www.pwc.com/ceosurvey

Delivering results

Key findings in the Technology sector

15th Annual Global CEO Survey

Sector summary

pwc

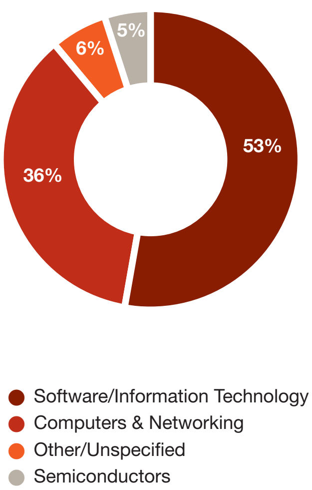
Commitments to doing more business globally are accelerating in 2012 despite economic, regulatory and other uncertainties. CEOs see the fundamentals for future growth still squarely in place.

To understand how businesses are preparing for growth in their priority markets, we surveyed 1,258 CEOs based in 60 different countries and talked to a further 38 CEOs face-to-face for our 15th Annual Global CEO Survey. ***Delivering results: Growth and value in a volatile world*** explores CEOs' confidence in prospects, and how they are building local capabilities and creating new networks for new markets.

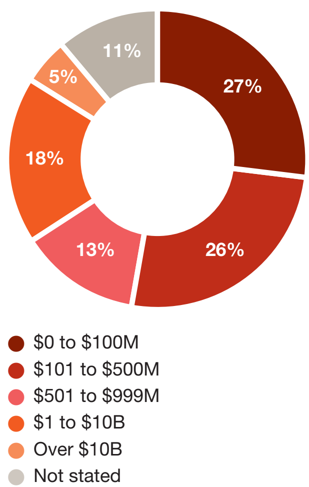
CEOs are adapting how they go to market, reconfiguring processes and at times entire operating models. They are also addressing risks that greater integration can amplify and are focused on making talent more strategic to pursue market opportunities.

This is a summary of the findings in the technology sector, based on interviews with 115 technology CEOs in 36 countries. The charts below outline the overall demographics of our sample.

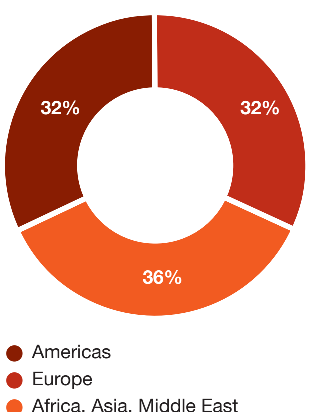
Subsector



Revenue



Geography



Introduction

It used to be said that the only constant was change. These days a more appropriate adage might be: the only sure thing is uncertainty. Each day brings new signs of growth and recovery, such as falling unemployment rates, increases in revenues and off-the-chart IPOs. But it also brings new grounds for concern: a drop in M&A activity, increasing political instability or an unforseen natural disaster, for example.

Against this backdrop of uncertainty, we set out to explore how technology CEOs are planning to deliver the growth and value their shareholders expect. We asked how confident they feel about their companies' growth prospects in both the short and mid term. We inquired about the challenges and opportunities they face and how they intend to address them. Lastly, we delved into the issue of talent acquisition and management.

What we learned is that technology CEOs are confident of being able to generate higher revenues in the next one to three years, despite the turbulent state of the global economy. They see innovation and R&D as key drivers of this growth, and they're looking both near and far for opportunities to expand. They're positioning their companies to capitalise on two overarching trends: the 'consumerisation' of technology, with user-friendly design and innovation; and the rise of mobile computing, as cloud computing-based services continue to reshape the industry. But they're concerned about being able to find the talent they need, both at home and abroad.

Innovation leading to growth

Industry growth amid economic stagnation

The vast majority of technology CEOs (85%) are 'somewhat' or 'very' confident they can boost their company's revenues over the next 12 months, and the proportion edges up to 87% when they consider the outlook for the next three years. But that's not because they believe there's a general economic recovery under way. On the contrary, 80% of technology CEOs think the global economy will either decline or stay the same over the next 12 months. So, what makes them think their companies will grow despite poor overall economic conditions?

The answer comes, in part, from looking at the factors technology CEOs cite for making strategic changes. Customer demand is the clear front-runner: 82% told us it's one of the reasons why they're altering course – and that's a full 17 percentage points more than the response in our total sample (see Figure 1). Further evidence of just where technology CEOs are focusing comes from the fact that 84% of them say meeting customers is the activity on which they would most like to spend more time, if only there were more hours in the day. That compares with the overall average of 69%.

