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Increase profits (and reduce admin costs) in the cloud

Which is more expensive: hosting your tools on-premises (on-prem) or in the cloud? Ask a dozen people, and you'll get a dozen different answers. While businesses tend to treat it as a simple question, it's actually a rather complicated one.

If we're talking about the monthly subscription cost of cloud vs. software licensing, cloud typically looks more expensive. If we factor in the additional costs of migration from on-prem, cloud will almost always be a more expensive short-term investment. But when we look at long-term value, that's where on-prem starts to look less like the conservative choice and more like a consistent drain on your profits.

Why? Because, iceberg-like, the price tag of on-prem is mostly hidden, and bigger than you might think.

Reduce operational and physical costs

On-prem also comes with a lot of hidden operational and physical costs that simply aren't a factor with cloud. This includes:

Servers
With an average lifespan of 3-5 years, servers need to be regularly repaired and physically replaced.

Server support
Load balancers, climate control, server racks, replacement parts...in addition to the servers themselves, on-prem comes with some supporting hardware, parts, and physical assets that need to be purchased, maintained, and replaced at regular intervals.

Software renewal/licensing (and over-licensing)
Over-licensing costs US and UK companies as much as $34 billion per year, according to one study. To avoid this common pitfall, companies either need to keep rigorous track of who needs which software, or they need to move to the cloud, where the number of users can often be automatically tracked, updated, and viewed by admins.

Electric bills
If 80% of servers are overprovisioned, that means 80% of on-prem companies are using more energy than they need and paying higher energy bills than they otherwise would.

Real estate/space
Physical servers call for physical space, which means a move to the cloud can open up existing space for other uses or remove data center real estate from your budget entirely.

Maintenance
Server maintenance often calls for temporary staff or contractors, which is a line item you can ditch when you delegate that responsibility to your cloud vendor.

Asset management time/audits
The more assets your IT team has (including physical servers, load balancers, and parts as well as non-physical assets such as software licenses and databases), the more your asset management practice has to track. This means more time, resources, and mental overhead.

Reduce environmental costs

Most of us would love to be more environmentally friendly for no other reason than it's the right thing to do. But the additional good news is that when it comes to on-prem vs. cloud, the environmentally friendly option (cloud) is also the more affordable one.

The reason for this is, of course, that energy costs money. And using more of it than you need necessarily costs more. So when we say cloud is up to 98% more eco-friendly than on-prem, we're also saying it's cheaper.

Offload the cost of scaling

The vast majority of on-prem resources (80%) are overprovisioned, meaning companies are paying for far more computing power than they need. In those cases, a move to a cloud service that automatically scales resources up, down, in, and out saves these companies as much as 30% annually, according to research by TSO Logic.

The problem here is that, with on-prem hosting, your IT team makes an educated guess about how much computing power you'll need. If they guess too high, you're paying for resources – servers, load balancers, power – you don't need.

On the other hand, if the team guesses too low, a lengthy, costly manual scaling process is in your future. You'll need to add more servers or more computing power to meet demand – and that addition will require both money and manpower. Not to mention the weeks, if not months, of slow or unavailable services in the meantime, and the impact they could have on profits and customer loyalty. An incorrect guess in either direction, then, can have a major impact on your bottom line.

The solution here is to choose a cloud service with automatic scaling options. When usage spikes, your computing power grows to meet that demand. When usage slows, it scales down to save you money.

Calculating the cost of a cloud migration

The simplest way to calculate the return on any investment (including a move to the cloud) is this:

(Profit/gain from investment - investment) ÷ (investment) = ROI

So, for example, if you invest $50,000 in a migration from on-prem to cloud and you save or gain $50,000 per year after the migration, your equation would look like this over three years:

($150,000 - $50,000 = $100,000) ÷ ($50,000) = 2

In this example, your ROI over three years would be 2x (or 200%). In the first year, with that equation, you'd simply break even. In years two and three, though, you'd start to see real gains.

Now, sometimes it makes sense to do this calculation based on a year or two, but **most cloud savings grow over time**, since the up-front cost of a migration is a one-time expense and the savings on servers, software, IT, contractors, etc. are generally yearly savings. This means the ROI over time tends to chart up and to the right and understanding your true savings often means a calculation that spans multiple years.

In another example, if you invest $60,000 in a migration from on-prem to cloud and you save $45,000 per year in operating costs, your ROI in the first year will be negative (i.e. the one-time, upfront investment of migration cost more than you saved in year one). However, when expanded to a 3-year or 5-year model, the savings increase drastically.

In three years, you've more than broken even—and in year 5 you've almost tripled your investment.

