



Privately Speaking

Insights on private company growth
from private company insiders

Issue 5 | February 2017



Cloud: Out of sight, but top of mind

Few technologies have catalyzed private company growth like Cloud. Indeed, many private companies have built their market proposition entirely on the back of Cloud technologies. Yet as Cloud becomes increasingly ubiquitous, some private companies are starting to forget about it—out of sight, out of mind. And this is creating worrying risks.

In this edition of *Privately Speaking*, KPMG's Brian Hughes, National Private Market Group Leader, looks at the changing Cloud marketplace and explores the five key risks that every private company decision-maker should be thinking about.



Looking into the clouds

Private companies and start-ups understand the massive influence Cloud has had on their growth objectives. Offering unprecedented scalability, flexibility and capital efficiency, Cloud has allowed private companies and startups to compete on a level technology playing field with some of the biggest companies in the world.

Many private companies today run entirely on Cloud technologies. Almost all companies are now deeply dependent on Cloud for many of their operations, core processes and data management solutions. In fact, Cloud has become so embedded into most privately-held companies that few business leaders remember it's there. A classic case of 'out of sight, out of mind'.

The problem is that—as the Cloud services marketplace evolves (and it has changed significantly over the past few years)—most private companies have failed to ensure that their governance and controls have remained up to date and relevant. And, as a result, many are facing significant—and largely unknown—risks.

5 key Cloud computing risks

Our experience working with leading private companies suggests that executives and Boards should be thinking about Cloud in terms of five key risks:

1. **Data security and regulatory risk:** Concerns related to the loss, leakage or unavailability of data, often causing business interruption, loss of revenue, loss of reputation or regulatory fines and penalties.
2. **Technology risk:** Evolving technologies and challenges related to standardization, integration and interoperability can lead to costly design efforts as new systems and processes are rolled out in the organization.
3. **Operational risk:** Challenges related to the day-to-day execution of IT services and the delivery of business-critical solutions are increased as organizations move to more agile development and operations (DevOps) approaches.
4. **Vendor risk:** Unforeseen vendor circumstances such as bankruptcy, lawsuits, an SEC probe, or any other act of defamation for the vendor could significantly damage an organization's reputation and goodwill.
5. **Financial risk:** Scalability allows for rapid growth but it also creates financial risks associated with overspending and loss of revenue due to poor planning and misaligned requirements from the business.



You can't outsource the risk

One of the greatest barriers to wider Cloud adoption today is the growing lack of understanding of the shared-responsibility model under Cloud computing. Contrary to popular opinion, not all risk management is the responsibility of the Cloud Services Provider (CSP). On the contrary, most of the risks are to be managed by Cloud users via various risk management mechanisms, including those tools offered by their CSPs.

We believe that privately held companies need to balance the desire to support innovation in the Cloud with the need for a risk-based governance structure that includes a greater focus on policies, procedures, and personnel. And this will require the support of a cross-functional team that includes information security, risk management and internal audit in order to help the organization maximize the benefits of cloud while balancing risk.

10 questions to ask

1. Who is responsible for Cloud strategy?
2. How is your Cloud strategy aligned with your business strategy?
3. Do you have a road map for cloud transformation, including migration strategies and approaches?
4. Have your existing governance policies and processes been updated in the past year to reflect changes in Cloud usage and technology?
5. Are security and risk professionals involved in defining and monitoring your Cloud governance?
6. Are your Cloud management processes well designed, simple and repeatable?
7. Do you understand the data protection requirements of your stakeholders?
8. Are you confident that your CSPs are following your data protection requirements?
9. Do you regularly assess the third parties that host your data and provide Cloud services?
10. Are your internal audit and risk management departments prepared to navigate your organization on the Cloud journey?

“While Cloud computing provides many benefits, it also introduces major risks on several crucial fronts that need to be governed and managed by user organizations. Private companies must understand and mitigate these risks to better leverage their cloud computing initiatives and unlock improved opportunity for growth”

— **Brian Hughes**, Partner, National PMG Leader, KPMG LLP

How can KPMG help?

KPMG has significant experience helping privately-held companies enhance the value of Cloud while improving their management of risk. We focus on turning IT risks into opportunities, helping private companies demonstrate effective IT compliance through governance and controls, data integrity, security and privacy and supplier management compliance. And in doing so, we help our clients to embrace disruptive technologies such as Cloud.

Want to learn more?

Download the full report [here](#).



Do not miss a thing

The environment for private companies is changing rapidly, and new opportunities are emerging every day.

Do not let an opportunity pass you by: sign up to receive KPMG's **Privately Speaking** article series and make sure you are making the best decisions possible for your private company.

Register here to subscribe to KPMG's *Privately Speaking* series:



Starting your business



Growing your business



Strengthening your business



Transitioning your business



Privately Speaking focuses on the issues that matter most to private and VC-backed companies.

KPMG LLP's (KPMG) Private Markets Group understands what it takes to drive private company growth. In each edition of **Privately Speaking**, we share our insights—along with practical and actionable tips—to help boards, executives, and management grow, strengthen, and transition their privately held businesses.

For more information, click here to visit our *Privately Speaking* Web page.



kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2017 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International. NDPPS 601171

Contacts

Brian Hughes, Partner
National PMG Audit Leader
National Venture Capital Coleader
T: 267-256-1820
E: bfhughes@kpmg.com

Conor Moore, Partner
National Venture Capital Coleader
T: 415-963-7559
E: conormoore@kpmg.com

Sal Melilli, Partner
National PMG Audit Leader
T: 212-872-6030
E: smelilli@kpmg.com

Scot Guempel, Partner
National PMG Tax Coleader
T: 973-912-6208
E: sguempel@kpmg.com

Bill Jackson, Partner
National PMG Tax Coleader
T: 214-840-6040
E: wmjackson@kpmg.com