Making the Shift from CapEx to OpEx with Cloud

Traditionally, IT expenses have fallen under the umbrella of capital expenses or CapEx expenses. With the advent of the infrastructure 'as a Service' model of buying compute and storage, many enterprises are successfully shifting some or all IT expenses to operational expenses or OpEx. The cloud offer faster time to value and competitive advantages and also allows IT to do more with less. However identifying and making the right economic decision (CapEx or OpEx) requires additional investigation into the detailed costs and benefits of cloud.

Defining CapEx and OpEx

First let's define CapEx and OpEx expenditures. According to Diffen LLC, CapEx, or capital expenditure, is a business expense incurred to create future benefit (i.e., acquisition of assets that will have a useful life beyond the tax year). For example, a business might buy new assets, like buildings, machinery, or equipment, or it might upgrade existing facilities so their value as an asset increases.

On the other hand, those expenditures required for the day-to-day functioning of the business, like wages, utilities, maintenance, and repairs, fall under the category of OpEx, or operational expenditure. OpEx is the money the business spends in order to turn inventory into throughput. Operating expenses also include depreciation of plants and machinery which are used in the production process.

To summarize, typical CapEx items are a major investment in a good, with an OpEx model. You only pay for what you need, when you need it.

Key Considerations – Making the Case for Cloud

Moving from CapEx to OpEx is a big reason behind the push to the cloud. However, before moving your critical applications and data, key considerations need to be made including:

1. Evaluating your business needs and determining which applications are suitable to be moved to the cloud, and which deployment model best addresses the business requirements in terms of availability, elasticity, performance, redundancy, etc. Many organizations are finding that a hybrid IT approach delivers the best of both worlds.

2. Consider your organization's financial constraints - Building a cloud can be costly. Many organizations cannot afford to invest the time, skills and technology needed to build a solution comparable to an already existing cloud platform, especially when it's not their core focus. In this instance, stand-up costs as well as the cost of improving, maintaining and updating the architecture to keep up with business demands and the infrastructure must be factored in.

3. Security Considerations - Organizations should be aware that security is a partnership between the vendor and the client. The organizations must clearly ascertain which aspects of security are the responsibility of the vendor and which are their responsibility.

4. Compliance Considerations - Depending on the type of industry your organization is involved in, there are a number of different compliance requirements which may need to be met. Examples of these include PCI, HIPAA, GAAP, SOX, and IFRS. Organizations should fully appraise their own compliance requirements, and to what degree the cloud can meet them.

Cloud Appeal - Benefits of IaaS

1. Shift from CapEx to OpEx - Large-scale CapEX purchases on hardware are no longer a requirement. Rather than paying upfront to deploy an up-to-date infrastructure, businesses are able to Shift from a capital expenditure model to an operating expenditure model and pay only for what you use, when you use it in the cloud.

2. No costly upgrades or hardware refreshes - An aging, on-premises infrastructure is expensive to upgrade and maintain and locks organizations into using equipment soon to become outdated. With cloud, the responsibility to handle upgrades or refreshes fall on the service provider who have the systems and expertise on hand to eliminate downtime.

3. Scalability - Resources are available when you need them with no need to maintain excess capacity on your premises. With cloud you can respond immediately to dynamic spikes in demand, such as seasonal peaks without increased capital expense by allocating cloud resources as needed and releasing them when demand subsides. In turn, you reduce the risk of over-provisioning or making long term commitments in a quickly changing technical environment, keeping the organization from buying too much capacity.

4. Reduce spend on IT Talent - Money spent to retain and train IT talent can be redirected to strategic initiatives rather than the day-to-day operational management of IT infrastructure.

6. Built-in redundancy - Another financial advantage to using IaaS services is that subscribers no longer need to build redundancy into their infrastructure that is moved to the cloud. Any reputable host has taken all necessary steps to eliminate single points of failure. Everything from power supplies to network cards have been made redundant and many components are hot swappable in order to keep clients' operations running in the event of a hardware failure. This again means lower costs and lower revenue losses caused by downtime.

Finding Your Cloud Guru

Deciding how to allocate workloads to the cloud is complex and what you choose will affect the benefits you get from your cloud deployment. Partnering with an experienced provider can help. OneNeck IT Solutions offers a free cloud assessment to help you understand your cloud needs and balance your workloads the right way. With our experience architecting, deploying, and managing cloud solutions based on Microsoft Azure, OneNeck is the cloud guru you need to guide you through your cloud practice.

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