Spot
by NetApp

eBook

Is your cloud commitment portfolio in hands you can trust?

What to ask a commitment management vendor before signing an agreement

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Introduction

Managing commitment[1] discounts is a foundational FinOps practice from the "Crawl" phase. Its prominent KPIs are commitment coverage, utilization, and Effective Savings Rate (ESR) —all measured by percentage. Minimizing unutilized commitments is key to meeting these KPI goals.

However, managing commitments at scale across multiple cloud providers and services can be extremely complex. Therefore, driving savings effectively with commitments requires considerable effort and expertise. This is where third-party solutions step in.

Third-party commitment management vendors can offer expertise, visibility, automation, and innovative optimization strategies to help businesses navigate the intricacies of managing and maximizing their investment in commitments. Therefore, the vendor you select will greatly impact your cloud spend.

This document aims to guide FinOps practitioners to ask the right questions of their commitment solution vendors. It will assist practitioners who are looking to select a vendor for the first time, as well as provide guidance when organizations are considering changing vendors.

Want to master the different traits of RIs, Savings Plans, and CUDs?

Check out this guide

1) Reserved Instances (RIs), Savings Plans (SPs), and Committed Usage Discounts (CUDs) are generally referred to as "commitments".

Questions to ask about the vendor's strategy

What savings can we expect?

Beware of vendors promising you 70%+ savings. Cloud providers do indeed offer up to 72% discount (compared to the on-demand pricing) on some commitments. However, actual discount rates vary between cloud providers, services, commitment types, and commitment periods. Usually, 3-year compute RIs offer the greatest discounts, while Savings Plans, or non-compute RIs/SPs, offer smaller discounts.

Moreover, discount rates and savings are two different things. The FinOps definition of Effective Savings Rate (ESR) considers commitment spend against the on-demand equivalent of actual usage, then offsets management costs. This means that both underutilization and the vendor's fee greatly impact your savings, making a 70% saving highly unrealistic.

Depending on your cloud resource needs and commitment blend, a good ESR can vary between 30-60%. The vendor's estimation should rely on deep analysis of your cloud account, your risk preferences, architectural plans, and similar customers, if they exist.

Want to question vendors on ESR?

Read this first

When will we start seeing savings?

Your vendor should be able to deliver savings immediately during the POC or the first billable month. This applies even if you already have good commitment coverage or some portion of savings plan lock-in. Ask about the strategies that will yield immediate savings, seek to understand how much these will be, and compare them to the vendor's fee to ensure your positive ROI.

What percentage of our commitments will be flexible?

With rapidly changing market conditions and hyperscalers' release of new instance types, commitment lock-in, and/or lengthy vendor contracts can undermine savings. You'llwant to see a portfolio in which the share of convertible/exchangeable commitments is large—and no less than your historical volatility range (the amount of your largest peaks and valleys).

What will our average commitment period be?

Maximizing savings with the lowest commitment requires a balanced portfolio that takes advantage of many savings strategies, commitment types, and commitment lengths. You'll want to see tiered purchasing strategies that involve at least 50% of your total commitment amount expiring in up to 6 months. This strategy will continuously create opportunities to make big adjustments to your commitment strategy should your needs change.

How can we see our savings?

You deserve transparency of your cloud investments and your vendor's performance. Ask to see this information, ideally in a dashboard. Understand what metrics are displayed there, what they mean, and how frequently they are updated. At the least, you want to track coverage and savings by cloud and service.

Will our savings increase the longer we work with you?

Your vendor should scale your commitments to match your cloud environment's growing size and complexity. Over time, your commitments should also fit more tightly with actual resource usage, minimizing wasted capacity. To support that, ask which strategies generate long-term savings and how they enable increased savings over time.

Questions to ask about the vendor’s solution

What cloud services do you support?

Like the various components of your cloud estate, commitment discounts are not limited to compute alone. Hyperscaler services like databases, analytics, storage, AI, and even SaaS, all have some commitment offers attached to them. Ask the vendor for the full list of supported services, to ensure they can help you save on every major service you use.

Does your solution support multiple clouds?

