



Calculate Your Total Cost of Ownership

Cloud vs. On-Premise / Network Solutions

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The Positive Impact of Spend Management Solutions

Cloud vs. On-Premise/Network Solutions Case Study

Steps to Calculate Your Total Cost of Ownership

Total Cost of Ownership Calculation Tool

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Accurately Calculate Your Total Cost of Ownership

Use This Practical Tool To Compare Cloud vs. On-Premise/Network Solutions

Total Cost of Ownership Comparison Tool

Organizations worldwide are actively investigating spend management solutions and exploring the positive impact these solutions can make on their bottom line. PayStream's research shows that the cost of a spend management solution can vary greatly based on whether the solution is Cloud based or On-Premise/Network. PayStream is presenting this practical tool to help potential buyers of spend management solutions identify the necessary factors in determining the Total Cost of Ownership (TCO) for a solution. PayStream examines both Cloud and On-premise/Network solutions and how these two different deployment methods affect the TCO. As part of this research, PayStream has developed a simple to use model to map and compare the TCO for Cloud versus On-premise/Network solutions.

PayStream's research findings reveal that the benefits of spend management solutions extend well beyond the cost of acquiring the technology and encompass how the solution is architected, implemented and modified over time.

In order to see the true cost and payoff of spend solutions buyers must carefully evaluate the immediate and long term costs of acquiring and maintaining the technology. The purpose of this paper is to examine the cost of technology by taking an organized, step-by-step approach to evaluating the total cost of ownership and calculating all costs needed to compare Cloud versus On-Premise/Network solution options.

"The benefits of utilizing Cloud applications can far outweigh the benefits of on-premise/network solutions," says Henry Ijams, Founder of PayStream Advisors. "Benefits of Cloud computing include the ability to have up-to-date software, remote access, reduced costs and access to new services and applications that are not normally available in-house."

Case Study: Cloud Versus On-Premise / Network Development TCO Calculation

“The simple fact that there was little or no infrastructure or internal support required drove us to migrate to a Cloud based solution.” National manufacturing firm

The PayStream TCO Calculation tool compares similar Cloud and On-Premise/Network business application solutions over a period of three years. PayStream has populated this tool with actual cost information from a Fortune 100 client in the manufacturing sector.

For the purpose of calculating your TCO, PayStream has created a TCO Calculation tool, which can be accessed for free via the PayStream website. By simply adding your company’s Cloud versus On-Premise/Network cost information the TCO Calculation tool will create a Cumulative Cost Table that will automatically populate and graph Cloud Development Costs versus On-Premise/Network Development Costs.

Table 1: Total Cost Of Ownership On-Premise/Network vs. Cloud Solutions

1) One Time On-Premise/Network Solutions Costs

	Initial	Year 1	Year 2	Year 3
Total initial software / hardware cost	\$0	\$0	\$0	\$0
Total initial configuration / implementation cost	\$0	\$572,500	\$0	\$0
Total additional implementation cost	\$0	\$10,000	\$0	\$0
Total One Time Costs	\$0	\$582,500	\$0	\$0

1) One Time Cloud Solutions Costs

	Initial	Year 1	Year 2	Year 3
Total initial software / hardware cost	\$0	\$0	\$0	\$0
Total initial configuration / implementation cost	\$0	\$0	\$0	\$0
Total additional implementation cost	\$0	\$0	\$0	\$0
Total One Time Costs	\$0	\$0	\$0	\$0

2) Annual Recurring On-Premise/Network Solutions Costs

	Initial	Year 1	Year 2	Year 3
Total ongoing maintenance / hosting / subscription	\$0	\$757,500	\$819,500	\$819,500
Total ongoing service / fee	\$0	\$1,265,000	\$2,065,000	\$2,465,000
Total ongoing internal support	\$0	\$0	\$0	\$0
Total opportunity cost (savings lost)	\$0	\$1,250,000	\$937,500	\$703,125
Total One Time Costs	\$0	\$3,272,500	\$3,822,000	\$3,987,625

2) Annual Recurring Cloud Solutions Costs

	Initial	Year 1	Year 2	Year 3
Total ongoing maintenance / hosting / subscription	\$0	\$0	\$0	\$0
Total ongoing service / fee	\$0	\$850,000	\$850,000	\$850,000
Total ongoing internal support	\$0	\$0	\$0	\$0
Total opportunity cost (savings lost)	\$0	\$0	\$0	\$0
Total One Time Costs	\$0	\$850,000	\$850,000	\$850,000

Overall TCO for a Cloud based solution is significantly lower than a comparable On-Premise/Network solution for this Fortune 100 manufacturing company.

