

Top 10 opportunities for technology companies in 2021



Building a better
working world

INNOVATE GROW

The year 2020 was a capstone year for the technology sector as it responded quickly and decisively to the pandemic. The sector successfully supported its customers across the economy as they pivoted to working from home, changed sales and delivery models, reconfigured supply chains overnight and sought to accelerate their digital transformation. While many technology companies quickly seized on new opportunities created by COVID-19, there were also new risks, including market volatility and governments stepping up their efforts to regulate the technology markets, that needed mitigating.

In talking with our clients, we believe technology companies should seize the following 10 opportunities during 2021 in addition to continuing to do what the sector has historically done best; innovate and grow.

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Eliminate complexity to optimize agility

After a decade of tech companies focusing on strong organic and inorganic growth, the pandemic exposed many of those companies to their own levels of organizational complexity. In some cases, the burden of having an overly complex organization is impacting the ability to respond quickly to shifts in the market. Actions that need taking include simplifying the organization, reducing legacy components, delayering management and effectively integrating acquisitions. To improve speed of execution and retain a competitive edge, some technology companies need to reset. They need to optimize their operating model with an organization built around “fit-for-purpose” technologies, skills, capabilities, structures and processes.

¹ IDC, “Worldwide Software as a Service and Cloud Software Forecast, 2020-2024”, Frank Della Rosa, August 2020

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Go “all in” when transitioning to consumption and recurring based business models

In addition to being more richly rewarded by investors, the switch to consumption-based business models provides tech companies with recurring revenue streams and a chance to build closer customer relationships. It increases the chances of cross-selling and up-selling. The shift is not limited to software, where consumption-based revenues are expected to top 50% of total revenues by 2024¹, but includes services and hardware. However, many tech companies are realizing that such a shift requires significant realignment of major business processes, incentives and performance indicators across key functional areas. While best-in-class tech companies are embracing and prioritizing this as a transformational event, others are struggling to make sufficient headway.

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Bolster supply chain to secure business

Market volatility and geopolitical uncertainty continued to increase in 2020 from COVID-19-driven disruptions to global supply chains, trade disputes – most notably between China and the US – and incremental tariffs and trade restrictions. Tech companies with supply chains need to continue to carefully review their vendor portfolio and exposure and reconsider their manufacturing and distribution footprint. Single sourcing strategies have to be re-evaluated where possible, and companies have to weigh the risks of the geographies in which they operate. Implementing enabling technologies, including automation and digital twins, could help reduce the risk of disruption.

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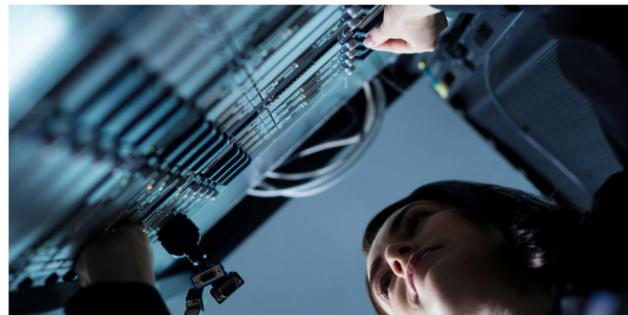


Manage talent in a remotely collaborating world

Talent availability has been a key concern for tech companies for a while now. The pandemic has created a

paradigm shift in how companies can think about securing the best talent. Remote collaboration has created an opportunity to source talent more broadly. However, in order to attract and retain talent in such a manner, tech companies must re-examine their employee value proposition, including the mix between on-site and off-site activities and how to keep remote employees engaged, all while continuing to build culture. There is no single solution, but companies must take a wider view, building a package that both aligns with company needs and meets the employee expectations of a changed working world.

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Manage security of an increasingly complex IT architecture

The initial response to the almost instant need to work from home was focused on connecting everyone, not on security. Now, company networks have become increasingly complex and increasingly vulnerable through a vast growth of access points and a wide variety of devices and remotely accessible applications. Successful tech companies will shift their mindset to ensure they are thinking about not only the depth and extent of their security layers but also the breadth of their network security needs caused by this explosion in the number of access points.

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Be more transparent about privacy to maximize the value of customer data

As ad-driven business models continue to lead the way in demonstrating the value that can be created from user and/or customer data, the ensuing relationship with users/customers and associated trade-offs is coming under increasing pressure. Users want more detail about how their data is being used. EY research found that 54% of consumers say COVID-19 has made them even more aware of the personal data they share². Regulators are concerned about a range of topics, from data security to recognizing the fair value of customer data for tax purposes. If service providers are not transparent about their data strategy and use, they fail to build a relationship of trust with the user and risk being scrutinized by the regulator. By setting expectations beyond just complying with privacy legislation, they can maximize the use of data, build loyalty and not leave value on the table.

² EY Global Consumer Privacy Survey 2020.

54%

of consumers say COVID-19 has made them even more aware of the personal data they share

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Add social issues to a growing list of drivers of long-term value

Technology companies have traditionally played a leading role in environmental sustainability, which is reflected in solid reporting standards and zero carbon emission pledges. When COVID-19 struck, tech companies stepped up and showed their social engagement. However, the eruption of social and racial issues during 2020 was a reminder to many tech companies that they are increasingly expected to weigh in where previously they could have stayed silent. In the next years, particularly with the rise of AI, neural algorithms and facial recognition, it's likely that companies will find themselves taking positions on an increasing number of issues. Having a long-term value framework to approaching these will be helpful in guiding companies as they look to build trust, credibility and engagement with customers, employees and other stakeholders.

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

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Embrace your changing ecosystem

Technology adoption in every industry is increasing sharply. IDC expects 65% of global GDP to be digitalized by 2022³. The development and deployment of modern industry applications, like remote patient monitoring in healthcare or advanced driving assistance systems in automotive, require industry inputs and technology stacks coming together. Tech companies will play a leading role in these new ecosystems, not just as enablers but can be at the vanguard of shaping and designing solutions. To do so, they must develop a common go-to-market approach with industry partners. Tech vendors need to actively manage and shape the adjacent industry ecosystem and encourage collaboration and co-innovation.

³ IDC, IDC FutureScape: Worldwide Digital Transformation 2021 Predictions, October 2020

⁴ Semiengineering.com, Big Trouble at 3nm, Mark Lapedus, 21 October 2018

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Boost R&D effectiveness

Innovation is the lifeblood of the technology sector, but technological advancement is becoming harder and more expensive. For example, in semiconductors, design costs rise exponentially with every next generation of technology⁴. In software and solutions, innovation costs rise due to increased data density and complex algorithms. Companies need to make sure they spend their investments in research and development (R&D) effectively and efficiently, implementing enabling tools, leveraging open-source technologies and taking into account the attractiveness of different jurisdictions. They need a clear mechanism to invest in projects that generate returns.

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Jump-start growth through M&A

While the tech sector has been a leader in growth, its revenue momentum has faded slightly over the last few years. At the same time, stock valuations have soared for the technology sector as a whole. This juxtaposition is placing even more emphasis on continuing to show growth. However, as growing organically is getting harder for many tech companies, M&A activity will become increasingly tempting as a lever for growth. Acquisitions will help jump-start revenue increases through new products, markets or solutions, while divesting of non-core business will help reshape portfolios out of declining or slower-growth businesses.

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EYG no. 000639-21Gbl
2101-3682342
ED None

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