

Cost Comparison: Cloud vs. On-Premises Software

Cloud/SaaS/Hosted

Often used interchangeably with the term SaaS (Software as a Service) and Hosted, Cloud Software refers to the deployment method whereby the customer (you) accesses the software off-premises via the internet and pays an on-going subscription or rental fee to the software vendor. With this method, hosting the software and maintaining hardware, backups and upgrades is the responsibility of the software vendor.



Cloud Computing

refers primarily to the **physical location** of the software system. With cloud computing, the system is located off-premises and accessed via the “cloud” (internet).



SaaS

refers primarily to the **payment method** of accessing software whereby a customer pays a software vendor an on-going monthly or annual fee for access.



Hosted

refers primarily to the fact that the **software vendor** is responsible for hosting the software on its own hardware, servers and equipment.

Because the term SaaS, cloud and hosted are used so interchangeably, they tend to mean different things to different software vendors. For some vendors, cloud software means that customers/users access the software through a web browser, by typing in a domain, and then entering a username and password. For others, cloud software requires the customer to [connect remotely via RDP](#). However, for both options an internet connection is required, and the software still resides on the vendor’s servers and equipment.

On-Premises

On-premises refers to software applications installed onsite on a customer-owned server (on your business’ server). You, the customer, are then responsible for setting up the appropriate hardware, running the system and handling most IT issues.

Comparing Methods

Nowadays, most small-medium size businesses opt for cloud-based software solutions instead of on-premises. This is because it allows your business to focus on selling product, growing sales and keeping customers happy – instead of having to worry about managing IT, physical hardware and servers, data back-ups and the other requirements to implementing an on-premises solution.

Advantages

Disadvantages

Cloud-Based

- ✓ No large upfront cash outlay
- ✓ Infrastructure costs pushed to software vendor
- ✓ No more worrying about backups
- ✓ Painless, annual upgrades
- ✓ Increased access to expert support (in lieu of an IT department)
- ✓ Remotely accessible
- ✓ Improved security and reliability (malware protection, database backups and secure methods of connection)
- ✓ Increased uptime and redundancy
- ✓ Immediate or quick access to a broad range of applications
- ✓ Monthly fees include warranty costs

- ✗ Reduced control of systems
- ✗ Data stored outside the organization
- ✗ Internet connection required
- ✗ Customer does not own the software – leasing

On-Premises

- ✓ Data is stored inside the organization
- ✓ Increased customization and control of systems
- ✓ No monthly license fees
- ✓ No internet connection required (except for remote access outside of the organization)
- ✓ Hardware can be shared between other internal systems
- ✓ Customer-owned software

- ✗ Larger initial investment
- ✗ Hardware upgrades and maintenance required
- ✗ In-house IT management required
- ✗ Physical space required
- ✗ Software upgrades must be handled on the customer side
- ✗ Less secure than most data centers

Understanding Costs

When it comes to comparing cloud-based and on-premises costs, it's not enough to just compare license fees. Instead, you need to take into account the other costs associated with maintaining software going forward.

Cloud-Based

On-Premises

	Cloud-Based	On-Premises
License Fees	Paid monthly	Paid in full, upfront
Maintenance Fees	Included in monthly fee	Paid on a monthly/annual basis
Implementation Cost	Lower than on-premises	Higher than cloud-based
Customization	Variable, same as on-premises	Variable, same as cloud-based
Hardware/Equipment	Not applicable	Variable
Internal Costs	Variable, same as on-premises	Variable, same as cloud-based

License Fees

License fees govern the use of licensed software and are frequently paid per user and/or according to required functionality

Maintenance Fees

Maintenance fees include the costs associated with maintaining the software after it has been implemented - such as warranty and upgrade costs – and are typically charged at a cost of about 15%-22% of license fees

Implementation Costs

Implementation costs include employee training, data migration, installation of the software and configuring it to work for a specific company's needs

Customization

Customization fees include any custom development outside of basic software configuration

Hardware/Equipment

Hardware and equipment costs refer to the costs associated with upgrading company servers and computers to accommodate a new system and therefore only apply to on-premises implementations

Internal Costs

Internal costs are those costs associated with employees taking time off their regular tasks for training and the software implementation

Example:

How much will a new mid-level ERP system cost a company that is investing today at the end of the first year? In this example, we have used 10 users as a basis, and comparable functionality.

10 Users
Total Costs Year 1

Cost Factors	Cloud-Based	On-Premises
License Fees/Monthly Fees	$\$1,450/\text{month} \times 12 = \$17,400$	\$38,000
Maintenance Fees	Included in monthly fees	$18\% \times (\$38,000) = \$6,840$
Implementation & Customization	\$22,000	\$30,000
Hardware/Server Upgrades + Microsoft Software	N/A	\$15,000
Internal Costs	Variable but the same as On-Premises	Variable but the same as Cloud-based
Total	\$39,400	\$89,840

Total Cost of Ownership

When evaluating software costs for both on-premises and cloud-based solutions, it is important to look at continuous on-going costs and not just how much money will be spent after the first year. Frequently, it is these on-going costs that are missed during initial research. Below we have outlined the expected on-going costs for both implementation types.

On-Going Costs	Cloud-Based	On-Premises
Support	Variable, same as on-premises	Variable, same as cloud-based
ERP Software License & Maintenance Fees	\$17,400/year	\$6,840/year
Server Software – Microsoft Licenses – Annual Maintenance	N/A (included in monthly fees)	\$1,500/year
Data Backups	With Blue Link ERP - performed multiple times daily in two geographically remote Data Centers	The responsibility of the customer - at a minimum there should be daily offsite backup
Virtual Server Environment Backups	With Blue Link ERP - performed daily in two geographically remote Data Centers	The responsibility of the customer – needed to ensure user settings, application files and environments are preserved and can be quickly restored in the event of a server disaster
Disaster Recovery	With Blue Link ERP – 15 minutes Return to Operations	The responsibility of the customer
Server Management – apply patches, security, anti-virus/threat protection, uptime monitoring	N/A (included in monthly fees)	The responsibility of the customer – \$7,200/year includes industrial threat protection of the class in use in Blue Link’s hosted environment
Database Monitoring and Preventive Maintenance (DBA Support)	N/A (included in monthly fees)	The responsibility of the customer – \$12,000/year includes an estimate from a company that monitors Blue Link’s hosted databases

The True Cost of On-Premises

As you can see, it’s not the initial software license costs that make the difference when comparing cloud-based with on-premises, but rather the on-going equipment maintenance costs. It is important to have people regularly monitor your hardware and servers to identify performance improvements and potential threats. If your physical equipment is compromised because of a natural disaster, or as the result of a crime, how quickly can you be back up and running? How much data will you lose? And most importantly, do you want the responsibility of managing an on-premises environment instead of focusing on the core of your business?

Accounting & Inventory Management ERP Software



Blue Link offers all-in-one accounting and inventory management ERP software, primarily for small-medium size wholesalers and distributors. With Blue Link software you will be able to:

- ✓ **Grow Your Business** with advanced functionality and an all-in-one solution
- ✓ **Decrease Costs** with better inventory management
- ✓ **Save Time and Automate Processes** across all business operations

[Learn More](#)

Before you invest in ERP software, make sure you understand your needs when it comes to software deployment methods and which option makes the most sense for your business.

To learn more about searching for and implementing back-end inventory and accounting ERP software, download our software buying guide.

