ChainLink Research

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Business Priorities 2013

Research Results

Volatility—
the New Normal

Going beyond politics and headlines, many business professionals, while acknowledging the turbulent times, actually see silver linings—and maybe some gold, too. Our research indicates that many companies view volatility as a business opportunity. Or if not so golden a view, they at least see volatility as a part of the landscape and plan for it. Less than a third of our respondents were uncertain about the future.

And with consumer spending forecasts looking optimistic for 2013, there is good reason to assume a climate that is 'manageable.'

Of major concern for enterprise leaders is focus on people: employee skills and talent, and engaging with customers to improve business. And companies that create a mix of investments and optimization are faring better. Many strategies are paying off.

Volatility may be the norm, but within this climate companies are applying a variety of strategies to weather the storms or even thrive.

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Response to Volatile Times

Companies are remaining amazingly resilient in these times. Eschewing the attitudes that 'hope is a strategy' and 'rising tides float all boats,' companies are navigating their own way forward with a blend of strategies and realism. Geographically, the picture naturally is quite different in the US than in the EU. We continue to emphasize this point, since there is a real difference in the US.[1] In our early 2013 kick off publication, we highlighted some major trends, so you can read about the workforce shortage and the changing business landscape there.[2] The US may have slow growth, but there is growth. And some sectors are pretty perky. The EU is basically flat in their core markets and has some shrinkage in others, causing overall malaise. Asia roars on! With the Chinese Year of the Snake[3]—meaning unpredictable, unforgiving, but fast moving—China is set for more globalization of their brands, and will not just serve as a manufacturer of others. Within their own nation they have the challenges to confront, but that won't make them take their eye off growth. India and the other BRICs still struggle with internal politics and infrastructures which challenge their supply chains.

We live with volatility and often embrace it. That mind shift is reflected in Figure 1. Though challenges remain, companies are moving on.

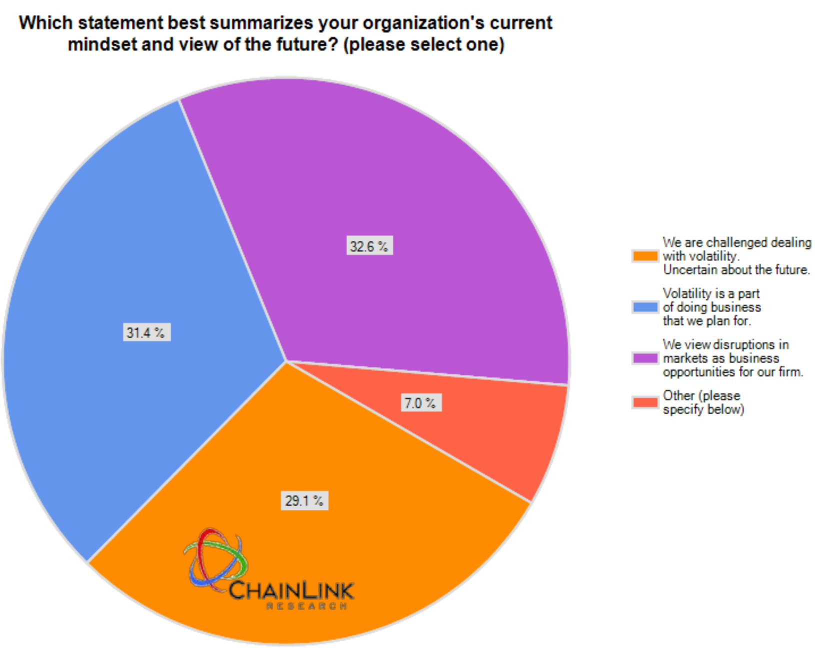


Figure 1: Mindset

In *Roaring Out of the Recession*,[4] several Harvard professors[5] researched what companies do to survive and thrive in recessions: those strategies that work and those that do not. Their research did not just

