2018 Technology Industry Outlook
Navigating toward the future: Leveraging technology advances in the digital transformation era
Where do you see opportunities for growth in 2018?

Interview with Paul Sallomi
In an age of digital disruption, technology companies face increasing pressure both to improve time to market and ensure their offerings are best in class. According to Paul Sallomi, global technology, media, and telecommunications industry leader and the US and global technology sector leader, “Buy-Build-Partner” and M&A strategies provide a solution for gaining a competitive edge through key technologies such as cloud, cognitive computing, and data analytics.

Important innovations are making cloud computing even more valuable for companies as they seek to transform their operations and business models. These advances are helping organizations accelerate deployments of artificial intelligence and Internet of Things solutions, while also enabling deep, analytics-driven insights and accelerated software delivery.¹ By coupling advances in cognitive computing² with the availability of cloud platforms, companies gain more control over cost and enjoy greater ability to drive revenue—possibilities that simply weren’t affordable or attainable before. As companies get started with cognitive computing, cloud services can help them take advantage of the expertise of cloud providers that have invested billions in technology and talent.

For all these reasons, cloud adoption continues to build momentum: In 2018, cloud is expected to cross the 50 percent adoption milestone. Cloud applications, platforms, and services will continue to radically change the way enterprises compete for customers.³

Cloud is also driving another critical business model transformation as we enter 2018: flexible consumption (“pay as you go”). Thanks to the explosion of connected devices driven by the Internet of Things, more products are now suitable for consumption as a service than ever before. Benefits to customers include flexibility, convenience, and affordability, while vendors that offer consumption-based products, platforms, and services can enjoy lower unit costs from aggregation, along with enhanced customer relationships.

It has become critical for business-to-business and business-to-consumer companies to provide cloud-based, flexible consumption options to customers. The increasing commoditization of traditional infrastructure necessitates a migration up the value chain, from products to platforms, software, and services.

Technology leaders are getting the message: According to a recent Deloitte survey, 91 percent of CIOs have adopted flexible consumption capabilities, and over the next two to three years, 91 percent of adopters expect to allocate more than 10 percent of their IT spend to flexible consumption offerings.⁴

Although still in its infancy, cognitive computing is already helping companies enhance products and services, make better decisions, and improve operations. Cloud services make cognitive computing accessible and scalable to companies, and may be the way cognitive reaches broad adoption. Cognitive computing encompasses machine learning, which is helping companies find patterns (and anomalies) in large data sets, including qualitative data.

In a recent Deloitte survey, 83 percent of respondents said their companies have already achieved either moderate (53 percent) or substantial (30 percent) benefits from their work with these cognitive technologies. In addition, 28 percent see new ways of working arising in which cognitive technologies augment people’s capabilities, while another 28 percent anticipate many new jobs created as a result of the adoption of cognitive technologies.⁵

Another cloud-driven trend is user-friendly tools, APIs, and apps. In the future, fewer people will need to know how various technologies actually work.

Of course, because data is at the core of everything we’ve discussed, companies must learn to take full advantage of it to derive insights that move their businesses forward. Many companies continue to be hindered by data silos that prevent effective analysis and insights. However, we’re starting to see the breakdown of these silos, along with the emergence of tools that excel at connecting disparate information. As a result, companies are getting better at extracting key business insights. Cognitive technologies are assisting in this process by taking information from various data silos and combining it in ways that previously would have required expensive ERP software or similar solutions.

Companies are also starting to realize that to capture business insights, you don’t start with data—you begin by identifying a specific business problem and the resources needed to resolve it. In some cases, the solution may require specific expertise—including data scientists—that companies don’t necessarily have. However, the key is to start asking the right questions to pinpoint the best use cases to emulate.
“Buy or build?” is a familiar concept to most senior executives in the technology marketplace. However, the complexities and relentless pace of digital transformation have altered this concept: It’s now buy, build—or partner.

This is an important change—and an essential strategy for technology companies in the coming year. As more and more capabilities move to the cloud, companies are collaborating like never before to match the end-to-end offerings of their competition. Hardly a week goes by that we don’t hear about would-be competitors collaborating. These companies are using “coopetition” (cooperative competition) essentially to pool their resources for mutual gain—in areas where they don’t compete directly.

