

ASPs struggle to sell cost savings

Application Service Provision promises great savings on outsourced IT and technical services, but many companies are wary of signing up. Kieron Hayes

Over the past decade companies have become much more comfortable with the idea of outsourcing increasingly large parts of their business. Everything from accounts departments to call centres and canteens have been turned over to third party providers or floated off as stand alone service companies.

During the 1990s many organisations outsourced their entire IT functions. The growing importance of the Internet put a brake on this trend: with IT at the heart of strategy, companies have become less keen to cede control to a third party. Now, however, there is a halfway house: companies can hand over the day-to-day running of software while keeping the more strategic operations in-house. The enabler is the Internet, and the mechanism is called Application Service Provision. It has a raft of theoretical benefits – yet it has failed to gain much momentum. Why?

What is an ASP?

Software has traditionally been installed on the computer hard drive or network of

users. The ASP model fundamentally changes the way software is accessed by installing and managing software in a remote location, usually a datacentre, and allowing the user to rent it on a per-user, per-month basis over the Internet.

More complex business process software designed for Customer Relationship Management (CRM), Enterprise Resource Planning (ERP) and e-commerce software can also be rented from ASPs. A variation on the model is storage: data can be downloaded to an ASP to provide additional back-up.

The benefits

- Access to new software: Businesses may be able to rent software they could not afford to buy. Complex software for CRM or ERP software could come within the range of small companies for the first time. This is particularly true if they need to use software occasionally, because they pay only when they use it.

- Secure data: ASPs use sophisticated back-up systems to make sure more than one

copy of data is always available. They typically operate from specially-constructed datacentres, which may well be more secure than a company's own facility. Many ASPs include 'remote-back-up' of data as an added service. Should equipment such as a laptop be damaged or lost, an uncorrupted version can be retrieved rapidly and loaded on to a replacement machine.

- Rapid implementation: As applications are hosted remotely they can be rapidly implemented into business processes. Jewson, a UK builder's merchant, has used an ASP to introduce office productivity and messaging software into its UK outlets. "We were able to roll out the system to branches in considerably less time and cost than it would take to manually install the software on a PC-based system," says David Hall, IT infrastructure manager.

Cost-saving

Application Service Providers can save money because:

- Keeping pace with changes in hardware and software architecture is a costly

problem. ASPs upgrade the software, so the user does not have to pay. Upgrade costs are also more predictable, because they are included in the price.

- In addition, the most basic internal IT infrastructures will be adequate to manipulate even complex applications, because ASPs deliver software to Web browsers. This should cut the cost of maintaining and upgrading internal IT hardware.

- As with any renting arrangement, the lack of upfront payment improves cash flow.

- Companies do not have to hire and retain highly-qualified staff to run the software. Because they are sharing the cost with every user of the application, they should pay less for the same set of IT skills.

The concerns

Despite these benefits, the ASP industry has struggled in the face of user indifference and confusion. It seems certain that many ASPs will go out of business or merge in the next year. In part, this is the industry's own fault: it has failed to explain its

In brief

- Application Service Providers (ASPs) promise IT savings by outsourcing technical operations
- Other benefits include access to new software, secure data and rapid implementation
- ASPs can provide firms with cost savings by reducing the cost of substantial upfront IT investments and taking care of even complex transactions
- But ASPs have struggled in the face of corporate user confusion - partly by failing to explain their benefits clearly to non-technical managers
- It seems likely that ASPs will vanish - replaced by the simple process of renting software

benefits clearly and has been particularly poor at speaking plainly to non-technical managers. It seems likely, and desirable, that the very concept of the ASP will in due course vanish – renting will be just another way of obtaining software, just as renting is just another way of obtaining a car.

In addition, there are specific worries:

- Will security and availability be enough? Every Internet user has experienced "downtime" and slow connections, while horror stories about security are if anything increasing. ASPs are attempting to counter these concerns with stringent Service Level Agreements (allowing for compensation if the service fails).

