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Data Management Buyers Guide

How to Compare the TCO of Cloud-Native, On-premise, and Hosted Data Platforms

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Reltio: Beyond Master Data Management

Reltio Connected Data Platform is an award-winning cloud-native platform that goes beyond master data management (MDM) to deliver truly connected data. This platform enables business agility, real-time operations at enterprise scale and insight-ready data for big ideas.

Since the platform's first release in 2013, innovative Global 2000 companies have trusted Reltio to manage their mission-critical data. Serving these top brands across a number of industries enables us to knowledgeably analyze the financial benefits of the cloud-native model. Further, a large number of Reltio employees have come from such companies as Informatica, Oracle, SAP and IBM, which enables us to do an in-depth comparison of various technologies and deployment models. These approaches range from traditional on-premises delivery to hosted MDM to Reltio's cloud-native platform.

Innovative Financial Engineering

Over the years, legacy vendors have tried to skirt their inability to offer cloud-native options by offering rather "innovative" packaging options and commercial proposals. For example, vendors have replaced traditional on-premises licensing and maintenance payment models with subscriptions. Astute observers have even seen the capitalization of operational service expenditures, with CFOs requesting prepayments in order to use CapEx funds to fill gaps in their OpEx budget. In an effort to entice new customers, some vendors offer very low initial licensing costs based on intentionally low usage or data volume estimates, only to then increase costs sharply after the evaluation, test period or initial deployment phase are complete. Similarly, to accommodate tight budgets, vendors offer delayed payment plans, which are basically interest-bearing loans, i.e. credit extensions. Often these payment plans are aligned with project phases or even with financial benefits that are projected over time.

It is common knowledge that most traditional on-premises, perpetual-license product vendors take their first-year license amount, add first-year maintenance and divide it by three years to come up with a baseline license amount from which to start discounting. Buyers should also take note that the most important milestones in any commercial analysis are: when a purchase order is issued, a payment is released, a perpetual/subscription contract is enforced and, most importantly, software is deployed. This requires software buyers to know early on how projects are budgeted and the likely funding timeline and mechanism.

Let's look at the basic licensing models, and how they affect budgeting and cash flow.

Perpetual Licensing Model

As a general rule, perpetual licenses allow the buyer to use the software indefinitely. First-year costs are typically capitalized (CapEx) and amortized over three to five years. These licenses can include the total perpetual license cost plus first year maintenance, most professional services expenses, any first-year subscription portion and sometimes even multi-year subscriptions. Operating budgets (OpEx) are normally associated with short-term on-premises subscriptions, typical cloud subscriptions, support licenses, training, maintenance and professional services.

The positive aspect of on-premises, perpetual models is that the customer owns the software indefinitely, though, in practice most enterprise software is employed in its original configuration for eight to nine years. As such, these models lower the license cost when software is used for extended periods. However, if a customer decides to stop paying maintenance, perpetual use is severely limited by the lack of new capabilities an organization is able to deploy. On the negative side, CapEx expenditures typically introduce higher startup costs and greater financial and regulatory scrutiny. This is the reason why many decision makers opt for subscriptions and cloud-native models when they make newer software investments, particularly when purchases are outside the realm of CRM, ERP, SCM, BI and other established technology categories. These models give customers the financial and operational flexibility to switch to alternative solutions if the need should arise.

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Subscription Model

Subscriptions can be used for on-premises and cloud models and grant the right of use for a specified time period. In contrast to the perpetual model, maintenance is included and usage rights persist unless the subscription is cancelled. The use of OpEx budget for subscriptions is typically an easier approval process for most organizations. Also, costs for years one and two are commonly lower than in the perpetual model, even with subscription payments. Longer term, the licensing cost may be higher. However, this is often balanced with much lower operational expenditure, which will be discussed later.

Enterprise License Agreements (ELA)

Additional twists on these two basic models are enterprise license agreements (ELA), which can be offered as time or spending-capped options. This allows customers more deployment flexibility, cost predictability and compliance security as well as a simplified procurement process. In case a customer does not want a perpetual license, a term- or spend-capped subscription ELA is often available as well. In recent years, many organizations have employed this option to achieve costs that are comparable to cloud subscription models. However, with the deployment being on-premises or hosted, these organizations forgo the flexibility and operational cost benefits offered by cloud-native deployments.

The Case for Cloud-Native

While we cannot list or model all permutations available to customers today, the widely acknowledged consensus today is that, over the course of software's lifespan, cloud-native subscriptions offer net cash flow savings of 30-50% over non-subscription, hosted or on-premises deployments.

