

ASP: A new twist to a proven idea

A company trying to work simpler, better, faster and cheaper may find its solution in ASPs.

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In the last 20 years, the oil & gas industry has been the beneficiary of technology in tremendous ways. Thousands of specialized software applications from hundreds of bright entrepreneurs and scientists have emerged to help the industry lower its finding costs, from new ways to interpret seismic data to drilling in ultradeep waters. This could not have happened without the continuous improvement of computing technologies from the mainframe of the '70s to today's very fast graphical machines and arrayed operating systems.

Although we have achieved some great breakthroughs in productivity and associated costs, we also have created a long list of incompatible software applications, making it increasingly more difficult for them to share data and associated analyses.

Applications continue to emerge and improve. Much of this improvement is financed by and delivered to the users through licensing and maintenance agreements the software companies offer their clients. In most cases, the rate of return from these incremental improvements has reached the point of diminishing returns. Improvements are there, but benefits are not as dramatic as with their initial releases. So where will the "breakthrough" gains in productivity come from that we need to meet the energy demands of the next 20 years, especially given the aging of our workforce?

Great improvements can be found if we can get our teams to work better together, to get our people and their supporting technologies to work better together, anytime, anywhere. In a word, collaboration.

Collaboration

In order to collaborate, work must be shared; data and software must be accessible to work teams in order to work on the problems together. Today's teams are more dispersed than ever before, and not only in terms of location. Many team members work for joint

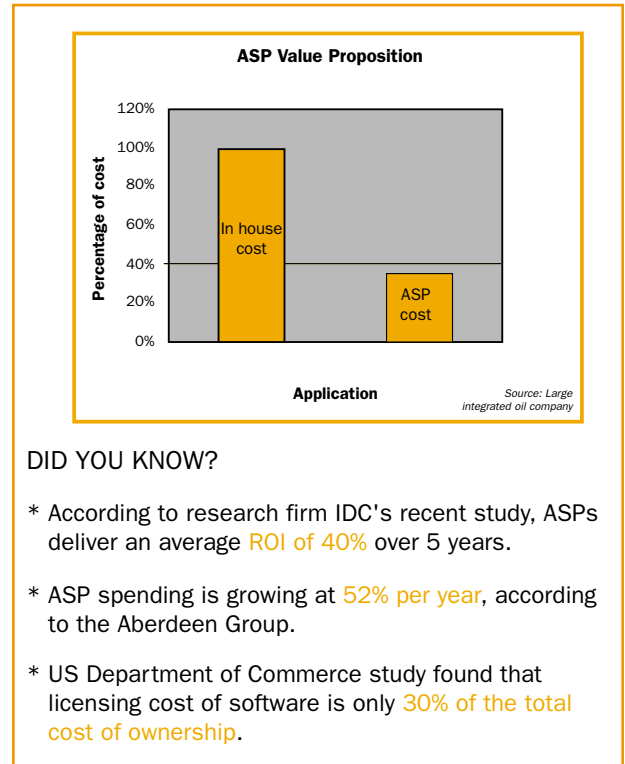
venture partners or are outside consultants. The sharing can be accomplished in a number of ways, but one of the fastest and lowest-cost methods is by sharing systems over the Internet through an Application Service Provider, or ASP.

What is an ASP?

An ASP provides software and services in an easy-to-use and cost-effective manner accessible anytime and anywhere through the Internet. In its simplest form, an ASP makes applications and data available on a cost-per-use basis rather than the traditional licensing and maintenance model. It takes the capital expenditures and implementation delays associated with both hardware and software out of the decision-making process, as all software resides on the provider's servers. More importantly, set-up and implementation time is decreased, saving additional expense and bringing benefits to the table sooner.

This is not a new idea. Timesharing was popular when the cost of hardware and the people needed to manage the data center was prohibitive, so companies emerged that would operate one data center and run applications for several clients on a shared cost basis. As mini-computers and later personal computers evolved, along with specialized software that could be run by an end-user, people abandoned timesharing for greater access and the ease of use offered by software on their own desktops.

Yesterday's "timesharing" really was a good idea. Today this idea is being used again for even greater good. Today we have ASPs providing specialized and sophisticated analytical applications with the high-speed and low-cost infrastructure provided by the Internet. We really have the best of both worlds — shared costs and specialized applications.



DID YOU KNOW?

- * According to research firm IDC's recent study, ASPs deliver an average ROI of 40% over 5 years.
- * ASP spending is growing at 52% per year, according to the Aberdeen Group.
- * US Department of Commerce study found that licensing cost of software is only 30% of the total cost of ownership.

