Is Your Business Actually Saving Money on Cloud Services?

When looking at the total picture, in-house applications and resources might be the economical choice

Riding the bus can be simple and, in the short run, less expensive than driving. On the other hand, it usually takes longer and you share the ride with a group of strangers. To add to the inconvenience, there is probably some walking and waiting involved, in all kinds of weather.

Disadvantages of Cloud Shared Services

Using software as a service (SaaS) on the cloud is like riding the bus. Millions of customers subscribe to shared services like today's popular cloud-based CRM and accounting programs. Perceived lower cost and anytime, anywhere access make SaaS applications attractive.

But riding the bus can have its disadvantages. There are security concerns (data theft), and you will lose valuable time if the bus doesn't come (the Internet is down). There may be difficulty making the bus work with your schedule (integration problems) or the bus is late and overcrowded (performance issues).

There are times when using a cloud service is the better option over an on-premises solution, but the appellation, caveat emptor, buyer beware, applies. Cloud services don't necessarily save money. Business leaders should consult with experienced IT/cloud consultants to be sure that they find the right solution for their company.

Does the cloud save money?

There is a lot of hype, and many business leaders believe, that the cloud saves money. For many companies, that may not be true. They may choose to use cloud services because they want to buy less equipment and software, but those services can actually cost more over time.

Based on our experience with hundreds of SMBs, it takes about two years to break even on equipment and services when going in-house vs. on the cloud. After two years, companies not on the cloud can use the money saved to pay for upgrades or other expenses. The extra expense for cloud users is just adding to the cloud provider's profit.

For the third year and beyond, cloud customers are paying for elasticity and other things that are pitched as cloud benefits that they might not need. Unless they are growing quickly or have an immense amount of usage variability, the customer may not realize those benefits.

Why cloud services often cost more than in-house:

- **Paying for more services than used** – Companies may not even know what services they have or need. For example, with staff turnover, no one shuts off the service that is no longer needed, so they just keep paying.

- **Cloud de-provisioning doesn't work** – The people that set up cloud services aren't the ones using them. And, users are usually separated from billing, which is often complicated. Everyone is afraid to turn anything off and providers make it difficult.

- **Integration** – A lot of time and money is spent on getting the cloud services to work with other applications, on-premises or together in the cloud.

- **Labor costs** - The number one expense in business is labor not dollars for tools. Using a number of cloud services, like CRM, accounting, and marketing increases IT and management complexity. Software costs may come down, but staff time goes up.

- **Ease of use** – The cloud service may not have all of the features needed and customization is limited.

Gartner says in an oft quoted, 2009 report that cloud software users, "will have lower total cost of ownership for the first two years because SaaS applications do not require large capital investment for licenses or support infrastructure. After that, the on-premises option can become the cost-savings winner..."

Our experience confirms that assessment. The ongoing costs of on-premise solutions are usually less. If you can't afford the capital expenditure for software and hardware then, with the lowest rates in history, leasing offers a great alternative.

Other Cloud Challenges

It's true that the number of major outages is reduced by moving services to the cloud, but the minor challenges increase dramatically. Mail or data can disappear when providers change. There are privacy, compliance and migration issues as well.

Other challenges related to using cloud services:

- Data portability and compatibility
- Lack of support
- Inflexibility
- Evaluating SaaS vendors
- Getting locked-in with vendors

What works well on the cloud?

Some services belong on the cloud. For example, an on-premise email filter is not effective with today's threats, and trying to operate powerful antivirus software and keep it up to date on-site doesn't make sense. These services work better on the cloud.

Backups and remote file access may also work better on the cloud. Cloud disaster recovery solutions that get companies operating again quickly are becoming affordable for small businesses, while the trend in working remotely continues to expand the need for cloud collaboration tools.

Office 365

Microsoft Office 365 is a cloud service that works very well. It's basically a commodity that networks effectively, functions online or offline and is already integrated with the productivity tools that you use every day.

The flexibility that Office 365 adds to a business and its remote access from multiple devices improve productivity enough to more than cover the cost. It's reliable, workers already know how to use it, and it's very well integrated. Office 365 migration services are readily available.

Choose your Ride

If you prefer the convenience, independence and privacy of driving a car, you may not be satisfied with using shared services on the cloud. Opting for shared services may also cost more overall.

For business owners that like to take the bus, working on the cloud could be a better fit. But they should make an informed decision and not just assume that the cloud will save them money.