Cloud Solutions

CAPEX vs OPEX

The Financial Implications of Going Cloud

Many factors make migrating to the cloud a compelling option: reduction in total cost of ownership, standardization, centralization, outsourcing of IT complexities, reduced time to market for new business applications, and the ability to stay current with the latest technology updates and vendor software releases. Still, one business driver is resonating: the possibility of moving from a financial model geared around capital expenditures (CapEx) to one based around operating expenditures (OpEx).

As a decision—maker for your business, how should you weigh the pros and cons of these two financial models? Consider these factors:

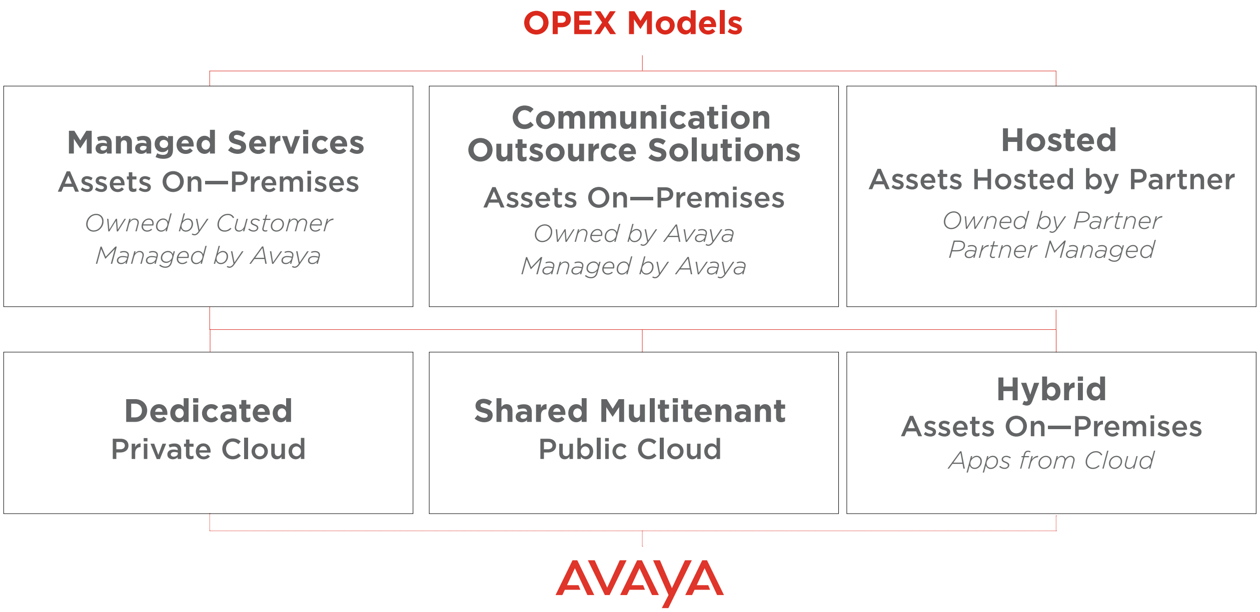
1. UC is different: Extra costs are always involved.

Whether they choose a public cloud, private cloud, hybrid cloud, or on—premises UC solution, companies will typically have an outlay for hardware and networking even when choosing an OpEx—based model. Upgrading to IP desktop phones can be one reason, especially if they are not bundled with a provider's service fees. The need for local survivability (with local gateways) and enhanced reliability might be another reason to invest in additional hardware. In a typical cloud versus on—premises UC deployment, the core economics are pretty close over the project term, and the decision often comes down to the firm's preferred financial or operating structure.

2. How many people will be using the system?

To take advantage of the economies of scale and support in the public cloud, companies tend to focus on applications used by a significant percentage of workers. In a hosted model, applications that have broad acceptance are usually less expensive than those that do not.

// The New ROI of Technology: A Shift from CapEx to Opex //



Business drivers for migrating to cloud

- Shift from CapEx to OpEx model
- Reduction in total cost of ownership (TCO)
- Pay—per—use model provides great financial flexibility
- Outsource IT complexities
- Stay current with latest updates
- Most scalable, cost—effective offering of collaboration solutions

3. How volatile is your business?

If your company is growing quickly or experimenting in risky markets or product lines, going with a public cloud provider helps you to hedge your bets. That way, if your business changes dramatically, you won't lose a large investment of capital and time from installing a new system that no longer meets your needs. The cloud provider can also scale up or down to meet your demand more easily, passing on greater service and value to you.

4. What is your company's orientation on IT financing?

A CFO may have an inclination toward either CapEx or OpEx, or view vendor and system decisions from a longer—term TCO perspective. The predictable cost structure of a cloud—based deployment, especially for companies that have a limited support staff or a workforce that fluctuates seasonally, can have a significant impact on the buying decision.

5. How much sway do business execs have on IT decisions?

Gartner predicts that soon CMOs will be spending more on IT than CIOs. "There has been a shift in UC buying decisions from solely the telecom and IT teams to include marketing and sales groups, in part because collaborative UC features have a direct impact on sales and the customer experience," says Pearce. "Business leaders prefer OpEx—and, therefore, SaaS [software—as—a—service]—because the predictable pricing makes forecasting much easier. For complex UC integration projects, it's important to work with both the IT teams and the business units to align the financial priorities with the technology purchase."

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—Gerry Pearce, Vice President of Services Development at ConvergeOne.

Does It Even Matter?

Some experts say that the "capital versus operating expense" discussion is irrelevant. "The core issue is not the cost of the hardware and whether you pay for it upfront or over time," says Timothy Chou, a CFO magazine columnist who teaches cloud computing at Stanford. "The real question is, what is the cost of managing the security, availability, performance, and change of the computers and storage, for example?" The rule of thumb, claims Chou, is to take the purchase price of a computer and quadruple it annually to determine the cost of management.

Business requirements and goals are now trumping cost at many companies. Many look at functionality over costs, because having the right functionality brings profits. The CapEx and financing discussion is just not as important anymore in the cloud as it was a few years ago. Even the tax implications of owning or renting technology is not a big enough topic to sway decisions in most cases.

CFOs and CIOs need to consider whether their companies can in fact manage the technology more cheaply and better than an external provider that specializes in UC. This requires a detailed analysis of IT spending. Many IT organizations still have very little understanding of their costs to deliver resources, especially at a fine—grained level.

To be thorough, companies should figure out where they are today, and then educate themselves about the many cloud service providers and system integrators globally. There are professional services organizations that specialize in helping companies achieve meaningful business results by designing, building, and managing their UC in the cloud. Additionally, they can easily assess and determine the optimal cloud communications solutions and delivery model for the company. This approach allows them to look at different scenarios and model the different outcomes. You'd do that if you were planning a trip to Rio, so why not do it for a trip to the cloud?

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10/18 • CL15198EN