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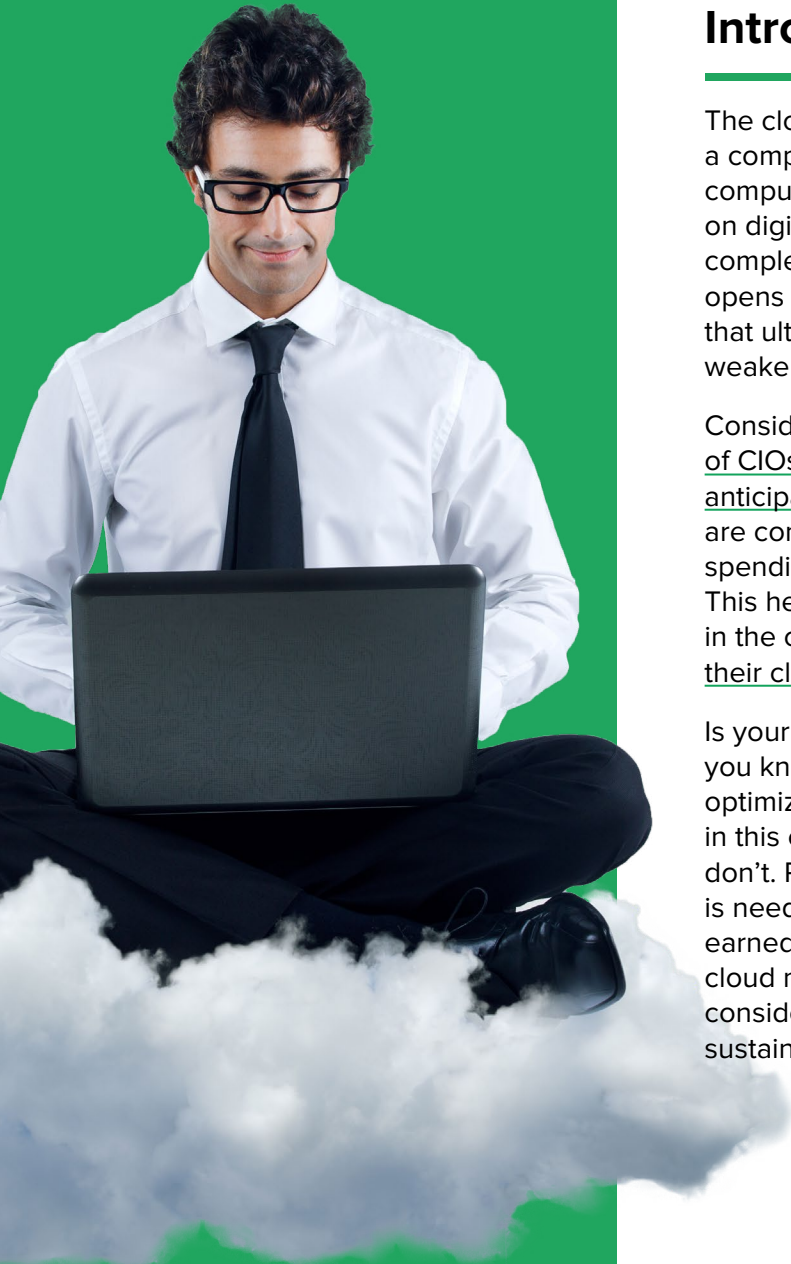
FINOPS: THE NEW WAY TO MANAGE COSTS IN THE CLOUD

Introduction

The cloud is the place where every business builds a competitive edge, but the economics of cloud computing are now stifling the ability to achieve ROI on digital transformation investments. The cloud's complexity and consumption-based pricing model opens a Pandora's box of cost management challenges that ultimately can diminish business value while also weakening operational productivity.

Consider these facts as they come together: two-thirds of CIOs are spending more on the cloud than they anticipated, proliferating unsanctioned applications are consuming **30-40%** of IT budgets and, as cloud spending soars, data siloes muddy cost transparency. This helps explain why companies typically overspend in the cloud by as much as 70% and waste up to 30% of their cloud resources.

Is your organization more efficient than that? Do you know what percentage of your cloud estate is optimized? Organizations can't afford to get caught in this cloud visibility crisis. FinOps ensures they don't. Rapidly increasing cloud financial oversight is needed, and this guide explains why FinOps has earned its place as the new frontier for effective cloud management. Plus, you'll get three tactical considerations to supercharge a FinOps strategy for sustainability and stronger results.

