

VENDOR PROFILE

Parallels Private Vendor Watchlist Profile: Helping Service Providers Compete in the Cloud

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IDC OPINION

Parallels, a privately held vendor of virtualization and automation software (i.e., cloud enablement), targets service providers, businesses, and consumers via two primary lines of business: hosting/cloud services enablement and desktop virtualization. Founded in 1997 as SWsoft, Parallels has evolved beyond its original scope (OS-level container-based virtualization and control panels) to become a player in the broader market for integrated automation solutions and service delivery platforms for cloud-delivered offerings. The company is also the leading provider of Mac desktop virtualization software. Parallels' service provider value proposition revolves around hosting/cloud enablement for specialist hosting providers, telcos, value-added resellers (VARs)/distributors, and independent software vendors (ISVs) that compete in the increasingly cloud-centric Web-hosted infrastructure and applications space. As cloud has emerged as the must-have service delivery model during the past few years, Parallels has become more focused on cloud enablement, combining its virtualization, operations business automation, and control panel capabilities into service delivery tools and platforms to help providers target the massive small and medium-sized business (SMB) market for hosted IT solutions economically and efficiently. The company is also creating an ecosystem and a technology standard that gives independent software vendors a way to package and syndicate their applications for sale through service provider channels. We believe Parallels is a company to watch because:

- ☒ Parallels' business ecosystem currently features more than 5,000 customers and partners with ultimate reach (either directly or through their reseller channels) into 12 million SMBs worldwide. Also, through the open application packaging standard (APS), Parallels' customers have access to hundreds of applications and services that they can sell to their end customers. Given the anticipated growth of cloud-based infrastructure and application solutions, service providers competing in this market will require flexible and automated service delivery platforms.
- ☒ Parallels' early success with its Plesk Control Panel and Virtuozzo virtualization technology has given the company a large installed base among service providers to build upon, enabling the upselling of more comprehensive cloud platforms.

IN THIS VENDOR PROFILE

This IDC Vendor Profile analyzes Parallels, a company playing in the virtualization, automation software, and service delivery platform markets, and reviews key success factors: market potential, technology/solution, corporate strategy, force multipliers, and customers. Leveraging IDC's expert understanding of the competitive landscape and future outlook, this document highlights company and market information tailored to the investment professional's needs.

SITUATION OVERVIEW

Company Overview

Parallels has successfully moved beyond its original, relatively simple product set to a more complex platform-oriented value proposition. Taking the evolution/transformation a step further, the company's emerging cloud services aggregator/broker play and relationships with a broad range of SaaS-centric ISVs have the potential to substantially raise Parallels' profile in the industry.

Parallels' positioning as an operations and service management "arms dealer" to the service provider community also makes Parallels an attractive partner for ISVs, VARs, and IT distributors that are increasingly looking to service providers as an ideal channel to the SMB market. The presence of key strategic partners such as Microsoft and Symantec (for the service provider business) and Apple (for the desktop virtualization business) continues to attract other ISVs and channel partners to Parallels' application ecosystem.

Parallels, based in Renton, Washington, plays in the virtualization and automation software markets. Company details are provided in Table 1.

TABLE 1

Parallels Company Snapshot

Category	Details
Functional and secondary markets	Virtual machine software (container or hypervisor based for server and desktop) and automation software for hosting operations (provisioning) and business (workflow) (In recent years, Parallels has reoriented its virtualization and automation software business toward service delivery platforms for SMB cloud services enablement.)
Founding year	1997
Number of employees	800+
Number of customers	5,000+ service provider partners/customers
Company location	Renton, Washington
Web site	www.parallels.com
Funding initiatives	Institutional funding round in June 2005
Investors	Bessemer Venture Partners, Intel Capital, Almaz Capital Partners, Insight Venture Partners, and founder financing
Sales channels	Direct and indirect; global indirect channel partner network primarily for Parallels Desktop product line
Revenue estimate	\$100 million (2010)

Source: IDC, 2012

IDC Watch Factor Scores

IDC Watch Factor scores measure private companies based on a set of five defined success factors. Each of the five key success factors is made up of detailed subquestions, which are assigned a value from 1 (weak) to 4 (strong). The average of the subcategories is then applied as the overall score for each category:

