

Magic Quadrant for North American Web Hosting, 2008

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In North America, all major Web hosting vendors have operational expertise in traditional managed, dedicated hosting. But the evolution toward utility computing services is causing major technological and business shifts that not all vendors will manage successfully.

WHAT YOU NEED TO KNOW

Most Web hosting providers can deliver basic managed Web hosting services competently, but breadth of product portfolio, flexible utility pricing, ability to manage complexity, and quality of customer service still differentiate providers.

MAGIC QUADRANT Market Overview

The Web hosting market is in the middle of a key technological and business transition – a move from dedicated infrastructure provisioned for years at a time, to utility, sometimes virtualized, infrastructure provisioned on a flexible basis.

This transition makes for a time of opportunity for all Web hosters, but also for a time of risk. The more recent entrants can use this shift to catch, or even overtake, more established competitors. The transition is potentially disruptive for already-successful Web hosters, which need to manage the shift in business models as well as update back-office systems and automation that might not have been designed to handle virtualization and flexible billing.

The vendor landscape continues to evolve. A significant number of newer entrants, such as DataPipe and The Planet, have attacked the simple managed hosting space. Although none of them yet have the \$50 million revenue in complex managed hosting required for inclusion in this Magic Quadrant, such vendors will become an increasingly important competitive threat as they move up-market. Mergers and acquisitions continue across this market, and we expect more such activity in 2008.

The successful vendors in the complex managed hosting market are characterized by a comfortable degree of financial stability, solid technical competence, and a product portfolio that readily serves the mid-market and, often, small technology businesses and large enterprises as well. Quality in this market increases every year, as providers strive to improve their customer service, roll out broader and deeper product offerings, make incremental improvements to their customer portals, and invest extensively in automation (which drives cost efficiencies and improves service quality). The most successful providers have developed their own unique niches in the market, based primarily on their approach to service delivery and the types of customer requirements they cater for.

Web hosting providers must still be chosen carefully. Basic technological expertise has become a commodity, and operations and engineering are excellent across the industry, but the overall service experience is not a commodity, and change in the technology landscape is creating new opportunities for providers to differentiate themselves.

Market Definition/Description

The term “Web hosting,” as used in this Magic Quadrant, refers specifically to managed hosting. This is a bundled service that includes:

- Internet data center facilities
- Network bandwidth
- WAN and LAN equipment, including routers, switches, firewalls and load balancers
- Dedicated server hardware or a utility computing infrastructure
- Management of the facilities, WAN and LAN, server hardware and server operating system
- Management of storage, including backup and recovery
- Management of security
- At the customer’s request, management of infrastructure software, such as Web server software, application servers and database servers

It can also include professional services associated with Web hosting, such as architecture, capacity planning, performance testing and security auditing.

Although many customers choose a fully managed service, in which the Web hosting provider manages everything except the application code, a significant percentage of Web hosting is still purchased on a “colocation-plus” basis, where customers choose from a menu of a la carte management services; such customers typically manage their own applications or outsource the responsibility to another service provider. Both fully managed and colocation-plus services are considered part of the market for this Magic Quadrant.

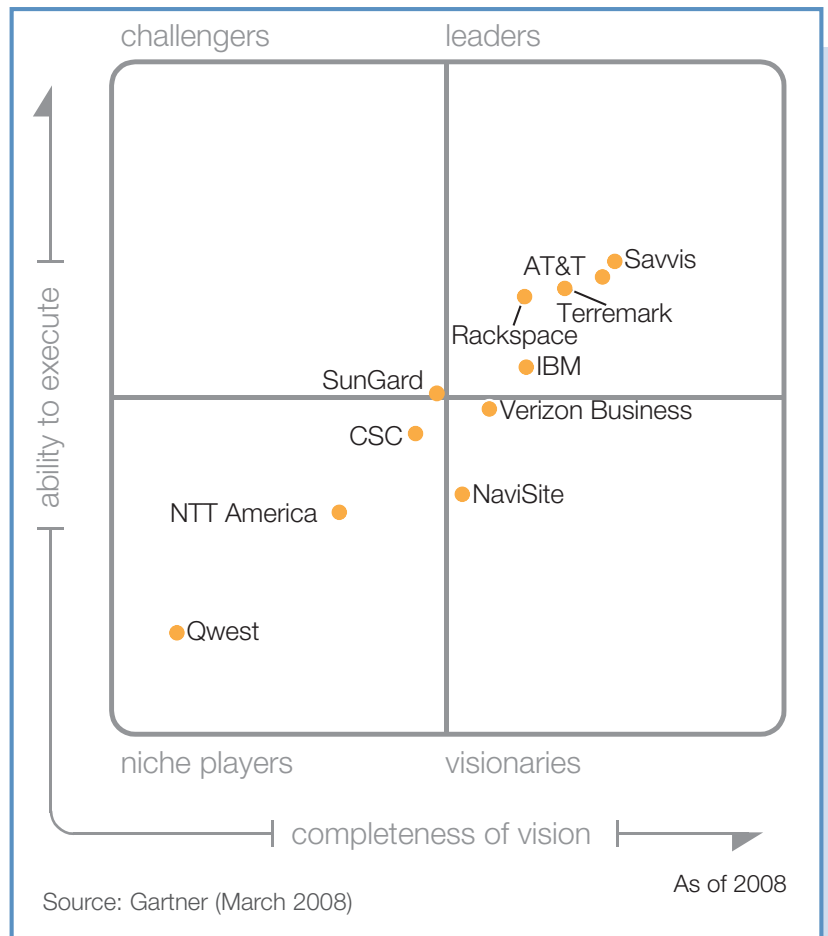
There are three distinct areas of operational specialty in the managed, dedicated hosting business:

