



HOW TO CALCULATE THE REAL COST OF AN ECOMMERCE SOLUTION

Crunching the Numbers to Figure
Out Total Cost of Ownership

“How much does it cost?”

It’s the question every decision-maker asks when investing in any product or service for their business. The answer is not as simple as you might think—or hope—when it comes to ecommerce technology.

In today’s business environment, almost every company has an online presence regardless of industry or whether they sell business-to-consumer, business-to-business or both.

And most of those companies sell goods or services online and need a platform to support those transactions. That’s where an ecommerce solution comes in.

Ecommerce solutions fit into two primary categories:

- **Point solutions** that manage online commerce only.
- **All-in-one solutions** that unify ecommerce with other applications like ERP, customer relationship management (CRM), order management and inventory management.

These two types of software have different pricing structures, and costs vary by vendor. That is why you



can’t just look at the base price of the solution but rather must consider the total cost of ownership (TCO).

Total cost of ownership is a weighty term with many pieces to the equation, among them licensing, implementation, support, integrations, apps/extensions, transaction fees and hosting fees. Each of these costs can vary greatly depending on your business needs, revenue and which ecommerce solution you choose, so it’s critical to crunch the numbers before you choose your best fit. Let’s break down each of them.

LICENSING

Most ecommerce software providers offer multiple versions of their product with varying functionality to accommodate businesses of different sizes. The first step when evaluating TCO is to figure out which version fits your business needs, as there is a big jump in price between the starter and enterprise editions.

Some open source ecommerce platforms do not charge a licensing fee; however, you will have to pay for hosting (more on that later). Vendors that manage the solution for you charge a fee that could be as low as \$30 per month. The licensing cost of editions designed for companies that generate significant revenue online (often called “enterprise”), on the other hand, is generally at least \$1,800 per month and can be much higher than that.

FACTORS THAT CAN AFFECT THE LICENSING PRICE INCLUDE:

- Annual gross merchandise sales value and average order value thresholds, which can determine your price tier for licensing.

- A percentage of monthly revenue, typically .15-.25 percent, if that is more than the base price.
- Number of storefronts, because there may be a per-license limit on separate stores you have for different languages, countries, B2C vs. B2B, etc.

Generally speaking, if your online sales are more than \$10 million per year, licensing alone can cost at least \$75,000 annually with certain managed solutions, because licensing is often based on gross sales.

Licensing is typically higher for an all-in-one solution than a point ecommerce solution, but there are no supplemental charges based on monthly sales or gross merchandise value. That licensing price includes most, if not all, monthly ecommerce technology expenses, unlike a point solution that can have a huge price range depending on your specific needs.

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IMPLEMENTATION AND SUPPORT

While implementation is a one-time fee, it can be a hefty one. The price of implementation varies widely between providers, and it's usually higher for more advanced versions of the software. If this is not a fixed cost, it can climb quickly.

Anyone familiar with enterprise software has either experienced or heard about outrageous implementations that finish late and way over budget, and the same can happen when launching an ecommerce platform. In general, implementation costs anywhere from one to five times the annual cost of the solution.

[When evaluating ecommerce providers, ask if there is a maximum implementation fee and the average cost of implementation for customers.](#) Make sure there is a clearly defined statement of work with detailed pricing. This will prevent your business from starting an implementation only to watch the final bill spiral out of control with change orders.

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If you already have unified ERP, CRM, order management and inventory management in place, the cost of implementing the ecommerce piece is often lower than the range outlined for point ecommerce software (sometimes much lower). In certain cases, the implementation is a set fee, so it's far less risky.

Once the system is up and running, you may need additional support on top of what comes with the solution (this applies to both unified and point ecommerce software, though with the former it will cover the entire platform and not just ecommerce). These support packages can cost anywhere from less than \$5,000 to more than \$20,000 per year. If you lack a developer on staff, you may need to invest in a more robust support plan where the vendor handles site improvements.

INTEGRATIONS

Using spreadsheets to manage your online business may be fine when you first start out. But to effectively run your business as it grows, your [ecommerce platform](#) must be integrated with other business systems like [ERP](#), [CRM](#), [inventory](#) and order management, [email marketing](#), warehouse management, and more.

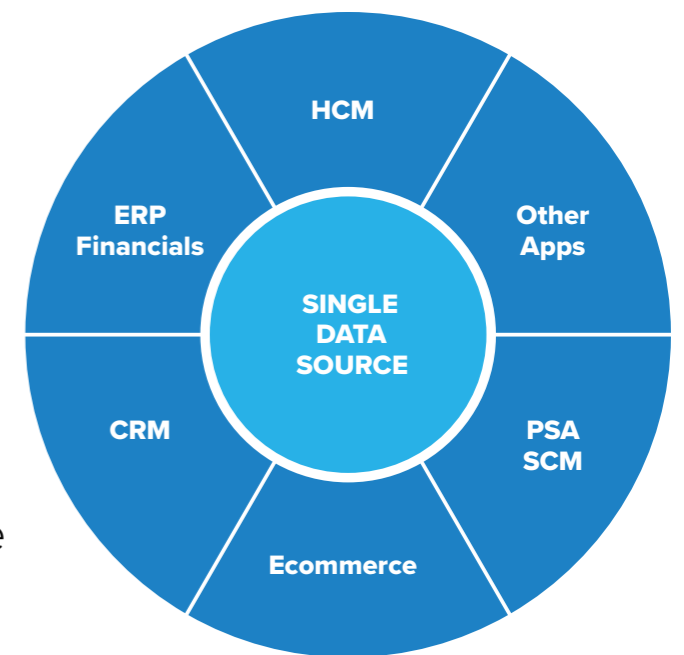
Integrations are what make your supply chain operate efficiently and provide a seamless experience for the customer. They ensure that when a customer places an order, it deducts the item(s) from total inventory, captures a financial record of the transaction, fulfills the order and ships it. When working properly, they prevent systems from presenting conflicting data.

