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Key business questions facing technology companies

Technology firms have experienced high growth potential in 2021, with this trend projected to continue, however firms need to consider:

- How to build resilience against changing customer behaviours?
- How to access and retain tech talent as demand increases for this new human capital?
- How to navigate the complexities of an increasingly digital world?

Industry 4.0 meant the technology sector was already growing steadily, however the sudden surge in remote working, online shopping, digital health and virtual learning boosted demand for business technology and communications solutions.

Across Saudi Arabia this surge further fortified the role of technology in alliance with Saudi Vision 2030 which aims to transform Saudi Arabia into a globally competitive ICT hub, with modern technologies and an empowered information society.

As one of the largest IT markets in the MENA region, with spending reaching USD 45bn[1] at the end of 2019, the country enjoys a strategic location to become a main IT service and cloud hub with access to international connectivity through the Red Sea and Gulf.

Furthermore, the countries e-commerce market size reached 28.5bn SAR1, which has since continued to grow at speed as a result of a post pandemic buying trends.

Businesses within Saudi Arabia and the wider Gulf need to consider the global IT trend and its impact to the region, along with businesses based in the industry.

In fact, Grant Thornton's global research – which provides insight into the views and expectations of businesses – found that 44% of tech firms globally grew their revenue by more than 5% in 2020, compared to 35% across all industries.[2] Additionally, 34% of tech firms grew their exports by over 5% and 21% moved into new geographic markets, compared to only 23% and 12% across all industries respectively.

As the world starts settling into the 'new normal', however, what will happen to this momentum? Some say 2020's positive effects will linger well into 2021 and beyond, as people stick with new tech-enabled convenience and productivity. Others say some of the big winners in the pandemic won't be as strongly positioned for a post-vaccine world. Our research shows that tech firms remain mostly on the cautious side of future business performance, with only 52% of firms expecting revenues to increase over the next 12 months.

Tech companies, and the services they provide, will be central in enabling the 'new normal', to continue to succeed, tech companies must be ready to adapt and rise to the challenges ahead. Across Saudi Arabia and the wider Gulf, the impending drive to diversify economies, build a digital-first approach and a heavy emphasis on tech driven investments and funding has further fortified the industry, bringing with it new opportunities which will drive buyer behaviour changes.

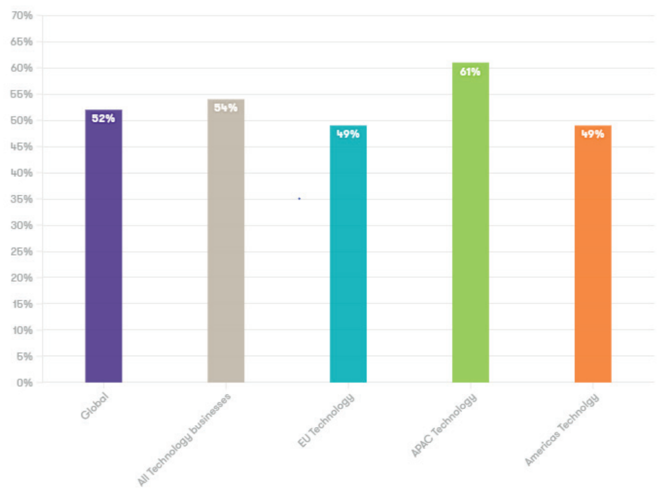
As tech firms navigate the year ahead, we look at some of the key business questions they face.

1. How can technology businesses build resilience against changing customer behaviour?

Customer behaviour changed almost overnight when the pandemic struck. Every industry had to pivot quickly in an 'adapt or die' scenario. Most behaviour changes resulted in a direct increase in technology dependence. For tech companies, many of the changes were already in the pipeline – just accelerated or magnified – putting them in a 'grow or die' scenario.

While optimism in many economies rose sharply, 63% of technology firms surveyed say economic uncertainty is a major constraint in growing and expanding their business. Another constraint highlighted globally by 52% of respondents and by 54% of technology firms was an anticipated pullback in customer spending in the next 12 months. This is especially pronounced in APAC, where 61% of companies expect reduced demand to constrain business performance.

