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## SPECIAL REPORT

### ASPs: The Next Wave Of Outsourced Specialists

August 28, 2000 8:20 AM ET

By **Evan Schuman**

It's just past lunchtime on this late April 2004 afternoon, and Gerry, an information technology manager at McDonald's, has just walked off the 11 a.m. flight from New York to Chicago. Travel is much easier these days, since most of the TECH functions are handled by an application service provider. After deplaning, he sits down in a nearby passenger waiting area, swivels the keyboard and screen closer, types in his passwords and awaits the authentication command. Gerry no longer travels with a laptop, depending on now-ubiquitous terminals to give him access to his data. Security qualms are eased by the combination of password, security token, and random voiceprint or finger or retinal scan required to log in.

Once verified, he will access all e-mail, voice-mail and data that he would at the office. And, like at the office, it's on somebody else's servers, using somebody else's pipes. Moving IT off-site has allowed him to use IT as a business tool. He gets a better cost, and someone else handles all applications, upgrades and uptime. As time runs tight, Gerry logs off, then jumps into a cab for the long ride to headquarters. The cab's terminal, connected via a wireless link, allows him to resume working. Anything left unfinished at his arrival can be cleared up either at headquarters or in the hotel room.

Gerry's fictitious tale is but one view of what a fully application service provider (ASP)-enabled world might look like in 2004. Vendors and analysts have a range of views about what that year and outsourced IT services will bring, but many agree on three points:

1. Much of corporate IT's support functions - helpdesk, application upgrades, virus patches, setting up new employees, distribution of new applications, etc. - will likely be outsourced to some sort of an ASP/management service provider (MSP) operation.
2. The bandwidth, latency and wireless options available then will make server farm-hosted applications and data much more practical.
3. ASPs, MSPs, Web-hosting firms and other operations to handle storage, security, backup and other data protection will likely merge, creating huge IT

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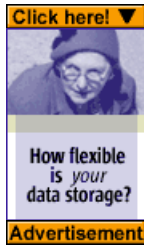
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outsource firms, probably specializing vertically.

The basic value of an ASP-type service company is to leverage the volume efficiencies made possible by serving many companies in one vertical. That's where the ASP model could help soften today's IT staffing shortage nightmare, and also where it could start to undermine the traditional systems integrator.

But ASPs also attack how users pay for software, with a pay-as-you-go model that could prove attractive to small businesses and start-ups. That model also allows companies to get around today's upgrade and application incompatibility problems.

Ubiquitous access

"The ASP model isn't intended for the most interesting or sexy applications," says Bart Taylor, a research director at Giotto Perspectives, a Boston-based analyst firm specializing in ASP issues. It's more for large-installed-base products such as Lotus Development's Notes and Microsoft Office, he adds. "It's easy to ask, 'Why would I want someone to host Excel?' The answer is that it is so everyone will have the same version. It's vital to create ubiquitous access."

At one level, the ASP approach is nothing new, with phone and other utility companies having practiced it for decades. "Do you carry your own electrical lines? Then why carry your huge e-mail system?" asks Jessie Liu, an analyst at GartnerGroup Dataquest.

Winston Damarillo, chief executive of software developer GlueCode, argues that the Web-enabled ASP movement will eventually change the way IT services are priced. But he says that it will probably be less of a price tag change than simply better service.

"This is a classic Internet thing. ASPs are going to change current cost models," Damarillo says. "It's not a cost benefit per se, but it is a time-to-market benefit. Over time - and certainly by 2004 - ASPs will become the most efficient channel for software."

Most of the negatives of an ASP approach are either bandwidth-based or security-related.

Fears about security are well-founded. The computer attacks of today will have much juicier targets in the increasingly connected business world of 2004.

Beyond the menacing hacker intruder fears, many companies will likely be afraid of trusting so much sensitive internal data to a major vertical ASP, which would likely also have direct competition as a client.

"You may see where Pepsi[Co] and [The] Coca-Cola [Co.], for example, will initially refuse to use the same one. They won't want to share processes and servers," says Bobby Patrick, vice president of strategy and business development at Digex, which provides Web and application hosting services for ASPs.

But he adds that even that initial hesitation will likely melt by 2004, when large ASPs will be trusted in much the same way that long-distance phone companies, credit-card firms and banks are trusted today. Archivals wouldn't likely think twice today about using WorldCom or American Express.

Corporate America "will have to accept a new level of risk. They are going to realize that they are going to have to," Patrick says.

GartnerGroup Dataquest's Liu is less optimistic. "It is going to take a very long time for people to overcome that sense of insecurity. Seven to 10 years at least,"

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she says. The problem with the WorldCom/American Express defense is that companies have always handled their own data, but never handled their own long-distance calls or credit-card transactions, she notes.

Liu adds: "Everything always takes longer than we expect."

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