CLOUD MIGRATION
RETURNS $3.86 FOR EVERY DOLLAR SPENT

ANALYST
Isaac Gould

THE BOTTOM LINE

Nucleus revisited a previous study on the value of migrating on-premises software systems to the cloud and found that the benefit to cost ratio of cloud migrations has increased by 12.5 percent since 2021. Examining various trends impacting the total cost of ownership of both cloud and on-premises deployments, we estimate that the benefit to cost ratio of cloud migrations has increased from $3.43 to $3.86 for every dollar spent. Increased on-premises costs and discounted migration services outweigh the increased cloud subscription and infrastructure costs, and this growing disparity shows no signs of slowing.
OVERVIEW

Cloud migration is a key priority for 73 percent of the 480 organizations that Nucleus interviewed throughout the past year. Most organizations have a combination of on-premises and cloud solutions, but there is a conscious effort to transition a majority of their tech stack onto the cloud. When companies migrate solutions, they need to justify the business case. Aiding in this, Nucleus investigated the ROI of customers migrating their on-premises solutions to a cloud counterpart with the same vendor. Nucleus’s 2021 study found that cloud migrations returned $3.43 for every dollar spent on the migration, while considering the ongoing costs of the new cloud solution. (Nucleus Research V47 – Cloud migration returns $3.43 for every dollar spent, March 2021)

With a business landscape that has evolved drastically over the last two years, Nucleus investigated the cloud migration benefit-to-cost-ratio (BCR) again to see if organizations should still pursue migration initiatives. Nucleus found that on-premises costs have outpaced cloud TCO despite observed increased in cloud subscription costs. As a result, the BCR of cloud migrations increased by 12.5 percent to $3.86, up from $3.43 in 2021.

BENEFIT TO COST RATIO

Taking the rising prices for both cloud and on-premises deployments over the past 30 months into account, Nucleus found that the rising costs of on-premises solutions have outpaced the relative TCO increase of cloud solutions. Since the elimination of on-premises costs is typically the largest benefit area of a cloud migration project, the average BCR of cloud migrations increased as well. Nucleus determined that discounted migration services, increased IT personnel costs, and increasing hardware and maintenance costs to be the most significant drivers in the improved cloud migration BCR. Furthermore per unit costs for cloud processing and storage have decreased or remained stagnant while machine learning and generative AI projects have caused a surge in demand for cloud compute and storage. Organizations with on-premises deployments often lack the funds or resources to expand their existing systems and accommodate these expanding workloads. To ensure a successful modernization initiative, users evaluating a cloud migration increasingly weigh the current and future costs of their on-premises deployments including the maintenance associated with those investments while considering the rising costs of cloud subscriptions, as well as the potential to discount implementation services.
VALUE IMPACT TRENDS

Nucleus identified the following trends as impacting the relative costs of cloud solutions compared to on-premises solutions over the past 30 months.

INCREASED ON-PREMISES COSTS

While cloud costs have increased, Nucleus found that the same cost trends also negatively impact on-premises’ TCO. Like a data center, on-premises operations require an organization to purchase the hardware infrastructure to host one’s servers. Therefore, the same chip shortages and rising energy costs negatively impact on-premises operating costs. Unlike cloud customers, on-premises businesses are also responsible for their own hardware maintenance and space to place server racks. As the business scales, maintenance and space requirements grow too.

An on-premises ecosystem has far greater personnel cost implications compared to the Cloud: IT is responsible for hardware maintenance, software upgrade, data backup, security, compliance, and compute and storage resource planning and allocation. All these tasks are offloaded to the cloud provider or SaaS vendor with Cloud, allowing the customer organization to reallocate IT FTEs. Furthermore, Businesses now need to dedicate more headcount specifically to managing the cybersecurity of their on-premises systems. With technical IT staff becoming more expensive to hire and retain, the personnel costs associated with on-premises solutions increase concurrently.

INCREASED CLOUD PRICES

The largest cost driver for cloud deployments is the subscription price of Software-as-a-Service (SaaS) vendors. Notable vendors, such as Oracle and SAP, regularly increase prices by around five percent annually, but that number has soared to more than 10 percent in 2023. Microsoft increased list pricing for its various Office suites by 9 to 25 percent in 2022. Salesforce raised core Sales and Service Cloud prices by 9 percent in August 2023, and Adobe raised its Creative Cloud Single Apps and All Apps plans by 10 percent in November 2023.

Nucleus anticipates the BCR of cloud migrations to increase by 10 percent over the next following two years.
Despite the hope that tech advancements and economies of scale would lower cloud costs, cloud infrastructure has become more expensive in the past two years. The three leading cloud providers, AWS, Microsoft Azure, and Google Cloud, have all raised prices in the past year. In October 2022, Google Cloud raised prices for its infrastructure services with several products seeing 50 percent to 100 percent increases. Comparing 2021 to 2023, AWS increased several cloud computing and storage services pricing by an average of 25 percent. In April 2023, Microsoft increased prices for UK and EU Azure customers by nine to 15 percent, and six to nine percent for Canadian, Australian, and New Zealand customers in September. SaaS providers then pass off the increased infrastructure costs to their customers.

**DISCOUNTED MIGRATIONS**

As software vendors transition to a SaaS and Annually Recurring Revenue (ARR) business models, it is in their best interest to migrate as many existing on-premises users to their latest cloud offering. Implementation costs of enterprise systems typically range between 75 percent to 125 percent of the annual subscription cost; this includes third-party consultants, vendor support services, training services, and employee time dedicated to the implementation and subsequent change management. Since implementation costs often represent the largest cost area of a migration project, vendors often discount their services, training fees, and sticker prices to incentivize customers.

Vendors may also offer dedicated programs and tools that accelerate data and process migration, thereby cutting consulting hours and shortening the time employees spend on the project, returning them to value-added work sooner. Financing options may also be available to help protect the cash position of organizations looking to move to the cloud, lowering the cost barrier. Customers should take advantage of these discounts before vendors withdraw them once the bulk of customers have already migrated.

**WHY IT MATTERS**

The value of cloud is predicated on the costs of running an on-premises IT ecosystem. The elimination of cost areas associated with an on-premises operation is the largest benefit area, representing 78 percent of a cloud migration’s ROI. Besides reducing total IT spend,
migrating to the cloud returns several other benefits, including increased user productivity, reduced downtime, improved data accessibility, enhanced security and compliance, and access to the latest functionality through automated patches and upgrades. As the value proposition of the cloud remains the same and the TCO of on-premises increases faster than that of cloud, Nucleus saw the BCR of cloud migrations increase by nearly 13 percent since March 2021.

The expansion of cloud technology shows no signs of slowing and most organizations have already adopted a hybrid approach to their IT stack. As businesses gravitate towards the cloud, the enterprises that require on-premises technology will face increasing licensing and service fees due to reduced supply. Therefore, Nucleus anticipates the BCR of cloud migrations to increase by 10 percent over the next following two years.