# Deploying Small-to-Medium Size Business Applications? Consider These Gotchas!

eSolutions World (August 23, 2001)

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Affordable Solutions for the Smaller Business

- ## Agenda

  - ➢ **The SME Market**
  - ➢ **ERP in Transition**
  - ➢ **ASP Definition**
  - ➢ **Evolution of Application Software**
  - ➢ **ASP Market**
  - ➢ **SME's, ERP and ASP**
  - ➢ **ASP Value Proposition**
  - ➢ **ASP vs Traditional Cost Comparison**

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Is an enormous market ...   *that is under-automated*

2%

98%

12%

88%

- ■ **Small Businesses (<$50M)**
- ■ **Mid-size and large (>$50M)**

- ■ **Automated back-office (ERP)**
- ■ **Back-office not automated**
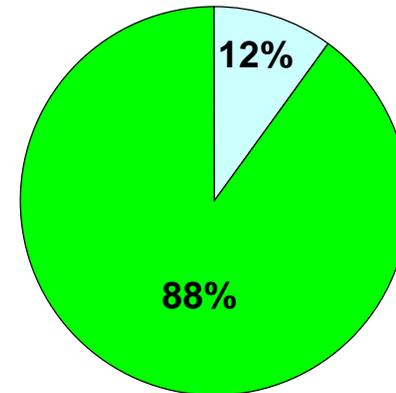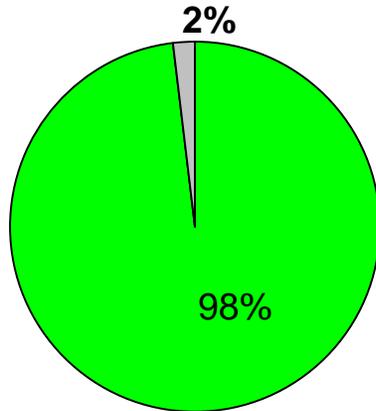
... and under pressure to become e-Business enabled

and yet they are not lining up to purchase business application software……why is this?

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What has prevented them from buying?

SME user wish list	*Can they find it*
Single integrated suite of apps	Sometimes
Easy to Use	No
Easy to Tailor	No
Quick to deploy	No
Industry-specific Solutions	No
Microsoft & Internet Platforms	Sometimes
Low cost of Ownership	No
Local Support	Sometimes

- *In The Past !*
  - ➤ **ERP, MRPII, MRP were the <u>only</u> game in town**
    - **Now ECM/EAS (Enterprise Application Software) are the newest acronyms**
    - **ECM/EAS (Enterprise Commerce Market) consists of:**
      - ERP, B2B, CRM and SCM
      - AMR calls ECM a $108 billion market in 2001, growing to $264 billion in 2005
  - ➤ **Vendors were strong, but now vendor consolidation is rapidly occurring, especially in the ERP mid-market**
    - **Microsoft buys Great Plains**
    - **Navision buys Damgaard**
    - **SSA buys Max International**
    - **AremisSoft buys Fourth Shift**
    - **Exact Holdings buys Macola**

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- ## *But Now !*

  ➢ **More than 70% of the Fortune 1000 Multi-nationals have been penetrated by ERP vendors (Tech Evaluation.com)**
    - **Therefore larger vendors are moving down-market**
    - **And mid-range vendors must fight for their market or move down, but their solutions don't fit the smaller customer (SME) market**

  ➢ **The complexity of these systems makes them poorly suited for rapid change in order to address a new market**

  ➢ **Existing distribution and pricing models won't accommodate the new market**

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- ## *What's the Future ?*

  ➢ **The last great untapped market for ERP sales is the small market (SME), defined as companies with less than $50 million in revenue (Gartner Group)**

  ➢ **Expansion of sales will be best achieved by focusing on the SME market and by allaying the complexity and high cost perception of ERP to those smallest of companies (Technology Evaluation.com)**

  ➢ **Vendors who survive the next 3 years will be those focused on delivering vertical solutions, one solution for all won't fly with SME's (T.E.com)**

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Feature/Functionality Syndrome

