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Breaking Down the FinOps Terminology: What is FinOps?

Introduction

Recently, a former colleague reached out because their sister, who works in finance, had come across the term "FinOps" and wanted to learn more. I was happy to meet up and share my insights. Over lunch, we discussed what FinOps is, my experiences as a FinOps Specialist, and how I got into the role. Despite the enthusiasm, I noticed that as we delved into certain technical terms, there were moments when their interest faded, a common reaction I have encountered after over three years in the field.

This led me to reflect on two important points:

1. How different audiences perceive the terminology we use.
2. How language varies across various parts of the business.

What is FinOps?

At the core, FinOps stands for "Financial Operations," much like DevOps signifies the collaboration between development and operations teams. According to the FinOps Foundation, "FinOps is a portmanteau of 'Finance' and 'DevOps,' emphasising the communication and collaboration between business and engineering teams."

While this might seem straightforward, in a non-cloud business, interactions between finance and engineering are often limited to budget approvals or forecasting. FinOps bridges this gap, creating a cultural shift. It is not just about finance overseeing annual budgets or technology teams working in silos; it is about continuous cost awareness and optimisation, aligning financial and operational goals.

The primary goal of FinOps is not simply to save money - it is to maximise value and profits. Keep an eye out for an upcoming blog post where I will dive deeper into this.

Bridging the Gap Between Audiences

When I talk about FinOps, I usually engage with two main audiences: technology leaders or teams and finance departments, from CFOs to credit control. Each group approaches the topic differently, so it is crucial to use language that resonates with both.

For this article, I will skip discussing specific cloud services, as they differ across providers. Instead, let us focus on universal terms in the FinOps world:

Key FinOps Terms Explained:

Allocation Metadata: Information used to categorise costs based on where a resource is in your environment.

Cost and Usage Reporting: The data source that cloud service providers use to derive your bill for the cloud services consumed.

Chargeback/Showback:
Chargeback: A method that makes teams directly accountable for their spending, often used as a financial allocation strategy.
Showback: A strategy that shows actual consumption without directly charging teams but still informs them of their usage.

CapEx/OpEx:
CapEx: Capital expenditure - large, one-time purchases that provide long-term value.
OpEx: Operational expenditure - recurring costs associated with ongoing operations.

Shared Costs: Expenses attributed to multiple owners, applications, or products.

Blended/Unblended Rates:
Unblended Rates: Charges that vary based on factors like usage time or tiering benefits, reflected in your bill.
Blended Rates: A combined rate that averages variable costs for a service or product.

Amortisation: Gradually reducing a capital payment over time in a way that matches the benefits provided in each period.

Commitment-Based Discount: A billing model that offers discounts for pre-selected services in exchange for a committed usage or spending amount.

Lift & Shift: A migration strategy where applications are moved from on-premises infrastructure to the cloud without modification, which may result in higher initial costs but allows for later optimisation.

Rightsizing: Optimising resources by adjusting them to fit needs, minimising waste.

Unit Economics: The ability to link the cost of usage to business value.

Total Cost of Ownership (TCO): A comprehensive evaluation of all IT or other costs over time.

Usage Optimisation: Ensuring that cloud resources match the business's needs closely to avoid overspending.

Helpful Resources

I know that is a lot of information, and it is common for people to get lost in technical jargon. But these terms frequently pop up in FinOps conversations. Fortunately, there are plenty of resources to help demystify them. Cloud providers like AWS offer training programs, and AWS even has an interactive, game-like learning tool called "CloudQuest" to deepen your understanding of cloud services.

To this day, I keep my copy of the FinOps Foundation's book, Cloud FinOps, within arm's reach as a handy reference.

How Can Digital Space Help?

As an AWS Managed Service Provider and a Well-Architected Partner, Digital Space is committed to helping businesses navigate their FinOps journey. As the Head of the FinOps practice at Digital Space, I spend my time analysing bills, forecasting costs, and helping customers optimise their cloud spending. The best part? We offer dedicated FinOps advice as part of our AWS infrastructure services at no additional cost.

By aligning financial insights with operational goals, FinOps enables businesses to not only manage costs effectively but also drive greater value from their cloud investments.

Request a free Cloud FinOps Review with us today – <u>FinOps Review</u>