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Cautious optimism.

A global survey of CEOs in the Deloitte Technology Fast 500

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Foreword

Companies in technology, media and telecommunications (TMT) have recently endured the most challenging period in their history. But according to the CEOs of Deloitte's Technology Fast 500, those challenging times may soon be a thing of the past.

This report looks at the global economy from its leading edge, offering strategies and insights from some of the world's most dynamic and innovative companies. Our findings are based on a survey of more than 400 CEOs in the Deloitte Technology Fast 500 – a ranking of the world's fastest-growing technology companies. Companies in this elite group come from every corner of the globe – and span a wide range of segments of the TMT industry – but the one trait they all share is an extraordinary track record of growth and success.

The CEOs in our survey are very confident that the global economy will pick up and that their companies will achieve a high rate of growth over the next 12 months. Yet they are keeping their enthusiasm in check, taking deliberate steps to position their companies for growth while maintaining a constant focus on profitability. They are expanding their workforces – but emphasizing quality over quantity. They are tapping into the real power of the Internet – without all the hype. And they are basing their growth strategies on major opportunities within their own regional markets – instead of expanding abroad just for the sake of being global.

I hope you find this report useful, and that the insights it contains help you steer your own company toward new levels of profitable and sustainable growth.

Igal Brightman

Global Managing Partner
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Introduction

Which way is the global economy headed? Where are the biggest growth opportunities? What's the best way to capitalize on them? To find out, Deloitte's Global Technology, Media and Telecommunications industry group recently conducted a survey of CEOs in the Deloitte Technology Fast 500 – a ranking of the world's fastest-growing companies in technology, media and telecommunications.

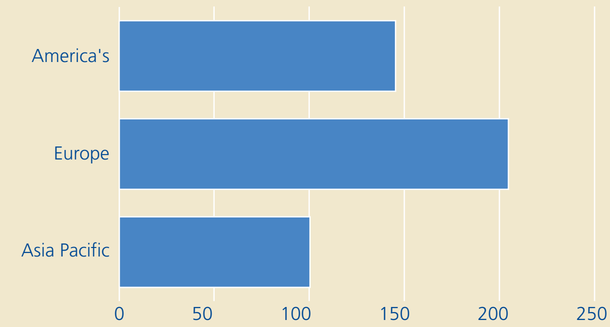
CEOs in the Deloitte Technology Fast 500 see a bright future for their companies – and for the global economy in general. They are confident about achieving a high-level of growth over the next twelve months and are backing up their words with actions. Deploying strategies that emphasize revenue growth. Focusing less attention on cash flow. Shifting their priorities from customer retention to customer acquisition. And stockpiling talent in key positions.

Although preparing for growth, the CEOs in our survey continue to focus on profitability. That's a big change from the late 1990's when many business leaders pursued a strategy of growth at any price. We'll see if companies can maintain this rational and controlled approach to growth once the economy hits full stride.

About the survey

Deloitte's Technology Fast 500 is a ranking of the world's fastest-growing technology companies. This elite group includes 500 companies in North America, 500 companies in Europe, and 250 companies in Asia Pacific. More than 400 CEOs from the Deloitte Technology Fast 500 participated in our global survey – with significant representation from every region. Our survey addressed the full range of business challenges from strategy and marketing to operations and finance. It also looked at the growth prospects for individual companies and the general economy – including an insider's assessment of the hottest growth opportunities over a one-year and three-year time horizon.

