital Ocean, Linode, Vultr, OVH and others that continue to see revenue growth in providing cloud infrastructure in a top-heavy market. Alternative cloud offerings also exist as components of the larger portfolios of companies like 1&1 Internet, DreamHost and Rackspace as well as many others (this is understandably a larger group).

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