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Desktops-as-a-Service Global Market Trends: The Service Provider Perspective

Data-driven insights on projected market growth, vertical market trends, and infrastructure trends from the service providers delivering Desktops-as-a-Service.

As 2013 wound to a close and the new year began, analysts, pundits and vendors proclaimed 2014 "the Year of DaaS," when market growth would accelerate. Part of this attention was driven by acquisitions in the desktop hosting market, as well as by the launch of Amazon Workspaces, both of which helped fuel growing Desktops-as-a-Service (DaaS) market buzz.

Ironically, a Google search on "Year of DaaS" generates dozens of responses from vendors and pundits. Yet searches on "Desktops-as–a-Service research" or "DaaS research" reveal little useful data on this relatively new market.

This lack of market insights creates a difficult dilemma for managed service providers (MSPs) who may be considering whether to begin offering DaaS. Without data, the question arises – how much of this hype is grounded in reality? Have any of these predictions come true?

The Citrix Service Provider program team works with more than 2,600 service providers around the world who deliver DaaS and hosted workspaces to a variety of customers. In Q2 of 2014, the Citrix Service Provider Center of Excellence conducted a global survey of these service providers to gain insights into the evolution of this emerging market. The study generated responses from more than 700 Citrix Service Providers located in 25 countries around the world. The survey included the following questions:

• Do they anticipate revenue growth from DaaS?
• Which vertical markets are embracing DaaS?
• Is DaaS demand strongest among small, medium or large businesses and organizations?
• What kind of infrastructure are service providers using to deliver and manage DaaS?
  Their own data centers or a major cloud provider?
• Which hypervisor are DaaS providers using?
• What kind of service bundles are MSPs offering to drive growth?

Do Service Providers Expect DaaS Revenue to Grow?

Trumpeting the year of DaaS makes a great headline, but how do the service providers delivering Desktops-as-a-Service to customers see the market? The survey asked the following question:

What do you anticipate for DaaS revenue growth over the next 12 months?

34%

Anticipate growth
between 16 - 50 %

87%

Providers anticipate
DaaS revenue growth

19%

Anticipate growth
over 50%
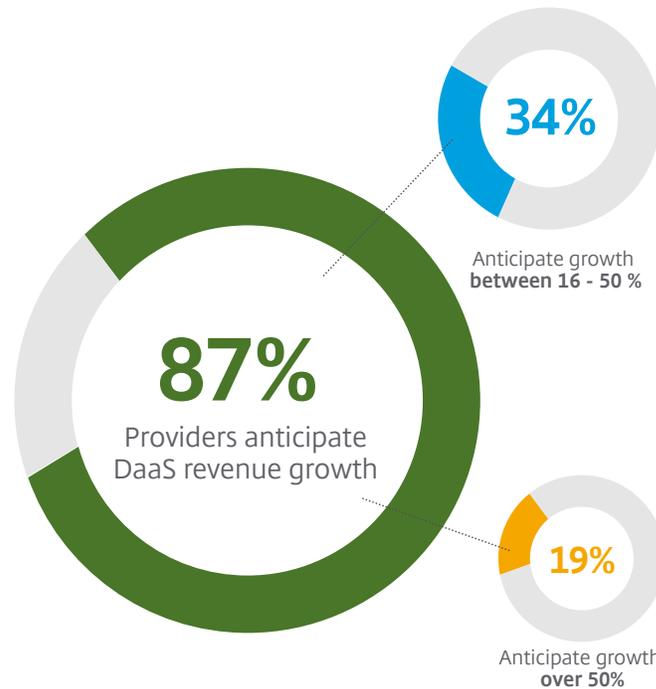
Citrix Service Provider Center of Excellence Survey
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The vast majority of respondents - 87 percent - anticipated DaaS revenue growth, with 34 percent projecting growth to range between 16 and 50 percent. Some service providers were particularly optimistic, with 19 percent of the respondents projecting revenue growth to exceed 50 percent.

