CLOUD NOW DELIVERS 3.2 TIMES MORE ROI

ANALYSTS

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THE BOTTOM LINE

The benefit of the cloud versus on-premise solutions continues to grow. Nucleus found that in the past two years, the ROI of cloud deployments relative to on-premise ones has increased by more than 50 percent, driven by vendor investment, deployment experience, and increased adoption. Today, cloud deployments deliver 3.2 times the ROI of on-premise ones.

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OVERVIEW

The relative returns of cloud technology deployments versus on-premise ones continues to grow. Just two years ago, Nucleus found that the cloud delivered 2.1 times greater ROI (Nucleus Research *q65 – Cloud delivers 2.1 times more ROI*, April 2016) – a 24 percent increase since 2012. Review of our recent case studies published since that last report show that this number has increased to 3.2 times greater returns. Combined lower total cost of ownership, shorter payback period, and the ability to increase benefits over time without the typical cost and disruption of on-premise upgrades, cloud projects continue to demonstrate greater initial success and ongoing returns.

Nucleus has published 85 case studies since our previous cloud multiplier report. Of these case studies, 19 percent have been on-premise and 81 percent have been cloud deployments. The preference for cloud continues to rise as customers realize the greater potential value in the modern business environment.

The previous red flags for cloud projects—namely, security—have all but faded as vendors invest ever greater resources into cloud infrastructure and applications.

With vendors' focus on end-user experience and greater security, the cloud provides not only lower initial cost and faster time to value, but also greater safety and control than many traditional on-premise setups.

Ease of deployment and less disruption from upgrading, expanding, or changing business applications means that once the cloud is implemented, users can focus on high value-added tasks related to their business, not having to worry about their technology needs. They can make decisions to expand or change their cloud application capabilities without significant additional investment.

On the vendor side, ease of switching and more flexible cloud contracts necessitate a continuous value proposition for customers. More recently, with greater competition in the cloud space and accelerated upgrade cadences, customers have recognized the opportunity to take advantage of the subscription model to hold vendors' feet to the flame at renewal time. This in turn has pushed vendors to rethink how they compensate sales (on renewals and not just initial subscriptions) and invest in customer success programs that ensure customers receive and recognize greater value from their deployments over time.

THE BENEFITS

Cloud continues to provide benefits to customers by providing both lower initial and ongoing costs, paying back the initial investment faster, and generating additional value from higher propensity to upgrade or even switch products.

TOTAL COST OF OWNERSHIP

Software as a service (saas) subscriptions include a variety of additional services that can be expensive to manage in-house. On-premise deployments have software licensing costs, but also have yearly maintenance, hardware purchase and maintenance, and more expensive consulting costs. Saas vendors handle these challenges on their end, freeing up customers to invest IT resources elsewhere. Nucleus found that cloud deployments have an average 2.26 times lower total cost of ownership (TCO) compared with on-premise deployments.

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PAYBACK PERIOD

Not only are cloud deployments less expensive, but customers also realize their initial investment faster. The payback period for cloud deployments is 2.2 times faster than on-premise ones. With a payback period of only seven and a half months, cloud customers shaved nine months, on average, off the time from deployment to net zero investment compared to on-premise customers.

EASE OF DEPLOYMENT AND UPGRADE

In speaking with end users, Nucleus found that cloud deployments are faster and require fewer internal resources. The initial implementation tends to be both simple and comparatively lower in cost than traditional on-premise solutions for three main reasons:

- Without the need to scope, purchase, deploy, and optimize hardware for an application, customers don't overbuy or spend months on scoping efforts

- With applications that are largely configured, instead of customized, time to deployment is much more rapid and often requires less specialized (and expensive) resources.

- The greater usability of modern cloud applications dramatically reduces the time and cost associated with training and adoption.

Nucleus finds that the value of ease of deployment goes beyond the initial cost savings. Ease of deployment also means it is easy to switch from one cloud provider to another as customer needs evolve. With large sunken costs in on-premise hardware, Nucleus has found that customers stay on inefficient systems long past their expiration date. Through more flexible deployments, vendors are incentivized to continually improve their products and respond to market trends with a defensible value proposition at all times. Customers are no longer the ones that are on the hook

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Additionally, upgrades are delivered regularly, which allows customers to access the newest functionality without the disruption or cost of upgrading on-premise applications. Nucleus has found that customers deploying on-premise often avoid or skip several upgrades because of fear of disruption or lack of IT resources. These same customers have complained in interviews about functionality and usability

issues that have been already addressed. Overall, upgrading is a double-edged sword for on-premise customers. In the cloud world, near-seamless upgrades that minimize disruption enable customers to more readily take advantage of new vendor investments and maximize value from their deployments over time.

CONCLUSION

If there was ever a doubt that cloud is replacing on-premise solutions for all but the most specific of circumstances, this year over year value growth will put that to rest. Over both the short- and long-term, cloud provides greater ROI, faster returns, and lower costs. Nucleus expects that with increased vendor investment and greater user adoption, the growth of cloud returns will continue as the last advocates of on-premise deployments accept their fate.