# Chapter 4.9
# Exploring ASP Sourcing Decisions in Small Firms

**Maria Woerndl**
*University of Bath, UK*

**Philip Powell**
*University of Bath, UK*

**Richard Vidgen**
*University of Bath, UK*

## ABSTRACT

This chapter explores application service provision (ASP) in small- and medium-sized enterprises (SMEs). Five exploratory case studies among UK SMEs illustrate that SMEs are aware of the ASP concept and its potential. While the uptake of ASP is still low the idea of paying for information systems (IS) services on a monthly basis is gaining ground. A framework mapping the ASP sourcing decision process for SMEs is introduced, highlighting the issues and challenges that SMEs face when evaluating whether to source IS through the ASP renting model rather than building a solution in-house or buying it off the shelf.

## INTRODUCTION

Application service provision (ASP) is an information system (IS) sourcing option geared towards the small- and medium-sized enterprise (SME) market. An ASP provider "manages and delivers application capabilities to multiple entities from a data centre across a wide area network" (Susarla, Barua, & Whinston, 2003). Though the ASP bandwagon has slowed down from late 2000 (Kern, Kreijger, & Willcocks, 2002a), shifting the industry life cycle from a growth to a shake-out stage (Kern, Lacity, & Willcocks, 2002c; Kern et al., 2002), the ASP paradigm is gradually evolving. ASP has been predicted to have substantial influence on small firms with the market developing primarily around SMEs (Kern et al., 2002c), but to date there is little evidence that SMEs are actually jumping on this bandwagon. This study presents an ASP decision process framework for SMEs highlighting the constructs and issues that impact on the decision to adopt ASP as an IS sourcing option. After introducing ASP in SMEs and IS sourcing, the research method is laid out and the framework and findings are presented.

## THE LITERATURE: ASP, SMES, AND IS SOURCING

The simplest ASP relationship consists of a service provider, a client, and a network connecting the two. The service provider offers software-based services to the client who typically pays for these services through a monthly rental, per user, or per seat. The IS services are hosted and maintained by the provider with the client accessing the services via a network which is mainly the Internet. The software available covers a range of general and specific business applications, from accountancy to word processing, data back-up to healthcare. Software licenses are obtained and held by the provider and charges for these licenses are included in the monthly rental. ASP bears some resemblance to traditional outsourcing, however there are a number of major differences (Cherry Tree & Co., 1999; Currie & Seltsikas, 2000), of which cost of application, ownership and service are highlighted as key. Table 1 consolidates these differences demonstrating that sufficient differences exist for ASP to be considered a new phenomenon.

Presenting ASP as a new phenomenon is consistent with the IS sourcing perspective where ASP is a sub-set of netsourcing, which is the third wave of IT outsourcing, following the first waves of facilities management in the 1980s, and strategic outsourcing in the 1990s (Kern et al., 2002a). ASP is considered a particularly suitable IS sourcing option for SMEs. In the past, IS sourcing has concentrated on large firms, as SMEs lacked the financial resources to engage in traditional IS outsourcing partnerships. The ASP sourcing

*Table 1. Contrasting ASP and traditional outsourcing (adapted from Currie, 2000, Currie and Seltsikas, 2000, Cherry Tree, 1999)*

| SME Attribute | ASP | Outsourcing |
|---|---|---|
| Service Method | One-to-Many: One ASP offers the same service to different SMEs | One-to-One: Adjusted to the firms specific needs |
| Contract form | Service level agreement (SLA) between ASP and SME | Various contract forms available. Can be between the firm and various outsourcers to deliver one service |
| Length of contract | Flexible, short term (12-24 months) possible | Usually long term |
| Ownership of application/assets | ASP owns the applications including software, can also include hardware. | Outsourcing company or client, or both own application/assets |
| Location of application/asset | Databases, servers and software etc. are located with the ASP | Outsourcer or firm or both can physically be the location of the applications or assets |
| Access to application/asset | Over the Internet, leased lines or other networks | Personally, written, or oral access through outsourcer. |
| Maintenance and Support | ASP maintains and supports applications as part of the service | Maintenance and support are additional features to the outsourcing contract. Can be costly and long term. |
| Cost | Set up fee plus fee per use per month. Monthly rental fee can range widely depending on application, number of users and service level. | Fixed price according to contract with outsourcer |
| Focus | ASP focuses on the specific application/asset for the SME | Outsourcer concentrates on various attributes like business processes and management of networks |
| Upgrades | Upgrades are part of the SLA | Upgrades additional to existing contracts |

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