

*The Deloitte Technology Fast 50 program is now in its ninth year in China. Since its launch over eight years ago, thousands of high tech and high growth companies have participated in the program, of which nearly 400 winning companies have become shining stars in Asia for their stunning growth. In the 2012 CEO Survey Report, we summarized eight laws of growth for hi-tech companies including building sustainable competitiveness that cannot be easily replicated and prioritizing a resource allocation system. In 2013, with a slowing economy in China, we have focused on the theme of “Offensive or Defensive”. It is our hope that by reviewing different choices made by the enterprises when confronting changes in the macro-environment and market conditions, we can find a solution for them.*

## Advance or Retreat: Navigating Through Times in Transition

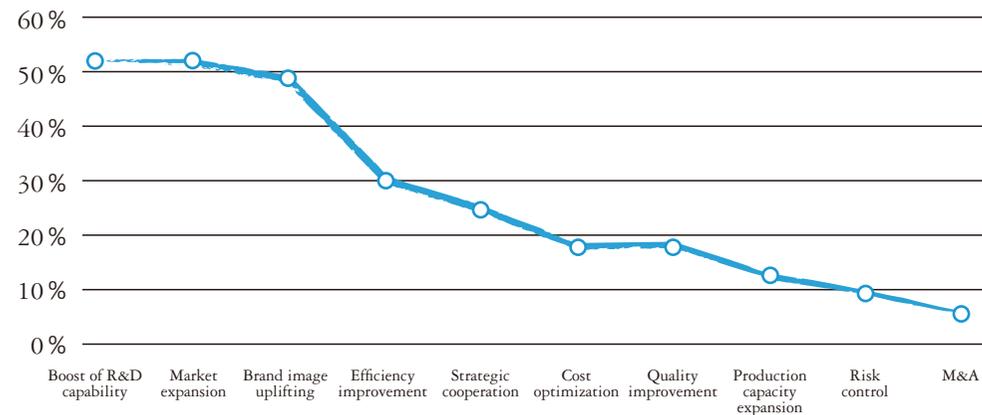
BY / William Chou and Iris Li

CEOs of Chinese hi-tech companies are facing an economic situation much more complex than ever. The average growth rate of enterprises nosedived from 996% in 2012 to 452% in 2013, indicating that China's hi-tech enterprises are still highly influenced by fluctuations in the macro-economy. To adopt an offensive or defensive strategy is a question requiring careful thought by CEOs. Based on a survey of CEOs from approximately 80 outstanding hi-tech companies, we have identified six characteristics required for the successful development of outstanding companies.

*I. Build a unique competitive edge to quickly acquire a monopolizing market dominance*

According to the result of the Deloitte Survey of CEOs, more than half the enterprises place top priority on market expansion, boost of R&D capability and brand enhancement (see Figure 1) despite the overall economic slowdown. Small businesses and large enterprises put top priority on market expansion, while SMEs make the boost of R&D capability the core of their strategic planning. Regardless of the sequence of these three drivers, the main objective of the enterprises remains building a unique competitive edge and quickly securing a market monopoly.

Figure 1 Strategic Focus

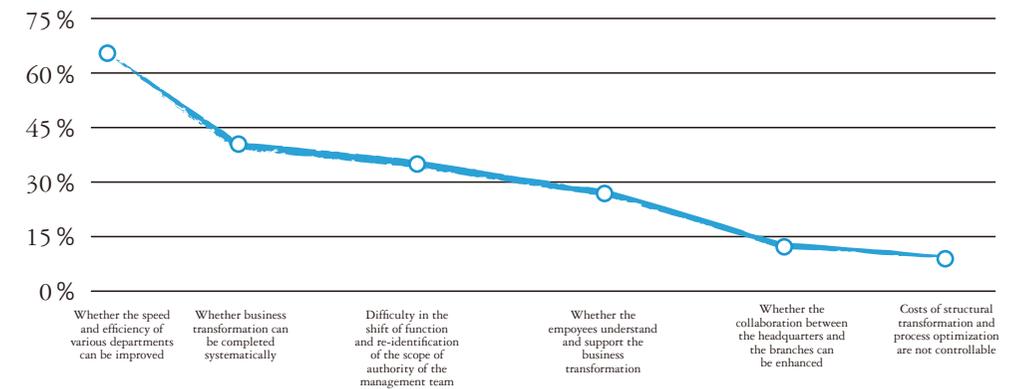


For hi-tech companies, market dominance is derived from unreplaceable advantages in technology or service and exceptional customer experience that contribute to their significant market share and a strong brand. A combination of these factors explains why people are willing to pay a higher price for such products. Among all the factors, the establishment of a good brand reputation is perhaps the most difficult and time-consuming one to realize. Moreover, for a hi-tech enterprise to gain a monopoly, a larger market does not mean more opportunities, and a market that is too small does not help either. With the growth of enterprises, the market should become increasingly mature, and thus more easily controllable.

