

Sage ERP | White Paper

On-Demand or On-Premise:

Understanding the Deployment Options for your Business Management System



Introduction

Does this situation sound familiar? You started out with an off-the-shelf accounting software package, but now your business has outgrown its many limitations. Or perhaps you purchased your accounting system many years ago and have decided it is time to find out more about the newer solutions on the market. Or, maybe, you've recently purchased a business management system, but it is not performing as promised or the cost of maintaining it is too high and you feel it is time to cut your losses. Or you are starting out a new business and want to assess your software solution options. All of these situations put you in the position of needing to research software, on which to manage your entire business. Often, an overwhelming task.

When deciding to implement a new business management system, there are many factors that need to be considered. Up until the beginning of this century, choice of deployment options—the how and where of delivering a software solution—was NOT one of these considerations. You would purchase software licenses, buy computers, and install and run the application in your office. With advances in Web technologies and growth in broadband access to the Internet, alternative deployment methods have emerged. Nowadays, most evaluations of software alternatives include the question of whether to implement the solution “on-premise” or “on-demand” cloud computing options. The purpose of this paper is to assist you in better understanding these deployment options and how your choice in deployment can impact the overall success of your business management solution.

On-premise and on-demand defined

On-premise solutions are software installed and run on hardware on the premises of the customer. The customer is typically responsible for maintaining the technology infrastructure, and the software licenses are paid for up front through licensing fees. The customer has a perpetual license to use the software and is able to customize features and functionality within the software to suit the company's unique requirements. In addition, the customer has complete control over the infrastructure and the data.

There are two common forms of on-demand software: software as a service (SaaS) and Hosted.

In a typical SaaS deployment, a vendor provides the application as a service that is licensed by multiple customers. All aspects of infrastructure management and application delivery are handled by the service provider. Delivery is typically over the public Internet. The customer typically does not maintain software or hardware and pays for access to the application on a pay-for-use or subscription basis. Some SaaS solutions can be deployed with your current on-premise software. These are often referred to as “connected services” as they connect to your current ERP software.

Hosted software is similar to software as a service in that it is managed by the vendor (or by a third party), accessed over the Internet, and paid for on a subscription basis, but the depth and breadth of the application's functionality is often more comparable to that of the on-premise model, in part due to the only recent advances in technologies supporting SaaS and the relative newness of software publishers offering SaaS solutions.

At the end of day, deployment is a “how” and a “where” rather than a “what,” and competing business management solutions are separated by a broader range of considerations than just the choice between on-demand and on-premise. Additionally, the relative advantage or disadvantage of one deployment type over others is dependent on each company’s individual objectives and circumstances, which are likely to change over time and vary according to a number of criteria. This paper, therefore, aims to provide a clear understanding of the context of deployment within overall selection criteria and examines five key considerations:

1. Improving business performance
2. Investment timeline and total cost of ownership
3. Data security and data access
4. Availability of internal IT resources
5. Vendor reputation and support ecosystem

1. Improving Business Performance

First and foremost, you need a system that does what you expect it to do: automate key business processes, solve important business issues, and minimize impact on operating procedures. The system needs to provide you with functionality that meets your requirements, and it also must be flexible enough to satisfy your unique business processes. In addition, the system may need to be accessible to your distributed workforce and have capability to support mobile workers.

Functionality

The functional breadth and depth of business management solutions varies significantly from vendor to vendor. It is important to define your functional requirements clearly up front in order to identify the solution that will provide you with the best fit over the lifetime of your installation. Although new technologies enabling the delivery of software over the Internet have made great progress in recent years, some of the vendors relying solely on these technologies—particularly those with SaaS offerings—have incomplete solutions. Either they do not include key aspects of the solutions in their core offering—instead, charging extra for them—or need to turn to third parties to provide this functionality. Worse, some vendors will promote product capabilities, but once the cover is pulled back, the customer discovers severe limitations that negatively impact the usefulness of the system.

