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Newsletter

European ASP Actions Q3/2001

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Welcome to the third quarter, 2001 edition of European ASP Actions, IDC's newsletter targeted at professionals working in the European ASP and Web hosting industry. Along with marking out the principal news announcements for the ASP and hosting industries in Europe, ASP Actions includes a Q&A session at senior level from prominent ASPs operating within Europe. This month we welcome Norway-based Mondosoft A/S.

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Executive Interview - Jens Hugaard, Executive Vice President, Sales and Business Development, Mondosoft A/S

IDC welcomes Mondosoft to this quarter's ASP Q&A session.

In Europe where do you see the most opportunity developing in the short and long term?

Short term I see a major opportunity for any ASP product related to content management software products and portal software products. Due to the much talked-about recession I believe there will be new focus on businesses using the Internet as the base of their operations. Travelling is being reduced; print and broadcast media is suffering. This will make companies focus on the possibilities of using portals to promote services and products.

We see the focus already now, and I foresee this trend to carry on long term, catalyzed by factors such as recession and the demography in certain verticals, especially in public sector which will be forced to increase productivity dramatically during the next few years. The public sector will soon have major problems in recruiting new employees.

What type of applications and service offerings provided through the ASP model do you feel will lead the European market?

Applications developed from the beginning as Internet-based applications will increasingly dominate the market. Transactional applications such as simple purchasing, reservations and product/service ordering are well known today, but, percentage-wise, few companies offer these at present. I believe that we will see a steep increase in companies offering these simple applications to their Web site visitors. We will see a new set of applications combining these services using industry standards.

Does Mondosoft have a strategic focus regarding the size of company it provides an application subscription service to? Do you see this changing?

We target companies using the Internet as an important tool to promote, market, and sell their products and services. We target all institutions in the public sector as we see an increasing shift in moving many simple service functions to the Internet. The demography of Western Europe is changing and this will put pressure on the public sector to accelerate the move to offer more and more services via the Internet; the public sector appreciates the advantages of the ASP model. You could even say that they have no choice--if they cannot get the service via the ASP model, there is no way they can get it.

How easy or difficult is it to persuade potential European clients of the ASP model's viability. How are you doing this?

We offer our products on both the traditional CD-ROM, local installation model and the ASP model. We explain the pros and cons of both approaches to the customer, and leave it to the company to choose what suits them best. Today, the split is approximately 50:50. It is our impression that some of the cons listed for ASP products are not as important as are often stated.

When we give the customer the choice of local installation or ASP, their list of cons is short.

The ASP market in Europe has remained immature, made up to a large extent of pilot programs. What timeframe do you think the European ASP market will spike?

The market for ASP, or, I prefer to call it, Internet Business Services, will take off next year and will spike soon after, maybe the following year.

How easily do you feel the sales challenge can be met? The psychology of an ASP sale is quite different from a normal one affecting upfront commissions for sales personnel. Do you have any thoughts on the matter?

As I explained above, we let the customer decide. Our sales personnel are at this point in time incentivized to sell our products in both CD-ROM and ASP forms--the customer decides. The basic challenge is to explain the ASP model. It is hard to understand for many professionals.

ASP operations have the potential to cannibalize existing revenue streams of ISVs. Do you have any advice for those ISVs wishing to use the services of an ASP to extend market reach?

For an ASP product like ours I see a tremendous opportunity. We benefit from using the Internet as a base for selling, implementing, delivering and supporting our customers. We can do this with limited staff--we have two offices to cover the globe. We would not have been able to do that without the ASP model.

How far do you see the ASP revolution going? How much will demand for application solutions switch from normal channels to ASP operations?

I do not see a major switch from current applications being switched to ASP mode. Rather, I expect to see the number of new applications delivered via the ASP model increase dramatically. The Internet will provide so many new possibilities which in nature will be ASP-based. I see no limit to the type of applications that can be offered based on Internet technologies, the ASP model and industry standards.

The ASP industry in Europe will cause many companies to revamp their historic strategy. How will it redefine how companies do business?

I do not believe that business will be redefined due to the ASP industry. Companies taking advantage of the possibilities of the applications model will be able to refine their strategy to focus entirely on their core business. You could say that the ASP industry helps companies to focus on core business.

Within Europe where do you see Mondosoft in 3 years time?

We are in all European countries. The need for improving the ease-of-use for Web site visitors while searching for business intelligence on the net will increase dramatically during the period in all countries.