[1] The Fed's policy of keeping the dollar a bit lower to encourage international exports for US manufacturers
[2] http://www.clresearch.com/research/detail.cfm?guid=0202802D-3048-79ED-9939-3AB8C248146D
[3] Meaning of the Zodiac Year of the Snake: The Snake is wise. The Snake is unforgiving. Understand this to prepare for the Year of the Snake. The Snake is the most complex force in the 12-year zodiac cycle and its Year presents as "unsettled," at best. While history tells us that the Snake Year has never been tranquil, it can be well spent in reflection, planning, and in contemplation of long-sought solutions. – Source: the Houson.com
[4] Ranjay Gulati, Nitin Nohria and Franz Wohlgezongen, *Roaring Out of the Recession*, Harvard Business Review
[5] Ranjay Gulati is author of *Reorganize for Resilience*; Nitin Nohria is co-author of *Handbook of Leadership Theory and Practice*

cover this recent downturn, but several recessions and depressions. They tracked 4700 companies and their strategies and determined that, for example, companies that pursued aggressive cost cutting (were prevention focused) or the 'double downers' who had irrational exuberance (were promotion focused) did not fare as well as the companies that had a more nuanced approach. These more strategic approaches included a mix of investments in assets, people, and market development, as well as optimization (cost cutting, process efficiencies). Each company focused on the smart places to invest; they did not make across-the-board investments. I encourage you to read this research, since it could impact your thinking about the way forward.

Some of our survey respondents contributed interesting comments about the mindset of their companies: *Lead the market and create opportunities with a clear business strategy and long-term visionary approach.* A more tempered, yet sanguine, *our market includes multiple, different industries and thus disruption in one market is usually balanced out by another. Our mindset and view of the future is for growth in our market.* And in keeping with that growth mindset, most respondents are still focusing on growth and sales, but probably not focusing as much on new markets.

