

ASPs: Two Models that Work

October 2002 issue of *Customer Interface Magazine*

Lisa Stockberger

Vanguard Communications

The current economic climate has made CIOs cautious about their technology investments. Capital funds are tight, and many companies are suffering the aftereffects of the technology spending binges of the late 1990s. CIOs want to invest in technologies that deliver tangible business value. They want to find easier ways to add new applications without sizable up-front investments and months of implementation activity. The answer for many companies may be Application Service Providers (ASPs). That's right — ASPs. It may be time to consider them anew.

Why Did the First Wave of ASPs Fail?

The concept of ASPs became popular in the last half of the 1990s. On paper, they had a great story to tell. Technology is complicated and expensive, and, for most organizations, it's not a core competency. The most feature-rich solutions are based on "best of breed" components from multiple suppliers, but it's painful to integrate them into a seamless applications suite. And then there's the risk of technical obsolescence for purchased systems. So why not let an ASP build the technology platform, and leverage that investment across multiple clients? And why not let the ASP manage the technology, and free the organization to focus on its core business?

The venture capital community was intrigued by the possibilities, and poured a lot of money into companies with half-baked business plans. The total number of ventures in this new and unproven market space may have reached over 2000, depending on your definition. Why did they become more noted for their failures than their successes? There are a myriad of business reasons:

- Some lost their shirts trying to integrate their solutions with the customers' back-end data systems.
- Some implemented software and expected their clients to provide all the "surround" services that would make the application truly successful – process re-design, communications packages for end users, meaningful business reporting packages.
- Some found it difficult to provide reliable, cost effective services using premise based client/server applications over the Internet.
- Some squandered their cash on grandiose marketing initiatives, such as naming rights to stadiums, Super Bowl TV spots, and full page ads in magazines.
- Most failed to provide a compelling business case that customers would find irresistible.

Yes, customers were decidedly uncertain about the business model. What is the ROI? Can an outsider help me get an application up and running faster than my in-house team? Can the provider guarantee performance? Will I really be able to free up my IT resources to work on other projects? Will my end users be happy with a semi-canned service? Can I entrust my information assets to a company with lots of start-up expense and a thin balance sheet? Few suppliers had good answers.

What Has Changed?

The business environment for end users has changed. They are in difficult economic times and have to make tough choices. Many have decided to concentrate IT investments in core technologies that are central to the success of the organization — those things which will provide lasting shareholder value. They will look outside their organization for support of applications that are:

- Considered necessary “overhead” (e.g., HR, back-office applications), or
- Highly specialized (e.g., eSignature, media blending technology).

The business environment has also changed for ASPs. The heady days of the late 1990s are mere memories. The ASPs that have survived have learned to focus. They are concentrating on:

- Delivering on ROI promises.
- Partnering with clients to deliver total solutions that go beyond software and technical support — e.g., helping clients improve core processes, providing templates that allow their clients to explain the new application to internal and external customers.
- Providing reporting tools that allow customers to monitor and measure the new applications, and better manage their businesses.

In addition to changes in the business environment, there have been some significant technology changes. In the early days, ASP applications were largely client/server based. Most successful ASPs today provide web native applications. These browser-based applications improve performance over the Internet and ease back-end systems integration.

Two Models That Work

A number of ASPs have found a business model that works. Some focus on applications that could be used by a wide variety of customers. Others became experts in specific vertical markets, gaining a deep understanding of needs and bringing together a suite of applications that made them invaluable to their customers.

Horizontal Application Providers

Horizontally focused ASPs address business problems that are shared across a broad spectrum of industries. Some of these solutions are sexy with significant technological buzz. Others solve mundane problems that cause many organizations headaches.

PAR3 Communications

PAR3 Communications of Seattle provides its clients with a platform that sends personalized notifications to customers when specific events occur. PAR3 integrates their platform into the client’s back-end voice and data systems, and continuously monitors them for specific events, such as overdue payments, shipping status or service reminders. The events cause the PAR3 XTAP Gateway to launch alerts, which can be sent via voice, email, pager, fax or Short Message Service (SMS). The system is being used by Alaska and Northwest Airlines to notify customers when flights have been cancelled due to weather emergencies, and to provide revised itineraries and confirmation numbers.

Quicken Loans, the country’s largest online mortgage lender, is also using the application. With the surge in mortgage refinancing over the last few years, Quicken Loans was having a hard

time keeping applicants informed of the status of their paperwork. Quicken Loans decided to use PAR3 to notify customers of loan status changes. When the status changes, PAR3's platform sends a message to the customer's preferred phone number telling them about the change. The customer can respond to the message, and even reach his loan representative with the press of one key on the telephone. When Quicken Loan surveyed their customer base, they found that 78% reacted positively to alerts.

