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Study: IBM and EDS lead Web hosting market

Feature

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Enterprise Applications Outsourcing

In the \$2.3 billion North American market for managed Web hosting and related services, IBM and Electronic Data Systems Corp. took advantage of market changes and turbulence during 2002 to extend their lead over rivals, research firm Meta Group Inc. concluded in a recent report.

As the Web hosting market evolves, large vendors will increasingly dominate, according to Meta, in Stamford, Conn. Driving the market's widening gap between vendors is the commoditization of low-end services such as providing collocation infrastructure and the relative immaturity but growing importance of high-end consulting and full-management services, the firm said.

"The key differentiator in the market is professional services," the report states. "Two Web-hosting leaders emerged in the U.S. market during 2002: EDS and IBM. These organizations are distinguished not only by their size, but also by their ability to grow Web hosting as a viable business while evolving services, increasing leverage and extending partnerships."

IBM and EDS have the staffing, infrastructure, technology and financial resources to adapt to changing customer demands and weather rough market conditions, Meta said. They also

have the advantage of bulk: With the economy shaky, customers are reluctant to sign on with smaller vendors that could be acquired or wiped out, according to the report.

Challengers AT&T Corp., Verio Inc. and Sprint Corp. have solid hosting offerings but are struggling to expand into high-end services, Meta said. Meanwhile, Qwest Communications International Inc. and Cable & Wireless PLC suffer from overinvesting during the boom years and are focused on regaining financial health.

Gartner Inc., also in Stamford, gave IBM and EDS top marks as well in an analysis of the North American Web hosting market issued last week. During a time filled with acquisitions, reorganizations and bankruptcies, the consistency the two firms offer is a strong selling point, Gartner said.

Both firms noted that Big Blue's sterling services carry a corresponding elite price tag. While Meta argues that pricing is less important to most customers than reliability, Gartner's report concludes that budget pressures prompted a number of customers to begin in 2002 shifting internally hosting services they had previously outsourced.

Vendors will need to respond with more flexible offerings and pricing to "slow the rush" toward internalization, Gartner cautioned.

Meta forecasts that while low-end services commoditize, high-end services won't become a fully developed market before 2005. A willingness to treat Web hosting as a loss leader for winning larger services deals, along with prudent use of resources, will be key for vendors hoping to lead that sector, it said.

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