

# THE WEIRD DIGEST

Web Hosting Monthly

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# NEWS IN BRIEF

## December 30 to January 3, 2002

At the end of last week, communications carrier and Web hosting provider **XO communications** announced that chairman and chief executive officer Daniel F. Ackerson had stepped down from his position with the company following the completion of XO's financial restructuring efforts. With the company since 1999, Ackerson had been the driving force behind the company's restructuring during the past year.

And on Thursday, January 2, it was reported that **Global Crossing** had accepted the resignation of Gary Winnick its chairman and as a member of its board of directors. Global Crossing said it acknowledged Winnick's role as a founder of the company, and respected his desire to move on after its plan of reorganization was approved.

On Monday, December 30, broadband provider **DSL.net** announced that it has received court approval for its bid to acquire the network assets and subscriber lines of **Network Access Solutions Corporation**. According to the company's approved bid, DSL.net will pay \$14 million on the purchase, including \$9 million in cash and a \$5 million note.

Several service providers started the year by announcing arrangements for new funding.

On Thursday, January 2, streaming and broadcast software developer **Anystream** announced that it had finalized an \$11 million third round of funding, led by Falcon Private Equity L.P. and existing investor SCP Private Equity Partners. The investment, says Anystream, brings the company's total venture funding to \$28 million, and will be used by the company to build market share for its media software.

Also on Thursday, telecommunications company **PRIMUS Communications Group** announced that it has reached an agreement with two private equity funds and an institutional investor, in a deal to generate \$42 million through the sale of convertible preferred stock. The deal is intended to strengthen the company's finances in the short term. Under the terms of the sale, the notes sold to investors would convert to PRIMUS Common stock at a price of \$1.876 per share.

And several organizations close to the hosting business announced significant developments in a number of legal and regulatory matters.

On Monday, December 30, domain name registration provider **Register.com** announced that it has won a preliminary injunction in its lawsuit alleging questionable marketing tactics by domain reseller **Domain Registry of America**. The ruling enjoins DROA from

committing acts likely to cause Register.com customers to believe DROA is their existing registrar, and from making representations likely to lead customers to believe the company is affiliated with Register.com.

While 2002 seemed almost to grind to a halt with unhappy news coming from every corner of the business, the Web hosting industry appears to have leapt from the gate in 2003, as this week's news, while not necessarily uplifting, had no shortage of impact. With new management at some and new funding supporting others, a number of Web hosting firms seem poised to plot out new directions in the new year.

## December 16 to December 20, 2002

Business-class Web hosting leader **Interland** announced on Thursday, December 19, that it has made arrangements to acquire hosting firm **Hostcentric** for \$25.8 million in cash and stock. Interland plans to provide Hostcentric shareholders with \$3 million in cash and 13.5 million shares of Interland stock in exchange for outstanding shares of Hostcentric. The transaction is expected to close by March of 2003, pending the approval of Hostcentric's shareholders.

Also on Thursday, another leading Web hosting company, **Verio**, made a range of announcements regarding its hosting solutions for small-to-medium sized enterprises. Verio announced that it has added 1,000 new resellers to its viaVerio reseller program, bringing its total number of active resellers serving the SME market to 5,000. The company also said that it has introduced a new range of low-priced long-term Web hosting options, offering reduced rates on its standard

SME plans with extended five- and ten-year agreements.

And on Thursday again, **Microsoft** announced that it has created the Windows Media 9 Series Hosting Provider Certification. The certification, says Microsoft, is intended to serve as a symbol of proven excellence in the delivery of Windows Media 9 Series audio and video streams for companies evaluating hosting services. In addition to the announcement of new advances and new products, several organizations made announcements this week with regard to somewhat less positive news.

On Monday, December 16, Web hosting provider **Digex** announced that it had received notice from the Nasdaq's Listings Qualifications Department indicating that the company is subject to delisting from the Nasdaq's SmallCap market, having failed to regain the market's minimum \$1 bid price listing requirement. The company has requested a hearing before the Nasdaq Listings Qualifications Panel, but will likely seek to have its Class A Common stock traded in the over-the-counter market via the electronic bulletin board.

Also on Monday, ISPs in the UK said the cost of storing data as required by the government's Anti-Terrorism, Crime and Security Act would greatly exceed the government's estimate of £20 million. At a parliamentary inquiry last week, representatives from **AOL** said that setting up the storage systems for AOL alone would cost £30 million, with another similar cost to operate the system. ISPs say the £20 million per year subsidy the government is said to be considering would be inadequate.

Along with the range of

announcements made within the Web hosting industry this week, several organizations operating in the domain registration business announced significant new products.

On Monday, December 16, domain name registrar **BulkRegister** announced that it had begun accepting registrations for China's new .CN domain. The company began accepting advance applications the Friday before, with real-time registrations beginning on Monday. Through a partnership with **NeuStar** and the **China Network Information Center**, BulkRegister says it is providing registrations for one to five years.

And on Wednesday, December 18, reseller-focused domain name registration business **Wild West Domains** announced that it would begin offering **Domains By Proxy** service to its resellers. The Domains By Proxy service, says Wild West, allows users to register domains normally without having to have their contact information published directly in the registrar's WhoIs database, offering them a legal means to shield their information without violating registration agreements.

