



CLOUD DELIVERS 2.1 TIMES MORE ROI

ANALYST

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THE BOTTOM LINE

The cloud ROI multiplier – the relative return on investment (ROI) delivered by cloud applications versus on-premise ones – is on the rise. In a recent analysis of Nucleus ROI case studies published in the past few years, Nucleus found that cloud application projects deliver 2.1 times the ROI of on-premise ones – up 24 percent since 2012.

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Companies continue to invest in cloud applications and infrastructure projects because of the lower initial cost and faster time to value. As more and more vendors have invested in moving their solutions to the cloud, the breadth of availability of cloud platforms, applications, and services has grown – as well as the complexity of cloud applications available. In 2012, our analysis of published Nucleus case studies found that the average cloud application project delivered 1.7 times more ROI than an on-premise one. However, as cloud applications have become more feature and functionality rich, and projects more complex, how does that change the math? In analyzing the ROI case studies Nucleus has published from 2013 to the present, we found not only has the cloud multiplier been sustained, it's increased, with the average cloud project delivering 2.1 times the ROI of on-premise ones.

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This analysis was based on all the case studies Nucleus has published, and included a mix of cloud projects across the core pillars of enterprise software including enterprise resource planning (ERP) and accounting, customer relationship management (CRM), human capital management (HCM) and workforce

management (WFM), supply chain management (SCM), content management, and analytics, as well as infrastructure projects such as platform as a service (paas).

The cloud ROI multiplier is driven by a number of factors, including lower initial and ongoing costs and the ability to deliver greater value over time without the cost and disruption traditionally associated with upgrading, expanding, or changing business applications. This was true in 2012 when Nucleus published the first analysis of the cloud ROI multiplier (Nucleus Research *m108 – Cloud delivers 1.7 times more ROI*, September 2012). At the same time, investments in paas by a number of vendors have also increased the security and reliability of cloud (Nucleus Research *p206 – Cloud data center security benefits*, November 2015).

A CLOSER LOOK AT THE NUMBERS

It would seem that the increasing features and functionality available in cloud applications, and the resulting increase in complexity, would drive up the initial cost and time of deploying cloud applications. While the average time to deploy a cloud application has increased somewhat (increased complexity of applications such as ERP drive great variability in time to deployment), the relative cost of cloud implementations has actually gone down since 2012:

- Cloud deployments incur 63 percent lower initial consulting and implementation costs than on-premise ones (in 2012, companies spent 40 percent less on consulting for cloud deployments than on-premise ones). Personnel time to deploy cloud applications in comparison to on-premise ones has dropped as well.
- On an ongoing basis, companies spend 55 percent less (on average) on personnel to support cloud applications compared to on-premise deployments.

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There are a number of reasons driving these changes. Most notable are increased competition in the space and the rising acceptance of traditional systems integrators (SIs) that they need to adapt their pricing and delivery models to meet the expectations of cloud customers (Nucleus Research *q7 – The new cloud school for old-school services*, January 2016). Other contributors include the increase in functional capabilities of cloud applications (meaning less custom work and more reliance on configuration).

The other compelling factor for the cloud multiplier rise, however, is the fundamental benefit of cloud: the ability to deliver greater benefit over time and more flexibly change the application to meet business needs without the traditional costs associated with changing a business application. Most cloud vendors are delivering upgrades at a cadence of two or more per year, and the ability to adopt and leverage that new functionality with relatively little disruption means that cloud application users get more from their applications on an ongoing basis. As cloud users become more savvy, they are more likely to leverage this advantage.

OTHER CONSIDERATIONS

Another happy accident to consider is the ability for companies to achieve more from their applications from the initial deployment. When the vendor, not internal IT, is responsible for a successful deployment, the business is much more likely to demand a 100 percent solution instead of just an “ok” one. While in the traditional app world the business might accept a less-than-ideal *solution* because they didn’t want to burn up the political capital to push IT for a more optimal application, today they have the vendor and SI to point to – and the threat of non-renewal of a subscription or going to the competition – if they don’t get exactly what they want.

PROPENSITY TO SWITCH

Our data continues to show that, because of relatively low switching costs, cloud application customers are more likely to “cut and run” in the first six months if they feel like they haven’t gotten what they expected from the vendor (Nucleus *m107 – CRM – propensity to switch*, September 2012). Although the CRM cloud application market is arguably the most mature of cloud markets, the propensity to switch out ERP, HCM, and other applications that aren’t working in the first few months is following the CRM model. Without the sunk costs and political pain associated with traditional failed projects, cloud application project managers are more than twice as likely to ditch a project midstream and move to a competitor if they get the sense that the vendor can’t – or won’t – deliver, and even more likely to switch in the first six months if things aren’t working.

BEING GREEN

For those tree huggers who care less about the money and more about the environment, the cloud is a better answer as well. In an early assessment, Nucleus found that cloud applications used, on average, 91 percent less energy than on-premise ones (Nucleus Research *k52 – Cloud computing: it is easy being green*, October 2010). As paas vendors have continued to make investments in data center

efficiency and more companies have moved critical workloads to the cloud, the energy economies of cloud drive even more benefit for the environment.

Cloud applications use 91 percent less energy than on-premise ones.

CONCLUSION

Although some application domains and industries have been slow to move to the cloud, the financial benefits of moving to the cloud are clear – as are the security and reliability benefits. With cloud delivering 2.1 the ROI of on-premise applications with lower initial and ongoing costs, and the environmental benefits of going cloud, it's hard to argue against the cloud.