The ASP route to improving business efficiency

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Application Service Provider

The ASP Route to Improving Business Efficiency

Although the current downturn suggests that early market predictions about the growth of Application Service Providers, ASPs, in the short term at least, may have been overly optimistic, the concept remains a powerful one. Like many industries before it, the ASP industry has emerged beyond the hype to grapple with real world business issues such as securing finance and attracting custom, challenges compounded by a downturn in the technology sector more generally.

ASPs can deliver flexible and scalable services packages that can meet the needs of companies through different stages of their development.

However, the potential benefits of outsourcing some or all key business applications from an Application Service Provider can be manifold, rendering it a realistic alternative to traditional in-house systems for many businesses. And in spite of difficult market conditions, the number of organisations

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– large as well as SMEs – outsourcing business applications such as data storage, wordprocessing, billing and accounting, from ASPs is continuing to grow. The reasoning behind this is simple: IT and other systems are often costly and time-consuming to implement and maintain in-house, and require a support function. They also often need to be changed or modified as the business grows. Conversely, ASPs can deliver flexible and scalable services packages that can meet the needs of companies through different stages of their development. The following scenario outlines how a typical manufacturing company can arrest business inefficiencies and leverage the benefits offered through the ASP model. It introduces a number of basic service offerings and provides a practical demonstration of the ways in which an ASP can add value to a customer's business.

Business Scenario: Schmidt Industries
Six months ago, Johann Schmidt's business was going through a painful time.

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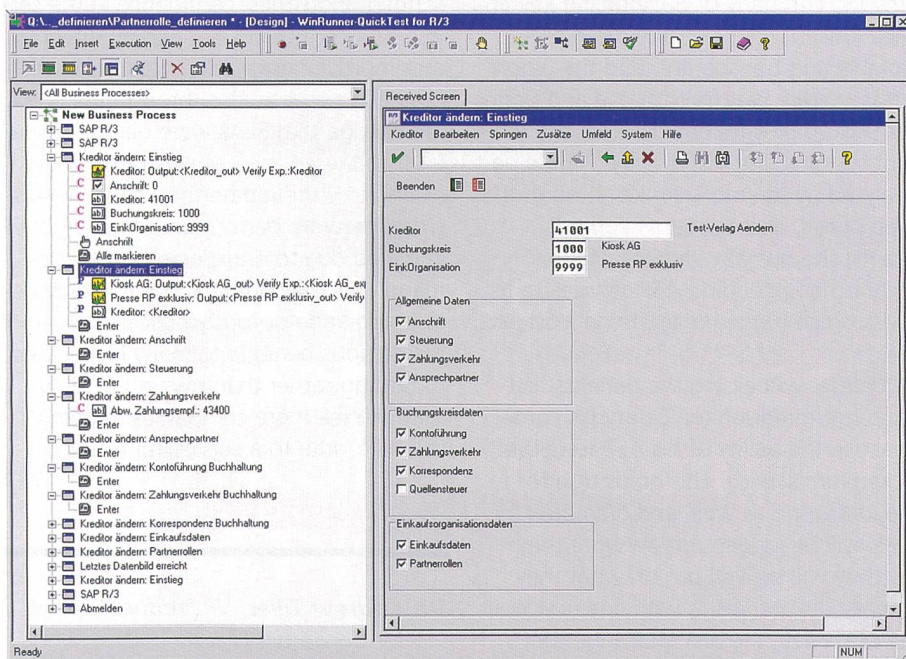
Alphacon Informatik AG

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As a specialist manufacturer of custom-built electronic components, Schmidt Industries was a successful and rapidly growing company. In fact, that was the cause of the trouble – the company's ability to manage its IT systems had not been able to keep up with the influx of new staff and the more formal business processes required now that the company had grown to 150 people.