*II. Ensuring the organizational structure keeps pace with change in strategies*

The rapid change and development in technological innovation and market demands require swift adjustments in the business of the hi-tech companies. The majority view of respondents (64% of CEOs) in the CEO Survey, put top priority on the improvement of organization efficiency. The second is the systematic completion of strategic transformation, and the third is the functional shift and difficulty in the re-scoping of the authority of the management team, as agreed by 42% and 36% of the respondent CEOs respectively (see Figure 2).

Figure 2 Main Challenges an Organization Faces in Case of Business Transformation



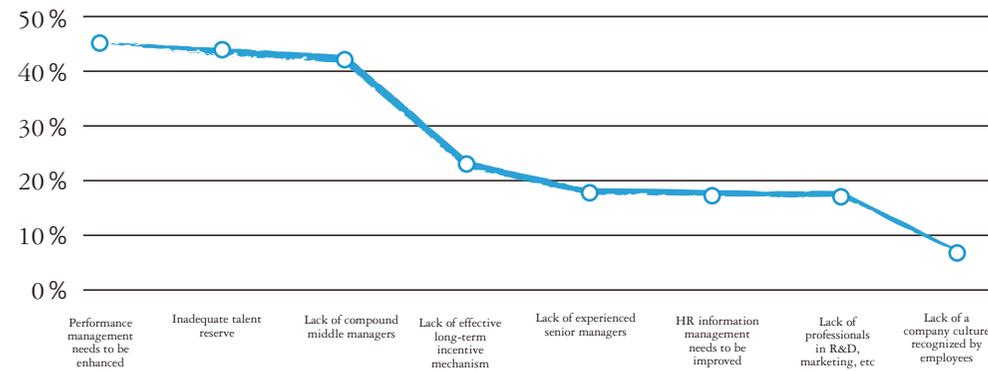
Since 2012, many large corporations at home and abroad have conducted structural adjustment. Some, such as Microsoft, Apple, Tencent, Alibaba and Sina, have undergone significant changes. The fast-changing market has made strategic transformation a common practice for hi-tech companies. However, the most critical point is that the organizational structure must go hand in hand with the enterprise's strategy. From another perspective, the goal of organizational restructuring is to integrate resources and get the best out of them. As the most direct reflection of strategic direction and focus, a cleverly-designed organizational structure will help the staff of a company be fully aware of what they are doing and what they need to do.

*III. Develop a healthy company culture to attract talent*

Labor costs are the biggest expense for item for hi-tech companies. When it comes to the human resources challenges, most of the enterprises agree that performance management, talent retention and lack of management talent are the top three. Only 8% of the CEO respondents believe that their biggest challenge is a lack of corporate culture and of awareness among employees. However, from the experiences of the successful companies, corporate culture is of vital importance to a company's development (see Figure 3).

Many entrepreneurial CEOs view the enterprise as being as valuable as their children which accounts for why they can throw themselves into work for 80 hours a week without feeling tired. It is not surprising that entrepreneurs should have such a passion, but how can employees be instilled with the same passion and be willing to grow with the company despite external temptations? That can only be achieved through the company culture. Especially for hi-tech companies, talent is the most valuable asset. Losing outstanding employees will hurt the company much more badly than it does to companies in other sectors.

