

Vendor Profile

From Virtualization to Sovereign Cloud: VMware Assures its Place in Europe's Digital Future

Rahiel Nasir

IDC OPINION

In terms of some of its core propositions, VMware ranks among the top 5 system and service management software vendors in Western Europe, according to IDC's *Western Europe System and Service Management Software Market Shares, 2020: Cloud Providers were Resilient Amid the Pandemic* (IDC #EUR148254421, September 2021). It also continues to grow its presence in the region's software-defined WAN (SD-WAN) infrastructure market following its 2017 acquisition of VeloCloud.

With its new Sovereign Cloud initiative, the vendor joins a number of prominent European digital service providers – such as Atos, Orange, and OVHcloud – that are leading the charge for greater digital sovereignty on the continent. Moreover, the latter is one of VMware's Sovereign Cloud "lighthouse" partners in Europe.

IDC believes sovereignty doesn't just mean the protection of data from non-European laws, but also sovereignty in terms of the technology and deployment model customers use. Sovereignty should be thought about in a wider digital context that encompasses not just data control, but also the infrastructure and software that are created and relied upon to operate in the digital world. It's therefore all about digital sovereignty that, in our opinion, is the capacity for digital self-determination by states, companies, or individuals. Put another way, digital sovereignty gives data-driven organizations a license to operate.

IN THIS VENDOR PROFILE

This IDC Vendor Profile analyzes VMware, a U.S.-based global provider of virtualization technologies and multicloud services aimed at all enterprise applications. We examine the company's cloud innovation strategy, future opportunities, and challenges, as well as look at key offerings in its cloud product portfolio, focusing on the recently introduced VMware Sovereign Cloud Provider initiative. This report is relevant to buyers of cloud professional services, investment analysts, and other stakeholders that play a key role in the evolution and growth of cloud.

SITUATION OVERVIEW

Global cloud providers are increasingly seeking partnerships in Europe to deliver what they claim to be "trusted cloud" solutions in the EU. However, VMware points out that "trusted" and "sovereign" are not the same thing. It considers data sovereignty to be all about the residency, protection, interoperability, and portability of data, with the sovereignty aspect guaranteeing protection from extraterritorial legislation such as the U.S.' CLOUD Act.

Enterprise users are increasingly becoming aware that all clouds are not the same, with those in regulated industries in particular recognizing that the right data must be deployed to the right cloud. This results in a multicloud scenario with organizations needing to identify the best locations for their workloads and applications, be that dedicated private cloud, a sovereign public cloud, a trusted public cloud, or any combination of these together with retaining data and applications on-premises. VMware believes it has the solution to this complex challenge with a single offering that integrates all of these multicloud requirements.

Company Overview

VMware was founded in California in 1998 by a small group of technologists who wanted to create better ways to compute. Its first product – Workstation 1.0 – was released a year later and enabled users to run multiple operating systems as virtual machines on a single computer. Workstation 1.0 proved to be a hit, especially in the education sector in which it was deployed at more than 2,000 universities within the first few years of its launch.

In 2002, VMware launched its first hypervisor – ESX Server 1.5 – which was quickly followed by other landmark products for the firm. These included VMotion (which enables users to simultaneously move workloads between servers and keep applications running) and vCenter 1.0 (a centralized platform for automating, managing, and monitoring virtual IT estates). Seven years after introducing its first hypervisor, the company unveiled Virtual Desktop, extending virtualization functionality to mobile devices such as smartphones, all delivered via cloud.

Corporate Developments

In April 2021, Dell Technologies announced an agreement (*VMware Spins Off from Dell Technologies to Expand Ecosystem Across Cloud and On-Premises Infrastructure*, IDC #IcEUR148379921, November 2021) to spin-off 81% of its equity ownership in VMware. The divestment, which includes an \$11.5 billion special cash dividend to VMware shareholders, was completed in November 2021. VMware has been a publicly traded company on the New York Stock Exchange since 2007, and it will now continue to do so as a standalone firm. According to Dell, the spin-off gives VMware "increased freedom to execute its multicloud strategy, a simplified capital structure and governance model, and additional operational and financial flexibility." The company added it will continue to work with VMware as a partner to offer differentiated solutions.