While new service providers entering the DaaS market may accelerate revenue growth beyond respondents' projections, the answers suggest current DaaS providers are being conservative in their near-term estimates.

What Services Are Providers Planning to Add to Fuel Revenue and Subscriber Growth?

Anticipating growth is one thing. Deciding which mix of services will fuel that growth is another, which led to the following question:

In the next 12 months, what service(s) are you planning to add in order to grow your business?

The majority of service providers – 53 percent – see demand for bundled services that combine DaaS with applications, plus mobile device management services and cloud-based file sharing services to solve the specific needs of each business customer.

As Adam Burke, Director of Partner Development, Quest, in Sacramento, California, explains:

"Along with our DaaS solution, we provide a host of professionally managed services, from security to disaster recovery. We also remove the complexity in the back-end infrastructure from the equation and deliver a consistent end-user desktop experience for our global customers, whether that's streaming specific applications, isolating users from the entire corporate network and only providing applications that they need on demand. This is a real need for enterprises with transitional labor forces, labor on demand and BYOD initiatives. Mobility is huge, and DaaS really helps us deliver this capability."

These comprehensive packages provide customers with a business-ready desktop that can meet business needs. An all-inclusive offering reduces "sticker shock" from end users that can lead to increased customer churn.

Additional services that respondents plan to add to drive growth include the following:

• 44% file sharing and sync services
• 43% mobile device management
• 28% hosted line of business applications such as Microsoft Exchange, Microsoft SharePoint, Sage, Intuit and other high-value vertical market specific applications.

Is DaaS Demand Stronger among Small, Medium, or Large Businesses?

Do the MSPs offering DaaS services target smaller or larger businesses? To discover that answer, the survey asked service providers:

What is the average customer size in terms of number of employees that you target with your hosted services?

Serving **<100** end users

Serving **<50** end users

more than **70%**   **40%**
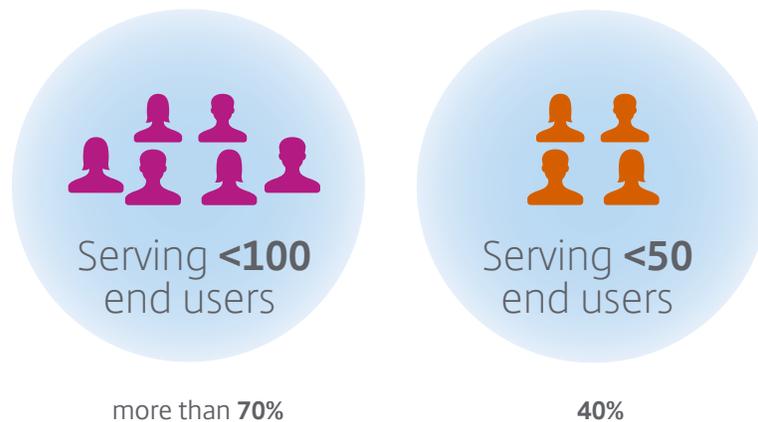
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More than two-thirds of respondents – 70 percent – cited their average customers had fewer than 100 employees, and 40 percent serve businesses with fewer than 50 employees.

Yet, at the same time, 22 percent of respondents reported providing DaaS to larger businesses, with some service providers currently providing DaaS and other workspace services to organizations with more than 1,000 employees.

We observed that the current appeal of DaaS for smaller businesses is driven by the ability to outsource line-of-business applications and desktop management to a service provider. But concurrently, larger enterprises with IT managers are increasingly trusting service providers to manage individual desktops and employee digital workspaces. Individual reports from service providers confirm a pipeline of growing interest among their larger enterprise customers.

Which Vertical Markets Use DaaS?

Many managed service providers provide business-ready services, specializing in specific vertical markets, allowing them to provide higher-value services to their customers, increase customer loyalty, and increase margins.

