



ec outlook

Selecting and Working With an Application Service Provider (ASP)

**An ECOutlook
In-Depth White Paper**

Overview

They are used by corporate giants such as BASF Corp., Bausch & Lomb, Bristol-Myers Squibb, Dupont, Ford Motor Co., General Electric and Monsanto. Mid-size and smaller companies such as Allbooks4less.com, Aircraftmarketplace.com, Goodman Manufacturing, Metatec, Pentacon, Pliant Corp. and Sunburst Hospitality also utilize them, as do small “mom and pop” shops. They are at the forefront of a broad IT trend taking shape – software as a service, delivered over the Internet.

“They” are Application Service Providers and analysts predict that the revenues generated by this sector of the IT industry will grow from an anticipated \$3.6 billion in 2000 to more than \$25 billion in 2004.

Yet research also indicates that fewer than 10% of the likely decision-makers involved in choosing to deploy an Application Service Provider (ASP) have a detailed awareness of what ASPs do or how they can benefit their organizations. Additionally, according to the same research, nearly 50 percent of C-Level executives have no familiarity with the term Application Service Provider.

In this paper we’ll explain what an ASP is and how, when, and why using one can benefit an organization. Plus, we’ll look at the disadvantages to using an ASP and address the question of whether the ASP is a viable computing model for your organization.

What Is An ASP?

Simply stated, an application service provider is a vendor that hosts one or more specific applications that an organization, its users, and, increasingly, its value chain partners can access via the Internet. The ASP may develop applications, resell a package or suite that originated elsewhere, or offer a solution comprised of some combination of the two. An outsourcing contract, usually referred to as a “service level agreement,” governs the fee arrangements between an ASP and its customers. Arrangements vary, but contracts are typically structured around usage-based or transaction pricing, on a per-user, per-month fee. In addition, there may be an initial set-up fee.

Types of ASPs

As with shrink-wrapped software products, there are various types or categories of ASPs in the marketplace, offering different levels of expertise, service and functionality. Typically, in today’s marketplace, they can be categorized as follows:

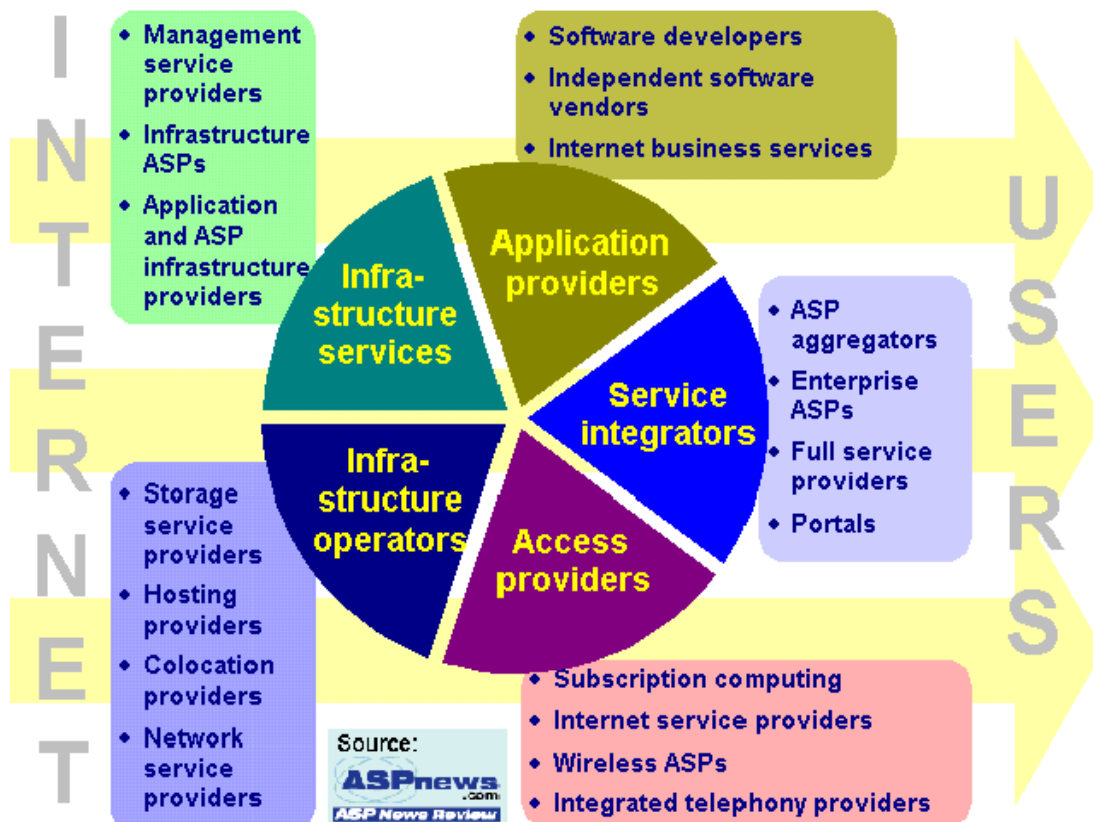
- ✓ **Instant apps** – These ASPs take packaged software applications and make them available for rent over the Web. Customer service is normally limited to Web-based and e-mail help and support. Prices start from a few dollars a month up to several hundred.
- ✓ **Admin & Ops** - Accounting systems, manufacturing and sales automation ASPs, whose main function is to administer and process business operations.
- ✓ **E-Commerce** - ASPs for building and maintaining online stores or business trading activities.

