

Focus on: technology

International Business Report 2009 – Sector focus series

The Grant Thornton International Business Report (IBR) 2009 reveals that privately held businesses (PHBs) in the technology sector are markedly less confident regarding economic prospects for the year ahead than they were in 2008, dramatically affecting the 'big decisions' these businesses have to make. In 2008 a net balance¹ of +49 per cent were optimistic compared to -7 per cent this year. Across all sectors, businesses are also less optimistic (-16 per cent) than they were in 2008 (+40 per cent).

IBR 2009 examined the optimism of privately held businesses across eight sectors which we are pleased to share through our sector focus series.

Of the eight sectors, hospitality is the most buoyant with an optimism/pessimism balance of just +2 per cent; ahead of technology (-7 per cent), financial services (-9 per cent), health and education (-19 per cent), manufacturing (-19 per cent), construction and real estate (-20 per cent), retail (-20 per cent), and transport (-39 per cent).

This series will provide key findings, insights into specific national market sectors and our perspective on the outlook for each sector. It will also suggest tactics businesses should consider in the current economic climate.

If you have 'big decisions' you need help with, please visit www.gti.org. For more information on IBR visit www.internationalbusinessreport.com.

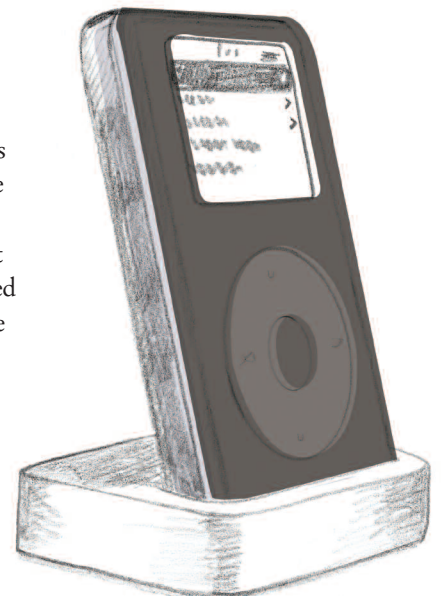
The technology sector

The key driver of growth in the technology sector is business investment, which in turn is fuelled by firms' desire to upgrade and invest in plant and machinery. Crucial in such investment decisions are

the economic outlook and profit trends. A combination of expected robust underlying demand and healthy profits provides the motivation and finance for new capital spending.

Other factors also influence investment decisions. The degree to which technology is perceived as helping improve customer support, the potential for technology to provide an answer to labour and skill shortages, competitive pressures and the availability of finance will all provide a boost to new investment. The propitious backdrop during the global economic upswing of 2002-07 underpinned sustained growth in the technology sector.

However, as the economic outlook darkened during 2008 and the full impact of the credit crunch became widely felt, the technology industry worldwide suffered. Business investment in the United States slowed from an annual average rate of over 6 per cent in 2004-07 to below 2 per cent, while Japan and the United Kingdom were among the mature economies registering a marked decline in machinery and equipment investment during the year. Some emerging markets are still seeing strong investment expansion, but here too a period of much slower growth in the technology sector has begun. Many businesses worldwide have cut spending on technology products and services in the current difficult climate, and have postponed updating outdated systems until the outlook brightens.



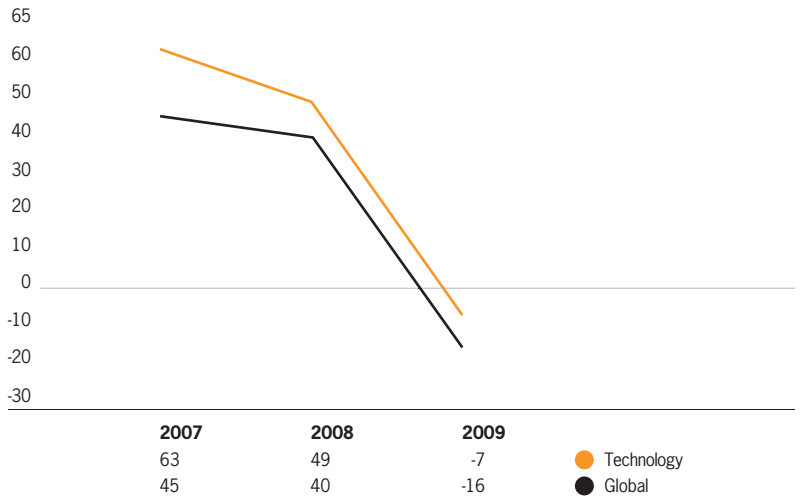
¹ the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