- **Simple configurations.** These configurations typically have six or fewer servers. Customers with one or two servers may run multiple applications on a single server. The network and security infrastructure may include a load balancer and a firewall.

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Figure 1. Magic Quadrant for North American Web Hosting, 2008



- **Complex configurations.** These configurations typically have at least four servers and may have as many as several hundred. There are usually Web servers, application servers and middleware, and database servers in high-availability configurations, together with network and security infrastructure.
- **Enterprise applications hosting.** This is operational support for enterprise applications, such as customer relationship management (CRM), enterprise resource planning (ERP) and sales force automation. These configurations typically have at least six servers, and may be very large. They may be managed in conjunction with a system integrator or other external service provider.

Each of these specialties requires somewhat different expertise, and each vendor will be familiar with these specialties to a different extent. Customers should choose vendors whose specialties meet the profile of their Web hosting requirements.

Inclusion and Exclusion Criteria

To appear in this Magic Quadrant, vendors had to meet the following criteria:

- They must actively sell managed Web hosting, on dedicated or utility computing infrastructure, as a stand-alone service, without the requirement to bundle it with application development, application maintenance or other outsourcing.
- They must have had complex managed Web hosting-related revenue of at least \$50 million in 2006.
- They must offer managed, dedicated or utility Web hosting services in at least two Internet data centers that they own or lease, located in different regions of North America.
- They must sell to customers throughout the continental United States, and be able to serve Canadian companies as well.

Dropped

The following names have been dropped since Gartner's last Magic Quadrant on this topic:

- Data Return, which is now assessed under the Terremark name. Data Return was acquired by Terremark and the two companies have fully integrated their businesses.
- VeriCenter, which is no longer rated independently as it has been acquired by SunGard and is being fully integrated into SunGard's business.

Evaluation Criteria

Ability to Execute

The most heavily-weighted criteria for a Web hoster's ability to execute are service offering and service excellence, as reflected in the customer experience with sales as well as operations. This includes flexibility, ease of doing business, proactive support and the quality of the customer service portal, along with the breadth and depth of the product portfolio. The latter encompasses the ability to serve a wide range of customer needs, technology expertise, utility computing offerings, and complementary managed and professional services related to Web hosting. Overall business viability, as reflected in the ability to service a three-year contract without significant disruption, and the service provider's track record, also contribute to this rating.

Completeness of Vision

The Web hosting market is rapidly evolving toward utility, on-demand offerings. Consequently, it is vital that Web hosting companies understand the future needs of customers, have a realistic road map for the successful transformation of the Web hosting business, and exploit new technologies in innovative ways. They also need to understand and adapt to the shift in customers' preferences from reactive to proactive services – from crisis management to project management. Finally, Web hosters must improve their marketing, sales, geographic reach and approach to vertical markets. Our weightings for the various evaluation criteria reflect this situation (see Table 2).

