TBM COUNCIL

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Intersection of TBM & FinOps

Perspectives from Finance and Business practitioners

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Executive Summary

Organizations across all industries have committed investments for cloud adoption as they work to maintain competitiveness in their product offerings while ensuring security and resiliency. For mindful use of enhanced technology budgets, companies have adopted both Technology Business Management (TBM) and FinOps. While TBM governs overall IT budget, FinOps focuses specifically on cloud costs. Both aim to provide transparency of spend and consumption alignment between organizations, and a value management framework.

This white paper will explore the intersection of TBM and FinOps, with highlights on:

- Synergies: How organizations can leverage the higher frequency feedback loop from FinOps practices while integrating with the financial cadence of TBM disciplines.
- Best practices: What best practices to leverage with both TBM and FinOps.

What is Technology Business Management (TBM)?

Technology Business Management is a discipline that improves business outcomes by giving organizations a consistent way to translate technology investments to business value. Adopted by leading enterprises around the world, TBM is backed by a standardized taxonomy for mapping technology assets and resources to business outcomes. TBM practices in an organization bring IT, finance, and business leaders together to get an accurate view of their technology footprint. TBM delivers a single source of truth that all teams can understand — leading to better collaboration, increased trust, and defensible decisions. Organizations that adopt TBM can make decisions faster, react quickly to changing market dynamics and optimally leverage cloud and agile practices to deliver on business objectives.

What is FinOps?

FinOps is the practice of bringing financial accountability and unit economics to the variable spend model of cloud, enabling distributed teams to make business trade-offs between speed, cost, and quality.[1]

At its core, FinOps is a cultural practice. It is the industry best practice way for teams to manage their cloud costs, where everyone takes ownership of their cloud usage supported by a central best-practices group. Cross-functional teams work together to enable faster delivery, while at the same time gaining more financial and operational control.[2]

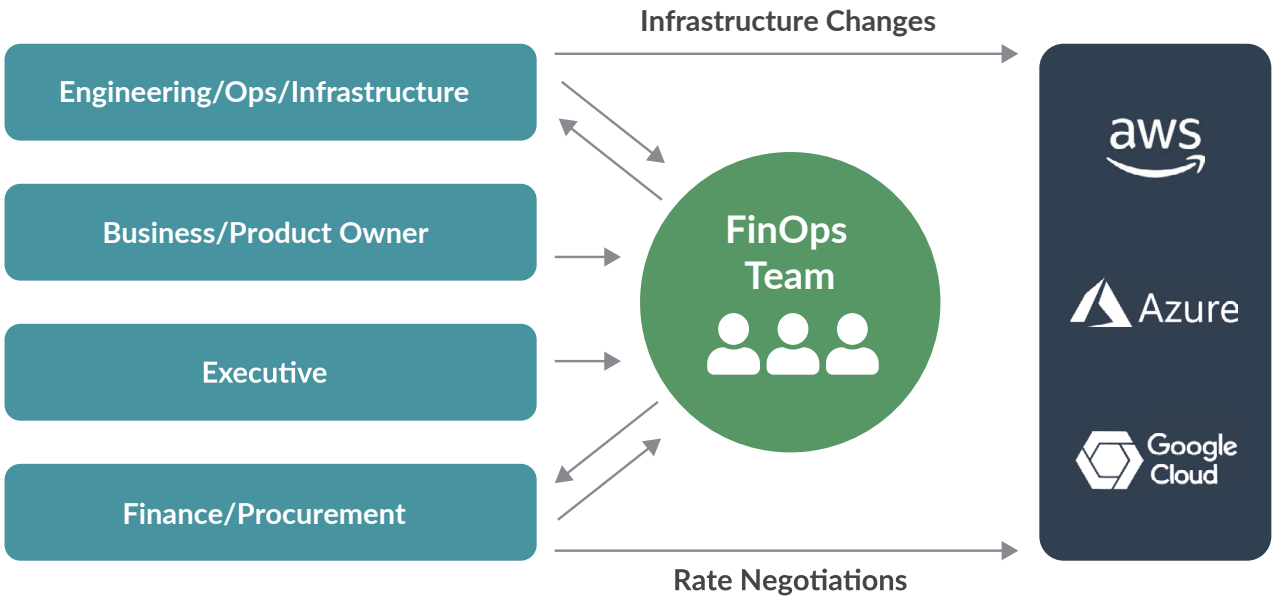

Figure 1: Function of a FinOps Team[3]