What is FinOps?

The term is defined by the FinOps Foundation as "an evolving cloud financial management discipline and cultural practice that enables organizations to get maximum business value by helping engineering, finance, technology, and business teams to collaborate on data-driven spending decisions." In short: it's a strategic framework that enables organizations to confidently manage cloud costs and generate ROI without wasting resources or adding unnecessary complexity.

FinOps is the hottest new approach to cloud oversight and financial management, because it uses proven methodologies to standardize cost optimization for cloud services. A 2023 study from CloudBolt found that 98% of companies either have a formal FinOps practice or are planning to implement one.

It's important to note that the concept of FinOps isn't new. It has gone by many names, including but not limited to Cloud Financial Management, Cloud Financial Engineering, Cloud Cost Management, Cloud Optimization, and Cloud Financial Optimization. Regardless of name, the primary objective of FinOps is to advance the business culture of cloud management, helping companies operate more efficiently in today's cloud-first economy.

FinOps is a mashup of the words "Finance" and "DevOps," emphasizing the collaboration between finance and IT engineering teams necessary for effective cloud governance.

FinOps is Right for Your Organization if:

- Cost savings is a primary challenge with your existing cloud implementations.

- It's taking too long to recognize the value of your digital innovation investments.

- You aren't actively rightsizing your cloud assets.

- You're feeling increased pressure to make your budget stretch further.

- You're concerned about wasting cloud resources.

- You're struggling to trace cloud usage and/or expenses.

- Chargebacks are of particular concern.

30%
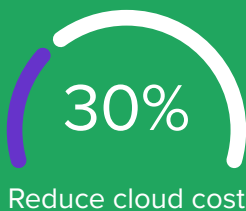
Reduce cloud cost

FinOps has become the go-to approach for solving these cloud cost realities and can ultimately reduce cloud costs by **30%**, according to research firm McKinsey. When companies can get FinOps right, they can apply its principles to much more than just cloud. Here's a quick rundown on the FinOps operational framework and three tactical considerations that can supercharge FinOps, creating a multiplier effect on results.

A No-Fluff Overview of the FinOps Operational Framework

FinOps is a comprehensive practice with many moving parts, but the framework's core tenants include six principles, three phases, and six domains. Want a deep dive? Check out the FinOps Foundation website for a detailed review.

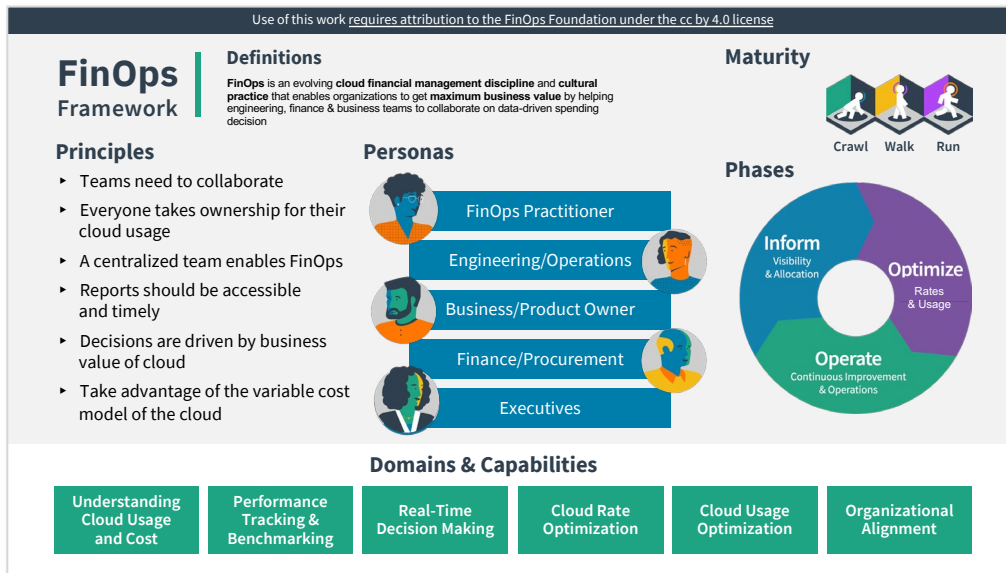Image Source: FinOps "Framework" by FinOps Foundation

The 6 Principles of FinOps

Six guiding principles are at the helm of the framework. These principles, developed by FinOps Foundation members, are listed in no particular order and should be taken as a whole:

1. Teams need to collaborate
2. Everyone takes ownership for their cloud usage
3. A centralized team drives FinOps
4. Reports should be accessible and timely
5. Decisions are driven by business value of cloud
6. Take advantage of the variable cost model of the cloud

Collaboration, centralization, accountability, value-based decisions (vs. cost-based), and real-time accessibility and visibility are core to these guiding principles.
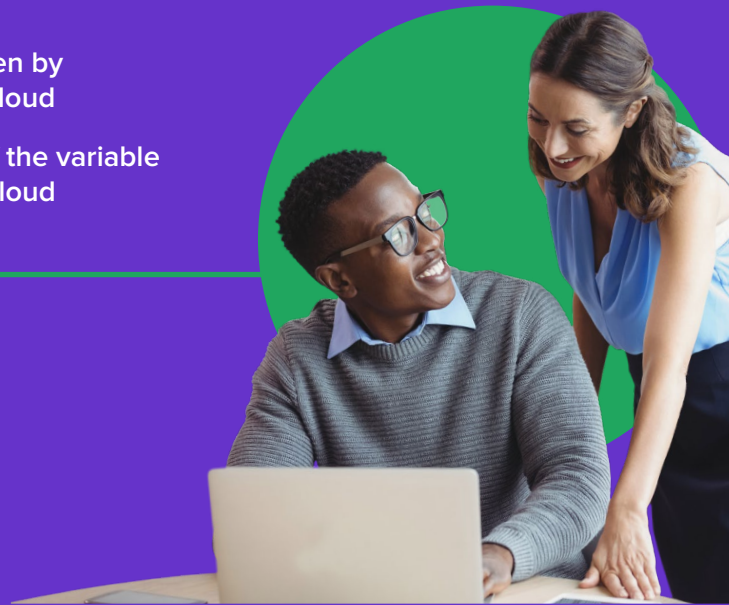
The 3 FinOps Phases

FinOps consists of three iterative phases: **Inform, Optimize,** and **Operate.**

1. The **Inform Phase** is designed to empower organizations with visibility, allocation, benchmarking, budgeting, and forecasting. This ensures equitable distribution of expenses across all teams and keeps teams accountable for their usage.

2. The **Optimize Phase** is intended to help teams identify opportunities to use cloud resources more efficiently, determine their value, and ways optimize the corporate cloud footprint.

3. The **Operate Phase** defines and implements solutions and processes enabling teams to achieve goals set in line with business objectives. These processes are continuously evaluated, with metrics tracked against established objectives. The framework comes full circle with the establishment of reliable, ongoing cloud governance policies and models.

As a software and services provider offering a full spectrum of technologies, professional services, managed services, and technology consultants, Tangoe's FinOps solution is uniquely positioned to guide companies through all three phases. Leveraging Tangoe's broadest choice and flexibility in cloud cost management, clients can design a FinOps platform to optimize Infrastructure as a Service (IaaS), Software as a Service (SaaS), and Unified Communications as a Service (UCaaS).

The 6 FinOps Domains

The six FinOps Domains outline the capabilities an organization must perform to effectively practice FinOps. Each Domain defines a different "sphere" or territory of activity or knowledge, including functional activities to be performed as part of that Domain. For example, the first FinOps Domain – Understanding Cloud Usage and Cost – includes the following capabilities: measuring unit costs, managing shared cost, managing anomalies, and forecasting, among others.

Understanding Cloud Usage and Cost	Performance Tracking & Benchmarking	Real-Time Decision Making	Cloud Rate Optimization	Cloud Usage Optimization	Organizational Alignment

Image Source: FinOps Framework "6 Domains" by FinOps Foundation

3 Considerations for Supercharging Your FinOps Practice

FinOps offers a foundation for getting started with cloud financial management, but it's not a one-and-done initiative. Its true value stems from an ongoing practice that ensures positive cloud transformation, governing both cost and usage in the short- and long-term. How will your organization make this work?

Key tactics have been proven to supercharge FinOps strategies, making the framework more sustainable and reducing cloud costs by up to 40% for Tangoe clients. These are three pragmatic considerations for practitioners activating a FinOps plan.