Some of this week's most significant Web hosting news, including Interland's acquisition of Hostcentric, the regulatory plight of ISPs in the UK and the increasingly poor market performance of Digex, may turn out to develop into even more significant news in the coming year.

**December 9 to December 13, 2002**

Among the most significant stories to come out of the Web hosting industry this week were several announcements by some

of the business's biggest players, as well as an entry into the hosting business by one of the Internet's biggest operators.

On Tuesday, December 10, **Cable & Wireless** announced that it had made a number of changes to the senior management line up of its Global division. Starting immediately, C&W Global CEO Don Reed will be based out of the US, where he will support C&W CEO Graham Wallace in dealing with government, regulatory and corporate matters. In addition, director of group strategy and corporate development, Adrian Chamberlain, will take on responsibility for C&W Global, CFO of C&W America Simon Cunningham will report directly to Wallace and CFO Global Donald Muir will report to group finance director David Prince.

And on Thursday, December 12, Web hosting leader **Interland** announced that it would further its mass-market growth strategy with the acquisition of Web site building software company Trellix. The transaction, says Interland, involves \$9.75 million in cash and stock plus warrants. The deal furthers a plan announced earlier in the year by Interland to develop a strategy for approaching the underserved small business market.

While some of the largest organizations in hosting made big announcements during this week, one of the largest Internet businesses announced its entry into the hosting business.

On Monday, December 9, **Yahoo!** announced the launch of Yahoo! Web Hosting, designed to meet the needs of small businesses. Using years of experience gained providing services to small businesses and hosting the Internet's most trafficked site, Yahoo! is offering a

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Along with the major business positioning that took place this week among hosting companies, several businesses made big announcements related to financing.

On Tuesday, December 10, communications carrier **Broadwing** announced that it has secured \$200 million in financing from investment funds managed by **Goldman, Sachs & Co.** Taking the form of senior subordinated discount notes due 2009, the funding is contingent on the successful renegotiation of Broadwing's current bank credit facility and other conditions. The company expects to close the deal in the first quarter of 2003.

Also on Tuesday, December 10, Web hosting provider **Digex** Incorporated announced that it had launched Digex Financial Services, an equipment leasing program intended to provide customers with the best hardware terms and financing options. Digex says DFS will provide customers with flexible terms, lower up-front costs, greater capital availability and competitive interest rates.

In addition to the news from Web hosting companies in particular, this week also saw several important announcements from some of the leaders in the hosting automation space.

On Monday, December 9, **Plesk** announced that it had introduced a turnkey virtual private server package, combining a 10-domain version of its PSA 5.0 automation platform with the open source Vserver VPS tech-

nology for \$1,000. Combined with the PSA 5.0 Master, which can manage up to 50 PSA servers, says Plesk, the package is capable of providing functionality comparable to that of considerably more expensive proprietary solutions.

While **Cable & Wireless** continues to reorganize its operations, a circumstance that will ultimately lead to the availability of a large number of substantial-sized hosting customers in North America, some of the continent's most significant hosting organizations, including Interland and now Yahoo!, continue to tailor their services to serve the seemingly limitless market of small and medium-sized businesses.

## December 2 to December 6, 2002

This week, the Web hosting industry witnessed the edging forward of the continuing consolidation in the communications market as one major data carrier announced plans to close facilities, and several furthered plans to sell their operations, either in part or entirely. Along with the sales, this week also saw several industry appointments, as well as the release of a number of new products.

On Thursday, December 5, communications company **Qwest** announced its plans to close eight of its 16 CyberCenters and consolidate its Web hosting operations within the remaining facilities. Following a review, says the company, Qwest intends to transition customers to facilities in Burbank, CA; Chicago; Denver; Newark, NJ; Tampa, Sacramento; Sterling, VA; and Sunnyvale, CA.

Along with the closures, several other carriers addressed their financial concerns in other ways,

making announcements that furthered plans to sell parts of their operations.

On Tuesday, December 3, communications carrier **Metromedia Fiber Network** announced that the US Bankruptcy Court involved in its Chapter 11 proceedings had approved competitive bid procedures this week for the sale of some of its Internet exchange facilities. Metromedia had agreed to sell the assets to a unit of **Switch & Data Facilities Co.** for about \$40 million in cash and \$1.5 million in stocks.

Also on Tuesday, networking services company **Genuity Inc.** said the US Bankruptcy Court had approved the company's orders regarding "first day motions," allowing the company to conduct business as usual with respect to its customers, employees and suppliers. Genuity filed the voluntary Chapter 11 petitions in order to facilitate the sale of its operations to **Level 3 communications.**

As is often the case, this week also saw the launch of a number of notable new products and services from companies in and around the Web hosting marketplace.

On Tuesday, December 3, e-commerce software solution developer **Miva Corporation** announced the launch of a new payment gateway product called Miva Payment, designed to simplify the process of setting up and processing credit card payments on the Internet. In addition, the company announced new partnerships with Web hosting companies **WebSiteSource** and **WestHost**, both of which have chosen to offer the Miva Merchant software free with all their hosting plans.

