



Difference between the ASP Model and the SaaS Model

LuitBiz

Email: sales@luitinfotech.com

Phone: +91 80 42061217

The Application Service Provider (ASP) model became popular in the late 1990s with the emergence of the first wave of Internet enabled application. An ASP company would license a commercial software application or assume another company's license as its own. It would then host the application in its secure centrally located servers. The ASP would then license the application to multiple customers. They would sometimes customize versions of the application and provide it as a hosted service to the customer at a lower cost of ownership

However, the ASPs soon discovered that the cost of customizing and maintaining modified versions of commercial applications was much greater than they had initially anticipated. ASPs did not have control over the features and development of the commercial applications that they were deploying. Hence they were not able to deploy the customized product effectively. Many of the ASP customers, who had moved their mission critical applications to the ASP model, soon discovered the ASP lacked domain knowledge to effectively customize the applications to their needs. Additionally, these customers also found out that the associated fees for customization charged by the ASP were very high.

The result of the ASP model was that the cost and innovation benefits were very limited.

The SaaS (Software-as-a-Service) model refers to an application that is comprised of a single, integrated code base that is delivered as a service to multiple customers simultaneously, and securely, via the Internet. Additional capacity, users, add-on components, or features can be ordered by the customer. These needs will be fulfilled without the technical or licensing barriers common to installed software. A recent survey of US IT executives by McKinsey & Co. (*McKinsey on IT, Summer 2006 issue*) found that only two new technologies were viewed as highly promising tools for obtaining real business benefits – one being SaaS.

The result of the SaaS model, a cost effective Internet based service offered with a low-entry, zero infrastructure and low customization cost by providers who have complete domain knowledge about the application. There is a clear market direction toward the use of SaaS for providing on-demand application services. This is especially true in the SMB marketplace that can use the SaaS model to become more nimble in adapting to changes in the market and to implementing changes in their businesses to be more competitive and successful.

The main differences between the ASP and SaaS models are provided in the table below:

	Application Service Provider (ASP)	Software-as-a-Service (SaaS)
Application Deployment	Borrowed. ASPs deployed commercial applications from other companies because of which the cost advantage was low and customization capabilities were limited	Built. Software is developed by the SaaS vendor from ground up and the cost advantage is maximum
Implementation Time	Long. Lengthy cycle to install and customize a commercial application built by some other company	Immediate. Availability for all paid customers on demand within specific time limits
Usability	Difficult. Customized version of an already complex system requires a lot of training and orientation	Easy. Internet based SaaS applications bank on their intuitive usability and claim that users can start using the system within no time
Application Designs	Monolithic client-server programs. ASP-supported applications were monolithic client-server programs with simple HTML Web interfaces.	Easy to use web based programs. Today's modern SaaS solutions, however, are designed for the Web environment, which improves usability and manageability.
Integration	Expensive and time consuming	Inexpensive
IT Support	Exclusive. Internal monitoring, depending on the degree of customization and integration, added maintenance requirements	Inclusive. Included as part of service

	Application Service Provider (ASP)	Software-as-a-Service (SaaS)
Upgrades and Enhancements	Infrequent. Since ASPs often depend on commercial software providers, their ability to upgrade the application was limited. Upgrades were deployed whenever the core application supplier issued them, usually once a year or less. Lack of multi-tenancy made single instance upgrades impossible.	Often. Best practices and ideas are incorporated as enhancements. Since no software is deployed on the customer site, enhancements may be implemented at the SaaS data center and made available to the entire user community; configuration settings allow clients to adopt or reject these changes depending on their needs
Multi-Tenant Scalability	No. Each customer application is maintained within the ASP's environment; no way to scale across silos.	Yes. Applications are designed from the ground up to be used in a multi-tenant environment, Systems are configurable so each customer can have a custom experience, yet the code base is disparate and is maintained and enhanced for the benefit of all the customers
Market Acceptance	Less. ASP vendors rushed their offerings to market before performance, security, customization and integration issues were solved, and before many IT organizations were ready to adopt the ASP model.	More. Today, both IT and business users are better equipped to take advantage of SaaS as IT experience with Web-based and services-oriented technologies is improving, and business needs such as compliance legislation are providing the momentum for companies to adopt an SaaS approach

Application Service Provider (ASP)

Software-as-a-Service (SaaS)

Hardware
Compliance

Difficult: An ASP would take a software package that was not written to be hosted and put it on the Web. This often caused hardware compliance problems.

Easy: Most SaaS products are purpose-built for the Internet. Also SaaS hosting hardware is developed for use on the Internet

Market Timing

Ahead of its time: The ASP model was a bit ahead of its time as Internet broadband speeds were very low

On time: Today due to the increase in the speed of broadband Internet connection, it is possible to move data fast and with ease over the Internet

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Contact Information

Luit Infotech Private Limited

Email: sales@luitinfotech.com

Phone: +91 80 4206 1217

Website: <http://www.luitinfotech.com>