Harnessing the Power of Cloud FinOps

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Cloud FinOps helps companies manage and get more value from their cloud spending. Getting it right requires robust change management.

The cloud ignites digital transformation and growth—but often the spark is dampened because of difficulties in one key area: managing cloud spending.

For many companies, the link between their cloud investments and returns is murky. Financial forecasting can be tricky, given the cloud’s variable spend model. And because development teams are able to buy cloud resources on demand, it is not unusual for costs to become unmanageable. The result: Companies struggle to move beyond proof of concept to operate at scale in the cloud. They are either not launching or are slow to launch important new use cases, particularly in artificial intelligence.

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Cloud FinOps fosters financial accountability and transparency across an organization.

It doesn’t have to be this way. Over the past couple of years, a new approach to cloud spending has been gaining traction. Cloud FinOps, as the framework is known, fosters financial accountability and transparency across an organization. Everyone takes ownership of their cloud spending, understanding exactly what they’re spending and what they’re getting from that investment.

But cloud FinOps is not a plug-and-play solution. It is a cultural shift that brings technology, finance, and business teams together to drive financial accountability and accelerate business value realization through cloud transformation.

Companies that are leaders in cloud FinOps don't simply acknowledge these changes—they fuel them. They understand that none of this works without robust change management, practices that ingrain cloud FinOps in both the methods and mindset of the business. The good news is, there's an approach for this, too.

Cloud FinOps 101

The core of cloud FinOps consists of three phases:

First, make information available. This means allocating cloud costs to specific teams and projects, and providing easy access to this data, typically through dashboards. It also means sharing forecasts (which become more accurate under cloud FinOps), so teams can track how their actual spending compares to their projected spending. You want to define and track success metrics, as well: KPIs that help you gauge the ROI of your cloud investments.

Second, use this information to optimize spending. The idea is to leverage the insights you gain—on what you're spending, what you're using, and how usage corresponds to results—to apply cost-saving levers like spot instances and committed-use discounts.

Finally, embed your FinOps practices across the organization, so they become part of your culture. Cloud FinOps is a continuous process, and with each cycle, you refine your cloud spending, so it's always synced and optimized to business needs and strategic priorities.

To put cloud FinOps into action, you need certain building blocks—processes and behaviors that enable financial accountability across the organization, improve cost management and control, provide better visibility into cloud costs, and automate (as much as possible) continuous cost recalibration. They fall into the following categories: [1]

- *Accountability and enablement.* Cloud FinOps democratizes financial responsibility, with teams taking charge of their cloud spending. But at the same time, you need guardrails on that autonomy. Striking the right balance is key, and the best way to do it is through a central cloud FinOps team, with members representing the technology, finance, and business sides of the company. One of the first—and most important—things this team does is establish the governance for cloud FinOps. For example, we find it works best when the central team makes decisions on pricing optimization, since rates can be set in advance and in bulk. But it is best for decentralized teams to make decisions on reducing or increasing usage, since cloud end users know better than anyone how to fine-tune their utilization.
- *Measurement and realization.* To optimize cloud investments, you need timely, accurate information on costs, usage, and returns. A tagging system can allocate costs and consumption, enabling you to tie the use of specific resources to individual teams. Reports, ideally delivered through customized views, allow each team to zero in on their cost and usage information quickly. KPIs are essential, but they should align with business priorities. By linking cloud costs to business outcomes, you can gauge the efficiency of your cloud investments—and better understand where to tweak spending.
- *Cost optimization.* There are multiple ways to optimize cloud costs, but they fall into three main buckets: resource usage, pricing, and architecture. Tactics include auto-detection of cost anomalies, auto-

sizing of under- or over-utilized resources, and committed-use discounts. Most companies start by right-sizing cloud resources manually and utilizing cloud credits and discounts to optimize spending. Later, they leverage automation to adjust dynamically for under- and over-utilization. Ultimately, they transition their applications to a cloud-native architecture, which brings advantages in scalability and cost efficiency.

- *Planning and forecasting.* By allocating cloud costs, monitoring cloud consumption trends, and benchmarking efficiency, cloud FinOps allows companies to create accurate financial forecasts. Here, too, most companies will develop their capabilities steadily, starting by reconciling cloud budgets with actual spending and progressing to where they can zero in on seasonality patterns and common drivers of cloud spending, such as heavy usage of data analytics or memory-intensive computing services. At an advanced stage, many companies integrate cloud-unit economics—the relationship between the cloud costs of an action (such as sending a personalized email to a customer) and the revenue that action generates—into financial planning.
- *Tools and accelerators.* A host of catalysts can speed up the cloud FinOps journey. These include automated resource management policies, updated governance to reallocate funds to more-effective cloud resources, and automated reports on cloud usage and costs.

This is a lot of new ground for many companies. So not surprisingly, perhaps the most crucial accelerator of cloud FinOps is change management. You need to support, encourage, even evangelize the shifts cloud FinOps brings—and requires.

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Most companies have yet to embrace cloud FinOps.

