

## Chapter 8.11

# The Rationale Behind Strategic Alliances in Application Service Provision

**D. E. Sofiane Tebboune**

*Manchester Metropolitan University, UK*

### EXECUTIVE SUMMARY

Application service provision, 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. Partnering in this context has gained major importance among practitioners and researchers. Although this article demonstrates the importance of strategic alliances for the development of the ASP model, the included cases display relatively contradicting ideas, where in one of the two illustrated cases strategic alliances were not part of the business model. This article establishes a discussion on the pre-formation phase of strategic alliances, focusing on the rationale behind entering strategic alliances, and offers a set of guidelines for ASPs to consider when entering the partnering arena.

### ORGANIZATION BACKGROUND

Company A is an e-business solution provider, specializing in front office applications for sales, marketing, and customer service. It also focuses on four key vertical markets, being financial services, life sciences, retail and distribution, and telecommunication, media and technology. Founded in 1999, Company A aimed at targeting the ASP model for delivering integrated front office and e-commerce. The company has also targeted WAP-enabled mobile Internet services, becoming Europe's first wireless ASP. Its offerings consisted, therefore, in offering both mobile and desktop users access to managed e-commerce and front office services for a fixed monthly fee.

Company B is a leading provider of administrative software to performing arts venues and organisations, as well as the conferencing and banqueting industry, stadium and sports venues,

local authorities, and councils. Initially, Company B's products began by a simple product, which was designed by one of the company's founders, for a classical music agency. The product offered an interesting solution that most music agents were looking for; it consisted in easing the administrative burden that this concert agency's staff was suffering. As Company B's product grew further, and started being seen by others, it was expanded, developed, and was eventually adopted by most of the leading artists' managers and concert agents in the UK and subsequently by many in Europe, the USA and the Far East.

## SETTING THE STAGE

Application service provision (ASP), a new form of application outsourcing, emerged as a solution to the ever increasing burden of maintaining software applications, and the time required to install and implement new software (Susarla, Barua, & Whinston, 2003). Being essentially, and ideally, Internet-based, ASP promised a variety of benefits, such as cost reduction, and reduced management difficulties (Currie, 2000; Kern, Willcocks, & Lacity, 2002). 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. As a result, many entered into strategic alliances as *leverage* for their business.

Strategic alliances are not a new concept. Corporations have often adopted structures that were large and centralized 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 and 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).

The purpose of the present article is to investigate the concept of strategic alliance as applied to ASPs. It starts by a brief account of ASP as a field of research, then a brief account on the concept of strategic alliances in the management literature. Focusing on the pre-formation phase of strategic alliances in ASP, this article illustrates two cases of UK-based ASPs, from which data is extracted, and a discussion is established. Finally, a conclusion and future research directions are presented.

## Application Service Provision

Application service providers (ASPs) have created a new form of outsourcing that can be seen as 'application outsourcing.' In its simplest form, the model consists of deploying, managing, and remotely hosting software applications through centrally located servers (Kern, Kreijger, & Willcocks, 2002). Customers use the hosted applications through a 'rental' arrangement. This model represents a very new approach to software distribution and effectively results in the delivery of software as a *service*.

According to the ASP Industry Consortium (ASPIC), an ASP "*manages and delivers application capabilities to multiple entities from a data centre across a wide area network*" (Cherry Tree & Co., 1999). As a result, the ASP model gives organizations the opportunity to focus on their core functions, without being distracted by issues such as systems management (Columbus, 2000).

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