Top 10 opportunities for technology companies in 2023

In a volatile business environment, will the bold be rewarded?

NAVIGATE
THRIVE

Instead of landing in a straightforward post-pandemic world of recovery and growth, technology companies are now confronted with high inflation rates, an energy crisis, financial volatility and declining consumer confidence. These are weighing on results, outlooks and valuations in the sector.

During the last couple of years, technology companies successfully addressed the primary challenges of supply chain constraints to provide the tools and technologies the world needed to work remotely, conduct business online and keep the world's economy running. But improvements in the supply chain have been quickly followed by deteriorations in the political, economic and financial climate. To protect their business, technology vendors are looking to streamline operations and raise prices, where possible.

We believe the technology sector is fundamentally strong and will overcome adverse conditions to become a driver of economic growth again, even though we do expect the levels of volatility to remain high on most fronts. The sector will need transformation and innovation to overcome these economic head winds and elevated levels of volatility.

In this year's annual report, EY has ranked the following 10 opportunities that technology companies should take advantage of in 2023.

1

Accelerate M&A strategy execution to strengthen growth profile

An active M&A strategy could pay off handsomely for tech companies. Due to macro head winds and financial volatility, the deal market has slowed down, improving opportunities for corporate buyers with a strong balance sheet. Large, transformative acquisitions could launch tech companies into new markets or adjacent verticals, like HealthTech or FinTech. Accretive acquisitions could strengthen a company's portfolio with leading-edge technologies, such as artificial intelligence, blockchain and edge computing. But with valuations coming down, the appetite for deals will return and competition for targets will heat up again, as several hundreds of billions of investment dollars of private equity will find their way to the market.

2

Experiment with platform ecosystems to disrupt the market

Enterprises meet, compete and deliver services over globally connected cloud platforms, turning the cloud into one giant marketplace, where all the ingredients for new solution development are readily available. Instead of a linear process, innovation in cloud platforms is a process where several partners cooperate simultaneously. By thinking bigger, collaborating with third parties, organizing around common goals, and leveraging technologies like blockchain, Web3 and the metaverse, innovation partners can multiply the speed and the reach of innovation outcomes. Technology companies should explore these opportunities, reach out to allies, research institutes and competitors, and partner to disrupt existing business models, even if it puts them in competition with their own legacy business.

3

Double-down on localization, even if it comes at a cost

To address the structural risks from geopolitical conflicts and natural disasters on the supply chain, last year's efforts to build redundancies into the supply chain will not be sufficient. A major makeover is required, as the sector needs to spread its industrial footprint across multiple geographies. A recent EY survey found that 78% of technology executives are looking at decoupling their supply chain, including nearshoring and reshoring.[1] This requires large investments over the next few years, that will inevitably lead to substantial cost increases. Companies cannot be deterred by these additional costs. They will be supported by regulation and sponsored by governments providing funding and tax breaks. They will also be rewarded by customers who are willing to pay a premium to reduce their dependency on geopolitically instable geographies.

4

Prioritize environmental sustainability

While all aspects of environmental, social and governance are important on the corporate agenda, EY professionals think that next year the tech sector will be impacted most by environmental sustainability. Tech and non-tech companies have to comply with incoming regulation on disclosure around emissions and climate change risks and steer clear of emission-related taxation penalties. For reporting purposes, the entire supply chain will be relevant to include scope 3 emissions from all suppliers. For tech vendors, this means that running data centers on renewable energy or lowering the environmental footprint of their hardware will lead to a competitive advantage, because this lowers emissions across the entire supply chain. In addition, with current energy prices and a fight over earth's rare metals and minerals, the return on investments in energy efficiency, carbon reduction and recycling efforts is high.

