¡SG Provider Lens™

Private/Hybrid Cloud – Data Center Services

A research report comparing provider strengths, challenges and competitive differentiators

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ZONES

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Executive Summary

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Managed services are moving toward industrialized service delivery models and cost optimization

In the last four quarters, enterprises marginally restricted their spend on cloud technologies and business models to bring innovation and value to their end users. They are benefiting from using cloud computing environments and leveraging cutting-edge technologies like AI, analytics and RPA, which are speeding the rate and pace of technological improvements and UX. Hybrid cloud has become the norm in the last few years, with private cloud having the lion's share. With the growing demand for hybrid cloud solutions, IT infrastructure environments have become more complex and difficult to manage. Enterprises are now more open to outsourcing these operations to service providers that have significant expertise in managing hybrid cloud infrastructure for enterprises in multiple industries. Some of the key variables influencing outsourcing decisions are the integration and consolidation of data centers, server performance, virtualization, containerization, governance and compliance, downtime and data loss. ISG observed that due to inflation and several economic and political downturns, enterprises were seen spending less or holding or pushing their infrastructure transformation engagements to the next year. They are more cautious and strategic in their outsourcing decisions to manage their costs effectively in this volatile economic scenario. This is corroborated by our ISG Index numbers, present in the Introduction part of the report.

We have also observed that providers have been increasingly trying to make customers aware of the need to standardize infrastructure, as this can enable them to offer better services at a lower cost. Several benefits can be achieved through standardization, such as:

- It enables providers to automate infrastructure operations and reduce the need for manual intervention, which can lead to significant cost savings and improved efficiency.

Multicloud strategies are evolving into **polycloud** and **hybrid cloud** strategies.

- Standardized infrastructure allows providers to scale their operations more easily and quickly; they can simply replicate the standardized components across different locations and customers.
- Standardization also enhances the reliability and consistency of the infrastructure, which can improve customer satisfaction and reduce the risk of downtime and service disruptions.

By standardizing infrastructure services through infrastructure as code (IaC) and software-defined infrastructure, providers can achieve greater efficiency, scalability and reliability, which can ultimately benefit both providers and enterprise clients.

ISG's Star of Excellence™ program was very well received and has gained significant traction during the last four quarters. This program is based on the voice of the customer concept. Providers are rated on six parameters: service delivery; governance and compliance; collaboration and transparency; innovation and thought leadership; people and culture fit; and business continuity. The score/data comes from a Star of Excellence study that measures CX with providers based on direct client feedback.

ISG found that the average provider CX score for the private/hybrid cloud domain in North America was 79.6 in 2022. Accenture, Cognizant, HCLTech, Microland and PwC were the top five providers with above-average CX scores.

Some of the trends observed in the last year are:

Infrastructure modernization has become inevitable: Several enterprises in the U.S. have been using their IT infrastructure for several years or even decades, and these infrastructures have reached the end of their life; they are no longer able to keep up with the demands of modern applications and business processes and are more vulnerable to security threats and other risks. As modernizing IT infrastructure requires a significant investment of time, money and resources, as many enterprises see it as a big bet. Service providers offer a thorough assessment of the existing infrastructure, identify the gaps and inefficiencies, and develop a roadmap for how to update or replace these systems. However, the payoff is not immediate, and there may be risks involved, such as disruptions to business operations during the migration process. Overall, infrastructure modernization has

become a critical step for many enterprises to stay competitive and meet the evolving demands of the digital age. While it may be a big bet, the potential rewards are substantial, notably improved operational efficiency and enhanced business outcomes.

Evolution of hybrid cloud to polycloud: As cloud providers, particularly AWS, Microsoft Azure and Google Cloud, continue to distinguish their offerings in 2023, we anticipate businesses to be very deliberate about where they put their workloads. With this polycloud strategy, applications will have access to the best-of-breed services available for their use case, be it an industry-specific cloud solution, a specialized database or an AI and ML service. Businesses will embrace their on-premises and private cloud footprints in their roadmaps as they continue to recognize that not all workloads belong to public cloud, primarily owing to cost, performance and regulatory factors.

