Software CEO / CFO Outlook 2015

On the Customer Success Road in a Perfect Storm

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INTRODUCTION

Necessity begets innovation, and the software industry has a highly successful history of innovating to create solutions that solve problems. But a successful marketplace depends on the customers.

The Software CEO / CFO Outlook 2015 study, the fourth in the annual series, found consensus among the surveyed companies regarding not only the hypergrowth of the industry but also how fast companies are growing and new technologies are entering the market.

Two prevailing themes emerged among the study findings: (1) the need to focus on customer success–the new foundation for continued growth–and (2) the "perfect storm" that now tosses major challenges in the path, making it difficult for software companies to find footing.

The study found that the industry is in a state of transition to a customer-centric business model. Executives participating in the study describe it as focusing on the "customer success journey" and agree that it is not the same thing as focusing on delivering stellar customer onboarding and support, nor is it just a way to reduce churn.

Buyers have much higher expectations of software vendors than they did 12 to 18 months ago. Software vendors now must understand how to make each customer succeed in their unique vision of "success" with a vendor's product; must build a personalized, enjoyable relationship with each customer; and must ensure that the product success and enjoyable relationship continue through the entire life cycle. Achieving this objective necessitates changes in software business operations and strategies.

A detailed discussion of the three elements of the "perfect storm" now hitting the software industry comprises a section of this report. It discusses how the storm causes some customers not to know what they want or expect–despite expecting vendors to meet their expectations for success–and how the storm impacts vendors' short-term and long-term strategies and resource needs.

This report on the Software CEO / CFO Outlook 2015 study provides a detailed look at one of the most exciting and yet most challenging times in the software world.

The report is structured to first discuss the current hypergrowth as well as growth opportunities and current drivers of customer spending. Then it moves to a discussion about the findings around the focus on customer success and how the various elements of the current perfect storm impact that effort. It concludes with a discussion about managing operations in the midst of figuring out how to effectively focus on customer success while in the midst of a perfect storm that slams that effort.

The report explores the forces now shaping the industry's future and includes some thoughts around future implications of the information uncovered in the study.

CONTENTS

EXECUTIVE SUMMARY

A "perfect storm" causing a roiling software market . . . an industry in transition to strategies around a customer-centric business model . . . and operational and strategic challenges as the two collide. This is the frame around the picture of the software industry today, revealed in the findings of the 2015 Software CEO / CFO Outlook study.

A few of the key takeaways of the study's findings:

- Expectations for the level of industry growth over the next 12 months is greater than at any time since the Great Recession of 2009. In addition, the number of participants that project industry growth at 20 to 30 percent or more is significantly higher this year than in 2014 (see page 5). The picture is also exciting for the participants' individual companies. More than one-third anticipate their company's growth will be in the range of 100 percent or more, and more than half expect revenue growth of 50 to 100 percent or more. More than half also plan for company profit in the range of 20 to 60 percent or more (see page 6).

- Despite the 2014 study's finding that growth opportunities in the Internet of Things (IoT) space were not significant to most of the surveyed companies, the picture is dramatically different 12 months later. Executives report that the accelerated pace in the IoT market over the past few months has a significant impact on their company's short-term strategy (see page 9).

- Almost three-fourths of the study participants identified recruiting/hiring among their top three concerns. A new talent gap exists in finding people who understand the entire customer journey (see page 18). More than half responded that they haven't yet found the talent with the new skills they need in the next few months. Nearly one-third indicated their hiring needs are due to their company growth (see page 22).

- In ranking their company's top three revenue-growth opportunities over the next 12 months, participants ranked "growth through emphasis on customer experience and customer success" as number 4 this year, and this was not on the radar screen in our annual study for 2014 (see page 7). However, 60 percent of the executives stated their companies are not satisfied with their ability to effectively manage customer-facing communications across the entire customer journey (see page 15). A significant number of the surveyed companies added a Chief Customer Success Officer (or Customer Success Officer or Customer Success Manager) to their ranks during 2014 or in the first quarter of 2015. In addition to adding these roles, vendors are including these executives in their C-suite strategy planning sessions (see page 16).

- The pace and volume of change and innovation now hitting the industry are causing software companies to face greater resource demands, and software companies need resources faster than anticipated (see page 17). The pace and volume of new technologies and products entering the market causes buyers to be impatient for the functionality and feel they must move quickly to stay competitive. Some vendors are dealing with situations where they try to focus on customer success, but customers don't yet know what they want. This causes vendors to take reactive actions rather than proactive steps that would lead to growth (see page 17).

RESEARCH METHODOLOGY

This report is the fourth in Sand Hill Group's ongoing series of software industry CEO / CFO Outlook studies since 2010. The goals of this series are to:

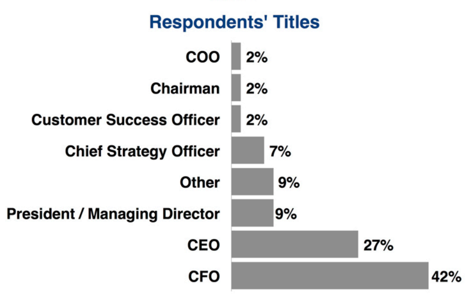
- Provide insights into the current and future state of the software industry
- Identify new trends and track evolving trends
- Assess the goals and challenges of software companies

For the 2015 study, an online survey of quantitative questions and individual follow-up telephone interviews (including questions not in the online survey) comprised the study. Sixty-three respondents participated in the study. All online and phone participants were guaranteed that their identities would remain confidential in order to protect the strategic nature of the corporate information they provided. For benchmarking purposes, we included a few questions in the online survey that were identical to those asked in the prior years' surveys, and this report includes information tracking those evolving trends.

This report on the findings of the CEO / CFO Outlook 2015 study is intended to give software company executives and investors directional insight as they make decisions. Although we focused on surveying a wide variety of software companies, the study is not necessarily a representative sample of U.S. software companies or of companies outside the United States.

Respondents' Demographics

Figure 1



"Other" includes Director, Vice President

Figure 2

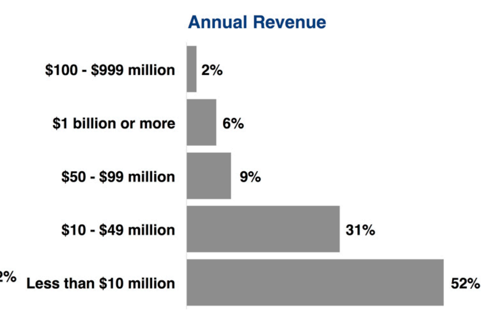


Figure 3

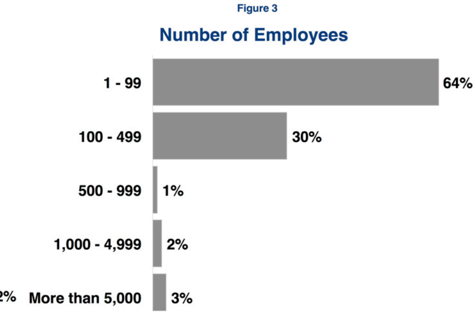
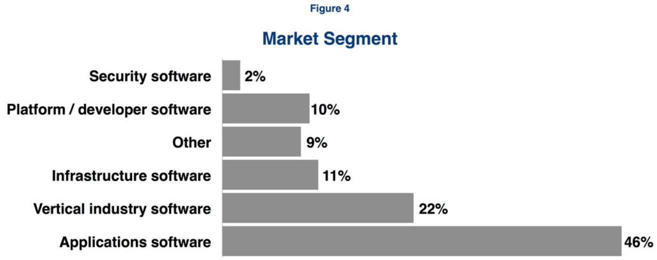
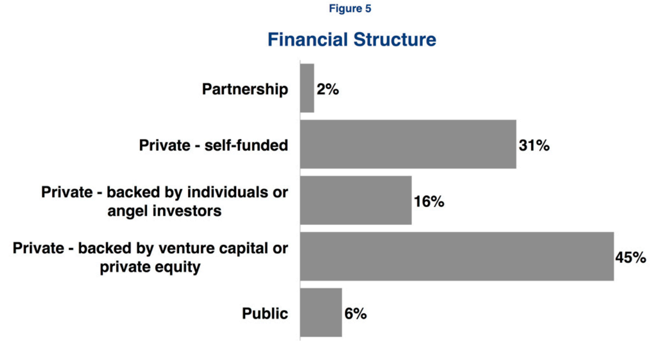


Figure 4



"Other" includes cloud monitoring, payment technology, trade

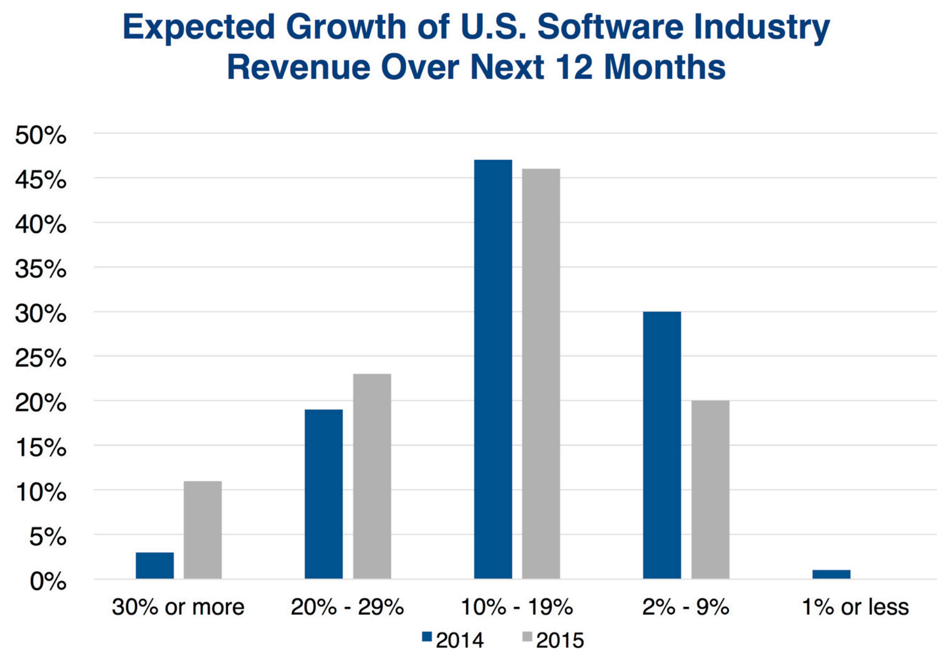
Figure 5



MARKET GROWTH

The survey found consensus among the participants that the software industry will experience significant growth over the next 12 months. As Fig. 6 shows, this was also the case in 2014. However, in 2014, 22 percent of participants expected the industry growth to be in the range of 20 to 30 percent or more, while 33 percent have this growth expectation for 2015.

