

## What's Driving Growth in the Global Server Market?

By Mark Bennett

In the digital age, organizations looking to keep up with technological change increasingly recognize the importance of connecting with advanced hardware and software. The result is explosive worldwide demand for computer servers and the infrastructure that supports them. While information technology equipment typically has limited collateral value and can quickly become obsolete, there are financing opportunities that allow organizations of all sizes and industries to benefit from cloud-based computing, data analytics and the range of functionalities that help them compete in tech-driven markets.

### SERVER SALES CONTINUE DOUBLE-DIGIT GROWTH

The global server market is growing by double digits and shows no signs of slowing. In 4Q 2018, server shipments worldwide increased by 5 percent year over year, according to the International Data Corporation (IDC). Vendor revenue was up 12.6 percent (\$23.6 billion) from the same time period a year prior.

Looking at servers by type, IDC data shows revenue growth for volume servers was up 17.8 percent to \$19 billion, followed by midrange servers, up 30.3 percent to \$2.5 billion. High-end servers declined 28.3 percent to \$2.1 billion. Sales of volume servers reflect the steady growth in demand for data center capabilities across all industries. As such, the global data center server market was worth \$40.2 billion in 2018, according to Research and Markets, which forecasts the market value will enjoy a compound annual growth rate of 6 percent over the next 5 years, reaching \$57.7 billion by 2024.



### COMPUTING TRENDS DRIVING SERVER DEMAND

There are convergent trends driving the growth in server sales. While there was lower server demand from hyperscale companies in 4Q, IDC reports continued enterprise demand for richly configured servers, coupled with rising average selling prices, helped offset the decline in hyperscale demand. Both consumers and businesses are increasing their use of streaming services, cloud computing and other data-intensive functions. This demand has collectively spurred greater investment in server and cloud infrastructure ecosystems that can handle next-generation data workloads.

At the same time, the cross-segment growth in server sales also owes to the shift toward hyperscale data centers and the use of near-cloud infrastructure. Hyperscale data centers rely on thousands of servers and specialized infrastructure to scale computing to the level needed for high-performance, reliable digital

services. The servers used must deliver low-latency and secure hardware performance, providing services that are becoming more defined by software than hardware. This shift toward hyperscale data centers (and resulting server demand) is being primarily driven by large companies offering and using cloud-based computing.

Importantly, hyperscale migration carries advantages for organizations of many sizes. An infrastructure composed of isolated server segments suffers inherent inefficiencies and costs. Due to competition and growing consumer demand for a range of services (in addition to challenges with profitability), there is strong motivation to reduce capital costs and operating expenses. This makes hyperscale data centers particularly attractive. They rely on an integrated server infrastructure, which has a direct impact on categorical and integrated capital and operating costs, structural density, and overall power consumption and carbon footprint.

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### COMPETITION FROM SERVER MANUFACTURING INDUSTRY

Within the worldwide server market is growing competition between Original Equipment Manufacturers (OEM), which are name-brand hardware companies, and Original Design Manufacturers (ODM), which manufacture and assemble the components in OEM products. An ODM uses technical specifications from an OEM to produce the requested product, but ODMs may also sell their products directly, which are commonly called “white boxes.” These are computing hardware systems that lack a brand name and model number and are built to specific configurations.

Direct competition emerges when organizations building hyperscale data centers bypass OEMs and buy custom servers directly from the ODMs. This

strategy has been used extensively by Amazon Web Services as it acquires tens of thousands of servers every quarter to support its growing cloud-computing services. While the ODM market segment has been vibrant through much of 2018, IDC notes that growth for “ODM Direct” in the last quarter slowed considerably. Capturing 20.1 percent of the market, ODM Direct saw 11.6 percent revenue growth year over year to \$4.7 billion.

### CONSIDERATIONS FOR FINANCING

J.P. Morgan's Equipment Finance team regularly sees opportunities to finance IT equipment, particularly for middle market companies and large corporations, all of which face increasing data processing and storage needs. When it comes to servers, a dominant factor in financing transactions is that the resale value

on IT equipment is generally quite low, leading to low collateral values. Unlike other financed acquisitions that can retain some value for resale, servers and other IT equipment face rapid technological obsolescence and myriad soft costs, such as for software licensing, support and training. Given these factors, server acquisitions typically merit short-term financing.

### ABOUT THE AUTHOR

*Mark Bennett is a Territory Manager with J.P. Morgan Equipment Finance. Mark has been with the company for 15 years in various roles, and currently covers nine markets in the South Region. He has experience in a variety of lease structures for both commercial and municipal leases, tax and non-tax related transactions, pricing issues and documentation.*