Figure 3 Human Resources Challenges

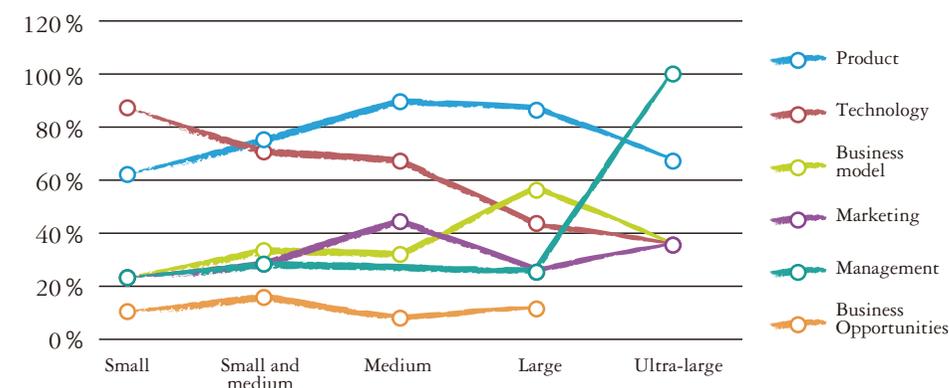


Most of the start-up and emerging enterprises see revenue and profit growth as their primary focus, seeing corporate culture as something to be concerned at such time as they have grown larger. But in fact, corporate culture, which is neither a high-end product nor a luxury, tends to be rooted in a company from the beginning of its establishment. As the core of corporate culture, a shared value helps attract and retain talent and serves as criteria for judging the development direction of a company. If all the staff of a company can work together toward the same goal, there is no doubt that the corporate culture is healthy and positive. In contrast, a company with a management approach based on centralization and prevention needs more time and efforts to establish stringent rules and regulations to ensure a high efficiency development.

IV. Keep innovating to get rid of the copying competitors

For ultra-large technology companies with over 10,000 employees, the focus of innovation is primarily on management, followed by products. However, 88% of small businesses with less than 100 employees put their emphasis on technological innovation (see Figure 4), while companies with 100 to 10,000 employees attach the greatest importance to product innovation.

Figure 4 Fields of Innovation for Companies of Different Sizes



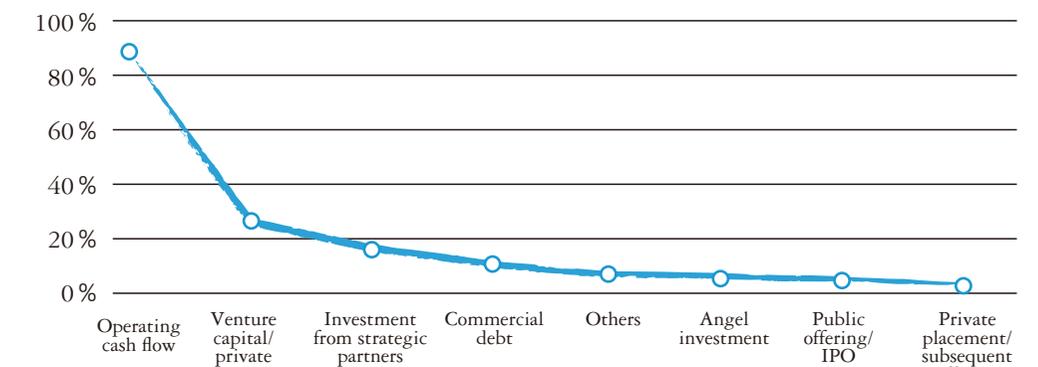
This explains why disruptive innovations tend to come out of small companies but companies with a relatively stable market position contribute more to sustaining innovations and often fail to develop new emerging markets.

It is critical for entrepreneurial enterprises to maintain continuous innovation and rapid decision-making. More emphasis should be given to disruptive innovations that can create a new market with the launch of new products or services instead of sustaining innovations that are to retain customers through improvements to existing products and services. Without a doubt, the key to a sustainable high growth is to constantly put forward new products via disruptive innovations so that even though competitors may be able to imitate one, they cannot imitate the full range of new products.

V. Take advantage of external funds to accelerate development

The results in recent years' surveys show little change in enterprise financing. The top funding source for the Deloitte Technology Fast 50 companies is internal financing (operating cash flow) (see Figure 5). External financing accounts for a smaller percentage. According to the results of this survey, both the commercial debt and public offering/IPO in external financing saw significant drops compared with the year of 2012. The growing proportion of internal financing indicates, on the one hand, that the current hi-tech companies are operated well and have significantly accumulated financial reserves. On the other hand, the economic downturn and the financial market imperfections in China have exerted some pressure on external financing for hi-tech companies, leading to their low use of capital markets. How to make feasible decisions and obtain funding through a reasonable approach under such a new environment is an issue that cannot be ignored by the hi-tech companies.

