FinOps has emerged as a methodology for optimizing costs and prioritizing cloud investments, which directly impacts both application architecture and business decisions.

Operationalize FinOps through Effective Stakeholder Collaboration to Maximize the Benefits of the Cloud

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Introduction

As enterprises move to a fully digital business model built on public cloud technologies, many also see the need for a new approach. As companies expand their cloud and digital presence, well-architected applications that provide a resilient and robust customer experience are essential. A dual goal of increasing IT automation and controlling cloud costs is necessary to achieve these next-generation digital applications. IDC found that the most common area of investment this year for IT automation was FinOps, with 50% of enterprises planning new investments. Business leaders also emphasize the second goal to inform, educate, and collaborate internally on cloud investments to ensure solid investment returns. A mature FinOps practice is an answer for meeting these dual goals.

FinOps is a framework, culture and mindset that enables organizations to maximize the value of their cloud investments. FinOps stakeholders strive to drive accountability while educating the enterprise on how to develop applications that use the cloud effectively. FinOps stakeholders often include finance, procurement, DevOps, IT operations, line of business (LOB) managers, and cloud architects. FinOps stakeholders may use a centralized tool to manage, report, and optimize cloud costs. With a single source of truth, FinOps stakeholders can take ownership of their cloud usage to achieve more predictable and sustainable cloud spending. In a recent IDC survey, 61% of large enterprises are actively starting FinOps practices.

There are many areas where FinOps can deliver quick and early wins to the business. Typical areas to evaluate include resource optimization, where overprovisioned servers and abandoned servers can unnecessarily increase cloud complexity. Once servers are optimized, FinOps stakeholders can look at the complex matrix of pricing tiers and saving

AT A GLANCE

KEY STAT

50%

» **Organizations in 2023 are planning to invest in IT Automation for FinOps. #1 area for 2023 for automation.**

WHAT'S IMPORTANT
Surprise invoices from cloud services are prompting finance, IT operations, developers, and procurement to collaborate in new ways.

KEY TAKEAWAYS
FinOps is gaining in popularity and adoption and the need for better reporting, analytics, and IT automation to control cloud costs increases. FinOps improves collaboration across business and IT. This approach leads to tangible outcomes such as closer alignment with business strategy, better-designed applications, and improved customer experience.

plans to identify opportunities to reduce storage, compute, and network costs. These tiers can include spot, reserved instances, saving plans, and contract benchmarking. Servers that previously moved to the cloud via the 'lift and shift' method can be prioritized by the FinOps stakeholders for refactoring into cloud-native applications utilizing lower cost web services. A cloud cost optimization solution can be used to make recommendations and navigate this complexity. Additionally, such a solution can help automate these complex recommendations, so the FinOps stakeholders can focus on driving cloud best practices and forecasting future cloud investments.

Benefits

The benefits of FinOps are many. However, it is essential to note that FinOps is not strictly about cloud cost-cutting. And FinOps stakeholders cannot operate in a vacuum nor be expected to perform all tasks related to cloud optimization. They need collaboration from within DevOps teams, business leaders, and the entire organization to succeed. These stakeholders should determine future investments based on an assessment of where the cloud adds value through higher revenues or better margins. In addition, by providing transparency and visibility, FinOps can help finance and LOB executives better plan and predict future costs.

Furthermore, an appropriately optimized and provisioned environment means better performing and resilient applications, which can improve the customer experience. One unique collaboration is between FinOps stakeholders and cloud architecture groups. With such collaboration and communication, an enterprise can continually expect to improve its cloud application design and resiliency.

A modern cloud cost optimization solution can benefit a wide range of groups throughout the enterprise. By combining a cloud cost optimization solution with mature processes, FinOps can offer continual optimization through automation and real-time alerting. For example, by standardizing the use of web services and understanding the impact of code changes on costs, DevOps teams can build effective applications to support business objectives more quickly. Instead of being reactive, an IT operations group can use a cloud cost optimization solution to quickly identify anomalies and remediate them before getting an unpleasant invoice. IT operations save time by implementing recommendations automatically and updating critical tagging changes with a single click. Enterprises tell IDC that even with this year's tight IT budgets, investing in IT automation related to FinOps is their number one area. This automation and the ability to manage complex hyperscaler pricing options in real time means enterprises can expect a quick return on investment (ROI).
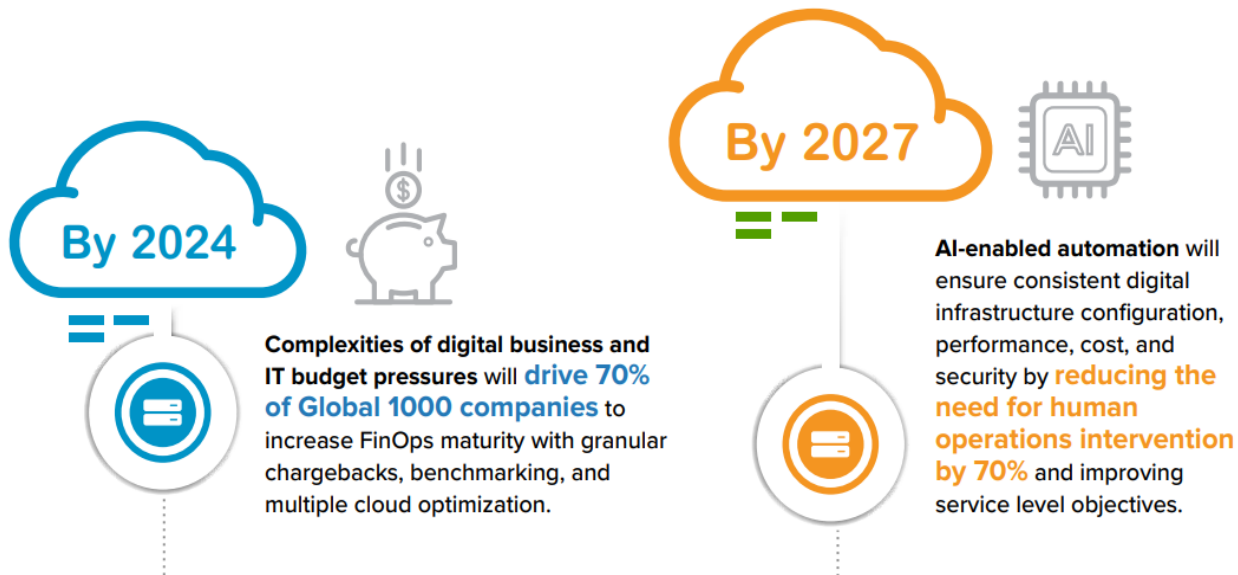
Considerations