Solution maturity is also an important consideration. Generally, more mature solutions with a number of major product releases behind them will provide broader and deeper functionality than those with a less established history. As SaaS is a relatively new business model, companies only offering SaaS solutions are less experienced and offer less functionality than their on-premise counterparts. Prefer an on-demand model? It is important to note that the most functionally complete on-demand providers are those that have leveraged their on-premise expertise to deliver their solutions in an on-demand environment—often as Hosted solutions.

Configuration and Customization

Whether at the point of initial rollout or later in the solution life cycle, companies should be mindful of the configuration and customization requirements of their business management solution.

Configuration caters to basic changes in areas such as: (1) simple workflow, (2) access and security, (3) user provisioning, (4) team membership, and (5) user preferences. Administrator-level and user-level configuration flexibility will enable you to map your solution more closely to the needs of your users and business processes. Both on-demand and on-premise solutions generally provide a wide range of configuration options.

Customization refers to more complex functional requirements such as: (1) creation of custom entities, (2) custom screens, (3) custom tabs, (4) complex workflow, and (5) additional data fields. Existing screens, tabs, and entities can normally be customized with relative ease within both on-demand and on-premise solutions. On-premise or Hosted solutions, however, tend to provide a more effective solution in situations where additional custom screens, tabs, and entities need to be created from scratch or where complex workflow orchestration is required. Look for a vendor that does not force you to adjust your business processes due to its technological limitations.

Accessibility

For companies with employees working remotely or operating offices away from internal IT support, the deployment decision is an especially important one. On-demand systems allow access to the system wherever an Internet connection is available, regardless of location, enabling companies to centralize key functions like accounting and operations on a standardized back-office system rather than having to resort to disparate systems. Some on-premise providers offer a Web client that allows staff to access the system in the same fashion as the on-demand systems.

Mobility

Companies should expect their business management system to be available to staff—particularly, those in customer-facing situations—regardless of their location or situation. A key consideration is selecting a solution that has been specifically optimized for mobile device access, rather than one that resorts to using third-party applications for mobile functionality. Also, disconnected—or offline—access should be available for situations where connectivity to the Internet is not possible.

Key considerations

Choose a business management system that fulfills your requirements and understand that your choice in deployment may affect the solution's ability to provide you the functionality and flexibility that you need. The abilities to tailor the system to your business, to support a distributed or mobile workforce, and to deliver automation of core processes are important considerations.

2. Investment Timeline and Total Cost of Ownership (TCO)

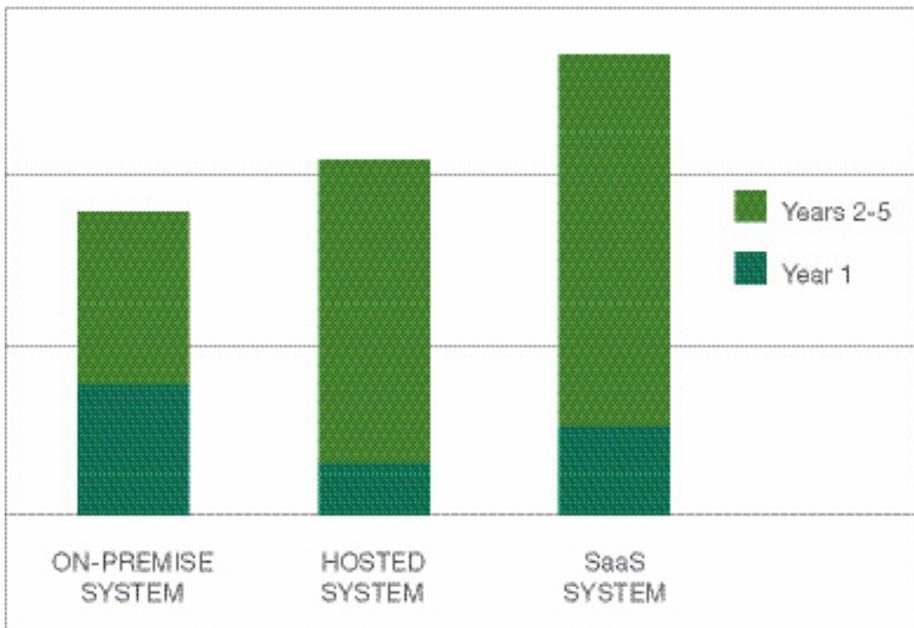
With the average life cycle for a business management solution today of five to eight years, arriving at a clear understanding of the likely total cost of ownership (TCO) associated with any new system is an important consideration in any selection process. Deployment choice influences this area considerably, and companies should compare the investment and cost structures of all models thoroughly before making a decision.

