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Technology, Media & Telecommunications

What's keeping software leaders up at night?

The pronouncement that software is "eating the world" by Marc Andreessen has largely proven true. This can be seen in numerous ways: traditional consumer, healthcare and industrial companies are expanding their technology agendas and enhancing their software capabilities, sometimes by acquiring startups or recruiting senior leaders away from software and other technology companies. With few exceptions, all companies are becoming more digital and interconnected with larger business ecosystems. And software is at the center of it all.

Against this backdrop, Spencer Stuart surveyed CEOs and other C-level executives of established software companies around the world about their most important strategic issues, the drivers of growth and their top leadership and talent priorities. Approximately 100 leaders responded. Among the findings:

> Forty-one percent cited changing client buying behaviors as their company's top priority or concern.

> The development of new and upgraded products is the most important growth driver for 40% of responding companies.

> Improving product quality and customer service is a top operational issue for 54% of companies.

> While sales leadership is the most in-demand functional area regardless of business model, we found differences in the talent priorities and needs of Software as a Service (SaaS) companies and licensed software providers.

To supplement the survey results, we spoke with Mark Hurd, co-CEO of Oracle, and Bill McDermott, CEO of SAP, to get their observations on industry trends and the survey findings. Also, where possible, we compared survey responses to those from a similar industry survey conducted in 2004.

WHAT DO SOFTWARE LEADERS WORRY ABOUT THE MOST?

Changing client buying behaviors, competitive threats from new entrants and software as a service emerged as the top issues keeping software executives up at night.

Interestingly, when we asked this question 10 years ago, IT spending levels and Software as a Service topped the list of software executives' concerns.

Changing client buying behaviors	41%
Competitive threats from new entrants	29%
Software as a Service	26%
Macro economy	24%
Cloud	23%
Security	22%
Mobile applications	19%
Changing software landscape	17%
Competitive threats from established players	17%
Big data	14%
Private equity investment	13%
Interoperability/ standards	7%

Multiple responses were allowed.

Leaders' top priorities and biggest concerns

"Instead of best-of-breed and line-of-business applications that appeal to particular buying centers, CEOs today recognize that IT no longer just supports the business; it is the business..."

— BILL MCDERMOTT, CEO OF SAP

"The average age of an IT application in the Fortune 500 today is about 20 years old. So, those applications were built pre-mobile, pre-social, pre-search. These apps are just 'pre-' anything that we think of today."

MARK HURD, CO-CEO OF ORACLE

Evolving customer behaviors was cited as the most common cause of sleepless nights by software executives responding to the survey. In particular, customers' willingness to make do with older software for longer periods of time and their desire to get more of their software from the cloud are posing challenges for many software companies. Despite the growing importance of IT to business strategies in every industry, spending on IT has remained relatively flat.

As Hurd observed, "IT represents only a couple of trillion dollars of the $71 trillion gross world product, but that $2 trillion dollars is woven into the fabric of virtually all of the rest of the world's GDP. Without us as an industry, a lot of things simply don't get done in the worldwide economy."

Since the financial crisis, businesses started to keep software for longer periods and, therefore, selling new licenses has become more difficult. While IT spending improved since the depths of the recession, it hasn't returned to pre-crisis levels, software leaders observed. IT spending by companies has achieved a compounded annual growth rate of only 2% or 3% over the past decade, and much of companies' spending is directed at maintaining their current systems, according to Hurd. Yet consumer spending on technology has exploded, as has the demand from business and functional leaders for applications to support data collection and analysis, and for the integration of systems and processes across the business.

"Instead of best-of-breed and line-of-business applications that appeal to particular buying centers, CEOs today recognize that IT no longer just supports the business; it is the business. And everybody has to have the competency of a CIO when they think about their business strategy and the enablement of it," said McDermott.

As important as IT is to the success of any business today, many companies are operating with software created in a very different business environment. "The average age of an IT application in the Fortune 500 today is about 20 years old. So, those applications were built pre-mobile,

pre-social, pre-search. These apps are just 'pre-' anything that we think of today," said Hurd. "This is a real challenge for our customers, because our customers have very little IT spend chasing this incredibly sophisticated consumer. There's an enormous amount of R&D coming from companies invested in consumer IT and consumer tools that is outstripping the ability of companies to keep up with them. As you look at that as the backdrop, it's one of the reasons why you hear so much enthusiasm about the cloud and its ability to increase the speed of innovation."

This tension between the demand for innovative applications and the constraints on IT spending is driving the SaaS marketplace, and emerging competitors are all SaaS players.

Despite the constraints on IT spending, 90% of survey respondents anticipated at least some revenue growth, with nearly 40% saying sales would grow by 20% or more. What's driving growth? Areas such as artificial intelligence, non-relational databases and cloud analytics are experiencing rapid growth. Growth also is coming from geographic markets where IT penetration is lower than in Europe and North America.

The development of new or upgraded products is the most important driver of revenue growth, according to survey respondents, followed by new distribution channels or partnerships. These also were the top two growth drivers a decade ago.

Reflecting the industry's movement to SaaS distribution models, SaaS players responding to the survey anticipated higher revenue growth than traditional licensed software providers; 56% of SaaS providers projected revenue growth of 20% or more — compared with 29% of traditional licensed software providers. All SaaS providers expected at least some revenue growth, while 15% of non-SaaS companies expected revenues to remain flat.

