The FinOps Case Files

The SoftwareOne Cloud Detectives and Apptio explore how unit economics can solve the mystery of connecting business value to cloud spend.

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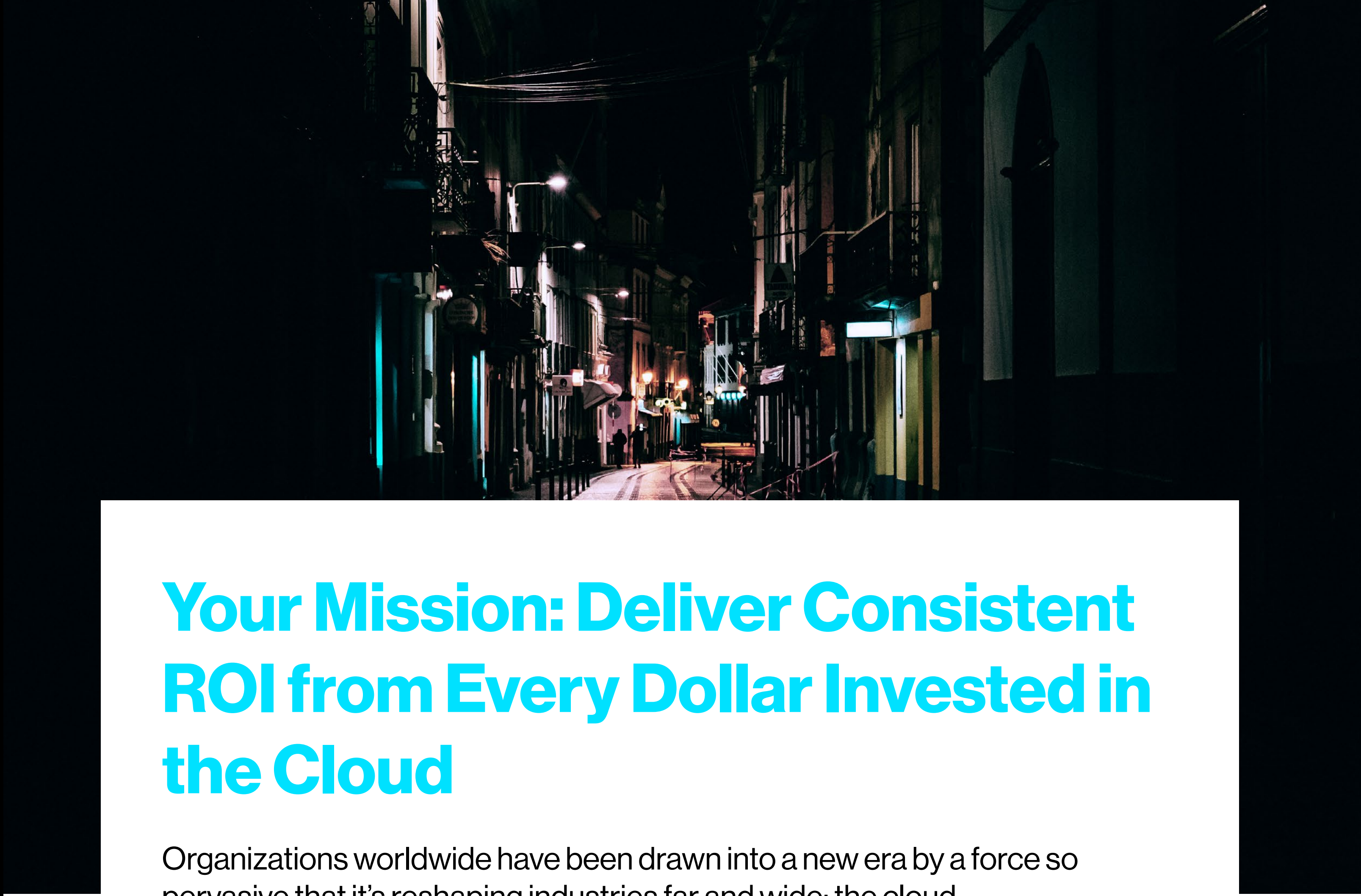


Your Mission: Deliver Consistent ROI from Every Dollar Invested in the Cloud

Organizations worldwide have been drawn into a new era by a force so pervasive that it's reshaping industries far and wide: the cloud.