[1] FinOps Foundaton. "What is FinOps?". https://www.finops.org/introduction/what-is-finops/. Accessed Oct. 7, 2022.
[2] FinOps Foundaton. "What is FinOps?". https://www.finops.org/introduction/what-is-finops/. Accessed Oct. 7, 2022.
[3] FinOps Foundaton. "What is FinOps?". https://www.finops.org/introduction/what-is-finops/. Accessed Oct. 7, 2022.

The TBM practice is built on a foundation of transparency, tradeoffs, and accountability. Providers are accountable for the cost (TCO and unit costs) of their services and products, and consumers are accountable for their consumption types and volumes. Combined this results in an accurate, transparent cost-to-serve, and clarity on the impacts and sources of consumption behavior. This accountability maxim is especially true in the public cloud space. Given how quickly cloud expenses can ramp up, it is important to have the type of oversight a FinOps team can provide.

The FinOps team is responsible to enable the organization to consume cloud services, at the time and cost needed by the organization. The team creates visibility into the cost of those services and the consumption patterns for the organization. They also partner with consumers to optimize costs, changing architectures, services, or vendors as needed to help service owners respond to business needs. They then work with vendors to ensure reliable performance. This action loop (Figure 2) is the fundamental tenant for FinOps.

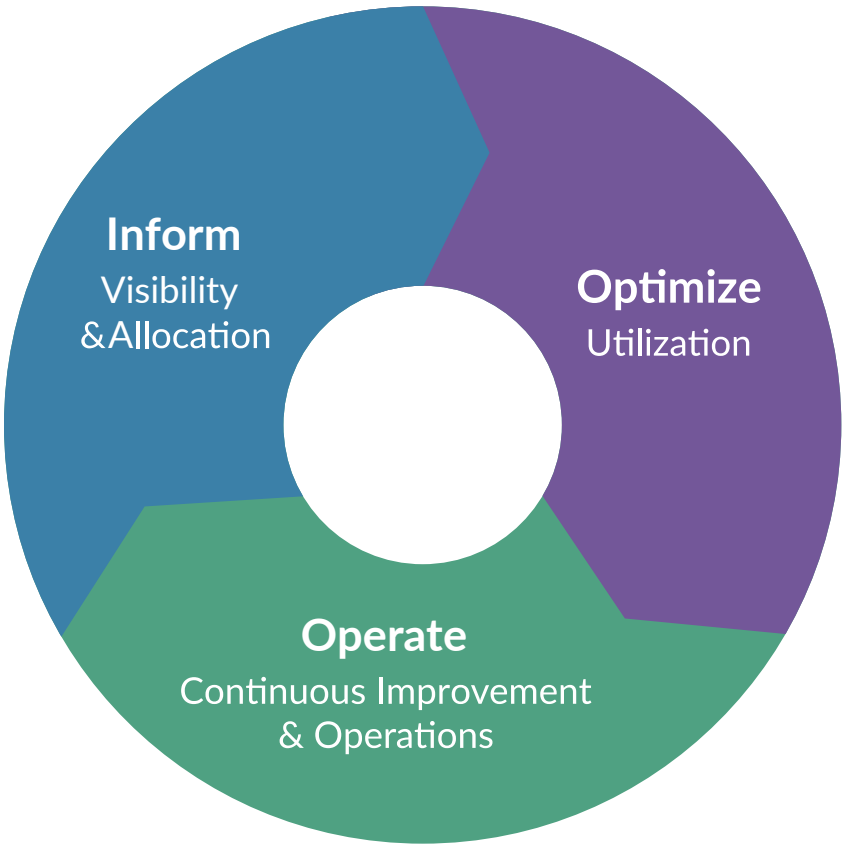

Figure 2: FinOps Lifecycle[4]

[4] Reference: FinOps Practitioner Certification Manual, FinOps Foundation

TBM & FinOps - Interactions & Synergy

When coupled with a TBM practice, cloud spend, and unit economics can represent a greater business value context. When tagging strategy is informed by the TBM taxonomy or corporate product taxonomy, cloud reporting provides actionable insights into the relative cost and value of these cloud services for the business. How does this spend support the products, services speed-to-market, innovation, TCO, margin or revenue targets of the organization? Has the organization seen the expected benefits from moving to the cloud — faster development cycles, infrastructure spend that flexes as demand changes?