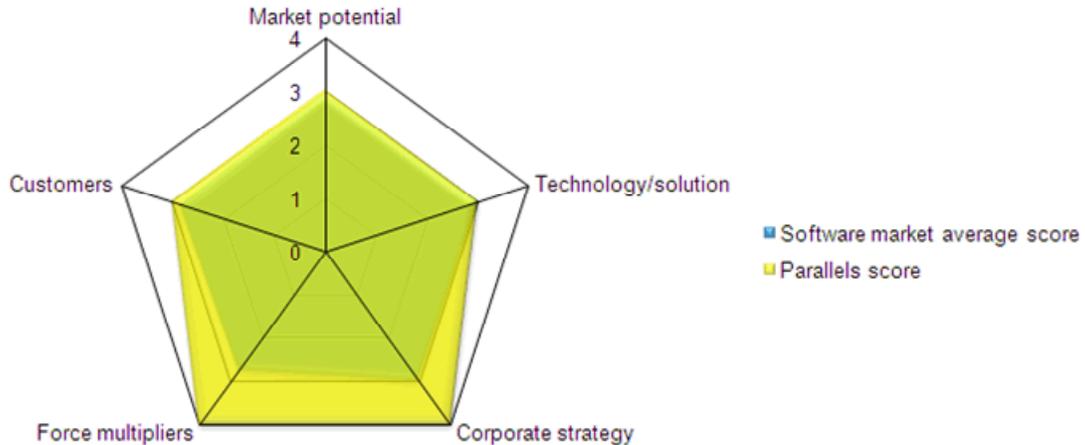
- Market potential:** Market growth potential, strength of competition, and current stage of market (early adopters versus late majority)
- Technology/solution:** Level of differentiation, disruptive capability, and scalability
- Corporate strategy:** Go-to-market strategy, management pedigree, and financial status (running on venture capital with insignificant revenue versus self-sustaining and not seeking additional rounds of funding)

- ☒ **Force multipliers:** Current partnerships/certifications, additional partnerships likely within the next two years, and channel/sales strategy
- ☒ **Customers:** Number of existing customers, quality of existing customer base, geographic reach, and size of addressable market in the coming years given the vendor's current capabilities

Figure 1 shows the Watch Factor scores for Parallels versus the Watch Factor average scores for all companies ranked by the Private Vendor Watch Service in the applicable market at the time of publication. The sections that follow detail the reasons for those scores.

FIGURE 1

Parallels Watch Factor Score Versus Watch Factor Average Score



Notes:

The Watch Factor average score reflects the average score for all private companies scored by the Private Vendor Watch Service at the time of publication.

Scores are based on a scale of 1–4, where 1 = weak and 4 = strong.

Source: IDC, 2012

Market Potential

Market

Given Parallels' positioning in the market as a technology enabler for service providers looking to tap into the SMB cloud services market, the company takes a broad view of the addressable market for its products. Parallels points to aggregate worldwide SMB IT spending (pegged at \$1.1 trillion in 2011) as the starting point and posits that the cloud-addressable portion of this market will expand from 1.3% in 2011 (\$15 billion) to 14% by 2020 (\$160 billion) as spending shifts from hardware/software

sales and on-premise integration and support to cloud-based service delivery and consumption models. Parallels' approach of enabling the various participants in the SMB IT ecosystem — traditional hosting companies, new service provider entrants (telcos and VARs/distributors), and ISVs — offers solutions for companies at each tier of the SMB cloud services supply chain. Parallels estimates that the services enabled by its platforms will yield a direct revenue opportunity of \$230 million in 2011, growing to \$2.4 billion in 2020. The pricing model, based on revenue sharing and/or usage, positions Parallels to capture a growing portion of the overall SMB IT cloud opportunity as it flows through the channel.

The various factors driving service providers and SMB end users to the cloud (cost, scalability, ease of use, access to additional services/revenue streams), the pace of cloud adoption, expansion of the service provider/ISV/VAR/distributor partner ecosystem, and the degree of full-stack adoption within the partner universe will ultimately determine the size of Parallels' revenue opportunity.

In presentations to industry analysts, Parallels had reported annual revenue of just over \$100 million for 2010, up from just under \$40 million in 2006. The SMB cloud enablement part of the business currently accounts for 55% of total revenue (four-year CAGR of 21%) and desktop virtualization represents 45%, growing at a four-year CAGR of 37%. During the 2006–2010 time frame, the company focused on increasing the recurring revenue portion of its business, which currently stands at 78% in the cloud services enablement business unit and 44% in the desktop virtualization division. Parallels has not taken on external equity financing since 2005, therefore all revenue is derived from customer sales.