ASP News

Apps4Biz – Good For Europe

Apps4Biz, a US-based ASP targeting SME manufacturing organizations is making the move into Europe. The company's applications include manufacturing, supply chain management and ebusiness software. Their decision to launch in Europe lies in their applications support of the Euro and their language capability in French, German and Italian.

Apps4Biz has signed up 39 European channel partners to distribute applications. The solutions are Internet-based and can be sold either through ASP or normal distribution channels. Sales efforts will reveal a strong emphasis towards the German-speaking market. One of the principal channel partners is BCD SINTRAG AG, a distributor/ASP with commercial links in Switzerland, Germany and Austria. BCD expects Apps4Biz product sales to comprise 25% of its business by the end of next year.

Oracle to Ignite

Oracle has struck a deal with BT to provide Oracle applications throughout Europe. BT, through its subsidiary BT Ignite, will provide the datacenter element of the ASP initiative, enabling Oracle application availability across Europe. Oracle was one of the first major software vendors to create interest around the ASP phenomenon insisting that all of its software would become subscription-based.

BT becomes Oracle's first European partner outside of the US to facilitate ASP delivery of the Oracle suite of applications. The deal reflects the localized nature of the European hosting market—in the US Oracle uses its own datacenters. Through this agreement, the company maintains that users can have access to its set of applications within 10 days.

Sun Shines on EDS

In a rare move within the services industry, Electronic Data Systems (EDS) has announced a collaborative initiative with Sun Microsystems to provide each company's customers with ASP-style services. The new deal, termed "Continuum of Services", is expected to generate an ambitious \$3b in sales over the next five years and will focus on specific verticals including healthcare which is becoming a targeted vertical for many prospective ASPs.

End users will be able to source on-demand IT offerings including Web site management, datacenter outsourcing and ASP hosting services. Sun will provide the hardware and software with EDS providing the services, including systems implementation, integration, consulting and outsourcing. The aim of the program is to develop a set of packaged services and solutions between EDS and Sun and other European partners wishing to join. This will enable EDS to head downstream and target more of the SME market. Both organizations will co-develop and promote the deal through joint marketing initiatives

Financial Services.com ASP-enables Applications

To date, few applications have been written solely for use on the Internet. Software vendors looking towards ASP usually 'shoehorn' existing applications into network-centric environments. A European example coming to light this quarter is Financial Services.com (FSDC) who have used Tarantella enterprise software to Web-enable their applications.

FSDC has identified a gap in the market, which it intends to fill with applications written specifically for the financial services industry. These will then be delivered over the Internet. The company has two markets in mind with its ASP service—software vendors and end users. ISVs and resellers can sell through the company's applications and build their own customer base.

IBM: From A to X

In a move emphasizing the wider implications of network-centric computing, IBM has renamed its "ASP Prime" initiative "xSP Prime". IBM maintains that the expanded initiative will target service providers operating within the Web hosting market, datacenter provisioning, storage service provision and any other service providers using IBM hardware, software and services.

The 'new' program provides similar elements to the ASP prime initiative. Design workshops provide one-to-two day workshops, enabling potential service providers to tighten business strategy. Financial modeling tools are also provided allowing potential service providers to scenario forecast number of clients, return on investment periods and other business variables necessary to launch a successful xSP offering. A third element is also available—technical strategy workshops—enabling potential xSP providers to lower operating costs by applying the optimum technology to create competitive advantage. Qualification to use the xSP prime initiative is determined by the service provider's commitment to deploy IBM infrastructure including hardware, software and services. IBM currently has ten ASP Prime solution centers worldwide, which will be converted to xSP. To date, 300 software vendors have received "prime" creditation.

End for FutureLink

FutureLink has filed for bankruptcy in the US. As reported in the previous issue of ASP Actions, the company decided to drop the term ASP and refocus its business back to professional services. Changing economic conditions also forced successive staff cuts, but despite these measures the company has still filed for bankruptcy. Results were disappointing from the previous two quarters and the company admitted it was running out of cash, so the news was not unexpected. The bankruptcy filings in the US exclude Futurelinks' UK operations (formerly KNS distribution) which have not started similar proceedings.

ASPIC Insurance

As an antidote to the problems of the ASP "sell," the ASP industry consortium (ASPIC) has announced an insurance program specifically for ASPs.

ASPIC has developed the insurance offer in conjunction with InsureHiTech. ASPs that decide to take out insurance will be covered against problems specific to Internet-related ventures. Paula Hunter, ASPIC chairman, said "This new insurance program is an extraordinarily valuable benefit for our members—one that fills an important need for them, as well as their customers. It provides ASPs with access to comprehensive protection against any of the risks to which they could be exposed in the course of their business. At the same time, it gives ASP customers an added measure of security that will enhance confidence in the ASP delivery model and ultimately accelerate its adoption."

