Cloud ERP *compared to* On-premise ERP

Significant hype and Misinformation is everywhere.

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INTRODUCTION

In the business software market, increasingly software sellers are making their applications available in the 'Cloud'. The following is important information to understand before any decision are made about 'Cloud' ERP.

WHAT 'CLOUD' MEANS

"Cloud' only means the business software is accessed via the Internet—usually on a server hosted by another company at another location. To underscore this definition, consider a business application that could be managed on the buyer's premise, but made visible to user locally and remotely via the internet. By definition, this would be a 'Cloud' ERP.

A 'Cloud' ERP offering also implies the software will be leased or rented, and the ERP application is browser based. However, these additional attributes have no real connection to the key reason a buyer would want to want to access ERP in the 'Cloud'.

Therefore, any ERP that may have originally started as an on-premise ERP and has a defensible hosted offering can legitimately claim to provide a 'Cloud' offering regardless how they chose to sell access to the ERP or whether portions are accessed through an Internet browser or not.

OPTIONS TO PURCHASE ACCESS TO 'CLOUD' ERP

'Cloud' ERP offerings usually offer a lease or rental model largely because the sellers believe:

a. They offer a service and not a product. This is reflected in the commonly used alternate name for 'Cloud' which is 'Software-as-a-service' or SAAS.

b. The monthly payment will be more attractive to buyers as contrasted to the much larger initial amount for perpetual ERP licenses and maintenance.

Perpetual licenses in the 'Cloud': Notwithstanding the typical 'lease' arrangement offered in 'Cloud' ERP offerings—the 'Cloud' ERP sellers could offer perpetual licenses in the 'Cloud'. There are compelling reasons that a buyer would want to own the ERP licenses – regardless of who hosts the ERP. Key reasons are:

a. Direct control of its business applications and critical data, as compared to a situation in which the selling party fully controls the buyer's critical business systems. This is not healthy in a commercial relationship in which good faith disputes arise for many reasons. Local replication servers and backups can mitigate this situation.

b. Mitigate risk of ERP downtime based on the Internet being down or slow. The Internet is complicated. To effectively run an ERP in the 'Cloud', many different business entities are involved to ensure appropriate Internet availability for a

specific ERP installation. The risk of managing complexity with multiple business partners and the risk of cyber and terrorists attacks on Internet infrastructure is real and should be assessed by ERP buyers.

c. The positive impact to the ERP user's business valuation when the business owns and directly controls the ERP application as compared to 'renting'- where the buyer owns nothing and has tenuous controls.

SINGLE TENANT VS. MULTI-TENANT

Most pure-play Cloud ERP is offered in a shared company environment—called *multi-tenant*. In a *single-tenant* set up, the buyer has their own instance of the software running on their own physical or logical server(s). *Multi-tenant* has groups of customers running from one instance of the software and common hardware and IT infrastructure. When compared to a modernized ERP being hosted in a *single-tenant* environment, *multi-tenant* approach carries limitation in how the ERP can be further configured to meet the buyer's needs.

SCALABILITY OF CLOUD ERP

The 'Cloud' ERP offerings will often claim apparent unlimited scalability of their application to meet the various demands of customers. Stated or implied in this claim is that the ERP user that purchases and maintains their own hardware have fewer options for broad and instantaneous scalability.

This point of view has some merit as the Cloud-based ERP gets to plan for hundreds of different companies using the ERP and this volume holds some planning advantages. However this apparent advantage can be largely achieved by those that directly control their ERP hardware and infrastructure (on-premise or not) if all is professionally planned and managed.

Furthermore, many entities that host ERP are not incentivized to have over capacity, but instead make hardware and software (operating systems, virtualization, and other infrastructure software) investments to support reasonable customer needs, not unlimited needs. Therefore the pure-play cloud offerings would have limitations if demand exceed such planning.

COSTS FOR 'CLOUD' VS. PERPETUAL LICENSES

ERP purchased in terms of perpetual licenses and ongoing maintenance is very different from a monthly lease payment. Notwithstanding this, almost all ERP, pure-play cloud and on-premise) is made up from modules and user types. And all of this is controlled and potentially further limited by contract terms. Therefore, the evaluation process to determine what functionality and quantity of user types is needed is generally the same—regardless if the seller is pure-play 'Cloud' ERP or only on-premise. To establish a target lease price it is usually helpful to conduct the following steps:

a. Establish aggressive pricing objectives for perpetual licenses and maintenance—which SoftSelect has deep knowledge and long track record with the ERP sellers. See: http://www.softselect.com/ERP-cost-control.html

b. Estimate costs over ten years to purchase, maintain, and replace hardware and IT infrastructure for an on premise ERP, services to support, and other costs believed to be incurred that would not be if a hosted 'Cloud' ERP was used.

c. Add the costs from items (a) and (b) above and divide by 120 months which reflects a ten year life cycle on ERP. This will result in a comparable monthly amount to be paid to be a comparable 'Cloud' amount (compared to purchasing and directly supporting on-premise ERP.

d. This calculated amount tends to be considerably less, often up to 50%, than the list price lease payment for a *multi-tenant* access plan. The cost difference would be even greater if a buyer wants to access the 'Cloud' ERP in a *single-tenant* mode. The key point being there is a way to challenge the lease amount—and greatly in the buyer's favor. Be aware the most 'Cloud' offerings will lead with generalized statements that their ERP is less expensive than classic on-premise ERP. They will usually have some general reasons or a convenient study—but the facts are until one conducts the comparison calculation as described here, one cannot have an informed opinion on what leasing cost arrangement would be comparable to well negotiated perpetual ERP licenses and maintenance.

IMPLEMENTATION EFFORT

Whether software is being deployed in the 'Cloud' or 'on-premise', this has no connection to what effort will be needed to implement the business software (excepting setting up some hardware with an on-premise project). The main factors affecting implementation effort are capabilities and complexity of the application, strength of the implementer, and readiness, talent, and capacity of the buyer to lead the implementation effort. Any claims of 'easier implementation' from any software vendor for their 'Cloud' ERP solution, if true, **can only mean less functionality and less configurability flexibility than other ERP solutions without such limitations**.

ONGOING UPDATES AND PATCHES TO THE ERP

Claim of lower effort and cost to upgrade or apply patches to 'Cloud' ERP is generally true. This is because most pure-play 'Cloud' ERP is offered in a multi-tenant environment where the ERP developers has to limit the extent the users can configure the application. This means limitations (likely large) with the use of typical ERP system tools to add data field, add or change forms, create workflows/events, and metrics (this configuration activity **does not** include customizing application source code). So this stated benefit is actually a sign of a likely deficiency since buyers always have many reasons to use such tools to tune the ERP to better meet their legitimate process objectives.