Everyone—from SMBs to enterprises—is moving their IT infrastructure to the cloud in a race to stay ahead, make the next big thing faster, and run their operations like a well-oiled machine.

And the proof is in the numbers. In 2022, the dough spent on enterprise cloud services hit $1.3 trillion. And Gartner predicts that this number will hit $1.8 trillion by 2025.

However, not all cloud growth is purposeful. Many organizations find themselves in unfamiliar territory, wrestling with the catch-22 of balancing rapid innovation against spiraling costs and uncontrolled, unmanageable environments. According to witness reports, 36% of organizations say their cloud usage and costs are higher than planned due to economic uncertainty. And 9% claim that their cloud costs have shot through the roof.

IT teams are caught in the middle as they work to keep the digital engines running. The economic downturn is throwing a wrench in their gears, hindering their pursuit of growth and the ability to protect their organizations from the shady dealings of cyber crooks.

But here's the plot twist - IT teams aren't folding their cards. They're doubling down, investing in the tech they need to pursue digital transformation and drive the business forward. In fact, **57% of organizations plan to invest in the cloud to stay afloat during these rough economic waters**.

This shift from predictable, Finance-gated infrastructure procurement to the public cloud's democratized, consumption-based pricing model is a major shake-up in how businesses operate. Procurement decisions are now made hourly, not by seasoned finance vets, but by engineers and algorithms.

So, here's the million-dollar question: How do you keep these costs in check when the purchasing rules have been upended? That's where FinOps come in.

In this case file, you will discover:

- 4 keys to unlocking FinOps' full potential.
- Where to start your investigative journey to gain complete visibility into your cloud usage and costs.
- Ways Apptio Cloudability can help you accurately and automatically trace charges to the responsible teams.
- How to determine which unit cost metrics warrant measurement.
- The path that will lead you to the big FinOps payoff—unit economics.

Ready to solve this FinOps mystery? Read on to learn how to consistently deliver value for every dollar you invest in the cloud.