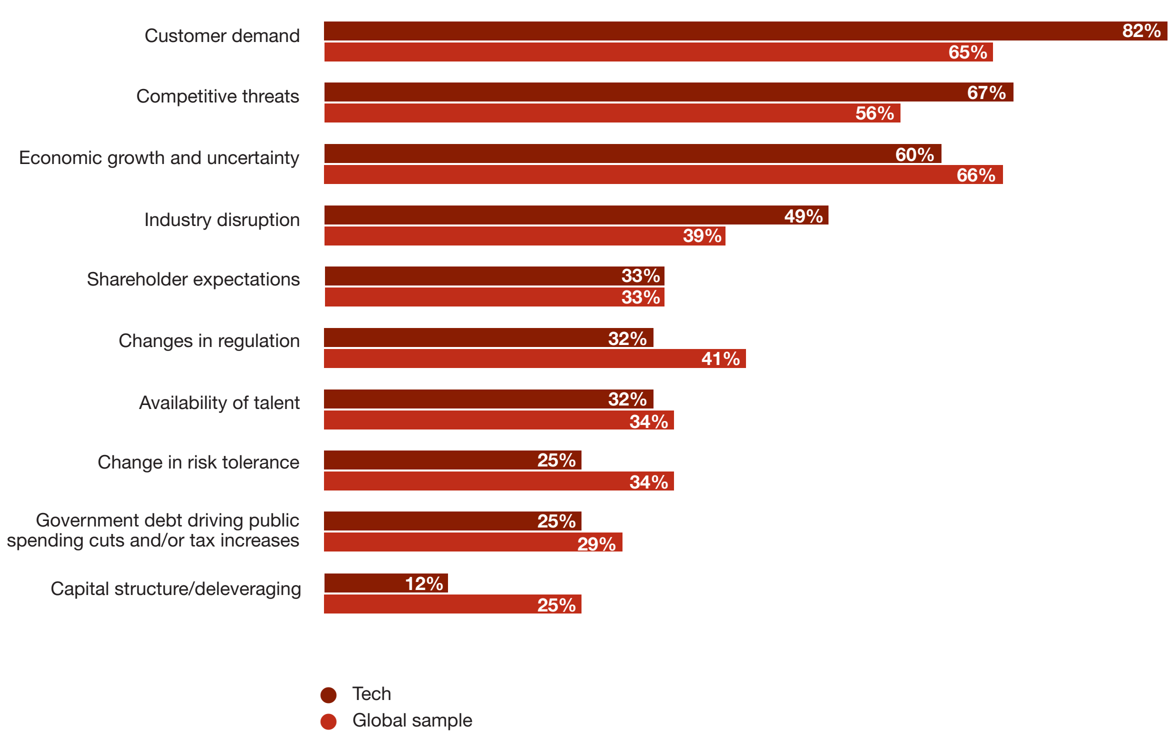
A laser-sharp focus on customers has always been one of the hallmarks of the technology industry. But as the lines between enterprise customers and consumers continue to blur, it's critical for technology companies to stay close to their customers. Only then can they anticipate – and deliver – the next generation of products and services. Apple is an excellent example of a company that stays close to its customers. By letting them design applications via its App Store, Apple has created a working partnership with its customer base, thereby increasing the number of products (or apps) customers can get and greatly enhancing the innovation process.

"We have to greatly enhance our ability in terms of innovation so that we can produce products in the new areas."

Yang Yuanquing
Chairman and CEO
Lenovo

Figure 1: Customer demand the main reason to change course

Q: Which of the following factors influence your anticipated need to change strategy?



Base: All respondents (Total sample, 1,258; Technology, 115)
Source: PwC 15th Annual Global CEO Survey

