



Financial Accounting Software: Off-Premise vs. In House Solutions

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Introduction

For many businesses off premise solutions can have huge advantages over running accounting software in-house solutions. In this brief article we will clarify the different off premise alternatives (i.e. hosted solutions, vs. outsourced solutions vs. SaaS (Software as a Service)) solutions and point out the benefits of each. These benefits can be large for both small businesses that have little or no IT staff as well as for large businesses with well staffed IT departments. We believe these benefits are often so large that having the accounting software off premise is much more than just a good alternative, we believe it is the future of accounting software.

Off Premise Options

To understand the benefits of off premise accounting solutions we first need to understand the three different office premise options.

- Hosted solutions
- Outsourced Solutions
- SaaS Solutions

Hosted Solutions

Hosted solutions have been available for many years. Having someone else host your accounting information system eliminates several of the more expensive and difficult tasks for small businesses with limited or no IT staff. The hosting company provides all the hardware, software and software updates, firewall security, backup, and remote access. All the business has to do is have good internet access, train their employees, enter transactions, and utilize the accounting information system in the same manner they would as if it were being run on premise. The only noticeable difference for your users is that everything generally runs inside a Web browser window.

Hosted solutions do not generally provide additional functionality beyond what the same on premise solutions provide. They just take businesses out of the tasks of building, managing and maintaining servers and internal networks structures. Depending on the location and the quality of the local vendors, many small businesses struggle with keeping their networks and servers properly patched, up-to-date with respect to upgrades, properly backed up, and secure. Now all these tasks become someone else's responsibility.

Hosted accounting information solutions are available for everything from entry level accounting software through Microsoft Dynamics GP with Business Portal and Workflow. Setup and installation is significantly easier and quicker and requires much less capital investment. Security is also easier because the hosting entity is responsible for perimeter security. Because hosting companies provide these services and part of their core competence, security is also likely much better than it would be if the business ran the same software on premise.

Outsourced Solutions

Outsourcing is different than hosting in that the entity providing the services not only hosts the hardware and software but also provides data input services. In an outsourced scenario the business would have much of its raw source data (for example bills, monthly statements from vendors, bank statements, etc.) transmitted directly to the outsourcer who inputs the data into the accounting information system. The business would still be responsible for approving bill payments, making cash transfers, and making all the other decisions that relate to acquiring, utilizing, or disposing of assets.

Outsourcing provides all the advantages of hosting as well as the additional benefit of eliminating the clerical burden of bookkeeping. For many small businesses this is a serious pain point. Even if they have a "bookkeeper", that individual is often so busy keeping the books that they do not have time for the management oversight functions that the business needs. Outsourcing can free up their time and allow them to focus on providing management better information to use in making decision. Time Builder is an example of an outsourced accounting information system solution. You have all your documents sent directly to them, they scan everything, do all the bookkeeping, and provide you with a Web portal to manage your business (ex. decide which bills to pay when, etc.). Often times in small businesses this frees up the bookkeeper's time and allows this trusted employee to focus on providing management with more useful information for making decisions.

Software as a Service (SaaS) Solutions

The SaaS model provides the highest level of service. You have all the benefits of hosted solutions (i.e. no servers to buy, configure or maintain security, backup, etc.) plus additional feature sets that are not feasible in on premise models. According to wikipedia.org:

Software as a service (SaaS) is a software application delivery model where a software vendor develops a web-native software application and hosts and operates (either independently or through a third-party) the application for use by its customers over the Internet. Customers do not pay for owning the software itself but rather for using it.

- The following are some of the defining parameters of accounting applications that are offered using the SaaS model:
- Applications are accessed over the Internet and not loaded on premise.
- In most cases the applications developer does the hosting or manages the hosting.
- Most true SaaS applications are Multitenant - single software serving multiple clients (tenants).
- Licensing is for using the software. "Subscription based services." You do not purchase the software.
- Implementation is quicker because there are no servers to buy, no software to load.
- Free trials are the rule. Because there is not software to load the free trial is practical.
- Monthly fees are standard so it is easy to get out if you are not satisfied.
- Vendor is responsible for software and hardware upgrades, backups, and most other IT functions **including security.**

From the application developers standpoint the beauty is the ease and low cost of development. Using development platforms like Microsoft's ASP.NET AJAX can reduce development time from 4000 hours to 100 hours. The multitenant nature of these applications makes them easy to operate and requires significantly less hardware than traditional on premise solutions. It is inexpensive to build, inexpensive to maintain, and often provides benefits that are not achievable with on premise solutions. Better service at a lower price.

Bill.com, for example, automates the process of approving and paying bills. They do everything on their end with only electronic documents and funds transfers. You have full access to all supporting documents in

electronic form. This service reduces the cost of paying bills (and time it takes) by over 50% and you not have a paperless office solution (i.e. document management and imaging for payables) implemented at no extra cost.

These types of solutions typically integrate with existing applications and provide only a piece of the puzzle. Some people refer to SaaS as Software as a Solution rather than as a Service. The approach from the developers is: Find a problem, create a solution for just that business problem. This is a change in approach to accounting. In the past we have used products like The Accounting Library to find an accounting solution that would meet all our critical needs and most of our other needs. Now instead of looking for one big accounting solution we have cost effective solutions for specific business problems (ex. paying bills).

Conclusion

Hosting, outsourcing, and SaaS solutions all offer benefits that are very appealing to many businesses. These benefits include:

- No capital investments needed, no servers needed.
- Perimeter security becomes someone else's responsibility.
- No backup systems needed. Your disaster recovery plan no longer needs to include replacing network infrastructure. All you need is a desk, a computer and internet access.
- Remote access is a given at no extra cost.
- No software to install, no software to update, no software upgrade decisions, no DVD to burn and copy and distribute, etc.

The only real drawback is the need for reliable high speed Internet access. Many businesses do not have this and some already have redundant Internet connections. When you question how reliable your Internet access is also question how reliable your internal servers are. In many cases it is your on premise network and the software that is running on it that is the weak link in the chain. It is probably more likely that an internal failure will take you down than it is that you will have a long term lapse in Internet access.

These solutions certainly represent attractive alternatives. Whether or not they are right for your business is a decision that will be based on more than just cost and functionality. Personal preferences and corporate cultures will also play a role in the decision. However, one thing is clear, if the decision is based solely on saving money and at the same time achieving a better solution, then these alternatives look pretty good.