Survey participation in the region

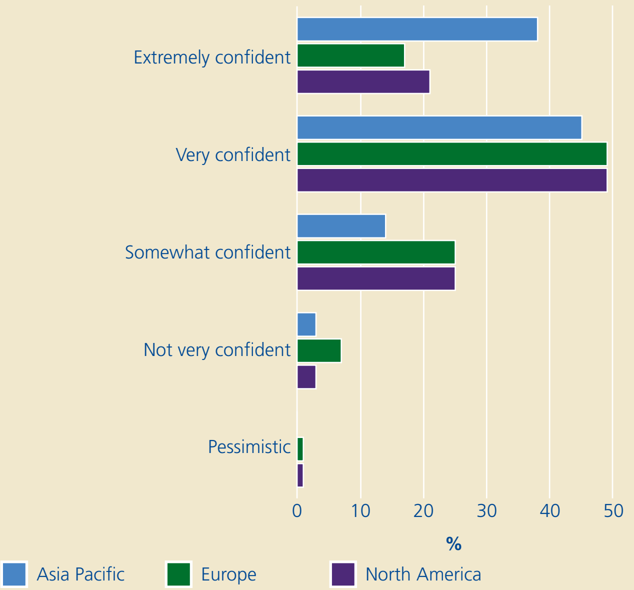


Ready for take-off

CEOs expect vigorous growth as the global economy strengthens

CEOs in every region are confident that their companies will achieve a high rate of growth over the next twelve months. Roughly 25 percent say they are extremely confident, while another 50 percent consider themselves very confident. Asia Pacific CEOs are the most optimistic – with nearly 40 percent in the extremely confident category – but Europe and North America are not far behind.

How confident are you that your company will sustain its high level of growth over the next 12 months?



The high degree of confidence that CEOs have in their own companies is undoubtedly linked to their confidence in the general economy. Last year, roughly 30 percent of our respondents cited the economy as the biggest challenge to sustained revenue growth. This year, that number was cut in half – down to less than 15 percent.

Walking the talk

Companies actively pursuing growth strategies

When it comes to confidence, our CEOs aren't just blowing smoke – they're taking action. Companies that used to obsess about cash flow and cost containment are now focusing on growth. This year, the top operational challenge is developing a strong marketing and sales strategy, with more than half of our CEOs putting sales growth at the top of their list of financial challenges. Only 3 percent cited cost containment as their biggest personal challenge. And in North America, only 25 percent of our respondents cited cash management as their biggest financial challenge – less than half of the 58 percent in last year's survey.

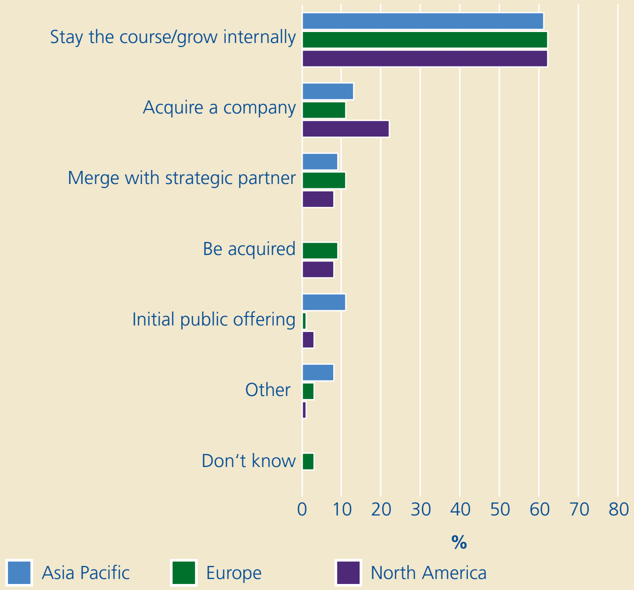
As part of their growth strategy, companies are working hard to shore up their workforce. In Europe and North America, roughly 25 percent of the CEOs in our survey rated recruiting and retention as their biggest operational challenge – second only to establishing a strong marketing and sales strategy.

Profitable, sustainable growth

The bottom line remains a top priority

Although high-growth companies are feeling confident, their approach to growth is more rational and balanced than it was during the late 1990s. CEOs in our survey consider sustained profitability their top personal challenge. And most expect the lion's share of growth to come from the existing business – rather than through mergers and acquisitions. That's a big shift from the land grab and "growth at any price" strategies that were prevalent during the last technology boom.