Given Parallels' current base of 5,000 partners/customers in the SMB IT channel (hosting providers, resellers, and integrators) and market penetration of the Parallels Plesk Panel product (50% market share in the control panel segment), IDC believes that the company is well positioned to establish an up-the-stack presence in the service delivery/enablement platforms of SMB cloud IT providers and associated supply chain participants. Expansion into key growth regions such as Asia/Pacific, Russia, and Latin/South America will be a key driver of growth in the SMB cloud services enablement portion of the businesses in coming years.

Market Disruption

On the service provider side of the business, Parallels looks to establish marketplace differentiation by positioning itself as a one-stop cloud enablement partner for service providers and other companies looking to tap into the SMB market opportunity. To the extent that its two-sided business model develops as planned (service providers and their resellers leveraging Parallels' tools and platforms and ISVs adopting the application packaging standard and selling SaaS through Parallels' service provider partners), the company could potentially establish a position as the go-to cloud enabler and cloud broker.

With desktop virtualization, Parallels is leveraging the trends of mobility and consumerization in IT, which are leading to increasing Mac use in the enterprise. Parallels' desktop virtualization products for Mac assists users in migrating to Mac while still retaining the ability to run the Windows applications they may need.

On the server virtualization side, container technology provides a very efficient alternative to the better-known virtual machine (VM) technology. While not a new concept, Parallels is one of the few vendors offering solutions for x86 and especially Windows environments. In the service provider and cloud markets, where density and cost are huge considerations, large factor containers are attractive in many business models. Parallels also offers a unique hybrid product that allows both containers and VMs on a single server, which can offer flexibility to providers offering diverse computing options.

Competitive Landscape

A broad array of players compete in the cloud enablement market:

- ☒ Large-scale IT technology vendors such as IBM, HP, and Cisco with datacenter solution stacks (i.e., servers, storage, cloud management software, and networking)
- ☒ Virtualization software vendors such as VMware and Citrix with datacenter, desktop, enterprise applications solutions, and cloud management platforms, as well as cloud system software and cloud management platform specialists such as Eucalyptus, OpenStack, enStratus, and RightScale
- ☒ Cloud brokerage enablers such as Jamcracker and Nimbus with platforms for cloud service aggregation, provisioning, and distribution
- ☒ Standalone control panel/platform management software providers such as Ensim and cPanel

Disruptive players in the cloud enablement market for SMB-oriented service providers will be those that can combine highly automated operations and billing/service delivery management functions with a cloud service aggregation/broker play featuring must-have SMB-focused cloud applications, relatively easy onboarding for ISVs, and mutually beneficial commercial terms. Establishing and sustaining this type of two-sided business model and the associated ecosystem space will be challenging at a large scale. Companies that are capable of cracking the code on this and able to attract high-quality ISV partners are well positioned to enable a new business model for cloud services delivery and consumption.

M&A

The cloud enablement market is highly fragmented, with a considerable level of start-up company presence. This means that M&A activity will be steady as vendors take the "buy versus build" approach to expanding their product portfolios and acquiring new capabilities at different layers of the service provider infrastructure stack. IDC expects that the large IT and systems management/middleware vendors (IBM, Cisco, HP, Oracle, CA Technologies) will be on the lookout for acquisitions that fill technology gaps and/or enable the development of better integrated full-stack platform solutions for cloud service providers. IDC believes that standalone cloud aggregators such as Jamcracker may be acquisition targets for players looking to establish or expand their ISV/SaaS ecosystems.

Table 2 displays recent M&A deals in the cloud enablement market.

TABLE 2				
M&A Deals in the Cloud Enablement Market				
Date	Acquirer	Target Company	Deal Value	Specific Market/Solution Type
August 2011	Citrix	RingCube Technologies	NA	User personalization software for virtual desktop infrastructure
July 2011	Citrix	Cloud.com	\$200 million to \$250 million	Cloud service provider infrastructure management platforms
May 2011	Citrix	Kaviza	NA	Virtual desktop infrastructure for SMBs
May 2011	VMware	Shavlik Technologies	NA	Cloud-based IT management solutions SMBs
March 2011	Cisco	newScale	NA	Service catalog and self-service portal software

Source: IDC, 2012

Technology / Solution

Cloud/Hosting Enablement for Service Providers (Including SMB Cloud Services Delivery)

Parallels' service provider product portfolio comprises three key offerings: Parallels Automation, Parallels Plesk Panel, and Parallels Virtuozzo Containers. The products, tailored to meet the needs and future growth requirements of partners/service providers at different stages of their business life-cycle development, are increasingly being packaged as a complete cloud/hosting service delivery platform to demonstrate the full range of Parallels' SMB cloud services enablement capabilities. In its top-level go-to-market message for service providers, Parallels highlights that it has the right growth-oriented solution for any hosting provider, regardless of the hoster's market entry point or current stage of market development. In addition to software, Parallels also offers internal expertise (including business services and tracking global SMB cloud buying behavior) and its vast ecosystem in the SMB infrastructure and application services markets as the value combination it provides to service provider partners.

