TIER 1 RESEARCH

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Mass Market Hosting:

Exploring the shared and low-end dedicated hosting sector

Summary: While not as glamorous as the high-end of the market to some, the shared and low-end dedicated hosting sector truly represents the "mass market" of hosting when it comes to the pure volume of opportunity. This report takes an in-depth look into the dynamics of mass market hosting, and its three primary sections are designed to provide the following information: 1) market landscape and trends – we look at the various segments within the mass market and provide customer characteristics as well as trends within these segments, and provide insights and strategies for vendors; 2) market sizing – we recap key data points discussed in our recent report, *The Web Hosting Bible v2.0b*, and expand on this data; and 3) provider profiles and market share leaders – we identify, compare, and rank key providers by total customers, total number of servers, and revenue. Here are some of the highlights and findings:

- **Market Segmentation:** Free vs. paid, consumer vs. business, and product vs. service-oriented
  - The shift from free to fee-based hosting is well underway for those providers without monthly recurring revenue streams. Free hosting will not disappear entirely, but many offerings are becoming "less free." Read profiles and perspectives on Yahoo! GeoCities, AOL Hometown, and Webstation.com.
  - Application needs and migration opportunities within a given hosting environment will vary depending on the type of customer. We outline the different types of upselling opportunities providers should target and profile third-party solution providers HotHomePages.com and Trellix.
  - Domain name registration has been declining for six months despite the recent commercialization of the new gTLDs and ".us." We believe this trend will continue through the year and we provide utilization rates and a forecast through 2005.

- **Market Size and Revenue:** The total number of entities outsourcing with mass market hosting will grow 23% in 2002 to nearly 13 million, and the total revenue will grow 11% in 2002 to \$3.4bn
  - Shared Hosting: \$2.6bn in revenue in 2002 with 22.3K shared servers currently deployed.
  - Low-end Dedicated Hosting: Revenue of \$361mn in 2002 with 64.8K servers currently deployed.
  - Domain Name Registration Fees: \$410 million and one-time set-up fees account for \$35.6 million in 2002.

- **Market Share Leaders:** Data points and top 10 rankings for 38 key providers are included
  - Total Customers: Verio, Interland, and Affinity take the tops spots, although no single provider has more than 5% total share even with parked-only domains included.
  - Total Servers: Interland, Verio, and Rackspace take the top spots and account for 23% of total mass market servers deployed, with CI Host and XO Communications in the top 5. Breakdowns for shared and dedicated are also provided.
  - Total Revenue: Verio, Interland, and XO Communications will take the top spots when it comes to 2002 revenue, and in a market with thousands of providers and millions of customers, the top 10 providers only account for just under 19% of total revenue.

Tier *1* Research

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LIST OF EXHIBITS

SECTION 1: Market Landscape & Trends

SECTION 2: Market Size

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Overview & Methodology

Tier 1 Research's focus has traditionally been on the enterprise-level infrastructure software and services sector, which includes colocation, custom and complex hosting, and managed and professional services. We have certainly reported on the events and players in the shared and low-end dedicated hosting market, but this is the first time we are dedicating an entire report to this sub-sector, with the goal to provide our readers with an even more comprehensive view of the outsourced Internet infrastructure market. While not as glamorous as the high-end of the market to some, and occasionally shunned because of its high degree of commoditization, this sector truly represents the mass market of hosting in terms of volume.

Accordingly, there are a number of key issues and topics that we will explore and discuss, as well as some marquee providers that we will profile. At a high level, this report is designed to provide the following information:

- **Market Landscape and Trends:** We look at the various segments within the mass market and provide customer characteristics, as well as trends within these segments, and provide insights and strategies for vendors.
- **Market Sizing:** We recap the key data points discussed in our recent report, *The Web Hosting Bible v2.0b*, and expand on this data by adding models for domain name registration and set-up fees.
- **Market Share Leaders:** We profile certain providers throughout the report and provide market share assessments based on total number of customers, total number of servers, and revenue.

Similar to *The Web Hosting Bible v2.0a*, published in November 2001, our methodology for this report was to collect publicly available data provided by each of the public and private companies in the industry who are either themselves based in the U.S. and those non U.S.-based providers who provide infrastructure services to clients who are either based solely in the U.S. or are multinational organizations with individual business operations in various geographies. While this is certainly, by definition, not a measure of U.S. revenue only, we describe the scope of this report as coverage of an extended U.S. customer base for infrastructure services.

By combining publicly available information with in-depth briefings and an online survey, and leveraging our ongoing coverage of the larger sector as a whole, we were able to generate estimates on both the market size and market share of hosting's "mass market," defined as the shared plus low-end dedicated markets. Wherever practical, we shared our data about each company with each respective provider. In many cases, to our pleasure, public and private companies were very direct in helping make our data more accurate. In other cases, the provider would give us indirect commentary to help improve our data and in a handful of cases, we either were unable to receive feedback from the provider or the provider declined to comment on our estimates. In the cases where we were unable to gain a high degree of confidence in our data, we triangulated off of third-party data and consulted others in the industry for commentary in arriving at our estimates.

Most companies do not disclose all of the statistics we have included in this report (such as number of actively hosted customers, servers, or revenue). Some providers even disagree in the significance of any data beyond total customer count (which can include misleading information like parked-only domains). In these cases, we apply some rules of thumb assumptions based on the year and our knowledge of the provider. For example, we assume: 1) an "average" shared hosting customer spends $20-$25 a month (given the high volume of <$10/month customers, this higher average price point offsets the small percentage of customers with >$100/month); 2) an "average" low-end dedicated server brings in $300-400 per month; and 3) unless confirmed elsewhere, a company's total hosted domain count includes approximately 20% of parked-only domains. We adjust our assumptions based on our knowledge of each provider's core offerings and platforms.

