

# Brinkster offers deep margins versus AWS pricing with its white-label cloud program

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With a 15-year history in the Web and application hosting business, Brinkster has spent the last two transitioning away from the more commoditized products in that space and toward offering a set of infrastructure-as-a-service products. Rather than compete directly with the largest IaaS players for enterprise cloud business, the company is seeking to address a gap in the market by serving the long tail of SMB-facing VARs and MSPs with a channel offering.

Leveraging a proprietary hardware platform that it says provides power advantages of up to 50% relative to standard server architecture, Brinkster is rolling out a cloud reseller program. It is attempting to appeal directly to that channel with an uncommonly strong partner margin, along with a broad set of infrastructure types and the ability to fully white-label the product.

By targeting this reseller market, Brinkster is avoiding an unwinnable scale battle with the largest providers in the IaaS market. It is among the first IaaS companies to differentiate by targeting this channel market, which Brinkster and others regard as a large and mostly untapped opportunity for service providers. Its ability to deliver margins of up to 40% on AWS-comparable pricing will help the company to make a splash. However, we expect competition for this market to ramp up in the near future.

## The 451 Take

In the early years of public cloud, service providers have understandably focused on enterprise adoption. More recently, increasingly accessible commercial cloud products have driven appetite for similar resources in the SMB space. However, the supply chain for delivering cloud resources has not yet fully adapted to the business models of the channel

that ultimately handles that SMB adoption of IT. White-label and channel-focused IaaS products have emerged, but no one vendor is a clear leader in supplying that market. With its white-label cloud program, Brinkster is targeting a significant opportunity to supply that channel with an offering that meets its business model. And its focus on offering a strong margin is likely to make it an early favorite among those resellers who place a heavy importance on margin, particularly those who want to brand the services as their own.

## **Context**

Brinkster was founded in 1999, and has primarily operated in the shared and dedicated Web hosting space during that time. Over the last two years, the company has transitioned to offering a set of infrastructure-as-a-service products. The company currently serves more than 50,000 customers, with the largest portion of those being in its legacy hosting business. It has 40 employees.

Brinkster is privately held, although management indicates that it is in the process of raising investment capital that it would use in building out and marketing its wholesale cloud services. The company is reluctant to share revenue details; however, we believe it to be at the low end of the middle tier of hosting providers in terms of size. The company indicates revenue is growing year over year, and it expects growth to accelerate based on the cloud channel program.

## **Technology**

Brinkster's infrastructure services are based on a patent-pending proprietary hardware platform the company developed over the last six years in serving the traditional hosting market. It consists of custom rack, chassis and power distribution components. The platform applies some of the same principles as the Open Compute Project, but Brinkster indicates its systems do not rely on (and, in fact, predate) Facebook's framework. The company claims power advantages of up to 50% compared with standard server architecture. This has a direct impact on cost of operations, and enables the company to construct its systems more directly to suit the products it wants to deliver.

Brinkster's cloud services include public cloud infrastructure, private cloud, hybrid cloud (meaning that it will assist partners in connecting hosted cloud infrastructure with on-premises environments), a VMware cloud server product, workspace as a service and disaster recovery. They are built on a 10-Gigabit network and an all-SSD storage environment. The company relies on Ceph for its storage systems, KVM at the hypervisor level and Flexiant as an orchestration system.

Brinkster operates a private datacenter in Phoenix, and is currently expanding into a multi-tenant datacenter space in Ashburn, Virginia.

### **Partner program details**

Brinkster has spent the last year building out a channel program, and is currently in the process of on-boarding an early group of partners that includes IT Workshop, cStor, Valor Global and Cogent Communications. The company indicates that it expects to shift over the relatively short term toward a position where all of its new revenue comes from its channel business. With its white-label cloud server program, Brinkster intends to serve the large group of smaller MSPs, VARs and systems integrators that have traditionally served SMBs (although the company says its cloud is capable of handling enterprise workloads, such as large e-commerce sites, or Hadoop projects).

The smaller resellers Brinkster is targeting have for many years filled the 'trusted advisor' role for small businesses, providing IT consulting and sourcing server hardware for on-premises software workloads and other projects. Whereas some of their larger, enterprise-focused counterparts have begun to shift their managed services business models onto brand-name public cloud infrastructure, this segment may be more reliant on the margin it receives from the hardware it supplies. As a result, it has been a barrier to the widespread adoption of cloud infrastructure among SMBs. Brinkster believes the ability to rebrand its infrastructure, and a baked-in margin on those resources, will make it easier for these prospective partners to port their business models to the cloud.

Brinkster's partner program enables resellers to set their retail pricing. For partners that price their services at roughly equivalent to AWS IaaS, the company offers margins ranging from 20-40%. If customers price their services at Rackspace levels, those margins range from 30-65%. Those margins are adjusted across three program tiers, based on sales volume. The company charges a setup fee of \$600 for the program and a monthly fee of \$300 (which comes with a \$200 credit for cloud services). The monthly fee is eliminated at the program's highest tier, and the company is discounting the setup fee to \$300 during the Cloud Channel Partners conference, where it is launching the service.

Partners are expected to provide tier-one support and to own the billing relationship with customers. Brinkster provides partners with tools for billing, or that can be tied into existing billing systems via API. The company will also provide pricing and marketing resources, and expects to provide additional supporting go-to-market materials over time.

## Competition

The closest competition for Brinkster's white-label cloud service comes from ProfitBricks, a pure-play IaaS company with a channel program serving smaller resellers, and Hostway, which is launching a program similar to Brinkster's in a similar time frame. Verio and HostMySite have also expressed an interest in providing a white-label offering to channel partners that target SMB end users. In a general sense, Brinkster's offering competes with the largest IaaS players. Amazon Web Services operates a partner program; however, it is not a white-label program, and its consulting partners tend to target larger midmarket and enterprise end users. Wholesale IaaS products are available from companies including Peak, Artisan Infrastructure and ThinkOn, but those products are similarly reaching enterprise end users.

Over time, Brinkster will likely face competition from the traditional suppliers of hardware to the channel, including Ingram Micro, Accenture, Arrow Electronics, Capgemini and Cognizant, as they build cloud resources into their marketplaces. 451 Research expects additional competition from the traditional hosting space to emerge over time.

## SWOT Analysis

### Strengths

Brinkster has a partner program specifically tailored to a large and mostly underserved channel, as well as a proprietary hardware platform that enables it to be extremely competitive on margin.

### Opportunities

We believe there is a large group of channel partners that want to offer cloud services to their SMB customers, but have yet to find a supplier that meets their specific requirements. Brinkster is targeting these partners directly.

### Weaknesses

It is small compared with the big players in the IaaS space, and lacks the capacity, geographic reach and full feature set of a service like AWS. The company is also relatively new to operating a channel partner program.

### Threats

Brinkster is early to this market, but other mid-tier IaaS providers are certainly eyeing the channel with similar strategies. The company is likely to find itself competing for these channel partners with a handful of other vendors. Success in serving this market could lead to more competitive offerings from the larger IaaS providers.

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