The individual products are detailed in the sections that follow.

Parallels Automation

Parallels Automation is a customizable software suite for the hosting/cloud enablement service providers' back-end (technical) and front-end (reseller and

customer facing) operations. Parallels Operations Automation is an operations support system (OSS) that supports automated service deployment and management functions such as server provisioning, service component management, service bundling/packaging, and service management operations (monitoring, notifications, troubleshooting). In addition to the basic back-office functionality, the Parallels Operations Automation platform supports a broad range of cloud/hosting service capabilities via specific modules for software as a service (open source and commercial SaaS applications through APS packaging program; both hosted by a service provider and as syndicated sell-through from other service providers), infrastructure as a service (IaaS) (elastic cloud resources and virtual datacenter services), virtual private server (VPS) hosting, shared Web hosting, messaging and collaboration (fixed and mobile), Microsoft Dynamics CRM, and control panels for customer/reseller self-service. The IaaS module, Parallels Automation for Cloud Infrastructure, supports automated operations, cloud billing functionality, and hardware/hypervisor-agnostic virtualization functionality.

Parallels Business Automation is a business support system (BSS) platform that manages customer life-cycle functions such as order and billing processing, commerce/payment processing and management (including online storefront configuration), marketing (promotions/discounts and brand management), and account management (subscribers and n-tier resellers). The platform also provides system-level operations management for the administration and configuration of pre-integrated Parallels' and third-party services and applications, as well as tools for data migration into the Parallels Business Automation environment. The company offers two versions of its BSS offering — Parallels Business Automation Standard, which provides basic billing and provisioning capabilities for smaller-scale service providers, and Parallels Business Automation, a more fully featured set of capabilities for large-scale and/or highly customized cloud/hosting service operations.

To incubate the creation of an ecosystem in which ISVs can package and syndicate their applications for sale to Parallels' base of service provider customers, Parallels developed the open APS program, which is tightly integrated with Parallels Automation. APS is essentially a technology standard that gives ISVs a consistent way to package and syndicate their offerings for sale through the service provider channel, with hundreds of commercial applications ranging from WordPress to Microsoft Office 365, Google Apps, and VMware Zimbra already packaged and certified under the APS standard. The APS standard benefits not just Parallels but also ISVs and other providers of hosted applications and services by allowing them to independently package and market their offerings by connecting with the vast sales channel of 5,000 Parallels service providers and resellers that currently serve more than 12 million SMBs. In turn, hosters and other cloud service providers have access to the growing variety of APS-enabled applications and services that are easy and ready to deploy. In turn, Parallels benefits through its ability to offer hundreds of standardized APS applications on its software, such as Parallels Automation.

As part of the automation product suite, the company also supports Parallels Automation for Cloud Marketplace, a catalog of SMB-oriented SaaS applications for service providers that cannot or do not want to negotiate their own commercial agreements with multiple ISVs. Parallels Automation for Cloud Marketplace offers a catalog of in-demand SaaS applications (including some APS-packaged applications)

for SMBs in multiple IT functionality categories. Marketplace applications can serve as a turnkey source of low-touch, highly automated new services that expand hosters' offering portfolios rapidly and at relatively low incremental cost. Applications with pre-negotiated commercial agreements that are currently packaged to run on the Parallels Automation platform include Symantec Norton Internet Security, StopTheHacker, Keepit Online Backup, UNITY Mobile, Attracta, Pinnacle Cart, Trustwave PCI Scanning, Persony Web Conferencing, Global Mentoring LiveCare, and CloudFlare for content delivery networks (CDNs).

Personal Cloud Solutions (Desktop Virtualization)

Parallels Desktop for Mac is a Type 2 hypervisor solution that allows Mac users to run a variety of Windows, Linux, Chrome, and Mac OS virtual machines on a Mac computer at the same time without rebooting the Mac itself. It offers several advanced features such as a seamless coherence mode that allows Windows applications to run like they were made for the Mac; for example, it includes the new gesture controls for which OS X Lion is famous. Parallels Desktop for Mac works with the Parallels Mobile app for iPad and iPhone, which provides remote access to the Mac host, plus all of its guest operating systems such as Windows 7 and the Windows 8 previews, Ubuntu, Chrome, Fedora and, for the first time, virtualized OS X Lion.

