

Assessing ERP Software TCO

A How-To Guide for Small and Midsize Businesses

DISCOVER HOW TO CALCULATE ERP TOTAL COST OF OWNERSHIP (TCO)

Determining the total cost of ownership for an ERP system is challenging. Vendors have varied pricing models for system and user license fees. Costs to install required hardware, implement the system, and maintain infrastructure add to the total costs. Other factors, such as internal costs, industry variations, project management, integration, and multi-company implementations, must also be considered.

Traditional ERP applications are licensed perpetually, meaning that companies purchase the software outright with annual maintenance and support plans providing access to bug fixes, new releases, and technical support.

Modern cloud ERP applications are hosted online and licensed annually. They offer a much lower total cost of ownership by eliminating costly infrastructure and system administration. Further, cloud ERP software subscriptions include maintenance and support and are easier to deploy.

User license fees also vary across ERP platforms. Some publishers charge fees for concurrent users while others license their software by named user, and others still use hybrid user license strategies. Costs for users contribute significantly to the overall system costs.

It is imperative that companies understand the total cost of ownership for their ERP system. TCO is used to calculate the return on investment (ROI) possible with the new business application based on estimated cost savings from improved efficiency, reductions in technology licensing, and other factors.

This eBook helps business leaders calculate the total cost of ownership for ERP applications based on independent analysis from leading industry analysts and other expert sources.

LEARN HOW TO CALCULATE ERP SOFTWARE TCO



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TCO Overview

Every ERP publisher has a different pricing model and varying infrastructure and implementation requirements, making it difficult to compare systems. Some vendors use perpetual licensing models, while others offer annual subscriptions. Maintenance, support, and user licenses also vary from vendor to vendor. Other cost considerations include implementation, infrastructure costs for on-premises deployments, and internal costs.

“Acumatica had some things that we did not even think about that we might need. The open API was the driving factor for us. And price was a significant factor. Everybody else had a user per seat license and it was ridiculous, but Acumatica had unlimited users and was transaction based.”

– NICK TULIP, DIRECTOR OF TECHNOLOGY, Q-PAC SYSTEMS INC.

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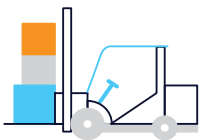
Software Pricing

According to 180 Systems,¹ the average perpetual license for midmarket ERP applications is \$3,000 per concurrent user (software costs and user license fees) plus 15 to 22 percent for annual maintenance and support. In a perpetual license model, the company purchases the software outright. For example, a company with 20 users can expect to pay \$60,000 for the software and concurrent user licenses. At 20%, the annual maintenance and support plan is an additional \$12,000 to access new releases, bug fixes, and technical support. Consequently, the initial software costs are \$72,000 and \$12,000 in future years.



ERP companies traditionally charged user fees based on concurrency, or the maximum number of users permitted in the application simultaneously. A company may have 100 employees, but only 20 users need to be in the software concurrently. Conversely, other vendors charge for every user (named users) in the software, and some companies have hybrid pricing.

Modern ERP applications charge an annual subscription for the software and the number of concurrent or named users licensed for the application. Maintenance and support are typically included in subscription prices. Ultra Consultants² estimates midmarket SaaS subscriptions at \$1,440 annually per user. Therefore, the cost for a basic ERP configuration for a 20-user SaaS ERP subscription is \$28,800. Unlike perpetual systems, modern SaaS applications are deployed from the cloud eliminating the need for costly infrastructure such as hardware, server operating systems, back-ups, cybersecurity measures, database and system administration, and more.



Industry Considerations

The general cost estimates provided in the previous examples are averages across industries. The estimates reflect typical ERP application costs for wholesale distribution and retail sectors. Manufacturers should budget at least 20 percent more, while construction and professional service organizations should plan to spend 20 percent less.

¹ Source: [180 Systems: ERP Total Cost of Ownership](#)

² Source: [Ultra Consultants: Understanding the Cost of ERP Implementation](#)

BEWARE OF DECEPTIVE DISCOUNTS

Some ERP vendors offer significant discounts to secure your business. But those discounts often only apply to first year licensing. Further, many ERP vendors do not offer ethical pricing with clear fee structures and no surprises like Acumatica with a unique [customer bill of rights](#).



