



Top 10 opportunities for technology companies in 2022



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When we wrote about the top 10 opportunities for technology companies last year, social distancing was the world's main weapon against the COVID-19 pandemic. Today, thanks to vaccines, we are able to control the pandemic better, but the volatility in the markets has increased and the risk profile of global trade has deteriorated due to geopolitical events. This has impacted the list and following order of the opportunities for 2022.

Last year, demand shifted rapidly from traditional on-premise to cloud-based products and we have seen demand surge for the hardware needed to deliver services remotely. This has created supply chain constraints across the sector. Ongoing trade disputes, regulatory changes and government efforts to protect or stimulate high-tech activities are also having an impact. Companies need to be aware that implementation of new regulation can reshape markets overnight.

We believe that in a post-pandemic world, the technology sector will continue to grow as the digitalization of the economy will accelerate further. In this year's annual report, EY has ranked the top 10 opportunities that technology companies should take advantage of in 2022. Acting on one or more of the following can help companies seize the opportunity for growth and navigate the risks and volatility in 2022.

1



Attract and retain a motivated workforce in a hybrid working environment

Finding the right talent has always been a major concern in the tech sector, but the pandemic has increased the urgency to address the issue. Companies investing in future growth need engineers in their research centers and salespeople to strengthen their salesforce. Most tech companies are currently talking about a staged and partial return to the office as they are trying to balance the needs and preferences of a modern workforce with the costs involved. A recent survey from EY shows that 9 out of 10 employees demand flexibility in where they work and when they work, and that they are prepared to quit if they don't get it.¹ But while employees may have mastered working from home, the hybrid model poses new challenges related to employee experience and culture. Employers must solve the puzzle of optimizing rewards, flexibility and experience to create a package that attracts and retains the best talents.

¹ EY 2021 Work Reimagined Employee Survey

² Capital Confidence Barometer 2021

2



Leverage M&A to strengthen growth profile

Slightly more than half of all technology executives acknowledge that organic growth could be difficult in the near term, according to EY research.² To sustain growth, they plan to pursue M&A in 2022. Despite increased regulatory scrutiny and financial uncertainty, the deal market is expected to remain healthy. Acquisitions will reignite growth by adding solutions, technologies, end markets and distribution channels to a company's portfolio. In a similar fashion, divestments could help companies steer away from slower growth market segments or solutions that require capabilities different from those the company possesses. Having the right M&A strategy in place will result in a better growth profile.

3



De-risk the supply chain to secure business continuity

Supply chains have come under tremendous pressure from market volatility and geopolitical events. Two major bottlenecks for tech companies in the past months have been logistics and the availability of components. While one can argue that these issues are only of a temporary nature and that they have hit the entire industry, some companies have managed better than others. Tech companies need to carefully review and de-risk their supply chains, all the way from their vendor's vendors down to their customers' customers. Different risk profiles in the supply chain require different policies around inventories and sourcing contracts. Logistics issues could lead to changes in preferred manufacturing and distribution footprints. Real-time visibility will help identify bottlenecks at an early stage, while new technologies such as digital twins and 3D printing could reduce the degree of disruption.

³ EY Global Information Security Survey 2021.

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Embed security into the design of new activities

The importance of data security and integrity has increased exponentially during the pandemic. More business is now conducted online, but more importantly, a significant number of companies have changed IT structures and processes in response to the pandemic without sufficiently considering cybersecurity in advance.³ This has resulted in an increase in disruptive attacks and contributed to worries around being able to comply with regulations. To turn data integrity into a business driver and to avoid major disruptions, tech companies should embed security and privacy into the design of new activities. That includes realigning data security with the business objectives, reviewing the talent profiles needed to do that and including the cyber team in the start-up phase of new projects.

5



Lead by example in environmental, social and governance to strengthen stakeholder relations

Technology companies have traditionally focused on environmental sustainability, but stakeholders want more from companies. Consumers increasingly expect companies

Lead by example in environmental, social and governance to strengthen stakeholder relations (cont.)

to drive positive social and environmental outcomes. Employees want to make a meaningful difference. Investors demand sustainable investment options. And enterprise customers look at the sector to implement new technologies to help drive their own sustainable outcomes. Tech companies should therefore lead by example, engage with their stakeholders and draw up a long-term value proposition. This includes environmental and social commitments supported by top-down organizational changes, transparency and reporting on relevant KPIs.

6



Transform business to excel in consumption-based sales

During the pandemic, we have seen that consumption-based business models offered better protection against economic volatility and a higher valuation from investors than traditional one-off payments. As customers increasingly prefer the flexibility of cloud-based services and software, subscription payments are expected to replace the traditional license payments at a rapid pace over the next five years. To enable this shift, companies need to transform their sales organization, change their pricing tools, adopt new incentive schemes, track different performance indicators and realign their major business processes. This is no easy transition, but it will reward companies with recurring revenues, more time to build customer relations, and an opportunity to generate higher revenues per user from cross-selling and upselling.

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7



Realign tax organization with digital business models

The technology sector has increasingly become a key target for legislation and taxation changes across the globe. Governments are looking to shift the taxation base to capture more value from the growing share that digital services contribute to the economy. Steep and sudden changes are caused by trade disputes and by governments looking to strengthen or protect their key industries, which more often than not include the technology segments. With their large international footprints and their large base of material and immaterial assets, tech companies need a robust approach to taxation and global trade, built on real-time insights, early planning and an agile operating model.

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Companies must establish a transparent digital trust strategy that gains the trust of consumers, customers and regulators, including securing user data, combating online abuse and discrimination, and certifying the authenticity of the content that customers are consuming.”

Barak Ravid

EY Global Technology, Media & Entertainment and Telecommunications Strategy and Transactions Leader

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Streamline operations to increase agility

The pandemic has exposed the world to a new level of volatility and economic uncertainty. Customer preferences can shift overnight, causing large swings in demand, especially in the technology sector. With supply chains stretched and trade being influenced by geopolitical factors, the risk profiles in the sector have changed. This has increased the need to transform the organization. To retain a competitive edge, technology companies need to match the agility of their operations with the future levels of volatility in their business. They can achieve this through simplification of the organization; streamlining the business processes; and leveraging cloud capabilities, data analytics and automation tools.

9



Instill customer trust to drive digital engagement

For digital companies, trust is essential because trust is what drives customers to visit, interact and share data needed to create a business and drive growth. And with alternatives only one click away, a lack of trust could send customers elsewhere in the blink of an eye. Research from EY has shown that the main drivers of trust – or distrust – include security, transparency, ethics, content and regulatory compliance. To gain trust, companies need to prioritize the protection of customer data and have clear policies about how to deal with issues such as fake content, online abuse and discrimination. They need to establish a digital trust strategy that incorporates all elements of trust.

52%

of enterprises are now more interested in 5G than before the pandemic an EY survey found.

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Prepare for adoption of 5G

The rollout of 5G is driving revenues across the entire technology stack, as the industry is gearing up for large-scale implementation. An EY survey found that 52% of enterprises are now more interested in 5G than before the pandemic.⁴ It is not just a new connectivity standard; it will change how objects and devices interact, and how data analytics and machine learning can improve logistics, reshape customer interaction or identify bottlenecks in the supply chain. Three out of four enterprises believe that 5G will be integrated into their business processes over the next five years. For that to happen, tech companies need to prepare use cases and adoption road maps to stay ahead of the competition.

⁴ Reimagining industry futures

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