The future of growth and the technology industry:
Reinventing the “new,” again

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Quick read

We surveyed over 350 U.S. technology executives to find out how they are shaping their firms to succeed in the future, looking in detail at how they plan to create, protect and transform value in an era of political uncertainty and technological disruption. Survey respondents were C-suite and senior director-level individuals from a range of tech companies, including hardware manufacturers, digital and media communications, internet, and software, including software as a service and other digital solution providers.

The research unearths a group of leading tech companies that are making bold decisions and reinventing themselves for the future. They are exploiting innovative technologies, mastering advanced data analytics, and taking a more strategic view of risk. Companies are also evaluating the impact of political and regulatory change in the near-term that may affect long-term focus.

The gap between these leaders and other businesses will grow as technology widens the performance gap and makes it more difficult to catch up. If a company does not want to be stranded on the wrong side of that chasm, it must initiate farsighted, strategic and profound change.
The future is never a status quo for the tech industry, as it is always transforming: New leaders emerge and current ones are weakened, often reverting to M&A to try to catch up and protect their profitability. These kinds of changes are predictable and have occurred since the IBM mainframe met the PC.

While continuous disruption is a predictable pressure on the industry, tech companies also face newer challenges. The first is from regulations, as governments adjust tax and other frameworks to try to stay abreast of the digital economy. The second, and most critical, is from a climate where trust in the tech ecosystem appears to be at risk.

Regarding the future, some of the industry’s forward-looking thinkers are challenging leaders to think about human adaptability: Are we at a point where the rate of change in technology is outpacing our ability to keep up?
Human adaptability: Moore’s law meets resistance

Many years ago, Gordon Moore, co-founder of Intel Corporation, predicted the rapid pace of advances to integrated circuits, but we’re also witnessing exponential advances in networks, software, sensors, memory and cloud capabilities.

Society is beginning to ask, “When the pace of change moves from exciting to disorienting, what are the consequences?” Human ability to process and adapt to the pace of change in technology is manifesting in many ways; some as simple as the constant distraction from the latest tweet, and some as profound as the pace of automation and its impact on our definition of work. While tech leaders have always faced this resistance to some degree, the rapid acceleration and ubiquity of technology for society in general will create heightened challenges for the industry in the coming years.

The crest of the life cycle remains a blind spot

History shows that companies have difficulty recognizing the shift from high-growth to maturity in the life cycle of their products. They know that there will be new architecture that will challenge today’s front-runners, and that their failure to rise to that challenge will mean they will lose ground to a new generation of tech leaders.

But it’s difficult to know when to stop protecting their base so that they can invest in the future. It is a constant balancing act. When do you shift R&D dollars? When do you purposefully move clients to new products (at the expense of stable revenue streams from current products)? In technology, ever-shorter product life cycles test even the best leaders’ adaptability.
The future of growth and the technology industry

An escalating set of regulatory rules

The Trump administration has promised to lighten the regulatory load at the federal level, evidenced most recently by rollbacks on Obama-era restrictions on internet service providers and their use of customer browsing data and personal information. But there are other regulatory bodies that affect the industry. Most tech companies are global and face regulators that restrict the use of data. Many states are taking actions to create their own regulatory frameworks. And as tech companies disrupt other industries, they inherit a set of regulatory frameworks that look woefully outdated. The result is a regulatory environment that is becoming more complex.

On one hand, entering new markets has never been so straightforward or low-cost. Because of new technology platforms, on-demand services, global supply chains and increasing data speed, early-stage tech companies can operate globally from day one. But the accelerating pace in which technology companies enter new markets means they also face escalating regulatory rules. Technology is accelerating faster than regulators’ ability to adapt. How will governments respond, and will policy keep pace with technology?

The buy-or-build dynamic in the technology industry

Companies in all industries face the buy-or-build decision. In technology, the companies that invest wisely in R&D and build the next generation of products instantly have first-mover advantage. The buy decision generally becomes a defensive move of catch-up through M&A.

Our research shows that high-growth companies are committed to channeling resources into tomorrow’s sources of value. Of tech companies that achieved strong EBITDA growth over the past 12 months, more than three-quarters said they plan to devote significant capital to developing new products and intellectual property (IP) to drive future growth (see Figure 1).

Figure 1: Respondents that intend to devote significant capital to developing new products/IP to drive growth over the next three years, by past 12 months’ performance.

- Over 20% EBITDA growth past 12 months
- 0% EBITDA growth past 12 months

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A growing urgency for greater trust

Technology works when there is trust. Trust has many facets, including security, privacy, reliability and performance. Tech leaders need to earn the trust of their user community, including trust in their business and brand promise, trust in their products and services, and trust in the safety of the broader technology ecosystem.

That trust is currently under assault. The frequency and severity of cybercrimes are increasing. The internet of things (IoT) may become a web of weaknesses — not just for tech businesses, but for their customers, suppliers and other partners. Addressing the threat will take coordinated, global policy efforts to build (or in some cases, rebuild) trust across many dimensions: better encryption standards and prosecution of cybercrimes; safeguards against exploitation of personal data; and high standards for reliability and performance.