Even if you have only one cloud provider today, you want to keep your options open to add additional cloud providers or migrate from your current one. A vendor supporting multiple clouds will reduce your cloud provider lock-in and support you as your cloud estate evolves.

What strategies do you employ to generate savings? How do they balance risk and reward?

Your vendor must use various strategies to generate the greatest savings as quickly as possible as well as increase your effective savings over time—all while limiting your lock-in exposure. These strategies include purchasing multiple small commitments over time, convertible RI exchanges, AWS RI Marketplace transactions, etc. Seek to learn the vendor’s full range of strategies and the benefits of each.

How do you handle volatile usage?

Changes to demand or internal production schedules can lead to large increases or decreases in cloud resource needs. Your commitment strategy must be highly adaptable in real-time to minimize waste. Seek to understand how “real” is “real-time”: response time SLAs, time to apply automated and manual changes.

I’m a startup/ global retailer/ enterprise/ MSP. What characterizes the commitment needs of customers like me, and how do you support them?

Your vendor should be able to meet you where you are and support your business at every step of the way. You can be a startup with usage spikes from application testing, or a giant retailer with massive Black Friday peaks. Either way, your vendor must have experience optimizing commitments for businesses like yours.

How will my commitment purchases be synced with my actual infrastructure needs?

Optimizing reserved commitments is usually a great place to start reducing your cloud spend and controlling costs. But to maximize cloud savings, you need to go beyond commitment management. Look for solutions that can identify cost and resource waste, right size instances, optimize your infrastructure, generate reports, implement best practice checks, and offer timely and accurate chargeback/showback and billing capabilities.

Is your solution fully automated?

This is a trick question! Relying solely on automation greatly limits the use of custom cost-saving strategies. It also means that the vendor implements a one-size-fits-all solution across all its customers. Furthermore, as automation relies on historical data, any anticipated business or infrastructure changes will not be considered by the automated solution in purchasing and renewal decisions.

Therefore, the answer you want to hear is “no”. You want the vendor to have a professional, FinOps-savvy team that can supervise the automation, provide consultancy, and intake your plans and requests, modifying your commitment strategy accordingly.

Will our commitment portfolio be unique?

In commitment management, there is no one-size-fits-all. Businesses in the same industry and of similar size might have very different preferences for resource types and risk tolerance. Additionally, your needs will likely evolve as your business expands its cloud usage. You want to work with a vendor that can provide a tailored approach and has the expertise and agility to adapt your portfolio to evolving demands.

As I am a new customer, you won’t have any historical data on my cloud usage. How will you make informed decisions?

Finding the best, most compatible RIs for each customer requires extensive predictive algorithms. These algorithms are trained on historical cloud cost data. Without enough data—at least a few years back—forecasting is unreliable and risky.

