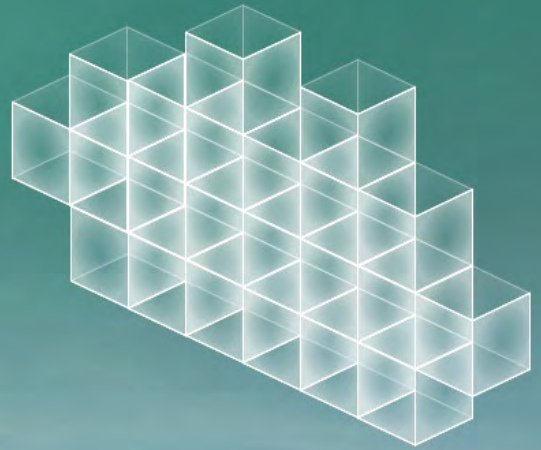


HEIDRICK & STRUGGLES



Above *The Cloud*

The next generation
of cloud leadership

by Darren Cinti, Matt Aiello and Jason Kranz

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The next generation of cloud leadership

To fully deliver on the promise of cloud computing, cloud service providers and customers/CIOs alike will require some new and highly specific leadership abilities – as we found in a series of in-depth conversations we recently conducted with leaders on both sides of the equation.

The hype as well as hope that has accompanied cloud computing since it first emerged is now giving way to fast-changing reality. Technology research company International Data Corporation reports that overall spending on cloud computing is growing five times as fast as spending for traditional corporate technology. The federal government, too, is looking aloft: its “Cloud First” policy encourages the use of cloud services for new projects and requires agencies to move at least three existing projects to the cloud by the summer of 2012. The Gartner Group estimates a cloud market totaling US\$149 billion by 2014, and 100% penetration among Global 2000 companies by 2016. As providers of cloud services race to develop the requisite technical capacity coupled with viable business models and more and more CEOs and CIOs leverage the cloud for their companies, they will need to make sure that they have the requisite leadership skills to thrive in the new paradigm for the delivery and consumption of IT services.

While developing or finding outstanding leaders is a perennial challenge in organizations of all kinds, the challenge here will be greater: few people have significant experience on either side of the cloud. Although similar technologies have existed for years, on both the sell side and the buy side of cloud computing, executives are dealing with both a new vocabulary (SaaS, PaaS, IaaS, etc.)

and new applications of technology with high potential both for new benefits and new risks.

To assess the full dimensions of the leadership requirements now emerging, we conducted in-depth interviews with leading executives of provider companies and with their counterparts in organizations moving at least some of their IT services into the cloud or building a private cloud. We asked executives within cloud services providers what kind of leaders, and what specific competencies, they will need in critical leadership positions in their organizations. We asked organizations that are using the cloud what key business issues their leaders – especially their CIOs – will need to address to use the cloud to its best advantage.

No one is more acutely aware of the stakes and the challenges than the executives we talked to. Their answers to our questions provide a candid look at what kind of leadership cloud providers and cloud users will need to get ahead in what is shaping up as a once-in-a-generation revolution.

The provider perspective:

“How do you keep customers happy forever?”

Understandably, providers are bullish on the future of cloud computing and its appropriateness as the vehicle for many of their clients’ IT operations. Many customers, also understandably, are more cautious. “The hype does not equal the capabilities,” says the CIO of an US\$18 billion technology company. But from the provider’s point of view, such caution is shortsighted. According to the president of the cloud computing division of a major provider, “We see two kinds of CIOs – those who don’t

believe in the cloud and those who are more forward-thinking and closer to the business in their companies.” To convert more of the doubters into adopters and to satisfy those who already see the potential of cloud computing, the executives of key providers say their organizations need very specific skills in their respective leadership roles:

CEO

As the CEO of a fast-growing SaaS provider notes, many of the core leadership skills required of a chief executive are transferable. But in the emerging world of cloud computing, two of those skills are particularly critical: “Recognizing and hiring great talent and second, having a sound business strategy,” he says.

In an environment where few people have experience working in a “true” cloud company, the need to be able to identify, attract, and develop outstanding talent is obvious. Strategy, too, takes on a specifically heightened importance. It is not only a matter of what markets to pursue and services to offer, but also a matter of business model innovation, which is a more rarefied strategic talent. As the former CEO of a SaaS provider asks, “How do you monetize the customer long term?” Answering that question requires the ability to find the right combination of services, delivery, and internal resources in a rapidly evolving competitive landscape to produce a reasonable profit for the provider and real value to the customer.

