Making FinOps Work for IT Finance

The current state of FinOps

FinOps is necessary to manage cloud spend

Today's enterprises—and their strategic digital transformation initiatives—are predominantly powered by hybrid, multi-cloud infrastructures. As a result, a large proportion of IT budgets are spent on cloud services. Given the size and variability of that cloud spend, it's no wonder there's a push for financial accountability via FinOps. In fact, according to a recent survey[1], the vast majority of respondents (87%) agree that there's value in FinOps for their organization. As the role responsible for bridging the gap between business, IT, and finance teams, IT Finance must establish a FinOps culture and enable stakeholder teams with a prescriptive model of actions and best practices so they can make optimal business trade-offs between speed, cost, and quality. This requires the ability to enable evidence-based decisions in near-real time to help optimize cloud use and increase business value.

Enterprises aren't firing on all FinOps cylinders

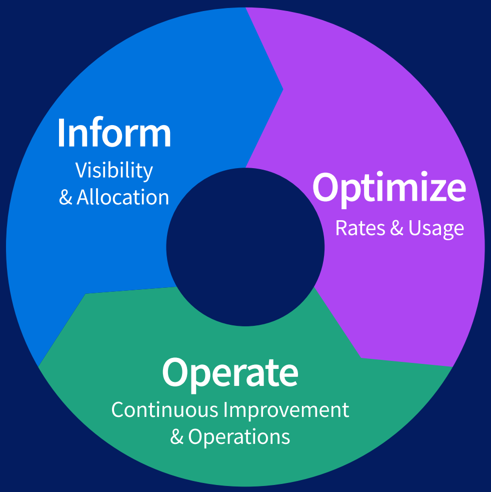
However, the same survey found that only 17% of enterprises currently have an effective, mature, FinOps practice in place. This means that while nearly three-quarters want cross-functional ownership to bring financial accountability to the variable spend model of the cloud, they're not able to accomplish that today. In fact, that large majority who are implementing FinOps but aren't doing it effectively, representing around 70% of enterprises, are pretty evenly split across two scenarios. Either they have started to adopt FinOps but are still in the early stages, or they have an established FinOps practice and have made strides but admit there's room for improvement.

[1]Virtana, The State of Multi-Cloud Management, May 2022

So, what's the holdup?

The problem isn't a lack of vision for what a mature FinOps practice looks like. The FinOps Foundation, a program that according to their website is "dedicated to advancing people who practice the discipline of cloud financial management through best practices, education and standards," offers a framework for the FinOps journey consisting of three iterative phases:

- **Inform:** Visibility and allocation
- **Optimize:** Rates and usage
- **Operate:** Continuous improvement and operations



FinOps Phases by *FinOps Foundation*

You can read about objectives for each phase and get a lot of detailed recommendations and best practices at the FinOps.org website. While this is an invaluable resource, organizations are clearly struggling to put all the right pieces together. The challenge is that there are a number of roadblocks that are keeping enterprises from fully achieving the key objectives of the three phases.

The Roadblocks to Effective FinOps

Inform: The foundation for accountability

This first phase of the FinOps journey is about empowering your teams with visibility, allocation, benchmarking, budgeting, and forecasting. Maturity at the Inform stage includes the ability to accurately allocate chargebacks and showbacks, drive ROI while staying within budget, accurately forecast spend, and benchmark as a cohort and against teams.

The problem here isn't that the data needed to accomplish these objectives isn't available, but rather that the tremendous volumes of data can't be easily analyzed. The native tools provided by the cloud service providers (CSPs) and most third-party tools have analysis capabilities, but they don't allow you sufficient flexibility to manipulate the data so you can understand what's happening *in the way you need to understand it for your organization* and then communicate it to your stakeholders. This is critical because every business is structured differently, so it's highly unlikely that a one-size approach will fit your specific needs. Furthermore, there may be some big-dollar line items in your monthly bills that can't easily be broken down by these tools, making it difficult to understand what's driving that spend.

So, despite all the data and tools available, there are still a lot of blind spots keeping you from being fully informed. In order to achieve the objectives of the Inform phase, you need to create transparency around all cloud costs, establish and enforce accountability, and communicate effectively with all stakeholders.

