Virtuozzo continues to build out alternative cloud software stack via acquisitions

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by Liam Eagle

Having made complementary acquisitions of OnApp and Jelastic this year, Virtuozzo is better positioned to offer its service-provider customers a more complete stack and a means to build more feature-complete alternative cloud offerings.
Introduction

After acquiring platform-as-a-service (PaaS) software company Jelastic in October and infrastructure management software firm OnApp during the summer, Virtuozzo is now poised to offer its customers – companies in or entering the cloud infrastructure service-provider space – a more complete software stack and a means of building more full-featured alternative cloud offerings. This combining of functions is positioning Virtuozzo as one of the leading vendors for hosting providers, MSPs, telcos, and others looking to build and sell cloud platforms, and among those vendors, the one most squarely focused on service providers.

THE TAKE

The path of business transformation leads to cloud, and public cloud has become a core infrastructure venue for a large and growing portion of businesses. Service providers from a variety of adjacent markets – datacenter companies, systems integrators, MSPs and telcos, among others – have taken note and are building or otherwise sourcing credible public cloud infrastructure offerings for their customers. The public cloud market today is largely defined by the feature sets and decisions of a handful of hyperscale vendors (primarily Amazon Web Services, Microsoft Azure and Google Cloud Platform).

Some alternative cloud providers are going to market with public cloud services in a format that emphasizes simplicity, cost, ease of use and managed services, among other things. However, building a credible alternative to the hyperscalers requires a service provider to clear a continually rising bar for functionality, including some of the capabilities for application management, provisioning and container management that Jelastic adds to the Virtuozzo platform.

Context

Virtuozzo has a long history supplying the service-provider market, both as part of SWsoft, an early innovator in server virtualization technology, and as a popular supporting technology among web hosting providers offering virtual private server (VPS) hosting services, a precursor to the virtual machines that now populate the public cloud. SWsoft acquired Parallels in 2007 and adopted that name. Virtuozzo was split off as a separate company in 2015, along with the control panel, desktop virtualization and service-provider automation tools (the latter of which was acquired by Ingram Micro).

While Virtuozzo continues to be popular among VPS hosting providers, the company’s focus and portfolio have evolved to include Virtuozzo Hybrid Server, its cloud software stack for service providers; Virtuozzo Hybrid Infrastructure, its hyperconverged infrastructure offering; and Virtuozzo Hybrid Cloud, a public cloud platform for resale.

With the acquisitions of OnApp in August and Jelastic in October, the company has picked up tools that expand and solidify its ability to offer service providers a complete cloud stack that includes more orchestration and provisioning functions, as well as application management and PaaS capabilities. Virtuozzo says the deals have also roughly tripled the size of the company in terms of headcount since the beginning of the year, bringing it to more than 300. The combined company serves more than 700 service-provider customers.

Technology

The companies say the acquisition was the result of a decade-long partnership that includes considerable existing integration work, as Jelastic makes use of the Virtuozzo containers technology. Virtuozzo believes the benefits of being part of a single organization, rather than close partners, are mainly around developing a shared roadmap and a unified platform that can help service providers to keep up with the evolving requirements of customers that are going from simpler infrastructure formats like VPS toward using advanced cloud features like containers and microservices, and other more automated ways to deploy applications.
While Virtuozzo’s platform previously enabled service providers to offer customers virtual machines, containers and virtualized storage, the addition of Jelastic’s technology allows service providers to offer premade container images for common operating systems and software environments, as well as tools for automating deployment of software stack components and the creation of clusters. The company says the Jelastic functions will be integrated into each of the Virtuozzo offerings – the cloud software stack, the cloud service and the hyperconverged infrastructure offering.

**Customers**

While Jelastic customers are all users of Virtuozzo software by virtue of its role under the hood, those companies aren’t necessarily customers of Virtuozzo. The company reports relatively little overlap between user bases, which it sees as presenting an immediate opportunity to present the expanded feature set across the combined installed base.