Cloud cost optimization is a top priority: Enterprises have changed their 2023 objectives to focus on cost reduction and efficiency because of the likelihood of an upcoming economic downturn. As a result of the rapid

expansion of public cloud usage over the past two years, cloud expenses are one of the greatest areas for cost reduction. To uncover opportunities to optimize and monetize cloud transitions, IT, finance and FinOps teams are visualizing their TCO across their full hybrid cloud footprint (on-premises and private and public clouds). After achieving elementary cost reductions through basic FinOps in 2021 and 2022, organizations are now aiming to rearchitect their applications to make use of more affordable, cloud-native technologies, such as serverless, to further optimize their cloud spend.

Midmarket providers winning more deals: We have seen several large global system integrators losing clients to many midsize providers. Some of the key reasons are:

- **Cost:** Midsize providers are able to offer more competitive pricing, as they have lower overhead costs and are more agile in adapting to changing market conditions.
- **Innovation:** Midsize providers are more agile and innovative and are able to respond more quickly to emerging technologies and trends. Some also offer more cutting-edge solutions.

- **Personalized services:** Midsize providers give more attention and focus to clients and have more flexibility to tailor their services to the unique needs of their clients, unlike the standardized service offerings provided by large providers.

Overall, the reasons for the shift in business from large to midsize IT infrastructure service providers are likely complex and multifaceted, with a combination of factors at play.

Changing hosting landscape: Within the managed hosting domain, U.S. enterprises continue to give priority to OpEx models for hybrid cloud deployments. However, there are important issues that influence sourcing selections, such as the difficulty in replacing hardware and poor profit margins. The widespread use of VMware technology by service providers in hosting settings is reducing technological distinction at a lower level in hosting environments. Enterprises in several industries are investing in improving security protocols and automated managed backup and recovery services that use cutting-edge computing and AI technologies. As a result,

for applications that require low latency, businesses are turning away from on-premises infrastructure and instead opting for services that are closest to the workload.

Rapid growth in the colocation business: Over the last two years, the colocation business in the U.S. has undergone substantial growth. Providers have made significant investments to increase their regional data center presence, primarily in the Southwest region, which is attracting many technology firms and other establishments from places like California. Colocation providers were seen offering tailored colocation solutions and establishing stronger partnerships with technology vendors and network service providers. This is aimed at improving IT operations, reducing latency and enhancing network performance for businesses of all sizes. U.S.-based colocation providers are increasingly prioritizing environmental, social and governance (ESG) mandates and green initiatives. Few providers are setting targets for sustainability measures and committing to using renewable energy sources to power their colocation facilities. Furthermore, there is a

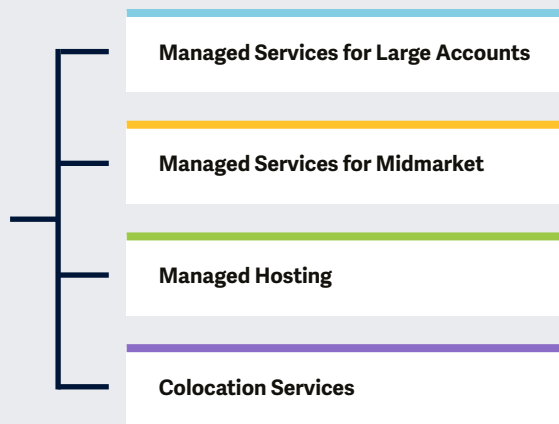growing emphasis on ensuring that data center facilities comply with standards such as LEED and Energy Star.

Colocation facilities with near proximity are the preferred choices among enterprises, as they are looking to grow business with an asset-light strategy. This enables them to access modern data centers while achieving greater cost efficiencies. Public cloud providers are also relying on colocation providers to expand their business in existing and new geographic locations. Colocation providers are upgrading their capabilities to offer smooth integration with hyperscalers and edge data centers, enabling them to support emerging applications in AI, IoT, big data and more.