Optimism/pessimism

- PHBs in the technology sector are considerably less optimistic about their country’s economic performance over the next 12 months than they were in 2008. A net balance of +49 per cent of PHBs in the sector were optimistic in 2008 compared with -7 per cent this year
- levels of optimism regarding economic outlook globally have fallen 56 percentage points compared with 2008.

Figure 1: Outlook for the economy over the next 12 months: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism

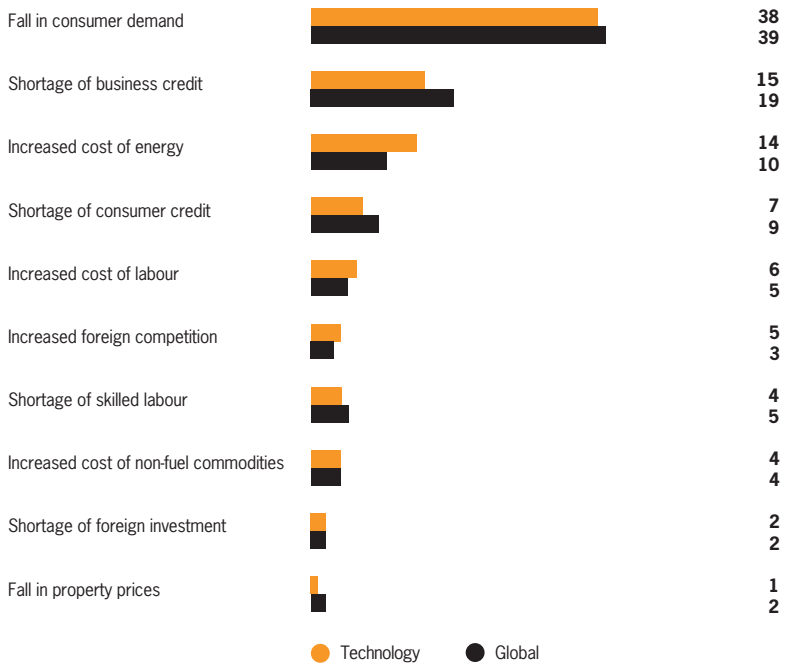


Greatest concern

- a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs in the technology sector (38 per cent) and for businesses globally (39 per cent)
- a shortage of business credit is of greater concern to PHBs globally (19 per cent) than it is to those in the technology sector (15 per cent)
- on the other hand, increased cost of energy is of greater concern for PHBs in the technology sector (14 per cent) than it is to businesses globally (10 per cent).

Figure 2: Greatest concern in the next 12 months

Average percentage of businesses



Source: Grant Thornton IBR 2009



Niki Dixon
Grant Thornton, United Kingdom

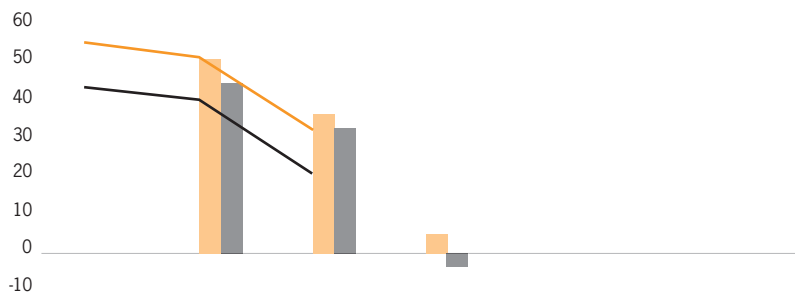
“Early stage UK technology companies, even if successful, are under pressure as many venture capital houses decline new funding or look to consolidate portfolios. Consolidation will continue as some weaker players are absorbed by stronger businesses. Growth is still continuing, despite the prevailing gloom, in some niche areas in the UK such as the gaming market. As the upturn builds, there is likely to be a renewed skills shortage in 2/3 years’ time.”

