Grant Thornton

Technology sector playbook

2020

Key industry trends

Spotlight on technology

New technology breakthroughs, further shifting consumer consumption patterns and prevalence of big data and data analytics have led to redefining business models, against a changing regulatory environment and growing age of globalisation. Businesses need to re-think their strategies to grow locally, regionally or globally including their portfolio mix of products and services.

Key trends in the sector include the convergence between technology players and other industry players; the development of artificial intelligence solutions by technology players through partnerships and M&As; the growth of the 5G network; investments in cloud computing to manage big data and network capacity; increasing importance of additive manufacturing; and increasing demand for cybersecurity solutions.

Industry players within the technology sector are witnessing convergence within the broader TMT industry due to technology innovations, architectural changes and growing internet connectivity. As technology companies expand their products and revenue mix by adding digital advertising, media, entertainment and infrastructure product revenue, these new revenue sources are causing tech companies to adjust their original business models.

Evolution of business and operating models

Overall rapid growth in the sector, ongoing M&A, and changing international regulations require tech businesses to regularly revisit their operating models to ensure they can keep pace by effectively balancing growth, profitability and compliance.

Technology companies are also seeing their operations evolve with new business models emerging as companies shift to “as a service” from on “prem license” models. This change effects every stage in the business value chain of a technology company and includes changes to your people, your enterprise and client-facing technologies, as well as your talent management processes.

Regulatory trends

The trade war between the USA and China has resulted in increased regulations, such as punitive tariffs on goods imported from China. The US is considering reducing regulatory barriers in its domestic technology industry and China has declared the use of unauthorised VPN for accessing social sites as Twitter, Facebook and YouTube as illegal. Despite the recent preliminary deal signed by the two parties, the eventual outcome remains no clearer.

There have been significant changes to tax regulations in many domestic markets and internationally, which affect technology businesses along with other industries. The challenges associated with taxing the digital economy, is a key issue right now. Understanding the future of digital tax is relevant to a number of jurisdictions around the world as regulations are being introduced to try to collect a 'fairer share' of taxes based on location of user base. All OECD member countries met in October 2019 to propose what shape taxing the digital economy will take, with the intention to agree the international tax rules by the end of 2020.

Other regulatory developments include Europe where increased data protection and confidentiality rules were implemented and European Parliament adopted net neutrality rules for the open internet in Europe. In the Middle East, Dubai announced the adoption of data based Information and Communications Technology (ICT) across all its government, companies and infrastructure projects under the Smart Dubai 2021 strategy.


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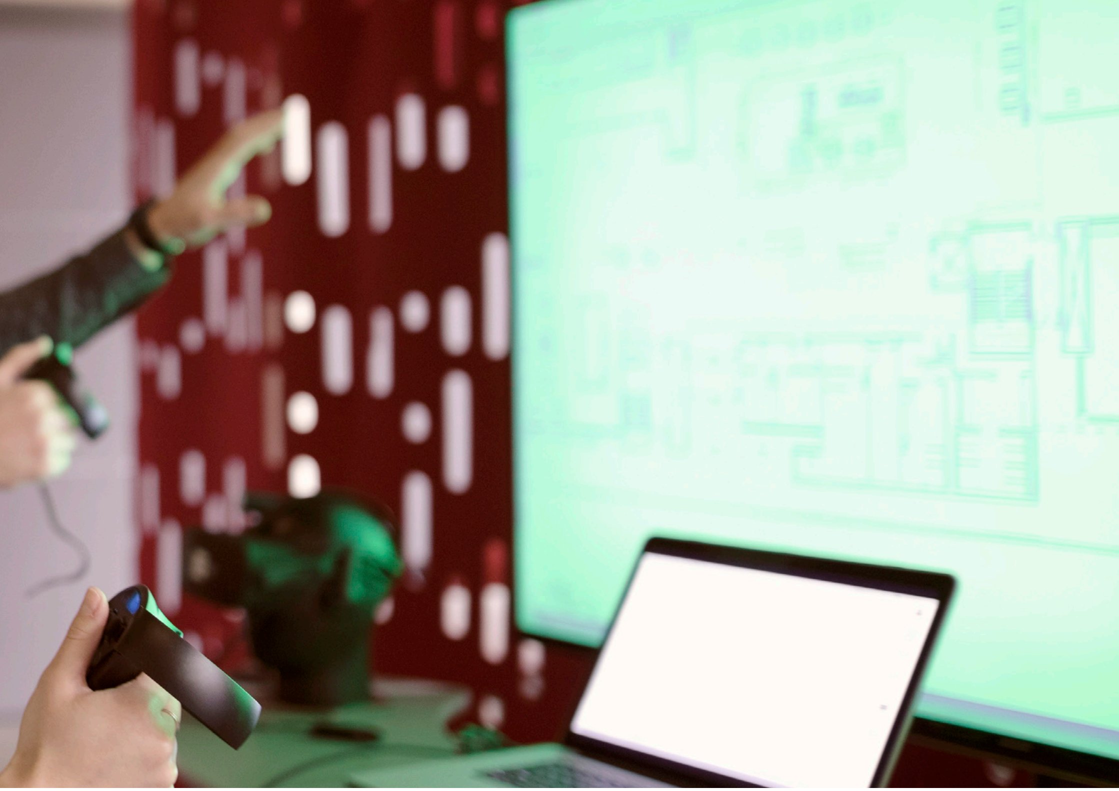
Our technology proposition at Grant Thornton