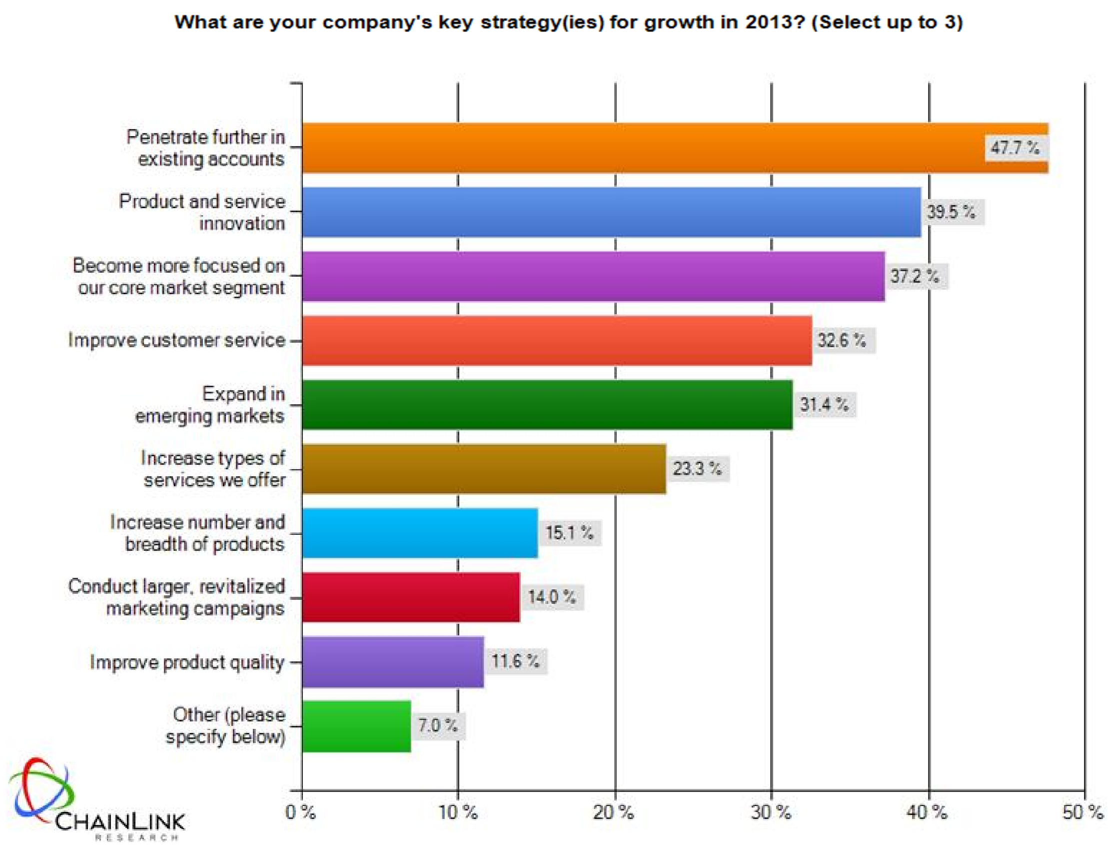


Figure 2: Strategies for Growth

Geography affects growth strategies; decisions are based on the economic conditions in those geographies. For example, businesses trading in the EU have to 'hold their own' through this downturn. In fact, many businesses actually said that if there was a break-up of the EU, it would create business opportunities for them (though this is not expected). Obviously, anyone outside a trading block would like it to be easier to 'get in.'

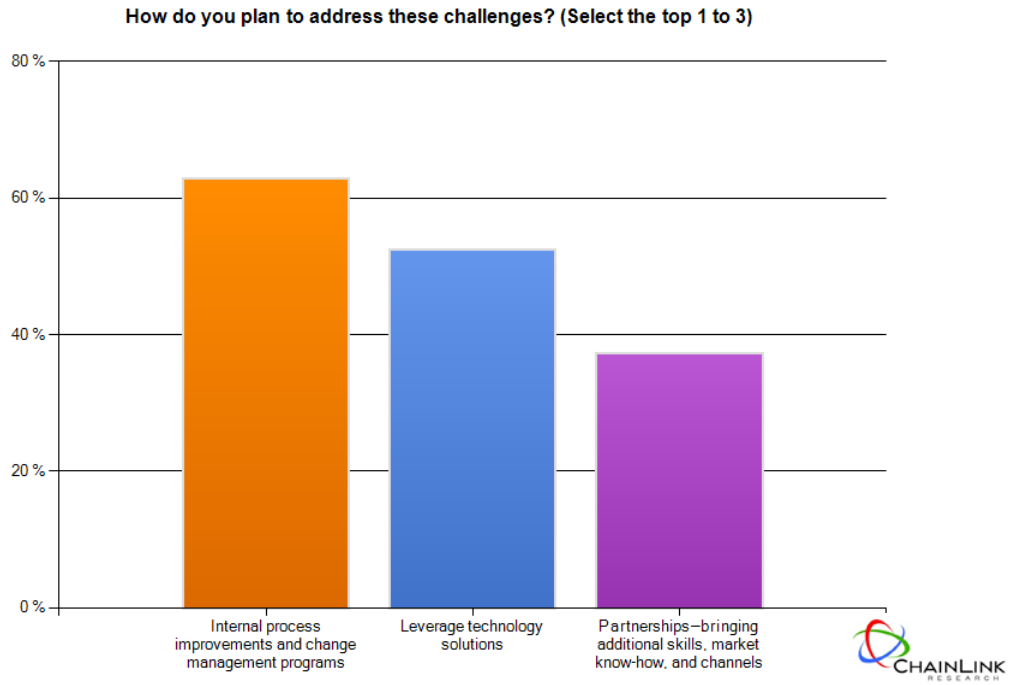


Figure 3: Top Approaches to Address Challenges

Within China there has been a flattening of consumer spending to *some* degree, according to the China Daily Mail (although it's still a great market), as the Chinese begin to think about a slowing economy and begin saving more. (The US could take a page from them.)

We found this comment on the issue of growth strategies exciting: *Introduce to the market new paradigms in technology and business innovation.* (Looking forward to seeing that!) And how are they going to accomplish it? With a combination of internal changes and leveraging technology.

