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2012 Technology Industry
Business Outlook

U.S. Tech Leaders Expect Moderate Job, Revenue Growth

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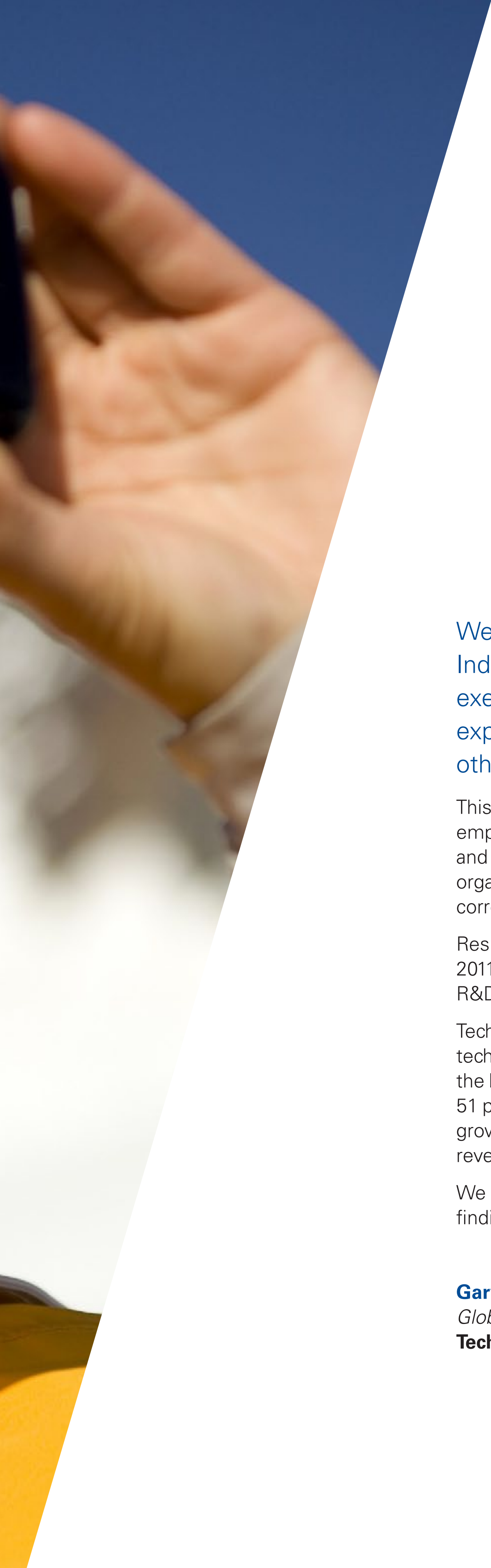
Foreword



We are pleased to present the 2012 edition of KPMG's Technology Industry Business Outlook. The survey, now in its fourth year, asks executives at leading U.S. technology companies about growth expectations, revenue drivers, employment, technology trends, and other topics.

This year's results highlight a shift in sentiment to more modest expectations for employment, revenue, and spending growth, and a focus on operational efficiency and execution. Key management priorities for the next two years include investing in organic growth and improving operational processes and related technologies, with a corresponding increase in IT spending.

Respondents remain optimistic about growth, but at more moderate levels than in 2011. The United States remains the leading market for employment, revenue, and R&D growth, ahead of China and India.

Technology executives continue to identify cloud computing, social media and mobile technologies as key revenue growth drivers. Cloud computing continues to lead as the biggest driver of revenue growth in 2012; however, the percentage decreased to 51 percent compared to 65 percent in 2011. The lower expectation for cloud services growth may be an indicator of the increased market adoption and a shift from future revenue growth to a current growth driver.

We hope you find the survey results insightful and welcome feedback about the findings or suggestions for next year's survey.

Gary Matuszak
Global Chair
Technology, Media & Telecommunications

Survey Highlights

United States Leads Global Employment Growth

Technology leaders expressed overall optimism about their companies' U.S. employment plans, but shifted expectations toward lower growth rates. More than 4 in 10 executives expect headcount to grow only 1 to 6 percent in the coming 12 months, compared with 28 percent in the 2011 survey.

Tech executives continued to cite the United States (43 percent) as the geographic market with the highest percentage of employment growth over the next two years. China, at 20 percent, replaced India (13 percent) in this year's results as the second-highest employment growth market.

Moderate Revenue Optimism

Technology executives continue to expect revenue growth in the next year, but at a more moderate rate. Ten percent of the respondents anticipate significantly higher growth (lower than the 17 percent in 2011) while the percentage of executives expecting moderate growth increased from 59 percent in 2011 to 67.

For the second year in a row, the United States was cited as the leading growth market over the next two years, followed by China, India, and Brazil.

Cloud Computing and Mobile Applications Lead Revenue Growth

Technology executives continued to cite cloud computing (51 percent), and mobile applications and devices (48 percent), as the biggest drivers of their company's revenue growth. The consumerization of IT, a new category in this year's survey, was cited by 23 percent of executives as a leading driver of revenue growth, followed closely by security at 22 percent.

Pricing Is the Most Significant Growth Barrier

Asked to list the top barriers to growth over the next year, executives cited pricing pressure (38 percent), followed by staying on top of emerging technologies (34 percent) and lack of customer demand (26 percent). Other barriers including labor costs, regulatory pressures, lack of a qualified workforce, foreign competition, and taxation all increased, possibly demonstrating the challenges companies face with expansion into emerging markets.

Adoption Challenges: Social Media, Cloud, and Mobile

A new question examined business challenges in adopting social media, cloud, and mobile technologies. For all three technologies, security and privacy governance was cited as the leading inhibitor. Other adoption challenges include:

- Social media – Customer adoption, followed by measuring ROI
- Cloud computing – Technology roadmap displacement, followed by risk management
- Mobile applications – Risk management, followed by cost

Organic Growth Tops Management Initiatives

Tech leaders continue to prioritize organic growth as their single most important initiative. This year's survey showed a significant increase in the focus on operational process and technology improvements, with a corresponding decrease in the prioritization of business model changes. The increased focus on operational process and technology improvements demonstrates that companies have moved into the execution stage for the strategic priorities they initiated in the prior year.

Spending Patterns Steady, with Increased Focus on IT

New products or services remained the leading category for spending growth, consistent with last year's responses. Acquisition of a business was second, followed by R&D. IT spending increased by a third to tie with R&D in terms of priority, indicating an acknowledgement of the need to leverage IT to enable transformational change and foster innovation.

M&A Outlook Tempered

The percentage of respondents saying they were very likely to participate in M&A as a buyer decreased from 41 percent last year to 35 percent, while the percentage saying they had no plans for M&A activity rose this year. As the IPO market continues to open up, we would expect to see a continued softening of M&A activity.

U.S. Economy Improvement Expected

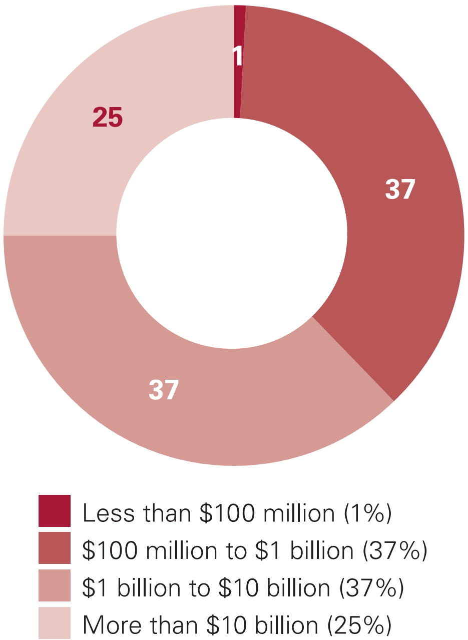
Seventy percent of the technology leaders expect the U.S. economy to improve moderately, compared with only 50 percent in 2011. The percentage of respondents expecting the economy to remain about the same is 17 percent, which declined from 36 percent in 2011.

Consistent with surveys we have conducted in the past two years, technology executives again have pushed out their expectation for the U.S. economic recovery, as two-thirds don't see the economy recovering substantially until the end of 2014 or later.

Demographics and Methodology

KPMG's 2012 Technology Industry Business Outlook reflects the viewpoints of 122 senior executives in the United States. The Web survey was conducted in April 2012.

Revenue



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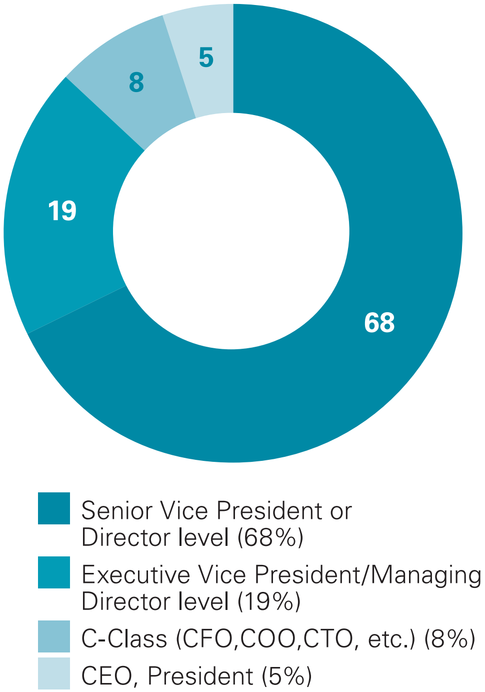
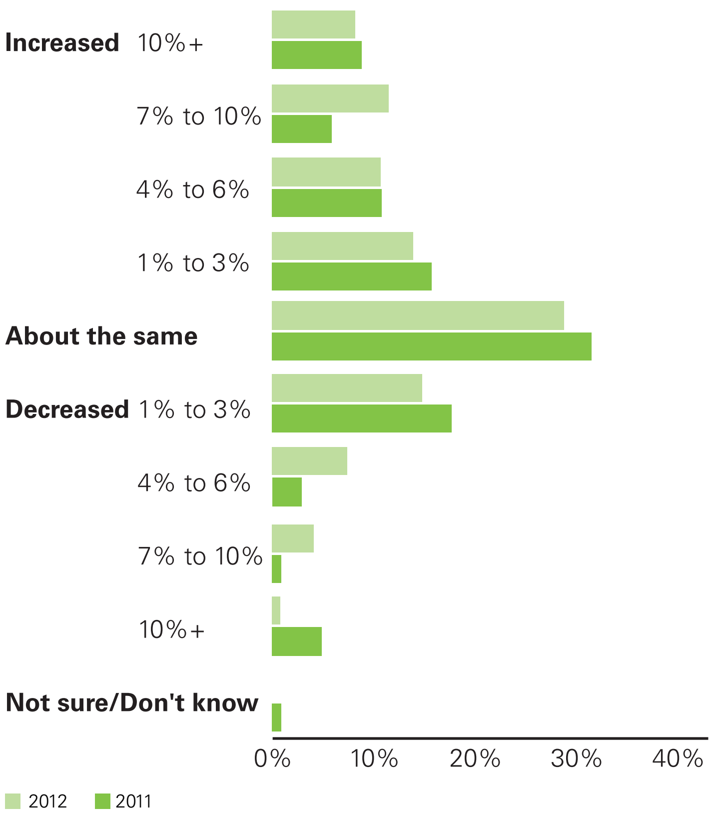


