

## Installed v. Hosted Database Management: The True Costs How Does ROI Solutions Compare?

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There has been an ongoing debate in the non-profit world with respect to installed verses hosted database management in terms of costs and the misconception is that it is cheaper to buy a pre-packaged database solution and install and manage it locally. The argument is that the upfront costs are greater in Y1 for installed database systems but that over time, the amount you pay monthly for a hosted solution would add up to greater costs because of the on-going fees associated with hosted software. Of course, this depends on which software applications you are considering, however I would argue this isn't always the case, especially when one considers the true costs associated with an installed system (such as staff and benefits, equipment, upgrades, on-going licensing fees, support, etc.). Add to that, the fact that with hosted software, you're more likely to be on the latest and greatest platforms, operating systems, etc. With installed software, you're more likely to be a release or two behind the rest of the world.

Now to be fair, I am writing this "white paper" from my perspective. I am the majority stockholder (owner) and President and CEO of ROI Solutions, Incorporated, a company I started 11 years ago. ROI Solutions provides integrated database hosting and management services to non-profit organizations. We don't provide "installed" version of our software – never did; never will. And there's a reason for that.

And to be equally fair, when I talk about hosted applications for non-profits as an option, I am only speaking about my company and the product and services as well as pricing that ROI Solutions offers. While I have a pretty good understanding of the market place as a whole as well as individual companies (both installed and hosted), my vantage point is where I live on a day-to-day basis, which really drives everything we do at ROI Solutions.

Now that we have the disclaimers out of the way, a few technical definitions are in order.

- **Installed software** (sometimes referred to as in-house applications) are software packages that are bought and installed locally within your office. Such applications can be installed on a single machine, or more typically on a server that then provides access to others via your network. The major point to note here is that for the purposes of this document, these software packages are maintained locally by you and your staff who are the "purchaser" of the software.
  - **Hosted software** is software that is hosted elsewhere – outside of your local environment and network. A lot of hosting software companies like to refer to their applications as either "Software as a Service" (SaaS) or "Application Service Provider" (ASP). I tend to not use the "SaaS" for the simple reason that "software is software" and "service is service" and software vendors shouldn't confuse the two. But that's my pet peeve.
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Putting my software developer's hat on for a minute: from a software development perspective, installed software implies a certain core design element that is related to the fact that once the software is deployed it must literally meet the needs of hundreds, or thousand of users. As such, the software becomes "shrink-wrapped" – essentially package-able to accommodate not only the initial installation but also the upgrade path. On the other side of the software coin, are the service bureaus: those companies that provide those 'highly customized' database applications that can be quite costly in terms of scalability.

By design, ROI Solutions is unique in the software arena. We offer a fully hosted ASP solution that is fully customizable to the unique needs of our individual clients at any time, or not. That is, our application is ready to go "as is" or, for those organizations whose needs change over time, it is scalable. We also operate as a full-service database provider and we give our clients full control over their own database for those clients that don't "need us." And we don't sell our application by the "module" because it is my belief that everything should be included, not "sold separately."

To understand costs, it's important to understand how database companies make their money and I am going to let you in on a few secrets here:

- Installed software vendors make their money on the initial purchase and ongoing maintenance/licensing and future upgrades of your system as well as by selling you extra "modules" which then require additional customization and implementation and additional licensing fees.
- Hosted software vendors make their money over-time on hosting fees.
- Database service bureaus make their money on getting paid for the work they do.

Outside of this, implementation specialists and consultants make their money on helping you figure out which database to go with and then, if they're lucky on any initial and on-going implementations you may need down the road.

It is therefore important to choose wisely and to have a full picture of costs not only up front in Year 1, but as well over a 3-year and 5-year period. Only then can you fully understand the true costs of installed v. hosted database implications.

It's probably now time for me to insert my car analogy here:

*Question: Hey Gina is it better to lease a car or buy it outright?*

*Answer: It depends.*

If you are someone that's going to buy a car outright today – pay cash for it and drive it into the ground for 10, 15 years when you're done with it such that that car has no real value other than donating it to the Boys and Girls Club then by all means that makes total sense. Buy it.

*But in the database world, who wants to be driving around in an old car?*

## **Pricing Considerations:**

With installed software, most costs are “up front” for the initial purchase of the software and equipment that is necessary to run the application effectively. (And this doesn’t mean there aren’t on-going costs). That is once you decide to purchase an installed database application; you pay for the software and licensing up front. If your organization’s data is sizable, this may also mean necessary equipment purchases such as a dedicated or shared server to run the application and store the data, this can also be an up front cost. Since the software is purchased outright/upfront, an organization would do well to factor in the interest lost due to the cash outlay (where any large sum of money might otherwise be invested or gaining interest).

