

Web-hosting firms defy recession

From co-lo to cloud, outsourced data center services enjoy rising demand from enterprise customers

BY CAROLYN DUFFY MARSAN

After the dot-com bubble burst in 2001, mothballed data centers operated by bankrupt companies such as Exodus and PSINet were the most visible signs of the IT-driven downturn. Today, despite the worst recession in 50 years, Web hosting is one of the few thriving segments of the IT industry.

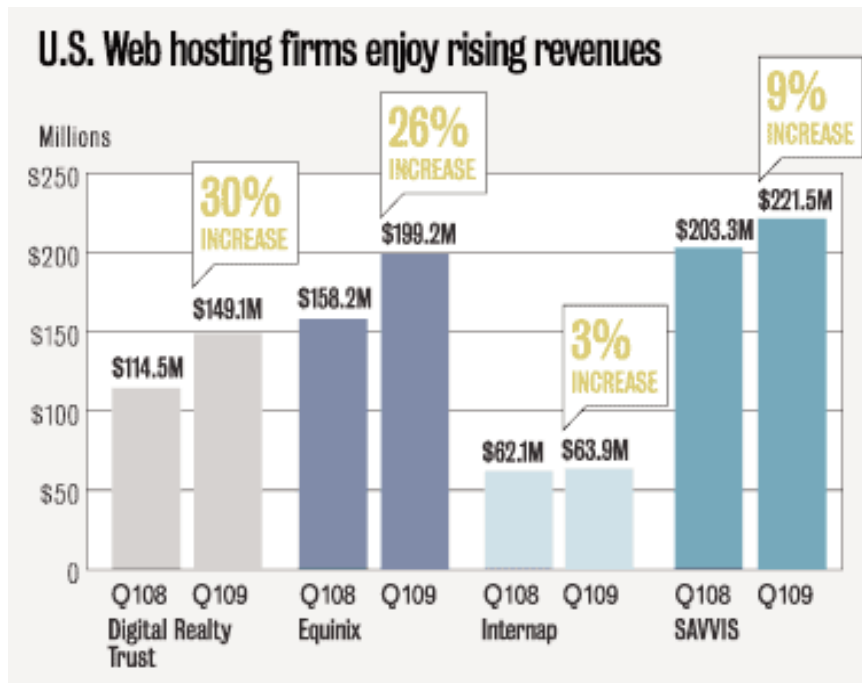
Web-hosting firms have seen growing demand for services ranging from simple shared hosting and co-location to managed hosting, virtualization and cloud computing. Companies benefitting from the trend include Digital Realty Trust, Equinix, Internap and Savvis — all of which reported revenue increases in the first quarter of 2009.

“The economic crunch we are all facing is forcing folks to be more creative and more open minded about how they deploy their businesses,” says Michael Foust, CEO of Digital Realty Trust, a San Francisco owner and operator of Internet data center facilities that has seen its revenues grow more than 30% in a year.

Gartner is predicting continued growth for all aspects of Web hosting during the next five years, with overall revenues expected to rise from \$14.9B in 2008 to just shy of \$29B in 2012.

“The economic downturn has really restricted enterprise access to capital,” says Linda Leong, research director for Internet Infrastructure Services at Gartner. “Enterprises that were previously looking at building a data center are either taking a lease from a company like Digital Realty or going co-lo.”

Leong says the overall Web-hosting market is growing at double-digit rates despite the recession. “Most companies across this entire market



are doing well,” she says.

Web-hosting firms continue to build new data centers, although at a slower pace than a few years ago. For example, Digital Realty is building 400,000 square feet of new data center space in 2009, compared with 600,000 square feet last year.

“What this allows us to do is take more of a just-in-time approach instead of building out speculatively,” Foust says. “There’s a lot of expansion by all of the players, but it’s a more rational approach based on real customer demand. The smart folks are not doing build-it-and-they-will-come.”

New data center space is selling out quickly. Equinix announced May 5 that it had completed an \$82 million expansion of its Secaucus, N.J., data center, with 50% of the space booked or reserved by customers on opening day.

“We’re already looking at phase

three of that expansion,” says Jason Starr, senior director of investor relations at Equinix.

Starr says the difference between now and 2001 is that the Web-hosting industry didn’t go into the recession with overcapacity. “We’ve seen stats on the industry where it’s above 70% utilization. Some cities are even tighter than that,” Starr says.

Web-hosting firms report that demand is up from all vertical industries, including financial services, media, healthcare and software-as-a-service (SaaS).

“It’s a paradox, but we’re seeing growing demand and a growing number of applications from financial services firms,” Foust says. “There’s still quite a bit of regulatory compliance and business continuity needs to be met, and new internal applications for risk management.”

