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Wasabi positions itself as a hyperscaler alternative

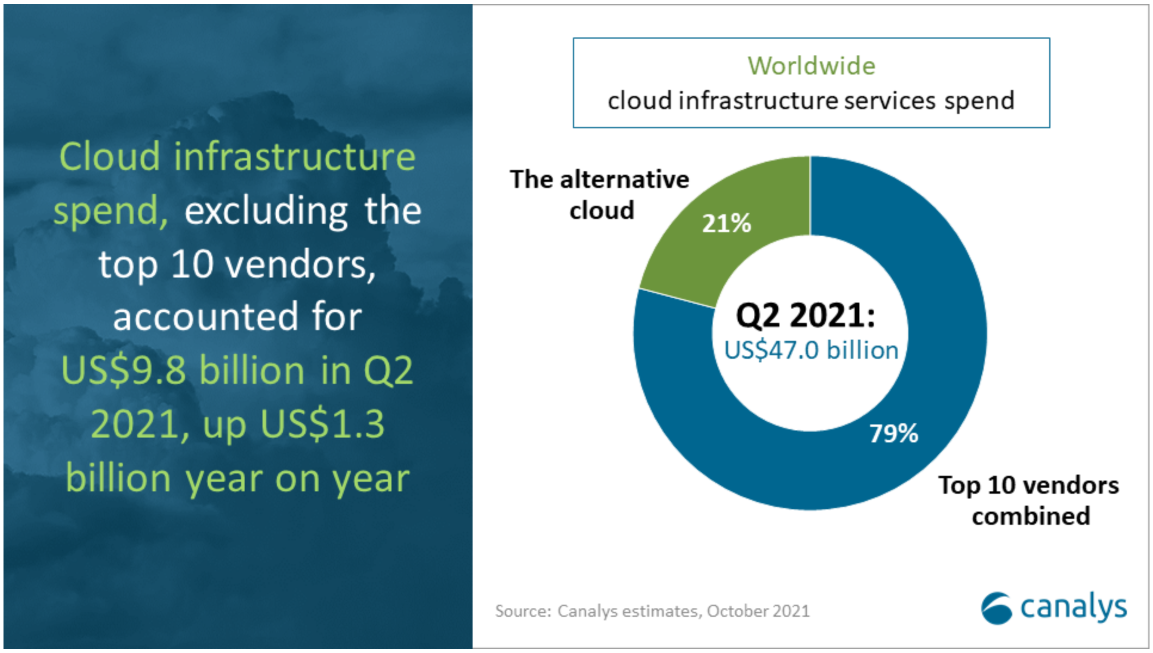
What is the value proposition of smaller cloud service providers?

- **AWS, Azure, Google and Alibaba serve most cloud customers, but outside the top 10 largest companies, US$10 billion of cloud infrastructure services spend goes through other providers each quarter.**
- **Wasabi is an alternative cloud provider focused on commoditizing data storage and disrupting AWS's S3 service.**
- **Wasabi is building its base of channel partners to effectively globalize its services.**

There are two profiles defining alternative cloud companies today. One is the niche provider that focuses on a particular customer segment and emphasizes business stability. Niche players may avoid third-party funding and use of debt to maintain smaller but more steady growth. The second profile is the ambitious provider, defined by an intent to be the next AWS of the world. They take on both funding and debt, look to go public and push global expansion as rapidly as possible.

The last article in this series covering the alternative cloud focused on Linode, which is very much a niche player, showing an impressive 18 years of consecutive profitability, but perhaps at the cost of slower growth. This report looks at Wasabi, a cloud service provider in the early stages of global expansion. It has taken on US$275 million of funding since it launched in 2017 and will likely go public within the next two years. Wasabi has growth ambitions and is looking to commoditize cloud storage and compete directly with AWS.

Today there are orders of magnitude between the top hyperscalers and the alternative cloud providers. Wasabi, however, like many alternative players, is not currently concerned by the hyperscalers' dominance due to the current market dynamics. In total, the market grew 36% in Q2 2021, up US$12.5 billion on last year. Cloud infrastructure services have been accelerating since the start of the pandemic, which has driven digital transformation and business resiliency planning across all industry verticals. Even though the top 10 cloud service providers account for 79% of this market, there is enough demand to fuel a much wider ecosystem of providers. If this momentum continues, the result is a playing field where alternative cloud players can differentiate and grow in the same space as the hyperscalers.