Don’t Get Thrown Off the Scent of Measuring Your Cloud ROI

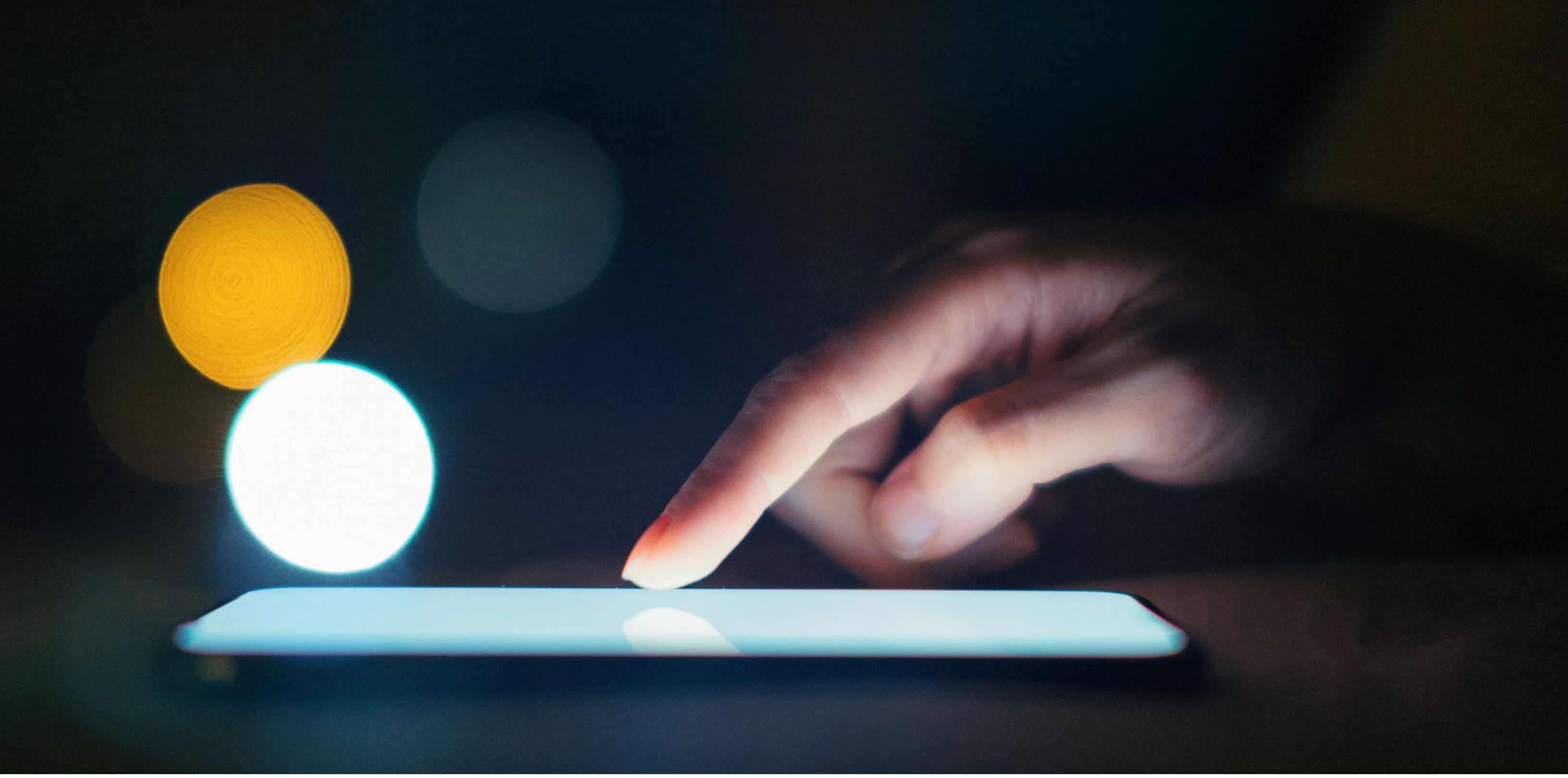
> "
> Organizations with little or no cloud cost optimization plans rush into cloud technology investments. They end up overspending on cloud services by up to 70% without deriving the expected value from it.
>
> Gartner, 2021
> "

The shift from on-premises infrastructure to public cloud has upended traditional purchasing models. On the on-premises beat, purchasing decisions are left in the hands of the top brass in IT and Procurement. It’s a slow dance of capital expenditure, lengthy processes, and countless checks and balances.

But the cloud is a whole new ballgame. Buying IT infrastructure, apps, and services is no longer about forking over a hefty upfront fee. You pay by the hour or minute, based on what you consume. Purchasing power isn’t locked up in the C-suite anymore. Engineers, developers, and even automated bots can get their hands on cloud resources when needed—no red tape, no delays.

Astonishingly, it’s often easier to spend $10K in the cloud than it is to buy a measly $10 mouse. To buy this mouse, an engineer must send a request to their boss. Then, they wait during a painstaking approval process. Finally, they get the go-ahead from Finance and can submit their receipt for reimbursement. But the same engineer can log into their cloud console and spend thousands of dollars, and nobody bats an eye.

Accountability for cloud usage is as elusive as a master thief in the night. But it’s not always out of neglect. The cloud is a hotbed for speed, agility, and innovation. These perks sometimes outweigh concerns about overspending, as engineers and developers can quickly get what they need to keep the gears turning.



But there's a catch. An engineer can rack up thousands of dollars in bills in no time. If everyone across your enterprise has the same privileges, you have a potential runaway train of uncontrolled spending.

This freewheeling, decentralized, consumption-based purchasing brings its own set of problems. Since most cloud customers consolidate their billing with each vendor, the raw billing data provides little insight into who's racking up the charges and how much each group is spending. Monthly cloud bills now routinely contain over a billion lines, each representing a resource for an hour. Forget about managing that mess with Excel. Consolidated billing also makes it hard to attribute costs to the right business groups. Resource tags in these bills help, but they never tell the whole story.

Your cloud infrastructure and resulting costs can get bloated—especially if teams overprovision resources or leave them idle. Sources have found that organizations that don't perform rightsizing waste more than 30% of their software and cloud spend.

