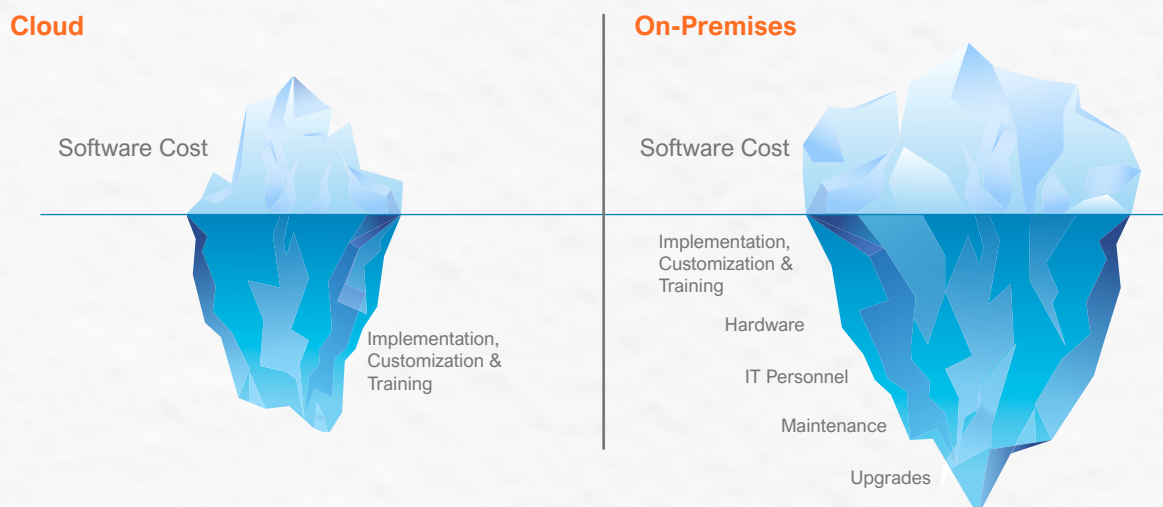


Have you looked at the Total Cost of Ownership (TCO) of transitioning your ERP to the Cloud?

Is your company evaluating whether to transition your ERP solution to the cloud or stay on-premises? To determine whether this transition is right for your company, you will need to understand the economic impacts of your current ERP solution and what your ERP might look like in the cloud.

Total Cost of Ownership (TCO) is a financial estimate to determine your economic value of investment against your total direct and indirect costs over your system lifecycle. The TCO estimate considers the six cost areas every company needs to understand when visualizing their company's transition to the cloud.

Take a look at the graphic below – on the surface, cloud and on-premises solutions look identical! Let's dive into a comparative cost analysis between the cloud and on-premises to understand the right solution for your organization.



1. Software

This is the cost of your software application including the cost of all supporting products and services, such as ISV solutions, add-on applications, customizations, and other integrations to ensure your ERP system is fully interoperable with existing systems. One big difference from a licensing standpoint is that the cloud is a SaaS that you pay-as-you-go monthly or annually and expense the cost, which is classified as Operating Expense (OpEx). In the case of on-premises applications, you pay a high upfront cost classified as a Capital Expense (CapEx) which is usually depreciated or amortized over several years.

2. Implementation, customizations, and training

These costs apply in both the cloud and on-premises scenarios and will vary depending on the level of complexity and use-case. These implementation costs typically include software installation, configuring parameters, developing customizations and integrations, migrating data, and testing. After completing implementation, your team needs to be trained. Also, consider adding project-related costs, such as solution selection, change management, process auditing, and reengineering to your TCO estimate.

3. Hardware

In an on-premises scenario, you will incur a high upfront cost to purchase your infrastructure, such as servers, networking hardware, operating systems, databases, and data storage, and then periodic additional operating costs (such as electricity costs) to effectively run, manage, and secure your ERP solution on-premises. You will also need to buy more hardware and build redundancies in case of failures. On the other hand, the cloud allows you to flexibly manage your hardware costs without having to own, maintain, and pay for servers regardless of utilization percentage.

4. IT personnel

One of the biggest single line cost items is often your IT personnel budget. Maintaining IT personnel is expensive, and in an on-premises scenario, you will need to factor in labor costs plus maintenance of your real estate, servers, databases, and other technology. In a cloud scenario, some of these costs will apply towards service, but that cost is typically a tiny fraction of maintaining your own in-house IT personnel, resulting in redeploying your free resources and immediately improving your bottom line.

5. Maintenance

Now that you know your hardware and IT staff costs, you will need to include the maintenance costs of your on-premises ERP, which includes the loading of fixes, patches, updates, and upgrades. Additionally, factor in the cost of IT personnel labor to test updates as they are released. In the cloud, updates, fixes, and patches are released on a continuous upgrade cycle, allowing for immediate deployment.

6. Upgrades

In the cloud, upgrades run automatically in the background and require minimum oversight from your IT personnel, so there is no additional software or upgrade costs. However, in an on-premises scenario, you will need to account for additional IT personnel labor costs to test and deploy your upgrades.

Next steps

Migrating a business to the cloud is an effective solution for many organizations, but not all. When considering the move, take into account the individual requirements of your company, and don't just follow a trend. Instead, pave a path that is suited to your needs.

If you need advice from experts before making the move or want help to perform your comparative TCO analysis to establish if a move to the cloud is worth it, then [contact us](#). Get the knowledge you need to make a fully informed financial decision about the direction of your organization.



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