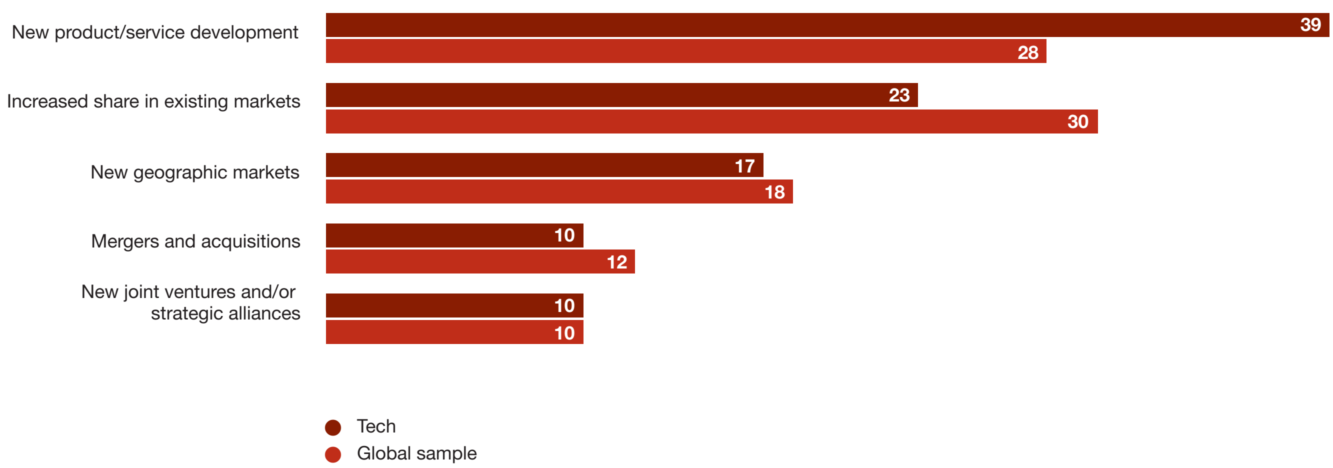
Counting on innovation

It comes as no surprise that technology CEOs see new products and services as their main opportunity for growth in the coming year (see Figure 2). Whether it's a tablet to capitalise on new opportunities for growth, a smartphone operating system that secures data in the cloud and enables social networks, or a chip that's faster and more energy efficient, the disruption caused by the 'consumerisation' of technology and mobile computing is driving an increased focus on innovation.

But few technology CEOs are willing to rely on 'business as usual'. When we asked them about the changes they plan to make in the coming year, 84% told us

Figure 2: Opportunities for growth

Q: Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business?



Base: All respondents (Total sample, 1,258; Technology, 115)
Source: PwC 15th Annual Global CEO Survey

“The second innovative aspect, which we are currently developing, is to make social networks the interface for all our software applications.”

Laércio José de Lucena Cosentino
CEO
TOTVs SA

they would be altering their company’s R&D and innovation capacity. A similar percentage intend to change their technology investments and talent-management strategies (see Figure 3).

It’s worth noting, too, that capital investments and organisational structure also ranked highly in terms of impending changes. Many technology companies have strong balance sheets with healthy cash on hand and this may be a sign that they’re ready to start spending again. If so, M&A activity could pick up as the year goes on. Acquisitions are one way of getting access to the new products and services customers constantly demand.

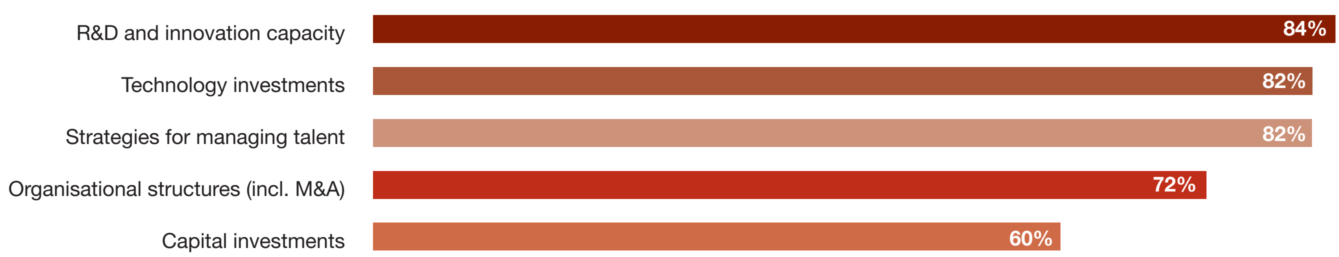
Potential threats

Technology CEOs are well aware that their plans could easily be derailed, though. They’re particularly worried about the availability of key skills (76%), new market entrants (53%) and shifts in consumer spending patterns and behaviour (51%). All three issues are consistent with the industry’s focus on innovation and customers.

The ongoing sovereign debt crisis in the Eurozone is another cause for concern. In fact, 60% of technology CEOs say it’s already had a financial impact on their companies, and it’s the number-one event to have triggered changes in their strategic risk management and operational planning.