Total On-Premise/Network Solutions Costs

	Initial	Year 1	Year 2	Year 3
Total One Time Costs	\$0	\$3,855,000	\$3,822,000	\$3,987,625

Total Cloud Solutions Costs

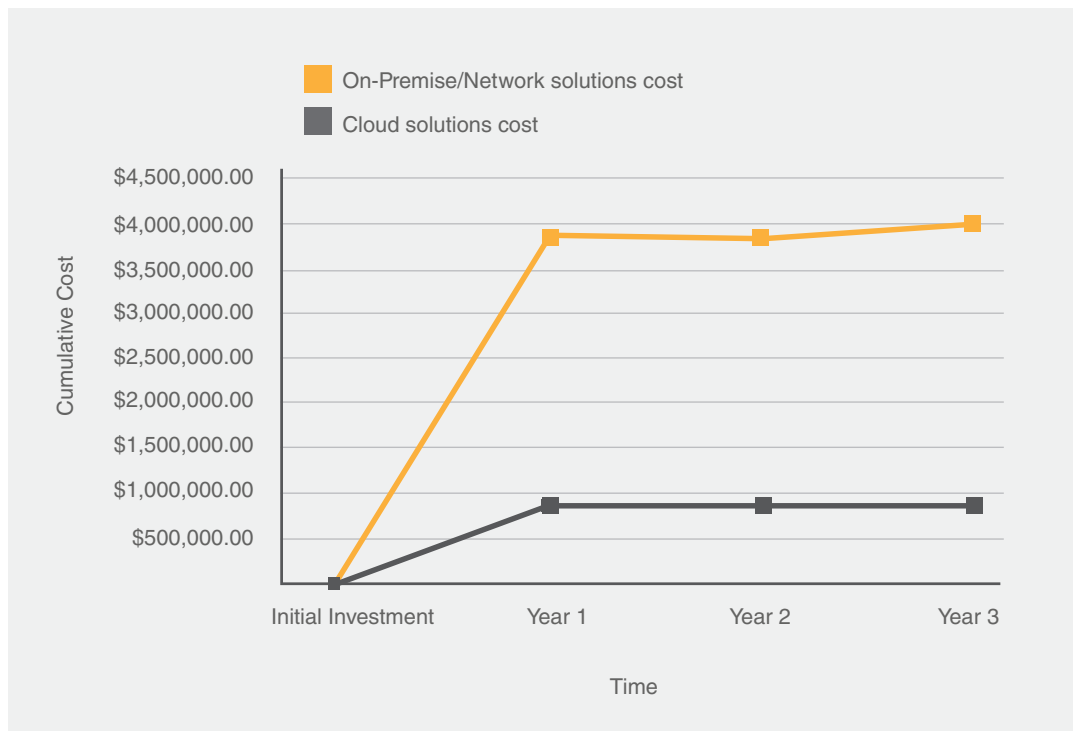
	Initial	Year 1	Year 2	Year 3
Total One Time Costs	\$0	\$850,000	\$850,000	\$850,000

* Please see Appendix A for rationale of TCO costs.

Table 2: Cumulative Total Cost Of Ownership

Investment Period	Initial	Year 1	Year 2	Year 3
On-Premise / Network Solutions Cost	\$0	\$3,855,000	\$3,822,000	\$3,987,625
Cloud Solutions Cost	\$0	\$850,000	\$850,000	\$850,000

Table 3: Cumulative Cost Graph



TCO Analysis

The results of the TCO calculations outline a three year total cost of ownership of both Cloud based and On-Premise/Network solutions. See Table 2 and Table 3 above for a comparative analysis of the TCO under both models.

By taking this step-by-step approach to calculate your TCO, you can identify whether a Cloud or On-Premise/Network solution will be more cost efficient.

