

On the money

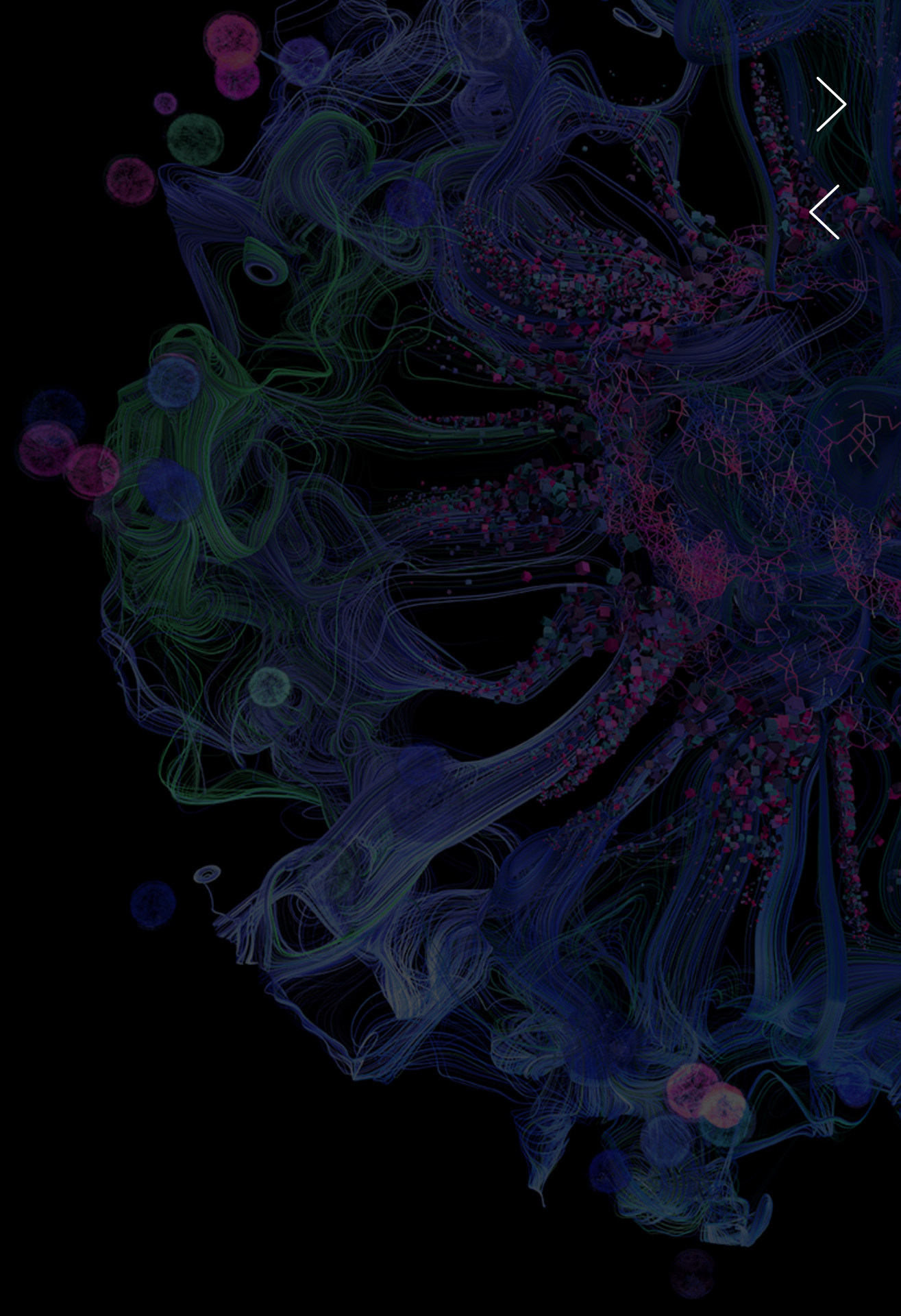
A blueprint for improving
cost financial management
in the cloud

August 2022



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Why smart FinOps is a value maximiser

The true benefits of the cloud can only be realised if organisations manage its adoption without any cost mismanagement or blowouts.

