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FinOps for Cloud Excellence: Mastering Cost Management for Digital Success

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Introduction

Modern cloud strategies differ substantially from their predecessors. In the past decade (which can be described as “cloud first”), the speed of adoption and scale of use were primary considerations. Today, the focus is on increasing governance and control, as well as cost optimization, resilience, and sustainability.

This approach resonates with three IT considerations that are currently top of mind for C-suite executives — namely, cost optimization, security and compliance, and AI innovation.

The laser focus on ROI and value is the result of multiple forces converging: budgetary pressures from inflation and recessionary concerns, spiraling cloud bills, and the dynamic self-service use of cloud resources across organizations.

Public cloud remains a key building block for innovation. However, accelerated public cloud adoption over the past decade has resulted in high cloud costs (see Figure 1). Almost all cloud users (94%) surveyed by IDC say a portion of their cloud spend is “wasted” or “underutilized,” with 53% of organizations indicating they are wasting 16–50% of their cloud budgets.

AT A GLANCE

Welcome to the "value decade," in which cloud cost management through FinOps is becoming a strategic priority.

KEY STATS

Nine of every 10 organizations surveyed by IDC admit to wasting or underutilizing their cloud spend. In March 2024, only 4% of surveyed organizations said their cloud spend is under control. Over half said they are wasting over 15% of their cloud budgets.

KEY TAKEAWAYS

It is time to bring cloud costs under control through best practices and solutions that provide real-time visibility and actionable spending optimization recommendations.

Savvy organizations that achieve FinOps maturity are able to optimize cloud spend, contribute to sustainable IT operations, and combine IT asset management (ITAM) and FinOps practices for success.

Figure 1: The Gravity of the Cloud Cost Problem

Source: IDC’s European CloudOps Survey, March 2024 (N = 1,057)

The proactive focus on cloud costs over the past 18–24 months has been so dramatic that one CIO told IDC at a 2023 roundtable that their organization is "nervous about cloud costs more than anything else."

Cloud costs are a concern for IT and business leaders in companies of various sizes across industries (see Figure 2).

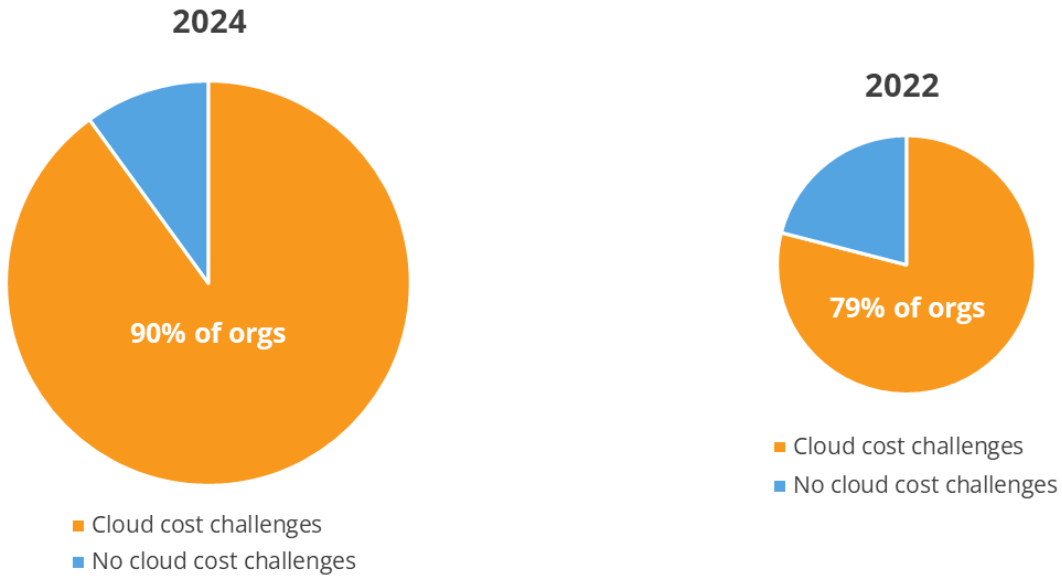
Figure 2: End Users' Cloud Cost Concerns

Source: IDC, 2024

Despite growing awareness, managing cloud spend remains a challenge. In Europe, the intensity of cloud cost waste has increased in 2024 compared with 2022 (see Figure 3 and Figure 4).