Figure 3: Changes ahead for technology companies

Q: To what extent do you anticipate changes at your company in any of the following areas over the next 12 months?
Respondents who stated ‘some’ or a ‘major’ change



Base: Technology respondents (115)
Source: PwC 15th Annual Global CEO Survey

Balancing global capabilities and local opportunities

In the digital age, all companies are global, and this is especially true in the technology industry. But while the fast-growing emerging markets offer huge opportunities both to lower production costs and to increase sales, CEOs know that simply outsourcing jobs and sending products overseas isn't very effective.

Nearly two-thirds of the technology CEOs we surveyed think the emerging markets offer more potential for growth than the developed markets.

61%

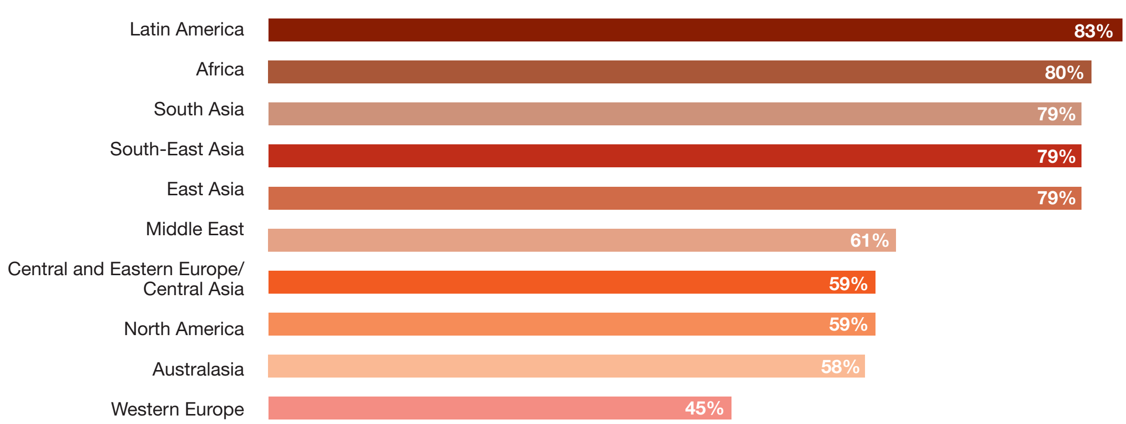
Nearly two-thirds of the technology CEOs we surveyed (61%) think the emerging markets offer more potential for growth than the developed markets. And they're positioning their companies accordingly. More than three-quarters of them expect their key operations in Latin America and Asia to grow over the next 12 months (see Figure 4).

What are technology CEOs thinking about when they take their companies into new markets? Taxes are definitely one consideration: 52% say a government's tax policy is a 'significant' factor in determining where they decide to set up new cross-border sites. Immigration is also a major concern for 21%.

Access to talent is yet another issue technology CEOs consider, and many of them recognise that developing the workforce is a responsibility businesses share with government. More than half of the technology CEOs we surveyed (54%) think creating and fostering a skilled workforce should be a top government priority – second only to improving the national infrastructure (at 57%). But a whopping 89% also believe business has a role to play here, and 86% say their company directly invests in the development of the workforce in the markets where it does business. Why are technology CEOs doing this? For 71%, the primary goal is to ensure a future supply of potential employees. Clearly, access to the right talent in the right places is top of mind.

Figure 4: Global growth for technology

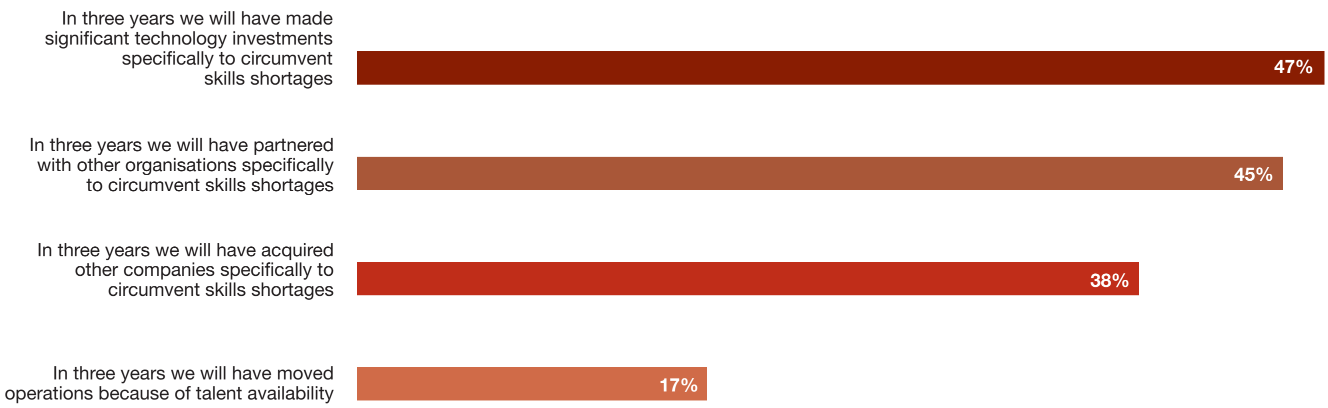
Q: In the next 12 months do you expect your key operations in these regions to decline, stay the same or grow?
Respondents who stated grow.



