ASP vs. MSP: *Is Either Right for You?*

You need a replacement point-of-sale system (POS)—but do you have the right infrastructure to support and maintain an in-house system? Should you use an application service provider (ASP) instead? Or how about something even more radical, such as outsourcing your entire infrastructure to a managed service provider (MSP)—also called a management service provider?

To decide whether either approach is right for your organization, you first need to understand the difference between the two, align your business requirements against both and, finally, avoid common pitfalls for selecting either one.

An ASP is a business that provides computer-based services to customers over a network. Software offered using an ASP model is slowly being replaced by the terms "software as a service" (SaaS) and, most important, "on demand."

The main tenets of the ASP (often defined by the mantra "low-cost, good enough") model are:

an Internet-based delivery model;

the use of shared components owned and operated by the ASP, such as infrastructure, network, personnel and, sometimes, the database and application itself;

a pay-per-use billing methodology, either by transaction or by subscription fee; and

template-based solutions with little customization of code.

An MSP, on the other hand, is a company that manages information technology services for other companies via the Internet. The Gartner Group, Stamford, Connecticut, has defined boundaries for the MSP market according to service definitions and asset ownership.

Within the MSP market, Gartner also distinguishes between an MSP and an ASP:

An MSP delivers management technologies for networks, systems, applications and eBusiness infrastructures.

An ASP delivers application functionality and associated services across a network to multiple customers, using a pay-as-you-go pricing model.

MSPs can deliver their services directly to enterprises by providing management services for their infrastructure, or indirectly as a service to an ASP or other service provider.

In managed services, the customer generally owns (or licenses) the application; the vendor is just hosting it.

MSPs can provide ASPs with services to manage portions of the infrastructure that are outside the ASPs' core set of competencies. These same services can be provided directly to an end business. In lay-men's terms, this means that you can use an MSP to manage the infrastructure of your application provided by an ASP.

In determining which option is right for you—contracting with an ASP, or licensing the application and hosting it with an MSP or supporting it yourself in-house—you must take a hard look at your true needs for customization, the capabilities and quantity of your in-house staff and the return-on-investment (ROI) requirements of such a venture.

ASP solutions initially boomed as part of the late 1990s Internet-hype cycle as a panacea for most software ills, only to bust like so many other dot-coms. Having failed to deliver on those early promises, ASPs are rebounding today. This is due to the low cost of hardware, the maturity of software such as virtual networks (vLAN) and virtual machines (VMWare), and the availability of multiple secure data centers, which are making the task of building highly secure, scalable solutions a much more achievable venture. They offer significant cost reductions, but with tradeoffs.

ASPs are great for small companies that lack resources or funding for running systems in-house. In general, an ASP solution is a lower-cost, faster-to-implement alternative to licensed software. ASPs typically share their application across clients with data commingled, making it a multi-tenant type of architecture.

This causes several challenges that must be addressed: data redundancy, recovery and security. Large customers may drain

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system process resources or attract hackers, either of which can affect your data or your access to them. You may be forced to take upgrades, whether or not you are ready as a business to accept them, and have limited flexibility in customizing the application to fit your needs.

For larger, more complicated requirements, you may need to license internally or leverage an MSP. Using an MSP does away with several of the drawbacks of an ASP solution; however, it is more expensive and often takes a longer path to implementation.

The MSP runs an instance of your software on its own separate hardware dedicated to you, sharing only backbone infrastructure and Internet pipes with other customers. The MSP also can host more than one of your critical applications.

With an MSP, you have the ability to upgrade when the business is ready for it, customize the software and avoid the risks that sharing infrastructure may bring. With an MSP, you bear the cost of the software licensing and the hosting fees, but eliminate much of the infrastructure costs.

Although customer-relationship management (CRM) providers such as Salesforce.com are the dominant ASP providers, there are several examples in the mortgage industry as well. Xpede was an early example that ultimately failed due to lack of market acceptance. It was designed to handle the mortgage application and fulfillment process, and integrated tightly with the lender's Web site to provide the lender a customer-centric view. Xpede was purchased by ALLTEL Corporation (which was itself purchased by Fidelity National Information Services, Jacksonville, Florida) and eventually shut down.