Things had come to a head, with the lack of systems infrastructure seriously affecting productivity and morale. New staff joining the company would routinely wait several weeks for their PCs to be configured correctly to run all the software applications they needed. Johann Schmidt's beleaguered systems support team was working hard to recruit additional members, but it was proving difficult to find people with skills in all the new software they used – everything from office productivity tools to Human Resources and finance applications.

To make matters worse, the company's sales team was now large enough to need a proper sales force automation system, and it was about time the company made a serious attempt to sell its products and services over the Internet. Johann Schmidt was also concerned that some of his staff might not be licensed to use all the software loaded on their

PCs – it seemed as though everyone had a copy of Microsoft Project which they used very occasionally to look at project plans. The amount of time and money he spent trying to sort out this mess troubled Johann Schmidt greatly. The cost of running the in-house IT department was spiralling out of control, even without accounting for the lost productivity and missed opportunities caused by their inability to get on top of the situation. Worst of all, Johann Schmidt felt he was being seriously distracted from paying attention to the company's core business.

The ASP Solution

Fortunately for Johann Schmidt, all this has now changed, and Schmidt Industries' IT systems are running like clockwork. The situation began to improve when his IT director persuaded Johann Schmidt to sign up with an Application Service Provider for the company's new sales force automation system. The idea was that the application should be hosted entirely at the ASP's data centre, with the ASP taking full responsibility for day-to-day system administration, support and upgrades. Johann Schmidt's sales team could dial in securely to the system from their home offices and hotel rooms, making use of thin-client soft-

ware on their PCs. Back in the office, the sales administrators accessed the system via dedicated SDSL lines with guaranteed bandwidth.

At first, Johann Schmidt was sceptical about the idea of handing over responsibility for such an important application to a third party. However, after a couple of months he began to realise that it was working. Costs were very reasonable and, better still, predictable: Schmidt Industries was charged a fixed monthly fee depending on the number of users. In addition to use of the software, the fee covered data storage and backup, line rental, software upgrades, licences for the PC thin-client software, and a basic Service Level Agreement (SLA). Johann Schmidt paid a little extra for help desk support and a Premium SLA, which guaranteed not only application availability, but also network response times.

When Johann Schmidt realised that he could trust his new partner, he began to consider whether the ASP model could provide a solution to his continuing IT headache in other areas. Within a few months, Schmidt Industries had handed over responsibility for almost its entire systems infrastructure to the ASP, and Johann Schmidt is now a much happier man.

Recently, two new members of staff joined the company. As well as e-mail and office productivity tools, one new recruit to the marketing department had immediate access to Adobe Photoshop and to the direct mail contacts database the morning she arrived. The other new recruit – joining the accounts department – found that his PC gave him secure access to the company's financial systems for payroll and purchase order requests.

One of Johann Schmidt's favourite features is a Web portal, through which he can analyse the way Schmidt Industries staff are using the hosted software applications. He can see which employees used which applications at which times, and for how long. Through this analysis, Johann Schmidt's IT director realised that no more than five copies of Microsoft Project were ever in use at the same time. He was able to save the company money by signing up to a plan allowing up to five concurrent Project sessions – now anyone in the company can use Project perfectly legally.

Half way through Johann Schmidt received e-mail notification from the ASP

that the company would save money by switching to a usage-based rate plan for the Microsoft Office suite. Instead of paying a fixed fee for each user, he could pay a variable daily charge depending on the maximum number of concurrent users on the system that day. Johann Schmidt was able to make the switch immediately, online, and at the end of the month he was presented with a summary on his bill of the actual savings made. Last month's bill even included a rebate for a short period when network performance was slightly impaired due to unexpectedly high demand – no one in Schmidt Industries had even noticed, but it confirmed Johann Schmidt's confidence in his ASP to see that the SLA was clearly being rigorously adhered to. As a valued customer, Johann Schmidt has now managed to negotiate a special deal with his ASP to provide services to the new Schmidt Industries office in Switzerland. The Swiss branch pays its own way, but head office receives discounts on its charges depending on the company's overall spend. With the company's information systems firmly under control, Johann Schmidt and Schmidt Industries are free at last to concentrate on their core business. And now they are growing faster than ever.

