

COMPETITIVE ANALYSIS

U.S. Web Hosting Services 2004 Service Provider Shares

Melanie Posey

IDC OPINION

The top 20 Web hosting service providers accounted for 64% of the market at the end of 2004, led by IBM, EDS, AT&T, and SAVVIS. Key supply-side observations include the following:

- ☒ IBM once again held the top market position and continued to gain share in 2004. Other market share gainers include SAVVIS (acquisition-driven growth), AT&T, and Rackspace.
- ☒ SAVVIS completed the acquisition of Cable & Wireless' U.S. hosting and IP businesses in March 2004, positioning SAVVIS among the top 5 U.S. service providers.
- ☒ U.S. Web hosting service providers continue to refine their business models and value propositions, emphasizing utility/on-demand computing and virtualized services, transaction/application performance management, and online business enablement.

IN THIS STUDY

This IDC study provides an overview of the competitive landscape in the U.S. Web hosting services industry and comparative market share rankings for 2003 and 2004.

SITUATION OVERVIEW

Introduction

Table 1 presents a summary of the major Web hosting service provider developments of 2004.

The five broad categories of Web hosting service providers are as follows:

- ☒ **Network-based service providers.** Companies such as AT&T, Qwest, MCI, and SAVVIS are highlighting the combination of their Internet datacenter facilities and hosting services (e.g., security and storage) and traditional wide-area network (WAN) infrastructure as the platform for broad managed services or application-oriented networking value propositions.
- ☒ **IT outsourcing firms.** Providers such as IBM and EDS take a bottom-up view, subsuming the Web hosting function into their overall enterprise IT outsourcing/systems management value propositions.
- ☒ **Specialized managed hosting or managed services providers (MSPs).** This group includes providers such as NaviSite that focus increasingly on applications as well as infrastructure management and non-facilities-based providers such as SevenSpace (recently acquired by Sun Microsystems) that specialize in outsourced IT infrastructure management, including enterprise and public Internet-facing implementations.
- ☒ **Datacenter/managed colocation service providers.** These are regionally based companies with two or three datacenter facilities. Examples include Redundant Networks (Reno, Nevada; and Raleigh, North Carolina), RagingWire (Sacramento, California), and Hosted Solutions (formerly Springboard Hosting, with datacenters in Cary and Charlotte, North Carolina). Other providers in this category, such as Inflow, operate nationwide datacenter networks that cover a number of smaller markets. Providers in this space typically offer colocation services with a range of à la carte managed offerings that include monitoring, security, and disaster recovery/business continuity.
- ☒ **Mass-market and small and medium-sized business (SMB)-focused providers.** Companies in this category provide shared and/or basic dedicated hosting services, primarily to small businesses. The business model revolves around volume-based, mass-customizable offerings that can be sold direct (typically online or through telesales) or through indirect reseller channels. Providers in this group include pure plays such as Interland, Hostway, and Affinity, as well as Internet service providers (ISPs) such as EarthLink and online destinations such as Yahoo!.

TABLE 1

Key Web Hosting Market Events, 2004 and 1H05

Companies	Details
VeriCenter/Agiliti	VeriCenter acquired enterprise hosting provider Agiliti in May 2005, extending its market reach and datacenter footprint into the upper Midwest.
VeriCenter/Sprint	VeriCenter acquired Sprint's Boston, Atlanta, Denver, and Dallas E-Solutions Internet datacenter facilities, customers, and employees in January 2004.
SAVVIS/Cable & Wireless	SAVVIS acquired Cable & Wireless America (C&W's U.S. IP and hosting business unit) in March 2004, placing SAVVIS among the top 5 Web hosting service providers.
Globix/NEON Communications	Globix completed the merger with NEON in March 2005, combining Globix's managed hosting and streaming media businesses with NEON's optical networking infrastructure in the Northeast and Mid-Atlantic.
IBM/Corio	In February 2005, IBM concluded the merger with Corio, a key player in the SaaS market that partners closely with several Web hosting service providers for the infrastructure that supports its Applications-on-Demand offerings.
Sungard/Inflow	Sungard completed the acquisition of Inflow in January 2005, providing it with additional datacenter/hosting facilities (particularly in smaller U.S. metropolitan markets) and customers for its managed availability services business. In addition, Inflow brings service delivery process capabilities and a centralized operational/business support system.
Sun/SevenSpace	Sun completed the acquisition of SevenSpace in January 2005. As a result, Sun plans to cast a wider net for managed services customers, positioning the company to develop a vendor-agnostic managed services business à la IBM.
SBC/AT&T	SBC announced an agreement to acquire AT&T in a \$22 billion equity-cash-debt transaction. The deal is expected to close in early 2006. The transaction will greatly enhance SBC's position in the hosting and enterprise telecom/networking markets.
Verizon/MCI	MCI accepted Verizon's offer of \$26 per share, \$8.5 billion in early May 2005. The acquisition will boost Verizon's presence in the hosting and national enterprise telecom markets.
AT&T/Totality	AT&T/Totality announced a joint offering partnership for Web application performance management in March 2005. The offering combines AT&T managed hosting and software infrastructure services with Totality's performance management services for interdependent application platforms.
Equinix	Equinix enlarged its datacenter footprint by acquiring facilities in San Jose and Santa Clara, California (from AboveNet and Sprint, respectively) and expanding into a facility adjacent to its existing datacenter in Ashburn, Virginia (an abandoned Exodus facility). These moves provide additional capacity for customer growth and high-power density requirements.

