



The ASP explosion

Application Software Providers are helping businesses eliminate the risk, time and hidden costs of integrating and managing their procurement processes.

Specialty chemical manufacturer Rohm and Haas has been one of the world's top chemical companies for the past ninety years. The \$6.5 billion business, whose chemistry is found in everything from paint to personal computers, wanted to stay that way. But, in order to do so, it needed to find a way to automate and integrate its business processes, including procurement. With almost 150 manufacturing and research locations and 20,000 employees, Rohm and Haas knew that hosting its own procurement solution internally would be a messy proposition, and preposterously costly.

The answer? Application Service Provider USinternetworking (USi). With USi's eProcurement solution, powered by Ariba's B2B Commerce Platform, Rohm and Haas didn't have to dole out a huge amount of capital up front. The company got a speedy

return on investment, complete integration between front and back office applications, predictable fees, and instant scalability – all for a flat monthly fee.

"USi fills the role of an external consultant," says Jeffrey Heller, procurement process manager at Rohm and Haas. "They have experience. They led us through the implementation process. They keep us from going too far astray. They help us negotiate with our suppliers. They take our data and make it compatible with Ariba. Best of all, it's their baby – they take care of it and feed it when it wakes up at two in the morning."

The ASP advantage

In today's high velocity business climate, the ASP model makes perfect sense. ASPs host software applications that customers access over the web, saving them the costs and hassle of owning and managing tech-

by [Nora Isaacs](#)

nology. Rather than haphazardly patching applications together, shelling out costly implementation fees, hiring an internal IT team, and facing incompatible and unscalable solutions, businesses now can turn to companies like USi to host and operate their applications.

The beauty of the ASP is that it allows customers to focus on their core competencies rather than getting bogged down with things like figuring out a new upgrade or implementing a new system into the existing infrastructure. In addition to taking care of these complexities, the leading ASPs offer ongoing service to keep the technology working from the start. With a pay-as-you-go approach, companies avoid investing in huge capital that may turn out to be a bad business decision a few years down the road.

Explosive growth

With all of these advantages, it's no wonder that the ASP market is experiencing explosive growth. According to Dataquest, Inc., a unit of Gartner Group, Inc., it is forecast to grow from \$1 billion in 1999 to more than \$25.3 billion by 2004.

"The ASP market represents a major computing revolution with the power to dramatically redraw today's IT ecosystem based on the delivery of application services over a network," says Ben Pring, principal analyst for Dataquest's Application Services Worldwide program.

In today's business alphabet soup, ASPs and B2B go hand in hand. Ariba customers who want to minimize their up-front IT investment in eCommerce can turn to Ariba's ASP partners for an easy and financially savvy way to access Ariba's B2B eCommerce Solution in a hosted environment.

Since the term became a hot industry buzzword over the past 12 months, all sorts of companies have jumped on the bandwagon to call themselves ASPs. While it may be a good term to snag funding, it's become quite overused. It is important to note that we are talking here about enterprise ASPs, which implement, host, and maintain enterprise applications. This segment is growing rapidly, according to Dave Boulanger, service director of enterprise management at Boston's AMR Research. Boulanger notes that in January 2000, the enterprise ASP space consisted of 180 players with \$360 million in revenue. Now, he

an environment that says 'I'll host anybody' to pinpointing areas where they have expertise," says Boulanger.

USinternetworking, an Annapolis, Md.-based company, has defined the role of ASPs in today's market. The company, which provides implementation, application, network and platform and ongoing support, says its expertise lies in its ability to provide the highest level of customer support.

The groundbreaking ASP was started when Chris McLeary, the former CEO of website management company Digex, noticed that many of his clients faced major problems when trying to update or scale software. Since no one else in the burgeoning industry was addressing these problems, he decided to start a company that would. USi is now an industry leader, with 34 to 36 percent market share, and a broad portfolio of partners, including fifteen Fortune 100 companies.

USi shuns the "pass the buck"

"It's their baby – they take care of it and feed it when it wakes up at two in the morning."

–Jeffrey Heller, procurement process manager, Rohm and Haas

says there are between about 400 and 500 enterprise ASPs with from \$800 million to \$1 billion in revenue.

Taking responsibility

Industry analysts say that with so many ASP companies joining the fray, each is scrambling to differentiate themselves from the pack.

"Each of these ASPs is going from

mentality that plagues much of today's mercurial world of mergers, acquisitions and strategic partnerships.

