Focus on: Technology

International Business Report 2010 – Sector focus series

The Grant Thornton International Business Report (IBR) 2010 reveals that privately held businesses (PHBs) in the technology sector are one of the most confident about their economic prospects for the year; a balance[1] of +40 per cent are optimistic this year. Businesses, on average across all sectors, are more optimistic this year (+24 per cent) than they were in 2009 (-16 per cent).

Of the ten sectors considered in the 2010 series of focuses, financial services is the most buoyant at +42 per cent; ahead of technology (+40 per cent), cleantech (+34 per cent), hospitality (+32 per cent), retail (+31 per cent), manufacturing (+25 per cent), construction & real estate (+13 per cent), food & beverage (+7 per cent), transport (+5 per cent) and healthcare (-18 per cent).

The technology sector

2009 was a pretty dismal year for the sector as businesses and governments around the world delayed repairs and purchases due to the difficult economic situation. Global IT spending is estimated to have dropped by 8.9 per cent across the year.

However levels of research & development (R&D), vitally important to an industry where innovation is the driving force, held up reasonably well through the downturn even as businesses were losing sales and slashing costs. The choice to cut staff numbers and marketing spend in favour of keeping R&D spend constant means the sector rebounded well at the start of 2010, with businesses who actually increased R&D spend in a great position to reap the rewards of the recovery.

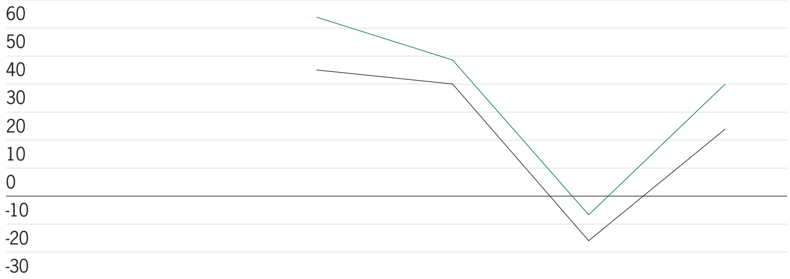
[1] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic

The state of the sector

Optimism/pessimism

- a balance of two-fifths of businesses in the technology sector are optimistic about their respective countries' economic outlook this year (+40 per cent)
- this represents an increase of 47 percentage points from 2009 (-7 per cent)
- the balance on average across all sectors indicating optimism for the year ahead has risen by 40 per cent this year, from -16 per cent in 2009 to +24 per cent.

Figure 1: Outlook for the economy over the next 12 months
Percentage balance of businesses indicating optimism against those indicating pessimism



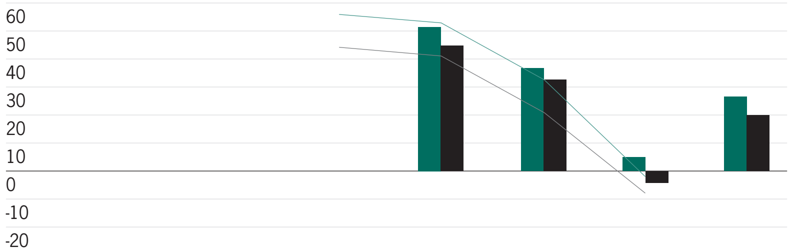
	2007	2008	2009	2010
Technology	63	49	-7	40
All sector average	45	40	-16	24

Source: Grant Thornton IBR 2010

Employment

- a balance of +27 per cent of businesses in the technology sector expect to expand the size of their workforce in 2010, just above the all sector average of +20 per cent
- actual employment growth in the sector (-2 per cent) was worse than expected 12 months previously (+5 per cent)
- the same trend was observed on average across all sectors (-8 per cent actual versus -4 per cent expected).

Figure 2: Employment history: 2006-2010
Percentage balance of businesses indicating an increase against those indicating a decrease



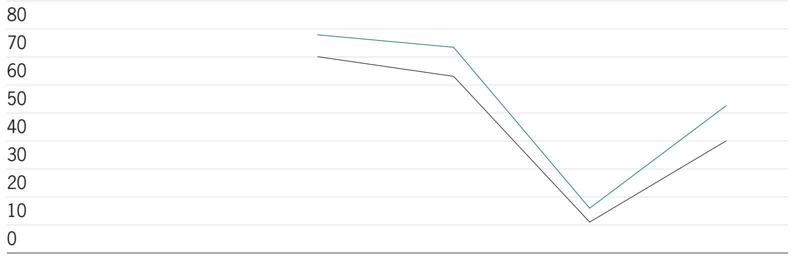
	2006	2007	2008	2009	2010*
Expected technology	–	51	37	5	27
Expected all sectors	–	45	33	-4	20
Actual technology	56	52	33	-2	–
Actual all sectors	44	41	21	-8	–

*actual 2010 data will be documented in IBR 2011
Source: Grant Thornton IBR 2010

Revenue expectations

- a balance of +52 per cent of businesses in the technology sector expect their revenue to increase across 2010
- businesses in the healthcare (+61 per cent) and cleantech (54 per cent) sectors are more optimistic about increasing revenue in 2010
- on average across all sectors, revenue expectations have rebounded to +40 per cent this year, up from just +11 per cent in 2009.