In 2024, over 90% of European organizations surveyed by IDC reported experiencing cloud cost issues, up from 79% in 2022.

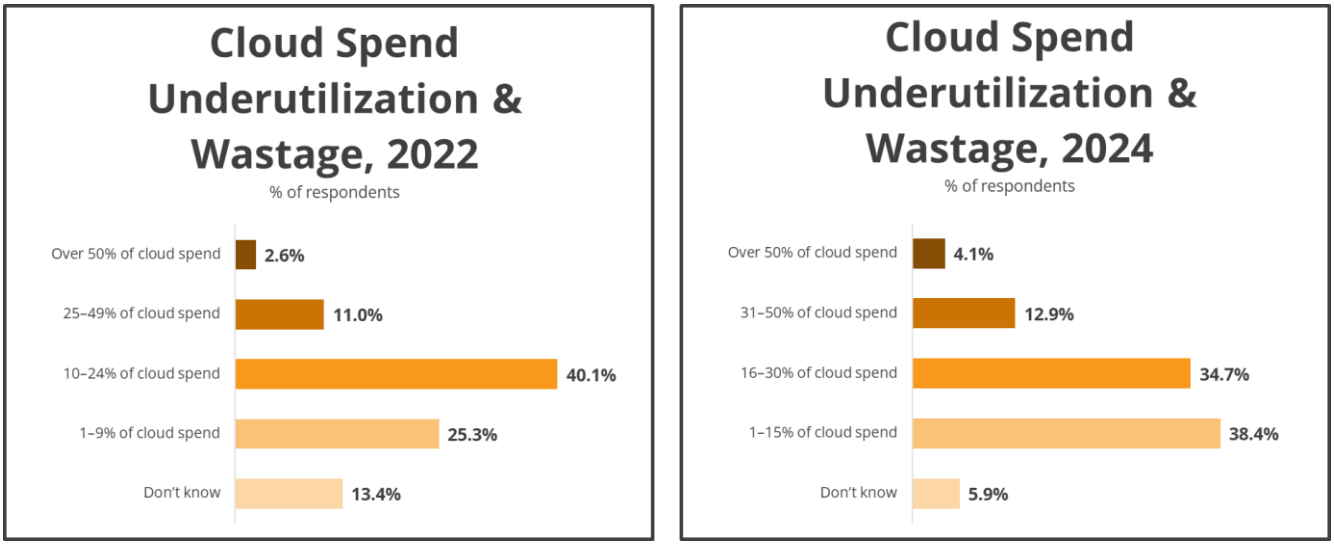
Figure 3: Cloud Cost Challenges More Organizations in 2024 Than 2022, Despite Growing Awareness



Source: IDC, 2024

Moreover, a majority of organizations (56%) admitted to wasting a third or more of their cloud budgets in 2024. IDC estimates that cloud budgets account for more than a third of IT budgets; if a significant portion is underutilized, it is a critical problem not just for the IT team but for all stakeholders. Cloud cost waste manifests in various forms, including resource overconsumption, zombie instances, and cloud use without clear business outcomes.