Figure 6



In follow-up phone interviews with selected survey participants, we asked the following question: "How much do you think the impact of global political issues and cyberattacks will be a barrier to software industry growth in 2015 to 2016?" As indicated in Fig. 7, more than half of the interviewees believe it will have a minimal impact and a little under half of them believe the impact will be significant.

Figure 7

How much impact do you think global political issues and cyberattacks will be a barrier to software industry growth in 2015-2016?			
0% Major impact	42% Significant impact	58% Minimal impact	0% No impact

In addition to the high expectations for industry growth, the majority of participants also expect notable revenue growth for their companies in 2015, and more than a third anticipate growth of 100 percent or more. Fig. 8 shows that more than half (53 percent) expect revenue growth in 2015 to be in the range of 50 to 100 percent or more–almost double the number of 2014 participants who held this expectation.

Furthermore, more than half (55 percent) of the study's participants this year anticipate their company's profit growth over the next 12 months to be in the range of 20 to 60 percent or more, compared to 36 percent of the 2014 participants (see Fig. 9).

We took a deeper look at the company revenue and profit growth data to determine which market segments anticipate the highest rate of growth in the next 12 months. The numbers swing sharply when viewed through the lens of size of company.

The smallest companies, having 1-99 employees and 100-499 employees (not all, but more than half of which are startups) are the only ones anticipating 75 to 100 percent or more in revenue growth. In contrast, the largest of the participating companies anticipate revenue growth in the range of 10 to 24 percent.

Figure 8

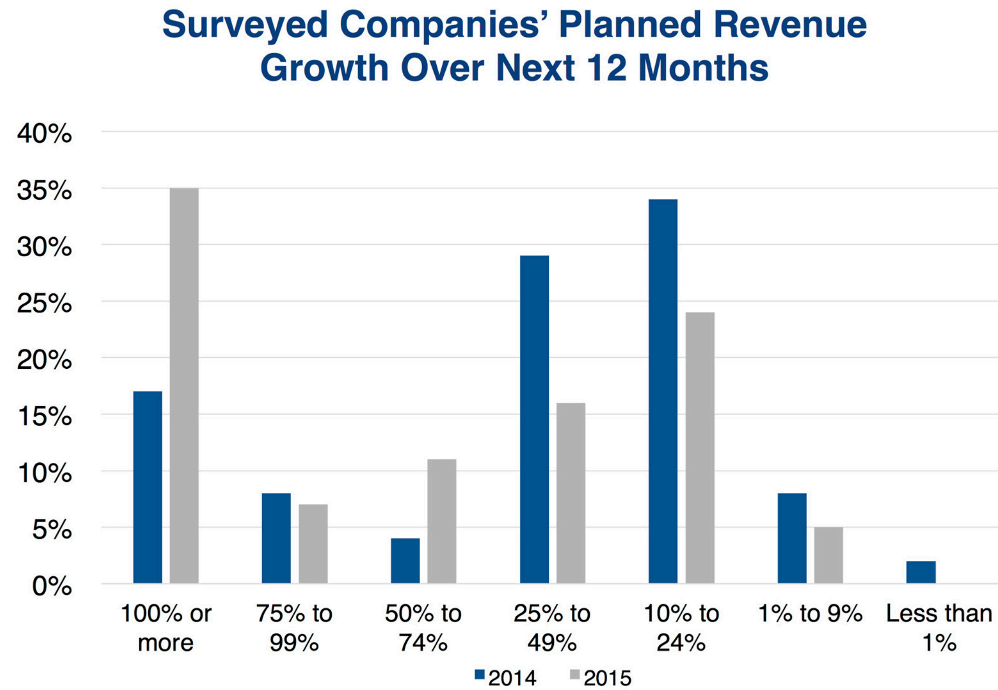
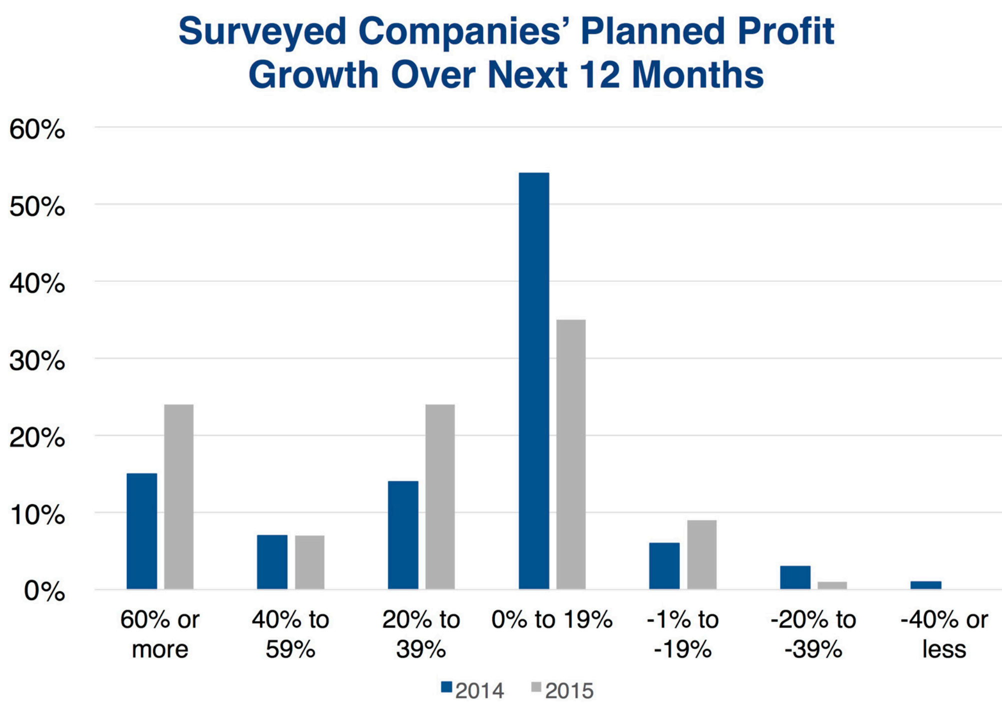


Figure 9

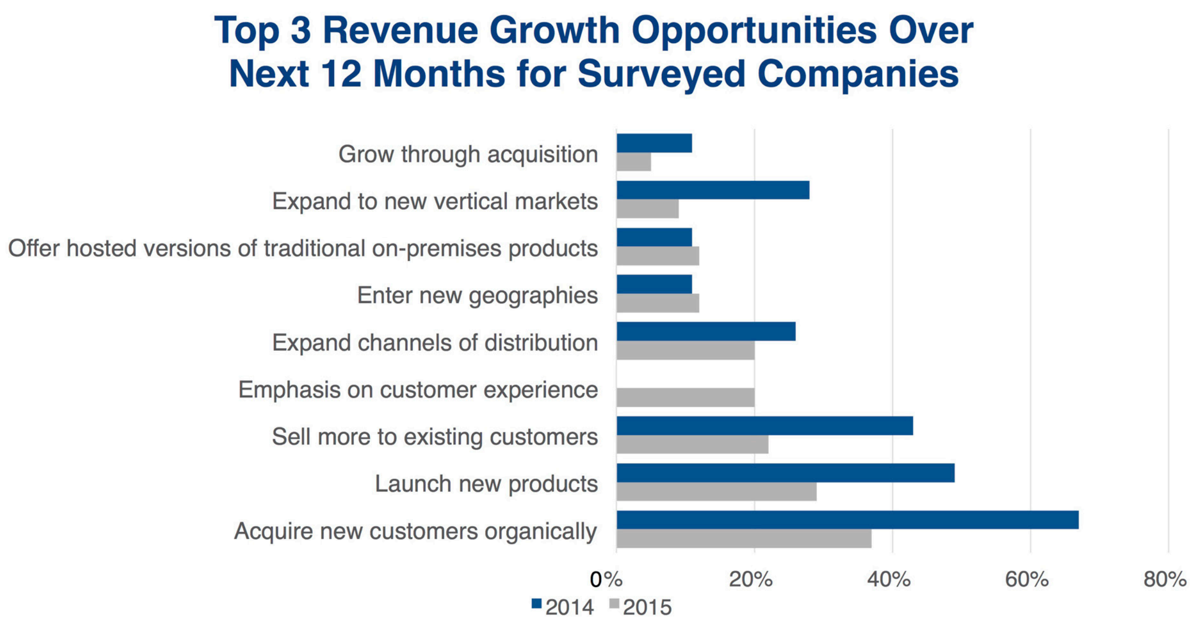


The breakout for planned profit growth falls similarly according to company size. Those self-identifying as having 1,000-4,999 employees and those with more than 5,000 employees anticipate profit in the range of zero to 39 percent. This same expectation for profit also applies to the majority of the smaller companies. However, 36 percent of companies with 1-99 employees expect 60 percent or more profit, and one percent of the companies with 100-499 employees also anticipate profit of 60 percent or more.