Sales

The sales model in cloud computing differs dramatically from that of enterprise software, where salespeople seek a handful of blockbuster deals annually, moving on to the next big prospect as soon as a deal is signed. In contrast, most cloud business, as one provider executive says, is “follow-on and expand.” “You go in and sell a small division and then the next,” he says. Instead of quickly moving on to the next prospect, salespeople must cultivate existing customers. Instead of doing a few blockbuster deals, they must do a large volume of small deals. “You can put the US\$5 million-dealmakers out to pasture,” says the executive. Compensation – which in sales, as the executive says, is “everything,” – is based on what the customer is using and will be tied to monthly recurring revenue.

Providers will also need salespeople who are adept at consultative selling. They will need to fully understand

and explain how clients can use the provider’s services not only to save money but also to confer advantage on their businesses. The lines between marketing and sales will blur, as both functions seek to get as close to customers as possible and maintain and expand those relationships.

The sales model will require sales leaders who can manage the higher-volume pipeline of smaller deals. They will have to put together a team that can focus on a large volume of deals and deeply engage customers on how they might use the provider’s services. In SaaS, which can be sold to any size company, providers may use two distinct sales teams: an on-the-ground sales force for large companies and a telesales group for smaller companies. Sales leaders at those providers will have to be adept at running this dual team, likely consisting of more experienced salespeople on the ground and younger, more inexperienced telesales people who will need to be thoroughly trained. Those SaaS leaders and their teams should also be able to execute the shorter sales cycles for SaaS, which can usually be bought by lines of business as an operating expense instead of by IT as capital expenditure.

Marketing

The differing perspectives of the bullish providers and cautious buyers suggest that providers will need to do a better job of telling and selling their story to potential customers. “Our marketing is about educating,” says the president of the cloud computing division of a major provider. “We need people who can talk with clarity and simplicity about this new world and tie it to helping the customer’s business.”

This “consultative marketing” also requires the ability to listen, especially given the “follow-on and expand” nature of the cloud business. One of the things they must listen for, says the former CEO of a SaaS provider, is “why the customer is not buying as much as they might.” He points out that while a customer may be a large company it could be using the same amount of services as a mom-and-pop operation. “If they’re consuming in a way you didn’t plan for, then your infrastructure is too expensive,” he says.

Marketers will still need to do volume messaging and support the brand, say the executives we talked to, but they will also need to spend far more time in front of customers and work more closely with Sales to uncover

customer requirements and increase their consumption of services. In SaaS, Marketing is even more closely allied with Sales, developing content that helps people self-serve. Unlike conventional software, SaaS enables free trials, typically managed by Marketing, which will need the requisite skills in automating those trials.

Marketers for providers that offer multiple cloud services will have to market more broadly, instead of confining themselves to software or infrastructure, for example. Says the President of a major provider's cloud division, "Everybody used to like to market in their domain. Now because everything has merged into one technology stack you have to market across domains."

Finance

While there are numerous implications on the finance organization within cloud companies, the biggest challenge appears to be revenue recognition.

"Understanding how to apply general revenue recognition rules established by Financial Accounting Standards Board or the Security and Exchange Commission is daunting," said a CFO of a software company recently acquired by Google. The rules require companies to recognize revenue ratably over the life of a contract, which is different from a perpetual license which you can recognize at the time of a sale. "We will sign our customers to three to eight year terms and the total opportunity value will vary. If it is a five year term, the revenue is based on 1/60 per month for the life of a contract."

One major benefit of this rule is that it allows for a more predictable revenue stream over time. When assessing a public software company the analyst community relies a lot more easily on a hosted model because the revenue is far more predictable. "A backlog of revenue is really helpful when attempting to provide guidance to analysts and the market. It makes a CFO's life far easier to predict revenue and profitability, when he can recognize a certain amount of revenue over time."

Another area mentioned by several CFOs is contract language. It is mandatory that CFOs understand which contracts are used and the language associated with those contracts, ie. service level agreements, etc. The language of a customer contract can impact the accounting of

revenue recognition and payment terms. If a customer alters the language in a contract, the CFO and / or finance team need to be intimately involved to ensure there are no breaches of accounting rules.

Engineering and Development

The leaders of stand-alone cloud services providers or of cloud divisions of larger companies will have to be adept at hiring the right technical and development talent. Virtually all of the executives of provider companies we talked with agree that system architects are critical. The CTO of the software division of a telecommunications company is typical: "Engineers can build it, but finding someone who can design it – those are few and far between." Especially, say a number of interviewees, as the company and the architect move up the technology stack and attempt the dauntingly complex task of building a comprehensive cloud services system.