What do you consider the most likely scenario for your company within the next 12 months?



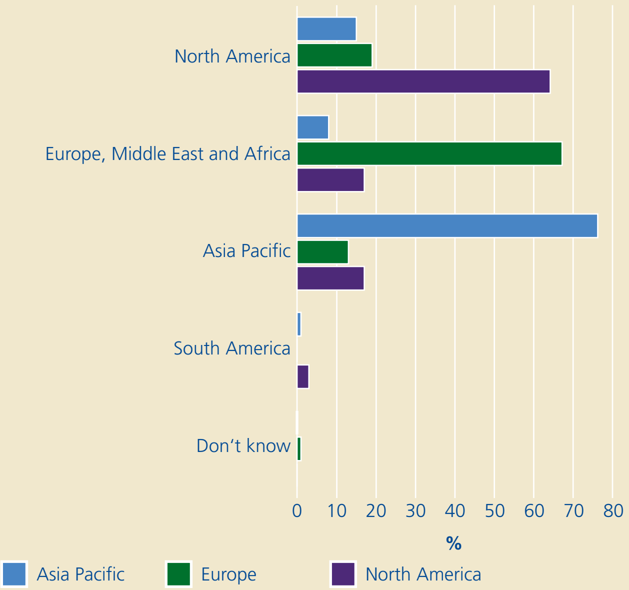
Nearly all of our CEOs expect to increase their company headcount over the next twelve months, but their plans are generally modest – with fewer than 20 percent expecting to add more than 50 new jobs. As in other areas, the survey responses reflect cautious optimism and a commitment to sustainable and profitable growth.

Taking care of business at home

Companies around the world targeting local markets first

While economists and other business gurus go on endlessly about the benefits of globalization, our Fast 500 CEOs plan to do just the opposite. Roughly two-thirds of our respondents see their own region as the most significant opportunity for growth – with Asia Pacific CEOs checking in at 76 percent. The United States continues to be the world's largest and most important market, but a presence in the U.S. is no longer considered an absolute prerequisite for growth and success. Companies in Asia Pacific and Europe are finding a wealth of opportunities closer to home, including continued growth of the Chinese market and the European Union's expansion from 15 to 25 countries.

Which of the following geographic markets represent opportunities for significant growth for your company over the next five years?

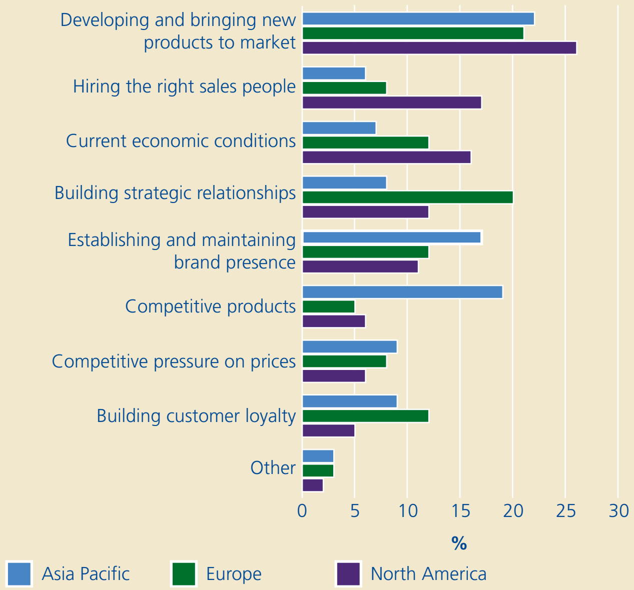


Building a better mousetrap

Fast-growth companies focusing on product development

Unique products and technologies provide the foundation for most high-growth businesses – and companies in the Deloitte Technology Fast 500 are no exception. In our survey, there is worldwide agreement that developing and bringing new products to market is the top marketing challenge. Beyond that, however, opinions diverge. In Asia Pacific, competitive products are cited as the next highest priority – underscoring the importance of product development for companies in that part of the world. In Europe, strategic relationships come in number two. And in North America, hiring the right sales people is the second-highest priority.