**Product Utility/
Broad Appeal**
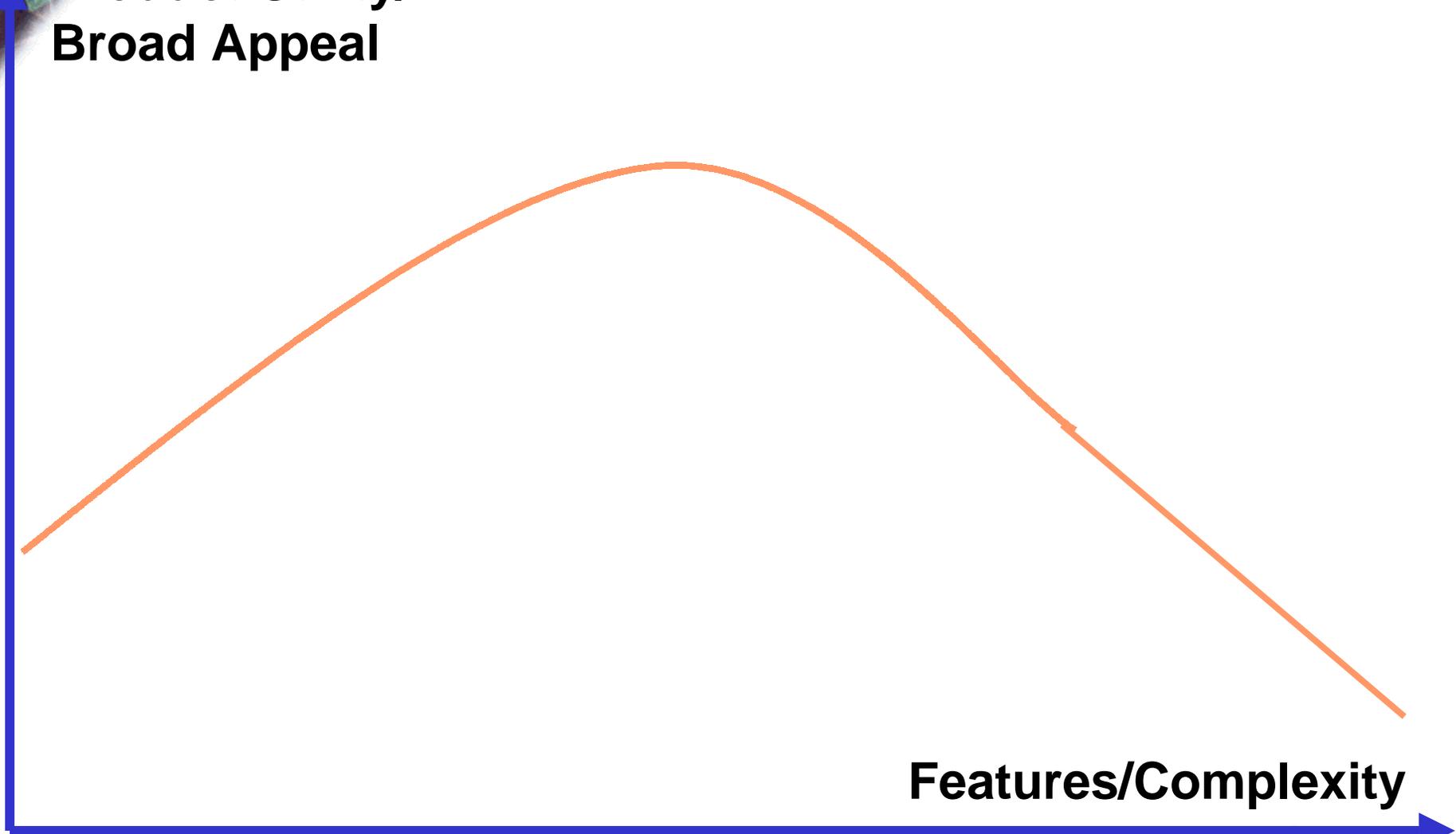
Features/Complexity

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Focus: SME customer's needs

Product Feature & Functionality

Traditional software solution

SME focused solution

Product complexity gap

SME requirements gap

SME position today

• No or limited automated applications

Product Complexity

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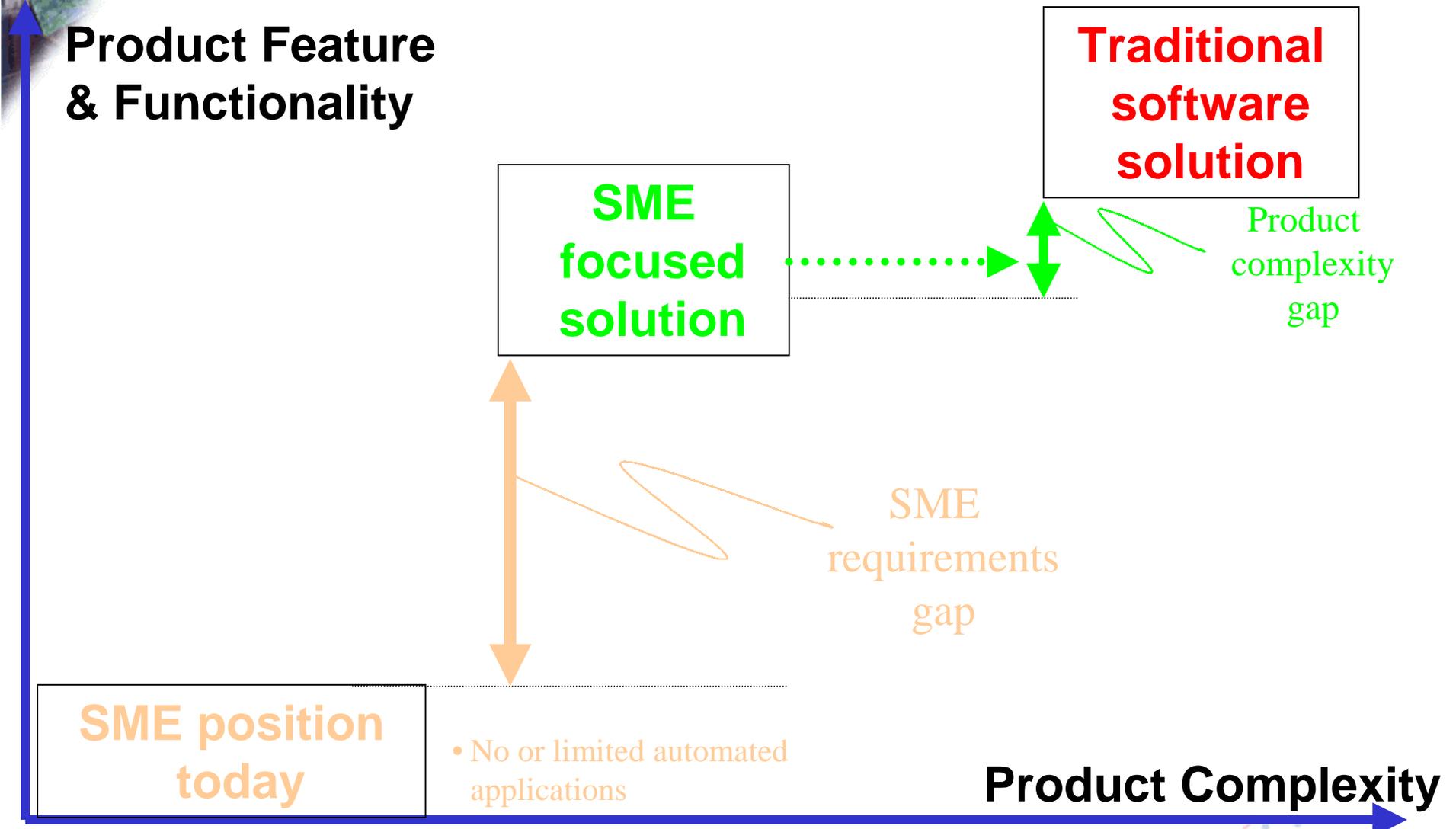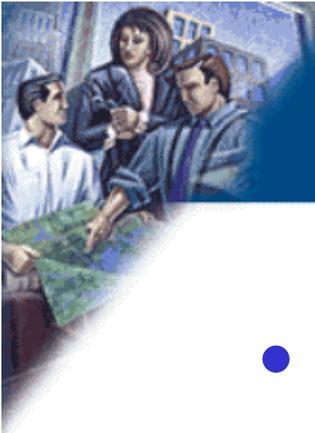
- ## *THE INTERNET LEVELS THE PLAYING FIELD FOR SME's !*

  ➢**The Internet DOES NOT RECOGNIZE:**
    - **International boundaries**
    - **Large IT infrastructures**
    - **The cost of your ERP system**
    - **Where you're physically located**

  ➢**The Internet DOES RECOGNIZE:**
    - **If your easy to do business with**
    - **If you can react quicker than others**
    - **If you can deliver on a promise**
    - **If you can differentiate yourself**

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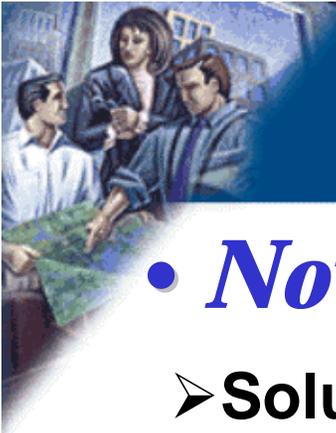
- ***Now "e-ERP" Internet Empowered ERP!***