Figure 4: Cloud Cost Challenges Amplified Over the Past Two Years



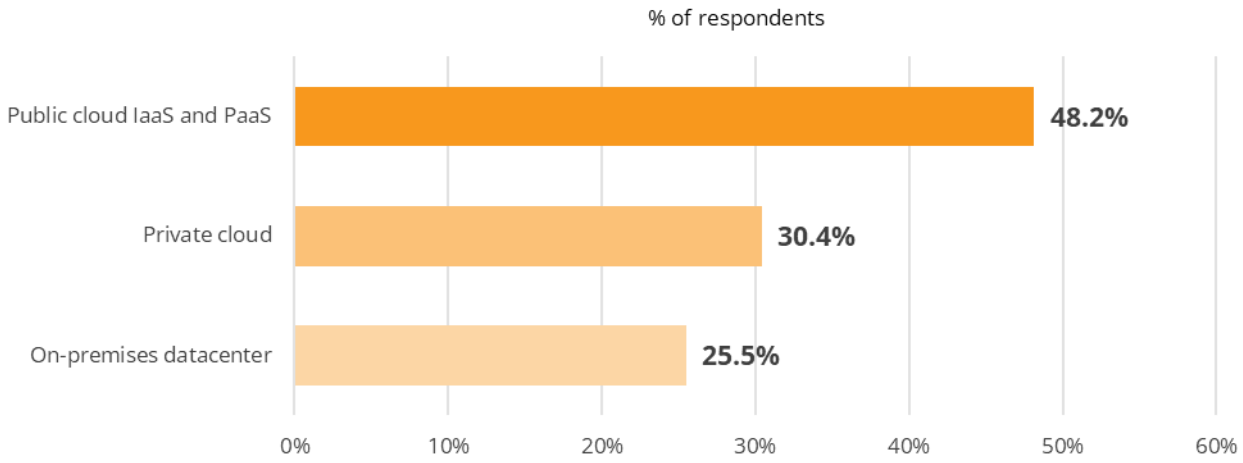
Sources: IDC's *European CloudOps Survey*, 2024; IDC's *European Multicloud Survey*, 2022

With so much at stake, efficient and optimized cloud resource use remains a key priority. However, cloud democratizes resources and decentralizes purchase decisions; the combination of consumption-based pricing, dynamic resources, and decentralized decisions makes cloud cost control more challenging. Traditional budgeting, planning, and IT spend forecasting do not lend themselves to this dynamic cloud landscape.

IDC estimates that by the end of this year, the complexities of digital business and IT budget pressures will drive 70% of G1000 companies to increase their FinOps maturity through granular chargebacks, benchmarking, and multicloud optimization.

Infrastructure cost management remains the top pain point (see Figure 4).

Figure 5: Top Environments Where Organizations Say They Waste, Overspend on, or Underutilize Resources



Source: IDC, 2024

This indicates a need to converge cost and compliance strategies across on-premises and cloud under the FinOps umbrella (cloud spend optimization discipline) to ensure a full-stack cost optimization strategy.

The surveyed organizations identified multiple areas of wastage (e.g., resource instances, security infrastructure, serverless and function services, and containers).

Beyond cloud infrastructure, organizations are also experiencing quickly rising spending in software as a service (SaaS), AI cloud, and even niche data cloud environments. This requires a holistic approach to cost management.

Cloud Economics and FinOps

Visibility is the first step toward monitoring and managing cloud spend and seeing its business value. One cannot manage effectively what one cannot see. Many organizations have adopted FinOps based on this premise; it is a means of viewing, tracking, and optimizing cloud spend rather than cutting it altogether.

FinOps is a framework, culture, and mindset that enables organizations to maximize the value of their cloud investments. At its core, FinOps is about accountability, transparency, and a culture of optimization.

FinOps is a powerful methodology focused on people and processes, aimed at creating a culture of transparency, accountability, and responsibility when it comes to cloud costs. IDC's research shows organizations that have successfully adopted FinOps are more informed about, and in control of, their cloud budgets.

FinOps is the practice of bringing financial accountability to the variable-spend cloud model, enabling distributed teams to make informed decisions.

Organizations are also able to:

- Gain real-time insights to better plan and forecast spending
- Negotiate better contracts with vendors
- Continuously identify areas for optimization (e.g., decommissioning orphaned resources, rightsizing environments, and matching cloud resources to workload needs) for quick savings
- Empower developers with information to make the right decisions
- Encourage discipline and ownership of cloud spending
- Foster a blameless culture through a single source of truth
- Make IT a business enabler, rather than a cost center, by developing sophisticated showback and chargeback processes

However, reaching FinOps maturity is a long-term journey.

