# IT Application Outsourcing:
# A Category and Evaluation of Application Service Providers

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### *Abstract*

*Information technology (IT) application outsourcing offered by an application service provider (ASP) enables businesses to move faster and reduce IT costs for e-commerce implementation. Small and medium-sized enterprises (SMEs) with limited IT budgets and little or no experience with application outsourcing, therefore, may opt into the ASP market at high risk and be unable to reap these benefits. This study provides guidance for SMEs to employ application outsourcing at reduced risk by enhancing SMEs' understanding of the difference between traditional IT outsourcing and application outsourcing, and the benefits that SMEs can perceive of using application outsourcing. Importantly, this study develops a framework for classifying the disparate applications offered by the ASPs, namely: network service providers (NSPs), Web developers, independent software vendors (ISVs), value added resellers (VARs), system integrators (SIs), content service providers (CSPs), managed security software providers (MSSPs), full service providers (FSPs), and ASP application aggregators (AAAs). It also identifies key performance criteria to evaluate the ASP offerings which are security, system integration, price structure, service level management, customer support, and functional service operation.*

*Keywords: E-commerce, application service provider, small and medium-sized enterprises, network service providers, independent software vendors, value added resellers, system integrators, content service providers, managed security software providers, full service providers.*

## Introduction

Many industry observers are predicting application outsourcing or e-sourcing to be the next big wave in outsourcing. E-sourcing to application service providers (ASPs), including Web-based applications, decision-support tools and associated services for e-commerce application, is expected to grow from $135 billion in 2001 to over $738 billion in 2005 at a compound annual growth rate of 52.9%. The Garner Group has predicted that most enterprises will rent software or use software services rather than purchase software and implement it in-house in the next ten years (Terdiman *et al.,* 2003). Key advantages to e-sourcing include the ability to reduce service and administration costs, and shorten time-to-market cycles (Aberdeen Research 2002; Travis 2000).

As outsourcing IT systems to ASPs enables businesses to move faster and reduce costs of IT investment for their e-commerce implementation, small and medium-sized enterprises (SMEs) with small IT budgets are demanding to acquire these advantages offered by ASPs. SMEs with little or no experience of IT outsourcing and ASP services, however, will face problems of identifying the right choice from diverse products/services offered by the ASPs, and may end up with non/under-performance of service providers. In addition, there is not much research on IT outsourcing to ASPs and particularly in small and medium-sized enterprises, SMEs (Dibbern *et al.,* 2004; Ekanayaka *et al.,* 2003).