ANALYST BRIEF

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Enterprises looking to control cloud spending need to mature their FinOps processes. Areas to focus on include proactive cost avoidance, pricing optimization to reduce costs, and comprehensive cloud financial management with governance.

Customized FinOps Processes Deliver Business Value

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Introduction

FinOps has garnered increasing interest among enterprises looking to adopt new processes to optimize their cloud spending. The C-suite, including the CFO and CEO, is often a driver for improving transparency in cloud spending. IT previously had complete visibility and transparency with on-premises datacenters. With the advent of the public cloud and the complexity of multicloud found in many enterprises, this transparency was often missing. As the world came out of the COVID-19 pandemic, IT organizations were faced with tightening budgets, which brought cloud costs to the forefront. As it has become necessary to manage cloud costs more effectively, a proactive approach is needed. Companies need a holistic approach to address all current and future cloud cost areas to provide a cost-effective and well-performing cloud with transparency. Since each business leader has unique insights and analytic needs related to cloud investment, there is no one-size-fits-all approach. A mature FinOps practice is a solution to meeting these goals, but many organizations are just starting their FinOps journey. This entry level is often called the "crawl" phase of FinOps, with a long-term goal of reaching the "run" phase — maturity.

FinOps is a framework to drive business value through better control of current cloud costs and bring predictability to future investments with improved forecasts. It is a culture and mindset change for many organizations to maximize the value of their cloud investments. FinOps has a wide range of stakeholders that must collaborate. FinOps personas often include finance, procurement, DevOps, IT operations, line-of-business managers, and cloud architects, and each one has a different requirement and motivation based on their role. A cross-functional FinOps team strives to drive accountability while educating the enterprise on how to develop applications that use the cloud effectively. A customizable hierarchy that ensures each persona receives the level of reporting and accountability needed is critical to the success of a company's FinOps journey toward maturity.

AT A GLANCE

KEY STAT

» 73% of IT budgets are flat or negative for 2023, according to IDC research.

WHAT'S IMPORTANT

Cloud costs make up an increasingly large percentage of IT budgets. Surprise and increasing invoices from cloud providers are prompting executives, finance, IT, developers, and procurement to collaborate in new ways. Each persona has different needs that require a custom approach to increase transparency.

KEY TAKEAWAY

FinOps is gaining popularity and adoption, but maturity is often lacking. The need for better governance, hierarchy reporting, anomaly analytics, and IT automation to control cloud costs increases. FinOps improves collaboration across business and IT.

Benefits

There are many benefits of customizing FinOps processes and tailoring analytics to the unique personas of an organization. As FinOps stakeholders cannot operate in a vacuum nor be expected to perform all tasks related to cloud optimization, they need collaboration from DevOps teams, business leaders, finance, and procurement — the entire organization. FinOps can help IT finance and line-of-business executives plan better and predict future costs by providing transparency and visibility. An example of this could be analytics and a custom dashboard for each business leader's needs to aid in faster decision-making and improved return on investment.

IDC believes enterprises can rapidly mature their FinOps by focusing on three pillars to manage their cloud investment responsibly. Using an external party to review each pillar can give an objective view of an organization's maturity level and what it needs to improve. Each pillar provides specific business benefits and moves the enterprise toward better transparency of cloud costs. The three pillars are:

- **Cost avoidance:** This proactive approach finds issues before implementation, such as proper application design and infrastructure architecture. Using best practices and adequate review by FinOps and other change review boards, companies can avoid potential expenditures before they occur. Examples of proactive savings include finding overprovisioned designs of cloud resources before going live and the appropriate use of web services that deliver business benefits without incurring unnecessary costs. The excessive costs of overprovisioned virtual servers can be avoided when there is clarity around application performance and configuration requirements to support it.
- **Cost reduction:** This real-time approach finds savings after implementation that can reduce current spending levels. These options include saving plans for existing production environments and using Spot Instances where appropriate instead of Reserved Instances. Many cloud cost tools can provide these types of recommendations. Still, the difficulty often lies in IT staff allocating time and effort to implement complex environmental changes to achieve savings promptly. Automation is critical to maturing this pillar.
- **Cloud finance management:** This pillar covers the overall governance of FinOps teams, including using metrics to drive better cloud investments and moving from showback to chargeback principles. The opex nature of the public cloud costs and on-demand capability means a company's cloud cost can get out of control if the proper guardrails are not in place. Governance is essential as a company's cloud strategy is mapped to FinOps processes. Training across teams, including DevOps, is necessary to educate engineers that even a single line of code can have a noticeable impact on cloud costs.

Transparency is essential across all IT spending and critical to maturing an enterprise's FinOps processes. Companies can build trust by including cross-functional, part-time personas such as finance, procurement, line-of-business product owners, and executive sponsors on their FinOps teams. Cloud analytics and an agreed "single source of truth" for cloud reporting will ensure FinOps team members are accountable for current cloud costs and future returns on investment. This approach will achieve the desired transparency and maturity.

In addition, a core principle for FinOps governance is clear communication and collaboration to ensure FinOps goals and targets are met. Teams must work together to set FinOps metrics and goals and hold each other accountable to meet and exceed these business objectives. One essential FinOps goal is cost allocation, which enables the company to move toward a full chargeback model. IDC provides sample cost allocation examples, illustrating real-world methods' complexity and wide-ranging options. Companies must choose the method that fits their business model and culture openly and transparently.