But how exactly do you do that? Most companies have yet to embrace cloud FinOps, but even among the adopters, it’s largely still early innings. In a 2022 survey by the FinOps Foundation of cloud FinOps practitioners, of the 572 respondents who answered a question about the maturity level of their cloud FinOps efforts, 37.1% said they were in the “crawl” stage—getting the basics in place. [2] Another 42.8% were in the “walk” stage, where practitioners have established, but not yet perfected, their practices. Just 12.6% of participants were at the leading edge of maturity, or the “run” stage, where cloud FinOps is business as usual. The remaining respondents comprised a “pre-crawl” segment.

Many cloud FinOps practitioners are thus aware of the gap between where they are and where their cloud FinOps efforts need to be. Change management is the way to get there.

Implementing Change Management in Cloud FinOps

We’ve found that companies achieve the best results when they focus change management around five imperatives:

Demonstrate the value of cloud FinOps. Show, don’t tell. Cloud FinOps can deliver 20% to 40% savings on monthly cloud costs, savings that can fund new digital and AI use cases—and new value creation. Articulating that clearly to decision makers, using the language of the business and skipping the tech jargon, can help win their support and buy-in. *Demonstrating* that value can close the deal. Cloud FinOps is best implemented through a sequenced approach where you steadily build your capabilities. That means you can start delivering value early, reaping—and showing—the first fruits of the approach.

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Robust change management is key to the success of a company’s cloud FinOps efforts.

Consider, for example, a Fortune 50 retailer that embraced cloud FinOps. It benefited from a close to a 50% reduction in cloud costs for computing and storage resources after implementing some early journey measures. These measures included automated compression and deletion of tables, as well as predictive models to manage the shutdown of idle clusters. The company then steered the savings into AI initiatives to generate cross-sell recommendations—and drive more sales. That kind of early, visible win can be a powerful argument for supporting and expanding a cloud FinOps transformation.

The idea is to think big but start small and scale fast. Explain the initial actions the company should take—be specific, but again, use the language of the business, not the language of FinOps—and the value you expect to create. By delivering that initial value, you generate buy-in (and funding) for the next wave of actions. And you set the stage for even greater value creation.

Foster open and instant communications. Cloud FinOps is a collaborative effort, and for many companies, it will bring together finance, technology, and business experts for the first time. To work in partnership, central team members need a communications channel that crosses traditional silos. At the same time, the central team needs open channels to the engineering and business teams now accountable for their own cloud spending. The easier it is to communicate, the easier it is to provide support, something that is crucial to both the adoption and evolution of cloud FinOps. Indeed, the central team is really your cloud FinOps center of excellence, and as such, you'll want to encourage—and facilitate—interactions between it and the rest of the organization. Workshops and office hours, hosted by the cloud FinOps team, can be an effective way to foster communications—and best practices.

Develop the right enablers. A key catalyst for cloud FinOps is stakeholder engagement. The central team, for example, should meet regularly. As companies embracing agile have discovered, a cadence is extremely effective in promoting collaboration. But collaboration is just one part of the equation. You also want to foster financial accountability across the organization. To that end, it's critical to align on primary KPIs. This ensures that when it comes to costs and ROI, all business units are measured against the same yardstick. Just be sure there is enough granularity in reporting that you can track cloud unit costs. This helps you attribute revenue to cloud spending—and gauge the efficiency of that spending.

Promote a "blameless" culture. One of the foundations of cloud FinOps is continuous improvement on everything from process to results. Savvy companies will adopt a blameless culture in which mistakes and capability gaps are treated as opportunities to learn and improve. It's a battle-tested approach that accelerates innovation and growth. And it can help an organization increase its cloud FinOps maturity. One best practice: document the learnings so others can benefit from them, too.

Share knowledge across the organization. Practices like documenting learnings and offering workshops highlight a key point: you want to spread the word on the dos and don'ts of cloud FinOps. Webinars and training sessions can be invaluable, but the presenters don't have to come exclusively from the central team. Cloud providers are a natural resource here, as they have a deep knowledge of their technology and the best ways to use and manage it. We also recommend creating a centralized knowledge repository, which can function as a cloud FinOps reference desk. And get creative, too. A newsletter, for example, can be an effective way to keep your organization up to date on cloud FinOps.

The cloud is transforming business. It speeds up innovation and time to market; it boosts agility and responsiveness to change. Cloud FinOps accelerates that transformation by fundamentally changing the way companies—and their teams—manage cloud spending.

To harness the power cloud FinOps, you need to develop the right building blocks. But just as crucially, you need to understand, embrace, and facilitate the changes this new approach brings. It’s an effort well worth making. For when you embrace the disciplines of cloud FinOps, you do more than manage costs. You seize more opportunities, generate more value, and create more distance between you and the rest of the pack.

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1 Three of the coauthors of this article—Eric Lam, Pathik Sharma, and Bruce Warner—detailed these categories with Sheri Cunningham and Jon Naseath in a Google white paper, "Maximize Business Value with Cloud FinOps," https://services.google.com/fh/files/blogs/cloud_finops_paper.pdf.

2 FinOps Foundation, The State of FinOps 2022, https://data.finops.org/.

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