



SaaS Advantage #1 - What does Total mean in 'Total Cost of Ownership?'

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Who is telling the truth here?

Total Cost of Ownership (TCO) is one of those terms that Information Technology Service vendors throw around like candy in order to make the point that their wares compare favorably with those of their competitors. As a result, its definition is often disingenuous and self-serving, very much like that mythical EPA gas mileage that could never be achieved except in optimized conditions. To its credit, the EPA has standardized its tests, starting with the 2008 model year, by requiring "actual driving conditions standards" in an attempt to better inform car buyers.

Just like automobile manufacturers try to convince potential buyers that their cars consume less gas, it is also in the best interests of software vendors to demonstrate that their software costs less to operate than that of their competitors. And so the numbers provided use less than real-world conditions and consider only the most obvious costs, thereby understating the real expense of maintaining and operating your information technology.

If you inquire within your enterprise, and request that TCO numbers be provided for each of your internally supported systems, your accuracy will improve as the support and maintenance numbers climb from those provided by the software manufacturer; and yet, these numbers will very often also fall short of reality. There are two primary reasons for this phenomenon: 1) It is not in your IT manager's best interests to compile every cost attributable to that system (the lower the cost the better that manager looks); and 2) Even if that manager was so inclined, indirect and one-time costs are more often than not ignored when arriving at the cost numbers.

Validating these points is a relatively simple matter. Simply compare how the sum of your TCO numbers for all your enterprise's systems compares to the total IT expenditures. There will always be items that are: not applicable to any specific system, not proportionately allocated to those systems, and absolutely needed to operate your systems.



What should be included?

Licensing and Maintenance - These are the most difficult to ignore, since they are so directly attributable to each specific system. But even in this area, certain costs are often omitted. Do not forget to include any middleware, compilers, additional database licensing fees, required applications provided by third parties, operating systems licensing, back-up and archiving software, reporting packages and other related costs incurred because you have licensed this particular system.

Direct and Indirect Labor - When you first purchased this system you were probably convinced that after the initial capital investment your cost of labor attributable to this system would probably be lower. Is that how it turned out? Do you find yourself attracting and retaining expensive talent that is required to support your system but not directly related to your core business? And are you spending more labor hours than you originally thought? When answering these questions, be sure to include your application support people, as well as their managers, consultants and independent contractors. And don't forget your network, OS specialists and database administrators, inclusive or the overhead costs required to support their employment. Also, does your system require a security administrator? Ask your HR department how much time they spend recruiting your programmers vs. the core people who run your business operations.

Hardware and Infrastructure - Hardware is often included in most TCO estimates, but infrastructure is a neglected item. Why, after digging into one of these estimates, you might think that your enterprise does not pay any rent to house its servers, utilities to support them or even that additional broadband you had to purchase to distribute it to remote locations. Be sure to include your VPN servers, network routers, firewalls and the people who run them - as well as their maintenance.

Upgrades - Upgrades are often included in the cost of maintenance. Or so you thought until you actually attended a regional users' group (RUG) and heard the horror stories about the frequency and severity of upgrades. A standard upgrade is very much like a mini-implementation and may cost in excess of 40% of the original one. And it could be a lot worse if you've customized your system to run your business. A good rule of thumb is to budget 10% of your original implementation costs every year for upgrades.



Other Costs - Application support personnel often require more training just to keep up with software than your average employee. Additionally, they're more prone to jump ship, as your competitors do their best to capitalize on your training environment. Ask your HR people to tell you the turnover in your IT support group and calculate how much that adds to your TCO.

SaaS (Software Acceptable to Accounting Services)

One of the primary benefits of SaaS is the predictability of its cost structure. Think of SaaS as you do of electricity and you will quickly understand why. Most people neither know nor care how electricity is made, transmitted or supported - all they want is for their electrical systems to function when plugged in, and a high degree of reliability.

In the same vein, there are no hidden costs to SaaS:

1. If you expand and need more users, there is an additional, predictable, all inclusive cost per seat. You *do not* need to worry about capacity planning, as scalability is built into the system.
2. Upgrades and additional functionality are delivered seamlessly. You *do not* need to recall your consulting partners to help you upgrade.
3. Disaster recovery, back-ups, storage, all middleware, RDBMS, etc. is included in the single per-seat price. There is no need to upgrade your OS enterprise-wide because one of your applications will not run in the old OS.
4. Turnover in the application support specialists' group is someone else's problem. As is security, administration and performance.

If you are unsure as to your ERP or CRM's systems' TCO, perhaps you should ask yourself when was the last time you wondered about the hidden costs of electricity.