



SaaS (Cloud) vs. On-Premises WHITEPAPER

SaaS

1. Software as a Service: software solution that is managed on a vendor's equipment in which the customer pays for access

On-Premises [prem-e-sis]

1. In-house: software that you manage on your equipment. The business is responsible for purchasing the necessary server equipment and hardware



As globalization increases, so too does the need for remotely accessible systems and the ability to accomplish tasks on-the-go. SaaS stands as an enabling technology in a world where businesses continue to decentralize their systems and become more transactional in nature. These pressures combined have created a continuing push for systems that are quick to deploy, low-maintenance and easily accessible.

This white paper stands to examine SaaS as a viable alternative to on-premises deployment methods and provide managers with a summary of each method in order to determine which is most appropriate. In this white paper the SaaS model will be compared and contrasted with the on-premises method of deployment and typical pricing models explored.

Read this whitepaper to learn why more and more SMBs are choosing SaaS based solutions to help their business grow.

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What is a SaaS/Cloud/Hosted solution?

Cloud computing, SaaS and “hosted” have come to be used interchangeably over time. For the duration of this white paper, SaaS will be used to refer to the concept of both software-as-a-service and cloud computing that’s provided by a host organization (hosted). It will be used to describe a system whereby a client accesses the system off-premises via the internet and pays an on-going subscription (or rental) fee. Typically, Software-as-a-Service (SaaS) refers primarily to the payment method of accessing software whereby a client pays a vendor an on-going monthly or yearly fee for access, and Cloud computing (or cloud-based) refers primarily to the physical location of the software system. With cloud computing the system is physically located off-premises and accessed via the “cloud” (internet).

A hand holding a smartphone, with a digital overlay of lines and dots, suggesting a network or data flow. The background is dark blue with white dots and lines.

Introduction

In the past, business software has been installed on-location – typically referred to as “in-house” or “on-premises” – on a client-owned server. The software is then integrated with the client’s current software and various systems to allow for the flow of information from one system to another.

SaaS, however, is different.

With SaaS, the software is no longer installed locally; it is instead hosted by the service organization/software provider. This means that you, as the client organization, do not need to install or run a server. Instead, information is sent through an interface to the host organization where it is processed by host-run software and sent back.

SaaS was originally used primarily as a deployment method for sales force automation and Customer Relationship Management but is now deployed for a variety of business functions including:

- Accounting
- Email access
- Enterprise Resource Planning (ERP)
- Document management
- Service desk management

SaaS may be deployed via the web, or via the internet through a thin client. The primary characteristic of SaaS is that the software does not reside on the client’s premises meaning, inherently, that the software is accessed remotely and therefore can be accessed easily from anywhere. On-premises installations can also allow for remote access, however.



Pricing Models

On-premises system implementations typically require a substantial up-front investment in terms of licensing fees as well as hardware and installation services (data migration, employee training etc.) and on-going maintenance fees. Many of these costs must be incurred with SaaS implementations as well; however, on-premises solutions generally require a much more significant initial commitment for software licenses, whereas SaaS typically employs a number of different pricing models in order to lessen the immediate financial burden.

1. Licensing (On-Premises)

Licensing is the traditional approach for buying business software. This revenue model requires clients to pay a one-time fee to purchase licenses for the software. Typically, maintenance fees are charged on a yearly-basis in order to obtain software updates and for warranty.

2. Pay for Use

Some software systems utilize a pay-for-use pricing model whereby clients are charged based on the amount they actually use the system. This can be measured based on the number of users accessing the system in a given period, the duration with which they use the service or even per transaction, event or other action performed within the system.

3. Hosting/Subscription Fees (SaaS or Cloud-based)

The most common pricing model for SaaS ERP software is a recurring hosting/subscription fee. These fees are typically charged on a monthly basis, although some clients may opt to pay yearly, quarterly or according to some other defined interval. Unlike on-premises implementations, SaaS pricing models tend to include maintenance and upgrade costs in the SaaS fees which can aid in budgeting for clients as they need only worry about a predictable monthly fee. These are not the only costs to consider, however. Other costs that are shared with both approaches include:

- Implementation costs
- Employee training
- Data migration
- Other consulting

Advantages & Disadvantages

SaaS/Cloud/Hosted

Advantages

- Reduced upfront cash outlay
- Infrastructure costs pushed to software vendor
- No more worrying about backups
- Painless upgrades
- Increases access to expert support (in lieu of an IT department)
- Remotely accessible
- Improved security and reliability
- Possibly increased uptime
- Immediate or quick access to a broad range of applications
- Data stored outside the organization in a secure data centre

Disadvantages

- Reduced control of systems
- Internet connection required
- Client does not own the software (leasing)

Each method has its benefits as well as its detractors, though the advantages of SaaS for SMBs greatly outnumber the advantages of on-premises. The tables better illustrate the advantages and disadvantages of each method.

Advantages & Disadvantages

On-Premise

Advantages	Disadvantages
<ul style="list-style-type: none">• Increased customization and control of systems• No monthly subscription fees or licenses• No internet connection required (required for remote access)• Hardware can be shared between other internal systems• Client owns the software	<ul style="list-style-type: none">• Larger initial investment• Hardware upgrades and maintenance required• In-house IT management required• Physical space required• Software upgrades must be handled on the client end• Less secure than most data centres• Data is stored inside organization

All costs considered, on-premises solutions tend to cost more in the long-run, as maintenance and upgrades are required. The comparative long-term cost for each method though will vary from vendor to vendor.

Advantages & Disadvantages

Given the amount of in-house management and expertise required with the on-premises method, it is clear to see that SaaS is the best solution for SMBs. Determining which is best for a particular situation requires evaluating a number of factors including the level of unique business needs, the desire for flexibility and acceptance of risk.

For SMBs in particular, SaaS makes sense because of the lack of on-site IT support and the hands-off approach of not having to maintain a server. Another factor to be taken into consideration is available cash flow. It is important to determine whether it suits one's business to make a significant up-front investment or if it is beneficial to reduce the initial investment and instead pay for the software as a predictable monthly expenditure.



How to Choose: An Informational Chart

Just because your business has always used one method, does not mean that it is the best. This is especially true for SMBs looking to move away from legacy, on-premises solutions (in which the software was initially purchased before SaaS was a trusted option). Managers should ensure that they educate themselves in order to make an appropriate decision. Below is a chart that can aid managers in determining an appropriate solution for their business.

Which option is better? Compare the requirements for each option below.

SaaS		On-Premises
Company Size	Small-Medium	Medium-Large (international)
IT Skills	Basic or none	Advanced
IT Infrastructure (Hardware & Servers)	Basic or none	Well-established
IT Expenditure	Predictable monthly cashflow	Up-front long-term investment
IT Security	Basic or none	Sophisticated IT security, 24 hour monitoring, and disaster recovery services



Conclusion

Selecting and implementing a software system to run your organization is not an easy process and neither is the process of selecting a vendor or deployment method. Hopefully, this white paper has helped identify the many factors that must be considered to help make this process easier. With SaaS now being a top priority for many, managers are presented with an easier choice in how they would like software to help improve their business operations. For many SMBs, the choice is obvious. SaaS is a great solution for businesses that prefer to let the software vendor manage their systems so that they can focus on what really matters; growing their business.

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