How to Build Effective FinOps Capabilities in Cloud

Financial operations (FinOps) professionals around the world are generally unflappable, and they need to be. Moving finances to cloud, essentially transferring the spend from CapEx to OpEx, is proving to be a struggle. Organisations are seeing mixed success as they attempt to adopt new FinOps methodologies and are finding it difficult to control spend as development teams and engineers are responsible for deploying infrastructure and services.

Before cloud computing, businesses worked within a framework of financial controls and processes to acquire servers as capital equipment. Now however, technologists deploy infrastructure and services in the cloud at will. Cloud computing can speed the release of applications and features, but cloud's remarkable flexibility to set up resources on demand can obscure the fact that these decisions are spend decisions.

Cloud technology has provided remarkable advantages to enterprise computing, but businesses still struggle with cloud financial management. To get full value from cloud cost optimisation, organisations need to address not only cloud cost management processes, but also culture to change how technology, finance and business teams collaborate on cloud spending decisions. This post explains FinOps framework fundamentals and FinOps' benefits and discusses the importance of discovery work to FinOps adoption and success.

FinOps: part of the culture of any organisation

First, let's define FinOps. According to the FinOps Foundation:
"FinOps is an evolving cloud financial management discipline and cultural practice that enables organisations to get maximum business value by helping engineering, finance, technology and business teams to collaborate on data-driven spending decisions."

The FinOps Foundation – which started its work in 2019 – gives particular emphasis to building an organisational culture of financial accountability for cloud's variable costs. This accountability ensures teams collaborate to optimise their cloud design and investment decisions and make intelligent tradeoffs between speed, cost and quality when designing for (and purchasing) cloud services. But what we see in practice is that organisations tend to focus on the tooling as the silver bullet, while paying short shrift to the cultural and operational change elements necessary for success.

There's a framework for that

We know there are three critical pain points, one or all of which may challenge FinOps organisations making the switch to cloud:

- It is difficult to govern and manage finances
- It is difficult to drive cultural and operational change
- It is difficult to establish new processes within the finance organisation

So, what is a company to do to overcome these hurdles? There are a number of steps to be taken right away, including:

- Ensuring the right foundations are in place, including proper tooling and consistent reporting and tagging
- Building a FinOps capability that suits the organisation's unique needs (more on that in a moment when we discuss the FinOps framework)
- Targeting the right level of FinOps maturity
- Defining and implementing a strategy for cultural change
- Driving FinOps practices into the engineering teams' operational processes
- Providing the right tooling at all levels of the organisation, ensuring consistent visibility
- Implementing as much automation as possible for enforcing tagging, alerting, resizing the infrastructure, removing data not required, shutting down environments not needed, etc.
- Matching the desired FinOps approach to the organisation's cloud operating model
- Including considerations of developing trends, such as including ESG principles in FinOps processes.

All of this may feel like a heavy lift, but we recommend building a FinOps strategy that follows the well-known FinOps framework and embraces its six principles:

- **Teams need to collaborate.** In particular, engineers must consider cost as a dimension of efficiency. All teams should work together to define governance and controls for cloud usage.
- **Everyone takes ownership for their cloud usage**. Specifically, teams should manage their own consumption against their own budgets. Metrics foster team accountability.
- **A centralised team drives FinOps.** By centralising governance and control of discounts and buying processes with providers, the FinOps team maximises savings for the entire enterprise. (Cloud providers are starting to furnish data about how their cloud consumption impacts their carbon footprint. This trend means that one day soon, FinOps teams could assume responsibility for reporting on cloud usage's environmental impact.)
- **Reports should be accessible and timely.** Prompt, ongoing reporting ensures teams get feedback on their spending fast. This visibility increases teams' sensitivity to cost.

- **Decisions are driven by the business value of cloud.** Organisations can look at the variance of their costs over time — as well as industry benchmarks — to manage cloud cost performance. Internal team benchmarking (and even gamifying) recognises best practices.
- **Take advantage of the variable cost model of the cloud.** In an information-rich FinOps environment, organisations can compare pricing and right-size instances and services to manage cloud costs better.

Inform, optimise, operate…but don't forget discovery

Organisations that have embraced FinOps engage in three iterative phases. It's typical to see a company in multiple phases at once, since different teams may be in different places on the journey.

The first phase is **inform**. This phase calls for accurate and timely information as the basis for cloud financial management. Using tags, accounts, and other means enables allocation and reporting on costs while contributing to forecasting and return-on-investment calculations. The information gained provides the metrics that shape team behavior and performance.

The second phase is **optimise**. Armed now with information, organisations will want to optimise cloud footprints by shifting from pricy on-demand capacity to take advantage of discounted services. Reserving capacity and making commitments in advance captures savings on cloud expenses. Organisations also reduce cloud spending by retiring unused instances and automating uptime/downtime schedules of cloud resources.

The third phase is **operate**. FinOps engages business, financial and operational stakeholders to define governance and models. Organisations see the benefit of FinOps as they continuously evaluate performance against goals.

Our own take on implementing (or improving) FinOps programmes suggests one additional phase to precede "inform, optimise and operate." We believe that successful FinOps implementations start with a **discovery** phase as the surest way to adapt and optimise FinOps capabilities in a way that best suits an organisation's unique strengths and challenges.

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Discovery

The discovery phase reviews the current state of an organisations FinOps capability and maturity. In this phase we discover the existing cloud finance and optimisation related:

- Finance, procurement and FinOps processes (recharge model, reporting etc.)
- Reserved instance/saving plan strategy and implementation
- Technology, tools, automation and tagging standards
- FinOps and engineering practices, organisational structures, guidance, culture and personas

A set of recommendations and plans are formulated from the findings of the discovery with the goal of addressing gaps and elevating the organisations FinOps maturity.

A culture of accountability

Successful FinOps programs establish a culture of accountability. Leaders instill FinOps principles and culture faster and easier when they evaluate cultural factors as they begin. Programmes that start with discovery include organisation-appropriate strategies to drive cultural change. With or without third-party assistance, leaders can refine their FinOps strategies to align with their organisation's culture and maturity.

In the FinOps maturity model, organisations crawl before they walk, and walk before they run.

- When they **crawl**, teams aren't familiar with FinOps, and the metrics aren't yet available to them.
- When they **walk**, engineers are engaging in FinOps processes, and metrics are available for monitoring and optimisation. Engineers and finance are aware of one another's concerns around cloud cost management; leaders support FinOps and celebrate wins.
- But when organisations **run**, engineers consider cloud costs throughout development life cycles. They seek opportunities to drive down costs. Business teams understand that their decisions result in costs.

Where to begin?

Yes, there is a significant investment in time and resources needed to drive cultural change. But focusing on the foundational basics, including reporting, a finance and recharge model, tagging, tooling, etc., will ease the journey. Remember that consistent, real-time reporting helps establish an atmosphere of trust and eventually, your FinOps team will have the cloud maturity you've dreamed of.

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