The word “integration” is a scary term to many technology professionals, because integrations have a reputation for not working as advertised. Software from one vendor is usually not designed to communicate with software from another vendor, and the more links in the chain (i.e., the more systems connected to your ecommerce solution), the greater the risk of failure.

Leading integration applications can charge \$250-500 per month to connect an ecommerce solution with an

ERP system, and that may be just one of several systems you need to integrate. Integrations can increase the time of implementation, too.

And if one integration requires an upgrade, it usually causes a domino effect resulting in other systems and integrations needing to be upgraded. This leads to a never-ending cycle of chasing upgrades and enduring the costs that come with it, all for integrations that may never be 100% effective.



It’s difficult to put a monetary value on reliable integrations, but that is one of the biggest benefits of a unified platform over a point solution. The different pieces of the platform—financials, order management, inventory management—are all part of one solution. That means there is no integration cost for adding an ecommerce component and upgrades do not pose a problem since third-party connectors are not necessary.

APPS AND EXTENSIONS

The major ecommerce solution providers each have their own app store or marketplace with hundreds or thousands of extensions designed to add new functionality to your online store. Most businesses use extensions—whether they utilize a point ecommerce solution or unified platform—because they power common web store features on the front- and back-end, like product reviews, personalized promotional offers and analytics/reporting.

Some of these extensions are free or offer a free edition, while others have a monthly fee—for context, many companies spend \$200-500 per month on these extensions. However, you should look through the app stores of the solutions you're considering to find out what additional functionality is free, and estimate how much you will spend on extensions every month.

PAYMENT GATEWAYS

Whether you choose a point or unified solution for ecommerce, you need a payment gateway that will facilitate the transfer of payment between the merchant and banks to accept online payments. Payment

gateways all charge a fee every time an order is placed—yes, it's yet another cost to work into TCO.

**Standard Payment
Gateway Fee =
2.9% of transaction + 30¢**

A typical payment gateway fee is 2.9% of every sale plus 30 cents. So if a customer's order is worth \$100, the payment gateway collects \$3.20. If you process a significant number of transactions, you can often negotiate a lower per transaction rate, perhaps around 2.6% (plus 30 cents).

Certain vendors have their own payment gateway with a lower per-sale cost. However, only businesses based in a handful of countries can use these vendor-sponsored gateways, unlike established players such as PayPal, Stripe and Braintree.

When looking at ecommerce solutions, also talk to different gateway providers about the flexibility of their rates and make sure you choose one that supports all the payment methods and security standards you need.

HOSTING OPTIONS

If you're evaluating on-premise ecommerce solutions, the price of server space is an important consideration whether you use a managed hosting provider or host it yourself.

For a young or small ecommerce site that doesn't attract a lot of traffic or orders, the cost of managed hosting may be minimal. But it climbs exponentially for bigger online stores, stretching into several thousand dollars per month if you need multiple dedicated servers. If you're self-hosting, you must also factor in the cost of a support staff, hardware and ongoing maintenance.

HOSTING COSTS ARE A COMPLICATED EQUATION INFLUENCED BY MANY FACTORS, INCLUDING:

- Multiple sites for different countries and languages
- Visits per day
- Sessions per month and concurrent sessions
- Size of product catalog (total SKUs)
- Number of integrations
- And more

During peak season or a major sale, the cost of server space will rise as traffic spikes. It also makes the monthly price unpredictable, because many of these factors are out of your hands.

This is where fully-managed Software-as-a-Service (SaaS) ecommerce solutions provide superior value. Today, most software providers offer a SaaS version of their ecommerce system, and if you go that route, there are no hosting fees because the vendor manages the system for you and that is included in your monthly bill (as outlined in the Licensing section). Although the monthly price tag of a SaaS solution may be higher, the lack of hosting costs could easily make up the difference.

“On-premises software and legacy commerce technology are becoming outdated and less effective. In the midmarket, time-to-market and total cost of ownership are top priorities—which means cloud offerings dominate.” [Forrester Research](#)

DO THE MATH

When comparing point solutions with all-in-one solutions, keep in mind that the benefits of a single platform are not strictly financial. It provides companies a central source of customer, order, inventory and item data because it can pull that information from across your business.

When your team has access to this 360-degree view of the customer, it's far easier to provide consistent, personalized experiences. A unified source of data also makes it possible to deliver timely and relevant marketing that will drive results and build long-term loyalty to your brand.

This offers a distinct advantage over the alternative: cobbling together disparate systems for ecommerce, accounting, inventory and order management, and more. That requires often-unreliable integrations that can make it challenging or impossible to see all this information in one place and keep data up-to-date across all systems. This

	Managed Point Solution	All-in-One Solution
Licensing	\$\$-\$\$\$	\$\$\$
Implementation	\$\$-\$\$\$+	\$
Support	\$\$-\$\$\$	\$-\$\$
Integrations	\$\$	—
Apps/Extensions	\$	\$
Payment gateway	\$\$	\$\$

—: No expense, \$: Small expense, \$\$: Medium expense, \$\$\$: Large expense

could become more of an issue when your needs shift as the business grows and evolves in the years to come.

Ecommerce represents a bigger chunk of your bottom line than ever before, and it will only grow more vital in the future as your customers are younger and more accustomed to shopping online. That's why it is especially critical to consider the long-term price of an ecommerce solution right now.

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