



SoftLayer moves into managed hosting for dedicated, virtual, cloud

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SoftLayer has been eyeing the managed hosting space for some time but it has been deliberate about it, wanting to build an offering that fits within its vision for automated procurement, provisioning and service delivery, hybrid environments, self-management tools and efficient yet highly functional user experiences. The planning for managed hosting started a while back but the merger with **The Planet** altered the picture, bringing a ready-made managed hosting business into the picture that needed to be integrated and aligned with the SoftLayer vision.

The Planet's managed hosting business was relatively young – launched in 2008 – and had scaled up to 55 customers and approximately \$7-8m in annualized revenues. Drawing on its expertise in building highly automated systems and processes, SoftLayer has essentially taken The Planet's existing assets and staffing (much of it acquired when it bought **Touch Support**), which provided the managed hosting service for The Planet (only during business hours), reorganized them and optimized the delivery of service into a 24x7 operation that can deliver managed services on dedicated infrastructure, virtual or cloud instances. Through the use of intelligent in-house tools, SoftLayer is able to automate the human components in the delivery of service, and orchestrate engineers through day-to-day operational tasks so that each customer's host is being serviced properly. For managed hosting clients, SoftLayer will perform operating systems management, database services, security, monitoring and backup and storage management. Pricing for the service is a separate line item from the base infrastructure components, giving customers visibility into exactly what everything costs. Importantly, the managed services provided will be tracked in the customer portal and customers will have complete live visibility. And at the end of the month, they will get a PDF documenting everything that was done with their infrastructure. SoftLayer rightfully thinks that will be a good way to explain the value of outsourced hosting to CIOs and IT buyers. The price point for managed services will be \$299 per server.

In a nutshell, SoftLayer's management team was not happy with The Planet's legacy managed hosting business and set out to automate more of the back office processes, tie it in with the SoftLayer management platform, connect it to the portal experience and optimize how the support structure operated. The end result came out of beta this week and is now live. A total of 10 customers are already online and running, with average MRR of \$12,500. The company disclosed the current pipeline at 30 and the target range for deals will be in the \$5-50,000 MRR range. The \$5,000 MRR minimum price floor is deliberate, with SoftLayer not

wanting to compete with its channel partners. SoftLayer has a substantial number of IT shops and resellers that are dabbling in managed services and it wants to maximize their opportunity for success in the (sub-\$5,000 MRR) market, benefiting from their success through growth in underlying infrastructure.

Specifics and differentiators

So what are some of the potential differentiators for SoftLayer's version of managed hosting? First, customers will not be asked to sign contracts. They can jump in and out of managed hosting as they please. SoftLayer wants to put its money where its mouth is and feels it can keep customers in the fold with the quality of its service. It also wants to do right by the customer as much as possible. If customers aren't happy or feel managed hosting is not for them, they can look for something else rather than pay a contract termination penalty. This should be a selling point and will definitely make it easier for customers to take the leap and give managed hosting a try. A second differentiator is provisioning speed. SoftLayer wants to be faster than managed hosting competitors and will provision and deploy managed servers for customers within 24 hours. The physical infrastructure, operating system and application will be up and running within the standard SoftLayer 2-3 hour time frame but the 24-hour window allows the managed services piece to be up and running. SoftLayer acknowledges that larger or more complex scenarios could take a bit longer to get fully operational, but the server infrastructure will be there well within the 24 hours. Another area in which SoftLayer feels they can deliver value is managed services provisioning across all infrastructure types. Dedicated, virtual and cloud server customers all qualify for SoftLayer's managed services.

Stemming from that, another key thing to note about SoftLayer's managed hosting offering is the flexibility to mix and match managed services. Customers will work with a sales engineer and decide what specific functions they want managed by SoftLayer and what they still want to handle themselves, with both sides sharing administrative rights to the infrastructure. They can also pick and choose which servers to apply the managed services to and which they want to continually self-manage. Again, the underlying infrastructure flavor simply won't matter and any combination is fine. On top of all this, SoftLayer's management platform will enable a unified user experience. This will enhance management capabilities but also be very useful for promoting upsells and cross-sells. With managed services essentially another item to choose from SoftLayer's portfolio, it stands to score a fair share of automated (and highly profitable) sales.

As for the legacy managed hosting business acquired from The Planet, things will continue to run as they have and SoftLayer does not want to disrupt happy customers. However, SoftLayer will allow customers to move to monthly contracts. Overall, the changes will actually benefit legacy The Planet customers, given that SoftLayer will have 24/7 support, while at The Planet it was available only 9-5.

T1R take

This is clearly a move with significant market implications and we feel it has a high probability of success. SoftLayer has taken care to build something that has credible differentiators and plays to its strengths. SoftLayer's managed hosting won't be for everyone but it will appeal to many segments that have not previously tried managed hosting. The

absence of a contract and the availability of co-management could very well be what tips the scales in SoftLayer's favor where other managed hosters might very possibly have failed. The pricing will similarly be a key factor and set it apart from pricier services like those of **Rackspace**. Managed hosting also gives SoftLayer a growth path that it was previously missing. It is inevitable that many of its customers will reach the point where help with IT management is inevitable and SoftLayer now has a solution that will further strengthen its hold on customers and push their monthly ARPU well over the \$400 mark (where they currently reside).

From an operating perspective, SoftLayer has obviously paid close attention to maintaining the efficiency that is inherent to its model while balancing the more hands-on and human elements (a new step for a company that loves robots as much as it does) that it has to take on to move into managed hosting. This has occurred not just on the operating side, but extended to the billing cycle as well, with managed hosting fitting right into the same system – literally another line item in the ledger, but one that brings a much higher revenue stream. This is crucial for a number of reasons. First, automation and the efficiency it affords will allow SoftLayer to continue delivering the kind of pricing that will make it very competitive (and open up a large addressable market) in a large part of the SMB market. And it will similarly allow SoftLayer to maintain the aggressive operating margins it has been able to achieve. But perhaps the most important implication is the customer experience. With automation a big part of the picture, SoftLayer is able to create a unique experience that other managed hosters will have difficulty replicating. Many of the managed hosters out there rely on higher levels of personal touch, human attention and customization. There is of course nothing wrong with that and there is a significant market opportunity that goes with it. But not everyone wants that and those who don't are going to find a lot of what they want in SoftLayer's model or create the kind of scenario they want through its flexibility.

The end result here is that SoftLayer has added a significant new product line without altering its key selling point: the consistent and unified end user experience and service delivery platform. The starting point is still the portal and the tools that come with it. It is still about simple point-and-click buying, flexibility to manage and create the scenario and experience that the user is most comfortable with, and rapid scalability and provisioning. A few things have been added – a support team and enterprises sales and engineers – but primarily what has happened here is SoftLayer has basically bolted on a managed services layer into its platform just like it has with various other features.

Inevitably colliding with Rackspace

Clearly, SoftLayer will be going after some of the leaders in the managed hosting space – most notably Rackspace. The two will come up against each other, but we think that might be a bit overstated. The two sides are going after a different type of customer and at generally differing price points. However, we do think over time there is going to be a lot more competition between the two but it won't happen upmarket in the enterprise space or in head-to-head managed hosting competition. We feel the two will probably compete more fiercely in the cloud and hybrid space. Here developers and SMBs are moving to outsourced hosting in growing numbers and they will be looking for varying combinations of management tools, support, user experience, features and hybrid and integrated infrastructures. It will be the one that creates the most compelling and flexible story across all these areas that will prevail. And while these two companies are at the head of the pack,

we definitely do not want to discount the many other managed hosters that have various pieces to this puzzle and are working hard to put them together and create their story.

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