



Research Agenda, Q1 2017

European Services

Covering services and service providers that specifically target the European market, with particular emphasis on the UK, France, Germany and Benelux.

The European Services Channel gives service providers operating in Europe insight into buyer behavior and drivers of demand. It examines the Western European market, with a particular emphasis on the UK, France, Germany and Benelux, including economic background, cultural influences, and regulatory and compliance issues. Areas of focus include European multi-tenant datacenter and colocation services; European web, application and managed hosting services; cloud services; internet exchanges; and content delivery networks. Research topics include new and disruptive service offerings, pricing, bundling propositions, regional offerings and service adoption rates. These topics are complemented by analysis of the competitive landscape and potential strategic partnerships, as well as profiles of key service providers in a number of countries. In addition, this channel examines the market opportunities for service providers in the SMB and midmarket space, as well as the evolving enterprise space, for complex service deals.

ABOUT 451 RESEARCH

451 Research is a preeminent information technology research and advisory company. With a core focus on technology innovation and market disruption, we provide essential insight for leaders of the digital economy. More than 100 analysts and consultants deliver that insight via syndicated research, advisory services and live events to over 1,000 client organizations in North America, Europe and around the world. Founded in 2000 and headquartered in New York, 451 Research is a division of The 451 Group.

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Overview

The European services market is increasingly diverse and multi-layered – in terms of both regional providers and offerings. From colocation, datacenter services, and web and infrastructure hosting through managed hosting and cloud services, Europe offers a plethora of service types, but faces disruption from privacy and data protection legislation, as well as the pace of service adoption.

Those firms running datacenter facilities in Europe – facilitating the provision of services by the other providers – are increasingly in the position of potentially competing with their own customers. As enterprises increasingly look to outsource colocation services rather than building their own facilities, demand is now starting to outstrip supply slightly for the first time since the end of the financial crisis.

While there are plenty of service providers at the network and datacenter level, there are fewer higher up the stack, although this is changing as companies acquire new skills and broaden their portfolios. At the same time, some parts of the market – such as the dedicated server segment – show signs of stagnation as they increasingly commoditize or transition to bare-metal servers. While many companies reliant on shared web hosting may not wish to change their core business model, there are others that do, but they may lack the financial capability to invest in cloud (IaaS) provisions.

The type of provider offering some kind of hosting capability is also changing. While those focusing on domain, SSL and basic web hosting have made acquisitions or developed in-house capabilities since the mid-90s to include network services, VPN server management, monitoring and support, others have taken a different route. International specialists (mainly US-based companies) have exported a successful business model based on super-scale utility and price to the UK and parts of the Continent; telecom carriers have leveraged their network ownership domestically to provide packaged offerings of email, web, data management and online storage; technology companies, hurt by the downturn in traditional consulting and other services, have diversified into higher-margin hosted service offerings, partnering with other providers to offer managed service bundles; systems integrators and outsourcers are leveraging their experience in managing physical and virtual environments to provide hosted infrastructures for their own partner base to sell into the SMB and midmarkets.

Although there is an extensive range of international companies offering colocation, web hosting and an array of managed services, the landscape in Europe still displays a highly regional structure, particularly in the South and East. This is mainly historical: Domestic service providers have been serving local markets ever since the IT industry started, providing local language support, facilities and account management that international companies are unable (or unwilling) to provide. In the most regional of markets, language support is a key differentiator for these local providers, especially those supplying the SMB and midmarket.

In the background, the issue of privacy and data protection – brought into focus by the Snowden revelations – continues to cause fear, uncertainty and doubt in the minds of some potential procurers of managed services, particularly cloud services. This is particularly the case in Germany and France, where local data protection laws and national sensitivities to US-based companies is enhanced. On a wider basis, the negation of the Safe Harbor agreement will affect European firms trading in North America unless a compromise can be reached with the EU regarding new data storage and transmittal requirements.

