

Moving your Accounting to the Cloud

In the complex and fast changing landscape of information technology, “cloud computing” or SaaS (software as a service) has increasingly gained ground as the accepted logical next stage in computing progress. With businesses competing globally, the pressure for increased efficiency and reduced costs continually becomes more intense.

SaaS is an additional tool in the business arsenal that every company should consider. It has already made significant inroads in the areas of customer relations management and human resource management and is now being applied to accounting systems.



Despite the atmospheric reference in its name, cloud computing is simply a business model that takes advantage of advances in Internet technology; it uses related underlying infrastructure to deliver software and provide server hosting to client companies in place of individual ownership. Under this model, there is no software ownership, no on-site software running on a server owned by and located in a customer’s business. Instead, the software resides on the service provider’s servers and the client accesses the application through the Internet.

While an increasing number of companies have made the move to this new technology and tout its benefits, others have resisted and cite legitimate concerns. This article looks at the main arguments, for and against, that you should consider in evaluating whether SaaS is right for your company.

Benefits –

- **Reduction in IT-related costs** – This is the benefit most often cited by proponents, both actual users and SaaS providers. The theory is that the service provider is able to offer the advantage of economies of scale that an individual company, and especially a small- to medium-sized company, just cannot access.

Large SaaS providers operate enormous data centers and thus have significant buying power, which reduces per unit cost. They typically invest in the latest hardware, networking and communications

infrastructure. Theoretically, these lower per-unit costs are passed on to customers (also known as “subscribers”) through competitive pressure. Users no longer have to purchase and maintain dedicated servers and related hardware and their IT staff no longer needs to spend time with data administration, backup and other related activities. In addition, under the SaaS model, all tenants operate on the same version of a particular application; this means that the SaaS vendor does not incur the overhead of maintaining multiple versions of the same software. This reduction in operating costs due to standardization is supposedly passed on to the client.

- **Universal data accessibility** – Since applications are accessed through the Internet in the SaaS model, they are available to a company’s staff anywhere in the world 24/7. This is, of course, also possible under the ownership model, but it would require a company to develop its own virtual private network and related security with the ongoing costs of maintaining such a system. With even small businesses going global, with business travel a way of life and with employee-popular telecommuting becoming an ever more cost-effective way to reduce overhead, global 24-hour access is a valuable feature that, while difficult to quantify, is universally appreciated by system users.
- **Speed of deployment** – Implementing a cloud-based application using the SaaS model is typically faster and less painful than under the traditional software ownership model. Simply, all the back-end work related to hardware, database and software set up is done by the vendor. Efforts related to data clean up, migration from any existing application and validation remain with the client; nonetheless the time to implement is generally greatly reduced and simplified.
- **Continuous version upgrade** – SaaS vendors typically operate on a continuous improvement basis where “upgrades” to an application are developed and released on an ongoing basis, which may be as often as weekly. This is analogous to the regular Windows updates that most PC users are familiar with. Instead of delaying an upgrade to the next version of a particular application, as often happens under the ownership model, tenants always use the latest version. With SaaS vendors’ ability to monitor usage habits in real time and with increasingly sophisticated software feedback loops, vendors are better able to anticipate their tenants' application needs.

Pitfalls –

- **Security** – Vulnerability of data is the number one pitfall raised by detractors of the SaaS model. Whenever a function is outsourced, issues of data security arise. SaaS vendors operate huge data repositories that contain the financial records of possibly hundreds of companies and as such they are obvious targets for hackers; and while data encryption and other defensive measures are daily becoming more robust, the sophistication of hackers and the tools at their disposal have kept pace. Computer-related white collar crime is a global reality and on the rise. Critics of the SaaS model would rather be responsible for their own data security and small businesses with low visibility believe that they are less vulnerable than a large data repository.

- **One size fits all** – Detractors argue that a “one-size fits all” model is just not appropriate for organizations that have truly unique aspects to their business. The SaaS model typically allows tenants to configure an application only within the bounds pre-built into the system. If a business cannot adapt to the constraints of the application as is, there is little or no opportunity to customize unless the SaaS provider believes that the change is of interest to the general tenant community. Chances are if a business needs extensive customization to an application, SaaS would not be an appropriate choice.
- **Vendor viability** – The software industry is so dynamic that it appears to be in continual shakeout mode. Players come and go and an organization that is well-capitalized and profitable today may not be in existence five years from now. Companies merge, are acquired or go bankrupt and products disappear. Insight into how well a vendor is doing financially is not always transparent, even if the provider is a public company. SaaS detractors argue that trusting your accounting system (including data) to a company that may not be around for the long term poses significant risk.