

Declining Demand for Hosting Services Presents an Opportunity for Enterprises

Ted Chamberlin

The decline in the market for data hosting services — driven by overcapacity and accelerated by the recent economic downturn — offers a chance for enterprises to get better pricing.

NEWS ANALYSIS

Event

On 9 May 2001, Exodus Communications, the leading independent provider of data hosting services in the United States, announced plans to reduce its workforce by 15 percent. Several other providers of hosting services, including Digital Island and Intel Online Services, have recently scaled back construction of data centers or taken other cost-reduction measures.

Analysis

Gartner has long predicted a decline in the market for data hosting services due to massive overbuilding and overcapacity, and the recent downturn in the U.S. economy has accelerated that decline. Demand has dropped most among wholesale customers — application services providers, Internet service providers and Web hosters — that buy from providers such as Exodus and then sell to enterprises. Although overall demand is lower, the demand for full-service offerings is actually increasing.

In this saturated market, hosting services have become commodities, with little to differentiate one provider from another. Vendors often ignore one of the few differentiators — quality of service. Many providers have found it difficult to build constantly and still maintain acceptable service. Those providers that have built fewer — and frequently smaller — data centers offering more robust functions and better infrastructure have generally fared better than those that have focused on quantity at the expense of quality.

A few major providers, including AT&T and Sprint, have the resources and the experience to continue building aggressively, but few of their pure-play competitors will be able to do so. Many will have to seek partnerships with large bandwidth providers — e.g., telephone companies and online services — and network services providers.

Gartner believes that enterprises, which increasingly like hosting services, can benefit significantly from the decline in this market, especially since hosting service prices will likely fall 20 percent to 25 percent through 2003. Gartner recommends that an enterprise considering a hosting service provider first define its architecture requirements, inspect all aspects of the provider's infrastructure, ensure the provider's financial viability and assess whether the provider's competencies will mesh with its own architecture.

Analytical Source: Ted Chamberlin, Enterprise Network Strategies

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