Is FinOps the Answer to Cloud Cost Governance?

Lydia Leong

Initiatives: Executive Leadership: Cloud for Business Enablement; Sourcing, Procurement and Vendor Management Leaders

Executive leaders need to set the business priorities that drive cloud cost governance. This should be a cross-functional collaborative activity, rather than the responsibility of a dedicated cloud financial operations team.

Quick Answer

Is FinOps the answer to cloud cost governance?

- Executive leaders should sponsor a cloud operating model that implements a cross-functional cloud economics practice that encompasses the three key IT finance pillars of IT financial management, cost management and demonstrating the business value of IT. Cloud financial operations (FinOps) is only part of what is necessary to ensure that the organization maximizes the business value it receives from its cloud expenditures.

- The cloud economics practice must be a collaborative activity across many organizational functions. Contrary to what some vendors of cloud cost management software advocate, it should rarely be the responsibility of a dedicated FinOps team. However, executive leaders must ensure that the necessary skills and tasks are incorporated into other job roles.

- Executive leaders must ensure that the cloud governance organization, such as a cloud center of excellence (CCOE), is held accountable for cloud economics. Furthermore, cloud cost-accruing functions should be held accountable for optimizing their spending.

- Executive leaders must drive the business priorities that determine cloud cost governance priorities, particularly when making trade-offs between increased functionality and higher costs. To ensure that executive leaders bear the consequences for their prioritization decisions, the organization should allocate cloud costs to the business through a chargeback process — or, at minimum, offer cost showback.
More Detail

Most executive leaders find that cloud services — infrastructure, platform and software as a service (IaaS/PaaS/SaaS) — have been adopted in a decentralized manner in their organizations. This may lead to a lack of cloud cost governance — or even an emphasis on maximizing the business enablement benefits of cloud computing, without regard to the costs. Some vendors promote the idea of a dedicated FinOps team. Is this the answer to a systematic cost management approach?

Good cloud cost governance begins with a business decision for each application, determining the relative importance of application development velocity, end-user experience and cloud costs. This balance may change throughout the application's lifetime. For example, if an application team is driving toward a quick product launch, the business may be willing to incur high initial cloud costs to reduce time to market. However, the application may then need to go through a cost-optimization cycle to achieve acceptable long-term costs and improve the product's profit margin. Furthermore, the greatest trade-off usually concerns application developer time. Time that is spent performing cost-optimization is time that isn't being spent on adding new application capabilities, and some business leaders exclusively prioritize new capabilities without paying attention to how cloud costs affect product margins.

Operationally, cloud cost management is a process that is part of an ongoing life cycle, driven by monthly cloud provider billing (see Figure 1).
Ideally, cloud architects, likely in a CCOE, set cloud cost governance processes and policies, in consultation with the organization’s cross-functional, cloud computing advisory council. The cloud operations function sets technical guardrails and generates monthly reports, using a cloud cost management tool. These reports are provided to IT finance, business leaders and application teams, together with notifications of policy violations, and recommendations for actions to take. The application teams are then responsible for acting on these reports and recommendations.

Business leaders and application teams must work together to budget and forecast cloud costs — aligning with the business planning cycle. The sourcing, procurement and vendor management team (SPVM) uses these projections to negotiate pricing and discounting with the cloud providers. Reports that align cloud costs to business metrics should also be provided to the CFO and other executive leaders, so they can make informed decisions.
The cross-functional, collaborative nature of these activities — and the importance of application developers in the process, when custom-developed applications are involved — means they’re not suited to a dedicated FinOps team. Cloud financial operations are not purely — or even primarily — IT infrastructure and operations (I&O) activities. However, the cloud operations function is usually in IT I&O, and the IT I&O team is likely to be responsible for managing the cloud costs of commercial off-the-shelf (COTS) applications. The technical knowledge needed to manage cloud costs makes this function poorly suited to SPVM or IT finance.

The CCOE, in its cloud governance role, is best suited to coordinate across all the functions involved, and to enforce cost-optimization policies. However, the CCOE must be empowered to do so by executive leadership. This requires establishing clear lines of accountability, including making other functions accountable for their roles in this process — especially the application teams that accrue cloud costs.

Most organizations focus on the elimination of “waste” in cloud expenses, usually in the form of idle or underutilized resources. Once waste has been eliminated, the organization must implement performance engineering techniques to improve application performance, so that fewer or less-expensive resources are consumed. Executive leaders must recognize that reducing this type of technical debt should sometimes be prioritized over new features.

Cloud economics — which encompasses cloud cost management — must be a cultural practice sponsored across multiple executive leaders, not a one-off, cost-reduction exercise or the responsibility of a dedicated team. A well-defined cloud cost governance model enables cloud stakeholders to own their cloud costs and manage the trade-offs between increased cloud costs and an improved customer experience (CX) through greater feature velocity or better response times. Keep in mind that better CX may lead to increased revenue or business cost reduction.

**Recommended by the Authors**

*Managing Cloud Economics: Cloud Architect’s Guide to Productive Relationships with Sourcing Leaders*

*Managing Cloud Economics: A Sourcing Leader’s Guide to Productive Relationships with Cloud Architects*

*How to Manage and Optimize Costs of Public Cloud IaaS and PaaS*
Use Gartner’s IT Finance Frameworks to Drive Successful IT Finance, Value and Cost Programs

Moving Beyond the Myth of Repatriation: How to Handle Cloud Project Failures

Market Trends: Public Cloud Repatriation Remains the Exception, Not the Rule

© 2021 Gartner, Inc. and/or its affiliates. All rights reserved. Gartner is a registered trademark of Gartner, Inc. and its affiliates. This publication may not be reproduced or distributed in any form without Gartner’s prior written permission. It consists of the opinions of Gartner’s research organization, which should not be construed as statements of fact. While the information contained in this publication has been obtained from sources believed to be reliable, Gartner disclaims all warranties as to the accuracy, completeness or adequacy of such information. Although Gartner research may address legal and financial issues, Gartner does not provide legal or investment advice and its research should not be construed or used as such. Your access and use of this publication are governed by Gartner’s Usage Policy. Gartner prides itself on its reputation for independence and objectivity. Its research is produced independently by its research organization without input or influence from any third party. For further information, see “Guiding Principles on Independence and Objectivity.”