Providers will also have to find and direct the work of product managers and developers who understand new languages and can help write the integration of that technology stack. However, this doesn't mean that narrow specialization is an entirely obsolete skill. Says one executive, "Because of virtualization, you need developers who can program down to the level of the operating system."

Product development executives will also need skill sets related to scale, a requirement that differs sharply from the world of conventional software. In cloud operations, these executives have to understand the dynamics of data centers, back-up, and scale at an entirely different level because, as the CEO of the fast-growing SaaS company says, "You're not simply copying disks, you're serving thousands of customers simultaneously."

Development cycles are also shorter. Conventional software companies update their product only every year or two so that customers aren't constantly plunged into time-consuming implementations throughout their organizations. But in the cloud, where updates do not disrupt the customer organization, providers may introduce new features and updates several times a year, greatly compressing development time, requiring leaders who can make that happen.

Service, Delivery, and Customer Affairs

Many of the product companies that are getting into cloud services have never provided a service before – it’s a major shift of emphasis for them. Even small companies, moving only into providing Software as a Service (SaaS), suddenly find themselves needing to successfully supply 24/7 customer service.

Service level agreements (SLAs) can also present unique challenges. Says the CIO of a US\$1billion technology consulting firm that helps client move into the cloud and that is scaling up its provision of cloud services: “You have to be able to deliver on service level agreements, which are complex. But some providers, who are dealing with multiple customers, may want more flexibility in their SLAs.”

Quality also becomes a more urgent issue in the cloud – all customers are updated simultaneously and frequently, leaving no time to work out bugs encountered by early adopters, as in more earthbound environments. “Good-enough” quality and customer care, as in conventional software, will not suffice, says one provider executive. Many customers, who typically sign up for relatively short periods of time and have to be continually re-signed, can easily switch providers if they are dissatisfied. In this environment, says a former CEO of a cloud provider, the real question becomes: “How do you keep customers happy forever?” Says another CEO, “You have to provide a great service that people will sign up for over and over again. If you don’t set up your company to deliver a great customer experience for the long term, you will fail.”

Customer / CIO point of view: *“Build stronger cloud provider relationships”*

In organizations that employ the cloud, the focal point will inevitably be CIOs. They will have to understand how cloud computing can best support the business, both operationally and strategically. They will have to

work collaboratively with other functions and parts of the business to realize the greatest possible value from the cloud and to uncover additional uses. And they will need to be trusted advisors to their CEOs, helping assess the trade-offs, risks, and advantages of various uses and deployments of the cloud for the company. More specifically, CIOs will need a comprehensive understanding of the issues in key business and operational areas, including:

Security

The sample of cloud customers we spoke to run the gamut of services used – SaaS, PaaS, IaaS – and encompass the full range of deployments from private clouds, to hybrids, to community clouds, and public clouds. Not surprisingly, technology companies appear to be doing more in the cloud than companies in other industries, especially heavily regulated industries like financial services. But regardless of industry, services used, or type of deployment, almost all of these executives voiced a central concern: security.

In many cases, that concern heavily influences the type of deployments and services they choose. Some, like a leading financial services organization, use SaaS in the public cloud for some niche software products and public IaaS for provisioning non-customized solutions to its development engineers in IT but none of those uses, says the organization’s CIO, are strategic. “We are not willing to put email in the cloud because there’s too much that’s proprietary, and we have a lot of legal / discovery / regulatory issues. No cloud provider will accommodate those requirements.”

A leading consumer products company uses a private cloud in sensitive areas and a public cloud provider for all of its digital marketing, including the hosting of all of its web assets, and another public provider for its consumer data warehouse. A US\$150 million non-profit, whose CIO describes the organization as “conservative” with regard to their systems, has built a private cloud. The CIO of one of the world’s leading universities, who observes that “public clouds are complicated and risky,” heads a consortium of 13 universities creating a community cloud for dynamic spot cloud computing capabilities, using IaaS provisioned by a leading provider. When the private cloud he runs at his

university goes to provision resources it can be exposed to the community cloud via the provider and get the resources from the provider or use the spot capabilities.

With security concerns addressed, these users are realizing considerable benefits. For example, the CIO of the US\$150 million non-profit says, "The incremental cost of adding apps is minimal, and we can go outside or leverage what we've built internally," he says. "The cloud helps us in speed of deployment and in disaster recovery – what took us a week four years ago now takes us a day."