From Theory to Practice – Guaranteeing Service Levels

The Schmidt Industries example clearly demonstrates the potential benefits to a growing company of outsourcing key applications. IT costs became more predictable and transparent, and the whole infrastructure was more stable and under control: employees could access the relevant systems, the use of which could be analysed by Johann Schmidt through the Web portal, and discounts earned against the overall company spend meant that extending ASP services to its Swiss office triggered additional cost savings.

Of course, witnessing the benefits first-hand bolstered Johann Schmidt's confidence in the ability of his ASP to deliver a premium service. This holds true for the real world as well, and ultimately ASPs will be judged not on what they say they will deliver, but on what they actually deliver. Yet as with any new market or service, the first challenge they face is to build trust and foster customer confidence in the security and reliability of the services offered. This process will be a key shaper of demand and take-up. This is particularly so when the service in question is, for example, a complete end-to-end IT solution, highlighting the need for customers to secure clear guarantees on reliability, availability, scalability and levels of customer support from its ASP. This is where SLAs come in, to determine "acceptable" levels of service and compensation for periods when these are breached. SLAs should automatically police this and, moreover, be renegotiated on a relatively regular basis.

Schmidt Industries' confidence in the service was confirmed, not just by the obvious improvements in the way the business was run, but also through the knowledge that SLAs were being meticulously adhered to –- as illustrated in the example of the rebate for a short period when network performance was slightly impaired due to unexpectedly high demand. It is the combination of keenly negotiated and rigorously policed SLAs and the obvious benefits to many businesses of renting rather than owning software that will see more companies treading the ASP route to a successful future.

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This article has been written as part of a series of articles for Billing Systems 2002 – the largest and most important event in the European Billing calendar, running from 22nd–25th April 20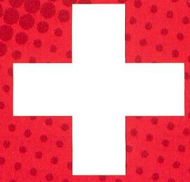02, Earls Court Conference & Exhibition Centre, London. For more information visit: www.iir.co.uk/billing Convergys is a Gold sponsor and exhibitor at Billing Systems 2002.

Zusammenfassung

ASP zur Verbesserung der Wirtschaftlichkeit

Obwohl der gegenwärtige Abwärtstrend darauf schliessen lässt, dass frühe Marktprognosen für das Wachstum von ASPs (Application Service Providers) zumindest kurzfristig zu optimistisch waren, bleibt das Konzept interessant. Wie viele Industriezweige vor ihr, ist die ASP-Industrie jenseits des Rummels darüber entstanden, sich mit realen geschäftlichen Themen herumschlagen zu müssen, wie beispielsweise Finanzen sichern und Kunden anziehen – Herausforderungen, die durch einen Abschwung im Technologiesektor im Allgemeinen verstärkt wurden. Die möglichen Vorteile der Auslagerung einiger oder aller wichtigen Geschäftsanwendungen von einem Application Service Provider können jedoch vielfältig sein. Für viele Unternehmen können sie zu einer realistischen Alternative zu herkömmlichen, hausinternen Systemen werden. Trotz schwieriger Marktlage steigt die Anzahl der Organisationen weiter, die geschäftliche Anwendungen, wie Datenspeicherung, Textverarbeitung, Rechnungsstellung und Buchhaltung zu ASPs auslagern. Die Begründung hierfür ist einfach: Die Implementierung und die hausinterne Wartung von IT-Systemen ist häufig kostspielig und zeitraubend. Oft müssen sie auch gewechselt oder modifiziert werden, wenn das Unternehmen wächst. Umgekehrt können ASPs flexible und skalierbare Service-Pakete liefern, welche die Bedürfnisse von Unternehmen durch unterschiedliche Phasen ihrer Entwicklung hindurch befriedigen können.