It is interesting, this introspective approach. There is some alignment between the top priorities and strategies: the focus on *existing accounts* and making *internal changes*. This result does seem at odds with the growth mantra of selling more. However, many companies seem to be focused on internal optimization approaches: focusing on current customers, partners, and team strengthening. Certainly, we like that there is focus on education and skills. In various surveys by Fortune and others, CEOs' major concerns were acquiring talent and retaining a skilled work force. They recognize that talent is the engine for growth. (After all, who are the entrepreneurs?) This is a theme we have seen persist from year to year in our research. As mentioned in our Trends 2013, job openings do exist in growth and innovation sectors such as high-tech, life sciences, energy, supply chain services; and other internal functions that require depth of skill such as IT, supply chain, analytics experts, web design/development, and, of course, product design and innovation. For start-ups, there are plenty of investors prowling the markets looking for those sparks of innovation; and many great careers and new businesses emerge from there.

A major, consistent theme across all-sized companies and different geographies was their plan to invest in technology.

Technology Growth

Investment motivators are really important to understand—often more so than a specific technology. So first, let's look at the current motivators for technology purchases (Figure 4).

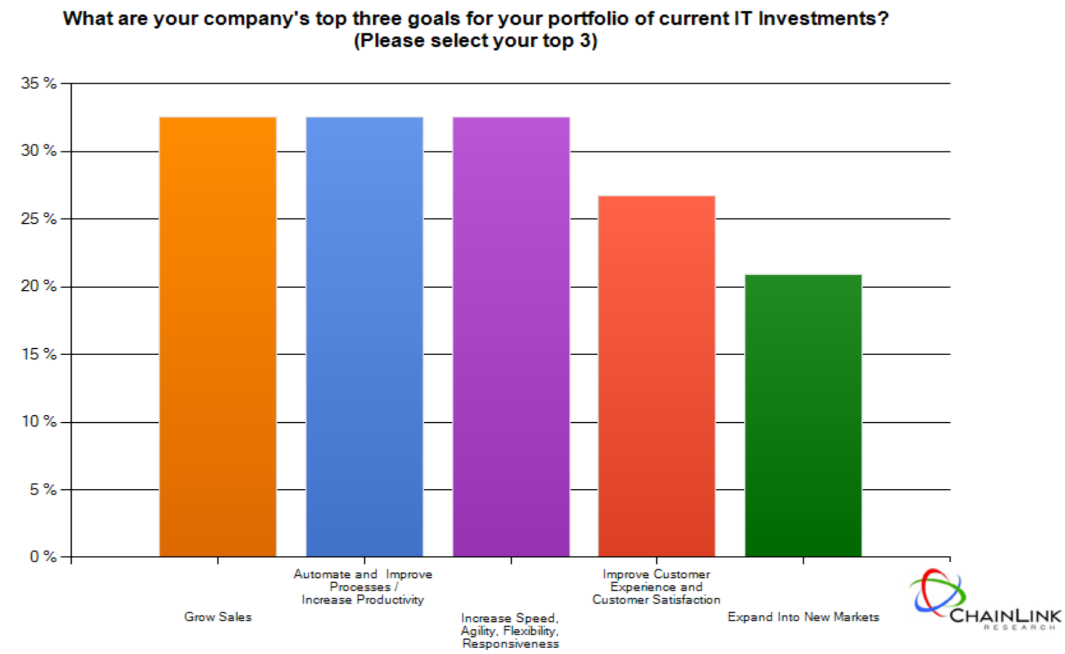


Figure 4: Top Goals for Technology Investments

The motivators provide insights into the kinds of applications and value propositions that users will be looking for from their tech providers. Also, the technology choices across business sectors are interesting—service-oriented businesses are looking more towards cloud infrastructure, tools, and integration. That makes sense, since they integrate processes: transportation, and channel management, etc.

