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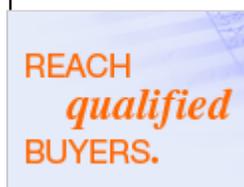*Tools and Resources for the Electronic Accountant*

March 3, 2008

The Move to Hosted Applications

As bandwidth and security concerns fade as obstacles, firms are less reluctant, and even eager, to use hosted applications.

(Feb. 1, 2008)
By Jeff Stimpson
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REACH *qualified* BUYERS.

They may go by names both now familiar and new, such as "ASP" (application service provider) or "SaaS" (software as a service), but hosted apps are catching on as firms find new benefits in somebody else maintaining the software. Proponents say that eventually, maybe soon, this method of delivery will change the way all software is accessed.

Going this way, however, can affect firms' technological needs, hardware, software, staff, and support, as well as raise other concerns. Still, some firms, even small ones, find the idea appealing. "All we need is an Internet connection and a computer, and we can access our data," says Tracy Knowles, partner with the ParsonsGroup, Dothan, Ala. "One benefit for us is that our hardware and networking costs have been reduced significantly. In addition, our mobility has increased tenfold. One of my partners actually spent the entire month of October at the beach, but she was able to still work and stay connected as if she was sitting in her office."

Trey James, CEO of Xcentric Group, says his company has seen a 300-percent increase in CPA firm-hosting revenues since 2005, and projects doubling revenue growth in 2008 from 2007. "Firms are realizing that growth must, in part, come from increasing the return on their existing staff," he maintains. "This has translated into a laser focus on core competencies, rather than on technology. Very few CPAs started their firms with the intention of becoming technology experts. Hosted and fully managed apps provide a welcomed escape from IT headaches.

"Multi-office firms are allowed to take a large step towards gaining a single-office culture," he adds. "The remote access capabilities allow firms to ease staffing issues by enabling long-distance or part-time work-at-home staff to access the firm's resources. Generally, hosting companies have the economy of scale to do security, redundancy, and disaster recovery well, whereas the average CPA firm may choose not to meet the expense of these necessary expenditures."

A Real Migration?

"Eight years ago, we started offering hosted applications, and very few clients adopted this method. Five years ago, we started to see adoption by our clients grow as disaster recovery, work-from-home staff, and use of online banking and other SaaS-type accounts" increased, says Andrew Hatfield, chief strategic officer of Dallas-based Acct1st Technology Group.

"Three years ago, our client base was about 30 percent hosted and 70 percent traditional. Today, our client base is 69 percent hosted and 31 percent traditional. In 2007, our sales were nearly 80 percent hosted and 20 percent traditional."

The topic still has doubters. Roman Kepczyk, consultant with InfoTech Partners North America, contends that firms are in fact "barely" going toward hosted apps. "The standard solutions of banking, payroll, research, and forms have all been standard practices for awhile, but we are just now seeing firms look into outsourcing their tax, document management, and accounting," he notes. "While the CSI virtual office was a success for smaller firms, larger firms haven't really adopted it. There are exceptions, such as Thomson GoFileRoom and TaxRS, but that is only in larger firms, and there are also the hosted solutions through Xcentric, where they maintain the entire infrastructure regardless of the vendor. We believe CCH's future emphasis on hosting its practice, document management and audit, in addition to the Global fx Tax will start seeing users next year, but won't take off until there's enough demand, which occurs when firms have to build a new infrastructure and don't have the resources."

Randy Johnston, executive VP of K2 Enterprises, Hutchinson, Kan., disagrees. "This is absolutely a noticeable trend," he says. "There are many top-100 firms that strategically focus on using only hosted applications. There are other very tiny organizations that have decided that there is no reason to maintain the infrastructure required when all of the applications needed can be hosted through a publisher like Thomson or a third party like Personable, InSynq, or Real Time Data Systems. Adds Knowles, "You'll see more and more firms moving in this direction. We're using Thomson's Virtual Office, which includes the Thomson accounting suite with an add-on for MS Office and Outlook."

Xcentric, to name one vendor, provides a technology hosting solution that allows CPA firms to host their entire software list, including CCH, Thomson, Intuit, and Microsoft apps, according to James. "We focus on hosting the entire firm's applications, rather than one or two specific ones," he adds. "Hosting single applications poses a business challenge, in that technically there's an inherent loss of integration with the firm's remaining non-hosted applications. We feel that firms want to have all of their applications hosted, so there's not necessarily a favorite or most popular given our strategy."

Most Popular Apps; Dashboards

"Today, tax research, forms, payroll, and banking" are among the most popular hosted apps, according to Kepczyk. "For document management, I think GoFileRoom has done a good job, as I have a number of firms using it, and for tax a few firms are using GoTax RS. While CCH does have a GlobalFx for their tax, we don't have any clients using it. There is a small trend towards hosted data backup and possibly workflow such as XpiTax XCM, but then we're guessing we'll see tax and document management followed by practice and audit tools."

