



**2021 BDO
TECHNOLOGY
CFO OUTLOOK
SURVEY**

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The tech industry was undergoing a period of reflection and introspection even before the pandemic began. While the crisis spotlighted the importance of the industry and existing technology, the future is still rooted in the core purpose of innovation with intent. The tech industry is poised for growth in 2021, and optimization is the path to realizing opportunity.

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AFTAB JAMIL

Partner and National Co-Leader
of BDO's Technology Practice

Optimizing Innovation

In 2020 every industry relied on technology for resilience.

Technology powered an overnight shift to remote work in business, ensured the continuation of care via telemedicine and connected teachers and students to allow education to continue.

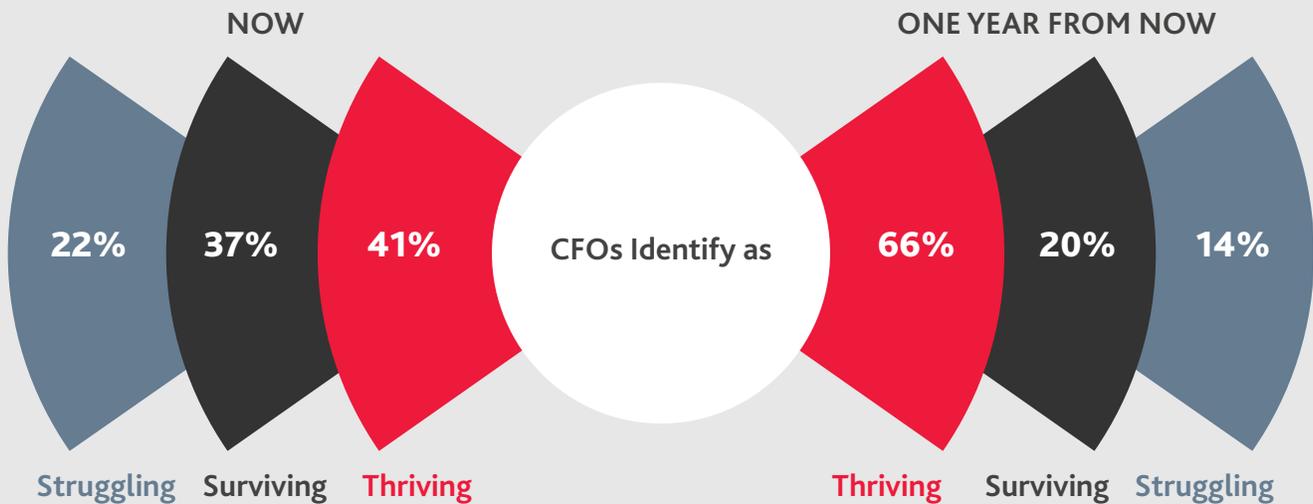
It wasn't easy. The industry faced challenges from managing unplanned shortages and surges in demand, to rerouting supply chains, to ensuring the safety of their own workforce.

They say hindsight is 20/20, and the past year has certainly brought new perspective and clarity to the tech industry. While tech CFOs are optimistic for continued growth, it's far from business as usual. New priorities and risks are in increased focus, and although innovation is still the driving force of the industry, the next year will be all about optimization.

The **2021 BDO Technology CFO Outlook Survey** finds that with ample opportunity and a historic shift in the market, tech companies will need to find the right path to maximize growth opportunities, carefully consider the right sources of capital, rethink global supply chains and make adjustments to plan for the future of work.

They'll make these moves under the equally watchful and grateful eyes of stakeholders who are still counting on their services and products to help them manage both their professional and personal lives.

TECHNOLOGY CFO OPTIMISM



Opportunity Optimization

While the tech industry as a whole may not have felt deep downward financial impacts from the pandemic when compared to other industries, the global crisis still ushered in a critical point of reflection and a reset of business strategy.