Foust says investment banks, commercial banks, insurance companies and securities trading platforms are outsourcing applications to Digital Realty's data centers because these turnkey facilities provide low operating costs. Digital Realty's new customers this quarter include asset management firm Neuberger Berman.

"I don't think this shift is temporary," Foust says. "We've seen a continued growing demand for data centers and growing acceptance of our solutions."

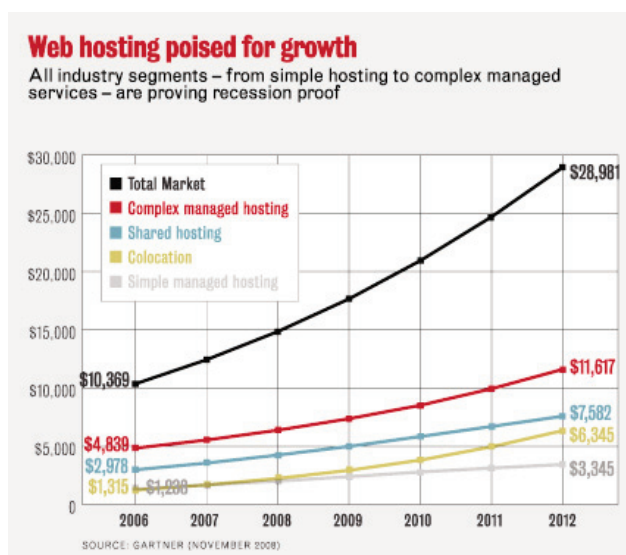
Most enterprises are buying Web-hosting services as a cost-saving move. Outsourcing allows them to reduce their capital spending on data center floor space, servers and network equipment and replace it with a monthly operational expense.

"The value proposition of managed outsourcing is growing," says Bryan Doerr, CTO at Savvis. "That's combining with the cost-cutting pressures that many companies are experiencing as a result of the economic downturn. These two things are coming together to overcome some of the historical resistance to adopting outsourcing."

Customer feedback

Cost savings is what prompted Availity to select Savvis as its managed Web-hosting provider in 2008. Previously, the healthcare SaaS provider used IBM's data centers. Availity hosts its application — which is used by 50,000 healthcare providers — at Savvis data centers in Dallas and Atlanta.

"It's so critical to be up all the time when you have an Internet-facing portal application like ours," explains Jon McBride, CIO of Availity. "If you look at the cost of building a first-class data center that will be millions of dollars, and that's not our core business or our core strength. We were looking for someone to take care of all the pipes and pings and all that...We would rather spend our resources on our application."



McBride says Availity's 100-person IT shop focuses on adding new features to its software, which has doubled its user base in the last year.

"We do 600 million transactions annually," McBride says. "We need very high uptime and great performance....The other thing we get with Savvis is the ability to have geographic redundancy."

Dave Banks, CTO with Propertyroom.com, says the police auction Web site can handle bursty traffic because it runs on Savvis' cloud computing infrastructure.

"They manage the hardware, they manage the OS, the patching, the firewalls, the load balancing, all the network hardware and the infrastructure for us, and we have our software running on top of it," Banks says.

Banks says Propertyroom.com runs its application on seven virtualized servers at Savvis' Chicago data center. "I've never even seen the servers," he adds.

Doerr says CIOs like Banks and McBride are looking for ways to focus their internal resources on mission-critical applications while offloading rudimentary IT operations.

"Where [CIOs] add value is as a change agent for the business, as they incorporate technology and evolve the business for opportunities provided by technology," Doerr says. "None of that is dependent on how

well they operate a data center facility, or operate a server, or patch a server or operate a firewall."

Salesforce.com, for example, is running its entire IT infrastructure on three Equinix data centers, while Bechtel is using Equinix data centers to support its push to a private SaaS model.

Equinix says the main reason companies such as Bechtel and Salesforce chose its data centers is because they are carrier-neutral and allow for reduced latency on applications that run across many networks.

Equinix provides "a network aggregation opportunity for the enterprise," Starr says. "The savings [customers] get by having access to all of these networks under one roof can offset what they are spending with Equinix."

Whether the demand for Web-hosting services is a stop-gap measure for enterprises until the economy recovers or a permanent trend remains to be seen. Web-hosting firms report that once they get an enterprise customer to outsource an application to one of their data centers, the customer tends to off-load more applications and add more managed services over time.

"A CIO running out of data center space will look across the portfolio of applications and take those that are the most modular, most standard, lowest overhead from a risk perspective and move them out of the data center into a relationship with a service provider, freeing up power and space in the primary data center for critical applications," Doerr says. "Once they get experience with a service provider...they reach deeper into the data center" and offload additional applications.

Starr says it's very difficult to take an application out of an Equinix data center and bring it back in-house. "It's a very sticky business model," he adds. ■