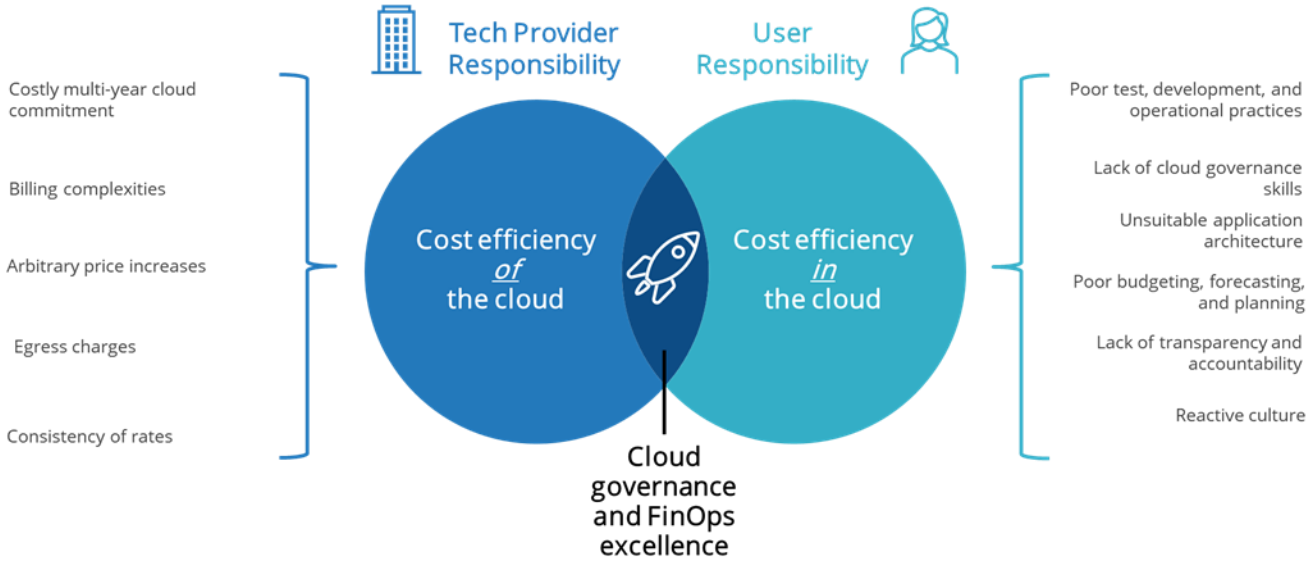
Road to Success: Best Practices in Adopting and Scaling FinOps

The savvy CIO approach is that if security is a Day 0 job, FinOps is a Day 0.5 job. This means it is time to shift FinOps left.

In IDC's *CloudOps Survey, 2024*, 29% of respondents identified FinOps as an investment area for 2024. Altogether 39% identified cloud-focused personas as a strategic investment area; this indicates they are leveraging FinOps practices to gain a competitive edge.

First, it is necessary to remember that cloud cost management is a shared responsibility (see Figure 5). It has two aspects: the cost efficiency of the cloud (vendor responsibility) and cost efficiency in the cloud (customer responsibility).

Figure 6: Who Does What in Cloud Spend Management as a Shared Responsibility



Source: IDC, 2024

As shown in Figure 5, organizations must hold cloud vendors accountable for maintaining consistent, transparent prices; eliminating billing complexities; and ensuring flexibility in multi-year commitments. This is critical due to the fluid nature of cloud strategies; as organizational goals evolve or new regulations enter into force, organizations need the flexibility to adapt their cloud strategies. For example, no organization was budgeting for generative AI solutions 18 months ago, but they now need to find the necessary funds. Flexible cloud contracts can help to manage cloud budgets.

Cloud customers also have responsibilities to uphold (e.g., implementing solutions that help monitor usage and can recommend actions for cost savings). They must pivot from a blanket cloud-first approach to a workload-first approach; this will ensure they are migrating the right workloads to the cloud to avoid unnecessary costs (e.g., egress fees) and address the continuous challenges created by high-performance infrastructure. At a strategy level, they also need to define and enforce cloud usage policies and create a culture of collaboration and responsibility.