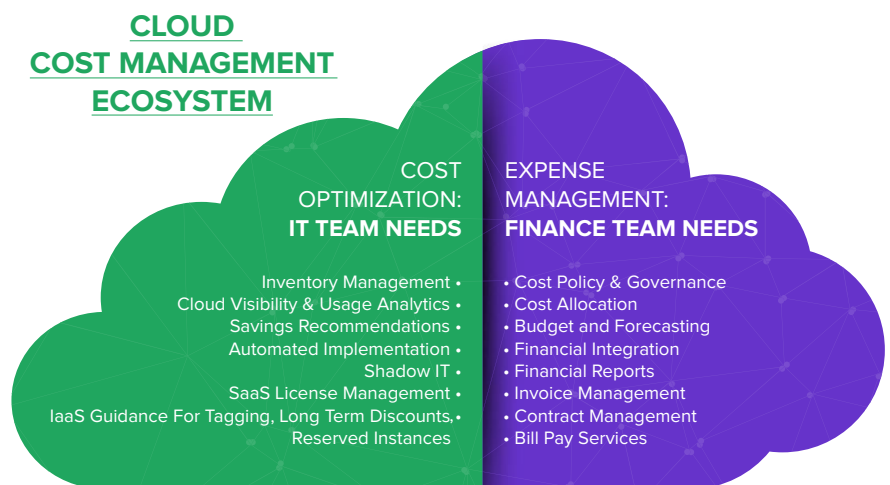## Supercharge Strategy #1: Consider Your Tooling Approach

FinOps must be operationalized through advanced technologies that provide deep visibility and insight into cloud usage data and spending trends, with AI capabilities for both number crunching and automation. Results (and the speed of them) can vary drastically depending on whether you choose to build or buy a centralized FinOps technology platform. In fact, industry analysts discourage a do-it-yourself approach. **"DIY tooling is on the rise. At Forrester, we vehemently dissuade FinOps teams from taking this route because of the level of complexity and the number of person-hours required to maintain it,"** said Forrester Senior Analyst, Tracy Woo, as stated on her blog.

Bottom Line: Operationalizing FinOps insights is key, and determining the right path for your organization ensures success at the onset. Don't let DIY jeopardize your cloud ROI.

Supercharge Strategy #2: Consider How to Satisfy All Stakeholder Needs in One Solution

Under the FinOps framework, there are always overlapping needs and interdependencies among IT, finance, and other stakeholder teams. When these teams can synergistically operationalize FinOps, they'll be faster and more effective at capitalizing on the cost savings opportunities that a FinOps practice evokes.

This is another reason to lean toward a single, managed service, which leverages a centralized system to address in unison the vast needs across the two areas of cost optimization and expense management. A central control system combined with organizational alignment for IT and finance calms the chaos of cloud complexity, paving the way for comprehensive success for the entire cloud cost management ecosystem.

CLOUD COST MANAGEMENT ECOSYSTEM

COST OPTIMIZATION: IT TEAM NEEDS

- Inventory Management
- Cloud Visibility & Usage Analytics
- Savings Recommendations
- Automated Implementation
- Shadow IT
- SaaS License Management
- IaaS Guidance For Tagging, Long Term Discounts, Reserved Instances

EXPENSE MANAGEMENT: FINANCE TEAM NEEDS

- Cost Policy & Governance
- Cost Allocation
- Budget and Forecasting
- Financial Integration
- Financial Reports
- Invoice Management
- Contract Management
- Bill Pay Services

Supercharge Strategy #3: Consider How AI can Hyper-Automate Your FinOps Practice

Have you considered how Artificial Intelligence can hyper-automate the work necessary in supporting your FinOps strategy?