Example

Calculating 1-year ROI

- Gain from migrating to cloud: $45,000 annual savings
- One-time migration investment: $60,000
- 1-year ROI: ($45,000 - $60,000 = -$15,000) / 60,000 = **-25% ROI**

Calculating 3-year ROI

- Gain from migrating to cloud: $45,000 annual savings x 3 years = $135,000
- One-time migration investment: $60,000
- 3-year ROI: ($135,000 - $60,000 = $75,000) / 60,000 = **125% ROI**

Calculating 5-year ROI

- Gain from migrating to cloud: $45,000 annual savings x 5 years = $225,000
- One-time migration investment: $60,000
- 5-year ROI: ($225,000 - $60,000 = $165,000) / 60,000 = **275% ROI**

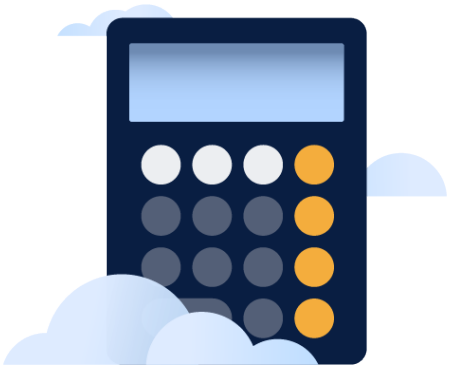
Organizations with a multi-year view of their technology investments tend to remain more competitive in the long-term and often see greater returns.

Calculating investment and gains

The tricky part of this equation is calculating the two numbers you need for your ROI. To understand your **initial investment** in migrating from on-prem to cloud, you'll need to add up the cost of professional services, internal resources, software licenses, data migration, cloud subscription, and any required re-training on cloud tools (if they differ from your on-prem tools).

Then, to calculate your **gains**, you'll need to add up savings on hardware, software licenses, energy, real estate/server rooms/data centers, maintenance (including both employee time and external contractors), asset management time, incident management time, change management time, security upgrades, feature upgrades, and IT team or reduced headcount.

More difficult to calculate before you make the switch – but still important – are the cost of downtime (even a reduction of one hour per year can save companies hundreds of thousands), performance gains, and time saved by non-technical teams who have faster access to new features that increase productivity, collaboration, and security.



Case study: Igloo Software

After a major outage that cost them three times as much as a Jira cloud subscription, Igloo Software decided to make the shift from on-prem to cloud. And that shift saved them big – not only on the cost of future major incidents, but also on admin time and scheduled downtime.

As their Senior Tools Admin James Seddon explains,

> **When we managed our own Jira server, every upgrade required at least two hours of downtime, and we had to schedule it after 8 PM, which meant a late night for me, the admin. Upgrades to Bamboo and Bitbucket, which we did separately, would also each take at least two hours.**

Another time-saver (and, therefore, cost saver) Seddon highlights is that users can configure features on their own–no admin assistance required. Since the switch, support tickets are down by a whopping 50% because users are empowered to do so much more of their own admin work.

IGLOO

Industry
Technology

Location
Ontario, Canada

Company Size
Fewer than 500 employees

Products
Jira Software Cloud
Confluence Cloud
Jira Service Desk Cloud
Atlassian Access

And soon, Atlassian's Cloud Enterprise plan will take all the benefits of Premium and Atlassian Access and add new features like **data residency controls**, **unlimited users** and **instances**, **sandboxing**, and **scheduled release tracks**.

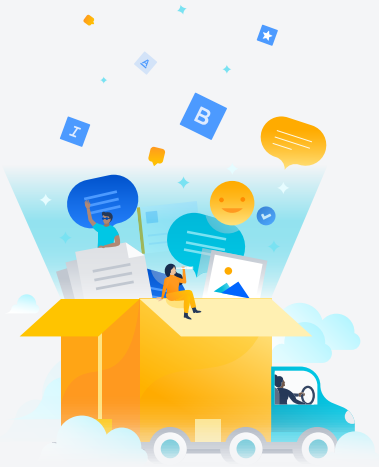
Thinking about making the switch? Existing server and Data Center customers can get a free cloud migration license that matches the size and duration of your existing self-managed instance for up to 12 months. Explore Cloud Standard or Premium, evaluate functionality, and migrate over time for free–without disrupting your teams. No credit card required, no catch.

Contact your Atlassian Solution Partner to get started with a free cloud migration trial

Confidently plan your migration to Atlassian Cloud.

With experts in place to help you at every step of your migration - from assessment to getting up and running in the cloud.

Contact your Atlassian Solution Partner today.



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