



# Application Service Providers: Costs & Benefits

BY LAURA BRAY

To learn more about the outsourcing decision process, see "Should Your Company Outsource?" in the July 2005 issue of **PAYTECH**

**T**he thought of adding a new software program can make your head swim. You can spend thousands of dollars for the license, more for hardware upgrades, and then even more for implementation costs. And how in the world are you supposed to find technical staff to maintain it without breaking the budget?

Perhaps it's time to think about an Application Service Provider (ASP).

### What Is an ASP?

An ASP hosts and manages software applications for multiple customers from a central data center. Customers access the applications via the Internet or, increasingly, through server-based devices such as cell phones and personal digital assistants. In most cases, the ASP owns (and sometimes even develops) the software and hardware. They also hire and manage the staff required to support it.

As technologies improve and more businesses acquire high-speed Internet access, the barriers to adopting an ASP model have decreased. At first, companies were wary since few players had a long-term track record or mature products. Today, products are more robust and flexible, high-bandwidth Internet access has become more universal and reliable, and ASPs are generally more established and stable.

"New technologies, such as Web services and XML, have really fostered the ability to provide hosted solutions in a secure, controlled way," said Walter Ross, General Manager of Legiant, a developer of Web-based time and attendance tracking programs and software.

Some even argue that the ASP model focuses more on the customer than a traditional software licensing approach. An ASP must win business (thereby garnering contract renewals) by providing a consistently superior

experience; whereas once a software company sells a traditional license, that company has less incentive to ensure customer satisfaction.

Some ASPs host and manage software developed by other companies. Others offer their own products, developed in-house, like Cybershift, which develops, hosts, manages, and monitors its own workforce management software.

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### Categories of ASPs:

- 1) **Enterprise ASPs:** delivering high-end business applications, such as enterprise resource planning or customer relationship management
- 2) **Local/Regional ASPs:** providing a wide variety of applications, but in a limited geographic area
- 3) **Specialist ASPs:** delivering specific IT needs, such as payroll or human resources
- 4) **Vertical Market ASPs:** providing solutions for a specific industry, such as aerospace or healthcare
- 5) **Volume Business ASPs:** delivering prepackaged applications in volume to small- to medium-sized businesses

Source: [www.ASPNews.com](http://www.ASPNews.com)

## ASP Versus Outsourcing

According to research and advisory firm Gartner Inc., outsourcing was one of the five “hottest topics of 2005.” While outsourcing often refers to the turning over of a complete business function to an outside source, the ASP model provides a way for a company to outsource just its IT needs.

“HR outsourcing on a piecemeal basis has been around for decades. Over time, however, we recognized a strong desire for companies to embrace integrated outsourcing solutions,” said Ruth A. Ladner, Chief Operating Officer of Genesys, a provider of human resources management solutions.

## Why Consider an ASP?

According to the Outsourcing Institute, companies use ASP solutions to reduce and control operating costs, improve the company’s focus, and free internal resources for other purposes [see the sidebar on page 32, “Top Ten Reasons Companies Outsource”].

“Going with an ASP is not an all-or-nothing proposition,” said Bill Larkin, Vice President of HR Management Solutions for Kronos. “There are 15 to 20 high-level processes in HR/payroll; perhaps your company needs to outsource only the tax filing portion, for example.”

Many outsourcing vendors have flexible packages that can be tailored to meet specific customer needs, rather than just a “cookie-cutter” package, Ross said. One common outsourcing misconception is that the model only makes sense for small companies who cannot afford a robust IT department.

“When (Legiant) started, we thought our solution would be good for small companies,” Ross said. “But we soon realized that large companies who have a good idea of the costs of doing business were choosing outsourced solutions also. It comes down to a focus on how the organization can offer the best value to its customers.”

## Is An ASP Right for You?

The process to evaluate an ASP model must be logical and deliberate, rather than a knee-jerk reaction to a perceived problem. Based on business goals and objectives, you should establish a model

where the targeted process is analyzed and reviewed to see what’s working and what’s not. Then you can evaluate whether an ASP solution would work to solve the problems identified.