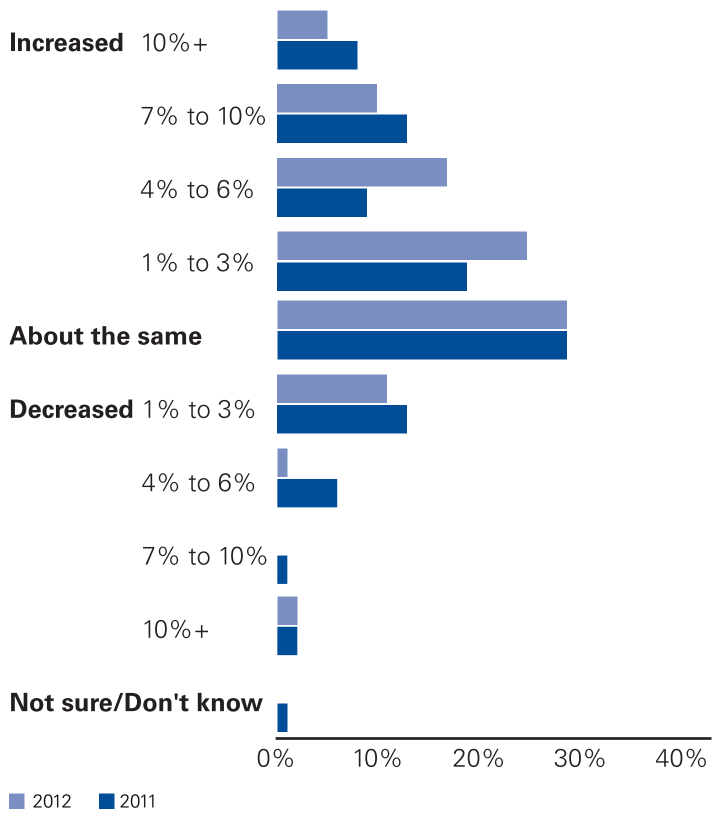
Detailed Findings

Employment Growth

Compared with this time last year, how would you describe your company's U.S. current headcount?



How do you expect your company's U.S. headcount to change one year from now?



> Majority expect their company's headcount to increase one year from now.

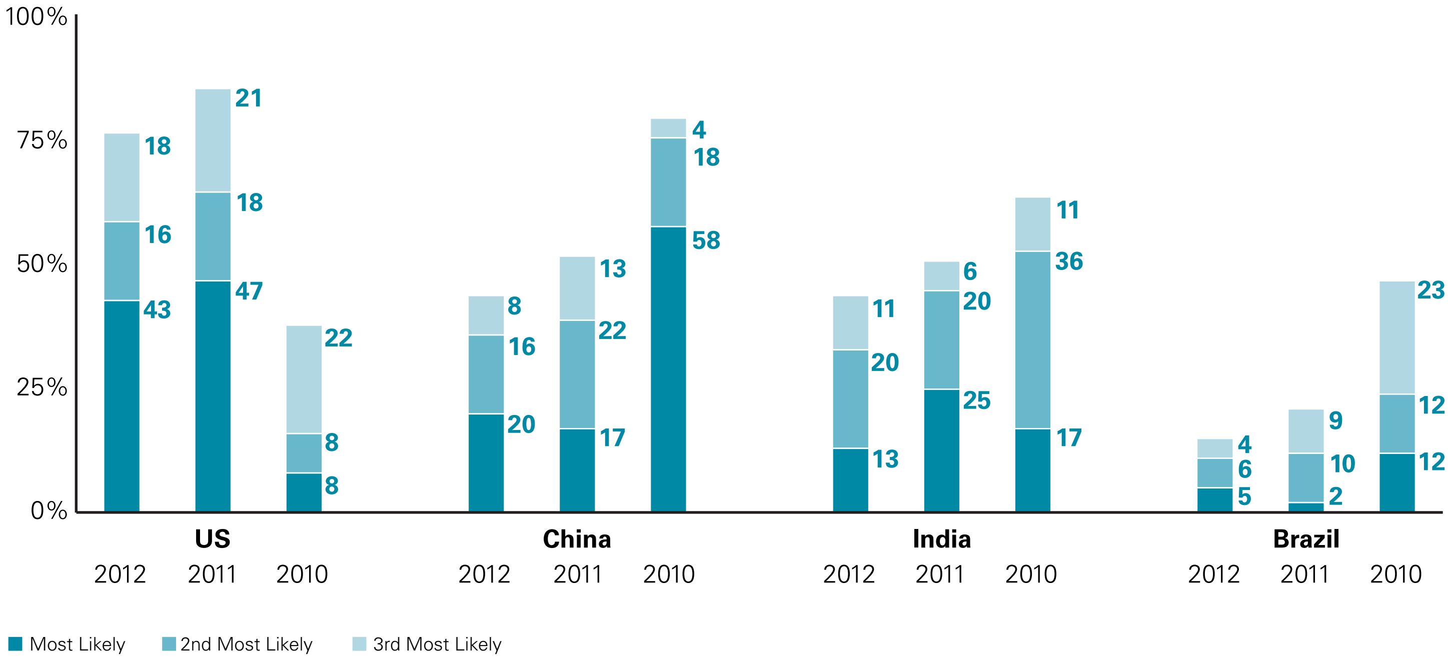
Asked whether they expect their companies' overall headcount to increase, 57 percent of the executives anticipate higher employment in their organizations (compared with 49 percent in last year's survey).

However, consistent with the overall survey theme of moderation, the U.S. headcount growth is comparatively tempered, with 25 percent of the respondents anticipating increases of 1 percent to 3 percent, and 17 percent expecting gains of 4 percent to 6 percent. Nearly a third (29 percent) of the respondents said their companies' staffing levels will be the same in 12 months.

Looking at other employment trends, 44 percent of the respondents said their company's current headcount has increased compared to this time last year. Among respondents with increased headcount, 25 percent said employment grew 1 percent to 6 percent, and 19 percent said employment rose 7 percent or more.

When asked about the availability of talent, 52 percent of the respondents said there were about as many qualified employees as job openings (compared with 58 percent last year), indicating a continuing challenge in the quest for the talent necessary to grow.

Which of the following geographic markets do you believe will have the highest percentage of employment growth for your company over the next one to two years?



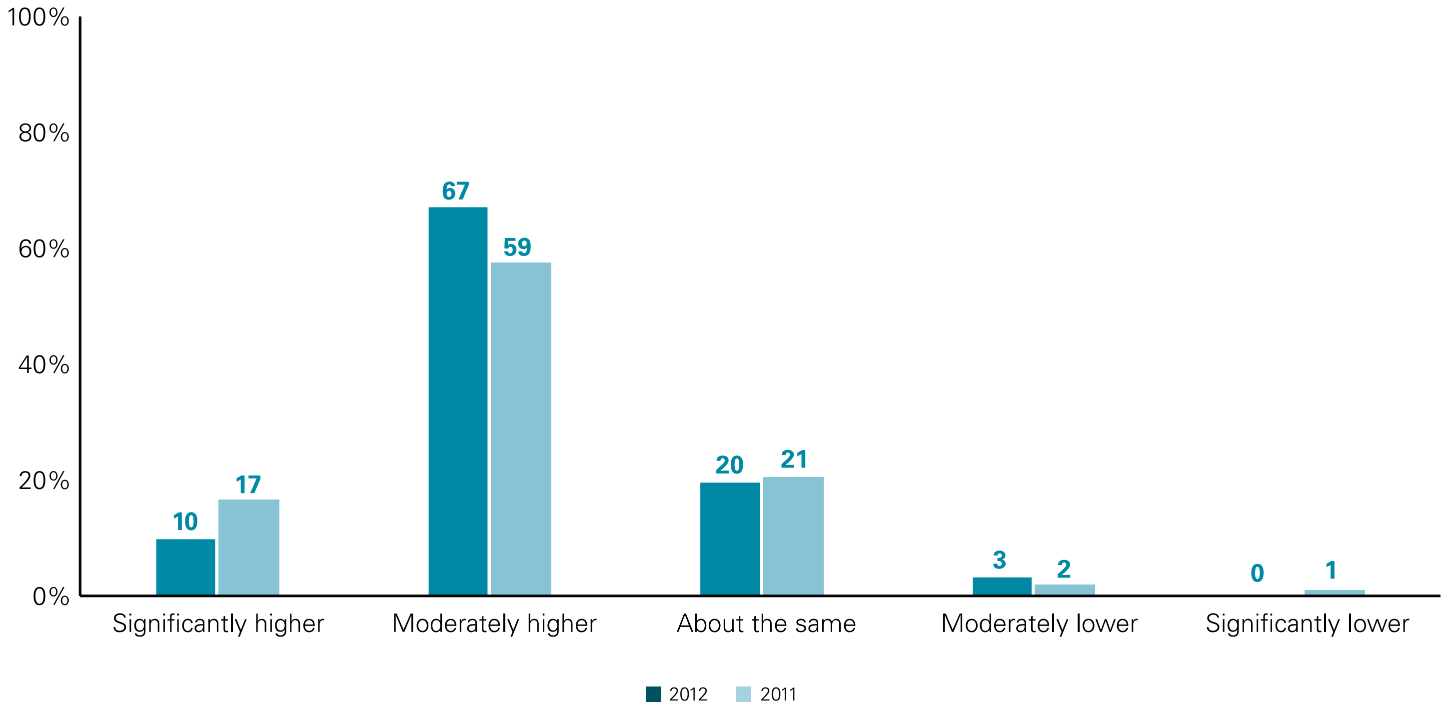
Looking at global employment trends over the next 12 to 24 months, tech executives continued to cite the United States (43 percent) as the geographic market with the highest percentage of employment growth, reflecting a continued trend of U.S. recovery contrasted with a softening in the Asian and European markets. China, at 20 percent, replaced India (13 percent) in this year's results as the second-highest employment growth market, with Brazil and Canada rounding out the top five markets.