*YEAR 1 -- A simple costs formula for installed software:*

Start-up costs + % of interest on the initial cash investment = Total First Year Costs.

Where start up costs include:

- Initial software purchase
- Extra “modules” purchase
- Licensing fees
- Customization expense
- Conversion costs
- Implementation costs
- Training
- Equipment/Additional Software expense:
  - Server
  - Operating Software
  - Backup
- First year support costs

With hosted software, vendors typically charge a monthly fee that is based upon some metric. This can be a major benefit in terms of not having to come up with a significant amount of cash up front – by essentially amortizing your up front costs over time. For ROI Solutions, that price is based upon the number on concurrent users (simultaneous logins) and the number of total records on the file (active v. lapsed or in-active records).

*YEAR 1 -- The ROI Solutions simple cost formula:*

Start-up costs + (monthly hosting fees x 12 months) = Total First Year Costs.

Where start up costs include:

- Conversion costs
- Customization expense
- Licensing fees

## **Pricing Considerations – Staffing & Infrastructure Costs:**

Now that you've figured out the first year costs in each area, you need to give some thought to staffing and management of the database system. This is one cost area often overlooked by many organizations when considering installed software. Will an installed software application require dedicated staff management? What about maintenance by your IT staff? Put a value on those and be sure to include benefits – those are a cost too.

Staff Management Time x # of staff x % of staff time spent x % of benefits/FICA  
Staff Maintenance Time x # of staff x % of staff time spent x % of benefits/FICA

With hosted software, the Staff Maintenance costs (typically handled by the organization's IT staff) go away and it is true that a significant amount of your staff management costs go down.

### **Now do the math for years 2, 3, 4, and 5.**

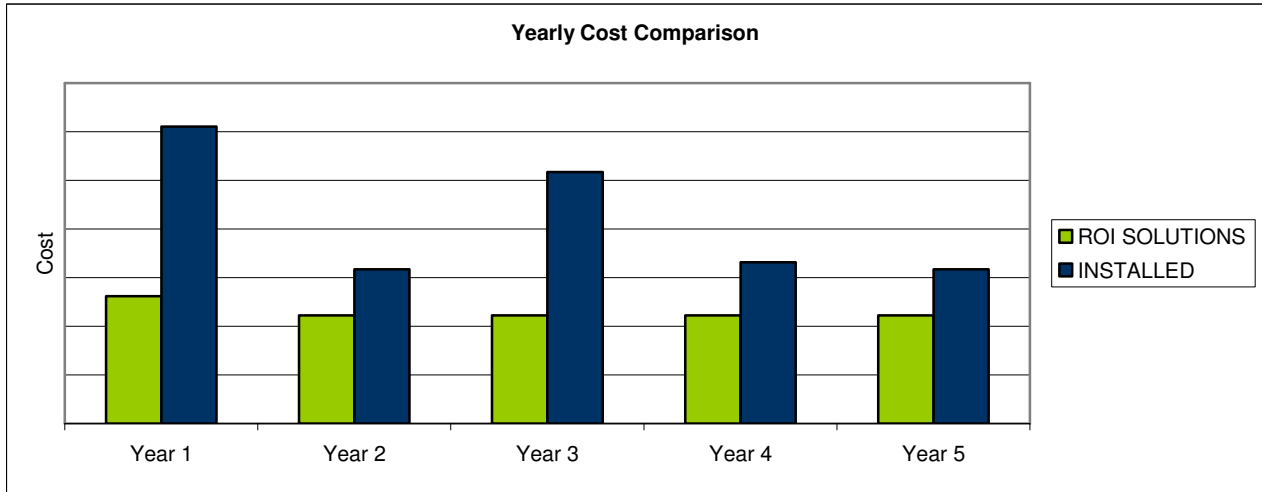
With installed software, you can expect to pay annual support fees in Years 2, 3, 4, 5 for ongoing support and product upgrades. This is typically 25% of the original purchase price of the software. You should also plan to budget for the purchase of extra modules that may not have been included in the original software purchase and with that, additional implementation costs. The thinking here is it is better to think forward in case you "might" need such modules down the road, rather than be surprised of such an expense. In addition, if the installed software required initial equipment purchases, you should budget for equipment upgrades and support renewals in Year 4 of those purchases. (Most equipment purchases will give you a 3-year warranty). And then factor in the staff costs in management and maintenance for Years 2, 3, 4, and 5. Also don't forget to budget for extra training sessions – on the chance that you have new staff that you need to train.

For hosted software, your math may be a little simpler, again by taking the monthly management fees x # of months to arrive at your yearly totals. But to be fair, don't forget that if you require some level of staff management here, to include that as well as benefits. And as well, it's never a bad idea to include some level of special programming expense in the event that your organization has some special opportunity down the road that requires some additional programming.