Paul Kunze, Vice President, Sales & Marketing, IntraSystems, based in Braintree, Massachusetts, explains why his company specializes in healthcare IT:

"IntraSystems hosts over 8,000 desktops a month in the healthcare space. That number grows based on the success that we have provided for end users of an electronic health record system ISV who needed to move from an on-premise installation to a cloud model. We have built a hosting environment with the ISV and supported client onboarding, which helped to grow their customer base. We have found the more specialized and customized you can be in forming the right vertical relationships, you can charge a premium price and build a successful business."

Timo Haapavuori, President and CEO of Magic Cloud, based in Ikaalinen, Finland, explains why his organizations specializes in serving accounting companies:

"Accounting companies need to be customer focused. In many cases they don't have the opportunity to provide the range of IT services that they would like to run their business, so they need a partner."

The appeal of focusing on their specialty for business customers extends to a company that specializes in producing Belgian chocolates. Geoffroy Timmermans, head of business development, award-winning Belgian chocolatier Pierre Marcolini Haute Chocolaterie, based in Brussells, Belgium, explains:

"We aimed to externalize the IT competence to a hosted solution…Like everyone in the company, we don't understand much of informatics – the less we hear about it, the better we can focus on our core competencies. We can now focus on producing and making chocolate."

To determine which vertical markets are embracing DaaS, and hosted workspaces, the survey asked respondents to:

Please select your primary vertical specialty and any other vertical specialties.

The largest number of service providers who responded listed financial services, healthcare and manufacturing as the vertical markets they served. This is an interesting change in the vertical market ranking compared to the December 2011 Citrix Service Provider survey. In 2011, service providers indicated their leading verticals were healthcare, legal and public sector/government. Manufacturing finished fifth in the 2011 survey ranking of most popular verticals and third in the 2014 survey. The growth of manufacturing as a DaaS vertical is a keen indicator of new trends in the vertical market ranking, which is usually dominated by healthcare and financial services.

Other verticals ranking in the 2014 survey included construction/architecture/engineering, public sector/government, retail, legal and education, which are listed below.
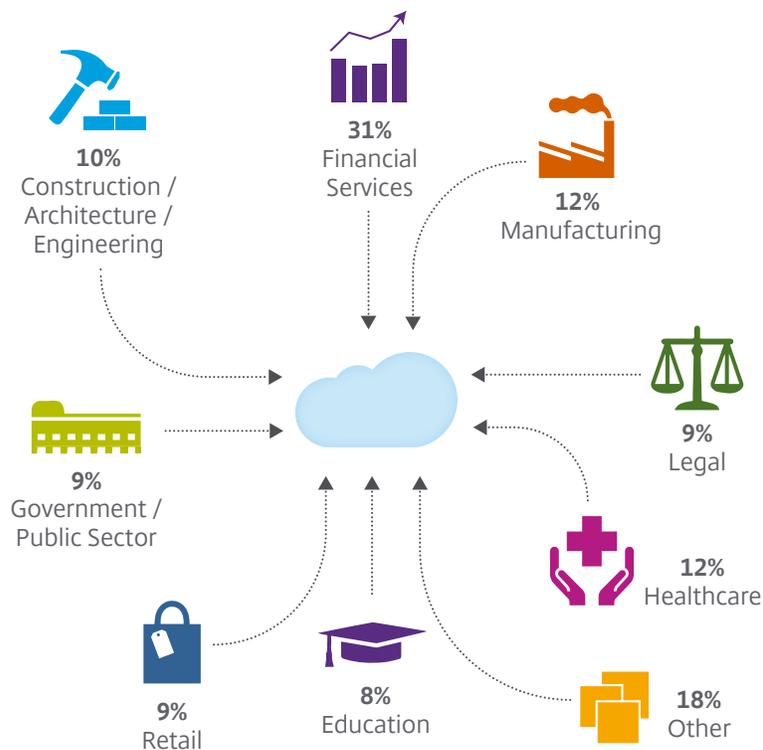
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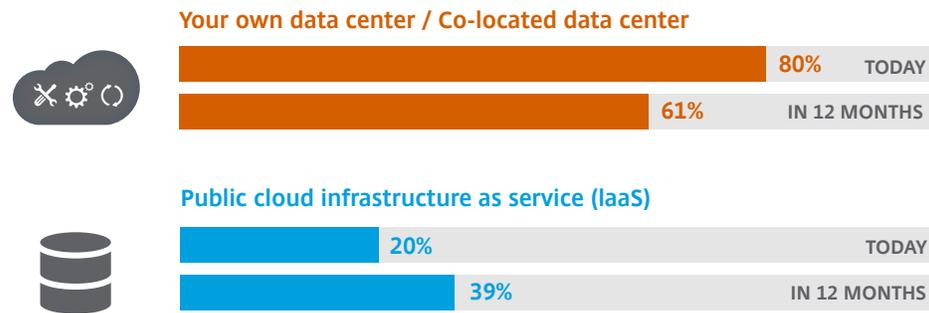Copyright © 2014 Citrix Systems Inc.