Today’s populist political climate sees national interests pulling rank over global cooperation. But tech leaders will need to collaborate for mutual benefit and greater trust.

Human adaptability to technology should not become a roadblock. Instead, it should be viewed as just the latest opportunity for technology leaders to create new solutions — solutions that advance the ways humans learn, understand new technology, adapt to change, and collaborate for both mutual interest and the greater good.
Shaping tomorrow’s tech sector

Innovate. Then innovate some more.
A notable event from 2017’s Academy Awards was seeing Amazon emerge as a significant winner, with founder Jeff Bezos prominent in the audience. Amazon Studios was one of the producers behind the hit film “Manchester by the Sea,” which walked away with best actor and best screenplay awards.

Convergence has long defined the tech industry, as tech companies have long ventured into many sectors beyond media. Tech companies need to manage the innovation process to bring new products and services to market more quickly and at a lower cost to a larger and evolving target market. Most importantly, they need to be bold, take risks and embrace the industry motto: Fail fast. Succeed faster.

Why?
First, the competition is relentless and growing. Our survey respondents are concerned about players from outside the U.S. and super-agile digital startups, along with existing market giants like Google, Oracle and Microsoft (see Figure 2).

Our research finds that more than three-quarters of tech companies (76%) agree that the shift to intelligent devices will mean that they will increasingly compete against players from other industries — such as General Electric (GE). GE is an interesting new competitor to the technology industry for several reasons. It manufactures many of the devices and appliances that will be connected on the IoT, building its own technology to manage these devices (GE Industrial Internet); then it sells its products to the broader market. As a result, it has access to the data created by these devices and can provide the analytics and insights to drive new innovation. Finally, it has first-mover advantage with the platform communities that will define the factory floor or the automated home of the future.

This leads to the second driver for innovation: owning the platforms that will sustain growth.

Figure 2: Tech companies are wary of risk or disruption from a range of competitors.
Respondents that classified a risk or disruption as “very likely” or “fairly likely” over the next three years.

| Competition from the technology market giants (e.g., Google, Oracle and Microsoft, etc.) | 75% |
| Competition from non-U.S. technology companies | 74% |
| Competition from digital startups | 71% |
Tech leaders today are platform companies, as opposed to product companies. Products come and go, and ever-shorter product life cycles mean a constant churn. Platforms are pervasive, easy to use and well-supported by a community that goes beyond the enterprise. For Amazon, that means producing “Manchester by the Sea” is less about the product (albeit a strong film) and more about how the product feeds into a rich content platform that fuses distribution, entertainment and technology. The platform will remain viable long after the memories of the 2017 Academy Awards fade.

According to our research, a significant majority of tech companies agree that the winning tech companies of the future will be those that build and control communities and platforms. This is a particular focus for companies that have seen strong EBITDA growth over the past 12 months (see Figure 3). Those tech companies that can add value through platforms and can build and own successful platform communities will tap into and monetize user-generated content, intelligence, creativity and data.

Organizations need a long-term strategy with a distinctive point of view regarding the future direction of a sustainable business model. They need the commitment to accept that they will sometimes need to cannibalize their own business.
Drive agility and efficiency

Technology’s rapid life cycle means that companies need to know where they are in their own life cycle curve. The shift from high-growth to maturity is sometimes made obvious by a new competitor who changes the playing field. These shifts are usually painful, but most leaders are aware when it happens. Sometimes, however, companies become a victim of their own success. They command such a large market share that they have little room to grow. “Fat” and “happy” should not be comforting adjectives for a technology company.

When they shift from high-growth to maturity, technology companies should also shift from a focus on revenue growth and new customer acquisition to a focus on profitability growth and improved earnings per share. Unfortunately, many fat and happy companies struggle to recognize this shift. While leaders in innovation, tech companies are not renowned for improving processes critical to improving bottom-line results.

Tech companies need to design automation strategies that identify where they can drive down costs and improve process efficiency and compliance. They will need to design processes that are automation-enabled and implement them at scale, including redesigning the roles of the human workforce to focus on higher-value tasks.

Manage the threat of increasing regulatory and tax complexity

For many years, tech companies faced little in the way of regulations or compliance issues. Across the world, it looks like that convention is coming to an end. In our research, 64% of respondents point to “increasing regulatory scrutiny and complexity” as a likely risk or disruption over the next three years.

Tech companies need to define their risk appetites and tolerance along with their strategies. Too often, risk management is seen as a compliance-driven function — a perception that may grow with the regulatory burden.

According to our research, 65% of tech companies agree that their risk management functions are largely compliance-focused. Tech leaders who understand the value of risk management can shift that perception and help their organization align to the right risks while maximizing technology tools to manage the more compliance-focused aspects of the role.

Operating-model agility: A critical competitive advantage

Tech companies need to be able to move quickly in response to fluctuating demand and increasing competition. However, our research finds that only 36% of tech companies strongly agreed that their organization has an agile operating model that can scale up or down based on varying demand.
Tax strategy for the digital era

The tax challenges facing tech companies show no signs of abating.