Enterprises looking to mature and grow their FinOps processes should focus on open and transparent communication. A monthly dashboard shared with the business executive leadership team (ELT) is one way to improve visibility and ensure alignment with business objectives. Business leaders must engage with the FinOps stakeholders to drive an enterprise-wide culture of accountability for cloud investments and costs. FinOps stakeholders should adopt a set of business-friendly metrics to share regularly with the ELT, and with ELT engagement business can avoid the 'throw it over the wall' approach to FinOps. When ALL areas of the business are engaged in optimizing cloud investment and resources, the enterprise can increase the overall effective use of the cloud dramatically. Examples of these business metrics include cloud forecasting, percent of total revenue spent on a cloud, and year-to-date savings successfully realized through FinOps practices.

FinOps is challenged with holding stakeholders accountable, so defining metrics and reviewing these each month for alignment is critical. A more technical set of metrics supporting the higher-level ELT dashboard may also be needed to continually improve a company's processes. As shown in Figure 1, IDC predicts that by 2024, up to 70% of enterprises will utilize additional FinOps metrics and chargeback methods to drive overall process maturity.

An essential technical metric to drive this maturity often overlooked is the proper tagging of cloud resources. Each cloud resource needs one or more tags to correctly identify the application, department, and business unit it supports. A cloud cost optimization solution utilizes these tags to create reports and make recommendations. FinOps processes then use these reports to charge back the proper internal cost center. If the wrong group is charged for a cloud resource, the trust in the FinOps processes is reduced. The tags must be set up correctly when a new resource is created and updated as environmental elements change. IT operation teams often turn to automation to assist in proper tagging. The accuracy of tagging is an important metric to track as well.

Figure 1: *IDC Predictions for FinOps*

By 2024 — Complexities of digital business and IT budget pressures will **drive 70% of Global 1000 companies** to increase FinOps maturity with granular chargebacks, benchmarking, and multiple cloud optimization.

By 2027 — **AI-enabled automation** will ensure consistent digital infrastructure configuration, performance, cost, and security by **reducing the need for human operations intervention by 70%** and improving service level objectives.

Source: IDC FutureScape: Worldwide Cloud 2023 Predictions; IDC FutureScape: Worldwide Future of Digital Infrastructure 2023 Predictions

Trends and Recommendations

As AI-enabled automation and analytics of cloud cost optimization solutions continue to improve, all stakeholders will benefit. Following actionable recommendations, businesses can optimize their cloud resources for performance through appropriate resource sizing. In-depth insights from a cloud cost optimization solution can help maximize an enterprise's return on investment by highlighting growth opportunities and enabling better cloud forecasting. By combining FinOps best practices with automation, enterprises will see improvements across functional areas that benefit the business.

The dual business goals of improving digital business applications and expanding IT automation for improved customer experience cost-effectively can be realized. The following recommendations will help move an enterprise and its culture toward this vision.

» Implement a data-driven approach to cloud architecture by bringing FinOps insights upstream into the design process for better application performance and resiliency.

» Provide accurate reporting and analytics based on continuous feedback that fully enables stakeholders to understand current utilization and optimize future utilization.

» Drive a culture of accountability across all business leaders and stakeholders by surfacing ROI of current and future cloud investments, driving better decision-making.

» Allocate cloud consumption by business units, projects, teams, or another organizational construct. Move from show backs to actual chargebacks of cloud costs.

» Drive financial cloud ownership and accountability into enterprise culture through governance practices.

» AI and ML are essential features of cloud cost automation; teams should leverage their full capabilities to drive business outcomes.

» Use IT automation of cloud cost optimization solutions to manage and increase the accuracy of cloud resource tagging.

» IT operations and DevOps teams should work closely on adopting best practices for the cloud. This approach will drive better architecture decisions and a more holistic approach to delivering business outcomes.

Conclusion

As more companies look to implement FinOps practices, involving the right personas and developing mature processes is vital to drive this new culture of accountability. A cloud cost optimization solution that provides a single source of truth is necessary to build trust across all technical and business stakeholders. A cloud cost optimization solution should be selected based on the AI/ML driven automation and analytics capabilities the FinOps processes need to manage a complex multi-cloud environment properly. Mature FinOps practices are built on cross-functional collaboration and fueled by mutual accountability.

Mature FinOps processes are built on cross-functional collaboration, enabled by AI-driven cloud cost platforms, and fueled by mutual accountability.

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/multi-cloud management platforms, and edge management.

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