**“Choosing an ASP frees up your IT staff and associated tools to be redeployed to your company’s strategic goals.”**

**—Morne Swart  
Vice President of  
Product Management,  
Cybershift**

Ask the following questions during the evaluation process:

- Does outsourcing work well with your company’s business strategy? If it doesn’t fit the way your company does business, the effort is doomed to fail.
- How will you manage the relationship with the ASP vendor? Once the contract is signed, your company must have a process in place to ensure the vendor meets its obligations. Remember, outsourcing is not an excuse for your company to abdicate its responsibilities. Even though the applications and data reside in another place, your company retains ownership of that data and all related compliance responsibilities.
- Does your company culture support outsourcing? The perception of “loss of control” must be resolved to ensure a successful outsourcing effort [see “The Downside” section of this article on page 32].
- Does senior management support the decision to outsource? The most successful projects have and often required the backing and involvement of senior executives.

As with any vendor selection it is important to exercise due diligence to ensure the choice of a trusted vendor who is committed to meeting the customer’s needs. Make sure the vendor can provide

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## Top Ten Reasons Companies Outsource

- 1) Reduce and control operating costs
- 2) Improve company focus
- 3) Gain access to world-class capabilities
- 4) Free internal resources for other purposes
- 5) Resources are not available internally
- 6) Accelerate reengineering benefits
- 7) The function is difficult to manage/out of control
- 8) Make capital funds available
- 9) Share risks
- 10) Cash infusion

Source: *The Outsourcing Institute's Annual Survey of Outsourcing End Users*

## Other Names for ASPs

The Application Service Provider model can also be referred to as the following:

- Software as a Service (SaaS)
- On-demand software delivery
- Utility computing
- Hosted application vendors

required regulatory reporting, including Sarbanes-Oxley, SAS 70 certification, FMLA, and FLSA.

## Benefits of the ASP Model

Choosing the ASP model eliminates the large up-front investment in hardware, software, and implementation, as well as the long-term costs of maintenance and upgrades (including the knowledgeable staff required for these operations). The ASP model also provides access to the benefits of large and powerful business applications for smaller companies, which often can't afford high implementation costs.

Hosted applications also allow a company to focus resources on its core business. HR and payroll processing are critically important to any business, but for most companies, it's not the reason they're in business.

"Choosing an ASP frees up your IT staff and associated tools to be redeployed to your company's strategic goals, which are usually not HR or payroll processing," said Morne Swart, Vice President of Product Management for Cybershift.

Predictability of costs is another advantage of the ASP model.

"I know exactly what the monthly bill will be," said Eileen Ezepik, Controller of Royal Label Co. "There are no additional charges for W-2 processing, extra reports, or tax filing."

Contracts vary, but many ASP vendors charge on a per-employee, per-month basis, sometimes in combination with the modules chosen. Carefully evaluate the costs of both an in-house solution and the ongoing subscription payments for an ASP before making a decision. Having an Internet-based, hosted solution can improve accessibility and usability.

"I can access my payroll process anywhere, at any time," Ezepik said. "Payroll is a critical process, but I can't spend a lot of time with it. I have a lot of other responsibilities, and now I don't have to worry about it."

Outsourcing can also assist with the increasingly complex regulatory world. Many companies don't have the time or resources to keep up with ever-changing payroll statutes, taxation rules (in over 14,000 jurisdictions), and the still-evolv-

ing Sarbanes-Oxley regulations. ASPs have experts on staff to research all the regulations and make appropriate changes to the software and reports.

At first glance, data security might seem like a disadvantage. After all, the company's data resides offsite on a server belonging to someone else. But many ASPs have industry best-practice data backup and security protocols in place—perhaps even more robust than your company provides for its own data.

## The Downside

Since the data and applications reside outside the company's purview, a perceived loss of control is one disadvantage. Service-level agreements (SLAs) are therefore critical to holding the vendor accountable. The agreement should provide minimum standards for data and application security, accessibility, downtime, and responsiveness, as well as remedies when problems occur.

Timing and notification processes for making software upgrades should also be included, so users aren't surprised by new fields or functions. Make sure the contract spells out everything in detail, including any special regulatory requirements applicable to your company.

Ongoing costs also bear careful scrutiny. In-house implementations can be costly, but at some point, that approach may be less expensive than ongoing "rent" payments to an ASP. Also, if the company has already spent a lot of money on hardware, software licenses, or personnel, it may be an uphill battle to convince management to move to an ASP.

## Choose What's Best for Your Company

ASPs won't work for every situation, but with the right planning and evaluation, the model can provide a cost-effective alternative to a high-cost implementation project.

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