



The Deloitte On Cloud Podcast

David Linthicum, Managing Director, Chief Cloud Strategy Officer, Deloitte Consulting LLP

Title: FinOps: It's how to bring cloud costs under control

Description: As cloud matures, managing cloud costs has become a top priority for many organizations. That's where the new discipline of FinOps, or financial operations, can help. The goal of FinOps is to help companies manage and maintain accountability for cloud usage and costs. In this Knowledge Short podcast, David Linthicum explains what FinOps is, how it can help companies control cloud costs better, and how culture change and automation play a key role in FinOps implementation.

Duration: 00:14:03

David Linthicum:

Welcome to this Deloitte On Cloud podcast. I'll be exploring a specific topic related to cloud computing. This is a short tutorial talking about the real-world concepts in the emerging world of cloud computing. I'm your host, Dave Linthicum, cloud computing subject matter expert, author, speaker, and managing director with Deloitte Consulting, and this is FinOps.

So, FinOps are financial operations as another ops word. We have DevOps, we have SecOps, security operation, we have governance operations or GovOps, and then cloud ops. Lots of ops stuff in the industry of cloud computing. Some of it's more tightly coupled with cloud computing and other concepts, but

FinOps, or financial operations, is a framework for managing operating expenditures, or OpEx, in the cloud. It's the goal of FinOps to help cross-functional teams or even within the same organization maintain accountability for cloud services, costs, usage, things like that.

And, so, we're starting to look at this as a discipline because, quite frankly, a lot of companies, certainly over the pandemic, got some large cloud bills that they would like to manage a bit better. So, FinOps is about doing that. FinOps is about looking at—across the organization, putting in organizational discipline, even affecting the ops model of an organization, to figure out how to optimize the cost of cloud computing and control the costs more so than they did in the past. So, that's really what FinOps is.

Now, FinOps, by the way, is also a foundation. It's a nonprofit trade association whose members include multiple companies who are interested in participating in FinOps. A lot of vendors who sell cloud usage and cloud governance, cost governance monitoring tools, things like that, of course, are in the FinOps Foundation. But you can look on their website and figure out what they are and whether or not it's something you want to participate in, but it's a concept, and it's an organization, and we're going to talk about the concept in this podcast.

So, some of the best practices that people are talking about when it comes to FinOps include three phrases that many are putting forth as the way in which we're defining FinOps, and certainly the FinOps Foundation is one of those organizations that's promoting these, and they include inform, optimize, and operate. Inform meaning we're going to allocate, benchmark, and forecast cloud service needs, and so we're doing reporting; we're understanding how we're spending; we're understanding who's spending what, who's using what, and how they're using what, and how that goes against the SLAs and service level agreements, and other terms that we may have in our cloud computing relationship or cloud computing contract that we have with a particular cloud provider.

Optimize means that we're going to just do that. We're going to optimize the service needs of the company for discounts and making sure we're using reserved instances whenever possible in order to get the cheapest, but most optimized rate. Keep in mind that you'll hear people talk about FinOps as the ability to become cheap with cloud. That's not really what it's about. It's about the ability to optimize your cost spend as it's related to utilizing cloud-based resources. So, optimize is the key term there, and it should be part of your FinOps practice. And then operate, continuously evaluate performance of cloud services against business objectives and doing so for speed, quality, and costs.

And, so, in other words, we're trying to optimize the costs, optimize the usage, and we're trying to optimize the operation and continuously evaluate the performance of these cloud services and making sure that we're comparing them against SLAs, we're getting the performance that we agreed upon, getting from the particular cloud providers, and if we're not, there's some sort of discount to be had or some sort of a cost reduction that can be had from that. So, kind of keep these in mind. So, if you think about FinOps, it's inform, it's optimize, it's operate.

So, FinOps is a buzzword that is really getting overloaded out there and is meaning many things. Many times, it's referred to as cost governance, and it's really more than that. It's referred to as just a technology and tools approach. It's referring to as something that's dealing with culture and communications, and it's really all of that. So, you have to keep in mind that FinOps really can't be boxed into a particular usage. It's a concept that comes in the fact that we're going to have discipline, we're going to have automation, we're going to have tooling to figure out how we're going to manage and optimize our cloud spend.

And, so, how we do that is really kind of under the bucket of what FinOps is, so it's consistent of all those things: culture, operation models, skills training, organization structures. All these sorts of things—tooling, monitoring and management, reporting, planning, all these things that come around the discipline of how we're going to plan the cloud spend.

So, FinOps is related to cloud financial management, and, ultimately, we look at it as a collection of best practices, of tooling, of technology patterns, of different models, and how we kind of pull this stuff together. And, so, it's coming in as something that's going to be typically in the IT organization, in many instances, it's going to be in the cloud business office, or the CBO. In other words, a special organization that's set aside to deal with cloud costs and negotiate the contract with the cloud providers, monitor usage, report usage, govern usage, restrict usage in many instances, and make sure we're adhering to some sort of a master budget that's rolling up into the financial organization. In many instances, the cloud business office may report to executives. They report to the CIO—who manages the IT services—and they may report to the CFO, who manages the accounting services and basically has his or her hands on the purse strings of the company.