Today there are dozens of mortgage product vendors that offer ASP solutions in a variety of different ways. Many providers offer their customers multiple options to licensing their software—from licensing the application and installing in-house; to paying per transaction in an ASP model; to offering a higher-end MSP model, where the vendor provides an environment for hosting a single instance of the software in addition to potentially hosting other critical applications.

ASP vendors in the mortgage industry commonly offer product, pricing and underwriting engines or Web portal solutions. However, a few vendors currently offer their customers the option of having an end-to-end loan origination system (LOS) externally hosted as well. This is accomplished most often in an MSP environment due to the customer's common need to be able to individually customize its LOS.

For example, two of the newer entrants into this ASP/MSP market are: Overture Technologies, Bethesda, Maryland, and Mortgage Cadence Inc./3T Systems Inc., Greenwood Village, Colorado.

Overture offers both a client-installed and a managed-service version of Mozart AUS™, its rules-based product, pricing and underwriting system. For each customer, the application (Mozart) is hosted on its own instance of both hardware and software.

In contrast, Mortgage Cadence/3T offers an ASP and MSP as two distinct offerings. Its ASP is an out-of-the-box solution offering minimal customization. It offers a succinct set of products and solutions, and is more automated and much quicker to get up and running than its managed-service or locally installed solution.

Within Mortgage Cadence/3T's ASP environment, only the hardware is shared among customers—the database and application are both separate instances. Its MSP option, on the other hand, offers a more customized approach where each customer has its own hardware and application environment.

For both Overture and Mortgage Cadence/3T, MSP customers have the option of their vendor hosting their Web site and other critical applications.

How do you determine if either an ASP or MSP is right for you? There are risks, the greatest of which appears to be your relationship with the provider itself. According to Gartner Group, through 2005, 60 percent of enterprises that terminated managed-service contracts will cite business and relationship issues—not performance issues—as the causes for termination.

In order to properly decide which approach to take, you need to first define internal requirements. Your answers to these requirements will help determine which provider can best meet your company's needs.

At a minimum, an ASP/MSP needs:

    networks that enable it to offer dependable, predictable performance;

    reliable and scalable operating systems and database platforms;

    reliable facilities; and

    ongoing operational capabilities.

The following checklist may also be very helpful when deciding between an ASP or MSP solution:

    Check provider financial viability.

    Check provider strategy viability.

    Determine how well it integrates with the other services (such as fraud systems, automated valuation models [AVMs], etc.).

    Inquire about maturity and effectiveness of vendor's infrastructure and process for delivering services.

    Determine if there is a rent-to-buy option.

    If ASP-only, determine if vendor's infrastructure fits within your enterprise architecture.

    Review completeness of vendor's scope of services.

    Don't start without a contract.

Make sure a service-level agreement (SLA) is in place to hold the provider accountable for the final outcome and to give you something to measure against. You must also protect yourself from the vendor's possible insolvency or acquisition.

Pay particular attention to your termination rights when negotiating managed-services or ASP contracts. Do you have an "out" in the case of a provider's bankruptcy filing? Many vendor contracts have standard text relating to contracts being assigned to a third party at the vendor's discretion. This unilateral provision solely benefits the vendor.

A vendor entering reorganization will likely want to show your contract as an asset, which it can do only if you're locked in or have expressed a willingness to stay. You may have rights in the case of bankruptcy, but such rights aren't usually granted by default in these agreements. Enterprises must have implicit contract clauses that give them, at a minimum, shared control of their destiny if the vendor becomes insolvent.

Three related elements associated with unexpected vendor business changes must be considered:

    What are your rights?

    What compensation will be due to you?

    What events trigger those rights and compensations?

Depending on your specific business and technical requirements and your internal capacity to support your technologies, an ASP or an MSP may be the right move for you. If done right, the risks that five years ago were associated with ASPs are no longer a factor. Meanwhile, the MSP option allows you to have (if your requirements demand) a customized solution without many of the costs and risks associated with hosting and maintaining it internally. With these new and improved options, you must carefully and honestly identify your requirements and closely scrutinize your vendor.

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