Parallels Desktop for Mac is also available in additional editions:

- ☒ An Enterprise Edition gives IT departments a simple, cost-effective, configurable, and policy-compliant solution to support approved Windows applications on Macs within a managed population. Parallels Desktop for Mac Enterprise Edition also works with Parallels Mobile, enabling executives and employees to remotely access and run everything on their Macs (including Windows) from anywhere.
- ☒ A Switch to Mac Edition focuses on the challenge of simply moving a PC to a Mac. It includes a high-speed USB cable with a smart chip, plus a physical-to-virtual (P2V) feature that captures an entire physical Windows image into a virtual machine that can be run on the Mac. This P2V feature moves a PC to a Mac in just a few clicks. This edition also includes more than two hours of video tutorials about the Mac and how to run Windows on a Mac.

Parallels also offers PC virtualization tools, including the following:

- ☒ Parallels Workstation is a Type 2 hypervisor professional-grade solution for PCs that runs on Windows or Linux workstations and allows users to simultaneously run multiple VMs of Windows, Linux, and multitiered cloud environments. It also works with Parallels Mobile for iPad, iPhone, and iPod touch so users can remotely access and control all of the VMs on their PC.
- ☒ Parallels Workstation Extreme allows high-end workstation users to directly assign hardware resources such as graphics cards and networking cards to a specific VM. In the case of graphics cards, this enables designers, animators, engineers, analysts, and IT teams to concurrently run complex applications and graphically intensive workloads, which may require different OSs on one high-end workstation. In the case of network cards, this makes distributed clustering a viable option in environments where this approach may previously have been

cost prohibitive. Parallels works closely with partners in this product area, including CPU suppliers like Intel, OEM workstation suppliers such as HP and Dell, graphics card vendors such as NVIDIA and AMD, and solution providers like Teradici. Parallels Workstation Extreme clients include companies such as Parker Aerospace and Talisman Energy.

Other Products/Solutions Offered by Parallels

Parallels Server Virtualization

Parallels Virtuozzo Containers is a virtualization solution that operates at the operating system layer, enabling the creation of multiple, functionally isolated application environments on a single physical OS instance to support VPS and cloud server offerings for Windows and Linux environments. The container-based approach to virtualization offers service providers higher density per physical server (and therefore lower costs) than the bare metal hypervisor approach since containers don't consume the resources that a full machine VM does. In addition, container technology solves a number of cloud challenges, including tenancy, density, elasticity, rapid provisioning and de-provisioning, and scale-up/scale-down operations. Since it is the OS that is being virtualized, all containers must use the same OS version and revision level, and it also cannot support any application that requires kernel space access. Parallels is a very public and vocal proponent of container technology, frequently citing industry giants such as Google, Facebook, Red Hat, and E*TRADE that also publicly embrace containers. Parallels' partner Jelastix is using container technology as the basis for its platform-as-a-service strategy.

Parallels Server Bare Metal product allows service providers to offer virtualized/cloud services by combining Virtuozzo Containers and a bare metal Type 1 hypervisor in a single product, allowing providers to mix containers and VMs on a single server. The Type 1 hypervisor is a proprietary technology that is internally developed by Parallels.

Parallels Plesk Panel Suite

Parallels Plesk Panel is a Web hosting control panel that exposes and simplifies environment and server settings for Web site owners and Web design studios. It allows service providers to offer a self-service user interface that reduces the volume of support calls which, in turn, helps reduce customer churn. Parallels Plesk Panel is offered as an add-on to dedicated servers and virtual private servers by many larger service providers or is bundled with the sale of the server. The product can be extended with various standalone and bundled offerings, including access/control from mobile phones (part of an extender pack called Power Pack) and Web site building tools (part of a separate offering called Web Presence Builder). Web Presence Builder is available with Plesk Panel as a standalone offering for hosters or as a Parallels Automation module called Parallels Automation for Web Presence.

For smaller shared hosters, Parallels Plesk Panel is also used as a single-server shared hosting solution. Because Web hosting and mail are all on a single server, it is readily sold through distribution channels and procured by smaller hosters as part of dedicated and virtual server purchases. Parallels has been expanding this aspect of the Plesk Panel functionality into a "hosting business in a box" solution for smaller hosters, with add-ons enabling automated ordering, billing and payment processing

functionality, and SaaS/application storefronts from the same Plesk user interface. Smaller shared hosting companies looking to boost the profitability of their existing hosting portfolios, add new service capabilities, and improve customer satisfaction/retention are a key target market for this Plesk Panel use case.