In 2011, executives cited the United States (47 percent) as the highest employment growth market. India, at 25 percent, was identified as the second market for employment growth, followed by China at 17 percent.

The United States and China are likely to provide the highest percentage of employment growth over the next one to two years.

Revenue Trends

What do you expect your company's revenue to be like one year from now?

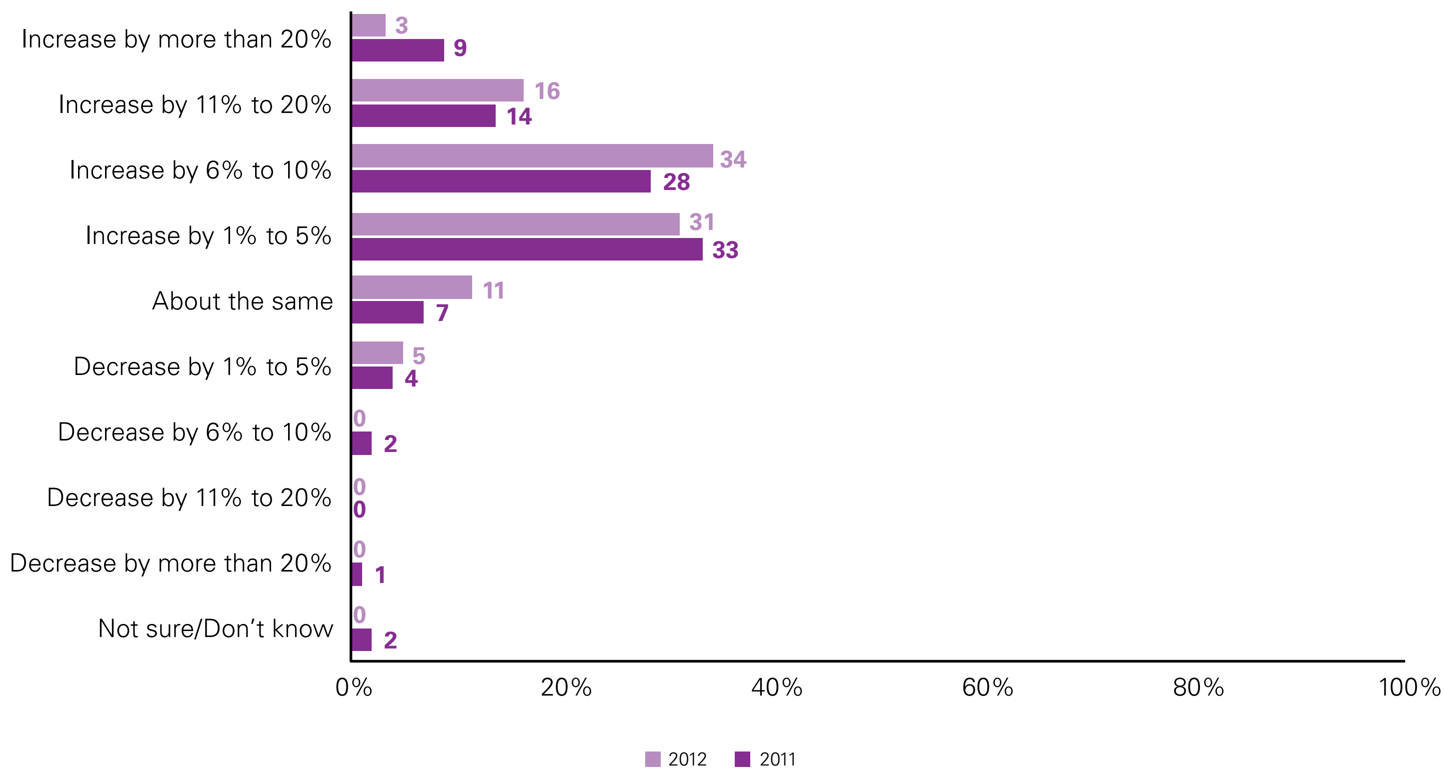


Many say their company's revenue will be higher one year from now.

Although technology executives remain optimistic about their organization's revenue growth, this year's results reflect more moderate expectations than in 2011.

One year from now, more than three-fourths of the respondents expect their companies' revenue to be higher. Only 10 percent expect significantly higher revenue a year from now (compared with 17 percent in 2011). Sixty-seven percent said their companies' revenue will show a moderate increase, up from 59 percent in 2011.

What do you estimate your company's revenue growth rate will be over the next year?



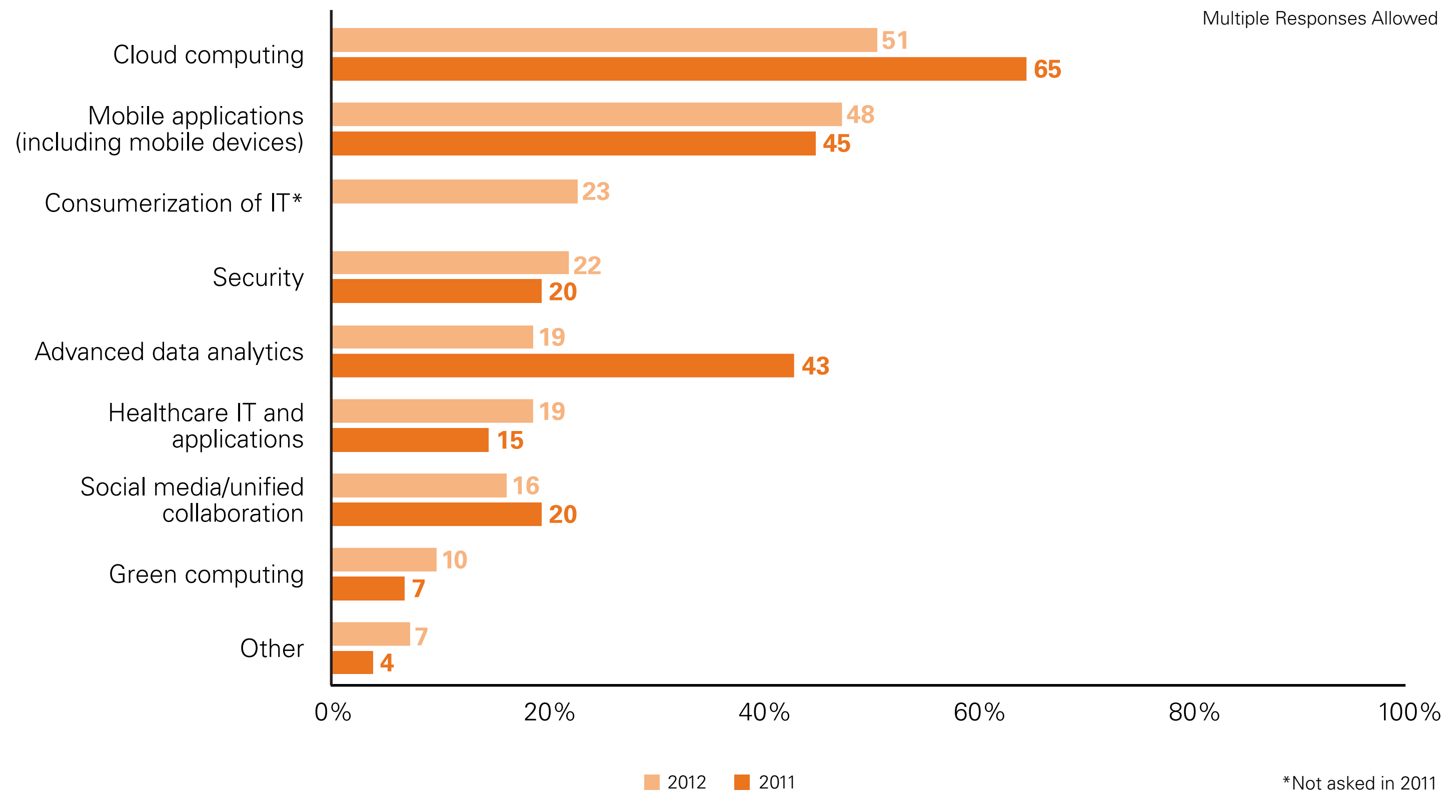
Most estimate their company's revenue growth rate to increase over the next year.

Asked for specific estimates about their companies' revenue growth rates over the next year, U.S. technology executives expressed more moderate optimism than they did in 2011. Although overall expectations for revenue growth remained the same, the percentage of executives calling for growth rate increases by more than 20 percent fell from 9 percent in 2011 to 3 percent.

The percentages of respondents expecting revenue growth rate increases between 6 percent and 20 percent increased, while the respondents expecting their companies' revenue growth rate to remain about the same rose to 11 percent, compared with 7 percent in 2011.

Growth Drivers

Which do you believe will be the biggest drivers of your company's revenue growth in the next one to three years?



> Cloud computing and mobile apps will be the biggest drivers of companies' revenue growth in the next one to three years.