Also on Tuesday, **RampRate Technology Advisors** announced that it has introduced its new Client Infrastructure Audit tool, designed to advance metrics for market-based pricing and review of infrastructure services. The service, says RampRate, helps the company's clients gain a detailed map of their in-sourced and outsourced IT spending, along with service provider financial viability over time. The CIA, says RampRate, addresses a range of Internet services, including managed services, bandwidth, content delivery, streaming and colocation, comparing current spending against market rates to bring clients up to speed with market trends.

And on Thursday, December 5, trust services provider **VeriSign** announced that it has launched a new trusted content delivery service for service providers, designed to create a secure distribution channel for programs and updates. The product, says VeriSign, is designed to repair some long-standing delivery flaws in the software market, addressing intrusion, update spoofing, hoax warnings and notifications, content level control and software piracy reports.

The news from both MFN and Genuity this week quite plainly spelled out their expectations for the near future. And we can expect, with a fair amount of certainty, to see those sales go through as planned in the next few weeks. And in the following months, as it works to consolidate its Web hosting operations, we can expect to see more of the same from Qwest as it looks to unload its empty data centers. With closures abounding, 2003 may prove to be a good year for anyone interested in buying facilities. ■

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# EUROPE IN 2003: A LOOK AHEAD

By Adam Eisner, theWHIR.com

It was another disappointing year for most of Europe's hosting industry, as the telecom, IT and economic downturns continued to have a negative effect on the market. But as 2003 begins, there is reason to believe that the worst may be over, and that the New Year will bring renewed opportunities and success.

The shared and dedicated markets continue to look strong for companies that are able to penetrate Europe's geographically diverse markets. Host Europe is one such firm, having seen great success in France, Germany, the UK and North America thus far. Rackspace Managed Hosting and Hostway, both US-based firms, have also managed to establish a strong presence in the UK despite a recent trend that has seen several US-based firms pull out of the market completely. SMEs, small businesses and individuals across Europe continue to establish an online presence in Europe at an impressive pace, proving there are still plenty of opportunities in Europe's low-end hosting market.

On the high-end side, 2003 could be a good year for several co-location players should they continue to weather the market downturn. Pan-European firm Redbus Interhouse, which was forced to scale back some of its operations recently, still has a significant presence in several European markets, and the local know-how to succeed in them. Telehouse also continues to focus on Pan-European expansion, and has added several data centers and thousands of square feet of space across Europe since 2001. The tenacity of companies like these could very well pay off in 2003 if other firms like enterprise-level companies move in, thereby picking up the slack. As a result, with IT budgets in Europe expected to recover somewhat in the coming 24 months, 2003 could be a fairly solid year for colocation providers.

One major "x factor" that has the potential to significantly impact the landscape of Europe's hosting market in 2003 will be PSINet Europe, which has returned to the ring after being purchased by a group led by Israel Corporation and

ClearBlue Technologies (PSINet Europe's parent firm, American ISP PSINet went through a well-publicized bankruptcy that saw most of its assets, including PSINet Europe, sold off). PSINet Europe has since purchased some of the German business interests of Internet service provider Cybernet Internet-Dienstleistungen AG, which has immediately boosted its customer base by approximately 3,000.

All eyes will also be on Cable & Wireless as the New Year begins, as the managed hosting outfit was recently slapped with an investor lawsuit, has cut its staff and operations in both Europe and North America, and has seen its share price plummet. Because of these factors, investors are beginning to become uneasy, and have been demanding action.

Several themes that have shaped Europe's hosting industry and 2001 and 2002 will continue in to the New Year. Consolidation will continue to be a major issue as the global industry shake-out continues; however, it will also lead to more opportunities for

companies to pick up assets beyond empty data centers - many customer bases will be up for sale as well.

The "overcapacity glut" that has plagued the dedicated and collocated industries is also expected to continue as Europe's alternative carriers, typically the best customers of co-location firms, continue to go bust. However, many industry players believe that the worst has already passed for this industry segment. In fact, according to research firm IDC, a "re-animation" of data center buildouts is expected to emerge some time in 2004.

While the prospects for Europe's Web hosting sector in 2003 are certainly not outstanding, they are definitely better than they have been in years past. The unprecedented level of consolidation and cutbacks the industry has suffered through over the past 24 months has reduced the number of players jostling for position; as a result, the upcoming year should provide some rewards for those who have survived thus far.

# AUSTRALIAN REP ORT

By Karen Snider

Big checkbooks and big brand names don't necessarily mean good hosting. In fact, smaller hosts in Australia say size isn't important down under.

"We are on a different level to the big players," said Steven Freeman, director of Value Hosting Australia/USA. "In the hosting business you don't necessarily need to be a big player to competitively and professionally position yourself in the market."

James Kruss, of Spherious Web Hosting in Australia, agrees.

"A company does not have to be large to succeed," he said. "They have to be good."

Although it's difficult to determine exactly how many Web hosting companies there are in Australia, some reports suggest there are more than 300 hosts. Not only are they competing with each other, but they are often in direct competition with big-spending telecom giants such as Telstra or Primus. They've also got a run for their money with Australia's largest

host, WebCentral, which soaks up about 20 per cent of the market, hosting more than 50,000 sites and domains.