GROWTH OPPORTUNITIES

We asked the surveyed companies to rank their top three revenue-growth opportunities over the next 12 months. The survey numbers here tell a major part of the story of the industry's outlook, which will be discussed in detail in subsequent sections of this report. Growth through emphasis on customer experience and customer success ranks number 4 this year and was not even on the radar screen in 2014 (see Fig. 10). Also notable is the diminished emphasis this year on mergers and acquisitions as a growth strategy.

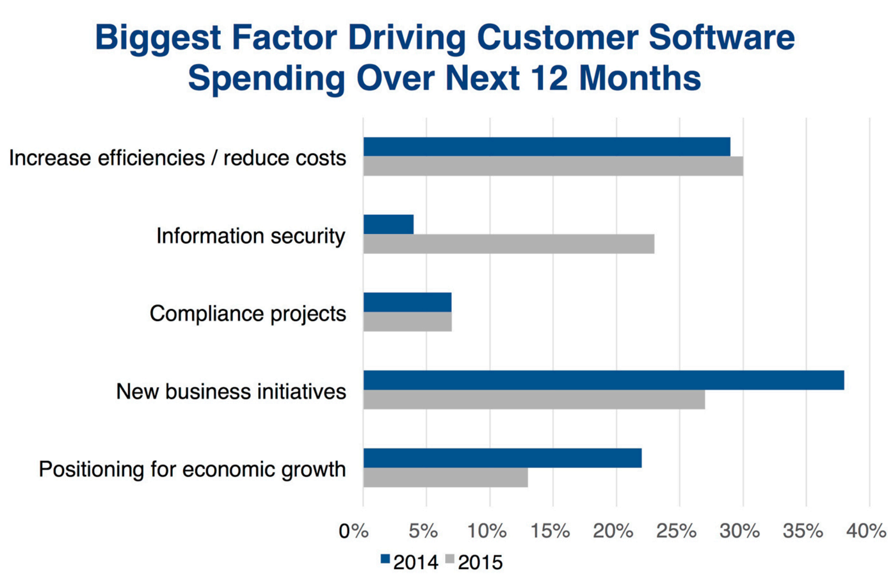
Figure 10



Customer Spending Drivers

As in the prior four years of our Software CEO / CFO Outlook 2015 study, we asked participants to select the biggest factor driving software customer spending in the next 12 months. Customers' new business initiatives is the top factor this year. As Fig. 11 displays, three factors differ dramatically this year compared to the findings in our 2014 study.

Figure 11

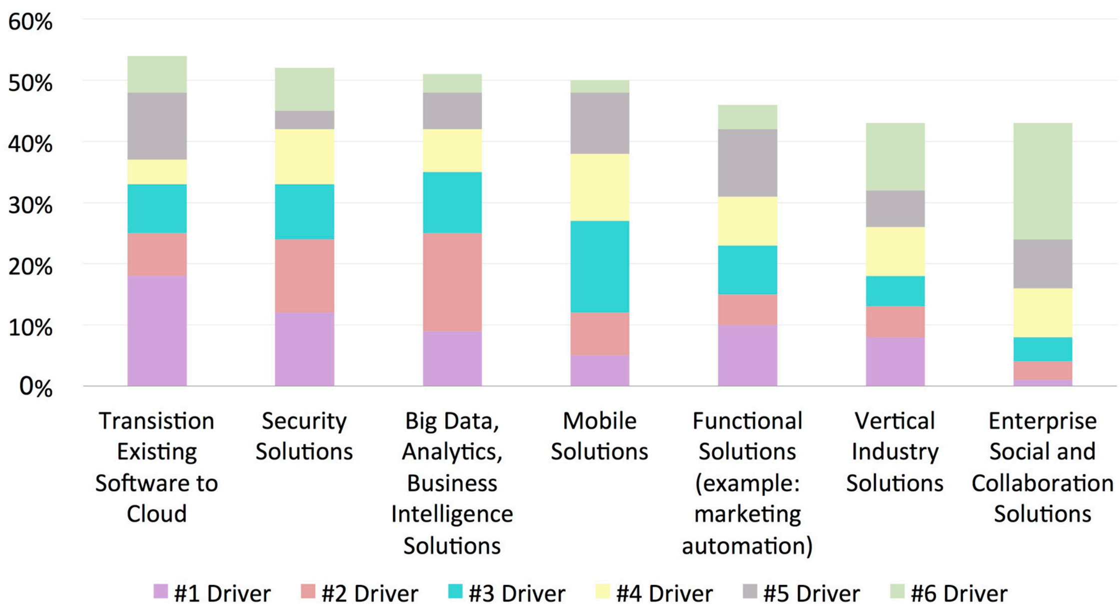


The increased emphasis this year on information security as a driver of customer spending compared to last year is remarkable, but not surprising, in light of the major security breaches that made headlines in the past 12 months. Last year, 54 percent of the study participants interviewed by telephone cited the lack of security as "the most worrisome factor in the way the software industry is evolving." As Fig. 7 points out, 42 percent of the 2015 participants stated in follow-up telephone interviews that they believe cyberattacks will have a "significant" impact as a barrier to software industry growth through 2016 and 59 percent believe it will have a "minimal" impact as a barrier to industry growth. That sentiment certainly bears out further with the 2015 survey participants ranking information security projects as the third-highest driver of customer spending this year (a 5X increase over the 2014 study findings).

We also asked the surveyed companies to rank what they believe are the top six drivers (among seven answer options) of customer spending over the next 12 months (see Fig. 12).

Figure 12

Rank of Top 6 Drivers of Customer Spending Over Next 12 Months



In 2014, the top two drivers were cloud computing and mobile.

Growth Opportunities in the Internet of Things

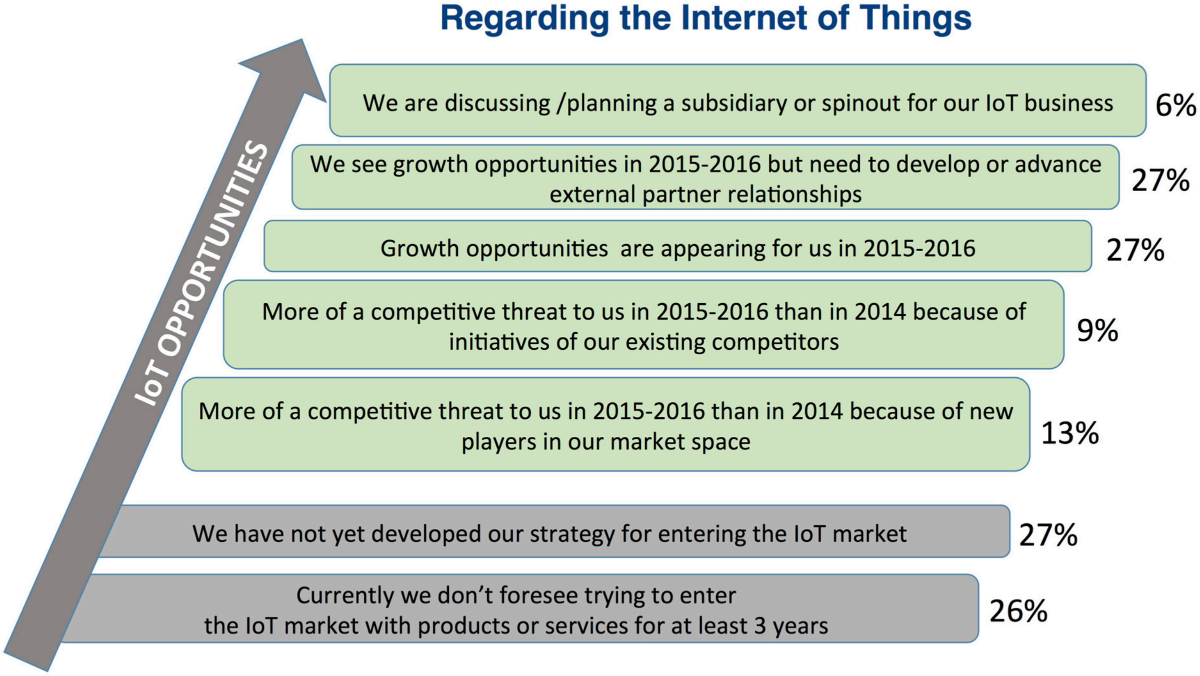
We also studied the surveyed companies' situation regarding the Internet of Things (IoT) and found that has changed since our 2014 study. By far, the majority of participants in 2014 cited the IoT as having "no impact" or "low impact" on their company's business. Companies in 2014 that viewed the IoT as an opportunity did not see it as an immediate initiative, and very few saw it as a competitive threat. Just 12 months later, the picture looks very different (see Fig. 13).

The study found that 60 percent of the survey participants report their company currently sees opportunities for new revenue streams for their business in the IoT, with more than half of them actively taking steps to take advantage of those opportunities. And nearly another one-fourth (22 percent) of the participants currently position the IoT as a competitive threat to their business. Several participants in this year's study cited the accelerated growth of the IoT over the past year–at a level they did not anticipate–as now causing them to alter their short- and long-term strategies as well as resource allocation for IoT initiatives. As one executive stated:

> **"We need to be very agile on project delivery and project milestones, especially with the IoT's evolving technologies. The IoT is coming about in a very big way in the last 12 to 18 months and is having a very significant impact on our short-term strategy. In the last 12 to 18 months, the number of appliances and number of entrants to the IoT space has made it very challenging and very dynamic." (IT Director, software company)**

Figure 13

Surveyed Companies' Situation Regarding the Internet of Things



THE SOFTWARE INDUSTRY'S PERFECT STORM

The study pointed to a set of three factors of unusual magnitude affecting the software market today. The three have converged and become a "perfect storm"–a powerful force that produces troublesome circumstances for both software vendors and customers.