At Grant Thornton we help dynamic businesses around the world adapt to this rapidly changing environment.

Drawing on our industry expertise, we work with you to scenario plan, manage costs, create flexible organisations and finance growth.

Wherever your business is on your journey, we can support you to find your niche, plan your growth or help you maintain your position in this changing landscape.



Clients we work with

We work with clients from garage to Google: from start-ups through to large tech businesses, we can help you tailor your growth plans no matter your size or ambitions.

Constant evolution

The technology industry is constantly evolving and at an ever increasing pace. In response high-performing companies are always revising their business models, business strategies and product mix. They're more fleet of foot – and they need to be. Industry leaders are adding significant value, and disrupting all industries as they establish "platform communities" and reduce complexity.

Born global: the makeup of a start-up

Start-ups are going global from day one, and pushing industry leaders to innovate or risk obsolescence.

No technology business can afford to sit still. In fact, the ability to anticipate and adapt are essential core competencies, as important as excellence in product development, sales and support, or financial operations.

As more tech firms scale up and go global, more are sourcing supplies, services and talent outside their domestic markets.

Changing oversight rules for revenue recognition places additional focus and pressure on getting it right. Ready access to capital continues to fuel venture funding, private equity and corporate development deals in the technology sector. Acquiring, access public markets and buying into new markets as a product - for all these, businesses need to have firm and documented foundation and understand the pre and post transaction pitfalls and opportunities to maximise returns. It's challenging. Front office, back office, operational functions: everything must be considered in terms of quality control, transparency, cost, trust and compliance.

Another key challenge at the start up phase is the changing tax landscape, especially as a business expands overseas and needs to manage developing law and compliance requirements in multiple jurisdictions.

Businesses must also comply with trade, security and privacy regulations, navigate local policies and initiatives and deal with social concerns such as conflict minerals. The models of developing, selling and servicing directly, through alliances, or through distributorships or agents require careful structuring.

Transaction services and M&A advisory

Client business description: Our client is a marketing software and technology development services provider, and they also provide advertising agency services.

Engagement description: Grant Thornton Bernoni in Italy was engaged to support the company on a management buy-in.

Challenge: The company needed funding to support its working capital, while also keeping an eye on ensuring consistent operations and continued market development.

Solution: We set out to establish what our client's financial needs were and once these were identified, we prepared a financing memo and arranged various meetings with banks and financial institutions. Ultimately our goal was to find the most profitable and viable solution for our client, which we concluded and advised accordingly.

Outcome: Acting upon our advice, the company successfully obtained funds for the management buy-in from a major European bank.

Productivity improvement

Client business description: Our client is a provider of software solutions and services such as market data, analytics, and trading systems to the financial services sector.

Engagement description: Grant Thornton UK was engaged to provide an opinion on the robustness and accuracy of the client's claim methodology, as the client had submitted both their tax returns and R&D claim.

Challenge: The client needed an external opinion as they had automated their entire workflow, which led to an improvement in productivity, competitiveness and efficiency. At the same time, these changes had addressed reducing both trading costs and managing risk.

Solution: We identified an area of significant risk to the client as their approach to assess a large project population was done without sufficient due diligence, leaving them exposed to a successful challenge by HM Revenue & Customs (HMRC). We worked with the client to identify areas where they were also under-claiming, particularly around project managers' time.

Outcome: Our client was satisfied with our work to both reduce risk and to spot opportunities to increase their claims on tax and R&D projects.

Innovation is key for mid-market tech businesses

To survive in a fast-moving marketplace, technology companies must constantly innovate and grow.

And as they reach scale, profitability replaces growth as the primary measure of success. They are restructuring after each period of growth, building a strong, efficient, and increasingly more profitable core from which they can rapidly scale again.