"We offer a total responsibility solution," says Chris Walker, director of corporate communications at USi. "If any of our clients has a problem of any kind related to the breadth of our service offerings –



Operating on a “plug and play” solution, QC.S tailors the infrastructure, business systems, and service for each stage of a company’s IT life cycle.

from support to hardware, to security to data center, to applications to storage problem – we consolidate all of those elements into our solution. We have total control over those elements, respond quickly because we don’t farm out parts of our business to other partners.” Indeed, rather than renting space, USi owns its own data centers, allowing it to essentially take responsibility for service every step along the way.

For Rohm and Haas, USi implemented the solution quickly, with integration tools allowing legacy systems to run smoothly along all applications and departments, partners and suppliers, and front and back offices. They also integrated the Ariba application with extended features from USi, including eBusiness strategy services, supplier readiness, and ongoing life cycle support. Now, Rohm and Haas can electronically aggregate corporate purchasing from employees’ desktops, and direct spending to preferred suppliers and B2B marketplaces, which results in higher-volume pricing and a more streamlined procurement process.

“The market for Ariba’s platform under the ASP model is just ripe to take off,” says Laura Crandon, USi’s senior director of eProcurement products. “We are making software simple and delivering the software as a service.”

This is a crucial element for companies like Rohm and Haas, which

need security and confidence for the large amount of sensitive data involved. “When you are dealing with clients of this caliber,” says Walker, “if you can’t offer this architecture and the total responsibility solution, you are not going to be able to come to the table.”

Magic for the mid-market

While the ASP model works well for large companies like Rohm and Haas, with its 150 manufacturing and research sites in 25 countries worldwide, ASP players are working another angle – approaching mid-level companies with less time and money to burn.

“The market is getting pretty competitive; everyone needs to focus on business issues,” says Jay Chaudhry, CEO of Atlanta, Ga.-based CoreHarbor. “If the technology issues can be handed over to someone else, it makes sense. This is more attractive to mid-tier companies who have very thin IT resources.”

CoreHarbor focuses on companies in the \$100 million to \$1 billion range, and is solely focused on Ariba as a service offering. Chaudhry, who was with VeriSign before signing onto CoreHarbor, investigated the B2B eCommerce marketplace when thinking about his next venture.

“I looked at everything from procurement to B2B marketplaces,” he said. “The mid-market was open. I went to Ariba and said ‘eProcurement

is hot. Who needs ASP models better than mid-tier companies?’”

According to the research, mid-size companies could really use the help. Boston’s Aberdeen Group says that while early adopters of traditional eProcurement have realized a reduction of from 5 to 10 percent in materials prices, shortened transaction cycles, lowered administrative costs and improved inventory, it costs them about \$1.4 million and takes about 13 months to implement. This kind of time and money commitment just isn’t an option for most mid-tier firms who don’t want to spend huge amounts of licensing fees or hang onto an IT staff.

CoreHarbor’s rapid deployment and management of ready-to-go hosted eCommerce solutions including eProcurement, eMarketplaces, and eAuctions, gives the littler guy a better chance at winning the game.

Keeping that vision, CoreHarbor’s singular eCommerce focus delivers the Ariba B2B Commerce Platform, including a secure infrastructure, ongoing management and support, and expertise for eBusiness and technology implementation. Recently, the company announced that it will become the first ASP to host on-line auctions with Ariba Dynamic Trade, and two-way wireless technology with Ariba Buyer, ASP Edition.

“Ariba is selling solutions in large markets. We are their extension for

marketing, sales, implementation, and hosting in the mid-tier market,” says Chaudhry.

Lexington, Mass.-based Surebridge, Inc. is also focused on mid-markets, but with a twist. With its core competency in ERP and CRM, Surebridge helps mid-market companies minimize their up-front IT investment in eCommerce and take advantage of Ariba’s B2B eCommerce functionality. Using the Ariba Buyer Edition application hosted at Surebridge, customers get product development, application implementation, management services, and

cooperative sales and marketing.

“In addition to providing Ariba applications in an affordable and time-saving manner, we ensure the quality and flexibility of the solution by delivering application management services for the life of the customer relationship,” says Pradeep Khurana, founder and chairman of Surebridge.

Looking vertically

Some ASPs are also differentiating themselves by honing in on value-added services and vertical markets.

“The real issue ... is that each of

these ASPs is trying to find a vertical target and a set of service partners to provide application expertise,” says Boulanger. “It’s a real rush to say, ‘I will provide a high value-added service.’ The days are gone when you implement a general PeopleSoft application. The market has been segmented thinly.”