This requires you to be able to do three things. First, you need to get deeper, more granular insight into your cloud bills across all your cloud providers. You also need the flexibility to easily slice and dice data to match specific business needs and map spend to your cost centers. Finally, you must be able to quickly and easily create customized reports that deliver the right information to the right people at the right time. When you have these capabilities, you can demystify your cloud costs and create a more informed FinOps practice.

Optimize: The path to profitability

The next phase is to optimize your cloud footprint. This requires both smart planning—whether to use on-demand instances or take advantage of discounts by committing to reservations—as well as rightsizing and automating, turning off any wasteful use of resources on an ongoing basis.

What makes this hard to accomplish is that you have to keep up with a vast number of fast-moving parts that all impact cost, risk, and performance. While the discounted pricing of reservations is tempting, resource planning is complex and miscalculations could result in being oversubscribed, putting you on the hook for capacity that you don't end up using. Additionally, there can be a big difference between the capacity you need and the capacity you're actually using. It's very easy to spin up a server and attach an EBS volume, for example. This is great for agility and innovation. But what happens if the sever is no longer needed, but you forgot about the storage? (In this example, while there is a checkbox to terminate the storage when you terminate the EC2, it used to be unchecked by default.) You'll continue to pay for that storage, racking up extra costs that can be difficult to find down the line.

The only way to build confidence around budgets and forecasts for greater certainty and financial discipline is with a more comprehensive and granular view of all your cloud workloads combined with powerful analytics and recommendation tools. This will enable you to get and stay rightsized so you can make a direct impact to the company's bottom line and increase the profitability of the business.

Operate: The key to organizational efficiency

The third phase focuses on embedding FinOps within the business—operationally, culturally, and measurably. This requires policies and tracking to evaluate business alignment based on speed, quality, and cost, as well as to continuously assess progress against objectives. In short, it requires cloud governance.

According to our survey[2], only 4% of organizations do not have such a framework of mechanisms, processes, and relations in place to enable various stakeholders to control and operate their cloud environment. This does not, however, mean that most enterprises have cloud governance well in hand. In fact, 71% stated that while they have some cloud governance in place, it's far from a mature practice. Of that cohort, 42% said that while they have a few cloud governance tools, policies, and processes here and there, it's inconsistent. These governance gaps leave room for hidden costs to go unchecked and can undermine confidence in the policies and procedures that are in place. The remaining 58% said that while they have comprehensive cloud governance, it's stitched together from a lot of point tools and disparate processes. While this is good news from a coverage perspective, it creates other challenges.

The same study found that only 17% of respondents have fully automated the data consolidation process across tools and that there's a correlation between the level of automation and an ability to manage various aspects of a hybrid cloud infrastructure. The lesson here is that coverage alone is insufficient. If it takes you a lot of time and effort to manage all the tools and disparate data sources, you'll still be left with gaps in information, functionality, and control.

This is not to say that you should eliminate all of those tools; many serve important functions within their particular spheres. From a governance perspective, however, you need to be able to centralize cloud cost management across your multi-cloud environment to ensure both full coverage *and* efficient operation on an ongoing basis.

[2]Virtana, *The State of Multi-Cloud Management*, May 2022

Connecting the dots between framework and execution

Despite the growing adoption of FinOps, driving financial accountability and building transparency to ensure teams are working efficiently without exceeding budgets is still an uphill road for many in IT Finance. By understanding the unique challenges within each phase of the FinOps journey, you can address shortcomings in those areas with smart strategies and effective tools.

Virtana Optimize: Radically simplify FinOps execution

Part of the modular Virtana Platform, Virtana Optimize allows you to gain deep insight into your cloud spend across multiple cloud providers, and to optimize cost, capacity, and performance in real time, on an ongoing basis. IT Finance leaders use Virtana Optimize to make data-driven decisions that can save money, rightsize instances, and optimize reservations to capture long-term savings.

With Virtana Optimize, you can:

- Map cloud costs directly back to users' applications to enforce accountability
- Avoid end of-month billing surprises
- Get rightsizing recommendations to automatically optimize multi-cloud instances
- Find ideal resource settings before purchase to prevent long-term programmatic discount commitment mistakes
- Centralize cloud cost management for a single cloud or multi-cloud environment, eliminating the need for multiple tools
- Improve transparency and communication throughout the organization

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