Anna Allred, Product Manager for Quicken Loans was extremely positive about her ASP experience with PAR3. "They were true partners in every sense of the word," she said. "They introduced us to the technology and taught us what it could do for us, and more importantly, the peace of mind it would provide the customers. We paid a one time fee of \$50,000, which included the XTAP Gateway on our premises and integration costs. We contracted for one year to produce a negotiated number of alerts per month at a flat fee. We were up and running in a matter of a few weeks. Not only is the system improving customer satisfaction and reducing the number of inbound calls to us, but we're finding that our customers are recommending us to friends because of the alerts."

According to Allred, the keys to success for their ASP experience are:

- Getting a complex, innovative service up and running quickly.
- Learning about best practices from an expert in the field.
- Leveraging PAR3's technical expertise, reducing IT's support commitment to just 40 hours during the implementation phase of the project.
- Paying as we go.

TALX

For many companies, benefits and payroll management represent a costly and paper-intensive set of functions that add little to the bottom line. For a modest set-up fee and a monthly fee per employee per month, TALX of St. Louis manages these functions for companies on an ASP basis. They handle employment & income verification, paperless pay, benefits enrollment, unemployment claims processing, and other core HR applications. TALX provides its applications to client employees via the Internet and Interactive Voice Response (IVR). This provides employees with an element of choice and flexibility in how services are accessed.

According to Mike Smith, Vice President, Market Development, "We take expensive, paper-intensive 'as is' processes and turn them into paperless 'should be' processes that improve employee satisfaction and provide the company with a significant ROI." TALX works closely with its clients at every step of the way to accomplish these goals. Because of TALX extensive experience in delivering HR solutions, implementation typically takes a few weeks, even with process changes.

TALX examines current costs and potential ROI closely. Assuming that the financial model meets the company's goal, the next step is working with the HR organization to develop a plan that will move the company to the TALX paperless ASP solutions. The TALX team provides education on best practices, plus templates for communications with employees and branch office HR administrators. They work with client IT organizations to integrate back-end systems into the TALX web native applications.

American Greetings of Cleveland is using TALX paperless pay application for nearly all of their 40,000 associates who participate in their direct pay program. The greeting card company is saving over \$20 per employee per year. The key to the success of the program was employee education. American Greetings created 15 different pieces to ensure that employees understood the program including messages on pay stubs, and conducted open houses to explain the changes that were coming. Within three months of offering paperless pay, the company was experiencing measurable results.

Vertical Application Providers

Vertically oriented ASPs focus on a single industry. For example, TriZetto provides hosted applications for the health care industry. Vartek focuses on the education market. These firms, and others like them, offer in-depth expertise and associated software applications that would be difficult for many small and medium size enterprises to replicate in-house.

ORCOM, of West Conshohocken, Pennsylvania, serves the middle tier utilities market. Founded twenty-five years ago as a software developer of utility billing packages, the company shifted to an ASP business model approximately four years ago. ORCOM offers three types of services: infrastructure hosting, application management, and business process management for billing and customer care. While clients pay no money up front, they commit to seven- to ten-year contracts. For application management services, clients typically pay on a “per bill processed per month.” According to Jamie Biddle, CEO of ORCOM, “We offer a compelling business proposition. We can drive 20 to 30% of the cost out of the customer care operation. At the same time, we can improve service levels. We negotiate service level agreements (SLA) on 30 specific items.”

Kinder Morgan, a Houston-based gas utility, is using a wide variety of ORCOM services ranging from hosted applications to dedicated call center representatives. Dan Watson, President of Kinder Morgan’s Retail Division, is very satisfied with the relationship. “The cost model ORCOM presented us was unbeatable,” according to Watson. “But the key ingredient to our success has been the partnership between the two organizations. We have weekly and monthly conferences to discuss operating issues. We regularly tweak the SLAs to ensure that we are providing the best possible service to our customers.”

Keys to Success

Clearly, the ASP model can be successful for both providers and clients. The keys to success are found in three areas:

Value Proposition. ASPs must be able to prove that they can deliver additional revenue, improve customer satisfaction, significantly reduce the costs, or reduce pain. Up-front costs to customers must be relatively low.

Support services. Customers look to ASPs to provide more than software. They are looking for a partnership. That partnership includes advice on roll-out strategies and strict service level agreements. They expect ASP services to be rooted in best practices, and to support relatively quick implementations.

State-Of-The-Art Technology. Customers expect a solution that is bullet proof and easy to integrate into their core back-end systems. Today, most applications are web-architected, and

are equipped with reporting tools that allow customers to monitor performance and make simple changes in application configuration.