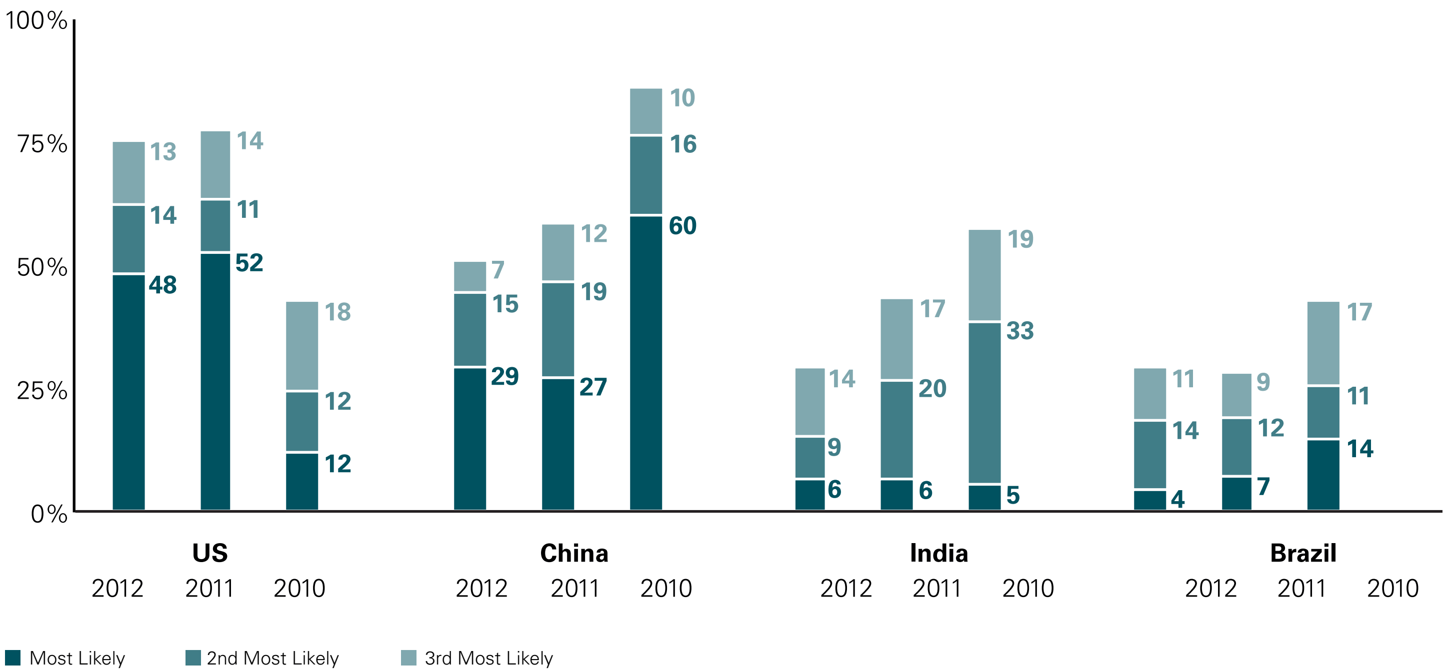
The leading drivers of revenue growth over the next one to three years continue to be cloud computing, and mobile applications and devices.

Cloud computing decreased to 51 percent, compared with 65 percent last year. The reduced expectation for cloud services growth may reflect the increased market adoption of cloud strategies in the last year, which is shifting cloud investments from a future revenue source to a current profit driver, as well as increasing competition among cloud service providers.

The consumerization of IT, a new category in this year's survey, was cited by 23 percent of executives as a leading driver of revenue growth, followed closely by security at 22 percent.

Advanced data analytics dropped appreciably as a revenue growth driver, perhaps due to factors including competition for enterprise IT spending increases inspired by cloud and mobile adoption, as well as the growing availability and capability of open-source big data frameworks.

Which of the following geographic markets do you believe will have the highest percentage of your company's revenue growth over the next one to two years?

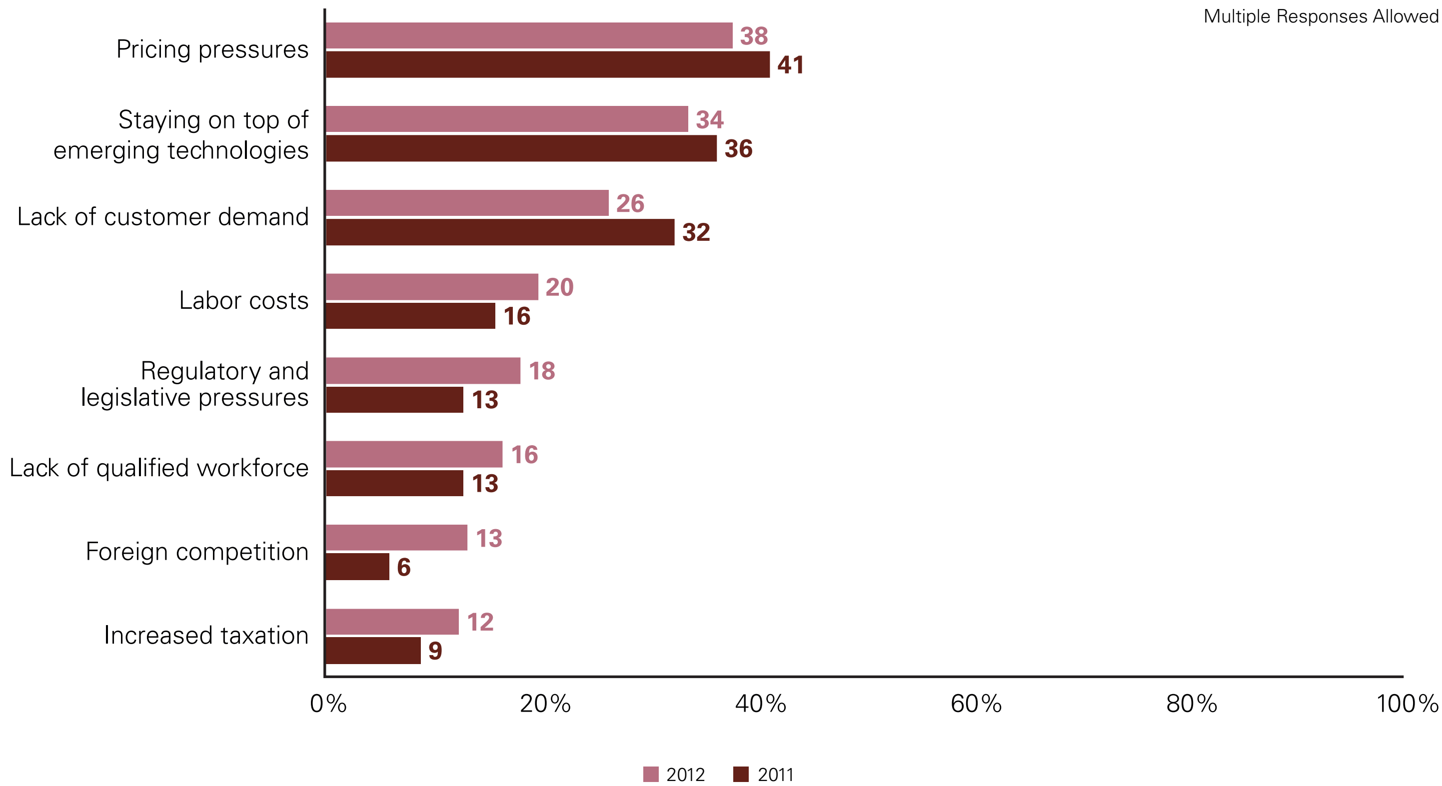


The United States and China are likely to be the leading geographic markets for revenue growth over the next one to two years.

Consistent with the trends in employment growth, for the second year in a row, the United States (48 percent) was cited as the leading geographic market for revenue growth by technology leaders, followed by China at 29 percent, India at 6 percent, and Brazil at 4 percent.

Growth Barriers

Which of the following are the most significant growth barriers facing your company over the next year?



Pricing pressure is viewed as the most significant growth barrier over the next year.

Asked about significant growth barriers over the next 12 months, technology executives cited pricing pressure (38 percent) as their most significant challenge, followed by staying on top of emerging technologies (34 percent) and lack of customer demand (26 percent). While these challenges were cited most frequently, all three received slightly lower percentage rankings this year.

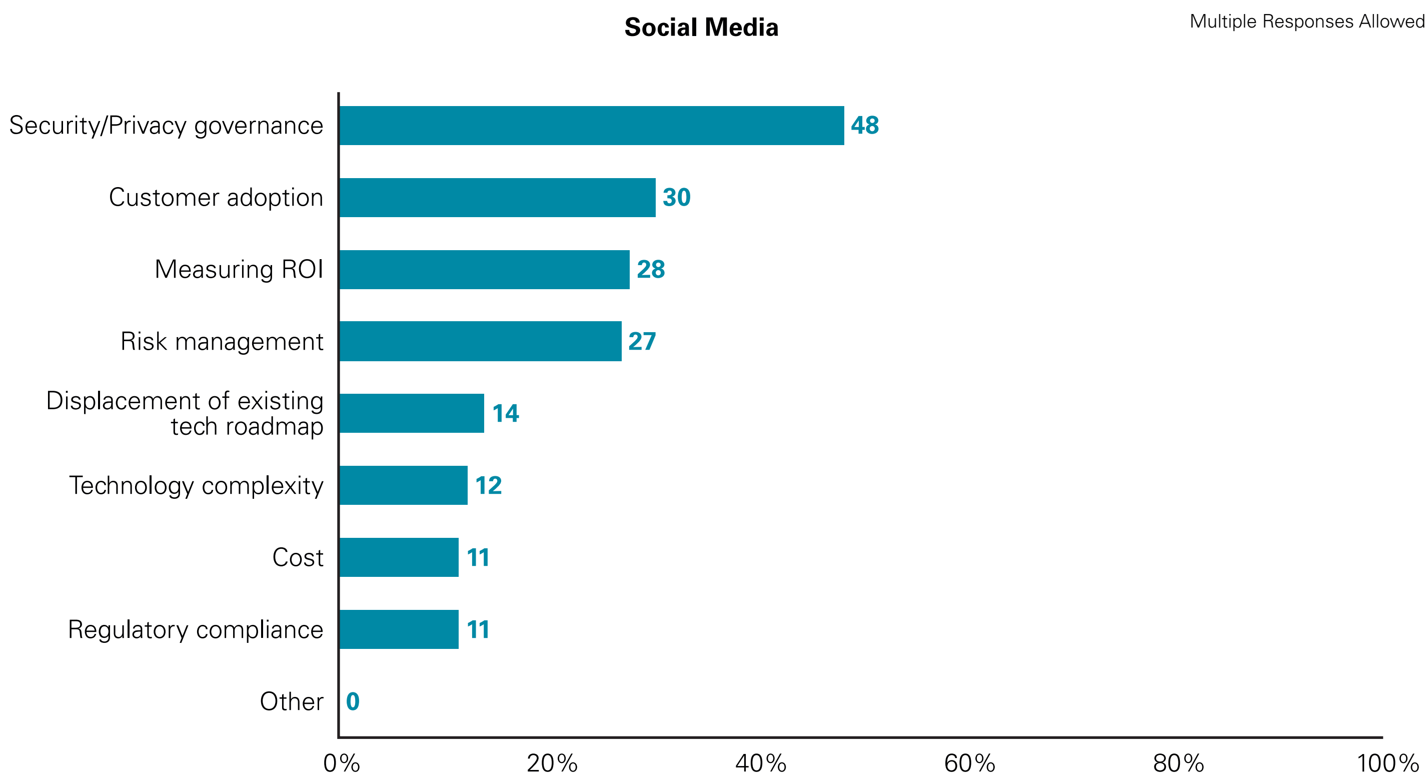
Labor costs, regulatory and legislative pressures, lack of a qualified workforce, foreign competition, and increased taxation were cited as more significant growth barriers this year, reflecting the continued challenges in the technology ecosystem, particularly those around high-growth expectations in emerging economies.

