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ASP is one of the more recent acronyms to grace the pages of the business press. It stands for Application Software Provider and the idea threatens to re-write the way we all use and pay for software applications. The potential is vast, but so are the pitfalls, and fall-out is predicted to be high. For ASPs to prosper, they need to understand how billing effects their business and make adroit choices when it comes to what systems they employ. This article provides a broad overview of the billing issues relevant to an ASP business.

The ASP – an emerging Force
The ASP Model

At a simple level, an ASP can be defined as a company that hosts software on its own servers, access to which is granted

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to third parties in return for payment or 'rent'. The particular mix of software offered by individual ASPs varies, though the market covers all applications and functions required by businesses: from word processing and presentation software through to accounting and billing packages. Generally, the ASP delivers software packages tailored to the needs of the client and takes full responsibility for the day-to-day system administration, support and upgrades. Users access the system from their office or remote location via secure Internet lines and are charged according to agreed tariffs. These may be subject to a multitude of discount and rebate procedures.

Market Size and Growth

Revenue projections for the ASP market vary considerably, from around 8 billion US-$ to 25 billion US-$ by 2004. It is likely, however, that this owes more to competing definitions of what constitutes ASP-generated revenue than substantial disagreement about levels of growth. Year on year growth for the next four years is estimated to be in the region of 80 to 100%. The US market is leading the way with a projected 62% share of the global ASP market, against Europe and the rest of the world with 18 and 20% respectively. Projections aside, there is little doubt amongst industry

commentators that the ASP market is growing rapidly and will continue to do so for the foreseeable future.

Scalability and Differentiation

A growing market by itself, however, is no guarantor of a profitable future for current players. Indeed, if the Gartner Group's projections are anywhere near right, over one-half of existing ASPs will go out of business by the end of 2001 and, by 2004, only 4% of these businesses will be around. The difference between success and failure is linked to numerous variables – product quality and service delivery, cost management and responsiveness to customer demands, etc – but there are two key characteristics that will determine success.
– Scalability: the ability of an ASP to simultaneously grow its services and maintain quality and responsiveness.
– Differentiation: the ability of an ASP to meet the demands of customers by providing a unique service, developing new products rapidly, and offering superior support.

It will be imperative for ASPs to build a customer base quickly, thus securing the economies of scale needed to flourish in an increasingly competitive market. This requires integrated management systems that can both reduce costs and support the number of customers needed to grow the business as planned. Ideally, this is anchored by a flexible product/service strategy designed to respond swiftly to new demand and changes in the market, this differentiation making it easier to establish and maintain market share. Of course, developing an integrated management infrastructure for ASPs is a complex process involving many components, from access network technologies

through service fulfilment and provisioning, usage collection and mediation to pricing and billing. The following section deals in more depth with the pricing and billing part of the infrastructure.

Meeting the Billing Requirements of an ASP
Pricing and Billing

Pricing and billing, those processes that allow the ASP to collect revenue for its services, need to be capable of sophisticated tariff and discount plans which, in turn, differentiate the ASP from other service providers. For ASPs, tariffs represent a collection of prices that apply to a given service offering and customer. Flexibility is important, for an inflexible ASP will face restrictions in relation to the tariff offerings they make. Further, the pricing and billing system needs to be able to meet the scalability demands of the ASP business, allowing the business to grow without incurring undue cost.

Application Rental and Usage Charging

At a simple level, the software licence rental is usually charged against the number of users that the client wishes to be able to access the applications. Over time though, as the client's business grows, the number of users may increase, necessitating thresholds within the tariff: a threshold set at five and fifteen users, for example, would charge one price for one to four users per month and a slightly lower unit price for five to fourteen users. Moreover, the tariff must define whether on reaching a threshold the new price applies to all users or just marginal users (those above the threshold); classify the period over which rental is to be charged (e.g. weekly, monthly, etc); and define whether the client is invoiced in advance or arrears. Another variable impacting rental charge is the length of contract, with longer contracts usually incurring a lower charge.