Agilera is an Englewood, Colo.-based ASP company that sees itself as a pure-play ASP serving vertical markets.

“We want to engage with clients within vertical industries; it doesn’t matter if it’s eProcurement or CRM,”

eOnline Certified to Host Ariba Solutions

Company is one of only four ASPs certified to host Ariba Marketplace

Another ASP that is garnering industry attention is eOnline, Inc. The Cupertino, Calif.-based company serves enterprises of all sizes through its three data centers – two located in Phoenix, Ariz., and one in Dallas. The company targets vertical markets across various industries, including aerospace, pharmaceuticals, retail, telecommunications, and utilities, to name a few.

According to the Aberdeen Group, eOnline has broken away from the pack of companies that view the role of the ASP as solely a middle-market solution geared to small- to middle-sized companies, and developed product and service provisions that meet the needs of businesses from market-leading eBusinesses to mature, global corporations.

Hosting Alliance Partner

In July, 2000, eOnline became an Ariba Hosting Alliance Provider, giving the company the ability to resell and host Ariba Buyer, ASP Edition, with access to Ariba Commerce Services Network. eOnline is a certified

Ariba Education Provider, and offers training to Ariba customers on a monthly basis in one of its state-of-the-art training facilities.

In November, eOnline received certification to host and manage Ariba Marketplace and Ariba Dynamic Trade solutions. Currently, only four application service providers are certified to host Ariba Marketplace.

“eOnline’s customer-centric, customer-focused approach will allow fast, expert implementation of Ariba applications that allow customers to enjoy a rapid return on investment,” said Adrian Ionel, chairman, CEO and president of eOnline. “The addition of Ariba Marketplace and Ariba Dynamic Trade is representative of eOnline’s commitment to offering customers tailored eBusiness solutions.”

“We are very excited to be one of only four ASPs certified to host Ariba Marketplace,” says Melissa DiDonato, vice president of services marketing at eOnline. “With this strategic offering, we are able to gain momentum in driving marketplace solutions through customers’ intranet and Internet, using our custom eBusiness technology platform. Ariba Marketplace is a very important addition to our portfolio of services.”

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says Eric Murphy, executive vice president of corporate development at Agilera. “It enables us to develop a solution set through partners like Ariba, and integrate applications, so it’s a more comprehensive solution.”

In terms of these value-added services, Agilera plans to stretch the boundaries of the current ASP business model. Murphy explains that one can extend core applications of HR information systems into business process outsourcing or payroll administration.

“This clearly leads to more of a B2B value-added service, extending customers’ value proposition into their customer base.” He points to business intelligence as another way to extend the ASP model. “While today’s customers have tremendous amounts of information available at their fingertips, those assets are not always leveraged,” says Murphy. Looking forward, he sees ASPs being able to organize and use those assets to their customers’ competitive advantage. “We want to unleash that data and turn it into some tangible value for the client,” he says.

Security and service

Another company that experts say is here to stay is Qwest Cyber.Solutions (QC.S), Denver, Colo. The ASP stresses two things – security and service (See *Five Steps to Securing Your ASP* on page 38). Using an Internet Protocol (IP) net-

work, the company ensures security from the desktop to the data center. Operating on a “plug and play” solution, QC.S tailors the infrastructure, business systems, and service for each stage of a company’s IT life cycle.

“We partner with a select group of best-of-breed software vendors such as Ariba, to offer customers world class ASP services that strategically position them for today’s competitive market,” says David Vane Castle, senior director of corporate marketing, QC.S. “The Ariba B2B platform delivered in our ASP environment benefits customers with secure, reliable and scalable solutions that can provide significant efficiencies in the new economy.”

The future of ASPs

But, despite all of the lofty predictions, impressive business plans, and hefty amounts of funding, ASPs still have a lot to prove. Amid the hubbub, customers and revenue still remain elusive for many players. A shakedown is inevitable.

“There will be few viable vendors, the vendors will be different, the offerings will be different, and then we fully expect that the term ‘ASP’ will no longer be used to describe these vendors,” says Gartner Group’s Audrey Apfel.


According to the Gartner Group, by 2004, only 20 of the current 480 ASPs will remain as enterprise-class,

full-service retail ASPs, and fewer than 100 will offer successful point and product solutions – sharing what will grow into a \$25.3 billion industry in 2004.

In whatever form, however, the ASP model is here to stay.

“Within three to five years, the ASP phenomenon will be worldwide, and we may indeed see the day when the idea of developing key enterprise applications in-house is the exception, rather than the rule,” predicts the Internet Research Group, Los Altos, Calif., in its report *Application Service Providers: Market Overview*.