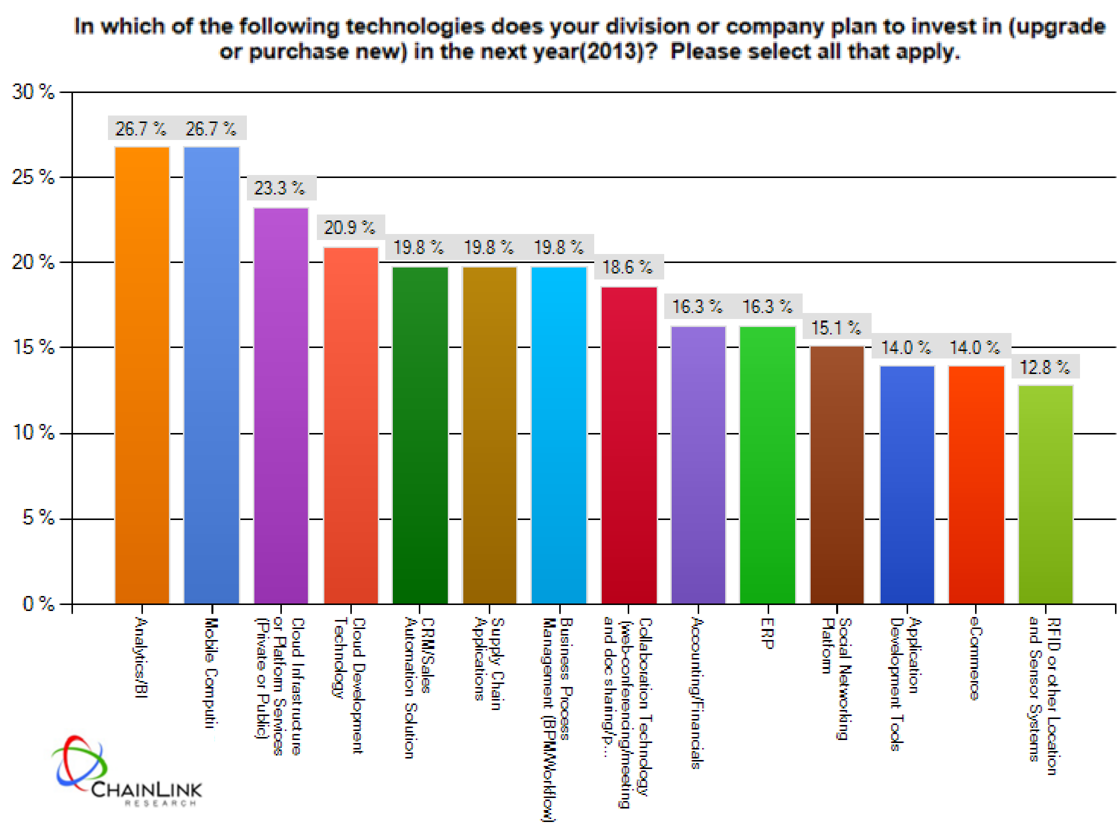
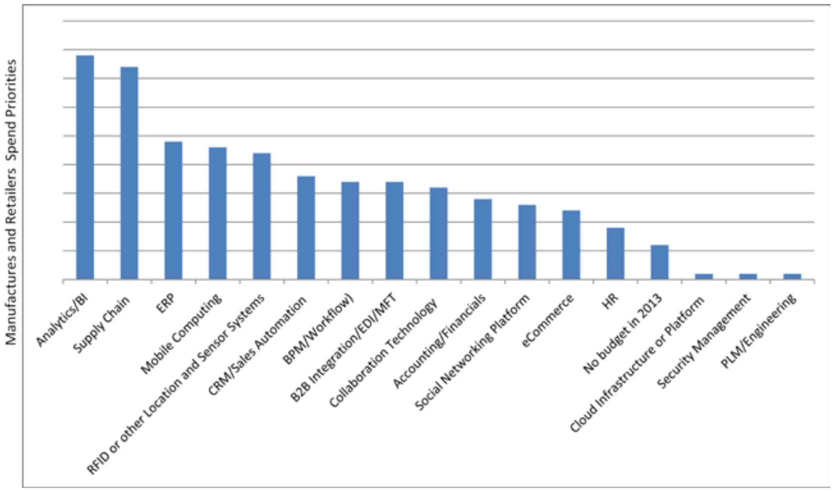


Figure 5: Investments across Sectors

When we looked at manufacturers and retailers, a different picture emerged. They were more focused on applications, B2B, and analytics.