Source: IDC, 2005

Market Share Analysis

Table 2 presents IDC's list of the top service providers (as determined by total hosting revenue) for 2003 and 2004. Collectively, the top 20 Web hosting service providers accounted for 64.1% of the market at the end of 2004, compared with 65.3% in 2003. The top 10 service providers represented 55.2% of the market in 2004 versus 56.4% in 2003 (see Figure 1). The slight decrease in major provider market share concentration from 2003 to 2004 is attributable in part to customer and revenue breakage resulting from merger and acquisition activity.

IBM once again held the top market position and continues to gain share, with a 26.0% market share in 2004, compared with a 24.8% share in 2003. SAVVIS, which completed its acquisition of the hosting and IP assets of Cable & Wireless America in March 2004, posted a market share of 5.1% for 2004 (based on pro forma 2004 revenue). Cable & Wireless appeared as a standalone entity in last year's study and obtained a 7.4% share of the market. The primary factor behind the 2003–2004 revenue and market share declines for Cable & Wireless/SAVVIS was customer churn and contract renegotiations in the colocation hosting segment. Market share gainers in 2004 included Rackspace, Equinix, and AT&T. VeriCenter, with hosting revenue of just under \$10 million in 2003, broke into the top 20 as a result of its acquisition of Sprint's E-Solutions hosting businesses at the beginning of 2004.

TABLE 2

U.S. Web Hosting Services Revenue by Service Provider, 2003 and 2004

	2003		2004	
	Revenue (\$M)	Share (%)	Revenue (\$M)	Share (%)
IBM Global Services	1,368.3	24.8	1,586.3	26.0
EDS	336.0	6.1	361.8	5.9
AT&T	279.8	5.1	314.6	5.2
SAVVIS	34.3	0.6	313.0	5.1
MCI	166.6	3.0	167.8	2.8
Verio	162.1	2.9	166.1	2.7
Equinix	110.5	2.0	154.4	2.5
CSC	85.1	1.5	111.2	1.8
Qwest	90.0	1.6	94.9	1.6
Interland	102.7	1.9	91.7	1.5
Rackspace	58.6	1.1	90.8	1.5
NaviSite	73.4	1.3	77.3	1.3
Inflow	48.0	0.9	66.0	1.1
Globix	54.1	1.0	55.5	0.9
AboveNet	57.8	1.0	48.9	0.8
EarthLink	48.0	0.9	48.0	0.8
SBC	41.7	0.8	44.9	0.7
XO	48.9	0.9	44.1	0.7
VeriCenter	9.9	0.2	38.3	0.6
Data Return	27.7	0.5	30.2	0.5
Cable & Wireless	406.8	7.4	-	-
Other	1,897.7	34.5	2,186.6	35.9
Total	5,507.8	100.0	6,092.7	100.0
Top 10 subtotal	3,107.8	56.4	3,361.9	55.2
Next 10 subtotal	492.5	8.9	544.2	8.9

Notes:

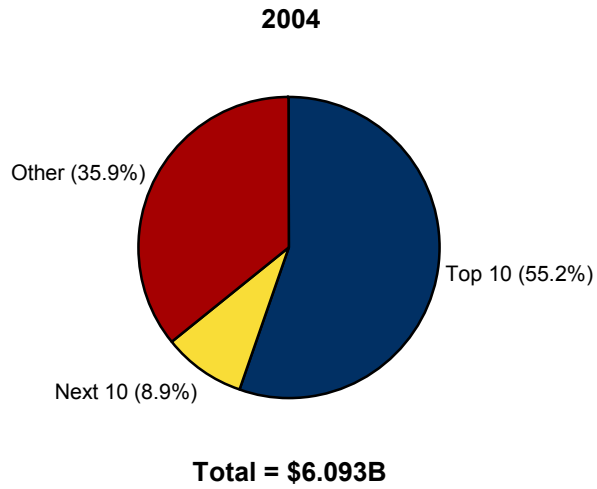
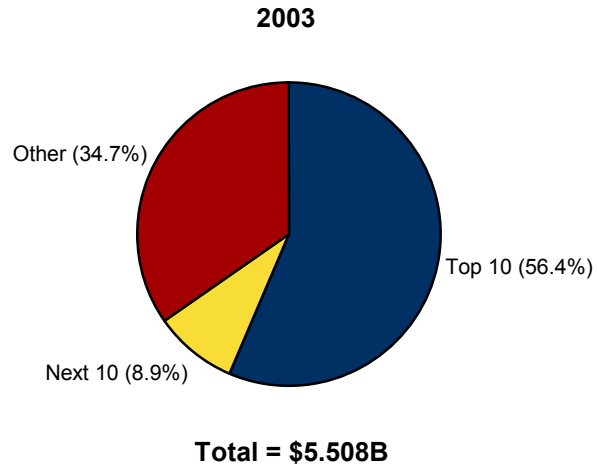
The company revenue figures are IDC's estimates based on extrapolations from consolidated reported revenue; company guidance on revenue splits, customer counts, and average pricing; and/or previous years' estimates.

SAVVIS' 2004 revenue is pro forma hosting revenue, including January and February 2004, which predates the completion of the Cable & Wireless transaction.

Source: IDC, 2005

FIGURE 1

U.S. Web Hosting Services Revenue Share by Provider Tier,
2003 and 2004



Source: IDC, 2005

FUTURE OUTLOOK

The U.S. Web hosting services market stood at \$6.1 billion in 2004, and IDC expects U.S. market revenue to increase at a compound annual growth rate (CAGR) of 13.4% over the next five years, reaching \$11.4 billion in 2009.

Vendor Profiles

AT&T

AT&T's hosting business plays a key role in its evolution from a traditional telecom carrier to an integrator of higher-value enterprise and application networking solutions. AT&T positions its hosting solutions as a continuum of services ranging from client-managed collocation to complex hosting solutions featuring fully managed environments with event correlation across the network, server, and application domains, as well as transaction-level SLAs. AT&T touts advantages of tight integration between the application and infrastructure domains and its global network, which facilitates holistic performance management. The hosting business is an important element in the delivery of advanced networking and management services. As part of the application networking strategy, AT&T has integrated its Web hosting and datacenter services offerings into its traditional data services and managed network services portfolio.

AT&T's Integrated Global Enterprise Management System (iGEMS) platform plays an important role in the company's hosting services. iGEMS provides end-to-end management of network, server, and application infrastructure by proactively and predictively monitoring both technical and business process parameters against thresholds based upon application infrastructure availability and performance requirements.

Recent customer wins include Hyatt Hotels (three-year renewal contract), America Automobile Association (three-year renewal contract), the Blue Cross and Blue Shield Association, and ProfitCenter Software.

New service offerings introduced during 2004 include a utility computing/flexible pricing model for Sun servers; virtual services for load balancing, firewall, VPN, and SSL acceleration (leveraging the Inkra Networks platform); email archiving/storage solutions; enterprise messaging (Microsoft Exchange); and automated configuration, change, and patch management for server operating systems (leveraging BladeLogic datacenter automation software). AT&T also expanded its datacenter footprint to 26 facilities. A total of 13 U.S. Internet datacenters are located in Chicago; Redwood City, Los Angeles, and San Diego (2 centers), California; Secaucus, New Jersey; New York; Mesa, Arizona; Atlanta; Orlando, Florida; Dallas; Seattle; Ashburn, Virginia (metropolitan Washington area); and Boston. AT&T opened 5 new international datacenters in 2004. AT&T has the following international Internet datacenters:

☒ **Europe:** London and Birmingham, United Kingdom; Paris and Nice, France; Amsterdam; and Frankfurt.

☒ **Asia/Pacific:** Tokyo (3 centers) and Osaka, Japan; Sydney, Australia; Hong Kong; and Singapore (opened in December 2004)

In January 2005, SBC announced an agreement to acquire AT&T, its former parent company, in a \$22 billion equity-cash-debt deal expected to close in early 2006 (see *SBC and AT&T: Oedipus Comes to Bedminister*, IDC #32961, March 2005). The AT&T acquisition will significantly boost SBC's profile in the Web hosting market, bringing customers, a global datacenter network, technology innovation, and an overlay sales force of hosting specialists. Upon completion of the merger, IDC expects that SBC will forklift its own Web hosting/datacenter operations into AT&T's application networking organization.