Recent IDC research reveals that data security is the top concern of customers in Europe (See *HA22H—End-User Survey: What Are the Pains and Preferences of the European ASP User*). The insurance provides for the following:

- **Media liability:** Protection from Web content that could include libel, invasion of privacy and copyright or trademark infringement.
- **Professional liability:** Protection against wrongful acts committed in the performance or non-performance of Internet, professional or technology-related services.
- **Security liability:** Protection against computer attack, unauthorized access, unauthorized use or malicious code.
- **Extortion coverage:** Protection against threats to commit an intentional computer attack or other security breaches for financial gain.
- **Asset and income protection:** Protection of an ASP's business income in the event of a covered security breach.
- **Crisis management fund:** Coverage of up to \$50,000 in public relations expenses relating to a claim covered under the policy.

It is currently unclear if the insurance can be applied uniformly across all European nations.

Hosting News

Exodus Closes Four European Datacenters

Following its move into Chapter 11, Exodus is to close four of its datacenters in Europe. All the datacenters were equipped but non-functioning, i.e. they were not serving customers. While that fact reflects the exuberant advanced building program many hosters undertook, it means, according to the company, that no customers or Exodus staff will be affected. The datacenters to shut down are in Munich, Amsterdam, and two in Dublin. Chief Executive L. William Krause said "In assessing our international

operations, cost structure and potential for profitable growth, it became clear that we were over-invested in nonoperational or under-utilized facilities in certain markets”.

KPNQwest Buys GTS/Ebone Assets; KPN Reduces Stake

KPNQwest is to acquire the central and Eastern European network of GTS (Global TeleSystems), and GTS' pan-European IP network, Ebone in a deal worth \$587m. KPNQwest will issue EUR 210m of new convertible bonds and assume an estimated EUR 435m of net bank debt and capital lease obligations. To support the deal, the company has secured a credit facility of EUR 500m from a consortium of five 'tier one' finance houses. The acquisition is due for completion by March 2002. The acquisition will add three countries and ten cities to KPNQwest's network and will double the number of hosting centers to make a total of 55,000 sq/m of hosting space across 24 cities. It will also add 48,000 customer accounts to KPNQwest's business. In the same announcement, KPN stated it will transfer 10% of its holding in the company to its joint partner Qwest, a total of \$91.6m, increasing Qwest's stake to around 47.5%. KPN is seeking to reduce its considerable debt burden, and this transfer is the first major sign of KPN's possible exit or downgrade from the joint venture. The transfer may see around \$383m of debt lifted from KPN.

Genuity Completes Integra Acquisition, Resumes Trading, Installs New Integra Board

Genuity has completed the acquisition of France-based Integra and has resumed trading on the French stock market Nouveau Marche. Genuity has acquired approximately 41.4m of Integra's 45m shares, representing around 92% of outstanding Integra shares. A new Integra board of directors has been appointed consisting of members of Genuity's international management team. Gabe Yackanich, president of Genuity International, has been elected chairman and CEO of Integra S.A. and Charles Zaiontz has been appointed as president of Genuity Europe. Former Integra CEO Andy McLeod has left the combined company.

IP Powerhouse Raises Funding Against Reduces Plans

IP Powerhouse has raised EUR 20m from majority shareholder CapVest Partners in return for a reduction in its planned operations. The original plan for eight European datacenters has been pared down to focus on its existing Amsterdam facility of 10,200 sq/m. With the new funding and reduced development plans, IP Powerhouse expects to break into profit by the end of 2003.

BT Ignite, Cegetel, eircom Increase Hosting Operations; Marconi Pulls Out

Despite the widespread scaling down of new datacenter development programs, BT Ignite is to build a 100,000 sq/ft datacenter in Cardiff, Wales, expected to employ 400 staff, and Cegetel, a subsidiary of the Vivendi Universal group, is to target

French SMEs with its new hosting service, funded by an injection of just EUR 3m. eircom has completed development of a new 30,000 sq/ft datacenter in Dublin, funded through a EUR 20m investment by the incumbent operator. At the same time, Marconi has postponed indefinitely its plans for a European and Asia-Pacific buildout of datacenters. The company will continue its managed hosting services in the US.

CityReach, iXguardian Exit Hosting Business; Redbus/TeleCity Fail to Merge

This newsletter assumes the reader is by now familiar with these three widely-reported and discussed stories. Please contact James Eibisch (+44 20 8987 7114, jeibisch@idc.com) for details as required.