- Financial Services: 31%
- Healthcare: 12%
- Manufacturing: 12%
- Construction/architecture/engineering: 10%
- Government/Public Sector: 9%
- Retail: 9%
- Legal: 9%
- Education: 8%
- Other: 18%

While it's noteworthy which vertical markets are being served, the breadth of responses also indicates the horizontal appeal of DaaS across a range of markets.

Which Infrastructure Model and Hypervisors Are Preferred by DaaS Providers?

While DaaS customers are clearly embracing the concept of outsourcing applications and desktop management and delivery, what kind of infrastructure are DaaS service providers using? Based on the continued growth of public cloud Infrastructure-as-a-Service (IaaS), are service providers embracing (IaaS) as an infrastructure? To clarify current infrastructure trends among service providers, the survey asked:

What infrastructure model do you use or plan to use to deliver services?

Your own data center / Co-located data center

80%	TODAY
61%	IN 12 MONTHS

Public cloud infrastructure as service (IaaS)

20%	TODAY
39%	IN 12 MONTHS

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• Your own data center/co-located data center
   - Today: 80%
   - In 12 months: 61%
• Public cloud Infrastructure as a Service (IaaS)
   - Today: 20%
   - In 12 months: 39%

While some providers either use or plan to use public cloud IaaS, the overwhelming majority today use either their own data centers or co-located data center facilities to deliver DaaS and other services. Yet the responses for what service providers plan in 12 months show a definite trend toward shifting to a cloud-based infrastructure.

Dave Gibson, president of nGenx, based in Evansville, Indiana describes why this shift to the cloud appeals to customers:

"nGenx has found success providing both public and hybrid cloud solutions to our customers. Public cloud customer deployments are straightforward, but for those customers who need a more customized approach, we still build the solution based on our core foundation and service provider philosophy of using the tools and technologies we developed in-house in combination with those from our most important partners. Both our public and hybrid cloud customer bases continue to grow. Our biggest sales hurdle is educating the customer about the different cloud solutions, and how we can match those solutions with their specific needs."

Nicolas D'Hondt, managing director and co-founder of Net Computer Group located in Brussells, Belgium explains why he sees growth in cloud-based services:

"We already have approximately 1,000 companies working on Cloudbizz on our fully Citrix automated DaaS platform, from lawyers companies to large retail stores and it has grown over the last six months; we have new customers every week. We move customers from their servers and local desktop to our cloud. With this huge panel of different companies we built in less than 2 years a DaaS platform ready for any kind of Business , that's why we are so confident for the future."

To deploy and manage virtual desktops and applications as a service, which hypervisor do service providers prefer? Is one hypervisor dominant? To get these answers, the survey asked:

Which hypervisor do you primarily use?

Slightly less than half of respondents - 47 percent - use VMware, while 29 percent use Microsoft Hyper-V and 23 percent use Xen as their hypervisor.