CSC

CSC operates its hosting business as a separate organization with its own P&L structure, direct sales force, and dedicated engineering and operations teams. The North America-based Managed Hosting Services (MHS) unit works closely with other CSC business units, including the consulting group (managed applications, database, and middleware skills), global infrastructure services (managed network and security services), IT outsourcing/transformation, and regional MHS groups in Europe and Asia/Pacific.

CSC began emphasizing managed hosting as a competency separate from IT outsourcing following the acquisition of Genuity's managed hosting business from Level 3 and established the MHS business unit in late 2003. MHS is an independent unit but works with its strategic outsourcing unit on sales and business development while also pursuing new customer acquisition and organic growth from existing managed hosting customers.

CSC's managed hosting offerings include server and colocation hosting, delivery/performance devices (network, load balancing, and traffic management), data services (storage, backup and recover, data life-cycle and infrastructure management), managed security (intrusion detection, firewall management, vulnerability management, virus management, penetration scanning/assessment, authentication, and managed secure access), managed application services (middleware, collaboration, messaging, CRM, ERP, and proprietary applications), and business analytics (Web statistics, end-user transaction monitoring, and performance management).

CSC's managed hosting customers include New York Life, Sun, PepsiCo, Bose, and H&R Block.

EDS

EDS began to develop its Web hosting services businesses in early 2000 with the idea that hosting involves the creation of integrated technology environments within which enterprises can run and access the applications and processes that power their businesses. Therefore, in EDS' worldview, Web hosting was part of a continuum — the front-end gateway — to the rest of the enterprise.

EDS refined its hosting business model with the introduction of Agile Hosting Services, a new hosting services paradigm introduced in 2004 that shifts the focus from technology (i.e., mainframe, midrange, application, or Web hosting services) and service-level agreements to business processes and results-driven metrics. The Agile Infrastructure Platform is EDS' leveraged/shared infrastructure environment for computing, storage, and network services. EDS developed the Agile Infrastructure platform from service delivery and application management automation technology developed by Loudcloud (whose managed hosting business EDS acquired in 2002) and Loudcloud's successor company, Opsware (a software vendor).

EDS no longer has a specific hosting services portfolio. Rather, customers describe their desired end state, and EDS crafts a usage-based solution on its utility deployment model. The three desired-end-state categories for customer hosting solutions are as follows:

- ☒ **Fundamental state:** Integrated solutions that leverage customers' existing technologies and equipment
- ☒ **Empowered state:** High-end, high-performance hosting environments that use EDS' shared network, computing, and storage infrastructure as well as on-demand application, transaction, and business process services
- ☒ **Transformational state:** Solutions that focus is on infrastructure/application consolidation to the EDS utility environment

Hosting Services is part of EDS' Infrastructure Services unit, which also includes Workplace/Desktop Services; Managed Storage and Mobile Information Protection; Security and Privacy; and Communications Services.

Equinix

Equinix is a network-neutral datacenter and Internet exchange service provider that provides colocation, interconnection, and managed services to network service providers from network-neutral datacenters, which the company calls Internet Business Exchange (IBX) centers. Equinix does not operate a network and can therefore offer its customers a neutral choice from among a wide range of network service providers. Because of the availability of access to this large number of networks, Equinix has been able to attract customers who want the benefit derived from access to a wide choice of carriers and service providers.

Equinix's colocation services (which account for the bulk of company revenue) include cabinets, power, and housing solutions for customers with mission-critical Internet operations. The Equinix network exchange services support peering, transit, and traffic exchange options through four service packages: Equinix Direct lets customers automate Internet connectivity, including provisioning, multihoming, and billing to multiple upstream networks; Internet Core Exchange is an interconnection product that enables backbone networks to interconnect for peering and transit; GigE Exchange enables ISPs and content providers to trade traffic directly; and Private Peering provides direct connection and access to IBX content providers, ISPs, and carriers through a variety of speeds and media types. The company's managed infrastructure services include homing, business continuity, disaster recovery, DNS

and BGP management, infrastructure self-monitoring and management, and intelligent routing in the U.S. datacenters and a more extensive range of management and monitoring services servers, networks, and security in the Asia/Pacific IBX centers.