"We cater to the midmarket and large enterprises. Their business challenge is keeping pace with all the new technologies that are coming about. There are rapidly changing dynamics. They need to juggle social, mobile, big data, and IoT technologies. So it comes back into our business. If they want something in an hour, that creates a bit of chaos and sometimes churn for us as well." (Director, software company)

1. Glut of Capital. The first factor creating the perfect storm is the huge amount of venture and private capital now available. Describing the effects of the glut of capital, a study participant commented that the market is now hit with venture capital "funding any and all things." Several participants likened today's situation to the dot-com era. Surplus capital fuels more startups and thus increases the competitive intensity in the marketplace. And it dramatically increases the rate of change in the market. This competitive intensity is a contributing factor to the second element of the perfect storm, the pace and volume of change.

2. Pace and Volume of Change. The second factor in the storm is the pace and volume of new technologies entering the market, which causes buyers of all sizes (enterprises, SMBs, and even government entities) to be impatient to have the functionality and benefits of the new technologies. This customer impatience evidences itself in two scenarios:

- Feeling they must move quickly to stay competitive, many make these buying decisions in haste and/or try to quickly acquire and implement multiple technologies at the same time. And the pace and volume of change creates too many options for buyers and thus causes them confusion that may not lead to optimal decisions. As a result, some vendors are dealing with situations where they try to meet customer demands but customers don't yet really know their requirements. This, in turn, causes vendors to take reactive rather than proactive steps.

- Other customers struggle with results of new tech implementations not meeting their expectations for giving them a competitive advantage soon enough.

"The pace of innovation in the healthcare wearable technologies space causes us to have to develop more quickly for our fast sales strategy. The healthcare space is moving very, very quickly, and while we're putting as much investment as we can in our resources to move quickly, we also know that we don't have all the answers yet." (CFO, software company)

"We sell into the enterprise. Their ability to change is so limited and their decision process can't keep pace with change and innovation. For example, a business is making decisions to roll out something in two years; but when they roll it out, they'll already be a year behind. Businesses need to make smaller decisions faster so they can roll out in six months and always be current versus being a year behind. If everything is in a two-year cycle, but technology changes every year, they are always a year behind. Our biggest problem with our customers is they're not moving fast enough to keep pace with technology change. So we as a company need to help educate them on how to move faster." (CEO, software company)

3. Internet of Things Acceleration. The third factor in the perfect storm now affecting the software market is the greatly accelerated growth of the IoT. The IoT growth rate is far ahead of where analysts expected it to be at this point, not only in the number of pioneers developing products and services and the number of devices already deployed but also in the number of users (both businesses and consumers). As discussed earlier in this report, the IoT was barely perceived as a current opportunity in our 2014 study, but it shows up this year as a growing force to be dealt with (see Fig. 13). And as one of the surveyed executives commented about "the IoT coming about in a very big way in the last 12 to 18 months," the accelerated growth forces vendors in the IoT space to revise their short-term strategy to ensure they remain agile.

Of course, the pace of innovation enables the IoT's ability to move quickly because of the industry's solutions that lower the cost of cloud computing and analytics, the cost of sensor technologies, as well as improving time to market due to preintegrated and preconfigured solutions.

The result of the perfect storm is a roiling market. As the next sections of this report discuss, the perfect storm spawns several operational constraints for vendors, and it occurs at the same time as software companies' operations need to be more agile than ever before. It also impacts vendors' newest strategy for growing their business–the focus on the customer success journey.

Figure 14

FOCUS ON CUSTOMER SUCCESS

Figure 15

Surveyed Companies' Areas of Change and Investment in 2014-2015

52%
Customer Experience

40%
Sales Model

8%
Pricing Models

In reviewing the data from the surveyed companies' responses, we noted a prevailing theme: the need to focus on customer success.

It is clear that the majority of the surveyed companies now are putting in place a strategy that focuses on customer success, or recently implemented this strategy, or are in the planning phase for implementing such a strategy. This makes sense, as ensuring a customer's success with the software product leads to more sales opportunities. And it is well documented that keeping a customer is more profitable than investing to acquire a new one, especially if it is to replace a customer that exited.

When asked to rank their top three revenue-growth opportunities over the next 12 months, the study participants ranked "emphasis on customer experience" as number four and ranked "sell more to existing customers" as number three (see Fig. 10). This trend is evident at both ends of the spectrum of company size, as shown below regarding the smallest and largest companies surveyed (see Table 1).

Table 1

Comparison of Small and Large Companies' Ranking of Top Revenue-Growth Opportunities

Company Size Based on Annual Revenue	Rank	Revenue-Growth Opportunities
$1 billion or more	#1	Emphasis on customer experience
	#2	Sell more to existing customers
	#3	Launch new products
	#4	Acquire new customers organically
Less than $10 million	#1	Acquire new customers organically
	#2	Launch new products
	#3	Emphasis on customer experience
	#4	Sell more to existing customers

The opportunities that midsize companies perceive differ completely (see Table 2).

Table 2

Ranking of Midsize Companies' Top Revenue-Growth Opportunities

Company Size Based on Annual Revenue	Rank	Revenue-Growth Opportunities
$10 - $99 million	#1	Expand channels of distribution
	#2	Acquire new customers organically
	#3	Enter new geographies
	#4	Launch new products

With the exception of companies in the security software segment, the trend of focusing on customer success as a revenue-growth opportunity is also evident when we examine the data from the perspective of the surveyed companies' market segments (see Table 3).

Table 3

Software Market Segments Ranking of Focus on Customer Success as a Revenue-Growth Opportunity

Market Segment	Rank	Revenue-Growth Opportunities
Application software	#1	Acquire new customers organically
	#2	Emphasis on customer experience
	#3	Launch new products
	#4	Sell more to existing customers
Infrastructure software	#1	Expand channels of distribution
	#2	Acquire new customers organically
	#3	Enter new geographies
	#4	Sell more to existing customers
Platform / developer software	#1	Launch new products
	#2	Acquire new customers organically
	#3	Emphasis on customer experience
	#4	Expand to new vertical markets
Vertical industry software	#1	Acquire new customers organically
	#2	Sell more to existing customers
	#3	Emphasis on customer experience
	#4	Launch new products
Security software	#1	Expand channels of distribution
	#2	Offer hosted versions of traditional on-premises products (private cloud offerings)
	#3	Enter new geographies
	#4	Acquire new customers organically
Other	#1	Sell more to existing customers
	#2	Acquire new customers organically
	#3	Emphasis on customer experience
	#4	Launch new products

In the follow-up telephone interviews, we asked a question of the executives who reported that their company made changes and investments in 2014 or in Q1 2015 regarding their focus on customer success / user experience. "How significant to date is the impact on your company's performance due to your investment in the focus on customer success / user experience (highly significant, some significance, limited significance, or no significance to date)?"

The impact to date is impressive. More than half (55 percent) reported a "highly significant" impact on company performance. Another 27 percent reported "some significance," and 9 percent reported "limited significance." One executive who said the impact on his company's performance so far has been highly significant added, "I would say it's really a major impact." No one stated their investment and change effort today made "no significant impact to date."

What is Customer Success?

Customer success, or a successful customer experience, is not the same as stellar customer support. It means ensuring that customers (a) get value and expected outcomes from the software product and (b) have an enjoyable experience interacting with their software vendor and therefore choose to continue to be customers.

"Our talent gap is mainly because it's hard to find people who understand the whole customer journey and what customers need in order to be successful." (CFO, software company)

In a SaaS world where it is necessary that vendors protect their recurring revenue based on the subscription model, and in a market flooded with new product options, the consequence of not ensuring customer success is churn. It is no longer effective for vendors to invest in just excellence in onboarding/implementation and ongoing support.

Software vendors now must interact with customers in a personalized manner and build a relationship for a mutual win. Moreover, vendors must base their recommendations on a deep understanding of the customer's business and requirements and how the software product or service impacts the business.

In addition, the rapid deep penetration of digital and mobile technologies in the market causes customers to expect vendors to deliver an omnichannel experience (online, offline, and people based). One of the participants commented, "What's most affecting us is determining how we can compete in an omnichannel experience."

Challenging Issues in Achieving Customer Success

In the Software CEO / CFO Outlook 2015 study, the participants emphasized two challenging aspects of their effort to focus on customer success:

1. It requires ongoing investment.
2. It is complicated in the midst of the current perfect storm where companies purchase software products quickly and where there are so many new technologies.

The second challenging issue surveyed companies cited is the ongoing investment to ensure the right mix of people, processes, and systems that enable ongoing conversations with customers. And the people, processes, and systems must be aligned.

Each customer's business is unique, so communication–especially listening–is the key to understanding what success looks like for each customer's journey with a software product.