However, FinOps and TBM work on different time horizons. FinOps is a near real-time practice to manage the provision and consumption of services while balancing performance and cost. TBM typically operates on a weekly, monthly, or quarterly basis to capture technology, resource, and vendor related inputs that inform cost/value tradeoffs. When combined and supported with accurate and timely reporting, FinOps can provide the financial controls to reduce the risk of moving to public cloud while TBM can put those costs within the strategic framework IT uses to support the business.

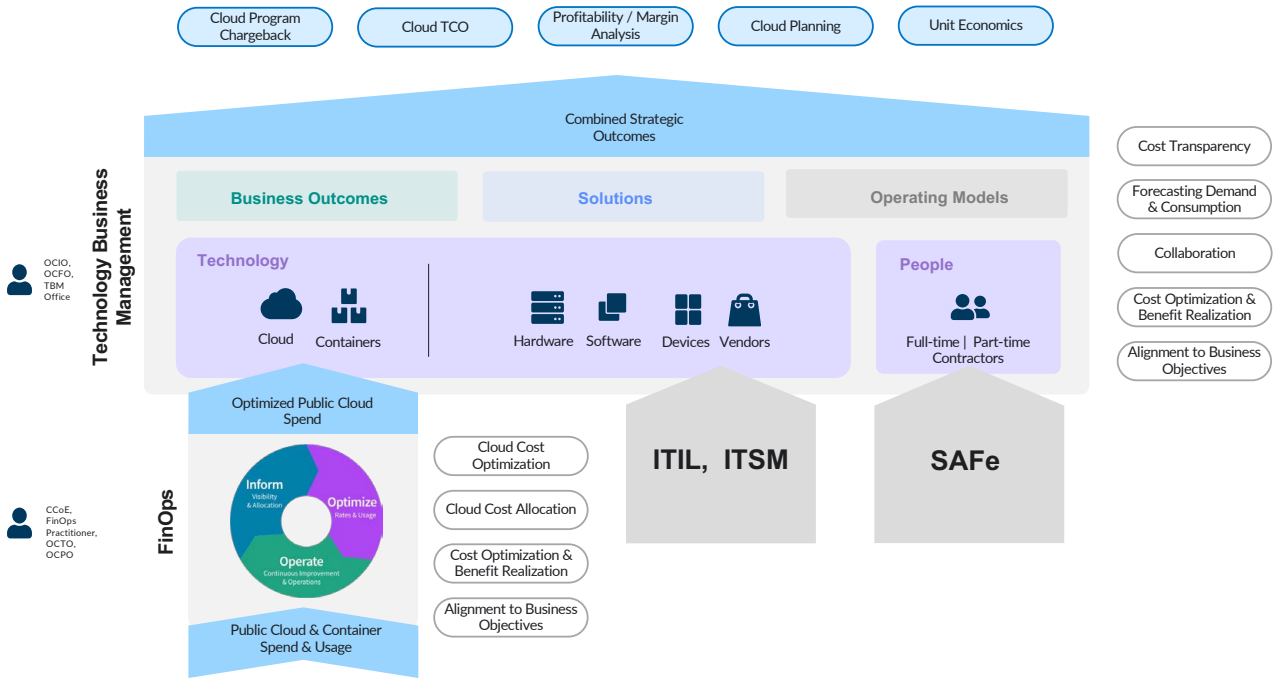

Figure 3: The intersection of TBM + FinOps

Leveraging Best Practices

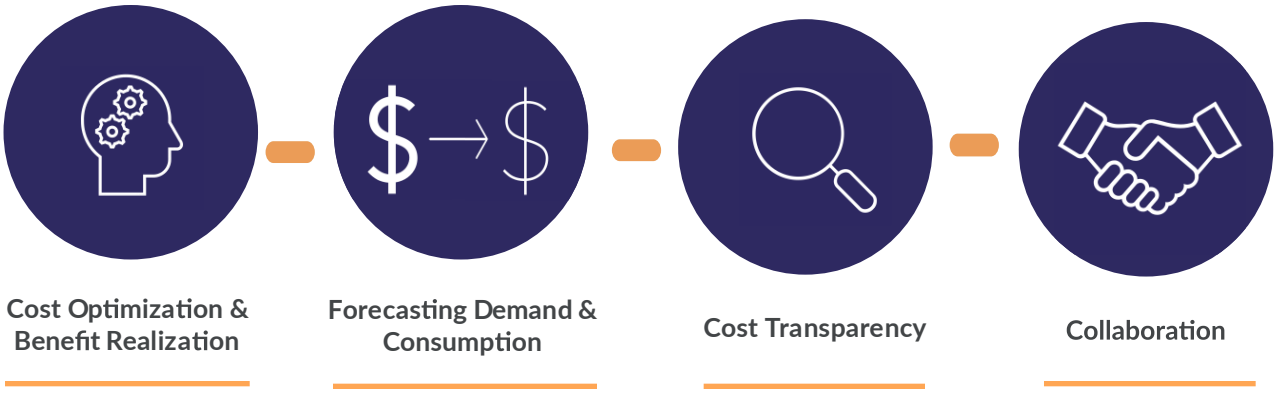

Figure 4: Best Practices to Leverage

Cost Optimization & Benefit Realization

One of the main goals for any organization is understanding their return on investment and benefit realization across the enterprise. Diving deeper into the cost structure, many CIOs and CFOs understand that cost optimization and benefit realization of strategic technology investments becomes paramount to running a successful organization. TBM lays the groundwork to understand the total cost of services, including cloud cost, and how to manage consumption. Layering in the granular transparency and recommendation from FinOps will create large opportunities for benefit realization within the FinOps and TBM intersection.

The FinOps practice enables numerous opportunities to achieve business outcomes at the lowest possible price point within public cloud services. The opportunities that originate in a public cloud setting vs. a traditional on-prem environment are visible, actionable, and with a direct cost impact.

IT organizations can optimize unit economics for cloud spend, trading off the committed spend with business needs. Most cost optimization follows one of the following work streams:

- **Reserved Instances/Savings Plan/Committed Use Discount** - In a public cloud environment (ex. AWS), there is a dynamic pricing structure which allows IT organizations to benefit from "commitments" to certain pricing plans that allows for steep discounts on list or on-demand pricing. A mature organization that can understand its long term (1-3 years) consumption can actively achieve cost optimization through Reserved Instance and Saving Plan commitments.
- **Rightsizing of applications and use of Spot Instances** - Rightsize focuses on waste elimination and rightsizing public cloud resources. The benefits (and sometimes pitfalls) of the elastic nature of public cloud is the ability to schedule when instances need to be on or off. Eliminating waste by turning off or scaling down can show immediate expense benefits without impacting availability or output. Additionally, rightsizing architecture based on data derived from FinOps tools allows for FinOps/IT groups to understand what level of compute/storage

is needed based on current consumption. This can save the company expense if they are willing to rightsize to a more cost beneficial option. Furthermore, architectural designs allow for the use of Spot Instances, which are instances that utilize unused/spare EC2 capacity at a deep discount compared to On-demand list pricing. Spot Instances are best used for applications that have peaks/valleys of consumption that at times need an influx of compute/memory/storage capacity. Any rightsizing exercise should include a feedback process to adjust cloud architectural design guidelines to avoid over or under allocation of cloud resources therefore eliminating the need for rightsizing in its origin.

In order to best achieve benefits realization, the IT organization should lean on FinOps tools that can provide both this transparency and recommendations that can be executed upon (Azure and AWS native tools, Cloudability, Cloudhealth, etc.). FinOps teams are able to absorb this data and trending to align recommendations. The true intersection between TBM and FinOps occurs as cloud cost optimization is executed and is reflected in the cloud invoices that ultimately are included in the service offerings TCO.