  ➢ **Solutions designed to optimize the power of the Internet, and be delivered using the ASP model**

  ➢ **New products/companies that have no legacy products or customers to carry forward and protect**

  ➢ **Organizations who are able to implement subscription pricing without having to withstand substantial losses**

  ➢ **Products that are simple in design and easy to tailor by company and/or industry**

  ➢ **Quick to implement solutions, easy to use, fast ROI**

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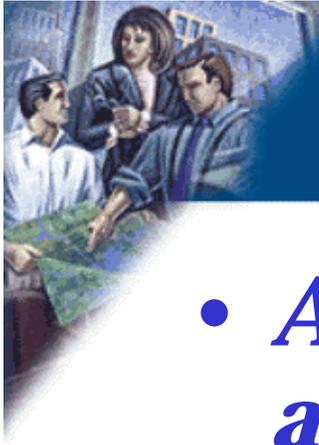
- ***ASP's deliver and manage applications and computer services from remote data centers to multiple users via a Wide Area Network***
*(Jim Metzler/Ashton,Metzler & Associates)*

- ***The applications are typically not owned by the organization using them. The enterprise receives access to the applications via some form of rental agreement***

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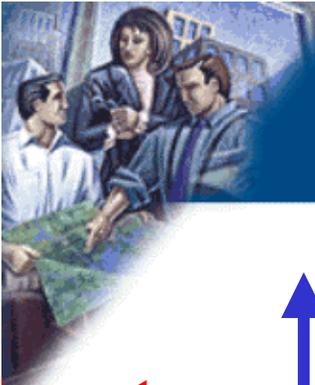
Evolution of Application Software

Least Expensive

ASP
- *Application for Rent*
- *Application as a service*

e.g., NetLedger, apps4biz.com

Packaged Applications

- e.g., SAP, Microsoft Office

Custom Applications

- e.g., airline reservation system
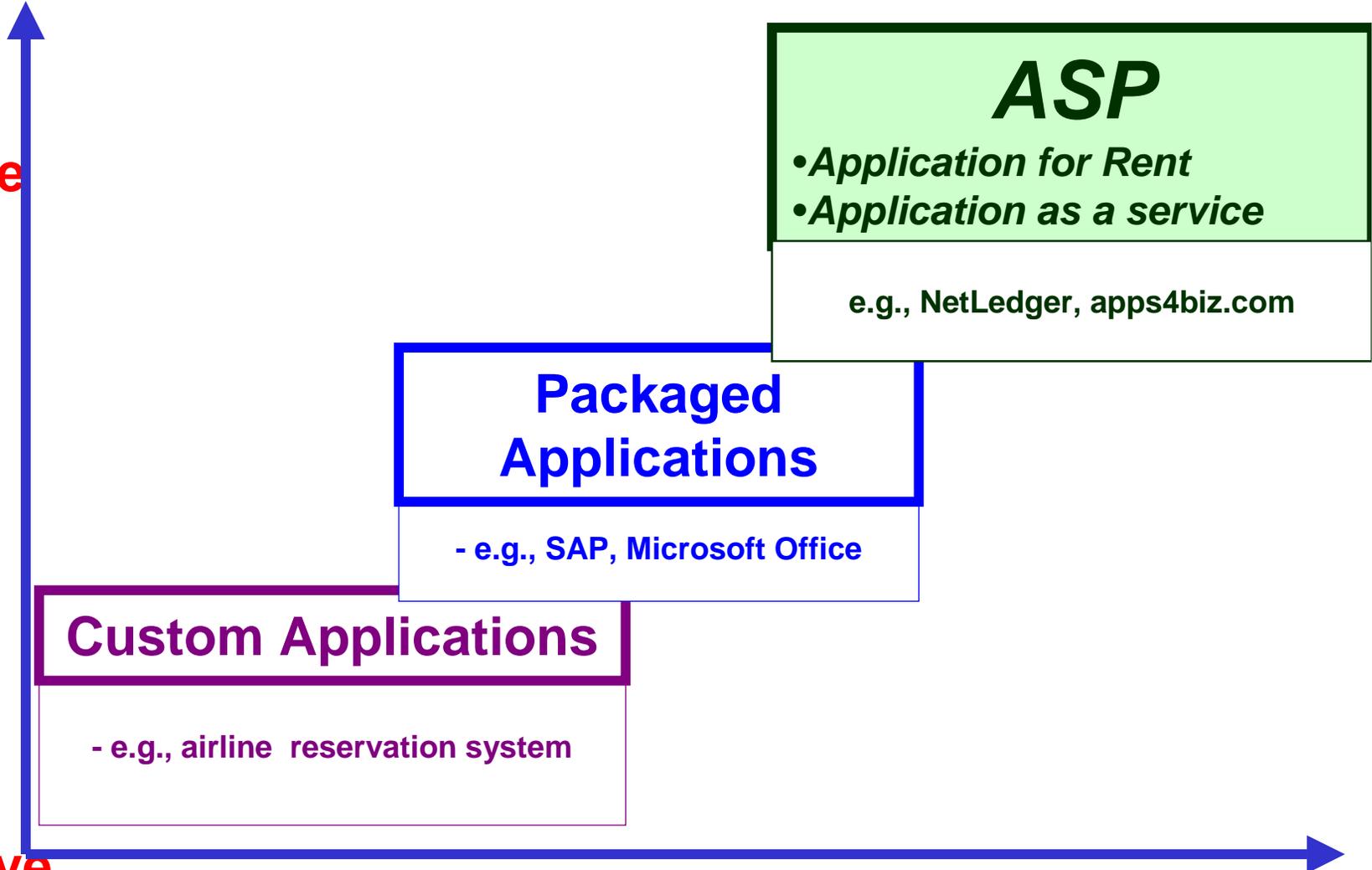
Most Expensive