Tax authorities are becoming more adept at using smart tools to analyze corporate data and exchanging it with peer organizations around the world. Individual countries have introduced tougher measures to target the arrangements used to maximize tax efficiency. And companies must contend with the complexities resulting from the patchy implementation of the Organization for Economic Cooperation and Development’s multilateral base erosion and profit shifting initiative.

In our survey, 70% of respondents say that risk from a changing tax landscape is either very likely or fairly likely. As Figure 4 shows, this is a particular concern for software companies, with 43% describing it as a very likely risk.

Companies need to have flexible tax strategies that evolve as tax rules change and the business changes direction. As new tools — such as artificial intelligence and software bots — become increasingly influential on how the tax function operates, they will need to consider what new expertise they need to bring onto the team.

Figure 4: Risk from a changing tax landscape will be a “very likely” risk or disruption over the next three years.

<table>
<thead>
<tr>
<th>Category</th>
<th>Risk Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software company</td>
<td>43%</td>
</tr>
<tr>
<td>Internet company</td>
<td>34%</td>
</tr>
<tr>
<td>Digital media and communications company</td>
<td>27%</td>
</tr>
<tr>
<td>Hardware manufacturer</td>
<td>25%</td>
</tr>
</tbody>
</table>
Build customer trust in how tech companies use and protect personal data

Technologies from wearables to autonomous vehicles will continue to make it easier for companies to collect personal data about their customers. Tech companies integrate and analyze this data to gain a deeper insight into their customers. At some point, the insights become more valuable than the product itself. But if technology companies are not proactive in protecting customer data, governments will step in and establish rules for them, often in ways that will restrict their access to the very data essential to driving innovation.

Tech firms that demonstrate that they can secure personal data and use it in the right way will find they have a real marketplace differentiator, particularly for consumer activities like social media, e-commerce and cloud business services. The importance to consumers of data privacy and security is clearly demonstrated by product-testing magazine Consumer Reports’ recent decision to include a security ranking of the products it tests, which considers the way personal data is collected, managed and transmitted.

Figure 5: Threat of information security/cyberrisk over the next three years, by tech segment.

- Information security/cyberrisk is very likely
- Information security/cyberrisk is fairly likely

<table>
<thead>
<tr>
<th>Segment</th>
<th>Very likely</th>
<th>Fairly likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software company</td>
<td>52%</td>
<td>29%</td>
</tr>
<tr>
<td>Internet company</td>
<td>46%</td>
<td>25%</td>
</tr>
<tr>
<td>Digital media and communications company</td>
<td>47%</td>
<td>22%</td>
</tr>
<tr>
<td>Hardware manufacturer</td>
<td>41%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Strengthened defenses will be critical. In our research, 73% of respondents point to information security or a cyberthreat as a risk they will face in the future. As Figure 5 shows, over half of software companies see this as a very likely risk.
Exposure to such risk comes at a heavy price. In our research, 62% of respondents say that an information or cyber exposure would have a severe impact on their organization.

Beyond their individual responsibilities, tech companies also need to play their part in building trust in the ecosystem of information and the business of technology — reassuring consumers that their personal data is not only secure but also private.

According to our research, 70% of respondents agree that the increasing complexity of the global regulatory environment around data privacy is a significant risk for tech firms. Close to half of the companies in our research that had achieved strong EBITDA growth over the past 12 months strongly agree that the global regulatory environment represents a significant risk, compared with just 18% of those with flat performance (see Figure 6).

Tech companies can take simple steps — such as clearly stating in their communications how data is used and always asking for permission — as well as more far-reaching actions, such as developing clear privacy ethics and standards.

Figure 6: Tech companies that “strongly agree” that global regulatory complexity around data privacy is a significant risk, by EBITDA performance.

- Over 20% EBITDA growth past 12 months: 49%
- 0% EBITDA growth past 12 months: 18%
Conclusion: Rethinking the tech company of tomorrow

Tech companies are no strangers to reinvention; with creativity and talent, they continuously provide the spark that drives the innovation engine across multiple industries. But to prosper in the future, they must answer new challenges.

As technological change accelerates, competition intensifies and consumer demands increase, companies must develop more agile business models and rethink how they do business. They have to understand and address the impacts of technology on both customers and society as a whole.

They have to squeeze costs, drive process improvement, and create a flexible operating model that allows them to drive value from their mature businesses while reacting quickly and decisively to new opportunities.

And they must avoid getting caught in a narrow compliance mindset and find a balance between risk and reward.

Tech is an impatient market, and those that are one step ahead of the next big shift will thrive in the future.
About the research

We surveyed 362 senior leaders in U.S. technology companies focused on internet, digital media, hardware and software, including cloud and electronically delivered solution providers. Our survey sought to understand their key growth, transformation and risk management priorities over the next three years.

Respondents were drawn from across the C-suite, and included CEOs, CFOs, COOs, CIOs and chief risk or compliance officers.

The research was conducted by Longitude Research on behalf of Grant Thornton, and the survey was supplemented by in-depth interviews with a range of U.S. business leaders, as well as Grant Thornton subject matter professionals.

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