



## The Deloitte On Cloud Podcast

**David Linthicum, Managing Director, Chief Cloud Strategy Officer, Deloitte Consulting LLP**

**Title:** What sets cloud leaders apart? Innovation, culture, and confidence

**Description:** Why do some companies glean more value from their cloud investments than others? According to the recent Deloitte US Cloud Survey, cloud leaders spend purposefully to innovate and they use technology as a force multiplier. In this episode, David Linthicum talks with Deloitte's Chris Thomas and Diana Kerns-Manolatos about that survey, and about what sets cloud leaders apart. Bottom line: leaders innovate, they build a strong software engineering culture, and they have confidence in cloud.

**Duration:** 00:26:32

**David Linthicum:**

Welcome back to the On Cloud podcast. Today on the show, I'm joined by Diana Kerns-Manolatos and Chris Thomas. Diana is a senior manager in the Deloitte Center for Integrated Research, and Chris is a principal in Deloitte Consulting LLP's global technology practice and is the US banking sector leader for cloud. Good morning, Team.

**Diana Kerns-Manolatos:**

Hi.

**Chris Thomas:**

Good morning, David.

**David Linthicum:**

So just full disclosure, Diana and Chris, we work together a lot. Diana, I'm really impressed with the research she does. Not only the research she does, but she's able to come to conclusions that are really kind of based on where the research is going, have great insights into how we're predicting the future of this, what's going on currently, of course how to align business, things like that.

Not only things that are interesting internally to Deloitte, but things to be published out to the *Wall Street Journal* and other publications in terms of directions where the technology is going. And Chris, he's with clients and doing the hard work to make sure the banking sector is serviced correctly. Why don't you fill me in on what you do, Chris, and tell me what you've been working on lately?

**Chris Thomas:**

Sure, David. I spend a good amount of my time helping banking clients build, or in some cases rebuild, their cloud strategies and also implement them through transformation and modern software engineering.

**David Linthicum:**

So, in other words, you solve the harder problems by mapping cloud-based technology to their issues and getting to the solution of the issues. Is that about it?

**Chris Thomas:**

That's exactly it, David, and what's interesting is we need to continue to keep on top of all of the issues that are changing, from the latest regulations and compliance issues that are happening in the banking sector, as well as all the new and emerging tech that's happening in the market today. How do we bring all of that together to form a cohesive cloud strategy, so it's not obsolete in outer years, but is something that's real now and delivers business outcomes and the objectives set by the business.

**David Linthicum:**

And finding patterns between companies, things that are basically industry solutions that we can start to build and share among various companies, those that are being built within the cloud and even bespoke solutions that are being built within the banking systems. Are you looking at that more these days?

**Chris Thomas:**

Absolutely, and where we're seeing—we'll talk about it in a little while—but David, where we're seeing a lot of convergence happening right now is, I call it the “verticalization of cloud.” Now we're seeing cloud drive deeper into this sector, specifically around the concept of industry clouds. So, again, I focus on the banking space. We're seeing a lot of cloud use cases and application focused more on things like banking-as-a-service, compliance, anti-money laundering, fraud detection, et cetera. So, really determining how our clients can leverage cloud to solve business problems that are deep at the heart of the sector.

**David Linthicum:**

Yeah, I think that's a great response. I think, ultimately, you not only have to look at the application of technology in general, but how it specifically works in a certain industry vertical because we're getting to the point where we're localizing services, we're localizing solutions, for particular patterns that are in industries. And, so, whether it's banking, or retail, or healthcare, or other things that are out there moving forward, this is really going to be the focus moving forward is the ability to look at industry clouds.

So, Diana, you recently did a survey. We're going to talk about it with Chris, but kind of tell us what you do as far as giving your ideas for creating these surveys and what you look for when you get the data back, and how do you come to such excellent conclusions, which I think you have a great deal over the last couple years since I've been working together with you?