> Provider conversations with enterprises are now focusing on delivering business value, while also helping them with infrastructure modernization and management rather than just day-to-day operational management. Providers are also helping enterprises create a roadmap to improve performance and reduce the costs of running workloads.

This study focuses on what ISG perceives as most critical in 2023 for **Private/ Hybrid Cloud and Data Center outsourcing services**.

Simplified Illustration; Source: ISG 2023

Managed Services for Large Accounts

Managed Services for Midmarket

Managed Hosting

Colocation Services

Definition

This study assesses service providers of data center outsourcing, including the providers of managed hosting, colocation facilities and managed services. Typical participants use automation tools on highly secure data centers, providing security, operations management and client dashboards.

Data center outsourcing is the practice of transferring the responsibility of managing data center assets to a third-party provider. It includes orchestration; provisioning; integrated monitoring; and managing infrastructure components, including computing, storage, database, middleware and others. The data center may be owned by the enterprise client, service provider or a third-party colocation provider. Integrated monitoring and operations can be delivered from a provider's shared service center located offshore, onshore, nearshore or via a dedicated delivery center such as a remote infrastructure management (RIM) model.

A private cloud is an extension of a client's computing environment that leverages the investments made in virtual infrastructure and applications. Enterprises with stringent security and governance requirements, large data volumes and close integration of enterprise applications and workflows needs may prefer an on-premises or a private cloud environment and may choose to host in their facility. As businesses are becoming software and data driven, they need an infrastructure base that can adapt to the changing market conditions, be managed based on a hybrid model, and be always accessible. Currently, most data center outsourcing engagements have elements of private/hybrid cloud and intuitive cloud management cognitive platform enablement.

A hybrid cloud connects the existing on-premises infrastructure services with a private cloud, a public cloud, or many multicloud arrangements. An enterprise can also leverage colocation and hosting providers, and not necessarily own a data center, to have a hybrid cloud setup. Globally, there is a massive surge in demand for a multicloud environment from the enterprise community as enterprises adopt hybrid and multicloud strategies to migrate and manage their workloads with improved agility, reduced operating costs and high application performance and availability.

There has been a rapid increase in the use of proprietary platforms and tools by service providers and enterprises for automating cloud operations, thereby increasing the adoption of AI and machine learning (ML) technologies. One of the fundamental advantages of a hybrid cloud deployment is the high degree of control offered to the organization; hybrid clouds allow enterprises to leverage the capabilities of public cloud platforms without the need to offload their entire data to a third-party data center. Although still evolving, edge computing is another technology that enterprises of all sizes are adopting for various existing and new use cases, such as software-defined solutions, IoT processing, hybrid cloud connectivity, firewall and network security, branch and micro data centers, internet-enabled devices and asset tracking. Edge is also being used to address the latency challenges in the present, highly distributed environments by removing network barriers and bringing processing to the edge.

ISG reports consistent demand for infrastructure services as enterprises are becoming more vigilant toward spending on large and complex cloud implementations. The demand for managed services, especially infrastructure and workloads management services, also is growing slowly. According to the ISG 1Q 2023 ISG Index™ figures, the global market grew by 1 percent in combined market ACV to reach its current value of $24.1 billion for the first three months. Managed services ACV increased by 1 percent year-over-year and reached $9.8 billion, while the XaaS ACV decreased by 13 percent to reach $14.3 billion. IaaS spending declined 16 percent to reach $10.4 billion, while the SaaS market declined by 4 percent to reach $3.9 billion during the same period.

Sweet Spot

Zones

Overview

Zones is an end-to-end IT solution provider based in the U.S. It has a wide range of hybrid cloud service portfolios, focusing on clients of all sizes. Zones offers a cloud adoption roadmap to clients at different maturity levels. It has a significant number of cloud-certified engineers and delivery experts catering to clients across the globe. It is also a leading provider of global supply chain services.