47%
of respondents use
VMware

29%
of respondents use
Microsoft Hyper-V

23%
of respondents use
Xen
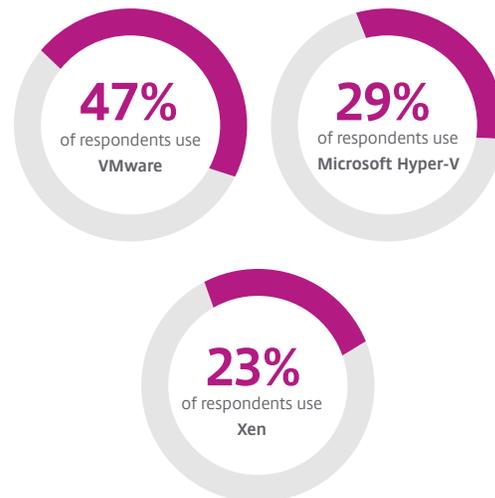
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Since no majority prefers a specific hypervisor, the results indicate that DaaS providers like the flexibility of choosing their hypervisor – or hypervisors. With Citrix, service providers have the unique opportunity to choose their preferred hypervisor, rather than being tied to a single virtualization platform, an option that seems quite popular.

A Look Ahead at the Worldwide DaaS Market

Looking at the service provider ecosystem, a number of trends can be concluded and implied:

- **Global appeal:** The fact that survey respondents hailed from 25 countries illustrates DaaS has become a global market.

- **Healthy growth following the DaaS market:** Beneath the hype from the pundits and vendors, the survey showed the DaaS market will grow over the next 12 months, though perhaps not at the exponential rate projected by the most enthusiastic proponents.

   Byron Patrick, CEO and Cofounder, Simplified Innovations, Baltimore, Maryland explains why he believes the outlook for DaaS market growth is strong:

   "Once a client adopts the DaaS model and experiences the scalability and elasticity of running their apps in the cloud, they never want to go back. Plus, paying for their IT as a subscription means they never have to worry about unpredictable IT costs ever again."

- **Trend toward higher-value services:** The survey also showed that to expand their DaaS revenues, service providers plan to create broader service bundles that combine virtual desktops with a blend of applications and cloud-based file sharing and mobile device management to attract new customers and drive revenue and ARPU growth among existing customers. These combined service bundles also illustrate the demand among customer for business-ready desktops that come with applications designed for their specific vertical market.

   David Powell, Vice President of Managed and Cloud Services, TekLinks, based in Birmingham, Alabama explains why healthcare organizations are willing to pay a premium for customized services that adapt to the special needs in that industry:

   "In the healthcare space, our differentiation is understanding a medical practice. We don't talk speeds and feeds, we discuss regulations, compliance and the business of a medical firm. TekLinks has established domain expertise in our vertical markets so we can easily interface with clients who know we deeply understand their business. TekLinks hosted desktops have a premium price – never less than $100 per user – because our clients understand we customize the hosted solution to the specific needs of their industry and their particular business."

- **Business-ready vertical market appeal:** DaaS has ever-growing appeal to a broad range of vertical markets. While the survey respondents specialize in markets ranging from healthcare to manufacturing to financial services to construction, most specialize on their respective vertical markets to limit competition and preserve their unique value and margins.

Timo Haapavuori, President and CEO of Magic Cloud, based in Ikaalinen, Finland, explains why a tailored approach to offering business-ready desktops for specific vertical markets makes sense:

"Services providers that focus on only a few vertical sectors are well aware of the business applications for those industries. If you try to offer everything to everyone, it's more complex and difficult."

- **Importance of infrastructure choice:** From an infrastructure perspective, DaaS providers currently prefer delivering DaaS from their own data centers or co-location facilities, where they have the greatest control over the infrastructure. Yet a significant percentage of providers were clearly planning to shift to cloud-based infrastructure in the next 12 months, indicating a strong trend towards the cloud that is in the early stages. At the same time, DaaS service providers prefer to choose their hypervisor, with no single brand dominating.

Based on the survey responses, the hype regarding growth in the Desktops-as-a-Service market is backed by service providers who see potential revenues rising. As the year continues, it will be interesting to survey the key providers again to determine who, if anyone, was on the mark.

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