On-premise systems require upfront capital investment which can be written down over the lifetime of the system. On-demand systems, by contrast, involve fixed, periodic subscription charges over the solution's life cycle. On-demand, therefore, can provide several advantages to companies with limited budgets, as it does not require the same upfront expenditure on software, server hardware, or extensive internal IT staff to support internal technology infrastructure. When viewed beyond the near-term, however, on-demand solutions can result in higher costs when compared to their on-premise peers. This is due to the fact that the on-demand monthly subscription fee is charged for as long as the system is in use. In the case of the on-premise system, there are no obligations to pay for software usage beyond the initial license purchase. Additionally, any TCO comparison needs to factor in the fact that the SaaS model monthly subscription fee may change over the lifetime of the system.

Hosted solutions, often provide the best of both on-premise and on-demand solutions, as they offer both a low total cost of ownership and control.

One way to mitigate the impact of the comparative increasing cost over time of an on-demand system is to partner with a vendor that allows you to move from its on-demand solution to the on-premise version of the same solution. Some vendors will even credit a portion of the on-demand subscription fees and allow you to apply them to the license costs of the on-premise system. This platform flexibility also is beneficial when business conditions change and the system needs to be customized in ways not supported by the typical SaaS solution, or when integration to additional applications becomes necessary. The customer is able to take advantage of the benefits of the on-premise system without having to deal with the pains of switching systems, such as end user training, data access and migration, and implementation.

Cumulative Costs over Five Years



By way of example, the graph provides a cost comparison between on-premise and the on-demand options—Hosted and SaaS—over a five-year period. As we can see, the on-demand solutions require a lower upfront investment (approximately 30 to 50 percent lower than on-premise). The cumulative total cost associated with the on-demand solutions, however, increases at a faster rate than that of the on-premise deployment. By year five, the on-demand deployments are approximately 15 to 50 percent more costly than the on-premise solution.

On-demand, therefore, will suit organizations that: (1) wish to benefit from lower upfront investment thresholds and (2) prefer a predictable, fixed monthly cost. On-premise, by contrast, is more likely to suit companies with customization, data security, and lower longer-term TCO is a key requirement.

Accounting treatment

On-demand and on-premise deployment models are treated differently for accounting purposes. An on-premise solution can be included on a company's balance sheet as an asset and written down over a multiyear period. On-demand subscriptions, however, are generally accounted for in the period in which they fall due and are usually borne as an operating expense and affect profitability.

Carrying out a like-for-like cost comparison

Cost comparisons should be carried out on a like-for-like basis, as functionality and product capabilities vary significantly between providers. It is also important to understand the functional differences between editions of the same product. It may be the case that the vendor does not include some functionality in entry-level SaaS packages in order to offer the product at a lower price point or to provide for a more compelling upgrade path in the future when greater functionality may be required. Be wary of vendors that attempt to lure you in with \$99/user/month deals only to spring prices that are four to five times as much for the solution that actually meets your requirements. Extra costs may include modules with additional functionality, access to technical support, wireless functionality, data back-up service, and more. Also, be aware that while the SaaS model is, in part, built around the ability for customer to pay on a month-to-month basis, some vendors will only make the most attractive pricing available for those that commit to extensive long-term contracts, or not offer the monthly pricing option at all.

Key considerations

Much like with the decision to lease or purchase a vehicle, your choice between deployment options will result in different payment terms and total costs over the lifetime of the investment. Understanding these differences—in addition to pinpointing exactly what is included in the vendor's service and what is considered an additional cost—will help in making the right choice for your organization.