Equinix targets three broad customer types: network service providers such as AT&T, Comcast, and BT; content providers such as Amazon.com, Yahoo!, and EA.com; and enterprise and government (e.g., General Mills and Fidelity Investments). Equinix currently operates 15 IBX centers worldwide (11 in the United States and 4 in the Asia/Pacific region).

IBM

IBM recently shifted ebusiness hosting from a separate business unit to a service offering in the Strategic Outsourcing group. The ebusiness hosting line of business plays a key role in IBM's on-demand services/utility computing initiative. During the past year, IBM has changed its marketing message from on-demand/utility as a new way to buy (for customers) and provision (for IBM) to a new way to think about IT services, combined with the notion that business transformation is the service that IBM provides to customers. At the strategic level, this is a way for IBM's business consulting services group to get into the accounts. At the infrastructure level, this shift has resulted in the increased componentization of IBM's hosting services (making it easier to sell on a flexible, as-needed basis) and side-by-side presentation of dedicated and virtual components for networking, servers, storage, and applications.

Increasingly, IBM is orienting its hosting business toward applications — essentially recasting the infrastructure (servers, network equipment, storage devices, etc.) as the platform for what IBM sees as the real value proposition: application- and business process-centric "business transformation." IBM differentiates itself from other hosting providers (particularly the telecom carriers) based on its wide-ranging expertise in all areas (hardware, software, services, and business and IT consulting). IBM's hosting business continues to serve customers with public, Internet-facing Web sites (typically Web sites involving extensive backend architectures), but the focus going forward is application-centric — hosting enterprises' applications on dedicated or private utility infrastructure and positioning IBM to work with ISV partners such as Siebel on applications-oriented infrastructure for on-demand/software-as-a-service (SaaS)/hosted applications infrastructures.

IBM is currently the overall Web hosting market share leader and has 37 ebusiness hosting centers worldwide. IBM plans to expand the on-demand service center footprint to 11 centers in the United States, the United Kingdom, Australia, Japan, and Singapore.

Interland

Interland began implementing its "mass market/mainstream" hosting strategy during 2002, pursuing an acquisition-driven growth strategy to build volume and drive economies of scale by consolidating the acquired and existing customer bases onto an integrated, automated service provisioning and delivery platform. The acquisition of site-builder software vendor Trellix played a key role in the company's efforts to develop easy-to-use, template-based online tools for the mass marketing of non-tech-

savvy small businesses and the small office/home office market. The company completed its acquisitions in mid-2003 and embarked on the current organic growth phase of its strategy.

Interland offers two families of hosting services that support the needs of both nontechnical SMBs that require considerable Web site implementation assistance and more technically savvy businesses that want more control and flexibility.

Interland's mainstream hosting offering combines Web site creation (either built-to-order by Interland or do it yourself using Interland's Web site building tools) with hosting and the elements needed need to establish an online presence, including Web site features (maps, guest books, counters, etc.); ecommerce functions (storefront development and payment gateways); email marketing software, search engine submission services, e-store builders; and connectors to eBay, Amazon, and PayPal.

The company's traditional offerings include shared hosting, virtual private servers, and dedicated hosting for Windows and Linux. Interland also offers value-added management support packages for dedicated hosting and a range of à la carte managed services such as data backup, system monitoring, firewalls, load balancing, and Web analytics.

Interland targets the SMB and small office/home office markets, as well resellers and large-scale private label/OEM partners. The company is increasingly turning to indirect channel partners to reach the small business market for mainstream hosting. Current partners include Dex Media and Advanta Bank Corp.

MCI

During 2004, MCI integrated Digex's computing-centric managed hosting business with MCI's facilities- and network-focused hosting operations. Integration initiatives undertaken during the first half of 2004 included the creation of an overlay sales organization (i.e., Digex's sales force) that is now part of the MCI Solutions organization and the formation of a combined service delivery organization that includes senior Digex personnel. MCI is also training its field sales organization to identify managed hosting prospects and work with the overlay organization to close solutions-oriented hosting/networking deals. In June 2004, MCI unveiled a revamped hosting services portfolio, featuring the following three tiers of service:

- ☒ **Enterprise hosting:** This is the legacy Digex fully managed hosting for Web, database, and application layer server management, along with networking, storage, and security services. In late 2004, MCI introduced a disk-based managed backup service for enterprise hosting customers.
- ☒ **Datacenter services:** MCI's traditional colocation hosting offerings are augmented by à la carte managed networking services and a new enhanced monitoring service that leverages Digex's capabilities and is available in MCI's 13 premier U.S. datacenters.