- ✓ **Info sharing** - ASPs for communicating or sharing private information, documents and data. Includes Web-based email or conferencing, online databases and document storage, as well as file storage and backup utilities.
- ✓ **Site building** – ASPs for building and managing a hosted website, as well as additional site services such as banner ad management.
- ✓ **Specialist** – These ASPs fulfill a specialist’s role or are designed for a specific industry.
- ✓ **Serviced apps** – These ASPs offer extensive customization and configuration with your application. Your initiative may take several weeks to several months depending on the complexity. They usually offer a relatively high level of service. Pricing structure varies from hundreds of dollars a month up to thousands. When a vendor refers to its ASP as a “hosted solution” it is most likely offering a serviced application.

As with any fast growing technology, the categories are expanding at a rapid pace.

The ASP Value Chain

In essence, many different types of providers work together to create and deliver each ASP solution, as is illustrated in the image below. (Reproduced with the permission of ASPnews.com.)



As the diagram above shows, there are five primary sectors that make up the ASP value chain. The sectors represented by the three pieces of the pie chart on the right have direct contact with

the user, while the sectors on the left represent companies that operate in the background, as enablers of the Internet computing infrastructure.

A brief description of each:

Service Integrators – They put all the pieces of the solution together – hardware, software, consulting, customer service and so on – and deliver it to the end-user business as a complete, managed solution. Some of the pieces may be internally developed proprietary software.

Application Providers – Develop much of the software and many of the applications the service integrator uses to build the managed, hosted solution. Companies such as Oracle and PeopleSoft, who host and deliver their own applications as online services, are also included in this category.

Access Providers – Offer the “last mile” connectivity that enables users to access the network. Category includes telcos and ISPs, many of which may include hosted applications along with the access they provide. Also includes wireless ASPs who deliver Web content and applications to wireless users.

Infrastructure Operators – These entities take care of the physical back-end components of the network. Includes companies such as the telcos who act as Internet backbone carriers and co-location and hosting companies that manage Internet data centers.

Infrastructure Service Providers – Companies in this sector make up the software and services layer of the Internet computing infrastructure. Includes application and ASP infrastructure providers (AIPs). AIPs operate hosting centers with leading edge technology specially designed for hosting applications. Also included in this category are management service providers, companies that specialize in remote management of IT systems.

In summary, an ASP is much like a “general contractor,” as was pointed out in this June, 1999 quote from *Business Week Magazine*:

“A new breed of companies called application service providers are transforming software from big, expensive, often nettlesome products, into a more affordable and easy-to-use service. Think of it as the difference between building your own home and hiring a general contractor who manages the plumbers, carpenters and electricians.

“The Goal: making sophisticated software as readily available as flipping on a light switch.”

Major Trends Driving the Acceptance of ASPs

Two major business trends of the last several years have helped to fuel the rapid emergence of ASPs as a force in computing.

One of those trends has been the confluence of IS strategy with business strategy to the point where they are no longer extricable from one another. In essence, technology strategy is now the driving force behind a business’s competitive strategy. As a result, companies are demanding that IT initiatives produce bigger returns and deliver a clear competitive advantage that leads to higher bottom line profits.

The other major business trend that has had a huge impact on the acceptance of ASPs is the movement toward outsourcing. Increasingly, companies are realizing that to be a survivor and a leader in today's fiercely competitive global marketplace they must focus on core functions. This means that the highly successful company today is much more likely to be *virtually integrated* than vertically integrated. And this means a very large degree of outsourcing.