RIGHT PATH

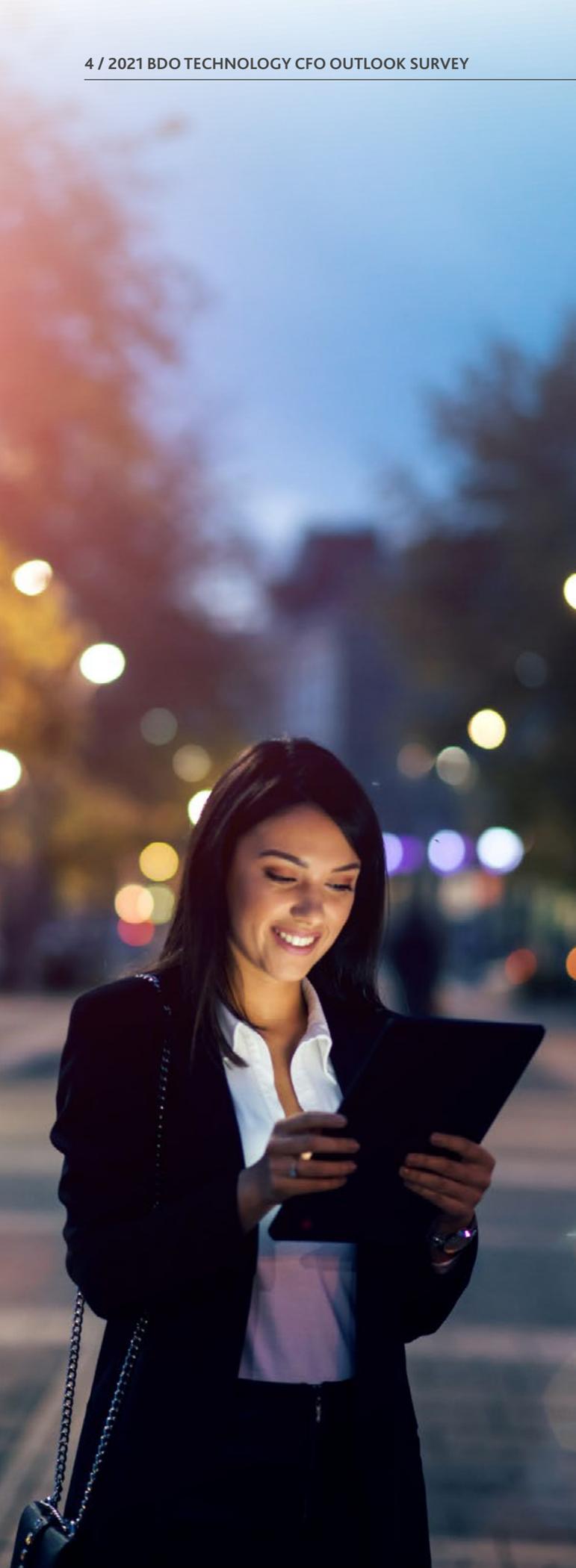
To achieve forecasted revenue increases, tech companies will pursue a number of paths for growth. While innovation, speed to market and customer experience remain critical, tech companies are exploring new opportunities unlocked or accelerated by changes to the marketplace.

In many cases this means pivoting to meet changing demand. Roughly one in four tech CFOs (24%) say that corporate IT budgets will be the top driver of growth for the industry this year, followed by economic growth (20%) and the rise of the virtual workforce (14%) which has created both new use cases for current software solutions and demand for different types of solutions.

55% of
CFOs across the
middle market
will invest more
in IT in 2021



Source: 2021 BDO Middle Market CFO Outlook Survey



OPPORTUNITIES FOR GROWTH			
	DIGITAL TRANSFORMATION	PRODUCT OR SERVICE EXPANSION	GEOGRAPHIC EXPANSION
PLANNING TO PURSUE	47%	37%	35%
PANDEMIC IMPACT	Accelerated 38%	Opened new opportunity 32%	Created new investment or expansion opportunities 31%

High growth and new opportunity will keep research and development (R&D) teams busy. A majority of tech CFOs (59%) plan to spend more on R&D in the next year.

