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## INFORMATION WEEK ONLINE NEWS IN REVIEW

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### Application Outsourcing: Web Host Appeal

A few companies--mostly the small and the new--follow as vendors rush to offer Web-based application outsourcing

By [Bruce Caldwell](#)

**W**eb-based application outsourcing is attracting more attention. Microsoft's \$200 million investment in Qwest Communications International last week is just the latest play among vendors positioning themselves to sell, manage, and support business applications over the Web. It's a concept many believe will have broad appeal to businesses of all sizes and lead to a multibillion-dollar market. For now, though, vendors nearly outnumber real customers.

The emerging market is frenetic with activity. Microsoft and Qwest, an IP carrier, plan to develop and sell network applications. Nancy Faigen, VP of IBM's Web-hosting unit, left last week to become president of Digex Inc., a national Internet service provider that offers Web-hosting and is targeting application outsourcing. And ServiceNet, a joint venture of Andersen Consulting and GTE's BBN, has begun offering Lotus Notes services over the Internet-U.S.A. Floral Products is one potential customer.

In other news, Visteon, the \$17 billion auto parts subsidiary being spun off from Ford Motor Co., will take 20 customers live next month on the first of several Netscape

E-commerce applications being outsourced to Internet Operations Center, its ISP. "It's essentially a global solution housed centrally and externally," says Steve Schwartz, electronic-commerce manager at Visteon. "Internet Operations Center is stepping in and providing us with the corporate services that we had received from Ford." The outsourced applications will eventually include procurement and sales.

Many IT and telecom vendors and dozens of startups are eager to capture their piece of what Forrester Research Inc. predicts will be a \$21 billion application outsourcing industry by 2001. But some of these companies have already found the going tough. Netcom On-line Communication Services Inc. pulled the plug on a service launched about a year ago to host and manage Lotus Instant TeamRoom after it failed to generate interest. Others, including Digex, have yet to sign up paying customers. Big names in the enterprise applications market, including Oracle, have declared their intent to offer Web-based application outsourcing but don't have much to show for it.

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### **Why Outsource?**

What's the appeal of outsourcing E-mail, groupware, sales-force automation, and ERP applications to Web-based outsourcing companies? Primarily, fixed costs in the form of monthly subscription fees; avoidance of software development, maintenance, and administration hassles; speed of implementation by specialists; and reduced capital expenditures on servers and software.

Sales Consultants of Sacramento, a franchise unit of \$1.5 billion CDI Corp., was lured by potential business benefits when it signed an outsourcing deal with Planet Computer, a

Web-based applications outsourcer. The professional recruiting firm expects to increase its business by as much as 30% by giving clients direct access to its database of recruitment prospects, which is now managed by Planet Computer. "It's like having one big computer brain in the center of the country that we each feed into instead of separate computers," says Ron Whitney, SC Sacramento's owner and manager.

Early customers of Web-based application outsourcing tend to be small companies, startups, or company spin-offs that need access to business applications but don't want to invest in an internal IT structure. But analysts say the idea will eventually catch on with large companies as well, if for different reasons. "Web-based application outsourcing will ultimately become the dominant model for how applications are delivered," says Phil Wainwright, editor of ASP News Review, an online newsletter ([www.aspnews.com](http://www.aspnews.com)) in London that tracks the market. Large companies will always want to manage some computing in-house, Wainwright says, but Web-based applications services will help them fill gaps in their architectures.

"We're seeing a big change in the hosting business," agrees Forrester analyst David Cooperstein. Though CIOs are wary of the safety of data and quality of service in these setups, applications-hosting companies are up to the task, he says. "They have bulletproof data centers, guaranteed performance, a deep bench of skilled professionals, and better economics," Cooperstein says.

Bethlehem Steel Corp. and other major companies are studying the opportunities of Web-based outsourcing, especially where business processes like human resources are involved, says Tom Conarty, director of IT for the \$4.6 billion company and chairman of the International Information Technology Users Group. "The reason it hasn't taken off red-hot is that it's hard to find where the real carrot is," he says.

### **Big Plans**

Microsoft and Qwest hope to change that. The partners plan to develop and host business applications, including inventory management, human resources, and financial, that can be accessed over Qwest's IP network starting in the second quarter. "This will grow tremendously over time," says Thomas Koll, VP of Microsoft's Internet customer unit.

