REPORT

2022 HIGH-TECH & SOFTWARE OUTLOOK

westMONROE

CONTENTS

4 Introduction

5 Overarching trends have widespread influence

7 Revenue optimization moves to the forefront

10 Customer experience takes on a sense of urgency

12 Consolidating portfolios to promote product-led growth

INTRODUCTION

High-tech and software (HT&S) companies continued to enjoy enviable growth rates and sky-high valuations in 2021 thanks to strong demand for products that supported digital engagement during the global pandemic and record-breaking levels of M&A activity. Despite some headwinds—including rising inflation, ongoing supply chain constraints that are hitting hardware businesses especially hard, and talent shortages—2022 is shaping up to be another growth year for HT&S companies.

The growth imperative continues unabated for HT&S companies of all sizes—from small businesses to the digital giants that make up an ever-larger portion of the overall economy. The Rule of 40, which calls for companies to exceed a 40% combined rate of growth and profitability, remains a relevant consideration for HT&S companies and investors alike. But established companies will need to make judicious tradeoffs in 2022 to accelerate growth or maximize profitability.

High expectations for growth seem unlikely to ease up any time soon given the number of quality levers that companies can pull to achieve it combined with continued strong demand for new digital capabilities. Companies still have plenty of headroom for growth and innovation—in product portfolios, pricing, and other areas—as part of the ongoing shift to SaaS or subscription-based business models. Few have yet to fully realize the full benefits of SaaS, including higher margins, more predictable revenue, lower churn, and higher net revenue retention (NRR).

Additionally, they're scrutinizing their revenue operations—a widely acknowledged source of additional growth and improved margin potential—with targeted initiatives to unify data, incentives, and processes across functional areas.

Amid all this activity, the HT&S sector is still riding a global wave of dealmaking, from companies pursuing inorganic growth and private equity firms expanding their portfolios. Software deals more than tripled in the first nine months of 2021 compared to 2019.[1]

We'll examine some of the overarching trends affecting the high-tech & software industry in 2022. We'll also examine three areas that HT&S companies—including those that sell software products, platforms, or software-enabled services—and private equity firms can consider for targeted investment to support profitable growth: revenue optimization, customer experience, and product advancements. We'll discuss pressing challenges, key trends, and actions that companies can take to achieve their strategic objectives in the year ahead.

OVERARCHING TRENDS HAVE WIDESPREAD INFLUENCE

Most HT&S leaders are likely to focus considerable attention in 2022 on three trends: financial pressures, labor shortages, and a continued focus on data as an asset.

- **Macro financial pressures:** Mounting concerns about inflation and a 15% global minimum tax proposal that's gaining momentum among G-20 leaders[2] are driving a sense of urgency to invest in the near term. An end to cheap capital from higher interest rates or a larger tax burden could reduce growth in 2022, although companies will still have plenty of work to do executing on initiatives already funded that focus on driving value within their existing portfolios.

- **Labor shortages:** Meanwhile, labor will remain a paramount concern for HT&S companies in 2022: 38% of HT&S business leaders said that the war for talent will be a potential roadblock to growth. Companies will continue to refine their labor strategies—including remote and distributed work models, labor arbitrage, decentralization, and using automation and AI to do more with less. But in a competitive labor market, the companies most able to attract top talent will exhibit a strong culture and a clear vision of how work will be delivered by a distributed and global workforce.

  In the throes of M&A integration, when cultures are blending and workloads spike, labor challenges can be worsened. But sticking to this vision is one way to reduce turnover—even as companies pursue aggressive growth targets. Meanwhile, the HT&S industry is also well-positioned to define the future of work for the economy broadly given that technologists provide—and often are at the forefront of using—tools for virtual collaboration, remote working, labor data collection and reporting, and process automation.