Integration of services

As companies use disparate cloud services providers, the CIO will also have to act as what the CIO of an US\$18 billion technology company calls an "IT Broker." Any IT department that disaggregates a number of its activities among providers will require the ability to orchestrate the use of those external providers and manage and integrate services within the company based on an understanding of how its business flows. This will require not only technical skills and business understanding, but also the ability to communicate effectively across the organization.

Technical talent

Like their counterparts in provider organizations, CIOs will also need to hire the right technical talent. From a competency perspective, this includes technologists who are open to exploring new technologies, taking calculated risks and innovating. Curiosity is important in next-generation cloud talent, as is the ability to interact credibly with vendors and be able to diplomatically "push back" and disagree if a solution doesn't meet the organization's needs; what works in one environment may not work in others, and often critical points in determining success or failure are rooted in deeply technical conversations.

In terms of experience the cloud "flavor of the month" will undoubtedly change, but current important skill sets include understanding architecture in hosted environments, server virtualization, middleware, as well as understanding specific vendors like VMWare, Salesforce.com, Citrix, F5, Savvis and others.

Legal / Privacy / Compliance

As companies put more of their data and their operations in the cloud, CIOs will need to understand the complicated issues and mitigate the manifold risks that the cloud entails. In larger companies, especially in highly regulated industries, addressing those risks and issues could mean, variously, working with the General Counsel, the Chief Privacy Officer, and Chief Compliance Officer. In smaller companies it might mean working with in-house legal talent as well as outside counsel and other external consultants.

The issues can be complex as well as momentous. "For example," says the CIO of a leading financial services organization, "what if we pulled out of one of our providers? Who owns the data? Can our regulators look into those services the way that they look into us as a financial services company? What if a disgruntled employee at the provider puts our proprietary information out in public?" Cloud customers will increasingly need people who can answer those questions and their CIOs will need to be able to work with providers on viable security, legal, and compliance models.

Vendor Management

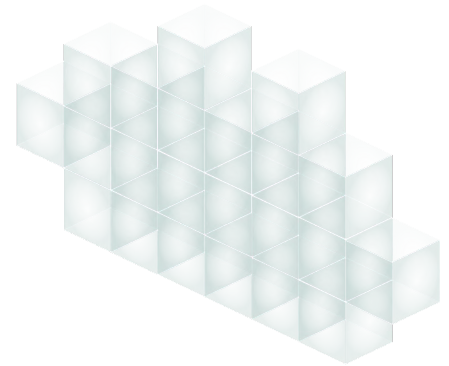
"We need stronger connections within our cloud provider organizations," says a financial services CIO. Another CIO points out that while it may appear like a form of outsourcing, cloud computing requires even more engagement with the vendor. Customers, he says, need to understand how the provider makes money. Providers want their services standardized to a large degree, while buyers may want a degree of customization that vendors cannot provide or that entails expense that undermines the cost savings that may have first motivated the move to the cloud. "It's configurable, but not customizable," says a typical CIO. "The moment you reach customization, you begin to lose money," he says.

Conclusion

As cloud computing develops over the next two to three years, leadership will be critical to the success of providers and buyers alike. Cloud customers whose CIOs understand and address those critical business and operational issues – security, integration of services, technical talent, legal/privacy/compliance, and vendor management – will get a head start on using the cloud more extensively and realizing its benefits: cost-savings, ability to access services on any device anywhere, reliability, scalability, and the agility those attributes confer on the business.

For technology product and services companies, the impact of the new model of cloud delivery is even broader, affecting almost all functional areas of the organization from engineering and development and customer service through sales and marketing up through the key roles in the C-suite. Those providers that get it right will win the race to be market leaders while laggards will likely fall by the way side. In this new world, CEOs and Boards of provider companies and buyer companies will need to make sure that they are hiring executives with the right competencies – and they will have to move expeditiously as more companies compete for cloud talent that is already in very short supply.

Like people gazing at real clouds, everyone sees something different in cloud computing. Everyone does agree, however, that shapes will shift fast – business models, deployment options, and the competitive landscape. As providers broaden their offerings and customers move from simple cost-saving to larger, more strategic commitments, it will be leadership – in both types of organizations – that will make all the difference in determining those shapes. ■



HEIDRICK & STRUGGLES

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Cloud Practice

In the tradition of being a strategic partner to our clients, Heidrick & Struggles launched a Cloud Practice in early 2011. As cloud technologies and services become pervasive, organizations are experiencing a dramatic shift in the way they conduct business. This shift has compelled CEOs and Boards to compare the competencies of their current leadership teams with those needed to thrive inside cloud-centric organizations. The objective of the Heidrick & Struggles' Cloud Practice is to educate our clients and provide solutions related to these emerging cross-functional leadership challenges.

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