

# Bulletin

## **The ASPs' Impact on the IT Industry: An IDC-Wide Opinion**

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### **IDC Opinion**

*How will application service providers (ASPs) impact the business models of hardware, software, services, and communications vendors?*

The rise of new ASPs is having a disruptive effect on established relations within the IT industry, and many companies are scrambling to determine where and how they will play in the emerging market. Network economics and service subscription models threaten traditional software licensing revenue, change service and vendor value propositions, put the spotlight on service providers, alter the balance of power in the channel, and cause everyone to rethink key questions, such as the following: Who is my customer? With whom do I partner? How do I go to market now?

IDC believes the first step toward answering these questions is to understand the new landscape forming around the ASP delivery model and the dynamics that will drive both competition and cooperation. In an effort to enhance industry discussion and company planning efforts, this bulletin surveys the field, offers succinct definitions, identifies major trends and issues, and highlights the implications for software and hardware vendors, services firms, communications companies, and channels partners.

## Introduction

Two years ago, IDC began gauging buyer interest in a new application delivery model whereby buyers would “rent” access to the most popular enterprise applications. Under this model, a vendor would package applications and related services for delivery over networks to speed implementation and minimize the expense and risk associated with the entire application life cycle. We believed this delivery model would result in a new breed of vendor, called the application service provider.

Early research confirmed interest in the ASP concept, not just in small to midsize companies but in large companies as well. Since then, the concept has become a reality. IDC forecasts that worldwide spending on ASP services for enterprise applications will reach \$2 billion by 2003. Based on preliminary estimates, we believe the full range of collaborative and productivity applications will bring the entire ASP market opportunity to approximately \$4.5 billion by 2003. However, accuracy will depend on several developing market factors that IDC is monitoring closely, including the success of early deployments and evolving vendor strategies. IDC will also review this estimate in early 2000 when we receive the results of IDC’s annual global IT study of IT spending and strategies, which this year features coverage of ASP adoption.

With a multibillion market on the horizon, leading information technology vendors — whether application, services, telecommunications, storage, systems, or network vendors — are rapidly developing ASP market-entry strategies. However, IT vendors may not recognize the depth of the ASPs’ impact on their industry segments. IDC believes the ASP model will function like a “disruptive innovation,” threatening to encroach upon and displace existing ways of doing business for all sorts of IT vendors.

In his book titled *The Innovator’s Dilemma*, Clayton Christensen speaks of disruptive innovations as relatively straightforward in that

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they generally package and deliver known technologies or solutions in a unique way that proves to be simpler for end users than prior approaches. According to Christensen, history shows that disruptive technologies have introduced changes that eventually have “toppled the industry’s leaders.”<sup>1</sup> The ASP has the potential to topple some industry leaders if they are not cognizant of its effect. Behind the ASP’s simple value proposition for customers is a complex business model. The ASP model calls for numerous vendors, partnerships, and alliances to put all the pieces together. These solutions partners need to converge on new pricing models, risk- and revenue-sharing agreements, service-level guarantees, and customer responsibilities, to name just a few leading issues. Despite early market enthusiasm, the difficulties are significant, market acceptance is still uncertain, and the winners and losers have yet to be determined.

To help the IT community take advantage of the emerging ASP opportunity, IDC has taken a leading role in ASP market research. This bulletin draws upon the expertise of our analysts, who follow the market from a wide range of perspectives to provide an overall definition for ASPs and a segmentation based on application scope and type. We outline the competencies of a typical ASP and discuss the impact of the ASP business model on the customer base, partnership strategies, and sales/marketing efforts of IT software, hardware, services, communications, and channel vendors.

IDC offers this assessment of the ASP market opportunity to market participants and welcomes the reuse of the content in accordance with IDC’s terms and conditions, as noted at the bottom of the second page of this document.

### **What Is an ASP?**

ASPs provide a contractual service offering to deploy, host, manage, and rent access to an application from a centrally managed facility. ASPs are responsible for either directly or indirectly providing all the specific activities and expertise aimed at managing a software application or set of applications.