In parallel, dynamic firms are managing these challenges by continually rethinking their strategy, research and development, corporate development and alliances to advance and restructure their product and services portfolios.

Working effectively with third parties is an ever increasing core competency for mid-market technology companies whether you are entering new markets or providing complementary services and products. Once established it is essential to assess and monitor the performance of your alliance partners to ensure their compliance with external regulation and your internal channel business rules. Plus, you need to ensure that you are getting all the revenue you are entitled to.

And as your business matures and regulations change, these options need to regularly be reviewed and optimised. Some resolve these issues by selling direct.

Statutory reporting and statutory audit services

Client business description: Provider of online advertising solutions.

Engagement description: Grant Thornton Ireland were engaged to provide statutory reporting and statutory audit services using a centralised approach mirroring the client's shared service centre (SSC) environment.

Challenge: Client had moved to a SSC model and wanted to leverage their own investment as much as possible to drive efficiency in the statutory reporting process.

Solution: Grant Thornton Ireland led an international team with representatives from a significant number of member firms to deliver a solution tailored for the client. All EMEA statutory reporting was done at the SSC centre in Dublin and Grant Thornton Ireland provided loan staff to supplement and project manage the client's existing team. In relation to the audit, we provided the client with two coordination teams situated at the client's SSC locations in Ireland and Taiwan. Up to 80% of the audit fieldwork was completed at these finance hubs by central testing teams with the remaining work being delivered by member firms issuing audit opinions for in scope entities. In delivering this audit we also added efficiency by leveraging the controls work completed by the client's internal audit function for group reporting purposes.

Outcome: In year one we were able to deliver all statutory audits at a lower cost and within a quicker timeframe compared to the previous provider.

Finance functions

Client business description:
Financial services, merchant services aggregator and mobile payment company.

Engagement description: Grant Thornton were engaged as finance specialists by the client to support the finance functions of the EMEA and APAC business units. The client outsourced their EMEA and APAC accounting functions to us including – month end, AP and AR, indirect tax compliance, global payroll services, statutory reporting and statutory audit support using a centralised approach mirroring the client's aims and objectives.

Challenge: To transition and outsource the finance function to Grant Thornton to drive efficiencies across all areas of the finance function. The client also migrated their ERP to the cloud which involved additional transition challenges.

Solution: Grant Thornton devised a team with international accounting experience and set up teams for both the APAC and EMEA regions to ensure a smooth and stress-free transition. The EMEA and APAC teams were carefully selected to ensure the client's main aims of driving efficiencies would be realistically achievable. A weekly call each week was then organised with the client to ensure goal congruency was always on track and allowed Grant Thornton to deliver a summary to the client on the progress of each week's work. This allowed the client to gauge the progress towards the assignment's objectives and ensured there was flexibility on the assignment should the need ever arise.

Outcome: Grant Thornton continues to deliver the key components of the objectives to the client and all key performance metrics have been met since project initiation. The service we provide continues to meet the client's requirements and specific preferences, which allows them to focus resources on their core business activities. There is also efficiencies to be seen in Accounts payable with automation initiatives being rolled out which are congruent to the assignment of driving efficiency; the clients main objective.

Financial due diligence

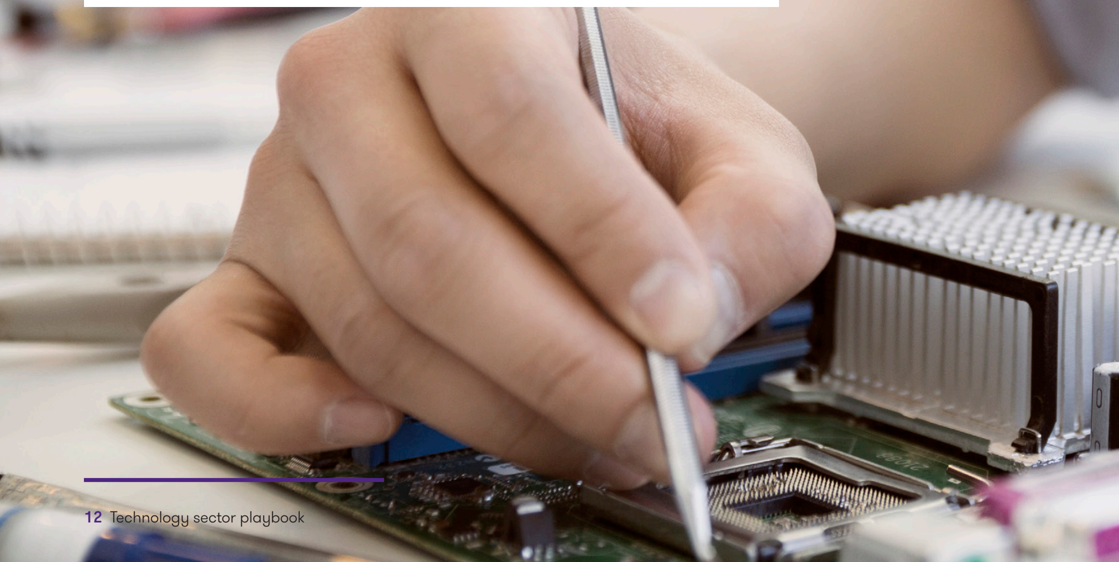
Client business description: Provider of computer equipment and hardware.

