Online software promises big savings, at a price

Costly programs cheaper on web, but risks turn some firms off

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As the founder of a fledgling high-end wine importer in Manhattan, John Hunt knew that meticulous customer service would be critical to his success.

Mr. Hunt also knew that the required software--systems that track everything from inventory and fulfillment to customer preferences and Web site use--costs a small fortune.

Just one monthly fee

That is why he signed up for a way to get his software but to avoid paying for it all up front: He rents his software online in an arrangement that lets his firm manage without expensive servers and tech administrators.

"It probably saved us one full-time person per year" says Mr. Hunt, chief executive of two-year-old Oriel Wines.

Mr. Hunt leases his software from NetSuite, one of a growing number of providers--ranging from Salesforce.com to giant IBM--that small New York companies are turning to for "hosted software."

Nationwide, about 17% of firms with less than $100 million in annual revenues currently use such services. That number is expected to more than double in the next 12 months, according to Bill Gannon, vice president at AMR Research in Boston.

The primary attraction of hosted software is that businesses don't need to buy pricey programs outright or shell out the cash for servers to run those programs. Instead, they pay a manageable monthly fee based on the number of employees using the system.

"It's sort of like the buy vs. lease decision in the car market," says Jeff Kaplan, managing director of consulting firm THINKstrategies, in Wellesley, Mass.

Because they offer users software over the Internet, vendors promise fewer hassles and lower expenses. Hosts take care of all hardware and software associated with the service. A host integrates that software with other programs frequently and is responsible for upgrades.

Product choice

Hundreds of hosted software packages are available in more than 35 business categories, including customer relationship management, e-commerce, enterprise resource planning, marketing and Web development.

Though many programs can be used by large and small businesses alike, more and more providers--including NetSuite, Homestead Technologies, HyperOffice, Intaact and SMBLive--gear their products to small business.

Kia Ferguson, owner of the Plain Jane Soap Co. in the Bronx, decided to use Homestead Technologies to help her design and, ultimately, host her e-commerce site. That decision hinged on cost, she says.

Courtesy of online tools and a special introductory offer, the actual design was easy and free, Ms. Ferguson says.

She pays only $19.99 a month for hosting and can make changes to her site at any time. The package also includes technical support, maintenance and upgrades--which is important. Since 1998, Homestead has updated its software an average of more than 20 times a year.

Ms. Ferguson is happy with the arrangement. "I can still have a Web site that looks professional, and I don't have to worry about paying $200 to $300 to do that," she says.

Data security

In an era when business owners worry about everything from natural disasters to terrorist attacks, hosted software has another important selling point: Most vendors regularly back up all data in secure facilities.

For example, HyperOffice, a Rockville, Md., company that offers online document management, collaboration, e-mail and intranet services, backs up its servers in real time in several data centers simultaneously worldwide.

"After Hurricane Katrina, we had a few customers in New Orleans who literally picked up, went to the next town, got online and responded to customers, and kept their businesses going," says Farzin Arsanjani, president of HyperOffice.

Still, many experts caution that business owners should be aware of the risks associated with hosted software. Earlier this year, for instance, Salesforce.com had several brief outages.

Consultants also recommend that small companies ask about a vendor's downtime record and be sure to get a service-level agreement that provides for sufficient penalties and rebates in the event of problems.

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