Should our readers have questions about our methodology beyond this brief commentary, we invite you to call or e-mail us directly with your questions.

SECTION 1: Market Landscape & Trends

Since our readers may have a wide range of familiarity with the hosting industry, to be safe, Figure 1 provides general definitions and illustrates characteristics of shared versus dedicated hosting.

Exhibit 1: Shared Versus Dedicated Hosting

Shared

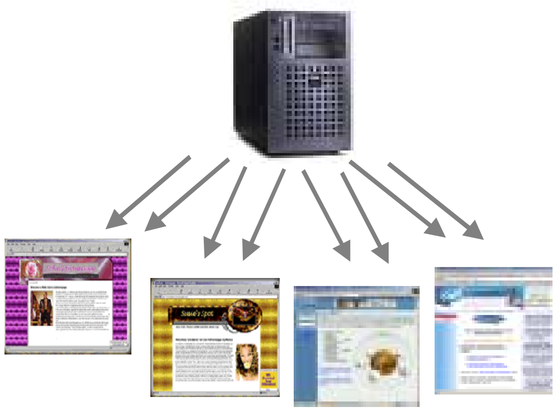
One to Many: A single server is "shared" by anywhere from 15 to 1500 Web sites

Used Primarily By: Consumers and small businesses

Price/Month: Free → ~$250

Set-Up Fee: ~$20-$40, sometimes waved

Primarily includes disk space, data transfer, POP accounts



Low-end Dedicated

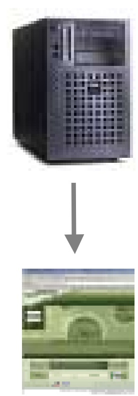
One to One: A single server is "dedicated" to one Web site

Used Primarily By: Small to medium businesses

Price/Month: $59 → ~$1500

Set-Up Fee: ~$100-400, sometimes waived

Virtually all features of a server can be customized (CPU type & speed, RAM, OS, Web Server, etc.)



Source: Tier 1 Research

NOTE: This report is not intended to include a comparison of competitive offerings. There are a number of Web sites with detailed and updated information of this variety, and we highly recommend the following sites for readers interested in side-by-side comparisons of plans and prices:

- www.cnet.com/internet
- www.findahost.com

We certainly intend, however, to dive into the dynamics mass market of hosting, within both shared and dedicated offerings, and we start by asking, "what purpose does a Web site serve?" In thinking this through, we quickly realized that the answers vary, and vary widely, depending on who's answering the question. At a very high level, we can segment the market between business and consumer (non-business) customers, and to some degree, this same distinction segments shared from dedicated offerings in the sense that consumers rarely employ a dedicated solution. However, many small businesses do use shared solutions and the following discussion is a breakdown of each segment, looking at the types of customers within each segment, the customer characteristics, current issues, and key vendors. This discussion is followed by market sizing estimates and forecasts for the segments.

ABOUT THE AUTHORS

Joshua Beil

Mr. Beil joined Tier 1 Research in August of 2001 as the VP of Research and Development. He joined the firm from Exodus Communications, one of the leading web hosting providers, where he worked as the Senior Analyst in the Strategic Planning group. Prior to Exodus, Joshua worked at International Data Corporation where he helped to create and maintain the Worldwide PC Tracker web product for the multi-national industry research firm. Mr. Beil holds a Certificate in E-Business from UCSC Extension, and he graduated with honors from the University of California at Santa Cruz with a major in Psychology. He can be reached at: (831) 426-2658 and joshua@tier1research.com.

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Mr. Schroepfer founded Tier 1 Research in August of 2000 after four years on Wall Street. Most recently, Mr. Schroepfer was a Vice President and Senior Equity Analyst with Goldman Sachs covering the Internet Infrastructure Services sector. Prior to Goldman Sachs, Andrew was with U.S. Bancorp Piper Jaffray where he covered Communication Service Providers as a Vice President and Senior Equity Analyst. Mr. Schroepfer is an honors graduate of St. John's University having earned a BA in Economics and Accounting. Andrew has been quoted in numerous worldwide publications such as the Wall Street Journal, Red Herring, USA Today, Web Hosting Magazine, HostingTech, Business2.0, and Inter@ctiveWeek. Mr. Schroepfer has also been interviewed on such television programs as CNBC, CNNfn, the Nightly Business Report, and various ABC-affiliate shows. He can be reached at (763) 694-9992 or andy@tier1research.com.

Kristen Huber

Mrs. Huber joined Tier 1 Research in May of 2001 as the VP of Sales, Marketing, and Administration. She joins the firm previously from the equity research department at U.S. Bancorp Piper Jaffray where she worked from May 1999 until joining Tier 1 Research. Kristen has previous experience as a store manager for a retail chain. Mrs. Huber graduated from Gustavus Adolphus College with a major in History and English. She can be reached at (763) 315-1465 or by e-mail at kristen@tier1research.com.

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Mr. Rector joined Tier 1 Research in May 2001 as an Associate. He is a graduate of St. John's University in Collegeville, MN, where he majored in Economics. Dustin will be developing financial models on companies in the sector that will be offered on Tier 1 Research's e-commerce store at https://shop.tier1research.com. He can be reached at dustin@tier1research.com.

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