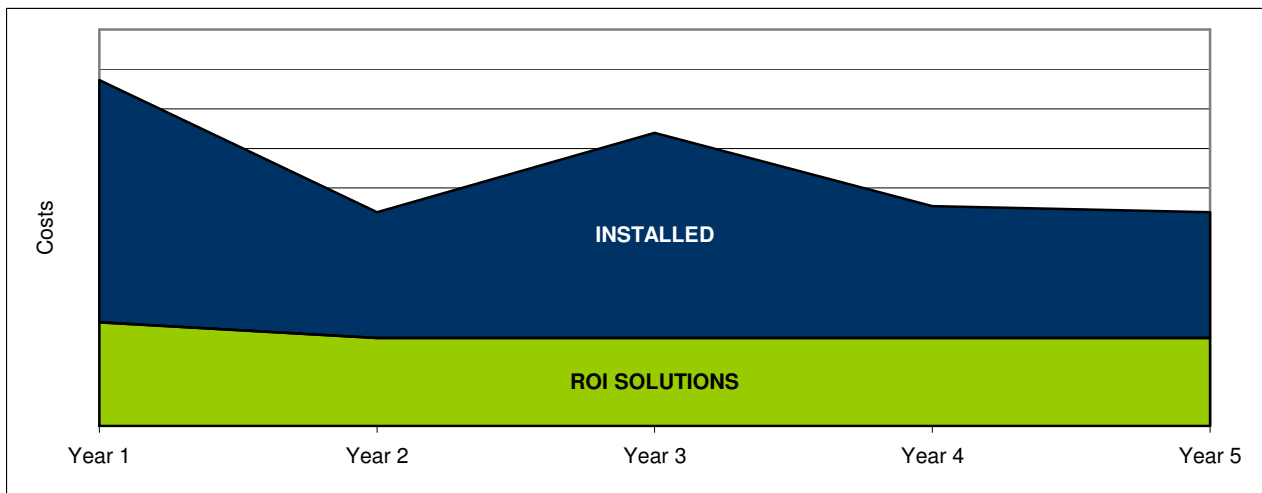
Once you've done this level of cost-analysis, you can begin to see the cash value of the initial investment made in Year 1 for installed v. hosted software and how these overall costs compare over a 3 and 5 year period.

### A real example.

Taking a real live example of a client that was on another installed software product before coming on to ROI Solutions and comparing their initial and longer term costs using actual expenses, the below is a chart illustrating the costs.



Most of their expenses were in the initial software purchases and then in subsequent purchases and implementation costs as well as on-going internal staff management of the system. After five years, their software package was basically the same as when they bought it while the ROI Revolution application had introduced many new features that the organization didn't have until they joined us as a client. What's not included in the above are the lost opportunity costs ranging from the investment in the original software package (money that could have been spent on other things such as programs) as well as their lack of ability to do some things with their database without incurring additional expenses.



## ROI Solutions

As I said earlier, my company doesn't offer an installed application. There are many reasons for this – the strongest reason being that from where I sit, it's not cost-effective from the client perspective. At ROI Solutions all we do is live, eat, and breathe our clients' data. Our clients have a lot of other work to do besides managing their own data so we take care of that for them. ROI Solutions handles all of the management and maintenance of the application – meaning our clients never have to think about upgrades, backups, and being on the latest version of software or equipment platforms or how to use their system. If they have new staff, or get stuck, they pick up the phone and get a real-live person on the other end – someone who knows their system and their data. This also allows our clients to be on the latest and greatest most up-to-date systems.

And because ROI Solutions doesn't sell our application in “modules”, our clients are always offered the full suite of products day one with no extra or hidden costs down the road. This certainly takes the guess work out of future expenses. We also don't charge for training. Ever.

Here's an example of some of the standard features we offer day one with our hosted solution at no additional charge:

	<b>ROI Solutions</b>
Web-based Access	✓included
Membership Management	✓included
Pledge/sustainer/recurring gift Management	✓included
Deferred gift tracking	✓included
Direct marketing Management	✓included
Major Gifts Management	✓included
Planned Giving Management	✓included
Events Management	✓included
Volunteer/Board Management	✓included
Honoraria/Memorial Tracking	✓included
Automated Task Management	✓included
Open API Connectivity	✓included
"Web Services" Connections	✓included
24/7 Support and "After Hours" Help	✓included
Product Upgrades and System Management and Enhancements	✓included
Backend Systems Maintenance/Backup	✓included
Online Hosting Equipment/Software	✓included
SSL Security Connectivity	✓included
PCI-DSS Compliance	✓included
Credit Card/EFT Management	✓included
Reporting Tools (canned reports + ad hoc, SQL)	✓included
Unlimited Training	✓included

And throughout time, our clients still have the latest and greatest, most-up-to-date database application on the market – today, tomorrow and five years from now.