Chapter VIII

Partnering for Success in Application Service Provision

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ABSTRACT

Application Service Provision (ASP), which consists of deploying, managing and remotely hosting software applications through centrally located servers, is emerging as a new form of application outsourcing that is attractive to many sectors. This chapter shows that the concept of strategic alliances is highly relevant to the ASP model. The chapter illustrates this with two cases, one of which was a failure because of inappropriate partnership management. The authors highlight the importance of focusing on the management of alliances instead of how to form them, by presenting a life cycle approach to alliances. The chapter also relates the immaturity of the ASP market to the difficulty in measuring the success of strategic alliances formed in this context. This chapter concludes by presenting predictions about the future of ASP.

INTRODUCTION

In recent years, more and more companies have entered into relationships through alliances. Corporations have often adopted structures that were large and centralised and based on hierarchical modes of communication. Such corporations used various methods for eliminating competitors, such as, mergers, price wars, and the weight of large advertising budgets (Alter & Hage, 1993). For several reasons, such as the pressure for the globalisation of business, organizations began focusing more on cooperating with others. In this context, Alter & Hage (1993, p. 2) argued that *"...many companies are developing structures that are smaller, decentralized, and based on strategies of cooperation and horizontal relationships."* Moreover, such relationships developed between organizations in the same product market niche, which led previously competing companies to collaborate, thus marking an important institutional change (Alter & Hage, 1993).

Developing alliances, *as a strategy*, has been adopted by organizations in different sectors, which have aimed to differentiate their products or enter markets more quickly. Application Service Provision, which is still in a developing stage, is a field in which strategies of partnering and forming alliances are commonplace. As the new wave of delivering software as a service began to take off, many companies tried to exploit the opportunity of entering this embryonic market, which led to an excessive number of competitors. As a result, these companies found difficulties in making profits, and therefore adding value to their offering became indispensable. Many entered into strategic alliances as *leverage* for their business.

This chapter aims to investigate strategic alliances in the context of the Application Service Provision (ASP) model. It investigates the ASP market and its development, and the role of alliances in the context of the ASP model using illustrative cases. The chapter provides a background drawn from the literature on strategic alliances and discusses the formation and management of alliances. Issues relevant to the development of the ASP market through strategic alliances are presented.

BACKGROUND

The Application Service Provision Model

Application Service Providers (ASPs) have created a new form of outsourcing that can be seen as 'application outsourcing' (Cherry Tree & Co., 1999). In its simplest form the model consists of deploying, managing and remotely hosting software applications through centrally located servers (Cherry Tree & Co., 1999). Customers use the hosted applications through a 'rental' arrangement (see Figure 1). This model represents a very new approach to software distribution and effectively results in the delivery of software as a *service*.

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