Graph 1 – Reduced demand as a business constraint



Looking at the data, focus over the next year is on rearchitecting to meet the immediate challenge. Across all three regions, investing in IT and R&D are the top priorities for 2021. Yet, despite anticipating a drop in revenue and customer spending, our study shows that few have strategies in place for dealing with changes to customer behaviour or competitive dynamics, or different scenarios for the scale-up of company operations.

It's likely that a heavy dependence on technology will continue into 2021 – but just how heavy?

Consumers are expected to be more price tag sensitive and, as vaccination programmes and advanced treatments roll out across the world, people are returning to workplaces, classrooms and physical shops. While remote working and online shopping have been a demystifying and welcome experience for many, people seem to be leaning towards a 'hybrid' approach in the future – a blend of the physical and digital, meaning tech companies will need to meet them in this space.

Across the Gulf, tech companies must consider ongoing government investments and focus to digitally driven economies, along with the changing demographics of these economies which include a growing population who demand access to services instantaneously and in keeping with international trends.

As economies are reshaped because of consumer behaviors and changing demographics the opportunity for new market entrants and unicorns become ever more prevalent. A recent such case example includes Swvl, a global tech startup based in Dubai that provides a semi-private alternative to public transportation for individuals who cannot afford or access private options.

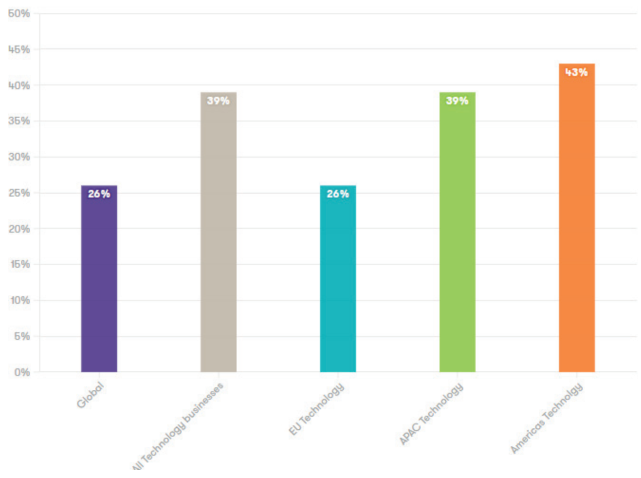
The new tech opportunities across the Gulf focus on sustainable and economic advancement, aligned to consumer changes and needs.

2. How can technology businesses build access and retain tech talent as demand heats up?

To keep pace with the demand for technology in 2020, many tech companies invested in their workforces, increasing headcounts, and making salaries more competitive. But this means that an already heated war for tech talent is intensifying, with demand continuing to outstrip supply.

In our research, 39% of technology firms grew their staff levels by over 5% in 2020, over 10 percentage points higher than the average for all industries globally (26%). While this growth in staff levels in Europe tech firms (26%) was on par with the global figure, technology companies in APAC (39%) and the Americas (43%) were encouragingly higher.

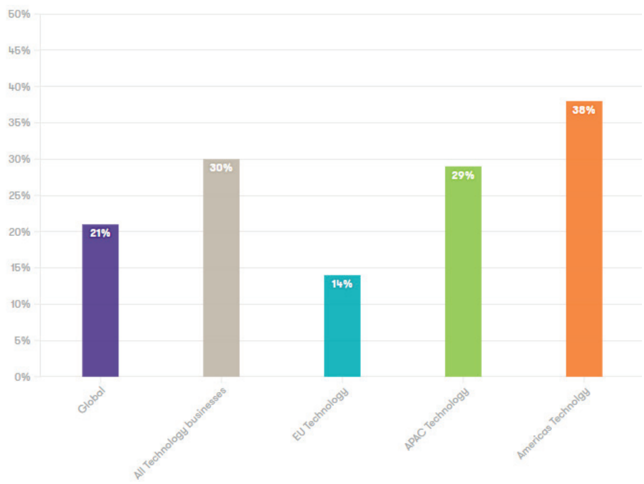
Graph 2 – Growth in staff levels



Supporting the demand for skilled workers outweighing current supply, 55% of technology firms globally said the availability of skilled workers will be a major constraint to business growth in 2021. It is not surprising then, perhaps, that a greater number of technology companies (30%) said they plan to increase salaries by more than inflation – especially in the Americas where 38% of technology firms indicated this was their intention – compared to 21% from across all industries globally.