This decade, almost universal cloud adoption is expected as organisations embrace this virtual phenomenon, allowing them to benefit from notable improvements in staff productivity, operational resilience and business agility. Yet, despite the benefits, cloud transformation programs face financial challenges as IT teams procure, manage and improve cloud services. A lack of governance and financial guardrails often causes cloud overspending because of an over-allocation of cloud resources, while poor cost visibility can hurt accountability and decision-making.

Market intelligence firm IDC reports that organisations are, on average, wasting at least 20 per cent of their public cloud spending, a reality check that was expected to see them increase investment in public cloud cost management, with the goal of cutting cloud waste in half in 2022.¹ This puts cloud financial management (CFM) clearly on the agenda.

Practising financial management and cost optimisation in the cloud – also known as FinOps (Financial Development Operations) – has become the norm as part of a sophisticated cloud strategy, with IT and leadership teams appreciating that traditional IT financial management processes do not translate well to the cloud world.

Organisations that develop mature FinOps capabilities get clarity around current and projected cloud costs and can link them to broader business outcomes and revenues through unit economics by analysing cost-to-revenue ratios per unit (per customer). These metrics help companies get a clearer picture of their business processes and financial performance and collaborate on data-driven spending decisions to maximise the business value of cloud products.

In Deloitte's experience, organisations that adopt mature CFM practices know that economic success and business value maximisation with cloud adoption requires a culture of accountability, collaboration, and financial governance.

¹ IDC FutureScape: Worldwide Cloud 2021 Predictions, December 2020, <https://www.idc.com/research/viewtoc.jsp?containerId=US46420120>

The financial challenge

Many organisations moving to the cloud do so with the expectation of immediate economic benefits. Indeed, they pursue the cloud with cost optimisation as a primary objective. The reality is often different, with IT departments desperately trying to dictate cloud spending and balance financial targets with technology capability and capacity.

The shift from a centralised fixed-cost model in traditional data centres to a decentralised variable-cost model in the public cloud complicates procurement approvals and cost-control processes. Ultimately, this can slow down innovation and increase the difficulty of keeping cloud costs under control.

The absence of appropriate financial controls can result in engineers accessing cloud resources on demand and unchecked, which can in turn lead to systems having unnecessary capacity and features. Too often, company money is spent at the click of a button on capability and capacity that may not be required.

As the cloud landscape evolves from monolithic workloads to serverless and microservice architectures, new complexity arises for application owners to provision and manage cloud resources at scale. A range of changing cloud offerings in the market can quickly increase monthly bills if principles of performance, reliability, and cost are not balanced when deploying cloud services. Reduced cost visibility, low automation, and a lack of monitoring can also threaten outcomes if anomalies or misconfigurations occur.

Key takeaways from the 2022 State of the Cloud Report by Flexera include the fact that 59% of organisations planned to optimise cloud costs in 2022, making it the top cloud initiative for the sixth year in a row.²

² Cloud Computing Trends, Flexera 2022 State of the Cloud Report, <https://www.flexera.com/blog/cloud/cloud-computing-trends-2022-state-of-the-cloud-report/>