Case Study:

In 2022, employing the TBM discipline, a financial institution focusing on the housing market implemented enterprise-wide chargeback and cost transparency services. Public cloud services were charged back to the enterprise lines of business based on defined application and product ownership. After years of not having visibility into infrastructure spend, the company invested in both a FinOps practice and a Cloud-based governance tool. This enabled the company to achieve:

- A comprehensive chargeback of public cloud costs, allocated to business lines through application and division tagging. The company's business lines gained transparency into consumption, allowing them to proactively management spend.
- The company achieved over 20% in budget saved during the implementation year, based on optimization recommendations and benefits realization metrics. The company's FinOps team actively provided recommendations that influence rightsizing and waste.

"TBM is the map, FinOps is the car"

- FinOps was developed for the Cloud so companies to adapt, understand, and develop a culture around optimization
- TBM was developed before cloud, with a focus on transparency and unit economics for all IT services and products
- Both have adapted to each other but what are the synergies gained?

The TBM chargeback, with the supplement of the FinOps practice, immediately provided benefit once implemented. This also set the stage for further TBM service chargeback and underlying optimization.

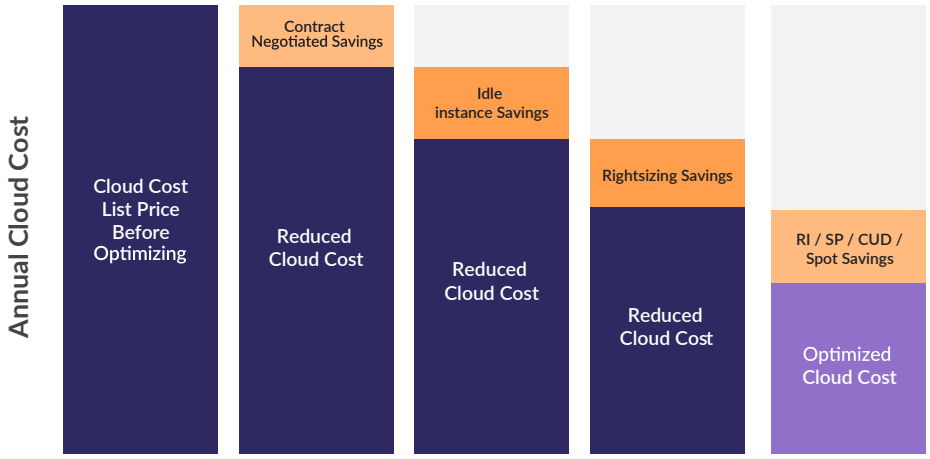

Figure 5: Cloud Cost Optimization

Forecasting Demand & Consumption

Forecasting demand and consumption are critical for both TBM and FinOps practices. Technology organizations partnering with the lines of business and product owners can work to develop a cloud demand and consumption forecast that will align with the financial budgeting and forecasting TBM methodology. Beyond completing these financial processes, budgeting and forecasting should be seen as opportunities to more tightly align to the business drivers of the organization.

Traditional forecasting and budget methods are more focused on P&L cost element accounting. For example, major focuses of budgeting and forecasting cycle will be on labor (employee and professional services) and non-labor costs. TBM and FinOps pivot that methodology to focus on service or product costs and consumption based on true consumption data. This method allows technology organizations to understand the TCO for products and services in the TBM taxonomy, and their related unit economics and trending. FinOps is able to provide exact trending on public cloud consumption. TBM and FinOps align to understand service and application consumption and technology demand drivers for the Business' strategic goals. As companies focus on products and output, TBM and FinOps become key to accurate and real-time demand forecasting that shapes budget priorities and strategy.

Understanding the fixed versus variable nature of public cloud is important as companies try to track and forecast the TCO of cloud services. Companies make the move to cloud for many reasons: faster development time, built in redundancy, easy scalability, enhanced security, and the variable nature of the spend. The opportunity to reduce the amount of fixed overhead from data centers and staff is very appealing. This sets the expectation that all users hosted on the cloud should only see the variable spend driven by their application

usage. However, there are certain capabilities a company must have to operate in the cloud safely. These include monitoring programs to check for spend anomalies, security software, spend for the cloud team itself, cloud activities that are not taggable, cloud-based disaster recovery, and other tools to ensure all applications are operating correctly and can interact when necessary. Cloud teams may be reluctant or challenged when trying to allocate these "fixed" costs to the application teams.