Geoffrey Moore, Managing Director of The Chasm Group and best-selling author of numerous business books, including Crossing the Chasm, convincingly makes a case for outsourcing in an October, 2000 article for *Marketing Computers Magazine*:

“Outsource the context, insource the core. In a virtual value chain, companies are rewarded only for their value-adding function. Call this their core function. The goal of each company is to accentuate its competitive advantage by differentiating its core function. Ideally, all its resources would be focused on this effort alone. Of course, that's not possible.

“Every company has obligations to its customers, employees and partners that don't differentiate it but nonetheless must be fulfilled. Such duties are context functions. If companies fail to execute on them, they will be penalized. Neither will they be rewarded if they over-deliver on them. Context functions have downside risk, but no upside gain.

“Thus, the key to managing in a virtual value chain is to outsource context functions wherever and whenever possible.”

The confluence of IS strategy with business strategy, the major, market-dictated trend toward outsourcing and the evolution of the Internet as the technology delivery platform of choice – these are key reasons why ASPs have become and will continue to be a major force in computing.

The ASP Value Proposition

For many organizations the ASP model presents a strong value proposition. Essentially, ASPs “un-productize” software by providing end-to-end service offerings that encompass the customization, deployment, maintenance and ongoing support of an Internet-enabled software solution. Generally, the ASP takes sole responsibility for making sure the solution runs properly, that data is maintained in good order, that the server does not crash and so on down the line.

The ASP model can be an effective way for businesses to circumvent personnel shortages in information technology, resolve maintenance hassles, reduce deployment times for new software solutions and lower overall IT costs.

Let's now take a more detailed look at some of the more significant benefits the ASP model offers:

- **Quicker implementation** – As stated earlier IS strategy and business strategy are no longer extricable from one another, with companies demanding that IT initiatives lead

directly to bottom line profits – and the faster the payback the better. But the long, time-consuming process of planning and implementing an internal solution can substantially lengthen its payback time and significantly lessen its impact on bottom line profits.

In many instances, an IT initiative’s time-to-market can have a major impact on whether a business holds onto its competitive advantage or has it wrested away from them by a key rival who “got there first.” In other situations, especially with a new company trying to succeed in today’s blindingly fast e-business marketplace, the difference between getting a solution up and running in three months rather than six could very well mean the difference between life and death.

Simply put, in an age when the business world operates on “Internet-time,” speed is a distinct competitive advantage. And ASPs, by making it possible for business solutions to be up and running in days or weeks as opposed to months or years, can deliver that advantage.

Timeline for Implementing an ASP vs. Traditional software implementation
(Source: Collaborative Strategies LLC, in e-Business Advisor, 3/00)

Step	Shrink-Wrapped Model	ASP Model
Develop and build a consensus on strategy	3-6 months	2-6 weeks
Evaluate possible software packages	3-6 months	1-2 weeks
Select and acquire appropriate applications	1-2 months	1 week
Roll out and test the new software	3-6 months	4-8 weeks
Go live and convert to a stable operating environment	2-4 months	4-8 weeks
TOTAL	1-2 years	3-6 months

- **Reduced technology risks** – Today, new technologies, new protocols and new standards are introduced at a dizzying pace and this ever-changing technology landscape makes virtually any IT investment a risk. On the other hand, in today’s technology driven business environment getting even a few steps behind can put a company at a serious competitive disadvantage. Using an ASP can eliminate this risk by providing businesses with an easy and cost-effective way to continually access leading-edge technologies.

Most importantly, with an ASP there is no risk of instant obsolescence; neither does it demand an ongoing commitment of capital for continual upgrades. As a result, many

companies conclude that the IT solution represented by the ASP model offers them a more sustainable business advantage.

- **Reduced needs for trained IT personnel** – Hiring and maintaining qualified IT staff is a major and growing problem for most businesses. In a sellers’ market, hiring and keeping qualified people requires ongoing and not insubstantial investment. Training, 401k, health benefits, flexible hours, office space and equipment, career advancement, stock options, signing bonuses, competitive salaries – outsourcing through an ASP insulates a business from these and other personnel-related costs. In addition, it eliminates the risks and costs involved with losing key personnel. (It’s been estimated that the total hard and soft dollars cost to replace a single white-collar employee can be between \$20,000 and \$40,000.)
- **Improved responsiveness** – In an operating environment where business strategy and IT strategy have converged, that strategy must be extremely dynamic and responsive to market forces. An ASP is often ideally suited to this environment as it enables a rapid response not only to new infrastructure needs such as bandwidth and storage, but also to new strategic orientations. A big benefit of the ASP model is that a company does not have to be concerned with the addition, reorganization or removal of infrastructure and staff. Correspondingly, adding or changing an application, tool or capability can be accomplished quickly and without disruption.

