

A woman with brown hair tied back, wearing a white button-down shirt and dark trousers, is kneeling in a server room. She is holding a laptop and looking towards a server rack. The server racks are dark and have mesh doors. The floor is light-colored.

How to manage cloud costs

The erstwhile problem of every CIO and CFO has been **“How do I manage my IT cost and relate the same to my business initiative?”**

In the digital world, every organization is in a race to gain competitive edge for its business, meet the millennial’s expectations, and enhance customer experiences. Enterprises cannot envisage business growth strategy without **“Cloud”**. Having said that, Cloud has a paradigm of complexity related to cost management.

This article looks at the problems enterprises face in managing cloud cost, and puts forward the best practices for optimizing these costs.

Cloud cost management: The 3 main problem areas

Cloud cost management is the most important component of an enterprise’s Cloud Governance, without which the entire cloud adoption journey gets derailed. The impact of poor cost management is devastating and **“It hits hard and fast before you realize”**.

If we break down the cloud management puzzle, there are three main components that need to be addressed to successfully and efficiently manage cloud cost.

Cloud cost visibility & transparency

The biggest problem most enterprises face today is **“how do I digest information from my Cloud Service Provider’s invoice?”**, **“Do I know exactly where am I spending and why?”**, **“Do I have a mechanism to validate my usage and consumption?”** While most Cloud Service Providers (CSPs) provide immense amount of data, report and analysis, it is still difficult for enterprises to dissect the data into meaningful information for optimization and budgeting purposes.

Cloud cost optimization

Once we have mastered the art of understanding the bill and attained highest level of visibility and transparency possible, we can embark on the

journey of optimization. Getting utilization, consumption patterns and right sizing may not yield the desired results. **“One has to look beyond the technical line items”**. Today’s enterprises have the challenge of making constant decisions and **weigh their options with “Cost vs Risk vs Value”**.

Cloud cost management

Now comes the functional and operational aspects, **“How do I charge back and show back, “tie back to a business case”, “plan budget and cost allocation to cost centers?”** Along with the traditional cost management issues, enterprises have to clearly define their IT organization, cost structure, BoIT and integration with IT financial management (ITFM). The recent twist to the story are the **“Challenges in quantifying business value in Agile business methodologies”**.

An effective approach to cloud cost management

It is essential to have a structured approach to overcome the cloud cost management related challenges.

Pre-defined categorization of services/workload based on the business criticality, risk of migration and business value will help in the key decision of service movements from one CSP to another if the service is just a commodity. For example, SAP hosting can be categorized as business critical and high risk and should not be moved from one CSP to another unless there is considerable business value apart from just cost benefit.

Each CSP has a unique selling point and a competitive edge, which radically varies year on year, since all are trying to catch up to their competition. Therefore, the underling best practice is to avoid any vendor lock-ins, have a short-term strategy towards CSP partnership, and revisit them every year.

Cloud cost visibility & transparency

The first and foremost requirement is to thoroughly understand the billing and invoice structure of the CSP

Usually the CSP's bills have line items on upfront cost, subscription cost, services cost and support cost, by subscription account, by system tags and by user tags. Try to minimize the complexity through a well-structured account subscription model and resource tagging policies defined during your cloud foundational setup and migration. This will minimize the hassle.

Employ an industry-renowned tool/partner solution from Managed Service Providers (MSPs), which can further wrap your resource and services mapping to your IT projects, business initiatives and cost centers. This way, enterprises can keep the CSP bill less complex and value-add features like chargeback, showback and business case/value measurement can be achieved through such tools.

Cloud cost optimization

As a quick win, enterprises can look into their technical resource consumption using either CSP advisor tools or any 3rd party tools for further cost optimization analyzing consumption patterns, moving towards more cloud-native and right-sizing their service models/window.

Engaging an experienced MSP partner will help, since they have robust decision models, recommendations comparing various CSPs and capabilities to provide cost optimizations in traditional/private cloud environments.

Cloud cost management

The industry best practice is **to integrate your cloud IT cost component with your existing IT financial management system.**

Enterprises **should aspire integrating budget and cost allocation modules with their service catalogue** with all necessary workflow automation. Traditional world of ITFM was short sighted and limited just to IT business benefits and cost only. The digital world moving towards Agile methodology demands ITFM to quantify and consider more intangibles in the business value meter like time to market, speed of customer acquisition, customer experience influenced sales, opportunity cost etc. Hence, enterprises should have a relook into their current ITFM practices to meet and suit the digital world. **“Try First, Fail Fast and Be First” is the new mantra** - a very robust cost management solution is an integral part to achieve this state.

The three components have different objectives but one purpose to solve: driving more business value and making the right cost decisions. It is very important that one looks at all these three key areas and make them work in tandem. There is no one tool or solution, which covers all these aspects to the fullest potential. Hence, it is important to choose the right MSP partner who understands what it takes to run and manage an enterprise class cloud for you. Often IT enterprises overlook ITFM that is key for business and its success. Enterprises should spend right focus and time on redefining their ITFM in order to adapt to the cloud and digital.

While enterprises are still struggling to variabilize their cost, the industry is already moving towards crowdsourcing, extending their service to industry peers and transforming IT into a profit center. The change will test ITFM's capabilities and ability to drive a business model for IT as a Service Model.

In conclusion

Here's a quick recap-

- Three main components of cloud cost management are cloud cost visibility & transparency, cloud cost optimization and cloud cost management
- To master cloud cost control, first, have a thorough understanding of your CSP's billing and invoice structure
- Have a robust and well-planned cloud foundational setup and migration to nail cloud finance management at the beginning of the adoption
- Seek support from an industry-leading MSP partner who understands enterprise challenges on cloud adoption and cost control
- Stay away from boutique, even if they come with strong recommendation from the CSP. Often such partners lack experience operating with large enterprises and seldom understand enterprise business problems and cost management issues beyond technologies
- Look for optimization beyond technical lines, employ 3rd party solution and try to keep your CSP invoice simple and easy
- Avoid vendor lock-ins, have short-term strategy towards CSPs and revisit them every year
- Choose business risk and value over cost when deciding on the right CSP
- Integrate your cloud cost management with enterprise ITFM
- Think Digital and Agile when you revisit your ITFM processes, plan and prepare to embrace the future



About the author

Chalapathy Purushothaman,
Cloud GTM & Solutions Lead,
Cloud and infrastructure services, Wipro

Chalapathy Purushothaman has more than 2 decades of experience in IT services. Over the past 5 years, he has been helping large fortune 500 companies in the Americas in successful cloud adoption, and setting up strong cloud foundation and migration studios.

You can reach Chalapathy Purushothaman at
Chalapathy.purushothaman@wipro.com



Wipro Limited

Doddakannelli, Sarjapur Road,
Bangalore-560 035, India

Tel: +91 (80) 2844 0011

Fax: +91 (80) 2844 0256

wipro.com

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For more information,
please write to us at
info@wipro.com