- ☒ **Hosted services:** This tier includes MCI's legacy shared hosting and preconfigured, single-server dedicated hosting services, as well as Microsoft Exchange managed messaging service.

MCI provides colocation services from more than 130 standard, advanced, and premium datacenters worldwide. The company offers managed hosting services from four Smart Centers, which are legacy Digex datacenters outfitted with automated managed hosting infrastructure and located in Beltsville, Maryland; San Jose, California; London; and Tokyo. Premium datacenters are purpose-built Internet datacenters featuring onsite IP routers and direct connectivity to MCI's global IP network, advanced physical and electronic security, network redundancy, onsite staffing, and access to managed services such as colocation load balancing, backup and restore services, and remote monitoring. There are 13 premium datacenters located in major U.S. markets: Los Angeles and San Jose, California; Seattle; Denver; Richardson and Houston, Texas; Chicago; Atlanta; Ashburn, Virginia; Boston; Elmsford, New York; Carteret, New Jersey; and Miami. MCI also had premium datacenters in Vancouver and Toronto, Canada. The 17 advanced datacenters are carrier-grade facilities with direct IP connectivity via Fast Ethernet and private network options such as private line, frame relay, and ATM. Colocation options include Web server cabinets and telco racks, and the facilities offer onsite support and customer access during specific hours. Value-added services available in advanced datacenters include managed firewall services and IP VPN. Advanced datacenters are located in Chicago; St. Louis; Cleveland; Washington; New York; Raleigh, North Carolina; Philadelphia; Jacksonville and Tampa, Florida; Detroit; Portland, Oregon; Salt Lake City; San Diego, Sacramento, and San Francisco, California; Las Vegas; and Phoenix.

Like AT&T and other network-centric Web hosting providers, MCI seeks to transform hosting from a standalone, single-service play to a broader managed services value proposition in which global, highly reliable IP networking is a key element.

Qwest

Qwest's product strategy is to position hosting as a value-add to the network (not as pure colocation or IBM-style customized professional services) and to incorporate hosting into the new data services strategy called iQ Networking. The pillars of iQ Networking are simplicity, flexibility, security, and quality of service (QoS), and Qwest revamped its hosting operations and portfolio with these attributes in mind.

Qwest unveiled a new hosting services strategy in April 2004 that positioned hosting as a value-add to the network, incorporating it with the data/IP services group and iQ Networking data services strategy. The new hosting strategy revolves around managed hosting services based on the building-block approach with standardized operating environments and à la carte managed services — in contrast to the previous approach of inflexible prepackaged services or highly customized solutions.

Qwest's primary hosting offerings are:

- ☒ **Colocation Plus:** This solution provides space, power, and connectivity with a set of managed services and à la carte options, including installation services,

remote hands technical assistance, "light" monitoring services, storage and backup, and security.

- ☒ **Managed Hosting Services:** This is a modular suite of dedicated hosting components (standard operating environments for HP, Sun, and IBM hardware) and managed service offerings that serve as building blocks for solutions (from basic to complex) based on customer requirements.

Qwest's managed services options include installation and configuration, monitoring/management support, disaster recovery solutions, cluster and high-availability management, storage and backup services, and managed security services. Offerings include intrusion detection services (via an alliance with Red Siren), firewall management, integrity monitoring, and professional services such as strategy development, security benchmarking, business risk assessment, security policies, architecture review and testing, a security awareness education curriculum, database services, remote hands, and consulting (disaster recovery, capacity planning, high-availability, and WAN/LAN architecture development).

Qwest currently has nine datacenters located in Sunnyvale, Sacramento, and Burbank, California; Denver; Columbus, Ohio; Chicago; Tampa, Florida; Sterling, Virginia; and Newark, New Jersey.

As part of the iQ Networking integration effort, Qwest has trained its general sales force (working with an overlay sales team) to recognize opportunities to put hosting in front of customers alongside traditional networking services.

Qwest is also highlighting its capabilities around disaster recovery/business continuity by expanding the storage, backup, and consulting capabilities developed in the hosting unit to iQ Networking as a whole. Qwest is now developing solution sets for iQ Business Protection Services that include hosting/storage, security, and networking. During the last few months, Qwest has been running a promotion that offers a free month of disaster recovery service or a free (limited) DR consulting engagement with the objective of acquiring new accounts.

Rackspace

During the past few years, Rackspace has successfully evolved from an SMB-oriented hosting provider into a managed hosting specialist that offers enterprise-class solutions. The company relies on a few key strategic business practices that have contributed to its success: a conservative capital-expenditure policy (build or buy only what is necessary), a strong emphasis on customer support, extensive automation of operations, and a pure-play market focus on hosting services.