Figure 3: Revenue expectations: 2007-2010
Percentage balance percentage of businesses indicating an increase against those indicating a decrease



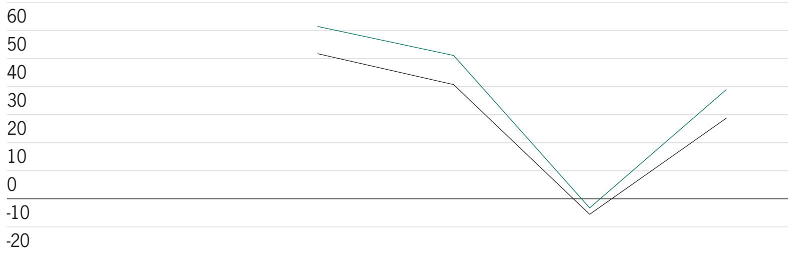
	2007	2008	2009	2010
Technology	78	73	16	52
All sector average	70	63	11	40

Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses in the technology sector expecting to increase profits in 2010 is +39 per cent
- financial services and cleantech are the only two sectors that are more optimistic on profitability expectations (45 and 42 per cent respectively)
- the all sector average has increased by 34 per cent, from -5 per cent in 2009 to +29 per cent this year.

Figure 4: Profitability expectations: 2007-2010
Percentage balance of businesses indicating an increase against those indicating a decrease



	2007	2008	2009	2010
Technology	61	51	-3	39
All sector average	52	41	-5	29

Source: Grant Thornton IBR 2010

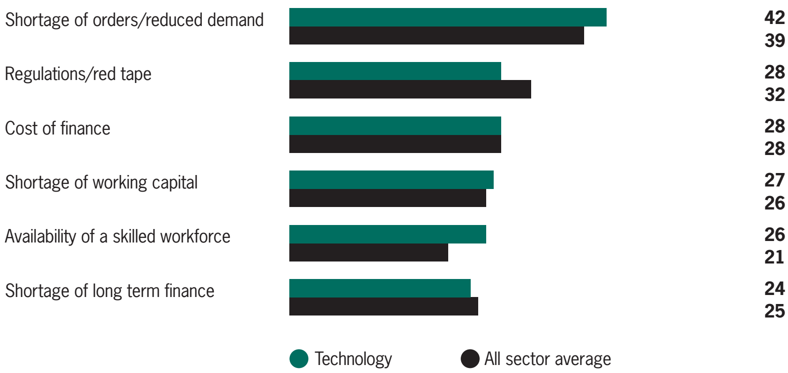
Cal Hackeman
Grant Thornton, United States

"Demand for technology services and products is very elastic – customers tend to need to be making money in order to drive demand for new or upgraded technology products or services."

Constraints

- shortage of orders/reduced demand is the most pressing concern for businesses in the technology sector, 42 per cent compared to 39 per cent on average across all sectors
- the availability of a skilled workforce is more of a concern in technology (26 per cent) compared to the all sectors average
- whereas regulation/red tape (28 per cent) is less of a concern compared to the all sector average (32 per cent).

Figure 5: Constraints on expansion
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

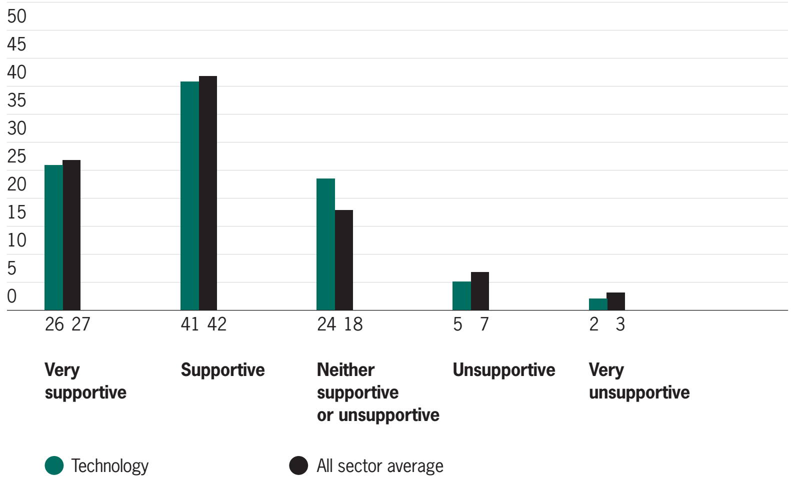


Source: Grant Thornton IBR 2010

Support of lender

- 67 per cent of businesses in the technology sector are happy with the level of support provided by lenders, similar to the 69 per cent on average across all sectors
- just seven per cent of businesses in the sector believe that lenders are unsupportive or very unsupportive of their business, compared to ten per cent on average across all sectors.

