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ARE HOSTED APPS FOR YOU?

ASPs, enterprise software vendors, and outsourced IT providers offer manufacturers viable options for solving their enterprise business and technical application needs.

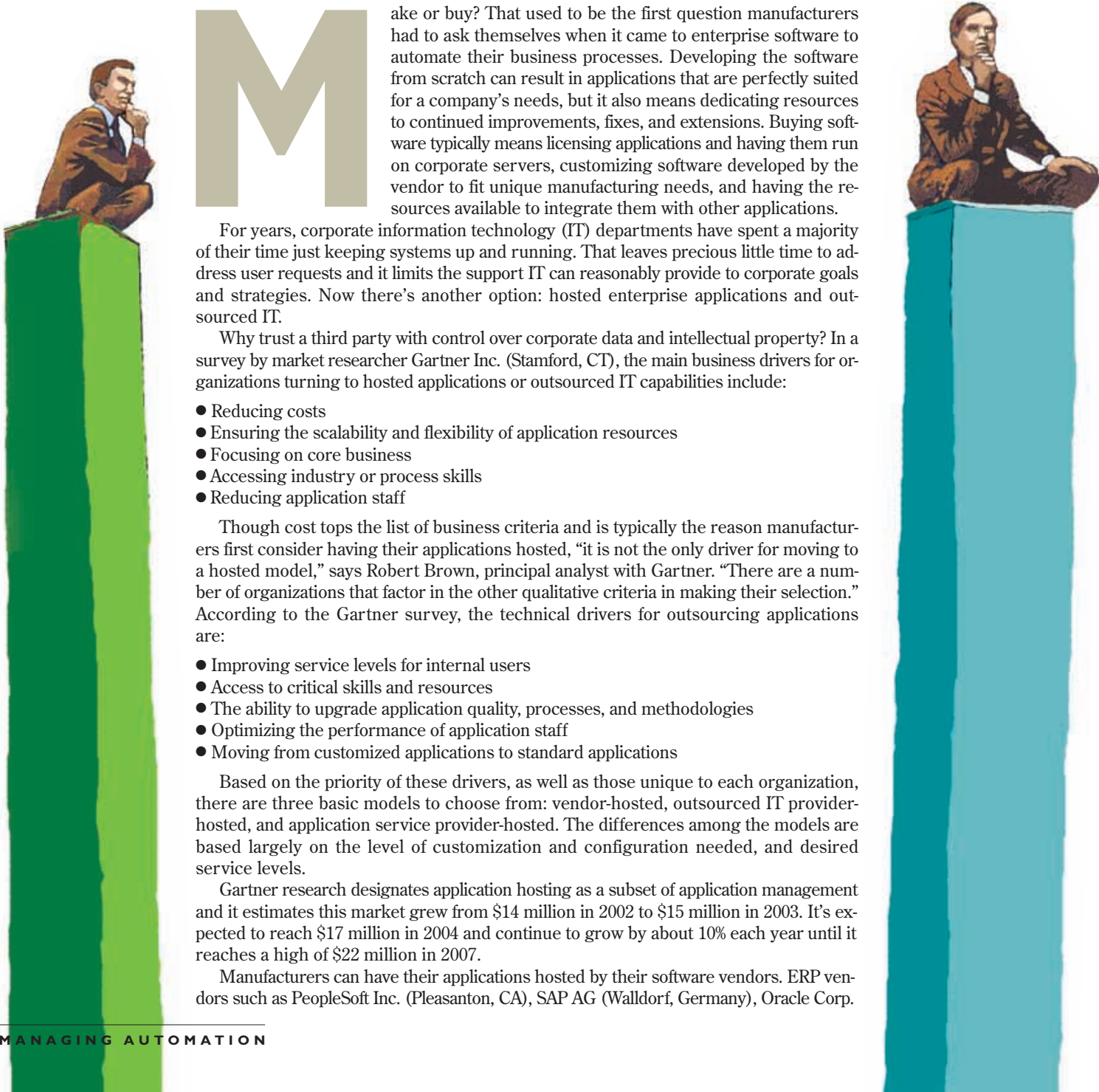


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ARE HOSTED

ASPs, enterprise software vendors, and outsourced IT providers offer manufacturers viable options for solving their enterprise business and technical application needs.

BY DAVID KODAMA



Make or buy? That used to be the first question manufacturers had to ask themselves when it came to enterprise software to automate their business processes. Developing the software from scratch can result in applications that are perfectly suited for a company's needs, but it also means dedicating resources to continued improvements, fixes, and extensions. Buying software typically means licensing applications and having them run on corporate servers, customizing software developed by the vendor to fit unique manufacturing needs, and having the resources available to integrate them with other applications.

For years, corporate information technology (IT) departments have spent a majority of their time just keeping systems up and running. That leaves precious little time to address user requests and it limits the support IT can reasonably provide to corporate goals and strategies. Now there's another option: hosted enterprise applications and outsourced IT.