3. Data Security / Data Access

While on-premise systems require you to retain data in-house, data used in on-demand systems is hosted at an external facility. The degree of data sensitivity, therefore, will have an influence on deployment choice. For certain companies, customer data is perceived to be too sensitive to be hosted externally; an on-premise solution, therefore, will generally be the preferred option for these organizations.

In some circumstances, however, on-demand systems may actually provide greater data security and protection when compared to on-premise deployments. For midmarket businesses, hosting customer data in a highly secure, purpose-built data center with high levels of redundancy, backup, and monitoring may deliver a level of security and protection that could not be achieved internally in a

cost-effective manner. The sophistication of hosting operations varies significantly among on-demand vendors. A comprehensive review of any potential solution provider's data center should be a core component of any on-demand evaluation process. Additionally, the vendor's compliance with your jurisdiction's regulations governing data privacy and protection should be addressed.

Access to the data is also an important consideration. With on-premise system, the data is housed on the company servers on-site and under the control of the internal IT team. With on-demand systems, data is housed off-site in data warehouses operated by the vendor or its partner. It is critical to be able to access this data as need arises. The vendor's solution should provide tools that allow you to export your e-mail, files, customer information, and other data when you need it and in a form that is portable into other solutions. Beware of vendors that "hold your data hostage" by providing inadequate export tools, by restricting access to the data, or by not releasing data in a useful format, making analysis using a third-party tool difficult, or worse, making it virtually impossible to move on to a new business management solution. Realize that your mission-critical business data should not be used as a bargaining chip.

Here are some questions to ask prospective on-demand vendors:

- Is my data hosted at a SAS 70 certified facility with full security protocols?
- How often is my data backed up? How long are the backups stored? Is there a charge for data backups?
- What are my rights in terms of full access to my data? How long will it take to receive requested data?
- What is the provider's responsibility to inform me of downtime and maintenance prior to the system's going down?

Key considerations

Data security requirements should be factored into the deployment decision, particularly when evaluating on-demand vendors. The desire to have control over data should be countered by the costs and risks associated with housing data on-site. Data access is also an important consideration, especially when your company's success is, in part, built around the information you accumulate in your system. Not being able to access it leaves you vulnerable.

4. Availability of Internal IT Resources

The availability of internal IT resources is a key factor to consider when selecting a potential business management solution. Initial project rollout and ongoing support and administration will require IT expertise, sourced internally or externally. Your choice of deployment model should reflect the availability of in-house IT staff.

Implementation and infrastructure

In order to optimize the return on your investment, your new business management system must be capable of being deployed quickly and easily. As such, customers should be up and running in days and weeks rather than months. Shorter implementation timeframes equate to lower project costs and fewer project risks. On-demand deployments remove the need to install software locally or carry out hardware and software installation and configuration in-house. On-demand, therefore, is particularly suited to organizations with limited internal IT resources. On-premise deployments require the customer to incur the costs of purchasing, configuring, and maintaining an internal technology infrastructure, although, many

on-premise systems are able to fit into the already existing environment, which helps to defray some of the initial investment. When choosing an on-premise vendor, look for one that supports technology already in place on site. Some vendors offer choices in terms of operating systems and databases that they support.

Ease of ongoing support and administration

Regardless of whether your solution is deployed on-demand or on-premise, you should ensure that it delivers adequate performance and availability to meet your users' needs. Day-to-day activities, such as provisioning new users, importing data, writing reports, or implementing upgrades, can equate to a significant increase in IT workload over the lifetime of the application. Moreover, when an issue arises, there should be a clearly defined support structure in place that provides issue resolution on a timely basis.

Ongoing administration can represent a sizeable burden for companies deploying an on-premise solution for the first time, particularly in the case of SMBs, which generally operate with limited IT resources.

On-demand represents an attractive proposition for these companies. On-demand solutions, however, are entirely reliant on external resources for support queries. Companies considering on-demand solutions, therefore, should carry out a detailed review of the vendor's support services and clearly understand service levels for: (1) scheduled availability, (2) case response times, and (3) application upgrade rollouts. Customer reference calls should be used in the evaluation of any potential service provider's support provision.