How much growth is your organization expecting this year?

	All	SaaS*	Licensed*
Decrease	0%	0%	0%
Flat	10%	0%	15%
<5% growth	6%	6%	7%
5-9% growth	23%	22%	24%
10-14% growth	14%	11%	15%
15-19% growth	8%	6%	10%
≥20% growth	39%	56%	29%

* Primary business model was self-reported; 57% licensed software, 38% SaaS and 5% open source.

What is the most important growth driver for your business?

New or upgraded products	40%
New distribution channels/key partnerships	23%
New services	16%
Acquisition of companies/products	7%
Geographic expansion	7%
Other	7%

TOP OPERATIONAL ISSUES

More than half of respondents cited improving product quality and customer support as the top operational issue for their companies, and a distant No. 2 was pricing pressures. These were also the top two operational issues when we asked this question in 2004.

Improved product quality & customer service	54%
Price pressures	14%
Cost reduction	10%
Audit & control issues	2%
Board governance	2%
Compliance	2%
Other	16%

What does this mean for talent?

Forty-three percent of survey respondents said attracting new talent is the most pressing human capital imperative. Among leaders of SaaS companies, the percentage is even higher, at 64%. Traditional licensed software companies, meanwhile, are more likely to prioritize the retention of key performers (40% versus 14% of SaaS providers) and cross-functional collaboration (28% versus 16%).

Competition for top talent is fierce, but it was 10 years ago too, CEOs said. "Do we see more rivalry for talent today? My answer would be, 'no.' There is incredible rivalry for talent; there used to be and there still is," said Hurd. "Finding talent always has been tough, and you've got to get the best people for what the company is trying to do. Everybody's definition of the best people can be a little different, but it's the best people for the execution of your strategy and your model."

Sales leadership is overwhelmingly the most important — and most in demand — functional area for respondents in the coming year, according to the survey; 75% of respondents said sales, alliance management and distribution would be the most important functional areas for the business. This was true for both SaaS players and traditional licensed software companies. The relative importance of other functional areas, however, differed between SaaS and licensed software companies. Product management and marketing were rated as more important by SaaS respondents, while leadership and product development were more heavily weighted by licensed software providers.

Most important human capital imperative

	All	SaaS	Non-SaaS
Attracting new talent	43%	64%	30%
Retaining key performers	30%	14%	40%
Cross-functional collaboration/breaking down silos	24%	16%	28%
Headcount reduction	2%	3%	2%
Training	1%	3%	0%

Given the current business priorities, what functional areas are going to be more important to your company in the coming year?

	All	SaaS	Non-SaaS
Sales, alliance management, distribution	75%	78%	73%
Leadership	39%	31%	43%
Product development	33%	31%	35%
Product management	22%	33%	15%
People management	21%	19%	22%
Marketing	19%	28%	13%
General management, business management	16%	22%	12%
Product & customer support	14%	19%	10%
Finance & control	9%	11%	8%

Multiple responses were allowed.

Competition is greatest for sales executives, senior leadership and product development executives, according to the survey. SaaS developers, security experts, digital marketers and product marketers also are in heavy demand, according to software leaders. Companies transitioning from a licensed software model to a SaaS model also will need to build pricing expertise.

In which functional areas will there be the most demand for senior-level talent in the next year?

Sales	80%
Product management	44%
Product development	43%
Professional services	38%
Marketing	34%
Customer support	18%
Strategy	15%
IT	8%
Corporate development	6%
Board of directors	5%
Finance	4%
HR	3%
Other	2%

Multiple responses were allowed.

Conclusion

Ten years after Spencer Stuart first surveyed software leaders about trends in the industry, some things haven't changed. The development of new and upgraded products continues to be the most important growth driver, and improving product quality and customer service is the top operational issue for software companies.

Yet, some things have changed. Consumer spending on IT and tools has exploded, outstripping the ability of companies to keep up with them. This tension is driving the growth of cloud-based applications, as software companies and their customers look to increase the speed of innovation.

Competition for top talent will continue to be fierce, particularly for the most in-demand leadership roles: sales, product management and development, general management and marketing. Furthermore, as the industry increasingly moves to SaaS business models, leaders more than ever will need to develop a deep understanding of customer needs and a strong product mindset, as well as the ability to cut through huge amounts of data and zero in on a few key strategic priorities. Software companies that embrace these changes will be best positioned for success in the industry's next decade.

Appendix
Survey participant backgrounds

Primary software business model

	2014	2004
Licensed software	57%	75%
Software as a Service	38%	23%
Open source	5%	2%

Company classification

Enterprise applications	65%
Vertical applications	22%
Systems & network management & utilities	21%
Document, database & file management	16%
Application development	13%
General business productivity	12%
Consumer applications	10%
Finance, HR sales management	10%
Other	7%
Operations (facilities, distribution, logistics)	4%

Multiple responses were allowed.

Company revenue

<$50 million	29%
$50 million - $100 million	13%
$100 million - $250 million	18%
$250 million - $500 million	9%
$500 million - $1 billion	9%
$1 billion - $3 billion	8%
>$3 billion	14%

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At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning 55 offices, 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment and many other facets of organizational effectiveness.

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