Table 1. Ability to Execute Evaluation Criteria

Evaluation Criteria	Weighting
Product/Service	high
Overall Viability (Business Unit, Financial, Strategy, Organization)	standard
Sales Execution/Pricing	low
Market Responsiveness and Track Record	standard
Marketing Execution	low
Customer Experience	high
Operations	standard
Source: Gartner	

Table 2. Completeness of Vision Evaluation Criteria

Evaluation Criteria	Weighting
Market Understanding	high
Marketing Strategy	standard
Sales Strategy	standard
Offering (Product) Strategy	high
Business Model	low
Vertical/Industry Strategy	low
Innovation	high
Geographic Strategy	standard
Source: Gartner	

Leaders

Leaders have proven they have staying power in this market, can frequently innovate upon their existing products, and can be relied on for enterprise hosting needs. They have proven their technical competence and ability to deliver services to a wide range of customers.

New customers should sign two-year contracts with these companies. Satisfied customers renewing a contract with one of these firms should sign a three-year deal.

Challengers

Challengers have a track record of delivering good service capabilities, but they face challenges in one or more areas and are not “thought-leaders.”

Because the service delivery quality of Challengers could either improve or worsen significantly, we recommend that contracts with these companies last for no more than two years.

Visionaries

Visionaries have a development road map that is likely to make them significantly stronger competitors next year – if they manage to follow it.

We recommend signing two-year contracts with these companies, though customers that are renewing and that are comfortable with their vendor’s direction can consider three-year arrangements.

Niche Players

Niche players are typically specialists, with more limited product portfolios, or emerging vendors.

Two- or three-year contracts are sensible for customers of narrowly-specialized Niche Players. Otherwise, two-year contracts are wise. Be wary of making short-term, tactical choices as it can be inconvenient and expensive to change Web hosting provider.

Vendor Strengths and Cautions

AT&T

Strengths

- AT&T offers a wide range of Web hosting services, priced at a slight premium.
- AT&T is the leader in the a la carte managed services, “colocation-plus” approach. It is second for overall market share.
- AT&T has very strong technical competence.
- The company has one of the better customer service portals.
- AT&T has an ambitious road map for utility computing, and inherited a solid base of technology and experience through its acquisition of USInternetworking (USi).
- Gartner recommends AT&T for both simple and complex configurations with low to moderate levels of change, especially for customers wanting managed services on an a la carte basis.

Cautions

- Customer service is a key weakness, but is improving gradually.
- Support is primarily reactive.
- AT&T is often inflexible in both sales and support.
- The sales process can be difficult, complex and slow.

CSC

Strengths

- CSC’s roots as a full-service IT outsourcer result in a depth of services, including vertical application support and staff augmentation offerings.
- Security offerings are broad and deep.
- CSC has made significant investments in virtualized platforms and utility computing services, although clients still tend to choose dedicated server architectures.
- CSC has made significant strides in improving the quality of its products and customer service portal.
- Gartner recommends CSC for hosting internal applications with low to moderate levels of change, where security or application support is key.

Cautions

- Quality of account management depends on customer size and location.
- Communications between different operation and product groups can be poor, leading to tasks “falling between the cracks.”
- CSC is a fast follower rather than a technology innovator.

IBM

Strengths

- IBM excels in delivering complex configurations, especially those requiring additional IT services. It is the leader for market share, thanks to its deal sizes and track record.
- IBM can provide excellent application hosting and management for ERP, CRM and other complex systems, supported by the legacy Corio platform.
- IBM offers a component-based utility computing platform with usage-based billing for “cookie cutter” elements.
- Gartner recommends IBM for large, complex, highly customized hosting needs, especially where application support and integration services are important.

Cautions

- IBM’s contracts are lengthy and complex, and frequently include inflexible terms and conditions that shift the risk on to the client and away from IBM. This also leads to very long sales cycles.
- Standard service metrics within IBM contracts continue to lag behind, although IBM will offer customized service-level agreements.
- IBM uses partners to deliver smaller configurations, which increases client communication issues and impairs quality control.

NaviSite

Strengths

- NaviSite has developed a product portfolio that addresses infrastructure and application management needs equally, as well as development requirements, for midsize customers.
- NaviSite has an innovative, specialized product road map that takes advantage of the company's application capabilities.
- NaviSite offers a content delivery network platform, including electronic software delivery.
- The company offers a component-based utility computing platform, including software elements, with usage-based billing.
- Gartner recommends NaviSite for complex small and midsize configurations where applications expertise is important.

Cautions

- NaviSite is one of the smaller providers, and has a diffused product focus.
- The complexity of NaviSite's product portfolio can confuse the buying process.
- NaviSite's marketing and sales awareness is extremely limited and hinders the company when competing against larger, more established providers.