But the telecom giants' big spending and glamorous advertising doesn't appear to concern some Aussie hosts who believe they have one up on the big players; they focus harder on hosting, while hosting is often just a slice of the big telecom pie.

"Smaller companies need to target specific areas and build advantages for themselves in those markets," Kruss said. "We offer a more attractive package including an uptime SLA (service level agreement), more value adding features, and more flexibility. We provide all this at a lower cost."

Hostworks in Australia have also made their way with focused hosting at cheaper rates.

"We specialise in hosting mission critical enterprise applications and complex Internet sites," said Gary Thomas, com-

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mercial director of Hostworks. "Primus does not offer this service, and Telstra has only recently started to offer services in this market.

"We compete with Telstra, and other high-end providers such as CSC and IBM GSA, in terms of our specialization in the area. We can demonstrate greater expertise compared to these larger, multi-service organizations. We are also more flexible, responsive and lower cost."

On the other hand, officials at Australia's leading host WebCentral, say "size does matter."

"Especially in terms of being able to leverage buying power in negotiations with ISPs and hardware providers," said WebCentral chief executive officer, Lloyd Ernst.

"We are continually acquiring customers from smaller hosting companies and developers. We have certainly seen smaller companies either selling up completely or merging in an attempt to become more viable. WebCentral has undertaken about 10 acquisitions of varying sizes in the past 18 months."

The real struggle for Australian hosts is expensive bandwidth. With few companies controlling the market, bandwidth prices, as well as high server and data transfer costs, have sent many smaller hosts scurrying overseas for the services.

"Our hands are tied in respect to data charges, as the major Australian bandwidth providers charge everyone a per-MB fee for data transfer," said Ernst, of WebCentral, which has two data centres in Brisbane. "There is a considerable expense in WebCentral having to 'count' traffic with large routers and databases for storing data traffic

records. We are charged by our suppliers for data transfer and this expense, as with all business expenses, must be covered by the prices we charge."

WebCentral says it balances the high costs by maintaining a mass of customers, allowing them to take advantage of scale economies.

"Leveraging these economies of scale, we are able to offer a larger range of services that are complementary to traditional Web site hosting and provide value to our customers," said Ernst.

Smaller hosts don't have the same advantages and many have been driven overseas.

"All bandwidth is controlled by Telstra, resulting in high prices," said Freeman of Value Hosting Australia. "Overseas it is more deregulated and there is more competition. We remain competitive by using servers overseas."

Spherious also has servers in the USA, but heavily promotes the fact that it is located in Australia and Australian-owned. "Some Australian customers are attracted to overseas companies, but in general, Australians like to buy from businesses located within."

With Australian hosts using overseas servers they are able to provide local customers with the best of both hosting worlds; access to fast, cheap overseas services but they still get to support the local economy and are almost guaranteed prompt customer service from home.

"The best customer service is found when the customer deals with a local provider opposed to an overseas one," Freeman said.

# NOTABLE PRODUCTS AND SERVICES

## HP Service Provider Certifications

HP announced that it would offer two levels of certification for service providers, SP Certified and SP Signature Certified. The HP certifications are on-site technology assessments that provide recognition of the quality of the service provider's IT infrastructure used to deliver computer utility services over the Internet. The certification processes reviews IT infrastructure that is delivered using HP equipment. The quality-based certification is based upon the IT Infrastructure Library (ITIL), a consistent and comprehensive documentation of best practice for IT service management.

(HP.com)

## Microsoft's Streaming Media Certification

Microsoft has introduced a Windows Media 9 Series Hosting Provider Certification Program. The Windows Media 9 Series certification is a symbol of proven excellence in the delivery of Windows Media 9 audio and video streams, for content companies evaluating

hosting and delivery networks. Each Windows Media 9 Series Certified Hosting Provider, says Microsoft, has committed to full implementation of Windows Media Services 9 Series on Windows .NET Server 2003 and been subjected to rigorous testing through Streamcheck, which specializes in measuring CDN quality of service.

(Microsoft.com)

## Port80 Software's httpZip software

Microsoft IIS software solution developer Port80 Software Inc. announced that it has launched its httpZip software, designed to accelerate Web sites with HTTP compression, reducing bandwidth costs, speeding downloads and allowing existing hardware to serve more users. Available for \$299 per single server, says Port80, httpZip is an effective and inexpensive acceleration software product for Windows Web servers. The software transparently compresses Web pages up to 98 per cent using encoding algorithms supported by all modern browsers.

(Port80Software.com) —

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# INDUSTRY APPOINTMENTS

## Everyone.net

### Appoints

### Marketing VP

Outsourced email service provider for ISPs, Web hosts and enterprises, Everyone.net announced on Thursday, December 5, that it has appointed Josh Mailman as vice president of marketing.

In the position, says Everyone.net, Mailman will be responsible for the marketing efforts and continued growth of Everyone.net's services.

"We are very excited to have Josh Mailman join our executive team," says Thomas L. Marcus, President and CEO of Everyone.net. "Josh brings a tremendous amount of business experience to the company from a product, marketing and technology perspective. With over a decade in the messaging space, Josh has a record of success wherever he has been. As Everyone.net broadens and deepens its product lines, Josh is the perfect person to lead the Company's marketing efforts."