If your spending soars too high, the top dogs will inevitably clamp down on developers and other cloud users. But that's like cutting off your nose to spite your face. It only slows your time to market and hampers your competitive edge.

And some organizations, especially in the education and government sectors, don't have the option to go over budget. They simply can't get the funds to foot the bill.

The cloud demands a new playbook. Your financial management and governance strategies must adapt to this new era.

Connect the Dots with FinOps

> "80% of IT leaders expect to increase their FinOps spending in the next year to gain clarity into and control over their cloud spend.
>
> SoftwareOne Cloud Detectives, 2023"

When you've got yourself cornered with no way out, you must find the right key to unlock the situation. That key is FinOps.

FinOps is a cloud financial management discipline and cultural practice that brings Engineering, Finance, IT, and other business teams together to make spending decisions based on cold, hard data.

Some folks have the wrong idea about FinOps. They think it's just cost optimization tools. But FinOps is much more than tools. It's an operating model that combines systems, best practices, and culture to help you better understand your organization's cloud costs, drive financial accountability, and maximize business value.

It's also a collaborative effort. Everyone in the game—including Engineering, IT Asset Management, and Finance—all share intel and take ownership of their cloud usage with support from a central best practices group.

So, what's the payoff for building a FinOps practice? According to a recent survey, **companies that adopt FinOps can see a 30% decrease in cloud spend upon implementation and a continued 15% savings over time.** FinOps can also help you:

- Drive financial accountability.
- Optimize your cloud costs.
- Extract maximum value from your cloud investments.
- Bolster your cloud security and compliance.
- Boost cloud efficiencies.
- Grease the wheels for your teams, improving workflows.
- Enhance operational resiliency.

Crack the Cloud Value Case with These 4 Clues

FinOps is the missing piece of the puzzle that will help you maximize the value of every dollar you spend in the cloud. With FinOps, you're not just surviving in this cloud era—you're thriving. And these four FinOps clues will help you unlock cloud's ultimate value:

1

Examine the crime scene: Understand and allocate cloud costs.

In the good old days of traditional IT, we knew the drill. Infrastructure was tucked away in data centers, bought and paid for upfront after Procurement had its say.

Now, the cloud is where the action is. Costs are no longer fixed; they're as variable as a street hustler's con game. While this transformation could mean a jackpot for businesses, it could also be a trapdoor to financial risks. The way forward? Assign cloud costs to business groups based on their consumption and ensure every dollar spent returns real business value.

So, where do you start? Examine the crime scene and gather intel. You need to understand the cost of each cloud service and application. In this new landscape, visibility is the name of the game, and you must match each penny spent to the responsible business unit.

Here are three keys to allocating all your cloud costs:

- Gather your witnesses.

  Think of your billing lines as your key witnesses and group them by application, project, team, or business unit. The guiding lights in this procedure are accounts (AWS), subscriptions (Azure), projects (GCP), and resource tags.

  Remember: Keep your eyes peeled on your "top-level" allocation. Put ownership protocols in place so you can tie each resource back to a business division. Once you've got this set, you can map further classifications and create a path to chargeback or showback. And don't forget your tagging strategy, as you can't retroactively apply tags in your billing data.

- Bring a partner into the case: Apptio Cloudability.

  Think of Cloudability as a trusted partner that has a toolkit with specialist instruments to harness your allocation strategy. These instruments enable you to normalize tag keys, group accounts, and apply business rules across all key billing attributes so that each witness is cornered. But don't stop with your public cloud bill; bring forensics to all cloud-related costs, such as observability solutions and third-party data warehouses. With Cloudability, you've got a hawk-eyed partner always watching your back.

- Don't let culprits hide in your Kubernetes (K8s) clusters.

  Containerization is growing in popularity across all public clouds, and it is important that culprits can't hide in your K8s clusters. You can think of each k8s cluster as a cloud inside a cloud, multi-tenant entities with their own resource management. Using Cloudability, you can automatically map your resource costs to each K8s cluster. Sophisticated forensic algorithms evaluate the underlying resource utilization—including CPU, memory, disk, network, and pod QoS configuration—to decode how you can divvy up each cluster's costs by K8s-specific constructs. Then, detailed container cost allocation data is integrated into the core analytics platform, creating a complete dossier for your allocation case.