Social Media, Cloud and Mobile Adoption Challenges

Security/privacy governance remains the biggest challenge for businesses in adopting social media, cloud and mobile technologies.

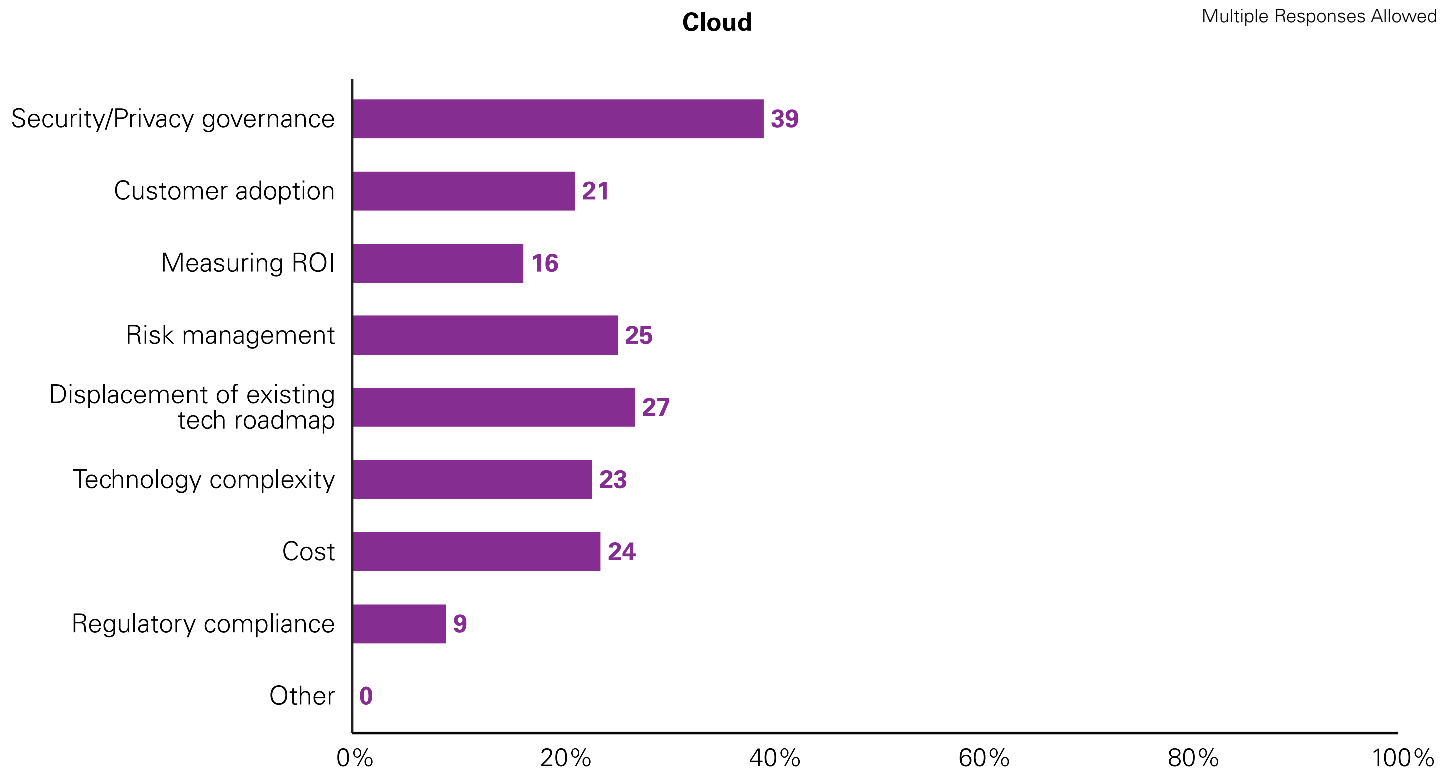
This year, we asked technology leaders about the biggest challenges for businesses in adopting social media, cloud, and mobile technologies. Governance surrounding security and privacy remains the single largest obstacle to broader acceptance and adoption of these technologies. However, the remaining challenges varied between the three, reflecting their differing levels of maturity and adoption in the enterprise market.

What do you see as the biggest challenges for businesses to adopt social technologies in the next three years?



The use of social media and collaboration tools in the workplace is in an earlier stage of adoption compared to cloud and mobile. This is reflected in the survey results as security/privacy governance was cited by 48 percent as the leading adoption challenge. Concerns over broad customer adoption, measurement of ROI, and implementing risk management processes were also cited as key barriers for businesses to adopt social media.

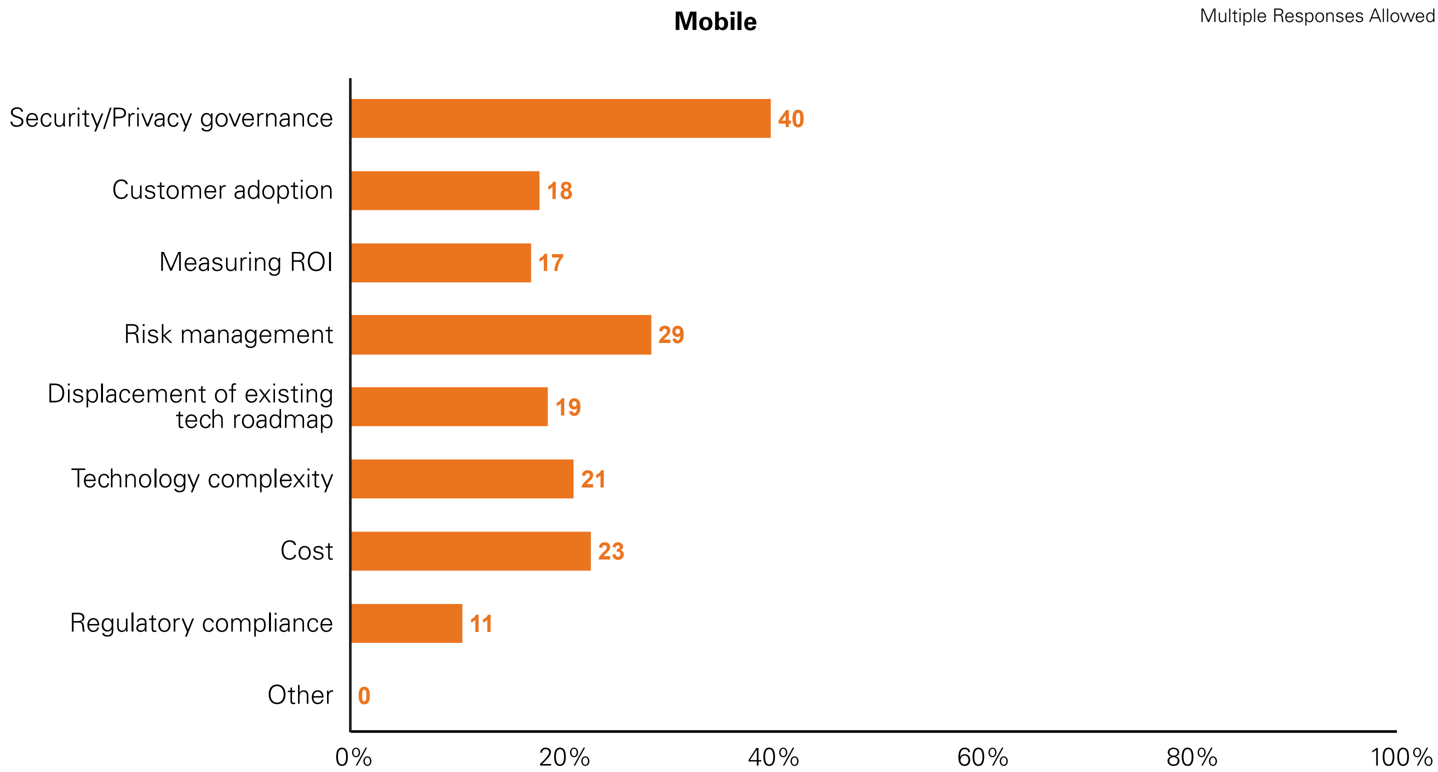
What do you see as the biggest challenges for businesses to adopt cloud technologies in the next three years?



Lower concerns over customer adoption and ROI measurement indicate that cloud strategies are becoming more prevalent in the enterprise environment. Yet concerns over security and privacy governance continue to be the leading challenge, followed by displacement of existing technology, risk management, cost, and technology complexity.

As indicated in KPMG's 2011 global cloud survey, the rate of cloud adoption will unfold at different rates across companies around the world. As the cloud business and technology models continue to evolve, it is important for cloud service providers to help their customers develop a comprehensive cloud strategy and tackle the challenges for businesses to adopt cloud technologies.

