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Research Report

EUROPEAN HOSTING AND CLOUD PROVIDER SURVEY 2014

Research findings by Jelle Frank van der Zwet

INTRODUCTION

Working for a pan-European data centre provider, we naturally work with many hosting and cloud providers across Europe, as well as with international providers active in the European market. Over the years we've seen the industry change in many ways; but few developments have had as significant an impact as the increasing deployment of cloud technologies, and the entry of global cloud providers into the European market that we've been seeing in the past few years.

Last year we surveyed the industry to understand the impact of cloud services on the European hosting market. We wanted to give you an insight into what the industry as a whole is experiencing and how it is managing change; to give you a context for thinking about your own experiences and strategies. We ran a survey again this year to see how, if at all, things have changed, and we present the main results below.

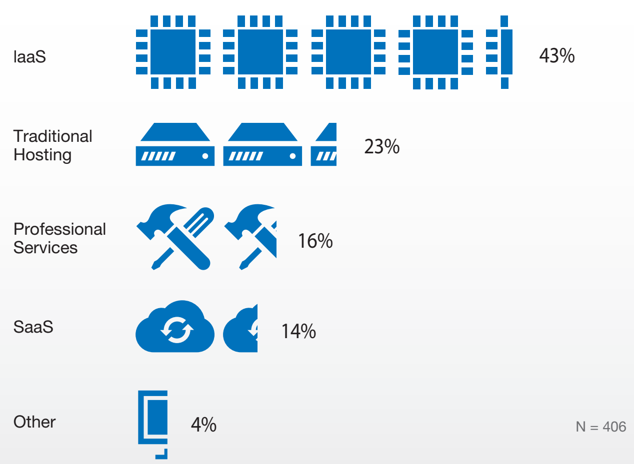
We surveyed more than 400 business and IT decision-makers from across Europe, working at professional services (30%), traditional hosting (22%), IaaS (28%), SaaS (12%) and other ICT companies (9%). Responses were collected through the web, by telephone, at industry conferences and in face-to-face meetings between February and July 2014.

1 MAJOR SHIFT IN CUSTOMER DEMAND

This year's survey shows a major shift in customer demand. Last year, despite the acknowledged growth of cloud services, most respondents reported that demand for traditional hosting (including managed, dedicated and web hosting) exceeded demand for cloud services (IaaS and SaaS). But they also expected demand for cloud services to rise over the next few years. This year we see this rise in demand for cloud services happening, with 43% of respondents indicating that they now see strongest demand for IaaS. Only 23% of respondents still see strongest demand for traditional hosting services, versus 56% last year.

CUSTOMER DEMAND TODAY

Customer demand for IaaS significantly exceeds demand for traditional hosting



These figures indicate a market in flux. Enterprise cloud adoption is picking up and enterprises are engaging with local service providers to migrate to the cloud. Demand for traditional hosting services is declining as a result.

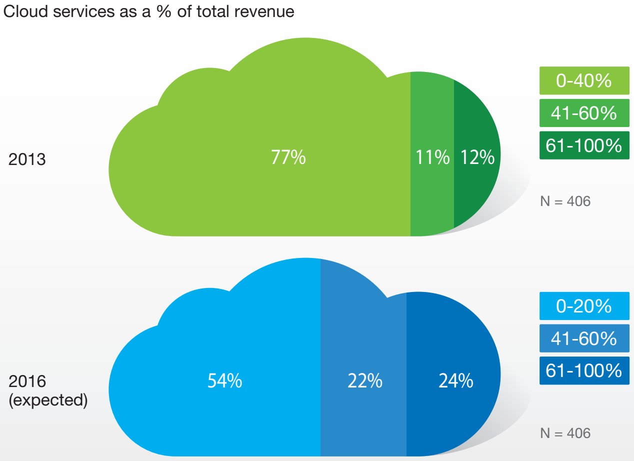
2 CLOUD IMPACT ON REVENUES EXPECTED TO RISE

With most European service providers in a transitional phase between traditional hosting and cloud services, a significant impact of cloud services on current and expected revenue streams was expected. Surprisingly, cloud revenues represent a relatively small share of respondents' revenues today, but respondents do expect significant growth within the next three years:

- 12% of respondents indicate that IaaS represents 60% or more of last year's revenues, but this percentage doubles to 24% when asked to estimate revenue share in 2016.
- 82% say that IaaS revenue share currently does not exceed 40% of total revenues, but this percentage drops to 54% when asked to estimate revenue share in 2016.