Figure 6: Level of support provided by lenders
Percentage of businesses



Source: Grant Thornton IBR 2010

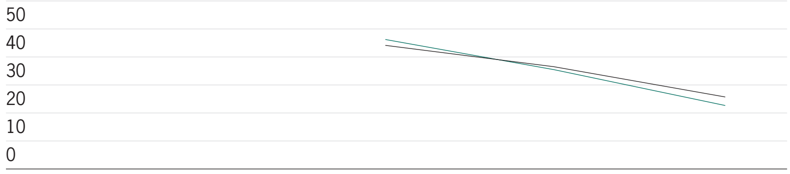
Gaurav Sahu
Grant Thornton, India

"One of the major opportunities moving forward is in the small and medium space; most of the large technology businesses used to focus on large multinational companies but because most SMEs will have lower IT adoption rates, there could be a significant opportunity in this space."

Mergers & acquisitions

- the proportion of businesses in the technology sector planning to grow through acquisition is 23 per cent; ahead only of healthcare (11 per cent) and food & beverage (16 per cent)
- the average across all sectors has fallen steadily over the past three years from 44 per cent in 2008 to 26 per cent this year.

Figure 7: Plans to grow through acquisition in the next three years
Percentage of businesses planning to grow through acquisition



	2008	2009	2010
All sector average	44	37	26
Technology	47	36	23

Source: Grant Thornton IBR 2010

Tax incentives

- just above half of all businesses in the technology sector state they don't take advantage of tax incentives for research & development (54 per cent)
- one-quarter do make use of tax incentives for research & development (27 per cent)
- whilst one-tenth state that there are no tax credits available (ten per cent).

Figure 8: Do you make use of tax incentives for research & development?
Percentage of businesses

Yes	27
No	54
No tax credits available	10

Source: Grant Thornton IBR 2010

Capital spending

- the majority of businesses in the technology sector (50 per cent) have not been forced to reduce or postpone capital spending on technology
- and two-fifths (40 per cent) state they have been forced to reduce or postpone capital spending.

Figure 9: Have you been forced to reduce or postpone capital spending on technology due to reduced revenues over the last 12 months?
Percentage of businesses

Yes	40
No	50
Don't know	6

Source: Grant Thornton IBR 2010

Niki Dixon
Grant Thornton, United Kingdom

"The majority of the deals we are seeing are being driven by very specific strategic objectives, such as acquiring a desirable customer base or new technology, diversifying sector exposure or entering new markets. Less frequent are the deals where the acquiror is simply looking to buy an identical business just to become bigger."

Outlook for the sector

The outlook for the technology sector looks positive in the short term as the drive for efficiencies boosts demand for technologies that help businesses to cut costs. Consequently much of the focus will move from what consumers and businesses want to what they need. Much discretionary spending was postponed during the downturn but many deferred purchases should be realised in 2010 meaning global IT spending is forecast to rise by more than eight per cent in 2010, to more than US$1.6 trillion.

More than half of forecast growth is likely to be observed in emerging economies such as Brazil, China, India and Russia where broadband and mobile phone penetration continues as supply and disposable incomes rise. Globally, increased demand for semiconductors, innovative mobile devices and software and hardware, that help businesses and consumers do more with less, are all set to boost the sector.

Troy Wilson
Grant Thornton, Australia

"To avoid over-capitalisation, businesses should look very carefully whether it is worth spending the development time on a product or additional functionality through additional modules, versus building partnerships with other very capable providers of complementary products."

Sector's perspective

A medium-sized technology business in Taiwan, employing around 210 staff

Lessons learned from the downturn
"We have come to understand the importance of controlling our cost base; this has become increasingly important as market growth slowed to a standstill. Further, we have paid more attention to understand any investment incentives and subsidies that are available from the government than at any time in the past; there are a lot of beneficial schemes out there that we had not fully exploited before."

Major risks for the year ahead
"In Taiwan, we actually saw a spectacular turnaround in the second quarter of 2009 so we are hoping that demand remains robust. The market continues to grow but fears persist about the strength of the recovery in Europe – which is a major market for us. Also there is concern that the unrest of workers in China could spread to Taiwan."