Earlier in 2021, Raghu Raghuram was announced as VMware's new CEO. He joined the company in 2003 as director of product management, gradually working his way up the ranks over the years to eventually become COO of products and cloud services prior to his appointment as CEO.

VMware reported revenues of \$3.31 billion in its earnings release for the third quarter of fiscal year 2022 (FY22). This represented 11% year-over-year growth and was driven by subscription, software-as-a-service (SaaS), and license revenues.

The company claims to currently serve more than 500,000 customers in a variety of vertical sectors globally, including financial services, healthcare, retail, government, education, manufacturing, and communication services. GE Healthcare, Telia Company, and Vodafone are some of the customers VMware announced new projects for in 2021.

Key Cloud Products

VMware offers a wide range of products and services aimed at modernizing apps, accelerating cloud migrations, and supporting what it describes as the "anywhere workspace." This includes VMware's Tanzu portfolio of solutions that are designed to support enterprise journeys. The firm claims the multiple products on offer here range from simplifying Kubernetes adoption, to running applications at scale across clouds.

VMware also has dedicated products and platforms to support networking, workspaces, emerging technologies (such as blockchain), among others.

The vendor's wide variety of multicloud offerings comprise products for delivering VMware infrastructure on any cloud, as well as solutions for cloud management, automation, security, and disaster recovery. In addition, there are products for software-defined datacenters, telco clouds, and VMware Marketplace, which features cloud adoption solutions from partner providers.

At its annual VMworld conference held online during the first week of October 2021, the company announced a number of enhancements to its cloud infrastructure and Tanzu, and it also introduced VMware Edge, a product portfolio claimed to enable organizations to run, manage, and better secure edge-native apps across multiple clouds, anywhere (*VMware Eyes Dedicated Cloud Infrastructure Opportunities with Cross-Cloud Services Strategy*, IDC #IcUS48322921, October 2021).

VMware Sovereign Cloud

VMworld also saw the launch of a digital sovereignty initiative. VMware Sovereign Cloud is aimed at organizations that need to meet local regulatory requirements around data privacy, security, and governance, such as those imposed by the EU's General Data Protection Regulation (GDPR). VMware believes the new initiative will enable it to establish greater credibility and trust with customers, create differentiation and boost sales within its cloud portfolio, and influence regulatory standards for providers.

The company also hopes it will expand regional partnerships, particularly in Europe. Of the initial partners recognized for delivering sovereign cloud offerings, six have their roots on the continent: IONOS, Noovle (a subsidiary of Italy's TIM Group), OVHcloud, Telefónica, UKCloud, and Finland-based TietoEVRY. VMware will serve as a facilitator for deals between these hosting partners and customers.

According to VMware, sovereign cloud providers that carry its "Cloud Verified" badge will give customers the assurance that all their data (including metadata) stays on local soil, is protected from foreign access, and remains compliant with evolving local regulations. The company adds that partners also stand to benefit by being able to leverage an industry-proven software stack for sovereign cloud, differentiating themselves as trusted, sovereign cloud providers, and gaining the potential to capture new or repatriated workloads.

VMware also points out that its sovereign cloud encompasses more than just data sovereignty. According to the firm, it is intended as a "framework of guiding principles and best practices for delivering cloud services that adhere to the data sovereignty requirements of a specific jurisdiction in which that cloud operates."

By around mid-2022, VMware aims to boost investment in its cloud provider platform to support the initiative, and it also hopes to expand the number of its approved Sovereign Cloud partners in Europe from six to 20. Beyond this year, the aim is to work with partners on the delivery of various differentiated sovereign cloud innovations.

Company Strategy

In its recent third quarter FY22 earnings release, VMware stated that its mission is to provide a "trusted software foundation" to support organizations as they innovate and to help them unlock the full potential of multicloud.

The firm claims its "unique architectural approach" provides a unified way to build, run, and manage both traditional and modern applications on any cloud. The company has come up with the following five key principles that, it claims, will enable organizations to increase choice and flexibility, accelerate time to value, and reduce the cost of operating their multicloud environment:

- Build in flexibility – increase business agility by enabling each application to be deployed to the cloud that best meets its requirements.
- Evolve without penalty – lower costs by supporting the ability to move applications between environments without refactoring.
- Seek operational simplicity – reduce complexity and improve security using a unified operating model.
- Fully optimize resources – minimize learning curves by providing high levels of skill leverage for both developers and IT operators.
- Maximize automation investments – support the ability to scale up automation across the full scope of operations.

