

REPORT REPRINT

Tuangru building on procurement services with business intelligence software

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The company provides hosting and cloud service providers with a hardware-procurement service built on group-buying and capex-optimization functions. Tuangru says its systems are evolving into a software platform for measuring and optimizing its customers' business performance.

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Tuangru has built a healthy business as a hardware-procurement service. Targeting service providers, it focuses on driving down equipment costs by aggregating the buying power of small and midsize hosting and cloud providers.

The software portal powering its procurement service has developed additional levels of depth and value, based on providing users with insight into datacenter and business performance according to several key metrics. While the business intelligence began as a value-add to the procurement service, the company indicates that it has become an increasingly core function, helping users to connect capex to profit. Tuangru is planning to launch a SaaS BI tool in the coming months that will provide existing users with a premium service, while potentially appealing to new users outside its existing base.

THE 451 TAKE

Part of Tuangru's basic value proposition is that it helps to even the playing field for small and midsize service providers in a business where the largest players have a distinct scale advantage. It does this from the ground up - at the procurement level by using a group-buying strategy to provide access to the types of discounts typically only available to large buyers, and at the software level by providing a level of insight and performance benchmarking that is typically out of scope for businesses of this size. By building out the software side of its offering into a separate line of business, Tuangru is building on its strengths. The company believes it is likely customers will want to take those steps along with it.

CONTEXT

Tuangru was founded in 2012, and is headquartered in Vancouver. It has subsidiaries in the US and Europe to provide fulfillment in these locations. The company's business is primarily in North America, with approximately 70% in the US, 10% in Canada and 20% in Europe. It has no immediate plans to expand into Asia or Latin America.

The company is self-funded and has not taken on outside investment. Although it has not shared specific revenue numbers, it indicates that it more than doubled its business in the last year, and expects to exceed \$100m in top-line annual revenue in the next 18 months. The company currently has eight employees, although it has plans to add four developers in the short term to work on the platform's expanding functions.

TECHNOLOGY

Tuangru's management has a strong understanding of the economics of the hosting and cloud business, which it has built into the procurement service from the start - at first as a kind of built-in advisory component, and increasingly as a data-driven aspect of the platform. The company designs its services around helping customers maximize performance according to several key performance indicators. Primarily, these are net revenue per megawatt of power used, EBITDA margin and hardware cost as a percentage of revenue. Tuangru helps customers benchmark for these KPIs and design to them via optimization and standardization of hardware purchasing. The KPIs also help Tuangru make informed decisions about its vendor relationships and the hardware that ends up in its catalog.

As the company's customers become more invested in using data to optimize their operations, Tuangru is working to provide the platform. With its BI SaaS tool (which is expected to launch in beta in Q1 2016), Tuangru will offer a data tool that can accept clients' customer billing and lifecycle data and help them connect the dots back to the asset cost and capex information already contained in the procurement system. It will connect to datacenter management tools like ScienceLogic and NodePrime to collect additional information about the IT environment.

Toward the end of 2016 (or beyond), the company plans to provide a technology business management platform that will provide users with greater understanding around where cost and profitability come from, where to invest, and where to outsource. The deeper understanding, benchmarking and framework are parts of the long-term technology business management project.

STRATEGY AND CUSTOMERS

The company currently has 75 customers, including several of the larger mid-tier hosting providers. Clients include HOSTING, ServInt and Total Server Solutions. Tuangru says customers tend to be hosting service providers in the \$10m-100m revenue range, with a few of its largest clients in the \$150m-200m range (the impact of the group-buying discount would be lessened for larger service providers whose own relationships with vendors are deep, and discounts significant). While the company believes its technology can be applied outside the hosting and datacenter market, it expects to remain focused on that area for the next several years.

Tuangru says its pricing is consistent across all its customers, but that its potential discount increases as its customer base grows. The company earns a margin of 2-5% on all hardware transactions. Its vendors include Dell, Supermicro, Lenovo, SolidFire, Nutanix, Cumulus Networks and others. According to management, vendors value the service because they can address a large volume of service providers without working through additional channel steps.

COMPETITION

Tuangru is fairly unique in its group-buying proposition. However, as a reseller of hardware to service providers, it competes with the large VARs and distributors that deliver into the space, such as Ingram Micro, Tech Data, Arrow Electronics and SYNEX. Likewise, once launched, the company's business intelligence will likely be somewhat unique in its focus on service providers and its connection to procurement. It will likely compete with some of the functions of monitoring and management tools like ScienceLogic, NodePrime or SingleHop's AI. In the long term, the business management tools the company envisions might compete with the likes of Apptio, ServiceNow or BMC.

SWOT ANALYSIS

STRENGTHS

Tuangru offers a value proposition that is fairly unique within the hosting and datacenter space, and is focused on the service-provider market. Its efforts to expand its offering are likely to complement what customers are already using from the company.

WEAKNESSES

The company is not particularly well known outside of the hosting space, and its hardware catalog represents a somewhat limited selection of vendors, which may dissuade certain customers with particular requirements from coming aboard.

OPPORTUNITIES

By moving into complementary software functions, Tuangru is not only expanding the potential opportunity among its existing customers, but is also creating an avenue for reaching new types of potential users.

THREATS

The largest threat to Tuangru's business could be the increasingly common reliance among smaller or mid-tier service providers on third-party cloud infrastructure to power their offerings - an entirely different avenue for limiting capex.