"We're pretty much new as far as how our clients are using our product and services. There is a lot of learning going on. So in terms of being able to meet clients' expectations, the fact is they don't necessarily know what they want yet." (CFO, software company)

"We invest heavily in customer success and spend a lot of money on messaging, marketing, and sales consultants, and customer-facing data to help us refine our customer-facing communications. This has been a big success for us and, as a result, we doubled our revenue last year and again this year." (CFO, software company)

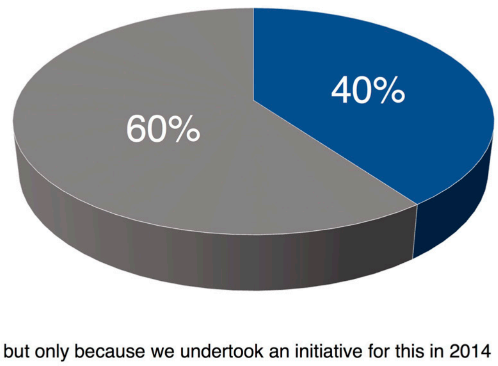
But not all companies have achieved a return on investment yet. Several participants in the study cited reasons for not yet achieving the expected benefits from their investments in the customer success journey:

- Lack of *dedicated* resources for various phases and processes
- Lack of communication tools
- Only partial completion to date of implementing tools
- Not having completed integration of mergers or acquisitions

We asked the surveyed companies participating in follow-up telephone interviews this question: "Are you satisfied with your company's ability to effectively manage customer-facing communications across the entire customer journey?" Sixty percent responded "no" (see Fig. 16). Those who responded "yes" added that it was because they undertook major initiatives in the past year or so to improve customer interactions and communication. A case in point:

Figure 16

Are Surveyed Companies Satisfied with their Ability to Manage Customer-Facing Communications Across the Entire Customer Journey?



> **"In spring 2013 we embarked on a communications path with a big data analysis. The result of that analysis is that we now proactively reach out to customers with a health check to make sure all is working well or to find out if there is something else we need to embark on with the customer." (Director, software company)**

Listening to Customers Brings ROI

In telephone interviews, several study participants related that they were able to improve their product functions or features based on their customer success team listening to customers and then the customer success manager relaying that information to the Chief Product Officer or product development team. Software companies that don't make the effort to have ongoing personal interactions with customers miss opportunities for product enhancement which, in turn, leads to a higher degree of customer success and opportunities for upselling.

As another example of ROI from a customer success focus, an executive participating in the study's telephone interviews explained that his company's dilemma came to light by focusing on customers' success journey. As the executive explained, "We found that we need to help customers better understand our technology and how it benefits them. We were surprised at customers' level of resistance, which impacted customer success. We offer an incredibly complex product that helps customers better spend their advertising dollars and develop much more efficient marketing programs as a whole. But by focusing on customer success we learned that mid-level management see us as a threat for reducing headcount." He went on to explain that they hired a Chief Customer Success Officer to manage this dilemma.

MANAGING OPERATIONS

Industry-wide, most software companies now recognize the value of focusing on customer success. Those that implement a customer focus program find it impacts their operations in different ways based on the company's maturity.

For example, SaaS startups today have the advantage of the SaaS model maturing over the past two to three years and the advantage of lessons learned shared by other entrepreneurs. In fact, many startup leaders are on their second or third SaaS startup. So they recognize the value of focusing on customer success from Day One. They know that the past two or three years of focusing on how to reduce churn rates is not the optimal way to manage their business and increase revenue and that a better strategy is focusing on customer success and listening for upselling and cross-selling opportunities. But then they encounter the challenge of how to keep the "personal voice" and relationship aspect while scaling customer success focus to hundreds and thousands of customers. In contrast, more established companies have the resources to scale a program for focusing on customer success, but they face a very significant challenge in changing processes and systems.

Significant Trend: Hiring Customer Success Officers

It's clear that many of the surveyed companies recognize they need some rethinking and reskilling to handle a focus on customer success. Our 2015 study uncovered a significant trend. Like the CFO discussed earlier, whose company hired a Chief Success Officer to manage the dilemma of customer resistance in mid-level management, many software companies added a C-level customer success officer (or similarly titled role) to their ranks during 2014 or in the first quarter of 2015. In addition to adding these roles, vendors are including these executives in their C-suite strategy planning sessions. This is also the first year that the position of Customer Success Officer is among the respondents' demographics for our annual study.

Figure 17

The importance of ensuring optimal expertise and perspectives to the strategic planning process came to light in the study. In the follow-up telephone interviews, the study found that many software companies are enhancing their strategic planning process by bringing new roles/positions to the table for short- and long-term strategic planning. In each case in the list below, participants reported their companies in 2014 and 2015 added the following positions/roles to their strategic planning process. Most, but not all, were new hires.

- Chief of Customer Success; Customer Success Officer; Customer Success Manager: Customer Experience Officer
- Chief Product Officer; Chief of Product Strategy
- Senior VP of Strategy; Chief Strategy Officer; Director of Strategy
- Chief Revenue Officer
- Chief Legal Officer
- Chief Sales Officer; VP of Marketing
- VP of HR; VP of Professional Services

Perfect Storm Impacts Focus on Customer Success

No matter the size of the company, the study respondents cited three elements of the perfect storm as creating complications for their focus on customer success and also for managing their company operations:

- Pace and volume of change and innovation
- Whirlwind of new competitors
- Hypergrowth of their business

As a result, the demands on vendors' resources are getting bigger and resources are needed faster than anticipated. In addition, these factors continually cause them to re-evaluate their strategies.

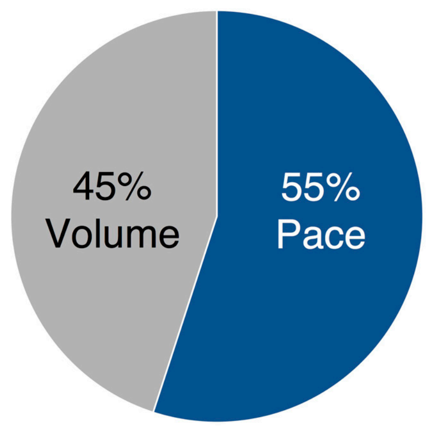
Keeping Up with the Pace and Volume of Change and Innovation

We asked the surveyed companies participating in follow-up telephone interviews: "Is your company experiencing more challenges due to the volume of change or to the pace of change?" Several responded that they feel the impact from both, but the majority said the pace is the bigger challenge.

The following examples described by surveyed executives illustrate the impact of trying to keep up with today's pace of change and innovation.

Figure 18

Are Surveyed Companies Experiencing More Challenges from the Pace of Change or the Volume of Change?



"The accelerated pace of innovation and product releases is making us revisit our short-term strategy a lot. Recently we've been really diving into mobile. The pace in that space makes us have to be more nimble so we can react quickly to make the necessary decisions and revisions to our product." (CFO, software company)

"Because of the pace of innovation, there is a lot more focus on our short-term strategy now than our long-term strategy. We're constantly revisiting and recalibrating our strategy." (CEO, software company)

"Our market is the cloud space. New customers want to go ahead and move to the cloud right away once they get our messaging. So we scramble for resources to make sure we have capacity for customer demand." (CFO, software company)

Others described the impact of the pace of change and innovation when combined with their company's hyper-growth. As mentioned earlier in this report, a significant portion of the participants said their companies are planning for 60 to 100 percent or more growth for the next 12 months.

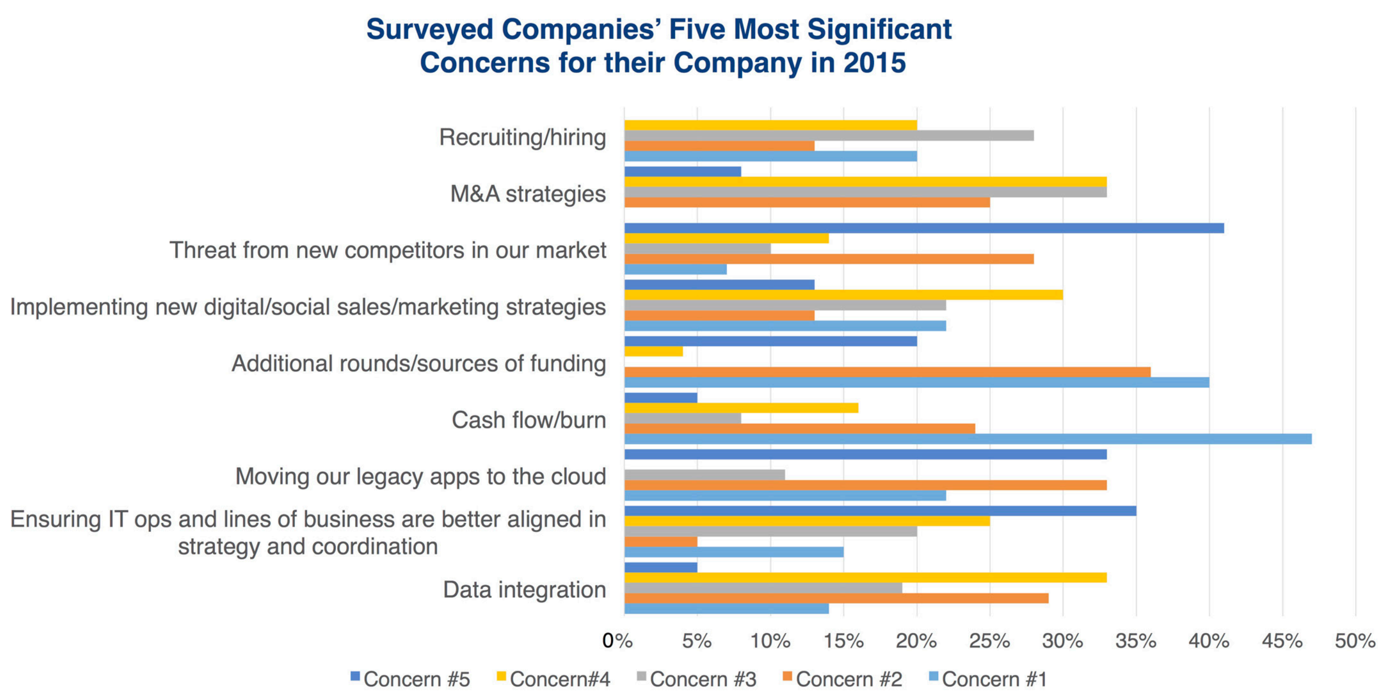
> **"The pace of change due to our company growth is definitely a challenge. We doubled our book of business and our employee count. We launched the company in 2006, had revenues in 2008 and grew year over year; but it was nothing exciting. Then we brought in a new CEO whose strategy is very go-to-market and customer focused, and he changed our sales model. Since then, we have grown through the roof. We are just trying to maintain scale and execute while growing and also maintain our culture. So the pace of change is definitely a challenge as we grow." (CFO, software company)**

> **"As a company gets larger, it takes longer to make changes to keep up with the pace of innovation. Our company is growing bigger so, frankly, our pace slows as we grow. We found that internally it has been challenging to deal with the pace of change when growing from 50 to 100 people rather than when growing from 100 to 150." (CEO, software company)**

Top Operational Concerns for 2015

From a set of 11 options, the survey asked participants to rank their five most significant concerns for their company in 2015. Fig. 19 presents an overview of the data.