FUTURE OUTLOOK

Around 20% of organizations in Europe currently consider digital sovereignty to be an advantage of using an in-country cloud provider as opposed to a global one, according to IDC's *European Multicloud Survey*, 2021, conducted last August – we expect this number to grow. The EU is continuing to develop the foundations needed to build a federated digital ecosystem on the continent, and as a result, industry conversations about data sovereignty are becoming louder.

In February 2020, the union adopted a wide range of digital policy reforms that included calls for local data hosted by major global providers from outside Europe to be repatriated. Several data protection authorities on the continent (such as those in Germany, France, and Portugal) have now instructed or guided businesses toward suspending data flows to the U.S. And in France, under the "Cloud au centre" doctrine, government departments have been mandated to only use cloud services that are GDPR-compliant and immune to extraterritorial laws for sensitive data.

More than a fifth of our survey respondents are likely to agree here. When asked about their biggest security, compliance, or trust challenges regarding cloud, 22% said data access by foreign governments was their biggest worry. However, it should also be noted that this was not the highest ranking concern – 37% are most worried about data protection, followed by identity and access management at 28%, and regulatory compliance at 26%.

All of these the issues – along with many others identified in our poll – feed into an overarching digital sovereignty narrative in Europe. As a result, IDC forecasts that over the next few years, 50% of European organizations will spend 10% of their ICT budgets to comply with sovereignty rules adopted in the EU. Vendors and service providers should also note that 60% of the organizations we surveyed also believe sovereignty will increase the cost of doing business globally.

ESSENTIAL GUIDANCE

Advice for VMware

Digital sovereignty is becoming an important topic in Europe as organizations want to control not only their data, but also their digital destinies. That means sovereignty should be thought about in a wider digital context – not just about controlling data, but also focusing on the infrastructure and software that are created and relied upon to operate in the digital world. VMware therefore has the right approach by presenting its sovereignty initiative as a "framework of guiding principles and best practices," and it would do well to prioritize this message to the market.

Providers pushing sovereignty will need to help customers to adopt application- and data-aware approaches to help determine which infrastructure is suitable for which workloads. Establishing and demonstrating trust here is crucial. Some organizations face hurdles when migrating a large majority of their workloads to cloud due to regulatory requirements. They will therefore look at the sovereign cloud options available to them, evaluating the trustworthiness the provider not just today, but also in the future.

From the perspective of digital transformation, as Europe's enterprise IT landscape continues to evolve, digital service providers such as VMware have a crucial role to play in helping organizations navigate their way through not just data protection issues, but also other increasing complexities. With applications and business services continuing to shift into multiple clouds, businesses will seek technology partners that have the skills and expertise to overcome the challenges around data management and governance.

Vendors that succeed will be those that can guide and educate their customers to stop seeing cloud as an outcome, instead regarding it as an operating model and a strategy for delivering key business outcomes. On top of that, with many organizations in Europe now looking at the "new normal" workplace in the post-pandemic world, the role of digital migration partners has become even more important for businesses looking to achieve successful outcomes.

LEARN MORE

Related Research

- *Western Europe System and Service Management Software Market Forecast, 2021-2025: The Shift to Cloud Computing Solutions Continues* (IDC #EUR148447921, December 2021)
- *VMware Eyes Dedicated Cloud Infrastructure Opportunities with Cross-Cloud Services Strategy* (IDC #lcUS48322921, October 2021)
- *European SD-WAN Infrastructure Market Shares, 2020: Network Transformation Charges Ahead Amid Pandemic Woes* (IDC #EUR148290721, September 2021)
- *Western Europe System and Service Management Software Market Shares, 2020: Cloud Providers were Resilient Amid the Pandemic* (IDC #EUR148254421, September 2021)

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IDC U.K.

IDC UK
5th Floor, Ealing Cross,
85 Uxbridge Road
London
W5 5TH, United Kingdom
44.208.987.7100
Twitter: @IDC
blogs.idc.com
www.idc.com

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