This trend correlates to the scenario across Saudi Arabia, where international talent is being sought to work in collaboration with local talent to address real challenges and opportunities to leverage the opportunities which Vision2030 promises to bring.

Graph 3 – Increase in salaries by more than inflation



According to Stripe[3], roughly $300 billion is lost every year in software development productivity as a result of a lack of access to senior talent and complex software systems. As technology becomes more complex and adoption increases, it's a challenge not likely to be dissolved soon.

Tech firms need to continue exploring new ways of attracting and developing tech talent, retaining those already employed, and navigating the growing concern of labour costs.

The growing trend of hybrid and remote workforces also puts pressure on traditional talent-based strategies. Post-pandemic, 55% of US workers want a mix of home and office working, while employment experts in China predict a 60/40 split of office/remote work[4].

While offering flexible working can be a great incentive, what does it mean for maintaining culture, and for developing and training employees?

Some companies have been taking advantage of remote working environments to create lean and agile workforces, sourcing capabilities through local or international contractors and consultants. But this has regulatory implications, such as IR35 in the UK, that need to be considered, which may be why our data shows this as a decreasing trend this year.

With a hybrid workforce, companies also need to review their own infrastructure, data and IP protection policies, ensuring business-critical information is handled appropriately in non-office settings.

3. How can technology businesses navigate the complexities of an increasingly digital world?

As the world becomes more digital, regulators are likely to respond. Consumers are more aware of their digital footprint than ever before, and scrutinising data protection efforts.

Steven Perkins, national leader – technology and telecommunications, Grant Thornton US, shares, "Tech companies need to build the functionality and capability to comply with a large and diverse set of conflicting international standards into their products. They need to bake trust, transparency, accountability and ethical practices into everything they do – giving customers a high degree of confidence that their products are secure, protect their privacy and support compliance with emerging standards."

Globally, 49% of our research respondents said regulatory red tape would constrain their ability to expand or grow their business. The percentage was slightly higher for tech business respondents, at 53%. However, for any growing tech company, it's important to remember one thing: regulation needn't be a roadblock. When approached correctly, it can create competitive advantage.

The tax climate for technology companies is also becoming increasingly complex. As at the end of 2020, 23 different jurisdictions have enacted legislation on a specifically targeted digital services tax. Many others have draft legislation or proposals pending. As consumer behaviours change and businesses drive increasing value from user interface and interaction, tax authorities will inevitably respond.

While the OECD is attempting to reach a consensus on a global answer to the tax challenges of the digital economy, its eight-year effort on the topic is far from complete and would require unanimous support to introduce a multinational measure. Until that point, we see governments taking their own steps to protect their tax base with unilateral measures.

These new 'digital taxes' are complex in scope, measurement, and application; and differ around the globe. This is creating a new layer of compliance and administration for tech companies as they manage a changing global tax landscape.

So, what's next for technology businesses?

There's a lot at stake this year as the world settles into the new normal. But while customer spending may dip, technology companies should keep their focus on scaling and growing faster than their competition, without compromising the DNA of their business.

Is your next step to plan for growth, adapt your processes and controls for a changing business model, manage risk, develop growth strategies or meet regulatory requirements, or a combination of these?

Whatever your immediate or long-term needs, our advisors can support you. Contact to discuss further.

1. Invest Saudi
2. Global business pulse, Grant Thornton International Ltd, 2021.
3. Stripe, 2018.
4. BBC.com, 2021.

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