Implementation Costs

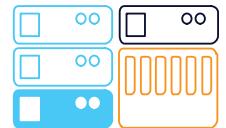
Software and user license fees are only part of the system's total cost. Implementation costs for data import, setup, and training must also be considered. Midmarket ERP implementation costs are about the same or slightly higher than the initial perpetual ERP license fees.³ Due to the lower subscription pricing model, implementation for SaaS-based systems is twice as much as the first-year costs.

If a 20-user perpetual ERP license is \$60,000, the implementation will be about the same. A comparable cloud ERP subscription would be \$28,800, with implementation costs around \$57,600.

Midmarket ERP implementation costs are similar regardless of the licensing model. However, SaaS implementations tend to be 10 percent to 20 percent lower because there is no software to install or hardware to configure, and consultants can easily set up the application remotely, eliminating travel costs.

Infrastructure Costs for On-Premises Deployments

Perpetual ERP systems require considerable investments in servers, backups, security, database administration, and operating system licenses for servers. In fact, infrastructure is 25% of the original software cost.³



Consequently, a company spending \$60,000 for a perpetual ERP system with 20 users should expect to pay \$15,000 annually to maintain the support infrastructure.

There are also costs for system and database administration. In fact, the median salary for a systems administrator is \$72,562.⁴ That's \$36,281 if you can get by with a part-time employee working just 50% of the time.

The total cost for infrastructure and administration is, therefore, around \$50,000 annually. Conversely, SaaS ERP deployments have minimal infrastructure costs. The software can be accessed on most devices with internet access. Vendors offer automated upgrades and bug fixes with native system security to prevent cyber-attacks and unauthorized access.



Internal and Other Costs

It is not easy to estimate other costs for ERP projects. Employees must work extra hours to implement the system on top of their daily job-related responsibilities. This frequently results in overtime, extra headcount for temporary staff, and lost productivity. In fact, 180 Systems³ estimates that internal costs to implement an ERP system are the same or slightly more than the software license itself. Internal costs increase substantially when companies try to implement the software themselves or with minimal assistance from a trained and experienced consulting organization. Other examples of internal costs are new employee onboarding and customizations for screens, reports, inquiries, dashboards, and notifications.

³ Source: [180 Systems: ERP Total Cost of Ownership](#)

⁴ Source: [Salary.com](#)

Many other factors impact ERP system costs. These include:

PROJECT MANAGEMENT: The vendor or partner often provides project management in smaller ERP implementations. Larger ERP implementations may require additional project management resources, increasing project budgets.

INTEGRATION COSTS: Most companies have existing systems or internally developed applications they want to connect to the new ERP system. Integration costs may be insignificant if the new ERP system has pre-built connectors to these applications. However, some applications and custom applications may still need to be integrated. Integration costs vary drastically depending on the number of applications, the scope of the integration, the underlying technology, and the availability of developer resources.

MULTIPLE COMPANIES: Setting up multiple companies in some systems can double or triple implementation costs. Other systems make it easier to configure multiple companies by copying shared or similar data between entities. It is essential to discuss multi-company requirements with your potential ERP partner.

ERP PRODUCT PURCHASED: Tier one ERP apps for larger enterprises can cost millions of dollars for software licenses alone. Make sure you evaluate systems designed for small and mid-sized organizations. Also, be wary of low-cost systems that lack advanced financials, industry-specific features, and other capabilities to help you grow your business.

“The team really liked the way Acumatica worked and was laid out, and the user interface . . . With Acumatica we felt like we were getting everything we wanted at a value that we could afford.”

– BETH KABBA, SENIOR MANAGER OF FINANCIAL OPERATIONS, LIFESOURCE

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Perpetual vs. SaaS License Comparison

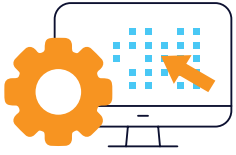
While it may seem advantageous to own the software outright in a perpetual model, many other factors, such as hardware costs and additional infrastructure, must be considered.

Below is a summary of the various ERP costs covered earlier.

