

CSF CHANGES DATA CENTRE BUSINESS MODEL TO ADAPT

BY KARAMJIT SINGH

CSF changes data centre business model to adapt

WITH data growing at jaw-dropping rates, and all of it needing to be stored somewhere, it is not surprising that data centres are booming globally.

Markets insights firm Canalys released research last year that showed the market for data centre IT infrastructure globally, including servers, storage, networking, security and virtualisation, will hit US\$128 billion (RM399 billion) by the end of 2012.

Malaysia is well positioned to take advantage despite having a big negative when it comes to the data centre sector – our very high cost of bandwidth. The country also came in 16th out of 30 countries in a Data Centre Risk Index produced by property consultants Cushman & Wakefields.

[Edited to reflect correct ranking]

However, the counterbalance to this are the positives – ample land, cheap power, a large IT market, good talent and supportive government policies to spur the sector.

Clearly, there are opportunities for local data centre players to grow. One of the more prominent ones is CSF Group Plc which listed on the United Kingdom's AIM market in 2011. The group designs, develops, maintains and operates data centres in Malaysia and Indonesia, with plans to expand to Thailand.

While there is a lot talk about data centres booming, thanks to demand from the likes of Google, Amazon and other tech giants, the reality is that the vast majority of companies do not need a data centre and all the challenges that come with maintaining one.

They are much happier just renting space in a ready data centre and installing their own servers and equipment.

This is where the likes of CSF come into the picture. The company does not actually runs the servers in its data centres, but acts more as a facilities manager to ensure its clients have no issues with running their servers.

Any technical issues are the responsibility of the clients who bring in their own equipment and just rent the space and supporting services that are required to run a data centre.

Despite a booming global market for data centres, its UK listing has not given it the boost expected. Since it hit a hit of 80 pence October 2011, it has had a rocky journey with its current share price at 11.4 pence and with a market cap of US\$125.6 million (RM391 million).

Still, its founder and chief executive officer Adrian Yong (pic) is undaunted and undistracted by the poor share price and even poorer price equity ratio of 2 assigned by the market to his company.

He has been busy over the past six to nine months in lobbying to get the cost of connectivity down, to get the data centre industry in Malaysia to speak in a united voice, and to work with government on helping to better position Malaysia.

There has also been the matter of changing his business model from building large data centres with over 100,000 sq ft of net lettable space to a more modular design approach.

“We will still take a large piece of land but now will build smaller data centres of 30,000 sq ft of net lettable space,” he says.

STARBUCKS-STYLE DATA CENTRES

The idea is that the cash flow from the first data centre will help finance the building of the second one, and so on, with four data centres of 30,000 sq ft of net lettable space in one property.

While Yong sacrifices the scale advantages of building one large facility with over 100,000 sq ft of net lettable space, he says he does not have to wait for customers to fill up his data centre. “We want to now build to demand,” he adds.

He still enjoys economies of scale, apparently. “We will now build them faster, between nine months and 12 months each with the design almost standardised and with the same look and feel.

“This will also make it easy for our support staff when visiting our centres around the region,” he adds. “It’s kind of like the Starbucks concept.”

His upcoming data centres in the Iskandar development hub in the southern Malaysian state of Johor, and in Thailand, will be built along these lines.

The Thai market however is a few years behind in accepting that it is more efficient to outsource the managing of a data centre.

“Bank chief information officers tend to think that because they have the resources, they want to own their own data centre,” Yong says. In industry lingo, this is known as ‘server hugging.’

Still, he is going ahead with his expansion there, aided by an eight-year tax-free incentive from the Thai Government. He is hoping to capture some anchor tenants with a pre-development sign-off of 30% data centre space committed to.

That would be the trigger to start his Thai expansion.

‘A BIG TICK IN THE RIGHT BOX’

Yong already owns the largest single data centre in Indonesia, with two banks as his anchor customers. The facility there is undergoing Tier III certification by the Uptime Institute.

He says this is significant as many organisations like to describe themselves as being Tier III but have no independent verification of this.