Mailman has more than a decade of experience in the messaging industry, says Everyone.net, most notably as vice president of operations at eFax.com, where he helped take the company public in 1997 and

managed the company's transition from a hardware company to a provider of fax over the internet in 1999.

"Everyone.net provides their clients with a fast, flexible and affordable messaging solution," says Mailman. "Everyone.net's proven technology and infrastructure allows organizations of all sizes to offer advanced email at a fraction of the cost associated with providing and managing their own infrastructure. As the trend continues for more robust paid services, Everyone.net is well positioned with a suite of subscription services for everyone."

## Ensim Installs

### Kanwal Rekhi as

### Chief Executive

Ensim, a global leader in Web hosting automation software, announced on Monday, December 9, that it has appointed Internet pioneer Kanwal Rekhi its President and Chief Executive Officer.

Frequently referred to as a "silicon valley godfather" for his role in venture capital, Rekhi founded his first company, Excelan Inc. to take advantage of the then-new TCP/IP and Ethernet protocols.

Excelan went public in 1987 and merged with Novell in 1989. Rekhi remained at Novell as an Executive Vice President, Chief Technology Officer and a board member. In 1993, he led Novell's acquisition of the UNIX operating system from AT&T. After leaving Novell in 1995, Rekhi served as the CEO of CyberMedia until it merged with Network Associates in 1998. He also has served on the boards of directors of more than a dozen companies, including hosting leader Exodus Communications.

Rekhi was founding investor in Ensim.

## Former EDS Vice

## Chair Joins

## webMethods

## Board

Integrations software provider webMethods Inc. announced on Thursday, December 5, that Gary Fernandes has joined the company's board of directors.

The former vice chairman of EDS, says webMethods, assumed the seat previously held by Michael Levinthal of venture capital fund Mayfield. The company says Fernandes will lend significant experience to the board, helping webMethods drive revenue growth and gain market share in the integration software business.

Fernandes has served on the boards of a number of leading companies, says webMethods, including current positions on the boards of 7-Eleven Inc. and BancTec Inc.

"Gary's wealth of experience in software and services makes him an ideal choice for webMethods' board of directors," says Phillip Merrick, chairman and CEO of webMethods. "In addition to his legacy in the technology market, he can also

help further build our partnering capabilities. We work extensively with all of the major systems integrators, and his history in that market can help us to strengthen the ties that drive our business. We welcome Gary to our board and look forward to a fruitful relationship."

## Alldomains.com

## Appoints Senior VP of Sales

Corporate domain registration and management provider Alldomains.com announced on Tuesday, December 3, that it has appointed industry veteran Kurt Wedel to the position of senior vice president of sales.

Wedel, says Alldomains.com, has over 13 years of executive sales experience with blue chip enterprise software companies, and will be responsible for the Alldomains.com sales organization, working with corporate clients and the legal community, and building market share.

"Kurt brings a crucial combination of enterprise level sales experience, branding and intellectual property savvy, and first-hand knowledge of our space and competition," says Alldomains.com founder and CEO Chris Bura. "I look forward to working with Kurt to surpass our goals for 2003."

Wedel's experience, says Alldomains.com, involves managing sales channels and operations, product marketing, marketing communications, partner development and customer service and support. Most recently, Wedel was vice president of sales and marketing at Internet infrastructure start-up RealNames Corporation. He has also held sales and marketing management positions with Netscape Communications Inc., Sybase Inc. and Oracle Corporation. ■



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# COMPLEX HOSTING

## TO SHIFT FROM COMPONENTS TO SERVICE

By Rawlson O'Neil King, theWHIR.com

Pronouncements concerning the end of Web hosting, as we know it, are abundant.

Analysts note that the dot-com crash, devalued stock prices and economic gloom confronting the American economy have undermined the state of the Web hosting industry. As a result, most analysts recommend that enterprises turn towards a network of established infrastructure owners and niche providers of managed enterprise services. The approach that many analysts are advocating is the integration of a multitude of business processes through a reputable and stable full service outsourcer.

Selection of a less experienced or new generation pure-play service provider will be detrimental to any business dependent upon complex outsourced IT services such as chain supply management.

According to the Meta Group, the e-business hosting services market will consolidate

around full-service outsourcers and large telecom carriers. Consequently, by 2004, stand-alone business-focused Web hosting will come to an end. As hosting prices rise 20 per cent to 25 per cent in 2002 and 2003, Meta Group envisions that a cross-functional team representing IT groups, lines of business, and procurement organizations will guide hosting purchase decisions.

In the Meta Group's opinion, hosting services that once were conceived as "simplistic," will rapidly be integrated with the new paradigm of Web services. Large enterprises will not only procure hosting, with its associated "old-hat" focus upon Internet data centers, which house hardware and software that includes servers, routers, and switches for network connections; load balancing software and hardware to guarantee performance and ensure service-level agreements; and security software and backup equip-

ment to ensure continuity of service. Instead, businesses in the near future will also focus their attention to the interoperability of business processes, from both within and outside their respective organizations.

Web services are designed to deploy and link applications utilizing open standards, and according to Meta Group, represents a discernible shift from component-oriented to service-oriented IT architecture.

