Sage 50 Accounting 🇨🇦

Cloud, On-Premises, and Hybrid Software Solutions: What's Right for Your Small Business?

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As a small business owner, you have to make a lot of decisions, but did you ever think that a "cloud" would be one of your choices? Well, if you are currently assessing technology, the cloud has at least come up in conversation. But when it comes to the cloud, many small business owners say they don't fully understand what it offers compared to the on-premises solutions that have served their companies well for many years.

According to Gartner, the software market reflects this confusion. While the sales of Software as a Service (software on the cloud) is expected to grow to 18% of total software sales in 2013, the on-premises delivery model is still the leader with 82% of the market.[1]

So, for your next software purchase should you go for a cloud or on-premises solution? The answer is that there is no right or wrong answer. Each option provides advantages and disadvantages, and it is up to you to assess business needs and infrastructure before making a decision.

In this paper, we provide you with a basic outline of what each option offers. Plus, we introduce an emerging best-of-both-worlds option, the hybrid solution.

What's in the Cloud for Your Small Business?

Cloud computing is still a vague concept, but most people are already using the cloud and may not even know it. Simply put, cloud services are those applications that are accessible from Internet-enabled devices as long as the user is authorized. For instance, services like Dropbox, Gmail, and Facebook are all on the cloud.

It's no surprise that small businesses, especially start-ups, see the cloud as an attractive option. With small budgets and limited resources, the low cost of entry for using the cloud (a laptop and an Internet connection) is compelling.

In addition to the limited investment in infrastructure, some of the benefits of the cloud include:

- No software licensing costs.

- Monthly subscriptions.

- Third-party maintenance of data, servers, and software updates.

According to Mike Savory, a founding member of the Sage One team in the U.S., companies that need mobile access to information, are worried about up-front costs, and don't need customizable applications are most likely to benefit from cloud solutions. "Businesses can get a productivity boost from workers' completing tasks remotely," he says. "The cloud offers access to both software and data using an Internet or cellular connection."

Additional benefits when choosing a cloud solution include low cost of migration and updates, scalability, and lack of a need for an IT department, among others.

On the surface, the cloud seems to be an easy and affordable solution for small businesses. Yet according to a survey conducted for GFI Software,[1] while 55% of small businesses use a hosted
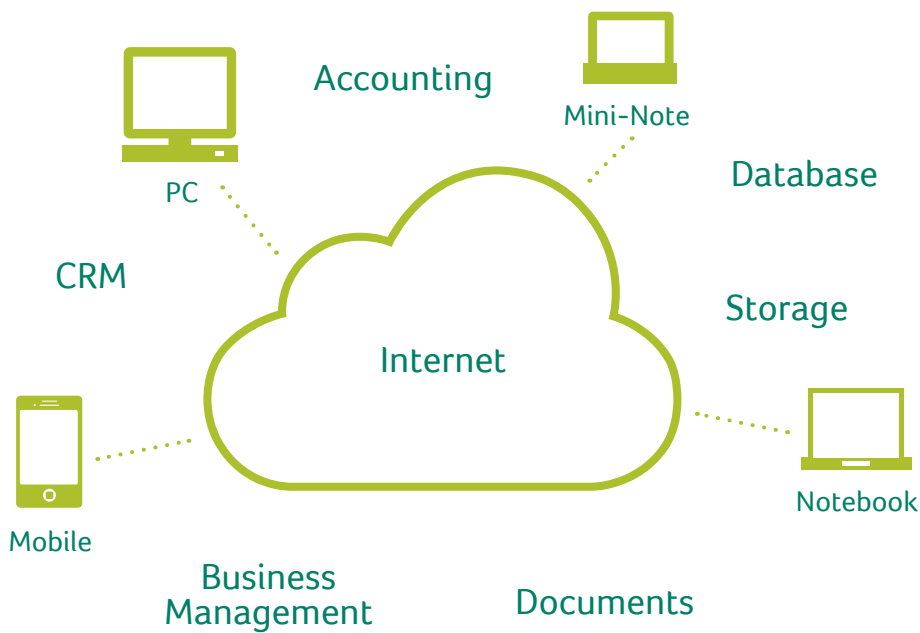
1 "On-Premise Vs. Cloud-Based Solutions." 2010. GFI. www.gfi.com/whitepapers/hybrid_technology.pdf

or cloud solution, 62% say that application performance, lack of data privacy and security, and systems failure were very high concerns. These small businesses also say that customization of the service was a high concern, as well.

Beyond cost, there are several other factors for organizations considering a cloud solution to examine, especially those with regulatory and compliance mandates:

- Third parties will be handling confidential data.

- The solution provider could fail.

- Customization and integration are minimal.

- Businesses (you) do not control data and processes.

Figure 1: With cloud computing, you can use a variety of devices to access applications, services, and data that are "hosted" on the Internet.

On-Premises Solutions Stand the Test of Time

Despite growing interest in the cloud, many small businesses prefer the tried-and-true method of on-premises computing. As referenced earlier, one of the main reasons for choosing on-premises is the ability to control access to private or sensitive information, which is especially important in highly regulated industries.

