

CRM SPECIAL REPORT:

Economy Down, ASPs Up

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The surprising success of a small but hardy group of application service providers (ASPs) in the CRM software sector is making waves. [Salesforce.com](http://www.salesforce.com) is perhaps the most well known, but contact center and analytics companies also are joining the fray.

[Aberdeen Group](http://www.aberdeen.com) research director Guy Creese told CRMDaily.com that the growth of ASPs in the Web analytics niche was the most surprising element of his recent research on that software category. A group of analytics ASPs, including [digiMine](http://www.digimine.com) and [WhiteCross](http://www.whitecross.com), increased their market share in analytics from 13 to 22 percent last year.

Analytics ASPs have a wide range of customization capabilities -- some on par with their enterprise software competitors -- and ASP users report implementation periods of "days to weeks" as opposed to "weeks or months" for non-ASP software.

"It was clear to me through last year that this shift was occurring," he said, "but I hadn't recognized the strength of the disparity."

Dealing with Objections

IT executives have raised a variety of objections to the ASP model. Many have cited security and reliability as potential problems when mission-critical software runs on someone else's hardware. And some ASPs themselves have expressed concerns about hosted software. In the past, many have assumed that they could not provide enough flexibility for customers accustomed to buying enterprise software and tinkering with it in-house.

For example, Partnerware -- which shut its doors in August -- abandoned the ASP model partly because it felt it could not provide adequate customization as a service vendor. Former CEO Donna Troy told CRMDaily that because underlying business processes differ so much among companies doing business through indirect channels, applications must accommodate a wide range of custom work.

Integration, Customization Possible

However, recent advances in software engineering have addressed most of those concerns, according to Salesforce.com director of product strategy Clarence So. He pointed to his company's recent successful integration with Genesys call center systems as proof.

Creese found that analytics ASPs had a wide range of customization capabilities -- some on par with their enterprise software competitors. He also found that users reported implementation periods of "days to weeks" as opposed to "weeks or months" for non-ASP software, and the IT executives he surveyed reported yearly costs with an ASP that ranged from US\$3,000 to \$300,000 -- compared with a cost range of \$500,000 to more than \$1 million with traditional software.

Proof in the Pudding

Perhaps the most compelling argument for trying an ASP, at this point in the down economy, is purely financial. Bruce Dewer, vice president of marketing administration at USA Today, told CRMDaily that the leniency of a monthly subscription model meant that his company did not even perform a formal ROI (return on investment) study when implementing Salesforce.com for about 100 employees.

NEC general manager Masahiro Annaka concurred, saying that his company chose to partner with Salesforce.com in the Japanese market for exactly that reason. Japanese businesses, he said, want to implement CRM applications slowly and without large capital expenditures.

And vendors themselves have benefitted from the flexibility of the ASP business model in the tough software market of the last two years.

[LivePerson](http://www.liveperson.com) CEO Robert LoCascio told CRMDaily that he can scale his organization up or down fairly easily to meet market conditions. He said he feels that being an ASP is one of the key elements that kept his company afloat in 2002. **END**

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