Net Cash Flow Benefit
For illustration only
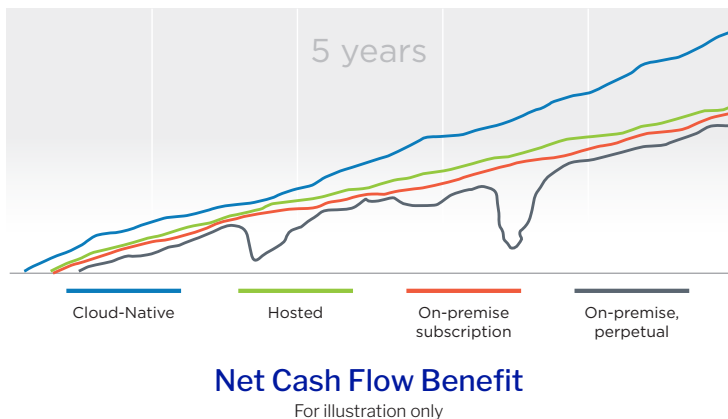
Key cost inputs may vary by deployment options but should be evaluated on a three-to-five-year basis. Any evaluation should include these factors:

Direct Business Cost

Software (include dev/test/prod environments, data growth and use accommodation)
- MDM perpetual licensing cost
- MDM maintenance licensing cost
- MDM subscription licensing cost
- OS & database licensing cost
- OS & database maintenance cost
- Backup software license cost

Hardware (include data growth and use)
- Server hardware cost
- Server hardware replacement and parts cost
- Network & Security hardware cost
- Network bandwidth cost
- Storage hardware cost
- Backup hardware

Services (Initial deployment as well as upgrade every 3 years for non-native cloud)
- Architect
- Data Modeler
- UX Developer
- ETL Developer
- Project Manager
- Technical Delivery Manager

Utilities
- Power cost
- Facilities cost

Labor (Initial deployment as well as upgrade every 3 years for non-native cloud)
- Network administrator
- Server administrator
- Database & storage administrator
- Cybersecurity/compliance analyst
- Helpdesk analyst
- IT Training
- Staff recruiting and onboarding

Indirect Business Cost

Uptime
- (Un)planned downtime productivity loss
- (Un)planned downtime revenue loss from operations & new initiative delay
- Risk exposure

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With the exception of implementation services, most on-premises deployments will create cost overhead for all of the above items. Managed hosting environments will incorporate most software, all hardware and utilities (data center) and some labor components. True cloud-native deployments, such as the Reltio platform, will cover all.

Key Factors in Comparision

After collecting all relevant costs from the above list and calculating it over multiple years, there are three key factors decision makers have to consider for a holistic analysis:

First, in order to truly compare solutions on a functional level, decision makers need to make comparisons based on feature parity. This means an organization needs to understand and agree upon the functional and technical requirements and gaps, at least on a high level, and look to capture the true cost (cash outflow) differential between the solutions on the table. As an illustrative example, let's look at deterministic vs. probabilistic matching. If solution A uses perfect (deterministic) matching of customer profiles and it renders a lot of false negatives, a team may require probabilistic matching offered by solution B instead. It stands to reason that in order to close the functional delta between the two approaches, additional work or investments are required and must be budgeted.

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> Upgrades are a major effort and oftern overlooked in the initial purchase decision

Second, one of the most significant but often overlooked costs is the hefty upgrade effort most organizations embark on at least every few years to stay compliant with support entitlements. In the case of MDM, the consensus is that an upgrade of on-premises or managed hosted environments could require an additional investment of $300,000 to $1M for medium to large deployments. These expenses will appear as net-new costs in a perpetual model or rolled into annual hosting charges. In order to stay current with support entitlements, teams typically need to make these investments about every three years.

Third, let's look at the case of a legacy on-premises, perpetually licensed solution being replaced with the same vendor's cloud-native product. Sunk cost and terminal value associated with the legacy solution should not be considered in any analysis as we only evaluate cash flows, not the balance sheet/income statement treatment of the legacy investment. However, even if we were to take such concepts into account in the evaluation, factors like a more rapid deployment and typical advanced set of capabilities of cloud-native platforms outweigh such considerations. It also has to be said that a transition from a traditional on-premises vendor's product to its native-cloud product version is most often a complete re-implementation. At legacy vendors, we have experienced first hand false promises about upgrade paths, migration tools and free services. Unless little to no customizations were implemented, which goes against the original motivation of going the on-premises route, such migrations are almost guaranteed to be a major undertaking. In such cases, the previously established legacy data model structure, match logic and data stewardship workflows could just as well be deployed in any other cloud environment, not just the incumbent's new, often unproven tool.

Conclusion

Native cloud solutions like ServiceNow, Snowflake, Amazon Redshift, Workday, SAP Concur and Salesforce Marketing have proven that, operationally and financially speaking, the cloud is the optimal approach for the vast majority of workloads. Reltio Connected Data Platform is a logical continuation of these solutions, following the same technical and financial logic. Customers can be assured of the financial viability of our approach, especially if they have already deployed on these established cloud platforms. If an organization is in the midst of deploying a new cloud-native CRM or analytics platform, it can be an especially optimal time to implement a trusted platform like Reltio Connected Data Platform.

Use our online TCO calculator to estimate potential operational savings and the business value comparison for moving from legacy MDM to Cloud-native Reltio Connected Data Platform or contact us to discuss your results in detail.

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WHY RELTIO

We believe data should fuel your success, not hold you back. Our first-of-its-kind, master data management SaaS offering unifies and cleanses multi-source, complex core data into a single source of trusted information– in real time. Agile to fit any company's needs and flexes at will. Reltio Connected Data Platform helps you act on your data with confidence. And maximize your impact every day.

To learn more, visit www.reltio.com

US +1 (855) 360-3282
UK +44 (800) 368-7643

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