Corporate Strategy

Leadership

Parallels senior management team features a mix of start-up founders and industry veterans with backgrounds in engineering, sales, marketing, and business development. The team's experience and relationships in the various segments of the software industry (infrastructure/systems management, business applications, development, and business intelligence/analytics) are highly relevant to Parallels' two-sided value proposition — helping service providers and ISVs navigate the complexities of the emerging cloud-based service delivery/consumption model.

Birger Steen, joined Parallels in 2010 from Microsoft, where he led the SMB business and worldwide distribution channels and ran country operations in Norway and Russia. Steen's track record at Microsoft includes growing the company's business in Russia by more than tenfold in only four years, an accomplishment well suited to Parallels' objective of hypergrowth in the next few years, to reach the \$1 billion revenue milestone. In 2011, Steen took over as CEO from founder Serguei Belousov, a serial entrepreneur with a track record of founding, growing, and running technology companies providing storage management/disaster recovery software, Web-based ERP systems, and IP telephony/contact center solutions. Belousov, now Parallels executive board chairman and chief architect in charge of strategy and innovation, is also a partner in a venture capital firm focused on helping entrepreneurs access opportunities in Russia. Jack Zubarev, cofounder and president of Parallels, is currently in charge of marketing and alliances and, like other Parallels senior executives, has an extensive engineering background. Stanislav Protasov, senior vice president, Engineering and R&D, is also a key member of the senior management team, with broad and deep development experience vital to Parallels' ability to deliver next-generation capabilities for customers and partners.

During the past two to three years, Parallels has expanded its senior management ranks with talent from across the technology industry, including executives from Symantec (Jim Herman, senior vice president of Worldwide Sales) and Microsoft (recently appointed CTO Michael Toutonghi, who is one of only 22 Microsoft Technical Fellows). Dave Arkley, another recent C-level appointment, joined Parallels in December 2011 as CFO and brings software company and financial expertise, including growing companies from \$300 million to over \$2 billion in revenue in the energy and water resource management sector which, like software, is also a technology-focused, high-growth sector.

Go-to-Market Strategy

As Parallels shifts the focus of its service provider business toward integrated automation and service delivery platforms for the cloud, it is also laying the groundwork for a larger role in the emerging cloud services landscape. The SMB-

focused service provider approach is the foundation of Parallels' go-to-market strategy. The fragmented nature of the IT ecosystem serving the SMB market — telcos, hosting providers, value-added resellers, distributors, ISVs, and SaaS providers — plays to Parallels' strengths. By positioning itself both as an "arms dealer" to service providers that need high-capacity platforms to deliver new services to SMBs at scale and as an aggregation hub for cloud services sourcing and distribution, Parallels has the potential to establish itself at the center of a new cloud services ecosystem. The company already has strong relationships with its primary customer base of traditional hosting providers and has significant scope for expansion as these providers seek to capture a greater share of SMB IT spending by leveraging the cloud as the path to full-service, one-stop shop provider status.

The shift to cloud also gives Parallels an entrée into other segments of the SMB IT channel. Hardware/software distributors, VARs, integrators, and telcos face the risk of disintermediation as SMBs increasingly look to traditional hosting providers and "megacloud" providers such as Amazon and Google as the go-to source for rapidly deployable, attractively priced cloud IT services. Parallels already reaches this part of the channel with its Plesk Panel and Virtuozzo virtualization offerings. The next phase of development involves expanding these relationships by upselling/cross-selling the full solutions stack and positioning Parallels Automation and the ISV applications ecosystem as an enabling platform for new business models.

Parallels is also adding a new dimension to its go-to-market strategy with wholesale/OEM partnerships with large hosting/cloud providers such as SoftLayer. By combining the Parallels service delivery automation/management platform with hosting providers' on-demand infrastructure provisioning capabilities, the result is turnkey IaaS offerings that provide a rapid market entry strategy for new entrants in the cloud services arena. This partnership approach expands Parallels' addressable market by enabling new service providers (bringing additional software license revenue) and expanding the market opportunity for the ISVs and SaaS providers in Parallels' growing applications ecosystem.

Microsoft also plays a key role in Parallels' go-to-market strategy. Parallels, a Microsoft partner since 2005, currently supports a broad range of Microsoft products on its automation platform, including systems infrastructure, virtual desktop, hosted applications (messaging/collaboration and CRM), and cloud applications. Currently, Parallels is working closely with Microsoft's service provider channel to drive awareness and enablement of cloud/hosted services based on Office 365, Hyper-V, Lync, and other Microsoft technologies. Given the base of Microsoft veterans in Parallels' senior management ranks, IDC expects further deepening of this mutually beneficial partnership through which Microsoft gains access to a valuable distribution channel and service delivery environment for its technology and Parallels drives scale in its automation platform and obtains brand-name services for its application ecosystem.