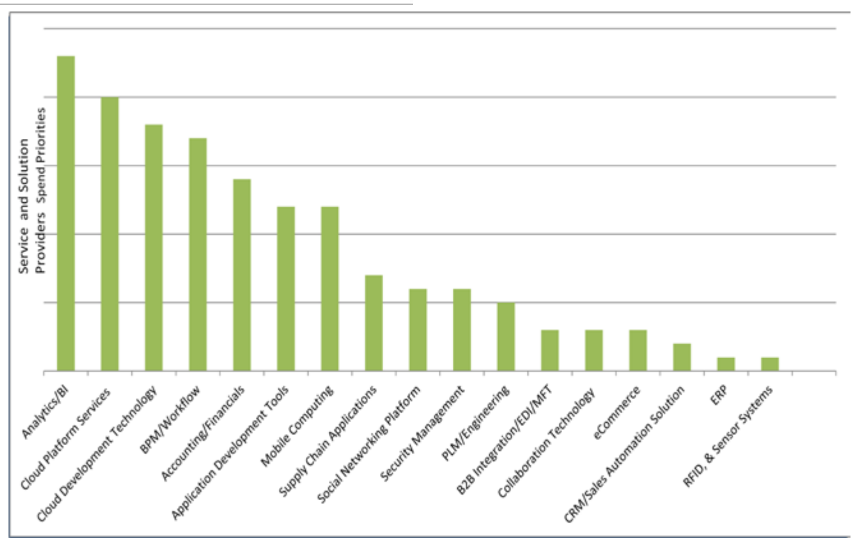


Figure 6: Technology Forecasts Vary by Sector and Business

And everybody wants mobile! Mobile is the focus of a lot of investment by solution providers who provide B2B software with a universal, multiple-platform approach. The UI should be appropriate to the platform, but look harmonious between them. In addition, tablet sales were a bright spot in business sales last year—cheaper than a laptop, bigger than a phone—to provide integrated mobile computing. Yet in 2013, some of the attention has shifted to smart phones, especially in businesses that sell to consumers. Here, their goal is to support their omni-channel models.

In addition, the cost of mobile is going down; connectivity is getting better; and those apps—oh those apps—are so cheap!

Platform Choices

When it comes to the platform choice, it is not an 'either/or,' but an 'and.' Although on premise is still important to about half the market, the other half is looking to cloud in some form.