The defining characteristics of an ASP are:

- **Application centric.** ASPs provide access to, and management of, an application that is commercially available. This service is different from business process outsourcing (BPO), for instance, where the outsourcing contract encompasses the management of entire business processes such as human resources or finance. It is also different from basic hosting services, where the focus of the service is management of the network and servers, with minimal applications management.
- **“Selling” application access.** ASP services offer customers access to a new application environment without making up-front investments in the application licenses, servers, people,

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<sup>1</sup> Christensen, Clayton M. *The Innovator’s Dilemma*. Boston: Harvard Business School Press, 1997, page 15.

and other resources. The ASP either owns the software or has a contractual agreement with the software vendor to license access to the software. In contrast, under traditional applications management (AM) services, the customer already has acquired and deployed the application environment; the AM outsourcer takes over application management, sometimes bringing it into its own data center. However, both AMs and ASPs do fall under the broader category IDC refers to as application outsourcing. IDC also does not consider traditional Web-hosting services to be ASP services. Under typical hosting contracts, the service provider sells (or resells) the application license to the customer on a one-to-one basis. In the ASP model, the service provider rents access to the application on a shared basis.

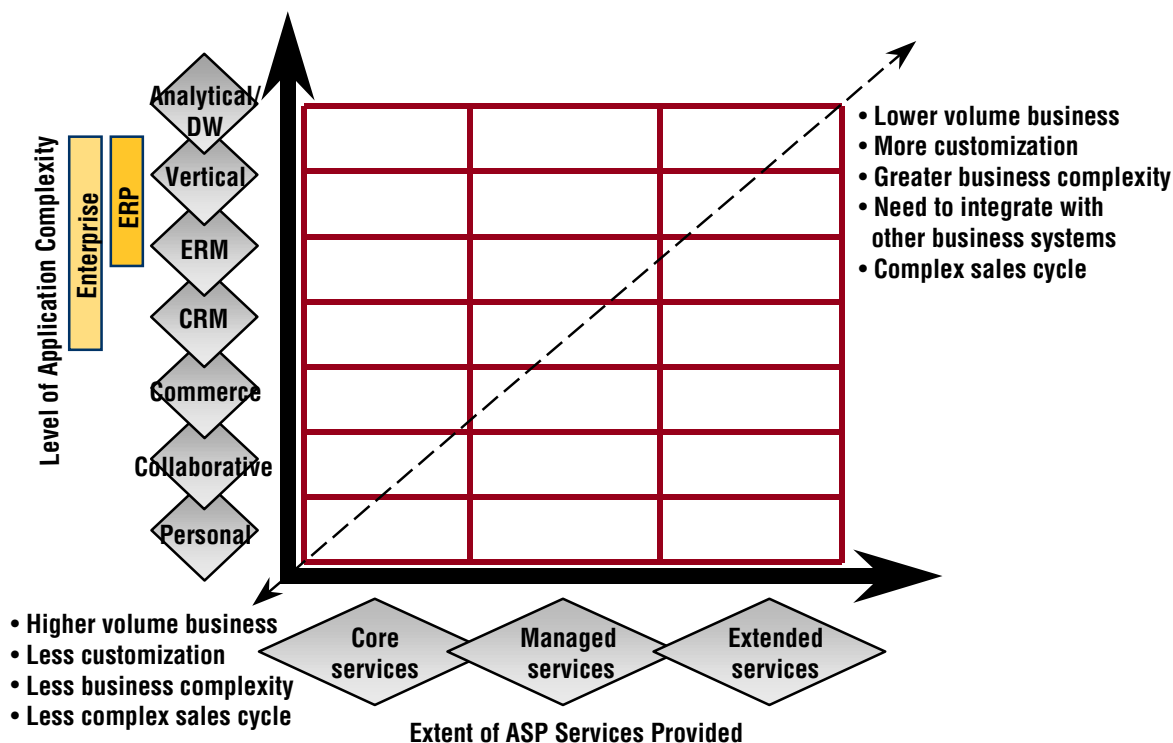
- **Centrally managed.** ASP services are managed from a central location rather than at each customer's site. Customers access applications remotely, such as over the Internet or via leased lines.
- **One-to-many service.** ASP services are designed to be one-to-many offerings. The ASP partners with other vendors to package standardized offerings (providing for minimal or no customization) that many companies will subscribe to over a specific contract period. Conversely, IS outsourcing, application management services, and traditional hosting, are one-to-one, with each solution deployed to meet the unique needs of the client organization.
- **Delivering on the contract.** The ASP is the firm that is responsible, in the customer's eyes, for delivering on the customer contract, ensuring that the application service is provided as promised. ASP services will often involve several partners. If a problem arises, however, it is the ASP that is responsible for closing the loop on the trouble ticket, even if the ASP works with other companies to provide the actual support.