Rackspace has two distinct service offerings. Managed Hosting (the company's traditional SMB-oriented service) and Intensive Hosting (the enterprise-class platform launched in mid-2002). Intensive Hosting, Rackspace's Windows-based environment, uses Microsoft products such as SQL Server, Commerce Server, IIS, and BizTalk. The application-oriented elements of Intensive Hosting include application environment optimization (e.g., customized security setup and monitoring thresholds for applications and devices; customized escalation procedures and data storage settings, unique customer run books, and preproduction audits), problem

management (single-point of contact project managers and direct access to Microsoft professional support services), and application scalability and capacity planning. All Intensive Hosting customers receive management elements such as deployment and scaling, server administration, security, reporting and monitoring, storage, and backup/restore as part of the basic solution.

Rackspace had about 6,500 customers at year-end 2004, including more than 400 enterprise segment customers. Although Rackspace's customer base includes major enterprise logos such as Sony, Pfizer, GM, and Delta, the company takes a stealth approach to this market segment, initially providing managed hosting infrastructure for a particular Web application or a single unit within the corporation. Medium-sized companies — the majority of the client base in terms of customer count — typically leverage Rackspace's services for a broader range of functions.

Rackspace currently operates five datacenters, including two in San Antonio, Texas; and one each in Dallas; Herndon, Virginia; and London.

SAVVIS

In March 2004, SAVVIS acquired Cable & Wireless America (CWA), the U.S. hosting and IP services unit of parent company Cable & Wireless PLC. The deal gave the company greater financial scale (more than doubling the revenue base), a higher-profile customer base (Fortune 500 logos), and an expanded hosting portfolio that now includes consulting/professional services, application-oriented managed hosting services, content delivery network services, and a public Internet backbone network.

In April 2004, SAVVIS launched its virtualized IT services delivery platform to provide scalable, on-demand access to network, server, and storage solutions from an aggregated pool of IT resources. As a result, SAVVIS now describes itself as a global IT utility provider that delivers a range of integrated infrastructure services — hosting, network services, applications (media, financial, hosted IP voice, and messaging), and consulting.

IDC estimates SAVVIS' 2004 Web hosting revenue at \$313 million. This figure incorporates hosting revenue from Cable & Wireless America from the beginning of 2004 and includes revenue from unmanaged connectivity sales to hosting customers — a revenue stream that SAVVIS reclassified as "other network services" in 4Q04. At year-end 2004, hosting services accounted for more than 45% of SAVVIS' diversified revenue stream, followed by other network services and IP VPN.

Going forward, SAVVIS will lead with services provisioned on the utility platform approach but will continue to offer all of the current product and service lines. These include the customer-owned and managed equipment model (collocation), the SAVVIS-managed and customer-owned equipment model, the traditional fully managed model (dedicated server/storage managed services infrastructure owned and managed by SAVVIS), and the virtualized model (with SAVVIS-owned and managed shared utility infrastructure for both hosting and managed services).

The utility platform enables virtual infrastructures for WAN services (IP VPN), network and security services (firewall/intrusion detection, load balancing, and SSL acceleration), computing (servers), and storage. SAVVIS' proprietary Integrated

Management System provides automated provisioning and end-to-end management functions. The virtual services platform leverages technology from several partners: Egenera (server virtualization), 3PAR (utility storage), Inkra Networks (virtual service switches), and Nortel (network-based IP VPN infrastructure), as well as the content delivery network (CDN) infrastructure acquired in the CWA purchase. To date, SAVVIS has implemented the utility platform in six datacenters, including Sterling, Virginia; St. Louis; Weehawken, New Jersey; and Santa Clara, California, in the United States and London and Tokyo internationally.

Ultimately, SAVVIS is counting on the centralized virtual service delivery model to reduce the operating costs associated with the current customer base (particularly the professional services-oriented customer base acquired in the CWA). SAVVIS also plans to leverage the anticipated reduction in operating expenses to engage in creative pricing models and thus attract a large volume of new customers. The company is currently focusing its sales efforts on utility solutions for companies in the retail, financial services, media, and healthcare sectors.

SAVVIS took on considerable debt to acquire CWA's U.S. assets, and during the next phase of the company's development, it must position the utility platform as a new delivery model for IT infrastructure and services, stabilize the customer base acquired in the Cable & Wireless transaction, expand upselling and cross-selling within the existing customer base, and generate positive quarter-over-quarter revenue growth.