What is your biggest marketing challenge in sustaining revenue growth?



Internet without the hype

The Internet is quietly driving economic growth around the world

At the height of the dot-com frenzy, the Internet was hailed as one of the most important developments in the history of mankind, an innovation that would eliminate physical boundaries and fundamentally change the way we live and work. Of course, reality has fallen well short of those lofty promises – at least so far. But beneath all the hype, the Internet is proving to be a truly useful tool for streamlining business processes and fostering collaboration with customers and suppliers – boosting productivity and inspiring new Internet-related businesses and revenue streams.

More than half of the CEOs in our survey consider the Internet and e-business very important or extremely important. Only 10 percent dismiss it as not important. Of course, the real-world impact varies widely from one industry to the next. Some labor-intensive industries have been largely unaffected, while other industries that are more information-intensive have been completely transformed. The travel industry, for example, has undergone a dramatic shift – with some airlines reporting that 90 percent of their bookings are now done on-line.

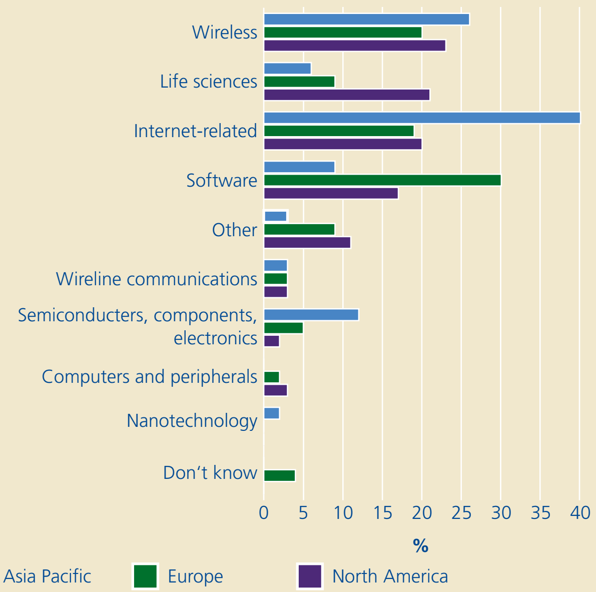
The Internet drives economic growth and innovation in two ways. First, it enables new business models and process improvements – helping companies in a variety of industries do business better, faster and cheaper. Second, it creates new markets and business opportunities for the Internet industry itself. Companies in the Deloitte Technology Fast 500 benefit both ways. 14.1% of the companies in our global ranking are Internet-related businesses, while countless others take advantage of Internet innovations to provide customers with products and services that are unique and differentiated.

Win, place or show

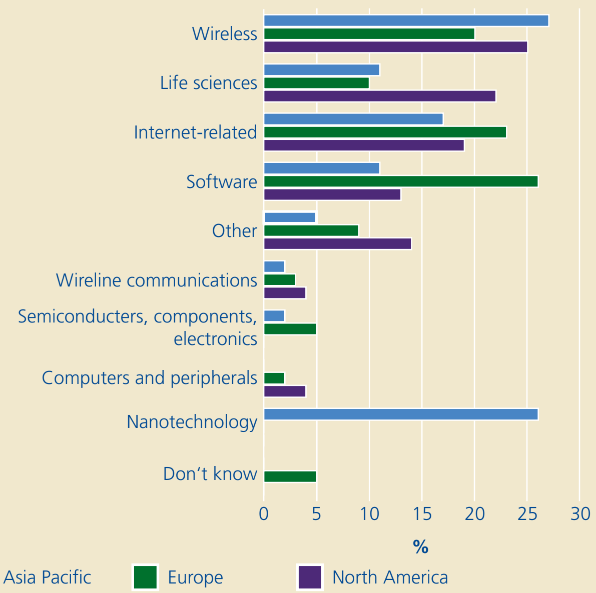
Hot growth picks from the world's hottest companies

CEOs in the Deloitte Technology Fast 500 owe much of their success to identifying and developing the right opportunities at the right time. We asked those proven visionaries to pick the opportunities with the greatest growth potential over the next twelve months – as well as the next three years. They consistently rated the Internet and wireless among the top three across all regions and timeframes.