## The Many Types of ASPs

There will be as many ASPs as there are combinations of applications and service offerings. Even if two ASPs offer the same set of applications, there are many other ways in which they might differ, including the type and level of business expertise they offer, the SLAs they provide, the systems on which they run, the global reach of their business and IT infrastructure, and what IDC calls the RASAbilities: reliability, availability, scalability, and affordability.

Sorting through the variables to develop a service offering can be overwhelming. However, a simple market model can help structure what may otherwise seem an increasingly unwieldy array of choices and promises (see Figure 1). The various types of ASPs can be considered in terms of the applications they offer (the y axis) and the services they provide around the deployment and management of these applications (the x axis).

**Figure 1**  
**The ASP Market Landscape**



Source: International Data Corporation, 1999

***Understanding the Available Applications (Y axis)***

Applications available through the ASP delivery model can be placed along a continuum based on IDC's Applications Market Taxonomy, which is used to segment and measure the global applications market. Most popular applications fall into one of the following categories ranging from the complex to the simple:

- **Analytic applications.** These applications include any application built to analyze a business problem (e.g., financial analysis, customer churn analysis, Web site analysis, and risk analysis).
- **Vertical applications.** These applications include any industry-specific application, such as MRP in the manufacturing industry, patient billing in the healthcare industry, and claims processing in the insurance industry.
- **ERM applications.** These applications include accounting, human resources, materials management, and facilities management.

- **CRM applications.** These applications include segments such as sales force automation, customer service, and marketing applications.
- **Collaborative applications.** These applications include groupware, email, and conferencing applications.
- **Personal applications.** These applications include office suites such as Microsoft Office and consumer applications (e.g., games, home productivity, and “edutainment”).

### ***Understanding the Available Services (X axis)***

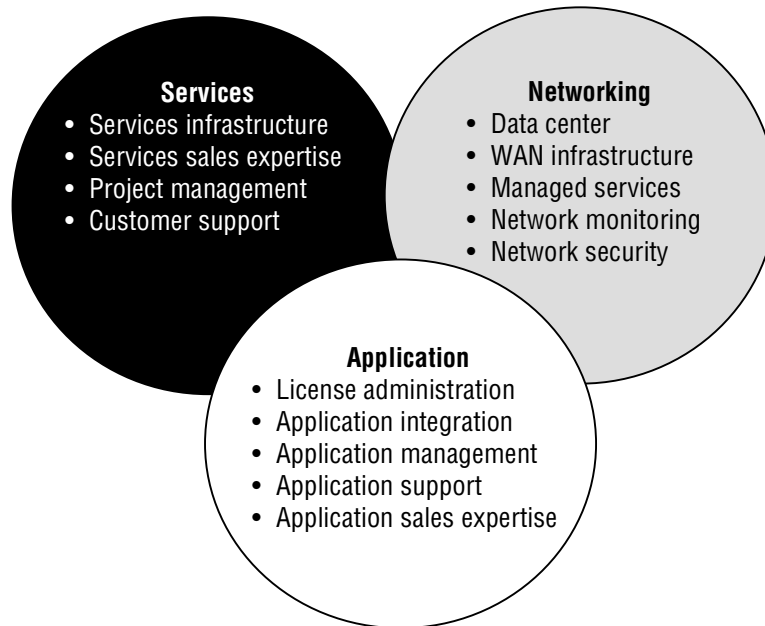
The extent of services that an ASP delivers as part of its offering can also be plotted along a continuum ranging from simple to complex. Because the ASP market is still emerging, this model is predictive. Most ASP service offerings are expected to fall into one of the following categories:

- **Core services.** These services include the foundation services that an ASP needs to provide in order to manage the application environment and provide a base level of customer satisfaction. These services would include services such as application updates and upgrades, 7 x 24 x 365 monitoring of the application, network, and servers on which the applications run, and basic customer support.
- **Managed services.** These services include all of the core services, plus additional services and guarantees around support, security, application performance, and data redundancy. They would include services such as SLAs around application performance and data security, dedicated technical support personnel, and daily backup of the application and its data.
- **Extended services.** These services include all the managed services, plus additional professional services. Although the extended ASP services begin to border on a custom-delivery model, they are still delivered in the context of the ASP one-to-many model. Extended services include services such as application configuration and extension, strategy and planning, and training and educational support.