One of the benefits of the SaaS model is the fact that customers are able to stay current with the most up-to-date version of the software at no additional cost—this cost is factored into the monthly subscription fee. While this may work for some customers, automated system upgrades cause disruptions and may require changes in the way work is conducted, necessitating additional training. Essentially, the customers are forced to take the new version whether they want to or not. On-premise systems allow for such upgrades to be deployed according to the customer's schedule. The Hosted model provides the best of both worlds—no charge updates and upgrades deployed when convenient for the customer.

Keep in mind that the fact that a solution is delivered on-demand does not preclude the need to retain IT resources for enhancements and system administration. Customization and integration requirements, for example, can have a significant impact on the TCO for both on-demand and on-premise solutions. These costs are generally factored into the analysis of on-premise solutions because third-party resource requirements are integral to this deployment type. In the case of on-demand, however, these costs are frequently overlooked because of the "plug and play" perception surrounding this deployment type.

Key considerations

Costs associated with IT staff and infrastructure need to be factored into the deployment decision. On-premise systems incur IT costs for setup and ongoing maintenance not found with on-demand systems, but companies wishing to leverage IT as strategic differentiator may not view this as a burden.

5. Vendor Reputation and Support Ecosystem

A final important consideration is the actual vendor that you will be partnering with. The vendor's reputation can give you an idea of the experience you will have and should be researched. And the vendor's ability to support you directly and with the assistance of certified local business partners should be factored in.

Local support

Even if your company has sufficient internal IT resources to deploy and manage your business management system, the availability of expertise from your vendor and a local certified partner is reassuring. Multilingual support may also be a factor for companies with offices across several locations. Local expertise can be used to (1) resolve support issues, (2) train new users, or (3) provide consulting services around the further extension and optimization of your system. Where on-premise solutions have traditionally been supplied and supported through local vendor offices and their partner networks, SaaS providers have adopted a more centralized model of service distribution and support provision. As a consequence, they generally do not have the same level of expertise available regionally as their on-premise counterparts.

Vendor reputation

Of course, before entering into a relationship with a vendor, one should consider the vendor's reputation. Vendors threatened with class-action lawsuits, with numerous unresolved complaints, and considered a "nightmare" to deal with should be approached with caution. Customer retention is a good indicator of customer satisfaction. Find out if your prospective vendors are hanging on to their customers. And ask to speak with current and past customers. Be aware of questionable pricing tactics, like when vendors seemingly offer a solution at one price but the actual costs are much higher. Or when subscription prices start to rise after you are "locked in" and where difficulties in regaining your data potentially block your ability to leave the relationship. Be certain that your on-demand vendor will not turn off your system for some perceived violation of the terms-of-service agreement. A quick search of the Internet is a good starting place for your research into vendors' reputations; however, be aware of the source of any comments and the motivation of the individuals commenting.

Key considerations

Successfully leveraging a business management system requires more than choosing the right solution. Finding a vendor that views its relationship with you as a partnership is critical. And vendors with an ecosystem of local experts can provide you an additional level of support and peace of mind. Do your homework and research potential partners—check out credible Web sources, interview customers, and find out about customer retention rates.

Conclusion

When selecting a business management solution, deployment type is an important choice, but it should be made in the context of a broader variety of considerations. Companies should be mindful of the expected lifespan of a prospective business management solution and ensure that their requirements will be met across a variety of criteria, including: functionality, cost, ease of maintenance, ability to customize, ability to integrate, and ability to earn a return on the investment. Both on-demand and on-premise deployments have their own particular benefits and drawbacks. Some manifest themselves in the near term while others come into play at a later stage in the solution life cycle.

While this paper has discussed the broad spectrum of business and technology considerations that impact deployment choice, a company cannot realistically be expected to make a definitive deployment decision up front given the wide variety of future variables. Partnering with a vendor that provides multiple deployment options and the freedom to move to a different model in the future if needs change, therefore, is a distinct advantage.

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