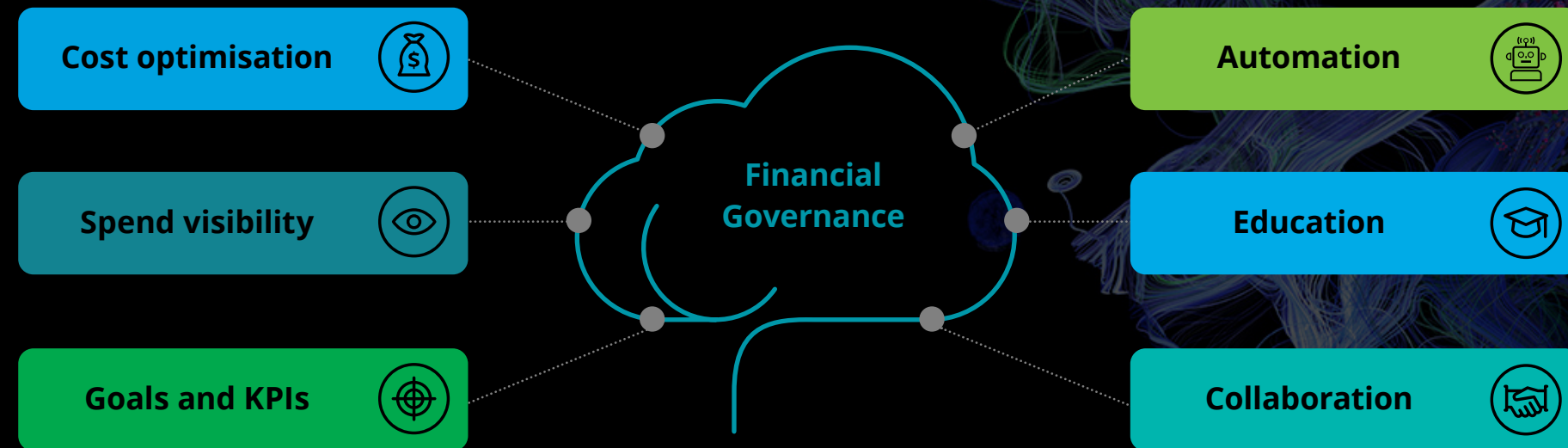
Defining the case for a FinOps practice

Cost-management is a strategic issue and needs to be continuously managed and enhanced in the context of an organisation's entire business model. Identifying, predicting and optimising costs in the cloud requires accountability and clear collaboration and communication between finance, procurement, technology and business leaders as they weigh up financial guidelines, business value and organisational goals. This is where FinOps comes to the fore.

Companies implementing a FinOps operating model to managing cloud costs are thriving in this new IT environment as they balance agility, quality and control. They are analysing and evaluating cost information based on cloud metrics, which allows them to get valuable insights and make intelligent value-based decisions. They are promoting collaboration among teams and disciplines. They are navigating the procurement complexity that the cloud introduces by balancing proactive financial discipline alongside the more holistic value drivers of service, innovation and risk. Furthermore, they are constantly getting rich operational and financial insights through increased cloud spending visibility and accountability.

The upshot is that they can easily find new opportunities to increase business value and create a significant competitive advantage due to the successful implementation of cloud strategies. The execution of optimisation programs also enables the business to reduce cloud spending and invest more in innovation and new projects.

IDC predicts that by 2023, 80% of organisations using cloud services will establish a dedicated FinOps function to automate policy-driven observability and optimisation of cloud resources to maximise value.³



³ IDC FutureScape: Worldwide Cloud 2022 Predictions, October 2021, <https://www.idc.com/research/viewtoc.jsp?containerId=US47241821>

Informing, optimising and operating in the cloud

Organisations that successfully deploy a FinOps operating model to manage their cloud spending typically progress through three distinct phases to evolve the financial practice over time. The most successful organisations take a Crawl, Walk, Run approach and increase maturity each time they go through the lifecycle.



PHASE 1 **Inform**

In the first phase of the FinOps lifecycle, FinOps practitioners conduct several incremental activities to allocate and forecast cloud spending and understand its drivers via KPIs. The actions of this phase provide high-quality information that allows for accountability and real-time decision-making in later stages. Application owners get detailed visibility of their costs and usage thanks to a clear tagging strategy on resources.