European Multi-Tenant Datacenter Market

Europe has seen a resurgence in demand for datacenter space following the challenges of 2013, with much of this demand coming from enterprise firms colocating in large numbers at interconnection hubs, where they can easily access multiple cloud platforms. Multi-tenant datacenter (MTDC) providers are continuing to debate whether to build or buy space, with smaller power requirements increasingly being met via leased space, while larger deployments are being accommodated via turnkey wholesale space. At the same time, new datacenters continue to be built across Europe, driven by location, capital access and technology requirements as immature markets start to develop. Competition – particularly in Western European countries – has meant many MTDC providers are looking to provide higher-margin services, where growth opportunities are stronger and rivals are weaker. Many will be acquiring smaller firms to increase both capability (offerings) and capacity (additional customers) to maintain historic growth levels and access new territories, as end users look for MTDC provisions to meet European and national regulatory requirements around the protection of data:

- **Many providers in the European MTDC market** are focusing on M&A opportunities as they push into new markets across Europe. This can provide easy access to skills and local language support, ready-made infrastructure and a local sales channel. This activity will have a large effect on both local and regional MTDC markets in Europe, and the competitive landscape from pricing to service provision. It also paves the way for some new global competitors in this market.
- **Many regional players** with no eye on European expansion are now moving toward niche offerings, focusing on infrastructure provision and communities of interest with a focus on vertical industry or regional requirements.
- **The value of higher-margin services** wrapped around MTDC provision is increasingly being realized by market players large and small, and as a result we are seeing an increased blurring of the lines between service offerings. Players once known for being traditional wholesale providers are moving toward smaller colocation offerings, and colocation providers themselves are finding new ways to attract and maintain customers as they move into hybrid cloud environments.

The European Services Channel will focus on the following three market dynamics in the MTDC sector:

- **The expansion of international wholesale and retail colocation MTDC companies** into not only Western Europe but Southern and Eastern Europe, as well as the increasing demands on regional firms to provide low-latency, in-country connectivity for local cloud and hosting providers.
- **The increasing attraction of non-EU countries** (e.g., Switzerland, Iceland, Turkey) as data security and privacy concerns, latency issues and energy costs create further location choices for customers and other service providers.
- **MTDC providers offering their own cloud and hosting services**, creating new opportunities to generate business outside of network, connectivity and other traditional datacenter services.

European Managed Hosting Market

The European market for managed hosting is getting ever bigger as demand for complex application and infrastructure management services increases. In response to this demand, new types of providers have started to offer a variety of infrastructure services, blurring the lines between service types while providing bundles of offerings. While many established international and domestic firms have simply added services to their existing portfolios, new players have also entered the market, addressing local language and data storage requirements while offering management of multiple environments and legacy infrastructures:

- **Traditional telecommunications companies** with carrier network ownership and transit capabilities are diversifying their ICT offerings, providing managed hosting, storage, desktop and other collaborative services to existing customers.
- **Systems integrators and outsourcing firms** that have experience in deploying and managing IT environments have introduced complex application hosting and integrated infrastructure services, providing regional enterprises with fully managed ICT, as well as SMBs with packaged offerings via networks of value-added resellers (VARs).
- **Cloud services** are becoming a differentiator for many managed hosting providers, particularly those looking to help develop their customers' infrastructure on a step-by-step basis – maintaining legacy systems while also scaling some applications off-premises at a more efficient price point.

The European Services Channel will focus on the following three market dynamics:

- **The increase in M&A activity** that is providing consolidation in some sectors, particularly for pan-European and UK-based managed hosting firms that are buying-in skills, products and services to strengthen portfolios and get to market more quickly than via in-house development.
- **The emergence of platform-agnostic managed hosting providers** that are mimicking retail MTDC providers in their business model, offering multiple on-ramps for customers looking to move to the cloud.
- **The skills challenges facing more traditional providers** that have good networking and hardware-related skills but struggle to find an effective way to offer a cloud SLA.

