



NETWORKNEWS

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Why renting applications is all the rage

Matt Chapman, Network News - 6 June 2001

The change from holding applications locally to accessing them over a network will have a profound impact upon company infrastructures. The number of servers that businesses use may be dramatically reduced, with information held externally. Also, firms will no longer have to recruit employees who specialise in applications and should be able to cut overall the number of IT staff that they employ.

The latest business byword to hit networking is about providing applications over the network - essentially viewing the network as the computer - and its echo is spreading far and wide.

Market researcher Ovum has predicted the application service provider (ASP) market in western Europe will soar in the next five years, from an estimated \$180m (£112m) in 1999 to more than \$8bn by 2004.

Such estimates are driving companies that don't have a presence in this market to move into this sector, to ensure they are there when the expected profits start to roll in. PC supplier Dell Computer recently launched a hosting business, and was quick to point out it had one eye firmly on the ASP market.

Founder and chief executive Michael Dell says: "To succeed we need to be in the hosting market, and we're also looking at the ASP market, although hosting is the first step."

Similarly, when Novell issued a profit warning earlier this year, it blamed the usual sources such as Windows 2000 and Linux penetration, but also admitted that it has a weak presence in the ASP market where many of its resellers were focusing. The company said it is realigning its sales and marketing efforts to push net-based networking services, but that this transition would take at least the remainder of this year to complete.



Moulding the ASP model

Those companies that already have an ASP presence are finding the need to change their marketing. TDS is opening up its ASP model to resellers rather than using a direct sales force to spearhead its drive in the UK.

Tim Foxlow, managing director at TDS UK, said the firm is consulting resellers and enterprise resource planning resellers to ensure it is the first "true ASP" to market. "We have to move quickly with this model. Application service provision is going to evolve as we move through. Working with resellers is the best way to move forward," he says.

The model for traditional service providers is also changing, as the increase in bandwidth creates a change in billing practices. "Service providers traditionally sold bandwidth using the subscriber model. But with the advent of services like ADSL [asymmetric digital subscriber line], the amount of time people are online brings in less revenue, and the price has been brought down," says Susan Barbier, Lucent's director of offer realisation for voice over IP. This would lead service providers into the ASP market, she adds.

Many companies that are looking to provide ASP services - as with many technologies and services for ecommerce - are targeting small and medium-sized enterprises (SMEs). Joseph Reger, Fujitsu Siemens vice president of strategic marketing, says: "There are many more SMEs in Europe than there are in the US and other countries. The ASP model appeals to them as often they do not have any IT infrastructure at all."

According to reports from analyst IDC, small businesses will embrace such services because vendors provide them with access to software that may have been too expensive for them in the past.

The main advantage for a business using an ASP is to save money. Olivier Suard, head of billing software at Lucent, says: "There will be some applications that you use only every six months and so it makes sense. Also, if you can outsource infrastructure you won't need so much real estate."



Addressing staff shortages

There have also been suggestions that the move into ASPs will help solve the staff shortage that many companies face. "People used to make 10-year investments in technology," says Alan Roach, vice president of NetworkCare at Lucent. "They could then train their own staff to troubleshoot application problems, but this is no longer the case." Accessing services and IT staff will have a big impact on the speed with which companies can get their businesses to market, he adds.

Lucent's Barbier says that companies renting applications will look to ASPs to provide expertise on offered programs. "Application service provision is all about knowing the application inside out and being able to provide customisation," she says.

It won't all be plain sailing for companies heading into the ASP market, and they have a number of barriers to overcome if they are to win over businesses. Kneko Burney, an analyst at Cahners In-Stat, warned that ASP startups will have a tough time marketing to small businesses because of a lack of brand awareness. "The term ASP is unfamiliar to small companies today and this puts providers at a huge disadvantage," she says. ASPs should team up with telcos to sell their services because small businesses trust their carriers, particularly their local operators, she adds.

The uptake of ASP services may also be hindered by the poor speed and lack of security on the net. "The internet suffers from low security and a long wait because of traffic speeds, and these are all barriers to ASPs," says Niculae Cantuniar, vice president of service provider Aduronet.

Network managers may feel that their company's data is secure on a LAN, Wan or metropolitan-area network, but with ASPs this vital information would be going back and forth between the provider and the enterprise. "Part of the challenge for ASPs will be to build systems that will be secure," says Barbier.



However, for all the strategy changes and interest generated by the market, IDC says that ASPs will remain a tiny part of total IT spending. The analyst predicts that the global ASP market will be worth \$7.5bn by 2004, but will account for less than one per cent of total IT industry spend.