

# Cloud models driving DNS, traffic management revenue for Dyn

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22 Nov, 2013

Having focused its business more directly around managed and enterprise domain name system services and related technology in the last several years, Dyn indicates that it has seen a rapid growth in new business. The company indicates that, as cloud platforms evolve and more applications are executed in more complex and converged cloud environments, the need for high-performance DNS infrastructure has increased, driving new business from both consumers and suppliers of cloud infrastructure.

## The 451 Take

Dyn's rapid growth over the last several years is a strong indicator of the increasing demand for managed DNS services among both the developers operating applications and websites on the cloud, as well as the cloud infrastructure providers that supply them. The growing demand for high-performance DNS services is a major contributor to the success of Dyn, a company whose major value proposition is its extreme focus on a fairly narrow slice of Internet infrastructure, and a large amount of organizational expertise in operating that slice.

## Context

Dyn was founded in 1998 as a volunteer organization and a free dynamic DNS service for users that wanted a subdomain connected to a computer as it changed IP addresses due to travel, or other reasons (a service it continues to support). Over time, Dyn developed the managed and enterprise DNS services that have become the core of its business - based on a worldwide Anycast DNS network with 18 points of presence.

Over the last several years, the company has acquired a handful of other DNS service providers, including EditDNS, EveryDNS and TZO, as well as specialized related service providers in SendLabs, Verelo and Trendslide. In 2012, Dyn received a \$38m round of series A funding, led by North Bridge Venture Partners. The company indicates 2012 revenue was just over \$30m. In Q3, it added more than 40 employees and \$15m in new bookings (including 340 new enterprise clients and 80,000 new self-serve clients), generating 18% revenue growth quarter-over-quarter.

## **Product and use cases**

While Dyn's legacy is in managed DNS, its products today fall into two main categories - managed DNS and message management, the latter of which applies the typically Web-focused DNS systems to the delivery of email. It also maintains the free dynamic DNS service and offers domain registration.

Dyn's main line of business in the managed DNS space relies on a custom configuration of the standard open-source BIND DNS software. The company provides users with a system that accepts DNS requests from users of a website or application worldwide, and routes that traffic to the most appropriate locations based on latency, availability and other factors. The core value of a managed DNS service is a direct improvement in website or application reliability and availability.

Customers of the service include Twitter, Zappos, Pandora, Spotify, Etsy and other major Web properties among its more than 3,000 enterprise customers (the company indicates 78 of the top 1,000 websites as measured by Alexa are customers), along with more than 500,000 users via its self-serve platform. Dyn is also seeing a trend toward new engagements powering DNS for cloud infrastructure and platform providers, including Heroku, EngineYard, Tier 3 and others.

Dyn is also increasingly seeing customers using its managed DNS services in advanced cases such as routing for disaster-recovery situations, routing related to distributed denial-of-service attack mitigation and other security services, and helping to unify environments that rely on multiple service providers - for example, load balancing across multiple content delivery networks. All its DNS services can be integrated into user systems via SOAP and REST APIs.

A smaller, but growing piece of Dyn's revenue currently comes from its message management service, which uses the same DNS infrastructure to ensure the speed and reliability of delivery for email. While email isn't traditionally considered a high-performance Internet application, there are a handful of widespread situations in which the immediate delivery of email is key, particularly those where the arrival of an email is tied directly to a transaction, or to an end user signing up for a

service.

The other major use case for message management is ensuring the delivery of bulk email (although not spam, of course). The message management service reduces the number of emails falsely being filed as spam thanks to the network's reputation, and provides additional reporting and monitoring tools around delivery metrics.

## **Business model**

Dyn's managed DNS service is available in a lower-volume 'express' tier, for which it charges between \$15 and \$95 per month, based on the number of records and zones, and the number of monthly queries. While this is a lower-revenue product, this is where the large bulk of the company's DNS customers reside. The contract negotiation process is more complex for the higher-volume tier, but contracts in this range are often \$6,000 per month or higher.

Message management customers can pay as little as \$3 per month, and scale up from there based on the volume of emails sent monthly.

## **Competition**

Dyn is one of a relatively small group of service providers that regard DNS services as their core business, including UltraDNS and EasyDNS. However, the company also faces competition from a range of large service providers in adjacent businesses that offer DNS services as well. These include registry operators such as Verisign, Neustar and Afilias, as well as content delivery network operators such as Akamai, EdgeCast Networks and CDNetworks. BlueCat Networks approaches this market with hardware products for IP address management. Managed DNS products in general face considerable competition in overcoming the desire for many customers to operate their own DNS infrastructure using open source tools.

## **SWOT Analysis**

### **Strengths**

Network performance, organizational expertise, and focus on a core technological strength.

### **Opportunities**

Growing use of multi-vendor cloud models leading to increased reliance on, and new use cases for, DNS.

### **Weaknesses**

Many major competitors are large, publicly traded organizations with major scale and deep pockets.

### **Threats**

Increased appetite for DNS likely means increased efforts by large competitors.

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