The screen shot gives an example of how a Microsoft Word product might be set up in the billing system, in this case

Geneva. It shows contract periods, product thresholds, and prices. In this example, the price is defined per user seat, with a monthly charge period invoiced in arrears.

An effective billing platform should enable applications to be rented individually or as part of a package, and provide a similar option regarding network access and machine time. Ultimately, the decision to opt for packaged or separate charging will vary by case, though whatever route is chosen the system should allow any additional charges – those made for excess usage of particular resources, for example – to be handled. And the flexibility in the pricing system should make it simple for new rates or resource types to be simply configured by ASP staff.

The ASP may wish to introduce more sophisticated usage-based thresholds. For example, usage might be rated per day, and calculated by multiplying the maximum number of concurrent users accessing the application that day by the rate for that number of users. Thresholds can thus enable the price per user to fall as usage increases. A further tariff characteristic might also be introduced to differentiate pricing according to the time of day users access applications, providing reduced rates for off-peak usage, for instance.

Service Level Agreement (SLA) Rebates

Because ASPs need to guarantee client service above defined levels, any failure to meet these levels must trigger a compensation payment or rebate. To be effective, this tracking process needs to be automated, enabling the ASP to both pre-empt any complaints by the client and demonstrate that it takes the tracking of service levels seriously.

In many cases, the ASP may need to set up a complex and detailed set of rebates across a variety of quality of service (QoS) types. It is important, therefore, that the chosen system can, for example, enable a poor response time to be individually rebated at an amount per minute of degraded service. The rebate is calculated against a range of variables, most notably the application or product, QoS type, severity, the time of day and the duration.

The ASP may wish to operate an additional discounting mechanism based on SLA event records, thereby providing clients with rebates based on the total duration over which qualifying QoS levels were missed during the whole of the billing period. Applying thresholds to SLA discounts can help to refine the system further. For example, a discount with a threshold at 10, 30 and 60 minutes might apply usage discounts of 5, 20 and 50% respectively. Another level of sophistication might be added by segmenting SLA breaches according to severity: a two-tier system, for instance, might consist of "severe" and "moderate" breaches, each with its own set of discounts and thresholds.

Billing Requirements in the Future

Whilst the above highlights the essential billing requirements that an ASP will have, more complex scenarios can be envisaged, embracing more short-term flexibility in the use of applications, free trial periods, and subscription-based and prepay options, for example. Moreover, client organisations operating across several countries would require support for multi-currencies, tax jurisdictions and languages.

Today there's a great deal of hype, speculation and uncertainty surrounding the development of the ASP market. A variety of existing organisations are well placed to exploit the opportunity, including network providers/telcos, ISPs, ISVs, SIs, hardware vendors and hosting organisations. Those that do will compete with new pure-bred ASPs before consolidation and market pressures fashion a more permanent landscape. Becoming part of this landscape is likely to hinge on a number of variables, not least the ability of ASPs to develop a scalable and flexible platform. An integral component of this is a sophisticated pricing and billing product that can meet its current and future needs. ☐1

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Zusammenfassung

Abrechnungssysteme für den ASP-Markt

Es ist noch nicht lange her, dass das Kürzel ASP die Seiten der Wirtschaftspresse zierte. Es steht für «Application Software Provider» und ist drauf und dran, die Art, wie wir Software-Anwendungen einsetzen und bezahlen, neu zu definieren. Das Potenzial ist gross und die Fallstricke und Nebenwirkungen ebenso. Ein ASP, der wachsen und gedeihen will, muss verstehen, wie die Abrechnung sein Geschäft beeinflusst und die Lage richtig beurteilen können, wenn es sich für ein System zu entscheiden gilt. Der Artikel gibt einen umfassenden Überblick über die Abrechnungsfragen, die im ASP-Geschäft zu berücksichtigen sind.