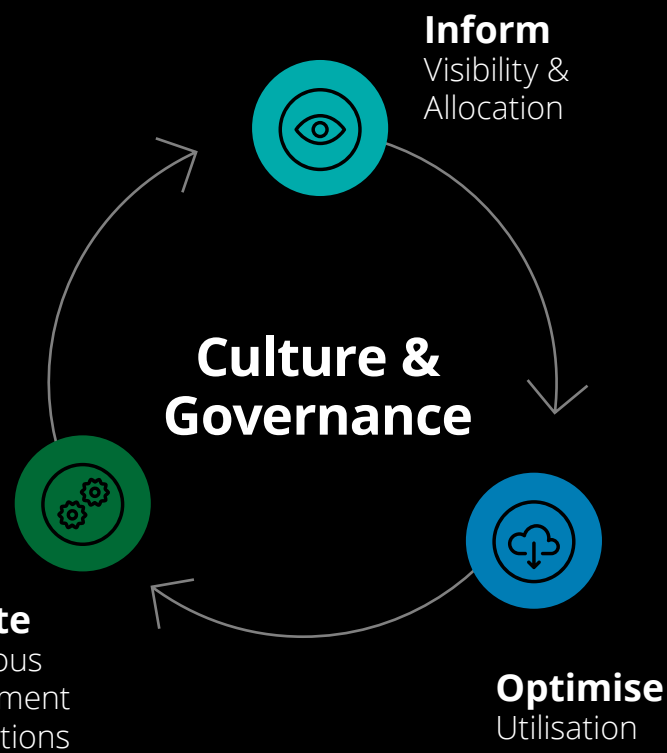
PHASE 2 **Optimise**

Transparent cloud spending information at this part of the FinOps journey empowers practitioners to define cost-avoidance and cost-optimisation targets, including the usage of cloud resources efficiently and selecting the suitable pricing model for each cloud environment and vendor. This phase also includes setting out processes to detect anomalies and unusual cost spikes. Other optimisation opportunities can be identified, such as tax deductions and cash tax savings, government grants, tax credits and incentives.



PHASE 3 **Operate**

IT, finance, procurement and business actions are executed to achieve business goals. The definition of control and governance for cloud usage is outlined, and existing traditional processes are transformed. FinOps practices are used to onboard new workloads, and collaboration to scale operational efforts through automation and continuous improvement becomes essential to develop the CFM practice.



Are you ready to take advantage of the cloud?

Despite the headwinds and challenges outlined, it is possible to take advantage of all the cloud's benefits while managing spend better. Culture and governance form the core that holds a FinOps program together and when done properly, ensure the financial success of cloud-transformation programs. By contrast, a failure to implement economic principles in the cloud-transformation journey can curtail benefits, reduce operational margins and stall innovation.

At Deloitte, we believe a balanced approach featuring speed, cost controls and quality is needed to address specific challenges with cloud costs and strategy. Likewise, appropriate value-based trade-offs and decisions are crucial as part of an organisation's transformation.

Deloitte's cloud cost-management offering focuses on rigorous financial governance, a cost-conscious culture, smart use of tools and frameworks, and well-informed

advice on industry best practices. In doing so, we strive to help our clients navigate their cloud journey, manage and improve their IT spending, make informed business decisions, and maximise the value of their cloud ecosystem.

Our CFM capability framework aligns with a broader group of related Deloitte cloud services and solutions, including Cloud Business Transformation and Cloud Operate services. That means we can help you manage cloud costs within the wider context of your business.

Our framework includes a suite of tools and accelerators to help you prepare a cloud total-cost-of-ownership analysis that spans software, hardware and labour costs over a five-year period.

These CFM services are supported by other Deloitte services such as tax and accounting advisory and they fully leverage Deloitte's status as a premier member of the FinOps Foundation.

It's time to build your cloud possible.

Stay connected and find out more

Cloud & Engineering Strategic Advisory

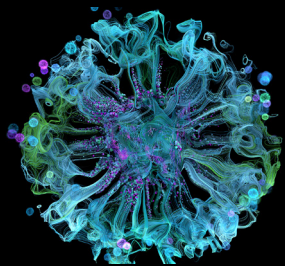


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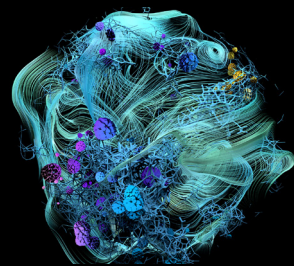


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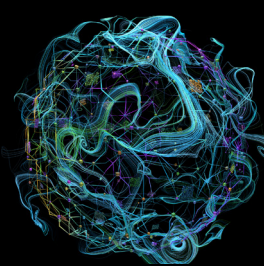
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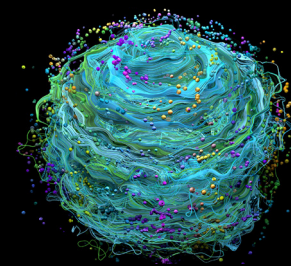
Cloud Imperative
report



Building your cloud
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“Cloud isn’t just a future technology. It’s driving business and government right now – and making what once seemed impossible, possible. Organisations can embrace cloud to respond to external disruption, and instigate industry-wide improvements and necessary transformation. Our latest research says many organisations are unable to adapt, or respond quickly, to challenges. Cloud is the key – and it’s great to see investment in cloud is soaring. I’m really excited about the role cloud plays, and will continue to play, in improving the way we live and work.”

Dan Newman

Partner, Cloud Transformation Leader,
Deloitte Asia Pacific



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