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Research

Actionable Business Insights

Mi6Research is a market intelligence and advisory firm helping clients understand technology and market trends to develop insightful business strategies.

The Future of Co-Location and How it Affects Your Decision

Summary:

The colocation market in North America is highly competitive and fragmented today. Most of the colocation operators around today will either be gobbled up or be road kill in the next five years.

If you want to minimize the cost and risk of deploying with colocation firms, our recommendation is to carefully select the colocation firms that can deliver, differentiate and enhance their services, are cost competitive yet profitable and are large enough to withstand consolidation and continually improve the breadth of their offerings.

Analysis:

Currently colocation is a very fragmented and highly competitive market in North America. One quarter of the available floor space and about one quarter of the revenues are derived from about 18 big players. The rest is offered by multiple mom and pop shops including hundreds of local colocation firms. It is mainly a retail business where the colocation firms are selling directly to companies and very few are wholesaling their services.

Most colocation firms offer a combination of processing power and storage, floorspace, cooling and bandwidth to enterprisers looking to have their hardware and infrastructure managed at a cheaper price yet in an accessible and secure environment. The key driver for many enterprise IT departments to consider colocation hinges around space and infrastructure availability and management to reduce capital investment and operational cost requirements.

In addition, the larger players are offering certain features that are seen as advantages, especially to geographically dispersed businesses and larger enterprises, which also tend to purchase more advanced colocation services. These features include examples such as:

1) The ability to host or colocate your servers physically near to your locations where an IT operative can get easy access to the equipment.

2) Access to more and better skilled personnel and robust service delivery processes when issues occur or systems need rebooting, migration, reprovisioning etc.

3) Better security, including physical access that is better protected with guards and premise security

4) Investment in more available and disaster resilient capabilities. The larger colocation firms can mirror apps and environments more easily and some have invested in remote backup systems accessible via high throughput networks like the 10Gbps used by Expedient.

5) Redundant network carrier services such that the chance of application or system downtime due to connectivity failure becomes ultra low.

There is a distinct advantage in being larger, as it brings economies of scale and the ability to attract and retain larger customers who spend more and buy more profitable products above and beyond mere space and bandwidth. However some of the smaller firms may be able to offer more personalized service and an unwritten 'know your IT engineers on a first name basis' advantage.

Survival of the Fittest
As the market matures it is expected that

1) Larger companies will continue to acquire smaller, successful firms especially those offering greater geographic reach to the big guys. Many of the smaller colocation firms that have enough customers, offer a strong presence in an underserved geography or offer breakthrough services will be swallowed up as part of a pervasive consolidation where small, medium and larger firms will start getting swallowed up.
2) Those smaller firms that are losing market share or are just not competitive due to weaker core offerings or lack of appropriate managed services may gradually go out of business, losing to local competitors. Such firms that don't offer unique advantages may either fail, lose customers or get bought up, post bankruptcy.
3) As the market competition heats up, colocation firms will continue to try and differentiate themselves and offer products such as value-added services, encompassing data centre infrastructure and server platform monitoring and management, and requirements for content storage, high-bandwidth connectivity, and IT security such as managed firewalls.

Example of basic colocation services and facilities:
Proximity to major hubs
24 x 7 x 365 Access
24 x 7 x 365 Onsite Staff
24 x 7 x 365 Remote Hands
Suites
Individually locked cabinets
Raised Floors
Multiple racks in cages in the same building
8+ Different Fiber Carriers In Building
Video Surveillance
Onsite security guard
Conditioned and back-up power
Biometric security access
Approximately 45,000 square feet

Example of value-added services:

Monitoring of datacenter infrastructure and server platform

Monitoring of network, response time and connectivity bandwidth

Managing storage

Security monitoring and incident response e.g. managed firewalls

Offering private cloud management services

Offering utility computing, security, backup and engineering, connectivity managed services

Assuming that consolidations happen at a moderate rate, the future market, in about 5 years will probably contain fewer than 50-100 independent colocation firms.

Bottom Line:

If you want to minimize the cost and risk of deploying with colocation firms, our recommendation is to carefully survey the available providers and shortlist those colocation firms that

1) have repeatedly shown they can successfully deliver and differentiate their services

2) maintain cost competitiveness and a sustainable business model for survival

3) are large enough to withstand consolidation and continually improve the breadth of service offerings

Mi6Research provides market research and business insights to help decision makers in information technology, business, marketing and investment functions. For more information visit www.Mi6Research.com or contact us at info@Mi6Research.com.