### **Competencies Required of an ASP**

ASPs require a broad range of competencies, including skills and expertise from the services, networking, and application worlds. Figure 2 illustrates the various skill sets required by those firms seeking to be an ASP.

**Figure 2**  
**ASP Required Skill Sets**



Source: International Data Corporation, 1999

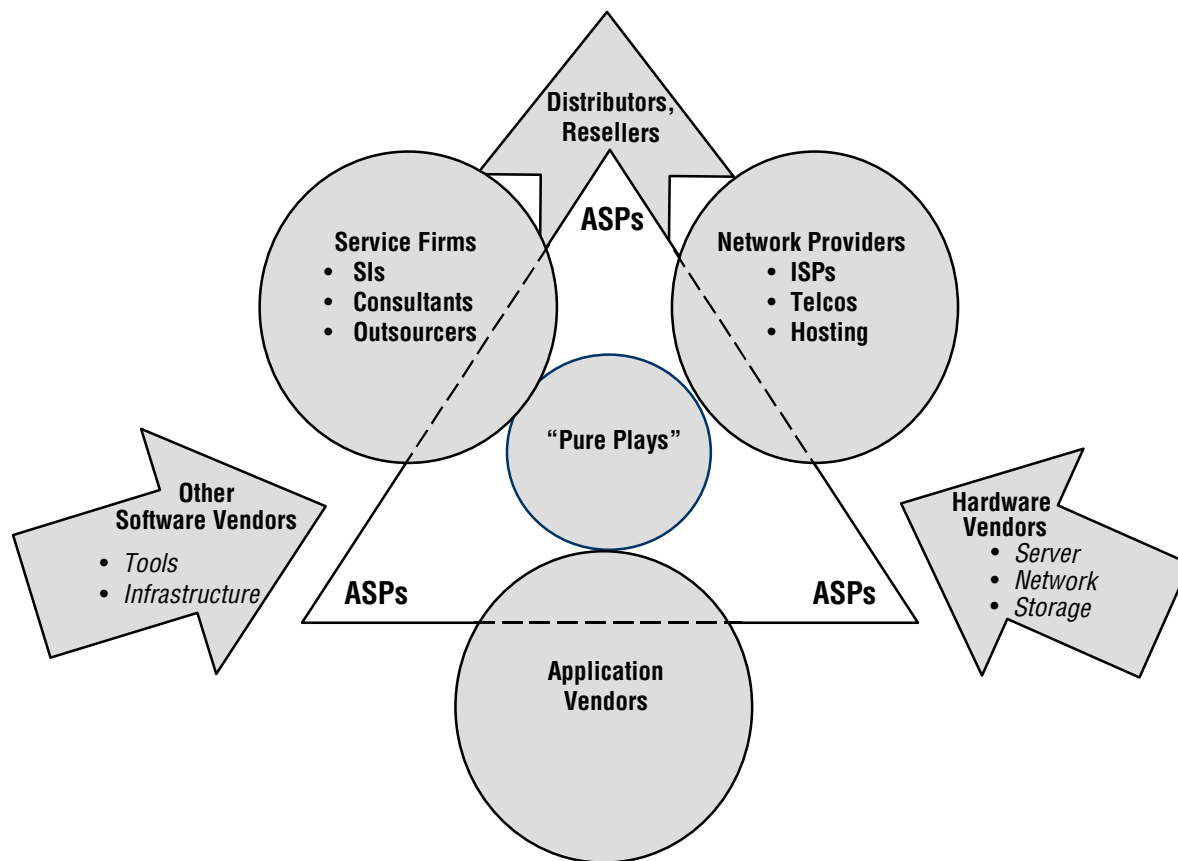
### **ASP Market Players**

Because of the various skill sets required to be an ASP (e.g., networking, services, applications), IDC has seen a variety of IT vendors expressing interest in the ASP market. Some of these vendors seek to be the ASP, in which they are responsible for delivering the ASP services. Others seek to partner with the ASPs by providing the ASP with the components needed to deliver their services, be it the data center, wide area network, applications, or systems integration services.

Figure 3 illustrates the various roles that IT vendors are expected to take with respect to the ASP market. If the ASP market space can be represented by the triangle, the application, network, and service vendors are represented in the circles. Note the subtleties of the figure. Some of the companies in the larger circle are expected to participate in the ASP market as ASPs; they are represented by the portion of the circle inside of the triangle. Others are expected to partner with the ASPs; they are represented by the portion of the circle outside the triangle.