Figure 19



However, in analyzing the data, we note that the high numbers of executives who ranked "cash flow/burn" and "additional rounds/sources of funding" as their top two goals can be attributed partly to the number of small companies (based on annual revenue and number of employees) compared to midsized and large companies participating in the study. Larger companies reported more concern, for example, about data integration and moving their legacy apps to the cloud, neither of which was cited by most startups.

To present a more detailed view of the surveyed companies' top operational concerns, we segmented their answers to this question according to the size of company (based on annual revenue) and according to market segments. Table 4 details the result of these data slices.

Table 4

Top Operational Concerns Ranked According to Size of Company and Market Segments

RANKING OF TOP CONCERNS	RANK	ANNUAL REVENUE or MARKET SEGMENT
Data migration	#1	$100 - $999 million
	#1	$1 billion or more
	#2	$50 - $99 million
	#3	Security software
Align IT operations and lines of business in strategy & coordination	#2	$1 billion or more
Implement analytics solution for data-driven decision making	#1	"Other" software category
	#3	$10- $49 million
	#3	Platform / developer software
	#3	Vertical industry software
Move legacy apps to cloud	#3	$1 billion or more
Cash flow/burn	#1	Less than $10 million
	#1	Applications software
	#1	Platform / developer software
	#1	Vertical industry software
	#2	$10 - $49 million
Additional rounds or sources of funding	#1	Less than $10 million
	#2	Security software
	#3	Platform / developer software
Making our apps accessible on mobile devices	#2	$100 - $999 million
	#3	"Other" software category
Implement new digital, social or sales/marketing strategies	#3	$100 - $999 million
Threat from new competitors in our market	#1	$50 - $99 million
	#2	Vertical industry software
M&A strategies	#3	$50 - $99 million
Recruiting/hiring	#1	Applications software
	#1	Security software
	#2	$10 - $49 million
	#2	"Other" software category
	#3	Less than $10 million

Concern: Raising New Capital. There is currently an abundance of inexpensive capital flooding the market. However, when it comes to articulating their needs to investors, some software companies encounter challenges with the necessary assessments, financial statements, models, value proposition, and other information that investors require.

The survey asked respondents to select from six options their top three challenges to raising new capital (debt or equity) for their business. As Fig. 20 displays, their biggest challenge is modeling future revenue and net income growth. Establishing and enforcing financial processes and controls is their second-biggest challenge.

Figure 20

The study revealed that more than half of the respondents' companies consider the shift to mobile, cloud, and analytics among their top three most significant concerns. This is significant in part because these technologies are quickly evolving during the perfect storm and also significant because they dramatically transform business operations.

Concern: Moving Apps to Mobile Devices. In answering the survey question asking respondents to rank the five most significant concerns for their company in 2015, 56 percent designated "making more of our apps accessible on mobile devices" as one of their top three concerns.

We also asked them to identify the state of mobile accessibility of their apps. As Fig. 21 displays, email has the highest percentage of accessibility. Proprietary and line-of-business or departmental apps are currently the least accessible and are also the least likely to be made accessible on mobile devices for at least the next two years. Business intelligence apps are the most likely to be made available to mobile users later in 2015.

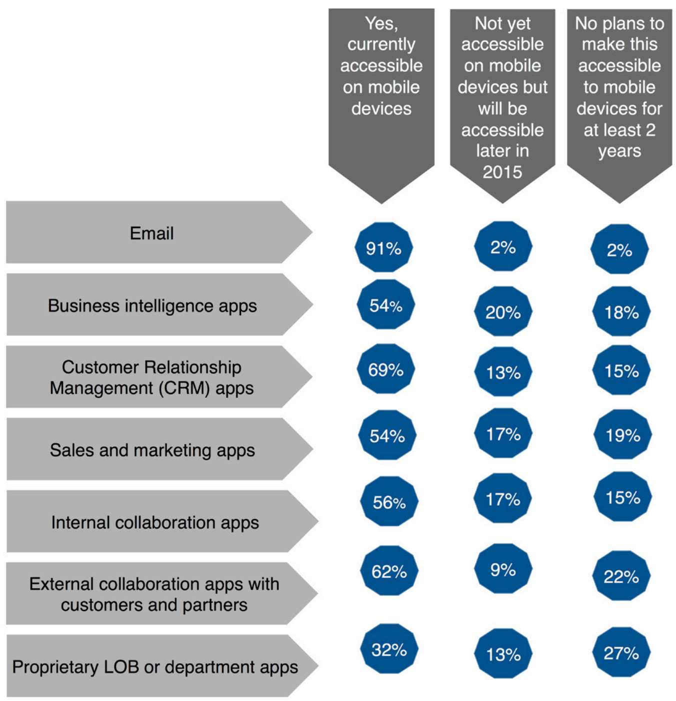
Concern: Moving Legacy Apps to the Cloud. Regarding their company's most significant concerns for 2015, 70 percent of respondents identified "moving our legacy apps to cloud" as one of their top three concerns. This operational goal, along with making apps accessible on mobile devices takes a significant amount of capital and knowledge resources, and both are top concerns occurring at the same time as the challenges of the perfect storm.

It also necessitates investments or an increased operational cost. The following executive comment during a follow-up telephone interview is a case in point.

> "We play in the cloud market, and at times some businesses are hit with security attacks more than others. Every three months somebody gets hacked, especially when segments such as banks transition to cloud services; the attacks increase then. We had to beef up our security internally and also had to bolster our cybersecurity insurance to make sure our customers are happy." (CFO, software company)

Figure 21

Areas of Surveyed Companies' Software Accessible to Employees Using Mobile Devices



Concern: Implementing Analytics for Decision Making. The study found that 53 percent of the respondents' companies consider the need to "implement an analytics solution enabling more effective data-driven decision making" as one of their top three concerns.

Concern: Hiring Talent. Problems in finding, hiring, and retaining the necessary talent has been cited as a major operational challenge in all four years of the Software CEO / CFO Outlook study. In the 2015 study, it is near the top of the list of most significant concerns as well as the list of top business goals. Among the 11 options for answering the question about surveyed companies' most significant concerns, 69 percent identified recruiting/hiring among their top three concerns.

Among eight descriptions, we asked respondents to identify each description that applies to the current talent situation at their company. More than half responded that in the next few months they need to hire talent because of the need for new skills, but they haven't yet found the right talent. Nearly one-third of respondents indicated their hiring needs are due to their company growth (see Fig. 22).

Figure 22

Surveyed Companies' Current Situation Regarding Talent

50% - We need to hire talent in the next 6 months but haven't yet found the right talent

45% - We need to hire more talent in 2015-2016 for new products requiring new skills

38% - We need to hire more talent in 2015-2016 than we projected 6 to 8 months ago

30% - We don't need new skills, but we need to hire more talent in 2015-2016 to handle our growth

16% - We outsource part of our recruiting process because of challenges in finding the right skills

15% - We outsource part of our recruiting process to accelerate the process or because we lack the internal resources for the function

4% - We outsource all of our recruiting process

11% - We are having issues with retention due to our highly competitive market

As to drivers of talent requirements, the need to focus on customer success again comes into play. A CEO commented that they need "people who have the level of content understanding in three areas (software, financial analysis, and operations management) who have the ability to translate that understanding for customers."

A CFO commented that it is difficult to find "good back-end algorithm engineers." Another CFO's company needs "software engineers of all stripes. Our needs are across the entire engineering spectrum." As was the case in our 2014 study, mobile app engineers rank high on the list of needed and hard-to-find talent in 2015. This year engineering talent with healthcare expertise, as well as healthcare IT product management expertise showed up on the list.

As usual, the hiring challenge for some software companies is their location.

> **"We need engineers with Ruby experience and building products on the cloud. These two areas are highly competitive, and of course the Googles of the world are willing to pay 2X what we can." (CEO, software company)**

> **"We're in Seattle, so it's hard to find storage engineers, platform networking skills, and even skills necessary for websites because it's very competitive here." (CFO, software company)**

> **"Our challenge is filling developer positions because we're located in Florida, and the talent pool here is small." (CFO, software company)**

Shadow IT. "Shadow IT" (use of applications not authorized by the IT group and company policies) is often cited as a security vulnerability or a risk in regulatory compliance. In the follow-up telephone interviews, we asked executives about their employees' use of shadow IT. Sixty percent affirmed that they are aware of shadow IT at their company.

