

# The FinOps way: How to avoid the pitfalls to realizing cloud's value

Moving early and understanding what drives the greatest value matters the most.

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**In their drive to move to cloud**, organizations are running into expensive pitfalls. While there is often a broad range of reasons for these setbacks, many can be traced back to immature cloud financial management capabilities, known as FinOps. As a result, organizations often make costly decisions about their cloud consumption. This is particularly troublesome in current macroeconomic conditions, where organizations have even less room for mistakes.

While FinOps is most effective when organizations implement it from the start, using it at just about any point during a company's cloud migration journey delivers significant benefits. Organizations that use FinOps effectively can reduce cloud costs by as much as 20 to 30 percent.

To better understand where the FinOps pitfalls are in the cloud migration process, and how to avoid them, we conducted a survey of more than 200 business executives and identified five common pitfalls on the journey to unlock value from cloud.

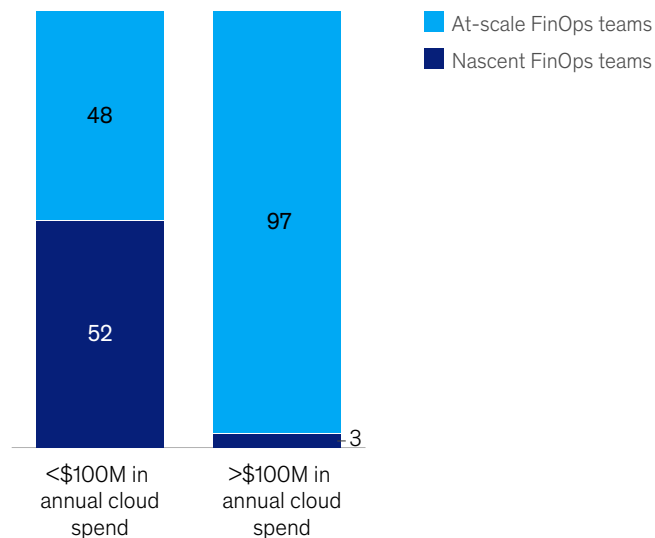
### 1. A wait-and-see strategy can be costly

When adopting cloud, the technical challenges of setting up the cloud program, including revamping the architecture with minimal disruption to existing workflows, overwhelm many organizations. The immediacy of these challenges often crowds out the importance of establishing FinOps capabilities. In fact, as many as half of the organizations we surveyed delayed establishing mature cloud financial management practices, such as granular visibility into spend, governance, forecasting, and optimization, until their annual cloud spend had reached \$100 million.

Most enterprises would benefit greatly from introducing FinOps capabilities early in—or even before embarking on—the cloud journey. The longer a company waits to implement FinOps, the greater the cost and effort it takes to move away from a data center mentality and toward cost-effective cloud consumption.

## Enterprises often don't develop at-scale FinOps capabilities until cloud spend hits \$100 million per year.

Type of FinOps capabilities by cloud spend, %



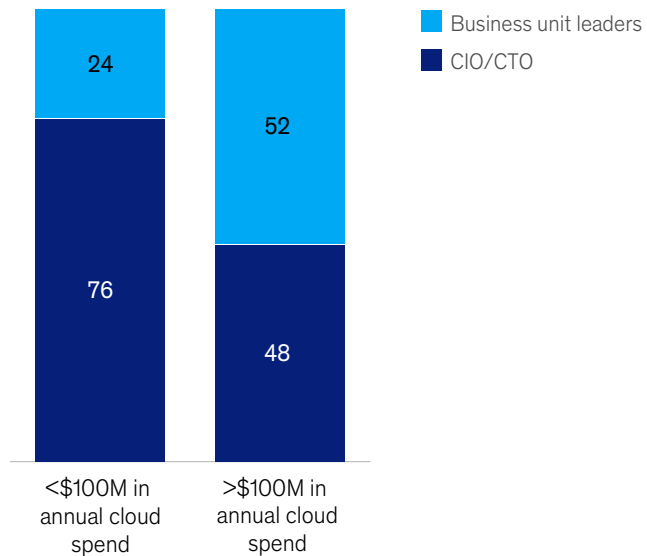
## 2. Business executives get involved too late in the game

While many business leaders celebrate cloud's capabilities and potential, most still tend to think of it as an "IT project." As a result, CIOs typically are at the helm of cloud programs, often without adequate engagement from the business side, such as CFOs, chief procurement officers, and business unit leaders. Our survey indicates that only when cloud program costs are more than \$100 million annually do business leaders get meaningfully involved. That's too late, because the learning curve in understanding cloud's economics and how to unlock its advantages in driving business benefits is significant. The longer it is delayed, the greater the "capability debt" (behaviors that need to be changed) that results.

Organizations that successfully capture value from cloud often invest in building effective cloud consumption capabilities with clear sponsorship from key business leaders from the start. In fact, our survey data shows that when business executives are engaged in their enterprise's FinOps practices, cloud waste is reduced.

