



## **Chapter VI**

# **An Explanatory Approach to the ASP Industry Evolution Where IT Services Move from P-service to E-service**

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## **ABSTRACT**

*This chapter introduces the ASP (Application Service Provider) industry which provides essential infrastructure for the Internet-based e-business transactions. First introduced is the current status of the ASP industry with some industry analysis focusing on the driving forces shaping the evolutionary changes. Then, emerging ASP business models are classified and analyzed in order to assess their positions in the competitive landscape based on the economies of scale. We also explore the prerequisites for the success of each ASP business model. Lastly, a conceptual model is provided to predict some possible scenarios of the evolution of the industry structure. For example, we identify the prerequisites for the ASP business models to develop themselves into XSPs (eXtended Service Providers), and develop a scenario for that evolutionary path. The proposed framework will present a deep insight into the e-transformation and a way to improve enterprise intelligence and performance through ASPs.*

## INTRODUCTION: BACKGROUND AND MOTIVATION

### *Innovative Race to Enterprise Intelligence and Departure from the Old*

The enterprise intelligence through e-transformation will be one of the cornerstones of the next generation e-business era where the Internet constitutes the core business resource. The competitive landscape of the e-business is changing from the head-to-head competition between companies to one between network organizations formed around competing value chains. Under this circumstance, the capability of taking full advantage of IT (Information Technology) becomes one of the essential prerequisites to attain a competitive edge. Accordingly, enhancing intelligence and synergy through IT outsourcing is now at the heart of the issue of building core competence.

However, it is ASPs (Application Service Providers) that accomplish the IT outsourcing in the Internet economy. Furthermore, ASPs provide a way to redesign the value chain, thereby, enabling corporate e-transformation in order to maximize the benefits around the value chain. ASPs' functional role in the e-business context is to make companies view the collaboration over the value chain from a different angle and raise the make-or-buy decision issue from a new perspective. The success of an ASP first depends on the extent to which its client companies are likely to streamline their business process and utilize outsourcing to reduce costs. In addition, the technical and/or legislative factors like SLA (Service Level Agreement) will become another key success factor in building a seamless value chain.

This chapter first introduces the ASP industry in its early stage of the development, its expected role as one of the most important service industries in the e-business era, and various types of the ASP business models. The primary purpose of this study is to present a systematic framework to generate meaningful viewpoints on the next generation e-business world with focus on the ASP industry. To achieve the research goals, provided is a conceptual model to analyze the industry evolution, which requires understanding of the dynamic market mechanisms. The proposed model is also expected to serve as a strategy development tool for the incumbent or prospective companies in the ASP industry.

### *Fundamental Questions To Be Addressed*

This chapter will highlight and answer the following three key questions that are integral to the understanding of the next generation e-business process and possible changes.

1. How does the ASP industry contribute to value creation of network organizations? Why do we need IT outsourcing? What factors influence the way that APSs organize the value chain for delivering IT outsourcing services to their clients?

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