What do you see as the biggest challenges for businesses to adopt mobile technologies in the next three years?

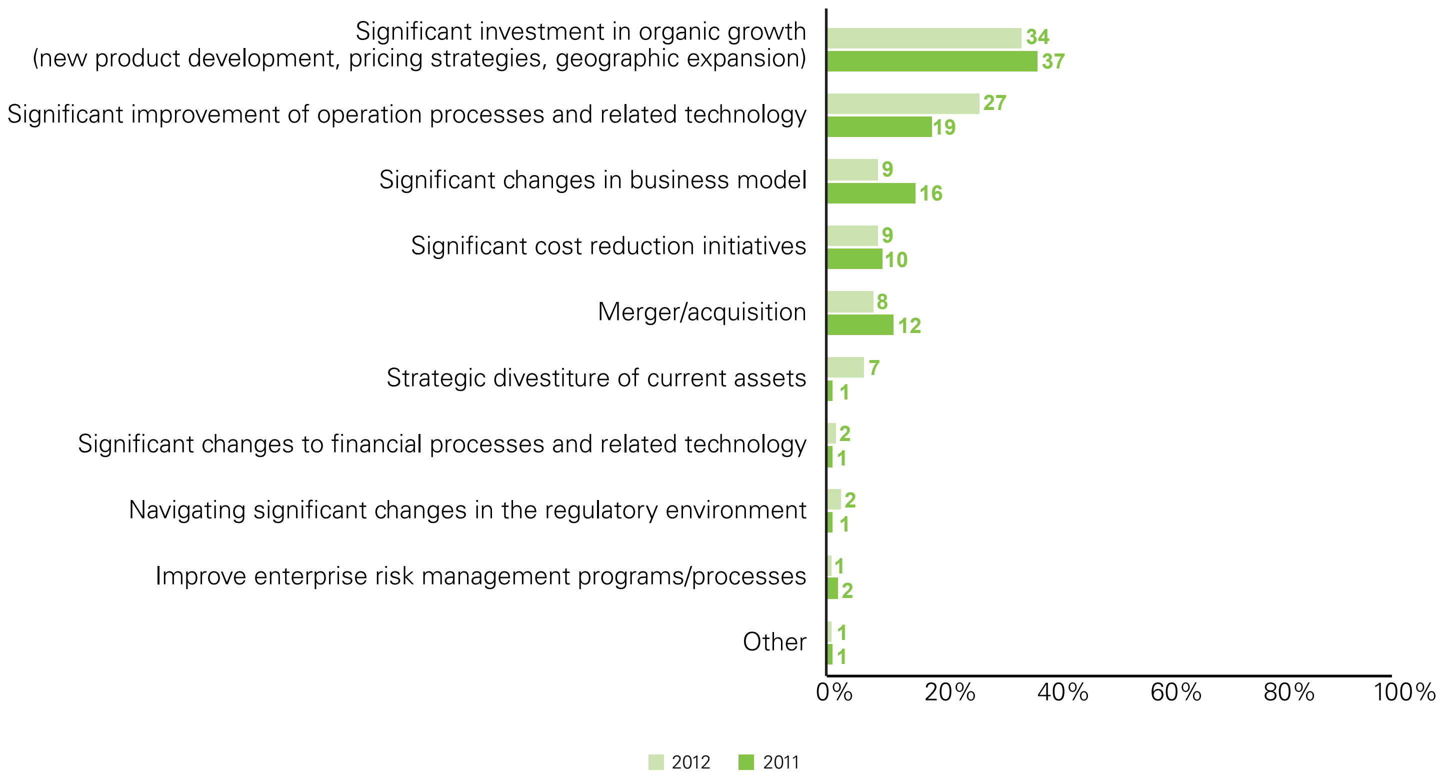


Security and privacy governance (40 percent) was identified by respondents as the biggest challenge for businesses to adopt mobile technologies, followed by risk management (29 percent), cost (23 percent), and technology complexity (21 percent). Enterprises are facing an increased mobile workforce as a result of the consumerization of IT and the benefits of mobile devices to increase efficiencies in functions such as sales and customer service.

There is an increased need to manage risk and protect data being accessed and stored by wireless handsets and tablets, as well as growing complexity and cost to integrate diverse mobile devices into a large organization's network and security infrastructure.

Management Initiatives

What is the top initiative from a management perspective for the next two years in terms of energy, time, and resources?



Top management initiatives (in terms of energy, time and resources) for the next two years.

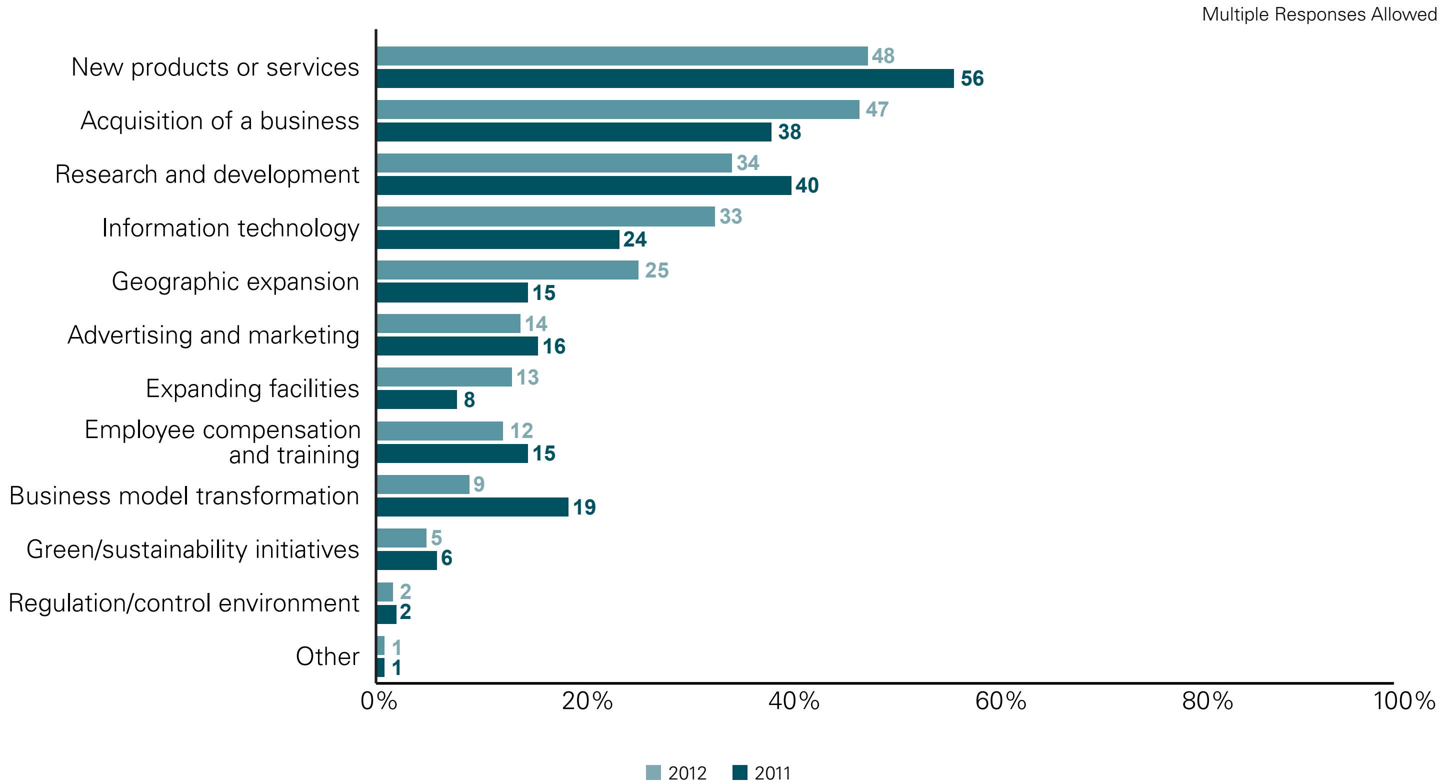
Reflecting this year's emphasis on execution and process improvement, technology leaders say their key priorities for the coming year include significant investment in organic growth (cited by 34 percent) and operational process and technology improvements (27 percent).

The percentage of executives citing significant changes to their business model decreased from 16 percent last year to 9 percent, indicating many companies have moved into the execution phase of their strategic transformation initiatives.

The percentage of executives saying they planned significant cost reduction efforts was nearly the same, while the percentage of respondents citing a strategic divestiture of current assets increased from 1 percent last year to 7 percent.

Spending Patterns

In which three areas do you expect your company to increase spending the most over the next year?