While it is understandable that teams want to minimize cloud overhead, these costs are real, and part of operating in the cloud. Even the credits companies receive for reserved instances are a type of fixed expense that needs to be allocated. To accurately cost services, these expenses should be captured and distributed to all consumers. Reporting can differentiate between the fixed and variable components, but full costing is necessary to make the best business decisions.

Case Study:

A leading transportation company implemented a cloud financial management tool, Apptio Cloudability, in support of stronger FinOps practices in 2020. In preparation for a contract renewal, their FinOps team leveraged the tool for historical consumption reporting by application and service. Application owners were asked to project demand, with knowledge of business drivers and KPIs, for the next three years, including organic growth and new projects. Armed with five years of data, two historical and three forward looking, the procurement team successfully negotiated $11M in savings on a 3-year contract. The procurement team attributes all the savings to the use of Apptio Cloudability and the FinOps team. In prior contract negotiations, the cloud provider had the advantage because they knew more about the company's public cloud trends than anyone on the IT team. LLeveraging the TBM practice, FinOps tools, best practices, and team collaboration resulted in real savings for the organization.

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Cost Transparency

TBM and FinOps both provide levels of cost transparency that are unique to each practice and can benefit one another in order to gain synergies and overall cost optimization. The hallmark of the TBM practice is cost transparency at the solution offering level that allows IT organizations to truly understand TCO, unit costs, and service consumption types and volumes. This can be applied to private cloud, on-prem, outsourced and managed services, or hybrid combinations, across applications, platforms, portfolios, products, and services. As organizations move to a public cloud for their infrastructure needs, FinOps is able to strengthen the baseline of TBM transparency and provide data that can help manage and optimize cloud cost on a granular level.

In a public cloud environment, the cost structure shifts to a more variable view vs. a "fixed structure" with your traditional on-premise hosting. The practice of FinOps is able to provide the levers of transparency to optimize and enable the business to implement the most efficient consumption pattern.

Case Study:

An IT organization in a large financial institution formed its FinOps team in 2020 and later invested in as a FinOps governance tool. This company had already been providing monthly transparency for its core infrastructure services (compute/storage/memory) and end user services, based on the TBM taxonomy and the Apptio TBM Unified Model (ATUM) in the form of showback. The FinOps team utilized the monthly cadence of TBM to report on unit costing of the public cloud and published the monthly trend as a part of the TBM showback. The tool was integrated and configured within the reporting month; at which point the FinOps team was able to utilize daily (even hourly) transparency of EC2/RDS/S2 services and work to invest in Reserved Instances and Savings Plans in order to reduce its current on-demand rate by 50%. This reduction and cost optimization was incorporated with the monthly showback of TBM, benefiting stakeholders and consumers directly in their P&L, with showback becoming chargeback in the subsequent year.. The synergies of transparency between TBM and FinOps worked hand in hand and resulted in unit cost reductions that eventually had P&L impacts to the lines of business.

