Do You Replace Your Server Or Go To The Cloud? The Answer May Surprise You

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Gene Marks , CONTRIBUTOR *I write about technology developments for small business owners.* Opinions expressed by Forbes Contributors are their own.

Is your server or servers getting old? Have you pushed it to the end of its lifespan? Have you reached that stage where it's time to do something about it? Join the crowd. You're now at that decision point that so many other business people are finding themselves this year. And the decision is this: do you replace that old server with a new server…or do you go to: the cloud.

Everyone's talking about the cloud nowadays, so you've got to consider it, right? This could be a great new thing for your company! You've been told that the cloud enables companies like yours to be more flexible and save on their IT costs. It allows free and easy access to data for employees from wherever they are, using whatever devices they want to use. Maybe you've seen the recent survey by accounting software maker MYOB that found that small businesses that adopt cloud technologies enjoy higher revenues. Or perhaps you've stumbled on this analysis that said that small businesses are losing money as a result of ineffective IT management that could be much improved by the use of cloud based services. Or the poll of more than 1,200 small businesses by technology reseller CDW which discovered that "…cloud users cite cost savings, increased efficiency and greater innovation as key benefits" and that "…across all industries, storage and conferencing and collaboration are the top cloud services and applications."

So it's time to chuck that old piece of junk and take your company to the cloud, right? Well…just hold on.

There's no question that if you're a startup or a very small company or a company that is virtual or whose employees are distributed around the world, a cloud-based environment is the way to go. Or maybe you've got high internal IT costs or require more computing power. But maybe that's not you. Maybe your company sells pharmaceutical supplies, provides landscaping services, fixes roofs, ships industrial cleaning agents, manufactures packaging materials or distributes gaskets. You are not featured in *Fast Company* and you have not been invited to presenting at the next Disrupt conference. But you know you represent the very core of small business in

America. I know this too. You are just like one of my company's 600 clients. And what are these companies doing this year when it comes time to replace their servers?

These very smart owners and managers of small and medium sized businesses who have existing applications running on old servers are not going to the cloud. Instead, they've been buying new servers.

Wait, buying new servers? What about the cloud?

At no less than six of my clients in the past 90 days it was time to replace servers. They had all waited as long as possible, conserving cash in a slow economy, hoping to get the most out of their existing machines. Sound familiar? But the servers were showing their age, applications were running slower and now as the companies found themselves growing their infrastructure their old machines were reaching their limit. Things were getting to a breaking point, and all six of my clients decided it was time for a change. So they all moved to cloud, right?

Nope. None of them did. None of them chose the cloud. Why? Because all six of these small business owners and managers came to the same conclusion: it was just too expensive. Sorry media. Sorry tech world. But this is the truth. This is what's happening in the world of established companies.

Consider the options. All of my clients' evaluated cloud based hosting services from [Amazon](#), [Microsoft](#) and [Rackspace](#). They also interviewed a handful of cloud-based IT management firms who promised to move their existing applications (Office, accounting, CRM, databases) to their servers and manage them offsite. All of these popular options are viable and make sense, as evidenced by their growth in recent years. But when all the smoke cleared, all of these services came in at about the same price: approximately $100 per month per user. This is what it costs for an existing company to move their existing infrastructure to a cloud-based infrastructure in 2013. We've got the proposals and we've done the analysis.

You're going through the same thought process, so now put yourself in their shoes. Suppose you have maybe 20 people in your company who need computer access. Suppose you are satisfied with your existing applications and don't want to go through the agony and enormous expense of migrating to a new cloud-based application. Suppose you don't employ a full time IT guy but have a service contract with a reliable local IT firm.

Now do the numbers: $100 per month x 20 users is $2,000 per month or $24,000 PER YEAR for a cloud-based service. How many servers can you buy for that amount? Imagine putting that proposal out to an experienced, battle-hardened, profit generating small business owner who, like all the smart business owners I know, look hard at the return on investment decision before parting with their cash.

For all six of these clients the decision was a no-brainer: they all bought new servers and had their IT guy install them. But can't the cloud bring down their IT costs? All six of these guys use their IT guy for maybe half a day a month to support their servers (sure he could be doing more, but small business owners always try to get away with the minimum). His rate is $150 per hour. That's still way below using a cloud service.

No one could make the numbers work. No one could justify the return on investment. The cloud, at least for established businesses who don't want to change their existing applications, is still just too expensive.

Please know that these companies are, in fact, using some cloud-based applications. They all have virtual private networks setup and their people access their systems over the cloud using remote desktop technologies. Like the respondents in the above surveys, they subscribe to online backup services, share files on DropBox and Microsoft **MSFT -2.33%**'s file storage, make their calls over Skype, take advantage of Gmail and use collaboration tools like Google **GOOG -1.97%** Docs or Box. Many of their employees have iPhones and Droids and like to use mobile apps which rely on cloud data to make them more productive. These applications didn't exist a few years ago and their growth and benefits cannot be denied.

Paul-Henri Ferrand, President of Dell **DELL +0%** North America, doesn't see this trend continuing. "Many smaller but growing businesses are looking and/or moving to the cloud," he told me. "There will be some (small businesses) that will continue to buy hardware but I see the trend is clearly toward the cloud. As more business applications become more available for the cloud, the more likely the trend will continue."

He's right. Over the next few years the costs will come down. Your beloved internal application will become out of date and your only option will be to migrate to a cloud-based application (hopefully provided by the same vendor to ease the transition). Your technology partners will help you and the process will be easier, and less expensive than today. But for now, you may find it makes more sense to just buy a new server. It's OK. You're not alone.

Besides Forbes, Gene Marks writes weekly for The New York Times and Inc.com.