Base: Technology respondents (115)
Source: PwC 15th Annual Global CEO Survey

Figure 5: Global workforce strategies

Q: To what extent do you agree or disagree with the following statements about the future of your global workforce?
Respondents who stated agree or agree strongly.



Base: Technology respondents (115)
Source: PwC 15th Annual Global CEO Survey

The talent challenge

Despite regular media reports of high unemployment rates, 81% of technology CEOs say their company's headcount has stayed the same or increased over the last 12 months – and 80% expect this situation to continue for the next 12 months. But 48% believe it's getting harder to hire workers in the sector, even though many technology companies are expanding overseas and therefore have access to a bigger, more diverse pool of talent. Why? The three main challenges are:

- a shortage of skilled candidates (42%)
- industry growth (20%)
- salary expectations (16%)

High-flying middle managers are particularly hard to find: 54% of technology CEOs told us these are the people they have most difficulty recruiting and retaining.

The talent deficit is already taking its toll. Almost half of the technology CEOs we surveyed (43%) have seen their company's labour costs rise more than expected in the last 12 months, while 40% have been unable to pursue a market opportunity. And many technology CEOs expect things to get worse. Only 23% feel very confident of getting access to the people they need to execute their company's strategy over the next three years.

"The most important things we need always are the skills, the right skill sets technically but also increasingly the right business skill sets and sector geographic understanding of the environment in which our clients operate."

Andy Green
CEO
Logica PLC

The right people in the right place

Most technology CEOs recognise that local talent is the best talent, even at the highest levels: 36% say they would ideally have senior management teams composed of native leaders representing their home regions. And 74% plan to recruit local people, wherever possible, when they need to hire more staff. But that doesn't mean technology CEOs are unwilling to move people around if it's necessary. In fact, 58% plan to transfer experienced employees from their home market to newer markets to circumvent skills shortages in the next three years.

Relocating employees from one market to another may not be enough to solve the problem of skills shortages, though. So, many technology CEOs are exploring other strategies to address the talent deficit (see Figure 5).

What's next?

Deciding which processes and capabilities need to be global, regional and local isn't just about taking advantage of growth opportunities; it's also about developing the flexibility to survive disruptions, wherever they may surface. That's not an easy balance to strike. We've distilled eight key questions from the feedback CEOs have given us in this year's CEO Survey:

1. How local is your global growth strategy?
2. How are you balancing global capabilities with local opportunities?
3. Is your talent strategy fit for growth?
4. Are your innovations creating value for your customers – or just novelty?
5. Do your strategic plans account for the macro impact of micro risks?
6. Are you responding to the needs and constraints of the communities in which you operate?
7. Where are the biggest opportunities for business and government to coordinate better?
8. Does your governance model account for the ways in which organisations' and people's expectations are changing?

If you'd like to discuss any of these questions, please contact:

Contacts

Raman Chitkara
Global Technology Leader
+1 408 817 3746
raman.chitkara@us.pwc.com

Xavier Cauchois
European Technology Leader
+33 01 56 57 1033
xavier.cauchois@fr.pwc.com

Tom Archer
US Technology Leader
+1 408 817 3836
thomas.archer@us.pwc.com

Greg Unsworth
Asia-Pac Technology Leader
+65 6236 3738
greg.unsworth@sg.pwc.com

Download the main report, access the results and explore the CEO interviews from our 15th Annual Global CEO Survey online at www.pwc.com/ceosurvey.

Acknowledgements

PwC gratefully acknowledges the contribution to the *15th Annual Global CEO Survey: Technology industry summary* provided by:

Yang Yuanqing
Chairman and Chief Executive Officer
Lenovo

Laércio José de Lucena Cosentino
Chief Executive Officer
TOTVs SA

Andy Green
Chief Executive Officer
Logica

www.pwc.com/ceosurvey