Figure 5 Source of Funding

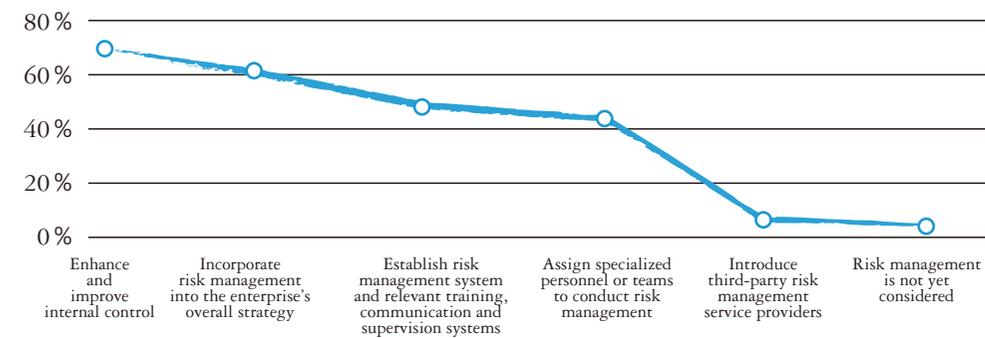


From another perspective, as the current technological entrepreneurship market offers more flexibility and significantly lowers the threshold, the power of capital is likely to play a key role here. Take two startup companies at the same starting line as an example. The one which leverages the power of capital may churn out better products in three to five years, seize a big market share in a shorter time as well as go public earlier to obtain more funding. Capital, just like an accelerator, enables the enterprises with correct business models and complete technical reserves to achieve their goals sooner. Meanwhile, it should be emphasized that a premature use of the capital may lead to failure due to an unproven business model or blemished technical products.

*VI. Enhance risk management and control to cope with uncertain market changes*

Risk management in most enterprises is driven not only by the external driver of meeting compliance requirements, but also by internal factors such as improving corporate governance, enhancing decision-making efficiency and competitiveness, trimming management costs and increasing corporate value and overall performance (see Figure 6).

Figure 6 Approaches for Risk Management Improvement in the Next Three Years



Due to fast changes in the market, hi-tech companies are facing growing uncertainties in innovation and development. A misjudgment may lead to a complete failure. Enterprises should take “offensive” measures by improving their risk management system so they can identify and assess risks in a reasonable way, confirm and quantify risks, establish a risk warning mechanism and choose the best way to gain higher benefits at lower risks based on their specific situations. However, before this, a series of preventive, protective and remedial measures should be formulated according to different risks to ensure early warning and control afterward. We anticipate that formulation and implementation of effective risk management plans will be an important task for high-tech and high-growth companies in the next few years.

**1. Chinese hi-tech companies' growth rate is slowing**

Despite the claim by most of the outstanding high-tech companies that macroeconomic slowdown has little impact on their business, the average growth rate of the Technology Fast 50 enterprises is only half of that in the previous year, revealing that the growth of the hi-tech companies is indeed declining. However, we have seen entrepreneurial enthusiasm in SMEs wave after wave. In the next ten years, large hi-tech enterprises may not be the biggest winners, while small and medium enterprises are more poised to demonstrate strong resilience and creativity, bringing a growing number of changes to the world.



*VII. The Outlook on the Development of China's Hi-tech Industry*

**2. Clean technology, new energy and biomedical industries will continue to see steady growth**

The Internet and e-commerce sectors which were red hot in recent years have lost some momentum this year. In terms of the number of winning companies, semiconductor and equipment enterprises experienced the highest increase. With regards to industry growth rate, the clean technology and new energy sector are ranked first, posting an average growth rate of 770%. Sectors such as semiconductor, equipment, biopharmaceutical and medical device also maintained a steady growth rate. The e-commerce, Internet, new media as well as software sectors with eye-catching performance in 2012 have seen a rapid decline in 2013 as the Internet industry transitions from a traditional Internet that has lost momentum to mobile Internet that has yet to demonstrate a sufficient driving force.

**3. Core competencies are still the key factor for driving steady enterprise growth**

66% of the CEOs agreed that, in the past two years, enterprises' focus on their core products and services has been the key factor for maintaining growth. For start-up hi-tech enterprises, premature diversification and loss of market focus are equally fatal. Eyeing the direction for new development opportunities is a better strategy after a market position has been secured to some extent. When asked about what will be driving their enterprise's development in the coming year, 71% of the CEOs believe that new hot spots and new opportunities are the biggest boosts. All in all, no matter how the market and competitors may change, stick to your own goals and focusing on your core competitiveness are the keys to growth.

**4. Marketing is becoming increasingly important for hi-tech companies**

The intense competition of the hi-tech industry is creating superior technologies and products every day. Companies are competing over the three key success factors of market, talent and technology. Those that have a clear product positioning, a reliable profitable business model and well-established sales channels will have a better chance of success in market expansion.

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