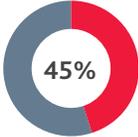
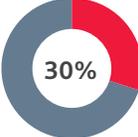
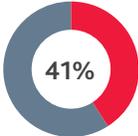
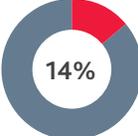
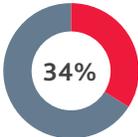
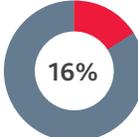
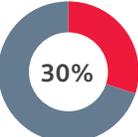
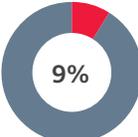
Whether accelerating their digital and cloud transformation or enabling remote work, having solid infrastructure has never been more critical to customers and stakeholders. As reliability and consistency emerged as key customer needs, 25% of tech CFOs say investing in technology or infrastructure is top priority, and nearly half (49%) plan to increase spending in information technology. There's competitor pressure to get it right too, with the market surging with upstarts seeking to take advantage of new opportunity or capture market share. More than one in five say that competition is their top threat this year, outside of the pandemic.

The crisis also renewed the tech industry's sense of purpose and responsibility to both shareholders and stakeholders. Even as companies seek to capitalize on new opportunities, they will do so with lessons learned and ensure they are building and iterating products and services with an eye not just toward revenue, but to the greater good. Ongoing criticism of big tech companies over industry-wide issues like data privacy, censorship, misinformation and antitrust will also continue to steer the industry down the path of innovation with intent.

RIGHT PARTNER

To meet emerging customer needs, respond to demand, and scale sustainably, many tech companies will seek outside capital or form partnerships. Even though global deal volume and investment dipped in 2020 as the market waited to understand the full economic impacts of the crisis, tech remained a fairly active sector. CFOs expect that trend to accelerate in 2021, but with numerous opportunities for growth, tech companies will need to ensure they find the right source of funding or partner to meet their needs.

DEAL FLOW DECISIONS

	EXPECT ACTIVITY WILL INCREASE ACROSS INDUSTRY	PLANNING TO PURSUE	KEY CONSIDERATIONS
Private Equity Investment 	 45%	 30%	<p>Tech and private equity bonds have been deepened over the past several years, with software being a standout target for investment. PE companies are attracted to the SaaS revenue model, and we are likely to see continued interest in the wake of the software surge due to the pandemic. Software companies considering PE investment should ensure their partner has deep software industry experience and will provide both operational insights and resources and capital to grow.</p>
M&A 	 41%	 14%	<p>Tech CFOs see cost optimization (18%) as a top driver of deals this year, followed by market share (17%), revenue growth (16%) and favorable valuations (14%). Put another way, there will be a wide range of deal hypotheses in 2021 as opportunity abounds in the sector. Strategic and financial buyers should expect to continue to pay a high premium: 42% of tech CFOs expect valuations will increase in the year ahead.</p>
IPO 	 34%	 16%	<p>Roughly the same number of private companies surveyed say they will pursue an IPO (16%). When considering the drivers, just over one in four tech CFOs say market position will have the greatest impact on tech companies' decision to go public next year, followed by management credibility (16%) and corporate governance and compliance (15%). Tech companies considering going public should focus on developing key investor metrics, articulating their strategy and market opportunity and investing in reporting and governance infrastructure.</p>
Venture Capital Investment 	 30%	 9%	<p>Technology's history with venture capital is long and storied, with VC firms providing much of the capital to the industry since its inception. That trend looks set to continue in 2021. As with tech-VC relationships in the past, the mentorship opportunities and access to funding that venture capital offers tech companies may be particularly valuable as the industry navigates this unparalleled and uneven economic recovery.</p>

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When it comes to accessing funding, the technology industry has plenty of options right now. We have seen strong global appetite for tech investments across the board, but particularly from private equity and venture capital investors. The sector has enabled many other industries during this crisis, and now the tech sector must focus internally to optimize the balance between continued growth and the ability to scale profitably.

**DOUG HART**

Partner and National Co-Leader
of BDO's Technology Practice

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RIGHT OPERATIONS

In periods of fast growth, costs can easily balloon as quickly as revenue. But a silver lining of crisis is clarity. From cutting costs to improve profitability, to reevaluating physical space in a remote work environment, to spinning off non-core assets or reorganizing to meet changing needs, tech companies will enter 2021 with an eye toward essentialism.

