



September 2012

Document M108

RESEARCH NOTE CLOUD DELIVERS 1.7 TIMES MORE ROI

THE BOTTOM LINE

Companies continue to invest in cloud applications because of low upfront cost and faster time to deployment, but those are not the only reasons to move to the cloud. Beyond their initial payback, Nucleus found that cloud applications deliver 1.7 times more ROI than on-premise ones, largely because four out of five cloud deployments deliver increasing benefits over time.

As Nucleus predicted in its 2012 Predictions, (*Nucleus Research I107 – Top Ten Predictions for 2012*, October 2011), organizations have continued to invest in cloud applications because of fast deployment and low initial cost. Companies are devoting an increasing share of their IT budgets to cloud projects, with good reason: in examining the ROI of the cloud versus traditional deployments, Nucleus found that, on average, cloud applications deliver 1.7 times more ROI than on-premise ones.

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Nucleus's analysis included more than 70 ROI case audits of cloud and on-premise enterprise application projects over the past three years including CRM, ERP, content management and collaboration, and human resources applications. Overall 3-year project budgets for both the cloud and on-premise deployments examined ranged from approximately \$30,000 to multi-million dollar deployments; in fact, the largest project included in the analysis was a global cloud CRM deployment with a 3-year budget of slightly more than \$9.5 million.

THE CLOUD ROI MULTIPLIER

One might assume that the cloud ROI multiplier of 1.7 is driven purely by eliminating the initial investment in hardware and software licenses that make up a traditional on-premise deployment. However, upon further examination of the data Nucleus found there were three other main factors that drove the cloud multiplier.

CLOUD APPLICATIONS TAKE 40 PERCENT LESS CONSULTING

Companies deploying cloud applications spend 40 percent less on consulting than those deploying on premise (as a percentage of the total project budget over a 3-year active deployment). This is not a big surprise, because cloud application deployments are focused on configuration, not customization, and most don't require extensive development and testing. This impacts the overall cloud ROI multiplier both initially and on an ongoing basis: with less custom code or customization, there is less need to bring the experts back in for another engagement when changes need to be made, or develop, test, and debug custom code that may be broken by an upgrade.

COMPANIES DEPLOYING CLOUD SPEND LESS ON INTERNAL APPLICATION SUPPORT

Companies deploying cloud applications spend 25 percent less on support personnel than those deploying on-premise applications because:

- They can use business analysts instead of more costly developers and database administrators to perform much of the configuration work.
- The vendor provides ongoing application support and maintenance expertise, so limited internal IT staff is needed for support.

Companies deploying cloud applications spend 40 percent less on consulting and 25 percent less on personnel than those deploying on premise, driving the cloud multiplier.

THE BENEFITS FROM CLOUD APPLICATIONS INCREASE OVER TIME

In the traditional on-premise world, expansion of the functionality or footprint of an application — or even simply upgrading an application to remain current — often required significant consulting and personnel investment in scoping, coding, and testing. That investment also meant time lost and disruption for business users. In examination of cloud application projects, Nucleus found three main differences:

- Because of the iterative nature of cloud projects, and the fact that business users can expand and adapt their use over time (often without additional consulting investment), companies are more likely to expand the footprint or workflows of cloud applications without additional consulting costs.
- Because new users can easily be added over time, companies are more likely to expand the user footprint as they identify opportunities for more value.
- Because most cloud upgrades are relatively transparent to end users, companies can take advantage of incremental upgrades to drive greater productivity in areas such as mobile access, integrated analytics, improved workflows, and a more intuitive user interface.

Because of these differences, Nucleus has found that four out of five cloud application projects have an incremental increase in annual benefit over time without a proportional increase in costs. This drives sustainable ROI over the long term, as annual benefits increase. Although the ratios vary widely, Nucleus also found that companies tend to use

more of the overall functionality provided by cloud applications than they do with on-premise ones.

CONCLUSION

The ongoing ROI that cloud applications deliver is good news for customers and good news for cloud vendors, who need to show ongoing annual value to justify their annual subscription fees. As more organizations move to enterprise licenses instead of per-user fees, ongoing opportunities for benefits are even greater because expansion is not gated by the number of users licensed. Given the significant magnitude of the cloud multiplier on application ROI, most organizations are likely to adopt cloud in the future. Only organizations that plan to never grow, change, or upgrade their application after its initial deployment are likely to achieve better ROI from on-premise applications than cloud ones.