Another reason companies decide to go with an on-premises solution is the ability to customize software. Many industries have specialized functionality or reporting requirements. So, for example, while an accounting solution in the cloud may provide the ability to process basic accounts payable and receivable, it probably would not give a construction or manufacturing business the level of detail it needs to track inventory and job profitability.

Further reasons for choosing on-premises over cloud solutions include control and reliability. Imagine your cloud solution provider's facility was hit by a hurricane, tornado, or other natural disaster. Your hands are tied when its systems are down. When systems are on-premises, you have access to back-up disks, and work can typically be accomplished without an Internet connection. While you are not immune to having your own natural disaster, you are in control of the data and the ability to protect it.

With the rise of mobile devices, one of the biggest challenges users of on-premises solutions face is the "on-premises" part. Today, customers (and employees) expect certain services and functionality will be available anytime, anywhere. For example, customers of a home repair business want to pay with credit and debit cards but don't want you writing down their information to take back to the office for processing. The ability to accept a credit card on a mobile device is more convenient and secure.

So for all the benefits of an on-premises solution, without a certain level of mobility, customer satisfaction and employee efficiency may suffer. And that brings us to the third option: a hybrid solution

Hybrid Solutions: Offering Security, Mobility, and Flexibility

As business needs evolve, some software vendors are beginning to offer solutions that give users the best of the cloud and an on-premises solution. As a result, you get the mobility and flexibility that the cloud provides along with higher levels of customization and security found in on-premises solutions.

An example of this hybrid solution would be software for small businesses that offers on-premises accounting functionality to accommodate the processing speed, customization, and security needed for this type of application, combined with an integrated mobile app for credit card processing and a cloud-based CRM solution integrated with the on-premises billing functionality. With this hybrid solution, a small business has the flexibility for people in the field or on the go to accept payments and keep track of customers while staying efficient with back-end accounting and processing.
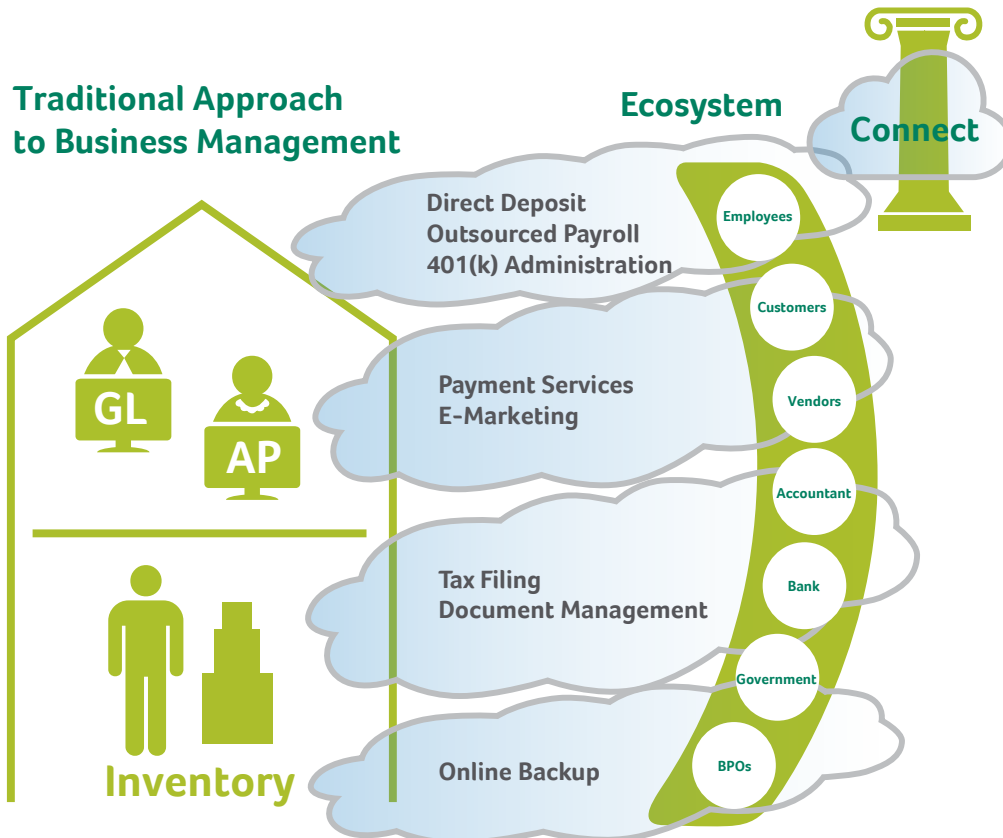
Traditional Approach to Business Management

Ecosystem

Connect

Direct Deposit
Outsourced Payroll
401(k) Administration

GL
AP

Payment Services
E-Marketing

Tax Filing
Document Management

Inventory

Online Backup

Employees
Customers
Vendors
Accountant
Bank
Government
BPOs

Figure 2. Example strategy from Sage North America for offering hybrid solutions to small businesses.

Conclusion

Software solutions in the cloud can provide small businesses with the mobility and affordability they need; however, on-premises solutions bring faster processing speeds, greater customization, and more control over data.

Each type of system offers benefits and risks, so making a choice between the two will require a thorough understanding of your infrastructure, your current business needs, and your growth plans. In the end, a hybrid solution may prove to be the answer to what works best for many small businesses.

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