SPEND 	<ul style="list-style-type: none"> ▶ Cutting costs is the top cited business priority ▶ 18% say cost optimization will be the top driver of tech industry and M&A
SPACE 	<ul style="list-style-type: none"> ▶ 32% will reevaluate their real estate footprint ▶ 25% will eliminate or consolidate office floor space
STRUCTURE 	<ul style="list-style-type: none"> ▶ 36% will pursue restructuring or reorganization ▶ 20% plan a carve-out or divestiture

RIGHT OPERATIONS

The tech industry's historic relationship and reputation with outside stakeholders, including the government, has been rocky at best. Recently, though, the major players began to reconsider their broad sweeping impact on most areas of business and modern life, and the tide started to turn. In 2020, the industry was laser focused on innovation with intent—the idea that every decision has trickle effects, and products and services must be designed with all stakeholders—not just shareholders—in mind. This issue came to head with data privacy, which [in 2020 was tech CFOs' top business priority](#). For 2021, tech CFOs report data privacy has taken a backseat as a business priority and policy issue, likely due to the pandemic, despite remaining a top area of external pressure. In fact, when asked where they expect to receive the most stakeholder pressure in the year ahead, 42% said data privacy, followed by net neutrality (19%).

A full 45% of tech CFOs believe the industry needs more regulation, down just slightly from 2020 when 50% made that charge. This slight shift may reflect some cold feet following a year when the government intervened in prominent tech companies' operations and brokered a high-profile acquisition for China-based TikTok. Ahead of the 2020 presidential election, tech companies were split on impact: 33% believed a Democratic president would have a positive impact on their business, compared to 34% who felt that way about a Republican president. Administration change will likely bring renewed scrutiny in key areas like privacy and social responsibility.

Still, the pandemic formed new types of bonds between tech and the government. A vast majority of tech companies (79%) received government assistance as a result of the crisis, and 36% say they enhanced their community and government partnerships. Tech companies helped power contract tracing efforts, partnered with schools to donate and distribute laptops, and provided internet connection to help students access remote learning. These moves are about reputation and corporate responsibility in equal measure. Being of service to the broader community will continue to be a key part of the industry's strategy in the year ahead.

As tech companies reconsider their physical footprint, leases are top of mind. Preparing for new standard implementation, including **landmark new lease accounting rules, is the top-cited financial reporting challenge for 2021.**

Supply Chain Optimization

Shutdowns, shortages and trade tensions challenged technology industry supply chains in 2020. As a result, building more reliability and value into supply chain will be a critical strategy for 2021. Tech companies are most focused on identifying alternative suppliers and bringing critical steps in the process closer to home.

Transparency and agility in the supply chain proved to be make or break for many companies, as the ability to access raw materials, shift production, adjust inventory orders, and deliver on time was disrupted at every level. Tech companies took immediate action to further optimize and unlock more advantage across every link of the value chain. For many, this included with a complete profile of potential risks, investing in technology for end to end visibility and building more flexibility in sourcing and suppliers. With the right strategy, the technology supply chain is not a cost center, but a driver of value to both the customer and company—a clear competitive advantage.

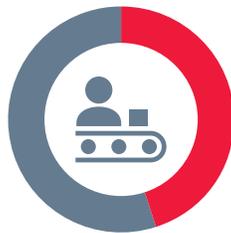
SECURING MORE VALUE IN SUPPLY CHAIN



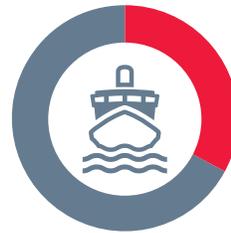
49% are conducting a supply chain risk assessment



46% are investing in supply chain technology



45% are identifying alternative or backup suppliers



33% are reshoring to the U.S.



21% are relocating to another country

At the same time, trade and tariffs remain a hot-button issue that could see further evolution in the coming year. When asked about their top policy concern for the coming year, nearly one in four tech CFOs pointed to trade and tariffs. Another 17% say that navigating trade and tariff policies will be their most challenging tax issue. But when asked about their biggest concern related to trade, tech CFOs' views have changed.



Given the industry's clear focus on revenue growth and cost cutting, the impact of trade policies on their bottom line surged to the top concern this year, a change from 2020 when tech companies were more concerned about security.