Tax, paperless, and practice management are all key, but even applications like QuickBooks, workflow, and payroll have been winners as hosted applications, adds Johnston.

Acct1st offers DMS, workflow, scan/organize, and client portal technology as a hosted option, Hatfield says. In 2007, the vendor also started to offer the ability to run a "dashboard"

of SaaS or hosted applications inside its DMS program. "This decision was based on the rate of adoption of the SaaS model, and the need to run multiple browsers in one interface, instead of the old traditional method of having multiple applications opened and minimized."

"Our clients have seen dramatic improvements in uptime for our applications in a hosted environment," Hatfield claims. "The uptime effect produces an ROI for staff efficiency and time spent fixing network/application issues. Firms can also see added value in outsourcing the ongoing technical learning curve of maintaining their own servers and local environment."

Changes Required, Hurdles to Overcome

Hosted apps reduce technical administration and maintenance onsite, as well as equipment requirements. "Reliable Internet bandwidth is the only need," notes Kepczyk. "Hosted apps also allow for people to work anyplace anytime where they would have Internet access." Johnston says there is typically less of a need for internal IT expertise. Frequently, he adds, license agreements also change.

To adopt the hosting model, James says, firms must first install redundant connectivity to the Internet or to the hosting provider and, "generally, they're responsible for buying the PCs and local networking hardware such as switches, wireless access points, printers, and scanners.

Hatfield says the "great thing" about the hosted/SaaS model is that "the client doesn't have to buy anything other than simply subscribing to the software service." Adds James, "The easiest thing about using a hosted application is how you access it. The toughest is reliance on Internet connectivity. Fortunately, connectivity has become more and more ubiquitous. Our clients have an inexpensive secondary Internet connection that provides a fail-over in the event there's an issue with the primary connection. Interestingly enough," he adds, "we're seeing Starbucks hotspots showing up in firms' business continuity plans."

"The apps are the same in a hosted or traditional environment, so ease of use for an end-user is very similar," Hatfield adds.

According to Knowles, the biggest hurdle is dealing with your data being stored off-site, and your only connection to that data being your Internet connection. The easiest thing is that all the maintenance, updates, and backups are handled by trained professionals."

Adds Kepczyk, "There is less control when something goes wrong, and you're relying on the vendor in that their security and privacy policies are strong and maintained."

"Clearly, the easiest thing about hosted apps is the ability to enable an application in a very short time period," Johnston points out. "Toughest is getting the procedures right to optimize the application. A close second to the toughest thing is dealing with communication outages or slowness."

Johnston also advises looking at the long-term costs of a hosted application. "We typically recommend spreading the costs over a five-to-seven-year period to get the true costs of hosting. Even though in-house application acquisition, maintenance, and support may seem like a large number, hosting may be more expensive in real dollars. Additionally, you'll have less configuration and customization on a hosted application, and integration of hosted

applications can also pose a problem."

"Many software companies in the accounting space have used Citrix or Terminal Services to allow their application to be hosted on a dedicated server in their environment, and that has ease-of-use issues because you're logging into, as an end user, an unfamiliar gateway to that server," Hatfield points out. "You have to toggle back and forth between your local Internet or applications and your remote server applications."

James raises several points that firms should consider before making the move:

Integration: Many applications within the CPA industry have the ability to interact in some fashion with other applications on the network, be it between the tax system and the trial balance software or between the billing system and Outlook, the date-sharing integration between these systems depends on the communication provided by having them all installed on the same network. In most cases, separating these applications will break the functionality that we've become accustomed to and rely on, according to James.

Connectivity: The hosting company should have the capacity to test your connectivity over time to determine whether speed and reliability will be sufficient.

Regulatory compliance: Ensure that the data center hosting the applications has a current SAS70, Type II certification.

Culture: "Because hosted solutions can be accessed from anywhere, firms should evaluate the potential impact of allowing employees to work from home and what opportunities exist for hiring remote employees," James says.

Final Tips

"The biggest issue we've found is making sure that you have a fast and reliable Internet connection," Hatfield says. "Many times, firms know they're utilizing a T1 connection but not the actual speed for upload and download being delivered by their ISP. Slow speed is a major issue for hosted and SaaS products."

"Consider the risk of having your data out of the firm, as well as what you'll do when your communications don't work and you can't access the application," Johnston warns. Review service level agreements, and consider training and end-user ramifications regarding security, policies, and procedures, says Kepczyk.

For related material, see "The Long Rise of SaaS" in the December 17, 2007, issue of Accounting Today. See also the "Technology" channel at Webcpa.com.

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