Wasabi follows AWS and differentiates with cost

Wasabi launched in 2017, with the simple mission to provide cloud storage that was both better and cheaper than that of AWS. Wasabi started by building a storage product that replicated the experience customers have with AWS's Amazon S3. This allowed for ease of application integration and shifted the focus to improving the supplementary aspects of an already popular product. Like other alternative cloud players, Wasabi simplifies its offerings through its billing, which uses a per-terabyte model. Its billing also includes an important clause that there is no fee for retrieving data from the cloud, or egress fee, which adds appeal for customers working in a multi-cloud environment. The way Wasabi sustains its pricing is through a set of inhouse-created hardware and software efficiencies. Wasabi's bag of tricks is in part driven by engineered solutions that help extend disc life and improve efficiency for packing its data center space with as much storage capacity as possible. To do this, Wasabi has engineered its load balancers, firewalls, routers and other ancillary processes and turned them into software. The result is a smaller footprint in the data center and lower power use. This means both a cost saving and a positive sustainability message, though the latter has been a missed opportunity for Wasabi so far, as it has limited environmental messaging around Wasabi-specific cloud efficiencies. Hyperscalers also deploy their own tactics to improve data center efficiency, but it can be hard to simultaneously execute this at scale while also having had to build out infrastructure at pace to meet booming demand.

Partnerships fuel global expansion

Wasabi is in the middle of a campaign to further international expansion through its channel partners. Overall, Wasabi's channel is relatively new, launching in 2018. Its prior year of operations served as a proof of concept for its storage service, and now it plans to concentrate efforts on driving growth by building out a channel-focused organization. Today, Wasabi reports adding about 350 partners per month and has about

8,500 in total. Its goal is to reach 10,000 partners by the end of 2021. Another key part of its go-to-market strategy is Wasabi's non-competitive relationship with other technology companies. Its self-branding as a Switzerland of cloud storage allows strong relationship-building and application integrations across the likes of Veeam, Commvault and MSP360. Beyond the technical integration with these companies, Wasabi is also using its relationships to market to their channel partners.

Channel partnerships have also played a role in directing Wasabi's expansion. For example, Wasabi partnered with NTT Communications in mid-2020 to enter the Japanese market and has recently expanded with NTT Communications to a second location in Osaka. This partner-led approach provides the benefit of channel-built customer access and trust on the day of launch, allowing quick expansion into markets that would otherwise be difficult to enter.

Challenges and results

Wasabi's laser focus on cloud storage allows it to compete with companies such as AWS and Microsoft, again, as an alternative to these hyperscalers. Its strategy to commoditize cloud storage has led to early success but may have a natural ceiling in the market. Cloud services are becoming increasingly complex as the number of applicable use cases increases, and customers know that the largest CSPs have more specificity in product choice to support the wide variety of exact use cases they need. Feature expansion is allowing the hyperscalers to go deeper into different verticals with highly customized solutions. The near-term goal of Wasabi is to focus on offering the lowest-cost storage solutions, but it may eventually have to expand its portfolio further to compete from a feature standpoint.

Regulation itself could evolve to be a bigger challenge as Wasabi continues to expand internationally. It has ensured it is GDPR-compliant, allowing its expansion in Amsterdam, and likewise focused on a handful of the more prominent US-based regulations. But new markets, such as India, Germany, Southeast Asia and South America, come with their own regulatory hurdles, which can result in significant entrance delays. As data protection regulations continue to increase around the world, the need for local data centers becomes more important. The process of entering a country is becoming a costly combination of having to adhere to local regulations and the physical process of renting data center space, buying hardware, configuring equipment and shipping it out to be installed.

Future challenges aside, Wasabi has grown rapidly in just four years of operation. It advertises 27,000 customers and 300% annual growth as of May 2021. It grew 500% in 2020 and is currently raising another funding round. Part of its success can be attributed to the experience of its founders, David Friend and Jeff Flowers, who started backup company Carbonite in 2005 before shifting focus to Wasabi. Wasabi is in the early stages of its goal of commoditizing data storage and its global expansion will be key to funding IP innovation to maintain its competitive pricing.

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