Time

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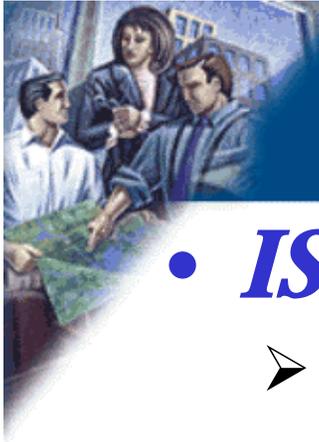
- *ISVs, Independent Software Vendors*
  - ➢ develop and market applications that are designed for Net-based deployment
  - ➢ provide installation, tailoring, and end user training services

- *ASP's, Application Hosting Providers*
  - ➢ e.g., Exodus,US Internetworking
  - ➢ provide a secured data center, backup & recovery, 7x24 technical support

- *ISPs or Telecom Service Providers*
  - ➢ e.g. AOL, AT&T
  - ➢ provide cost-effective and high speed access to the Internet

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- ## *Low Up-Front Costs:*
  - ➢ **nothing to license/buy. Pay as you go.**
  - ➢ **no yearly maintenance cost (15-18%)**

- ## *No Need for Internal IT Staff:*
  - ➢ **IT services included in monthly hosting fees**
  - ➢ **Can access applications from anywhere via the Internet**

- ## *Freedom to Focus Resources:*
  - ➢ **Focus on <u>your</u> business not Information Technology**
  - ➢ **Transfer of financial and technical risk to provider**

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- ## *A Technology for SME's:*

  - ➢ **25% of SME first time ERP buyers chose ASP hosted applications** (Technology Evaluation, 02/2002)

  - ➢ **60% of mid-market ERP vendors, like QAD, Intentia, Glovia, ROI Systems and Lilly currently don't support an ASP model** (Technology Evaluation, 02/2002)

  - ➢ **Tier 1 vendors are making the SME selection round for ASP applications with SAP and IFS leading the way**

  - ➢ **Mid to Low-end vendors are concentrating on Web-enablement and functional enhancement of current products, not rewriting them**

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"The Internet isn't easily grafted onto a client-server application; those Web interfaces are like lipstick on a pig."

Steve Jurvetson
Managing Director, Draper Fisher Jurvetson
RED HERRING, Nov. 13, 2000

"Client/Server applications that have been Web-enabled with GUI front-ends often have serious performance issues."

**"2nd Generation ASPs" Spotlight Report
Cherry Tree & Co., Sept. 2000**

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New Paradigm (ASP) ➡ New Leaders

Apps Hosting Drives the Emergence of New Apps Leaders !