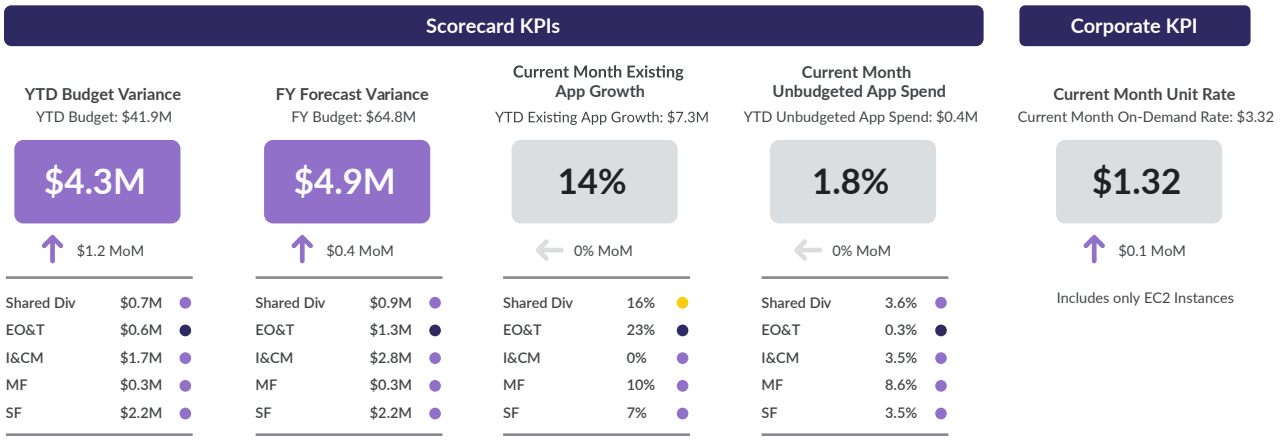

Figure 6: Example of a Cloud Score Card

** For illustration purposes only, data is not real.*

Collaboration

One of the common modes of failure in cloud adoption programs is lack of benefits realization created by a lack of collaboration and planning across critical FinOps roles. Key stakeholders, who play an important role include:

- Executives: establish the organizational alignment around FinOps and review the results.
- Cloud leads: single threaded leader who evangelizes cloud usage best practices.
- Engineering teams: action the feedback from FinOps by monitoring cloud resources and costs for making necessary fine-tuning.
- Architect(s): develops patterns, schemes, and standards for well-designed and optimized applications, platform offerings, and data strategies.
- Financial Analyst(s) & Controller(s): who will set forth the goals from the finance division (typically reporting into the CFO). Communicates the value, intersections, and synergies of FinOps and TBM.

A best practice for ensuring collaboration is to integrate cloud cost management practices with IT service management, communication, automation, continuous integration/continuous testing/continuous delivery (CI/CT/CD), and pipelines.

- Usage strategy
- Usage best practices
- Monitoring procedures and controls
- Budgeting and forecasting

Conclusion

Today's IT organizations must leverage both TBM and FinOps best practices to ensure the organization achieves the most value for every IT dollar spent. TBM and FinOps teams should:

- Stay current in both TBM and FinOps disciplines
- Implement best practices in both TBM and FinOps
- Build and foster cross-functional relationships
- Maintain a seat at the table and invite others to the table
- Get involved and leverage relationships to anticipate the next great thing
- Engage continuously to drive user adoption

Future Considerations

This white paper is the first output from the TBM-Cloud Strategy Community, a group of TBM practitioners and IT professionals with experience in FinOps and TBM programs. The Strategy Community is genuinely interested in documenting their experiences for the benefit of the wider TBM and FinOps communities. The scope of this first paper had to be limited based on bandwidth and expertise at the time the paper was completed. But it's evident there are many other subjects that should be explored for future whitepapers and community discussions. Below is a list of additional items discussed by the Strategy Community and identified for future research activities.

If you share the interest and drive on any of these topics, please become a member of the TBM Council and join the TBM-Cloud Strategy Community and contribute your voice and experience to advance cloud financial management practices with TBM and FinOps.:

- Intelligent Cloud Adoption and Planning
- Pricing
- Chargeback vs. Showback
- Other Uses of FinOps:
  - Data (R&D Tax Credits (Non-Prod/Sandbox)
- Unit Economics and Value Management
- Cost Avoidance
- Financial Forecasting

About the TBM Council

Founded in 2012, the Technology Business Management (TBM) Council is a nonprofit business entity dedicated to advancing the discipline of TBM through education, standards, and collaboration. Governed by an independent board of both global and regional business technology leaders, this diverse group represents some of the world's most innovative companies, including Mastercard, Wells Fargo, State Farm Insurance, Nike, Stanley Black & Decker, Equifax, ANZ Group, Commonwealth Bank of Australia, Adidas, Mercedes Benz, and more. The TBM Council provides best practices for leaders to leverage so they can react quickly to changing market dynamics and optimize cloud and agile strategies to deliver on business objectives.

Learn more and become a member at **tbmcouncil.org**

About the TBM-Cloud Strategy Community

The TBM-Cloud Strategy Community is comprised of professionals whose organizations are adopting public cloud infrastructure (IaaS), platforms (PaaS), and software (SaaS) and are using or adapting TBM and related practices such as Cloud FinOps to manage and accelerate cloud adoption and outcomes. The TBM-Cloud Strategy community aspires to provide answers to all business-related questions on these topics.

Learn more at **tbmcouncil.org/get-involved/strategycommunities**