

CRM LANDMARK

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SaaS Total Cost of Ownership (TCO)

SaaS out of pocket investment is typically limited to the subscription fee. This pricing model provides a predictable investment which is simple to budget and easily managed. However, some non-hosted organization's have attempted to raise FUD (fear, uncertainty and doubt) and alleged higher total cost of ownership (TCO) when comparing hosted solutions to non-hosted solutions.

HOSTED VS. NON-HOSTED TOTAL COSTS

At an IDT conference in San Francisco, Analyst Sheryl Kingstone of the Yankee Group convincingly illustrated that hosted solutions continue to show lower TCO over a five year period and publicly distributed the below Yankee group figures. Contact the Yankee Group for more detailed information.

5 Year Total Cost of Ownership Projection

Assumptions: 30 users with Sales, Marketing and Customer Support CRM implementation

Hosted Costs

Cost Category	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year TCO
User License	60,000	60,000	60,000	60,000	60,000	300,000
Professional Services	45,000	15,000	15,000	15,000	15,000	105,000
Hardware Infrastructure	9,000	-	-	9,000	-	18,000
Networking Operations	-	-	-	-	-	-
End User Support	45,000	45,000	45,000	45,000	45,000	225,000
Customization Costs	-	15,000	15,000	15,000	15,000	60,000
Training	15,000	-	-	-	-	15,000
TOTAL	174,000	135,000	135,000	144,000	135,000	723,000

On Premise Costs

Cost Category	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year TCO
User License	50,000	-	-	-	-	50,000
License Support	9,000	9,000	9,000	9,000	9,000	45,000
Professional Services	75,000	17,500	75,000	17,500	17,500	202,500
Hardware Infrastructure	30,000	-	30,000	-	-	60,000
Networking Operations	67,500-	12,500	12,500	12,500	12,500	117,500
End User Support	120,000	120,000	120,000	120,000	120,000	600,000
Customization Costs	-	17,500	17,500	17,500	17,500	70,000
Training	15,000	-	-	-	-	15,000
TOTAL	366,500	176,500	264,000	176,500	178,500	1,160,000

We highly recommend preparing your own Total Cost of Ownership analysis if you are trying to evaluate the relative costs of hosted and non-hosted solutions.

Another Comparison Point

Another comparison scenario produced the below cost of ownership analysis for hosted and non-hosted CRM applications.

On-Premise Assumptions:	Number of users	35
	On-premise per user software cost	\$795
	Annual software maintenance	22% of software cost
	Cost of server(s) for on-premise software	\$9,000
	Annual hardware maintenance cost	12%
	Fully loaded cost of IT resource for support	\$90,000
	Allocation of FTE to support software (Ops/DBA/support)	25%
	Cost of firewall	\$2,500
	Cost of UPS	\$1,200
	Cost of operating system and RDBMS	\$6,500
Hosted Assumption:	Hosted cost per user per month	\$70

Cost Component	Rationale	Year 1	Year 2	Year 3	Year 4	Year 5	Total
On-premise software	With an On-Premise License you buy the version that is current at the time and begin using it. As major functional enhancements are made, new versions will be released. Updates to the version you purchase are typically included under the maintenance plan. Releases of new versions are rarely covered as part of the maintenance plan. Check with the vendor during negotiations.	9,275	9,275	9,275			27,825
On-premise annual maintenance plan	On-Premise Provides a variety of support / maintenance options. Typically these agreements are annual and expressed as a % of the original license fee.	2,041	2,041	2,041	2,041	2,041	10,203
Primary server - depreciation charge	On-Premise Requires a central computer/server to store customer data. The same server runs both On-Premise For the Web (as a web server) and the database that serves normal On-Premise users while in the office. The server can be quite basic, but needs to have data backup capability and sufficient processing to handle the predicted number of user accounts. This price assumes a single processor with 2 MB memory; 100GB hard drive; network card; remote management card; RAID level 3 drive capable. The cost is calculated based on three year straight line depreciation.	3,000	3,000	3,000			9,000
Primary server - hardware support contract	The hardware manufacturer will charge an annual fee to provide support for the server that includes on site service calls with guaranteed response times and replacement of failed or defective parts. These are generally priced at a % of the hardware cost annually.	1,080	1,080	1,080	1,080	1,080	5,400
Backup server - depreciation charge	This server is a hot backup that can support your system if the primary system fails. It is a duplicate of the primary server. This provides the equivalent redundancy that will be provided by a hosted vendor.	3,000	3,000	3,000			9,000
Software for primary and backup servers	This is the cost for the operating system software and relational database application to run the software. Most enterprise solutions will use Oracle or MS SQL as their database. The cost is double as the same software is required on the back up server. The software is depreciated over three years.	4,333	4,333	4,333			13,000
Backup server hardware support contract	The hardware manufacturer will charge an annual fee to provide support for the server that includes on site service calls with guaranteed response times and replacement of failed or defective parts. These are generally priced at % of the hardware cost annually.	1,080	1,080	1,080	1,080	1,080	3,240
Network firewall/router - expensed asset	To secure your On-Premise data from unauthorized access and to isolate the On-Premise system from the rest of your internal systems and network, you will need a firewall/router that keeps On-Premise separate.	2,500					2,500
Backup power supply - expenses asset	To avoid system crashes, which can cause major disruption to the On-Premise Database, you need to maintain constant power. This is for a uninterruptible power supply system that can run On-Premise Servers for two hours. Price also includes remote management cards to enable monitoring and remote management of the UPS.	1,200					1,200
Installation IT support	Assume 50% during initial set up period of 3 months.	11,250					11,250

	Installing the On-Premise software is relatively simple; however, building the server and the network connectivity will require a dedicated IT professional for 3 weeks.						
Ongoing IT support	Owning your servers requires that you have an IT support professional to monitor and manage your servers. Duties include applying patches to the operating system and applications; restarting services as needed when they fail; managing backup of data files; assuring adequate disk space; etc. Assume 8 hours per week for support of the two On-Premise for the Web servers and related software and hardware.	22,500	22,500	22,500	22,500	22,500	112,500
Total Cost On-Premise Software		61,259	46,309	46,309	26,701	26,701	207,278
Total Cost Hosted Software		29,400	29,400	29,400	29,400	29,400	147,000
Difference		<31,859>	<16,909>	<16,909>	2,700	2,700	<60,278>

Hosted CRM

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