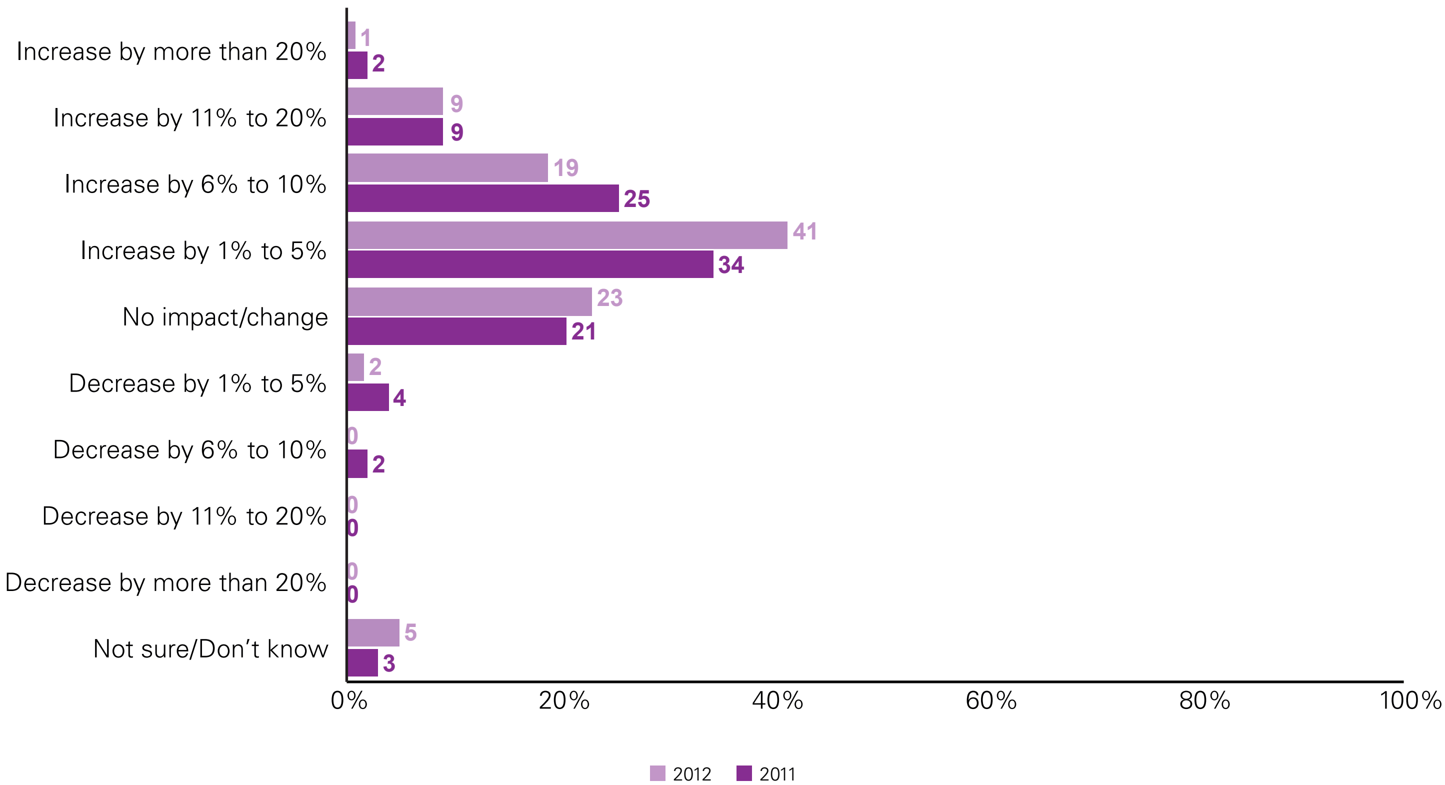


About half expect to increase spending on new products/services and acquisitions over the next year.

Looking at potential areas for increased investment, new products or services (48 percent) remains the leading category. Acquisition of a business was second, at 47 percent, compared with 38 percent in 2011. Research and development, at 34 percent, decreased from 40 percent last year, while information technology increased from 24 percent last year to 33 percent. The growth in IT spending further demonstrates the increased emphasis this year on execution, as well as executives' focus on operational and process improvements.

Geographic expansion, at 25 percent, increased from the 15 percent cited in last year's results.

What do you expect your company's R&D spending to be like one year from now?

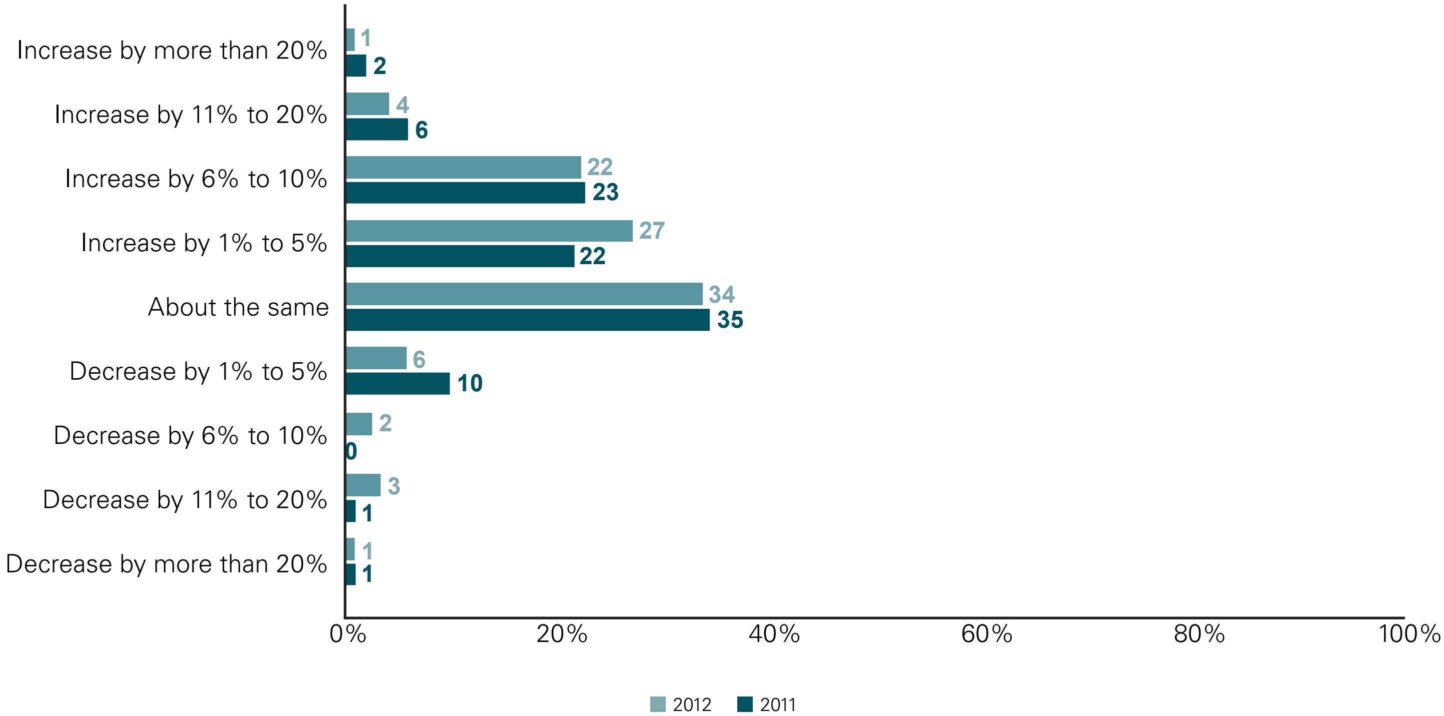


Many expect their research and development spending to increase next year.

Technology leaders remain cautiously optimistic about growth in their company's R&D spending, with 70 percent saying they expect investment to increase. Within this group, however, moderation can be seen, with the executives expecting a modest increase (1 percent to 5 percent) rising from 34 percent last year to 41 percent.

The number of respondents expecting R&D spending growth between 6 percent and 10 percent decreased from 25 percent last year to 19 percent.

What is the outlook for capital spending by your company over the next year?



Majority say their company's capital spending will increase over the next year.

Expectations about capital spending also reflect moderate optimism. Although overall expectations about capital spending growth remain about the same, the percentage expecting a capital spending increase of 1 percent to 5 percent rose from 22 percent in 2011 to 27 percent.

The percentage of respondents expecting capital spending to remain about the same decreased slightly (34 percent, compared with 35 percent last year).

Do you believe your company has significant cash on its balance sheet?

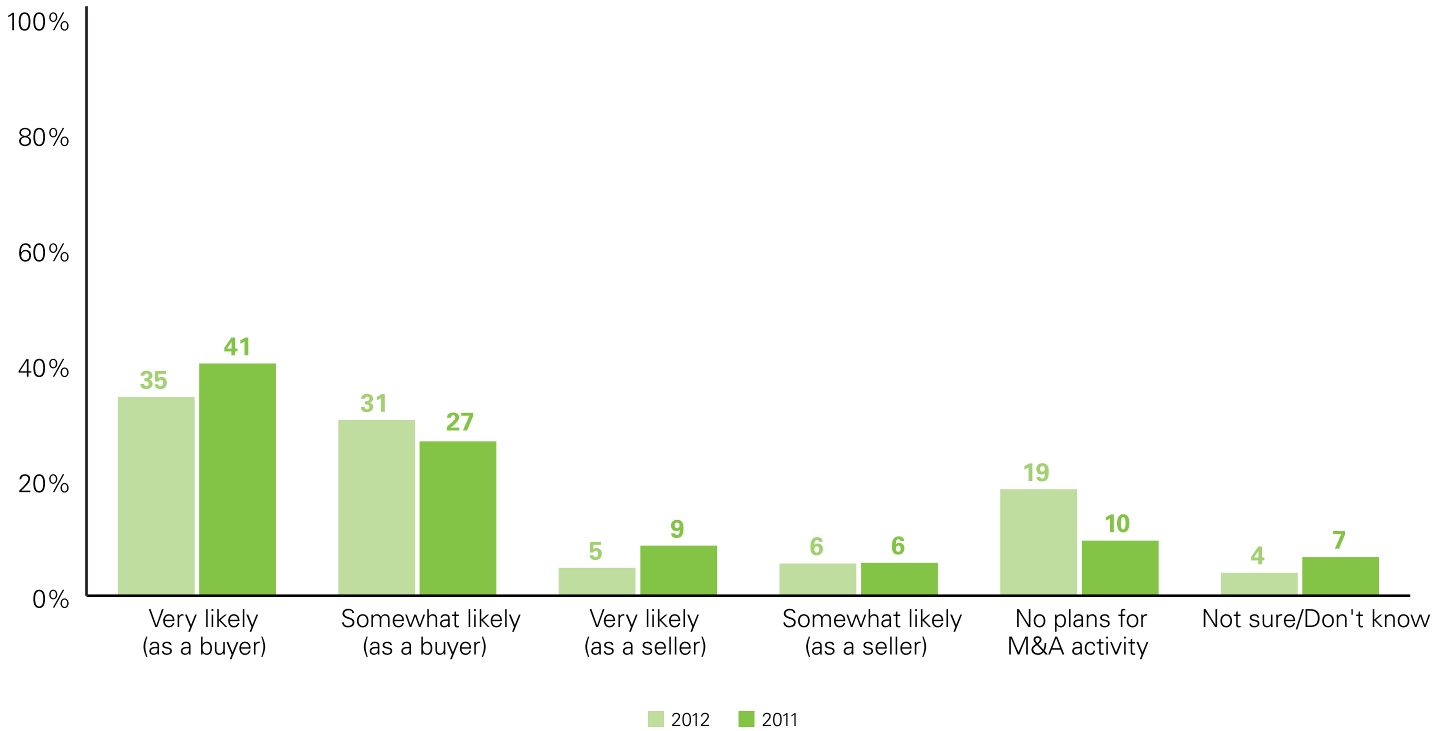
Many say their companies have significant cash on their balance sheets.

