

Research report

**Data centre strategies for telcos:
how to capitalise on the opportunity**

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0 Summary

The data centre industry remains one of the few bright spots in a time of economic downturn

The demand for data centre services is expected to remain strong, driven by the ever-increasing amount of digital data, and the need for facilities in which to store it, together with many businesses' reluctance to make the large investments required to build and operate these facilities. As abundant network connectivity is obligatory for data centres, this industry offers telecoms operators great opportunities.

Data centres are crucial to today's economy

"The role of the highly connected, premium-quality data centre is really coming of age. Even in today's climate, the market is recognising the fundamental role of data centres within the digital economy; they are increasingly viewed as strategic to the business."

James Tyler, Director of Communications, TelecityGroup.

0.1 Various players are approaching the data centre opportunity from different angles

The data centre industry is currently dominated by pure-play operators, whose raison d'être is the delivery of data centre services. Most of these operators concentrate on making high-end co-location space available to customers who wish to remain in control of their own servers, but who lack the facilities to house them: the idea is to offer a wide choice of network connectivity options, within a carrier-neutral environment, at competitive prices. Although premium rates may be charged for state-of-the-art facilities in desirable locations, data centre operators' margins are relatively low because they incur high costs in providing the services.

Telcos, many of which had a presence in the data centre market before the collapse of the dotcom bubble, are now making a major push into this area. However, unlike the pure-play operators, most telcos will be focused primarily on the provision of managed services; this leverages the skills they have gained from managing networks to deliver a bundled,

outsourced solution, which includes hosting as an extension to the network. The one-stop-shop approach appeals to customers who want to hand over the day-to-day problems of running data centre operations to ‘a safe pair of hands’; typically, the customer will already have an established relationship with the telco.

The other main players in the industry are systems integrators, which generally include hosting services as part of a wider solution, typically a transformation or business-process outsourcing initiative in which strong IT technical consultancy skills are required.

The end result is a ‘co-opetive’ market, which we define as one in which the various types of player cover different elements of the value chain, occasionally competing head-on against each other, but co-operating in other areas. Operators that are focused on offering co-location space will sometimes supply the basic building blocks upon which telcos’ and systems integrators’ more-advanced solutions are built; also, telcos may form partnerships with systems integrators to contribute their respective areas of expertise to a joint solution.

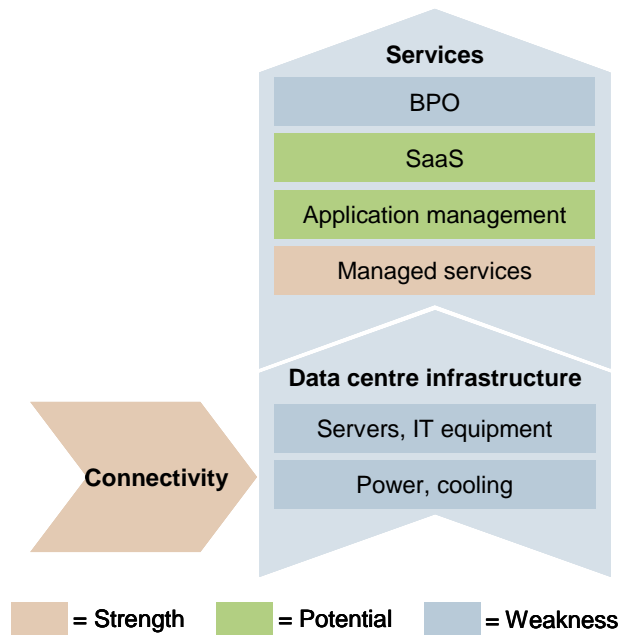
0.2 Related trends are driving industry transformation for all players

Various trends that were previously distinct, although interrelated, are now coming together to transform the data centre industry. These trends include high-density computing, virtualisation, green IT and cloud services. Both high-density computing and virtualisation aim to increase efficiency within the data centre, and are typically combined in data centre consolidation initiatives. By optimising resource utilisation, and bringing greater flexibility and scalability, these technologies have paved the way for the more widespread deployment of new business models, such as cloud services. Over the past year or so, attention has been sharply focused on green IT, but as the result of rising energy prices and an economic downturn, rather than conscience: people have come to realise that reducing usage of power enables them simultaneously to save the planet and their wallets. Consequently, data centre consolidation is increasingly forming part of a holistic approach to tackling power leakages at various key points in the data centre.

0.3 Telcos are well placed to benefit from new possibilities

With their emphasis on managed services, telcos are well placed to take the next couple of steps up on the value chain, to take on application management and software as a service (SaaS), for example. Figure 0.1 highlights the various points of the value chain in which telcos are well positioned, have considerable potential, or are beyond their core competences.

Figure 0.1: Telcos' opportunities in the data centre value chain [Source: Analysys Mason, 2009]



Some telcos have already implemented data centre consolidation in order to offer cloud hosting services, and the next logical step for them would be to deliver SaaS, so as to add value to their existing propositions. However, they will need to take care not to overstretch themselves and should have differentiated offerings that make the most of their existing strengths.


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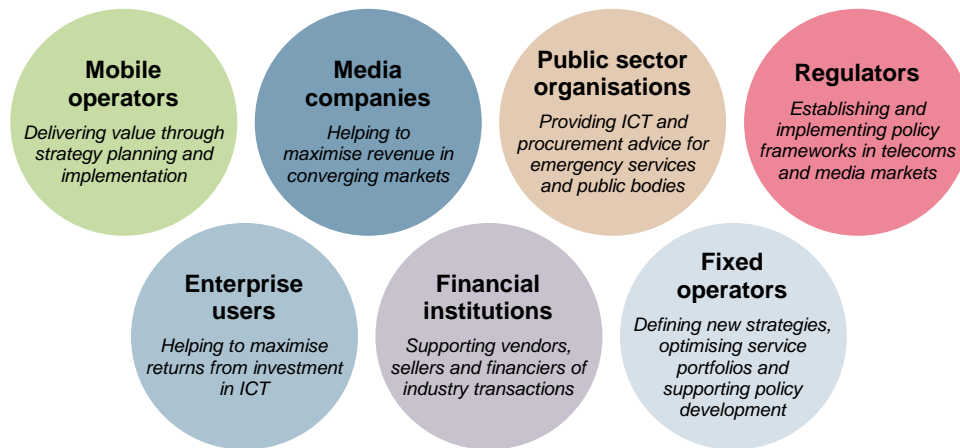
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