He chose Uptime Institute’s certification as he considers it a global leader in the data centre space. The Uptime Institute’s website meanwhile, describes it as an unbiased, third-party research, education, and consulting organisation focused on improving data centre performance and efficiency through collaboration and innovation.

The tiered classification system is an industry standard approach to data centre infrastructure and common benchmarking needs. The four tiers, as classified by The Uptime Institute, are:

Tier 1: Composed of a single path for power and cooling distribution, without redundant components, providing 99.671% availability.

Tier II: Composed of a single path for power and cooling distribution, with redundant components, providing 99.741% availability

Tier III: Composed of multiple active power and cooling distribution paths, but only one path active, has redundant components, and is concurrently maintainable, providing 99.982% availability

Tier IV: Composed of multiple active power and cooling distribution paths, has redundant components, and is fault tolerant, providing 99.995% availability.

Indeed, Yong is proud that last year, his data centres in Malaysia were certified as being Tier III.

“A big tick in the right box,” is how he describes the certification that cost him a six-figure sum.

Fortunately, the Multimedia Development Corporation (MDeC) offers two grants a year for data centre players to get themselves certified. While Yong declined to reveal how much the grant was, he indicated that it covered at least 50% of the certification cost.

HDC Data Centre Sdn Bhd was the first operator to be certified in Malaysia and has its Uptime Institute certification highlighted prominently on its home page.

MORE TICKS

Other ticks in the box, when it comes to picking a data centre, are the cost of operations, which include energy, labour, bandwidth costs. The energy efficiency of a site is important too, with more demanding customers requiring data centres that are purpose-built instead of sites that are refurbished as data centres.

Energy efficiency is a critical factor here as purpose-built data centres will be a lot more efficient in their use of power. “This is very important as the cost of power can make up anywhere from 30% to 45% of the total cost of a data centre,” Yong says.

Some industries, like banking in particular, have higher requirements to meet. For instance, all Singapore banks are required by their regulator to only consider data centres that have gone through what is known as the Threats, Vulnerability, Risk Assessment. This applies even for data centres outside the country.

Yong’s facility in Jakarta has undergone the assessment with one of his data centres in Malaysia, CX5 with 200,000 sq ft of gross space, to undergo it this year.

And then there are the interviews with the people who run the data centres to ensure the facilities have the operational frameworks to support clients’ operations and to ensure the data centre actually operates the way it is designed to.

If it sounds exhaustive, there are more criteria, Yong points out, making the point that all data centre customers expect the highest standards as they are trusting their company’s data and cloud-based operations to the facility.

“Only when you clear all these user requirements, do you come to the issue of pricing,” he says.

WHERE MALAYSIA IS LOSING OUT

And this is where all data centre operators in Malaysia have been hampered – severely, in fact – by the expensive international IP (Internet Protocol) transit costs in Malaysia.

Such is the difference in costs between Malaysia and Singapore that this single element almost nullifies all the other advantages of Malaysia and goes a long way to explaining why Singapore has almost two million sq ft of net lettable data centre space, almost three times Malaysia’s.

The other big advantage Singapore has is that it is seen by American customers as being not just a country that ranks highly as a safe destination for data centres, but also as “a friend of America,” notes Yong.

This is an important customer group for data centres as most of the business comes from US companies.

The good news is that bandwidth costs did come down in December to US\$30 per megabit as opposed to US\$50 per Mb throughout the year. While this helps make Malaysian players more competitive, in Singapore, that same Mb of bandwidth costs between US\$4 and US\$7 per Mb.

It can get as low at US\$10 per Mb in Malaysia but that depends on a commitment of buying 10 gigabits of bandwidth from Telekom Malaysia.

While he lauds the lower bandwidth prices as offering a much welcome boost to Malaysia’s attractiveness as a data centre location, Yong notes that more can be done to further lower prices.

“Data centres are like airports. You need planes to land and bring in traffic,” he says. Right now, the challenge for him is that most of those planes are still landing at a neighbouring airport.

And with Entry Point Project 3 of the Business Services National Key Economic Area targeting some lofty numbers for the sector, Yong is hoping that more urgent government intervention can help put Malaysian players like him on a stronger footing to compete for the growing global data centre pie.