Companies can follow the best practices demonstrated by mature organizations for FinOps success, including the following:

- **Balance the pillars of business value:** To ensure a modern cloud strategy, the C-suite should balance innovation, resilience, and economics. Organizations should be aware of trade-offs when making cost optimization decisions, as this is only one objective (albeit an increasingly high priority), and be able to adapt to workload needs.
- **Explore FinOps-enabling tech:** Automation, observability, and optimization tools can help organizations scale their cost governance strategies. FinOps is firstly a strategy and a discipline. Once organizations have clear objectives and KPIs, they can determine which platforms to use for implementation. IDC's research over the last two years has indicated that using third-party cloud cost management tools is the most preferred approach to managing cloud costs; in contrast, building tools in-house or using native vendor capabilities are less desirable in hybrid multicloud environments.
- **Integrate ITAM and FinOps:** The direction of travel is clear, with astute organizations converging FinOps and ITAM. This convergence helps minimize the overheads and complexities associated with managing on-premises costs and compliance separately from cloud costs. Cross-collaboration, sharing tools and practices, and building new skills from cloud to datacenter can help organizations accelerate their optimization strategies.
- **Capitalize on cloud marketplaces:** IDC research has indicated that organizations are not capitalizing on cloud marketplaces and the public cloud ecosystem as well as they could to maximize their cloud budgets. FinOps teams must educate cloud users on the capabilities and services available in cloud marketplaces to help direct their cloud spending.
- **Adhere to industry standards for benchmarking:** Exploring the FinOps Foundation's maturity model and adopting its three FinOps phases (Inform, Optimize, and Operate) will help organizations benchmark themselves clearly against their peers and track their progress. It will also help to identify any weaknesses and ensure consistency with industry practices.

- **Sustain continuous improvement:** Cloud cost governance is not a one-off exercise. Keeping up will be key as consumption becomes more granular over time and innovation continues at breakneck speed.

IDC Guidance and Operationalizing FinOps

Learning from best-in-class vendors can help stakeholders assess their cloud spend, build a case for embracing FinOps, and identify the key capabilities they have and need for successful implementation.

However, FinOps is not a one-time destination but a continuous journey. As organizations' teams, cloud footprints, and business expectations change, their cost management strategies must also evolve.

Developing a Proactive Approach

A proactive approach means ensuring the organization embraces FinOps at the start of cloud adoption journey. In conversations with IDC, many organizations assume that FinOps is applicable only when they reach the highest levels of cloud adoption. In fact, the start of the cloud journey is the perfect time to adopt FinOps; getting certain aspects (e.g., setting tags, creating policies, continuously monitoring usage, and baking in cost considerations along with security considerations) right from the outset is helpful. IDC believes this is the secret to organizations remaining in control of their cloud migration programs and avoiding surprises that require U-turns from existing cloud plans.

Being proactive also means starting small but soon, with clear milestones. The first step is to address some low-hanging optimization fruit (e.g., identifying orphaned assets or zombie instances) and utilization rates for quick wins. These quick wins can then be used to justify investments in training, certifications, or platforms.

Successful organizations also set clear goals, such as obtaining insights into usage and understanding which resources drive up costs. After monitoring, they set the next goal (e.g., identifying quick savings) before moving to strategic goals (e.g., rightsizing environments or informing cloud contract commitments). In conversations with IDC, some organizations said starting small and progressing incrementally helped them secure investments quickly, with the cloud savings paying for the platform in as little as six months.

A proactive mindset ensures businesses do not see FinOps as a point solution to cut cloud costs or use it to identify "problem areas;" this can create a culture of blame and cause teams to feel pressured to innovate and iterate. Instead, a proactive approach involves seeing FinOps as a cultural process for continuous optimization and efficiency.

Cloud Centers of Excellence (CCoEs) Leading the Way

For many organizations, the CCoE has become the dream team that sets up the vision and provides guidance for cloud cost optimization through FinOps. According to IDC's *2024 CloudOps Survey*, 30% of infrastructure-as-a-service users are already on the second or third iteration of their CCoEs. CCoEs' top 3 tasks over the next 12 months will be:

1. Managing cloud governance
2. Building performance and efficiency

3. Ensuring security

IDC's past research on CCoEs identified various key objectives — namely, developing a cloud-first culture, addressing security concerns, and aligning business objectives with cloud strategy. However, organizations' priorities in 2024 indicate that as cloud adoption matures, CCoEs' focus shifts to operational and efficiency considerations, including governance and efficiency (FinOps).