So, you have to remember that there are larger, more valuable concepts in the FinOps strategy, and the biggest thing I like to point out is, number one, the organization and culture changes. So, we often go directly to lots of technology can solve our problems, and I'm not sure that's going to be the case with FinOps. This is about changing the culture of the organization and getting into some of the deeper politics that the organization has and how we deploy FinOps tracking, reporting, controls. And you have to make the tough calls in who should be doing this, how it should be centralized, and how those controls and those governance systems should be carried out.

You've got to remember that we're putting, in many instances, restrictions on spending. We're saying that you can't spend as much as you want on cloud-based storage or cloud-based compute. And we have budgets that are built into the cloud, to the cost governance systems which will actually bring you up to the edge, warn you when you're approaching the limits of your budget, and then at some point in time, you're going to have a discussion with the cloud business office, or even CFO, on why these costs are much greater than we originally thought they were when we entered them into the budget.

So, who's going to do it? Who's going to set them up? Who's going to make sure we're setting appropriate policies? In other words, we're not putting too narrow of a limit on spending. In other words, the developers and people who are operating the clouds are able to do what they need to do to take the business to the next level, and we're also going to be working and playing well together. People, I think, look at FinOps as something that's going to be a pain because it's going to limit their use of resources. The reality is that it's good having these guardrails on spending so you're not getting in trouble in many instances.

I've done this a few times in my career when I've had to pay for timeshare services back in the day where I went over the usage or the application did something that burned a lot of CPU cycles, and had to pay for those, and obviously went over budget. Got in a bit of trouble for those, and it would have

been nice if there was some monitoring mechanism that was looking at what resources I was using and made sure I was aware that these resources were coming to the limitations that we were likely going to be coming to and that I was in danger of overspending, and it would have kept me out of trouble.

So, I kind of look at these things as a positive thing. Certainly, if my costs are being governed, the onus is on the cost governance system to make sure I don't go over budget. Even though I need to work this as a good actor and a good corporate citizen, something else is monitoring that for me because I don't want to be concerned with how much I'm spending if I'm a creative person and developers building something for the company.

So, next we have automation, which we define in FinOps as cost monitoring, controls, cost optimization. And in many instances, we used to, and even as short as a year ago, and many companies still do this today, we rely on human beings to sit down and monitor the cost consumption, the usage consumption that's occurring within a particular cloud provider that we're leveraging. We're getting reports on a daily basis as to what the utilization is, what the usage is, what resources are being used, who's using it, and then how much it's costing. That's very difficult for a human to do.

When you think about it, we have all these very complex arrays of things that are in play. We have SLAs, service level agreements. We have different terms via different contracts. In some instances, we have reserve instances, and they may have to be used within ten days' time, or ten weeks' time, or something like that. So, the only way you're going to do that as a human being is to automate that as much as possible. And, so, you're leveraging cloud tools, you're leveraging cost governance, you're leverage usage-based monitoring, you leverage all these various systems, whatever you need to run into your cloud spend and your cloud utilization to make sure that we know what we're spending and who's doing what with what, and we're able to solve issues before they truly become issues.

So, this ability into cloud provider agreements is also part of this. You've got to remember that most cloud providers have you sign different agreements for different purposes—in many instances different services. So, the old days when everything was just time-based billing, or resource-based billing, pretty straightforward, are kind of behind us because we're leveraging many million dollars in cloud spend. We've entered into these very complex terms, very complex contracts with these cloud providers. So, they specify you're going to sign an agreement how you're going to be billed. There's some straightforward things in there, such as hourly charges and the amount of data used or stored, but others are a lot more confusing and not fully visible to the processes, to the tools, and really to monitoring cloud spend.

So, you have to kind of build those into your automation as well. So, knowing that, if you use resources during off-peak time, we may have this built into our terms of agreement that we get a significant reduction in spend. And, so, we may want to work with the production team to make sure that we're scheduling production runs on off-peak hours to take advantage of the discount. All these things really kind of come into play, and as you can see, not technical, more business related. However, we are putting business restrictions on how we're leveraging technology, in this case cloud-based technology.

So, keep in mind that you don't want to overlook any of these key factors: cultural changes, optimization to costs, and the ability to kind of optimize how you're going to operate these things. And in many instances, you think they are easy to do, but as people have found out over the last few years, certainly as they've accelerated their push into the cloud during the pandemic, these costs are going to be fairly confusing, fairly difficult to track, and that many enterprises have gone off track and gotten huge cloud bills that they didn't expect. Therefore, you have to either go back with your hat in hand to your cloud provider and see if you can get some credits to offset the fact that you went way over budget, or do what most enterprises are doing: adopt processes, adopt a culture, adopt automation tools, adopt technology in terms of how we're going to put discipline automation around how we're tracking utilization of cloud costs.

That's what FinOps is as a concept, so read up on it yourself. Urge you to go read some articles on FinOps. I have a few that are out on infoworld.com if you want to check those out. But there's a lot of good thinking out there in terms of what FinOps is and how you can apply technology and how you can start a program in your own company. Take advantage of that.

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Operator:

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