



Costs in the Cloud

Question – “Which ERP deployment approach costs more over the long term: on-premise or the cloud?”

There is no one-size-fits-all answer to this question, but the trends are pointing in one direction for most small business ERP deployments – the TCO for cloud-based solutions is significantly lower than for on-premise alternatives, both in the short and long terms.

For starters, in recent years the turnaround in the trend lines between these two approaches has been stunning. As noted in his article entitled “Cloud vs. On-Premise Deployment, 2008-2014,” (Software Advice, June 19, 2014), Noel Radley states, “There’s been a radical shift in deployment preference: 88 percent of buyers preferred on-premise solutions in 2008, while 87 percent preferred cloud solutions in 2014.” In the same article, Radley says, “From 2009 to 2010, for example, preference for on-premise deployment dropped from 54 to 31 percent. In 2014, just 5 percent of buyers wanted to evaluate on-premise software.”

Those are very telling numbers and the related costs of the two approaches demonstrate very clearly why the trend lines are moving so quickly in opposite directions.

- **Implementation Costs –** For on-premise ERP solutions, the implementation process represents the greatest overall expense. A typical implementation requires most, if not all, of the following expense items: hardware, software licenses, database licenses and external implementation consultants who usually assist in the design, perform the installation and provide training to staff. Often, the implementation consultants will also deliver customizations or modifications to the code of the core software to fulfill the unique needs of a small business, especially one in a specialized vertical niche. Add to this the cost of housing an “industrial-strength” processing and storage capacity network infrastructure that is “cyber-safe” and is configured and maintained by high-priced IT experts.

Cloud-based ERP systems usually require much lower up-front costs due to the absence of any significant IT expenses such as hardware and support staff. Unlike on-premise solutions, the primary up-front and recurring cost is the periodic subscription fee for software hosted on remote third party servers and accessed online. Subscriptions are usually pay-as-you-go, which means a lower initial investment and the ability to withdraw from the subscription if the solution doesn’t perform as desired. This paradigm shifts more of the risk to the software vendor, who is likely going to try to do what it takes to keep your business.

- **Ongoing Costs** – One of the key advantages of a cloud-based ERP system is that periodic updates are usually built in to the subscription fee, meaning your software will always be up to date and you won't have to worry about obsolescence and the eventual sizable upgrade fees that could come with an on-premise solution. Think about it – How often are we confronted these days with a software vendor threatening to end support unless we comply with a forced upgrade to a new version? Plus, since the vendor is responsible for all of the IT support for cloud-based software, the subscription fees will continue to be your primary expense. This is also quite helpful since you have a known regular fixed cost and little in the way of variable costs that are part of the ongoing equation with on-premise solutions.

With on-premise solutions, you also need to consider the recurring costs of professional hardware and network maintenance service, continuous monitoring and backup of your in-house systems, updates and upgrades of infrastructure software (firewalls, anti-virus and malware protection), plus disaster recovery backup systems.

Here's another fairly common scenario to consider – If your company has invested in significant code modifications to your on-premise ERP solution, the costs of upgrading to a newer version may be too great and you may be stuck with the current version, which may no longer be supported by the vendor.

Oh, did we mention the costs associated with downtime should something go awry with your on-premise solution and you need to account for IT costs and the loss of business? Isn't it nice to know that highly trained professionals in a remote data center are onsite around the clock to ensure that your ERP cloud solution performs at peak efficiency and that your business will experience the absolute minimum of costly downtime?

In conclusion, be sure to perform your due diligence in comparing TCO projections of both approaches for at least the first five years of your ERP software implementation. The odds are very good that your research will clearly demonstrate the overall cost advantages of a cloud-based implementation.

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