IBM and US West are among other big vendors targeting this market. "There's a growing excitement about it from the supplier side because they recognize the complexity of the Internet," says Kathy Dodsworth-Rugani, director of network-delivered application services at IBM Global Services. IBM offers Web-based outsourcing of Great Plains and System Union accounting software. Web hosting for J.D. Edwards applications will be available in a few months.

US West Interprise Network Services is slated to open its network for application hosting services in January. The telecom company and its partners will begin to provide electronic-commerce, ERP, sales-force automation, and videoconferencing applications, says Miles Morimoto, development director of hosted applications and platforms at the US West division.

US West originally planned to focus its services on the small-business market, but found that large businesses are "feeling the pain most acutely" of trying to deploy applications, Morimoto says.

US West doesn't expect businesses to readily hand over application management to a telecom company, so it's partnering with specialists in different applications areas. Partner USInternetworking Inc., for instance, offers ERP applications.

Sunburst Hospitality Corp., a \$114 million spin-off of Choice Hotels International Inc., just signed on as USInternetworking's first customer in a five-year deal to access PeopleSoft's financial applications on a monthly subscription basis. Sunburst, in Silver Spring, Md., was witness to Choice Hotel's grueling in-house implementation of PeopleSoft financials and "what it took in terms of infrastructure and people skills," says VP of finance Charles Warczak. In addition to high turnover of people working on the implementation, Choice went through two upgrades and was considering a third at the time of the spin-off.

By outsourcing its applications to USInternetworking, the hotel operator is able to avoid the skills and infrastructure

problems experienced by its former parent. Also, costs are fixed and predictable, and USinternetworking has provided an uptime guarantee that includes penalty payments to Sunburst if requirements aren't met.

Sagent Technology Inc. uses a virtual private network to access Siebel Systems sales-force automation software hosted by USinternetworking. The setup costs less than if the data mart vendor did the work itself, and deployment was faster, says Ken Gardner, president and CEO of Sagent, which is also an applications partner of USinternetworking. Eventually, Sagent would like to hand off its accounting software and Microsoft Exchange server as well, Gardner says.

ServiceNet, meanwhile, is cutting deals with software vendors and looking for partners with experience in desktop support and maintenance services to supplement its Lotus Notes expertise, says John Whiteside, CEO of ServiceNet and the former general manager of IBM Global Network. ServiceNet operates eight global server centers.

### **Experience Counts**

ServiceNet's experience supporting Notes applications for Andersen Consulting is a key factor in U.S.A. Floral Products' interest in piloting the vendor's services for three months with 60 employees at four sites. U.S.A. Floral, in Washington, wants to use Notes internally, as well as to link to the growers and brokers whose products it distributes to grocers and other retailers.

U.S.A. Floral has acquired 32 companies since it was formed in 1997, becoming the world's largest floral products distributor with \$1 billion in sales. "But we can't snap our fingers and get Lotus Notes overnight," CIO Ray Anderson says.

While U.S.A. Floral isn't yet completely convinced that Web-based applications hosting is the answer, Intelligent Management Solutions Inc., a project-management company in Englewood, Colo., has little doubt about it. IMS uses PlanetUplink, a database and office-application hosting service from Planet Computer. "We were having problems with our distributed databases and were close to having to throw the database application out," says Bill Wein, a senior VP at IMS. "Luckily, we found PlanetUplink."

IMS runs 28 databases in a Filemaker Pro application for project management and tracking. The application had been running on Apple Macintoshes, but the company was converting to Windows PCs and was trying to migrate to Filemaker Pro Server to accommodate network users. Planet Computer solved the conversion process by hosting the Filemaker Pro application on its server. Searches, whether from Macs or Windows PCs, are now much faster, Wein says. Outsourcing has also cut IMS's networking costs by 60% and vastly reduced manpower requirements for IT maintenance and support.

Planet Computer launched PlanetUplink last September with five beta companies and a total of 75 end users. It now serves 15 companies and 180 end users. Costs start at \$1,500 to set up a basic database, and \$45 per user per month.

The fact that Planet Computer, USinternetworking, ServiceNet, and others have seen glimmers of success in Web-based application outsourcing where others have come up empty could just be a matter of timing-or of better marketing. Whatever the case, businesses would be wise to approach this new market with a degree of skepticism. The promises-cheaper, faster, more effective computing architectures-resemble those in the infancy of client-server computing. The inherent danger is there may be more complexity than meets the eye, and the cost savings may not be as great as anticipated.

*With additional reporting by [Gregory Dalton](#), [Natalie Engler](#), [Tom Stein](#), and [Mary E. Thyfault](#)*

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