Steps to Calculate Your TCO

1. Evaluation and Selection:
 - » Evaluate the features and functionality of competitive products – Cloud versus On-Premise/Network business application solutions.
2. Initial Costs / Annual Recurring Costs
 - » Utilizing the TCO Calculation tool, factor in the cost information for each line item on the spreadsheet.
3. Review the results of the Cumulative Total Cost of Ownership – Table 2
 - » This table is automatically populated based on the numbers entered in the TCO Calculation tool.
4. Review the results of Cumulative Cost Graph – Table 3
 - » This graph is automatically populated based on the numbers entered in the TCO Calculation tool
5. Based on these results you can decide which solution – Cloud vs. On-Premise/Network is more cost effective for your company.

Recommendation

Prior to making the decision to go with a Cloud or On-Premise/Network solution, a buyer must first identify all the necessary cost components associated with each option. By utilizing the TCO tools in this paper, a buyer can follow this step-by-step approach to identify the immediate and long term costs of acquiring and maintaining spend solution technology.

TCO Calculation Tool

[Click here to access the complimentary TCO calculation tool.](#)

Appendix A

Rationale for one-time costs

Total Initial Configuration and Implementation Costs

1. Data migration is required for spend analysis; 2. Services procurement driver creation (usually about \$60K/driver, e.g. temp labor, print, mktg); 3. 100 catalogs for Client; first 25 catalogs included in base fee and \$300 per catalogs above 25; 4. Minimum program management fees; 5. Minimum professional services fees; 6. \$18k for a 3 day on site training for up to 12 users per location (assumed 5 locations) \$5k for each integration – two integrations needed.

Rationale for Annual Recurring Costs

Total On-going maintenance /Hosting/Subscription

1. Base subscription fee payable per annum; 2. \$50k Fees for basic contract module; 3. Transaction fees - Client has two million invoices. One million invoices included in base fee. Forty cents per invoice after first million; 4. One integration in the first year included in base fee. \$60k per additional instance - assumed one additional chart of account in subsequent years; 5. Two custom forms included, \$2k per form above two, with an average of two additional forms per year; 6. \$2k per custom field, one new field needed per year after year one; 7. Five custom approval rules included free, \$3.5k per custom rule above the initial five, five rule changes needed per year.

Total On-going services and fees

1. Flat annual fee for enabling Client's 8,000 suppliers over 3 years; 2. Fees paid by suppliers - approx 30% of supplier pay fee. Calculated with minimum fee of \$1k each. Assumed that due to ramp up time required, only 15% of suppliers will end up paying fees. In year 2, 25% of suppliers will pay fees and in year 3, 30% of suppliers will be paying due to consolidation; 3. Ten punch outs for Client, five punch outs included in base fee, and then \$3k per punch out above five - assumed five punch outs per year after the first year.

Total opportunity costs (savings lost)

Assumed that Client has minimal maverick spend of 10% of its total \$500mn spend. With Cloud, Client will be able to reduce the maverick spend by at least 50% in the first year. Without Cloud majority of this savings will be lost as Ariba is proven to be only half as effective as Cloud. The savings from reduction in maverick spend is assumed to be a conservative 5% of the maverick spend brought under management.

Appendix B

Cloud Spend Management - A Smarter Way to Spend

Cloud Spend Management (CSM) is a Software-as-a-Service (SaaS) application that is transforming the way companies manage their non-payroll indirect spend, and enables them to achieve faster results and ROI compared to traditional On-Premise/Network solutions.

CSM solutions are developed from a single code line and built atop a multi-tenant architecture, offering significant benefits over On-Premise/Network-based and hosted solutions, including:

- » Providing lower transaction processing costs and the ability to significantly compress order cycle times.
- » Increasing compliance with negotiated contracts and corporate purchasing policies, greatly reducing maverick/ad hoc spending.
- » Providing greater transparency into the accountability for how the organization spends money, with real-time executive dashboards and proactive alerts and reports.
- » Ability to consolidate spend across the entire organization to negotiate bulk discounts and preferential pricing with suppliers.
- » Ability to view spend as it happens and compare it against budgets; versus reconciling spend to budgets after the accounting period closes.
- » Comprehensive audit trails, with date and time stamps, for every action taken by every user within the system.
- » Higher employee productivity and satisfaction with the availability of an easy-to-use, intuitive system.
- » Benefit of receiving rapid innovations and system upgrades from the solution provider multiple times per year.