TCO ANALYSIS DEMONSTRATES HOW MOVING TO THE CLOUD CAN SAVE YOUR COMPANY MONEY

GINA LONGORIA

Gina Longoria is a Moor Insights & Strategy senior analyst

IT organizations are moving to the cloud in droves with high hopes to improve efficiency, increase agility and save money. In an effort to address this insatiable demand, leading companies like Amazon.com, Google, Microsoft, Rackspace and others provide a wide range of cloud product offerings and services. The choices can be daunting for IT organizations who need to support a variety of users and applications. Many IT organizations see the ability to avoid the cost and headache of acquiring hardware and software in their own datacenter as the primary benefit to move to the cloud. But acquisition cost is only one small piece of the puzzle. **Operational and indirect costs savings** that can be achieved by using the IT resources and expertise of a managed cloud provider have the potential to dwarf the infrastructure acquisition savings of moving away from a self-managed on-premises datacenter approach.

With so many components at play, it is hard to get an exact picture of IT costs. **Total Cost of Ownership (TCO)** goes beyond comparing standalone infrastructure costs and looks at the cost of service and support over a solution's useful life. A comprehensive TCO analysis must include 3 major types of costs:

1. **Capital expenses:** On-premises hardware & software

2. **Operating expenses:** Services, support & maintenance fees to keep the equipment running

3. **Indirect costs:** Potential downtime and time-to-market delays

For a detailed look at TCO considerations for the cloud versus a self-managed on-premises solution, see our paper here.

There are a number of tradeoffs to consider when comparing solutions in terms of the 3 types of costs. For an on-premises solution, **capital expenses** include the hardware equipment and initial software purchases required to support the project or application. Additionally, if a new datacenter is being used, a portion of the datacenter buildout is allocated to the overall cost of the project. Public cloud and hosted solutions require no capital expenditures, as no equipment needs to be purchased. This helps minimize the long-term investment for a new project and upfront capital outlay required to get new infrastructure in place.

When comparing cloud services providers and hosted solutions to an on-premises datacenter model, a decision to go down a particular path must encompass more than infrastructure price alone. Operating expenses include activities and expenses required to install, setup and keep the application running over the project lifecycle and can be a major contributing factor to overall IT costs. People costs tend to be one of the largest **operating expenses** for a self-managed, on-premises IT approach.

For organizations where IT is not a core business differentiator, it often makes more business sense to outsource some or all of the service and support required to run IT resources more efficiently. Cloud services and hosting providers that provide managed services can serve as IT administrators and networking engineers, customize workloads for optimal performance, perform ongoing support and manage or co-manage infrastructure. Leveraging managed services from a cloud services or hosting provider allows IT organizations to free up their staff to work on more strategic, revenue-generating projects instead of focusing on operating infrastructure.

In addition to capital and operating expenses, a number of **indirect costs** affect the business when IT experiences downtime or takes additional time to bring the infrastructure up to support a new revenue opportunity. In many cases, cloud service providers and hosters provide uptime guarantees in their service level agreements that are higher than those achieved with a self-managed on-premises solution. Unplanned downtime has the potential to impact a number of areas, including labor productivity, revenue, reputation and customer loyalty. In addition, using a cloud services or hosting provider may allow IT to get to market more quickly with new solutions to help drive business growth or address traffic spikes which has the potential to positively impact company revenue.

In the specific TCO example we examined, a managed hosting solution provider (in this case Rackspace) was able to provide a 37% savings over a

3-year period for a retail / ecommerce organization when compared to a self-managed, on-premises solution. But the benefits of the cloud depend on many factors, and mileage will vary for your organization. Many cloud services and hosting providers offer modeling tools and one-to-one consultations to help IT understand the potential TCO benefits of moving to the cloud for their organizations.

Disclosure: My firm, Moor Insights & Strategy, like all research and analyst firms, provides or has provided research, analysis, advising, and / or consulting to many high-tech companies in the industry, including Microsoft and Rackspace cited in this article. I do not hold any equity positions with any companies cited in this column directly.

GINA LONGORIA, BIOGRAPHY

Gina Longoria is an analyst at Moor Insights & Strategy. With more than 18 years of experience in both hardware and software, she has a successful track record of marketing enterprise products from inception through end of life. Gina's background in launching disruptive products into markets with strong incumbent players allows her to provide unique insight on the key requirements and go-to-market strategies that drive enterprise buyers and large internet datacenters to new technologies.

Gina held various roles in product management, marketing and business operations in her almost 10-year tenure at AMD. She also spent time at Motorola (Semiconductor Product Sector) and various enterprise software startups. Most recently, Gina led hardware product management and marketing for Calxeda, a leading provider of power-efficient ARM®-based SoCs (server on a chip).

Career Highlights of Gina's include:

- Led product management for the initial AMD Opteron™ processor enabling a market share ramp from 2% to 20%.
- Developed product positioning and pricing strategies at AMD for key cloud computing wins resulting in $500M+ revenue.
- Directed successful joint product launches for Calxeda's first generation product with Hewlett-Packard's Moonshot program and the Open Compute Project (led by Facebook).

Gina's extensive experience in product planning, product management, product marketing, and business management gives her a well-rounded perspective in all aspects of driving a successful and profitable product portfolio. Gina earned an MBA with a focus in Marketing and Entrepreneurship from the University of Texas at Austin and a B.S. in Business Administration with a focus in Supply Chain Management from Michigan State University