Easily and quickly scalable and upgradeable and offering a high degree of flexibility, ASP computing is a true “plug-and-play” approach to acquiring advanced capabilities. Capabilities that can be quickly modified to respond to changing forces in the marketplace.

- **Lower upfront costs and overall operating costs** - Depending on the type of ASP a company uses, upfront costs may be nil. For example, if a company is accessing a standard accounting or HR package that requires no customization or modification then their upfront costs would most likely be zero. On the other hand, the more complex the solution, the more customization and modification work that is required, the more significant the upfront charges will be. Regardless, when taking into account the cost of purchasing hardware and software, the cost of maintaining and upgrading that hardware and software and the total cost of paying staff to operate and manage IT systems –overall operating costs, including any upfront charges, will usually be lower with an ASP.
- **Quicker return on investment** – Return on investment can only begin when a solution is up and running and when the cost-basis has been recouped. The ASP model, which can dramatically shorten the time that it takes for a company to “go live” with its solution, can enable a business to much more quickly begin generating a return on their investments in new technology. In addition, with upfront costs that can be zero and are usually a mere fraction of the costs inherent in a more traditional solution the cost-basis to be recouped is almost always substantially lower.

- **Increased competitiveness** – Outsource the context, insource the core. This point was made early on in this paper but bears repeating because it is so important to success in today’s business environment. Arguably, the most compelling reason for outsourcing – no matter what industry – is that it enables a business to sharply focus its time, energy and resources on its core. By doing this they can create, in the words of Geoffrey Moore, “intense competitive advantage at their point of attack” – with their point of attack originating from their core strengths: those things that set it apart from its competition.

In addition, successful outsourcing – through an ASP or any other entity – can bring specialized, highly-developed expertise to bear on context functions and lead to lower costs for those functions. This frees up valuable capital for a company to spend on its core, helping to ensure its long-term competitiveness. Perhaps most importantly, as e-business and Internet computing become increasingly larger factors in business success, internet-based technologies become critical business concerns. But unless these technologies are central to a company’s reason for being, focusing the time and energy it takes to stay up-to-date in this area will only draw attention away from its core competencies.

Disadvantages of using an ASP

The ASP market has attracted, and continues to attract, a multitude of companies from diverse origins: telecommunications companies, data center operators, systems integrators – even new startups aimed at the ASP market itself. And although the industry is very young, companies that have chosen to go the ASP route to meet certain computing needs have, in many cases, achieved impressive results. That said, the ASP computing model may not be a viable solution for every company. It does have its disadvantages. Several disadvantages most often cited by companies are –

- **Loss of control** – For many organizations giving up control – any control – of their critical business systems is not an option. This may relate to the corporate culture or to the fact that a company operates in a highly competitive market space and has strict policies about using outside service providers.
- **Lack of customization** – Many ASPs only offer a standard software solution, one that allows for only the most minimal of customization work and absolutely no integration with internal legacy systems. So if any of an organization’s computing requirements are based on trading partner or customer relationships the ASP model may not be a viable option. On the other hand, some ASPs are capable of delivering highly customized solutions and can effectively integrate their applications with a business’s legacy systems.
- **Response time** – If an organization operates within an industry in which it is critical that downtime be kept to an absolute minimum an ASP may not resolve its issues as quickly as it would like. If even limited downtime places an organization at significant financial risk it may want to reconsider whether using an ASP is a good option. Of course, most ASPs will include response time in their Service Level Agreement and the upside is that they may provide quicker, more responsive service than in-house staffs.
- **Security** – If an organization operates within a highly competitive industry and the information gathered and shared in the application it is considering outsourcing is of a particularly sensitive nature the ASP model may not be the best solution. While ASPs

have a track record of delivering a uniformly high level of security, peace of mind may be more important than anything else.

ASP Successes

The convergence of business strategy, technology strategy and the Internet combined with the major corporate trend toward outsourcing has been largely responsible for the rapid emergence of ASPs as a major force in computing. Of course, without success and a proving out of its concept the ASP model of computing would have died a quick death. What follows is a sampling and brief description of some documented ASP success stories:

A leading diversified worldwide health and personal care company has utilized the services of an ASP to effectively extend electronic data interchange (EDI) capabilities to its large, non-EDI enabled supplier community. The solution was implemented in less than 100 days and was universally accessible by all of the company's suppliers at no cost to them.