Which industry segment has the greatest potential for growth over the next 12 months?



Which industry segment has the greatest potential for growth over the next three years?



In North America, wireless came out on top, followed by life sciences and the Internet – with nearly identical scores for both the near-term and long-term.

In Europe, the top three opportunities were also consistent across both timeframes, with software nabbing the top spot, followed by wireless and the Internet.

In Asia Pacific, the Internet is expected to dominate over the next twelve months, followed by wireless and semiconductors, components and electronics. Over the long-term, wireless rises to the top, with nanotechnology coming out of nowhere to capture the second spot and the Internet falling to third.

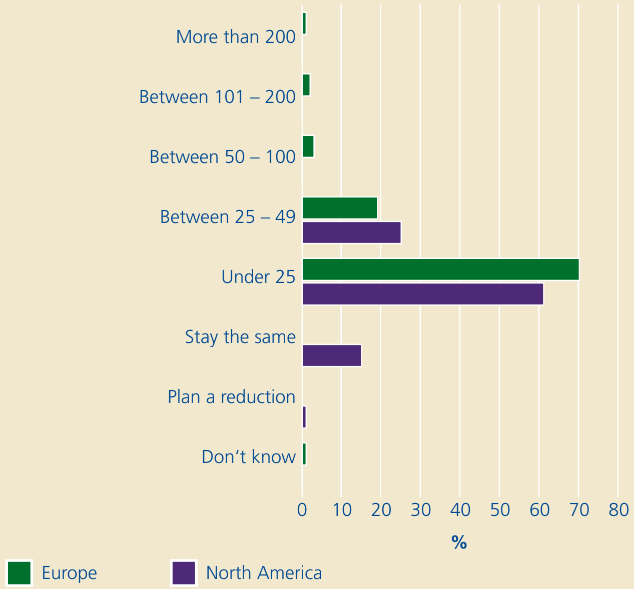
Competing for talent

Up-tick in hiring focuses on quality over quantity

Companies are starting to load up on talent, presumably in anticipation of strong growth and expansion. Although the CEOs in our survey cite profitability as their top priority, their next order of business is attracting and developing people. More than 20 percent say their biggest operational challenge is finding, hiring and retaining qualified employees. That's a significant increase from last year, especially in Europe which jumped from 10 percent to 23 percent. Leadership is particularly in demand, with CEOs saying their second biggest personal challenge is developing leaders and delegating responsibility.

Although hiring is on the upswing, it's nothing like the frenzy of the late 1990s – at least not yet. Nearly every company in our survey expects to increase its headcount, but projections are generally modest. Roughly 55 percent of our respondents expect to add fewer than 25 jobs, while another 25 percent expect to add no more than 50. Companies are focusing on quality rather than quantity – a conservative approach that reflects a strong commitment to sustainable and profitable growth.

How much will your total headcount increase in the next 12 months? (North America and Europe Only)