TOP TRADE CONCERNS		
	2020	2021
1	National Security	Impact on International Sales
2	Impact on Innovation	Pricing Pressures
3	Supply Chain Disruptions	Supply Chain Disruptions
4	Pricing Pressures	Impact on Innovation
5	Impact on International Sales	Access to Talent
6	Access to Talent	National Security

No matter the driving force, tech companies will seek to limit their exposure to both potential policy changes and further disruption to key markets.

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As tech companies reassess their supply chain and global footprint, every move—not just those involving tariffs—will have a resulting tax implication. Understanding total tax liability should be a critical part of planning and optimizing an organization's value, even amidst uncertainty.



DAVID YASUKOCHI

Tax Partner in BDO's Technology Practice

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22% say understanding **total tax liability** will be their most challenging tax issue

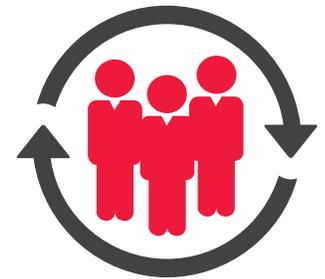




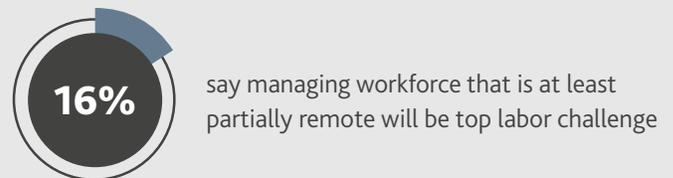
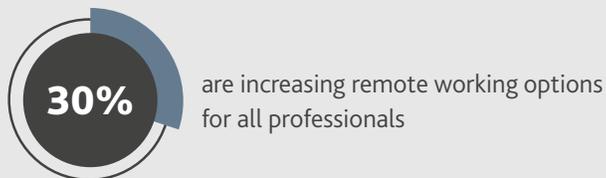
Workforce Optimization

The tech industry continues to lead the charge in reimagining, testing and piloting what the future of work looks like. In 2020, months into the remote work transition, several major tech companies announced that they would offer permanent remote options to their employees. But solidifying a remote strategy is not the only workforce strategy for 2021. Rather, tech companies will need to invest to foster an inclusive and healthy culture that prizes diversity, innovation and collaboration while still optimizing both size and skill.

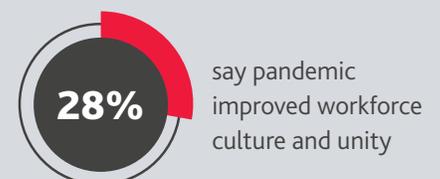
42% will increase spending in their **HR/Talent department** this year