- **Data as an underleveraged asset:** Data is still hugely underused at most B2B HT&S companies, and 86% of leaders said they view data as an enabler to growth. Rather than relying on benchmarks, studies, or surveys, HT&S companies could be mining their own operational, customer, and transactional data—another benefit of the SaaS model—to drive insight and inform decision-making throughout the enterprise. Companies that excel at collecting, mining, and refining data using a range of data science techniques will drive innovation and outperform competitors. Pressure is mounting to invest or be left behind. Indeed, many areas of targeted investment in 2022—cloud infrastructure, DevOps, artificial intelligence, and machine learning—will be in the service of bolstering data capabilities.

Part and parcel with data strategy are ever-present concerns about cyberthreats and privacy. These concerns were exacerbated during the pandemic when on-premises workforces dispersed and companies accelerated digital transformations. Distributed architectures, edge computing, and new regulations, mean cyberthreats and privacy will demand vigilant investment and oversight in 2022 and beyond—no matter what other pressuring concerns require leadership attention.

CHAPTER 1

Revenue optimization moves to the forefront

CHALLENGE

Companies in many industries are waking up to the fact that traditional processes, legacy technology platforms, and functional siloes—in marketing, sales, finance, and customer success— no longer reflect the way a modern HT&S company can and should operate. This presents significant obstacles in capturing and recognizing revenue as quickly as needed to meet financial targets. The issue is especially acute in the HT&S industry, where growth rates exceed most other industries and the move to recurring revenue models is most advanced.

Although executives have driven some operational improvement within siloes—for example, using configure/price/quote (CPQ) capabilities to bolster sales effectiveness—few companies have designed and implemented a fully unified customer experience (CX) and fully coordinated internal operations.

Historically, growth has carried much heavier weight than profitability at HT&S companies, but that perspective is evolving; investors and the market increasingly expect a better balance between the two. Even among well-established SaaS companies, considerable work remains to improve cost structures and enable more profitable growth.

KEY TRENDS

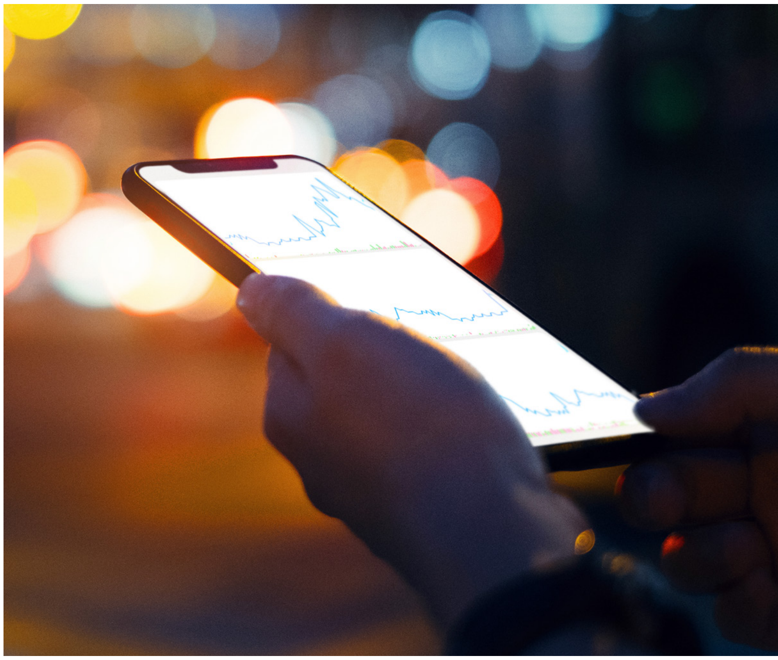
Revenue operations—to accelerate revenue growth and capture revenue faster—is the umbrella under which this work is taking place. It encompasses product strategy and platform rationalization, especially within companies making strategic acquisitions and at private equity (PE) firms bringing together disparate companies and capabilities. Considerations extend beyond the obvious technology integration work and include important go-to-market choices to decide which products to sell to different customer segments.

Companies can approach revenue optimization with light-tough efforts that yield substantial benefits but don't require dramatic restructuring or operating model change.