ERP COST	PERPETUAL ON-PREMISES	CLOUD SAAS DEPLOYMENT
20-User ERP Software License	\$60,000 (One-Time)	\$28,800 (Annual Fees)
Maintenance & Support	\$12,000 (Annual Fees)	Included
Infrastructure (Hardware & Admin)	\$50,000 (Annual Fees)	Included
Implementation and Training	\$60,000 (One-Time)	\$57,600 (One-Time)
Internal Cost Estimates	\$60,000 (One-Time)	\$57,600 (One-Time)

Analysis of costs over time shows just how much more affordable modern cloud-deployed ERP applications can be when compared to traditional, on-premises applications.

	PERPETUAL ON-PREMISES	PERPETUAL TCO	CLOUD SAAS	CLOUD SAAS TCO
Year 1	\$242,000	\$242,000	\$144,000	\$144,000
Year 2	\$62,000	\$304,000	\$28,800	\$172,800
Year 3	\$62,000	\$366,000	\$28,800	\$201,600
Year 4	\$62,000	\$428,000	\$28,800	\$230,400
Year 5	\$62,000	\$490,000	\$28,800	\$259,200



Acumatica Cloud ERP: 4 Products and 6 Editions on 1 Rock-Solid Business Platform

Traditional ERP systems stifle growth with restrictive pricing models and rigid constraints.

Acumatica provides multiple products for varied industries on the same business platform, aligned for optimal functionality and performance with scalable pricing based on unique company requirements. Companies can quickly move between Acumatica products, gaining access to new features as they grow without reimplementing the system.

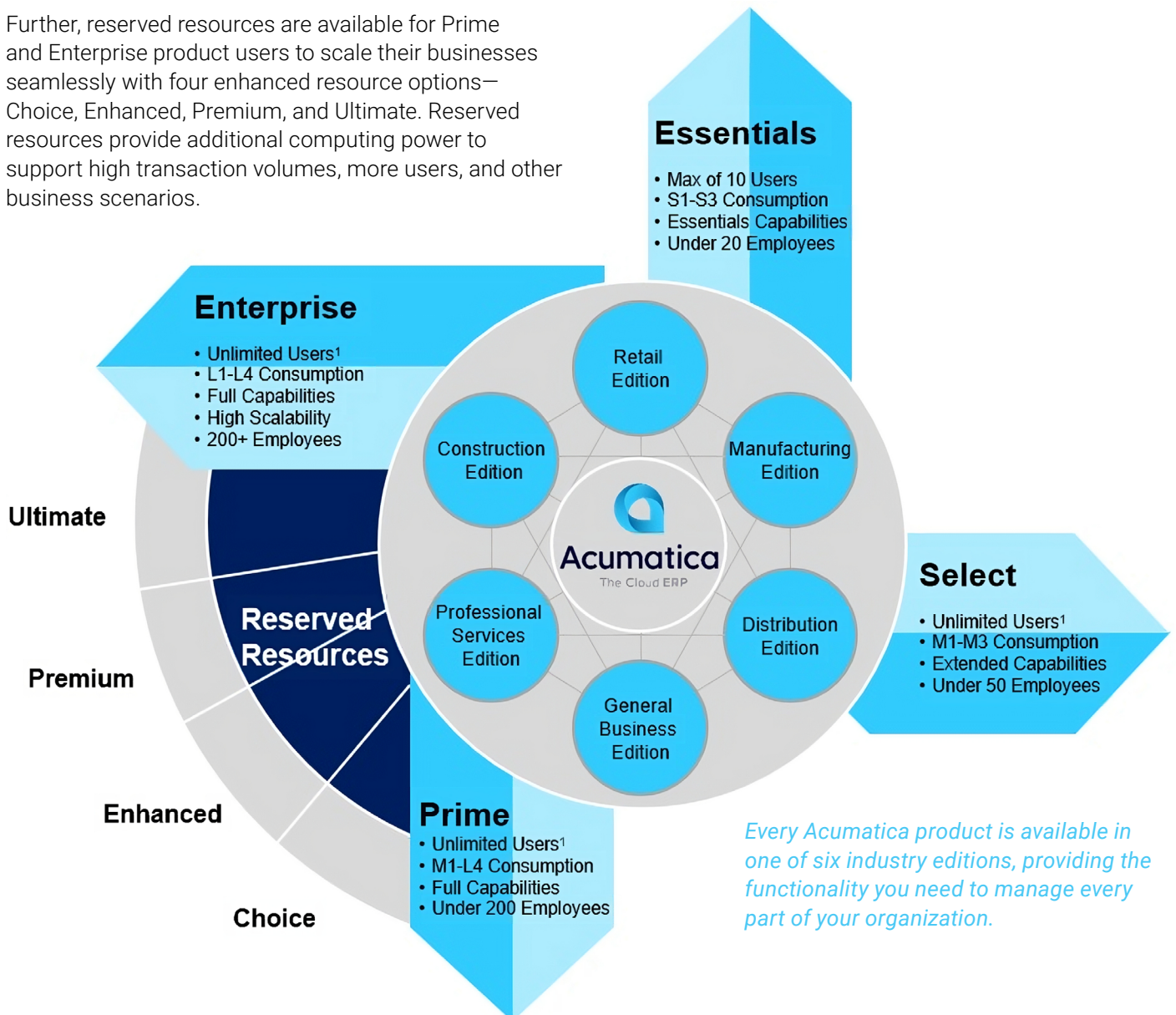
With Acumatica, small companies graduating from entry-level applications like QuickBooks can easily transition to Acumatica Essentials. Acumatica Essentials provides more functionality than entry-level systems, with a simplified feature set and cost-conscious pricing that minimizes setup costs for smaller organizations.