**Diana Kerns-Manolatos:**

Appreciate it. In my role at Deloitte, I am very fortunate that I get to lead our global digital transformation research, and that's a big topic. It covers looking at strategy, the technologies, the operating model across a range of different technologies—AI, cloud, cyber. And, so, I really get to think about what are some of the big questions that we're hearing from our clients that we think that we can answer through research. And one of the ones you mentioned is our US cloud survey. And to maybe just pick that one and how we thought about what we should be looking at, cloud is a topic that, over the last two years, especially with clients, has come up quite a bit, really fueled by the pandemic.

A lot of organizations invested very heavily in cloud over the last two years, and now they are trying to look and see what type of value have they gotten from that investment. And for me, that was really the intriguing starting point of thinking about our research, probing into answering that question, what type of value are organizations getting from their cloud investment, and what are maybe leaders doing differently, those organizations that are getting more value from the cloud so that others who are perhaps behind can start to learn from them.

**David Linthicum:**

So, Chris, I was kind of taken back. I just did an article for *Forbes* on this survey and in reading the survey data, and the fact that there's such a disparity. So, it's not how much you spend anymore that's kind of a core metric to your ability to get innovation value or business value back from your cloud investment, but it's how you do it and how the leadership teams exist around the management of that investment. Any insights here as to why you think that is?

**Chris Thomas:**

I like to think of it as purposeful spend. So, in the survey, we found that the leaders and the hopefuls spent about the same amount of money in their cloud spend. In many cases, tens of millions and up to 100-plus and beyond. And the spend was about the same, but where the spend was being directed was the interesting finding here. Most of the respondents all spent around efficiency and agility. That's almost table stakes. But where the differentiation really

started to show up was when spend was directed toward innovative type things and leveraging cloud for cloud's sake to help sort of sort those industry use cases I spoke about a few minutes ago. So, spending more purposefully on things like AI, ML, IOT, and edge is where we were seeing the differentiation. I think over time that will change as the hopefuls become more mature in cloud, but the catch-up cost is growing between the leaders and the hopefuls, so I do think action needs to be taken quickly.

**David Linthicum:**

Yeah, and let's address that. I saw in the—and Diana, I'm going to go on you on this—that we categorize people who are leveraging clouds as hopefuls, people who probably needed to improve their utilization of cloud investments and the leaders in the space. Hopefully I got that right. So, what's the difference between the two and what were some of the common patterns we noticed in the study that kind of popped out, things that were surprising, things we expected?

**Diana Kerns-Manolatos:**

So, first off, that's exactly right. Leaders, just to underscore, are really those organizations that are seeing the most value from their cloud investments. And the way that we really determined that is we looked at nine different value factors, things like building that new product or service revenue, expanding into new markets, reducing/optimizing cost, increasing efficiency and agility, and several others. And we scored those organizations. And, so, leaders are those organizations that said they're achieving the most value and they're innovating the most in those nine areas. And that accounts for almost 30 percent of our survey respondents. We had four categories total, so leaders, drivers, moderates, and hopefuls.

And those hopefuls account for about 15 percent of the organizations in our survey. And when you start to look at leaders versus hopefuls, that's where you see that innovation gap that Chris was talking about. And, so, when we started to look at the actions of what leaders were doing differently, there were a couple of things that came out. So, first is the point that Chris made about it's not all about spend. It's about where and how you direct that spend. And, some of the strategies that we heard from leaders that were different were things like multi-cloud.

Most of our survey respondents overall said that they're using multi-cloud, but one of the things I think that was quite interesting about leaders was that their use of multi-cloud was a little bit different. They, for example, were using more in the range of three to five cloud service providers as part of their multi-cloud strategy, versus the hopefuls that were either only using one cloud provider, so very early in their journey and exploration of cloud, or they were using a much larger number of service providers, experimenting but not really settling into that kind of magic middle area of having found the right number of providers and really maturing in their data orchestration strategies across multi-cloud. So, that was one of the big things.

Another part of that was they were much more mature—the leaders—in terms of moving off of on-prem. And I think that's a trend that we see will probably continue based on the survey data is that reduction of on-prem workloads is something that was pretty significantly different for leaders. And, so, that's one of the bigger findings. I think Chris mentioned another one about industry clouds, and again, industry clouds is looking at the use of cloud from a sector-specific perspective and how they can apply to solve business challenges from a sector level.