Suppliers to the ASPs and distributors of the ASP services are also emerging. They are represented by the larger arrows. ASP software suppliers would include software tool or software infrastructure vendors that may supply ASPs with the software needed to run their operations or deliver their services. ASP hardware suppliers include server, storage, or network equipment vendors that supply the ASPs with hardware equipment for their data centers. Distributors of ASP services could include resellers and CPAs, among others.

**Figure 3  
ASP Players**



Source: International Data Corporation, 1999

### **What Does the ASP Mean to Your Business?**

Because of the broad range of skill sets and products that an ASP needs in order to deliver its services, the ASP has the potential to significantly impact multiple parts of the IT industry. The following sections analyze the impact of the ASP on the major parts of the IT industry.

### **Software: How the ASPs Will Impact the Software Industry**

#### ***Who Will Be Your Customer?***

This is the multibillion dollar question, and the answer depends on the type of software vendor: applications, tools, and systems infrastructure. Of course, a plethora of other variables need to be considered. Generally, we recommend that the tools and infrastructure software vendors target the ASPs as their customer. Companies like Marimba, Epicon, Citrix, and Progress Software have publicly committed to help make their ASP partners successful.



It is more difficult to generalize the logical path for applications vendors. A defining criterion of an ASP is “holding the customer relationship.” Therefore, an applications vendor must give up the customer to work with a third-party ASP. This fact is also true of other channels such as VARs. However, it is different from other channel decisions because it is not just about a new channel to sell more product; it is equally about giving the customer an alternative way to “acquire” or access the product. As ASPs become more popular, application vendors may not be able to relegate the ASP offering to the markets they were unable to reach with a direct sales force. In the end, they are faced with the decision: Do we become an ASP or are we willing to give up the customer over time? Some applications vendors, such as Siebel, try to have it both ways — acting as the ASP for larger customers and selling through USi for others. Applications vendors should consider many risk factors before becoming the ASP, such as diluting their core focus and contending with channel conflict.

### ***With Whom Will You Need to Partner?***

As Figure 2 illustrates, an ASP operation requires application competencies. For the applications vendors to excel as ASPs, they would need to have equally strong competencies in networking and professional services. Unless an application vendor is committed to becoming a services or a networking company, it is generally better to outsource these components or partner with ASPs.

With respect to the ASP opportunity, infrastructure vendors have a couple of logical paths. The first is partnering directly with the ASPs, and the second is to partner with other ASP suppliers when the software can strengthen their offering. For instance, Corio colocates its operations with Exodus. It would make sense for a company like Tivoli to target Exodus with its systems management framework and applications to make it a more compelling partner to ASPs.

Tools vendors will most often need to partner with the ASPs or be flexible in their licensing to accommodate ASPs through their application vendor arrangements. In the ASP world, brand won't carry the database vendors as far because the end customer shouldn't care what the underlying database is and the ASP should be more expertly trained to make the right technology and quality-of-partner decision, independent of brand.

### ***How Will the ASP Impact Your Pricing/Sales/Marketing Strategies?***

Today, the applications vendors have done well to preserve their traditional pricing (e.g. Oracle and Siebel have been successful at getting the end customer to buy the application up front, but then finance it with monthly payments to track with the monthly services fees), but this traditional pricing is not likely to be sustainable. Some applications vendors sell the application outright to the ASP with a license that allows them to “rent” access to the application. Ideally, the ASPs need software, and other suppliers, to allow them to buy product and services according to how they sell, which typically involves monthly fees based on some usage metric. Today,

per-user pricing prevails. If all the suppliers to ASPs try to preserve up-front fees, the ASPs will be cash-squeezed. We have seen early signs of pricing policies beginning to turn in favor of the ASPs as they gain influence in the market and as new software companies that are based on the annuity model from day one begin to threaten the incumbents.

### ***Opportunities and Threats***

The biggest single question in the development of the ASP market is: Who owns the end-customer relationship? IDC's Software Channels and Alliances group reports that systems infrastructure and tools vendors are generally better at structuring and managing partnerships and sell more software through channels.

