THE LEADERSHIP IMPLICATIONS OF SAAS
What do boards and CEOs need to know?

The rapid pace of product innovation and implementation demanded by the Software as a Service (SaaS) business model requires executives who can thrive amid aggressive timelines and near-constant change. With projections from Gartner that the SaaS market will surpass $22 billion in 2015, many companies have become eager to transition from a traditional license model. Boards and CEOs of these companies often find themselves having to evaluate whether their leadership teams, who may lack experience in the dynamic environments that typify subscription software, can meet the demands of the SaaS model, or whether to hire externally and rely on those executives to quickly learn the product and deliver results.

Many traditional software companies have learned the hard way that the move to SaaS represents a dramatic change and has implications for nearly every part of the business — calling for executives with a specific leadership DNA. Our conversations with leaders active in the space revealed three critical SaaS business drivers that can help boards and CEOs focus on the must-have leadership traits needed to transition — and to position their organizations for long-term success:

1. Customer obsession is at the root of everything.

2. Excellent execution and iteration are more important than the initial "product" itself.

3. Data can be a dangerous distraction.

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1 Customer obsession is at the root of everything.

Gone are the days when organizations only had to garner customer demand for product launches every two years. The double-edged sword of SaaS is that while solutions can be created and updated rapidly, the services can be turned off just as quickly. As the market becomes more saturated and more competitive, customers have an abundance of choice and can easily switch providers to meet their ever-growing expectations. In an environment of monthly contracts, companies need to adopt the mantra: "Earn every customer every day," says Steve Singh, CEO and chairman of Concur, which was recently acquired by SAP.

> "*Earn every customer every day.*"
> – Steve Singh

A predominant trend is the establishment of dedicated customer relations executives. We analyzed 250 pure SaaS leader profiles, and of those that are customer service leaders, half have technical or product backgrounds. This enhanced emphasis on the customer has given rise to new roles and raised the stakes for account management. "More of the total revenue sits in renewal dollars versus net new dollars, so account management will become an even more powerful part of the organization," says Byron Deeter, partner with Bessemer Venture Partners. While top technology companies and service-oriented, subscription-based companies are typically the go-to sources of talent, we have seen an increase in demand for customer-focused executives from leading consumer and hospitality organizations known for both their commitment to customer service and operational excellence.

Does a leadership candidate have what it takes to make the SaaS shift?

In our experience, we've found the most successful SaaS leaders define success in terms of the customer's experience and results. Here are four questions that can help boards and CEOs determine if potential leaders have the customer orientation and data literacy needed to drive innovation in a SaaS world:

- Can you provide an example of when data and customer feedback have led to product innovation or enhancement?

- How has customer input caused you to adapt or create a more scalable, flexible solution?

- Which two or three pieces of data from the past five years have led you to make a pivotal change in your organization?

- Can you describe a situation in which you took a risk and: 1) the outcome was positive and 2) the outcome was negative? How did you respond in both scenarios?

2 Excellent execution and iteration are more important than the initial "product" itself.

The SaaS model presents the opportunity — and challenge — of delivering game-raising solutions through the adoption of new product and technology iterations made in real-time in response to customer feedback, market shifts and technology advances. Rapidly adjusting solutions requires leaders with high intellect and learning agility. "Wicked intellectual horsepower and intellectual curiosity are both key qualities because you want people who are predisposed to absorb and apply new information quickly," said Deeter.

Companies need leaders who are not only fluent in the product and technology, but who also understand how they solve customer problems and enable their businesses. "Understanding the problem is 25 percent of getting it right, but the other 75 percent is how you build the solution in an increasingly competitive, iterative world," said Dan Wernikoff, senior vice president and general manager of Intuit's small business financial solutions group. "Developers are the new sales people and a deep product perspective is critical from top leadership across functions." This need for product knowledge has been reflected in pure SaaS companies: more than half of marketing leaders have backgrounds in science, engineering or other technical areas.

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The "product mindset" — which was not even on the radar a few years ago — has become highly sought after, even at the board and CEO levels. Deeter has observed that a growing number of his

Going beyond the tech industry for SaaS leadership talent

In a world where few leaders have made the migration from a traditional software to a SaaS model, boards and CEOs will likely need to think outside the box when seeking talent for the transition and pursue sources outside the typical technology industry companies, including:

- Consumer and hospitality companies for customer-centric leaders

- Functional leaders with technology or product backgrounds, e.g., CMOs with engineering degrees

- Consumer-based subscription service providers, such as media streaming, home security/monitoring and discovery commerce retailers

- Enterprise-based subscription service industries, such as market intelligence and research providers

portfolio companies want strong product personas on their boards, whose presence also serves as a powerful talent attractor. At the same time, companies don't necessarily need a leader who has already been through the transition to SaaS, but they need someone who understands traditional software and subscription models.

3 Data can be a dangerous distraction.

The vast amounts of data pouring in can easily overload the senses — and obscure what is truly important. Thus, senior leaders need the mental discipline to focus on the most vital issues, recognize patterns and see the big picture. "We are in a time of data overload and it is easy for executives to get bogged down with the inflow of data each day," said Wernikoff. "Those who are able to pick the top two or three issues will be better able to focus their teams and companies. The temptation to change direction too often based on data is great; the ability to think more strategically is critical."

It can be difficult to discern whether a leader has an ability to zero in on what's critical to the strategy, making assessment of potential senior executives extremely important. Robust interviews can help detect whether potential leaders have a deep comfort with data and an analytical mindset by examining the degree to which their successes have been driven by or aided by analytic techniques. To help ascertain whether general management candidates have the ability to see the forest for the trees, Wernikoff asks them to discuss two issues they acted on over the past five years given all of the inputs they've received. Analytically minded executives are also able to deconstruct how they solved a large-scale problem, walking through how the problem originally affected the organization and where they gained insights about the issue. In addition, detailed referencing can help verify whether data was a true differentiator in their past successes.

The bottom line

In a rapidly evolving SaaS environment with the opportunity — and often the imperative — to change the product on a daily basis, companies need leaders with several key attributes.

- The capability to truly view the business through the lens of the customer

- Fluency in the product and the solution it provides

- The ability to cut through staggering amounts of data and zero in on a few key strategic priorities

Boards and CEOs who understand the fundamentals of the transition to SaaS and use them to guide their talent strategy have a better chance of surviving the shift and standing out from the crowd of competitors.

Authors

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