NTT America

Strengths

- NTT offers competitively-priced, customized services, with a focus on serving multinational companies.
- NTT is investing significant resources in reinventing its Web hosting business. We expect NTT to emerge as a far more competitive provider in a two-year time frame.
- Gartner recommends NTT for complex, highly customized configurations with high levels of change, for customers who do not anticipate moving to on-demand infrastructure in the next three years.

Cautions

- Across all categories, NTT's product portfolio lags significantly behind those of its competitors.
- NTT's future success depends on successful execution of an ambitious but realistic road map.
- Prospective customers should base buying decisions on NTT's current products and services.

Qwest

Strengths

- Qwest offers competitively-priced services that can be customized extensively.
- The company is investing in broadening its product portfolio and improving its system management. This will also help it become a more credible partner for IT services.

- Qwest is investing in marketing, including brand-building, that will help it penetrate all the markets where Qwest CyberCenters are located, enabling them to sell beyond their traditional 14-state "footprint."
- Gartner recommends Qwest for customers with low levels of change, who need simple dedicated hosting or who have highly customized configurations.

Cautions

- Qwest's product portfolio and technology exploitation are significantly behind the rest of the market. The gap between Qwest and its competitors is widening rapidly, because all other major hosting providers are fast transforming themselves into providers of utility computing services.
- Qwest is investing too little in its managed hosting business, at a time when most of its competitors are investing extremely aggressively.
- Qwest is process-driven, but its processes often hinder service quality. The company is slow and inflexible.
- Customers report that Qwest's personnel, who are responsive and dedicated, end up working around the company's policies in order to deliver the required service.

Rackspace

Strengths

- Industry-leading customer service has enabled Rackspace to grow far more quickly than its competitors. It is in third place for market share.
- Rackspace is proactive, highly responsive and "high touch," communicating frequently.
- Operations and engineering competencies include very strong expertise with open-source technologies.
- Rackspace's prices are very competitive, and the company offers the most aggressive (customer-friendly) standard service-level agreement of any major Web hoster.
- Gartner recommends Rackspace for both simple and complex configurations, with low to moderate levels of change, on Windows, Linux or hybrid platforms.

Cautions

- Rackspace's product portfolio, professional services and customer service portal are significantly more limited than those of other leading providers. But Rackspace is investing in a significantly more ambitious road map.
- On-demand offerings are limited, but the company's willingness to price capacity flexibly may allow customers to achieve costs comparable to those of utility offerings.
- Rackspace will be challenged to maintain its high service levels during extremely rapid growth.

Savvis

Strengths

- Savvis offers a broad range of hosting services, including fully managed and “colocation-plus” services, that are priced at a slight premium. The company has a long track record of successful service delivery and is in fourth place for market share.
- The company is very good at exploiting technology and has an excellent customer service portal. The firm’s vision for virtualization was ahead of the market for several years.
- Savvis is particularly strong in the financial industry, for which it offers specialized products and services that take advantage of its network.
- Gartner recommends Savvis for both simple and complex configurations, on dedicated or virtualized platforms, with low to moderate levels of change.

Cautions

- Customer service is unexceptional.
- Offering both a blade-based and a VMware-based utility computing service leads to confusion among buyers.
- The company’s emphasis on increasing its colocation business could distract the sales team.

SunGard

Strengths

- SunGard Availability Services acquired VeriCenter, a small independent Web hoster, in August 2007, improving SunGard’s product portfolio and service delivery capabilities.
- VeriCenter successfully blended structured processes with agility, flexibility and a focus on delivering a great customer experience. We believe this will benefit SunGard’s service culture.
- SunGard is very process-oriented and highly conscious of enterprise security requirements.
- SunGard has deep and broad expertise in business continuity.
- Gartner recommends SunGard for hosting needs that focus on internal applications or business continuity services, with low to moderate levels of change.

Cautions

- Although the integration of VeriCenter is complete, former VeriCenter personnel continue to serve VeriCenter’s clients, and these clients report much better experiences than those of established SunGard customers.

- Compared with VeriCenter, SunGard is less flexible, has less expertise in Web 2.0 environments, and struggles to manage high-growth, high-change environments.