An industry study pinpoints the advantages of ASPs. (Graphic courtesy of Petris Technology Inc.)

We all utilize timesharing, sometimes over the Internet, other times not. A classic example is the airline industry. Most of us fly on business, yet our company does not own the plane. Why not? Well, the cost of the plane, its maintenance, personnel to fly it and fuel costs are obviously prohibitive. You can only hope it's available when you need it and in the right place at the right time or else you have more expense. Instead we buy a seat when we need it and for the time we need it. Software is no different. Do you use software 100% of the time? Do you really know how much it costs you to keep that software running?

In the May 29, 2003, article, "The Hidden Cost of Software" from ASPnews.com, it states: "In addressing total software related spending, JP Morgan Chase technology analyst Chuck Phillips cites a recent US Department of Commerce study indicating that software license expenditures account for only 30% of the total. The lion's share represents labor costs, with 37% of spending

One example of collaboration using the web came from Tom Williams, vice president of Maurer Technology, Inc. "While drilling a well on the North Slope as part of a U.S. Dept. of Energy (DOE) project to test hydrates, Maurer Technology was using its ASP-enabled drill smart software to monitor drilling parameters real time. Due to a change in temperature of its drilling fluids, the engineers in Houston alerted the rig to stop drilling and adjustments were made. Had the members of the Houston-based team not had this Internet option they could have melted the permafrost and created a washout, but more importantly, they maintained the required drilling temperature through the hydrates. In doing so, they recovered cores that would have been useless without this intervention. Those cores were the primary objective for determining reserve potential. Economic impact — US \$12 million dollars was allocated to drill this well to test the hydrates for recoverable natural gas."

going toward internal IT staff support and 33% earmarked for external consultants related to software implementations."

According to a recent IDC report, "Many companies underestimate the cost to manage applications. When you consider the annual cost of administering the applications and the cost of managing issues around performance, changes and availability, it is most likely significantly greater than the application purchase price."

Can your company continue to operate this way when technology is making quantum leaps? Outsourcing is not a bad word. It can be a way to trim costs, but more importantly it is a way to have your entire team, including the IT staff, concentrating on core business

and improving overall efficiency.

With hosted applications, "the risk is very low for the customer," said Joshua Greenbaum, an analyst at Enterprise Applications Consulting. "You don't buy the perpetual license and hope to use it some day. You pay for what you use, which makes sense in a bad economy. It makes sense anytime, but particularly now." Hosted software puts fewer demands on in-house staff as the ASP takes care of upgrades and maintenance of the applications — and in some cases even allows business managers to bypass their IT department altogether.

Companies always are concerned with their return on investments, and ASP usage is no different. According to the research firm IDC's recent study, ASPs delivered an average ROI of 40% over 5 years. When a software vendor whose software currently runs in an ASP mode made a presentation to a Houston, Texas-based independent producer telling the producer that the vendor's US \$25,000 software package, along with some managed services, could save the producer \$100,000 per year, the chief financial officer told the vendor's representative the numbers were wrong. For a few seconds the representative, who prepared his calculations with considerable effort, was stunned but then surprised to hear the rest of the sentence . . . "you will save us much more than that, I know — I write the checks."

What about security? Most oil & gas companies guard data like precious jewels. An ASP guards data as securely as would an online banking provider. First, many ASPs utilize third-party facilities to host their hardware and software. These hardened facilities provide 24-hour security. They implement security plans that include firewalls within these hosting facilities. An

ASP can be as secure as your internal systems, and according to some experts, may be even more secure.

There is also the fear of loss of control, yet with an ASP you may have better control as you can dictate what they manage for you and how they manage it.

A successful ASP

So why should an oil and gas company, a service company, a utility or even a consultant consider using an ASP? Because it's better, faster and cheaper. ASPs provide anytime, anywhere computing. Companies need to focus on their core competencies and business strategies, which in most cases do not include developing, managing and maintaining software. Why pay for things you don't need or don't use or don't sell? ASPs hold four key value propositions:

- cost reduction
- rapid implementation
- efficient use of IT skills
- return to business fundamentals.

When picking ASPs, you need to ensure they are on the right track. They need to have industry expertise and quality partners (software vendors and products). They need to provide solutions to customer problems, utilizing state-of-the-art hosting facilities. They need to have a proven track record, an understanding of customer needs and expectations, and a strong support organization.

Once you make the decision that an ASP is a good thing, you should experience lower operating costs, improved teamwork, a reduction in the typical backlog of IT functions, improved data quality and added profits . . . all by simply outsourcing stuff that's not core to your business model. Simple. Better. Faster. And yes, cheaper. **EXP**