Key Provider Capabilities

Robust partner ecosystem: Zones has a strong network of over 5,000 partners, including Dell, HP, Cisco, Intel, Hitachi, VMware, Lenovo, ServiceNow and Apple, and hyperscalers such as Microsoft Azure, AWS and Google Cloud. Besides being a value-added reseller (VAR), Zones works with its partners to co-develop solutions and go-to-market strategies to deliver next-gen hybrid cloud infrastructure and data center transformation services.

Vertical-specific solutions: Zones has developed solutions for specific industries such as the public sector, healthcare and retail. The company has also curated blueprints, specialized knowledge, best practices and an understanding of

industry-related regulations, enabling it to cater to some of the highly regulated industries such as healthcare, financial services and government organizations.

Comprehensive hybrid cloud solution: Zones offers end-to-end hybrid cloud transformation solutions that cover licensing, assessment, consulting and professional services like designing, implementation, and managed operational services, aligning with customers' digital transformation strategy. It has developed accelerators and frameworks, backed by more than 1,000 highly experienced consultants, to deliver comprehensive hybrid cloud services to clients. Zones also offers staff augmentation services to address the staffing requirements of clients' IT teams.

Tool stack: Zones has developed a set of solutions that cater to all infrastructure requirements of an enterprise, from cloud and data center infrastructure management, backup as a service, disaster recovery and server migration to SaaS workload management. Zones offers a tool stack of its IPs, including tools like nterprise, Zones IntelliPlan and Zones Discovery Services (ZDS).

Benefits Delivered

- One-stop shop for all IT infrastructure needs across SMB, mid-market and enterprise segments
- Improved service efficiency through resource and cost optimization
- Excellent edge capabilities deployed for retail and telecom clients
- Industry-best SLAs with above-average first-call resolution
- Significant public sector presence

Zones

Sweet Spot

Zones offers end-to-end hybrid cloud managed service offerings to enable effective operation and management of clients' IT infrastructure. The company has been investing significantly in its hybrid IT initiatives and recently enhanced its hybrid cloud offerings to incorporate edge services and vertically aligned solutions with its partner ecosystem. Hence, the company can bring in its expertise with the latest technologies and flexible consumption models aligned to business outcomes.

Zones is growing its IT services business globally, with an increasing number of midsize and large enterprise clients. It fosters high-quality transformation through its automation-driven managed services and has helped several clients save on infrastructure costs.

The company has gained significant experience in operating and integrating systems, for complex client requirements, in a multi-hybrid cloud environment. It also provides robust client support through its 24/7 service desk for all L1 to L3 tickets as a part of its managed services.

Zones Managed Services Operations platform: This platform offers visibility and deep insights into a client's entire IT landscape, spanning on-premises and cloud infrastructure. It acts as a single pane of glass for public and private cloud environments, data center assets and business applications. It combines critical components of IT management into a unified dashboard experience.

Authorized (State, Local and Education) SLED partner: Zones is one of the few service providers that cater to SLED organizations and higher educational institutions in the U.S. It has a unique service delivery practice with dedicated relationships with multiple large IT manufacturers, such as Apple, Microsoft and Dell, to help address the IT requirements of government organizations.

Future roadmap

We observe that enterprises seek providers that can offer a one-stop shop for all their IT infrastructure needs. We also see increased budgets for IT spending from government organizations. These observations indicate that Zones is expecting a strong growth trajectory in its business in the future, with continued momentum in the public sector.

Zones' commitment to offering solutions that add value and customer satisfaction will lead the company to new heights. It invests in partner growth, innovative technologies (Zones Innovation Center) and automation to ensure service excellence. The company's offerings will best suit clients of all sizes across industries.

Appendix

Methodology & Team

The ISG Provider Lens™ 2023 – Private/Hybrid Cloud – Data Center Services report analyzes the relevant software vendors/service providers in the U.S. market, based on a multi-phased research and analysis process, and positions these providers based on the ISG Research™ methodology.

