DigitalOcean continues its rise as an 'alternative' cloud for developers and SMBs

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Since the last time we caught up with DigitalOcean, the IaaS provider has extended its sights beyond individual developers, expanding features and offerings to better serve startups and small- to medium-sized businesses' developer teams.

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Introduction

Over the last several years, DigitalOcean has built out its feature set in a way that has taken it from a provider of cheap and simple virtual machines (VMs) to a legitimate public cloud alternative, most recently adding support for Redis and MySQL to its managed database services. As its services evolve, it continues to experience healthy growth and maintain popularity among the independent developer audience. Over the past two years, DigitalOcean has accelerated the velocity of its feature development, looking to better meet the needs of a business audience. By emphasizing a simplified feature set, pricing structure and user experience, even as it expands its competitive footprint in the shadow of public cloud vendors such as Amazon Web Service (AWS), Microsoft Azure and Google Cloud Platform (GCP), Digital Ocean continues to help define what it means to be an alternative public cloud in a market dominated and largely defined by hyperscalers.
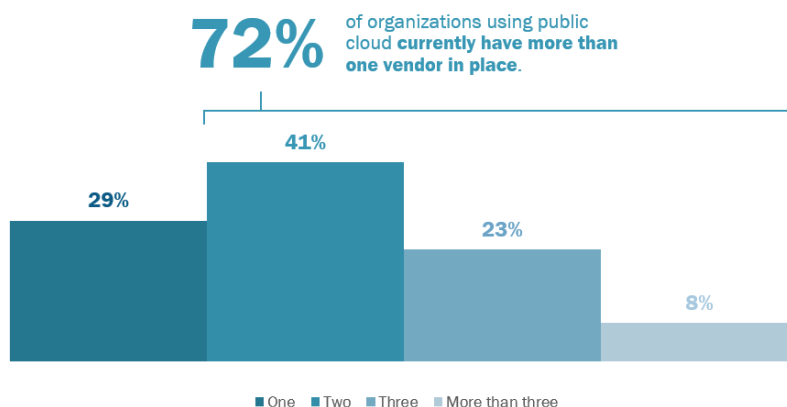
451 TAKE

The public cloud infrastructure market is dominated by hyperscalers to an extreme degree, with AWS alone generating nearly 45% of IaaS revenue in 2018. However, it is a large market – according to 451 Research's Market Monitor service, the IaaS market is expected to generate $23.4bn in 2019, and to grow at a CAGR of more than 14% through 2023, reaching more than $39bn in that time. Even with the dominance of the market leaders, there remains an appealing opportunity for alternative cloud vendors, provided they can effectively define the value of an alternative in that market. Responding to 451 Research's Voice of the Enterprise: Cloud, Hosting and Managed Services study, 72% of businesses using IaaS/public cloud indicated they were currently using more than one vendor, with more than 30% using more than two vendors (see Figure 1 below). Although usage is frequently concentrated with a primary vendor, there is typically room, even within a single customer's business, for alternatives.

Context

Figure 1: Number of public cloud vendors in use

Number of public cloud vendors in use

% of respondents using IaaS/public cloud (n=267)

72% of organizations using public cloud **currently have more than one vendor in place**.

29% 41% 23% 8%

■ One ■ Two ■ Three ■ More than three

Defining the value of an alternative in the hyperscaler-dominated public cloud space is a key challenge facing DigitalOcean as well as businesses like OVH, Leaseweb, Linode and other infrastructure companies looking to position themselves in this role. DigitalOcean has been particularly effective in defining the value an alternative cloud vendor can represent.

While hyperscalers showcase the pace of innovation as a selling point (and AWS, in particular, introducing new features and functions at an incredible rate), DigitalOcean has differentiated itself by emphasizing simplicity in its feature set, in its pricing and in its user experience, while also highlighting an uncommon focus on community resources and a level of support not commonly associated with public cloud.

The focus on simplicity benefits DigitalOcean, which, like most infrastructure businesses, lacks the resources to match the hyperscalers on the pace of innovation. However, effectively delivering simplicity with each new feature is its own engineering challenge. Extending its portfolio to appeal to a broader set of businesses will challenge the company to keep to this approach.

NYC-based DigitalOcean was founded in 2011, offering simple VMs with a strong price and performance positioning and a focus on independent developers. It has grown steadily, maintaining a healthy developer community with a goal of helping users become 'next-gen' software developers. Over the past two years, its focus has expanded from individual users to include the startup and SMB audience, with the company adding features and products to better accommodate this market segment. DigitalOcean continues to grow, going from 500,000 active customers to nearly 580,000 since the beginning of the year. Half of these are SMBs.