The company’s customers are frequently midsize or smaller service providers, and many of these organizations are looking for ways to build or advance their cloud platforms. As a vendor focused on the service-provider market, Virtuozzo is concerned with advancing its customers’ platforms, technically and conceptually, and making that advancement simple for service providers with a standardized and integrated stack.

The challenge here is the growing allure of the hyperscalers as a platform – even for those service providers that have already built public cloud platforms. In response to 451 Research’s Voice of the Service Provider: Workloads, Key Projects & Infrastructure Evolution 2021 survey, 58% of service providers said they would be more likely to use third-party infrastructure than their own when building a new service. In the earlier Differentiation, Vendor Selection & Budgets 2020 survey, 65% of service providers reported offering managed services connected with hyperscale infrastructure.

**Service Provider Engagement with Hyperscale Clouds**

**Ways of Engaging with Hyperscale Cloud Vendors**

- We provide managed services for customer workloads running on hyperscale public clouds: 65%
- We use hyperscale public cloud resources as a back-end to customer-facing services: 53%
- We provide network connectivity to hyperscale public clouds: 49%
- We use hyperscale public cloud resources to operate internal (not customer-facing) workloads: 48%
- We resell hyperscale public cloud resources directly: 35%

**Types of Managed Services Offered for Hyperscale Cloud**

- Management of cloud-native functions: 63%
- Cloud performance management/optimization: 60%
- Management of advanced platform functions: 58%
- Cloud security management: 56%
- Cloud governance and compliance management: 56%
- Cloud cost management/optimization: 54%

Q. In which of the following ways does your company engage with hyperscale public cloud vendors? Please select all that apply.

Base: All respondents (n=604)

Q. Which of the following managed services for hyperscale public cloud does your company offer today? Please select all that apply.

Base: Respondents who provide managed services for customer workloads running on hyperscale public clouds (n=393)

Source: 451 Research’s Voice of the Service Provider: Differentiation, Vendor Selection & Budgets 2020

However, the opportunity to support these providers with improved platforms may exist. Nearly three-quarters (74%) of the providers that said they were offering managed services for public cloud were somewhat or very concerned about being displaced by new capabilities of the hyperscalers.
**Competition**

As its portfolio grows, Virtuozzo competes with a larger set of software and hardware offerings, with a mixture of competing software stacks, and with customers piecing together components from different sources. At a virtualization level, it competes with the open source hypervisors Xen and KVM, as well as commercial tools like VMware’s vSphere and Microsoft’s Hyper-V, both of which are part of larger cloud software stacks. Service providers may also build on open source orchestration tools like OpenStack or CloudStack, or other service-provider-focused cloud infrastructure offerings such as Flexient, CloudSigma, Ormuco or Nebulon. The addition of Jelastic extends the company’s competition to include additional parts of the VMware portfolio, as well as the likes of Red Hat and DIY Kubernetes efforts.

As mentioned previously, a strong source of competition for all service-provider cloud platform technology is the option to get out of the business of operating infrastructure altogether in favor of delivering services over the top of the hyperscale public clouds.

**SWOT Analysis**

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<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<td>Virtuozzo has a long legacy and a well-established name in the service-provider space, along with a large installed base of customers that may be looking to modernize their infrastructure platforms in precisely the ways Virtuozzo is proposing. The acquisitions of OnApp and Jelastic fortify its portfolio and its position relative to those customers.</td>
<td>The flipside of a strong presence in the longer tail of infrastructure service providers is that Virtuozzo may see less consideration among the larger service providers, where it is competing with the likes of VMware and Red Hat. The company may have to work to establish credibility in that space.</td>
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<td>The two largest opportunities in front of Virtuozzo today are bringing its large existing base of hosting and infrastructure services clients along with its advanced cloud infrastructure vision, and selling the expanded product set gained via OnApp and Jelastic across the combined installed base.</td>
<td>Like any supplier of infrastructure hardware and software to service providers, Virtuozzo faces a threat from the trend of service providers moving away from infrastructure operation in favor of managing hyperscale cloud, or using hyperscale as a back end to their own services.</td>
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