The executives identified the unauthorized use of applications at their company as primarily in the areas of collaboration and file-sharing software, sales support products, and information project management solutions.

Most Important Business Goals for 2015

From eight options, we asked survey participants to rank their companies' three most important business goals for the next 12 months. Fig. 24 illustrates the differences of the top three most-selected goals.

Figure 23

Presence of Shadow IT at Surveyed Companies

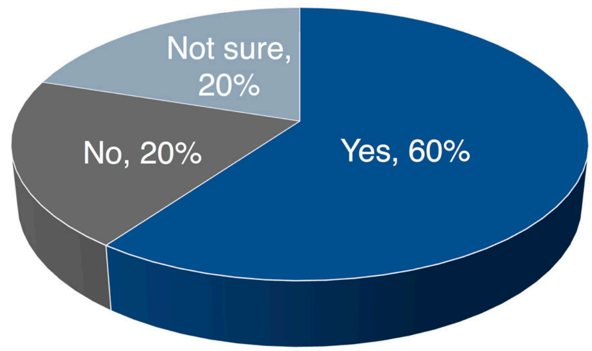
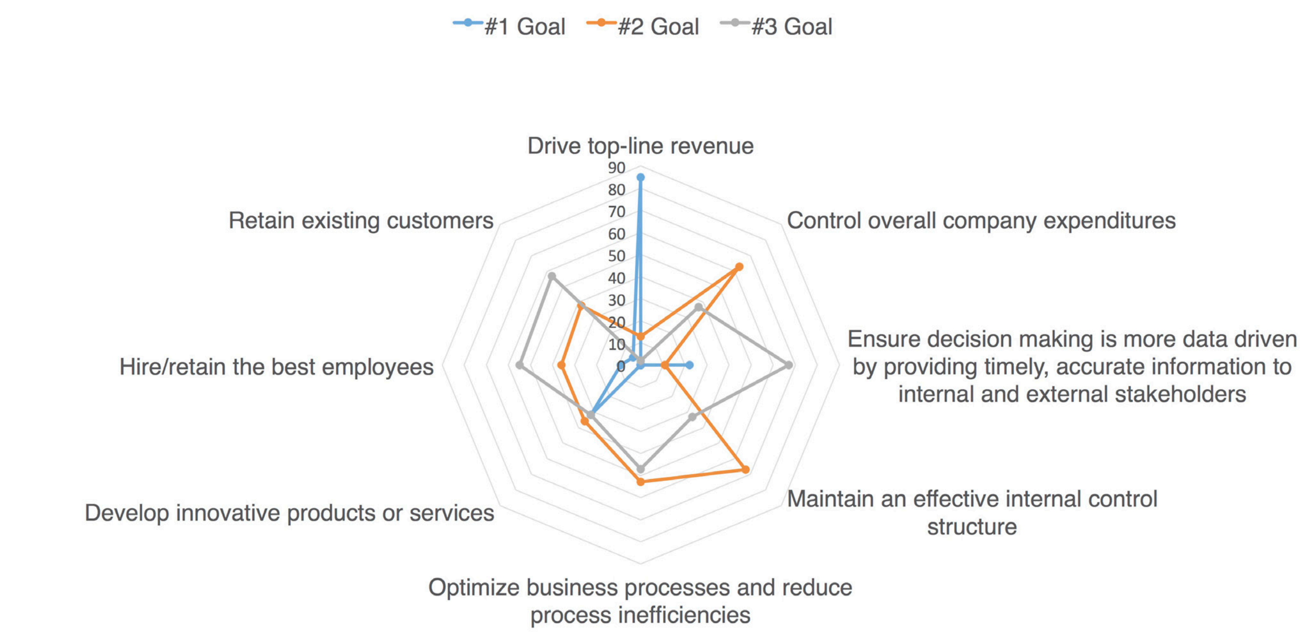


Figure 24

Surveyed Companies' Most Important Business Goals for the Next 12 Months



Of course no one knows with certainty what challenges the future holds for the surveyed companies, but most have a pretty good idea of their opportunities for success or failure in a 12-month timeframe and have created goals for handling opportunities and challenges that will come their way during the 12 months. We analyzed the survey data on their top three business goals to see if there are shared goals among companies segmented by company size based on annual revenue. We found several similarities. Large, midsize, and small companies share an affinity for ranking driving top-line revenue as their number-one goal. No participants in any size company placed "maintain an effective internal control structure" among their top three goals, and only one participant ranked it as goal number four (see Table 5).

Table 5

Ranking of Top 3 Business Goals According to Majority of Respondents in Each Company Size Segment

BUSINESS GOALS	COMPANY SIZE
Drive top-line revenue	• Less than $10M – Goal #1 • $10M - $49M – Goal #1 • $50M - $99M – Goal #1 • $1B or more – Goal #1
Control overall company expenditures	• Less than $10M – Goal #3 • $10M - $49M – Goal #3 • $1B or more – Goal #2
Ensure decision making is more data driven by providing timely, accurate information to internal and external stakeholders	• $100M - $999M – Goal #1
Maintain an effective internal control structure	• No companies ranked it in the top 3 goals
Optimize business processes and reduce process inefficiencies	• $100M - $999M – Goal #2 • $1B or more – Goal #3
Develop innovative products or services	• $100M - $999M – Goal #3
Hire/retain the best employees	• $50M - $99M – Goal #2
Retain existing customers	• Less than $10M – Goal #2 • $10M - $49M – Goal #2 • $50M - $99M – Goal #3

Given the other data in the study around the importance of focusing on the customer success journey–as discussed earlier in this report–there is an expectation that the goal of retaining existing customers would rank high in the prioritization of top business goals. As Table 5 points out, among the smaller-sized companies, more than one-third of the respondents (37 percent in the under $10 million segment and 44 percent in the $10 million to $49 million segment) rank it as their second-highest goal. However, participants from larger-sized companies did not rank the goal of retaining existing customers in their top three goals.

In further analyzing the data, we find evidence that retaining existing customers is, indeed, a top priority in their business, but respondents in large-size companies may have a different perspective on the word "goal" as opposed to capturing a growth opportunity; 50 percent of these respondents are Chief Strategy Officers. Seventy-five percent of respondents in larger companies ranked "sell more to existing customers" and "emphasis on customer experience" in their top-three revenue-growth opportunities (see Fig. 10)

In segmenting their top three goals according to company size, we found several shared sentiments toward ranking among the survey companies among companies with less than $10 million in annual revenue. Their responses show that they are more likely to have the same top two goals. For example:

- Among those selecting "drive top-line revenue" as their top goal:
  - 50 percent ranked "retain existing customers" as their number-two goal
  - 35 percent ranked "control overall company expenditures" as their number-two goal.
- Among those that selected "develop innovative products or services" as their top goal:
  - 77 percent ranked "control overall company expenditures" as their number-two goal.

Talent acquisition is a perennial issue for the software industry and, as discussed in several earlier sections of this report, the Software CEO / CFO Outlook 2015 study indicates it pervades concerns, goals, and operational decisions again this year. In fact, hiring/retaining the best employees is among the top three goals of the surveyed companies (see Table 5).

A breakdown of the data comprising Table 5 finds that 33 percent of the companies in the $50-$99 million range ranked talent acquisition as their number-two goal; 39 percent of the companies in the $10-$49 million range, and 33 percent of those with less than $10 million in revenue ranked it as their number-three goal. Although participants in larger companies ($100-$999 million or $1 billion or more) did not rank hiring/retaining talent among their top three goals, they ranked it among their top five concerns (see Fig. 19) and also stated they need to hire new talent in 2015 and 2016.

Measurements to Track Business

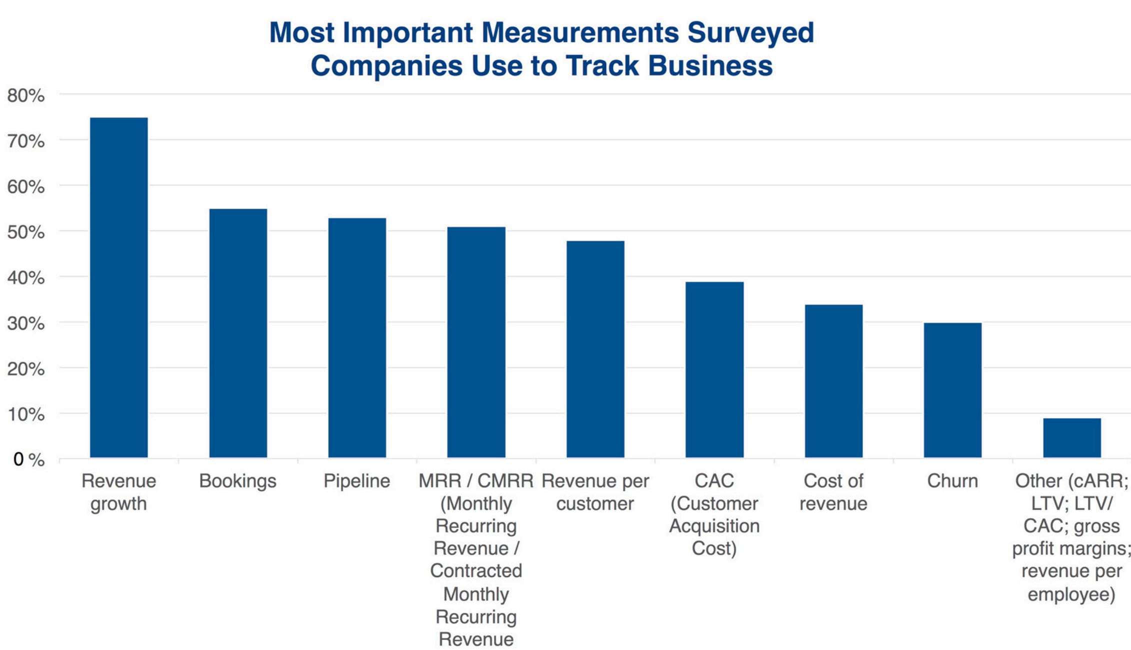
In each of the four years of our annual Software CEO / CFO Outlook studies, we note differences in trends in the measurements that software companies use to track their business. As was the case in 2014, revenue growth is the most frequently used measurement, although its preponderance across the surveyed companies is slightly lower (75 percent) in 2015 than in 2014 (79 percent). The use of the revenue-per-customer measurement (ranked number two this year) increased in 2015 (48 percent) compared to 2014 (33 percent). The MRR/CMRR measurement ranks as number three this year but fell to 52 percent in 2015 compared to 58 percent in 2014.

