Cloud vs On-Premise Cost Comparison

True Total Cost of Ownership comparison over 1, 3, and 5-year horizons. Make informed decisions about cloud migration with a comprehensive financial analysis.

TCO	5yr	Hidden	Free
TOTAL COST OF OWNERSHIP	COMPARISON HORIZON	COSTS OFTEN MISSED	COST ANALYSIS FRAMEWORK

Why TCO Matters

Comparing cloud vs on-premise purely on monthly cost is misleading. On-premise has significant hidden costs (power, cooling, floor space, staff time, refresh cycles) that are often excluded. A true TCO comparison over 3–5 years gives you the real picture.

1 On-Premise Cost Components

Capture every cost associated with running infrastructure on-premise.

COST COMPONENT	YEAR 1	YEAR 2	YEAR 3		
Server hardware (purchase/lease)	£	£	£	£	£
Server operating system licences	£	£	£	£	£
SQL Server / database licences	£	£	£	£	£
Hardware maintenance / warranty	£	£	£	£	£
UPS and power protection	£	£	£	£	£
Electricity (server room)	£	£	£	£	£
Cooling (server room HVAC)	£	£	£	£	£
Floor space cost (server room m²)	£	£	£	£	£
Backup hardware and media	£	£	£	£	£
IT staff time (admin, patching)	£	£	£	£	£
Hardware refresh (Year 4–5)	—	—	—	£	£
Total On-Premise	**£**	**£**	**£**	**£**	**£**

Commonly Missed Costs

IT staff time is the most frequently underestimated on-premise cost. Patching, monitoring, troubleshooting, backup management, and hardware replacement consume significant engineering hours. Calculate at £40–60/hour for a fully loaded cost per hour of IT engineer time.

2 Cloud (Azure) Cost Components

COST COMPONENT	YEAR 1	YEAR 2	YEAR 3		
Azure VM compute (monthly)	£	£	£	£	£
Azure Storage (managed disks, blob)	£	£	£	£	£
Azure SQL / database services	£	£	£	£	£
Azure Backup	£	£	£	£	£
Azure Networking (VPN/ExpressRoute)	£	£	£	£	£
Azure egress bandwidth	£	£	£	£	£
Azure monitoring & security	£	£	£	£	£
Migration project costs (Year 1)	£	—	—	—	—
IT staff time (reduced)	£	£	£	£	£
Total Cloud	**£**	**£**	**£**	**£**	**£**

Azure Reserved Instances

Commit to 1 or 3-year Reserved Instances for predictable workloads to save 30–60% vs pay-as-you-go pricing. This significantly reduces long-term cloud costs. Combine with Azure Hybrid Benefit (use existing Windows Server/SQL licences) for additional 40% savings.

3 TCO Comparison Summary

METRIC	ON-PREMISE	CLOUD (AZURE)	DIFFERENCE
Year 1 Cost	£	£	£
3-Year Total	£	£	£
5-Year Total	£	£	£
Monthly Run Rate (after Y1)	£	£	£

4 Beyond Cost: Strategic Benefits

Cost is only one factor. Consider these strategic advantages of each approach.

Cloud Advantages

- ✓ Scalability: add/remove resources in minutes
- ✓ Global availability with built-in DR options
- ✓ No hardware refresh cycles or capital expenditure
- ✓ Built-in security, compliance, and monitoring
- ✓ Reduced IT admin overhead
- ✓ Supports remote and hybrid working natively

On-Premise Advantages

- ✗ Full control over hardware and data location
- ✗ Predictable costs after initial investment
- ✗ No dependency on internet connectivity
- ✗ May suit specific regulatory requirements
- ✗ Lower latency for local-only applications
- ✗ No ongoing subscription commitment

Notes

Need a Cloud Cost Analysis?

We provide detailed TCO analyses comparing cloud and on-premise options for your specific workloads and requirements.

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