Verio

Verio is a subsidiary of NTT Communications (NTT Com), the long distance and international subsidiary of NTT Corp. Traditionally focused on shared and dedicated hosting for SMBs, Verio also provides managed hosting solutions for midmarket and enterprise customers. In recent years, Verio has shifted its shared and low-end dedicated hosting marketing from direct to indirect channels, including resellers and private-label partners. Verio also has a partner program for larger systems integration and solutions providers for enterprise/managed hosting services.

Verio's offerings include shared hosting on Windows and Unix platforms; managed and unmanaged virtual private servers; PowerPlatform enterprise managed hosting solutions, colocation services, and a range of managed services such as security, storage/backup, load balancing, and monitoring/reporting.

Verio operates eight datacenters in the United States located in Los Angeles, San Diego, San Francisco, and San Jose, California; Boca Raton, Florida; New York and Rochester, New York; and Sterling, Virginia.

The San Jose and Sterling datacenters are premier datacenters that support all of Verio's offerings as well as enhanced services such as fully managed storage and other services that Verio plans to provide in partnership with other service providers. Verio also has datacenters and Web hosting operations in Europe via separate NTT Com subsidiaries in the United Kingdom, France, Germany, and Spain.

ESSENTIAL GUIDANCE

Recent IDC primary research shows that there is considerable scope for growth in Web site/Web applications penetration across all company-size categories. This is good news for service providers, but the marketing for third-party Web hosting services must emphasize cost considerations (especially important for SMBs), the benefits of 24 x 7 monitoring and IT support, and the ability to drive improvements in site performance/scalability (the latter are key factors for larger companies).

In the enterprise-oriented managed Web hosting segment, service provider differentiation will revolve around the breadth and depth of service capabilities and technology expertise and the ability to integrated hosting with broader enterprise IT and/or networking solutions. In the SMB segment, hosting service providers must develop comprehensive online business-enablement solutions or be reduced to competing solely on price.

LEARN MORE

Related Research

- ☒ *U.S. Web Hosting Services 2004–2009 Forecast* (IDC #33338, May 2005)
- ☒ *U.S. Web Hosting Services: Demand-Side View by Company Size, 2005* (IDC #33205, April 2005)
- ☒ *U.S. Web Hosting Services: A Demand-Side View, 2005* (IDC #32964, March 2005)
- ☒ *U.S. Web Hosting 2003 Vendor Shares* (IDC #31628, July 2004)

Definitions

Web hosting encompasses services related to the development, management, and maintenance of the infrastructure that supports businesses' Web sites and Web presences. These services run the gamut, including shared hosting (multiple customer sites hosted on a single server), colocation hosting (rack/cage space in the datacenter and bandwidth within the datacenter and from the datacenter to the Internet), and managed Web hosting (basic dedicated Web services and more complex three-tiered Web, database, and application server Web site implementations).

The definition includes support for associated application infrastructure platforms (e.g., ecommerce packages, databases, and application servers), comprehensive Internet infrastructure management, and systems-level (as opposed to server level) administration in support of large-scale Web sites and applications. Also included in the definition are value-added services offered as add-ons to managed and colocation hosting services such as managed storage and security, but only to the extent that these services are provided as integral parts of larger Web hosting

services. These services are also covered as discrete market segments in other IDC research programs.

The definition encompasses:

- Public, Internet-facing Web sites and Web site functions
- Nonpublic corporate intranets
- Supply chain-oriented business-to-business extranets

The definition excludes remote access to the datacenter, professional services billed on a time-and-materials basis, and the resale of hardware or software. It also excludes the business process-type services sold under the SaaS market model.

Methodology

IDC used surveys and interviews with the major Web hosting service providers to formulate our market share estimates. IDC also leveraged information from industry and financial analyst briefings, Security and Exchange Commission (SEC) filings, and ongoing discussions with the major market participants.

For the standalone Web hosting service providers, the revenue-gathering exercise was fairly straightforward. Because most of these providers report their revenue, IDC simply subtracted from these totals the percentage of revenue derived from hosting-related services that fall outside of IDC's hosting definition. These include professional services such as applications development, systems integration, and Web design and consulting; hardware sales; software and SaaS sales; standalone managed services (e.g., managed security services); and IT outsourcing services. For Web hosting service providers that do not break out their hosting revenue, IDC estimated Web hosting revenue using guidance from the service providers regarding numbers of customers, customer segmentation (by size of business or type of server platform), average revenue per customer, number of servers or servers per customer, average revenue per server, and other incidental factors.

Note: All numbers in this document may not be exact due to rounding.

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