Exit Strategy

During the past two to three years, Parallels has expanded its senior management ranks to include executives from key tech industry companies such as Microsoft, VMware, Amazon, Yahoo!, and Symantec. These executives bring the skills,

perspective, and execution track records needed to take Parallels to the next level in terms of annual revenue, as well as geographic reach, business development, and partnerships/alliances. In addition, Parallels has made the necessary investments in processes and systems required of public companies, although the company has no immediate plans for an initial public offering.

Currently, Parallels is firmly focused on remaining independent. The company's close relationship with Microsoft would seem to point to an eventual acquisition by the software giant. However, the success of Parallels' channel-focused, ecosystem-oriented business model depends on a broad partner base and the ability of these partners to leverage Parallels Automation for a wide range of cloud infrastructure and application services.

IDC believes that continued enhancement of the Parallels Automation portfolio for on-demand, cloud-based service delivery; development of the SaaS/application services ecosystem; and wholesale/OEM partnerships with leading service providers such as SoftLayer position Parallels well for the next phase of growth. As Parallels rides the wave of SMBs shifting their IT consumption to service provider clouds, inorganic growth may well be part of the strategy. IDC believes that the company may very well pursue acquisitions of local/regional integrators to accelerate penetration into fast-growing geographies such as Asia/Pacific and Latin America.

Key Acquisitions

Parallels' most recent acquisition — ModernGigabyte, a billing/hosting automation software company — took place in March 2008. This acquisition rounded out the integrated control panel/hosting automation offering that Parallels provides to small/medium-sized hosting providers through the Parallels Plesk Panel suite.

Parallels acquired a number of companies during the 2000s, including the "original" Parallels — a desktop virtualization for Mac provider whose name the merged company officially adopted in 2008. The other acquisitions, more directly applicable to Parallels' service provider business, include Plesk and Yippi-Yeah! E-Business in 2003 (control panel and hosting automation software); Sphera, the Positive Software division of Comodo, and Ensim's Ensim Pro business (control panels, hosting automation software, and third-party application integration technology) in September 2007; and WebHost Automation (control panel and billing software) in December 2007. Through these acquisitions, Parallels obtained technology that was eventually integrated into its own product lines as well as development teams, enhanced global presence, and commercial arrangements with additional hosting service providers and resellers.

Current Investors

Parallels has stated that it is not currently looking for new funding and had not taken external investments since the first institutional funding round in 2005. Current investors include Bessemer Venture Partners, Insight Venture Partners, Intel Capital, and Almaz Capital Partners. The company's loan facility with Silicon Valley Bank provides resources for growth investments and infrastructure expansion.

Table 3 displays a detailed funding history for Parallels.

TABLE 3

Parallels Detailed Funding History

Round	Date	Amount	Investors
NA	2005	NA	Bessemer Venture Partners, Insight Venture Partners, Intel Capital, and Almaz Capital Partners

Source: IDC, 2012

Force Multipliers***Partners and Partnership Opportunities***

Partnerships play a key role in Parallels' enablement-focused value proposition. In addition to strategic and technology partners, Parallels has a large and growing base (300+) of ISV and service component partners that have integrated their solutions/platforms with Parallels Automation and Control Panel software. Parallels is particularly focused on working with partners that have applications services that SMBs buy. The company's primary partners include the following:

- ☒ **Strategic partners:** Microsoft, Symantec, and Apple
- ☒ **Technology partners:** Intel, Dell, HP, AMD, and NVIDIA
- ☒ **ISV and service component partners:** Google, Tucows, Open-Xchange, BackupAgent, McAfee, VMware, Zimbra, SugarCRM, and Quest Software

Parallels can further penetrate the SMB IT services by continued expansion of the ISV and service component partner ecosystem. The ever-growing "long tail" of cloud infrastructure and application providers creates opportunities for Parallels to attract new partners and customers into its ecosystem, given service providers' increasing need for integrated, automated service delivery platforms and new, easily deployable IT services to sell to SMBs.

Channel/Sales Strategy

As Parallels expands sales and marketing efforts for the operations and business automation platforms beyond North America and Western Europe, channel and integration partners will play more prominent roles in the company's go-to-market strategy. These partners include local/regional IT solution providers and systems integrators, as well as hardware distributors, VARs and, for large opportunities such as tier 1 telecom operators, "trusted advisor" vendors such as Cisco, HP, and Dell.

