Executive Briefing
Coronavirus: Data Center Strategy Implications

March 18, 2020

The unprecedented worldwide proliferation of the Coronavirus (COVID-19) threatens major changes in healthcare, economic stability, and IT strategy.

There is increasing consensus among leading economists that the Coronavirus pandemic will throw the US and world economy into recession.

Resourceful enterprises can meet current and future data center needs (business continuity, ongoing platform rollouts, organic growth) while reducing the capital expenditure budget.

This briefing discusses 8 data center procurement and usage trends affected by Coronavirus, as a consensus of industry positions based upon active project discussions with enterprise client teams.

"In most recessions, IT departments delay some projects, while shifting spending from CapEx to OpEx to meet current needs."

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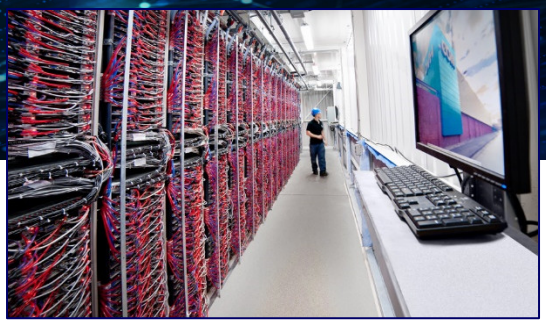

- **Minimal Staff Reductions**. Data centers have a far smaller employee headcount than office buildings and call centers, so occupancy reductions to reduce risk of virus spread won't affect data centers as much as other corporate facilities. Few organizations will significantly reduce headcount at on-premises data centers due to Coronavirus due to the mission critical nature of data center operations coupled with low baseline staff levels.

- **Manageable Demand Spikes**. With the exception of several teleconferencing, messaging, and collaborative work applications (such as Zoom, WedEx, Slack and Microsoft Teams), and excepting specialty sectors like remote-learning which is booming as schools/colleges close campuses, COVID-19 should not create demand spikes that can't realistically be handled with existing networks and overflow protocols, similar to bursting during the Super Bowl. However, some applications like videoconferencing may grow steadily over the next few years as a supplement to existing communication models. Related, some enterprises and carriers will supplement their networks with additional interconnection colo cross-connects to remove telecom circuit bottlenecks.

- **Project Delays**. During recessions and other times of uncertainty, many enterprises curtail new hardware deployments and major IT project initiatives. Some enterprises will delay hardware refresh cycles by 6-12 months or defer some new project rollouts (except related to business continuity) by several quarters.

- **Capital Expenditure Decrease in Shift to Colo**. On-premises data center expansions are very capital intensive; colocation facilities deliver critical systems (but not customer hardware) at the colo providers' expense. Some enterprises that had planned capacity expansions at corporate data centers will shift compute capacity to colo to avoid those facility-level expenditures.

- **More Cloud**. Some enterprises will accelerate cloud deployment (both public cloud and private cloud – see below) as an alternative to on-premises deployment and to reduce upfront capital expenditures for hardware, even if cloud can require higher run-rate operating expenses over the long haul.

- **Colo Private Cloud Adoption**. Many enterprises formulating a "colo vs. public cloud" strategy (especially those concerned with security/audit/compliance issues associated with public cloud) will choose Private Cloud available from leading colo providers with a reasonably brief contract period of 6-36 months. Colo providers have significantly improved their Private Cloud services, and they can offer many of the benefits of public cloud with better audit/compliance features by delivering Private Cloud in or near the customer's colo suite.

- **Colo Managed Services**. Enterprises will expand use of colo provider Managed Services, particularly in cities not easily accessible to corporate IT staff without travelling.

- **Expansions and Renewals of Colo Contracts**. Some enterprises are realizing they will not complete facility expansions or new colo suite contracts rapidly due to budget changes and will seek instead the extension of current colo contracts by 12-36 months as an interim solution without committing to a longer renewal. These efforts may require skilled negotiations to secure advantageous (and flexible) terms from some colo providers who may read the current situation as an opportunity to force weaker renewal terms than otherwise desired.

PNMCF has assisted corporate clients in selecting and procuring hundreds of data centers, colo suites, and telecom switches in 40 states and internationally since 1998. We help clients refine their data center facility strategies, achieve better contract flexibility, decrease costs, and improve SLA terms.

Contact Kirk Killian of PNMCF at 214.365-2050 or kkillian@pnmcf.com to discuss ways we can assist your team in developing and executing flexible data center procurement strategies (such as colo contract modifications) to meet current needs and conserve resources.

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