Planning for the future
"With our traditional markets set for slow growth in the near future, we have set our sights on the Chinese market, which continues to grow rapidly, offering us robust and local demand. We are currently undertaking significant R&D as well as expanding our production capacity and product range to specifically target Chinese clients."

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View from Grant Thornton

Lessons learned from the downturn

- **elastic demand for output:** customers need to be profitable to drive demand for new or upgraded technologies
- **efficiency:** slackness in capital markets means businesses have had to manage cash flows more efficiently
- **decline in offshoring:** businesses are moving away from offshoring as inputs have become cheaper domestically
- **importance of flexibility:** the businesses which performed best during the downturn were those which were best able to respond to customer needs
- **articulation of efficiency:** the climate has made it important for businesses to articulate the benefits of products and services in terms of how it saves the customer time or money
- **diversification:** geographical (as well as product) diversification has benefited businesses with parts of the world recovering more quickly than others
- **holding on to existing customers:** instead of hunting new clients, businesses have focused on their existing customer base.

Major risks for the year ahead

- **unproductive M&A:** some of the early consolidation has not proved as successful as hoped
- **public sector deficits:** the public sectors of many economies are unlikely to hand out huge contracts at present
- **double-dip recession:** the threat of a double-dip is holding some businesses back from investing in equipment or staff
- **financing innovation:** there is a significant shortage of investment available, especially from venture capitalists who are not seeing huge returns in the sector at present
- **talent retention:** as the job market opens up again, businesses need to be aware of employment opportunities and threats.

Planning for the future

- **efficiency:** businesses will continue to focus on cost and operational efficiencies
- **strategic acquisitions:** businesses are looking for deals to get them access to a particular product or geographic market
- **harnessing the power of social media:** social media channels allow customers to interact with businesses in a really fast and dynamic way
- **SME markets:** businesses are increasingly looking to sell to SMEs where levels of IT adoption tend to be lower
- **focus on ROI:** investors and customers are increasingly looking for a clear, fast ROI and marketing will have to evolve to accommodate this
- **partnerships versus investment:** businesses need to decide whether it is worth spending the time and money on a product, additional functionality or building a partnership.

Low take up of tax incentives

- **no taxable income:** to take advantage of these incentives, businesses have to be in the situation of having taxable incomes
- **lack of awareness:** companies whose main products or services are outside the technology sector may still qualify, where they have developed and embedded innovative or technologically advanced processes into their business model.

Ringo Chiu
Grant Thornton, Hong Kong

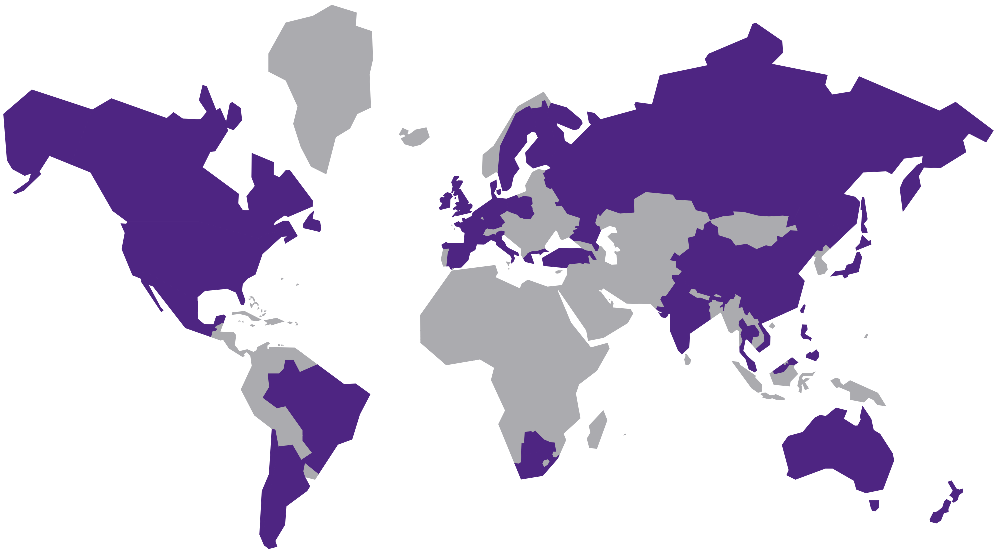
"China is opening up in many ways but in terms of technology there are many things that the Chinese government take a different view on, compared with the western world. There are many things that you can do in China but there are also things that you cannot do in China."

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In the technology sector, 338 businesses were interviewed, 20 per cent from software publishing, 18 per cent from telecommunications, 14 per cent from computer programming, consultancy and related activities, seven per cent from data processing, hosting and related activities and 40 per cent from other technology-related services.

To find out more about IBR and to obtain copies of reports and summaries visit: **www.internationalbusinessreport.com**. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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