Parallels also has strong global relationships with major retailers including Apple, which sells Parallels Desktop for Mac in its Apple stores and online worldwide. Microsoft also sells Parallels Desktop for Mac in Microsoft stores. Additionally,

Parallels sells its software online worldwide through retailers such as Apple, Amazon, and affiliates and directly to businesses and consumers through www.parallels.com.

Customers

Key Customers

Parallels currently has more than 5,000 service provider customers/partners for its automation, control panel, and virtualization suites, including many of the top domain registrants in the world. Key customers in each service provider category include the following:

- ☒ **Traditional hosting providers:** Go Daddy, OVH, Hostway, 1&1 Internet, Rackspace, Host Europe, and SoftLayer
- ☒ **Communication service providers:** Charter Communications, KDDI, Telstra, Swisscom, KPN, KT, and SKB Kontur (Russia)
- ☒ **VARs, ISVs, and distributors:** Tech Data, Aptix, and Application IT

Parallels also has more than 3 million desktop virtualization customers, including enterprises, SMBs, and consumers. The Boston public school system, a major customer, has deployed and is running more than 5,000 seats of Parallels Desktop for Mac Enterprise Edition. Parallels' Mac desktop virtualization products are used by more than half of the Fortune Global 200 companies.

Key Audiences

Parallels' addressable market is IT service providers targeting the SMB market, including ISVs and solution providers looking to leverage cloud/hosted delivery models for direct sales and/or channel enablement.

Geographic Reach

Parallels' most important regional markets are currently North America and Western Europe. However, the company began ramping up sales and marketing efforts in the Asia/Pacific region during 2011, targeting large service providers such as telecom operators and mass market hosting providers, as well as distribution partners in certain emerging APAC markets. During 2012, the company will focus on opportunities in major markets in Latin America.

FUTURE OUTLOOK

Challenges and Opportunities

Challenges

Key challenges facing Parallels in 2012 and beyond include management of the service provider/ISV ecosystem.

There are only a handful of companies that can offer robust cloud service management systems at the scale required to support millions of users, as well as offer technology integration with and commercial access to SaaS and application services from a range of "brand name" and emerging providers. However, a number of vendors offer portions of Parallels' value proposition. As a result, Parallels needs to articulate the value of the integrated platform approach while also differentiating based on functionality, TCO/ROI, and scalability.

Opportunities

IDC's research indicates that more than half of SMBs expect to leverage the cloud over the next two to three years for infrastructure and software as a service to enable use cases such as new application development, Web site creation/management, marketing analytics, email, and collaboration. Parallels' installed base of more than 5,000 service provider customer/partners offers the company a unique opportunity to embed its technology in emerging cloud service delivery architectures. In addition, new entrants to the cloud services arena are likely to take a "buy versus build" approach to service delivery platforms, positioning Parallels as a one-stop shop for new cloud service providers. By offering many cloud service enablement and delivery options with attractive business models, Parallels has a compelling value proposition for service providers of all sizes, especially those desiring a fast time to market with a low up-front investment.

ESSENTIAL GUIDANCE

Reason to Watch

Given the emergence of the cloud as a flexible, cost-efficient delivery platform for a range of IT offerings, service providers and vendors/developers of software-based systems and business application functionality need rapid, scalable ways to leverage this new model and profitably capitalize on growing end-user demand. Parallels' nascent cloud broker play is also a development to watch, given its potential to enable a significant (and profitable) revenue stream based on end-user (i.e., service providers' SMB customers) SaaS uptake.

Differentiators

The highly developed (and expanding) ecosystem is a key differentiator for Parallels in the service provider portion of its business. The two-sided business model that this enables (i.e., helping both service providers and ISVs transition to the cloud) positions the company in the center of emerging cloud services ecosystems.

Advice for IT Managers and End Users

As "traditional" service providers navigate their way through the cloud and realign their business models, value propositions, and delivery architectures accordingly, they should seriously consider working with partners such as Parallels, which can play the role of "service providers' service provider." Automated cloud operations and business support platforms can accelerate the time to market for new cloud services,

improve operational and business process efficiency, and help service providers (both existing and greenfield) establish profitable cloud services businesses.

LEARN MORE

Related Research

- ☒ *Parallels: Quietly Helping Providers Profit from Cloud* (IDC #231755, December 2011)
- ☒ *Parallels Changing Gear Into the New Hosting Landscape* (IDC #GE57T, April 2011)
- ☒ *Parallels Analyst Day 2011: Partnering in the Cloud* (IDC #227412, March 2011)

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