And while that was something that respondents overall said were important to them, industry cloud, and the benefits that organizations who were leaders were looking to get out of industry clouds, were quite different from those that were in the hopefuls category. So, I think they really recognize the potential for their industry cloud solutions to allow them to benefit from things like faster innovation and time to market, from things like the digital blueprint that comes with the industry clouds, where some of those processes have already been digitized as part of the industry cloud solution that they're getting. So, those are just a few. We had several big ones, but those are some of the ones that come to mind.

**David Linthicum:**

Yeah, Chris, just kind of expanding on that a bit, and so one of the things you don't want to do in the cloud space is reinvent the wheel or use non-best-of-breed technologies. In other words, we're trying to use best-of-breed AI systems, best-of-breed database systems, best-of-breed reusable processes, industry-specific processes from industry cloud providers, things like that. And anything short of that is going to be under-optimized. I think what jumped out at me in the survey and kind of going through the data, the hopefuls—in trying to figure out what they're doing wrong versus figuring out what the leaders are doing right—aren't necessarily investing in the areas that they need to invest in, and they're using under-optimized solutions.

In other words, it's not that they're not spending the same amount of money as the leaders because it looks like that's what we found in the study, but their resulting solutions is under-optimized in some way. So, is this a talent architecture issue, a solutions development issue? As someone who builds solutions for banks, is this something that can be improved by improving the training or doing architecture different, solutions development, implementation of DevOps?

**Chris Thomas:**

It's a little bit of all of that, David. I think the difference is the hopefuls continue to spend in areas that they've "always known" where to spend and a little bit of the status quo view. Whereas what we found was the leaders are really—since you mentioned workforce—they're looking to fundamentally transform the workforce through upskilling and reskilling. And one of the biggest examples is that the leaders are placing a greater focus on software engineering culture, and that is a huge difference than what the hopefuls are doing.

So, the leaders are trying to build a culture of problem-solving, product velocity, continuous improvement, fail fast, and really driving that throughout the entire organization. And adjusting the performance standards, OKRs, and KPIs to let the organization know, and the associates, that it's okay to make changes and learn as you go, but we really want to build that deep engineering and concentration around software engineering. We're going to see more of this over the next couple of years as the hopefuls catch up, and the leaders will continue to set the example.

**David Linthicum:**

So, Diana, I think that Chris said something very profound. The gap between where the hopefuls are and where the leaders are, they're spending basically the same amount of money, and it looks like that's what we found in the survey. It goes to the fact that we're not thinking properly through the solutions and we're probably not leveraging the technology we need to leverage as a true force multiplier. If the leaders are leveraging a multi-cloud solution, that means they value best-of-breed and they're going to use whatever services they need to create the most optimal solution, and they onboard these things

and manage the additional complexity, and even the additional security risk, and find ways to do it in a way that's not necessarily going to increase the amount of resources we need to throw at it.

Where it looks like the people who want to be leaders or are basically moving to leadership aren't really doing that. So, in other words, they're not investing in talent, time. They're not experimenting with technology to go off and build things using technologies that may be a natural act for many of them because they aren't currently using the technology so they have to change the culture and change the skill sets to move in that direction. Am I oversimplifying this, Diana?

**Diana Kerns-Manolatos:**

What you said is exactly right, and I'll hit on two points. I think the first is on the talent issue you just brought up. When we look at the survey data on talent, where hopefuls are, 49 percent of hopefuls say that they're just starting to think about strengthening their software engineering culture. And leaders, only 12 percent of them say that. So, that's a huge difference there on where the hopefuls are in their talent journey and their road toward building that more mature software engineering culture. On the point of cloud services that you were talking about, what we saw on the survey is very interesting as well because there are specific cloud services that we saw have these multiplier effects.

Leaders are gaining more value than hopefuls from cloud services like blockchain at a 10X multiple, AR and VR cloud services at a 5X multiple, container solutions at more than a 3 times value multiple, and so on and so forth. So, I think it's exactly as you said. It's the combination of the strategies, and that goes to what are your business value goals, and some of those measures we spoke about before where we had are you looking at increased efficiency and agility? Are you looking to innovate and move into new markets? So, knowing what those business measures are you're trying to achieve, knowing the services, the cloud services that can help you to get multiplier effects of value to achieve those strategies, and then having the right operating model in place and looking to mature that with a software engineering culture.