Employment

- expected employment growth in the technology sector has fallen substantially, from +37 per cent in 2008 to +5 per cent in 2009
- businesses globally expect employment to contract from +33 per cent in 2008 to -4 per cent in 2009.

Figure 3: Employment history: 2007-2009

Percentage balance of businesses



2006*	2007	2008	2009**
-	51	37	5
-	45	33	-4
56	52	33	-
44	41	21	-

● Expected technology
● Expected global
● Actual reported technology
● Actual reported global

*expected data for 2006 not available

**actual data for 2009 will be available in IBR 2010

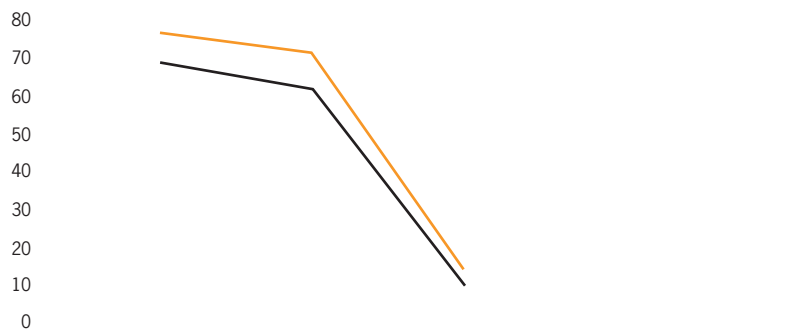
Source: Grant Thornton IBR 2009

Revenue expectations

- PHBs in the technology sector are much less optimistic about their revenue prospects (+16 per cent) than they were in 2008 (+73 per cent)
- levels of optimism regarding revenue prospects globally are down 52 percentage points compared to 2008.

Figure 4: Revenue expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism



2007	2008	2009
78	73	16
70	63	11

● Technology
● Global

Source: Grant Thornton IBR 2009



Gaurav Sahu
Grant Thornton, India

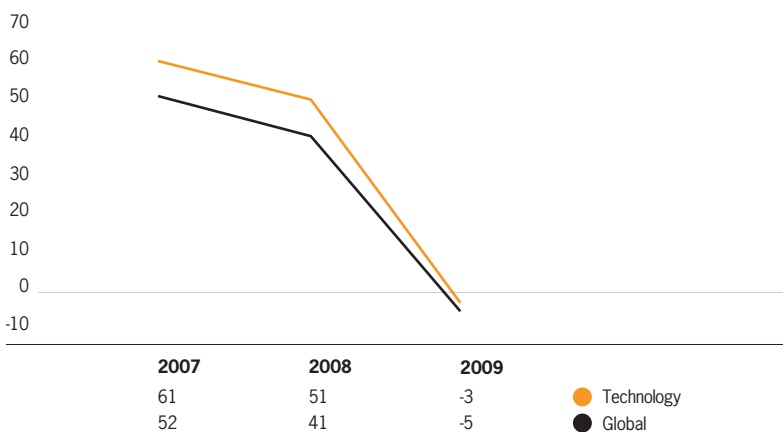
“The Indian IT sector index showed annual growth of approximately 30 per cent in the past five years with a decline of around 14 per cent last year. This has been accompanied by a marked decline in application development and other discretionary IT projects, however, most IT companies in India are optimistic about the prospect of large contracts coming through in the next year or so.”

Profitability expectations

- PHBs in the technology sector are much less optimistic about their profitability prospects (-3 per cent) compared to 2008 (+51 per cent)
- levels of optimism regarding profitability performance globally are down 46 percentage points from 2008 levels.

