

## 3 Things to Consider When Evaluating Cloud Vs. On-Premise ERP by Henry Struckel

Is your organization evaluating whether to host your new ERP solution in the cloud or on-premise, or maybe even a hybrid solution?

The biggest distinction in making this critical decision is the different deployment method used by cloud ERP and on-premise ERP. Cloud-based software is hosted on the vendor's servers and accessed through a web browser. On-premise software is installed locally on a company's own computers and servers managed by an internal or external IT staff.

If your organization is deciding on how to deploy ERP software, consider three key factors:

1. Costs.
2. System updates and customizations.
3. Security and data.

### Costs

In general, cloud-based ERP systems are priced on an annual subscription basis based on number of named user licenses needed. Initial costs to implement cloud-based ERP are typically lower because no hardware or network infrastructure is needed. The cloud ERP vendor provides all of the infrastructure to make sure the system is always up and running. All that is needed from your company to implement cloud-based ERP is an internet connection.

Cloud-based ERP solutions tend to cost less than on-premise ERP solutions the first year. However, the costs might be higher over the course of the system's life cycle. A cloud-based ERP system will have an effect on the operating costs of an organization since the company will be required to pay an annual subscription fee.

On-premise-based ERP systems are priced under a one-time perpetual license fee, usually based on the number of concurrent users accessing the system. Under the on-premise model, upfront costs could be higher than cloud-based ERP systems due to associated hardware and IT costs.

Making sure that the system is always up and running smoothly is the responsibility of the internal IT staff. In addition, on-premise-based ERP systems require maintenance on servers and network infrastructure. To stay current and up to date on hardware, servers are likely to be replaced every three to five years.

### System updates and customizations

Cloud-based ERP system vendors provide software updates to their customers throughout the year. The cost for updates are included in the annual subscription plan. Some cloud ERP vendors provide updates quarterly while other vendors provide updates twice a year. The updates are automatically installed, guaranteeing that your company is always running the current version.

On-premise ERP vendors also provide updates in a timely fashion. However, the updates are not automatic and the organization needs to be on a maintenance plan to be able to download the updates. An update installation needs to be scheduled, typically during a slow time or during off-peak hours.

On-premise ERP systems are considered to be more customizable than cloud-based ERP systems. For many organizations, especially in niche industries, the ability to customize their system to meet customer needs is crucial.

However, these customizations can result in headaches when a vendor updates their software. Customizations could be wiped out during an upgrade, leaving the internal IT staff to work with the vendor to re-apply the customizations to the new version of the ERP. An organization could end up unable to upgrade in the future due to the number of customizations.

### Security and data

Cloud ERP vendors make security and protection of your data top priority. In addition, cloud ERP providers offer disaster recovery and back up procedures. However, some organizations might not have total peace of mind knowing that their data is in the cloud under someone else's control. Another concern is what happens to an organization's data if the ERP subscription is not renewed. Most ERP cloud providers grant access to export data but within a time allotment and using file formats that may be difficult to import into a new ERP solution.

On-premise ERP security is the responsibility of the organization, not the vendor. Since ERP is installed on premise, data access can be monitored and controlled locally. However, the need to constantly install security updates and have proper data security measures in place could put a heavy burden on internal IT resources.

### No one-size-fits-all answer

Cloud ERP is usually considered when you don't have an internal IT team, your business and reporting needs are standard and don't require customizations, and you require a quick implementation plan.

On-premise ERP is considered when your organization has an internal IT team taking care of the systems already, your organization wants more control and flexibility for accessing the application databases, and you want to control when you upgrade to a new version of the ERP.

Every organization is unique, so taking the time to consider how different ERP deployment methods will affect your organization is critical.

**Henry Struckel is a supervisor in the Brown Smith Wallace Business Process and Systems Group where he is responsible for conducting ERP software research and evaluation for distribution and manufacturing companies. He has 18 years of experience as an ERP sales consultant and director of support and system implementation in the distribution, manufacturing, and service sectors.**