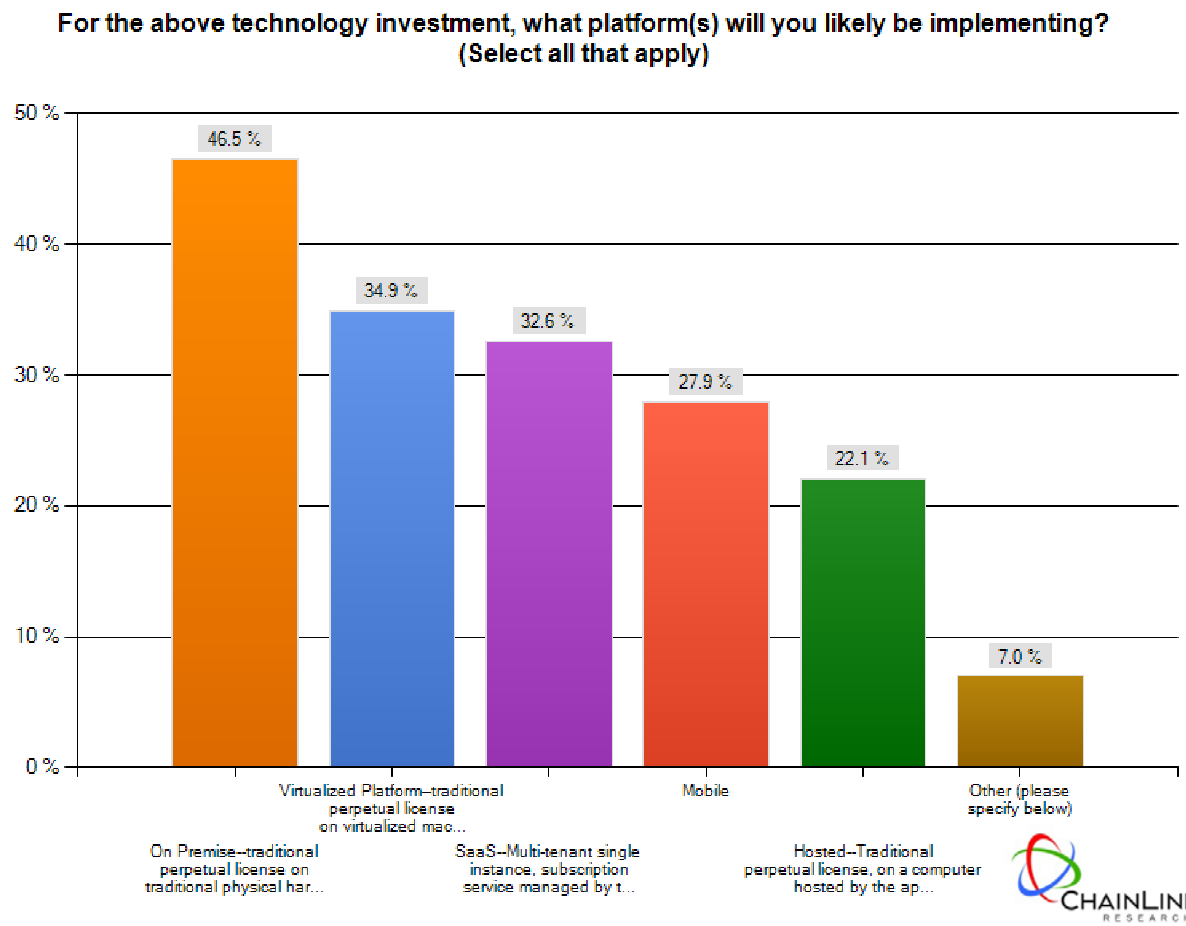


Figure 7: Platform Choices

One of the important considerations here—especially in supply chain—is reliance on the service provider to provide and manage the technology. Although ChainLink breaks out the SaaS/multi-tenant option from hosted/perpetual license, all these are *externalized* in the cloud. Each year we have seen more growth in cloud options. In fact, we challenged other market forecasters who had more conservative—or overly exuberant—claims about the growth of cloud. Now that there is mainstream adoption of cloud technologies, many technology sectors are experiencing increased growth.

Conclusion—Alignment of Strategy

When we correlated the data, an important pattern emerged. Although we would characterize the general position of the majority surveyed, at this point in the year, as having a somewhat defensive posture (do more work with existing accounts, save money, improve internal efficiencies), there was a group that was forging ahead with growth (seeking new markets, new products). (See Figure 8.) Investments are aligned with whether a company's focus is on the 'protection/survival' approach, or is focused on thriving and promoting their brand.

Figure 8: Alignment of Strategy—Source: ChainLink Research

We noted that across-the-board investment in technology was consistent except for a small group—less than 5% (the despondent respondents)—who are feeling pretty constricted by the current climate.

So except in those companies feeling constricted and restricted, there are investments being made. If we look at the consumer markets that include things like automotive and home construction projects, the US expects 3.4% growth in 2013. And Asian forecasts for both northern Asia (China 13% to 14%) and Southern Asia easily sail over 10%. These figures represent a majority percentage of the consumer spending power of the world.[6] This gets reflected back into corporate spending. Even though there has been only so-so growth for goods-based companies, large companies have hoarded cash in the last few years.

Forecasts show that technology growth will hug the coastline of corporate growth at around 3% for 2013. But certain sectors will fare much better. In the software sectors (that ChainLink tracks), cloud-based solutions will claim a big growth number; supply chain and retailer sectors will be over 6.7% in 2013.

This means that there is money to invest in technology (and other endeavors). But *seller* beware. Buyers are looking for different kinds of deals than in the past—stronger ROI, more pay-as-you-go, more 'free pilots.' These factors, plus a crowded competitive market in most tech sectors means the cost or effort of sales for technology companies will continue to rise, although ultimately, the market is there to be had.

It's a buyer's market, but buyers should not dawdle. Since implementation skills in the major enterprise software companies are at a premium, it means that you'll compete for the most knowledgeable resources for your projects. As strategic investments in transformative programs set companies apart from their competitors, those resources become critical to *your* success.

[6] EU still expects over 10% unemployment for 2013 which will keep tech spending bleak, certainly through 2013.

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