Why trust a third party with control over corporate data and intellectual property? In a survey by market researcher Gartner Inc. (Stamford, CT), the main business drivers for organizations turning to hosted applications or outsourced IT capabilities include:

- Reducing costs
- Ensuring the scalability and flexibility of application resources
- Focusing on core business
- Accessing industry or process skills
- Reducing application staff

Though cost tops the list of business criteria and is typically the reason manufacturers first consider having their applications hosted, "it is not the only driver for moving to a hosted model," says Robert Brown, principal analyst with Gartner. "There are a number of organizations that factor in the other qualitative criteria in making their selection." According to the Gartner survey, the technical drivers for outsourcing applications are:

- Improving service levels for internal users
- Access to critical skills and resources
- The ability to upgrade application quality, processes, and methodologies
- Optimizing the performance of application staff
- Moving from customized applications to standard applications

Based on the priority of these drivers, as well as those unique to each organization, there are three basic models to choose from: vendor-hosted, outsourced IT provider-hosted, and application service provider-hosted. The differences among the models are based largely on the level of customization and configuration needed, and desired service levels.

Gartner research designates application hosting as a subset of application management and it estimates this market grew from \$14 million in 2002 to \$15 million in 2003. It's expected to reach \$17 million in 2004 and continue to grow by about 10% each year until it reaches a high of \$22 million in 2007.

Manufacturers can have their applications hosted by their software vendors. ERP vendors such as PeopleSoft Inc. (Pleasanton, CA), SAP AG (Walldorf, Germany), Oracle Corp.

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(Redwood Shores, CA), and others offer hosting, but only of their own applications.

"We host customers that have made an enterprise commitment to SAP," says Gary Fromer, senior vice president of SAP Hosting in Newtown Square, PA. "The customer implements the technology in the way they need to and we host the applications for them, do consulting for some of them, and manage the infrastructure."

Vendor-hosted services are typically tightly aligned with the company's professional service organizations and with customer support organizations. That means customers can expect any application issues to be resolved quickly.

Manufacturing companies can also have all or part of their applications and IT functions outsourced to a provider like USi Inc. (Annapolis, MD), OneNeck IT Services Corp. (Scottsdale, AZ), SureBridge Inc. (Lexington, MA), or others. These providers will take on as much of the customer's IT needs as necessary. These are typically highly complex, customized applications, and can be either on-premise or hosted off-site.

In many cases, these outsourcing companies can improve ROI initially by reducing the investment companies have to make in IT. Having the applications and data centers hosted means less hardware to acquire and fewer staff to maintain them. Outsourcing providers share support teams across multiple clients to reduce costs. Providers also offer application and industry expertise that can help companies use more of their applications. "Most companies only use a fraction of their applications' functionality," says Andy Stern, USi CEO. "Because of our experience, we understand how companies can get more value out of their applications and increase the return."

Most companies find that cost alone, though important, isn't a sufficient driver. A better driver for many companies is getting more value out of their applications and staff. "CIOs should be figuring out how to make technology work to the advantage of the business," says Stern. "Too many are focused on just making the technology work."

In these first two models, the customers typically retain ownership over the software licenses. There is another way. There are application service providers (ASPs) who offer applications specifically designed to be delivered as a service companies can subscribe to and use as needed. These applications are developed by the ASPs and are typically targeted at specific application categories like customer relationship management (CRM) or product lifecycle management (PLM). These have been largely mass-customized applications where there is a lot of common functionality across industries.

Most of the ASP attention has centered on CRM, with providers like Salesforce.com Inc. (San Francisco, CA), SalesNet (Boston, MA), and others enjoying the most success. One of the reasons for this is that much of CRM functionality isn't as data-intensive as other application categories. It's also easier for sales and marketing to acquire these services. These vendors also offer the benefits of a stable, secure data center with the costs of staff, firewalls, and hardware spread across multiple customers.

Though initial ASP implementations haven't focused on integrating data and business processes with other manufacturing concerns, Salesforce.com is changing the playing field with its sforce service development and integration platform, released in June of this year. sforce is an application development tool that lets developers build applications to be delivered as a service. sforce itself is delivered to customers as a service. The company expects early adopters to use the tool to integrate Salesforce.com with other applications and extend and enhance Salesforce.com's functionality.

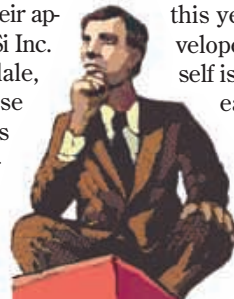
PLM applications are also available for use from ASPs including Arena Solutions Inc. (Mountain View, CA), CoCreate Software Inc. (Fort Collins, CO), and IBM Corp. (Armonk, NY).

Though these categories may seem clearly defined, providers often blur the lines to offer what their customers need and to expand their offerings. The delivery and services offered may differ but the value propositions between the models are similar, so as users request more from their providers, the application and services are added.

Moving to a hosted environment may seem like an easy decision, particularly with the proven ASPs. Not so, says Brown. "Some of the deals are constructed hastily, without a clear process of going through the justifications for doing that deal," he says. "It's incumbent upon users to investigate and evaluate a number of different providers, and then negotiate against these suppliers to ensure they have a good deal." It's especially important to find a provider that offers the right combination and levels of services.