This goes beyond table stakes capabilities like AI-driven cost savings recommendations. Robotic process hyper-automation, or "hyper-RPA," is next-level AI that expands automation across the broadest range of FinOps tasks and workflows. Thus, it can drive cost optimization and process efficiencies simultaneously. For example, auto-implementing cost savings recommendations while effortlessly aligning and streamlining processes that accelerate application license management, infrastructure invoice processing and cost allocation, as well as contract management. Hyper-automation improves IT and financial operations at a higher level.
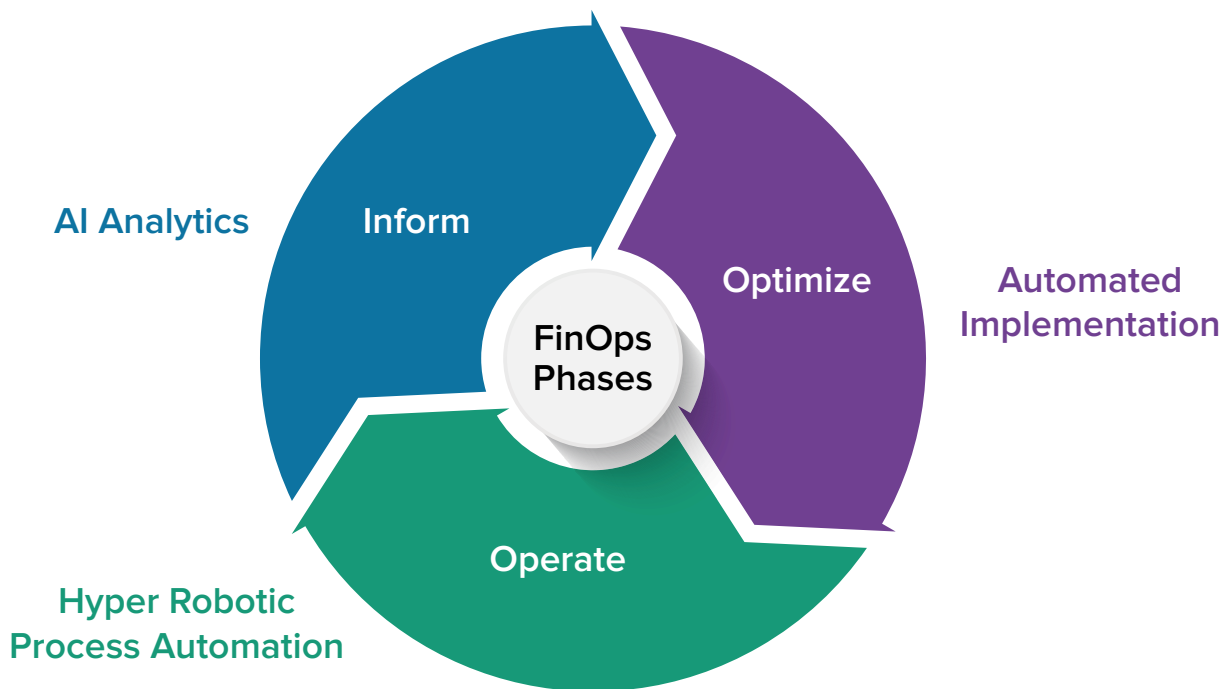
Source: FinOps Framework "3 Phases" by FinOps Foundation

Conclusion:
FinOps Activation = Unencumbered Cloud Innovation

The cloud offers unparalleled opportunities for business innovation and growth; however, the financial and economic challenges associated with cloud computing have highlighted the urgency of efficient cost optimization. The FinOps framework answers this call by providing a proven discipline, guiding companies in how to reduce spending and harvest maximum value from their cloud investments. The three FinOps phases are designed to overcome visibility challenges, remove waste by more closely aligning cloud resources with business needs, and implement ongoing governance programs.

But to harness the full potential of FinOps and achieve sustainable results, practitioners must face **three pragmatic considerations.**

1. First, the decision of how they will tool a centralized technology platform supporting FinOps.

2. Second, how they will create a synergistic execution unifying all stakeholder teams and satisfying their vast requirements in one comprehensive solution.

3. Lastly, leveraging AI for hyper-automation to accelerate both IT and financial operations.

When ROI shapes strategic investment decisions, FinOps emerges as the linchpin for those seeking to overcome the economic realities of the cloud. Effectively operationalizing it ensures that companies not only weather these challenges but thrive, innovating unencumbered in today's cloud-first world.

Tangoe One Cloud: The Smartest AI-Powered FinOps Solution

Managing cloud costs is no different from managing any other type of technology costs, and Tangoe pioneered technology expense management more than 20 years ago. Today, our deep expertise is powered by an automated technology platform layered with AI for the smartest approach to cloud cost control. When it's time to put FinOps strategies into action, Tangoe offers the widest cloud visibility in the industry and the broadest choice and flexibility in cost management. We save companies up to 40% on their cloud costs and take your savings further with telecom and mobile expense management.

Start your Proof of Concept today!

Learn more at Tangoe.com/cloud

About Tangoe

Tangoe is the leading technology expense and asset management solution. Tangoe seamlessly integrates with hundreds of providers globally to deliver the reporting and insights needed by enterprises of all sizes and scales. Fueled by an innovative automation framework and unified customer experience, Tangoe optimizes spend and resources across telecom, mobile, cloud, and IoT. For more information on the power of Tangoe and how it can transform your business, visit www.tangoe.com or connect with the company on LinkedIn and Twitter.