Figure 5: Profitability expectations: 2007-2009

Average percentage balance of businesses indicating optimism against those indicating pessimism

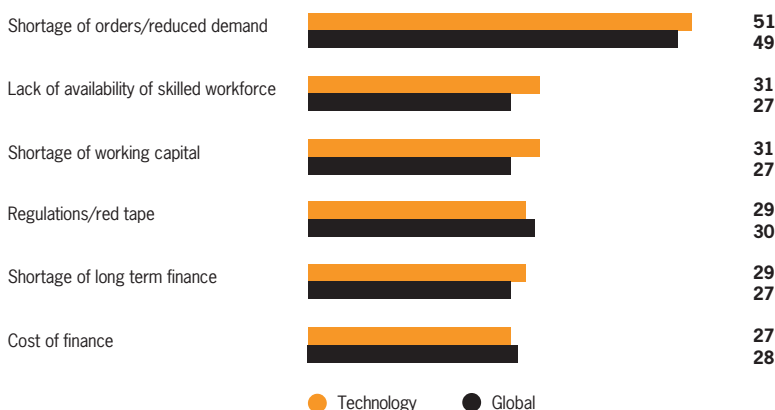


Constraints

- as with businesses globally, the shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in the technology sector (51 per cent) and represents a 19 percentage point increase from 2008
- almost one third of PHBs in the technology sector cite both a lack of availability of skilled workforce and a shortage of working capital as constraints on expansion.

Figure 6: Constraints on expansion

Average percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



Source: Grant Thornton IBR 2009



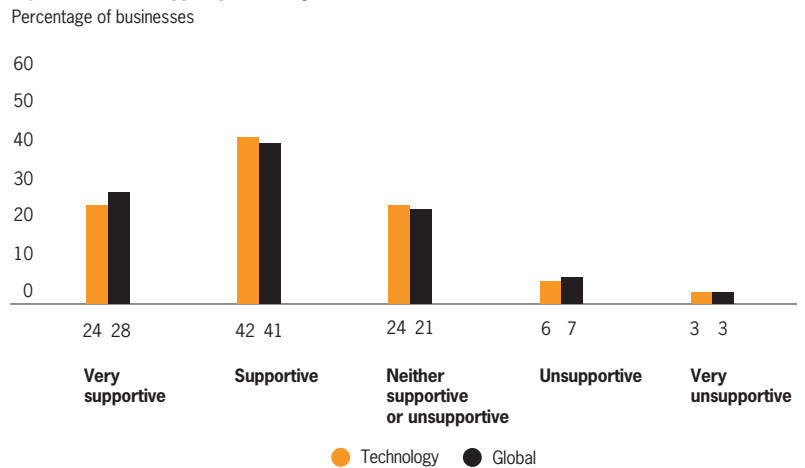
Michael Schamburger
Grant Thornton, United States

“Non-labour costs are being cut to the bone in the US as businesses seek to keep technical staff amid a ten per cent fall in revenues. The ‘clean tech/green tech’ part of the industry will see significant investment as companies and governments seek to reduce their carbon footprint. Overall revenues will fall throughout this year in the US, then start recovering in 2010, back to 2008 levels, and grow by 5/10 per cent in 2011. Software service is growing strongly even in 2009, and is expected to see a 40 per cent increase over 2008.”

Support of lender

- 66 per cent of PHBs in the technology sector classed lenders as very supportive or supportive, towards their business, globally this was slightly higher at 69 per cent
- similarly to businesses globally, 9 per cent of PHBs in the technology sector classed lenders as unsupportive or very unsupportive towards their business.