MAKING REMOTE WORK

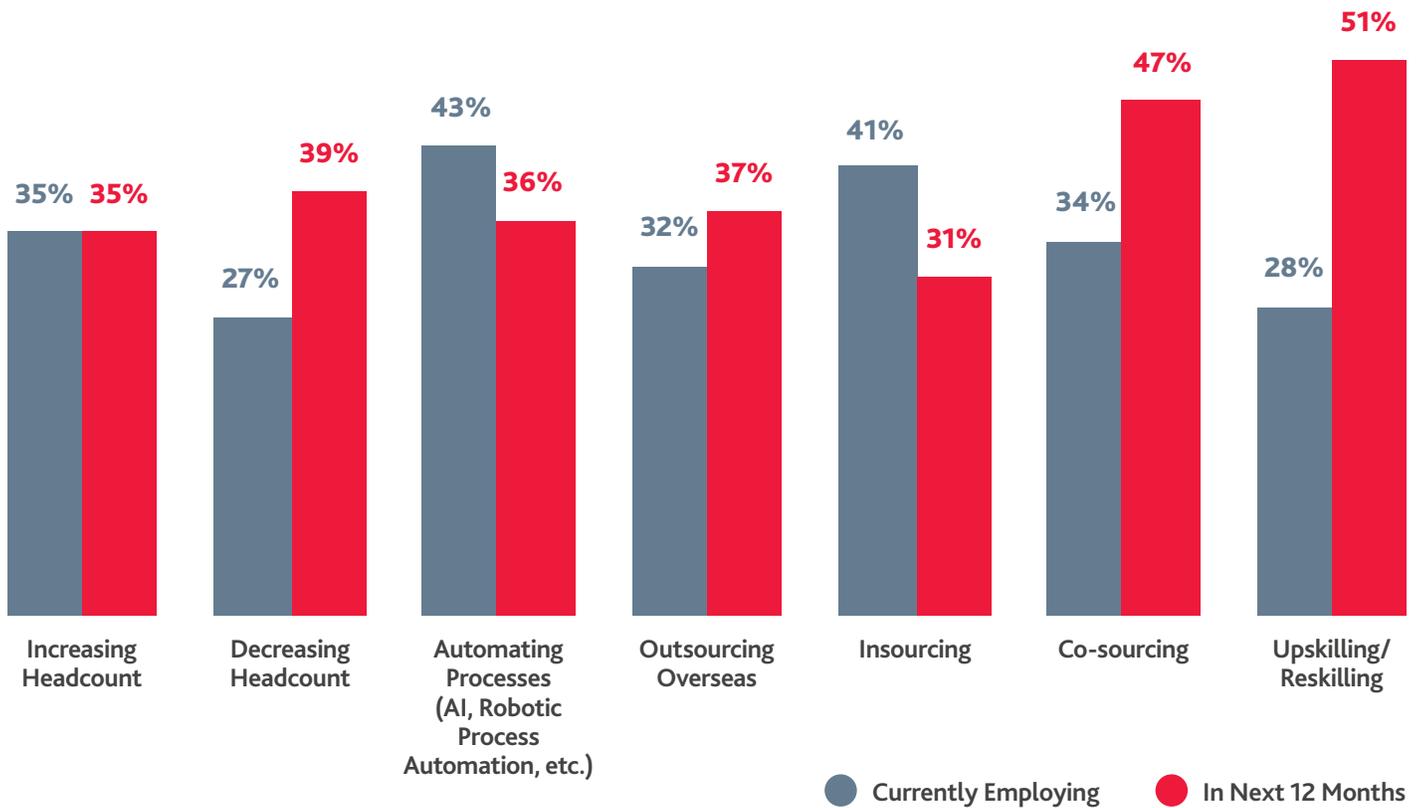


CULTURE INCLUSION





TECH TALENT STRATEGIES



As the industry contends with new challenges of managing an at least partially remote workplace, there are widespread impacts on recruiting, training, compensation and benefits, and culture. Tech companies who pioneered the workplace "campus" and promoted benefits from onsite gyms and nap rooms to cold brew on tap and ping pong tables are adjusting to an interim reality where in-person community presents more risk than reward and where mental health has become a more important metric than time spent at a desk.

Many companies are betting that some changes are permanent and preparing to support a workforce that is less concentrated in key tech hub markets and who value different types of benefits. Optimizing work in the coming years will mean more than enablement and efficiency. It will also require increased focus on inclusion, changes in compensation and benefits planning and new approaches to recruiting with less focus on location and more focus on contribution.

There is no doubt that as the tech industry leads in innovation of workforce strategy, other industries will follow.

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While tech companies will change up their headcount this year, they are also focused on optimizing their teams through diversity and inclusion efforts, training, upskilling and investing in automation. The goal: a more productive and effective workforce that can meet the needs of a changing industry.



AFTAB JAMIL

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of BDO's Technology Practice

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It's not every year that a global event accelerates change, creates urgent and new needs, and shines a light on what's truly important. But the tech industry took notice and will not be left behind. As business across every industry moves from resilience to resurgence, the stakes are high in the technology industry to help power the economy, and the world, forward. Tech executives' strategic, intentional choices to unlock more value in their business models, supply chain and workforce bode well for a prosperous year ahead.