**David Linthicum:**

So, Chris, let's bottom line this for enterprises that are looking to be leaders in their marketplace. It doesn't really kind of matter where they are currently, but improve their processes, improve their engineering culture, improve their utilization of innovative services as force multipliers to take their business to the next level. So, what lessons learned, that you can convey out of the survey that you would tell a client now, maybe two or three things that they should consider?

**Chris Thomas:**

Well, I think the concept, David, around category leadership has changed. In the past, the organizations were typically focused more on revenue and looking at the top and bottom line, but now the concept has changed. It's all about innovation. And as I said a few minutes ago, cloud is not about the cloud, but what can cloud make possible. That's going to be the real differentiator. And if organizations are not spending the right amount of time, money, and focus, the cost of catching up is going to be significant. But most importantly, though, is market position.

So, I think that's one piece around focusing on innovation, which certainly came out loud and clear in the survey. The other piece that I thought was interesting, David, was the sentiment and emotion about cloud and the stark difference between the leaders and the hopefuls. I thought this was very, very interesting. The leaders looked at cloud and the future of cloud with confidence and excitement, but I felt that the hopefuls were more enthusiastic. So, one was a little bit more bold, they've been there, they're conquering and taking advantage of. The others are a little bit enthusiastic in excitement, but that only goes so long. They need to start taking action quickly while the market's there before that gap starts to widen.

**David Linthicum:**

So, Diana, what I'm hearing here is, if I'm kind of looking at pattern, innovation is the force multiplier we need to get to. You've got to remember that companies right now that don't learn how to innovate and disrupt in their markets—and of course it really depends on the specific industry they're in—but all are going to value innovation, their ability to differentiate their product set, and have digital transformation, and provide better customer experience, things like that. So, ultimately it's about leveraging technology effectively. Is this really coming down to the fact that—I mean, I just heard some great things from Chris in terms of they're enthusiastic, but they're not necessarily passionate about what they're doing. Is this a fact that we probably need these organizations to try new things, that even if we're viewing this as if we're going to make a mistake, but the reality is we can't get into this market unless we accept a certain amount of risk, unless we learn to fail fast, unless we try some things that may or may not work to get to a more innovative state. And it seems to me the leaders are doing that. What are your thoughts on that?

**Diana Kerns-Manolatos:**

I think the message is that leaders need to be willing to make bold technology investments that are tracked back to strategic value goals, and that's really what's going to help give them the confidence that they're achieving what they set out to achieve, and part of being bold is being innovative, being able to maybe withstand a little bit of uncertainty that maybe goes with an agile type of environment where a little bit of failure is acceptable because you know what, the outcomes are that you're working toward. So, be bold with your technology investments and willing to fail in some instances, but they can't all be failures. You need to have a certain amount of value-driven success with clear outcomes that you're looking to achieve to balance that out.

**David Linthicum:**

Yeah, fail fast does not mean fail always. That's going to be an opposite effect. So, Chris, looking in the future, are we finding the fact that we're—organizations that used to be slow and steady win the race and they're just doing slow revenue growth and very conservative investments in leveraging new technology including technology in the cloud are eventually going to kind of fall by the wayside because there has to be this innovative drive within these companies to take them to the next level? And I wrote an article a few years ago about a business, which I never write about, called "The Brandpocalypse" where it kind of viewed folks who aren't necessarily taking advantage of these new technologies and weaponizing them to bring their businesses to the next level, where they are ultimately going to be disrupted and displaced, and that seems to be happening now.

So, big companies are changing their strategies, they're probably not as strong in the marketplace as they were. New innovative upstarts and even some of the bigger companies that are becoming disruptors in the space are leveraging technology to gain access into a marketplace where it's more innovative strategies than they did before. So, it's not about just building a better product and building a better service. That's important as well, but it's how you sell them, the customer experience you're providing is holistically how you leverage innovation to kind of take your organization to the next level. And, so, the

question would be is that the case? And if it is, should we start changing our cultures to say more engineering stuff? We're acting faster, more agile, we're looking at optimization of this technology; it's become a very technology-driven company versus the way it was before. What needs to change for those who are less than leaders and are looking to work their way up to leaders?