Acumatica Select is designed for growing businesses with up to 50 employees. Acumatica Select provides unlimited user licenses, expanded features, and more computing resources for optimal performance.

Acumatica Prime is designed for larger midmarket businesses with up to 250 employees, full-featured capabilities, and even more computing resources.

Acumatica Enterprise is best for organizations with more than 250 employees. It features unlimited users, access to all product features, and enterprise-class cloud computing resources.

Further, reserved resources are available for Prime and Enterprise product users to scale their businesses seamlessly with four enhanced resource options—Choice, Enhanced, Premium, and Ultimate. Reserved resources provide additional computing power to support high transaction volumes, more users, and other business scenarios.





Transform your business with an affordable and scalable cloud platform

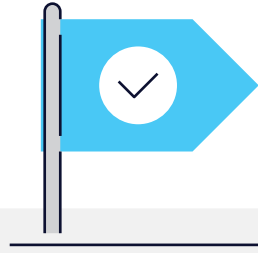
Evaluating system costs can be confusing, as there are varied pricing models for applications and users, hidden costs (or savings) related to infrastructure, and other variables, including deployment options, implementation methodologies, and more.

Acumatica is the only modern cloud ERP vendor focused exclusively on the needs of small and mid-sized businesses. Our unique licensing model enables smaller organizations to easily move off entry-level applications like QuickBooks. Companies can then seamlessly move to larger Acumatica products with more features, advanced applications, and increased computing resources without having to reimplement their system.

Unlimited user licensing empowers every employee without restrictive user license fees for a low total cost of ownership, improved system adoption, and improved efficiencies across the entire organization.

Acumatica users across industry segments contain staffing and technology costs with significant improvements in accounting, sales and marketing, and reporting and business intelligence. Industry editions provide additional benefits for construction firms, professional service organizations, wholesale distributors, retail merchants, and manufacturers.

Schedule a [personalized demonstration](#) to see why Acumatica is the fastest-growing cloud ERP application with the industry's [highest usability and satisfaction ratings](#).



“With Acumatica, you are going to save money, save time, and you are not going to need to hire more (accounting) people. Being in the cloud makes everything more reliable and easier. Today, everyone wants information, and they want it right away. Because Acumatica is web-based, information is there at your fingertips for you to pull whenever and wherever you need it.”

– MARTIN GALSTYAN,
ACTING CONTROLLER & CFO
TOUGHBUILT

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Acumatica Cloud ERP is a comprehensive business management solution that was born in the cloud and built for more connected, collaborative ways of working. Designed explicitly to enable small and mid-market companies to thrive in today's digital economy, Acumatica's flexible solution, customer-friendly business practices, and industry-specific functionality help growing businesses adapt to fast-moving markets and take control of their future.

For more information on Acumatica, visit www.acumatica.com or follow us on [LinkedIn](#).