CapEx vs OpEx
in the Cloud

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Although most organizations are known for being specialists in their respective industries, they all share the same, lesser-known talent:

juggling.

To keep things growing and running smoothly, it's critical for businesses of all sizes to be able to juggle a seemingly endless number of responsibilities – two of the big ones being capital expenditures (CapEx) and operating expenses (OpEx).



Worldwide IT spending forecasted to grow > 5%*

An Overview of Cloud CapEx and OpEx

Cloud capital expenditures are long-term investments in major fixed assets whereas cloud operating expenses are the costs associated with day-to-day operations.

The Importance of Understanding CapEx vs OpEx in the Cloud

Knowing the differences between cloud-related expenditures and expenses is essential in determining the most efficient ways to allocate funds.

For example, after running a forecasting analysis, it may make sense to move from on-premises CapEx to cloud-based OpEx to cut upfront expenses so you can invest budget elsewhere.

CapEx Examples

- **IT Infrastructure** (servers, routers, switches, software, network cabling, etc.)
- **IT Equipment for Employees**
- **Real Estate Purchase**
- **Real Estate Renovations**
- **Asset Upgrade Costs**
- **Infrastructure Repairs**

OpEx Examples

- **Business-related Operating Costs** (rent, utilities, salaries, legal fees, etc.)
- **Datacenter or Off-premises Cloud Costs**
- **Software, Application, or Service Subscription Fees**
- **Webhosting and Domain Licenses**
- **Software and Service Support**
- **Research and Development Expenses**

5 Characteristics and Challenges

CapEx

One-time Purchase:
Assets purchased are typically one-time investments that last a long time.

Sole Ownership:
You're the sole owner of the asset, and you're responsible for handling or coordinating security, updates, upgrades, repairs, etc.

Expected and Upfront Costs:
Assets are costly investments that are paid for in advance.

Mission-critical Items:
Assets are necessary for starting, maintaining, and growing the company.

Extended Approval Time:
Since any CapEx investment requires a large sum upfront, it can take a long time for purchases to be approved.

OpEx

Subscription-based Purchase:
Assets are typically paid for on a subscription basis, i.e. monthly.

Shared Ownership:
Cloud providers, like AWS or Azure, own the services they lease to you, and they're in charge of updates, upgrades, and maintenance.

Ongoing and Varying Costs:
Rather than a one-time payment upfront, you are on a pay-as-you-go model, and costs may vary depending on usage, i.e. an electric bill will fluctuate month-to-month.

Supporting Systems:
Managed service providers (MSPs) handle costs for supporting infrastructure associated with their leased products.

Shorter Approval Time:
Since expenses are lower and paid according to a set schedule, fund approvals typically take less time.

Which is Better: CapEx or OpEx?

All in all, cloud computing is complex from either standpoint. CapEx and OpEx strategies have their pros and cons, and the impact of each varies depending on a multitude of factors unique to each company.

Need Help?

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Need help deciding where and how you should allocate your cloud-related expenses? Contact TierPoint's team of experts to help form your cloud strategy today!

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* https://www.gartner.com/en/newsroom/press-releases/2022-10-19-gartner-forecasts-worldwide-it-spending-to-grow-5-percent-in-2023

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