**Chris Thomas:**

I certainly don't think all will fall by the wayside, but you're right. Some are, and it's already happening. And with the gap between those that are a little bit behind and those that are leaders, what we're seeing is more M&A activity specifically around some of the fin-techs. So, I think we should expect to see more of that, companies starting to use their balance sheet to buy their way out of their legacy issues. We're also seeing some instances of organizations looking to completely build new modern technologies and sort of a greenfield environment and let the legacy environment fade away and spill off and put everything in a net-new environment.

And I think the area that we're also seeing greater focus on, to your point, will be around that culture, David. All organizations that I'm speaking with now are all focused on software engineering and how can I drive a greater engineering focus and mindset into the organization. That's going to be really the differentiation, and then turning that organization into one that's really product centric and product driven, that's going to be the force multiplier combined with cloud that will set them on the journey for success in the years ahead.

**David Linthicum:**

Yeah, innovation is downstream of culture. I see that happening right now, and I think that ultimately organizations need to understand how to make these changes with culture and leveraging technology. So, last question, Diana, I'm going to go to you. Say we do the survey in five years. What do you think the results we're likely to see kind of based on where the trends are going right now?

**Diana Kerns-Manolatos:**

It's a great question. I think one of the things that's actually quite encouraging when we look at hopefuls is that they are outpacing organizations overall, and leaders, in terms of their adoption of cloud native. And I think that as we start to move away from on-prem, migrate to the cloud, and hopefully move away from legacy in the next five years, the opportunity for cloud native, I would expect, could be a really important growth area for digital natives as well as incumbents alike. Just to pick a data point, our survey found that 69 percent of hopefuls say that they are looking at cloud native solutions for customer domain, customer-facing solutions, infrastructure applications. And in that case, leaders, only 49 percent of them are looking at cloud native for those solutions.

So, it's a 20-percentage point difference. I think if I'm looking into my crystal ball for five years into the future, I would expect that cloud native continues to become increasingly important, and that all of the other new advanced technologies we're looking at—the cloud services that we're looking at today that are important for leaders—I would expect to see a whole class of new solutions and services from cloud providers that we need to be factoring into the strategy and the value equation.

**David Linthicum:**

I think you're spot on. I think ultimately this is about building things that are between clouds. Moving forward, they call it the meta-cloud or the super cloud that seems to be moving these days, but the fact of the matter is there's this whole layer of technology that's still going to leverage the cloud services, leverage them natively, but, ultimately, from a logical standpoint, they'll span clouds and they'll span different technologies. We've just got to get to that point, then leverage extraction automation to deal with the complexity stuff. I think that's the way things are going to go, and we need to focus on solving that problem right now. So, Chris, where can our listeners find more about you on the web?

**Chris Thomas:**

On LinkedIn, Chris Thomas at Deloitte.

**David Linthicum:**

Check Chris out. Smart guy and great research. Guy has great opinions and understands how this stuff works. So, Diana, same question.

**Diana Kerns-Manolatos:**

If you want to read some of my research at Deloitte, just go to Deloitte Insights and check out digital transformation.

**David Linthicum:**

Yeah, check out Diana. She's the engine behind a lot of the great research that we do and the articles that we publish and where the information comes from. So, she's our eyes and ears in the industry and taking things to the next level. Very impressed by her work, and I would encourage you to follow her as well. So, if you enjoyed this podcast, make sure to like us, rate us, and subscribe. You can also check out our past episodes including those hosted by my good friend, Mike Kavis. Find out more at [deloittecloudpodcast.com](http://deloittecloudpodcast.com). If you'd like to contact me directly, you can e-mail me at [dlinthicum@deloitte.com](mailto:dlinthicum@deloitte.com). So, until next time, best of luck with your—on your cloud journey. Everybody stay safe. Cheers.

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