

Point of Sale Software – Let's Look at the Actual Cost

By Dale Pinney – Olaf Solutions

With the advent of cloud computing and software as a service (SAAS) there are now literally hundreds of Point of Sale software packages available and the price ranges from \$30.00 a month to thousands of Dollars for a premise based system. Lately, I have had a lot of questions about the difference in price of cloud vs premise based software. And I have had prospective customers choose the cloud solutions, because they say that the price is so much cheaper. While I am an advocate of many cloud solutions, we use several at Olaf Solutions, one needs to be careful and really look at the total costs of both solutions. So, to help make your decision let's look at the differences.

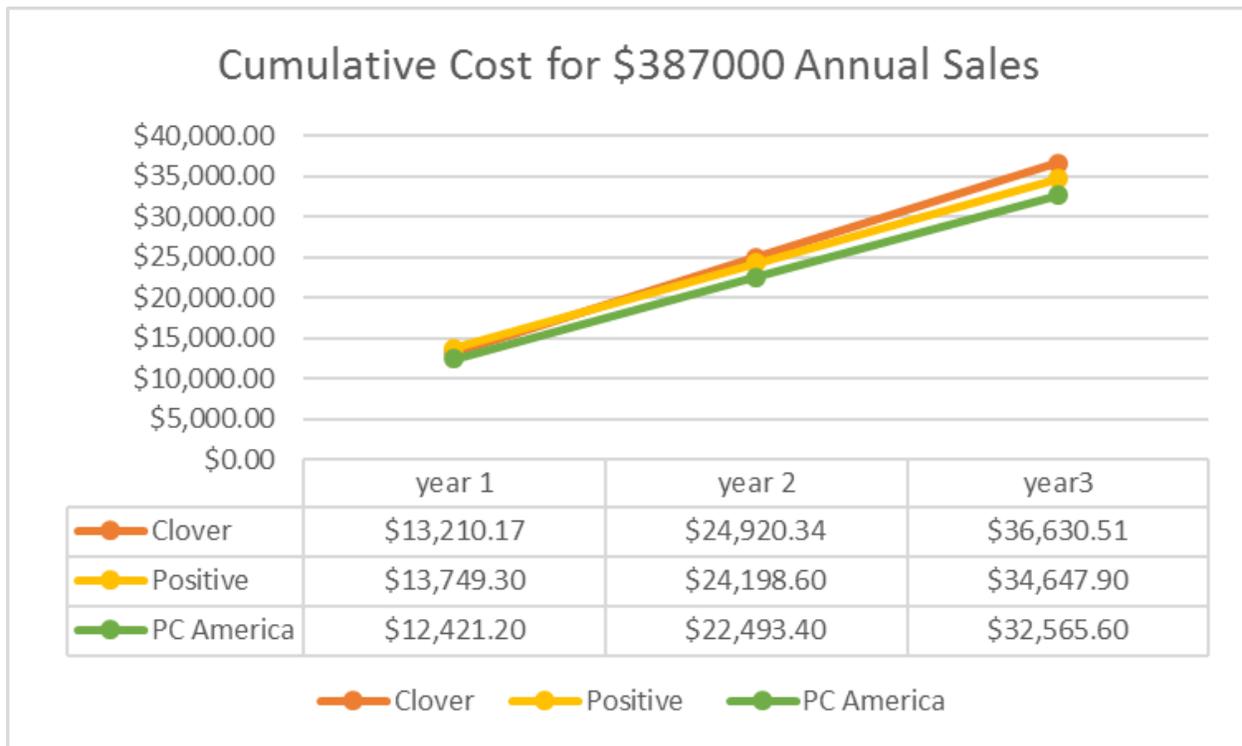
Let's face it – all POS software can ring up a sale – most can track inventory, sales, customers, etc. Many offer other functions and special functions for specific industries. All the Software takes time to create, test and distribute. The software creator or company expects to get back a good return on their investment of time and money. So, we have taken advertised numbers for Cloud POS Software and extrapolated the actual cost of using a cloud based software for a three-year period then comparing those to a premise based software that we sell and support.

Let's look at the real cost of a POS System. All of them require hardware, a computer, cash drawer, receipt printer, barcode scanner, and a credit card terminal. Next is the software that you will use to perform the tasks of ringing up a customer, tracking inventory and collecting the money for the sale. This is where the major differences lie. Software as a Service (or cloud based software) means for a monthly subscription fee you will have access to the software and support for the software for a low monthly fee. The benefits are that you have minimal upfront investment, you always have the support, and someone else is responsible for the server hardware, backups, updates and you can virtually work from anywhere. The greatest negative to this is that you do not have control over your data. Purchasing the software means that you own the software and it and your data belongs just to you. However, you are also responsible for the support cost, backing up your data and the software maintenance. While it may seem that the Software as a Service model is easier and less expensive, as my favorite person always says – “Do the math”.