Service providers will need to modify their hosting offerings to accommodate the required deployment of Web services by large enterprises. The existing outsourcing giants, such as IBM, EDS, and Siebel will be best suited towards implementing these services. These companies, which specialize in chain supply management, will be the first to capitalize on the renewed demand to build internal, enterprise Web portals, or intranets, using interoperable Web components.

Within a three-year frame, Meta Group believes that the wide utilization of Web services from within the enterprise will be adapted to accommodate external procurement of products and services. Fulfilling chain supply management requirements will thus propel new IT architectures.

Hosting providers that simply offer real estate (rack space and cages) will find their selves at a competitive disadvantage, as corporate management increasingly envisage collocation services as a simple component rather than a value-added service.

For hosting service providers to insulate themselves from this disruptive change to the data services marketplace, they should initiate partnerships with large-scale outsourcers for the provision of quality enterprise-class Web services to their enterprise customers. ■

# DOUG KAYE'S VIEWPOINTS: 2003: THE YEAR OF WEB SERVICES?

By Doug Kaye

Some pundits have already declared 2003 as the year of Web services, but I disagree. I think they're far too optimistic. While Web services-computers communicating directly with one another via XML-will certainly get rolling in 2003, they won't take off for at least another year, and won't become an important part of Web hosting until 2005.

Web services will eventually have a huge impact on virtually all distributed systems, including those hosted by third parties. But the ramp-up for external applications (i.e., those that are Internet-based and therefore possibly outsourced to hosting providers) will be slower and steadier than ramp up for applications that are used behind firewalls, or that link known parties via VPNs.

## The State of the Art

Most of the pieces needed for internal Web services are in place today, or will be soon. The foundational protocols such as XML, WSDL, and SOAP (particularly SOAP's simple, real-time, RPC-style flavor) are already supported on virtually every computing platform. Even today, it doesn't take much magic to get two systems-includ-

ing one running Java and another running Windows-to work together at this level.

During 2003, the use of simple RPC-style Web services will increase substantially, and many of the services we obtain today via proprietary protocols will instead be delivered as web services based on XML over HTTP. Credit card processing is the most obvious of such services, but sites will also switch to XML for third-party traffic analysis, search-engine services, and affiliate-program linkages. In some cases the full-blown suite of XML/SOAP/WSDL protocols will be used, but many site developers will find SOAP overly complex for such simple tasks. So while Google, for example, uses SOAP for its search-engine API, Amazon.com offers catalog queries by either SOAP or simpler HTTP GETs and POSTs.

Expect all of the package-delivery companies such as FedEx, USPS, Emery, and even the US Postal Service to publish Web services interfaces. These will support much better integration of package tracking into e-commerce applications and Web sites. The same will be true for on-line travel-service aggregators, stock-quote services, mapping information, and weather

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data. (You can get an idea of what's coming by looking at two clearinghouses for Web services: XMethods and Sal Central.

By this time next year, the two new aspects of Web services that should move from don't-try-this-at-home technology to read-for-prime-time are security and improved interoperability. Both the Web Services Interoperability Organization (WS-I) and IBM (a member of WS-I) have said these are their most important goals for 2003. As standards like WS-Security and SAML (the Security Assertion Markup Language) stabilize, we'll see more complex external web services begin to catch on in 2003, and become mainstream in late 2004.

### **Web Services and Hosting**

What will Web services mean to you in your role as either a Web hosting vendor or consumer? Probably not too much in 2003. You'll begin to use Web services internally (perhaps even extensively), but you won't at first deploy those that involve interacting with your Web hosting customers or vendor. If a customer does deploy Web services, the vendor won't even notice because most Web services interactions are carried over HTTP through IP ports 80 and 443. They traverse networks and pass through firewalls appearing to be typical WWW traffic.

Technologies with which Web hosting vendors should begin to familiarize themselves with are that of application firewalls, XML firewalls, and XML proxies (all essentially the same). Unlike their network-firewall cousins, who are already in widespread use, XML proxies look deeper into packets to verify XML and SOAP syntax and semantics. They also perform a variety of security functions

such as authentication, authorization, encryption, and non-repudiation. XML proxies are just starting to appear on the market today, but by late 2003 and early 2004—as the security standards stabilize and complex external web services are more widely deployed—XML proxies will become the next common appliance to be added to Web site configurations, similar to the way in which load balancers are now provisioned.

### **Releasing the Brakes**

Underlying everyone's concern for the New Year (regarding Web services and otherwise) is the question, "When will IT spending recover?" This is the question my clients ask more often than any other. I tell them to think about the timing of IT budgets. Most companies have fiscal years aligned with the calendar year, which means they're finalizing their annual budgets in October or November for the following year.

Because the economy didn't recover by November 2002 (i.e., in time for next year's budget), 2003 still looks bleak to me. But keep your eye on the economy in the October/November 2003 timeframe. If things are substantially better at that time, look forward to much more IT spending in 2004. ■

### **About the Author**

Doug Kaye is an IT strategy consultant and author. His books include the highly acclaimed *Strategies for Web Hosting and Managed Services* (2002, John Wiley & Sons) and the forthcoming *Loosely Coupled—The Missing Pieces of Web Services*. Check out Doug's weblogs and free IT Strategy Letter at [rds.com](http://rds.com) or contact him at [doug@rds.com](mailto:doug@rds.com).