For the application vendor, it is hard to separate opportunity from threat. Applications vendors are threatened if they embrace application service provision as a way to deliver product and threatened if they don't. As momentum builds, they will not have a choice — they will have to go forward. The multibillion dollar question is: To be the ASP or to be a partner to the ASP? The answer is situation dependent.

For more information about the impact of the ASP on the software market, please contact Clare Gillan at [cgillan@idc.com](mailto:cgillan@idc.com).

### **Hardware: How the ASPs Will Impact the Hardware Industry**

*The impact of ASPs on the hardware industry could be immense.*

The impact of ASPs on the hardware industry could be immense. On the one hand, the new model is likely to intensify current trends, placing even greater weight on total-cost-of-ownership (TCO) imperatives and on RASability standards (e.g., reliability, availability, and scalability), as defined by IDC. On the other hand, for vendors that meet these criteria, new service provider markets will significantly alter business models and market strategies. Vendors will be pressed to conceive of their value propositions less in terms of standalone products and more in terms of solutions or services.

Hardware platforms will be crucial to an ASP's ability to leverage a one-to-many delivery model. Therefore, ASPs may become catalysts for server and storage consolidation and server clustering. ASPs will also require advanced functionality, such as physical or logical partitioning of server and storage resources. This capability, which is typically found in high-end servers and storage systems and is now being introduced into midsize Unix servers and storage systems, is necessary to provide effective resource sharing and protection against failures.

ASPs that fail to make a significant investment in highly trained IT operations staff to oversee complex server and storage farms will have difficulty delivering on SLAs and profitability. Given the shortage of staff qualified to operate sophisticated environments, they will need hardware that is highly scalable and that meets at least 99.999% availability. Because ASPs will possess significant application expertise but lack depth of experience in efficient

hardware management, many will benefit by outsourcing components of the hardware infrastructure to services companies.

### ***Who Will Be Your Customer?***

In the ASP market, hardware suppliers will need to develop relationships with new decision makers. They are accustomed to focusing on the enterprise data center, where the customer has typically been in IT. Instead, the ASP or ISP will become the data center, and the enterprise customer will be harder to find. Hardware will increasingly be seen as one part of an application platform developed by ASPs, independent software vendors (ISVs), systems integrators, or hosting companies — all of them potential customers. A major implication is that server vendors will be challenged to support more complex and sophisticated customer service practices.

### ***With Whom Will You Need to Partner?***

Hardware suppliers will need to partner with companies that have the ability to put together total solutions. Increasingly, the focus will be on systems integrators that also have the ability to reach the appropriate outsourcing decision makers. These key partners will be looking to hardware suppliers for robust platforms that are capable of supporting more demanding SLAs and for a willingness to share risks as well as rewards.

### ***How Will the ASP Impact Your Pricing/Sales/Marketing Strategies?***

Perhaps the most revolutionary aspect of the new market will be that ASPs will drive a new “risk/reward” model for their business partnerships. They will expect their vendors to provide hardware solutions with little up-front costs, receiving instead annuity payments based on end-user revenue. Consequently, hardware vendors will need to develop new value propositions and fees based on transaction models. To price this “service” appropriately, sales and marketing staff will need to understand the application mix running on the hardware. Without a solid understanding of workloads and variability in transaction rates, ASPs risk meeting service levels — a surefire recipe for losing customers and market share.

### ***Opportunities and Threats***

ASPs will be totally service driven and focused on reducing their server hardware costs as much as possible. The hardware suppliers that succeed will provide the richest RASability quotient, keep the hardware component out of the TCO model, and become a seamless part of the application delivery model. In the long run, hardware suppliers are likely to find that alliance partners will be the key that can make or break a strategy in the ASP market.

For more information about the impact of the ASPs on the hardware market, contact Vernon Turner at [vturner@idc.com](mailto:vturner@idc.com) or John McArthur at [jmcarthur@idc.com](mailto:jmcarthur@idc.com).

## **Services: How the ASPs Will Impact the Services Industry**

Many service companies have grown their revenue and made their profits over the years from conducting multiyear, often multimillion dollar implementations of software packages. The question is: Will the ASP, with its rapid deployment of standardized applications, disrupt the service firm's way of doing business? While IDC expects the ASP to appeal to the middle-market customer, we believe customized application deployments will still be needed. However, the ASP will be a disruptive force in the sense that its rapid deployments, standardized offerings, and annuity pricing model will put pressure on traditional service firms to offer elements of an ASP service within their own offering.

