

REPORT REPRINT

Linode adding to product set, footprint and marketing in effort to earn alternative cloud role

DECEMBER 12 2019

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After years of quiet growth, early cloud innovator Linode is increasing its efforts to firmly establish its place in the market for alternative clouds. It is well positioned to increase its impact as a comparatively simple alternative to hyperscale public cloud or as a project-specific piece of a larger multi-cloud portfolio.

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Introduction

After more than a decade of strong but quiet growth in the public cloud market, early innovator Linode is accelerating its efforts across the organization, with investments from staffing to datacenter footprint, product and service portfolio, partner channel and sales and marketing efforts. This has included the launch of datacenters in Toronto, Mumbai and Sydney, and a managed Kubernetes service. At a time when complexity is a top cloud execution challenge and multi-vendor postures are the norm, Linode is well positioned to increase its impact as a capable but comparatively simple alternative to hyperscale public cloud, or as a project-specific piece of a larger multi-cloud portfolio.

451 TAKE

The public cloud market is dominated by a handful of hyperscale players, with AWS alone accounting for nearly 45% of IaaS revenue in 2018. However, the market is large and growing. 451 Research's Market Monitor service forecasts that the IaaS market will generate \$23bn in 2019, and reach \$39bn by 2023. With the market's advance comes the increasingly widespread belief that this model is the way to consume infrastructure resources for a growing set of workloads, including among companies outside the enterprise segment. This ideology will benefit Linode and its competitors in what we sometimes refer to as the 'alternative' cloud market.

With a platform focused on simplicity of services, ease of control and cost effectiveness, Linode's cloud is well positioned as either a capable alternative to hyperscale public clouds or as one possible platform in a business's multi-cloud mix. We continue to see a market for alternative clouds. According to 451 Research's Voice of the Enterprise, Cloud, Hosting and Managed Services, 72% of businesses using public cloud have more than one vendor in place, highlighting the continued role for alternatives even within the scope of a single company's usage.

Context

Linode launched in 2003 in Nashville, Tennessee, with an early public cloud offering built on open source tools, focusing on bringing some of the computing innovation taking place at large software firms like Salesforce to a broader market in an accessible and affordable way and without proprietary code. Now headquartered in Philadelphia, the company has maintained that basic ethos as it has grown, contributing to a strong reputation among developers that has allowed it to grow steadily without outside investment and through a minimum of marketing.

Linode has been profitable since its first year and has grown steadily since then. The company now has just over \$100m in annual revenue and close to one million customers. It expects to grow revenues by roughly 25% this year, but is working to reach a higher rate, more in line with the public cloud hyperscalers, which have regularly reported revenue growth rates in the range of 40 to 50% on much higher bases.

Part of this growth effort includes increased emphasis on its service portfolio and delivery capability, which has seen the company introduce a range of new services and locations over the last several years, as well as new datacenters. Linode now operates 11 datacenters in locations that span the US and Canada, Europe and Asia, including a newly opened space in Sydney. It has increased its staff from 50 to more than 200 employees over the last two years.

Product and technology

Unlike the hyperscale players in the public cloud space, Linode isn't focused on (or equipped for) rolling out new products and features at a breakneck pace. Instead, the company is carefully engineering and introducing additions to a set of roughly 20 features that include core infrastructure offerings and a set of managed services that operate on top of that. It remains devoted to using open source tools to build services and on delivering high performance at a low price.

Linode is also focused on making it simple and affordable to use and manage public cloud, an objective that led the company to build its own cloud control panel, Cloud Manager, which is also accessible via public API for customization by users.

On the infrastructure side, Linode has the standard cloud platform components of compute, object store, block store, load balancing and DNS services. It also believes its work on building GPU-optimized and bare metal compute instances are differentiators for the company. It points to Nvidia and AMD as key partnerships.

On the services side, the company offers managed backups, click-to-deploy app integrations, and most recently launched its Managed Kubernetes Engine, a container management service the company says is focused on simplifying the user experience for developers by automating configuration, provisioning and management for Kubernetes clusters. The tool can be used to create and manage clusters from any combination of Linode's infrastructure services.

The company plans to continue expanding its services portfolio, expecting to roll out database as a service and to extend its management tools to offer a seamless experience managing bare metal resources.

Linode believes its independence from investors has allowed it to over-invest in aspects of its business that matter to customers but don't necessarily turn a direct profit. An example of this is the scope of Linode's support, which provides non-tiered access to human support staff via phone to all its customers.

Customers and partners

Linode says its customer profile grew along with its product portfolio and its ethos, which has always emphasized open source systems, and on providing customers with command line access to resources. From the start, the company's service has been popular with developers. However, Linode says some of those developers have built or joined large businesses over the last 16 years.

While the company's customer base includes Fortune 1000 companies as a result, its primary market continues to be independent developers. As that user base has grown, however, it has reached beyond the administrative experts and command line purists of its early days to include less specialized startup and SMB users. As a result, Linode has had to become more focused on simplifying the operational and management aspects of using its services for things like deploying WordPress sites.

Part of Linode's growth strategy is a partner program. The company says building up this program will involve formalizing relationships it already has in place with potentially hundreds of partners in the small SMP and VAR space, providing them with a simple, efficient, well-priced and well-supported cloud platform. The company believes this could have a significant impact on its reach in regions such as Africa, South Asia and Latin America.

Competition

As what 451 Research sometimes describes as an ‘alternative’ cloud provider, Linode competes with the hyperscale public cloud vendors – AWS, Azure and Google Cloud Platform – but not by providing an equivalent footprint or feature set. Rather, it competes on the premise of offering a simpler, lower-cost and more directly supported cloud infrastructure platform, appealing to cloud users for which the scale and pace of innovation of the big players isn’t necessarily a selling point. As a competitor to the hyperscalers, alternatives like Linode can also offer a specialized platform within a larger mix of vendors for projects where its work on bare metal or GPUs might make it a good fit.

As an alternative cloud provider, offerings more comparable to Linode’s come from organizations like DigitalOcean, Vultr, OVH, Rackspace’s public cloud offering 1&1 Internet’s IONOS cloud service and Amazon’s own Lightsail brand.

SWOT Analysis

STRENGTHS

Linode has a strong cloud infrastructure product set that includes many of the in-demand managed add-ons and continues to expand while retaining simplicity and limiting the complexity of using the platform. It has a strong reputation among the most technically oriented parts of its market segment.

WEAKNESSES

Despite a strong reputation among users, the company does not have a particularly well-known brand, especially considering it competes in principle (if not exactly on technology and features) with some of the largest and best-known technology companies, including Amazon, Microsoft and Google.

OPPORTUNITIES

A simple step into more active marketing would begin to address its limitations around branding, and Linode is already moving in this direction. While there is a continued opportunity in capturing net new cloud users that fit its profile, Linode also has an opportunity as existing cloud users adopt more targeted platforms within their own cloud portfolios.

THREATS

With accessibility as a selling point, Linode, like other alternative clouds, faces a threat from the possibility of ongoing improvements to optimization and automation tools making the hyperscale public cloud experience comparably simple. The company must continue to focus on areas beyond simplicity (such as the quality of support) that distinguish it.