DigitalOcean is venture-backed, publicly reporting $123m in funding to date. Management indicates having a $250m revenue run rate and expects to reach $300m by the year's end, fueled by both new customer wins and the growth of existing customers. The company employs 550 people across three locations globally, located in New York; Cambridge, Massachusetts; and Bangalore, India. It maintains a global presence, with nearly two-thirds of its revenue generated outside the US and serves users in 195 countries with 12 datacenters across eight distinct markets.

Customers

DigitalOcean has always served the developer use case, providing essential cloud infrastructure components and community-driven educational resources that enable novice users to become more effective developers. It has built its services around the idea that the role of developer is changing and becoming more accessible to anyone. The company aspires to be a critical enabler in this process. A huge contributor to DigitalOcean's growth has been its ability to provide the means for businesses to 'grow up' with it. Developing tools simple enough for the average person to leverage is at the core of its value proposition. This notion of user friendliness is a central selling point for its customers. As it extends further into the SMB market, it will continue to lean on that selling point.

Technology

Starting as a provider of inexpensive VMs, called Droplets, DigitalOcean has, especially during the last several years, continued to expand its portfolio, now offering a complete set of public cloud infrastructure resources. This more sophisticated set of offerings includes compute, storage, networking and database functions, including managed Kubernetes clusters, load balancers and managed database. Most recently, the company added support for MySQL and Redis to its managed database offering, which already supported PostgreSQL.

As a part of delivering a complete set of public cloud features, DigitalOcean introduced a marketplace earlier this year, a catalog of preconfigured applications similar to the marketplaces of the hyperscale cloud vendors. It says it has doubled the marketplace's catalog since March, and now offers roughly 80 applications including open source developer tools, frameworks, blogs, databases and productivity tools, all of which can be deployed with one click on a Droplet VM. The company recently launched a vendor self-service portal to automate submissions and accelerate the marketplace's growth. It says the marketplace is driving usage among both existing and new users.

Strategy

DigitalOcean does not attempt to compete with AWS, Azure and GCP in terms of scale and pace of innovation. It identifies its four critical differentiators as simplicity (ease of use), community engagement and education, service and support, and predictable, affordable pricing.

The company prides itself on its global developer community engagement and education. It offers free access to a largely user-generated knowledgebase containing tutorials, comprehensive Q&As and integrations, which receives nearly 3.5 million unique visits per month. DigitalOcean also provides free support services, with different service levels based on the volume of usage. It is experimenting with a paid 'premiere' support tier for businesses. Pricing is based on predictable, simple models, with monthly caps and flat pricing regardless of datacenter or location.

Its growing focus on business users is driving the company to develop a stronger sales organization and build up a partner channel, where previously it operated largely on word of mouth to drive new business. Its new channel partner program includes managed service providers, DevOps service providers and cloud platform providers, among others, in order to sell into diverse customer bases.

Competition

DigitalOcean is gaining traction with SMBs, in some cases seeing customers moving from AWS to its services. It competes with the hyperscalers (such as AWS, Azure and GCP) specifically by operating a simple and cost-effective alternative cloud. It shares the role of alternative cloud with a few other vendors including OVH, Leaseweb, Linode, Vultur and 1&1 Internet's IONOS.

Although DigitalOcean has evolved into a legitimate public cloud platform (and its technical and strategic efforts are focused in that direction), it continues to be a consideration for customers seeking low-cost VMs. In this market it competes with a range of hosting providers that includes GoDaddy, 1&1 Internet, Endurance International Group (BlueHost, HostGator) and LiquidWeb.

SWOT Analysis

STRENGTHS

DigitalOcean maintains a strong following within the developer community. Its focus on simplicity and community have helped to define the role of an alternative cloud.

WEAKNESSES

In a direct comparison to the hyperscale vendors it competes with, DigitalOcean is limited in both features and scale. Scaling up an infrastructure business is expensive.

OPPORTUNITIES

DigitalOcean sees significant opportunities in offering an expanded feature set to its existing user base and in bringing its value proposition to a wider set of business users.

THREATS

The continued abstraction of the infrastructure component of public cloud via marketplaces, PaaS-layer functions and other advances may reduce the impact of DigitalOcean's simplicity as a differentiator over time.