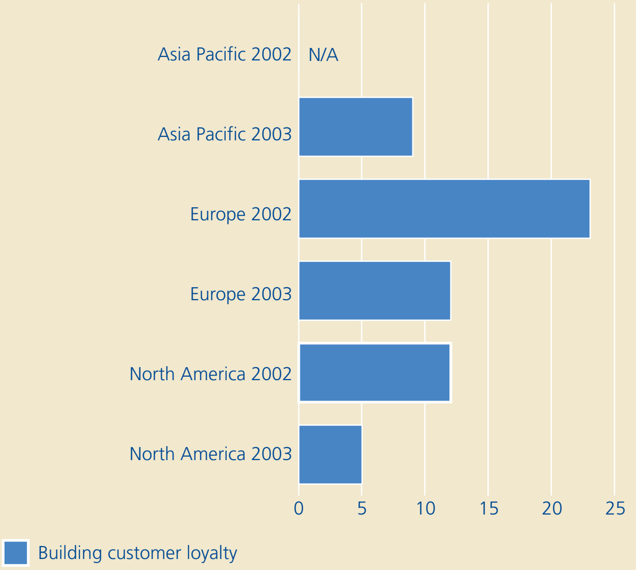


Focusing on new business

Customer loyalty moving to the backburner

Customer loyalty is a surprisingly low priority for the Deloitte Technology Fast 500. Fewer than 10 percent of the CEOs in our survey cited building customer loyalty as their biggest marketing challenge. That's about half as many as last year. In Europe, the number fell from 23 percent to 12 percent – with other regions experiencing a similar decline.

What is your biggest marketing challenge in sustaining revenue growth?



When the economy was slow, loyal customers were worth their weight in gold. But with business starting to pick up, fast-growth companies are shifting their focus to attracting new customers.

Sleeping giants

Companies in Europe and Asia Pacific face increasing competition from China and India

CEOs in Europe and Asia Pacific are very concerned about competition from China and India, citing it as the single biggest threat to economic recovery in the technology sector over the next twelve months. Companies in North America are less worried, focusing more on terrorism and the general economy.

Chinese companies capitalize on spectacularly low labor rates and increasingly sophisticated production capabilities to undercut manufacturers in developed countries – securing an ever-larger share of the world's technology production through foreign-owned factories and contract manufacturing. Meanwhile, in technology services, India finds itself as the dominant supplier for the recent off-shoring boom – offering relatively low wage rates, a highly educated work force, strong English-language skills and an established technology infrastructure.

Companies in developed countries can turn the threat from India and China into an opportunity by adjusting their strategies and business models to take advantage of contract manufacturing and off-shoring – offering their own customers superior products and services at lower prices – while retaining control of those business capabilities that provide differentiation in the marketplace. Meanwhile, companies in both developed and developing countries can capitalize on the economic growth in China and India by looking for new ways to satisfy those countries' ever-expanding needs. China is already the world's largest market for wireless communications and will soon be the largest Internet market as well – creating a wealth of potential opportunities for Internet companies and telecommunications providers.

Conclusion

Deloitte Technology Fast 500 CEOs around the world expect to see rapid growth over the next twelve months – and are positioning their companies accordingly. They are shifting their attention from cost containment and cash flow management to revenue growth and market expansion. Yet their enthusiasm is tempered by hard lessons from the recent past. They aren't looking to "get rich quick" through M&A – and they aren't putting a lot of effort into raising investment capital. That may all change when stock prices take off and the IPO flood gates re-open, but at least for now their main goal is profitable, organic growth that is controllable and sustainable.

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About Deloitte's Technology, Media & Telecommunications (TMT) Group

The TMT group is composed of professionals from Deloitte member firms who have a wealth of experience serving technology, media and telecommunications companies throughout the world in areas including software, semiconductors, cable, media and publishing, communication utilities, networking, wireless, computers peripherals, sports and entertainment. These specialists understand the challenges that these companies face throughout all stages of their business growth cycle and are committed to helping them succeed.

About the author

Paul Lee is Director, Technology, Media and Telecommunications at Deloitte Research. He is an expert on the global telecommunications market, and has also undertaken extensive research on the technology and media market. Paul has been widely quoted in business and trade media, whose remarks have been published in the Financial Times, the Economist, the Wall Street Journal, Total Telecom Magazine. Paul speaks frequently at industry seminars and business schools. He was previously a director of consulting, focused on the communications market, at Gartner.

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