Independent Assessment
by Alan Radding

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ASP Model Catches a Second Wind
Built-for-the-Web makes the difference

The application service provider (ASP) market has seen tough times. In 2000, USinternetworking (USi) was the poster child for the ASP market and ranked first in IDC's list of top ASPs. Now USi is in the hands of the bankruptcy court. Corio ranked sixth on the IDC list that year. In Nov. 2002, Corio announced a reverse stock split to boost its beleaguered stock price back above the minimum NASAQ threshold of $1 or face de-listing. Similarly, Qwest Cyber.Solutions ranked fifth. Today, that company too is gone, first absorbed into its parent company and then sold to, of all entities, Corio. Others at the top of IDC's ASP class of 2000--Oracle, EDS, IBM--are managing quite well despite the difficult economy, but they don't depend on their ASP operations for survival.

In 2000, Gartner Group, went utterly gaga over the ASP market declaring: "The application service provider (ASP) model has emerged as one of the foremost global IT trends driving phenomenal growth in the delivery of application services. Long term, this new model will have a significant impact on IT service delivery and management… It will become a dramatically different way to deliver application functionality and related services." Today Gartner appears far less enthusiastic. Through November it has made no public pronouncements about ASP market in 2002. In 2001 it released its own top ASP ranking but noted: "The ASP market will be in a constant phase of reinvention for the foreseeable future."

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Yet some ASPs, those doing the reinventing, appear to be thriving or at least are poised to thrive. Salesforce.com (www.salesforce.com) is an all-Web provider of low cost sales force automation and CRM functionality. It figured out how to deliver its functionality over the Web yet still allow customers to continue using the software while disconnected (the Offline Edition option) from the network. In September 2002, it announced its 5000th customer.

Atomz (www.atomz.com), another all-Web ASP, provides content management services via the Internet. In September it reported its second consecutive profitable quarter. For the first three quarters of this year, revenues are up 65%. Again, a sleek built-for-the-Web set of capabilities lets Atomz thrive as an ASP while conventional content management companies are struggling through the economic downturn.

Employease (www.employease.com) provides a human resource and benefits solution that automates administrative tasks and connects HR professionals with employees, managers, and external service providers, such as insurance companies and payroll vendors, and makes it easy for information to flow among all the participants in the HR process. The built-for-the-Web software provides small and midsize companies with access to robust Fortune 500-calibre HR capabilities that had been previously beyond their financial and technical reach. A six-year old company, Employease reports 21 consecutive quarters of revenue growth and will require no additional venture capital.

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So what's different now? Certainly the dismal economy is making anything that immediately cuts IT costs attractive, but there is more. The new generation of ASPs offers sophisticated software built from the ground up for delivery via the Web unlike the first generation, which hosted conventional enterprise applications in the conventional way. "We started with the idea of Internet delivery. That means we built the software to support a large client base on one instance and one database," explains Michael Seckler, Employease cofounder. It also built all the likely customization into the software as configurable options accessible over the Web with the help of software wizards.

The result: ASPs like Employease are able to deliver enterprise-class capabilities for a predictable low, monthly cost ($4-$8 per employee per month). No IT infrastructure to support or maintain, customers just need a simple Web browser. The company even maintains a set of pre-built connections (over 3000 connections) to almost any system a customer would need to connect with, effectively solving any customer integration problem with a click.

Initially the new ASPs are targeting their services to small and midsize enterprises (SME) by offering easy to deploy, flexible solutions at a low, predictable price. This is a lesson that has not been lost on IBM, which recently teamed up with crop of ASPs to offer a set of core applications to midsize enterprises. The applications will be hosted by IBM Global Services at IBM data centers and will be accessible over the Web via a browser. The applications address HR, accounting, and marketing and sales force automation.

Employease is one of the initial ASPs in the IBM program and expects the program to generate big results in the future as part of IBM's on-demand computing initiative. The company is migrating all of its hosting to IBM Global Services as well.

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Intacct (www.intacct.com), another IBM ASP partner, offers core accounting systems such as general ledger and accounts receivable, and special applications (including auditing and consolidation modules) that can scale as a business grows while minimizing the capital outlay.

Similarly, Onyx (www.onyx.com) provides comprehensive marketing and sales force automation solutions for medium businesses. The Onyx solution allows users to share critical information among employees, customers and partners through three role-specific Web services-based portals.

The first generation of ASPs didn't have a chance. They had to license conventional software from established vendors, run separate instances of it for every customer, handle individual customization and integration, and still offer it to the customer at a savings--an impossible undertaking. The new generation of ASPs, however, built their own software expressly for the Web and run it as a single instance for ease and simplicity while delivering rich, flexible functionality.

Will they succeed? They certainly fill a need for small and midsize organizations that want rich enterprise capabilities without the overhead of an IT organization and infrastructure capable of running such applications. The ASP model also works well for niche applications--utility services like content management--that, for most organizations, don't justify its own IT infrastructure. And as long as companies are struggling through a slow economy, the low and predictable ASP prices will be very appealing.

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