CLOUD REVENUE SHARE 2013 & 2016

Service providers are expecting to see a greater percentage of their revenue coming from cloud by 2016



3 SERVICE PROVIDERS STILL PREFER TO OWN AND OPERATE THEIR IT INFRASTRUCTURE

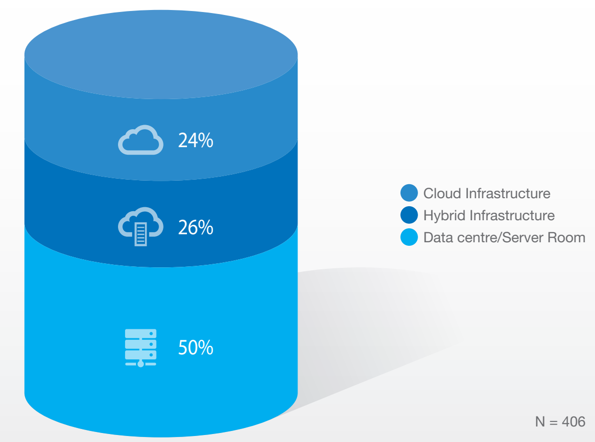
The majority of respondents (76%) still own and manage their own computing infrastructure (hardware such as servers, routers and switches), located in either their own or a third-party data centre. This does mean that almost a quarter of our respondents (24%) are using only cloud infrastructure – where the hardware is owned and managed by a cloud provider – as their only hosting platform.

Of the 76% operating their own infrastructure, almost two thirds (equating to 50% of our respondents in total) use their own infrastructure for both primary and secondary sites. The remainder – 26% of our respondents – make use of a hybrid infrastructure: a mix of owned infrastructure and cloud infrastructure services. Almost all are using cloud services as an alternative for secondary locations, not for their primary location (see next section).

It's interesting to see that 50% of respondents use cloud infrastructure partly or exclusively, given that data residency has been a high-profile topic due to customer concerns about data protection.

IT INFRASTRUCTURE STRATEGY

50% of respondents use cloud to host part of their IT infrastructure

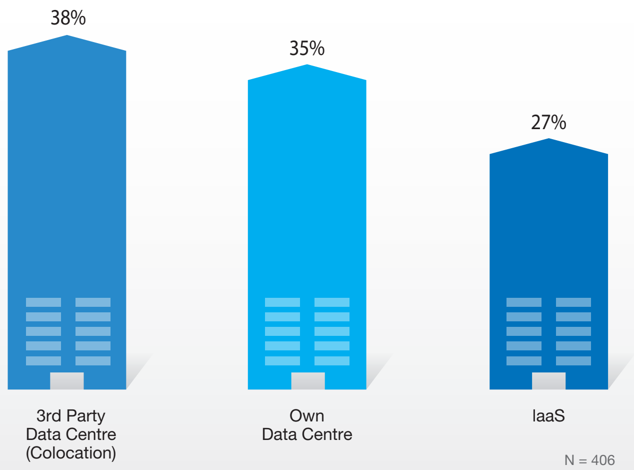


4 DATA CENTRE OF CHOICE

More than a third of service providers (35%) have built their own data centre and use it as their primary site. Another 38% of service providers use a third-party data centre. The remaining 27% use a cloud infrastructure as their primary platform. Most likely, these respondents prefer to be asset light and use the infrastructure of other cloud service providers.

PRIMARY DATA CENTRE

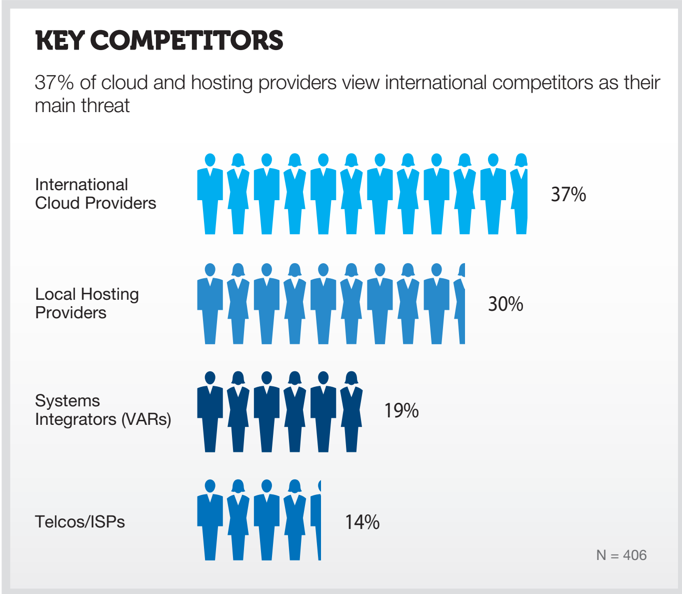
The majority of cloud and hosting providers (73%) prefer a data centre over a cloud-based infrastructure for their primary data centre



5 GLOBAL CLOUD PLATFORMS: FRIEND OR FOE?

In last year's survey only 13% of respondents considered international cloud providers to be their main competition. This year that number has risen sharply to 37%. A fifth of this group specifically mentions Amazon AWS.

Clearly there is a significant shift of perception of global cloud platforms as being more foe than friend. We expect this trend only to accelerate as the big global players increasingly choose to locate their platforms in multiple countries across Europe.



6 CUSTOMER FOCUS AND PORTFOLIO DIVERSIFICATION ARE KEY STRATEGIES

The shift in perception about the global players clearly reflects a heating up of competition in the European hosting market. We were therefore particularly interested in what our respondents had to say about the strategies they're using, in order to differentiate themselves from the competition.