Service companies such as consultants, integrators, and outsourcers can head down one of two courses with respect to the ASP: to be an ASP or to be a partner to the ASP. As an ASP, service firms will directly deliver ASP services to customers. As a partner to the ASP, service firms would provide application deployment services to the ASP's customers.

### ***Who Will Be Your Customer?***

Service firms that elect to be the ASP will target the middle market. For large firms that typically target organizations with 1,000+ employees, this will be a significant departure from traditional sales and marketing efforts. As more large enterprises deploy ERP packages, however, the ASP may be an opportunity to reach a new customer.

### ***With Whom Will You Need to Partner?***

Service firms that plan to be the ASP will bring the "services" skills to the equation, as depicted in Figure 3. However, they will likely need to partner for the application or network component. Systems integrators, which typically have application implementation and integration experience, will need to partner with a network company that can provide not only the data center but also the network infrastructure. They will also need to partner for the application license and to obtain personnel with application management expertise (unless they elect to build up this expertise in house). Outsourcers, such as EDS, already have many business components in place that can be leveraged for the ASP market. Within their IT or business processing outsourcing practices, these firms already have application and operations personnel, a data center, and a network connection. Outsourcers will need to partner for the application licenses that they plan to "rent" to customers.

For smaller integrators or VARs that partner with an ASP to provide the application integration and deployment services, the ASP will serve as another channel for reaching more of their target customer.

### ***How Will the ASP Impact Your Pricing/Sales/Marketing Strategies?***

IDC expects the ASP option will put pricing and time pressures on the traditional service firms. Many service firms price their application deployment and integration services on a time and materials basis, often resulting in lengthy, multimillion dollar customized projects. Under the ASP pricing methodology, the application deployment part of the project is expected to be short and completed at minimal expense, as application customization is avoided. Although customers will continue to demand customized services, they will have higher expectations for their traditional service firms to deliver their work rapidly and at less cost.

### ***Opportunities and Threats***

The ASP provides an opportunity for service firms traditionally focused on larger customers to expand their reach to the middle market by delivering ASP services. We expect smaller integrators or VARs to find an opportunity in partnering with ASPs to provide the application deployment and integration services.

The biggest threat that a service firm faces from the ASP is ignoring it. We believe ASPs will force a fundamental change in the way in which services are delivered: more standardized, quicker, and with an operations component. Service firms that refuse to see this shift coming will likely find themselves ill-equipped to compete against the ASPs.

For more information about the impact of the ASPs on the services market, please contact Meredith McCarty Whalen at [mwhalen@idc.com](mailto:mwhalen@idc.com).

### **Communications: How the ASPs Will Impact the Communications Industry**

*The ASP “phenomenon” takes the communications industry closer to the vision in which the hosting center for data services will play the role that the central office has played for voice services.*

For network service providers (NSPs) and network equipment vendors, the ASP “phenomenon” takes the industry closer to the vision in which the hosting center for data services will play the role that the central office has played for voice services — only more so. The idea is that robust, network-based applications and ebusiness solutions will be available on a model like that of a traditional utility — something users can tap into and pay for based on usage.

NSPs may play different roles in delivering solutions, depending on the market strategies they choose. Between the extremes of pure vertical or horizontal approaches, variations will depend on who takes the lead, bears the risk, backs the SLAs, and manages the customer relationship. Because applications services are network-based and network-delivered, NSPs willing to step up to the challenge are well-positioned to play a leading role in putting the pieces together.

### ***Who Will Be Your Customers and/or Partners?***

NSPs taking a vertical approach will position themselves as the ASP, targeting specific markets, selecting applications and platforms, implementing solutions, and providing ongoing end-user support. The provider will need internal resources for systems integration and customer care. NSPs taking a horizontal approach will deliver the access, transport, and management services that ASPs need to deliver solutions to end users. The focus will be on facilities and colocation services.

Some NSPs are establishing a middle ground by developing a “platform” strategy based on robust hosting facilities, sophisticated architectures, and middleware services. Capable of hosting multiple ASPs, they will offer customers high-performance networks and modular components for provisioning, billing, security, service assurance, network management, and applications development environments. Customers will also include other NSPs looking to outsource OSS business applications. IDC expects that market forces will push horizontal players in the direction of platform strategies.