# RESEARCH INSIGHTS

## SME-FOCUSED HOSTING IN 2002

By Shirley Siluk Gregory, ebi Group

While the past year saw major announcements in the Web hosting market for small- and medium-sized enterprises (SMEs), it might end up being even more noteworthy for the stage it set for future developments.

Throughout 2002, more and more hosts were waking up to the rich growth potential of the SME market and seeking ways to better appeal to that audience. Many of their efforts so far appear well aimed, but these developments also underscore how much further the industry has to evolve to truly meet the needs of small-business customers. Still, there's no doubt

small-business activity picked up significantly during the last 12 months.

Let's look at some of the key SME-focused events of 2002:

### **Setting Sights on Site-Builders**

Tech-savvy SMEs were among the first to go online in large numbers. As a result, the greatest untapped market for small-business hosting now is newbies and entrepreneurs who can't, or don't want to, waste their workdays learning HTML, PHP, MySQL, FTP or even FrontPage. How does a Web host appeal to that audience? By

offering increasingly user-friendly and intuitive tools for creating professional, small-business Websites.

Numerous hosting companies reached this conclusion during 2002, among them 1&1 Internet, with its eight-page, entry-level hosting plan with Website creator; Affinity Internet, which added a new Web template offering by acquiring the small-business-focused Bigstep; HostEurope, whose subsidiary 123-reg.co.uk rolled out a low-cost site-builder service; and The Host Group, which launched both a site-builder and site backup wizard.

And then, of course, there's Interland, which put small business under a big spotlight throughout 2002. This industry giant spent much of the year gobbling up SME-focused hosting companies like CommuniTech.Net, Dialtone Internet and iINNERHOST. It then capped off its spree this December with a small-business purchase of a different kind: Trellix.

The Trellix acquisition promises to make Interland synonymous not only with mass-market hosting but with Website building tools for the masses as well. Trellix CEO Dan Bulens summed it up best when he said,

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"The traditional Web hosting market is littered with technical offerings that bewilder everyday small businesses." Tools like 'Trellix' are what future small-business customers tired of being bewildered will come to expect as a basic hosting feature.

## Going GUI

Of course, small-business hosting doesn't end once those entry-level entrepreneurs have designed their Web sites. Their next challenge is figuring out to how to upload, update and manage those sites ... all tasks that, again, have typically required a certain amount of technical expertise. That's why a number of hosting providers rolled out new or upgraded Web-based control panels in 2002.

Hosts that enhanced their site-management offerings over the past 12 months include AIT, with its new control platform for customers and resellers; CrystalTech, which debuted its .NET-based Control Center; HostEurope, with its MyServerWorld control panel; and Hostway, which released version 3.0 of its SiteControl panel.

Many of the control panel enhancements targeted a small-business niche that's been a steadily growing market among Web hosts: resellers.

## I Can Get it for You Resale

Over the past year, many hosts made it a mission to boost their resale customer bases, which makes sense, considering resellers offer a cost-effective way to multiply marketing power in a down economy.

Among those seeking to improve their reseller appeal were HostEurope, whose WebFusion brand debuted an

upgraded reseller program; Interland, with its promise of cash bonuses to reseller partners; Superb Internet, which revamped its reseller program with steep discounts; and Verio, which dangled cash incentives in front of prospective new resale accounts.

While the resale channel is likely to remain hot in the coming year, some hosts are already exploring different ways to build customer numbers. Hostway, for example, plans to launch an agent program in January aimed at continuing to build its own brand name, rather than that of many smaller reseller brands.

## Looking Ahead to SME 2003

Overall, 2002 emerged not as the Year of Small-Business Hosting, but as the precursor to it. Time will tell whether 2003 will be the year the SME trend reaches full steam, but the momentum is clearly building. For Web hosts, the writing is on the wall: small business is anything but. ■

### About the Author

Shirley Siluk Gregory is senior analyst with The ebi Group, an analyst organization that specializes in market research and data resources for Web hosts and other technology companies targeting the small- and medium-sized enterprise (SME) market. Check out the ebi Group's Web site at [ebigroup.com](http://ebigroup.com) or send email to Shirley at [shirley@ebigroup.com](mailto:shirley@ebigroup.com).

# SME HOSTING

## AND STRONG BUSINESS MODELS TO DOMINATE IN 2003

By Rawlson O'Neil King, theWHIR.com

Solid growth will continue in the SME hosting arena. According to market research consultancy IDC, the Web hosting market is projected to grow at a compounded annual growth rate of 35.3 per cent from \$4.8 billion in 2001 to \$16.2 billion by 2005. The small-to-medium hosting segment is estimated to represent 50 per cent of this total market, and continues to experience tremendous growth as small office/home office, or SOHO-based companies, launch their own Internet presence.

Many service providers that cater to the SME segment will be poised to effectively capture a growing revenue base. Unlike service providers within the complex hosting space, the majority of the main players catering to small businesses, whether selling shared or dedicated server offerings, have been able to maintain positive cash flow and low or inconsequential debt.