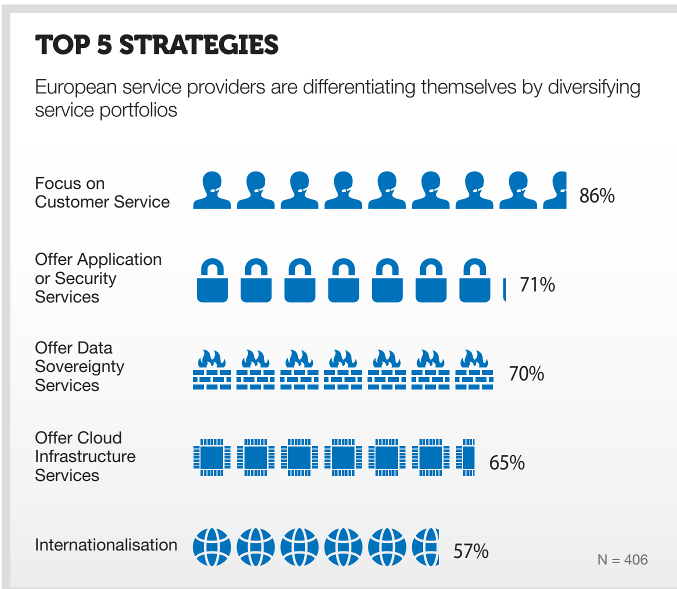
We've found that most respondents use more than five of the suggested strategies at the same time. One of the reasons may be that, according to interviews we've conducted, right now their choice of approach tends to be quite opportunistic, driven by customer requirements rather than an internal push to pursue a specific route. As different customers have different requirements, providers tend to implement multiple potential strategies simultaneously.

Knowing this, we weren't at all surprised that customer service came out as the most important method of differentiating from the competition. 86% of our respondents chose it as an important strategy – 40% more than last year (61%). This very high percentage is consistent across almost all countries. Even where providers are using a number of tactics, it's clear that they're doing so because of the importance of customer service as a strategic differentiator, which leads them to offer additional services or move into a new geography to meet specific customer needs as they arise. Business diversification in order to deliver more value to customers is clearly seen as key to success right now, as providers work hard to differentiate themselves in the fiercely competitive market.

We see this too in the fact that, compared with last year, there's even more emphasis on offering additional services, such as application or security services (70%), services related to data sovereignty (69%) and cloud infrastructure services (64%).

Data sovereignty services, in particular, have risen sharply in prominence, and in Germany and Switzerland it is actually the number one strategy, chosen by more than 80% of respondents.

When we consider the focus on customer service together with portfolio diversification, we see an industry looking to deliver more value than the big global players, rather than competing head-to-head with them (on price). Our paper, The Evolution of the European Cloud Market, provides more context and detail for this view, as well as advice based on the experiences of some of our most successful customers.



7 CONCLUSION

Overall, as we compare this year's survey findings to last year's, we see a market that is perhaps a little less optimistic about the profound transformation the industry is experiencing, but still working hard to get to grips with the changes and adopt strategies for success. We see this in the fact that a much larger minority see the big global players as a threat – but it's still only a minority. It remains the case that, for the majority of the industry, there are opportunities for successful change and growth – and they are actively pursuing them.

From our experience as a data centre provider to enterprises as well as to service providers, we believe that local service providers are in a good position to leverage the opportunity that enterprise cloud adoption represents. Most enterprises require tailored, localised solutions and prefer to engage third parties with whom they can develop close, trusted relationships. A focus on customer service and the diversification of their service portfolio with value-added services will allow local European hosting and cloud providers to successfully differentiate and capitalise on enterprise cloud adoption in the years to come.

Interxion would like to thank each of you who have taken the time to participate in the survey, especially our customers. We look forward to continuing to facilitate the growth of the European hosting and cloud market, and to working with you to deliver reliable, innovative solutions.

ABOUT INTERXION

Interxion (NYSE: INXN) is a leading provider of cloud and carrier-neutral colocation data centre services in Europe, serving a wide range of customers through more than 35 data centres in 11 European countries. Interxion's uniformly designed, energy-efficient data centres offer customers extensive security and uptime for their mission-critical applications. With more than 500 connectivity providers and 20 European Internet exchanges across its footprint, Interxion has created cloud, content, finance and connectivity hubs that foster growing customer communities of interest.

For more information about Interxion please visit

www.interxion.com

ABOUT THE AUTHOR

Jelle Frank (JF) van der Zwet lives in Amsterdam and has more than 15 years of experience working in the IT and telecommunications industry. As Director Business Development & Marketing for Interxion he is primarily responsible for the company's continually growing community of cloud service providers, and is a frequent speaker at technology events on cloud computing. He has published articles on TechCrunch and Wired and written white papers on latency, hybrid clouds and application migration. Prior to joining Interxion he held senior marketing and product management roles with Imtech, UPC, KPN and Schiphol Airport.

interxion™

www.interxion.com

INTERNATIONAL HEADQUARTERS
Main: + 44 207 375 7070
Fax: + 44 207 375 7059
E-mail: hq.info@interxion.com

EUROPEAN CUSTOMER SERVICE CENTRE (ECSC)
Toll free from Europe: + 800 00 999 222
Toll free from the US: 185 55 999 222
E-mail: customer.services@interxion.com

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