Bowstreet, Agile, Apps4biz.com

New Vendors

R e v e n u e

ISV's

SAP, Baan, J.D. Edwards

Time
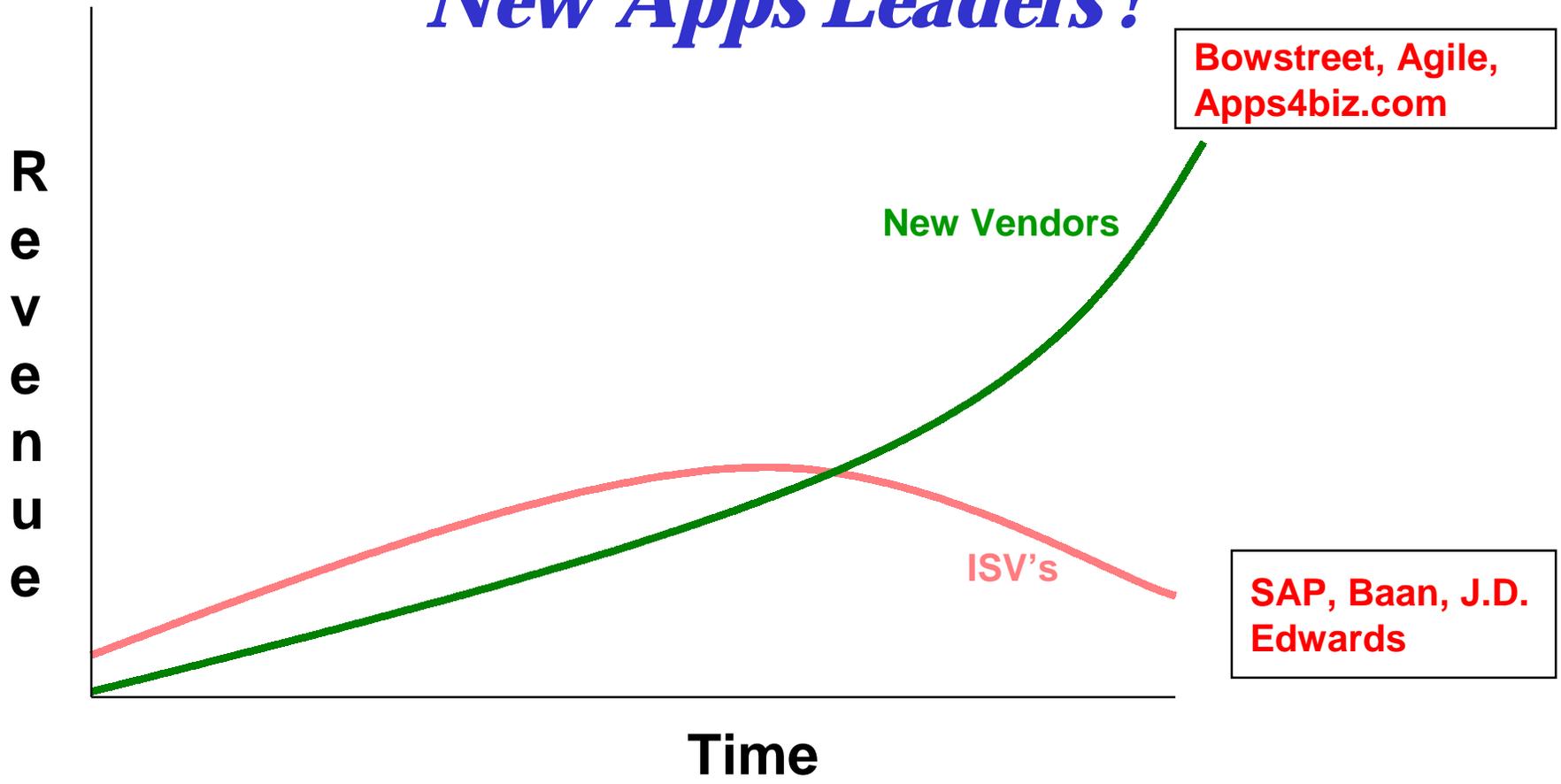
Source: Forrester Research, Inc.

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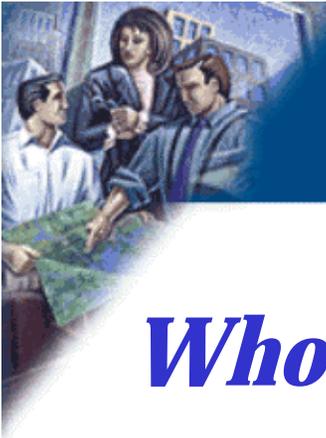
Who is the Ideal ASP Customer?