Terremark

Strengths

- Terremark, a carrier-neutral colocation provider, acquired Data Return, a small independent Web hoster, in May 2007, to their mutual benefit.
- Data Return has a track record as a risk-taking visionary with significant engineering expertise, highly automated infrastructure and very good customer service. Post-acquisition service remains excellent.
- Terremark is a leader in virtualized, VMware-based utility computing with its Infinistructure brand.
- Terremark offers superb engineering support. It is willing to take on “bleeding-edge” technologies, legacy infrastructures and other unusual requirements.
- Gartner recommends Terremark for the full range of Web hosting requirements, especially for customers requiring high levels of engineering support.

Cautions

- Terremark is one of the smaller providers, with limited market presence and a more uncertain future.
- The company has a limited geographic footprint in North America, despite being a global provider.

Verizon Business

Strengths

- Verizon has a lengthy track record of offering a broad range of reliable hosting services.
- Multiple tiers of service-level agreement can support a variety of application requirements cost-effectively.
- Account management is based on the level of change in a customer’s environment.
- Verizon is making major investments in an aggressive road map to revitalize its product portfolio with utility computing offerings, software-as-a-service enablement and SAP support. We believe Verizon will emerge as a much more significant competitor in late 2008.
- Gartner recommends Verizon for complex configurations (including those with high levels of change) that do not require significant deviations from Verizon’s standard supported environments.

Cautions

- Despite Verizon's positive steps to improve customer support, customers' satisfaction levels vary widely.
- Verizon's processes are cumbersome, although the company is re-engineering its service-ordering system and its invoicing – the two biggest “pain points.”
- Verizon's installation and deployment times are somewhat long, compared with those of its peers.

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Evaluation Criteria Definitions

Ability to Execute

Product/Service: Core goods and services offered by the vendor that compete in/serve the defined market. This includes current product/service capabilities, quality, feature sets, skills and so on, whether offered natively or through OEM agreements/partnerships as defined in the market definition and detailed in the subcriteria.

Overall Viability (Business Unit, Financial, Strategy, Organization): Viability includes an assessment of the overall organization's financial health, the financial and practical success of the business unit, and the likelihood of the individual business unit continuing to invest in the product, continuing to offer the product and advancing the state of the art within the organization's portfolio of products.

Sales Execution/Pricing: The vendor's capabilities in all pre-sales activities and the structure that supports them. This includes deal management, pricing and negotiation, pre-sales support and the overall effectiveness of the sales channel.

Market Responsiveness and Track Record: Ability to respond, change direction, be flexible and achieve competitive success as opportunities develop, competitors act, customer needs evolve and market dynamics change. This criterion also considers the vendor's history of responsiveness.

Marketing Execution: The clarity, quality, creativity and efficacy of programs designed to deliver the organization's message in order to influence the market, promote the brand and business, increase awareness of the products, and establish a positive identification with the product/brand and organization in the minds of buyers. This "mind share" can be driven by a combination of publicity, promotional, thought-leadership, word-of-mouth and sales activities.

Customer Experience: Relationships, products and services/programs that enable clients to be successful with the products evaluated. Specifically, this includes the ways customers receive technical support or account support. This can also include ancillary tools, customer support programs (and the quality thereof), availability of user groups, service-level agreements and so on.

Operations: The ability of the organization to meet its goals and commitments. Factors include the quality of the organizational structure, including skills, experiences, programs, systems and other vehicles that enable the organization to operate effectively and efficiently on an ongoing basis.

Completeness of Vision

Market Understanding: Ability of the vendor to understand buyers' wants and needs and to translate those into products and services. Vendors that show the highest degree of vision listen and understand buyers' wants and needs, and can shape or enhance those with their added vision.

Marketing Strategy: A clear, differentiated set of messages consistently communicated throughout the organization and externalized through the Web site, advertising, customer programs and positioning statements.

Sales Strategy: The strategy for selling product that uses the appropriate network of direct and indirect sales, marketing, service and communication affiliates that extend the scope and depth of market reach, skills, expertise, technologies, services and the customer base.

Offering (Product) Strategy: The vendor's approach to product development and delivery that emphasizes differentiation, functionality, methodology and feature set as they map to current and future requirements.

Business Model: The soundness and logic of the vendor's underlying business proposition.

Vertical/Industry Strategy: The vendor's strategy to direct resources, skills and offerings to meet the specific needs of individual market segments, including verticals.

Innovation: Direct, related, complementary and synergistic layouts of resources, expertise or capital for investment, consolidation, defensive or pre-emptive purposes.

Geographic Strategy: The vendor's strategy to direct resources, skills and offerings to meet the specific needs of geographies outside the "home" or native geography, either directly or through partners, channels and subsidiaries as appropriate for that geography and market.