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*Paying for software:
What are the options?*

When companies are making a software purchase, especially for a new business management system, business professionals often face choices on how they can pay for the software, either through perpetual or subscription pricing. While the former requires an initial up-front payment, the latter allows organizations to pay as they go. The decision can be confusing and has implications on a business's budget in terms of both capital and operational expenditures. Let's take a closer look at these two different options, so your company leaders can make an informed decision.

Advantages and disadvantages of perpetual vs. subscription

One of the most important aspects of choosing a new business management system is making sure the software fits into the company's budget. Although features should be a crucial aspect of the selection, too many businesses look at price to make their final decision. Paying on a subscription basis will usually amount to 20 to 30 percent of the cost of a perpetual license over the course of a year, according to Software Advice. Although maintenance and support are often included in subscription plans, paying by subscription can cost more over time than a perpetual license. Business professionals have to decide between subscription with a lower up-front cost with recurring fees or perpetual with a higher up-front cost and recurring fees.

For many companies, a shift to paying by subscription can provide more benefits than just flexibility and lower initial costs. On-premises software purchased on a perpetual license must be depreciated over 36 months, or over five years if purchased with new hardware. Meanwhile, subscription-based software is deductible as incurred or paid, according to Cordasco & Company, a personal accounting firm, since it is leased or licensed. For your company, this means depreciating more of the cost of the software in the short term, which benefits a company's financial bottom line.

CapEx versus OpEx

Depending on what type of software your company selects, you can make an immediate impact on your budget and financial position. Subscription services tend to be more attractive to organizations whose success is measured by return on assets deployed, according to CFO. This shift toward operational expenses makes paying by subscription more attractive. Companies that are not interested in decreasing their fixed assets are more likely to stay with perpetual licenses, leaving their focus on capital expenses in their overall budget.

How can Sage help?

Software purchases can be difficult, especially with so many different combinations of features and prices on the market today. With its broad portfolio of both on-premises and cloud-based business management solutions as well as choice of perpetual and subscription offerings, Sage can help your company make the right decision for your specific business.





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