For more on CFOs' perspectives across the middle market, view our [2021 BDO Middle Market CFO Outlook Survey](#) ►

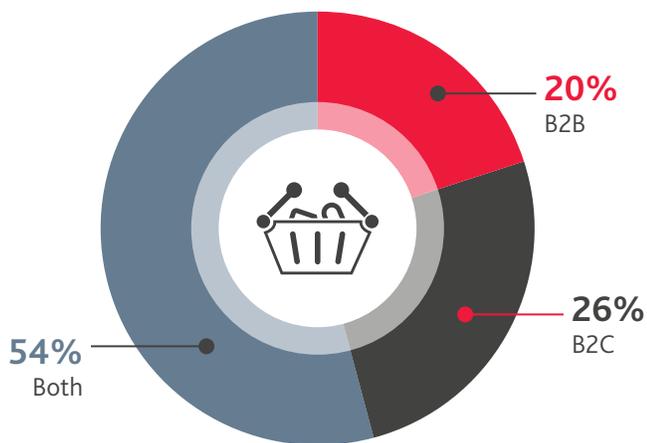
Respondent Profile

The **2021 BDO Technology CFO Outlook Survey** polled 100 technology industry CFOs with revenues ranging from \$100 million to \$3 billion in September 2020. The survey was conducted by Rabin Research Company, an independent marketing research firm, using Op4G's panel of executives.

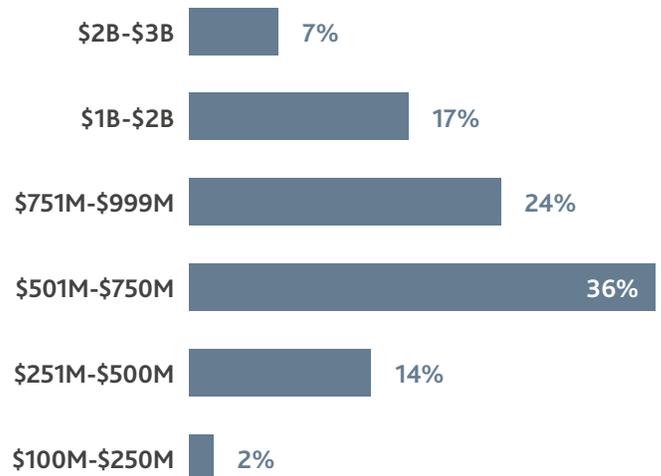


5 Years Average tenure in current CFO role

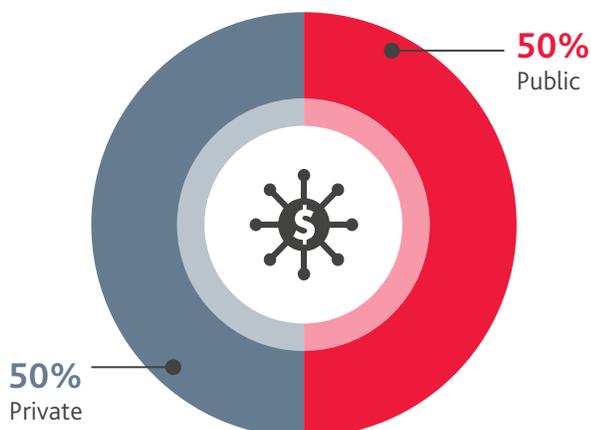
PRIMARY CUSTOMERS



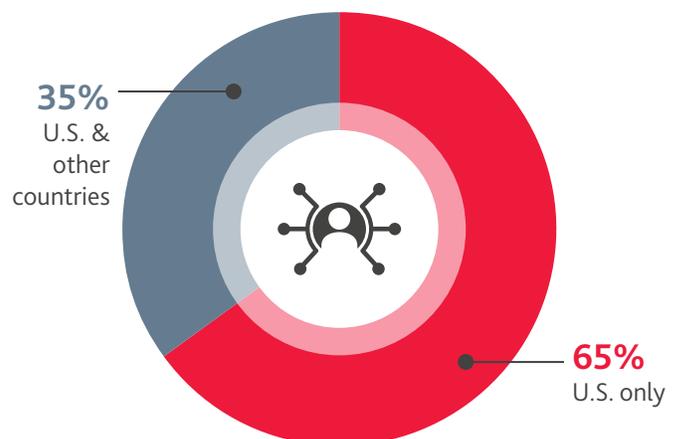
ANNUAL REVENUE



COMPANY TYPE



REGION OF OPERATIONS





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