European Web & Application Hosting Market

The web and application hosting market in Europe covers an extensive range of services, from basic domain registration and management through website creation, hosting and dedicated server/VPS management. Price pressure remains high, in particular as a result of the pressure from off-premises/multi-tenant services. The market overall in Western Europe is quite mature, but in other areas such as Eastern Europe and MEA, a volume market has only existed for a few years. Despite this, outside of the enterprise sector, a large proportion of SMB firms in Western Europe still have little more than a basic web presence and are seeking to benefit from e-commerce capabilities that the larger firms have at their disposal. Some of this demand is being satisfied by the larger European hosting firms – including 1&1, Host Europe, Dada Group, Strato and others – but also at the small office/home office (SoHo) level by ‘freemium’ providers such as Wix, Jimdo, BaseKit and goMobi:

- **Many web and application firms are moving further up the stack**, offering e-commerce, storage, security, backup, disaster recovery and other ‘sticky’ services to retain existing customers as a result of company acquisitions and organic development.
- **International hosters continue to be challenged** by their customers on data sovereignty and datacenter location as the fear, uncertainty and doubt surrounding privacy and data protection remains in customers’ minds. This is bringing commercial advantage to regional suppliers – particularly in Germany – while creating additional barriers to entry for US providers.
- **The increasing commoditization of the dedicated server market** and the increasing demand for virtual private cloud hosting is resulting in further interest in bare-metal servers, initially introduced by US providers, but now being offered in the portfolios of regional firms as well.

The European Services Channel will focus on the following three market dynamics:

- **Consolidation in the web and application hosting market** that is creating a group of regional one-stop shops for SMB and midmarket firms looking to extend their market presence to better compete with larger rivals.
- **Hosting firms’ increased use of licensed SaaS** to provide additional premium features rather than developing their own applications to focus on service provision competencies.
- **The effect of mobile devices on the way websites are created and managed** and how hosting service providers are diversifying by providing template-based site creation and optimization tools.

European Cloud Services Market (IaaS & PaaS)

As the appetite for cloud-based services increases in Europe, companies are moving from on-premises infrastructures to a more flexible utilization of online compute and storage resources. The huge ecosystem of service providers in Europe is developing its offerings to cater for growing demand in public, private and hybrid cloud infrastructure. While international firms initially introduced the concept of shared, scalable, pay-as-you-go (PAYG) platforms, many regional providers and specialists have sprung up, taking advantage of local language requirements and data sovereignty concerns. These firms will continue to try to capture local market share while the global players increasingly leverage their brand and operational presence.

The European Services practice will continue to monitor adoption trends and highlight new services and new providers of IaaS, PaaS and SaaS, focusing on the following three market dynamics:

- **The cloud portfolio diversification** of key international and pan-European providers, including analysis of the way that adding value helps in retaining customers – particularly in hybrid infrastructures.
- **Specific regional insights** enabling the vendor community to better understand unique requirements for the EMEA market, including demand analysis and adoption rates, pricing dynamics and service innovation.
- **The ongoing legislative process around the take-up of cloud services**, as well as the economic backdrop and data protection/privacy debates affecting buying decisions – including the implications for the service provider community.

European Interconnect Providers Market

There are many carrier-neutral operators in the European market today – an increasing number of these leverage this position by offering interconnection services between telecommunication providers' networks. This will become increasingly important for service providers and end users alike, from the enterprises that are accessing network and cloud services and using applications and storing data in multiple facilities, to the telco reaching into cloud providers that choose to colocate. In Europe, there is still a large number of providers offering interconnect services to a smaller number of network operators. These efforts are made even more valuable when cross-connects are offered inside the facility, providing easy access to other service providers and businesses in one location. In addition, when an Internet Exchange Point is present, this allows for direct network interconnects, removing the need use third-party networks and reducing latency, cost and bandwidth.

The European Services practice will continue to monitor adoption trends and highlight new offerings around network services, including key interconnect providers in line with our MTDC research, as well as key exchanges and network providers in Europe, focusing on the following three areas:

- **How MTDC providers are continuing to innovate** at the connectivity layer of service delivery, from the development of interconnection and cross-connect services to value-added offerings.
- **The rising importance of the internet exchange (IX)** and how this affects the business of cross-connect and interconnect.
- **The increasingly blurred lines between service and network provision**, especially where network providers also use their presence inside colocation facilities to offer their own layers of datacenter services.

Note

In addition to the market dynamics listed above, the European Services Channel will continue to collaborate with fellow 451 Research analysts across other channels as we assess the wider implications of the increased industry focus on European Services. Numerous vendors overlap areas of our research, and some have multiple products in different technology domains.