As a result, within a little over a year this Fortune 100 company went from electronically exchanging only two documents – purchase orders and invoices – between a few large companies via EDI, to enabling the electronic exchange of seven types of business documents with hundreds of suppliers for both MRP and MRO goods and services. (Current plans call for the organization to eventually roll out the solution to well over 10,000 regular and occasional trading partners.) The seven business document types are: PO (including Discreet POs, Blanket POs and Service Orders) PO changes, PO acknowledgements, advance ship notices, invoices, materials forecasts and expected delivery reports. Key benefits to the company and its suppliers include reduced paper flow, increased operational efficiencies and a substantial reduction in transaction costs.

Helig-Meyers Co. – This \$2 billion furniture retailer expects that by outsourcing its payroll and human resources applications to an ASP it will reduce its information technology costs by up to \$2 million a year. Company officials cite the added benefit of being able to focus its internal IT resources more intently on its store systems.

Pentacon Corp. – A large supplier of small parts to industrial and aerospace manufacturers' plants, Pentacon used an ASP to launch an Advanced Inventory System (AIS) and electronically connect customers, suppliers, and 38 sales offices. Solution enabled Pentacon to quickly and cost effectively start exchanging inventory and product information with its value chain partners. Company officials estimate that the solution will generate first year cost savings of \$130,000.

Five months later the company followed up its AIS initiative with two new ASP initiatives. In one initiative Pentacon will use the same ASP to effectively replace the value-added network it uses to send EDI documents to many of its largest customers, substantially lowering its data transmission costs. Pentacon also tapped the ASP to add increased functionality and efficiency to its AIS by creating a private e-marketplace to be used by Pentacon and one hundred of its top suppliers.

Sunburst Hospitality Corp. – This owner and operator of 88 hotels around the country with more than \$200 million in sales used the ASP model to implement PeopleSoft's ERP suite of

software. Within 90 days the software was up and running. Company officials estimate that total upfront costs were a small fraction of what would have otherwise been approximately \$2 million in fees under a more traditional ERP program installation.

These are but a few of the many success stories that have come to light during the relatively short history of the ASP industry. The ASP computing model has already been successfully adopted by a wide range of industries, including: chemical, retail, food services, healthcare products, healthcare services, wine-making, e-tailing and many more. Even now, after such a relatively short time as a computing force, no matter what industry your business operates in, it's highly likely that leading companies within that industry are successfully using ASPs.

Is the ASP model a viable model for your company? Simply put, the answer is – except in the most extreme security cases – yes. As stated at the beginning of this paper, ASPs are at the forefront of a broad IT trend taking shape – software as a service, delivered over the Internet. Phil Wainwright, Founder and Editor of the online newsletter ASPnews.com, eloquently amplifies on this trend in one of his many fine articles (“When the Internet Becomes the Computer”):

“Although it flies in the face of conventional wisdom about enterprise computing, businesses in this new era will gain competitive advantage through their *access* to Internet computing resources, *not* through their ownership of computing assets.

“...When computing moves onto the Internet, the end result is that the Internet itself becomes the computer. Each individual piece of computing becomes a component service — an Internet application engine — within the interconnected global infrastructure. The task that's now under way is the creation of an Internet operating system that allows those many components to interact seamlessly within the infrastructure. When the process is complete, the Internet itself becomes a shared global platform for the automation of commerce — along with every other form of collaborative human endeavour — built from millions of participating components and services.”

One ASP company that has fashioned a leadership position for itself in the Internet computing environment by enabling companies to seamlessly interact with one another is ECO Outlook.com.

About ECO Outlook.com

ECO Outlook.com is a leading e-business application service provider. Its proven technology and innovative e-business automation and e-systems integration solutions enable companies to quickly and affordably conduct business electronically with 100 percent of their value-chain partners (customers, suppliers, freight carriers, digital marketplaces, and other third parties). ECO Outlook.com customers include such leading companies as BASF Corp., Bausch & Lomb, Bristol-Myers Squibb and others.

By replacing expensive and time-consuming connectivity projects with an application-independent connection *hub*, ECO Outlook.com affordably delivers a single point of e-business contact. This single point of contact easily enables companies to electronically exchange business information with suppliers, customers, and digital marketplaces – their entire value

chain. Simply stated, the ECOOutlook.com hosted service makes it possible for all companies, regardless of size, technical sophistication or the type of business systems they use, to exchange purchase orders, purchase order acknowledgements, invoices, advance shipping notices and so on – in an automated and accurate fashion. As a result, companies are able to close the e-business execution gap and substantially lower their document handling and administrations costs, positively impacting productivity and profits.

In short, by electronically enabling and automating all processes before and after the actual purchase transaction, ECOOutlook.com delivers increased operational efficiencies and cost-savings to companies of all sizes.

To learn more about ECOOutlook.com visit www.ECOOutlook.com or call 888-376-1203.