Today's guest blog is from Michael Silver, Intacct's partner enablement manager and accounting/ERP software expert. In his role, Michael works with Intacct's Channel Team to help build and develop our channel partners into committed, effective, and successful Intacct Business Partners. Today he's sharing his expertise on the benefits and challenges of on-premise, hosted, and SaaS technology.

We all know the difference between owning, leasing, or renting when it comes to our office space, a warehouse, or a retail store. We know the difference between owning, leasing, and renting a car. But do we know the difference between owning, leasing, and renting our technology? Today, every time a discussion includes something about technology we hear the word “cloud.”

So how do we make a decision about this own, lease, or rent dilemma? First, it helps to understand the differences not only from a technology perspective but also from an investment and financial perspective. In this article I liken Own-Lease-Rent to on-Premise-Hosted-SaaS in hopes of making this simple to understand and to give you an approach to selling, either internally or externally, when this confusion comes into play.

**On-Premises = Own**

On-premises technology has the same meaning as owning your computer hardware and software. You own the equipment (hardware) and you own (or license from the publisher) your software. Most of the software we have used in the past is on premises and owned by us. We are responsible for maintaining it, for fixing it when it breaks, for making sure it is meeting our needs, and for keeping it up and running.
Some organizations have internal IT departments to handle all of this and others use outside companies to help them. And, in many cases there are multiple helpers (people or organizations) either internal or external.

On-premises systems give the user the greatest control and flexibility, just like owning your own office building. You don’t have to check with anyone if you want to make modifications; you have control of your data and can manage it any way you wish; you can build your systems to your own specifications that meet the specific needs of your organization. A copy of the software runs on your computer equipment for your use and is not shared with anyone outside of your organization. You have complete control of who accesses your systems, your software, and your data. Just like owning your own office building, you can move walls, build new rooms, add special electrical or plumbing systems to meet specific business needs and you can build on additions and expand as you need.

And, just like buying an office building, you pay for your software once (or finance it) and you pay for the on-going maintenance and upkeep. The initial costs are high and typically require a long-term, capital investment – just like buying a building.

Hosting = Lease

In a hosted environment you typically own (or license) your software and you allow someone else to provide the computer equipment to run it. The computer equipment resides at the hosting company’s facility and you access your software over the internet or “on demand”. Just like an office or factory building lease, you can design the environment, you have exclusive access to it, the building is maintained by the property owner or manager but you are responsible for the use of your space and its contents. With a hosted computing arrangement, you specify and design the needed computer equipment (the environment), you have exclusive access to the equipment, the facility that houses the equipment is maintained by the hosting company (the landlord or lessor) but you are responsible for the software, the maintenance of your software and the related data.

In a hosted scenario it is possible to have different arrangements with regard to ownership of the computer equipment. In some cases, the hosting company will provide the computer equipment and all related maintenance. They will typically support the equipment and include the maintenance and support costs with your regular monthly fees. In other cases, you may purchase your computer equipment on your own and allow the hosting company (the landlord or lessor) to house it and maintain it for you.

In a hosted environment it is important to remember that the software, for all practical purposes, is yours and you access your software on-demand (via the internet). Some hosting companies will provide assistance with the maintenance of your software, but one copy of the software is installed on the computer equipment and it is yours to access and maintain. Software upgrades and maintenance are still
your responsibility and you may or may not be able to get assistance with the software maintenance through the hosting company depending on their capabilities. Typically, software implementations, maintenance, and upgrades are as costly and challenging in a hosted environment as they are in an on-premises environment.

The costs related to a hosted scenario are similar to that of an office lease. You pay a monthly rental fee for the facilities and the related maintenance (e.g. the building) but the contents are yours to maintain and manage (e.g. the software). Depending on whether or not the hosting company provides the computer equipment or you buy it, the costs for housing and maintaining the equipment can be expensive, coupled with the upfront costs for purchasing software licenses and optionally computer equipment. Remember, in this model you will have an ongoing, recurring cost for your hosting fees.

**SaaS = Rent**

SaaS which stands for Software-as-a-Service is a concept in which you rent everything (like a shared office environment) including your computing equipment and your software. You typically pay a monthly, quarterly, or annual fee and simply use “the system.” Just like in a furnished rental office, you only pay a monthly fee and there is nothing to own or maintain. You access your “system” (you no longer own software licenses) through the internet and have no responsibility for the computing environment (the building) including any maintenance to your system. Your system provider (or your landlord) is responsible for upgrading your software, your hardware, for making sure everything is working and for expanding your computing resources (your building) as your needs increase. In this case you simply sign-in to your system (or walk into your office) and go to work. Of course, the comparison between renting software and physical goods is not without flaws, as discussed in our post SaaS, Cloud, and Renting ERP Software.

The costs with a SaaS or rental model are typically consistent and predictable over a period of time. Most SaaS companies will charge a monthly, quarterly or annual fee for access to “the system” and there are no other costs to incur. And, just like the hosting model, you will have an ongoing, recurring cost as long as you use and access the system but your up-front investment costs are minimal.

**Own, Lease, or Rent? It Depends...**

So which model is best? Is there a best? Which one is the least costly? And which one will allow the greatest flexibility as my business changes?

In many cases, there is no one best answer on whether or not to move your business application to the “cloud”. Your business circumstances, management reporting requirements, and operational needs all impact your own-lease-rent decision – just like deciding on office or factory space. What we have learned in recent years is that changing business management systems is costly, time consuming, disruptive and
not without risk. Having the ability to off-load much of the overhead and maintenance of on-premise computing provides businesses with more stable and reliable systems.

However, there are two considerations that might help bring some clarity. One is whether you have internal IT resources to devote to the task, and the other is the size of your organization today, and where you expect growth to take you tomorrow.

**When Internal Resources are lacking**

Businesses benefit from SaaS when they do not have IT resources to dedicate to installing and managing applications. They benefit from a SaaS model in the time to deploy new applications and in the on-going maintenance of their business management systems. Even in the hosted scenario, some level of IT expertise is required to install application upgrades and coordinate with your hosting services provider.

To give a financial perspective, I reviewed a blog post I recently found. The post showed a graph from that shows if your only concern is out-of-pocket expenses, the option to purchase a $50,000 software license + hosting fees + on-going maintenance is greater than a $20,000/year SaaS subscription.

**Small versus medium**

Another consideration is the size of your organization, and where you expect it to be in the years ahead. Based on discussions with vendors in the ERP software space, we have found that for almost every deployment, the cost of licensing the software, purchasing hardware and maintaining it all over time will almost always be higher than working with a SaaS solution. And, this does not take into account the hidden costs of downtime, upgrades to customizations and integrations with related systems and the ability to expand or contract your system needs quickly and effectively.

**Conclusion**

The term cloud is used in many different ways today. When investigating a “cloud ERP” software solution, make sure you know the costs and deployment option that is right for you. Many of these costs and requirements are driven by the type of cloud being offered.

Our analogy to purchasing, leasing, and renting a building illustrates the different purchase models available for what vendors term Cloud ERP. By describing some of the different organizational and financial implications of the different models, we have tried to help you make an informed decision regarding a cloud ERP software purchase.

Before you become overly concerned with the way your software runs and is deployed, make sure it has the features and capabilities that your business needs. This includes easy integration with best-of-breed
applications that you use regularly like CRM, Fixed Assets, Human Resources, and others.

A final word of advice - make sure you understand your costs, responsibilities, limitations, and future obligations of the different models. If you are not sure of your future requirements, then select a solution that is flexible enough to meet your current and planned future business requirements.