As a result, many established SME companies have performed incredibly stronger than many of their complex hosting counterparts and will continue to grow in 2003.

Internet research organization Netcraft reported in December that the most well known complex Web hosting companies, including Exodus, Globix, Above.net, Level 3, Digex and PSINet, have seen declines of 20 per cent or more in the number of IP addresses running Web servers over the past year.

Most of the hosting companies successfully showing growth in IP addresses hosting Web sites have been smaller organizations, says Netcraft, including Rackshack, CrystalTech, Dialtone Internet, Hurricane Electric, Datapipe and Rackspace. Rackshack, in particular, has grown by approximately 160 percent since December 2001.

"Amidst the carnage of the cur-

rent marketplace, some companies with more carefully chosen business models have been able to grow at rates which would normally be regarded as impressive, but seem outstanding in the current climate," Netcraft said in its analysis.

Outsourcing amongst smaller businesses remains popular since management of Web site hosting allows IT operational expenses to be reduced by up to 60 per cent, according to Insight Research Corporation, which in turn enables the smaller business staff to focus on their core competencies.

SME hosting companies continue to offer strong and popular hosting offering such as shared and dedicated hosting services.

Drivers such as these have increased the prevailing demand for higher levels of Web site management. Many established companies that cater to the small business marketplace thus offer some variant of scalable

products. The result is that customers can effectively grow their hosting requirements within a single SME hosting firm.

The major challenge confronting the SME hosting sector within 2003 however still remains customer churn. With shared and dedicated hosting offerings having evolved into low-end, low-priced commodities, many SME hosting providers experience a churn rate of at least 30 per cent.

In 2003, firms will attempt to redress churn rates by increasing capital expenditure on technologies that make their service offerings more appealing to their clientele. In an attempt to create more value for their customers, many notable service providers will continue to invest in hosting automation and Web building software.

Industry analysts expect more firms to install integrated hosting automation software on both shared and dedicated serv-

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er environments, thereby increasing the revenue opportunities of hosting automation software providers. Some SME hosting conglomerates will even purchase hosting automation and Web site building software firms in an attempt to add more tangible value, through the acquisition of intellectual property.

The result of even more heightened interest in hosting automation will lead to the maturation of the hosting automation software segment in 2003. To compete, some large, privately held firms will continue to develop in-house automation solutions to add more inherent value to their operations.

The main challenge in 2003 for all hosting firms will be to devise management strategies to adjust to an unstable economy, made volatile by managerial restructuring and geopolitical concerns. Successful service providers in the New Year will adjust their market approaches and offerings to adjust to the economic downturn, budgetary constraints, and the continued consolidation of the Web hosting sector. Measures will include increased service flexibility and clearer, more tangible value propositions, especially for the shrinking complex hosting sector. The complex hosting sector, which specializes in providing services to larger enterprises such as managed hosting and solutions to ensure server performance and availability, was ravaged by bankruptcy and restructuring in 2002.

Noted industry analyst Ted Chamberlin, a Senior Network Analyst at Gartner, a leading IT consultancy, expects the complex hosting sector to refocus its priorities in 2003: "The overarching theme of complex hosting is that enterprises have not lost faith in the value proposition of

managed hosting, they have lost faith in providers who had irresponsible operating and business models. More Gartner clients are evaluating their external hosting provider against their internal IT department. In a climate of "showing the business value of IT", outsourced services must continue to show favorable return on investment metrics in order to survive. What I see is that the private, conservative footprint providers like Conxion, Rackspace/Intensive and Clear Blue technologies will enjoy industry-leading growth as long as they stay in their sweet spot. Virtually every hoster will look to take equipment and gear costs off their balance sheet in very creative ways (customer furnished equipment, remote administration, creative leasing models)."

Chamberlin also predicted in an exclusive statement to the Web Host Industry Review Digest that: "Technology wise, we will continue to see little down in the way of technology innovation or exploitation. Enterprise demand for the latest shiny new gadget has been muted and service providers that try to force unstable or unproven technology down enterprise throats will be hosters with few clients. That being said, where we do see hosting technology moving is towards a continual movement towards hosting automation with technologies by Ensim, Inkra Networks, Sphera and Jareva. Hosting providers will also build more robust functionality into their client portals, focusing on the ability to port client's internal systems or third party systems into a single view. The Web services and grid computing disciplines have made an impact on strategic planning for hosters, but their impact will be not be felt until 2005." ■

# COMPANIES INDEX:

- |  |   |
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| Above.net                                    | Inkra Networks                          |
| Affinity Internet                            | iINNERHOST                              |
| AIT  | Interland                               |
| AllDomains.com                               | Israel Corporation                      |
| Amazon.com                                   | Jareva                                  |
| Anystream                                    | Level 3 Communications                  |
| AOL  | Meta Group                              |
| Bigstep                                      | Metromedia Fiber Network                |
| Broadwing                                    | Microsoft                               |
| BulkRegister                                 | Miva                                    |
| Cable & Wireless                             | Netcraft                                |
| China Network Internet<br>Information Center | Network Access Solutions<br>Corporation |
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| CommuniTech.Net                              | Plesk                                   |
| Conxion                                      | PRIMUS Communications<br>Group          |
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| Datapipe                                     | Qwest                                   |
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