So, let's compare the total cost of Software as a Service to a premise based system. For the comparison, we are going to use the latest census figures that I could find. Average annual sales for a small business with 1 to 4 employees is \$387,000.00 a year. Now first off, my guess is that this figure is averaged down with businesses that are not retail and do not need POS software, as it a very low figure for a retail environment. But for the sake of argument we are going to use this number to make my point. Second, we will assume that 90% of your revenue will be made using credit and debit cards. Virtually all cloud software locks you into an

associated processor for your credit cards, so you do not have the ability to shop the discount rates that you will be charged. This should be considered when making this decision as it is part of the cost of the POS system. Now your rates as a merchant are based on three factors. First is the credit worthiness of the company, second the length of time in business, and lastly the amount of credit and debit card transactions monthly. With annual sales of this amount, you are not going to qualify for the lowest rate even if you have a good credit rating and stable business history. But for the sake of this argument we are going to use the cheapest rate that I found on line. (Most won't even advertise a rate). An example I found stated that rates started at 2.69 percent and 9 cents a transaction. The cloud based software that we used as a comparison was a Clover POS system including their hardware and pricing. Now we have all our numbers for the cloud or Software as a Service.

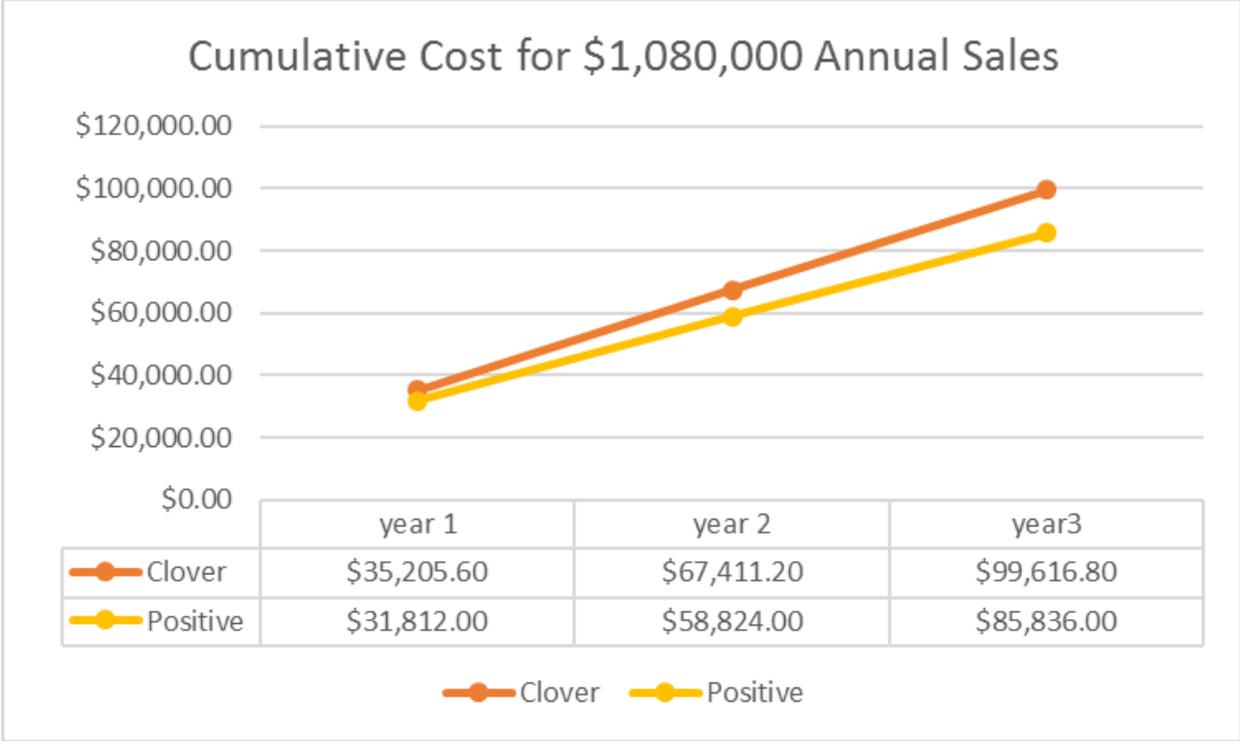
Next, I used our "start at rate" of 2.1 percent and 10 cents a transaction that some of our customers using POSitive Software (which does allow you to shop your rates and get the best rate available) are receiving. I factored in the hardware cost for a single lane POS system and extrapolated the numbers out for three years. I also factored in support cost for the on-premise software. So, the comparison is apples to apples. The numbers surprised me. I found that after three years the POSitive 2017 software, which has many more features, would net a savings of nearly two thousand dollars (\$1982.61).



And before you tell me that I skewed the on-premise software figures in favor of POSitive, I took the step of comparing another on premise software package, PC America's Cash Register Express, their least expensive version that had the same features of the cloud software I was

comparing. Using the same small business with 1 to 4 employees, numbers work out to a three-year savings of \$4064.91. (Remember, POSitive has more features than either program.)

When I took it to the next level, a business with 4 to 9 employees and annual sales of just over a million dollars with two register lanes, the savings after three years was a staggering \$13,780!



Now this doesn't even compare the features of the software, just the cost to your overhead.

So, now the seemingly attractive price of \$49.95 a month price for the cloud solution does not look so good. And before you tell me that it saves you all the upfront money, if you lease the solution for 3 years, then you still would save money without the upfront costs.

As much as possible all expenses that your business incurs should have a return on the investment. Software must also be evaluated as an expense, but it should be able to also pay for itself and produce a return on your investment. Now the most obvious return on investment a POS software makes, is in the customer service that you can give to make your customers happy with fast service at the register. Next month we will look at other ways your POS software should be helping pay for itself.