Market Segment	Segment Profile		Key Demand Drivers
Large Enterprise	More than 1000 employees Revenue above $1 billion		E-Biz, Lack of IT resources, e-mail, SFA, expense reports
Mid-Market Enterprise	Revenues $50 million - $1 billion 500 - 999 employees		Time to market, e-biz, minimize staff levels
Small/Medium Enterprise (SME's)	Small=<100 employees Medium= 100-499 employees		non-existent IT. Broadband Cost of IT. Broadband
Consumer	Individuals		Broadband, Simplicity, PC to Internet-centric

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As Perceived by the SME End-User!

"What is the primary value that an ASP could offer to your company?"

Category	Percentage
*Other	9%
*Reduce Apps. Deployment Time	15%
*Minimize Admin.Burden	27%
*Minimize Technology Risk	7%
*Access to New Applications	14%
*Increased Competitiveness	18%
*Reduced Cost	10%
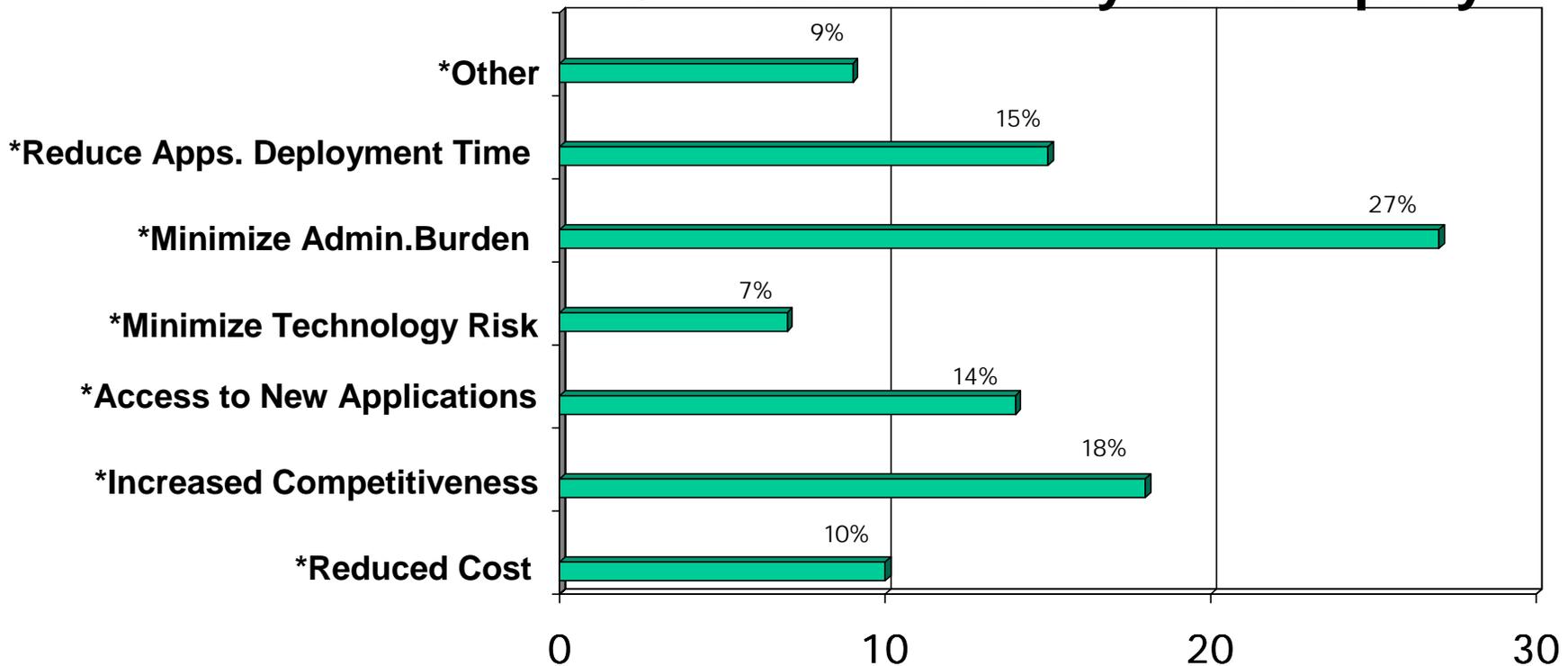
Ashton, Metzler & Associates

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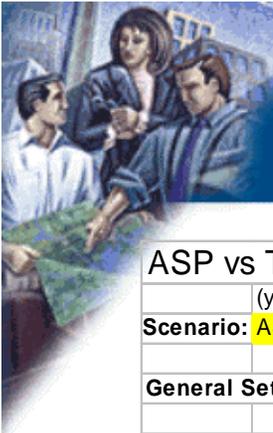
# ASP vs Traditional Cost Comparison (5 Year)