More than three-quarters (76 percent) of the technology executives believe their company has sufficient cash on its balance sheet.

Consistent with last year's results, with cash in hand, senior technology executives are eyeing opportunities to invest in new products and services.

M&A Trends

What is the likelihood that your firm will be involved in a merger/acquisition in the next two years?



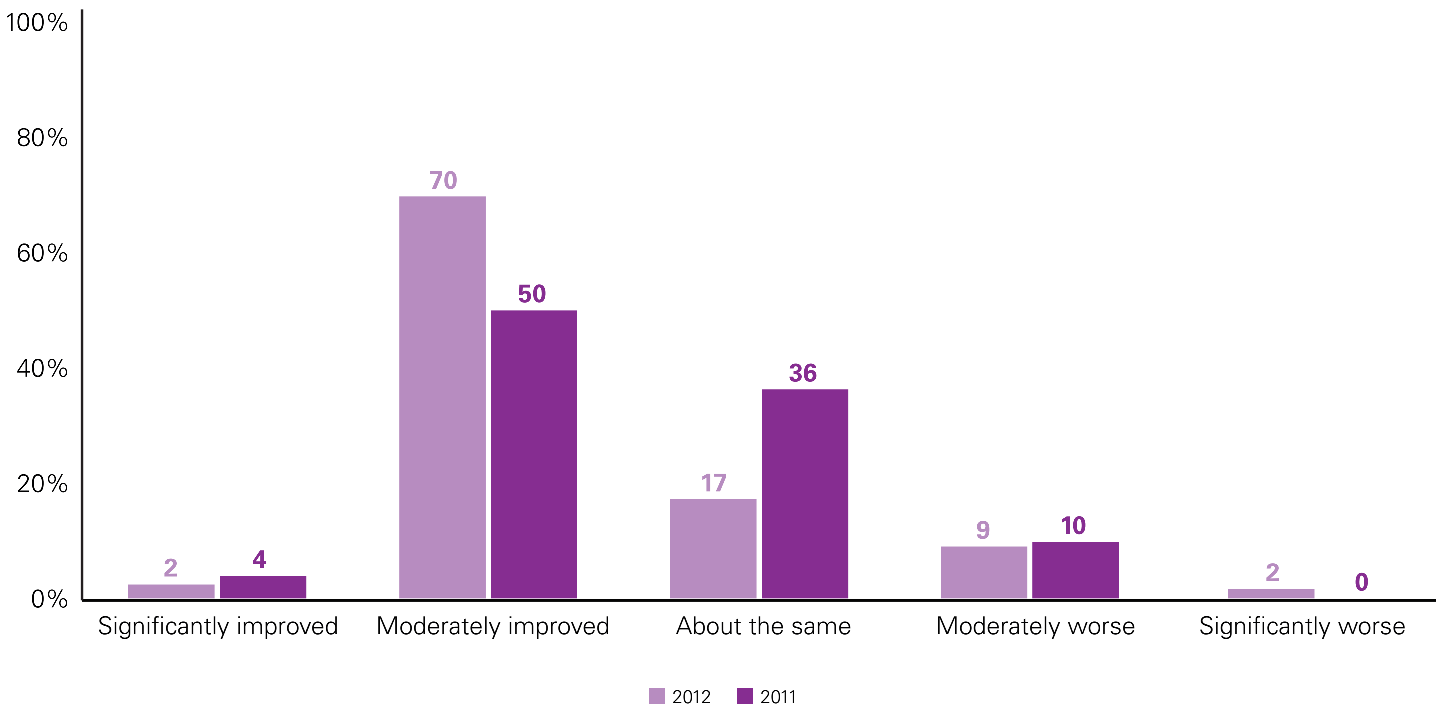
> Significant majority say their company is likely to be involved as a buyer in a merger or acquisition over the next two years.

The percentage of respondents saying they had no plans for M&A activity rose from 10 percent in 2011 to 19 percent, and the percentage of companies described as very or somewhat likely (as a buyer) to make an acquisition decreased to 66 percent from 68 percent in 2011.

Possible reasons for the decreasing expectations about M&A activity include growing IPO volume and valuations making the capital markets a more attractive option than pursuing a strategic sale.

U.S. Economic Trends

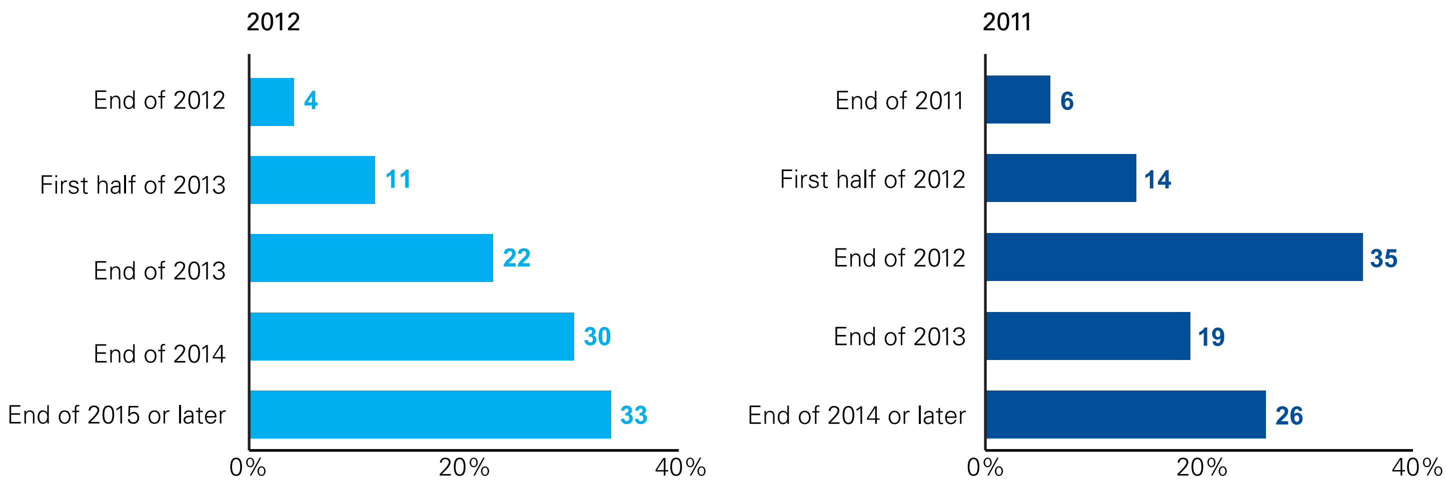
A year from now, what are your expectations for the U.S. economy?



> Many expect a moderate improvement in the U.S. economy, one year from now.

Our prior surveys have shown technology leaders are generally more optimistic about their expectations for improvement in the U.S. economy. This year's results continue that theme, yet their growth expectations are tempered. Seventy percent expect the U.S. economy to improve moderately over the next 12 months, compared with only 50 percent in the 2011 survey.

When do you think the U.S. economy as a whole will recover?



> One-third say the U.S. economy's recovery will be substantially complete by the end of 2015 or later.

Although technology executives are moderately optimistic about short-term economic growth in the United States, their expectations about a broad-based U.S. recovery remain subdued. In this year's results, 63 percent of the executives see a substantial recovery taking place by the end of 2014 or later.

This two-year horizon for a broad recovery is similar to the expectations reflected in the technology industry surveys we have conducted in the past two years. Most executives in 2011 forecasted a substantial recovery after the end of 2013, and the 2010 survey called for a full U.S. economic recovery after the end of 2012.

Conclusion

The technology sector appears to be moving to a moderate growth phase for employment, revenue, and spending in the next year. At the same time, the United States continues to be the leading geographic market for employment, revenue, and R&D growth over the next two years, ahead of China and India.

Cloud, mobile applications, and the consumerization of IT are expected to be the biggest revenue growth drivers in the next one to three years. The technology industry has seen a continuously increased focus on cloud and mobile strategies globally, including Fortune 500 companies and pre-IPO start-ups.

In tandem with the moderate employment, revenue, and spending outlooks, there is an increased focus on process and execution as technology executives are investing cautiously to implement their plans and help ensure the success of their strategies. In this year's survey, more technology executives identified process improvement as one of the top management initiatives in their companies for the next two years, while organic growth continues to be the top management initiative.

As to where they intend to increase spending in the next year, executives are again pointing to new products or services, acquisitions, and R&D as the top priorities, though two other areas have been elevated. IT spending now ranks almost as high a priority as R&D, and geographic expansion was ranked higher than last year.

The outlook for capital spending, though more moderate, demonstrates that company leaders recognize the importance of investing in their growth plans to be innovative and to counter competitive pressures.

Consistent with the surveys we have conducted in the past two years, technology executives again have pushed out their expectation for the U.S. economic recovery, as almost two-thirds don't see the economy recovering substantially until 2014 or later.

KPMG: An experienced team, a global network

KPMG's technology professionals combine industry knowledge with technical experience to provide insights that help technology leaders take advantage of existing and emerging technology opportunities and proactively manage business challenges.

Our professionals have extensive experience working with global technology companies ranging from Fortune 500 companies to pre-IPO start-ups. We go beyond today's challenges to anticipate the potential long- and short-term consequences of shifting business, technology, and financial strategies.

ABOUT THE AUTHOR

Gary Matuszak is the global chair of KPMG's Technology, Media & Telecommunications industries, and is the chair of KPMG's Global Technology Innovation Center. Mr. Matuszak works with global technology companies ranging from the Fortune 500 to pre-IPO start-ups, and represents KPMG in a number of organizations affecting the industry. Mr. Matuszak has influenced the development of key industry positions on several issues that impact the technology sector.

He is a frequent speaker on technology industry trends, including China's emerging role, the rise of cloud computing, and C-suite industry outlooks, and has devoted virtually his entire career to serving the technology industry. Before joining KPMG in 2002, he was the Silicon Valley office managing partner for Andersen, where he led the U.S. software practice.

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