Engagement description: Grant Thornton advised on the partial shareholder exit and re-financing of the client to support further growth.

Challenge: To structure an innovative debt-only funding solution.

Solution: The transaction we identified allowed shareholders to realise part of their investment whilst incentivising management to play a greater role in the business. Our in-depth knowledge, and relationships with the funding community, enabled us to structure an innovative debt-only funding solution.

Outcome: As a result of Grant Thornton's strong relationship with management and continued support in developing and helping them achieve their strategic objectives, the business has grown and increased shareholder value.



Increasing scrutiny for larger firms

Technology firms are facing ever more regulation. It's a reflection of the growing reliance in the economy and society.

It is also a not-unexpected, though often unwelcome, by-product of the innovation and disruption the technology industry is causing in other industries, and as pioneering technology companies come under regulatory oversight regimes. Take Google's driverless cars, for example. Or sharing-economy companies such as Uber and AirBnB.

It makes for a complex environment, covering everything from security and privacy to product safety. Larger firm scrutiny includes morals as well as legal or regulatory considerations. Often large tech companies – similar to equivalent size companies in other industries – are portrayed in the media as giants who don't meet their obligations, such as not paying the appropriate taxes.

But progressive firms are working with regulators to strike the right balance in oversight. By putting the right processes in place, they're protecting their clients, their own assets and operations, and creating trust in their brand too. And where necessary, they're preparing to stand their ground.

Tax desk

Client business description: Leading US-based technology company offering the world's most popular desktop operating system and productivity suites, as well as consumer electronics, personal computers, and other related licenses and services.

Engagement description: Grant Thornton was engaged to provide a support desk service to the company's global tax team to help troubleshoot and resolve issues related to the improvement and integration of their indirect global tax engine with the business operations.

Challenge: The client had no formal process and structure around their tax engine support function, creating lack of consistency in resolving issues and a backlog of issues and enhancement needs.

Solution: Grant Thornton built a process and structured outsourced service model to support the company's needs around the globe, in real time, leveraging our global teammates and shared service center around the clock 24-5.

Outcome: Grant Thornton cleared a backlog of over 200+ tickets/issues, greatly improved resolution time and quality, and simultaneously increased user adoption due to consistency and responsiveness.

Compliance automation

Client business description: Control continuous monitoring.

Engagement description: Grant Thornton currently monitors more than 300 controls on a continuous basis and we help the client manage its ongoing operations (financial and operational) by continuously monitoring their controls.

Challenge: Grant Thornton is at the leading edge of helping our clients drive efficiency and effectiveness by using emerging tools to automate the testing of controls, as well as the automation of controls themselves. Our clients are benefiting from the increased assurance, especially as it relates to whole population testing. Our clients also directly benefit from the decreased cost of compliance by significantly reducing the burden of compliance on their own staff.

Outcome: The client was able to reduce the cost of control fees by 40-60% per control automated, and achieve greater assurance by testing entire control populations. Moreover, for every control automated it was estimated that the client was able to achieve 2X the time savings per employee for control-related efforts.

Digital transformation

Client business description:
The client's business group is comprised of strategic products and services that are at the forefront of the digital transformation landscape.

Engagement description: Over the past two years, the client's marketing organisation has transformed from traditional point-in-time, broad-based demand generation campaigns to always-on, customer-centric programs fueled by marketing automation. This transition to modern marketing aligns with broader trends of how successful marketing continually nurtures customers with compelling content and messages.

Challenge: Investment in marketing spend has been increasing while impact of the marketing has decreased. As clients go through modernisation, designing new ways to improve the return on marketing investment is critical.

Solution: Grant Thornton has been brought in to lead the marketing organisation's modern marketing transformation. This includes designing the new marketing programs, designing the operating model and re-tooling the workforce to operate in a more agile fashion.

Outcome: Success on this project will be principally measured on how effective prioritised actions are at driving Sales Qualified Opportunities and the total investment necessary to deliver these opportunities.

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