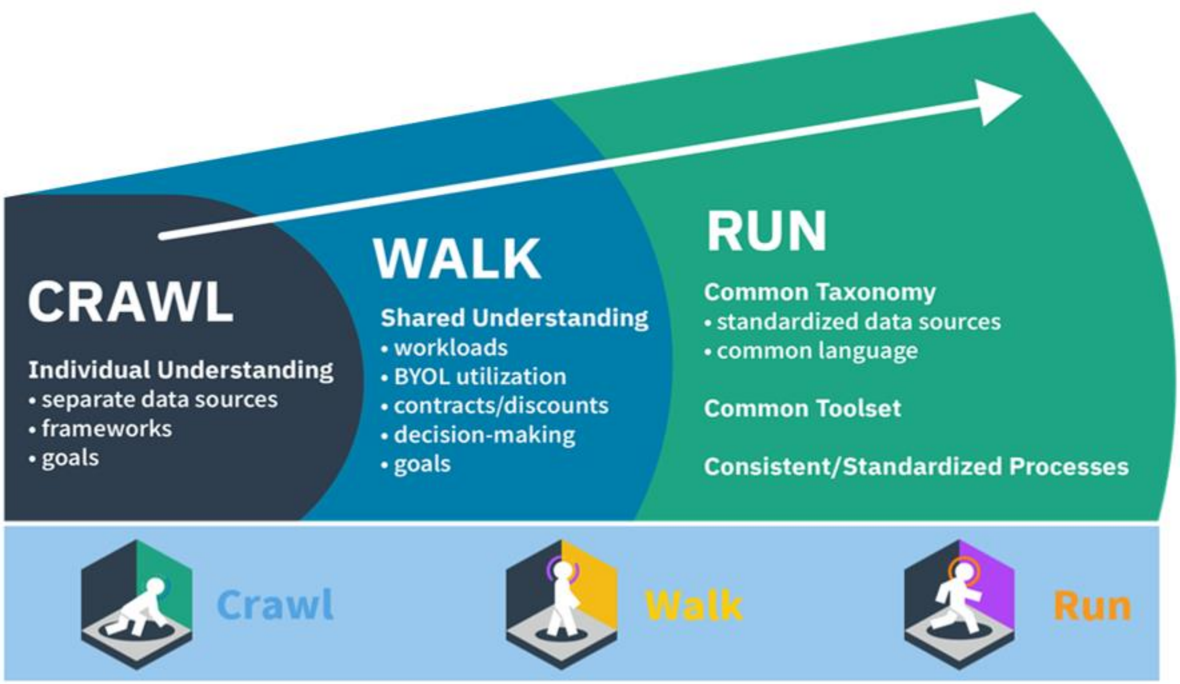
Cloud Costs Allocation Methods

- Resource tagging
- Decentralized account segments
- Number of active users
- Percent of revenue
- Amount of transactions
- Project or product based

Considerations

Companies must candidly evaluate their FinOps maturity to realize its full potential and identify areas for improvement. Only then can teams continually improve and take the necessary steps to advance toward a higher level of maturity. In Figure 1, IDC's modified version of the FinOps Foundation's maturity model includes how to build and grow a FinOps team and its capabilities over time. Starting at the entry level of "crawl" and moving to the "run" category, IDC believes companies will see increasing engagement and business benefits as they advance to a higher level of maturity.

FIGURE 1: ***FinOps Foundation Maturity Model***



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Source: IDC, 2023

Conclusion

Companies struggling with the complexity of multiple clouds and unexpected costs must focus on the three pillars of cost avoidance, cost reduction, and cloud finance management to control cloud spending and improve return on investment. FinOps teams across the organization, from business, finance, and IT, can build on these pillars to deliver better transparency by enabling cross-functional team members with customized cloud analytics and dashboards. With many internal groups stretched to support current operations, engaging a third party to help implement the three pillars and recommend improvements is a common approach. The results will be better decision-making and maturing FinOps processes, driving improved business outcomes.

The increasing cloud complexity and rising costs require mature FinOps processes to deliver expected business outcomes.

About the Analyst

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Jevin Jensen is the research vice president covering IDC's Intelligent CloudOps Markets service. He covers infrastructure as code, GitOps, IT infrastructure automation, cloud cost transparency, FinOps, hybrid/public/multicloud management platforms, and edge management.

MESSAGE FROM THE SPONSOR

Wipro

Wipro FullStride Cloud Services FinOps provides strategy and guidelines to transform data from cloud service providers (CSPs) into actionable insights. Our comprehensive approach to FinOps is anchored in a deep understanding of each client's unique business challenges. After an in-depth analysis of an organization's existing cloud environment, its business and technology goals, we design a customized strategy that combines data analytics and cloud economics. We can help you:

- **Operate more efficiently:** Drive standardization to reduce inconsistencies.
- **Manage your costs:** Provide visibility through a centralized dashboard offering views of cloud consumption.
- **Achieve faster ROI:** Offer faster deployment, configuration, and integration without sacrificing cost and performance.
- **Redefine what it means to be cloud-native:** Develop a long-term plan of success that combines technology and business objectives.

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