The percentages of companies using pipeline, bookings, and cost of revenue as measurements to track their business are almost identical in 2014 and 2015. The use of the customer-acquisition-cost measurement (CAC) increased steadily from 16 percent in 2011 to 32 percent in 2014 and to 39 percent in 2015.

Using churn as the measurement ranks number seven in 2014 and 2015; however, the number of companies measuring their business by churn in 2015 is 30 percent, slightly more than in 2014 (28 percent). A possible reason for the slight increase is the focus on customer success (thus hopefully resulting in a decrease in churn).

Financial Processes

Figure 25



Each year the Software CEO / CFO Outlook study tracks several aspects about the financial processes that software companies use in their business. The 2015 survey asked participants to rank eight financial processes according to their agreement with two statements: (1) "importance of this process to my organization" and (2) "level of ease for my organization to complete this process."

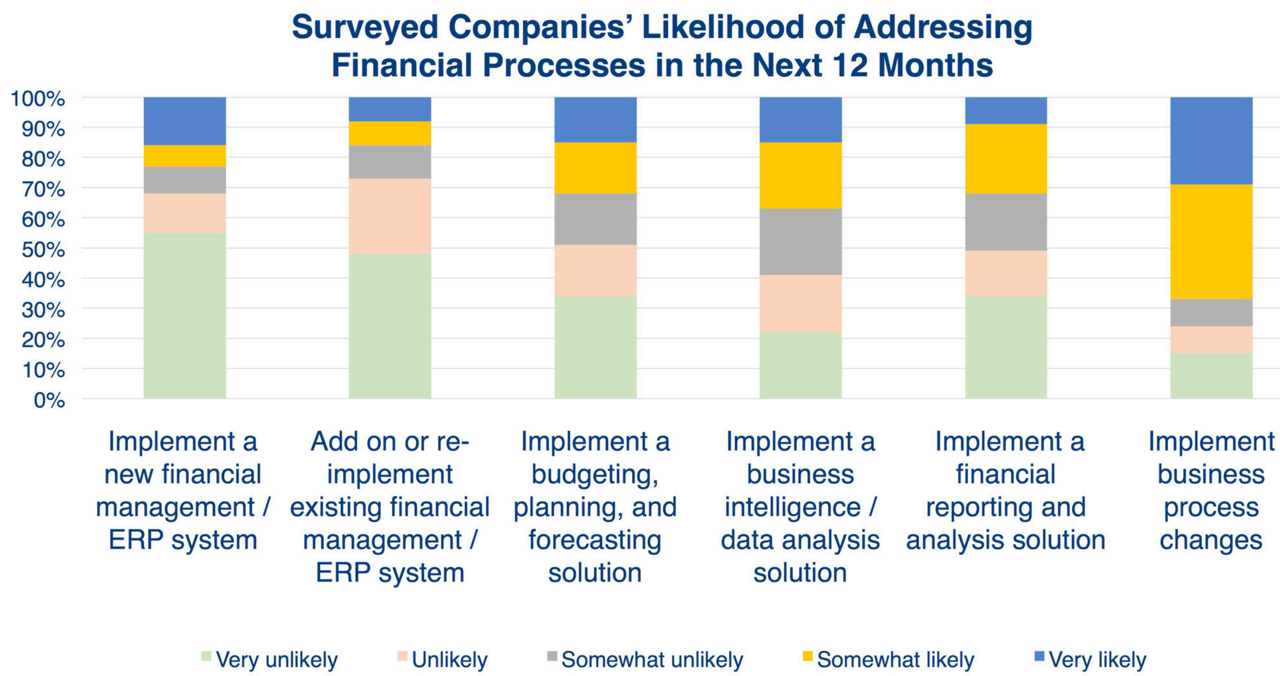
Fig. 26 displays the respondents' opinions of the eight financial processes.

Figure 26

Surveyed Companies' Ranking of Financial Processes in their Organization

The survey also asked respondents to rate the likelihood that their company would address any of the eight financial processes in the next 12 months. The majority indicated that their most likely action would be to implement business process changes and their least likely action would be to implement a new financial management /ERP system (see Fig. 27).

Figure 27



Bitcoin. In March 2015, MasterCard’s annual SEC report (for fiscal year ending December 31, 2014) stated that cryptocurrencies and digital wallet technologies worldwide are its new competitors and could reduce the use of MasterCard products. Other than creating a market for new products, how will these technologies impact operations in software companies?

We asked executives in the in-depth follow-up telephone interviews about the impact of Bitcoin and other cryptocurrencies on their business. Although it is not on the radar screen for the majority of the surveyed companies, 44 percent state that their company already has been asked to accept Bitcoin or they believe that it likely will occur during 2015 or 2016.

Figure 28

Have Customers Asked Surveyed Companies to Accept Bitcoin or Other Cryptocurrencies for Commerce?

2%
Yes, in 2014 or 2015

42%
No, but we’ve talked about it and think it might happen to us in 2015-2016

57%
Not sure

STUDY'S "GOLD NUGGETS"

This report describes an industry taking rapid strides in growth and shaping a new front in focusing on the customer success journey. This is bound to create new winners and losers. Here is a recap of some of the "gold nuggets" from the report regarding actions software companies can take to ensure they are among the winning players.

- Create a health check mechanism and use it to proactively reach out to your customers to make sure all is working well in the relationship or if there is some action you need to embark on with the customer (see page 15).
- In the IoT space, it is necessary to be very agile on project delivery and project milestones because the space is evolving so quickly and the increasing number of appliances and entries in the space make it dynamic and challenging (see page 9). Similarly, agility is required in the mobile space where the pace of innovation in the market requires changes to existing products to maintain competitiveness (see page 20).
- Some enterprise customers' decision processes cannot keep pace with change and innovation in the market. Consequently, when they roll out newly implemented solutions, they are likely already a year behind the market and you risk a dissatisfied customer. Educate your customers on how to make smaller decisions faster so they can roll out solutions faster (see page 10).
- Ensure your company interacts with customers in a personalized manner and that you build relationships for mutual wins. Base your product/service recommendations *only* on your deep understanding of the customer's business and requirements and how the software product/service impacts the business (see page 14). Explain not only *what* the product/service will achieve but also the *size* of the beneficial outcome (how large, how quickly, how much, etc.).
- Investing in refining or implementing the various components of customer-facing communications will improve revenues. A surveyed company reported doubling its revenues two years in a row as a result of such refinement efforts (see page 14).
- Lack of *dedicated* resources for various phases and processes of focusing on customer success can result in lower return on investment (see page 15).
- In today's hypergrowth environment, startups need to keep in mind that the company's ability to change to keep up with the pace of innovation in the market slows as the company grows larger. You may encounter more difficulties when growing from 50 to 100 employees than from 100 to 150 employees (see page 18).

FUTURE IMPLICATIONS

The information from the surveyed companies in the Software CEO / CFO Outlook 2015 study clearly indicates that the software industry is in a state of transition to a customer-centric business model. As such, the work of software companies as they focus on customer success will shape the industry's future. Here are several factors to consider as the industry evolves through this transition.

Customer Success Officer. Will this concept take hold across the industry as a critical new position established to lead the charge in focusing on customer success? What competencies, attributes, and domain experience will comprise an effective customer success officer? In what ways will the role of customer success officer change as this position evolves over the next two to three years? Will software vendors invest in developing customer success centers of excellence?

Talent. During periods of rapid growth, such as the state of the market in 2015, the right talent can make a company succeed and a lack of the necessary talent can break a company's ability to compete. As the industry is in a state of transition, software vendors face the challenge of having to build or acquire new skills. Hiring is on the rise, but not just for programming skills; and talent acquisition is more competitive and costly than ever before. Will software companies look to other industries to find talent pools that understand a customer success journey and how to build business around it? Talent constraints make it difficult to be agile, which is especially necessary in a period of hypergrowth, let alone a perfect storm and period of transition. How can the academic ecosystem help resolve talent constraints from growing even larger in the next couple of years?

Operations. Does the new focus on customer success require a shift in software vendors' go-to-market approach? How can vendors tie into a customer's core values right from the beginning along with the customer's vision of success? What process changes need to occur to ensure that vendors' communications with customers throughout the entire life cycle clearly display the vendors' core values at all times? How much and which components of the customer success program need to have dedicated resources?

Market Reset. Several study participants compared the hypergrowth in the industry today to the dot-com era. As such, will the industry go inevitably go through another market reset as it did with the dot-com bust? If so, how soon might that occur? And what the vendor landscape look like then?

As we wrote in the report for the 2011 CEO / CFO Outlook study, "as long-time software veterans know about growth periods, it is always important to expect the unexpected." That is especially the case in 2015 as the customer success journey and a perfect storm collide.

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