The concept of “coopetition” is not new—it was coined by Adam Brandenburger and Barry Nalebuff in their best-selling book, *Co-opetition*, initially published in 1996. The authors’ research led them to conclude that most businesses succeed when other businesses succeed.6

The complexity involved in designing today’s technology platforms requires deep expertise in a wide array of areas. The rising number of technology partnerships is an acknowledgment that to compete more effectively, developing end-to-end solutions can be less appealing (and less attainable) than collaborating. These partnerships are driven by a need for comprehensive solutions that demand best-in-breed assets from multiple companies.

Technology partnerships create many complexities: How do you contract with the customer? Who gets paid for what? How do you structure deals? How do you make the process easy? Of course, customer experience is paramount—companies must effectively work through the complexities of partnered solutions without compromising on customer value and experience. This dynamic is definitely going to challenge a lot of enterprises in 2018. The ones that master it will capture market share.

Another strategy for technology companies in 2018 will be mergers, acquisitions, and divestitures, which can provide a fast track to fending off competitors from both inside and outside one’s industry. Technology companies face tough choices about harnessing the capabilities needed to become best in breed. When organizations can’t scale their investments to reach that level, we’re seeing spinoffs into areas where they can acquire the assets needed to gain a competitive edge.

Technology companies also need to consider mergers and acquisitions when they need to enter a high-growth market or to obtain scarce and strategically important talent. Divestitures, on the other hand, are an essential tool when companies need to focus on higher-growth areas and shed businesses where they are lagging competitors, or that no longer fit their future strategy.

The M&A strategy has been especially evident in the technology, media, and telecommunications sector, which in the first half of 2017 recorded 1,482 M&A transactions globally, worth a total of $175.9 billion. The sector’s deal count during that period was exceeded by that of only one other industry (energy, mining, and utilities).7

In addition to pursuing acquisitions, major tech companies have actively invested in artificial intelligence startups through their venture arms.
What should businesses be mindful of as they plan for growth?

While the cloud and mobile devices are essential components of any company’s digital transformation, they do present a significant cybersecurity risk. In fact, according to a recent report, 27 percent of connected third-party cloud applications introduced by employees into enterprise environments in 2016 posed a high security risk. Another study revealed that the information industry experienced 1,000 cybersecurity breaches during 2016, with an incident rate of over 1.5 percent. On average, US companies in the information industry suffered $1.7 million in lost business per data breach.

To help minimize cybersecurity risk, many enterprises are already using multiple security vendors and products in their environments. New technologies are also beginning to play an increasingly important cybersecurity role. For example, AI-powered bots are helping companies mitigate cyber risks. The robotic process automation (RPA) capabilities of bots enable cyber automation, including autonomous processing of vast sources of threat intelligence.

As they plan for growth in 2018, companies must also be mindful of the ever-changing regulatory environment. Organizations building cloud solutions, for example, need to comply with regulations pertaining to data sovereignty. The challenge is that data must be managed and controlled according to regulations that typically vary by country. As a result, data sovereignty regulations have emerged as one of the biggest barriers to cloud adoption.

Technology companies face a host of other regulatory challenges, ranging from privacy and security to taxation. The power of the regulators is undeniable—their impact literally can be catalytic or catastrophic for businesses. To navigate this difficult environment, companies must keep their fingers on the pulse of regulatory change.

Of course, this is easier said than done. The regulatory environment is highly complex, with different regulators at the national, state, regional, and city levels. Further complicating matters is that some enterprises conduct business in over 100 different countries—each with its own laws. Regulatory changes have the potential to drastically alter a company’s competitive position.

Moving forward, the most successful companies will be those that have the ability to “see around corners”—not only regarding regulatory changes, but also in recognizing potential industry disrupters. In today’s fast-changing technology marketplace, it has become imperative to recognize where new, disruptive technologies are emerging. Increasingly, this will involve looking beyond one’s own industry—the most dangerous disrupters often lurk in industries far different from those that they could eventually impact.
Endnotes


9. In NAICS classification (code No. 51), “Information sector includes companies in the software, broadcasting, media, internet and telecommunications, and data processing industries.”

10. The research paper describes incident rate as the frequency of cyber-attacks. The incident rate is calculated as the number of cyber incidents divided by the total number of firms within that industry.


12. Ibid.