Upcoming Research on European Services

Voice of the Enterprise (VotE)

Combining 451 Research's industry-leading analysis with an extensive network of more than 50,000 senior IT professionals, Voice of the Enterprise tracks adoption across thousands of organizations and exposes the major opportunities for enterprises, IT vendors, suppliers and investors. Each quarter's survey has a focused theme, as indicated in the table below.

	Workloads and Key Projects	Organizational Dynamics	Vendor Evaluations	Budgets & Outlook
Datacenter Transformation	Q1	Q2	Q3	Q4

Supply-Side Research

Understanding the pace of growth and identifying the segments and industries driving value in the market is the focus of 451 Research's market tracking and forecasting methodologies. Through quarterly updates, 451 Research delivers its tracking and forecasting of the supply of key business application market indicators by region and country.

		Updates
Datacenter Market Monitor & Forecast	Datacenter Market Monitor	Q2, Q4

Datacenter KnowledgeBase

451 Research's Datacenter KnowledgeBase is a global database of more than 4,700 retail and wholesale colocation datacenter facilities. This KnowledgeBase is established as the industry's most authoritative and comprehensive set of intelligence on the multi-tenant datacenter (colocation) market, bringing together data from on-site visits, quarterly provider outreach and financial analysis. We track more than 30 regional markets and more than 100 individual metrics per facility. The KnowledgeBase is available in four geographic market levels:

- Worldwide (Global) – All metro areas plus market sizing and forecast
- Global Region(s) – All metro areas within a single region, plus market sizing and forecast for that region
- Large Metro Area(s) – Sites within a single large metro area
- Emerging Metro Area(s) – Sites within a single emerging metro area

The Datacenter KnowledgeBase is delivered on a quarterly basis directly to clients in a user-friendly Excel Pivot table based file.

Technology & Business Insight Reports

M&A Outlook 2017: Multi-Tenant Datacenter, Hosting and Managed Services

Analysts: Kelly Morgan, Penny Jones, Agatha Poon, Jeff Paschke, Brenon Daly

Publication Date: Q1 2017

Even after a recent record tech M&A run, dealmakers still had ambitious shopping plans in 2016. Across the globe, tech acquirers announced \$500bn worth of transactions in the just-completed year, ranking 2016 as the second-highest annual total since the internet bubble burst. More than any other year, 2016 saw an expansion of buyers beyond the 'usual suspects,' as old-line companies got caught up in transforming their businesses through M&A.

MTDC Market Report: Paris

Analyst: Rory Duncan, Penny Jones

Publication Date: Q1 2017

This report provides an overview of the competitive dynamics in the market, a 451 Research Market Map™ of the competitors in the specific market, market share of the dominant providers, supply and demand trends, utilization trends and a pipeline of planned MTDC builds.

Europe Managed Services

Analyst: Rory Duncan

Publication Date: Q2 2017

This report provides an overview of the managed service market in Europe.

MTDC Market Report: London

Analyst: Rory Duncan, Penny Jones

Publication Date: Q2 2017

This report provides an overview of the competitive dynamics in the market, a 451 Research Market Map™ of the competitors in the specific market, market share of the dominant providers, supply and demand trends, utilization trends and a pipeline of planned MTDC builds.

MTDC Market Report: Amsterdam

Analyst: Penny Jones

Publication Date: Q3 2017

This report provides an overview of the competitive dynamics in the market, a 451 Research Market Map™ of the competitors in the specific market, market share of the dominant providers, supply and demand trends, utilization trends and a pipeline of planned MTDC builds.

MTDC Market Report: Frankfurt

Analyst: Penny Jones

Publication Date: Q4 2017

This report provides an overview of the competitive dynamics in the market, a 451 Research Market Map™ of the competitors in the specific market, market share of the dominant providers, supply and demand trends, utilization trends and a pipeline of planned MTDC builds.

Preview: Trends in European Services 2018

Analyst: Rory Duncan

Publication Date: Q4 2017

This report provides a view of key trends that will affect the market in 2018. It details the top trends, likely impact and recommendations for each.