### Business executives don't get meaningfully involved in FinOps until cloud spend is more than \$100 million a year.

Accountable executives across cloud spend, %



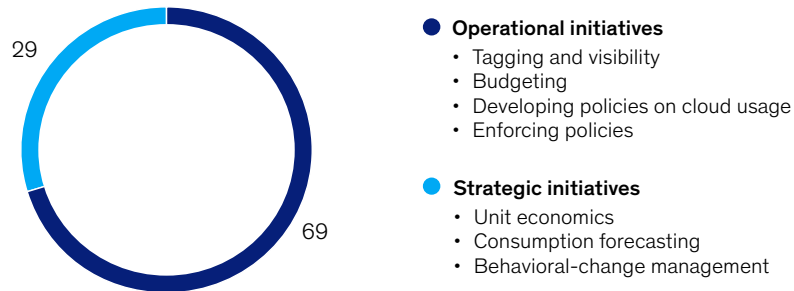
### 3. Tactical activities are prioritized over higher-impact strategic initiatives

According to one tech leader: “[Our FinOps team] is 80 percent focused on operational and 20 percent on strategic initiatives, but we’re moving to shift that to a 60–40 mix to achieve greater impact on the business, spend, and organization.” This is far from an isolated example; many FinOps teams in our survey focused on largely operational activities such as tagging and contract management. A much greater prize, however, lies in supporting more strategic programs such as providing unit economics, delivering accurate forecasts, guiding change management programs based on greatest value potential, and optimizing cloud spend practices for the entire enterprise.

FinOps teams could provide a product team, for example, with visibility on cloud spend to improve its understanding of product margin or to build a more informed product business case. Cloud FinOps might also help with sustainability decisions (a critical priority for 30 percent of IT leaders, according to a CloudBolt survey<sup>1</sup>) by assessing and prioritizing migration to the cloud of workloads that accelerate the shutdown of on-premises data centers.

### FinOps should drive strategic initiatives as well as operational tactics.

Distribution of initiatives driven by FinOps teams, %



Note: Figures do not sum to 100%, because of rounding.

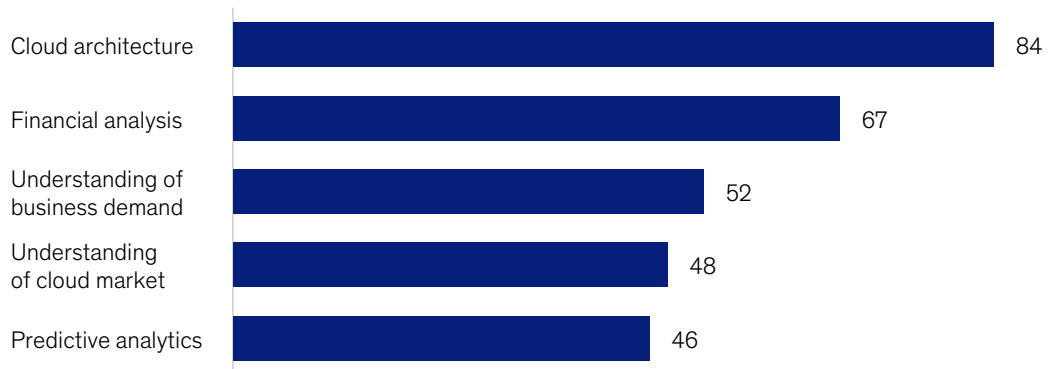
<sup>1</sup> CloudBolt Industry Insights Report: The truth about IT sustainability, CloudBolt Software, September 2021.

#### 4. FinOps teams often lack crucial skill sets

Traditionally, FinOps teams have been made up primarily of cloud architects and financial analysts. This skill set is a crucial foundation, but for FinOps to deliver broader values to the business, their teams will need a wider range of capabilities. Only 46 percent of the enterprises we surveyed were adept at predictive analytics, for example, even though most of our survey respondents cited better forecasting as a top need. Effective FinOps teams require a diverse array of predictive analytics skills to understand future demand, estimate unit economics for cloud usage, holistically optimize resource consumption, and induce change in organizational behavior.

#### FinOps teams need a broader array of skills to be effective.

Skill sets present in FinOps teams today, % of teams



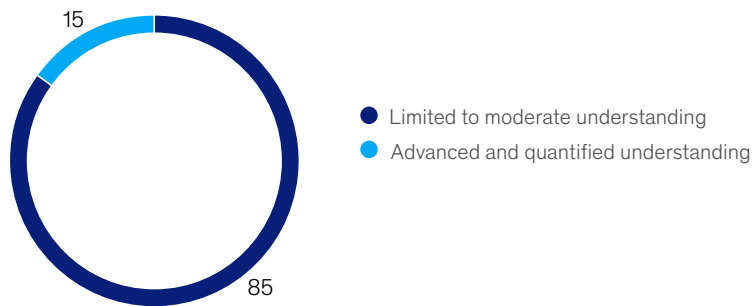
## 5. Companies have a limited understanding of cloud unit economics

The ultimate goal of FinOps is enabling organizations to derive business value from cloud. To do so, they need to understand the relationship between cloud consumption costs and business value generated by any given use case (for example, the cloud cost associated with one transaction or serving one user). This understanding of unit economics can allow business leaders to make better and more-informed decisions. Organizations that know their cloud unit economics, for example, can determine the breakeven point between the net additional sales generated from running an online promotion and the corresponding cloud costs to determine if the investment is worth it.

Most enterprises, however, are behind the curve on establishing an in-depth understanding of their cloud unit economics. In fact, only 15 percent of enterprises from our survey can establish a clear relationship between cloud costs and business value at the use-case level.

### Only 15 percent of companies have sufficient understanding of cloud unit economics.

Level of understanding of cloud costs and business value, %



FinOps is as much a mindset as a technical capability. It enables companies to unlock maximum value from cloud consistently and continuously, not just in cost savings but also in growth and innovation. For this reason, companies need to treat the development of advanced FinOps as a top business priority.

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