- An alternative to the public Internet, offered by ASPs, is to set up a dedicated line for the customer. This immediately dents the cost advantage of renting software; indeed it may well mean higher rather than lower costs.

- Many companies are uncomfortable with the idea of allowing a third party to hold and manipulate business systems. "If I farm out my IT management to a third-

party, what is there to stop them eventually squeezing my company dry once I am completely dependent upon them?" one manager asked at a recent Net Profit seminar on ASPs. Another talked about "dependency on a third-party leading to a possible escalation of cost when tied in to a supplier".

- The ASP industry suffers from its own lack of success. There is a shortage of positive case studies, which makes it harder to sell, which means there no case studies. A vicious circle.

- Similarly, businesspeople are concerned about the lack of a track record in this new and poorly-established industry. How do they know who to trust? How do they know if their provider will still be there in a year? Will Service Level Agreements or pricing structures be honoured if their ASP is taken over? IT giants such as Compaq are setting up partnerships with ASPs specifically to add backing and therefore comfort. Microsoft is also moving into the ASP market; perhaps it is this that will give the market the momentum it needs.

ASP customers count sturdy savings

Case Study 1: Opus Group

E-mail is increasingly at the heart of many business processes. Although usually bundled-in to an Internet Service Provider (ISP) package, the increase in electronic business places extreme demands on today's systems. Everything from internal discipline to delivery of the product, in the case of electronic publishing, is now largely conducted by e-mail. Critical elements of customer service are also performed over the Internet, which increases the need for a resilient and high-speed service.

One company that has outsourced its e-mail management to an ASP is the Opus

Group, an IT and telecoms marketing and services company based in Basingstoke, UK. Its experience not only illustrates the cost savings that the company was able to enjoy but also illustrates the flexibility of the service provided by its ASP, Netstore. In 1999 Opus began development work with Netstore to manage the e-mail network used by its 55 staff. It was installed in early 2000. Opus realised that it was squandering time and resources on managing its e-mail function. Every period of "downtime" highlighted the critical nature of e-mail to the company's working methods – and how much in-house resources were being eaten up by the problem.

"I came to the conclusion that it was more cost-effective to outsource this part of our operation to third party," says Gary Tolfrey, Opus' chief technology officer. "Rather than waste time and resources trying to find staff and keeping them up to speed with changes in the software architecture, it was more sensible to allow the experts provided by our ASP to manage the application." The flexibility of the service impressed Mr Tolfrey. Aside from being able to incorporate its own inhouse developed software with the ASP-delivered application, Opus was able to establish a direct point-to-point ISDN (integrated services digital network) link with the service provider. This

not only augmented the already high security of the service but also dramatically increased the speed of Opus' e-mail. In the 18 months that it has been using the system Opus have experienced no problems with the service.

www.opusgroup.com

Case Study 2: Redwood

Redwood Outsourcing, based in Hull in the north of England, wanted to provide accountancy management via a remote "online bureau" service to medium-sized companies. But the high costs involved in

establishing and maintaining the complex physical network and hardware required for the model to be delivered successfully, alongside the cost of sophisticated accountancy software, was a major stumbling block.

Redwood chose an ASP solution supplied by Vistorm. "We were able to select the best application for our business on a 'per-seat' basis for a monthly flat fee, allowing us to establish a secure infrastructure that virtually eliminated the need for inhouse IT staff and gave our customers access to top of the range accountancy applications at an affordable price," says Graham Hoggard, operations director at Redwood.

Redwood now offers OpenAccounts, an accounting and Customer Relationship Management package, which has 12 large corporate users. They need an ISDN connection to guarantee the speed needed, but otherwise use ordinary PCs. The service can be set up in 24 hours, after which they can run the software as though it were loaded on their own computer.

Redwood is satisfied with the efficiency of the service. The main benefit since switching to the new system is that it can now provide highly sophisticated software to its customers at a reasonable price.

www.openaccountsonline.com