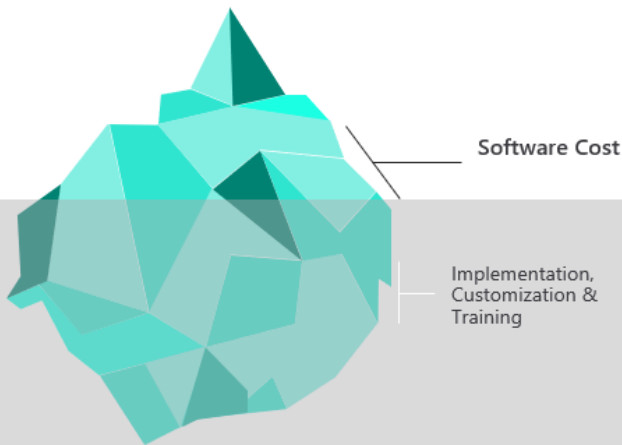# What is Your Total Cost of Ownership?

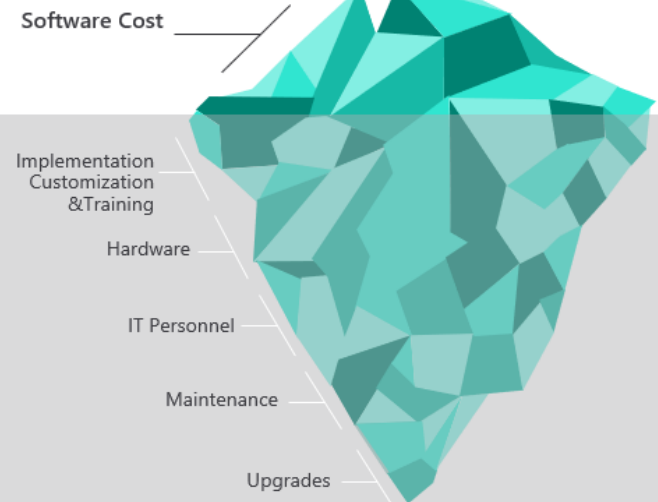## Transitioning from on-premises ERP to the cloud.

The Total Cost of Ownership (TCO) is a financial estimate that will help you determine the economic value of your investment against your total direct and indirect costs over your ERP system life cycle.

If your company is evaluating whether to transition from on-premise to a cloud-based ERP solution, you'll need to consider the economic impacts of your current ERP system and what a cloud-based ERP can look like. There are 6 areas you need to examine when visualizing your transition to cloud-based software.

Cloud

Software Cost

Implementation, Customization & Training

On-Premises

Software Cost

Implementation Customization &Training

Hardware

IT Personnel

Maintenance

Upgrades

Take a look at the graphic above – 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 business.

TCO Factors

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. 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

Implementation, Customization, 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. Implementation costs typically include software installation, configuring parameters, developing customizations and integrations, migrating data, and testing. After completing the implementation, you may need training. Consider adding project-related costs, such as solution selection, change management, process auditing, and reengineering to your TCO estimate.
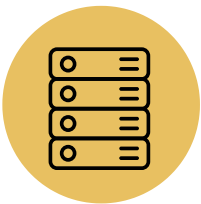
Hardware

With an on-premises ERP solution, you 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 to effectively run, manage, and secure your ERP solution on-premises. 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.

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'll need to factor in their 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.

Maintenance

Now that you know your hardware and IT staff costs, you'll need to include the maintenance costs of your on-premises ERP, which include 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.

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'll need to account for additional IT personnel labor costs to test and deploy your upgrades.