2

Gather your evidence: Collect meaningful unit data that represents realized business value.

It's probably no surprise that to maximize business value, you need to find a way to measure it. But this can be elusive without a trained cloud detective. A "meaningful" unit is different for everyone. Here's why: Each team has its own agenda. Some may be customer-facing and focused on specific transactions, while others build shared platforms.

The trick is to find the units that most align with valuable business activity and for which you have data readily available. Some units may represent products sold to customers, while others relate to processing that may be a proxy for business activity.

You must weed through all the evidence to find the business outcomes that are the most important to measure. Luckily, the experts at Apptio can help with this forensic work.

So, what are some good examples and data sources? You can start with your customer interactions. If you are an insurance company, do you have access to how many policies are signed each day? Are you tracking new loan submissions if you are a bank or videos streamed if you are a digital company? Can you tie internal processing to business activity? Are your number of log files processed or database transactions relevant? For Apptio, measuring the billing lines processed each month was a great "business activity proxy" for ETL systems.

3 Deepen your investigation: expose unit cost measurements to track relative efficiency and propel action.

Rising cloud costs aren't always the villain they're made out to be. Increased cloud usage might be due to success in signing more customers or sparking innovation that is helping you gain a competitive edge.

The key is understanding the who, the what, and the why behind those climbing costs. Your costs could skyrocket due to many factors—such as expiring commitments, increased user activity, or changes in how you provision resources. Simply put, you can ask if the changes in costs are a good or bad thing.

That's where unit cost metrics come into play. With a little sleuthing, you can allocate all costs and align unit data with business outcomes. By bringing these two pieces together, you can now measure the cloud cost per insurance policy, mortgage application, video streamed, or billing line processed. These unit cost metrics are a true measure of relative efficiency that help you adapt your cloud deployments to changing economics and guide your engineering priorities. Each unit cost metric is like a piece of a puzzle. Together, they provide a clearer picture of your cloud landscape.

> "Mature FinOps practices measure unit costs across more business areas to better understand the cloud's value."
>
> FinOps Foundation

4 Crack the case: Apply unit economics and margin analysis.

Unit economics is the big payoff of FinOps. The FinOps Foundation defines cloud unit economics as a system of profit maximization that measures how well your organization performs against its FinOps goals and as a business overall. It measures the marginal costs, or unit cost metrics, tied to the development and delivery of cloud-based software and marginal revenue.

Unit economics is a natural extension of unit cost measurements. The focus is on what you produce as a company as it appears “above the line” on a profit and loss statement. For example, if your primary revenue is software subscriptions via SaaS, cloud costs could be a direct cost (COGS) of delivering that service. Your unit economic metrics could be “cost per customer” and “margin per customer.”

But here’s the cold hard truth: Many FinOps teams chase the elusive goal of cloud unit economics, but only a few get their hands on the prize. Even big-shot organizations struggle to crack the enigma of cloud unit economics.

Look at the stats: a meager 7.5% of organizations have reached the high-stakes unit economics phase of FinOps maturity. Meanwhile, a whopping 67% are still crawling through the early stages.

Case Resolution

The evolution of cloud economics feels like a classic whodunit. As IT teams walk the tightrope between rapid innovation and spiraling costs, they face a puzzling case: How do you rein in the expenses when the rulebook has been tossed out the window?

A FinOps practice can help you dissect your cloud spending and ensure every dollar packs a punch. You can leverage unit cost metrics to measure cost efficiencies, while Apptio Cloudability can help you not only surface these values but also bring financial accountability to all cloud spend.

By piecing together all the clues, you can transform public cloud from a runaway cost train into a powerhouse of efficiency and innovation. Just remember that FinOps is an ongoing practice that optimizes your cloud usage and costs over time. To succeed with FinOps, you must play the long game. The detective's work is never done.

Your 3-Step FinOps Action Plan

1. Further your FinOps investigation. Check out these resources from the SoftwareOne Cloud Detectives.
2. Join the leading organizations that have reduced their annual IT spending by more than 25%. Book your SoftwareOne FinOps Discovery session now.
3. Start your free trial of Apptio Cloudability to decode insights that help you eliminate waste and optimize your cloud resources.

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