Regardless of their positioning, NSPs will need strong partnering alliances with hardware and software vendors and professional services companies. Their key challenges will be to integrate solutions and provide seamless customer management services. IDC believes service providers should avoid exclusive deals, but we expect them to focus on a limited set of preferred providers, aligned with certain solutions and services.

### ***How Will the ASP Impact Your Pricing/Sales/Marketing Strategies?***

Over time, NSPs will need to refine their services and billing options to meet the unique requirements of ASPs. Major development areas include robust and incremental SLA packages that extend across multiple NSP networks, pricing models based on usage and all-inclusive fees, and revenue-sharing options where the carrier shares in the risks and rewards with its hardware, software, and services partners. Support for these infrastructure services should be a major opportunity for network systems and management vendors.

As for the applications services themselves, IDC expects that NSPs’ sales staff will not be prepared to market and sell ASP services and that service providers will look to their ISV, systems integrator, and channel partners to drive demand onto their networks.

### ***Opportunities and Threats***

The ASP business model is a tremendous opportunity for network companies because the whole point of this approach is to use high-speed network connections to reduce internal spending on systems, software, and support staff. NSPs and their suppliers must prove that their networks are up to the task in terms of performance, reliability, and customer service. The emergence of ASPs will spur greater emphasis on providing robust end-to-end performance monitoring and service management solutions.

For more information about the impact of the ASPs on the communications market, please contact Steve Murray at smurray@idc.com or Richard Villars at rvillars@idc.com.

### **Conclusion: The Impact of ASPs: New Models for Partnering**

*The success of the application-renting model will come from the partnership networks that are built to include all of the above players: communications, hardware and software vendors, and professional services firms.*

The success of the application renting model will come from the partnership networks that are built to include all of the above players: communications, hardware and software vendors, and professional services firms. This model is not about dial-up access to the middle market, but about forming relationships with companies that can help string together “whole-product” solutions that a vendor couldn’t otherwise deliver cost effectively.

### ***Understanding the ASP Value Proposition***

From the customer perspective, the whole-product solution should change only insofar as technology acquisition costs are stretched out rather than compressed into the front end of the transaction and solution management capabilities are outsourced. End users still require delivery, integration, maintenance, and support for software that works in their unique business environment.

From a vendor or services company perspective, ASPs should be expected to provide capabilities that don’t exist within current partner networks, either from a delivery or a market reach point of view. Does a potential ASP partner have access to markets in which the vendor isn’t represented? Can that ASP deliver product more cost effectively than the vendor or services company so as to bring competitive advantage to the relationship?

Software vendors and services companies alike often respond to new market opportunities by forming partnerships early and often and saving the expensive and time-consuming weeding process until much later. However, it isn’t enough simply to have ASP partners; each such partner must either deliver a component of a whole-product solution that a vendor lacks (such as connectivity to a high-speed network or data mining expertise) or deliver to niche or geographic areas that the vendor can’t reach cost effectively. Rather than rush to form ASP partnerships, vendors should select strategic partners to perform specific functions, build market presence, and then use this success to develop policies and programs to allow them to expand their ASP networks.

### ***Putting Partner Principles to Work***

Policies and programs for managing ASP networks are well within the realm of normal partner tactics and principles, which address basic partner principles such as handling conflict, economic concerns, and portfolio construction and management.

Conflict, for example, will inevitably arise as vendors begin to work with ASPs to address solution capabilities or markets that they are currently addressing, either through their own direct sales force or through other partners in their portfolio. This conflict needs to be

managed, but with the recognition that some conflict is necessary to aggressively pursue market share.

### ***Partner Economics***

Economic concerns within this model revolve primarily around compensation, pricing, licensing, support, and market development issues, just as they do with any other partner or alliance activity. How do vendors structure their investments to ensure maximum return, and how do they price their own services and capabilities to support their partners?

Vendors need to take an expanded view of their total approach to this market, particularly with respect to demand creation. Putting partnering and alliance principles to work means vendors are responsible for creating demand and cofinancing the demand-generation activity of their partners. It is important to point out that this is distinct from a “push” strategy: Partners won’t and shouldn’t be expected to go out and sell software; they will sell their own unique value proposition, which includes the software expertise, not the software. What’s more, the vendor is both creating and helping to create demand not just for its software but for a new method of delivering it as well.

For more information about the impact of the ASPs on partner and alliance strategies, please contact Stephen Graham at [sgraham@idc.com](mailto:sgraham@idc.com).

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