CCoEs can also play a central role in extending FinOps principles beyond cloud to the overall ITAM environment, as well as in upskilling IT teams as part of organization-wide efficiency strategies.

Exploring FinOps as an AI and GenAI Use Case

IDC has identified three types of use cases in the current AI Everywhere era — productivity use cases (e.g., knowledge management and code development), functional use cases (e.g., IT operations and governance), and industry use cases (e.g., drug discovery).

Organizations that have demonstrated the value of FinOps are already indicating that the potential of AI and generative AI (GenAI) is highest in IT governance and operations. According to IDC, GenAI can make a positive difference in these four areas of FinOps:

- Predictive resource capacity
- Cloud cost data ingestion and analysis
- Automated scaling
- Optimization recommendations

Business Value

Cloud has become the dominant IT operating model. Cloud spend management is one of the most challenging and unique aspects of cloud. This is because cloud spend is:

- **Distributed** across multiple environments
- **Dynamic**, due to the requirements of modern, scalable workloads
- **Varied** across instance types, regions, and families
- **Decentralized**, with employees autonomously buying cloud resources
- **Wasted**, as resources are easy to overlook or ignore
- **Complex**, due to an unlimited number of combinations, making human analysis nearly impossible

Incorporating data in decision-making is a modern way of doing business. Organizations that practice FinOps get valuable data about their usage, vendor commitments, DevOps practices, and budget utilization, enabling them to make informed decisions. Combining this data with actionable recommendations and automation to implement those recommendations can be a powerful means of avoiding the pitfalls of cloud.

The value of FinOps is that a centralized team — comprising representatives from cloud, IT operations, development, business, platform engineering, and finance — empowers cloud users to better understand cloud costs and the implications of their design decisions. They have the support of the C-suite and a cloud center of excellence.

Mature organizations develop centralized teams that include experts such as:

- FinOps service leads
- Lead architects
- Heads of development
- Cloud subject-matter experts (public cloud, private cloud, sovereign cloud)
- Business analysts
- Procurement or asset management teams
- FinOps subject-matter experts (building certifications)

Conclusion: Elevating FinOps Value, From Cost Savings to Sustainable Operations

Realizing value from cloud investments has never been more important. Cost optimization is no longer only on IT's wish list, but also on those of CFOs, CEOs, and environmental, social, and governance (ESG) teams — making it a strategic priority for long-term business success. IDC believes establishing clear cost control mechanisms and processes can mitigate the risks associated with cloud migration and help organizations accelerate their digital innovation sustainably.

Many organizations also see the value of cloud optimization at the strategic ESG level. As such, optimization can establish a connection between FinOps and GreenOps. Furthermore, nearly 40% of the respondents in IDC's *CloudOps Survey, 2024* consider enhancing IT infrastructure efficiency as the most effective way to address challenges related to IT's carbon footprint.

Already, 39% of cloud leaders have identified FinOps as their top investment priority for 2024 in terms of derisking their cloud strategies. Are you ready?

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Our services not only encompass traditional FinOps but also extend into SaaS operations, ensuring comprehensive cost management across all cloud-based services. Our team of experts assists in identifying cost-saving opportunities, implementing effective cost governance strategies, and optimizing cloud resource usage. Whether you are at the beginning of your cloud journey or looking to refine your existing strategy, our end-to-end advisory services are designed to maximize efficiency and minimize waste. Trust us to provide the insights and tools necessary for sustainable, cost-effective cloud operations.

About the Analysts

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Archana Venkatraman leads IDC's European CloudOps and Governance research as well as Cloud Data Management research.

As part of the CloudOps focus, Archana analyses the multicloud management and operations market, Cloud economics and FinOps, observability, cloud consolidation, as well as cloud governance and control. A big focus of her research is on cloud value realization, cloud-native success, and operational excellence.

As part of Archana's Cloud Data Management research, she focuses on multicloud data management, data protection and availability, archiving, regulatory compliance, software-defined and object storage, modern data management, container data services, cloud data mobility, and SaaS data governance.

Before joining IDC, Venkatraman was the datacenter editor at *Computer Weekly*, the digital magazine and website for IT professionals based in London.

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