5

Introduce pay as you go to attract complementary revenue streams

Technology companies should explore consumption-based business models. Recent EY research found that over 90% of technology, media and entertainment, and telecommunications

Introduce pay as you go to attract complementary revenue streams (continued)

companies already generate a portion of their revenues from anything-as-a-service models, with subscriptions being the dominant form. Companies cited market trends, competitors and generating additional revenues as a reason for their transition. Customers want flexibility in how they pay, but some prefer the predictability of per-seat subscription payments, while others like the flexibility to scale up or down with usage-based payments. In the market, some of the challengers leverage usage-based pricing to displace slower moving incumbents. So, to attract new revenue streams and protect their market share against aggressive challengers, tech companies that have moved to subscriptions should ready themselves to adopt pay-as-you-go business models as well.

6

Leverage analytics tools to optimize revenues

Tech companies have invested in analytics tools to increase visibility into the supply chain and pick up early warning signs to mitigate risks and prioritize expenses. But data analytics are not just useful to optimize processes in the supply chain, they can also be leveraged for revenue optimization. For technology companies, that is a very attractive proposition. They often have data-rich product offerings and software products come at low marginal costs, making pricing a key variable to improve results. Analytics tools can be deployed to calculate outcomes of different strategies under different scenarios for inflation, geopolitical uncertainties and other risks. It will also help companies think through prices for a myriad of different business models.

7

Invest in edge ecosystem to improve operations and experiences

Tech companies should address the need to invest in distributed computing next year. As the Internet of Things (IoT) expands, enterprises need to process increasing amounts of data from, for example, contactless payments, robotic manufacturing, smart home sensors and self-driving vehicles. Transferring this data back and forth to large enterprise cloud platforms for processing is very costly and time consuming, when rapid real-time responses are needed. Enterprises need intelligence in their network at the level where the data is collected, locally, at the edge of the network. Edge computing reduces response times and changes operations at a local level. But it requires new IT architectures to ensure security and resilience of operations. Investing in the edge ecosystem will help streamline processes and improve customer experiences.

8

Cyber, cyber, cyber ... ensure data protection

Like every year, investing in cybersecurity will be a top priority in 2023. The amount of data keeps growing, the size of company networks expands through edge computing and hybrid work, the number of bad actors increases due to geopolitical tensions, and fines for failing to protect data increase due to increased regulatory scrutiny. New technologies, such as quantum computing and blockchain, are changing the parameters of threats and security. Yet, while the risks of data breaches increase, technology companies keep building their business models on collecting, transferring and analyzing customer data. Data protection, including security, privacy and transparency, should be a key element of every customer proposition. Tech companies should engage with partners and vendors to pilot the latest tools and technologies to safeguard infrastructure security, product security and data protection.

9

Drive an agile talent strategy to match resources with company needs

The pandemic has firmly shaken up the market for tech talents. A few months ago, EY research found that 56% of employees in the sector considered leaving their job to look for higher pay, better wellbeing programs and further career opportunities.[2] Today, the sector is not only dealing with talent shortages to fuel long-term growth but also with hiring freezes and layoff rounds in response to economic head winds. This fine line between hiring and firing amplifies the need for agile talent departments that can balance a workforce across different activities within a company. To retain high performers, technology companies must redefine hybrid work experiences and address employee concerns. This includes adopting attractive packages that take into account rewards and wellbeing and redesigning career frameworks to enable internal mobility between different roles in the company.

[1] *How do you stay on course when the direction keeps on changing? | EY – US*
[2] *How workforce rebalancing is building pressure in the talent pipeline | EY – US*

10

Prepare for global minimum tax reform

Technology tax and finance teams around the world need to prepare to understand the impact of the global minimum taxation rules. Technology companies and digitization of the economy have been at the center of the Organisation for Economic Co-operation and Development (OECD) efforts to establish this new legislation also referred to as Base Erosion and Profit Shifting (BEPS) 2.0 Pillar Two. The rules are scheduled for implementation in 2024 and will require substantial financial reporting analysis, quantitative work and compliance efforts. Companies will have to assess what tax technology tools they need, what the impact is from their supply chain choices and operating model changes on the effective tax rate, and what the best overall tax strategy is, given the elevated risk levels caused by financial and political uncertainties.

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