Companies like USi, CoreHarbor, and others are working with Ariba to define and refine the definition of the ASP model. Meanwhile, Ariba plans to continue evaluating and targeting companies that have some value to add to the Ariba package.

“Whether that’s industry knowledge, a vertical expertise that we want to take advantage of, or some sort of technology that allows an ASP to bundle our offering with another vendor,” says Jerry Wittman, district manager, Ariba ASP Channel Partner Program, “we’re convinced that it’s a market that’s poised for explosive growth.” 

Nora Isaacs is a San Francisco-based freelance writer. Nora has written for Red Herring, Wired News, Infoworld and CNET, and is a contributing editor at Upside Magazine.

Five Steps to Securing Your ASP

Before turning your business-critical data over to an application service provider, be sure your own security policy is firmly in place. by Deval Shah

If your company is considering partnering with an ASP – which means that increasing amounts of your data and middleware will reside with your provider – your due diligence should include not only a review of the ASP’s security policy, but a thorough examination of your company’s own data security policy.

In many organizations, it is the security professional who dictates the security policy. This is a common mistake: An organization’s security policy should be derived from its business objectives and business functions. A security professional would use this policy statement to implement appropriate safeguards (whether operational or technical in nature). A good policy should also empower the organization to take action in case of an emergency. Most important, an effective policy should contain

adequate enforcement provisions.

What to ask

Before entering into an agreement with an ASP, there are five basic questions to ask:

1. How effective is the security policy?

Ask to see the organization’s security policy and have your legal department evaluate it. Also evaluate the ASP’s ability to enforce the policy evenly; a policy that is not evenly enforced is not effective. This can be key in security incidents involving ASP employees.

2. How reliable is the network?

This may sound like an obvious question, but the answer is not always clear. It is your responsibility to gain a clear understanding of the ASP’s network reliability. Good network reliability can mean one thing to you, and something totally different to someone else. If you are

considering an ASP, chances are you want your application up and running on a 24/7 basis. You want to make sure that the network is protected from unnecessary downtime, whether accidental or intentional.

The network design should have enough redundancy built in so that there isn’t a single point of failure. A good network design also should have redundant connections to the Internet via different ISPs, ensuring that the network will remain up and running in the event of one ISP’s failure. You also want to make sure that proper backup and restore procedures are in place and tested frequently.

Minimizing downtime in an emergency is also a critical issue. Many organizations are now putting S.W.A.T. teams in place to handle emergency situations, and bring crashed systems online as quickly and efficiently as possible.

3. How will my information be secured while in transit?

Securing information is a daunting task. Which technology and safeguards should be used to secure information is entirely dependent on where the information is located.

First, make sure that the network path from your network to the ASP is secure.

There are two ways to secure your network path: dedicated leased lines and Virtual Private Networks (VPNs). Dedicated leased lines are more secure than VPNs, but also more costly. VPNs work on the premise that two parties can exchange data securely over a public network. This is where it gets more complicated: What is securing the data being exchanged? And can the other party be trusted?

VPNs utilize the benefits of many different technologies: cryptogra-

phy, PKI, firewalls, and digital signatures to name a few.

4. How does the ASP secure the information while it resides on the server?

Data residing on the server is vulnerable to intruders, unless it is properly protected via firewalls, which act as network security guards, and are placed on the border where two networks of differing trust levels meet. The firewall configuration – derived from the security policy that the ASP has in place – is used to determine what traffic to allow and what to disallow.

But, the most secure firewall won't protect your information if the ASP has inadequate physical security. Is your information going to be protected like the gold at Fort Knox, or


does the ASP's physical security remind you of the guard at the local department store?

Not all of the threats to your information are from outside intruders. Statistics show that the majority of attacks originate internally. Attacks could also originate from the ASP's other customers or employees. Most ASPs will host multiple customers on a single system. Does your service provider have documented controls in place to show separation of data and information between customers?

5. What is the experience level of the staff?

Make sure that the ASP's hiring standards are on par with those of your own organization. Does the ASP perform background checks on

prospective employees? How many years of security experience does the staff have? You should ask to speak with a few of the security professionals at the ASP to gauge their experience. Ask to review the engineers' resumes, and determine their level of education and experience.

An ASP that takes its role seriously knows that security is not a checklist, but a process. At the end of the day, the security of an organization is only as strong as its weakest link. So before you sign on the bottom line, make sure that you have reviewed and understand the safeguards that your ASP has in place. 

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