ASP vs Traditional Cost Comparison (5 Year)

(you can adjust the YELLOW fields)

Scenario: ASP vs Internal Hosted Applications

General Settings

Expected Users	5
Regional Average IT Salaries	$ 90,000 (w/ benefits)
Cost of New PC	$ 2,500

Base Cost Comparison

Chart: Dollars (Thousands) vs Time (Q1–Q20), showing Traditional (solid dark line) and ASP (dashed magenta line). Y-axis $- to $800.
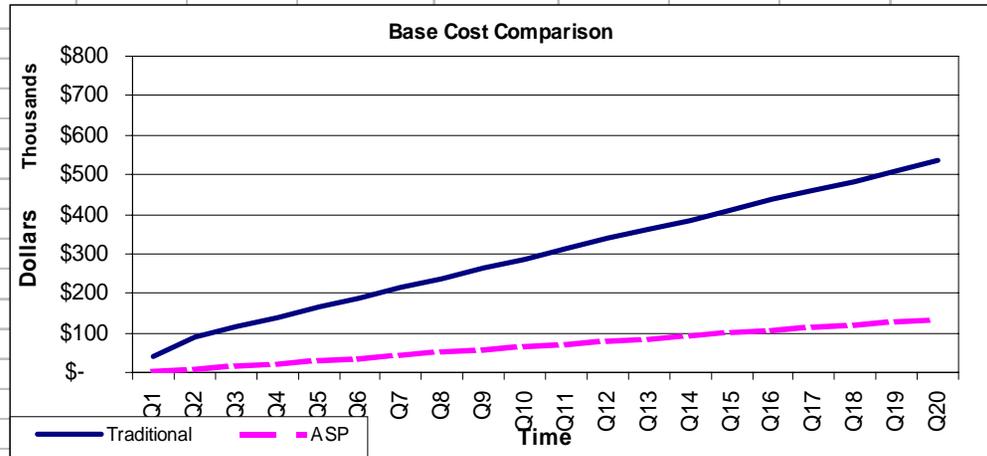
Traditional Software Cost Factors

License $/Seat	$ 4,800
Maint/year ratio to license	18%
Maint/year	$ 864
Misc Telecom Costs	$ - (monthly)
Hardware/Software Ratio	75%
Server(s)	$ 18,000
PCs needing replacement Q1	9%
PC(s)	$ 1,063
Expected PC Life	3 (years)
PC purchases per quarter	$ 1,042
Average Users per IT Staff	5
Quarterly cost for IT Staff	$ 22,500

ASP Software Cost Factors

	60	
ASP Software Rental	$	250
ASP Per Hosting Costs	$	149
Hardware Adjustment	15%	$ 188
Telecom Adjustment	15%	$ 188
Hosting Adjustment	30%	
ASP Seat/Month	$	399
PCs needing replacement Q1		9%
PC(s)	$	1,125
Expected PC Life	3	(years)
PC purchases per quarter	$	1,042
Average Users per IT Staff		0
Quarterly cost for IT Staff	$	-

OPTIONAL ASP Software Cost Factors

ASP Setup Charge (Months)	0
ASP Setup	$ -
Ramp Up Month 1	100%
Ramp Up Month 2	100%
Ramp Up Month 3	100%
Ramp Up Month 4	100%

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Quotes of Note!

"The ASP delivery model for software provides the largest market segment….SME's... with the benefit from lower initial costs of licensing, allowing unprecedented opportunities to use state-of-the-art software without significant investment risk."
__*Gartner Group*

"The how, when, and where of business is changing at an unprecedented pace, driven by information technology and its main conduit---the Internet. The Internet not only makes electronic business-to-business quicker and cheaper, it disproportionately favors smaller firms in many industries."

__*Small Business Computing and Communication*

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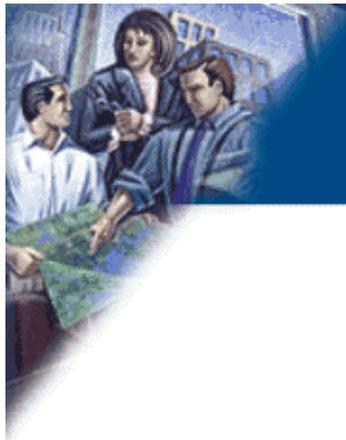
Thank You!

Thanks for your attention and your participation!

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