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The research and analysis presented in this report includes research from the ISG Provider Lens™ program, ongoing ISG Research programs, interviews with ISG advisors, briefings with services providers and analysis of publicly available market information from multiple sources. The data collected for this report represents information that ISG believes to be current as of April 2023 , for providers who actively participated as well as for providers who did not. ISG recognizes that many mergers and acquisitions have taken place since that time, but those changes are not reflected in this report.

All revenue references are in U.S. dollars ($US) unless noted.

The study was divided into the following steps:

1. Definition of Private/Hybrid Cloud – Data Center Services market

2. Use of questionnaire-based surveys of service providers/ vendor across all trend topics

3. Interactive discussions with service providers/vendors on capabilities & use cases

4. Leverage ISG's internal databases & advisor knowledge & experience (wherever applicable)

5. Use of Star of Excellence CX-Data

6. Detailed analysis & evaluation of services & service documentation based on the facts & figures received from providers & other sources.

7. Use of the following key evaluation criteria:

   * Strategy & vision

   * Tech Innovation

   * Brand awareness and presence in the market

   * Sales and partner landscape

   * Breadth and depth of portfolio of services offered

   * CX and Recommendation

Author

Shashank Rajmane
Principal Analyst

Shashank Rajmane has more than a decade of extensive research experience and has led the ISG Provider Lens™ studies — Public Cloud Services & Solutions, and Private/ Hybrid Cloud & Data Center Outsourcing Services. He leads the efforts for the U.S. geography along with global geography reports. Apart from authoring these reports, Shashank has been part of many consulting engagements and helps ISG's enterprise clients select the right service providers and vendors based on their IT buying requirements.

He is also responsible for authoring white papers, thought leadership papers, briefing notes, blogs and service provider intelligence reports, especially in the next-generation cloud and infrastructure services domain. He has also authored several research papers on best practices for choosing cloud vendors and cloud management platforms, along with writing several white papers on the cloud industry.

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Chandra Shekhar Sharma is a Research Specialist at ISG and is responsible for supporting ISG Provider Lens™ studies on Private Hybrid Cloud and Public Cloud Data Center Solution and Services. He supports the lead analysts of multiple regions in the research process and authors the global summary report. Shekhar is responsible for delivering enterprise' perspective for IPL and collaborates with analyst, advisors, and enterprise clients on various ad-hoc research requests. He comes with more than eight years of research and consulting experience into IT industry. Prior to this role,

he has been associated with several custom market and procurement research firms, in which he has delivered actionable insights and recommendations around market sizing and forecasting, industry-level trends and drivers, procurement best practices, sourcing models and strategy, competitive benchmarking, market share analysis and vendor landscapes for industry verticals such as IT hardware, IT services, transportation and warehousing.

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Mr. Aase brings extensive experience in the implementation and research of service integration and management of both IT and business processes. With over 35 years of experience, he is highly skilled at analyzing vendor governance trends and methodologies, identifying inefficiencies in current processes, and advising the industry. Jan Erik has experience on all four sides of the sourcing and vendor governance lifecycle - as a client, an industry analyst, a service provider and an advisor.

Now as a research director, principal analyst and global head of ISG Provider Lens™, he is very well positioned to assess and report on the state of the industry and make recommendations for both enterprises and service provider clients.

ISG Provider Lens™

The ISG Provider Lens™ Quadrant research series is the only service provider evaluation of its kind to combine empirical, data-driven research and market analysis with the real-world experience and observations of ISG's global advisory team. Enterprises will find a wealth of detailed data and market analysis to help guide their selection of appropriate sourcing partners, while ISG advisors use the reports to validate their own market knowledge and make recommendations to ISG's enterprise clients. The research currently covers providers offering their services across multiple geographies globally.

For more information about ISG Provider Lens™ research, please visit this webpage.

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