Taking the hosting route isn't without concerns that must be addressed. In most companies, the concerns generally come from the loss of control as the applications and data are outside the corporate walls. Questions such as who owns the data, security measures, service levels, and intellectual property must be addressed. For SAP's Fromer, the biggest issue is "making customers comfortable with the hosting decision and moving the control from the company's IT department to the vendor. The other conversations over security, cost, response times, and more are the ones we want to have because the model offers advantages in these areas."

Manufacturers taking the hosting route must carefully decide what services they need from the hosting provider, ensure those services are detailed in the contract, and be confident the provider can deliver. This isn't typically an all-or-nothing



decision and some IT functions are almost always kept in-house. The key is figuring out what requirements are best cared for by internal staff and what can be beneficially sourced to a third-party.

Russell Stover Candies Inc. (Kansas City, MO) manages its candy manufacturing by “outsourcing just about everything IT,” says David Copas, senior vice president of IT and logistics. The company outsources its Baan (now SSA Global) applications to OneNeck IT Services. The Baan applications include accounting and financials, manufacturing, planning, and distribution. OneNeck IT Services also hosts and supports J.D. Edwards (now PeopleSoft) and Khameleon ERP applications.



“It’s incumbent upon users to evaluate a number of different providers and negotiate against these suppliers,” says Gartner’s Brown.

Russell Stover’s first experience with a hosting provider was with a company more focused on providing the infrastructure for the applications. What the company realized was that it needed better business and application support. “When I looked at whether to bring it back in-house or change to another outsourcer, I looked at what we were doing with Baan,” says Copas. “Building up a staff to manage our implementation would have taken about three years, so we decided to go with an outsourcer with the Baan talent we needed.”

One of the critical elements in choosing an outsourcing partner, according to Copas, is a good cultural match. Like any partner, an outsourcing provider should be viewed as an extension of the enterprise—and that requires a good working relationship to be successful.

A good working relationship starts with a good contract. “It’s essential that the contract be clearly understood and stated in terms of the intentions, the perspectives, how problems are resolved, how services are changed, and what the expectations are,” says Copas. In Russell Stover’s contract, there are 30 key performance indicators the company monitors monthly. When the performance levels aren’t met, there are penalties enforced and ways for OneNeck to earn back those penalties.

OneNeck also provided Russell Stover with a better understanding of manufacturing processes and how to run the business with the functionality Baan provides. Before working with OneNeck, the company relied too much on outdated business processes and had customized the applications more than necessary. “OneNeck knows manufacturing and Baan,” says Copas. “They came in and discussed the business and manufacturing processes and how the processes use the software. In many cases, they spent time teaching users how to use the ERP system to do what we needed to do.”

The move to OneNeck has saved the company approximately \$4 million by reducing IT spending by 25%. The system also runs better and is more reliable with cleaner data. It has allowed the company to reduce its IT staff to one full-time person. For his part, Copas is now wearing multiple hats. “With IT largely managed by



“With IT largely managed by OneNeck, I told management that they were paying me a lot for what I’m doing. So I took over logistics and part of distribution,” says Russell Stover’s Copas.

OneNeck, I told management that they were paying me a lot for what I’m doing. So I took over logistics and part of distribution,” he says. There are eight to nine OneNeck staff members managing a system that Copas estimates would have required an internal staff of 35.

In measuring the performance of an application outsourcing contract, companies surveyed by Gartner reported their top two concerns are completing work on time and completing it within budget. Subsequent concerns include cost savings (comparing previous internal costs to the outsourcing environment), reduction in errors, and faster response time.

Application hosting models are proving their value and thus gaining momentum. In the future, Brown says, “companies will move toward a hosted model for all of the application functionality in their organizations that provide competitive parity, like human resources or financials. Those companies will then focus on and spend more time and money on customized applications and application functionality in areas that offer competitive advantage.” MA

Which Model Is Right For You?

Before choosing an application model, companies need to understand the benefits of and services provided by each type. Below is a snapshot of what manufacturers can expect from the three different model types.

Model 1: Vendor-Hosted

Description: Applications hosted by the application vendor. Offered by most major ERP vendors including Oracle, PeopleSoft, SAP, and others.

Benefits and services: Many enterprise software vendors offer hosting as a service to customers. The applications that can be hosted are limited to a specific vendor’s applications. Hosting typically supported by vendor professional service organization. Focus often on the infrastructure to support the applications.

Model 2: Hosting/Outsourced IT Provider

Description: Applications hosted by a provider. For example, USinternetworking, Surebridge, OneNeck.

Benefits and services: Clients can have multiple applications hosted and maintained by the provider. Services can range from simple application hosting to consulting and ultimately, outsourcing all IT functions.

Model 3: Application Service Provider (ASP)

Description: Application delivered as a service. Examples include SalesNet, Salesforce.com, Arena, CoCreate, IBM/Siebel OnDemand.

Benefits and services: These applications are designed and developed to be delivered as a service to users and paid for by use or subscription fees. Benefits include lower entry costs, less IT involvement, and low ongoing subscription costs. Applications are also available to any users over the Web.



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