Chapter XIX

Analyzing the Risk Factors of Moving to a Remote Application Outsourcing Model

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Abstract

In the last few years there has been much interest in the delivery of software-as-a-service. The concept of remote application outsourcing, or application service provision (ASP), has emerged as a solution aiming to offer organizations, mainly small to medium-sized enterprises (SMEs), access to key applications that were previously unaffordable. This chapter examines this model of software delivery, focusing on the potential risks that could be associated with it. The authors identify shared risks with traditional IS/IT outsourcing and proprietary risks of this model. The chapter concludes by giving a classification of these risks.
Introduction

In this current age of globalization, overall business integration, and rapidly evolving trading environments, new technologies are constantly being introduced, as old ones become obsolete. Businesses are prone to continuous changes and rapid evolution (Clark, Zmud, & McCray, 1995). Technology today has become a strategic enabler and is no longer relegated to the task of automating processes and functions (Currie, 2002). To cope with pressures exerted within this competitive and constantly evolving business environment, small to medium-sized enterprises (SMEs) may have to invest heavily in new technology to maintain a competitive edge. For many years firms have been engaged in the practice of transferring the cost of these investments to an external source through outsourcing, and it has appeared as one viable option to overcome the problem of keeping pace with technology advances (Linthicum, 2000). Outsourcing involves the transfer of a firm’s need for IT infrastructure, people, and technology to external sources (Currie & Seltsikas, 2001).

In the last few years there has been much interest in the delivery of software-as-a-service. The concept of remote application outsourcing, or application service provision (ASP) as it is popularly known, has captured the imagination of many analysts. According to the ASP Industry Consortium, an ASP “manages and delivers application capabilities to multiple entities from a data center across a wide area network” (CherryTree&Co., 1999). Being a form of application outsourcing, the model consists in its simplest form, deploying, managing, and remotely hosting software applications through centrally located servers.

The ASP model claimed to leverage the power and flexibility of the Internet to deliver high performance applications to firms at a fraction of the cost of having to run and maintain the systems in-house or by traditional bureau type outsourcing. The ASP model would be different from traditional outsourcing, as the software applications are priced on rental basis (based on usage per seat). By taking away the day-to-day hardware and systems management duties, the ASP model promises to give firms the opportunity to focus on their core functions (Columbus, 2000). It is a new model in software distribution that delivers software as a service.

The emergence of the ASP model has been stimulated by many facts; mainly, a segment, SMEs, was almost excluded from the enterprise applications market, due to its incapability to afford them. The model offers these SMEs the possibility of leveraging costs as a result of the economies of scales characterizing it. Based on the principle of one-to-many, the ASP model is believed to create enormous cost savings of the order of 20% to 50% (Miley, 2000).

Despite the hype surrounding the introduction of the ASP concept and the claim that the solution was aimed at the SME market, it has failed to fulfill predictions for success in terms of market growth (Dean, 2000). Further, the ASP model’s adoption has been slower than expected (Clancy, 2001), proving many analysts’ predictions wrong, including those of IDC and the Gartner Group (2001).

Although many independent software vendors (ISVs) and other companies such as Telcos have embraced the ASP concept, few have managed to deploy this business model profitably. Throughout the year 2000, numerous such firms entered the market as
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