Figure 7: Level of support provided by lenders

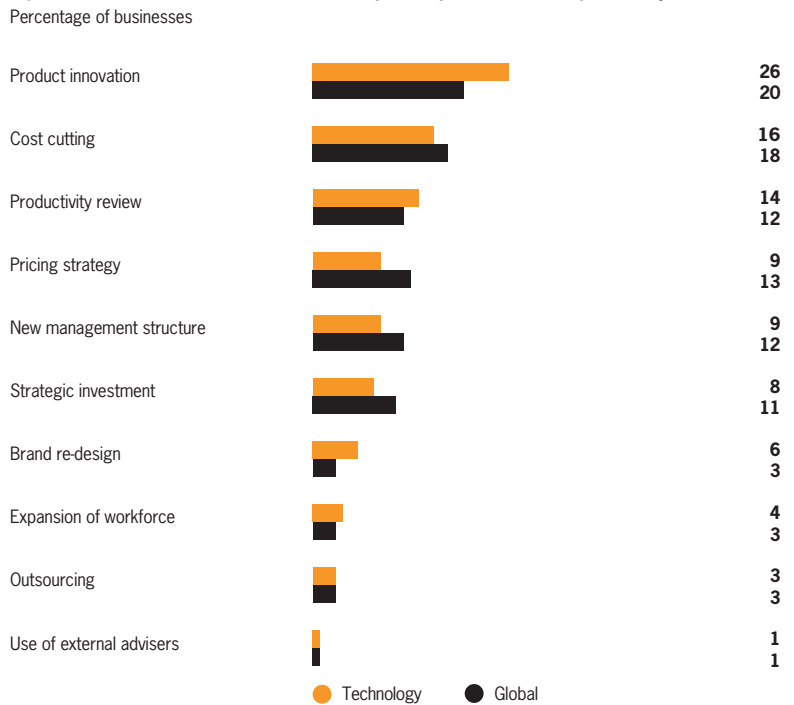


Source: Grant Thornton IBR 2009

Business planning

- over one quarter of PHBs in the technology sector cite product innovation as the most successful initiative put in place to increase profitability; this is above the global average (20 per cent)
- similarly to businesses globally, 16 per cent of PHBs in the technology sector ranked cost cutting as the most successful initiative put in place to increase profitability
- pricing strategy has been a less successful strategy for PHBs in the technology sector to increase profitability (9 per cent) compared with the global average (13 per cent).

Figure 8: Successful initiatives that have been put into place to increase profitability



Source: Grant Thornton IBR 2009

Outlook

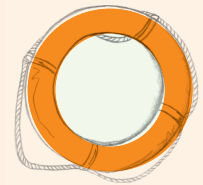
The technology sector is likely to endure a year of extreme weakness during 2009. The bleak near-term outlook and uncertainty about recovery prospects in 2010 will seriously constrain firms' willingness to invest in new technology. At the same time, pronounced turnover contraction as consumers retrench coupled with the ongoing credit crunch will severely limit funds available for capital spending.

Against this backdrop, capital spending on machinery and equipment will decline globally, with substantial falls of as much as ten per cent expected in several countries including the United States, Germany, Japan and the United Kingdom. Even in countries that avoid severe economic contraction, growth in capital spending will be negative or very weak. While a few economies in Asia – notably China and India – are likely to escape the worst of the global recession, growth prospects have worsened considerably in recent months. Economic slowdown, the collapse of a large number of businesses, and weaker turnover growth from domestic and export demand will limit technology investment to a much more modest pace than for many years.

Despite the prevailing gloom, there are some upsides. A few niche markets are escaping the worst of the recession; firms with strong balance sheets can take the opportunity to hire highly-skilled labour and make acquisitions at favourable prices; and there is widespread agreement that the technology sector will be among the first to emerge from the downturn. There is already evidence that some of the paralysis in the early stage market is beginning to ease. And looking further ahead, there are good prospects for the 'clean tech/green tech' sub-sector as companies and governments seek to reduce their carbon footprint; and for medical IT as insurance companies intensify efforts to reduce costs.

Tips for survival

- cut down on expenses and conserve cash
- consider partnerships in new projects to avoid seeking external funding
- reduce reliance on North America by considering new markets, such as Japan and Russia
- consider building presence in markets being boosted by government spending on IT.



Reasons to be cheerful

- some of the sector paralysis is loosening compared with a few months ago
- businesses in the right niche market will become the future star performers as the upturn takes hold
- if the balance sheet is strong, the present slump in the United States and the United Kingdom presents a good opportunity to look for highly-skilled labour or bargain-basement acquisitions
- the IT sector is likely to be one of the first to recover when the downswing ends.



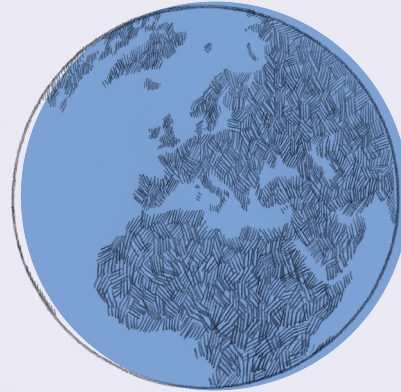
The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a sector often described as the 'engine' of the world's economy.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com

The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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