

# Growing Competition For VMware In Virtualization Market

By [Trefis](#), January 08, 2014, 01:08:06 PM EDT

Over the years, VMware ( [VMW](#) ) has established itself as a dominant player in the growing virtualization market. However, the company's flagship product, the vSphere Hypervisor, which provides a virtual operating platform to guest operating systems, faces increasing competition from players such as Microsoft ( [MSFT](#) ), Citrix and Oracle ( [ORCL](#) ). Currently, VMware accounts for about 56% of the virtualization market, but its market share has been declining steadily in recent years. Although VMware continues to provide a top-notch virtualization platform, rivals have started to catch up in terms of performance and features. In this article, we take a look at some of VMware's main competitors and how each of them could affect VMware's hold over the market in the coming years.

[See our complete analysis for VMware stock here](#)

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## Microsoft Hyper-V

The architecture of virtualization software is such that it "sits on top of the hardware beneath the operating system", which in turn reduces dependence on the host operating system ( [OS](#) ). VMware's presence in this segment made Microsoft feel the need to enter the virtualization market and eliminate the threat VMware was posing to its core product, the Windows OS. Consequently, Microsoft launched Hyper-V in 2008.

Since its launch, the Hyper-V has constantly improved and added more features to compete with the market leader, VMware. Between the two, there are a number of varied features and flexible configurations that vSphere offers, which the Hyper-V doesn't. The Hyper-V is therefore available in only one edition and is also much cheaper than the full vSphere Enterprise Edition. Admittedly though, not all clients buy VMware's full enterprise edition of vSphere.

Where Microsoft clearly scores over VMware is its existing Windows client relationships, which it has effectively leveraged to gain virtualization market share. The company has been offering the Hyper-V for free to customers of other Microsoft products such as System Center. In addition, due to the general improvement in the product and services offered, Microsoft has become VMware's toughest competitor. As a result, while VMware's market share has declined from 64% in 2008 to 56% in 2013, Microsoft's has increased from around 20% to 28% in the same period. Microsoft's Hyper-V is VMware's biggest area of concern in the coming years.

## Citrix XenServer

Citrix's ( [CTXS](#) ) Xen Server, which is different from Microsoft's Hyper-V, is a bare-metal hypervisor. This means it runs directly on the host hardware and doesn't need an operating system to be hosted on. With the recent release of XenServer 6.2, Citrix believes it is in shape to give serious competition to VMware. The most significant feature of the XenServer is that it has no licensing charges. It is freely available, with the company charging customers only for support and maintenance. Even though Citrix's market share in the segment dropped from around 4% in 2011 to 3.3% in 2012, a lot of customers, including a number of small and medium businesses (SMBs), are likely to switch to the XenServer going forward.

## Other Competitors

VMware also has several other competitors, the most prominent being Oracle's VirtualBox, which is also a freely available virtualization hypervisor. It supports a variety of operating systems such as Microsoft

Windows, Linux, Mac OS and Solaris, which makes it a very flexible platform. The only downside to this product (from a commercial standpoint) is that it specifically targets advanced users - those who can edit code for customized usage. It is also slightly slower in terms of performance and likely doesn't pose an immediate or a significant threat to VMware's market share.

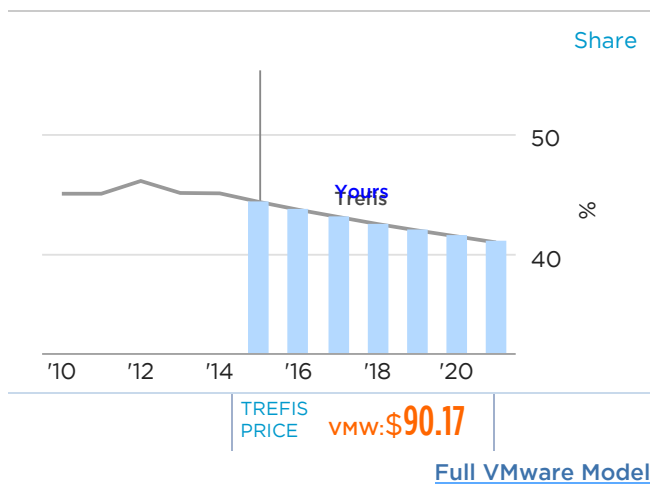
Next on the list is the Red Hat Enterprise Virtualization Hypervisor (REXH), which uses the Linux kernel as a hypervisor with virtual machines having direct access to the hardware resources. It is available both in the bare-metal form and as a hosted platform. The key distinguishing factor of REXH relative to other hypervisors is that it allows user to provision virtual machines themselves, again an option for advanced users.

Due to an increase in competitors over the last few years, VMware has seen a decline in market share. Going forward we expect the share to drop even further. If Microsoft's Hyper-V causes a greater decline in VMware's share than we currently forecast, there could be a significant downside to our [\\$94 price estimate](#) for VMware.

Trefis Forecast for VMware

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### VMware Market share



In terms of the virtualization market, competition is a major concern for VMware as Citrix's XenServer and Microsoft's Hyper-V could be big winners in the upcoming few quarters. Additionally, VMware has shifted focus towards cloud computing and intends to use its huge virtualization enterprise customer base to utilize its enterprise-level hypervisor for cloud computing, the ESX. With the hybrid cloud market expected to grow significantly over the next few years, things are looking bright for VMware on the back of its recently [launched hybrid cloud services](#). However, in terms of virtualization, it certainly is not a one-horse race anymore.

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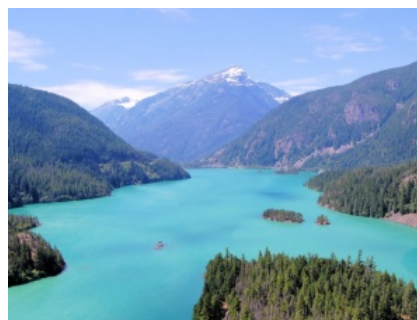
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