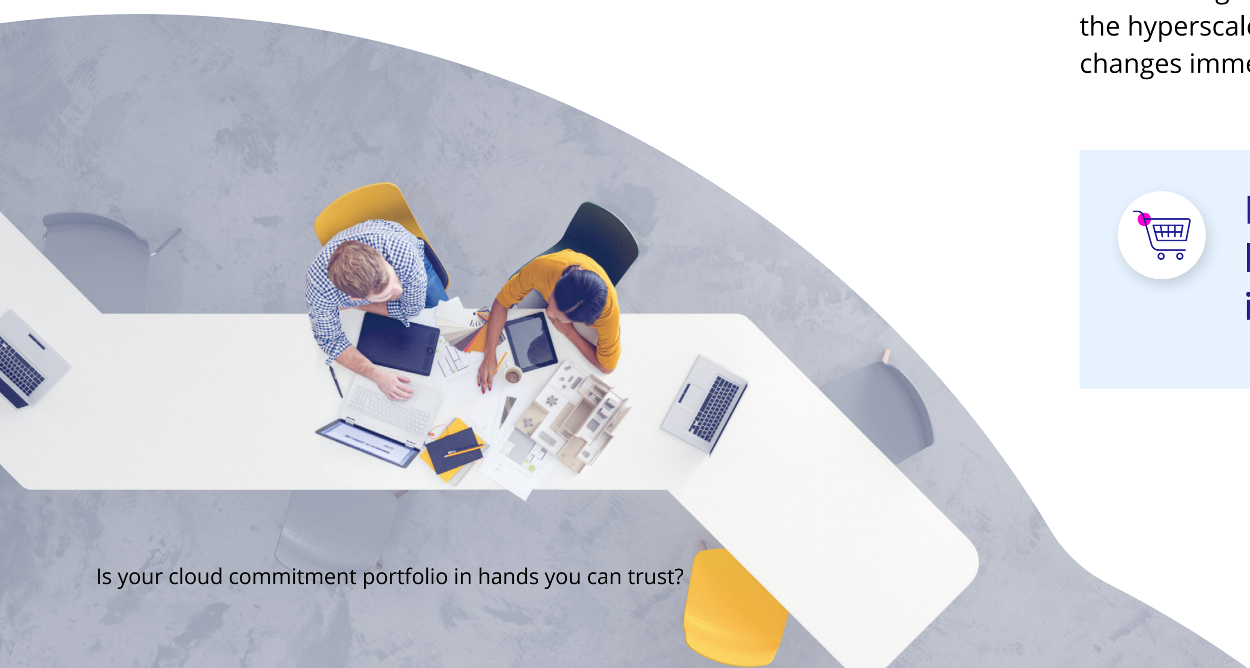
Questions to ask about the vendor's business

How do you charge for your service?

As savings vary monthly, your vendor should charge accordingly. Seek a vendor that shares the risk and only charges based on recognized savings garnered by them. Fixed pricing or high minimum fees might shrink your effective savings.

Will the way you charge remain the same if my cloud usage decreases?

Be careful of convoluted contracts that limit your ability to decrease cloud usage during slowdowns. Seek to understand exactly what your contractual obligations are, and how they affect your vendor bill.



Who are some of your long-standing customers? How long have they been on board? What results did you achieve for them?

Seek a vendor with a track record of success with businesses like yours. Read their case studies and ask for reference contacts who can share their experience with you.

How long have you been managing commitments?

Large, established vendors are less likely to disappear and leave you on the hook for commitments you don't need or don't fully use.

How do you manage hyperscaler policy changes?

FinOps is constantly evolving, and cloud providers constantly add new capabilities and adjust policies. Your vendor must be knowledgeable of these changes (ideally ahead of time). This requires strong alliances with the hyperscalers (AWS, Azure, GCP) and a team who can support these changes immediately.

Did you know? AWS now significantly limits the reselling of discounted RIs in its marketplace. Learn more

Optimize your reserved commitments with Spot Eco

Eco is the all-in-one commitment management solution

Eco combines automation, machine learning, and human - overview to continuously optimize your commitment portfolio and offer the deepest savings while avoiding lock-in. Additionally, Eco provides the widest array of savings strategies across the most commitment types and cloud providers, which ensures your business is supported regardless of where you are in your cloud journey.

Eco ensures you gain maximum value from your commitments

Eco provides adaptive coverage by utilizing many different commitment optimization methods, such as Convertible RI exchanges, the RI marketplace, and others, to develop a custom strategy that maximizes your savings on cloud spend and adapts to your current and future business needs.

Eco is backed by NetApp

Eco is part of Spot by NetApp's FinOps portfolio. As the industry leader, Spot by NetApp has established long-term strategic alliances with AWS, Azure, GCP, and other cloud providers as well as the FinOps Foundation. Spot by NetApp is committed to supporting its customers long-term and will continue to develop new capabilities to further their cost optimization.

If your organization needs help maximizing commitment value, Eco can help. To ask us the questions covered here and any others you might have, schedule a live session with an Eco cost analyst.

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About Spot by NetApp

Going beyond cloud analytics and recommendations, Spot actively optimizes AWS, Azure and Google Cloud deployments with SLA-backed availability, fully automated infrastructure management and up to 90% cost reduction. With Spot, cloud consumers can effortlessly and affordably scale any workload, from stateful, single instances, to cloud-native clusters made up of thousands of nodes.

Spot by NetApp

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