TAKING ACTION

Fortunately, companies can approach revenue optimization with light-touch efforts that yield substantial benefits but don't require a dramatic restructuring or operating model change. They can, for example, pull key data elements together from functional systems into a unified view that drives consistency and aligns metrics and incentives across those siloes. Net revenue retention may be the North Star metric—given its impact on market valuations of software and subscription businesses—but other interdependent metrics also matter, including customer acquisition costs, churn, service margins, sales coverage ratios, and customer satisfaction.

Appointing a chief customer officer or chief revenue officer to lead revenue optimization is a highly visible indicator of executive support with symbolic and practical benefits. Companies can unlock substantial new value under this structure—often with help from data science to mine insights from their existing data. When integrating the capabilities of a newly acquired entity, for example, they can make informed decisions about how to package and price their product or service to increase market share. A company that's seeding a market broadly with free products can apply data science to more accurately segment and analyze customers and target premium offerings accordingly, including to high-value enterprises that provide a ready market for additional products. Analyzing transactional data—to understand where specific products were sold, at what price points, and to customers with which attributes—informs decisions about the product portfolio, pricing, and packaging.



CHAPTER 2

Elevating the customer experience takes on a sense of urgency

CHALLENGE

Large software companies and PE firms with large portfolios generally have plenty of pain points to target for investment to improve customer experience in 2022 and beyond. The first is in digital customer service and support—especially in B2B companies, where the end user experience traditionally has been afterthought, but also in B2C companies.

KEY TRENDS

As B2B companies shift from selling site licenses to a single customer—such as the CIO—to selling subscription-based services, every user becomes a customer. Investments aimed at supporting and engaging a much larger installed base of customers can bolster satisfaction, improve NRR, and create a flywheel effect to promote additional growth.

In today's hybrid world, expectations for the customer experience on digital platforms are higher than ever. It's crucial for HT&S companies to understand how to deliver those experiences—in line with customer wants and needs—at scale, assisted by technology.

TAKING ACTION

Customer success initiatives will continue to accelerate in 2022, especially among companies looking to integrate acquired entities for new cross-sell and up-sell opportunities. Many companies will be standing up an integrated customer success organization, including mining actual customer data, to discover what's fueling high abandon rates or churn, for example, and take corrective measures.

At the same time, companies will focus on assessing the customer experience overall and invest to increase customer engagement or, more accurately, microengagement, at scale—without continually adding headcount. Microengagement requires a detailed and targeted understanding of customers at different stages along their journey. It encompasses not only their use of the core product but also their interactions with everything that surrounds that product. Digital experiences—including demos, training, webinars, tailored landing pages, self-service portals, live chat, and other customer support—will be foundational to this effort.

As customer success teams collect and analyze more granular customer data, they can also segment customers based on more attributes to glean unique insights, which they can use to determine service support tiers based on customer value and share with developers to continually make product improvements at scale. Ultimately, meaningful and targeted customer engagement correlates with improved NRR and is essential for profitable growth.

CHAPTER 3

Consolidating portfolios to promote product-led growth

CHALLENGE

Expanding product portfolios—often the result of M&A dealmaking—can become unwieldy to manage and costly to support over time. Making matters worse, sunsetting even outdated legacy products can be difficult because some customers are content to keep using them. Unless a company is truly a monopoly, taking steps such as degrading performance or increasing prices for maintenance and support to coerce users to migrate to newer SaaS products can undermine customer satisfaction and increase churn.

Software companies previously had little incentive to encourage use of products sold under the perpetual license model. That has changed with the switch to SaaS models, although recurring subscriptions can likewise cause complacency at software companies—a risk to recognize and avoid.

KEY TRENDS

The heart of every tech-driven company is the product or service itself. Given the levels of investment pouring into the HT&S industry and accelerating technological advancements, even the most successful companies recognize they must continually innovate their products and overall portfolios based on market-driven priorities. Increasingly, this calls for a rapid development approach that is highly agile and iterative, and revised structures for development teams to embed innovation into the fabric of how teams operate.

And while portfolios are growing, HT&S companies are keeping their research and development investment at 15-20% of revenue. This requires a constant evaluation and optimization of the portfolio.

Some companies are charging a variable fee based on consumption (a usage-based price), which may or may not provide a revenue boost but almost certainly will motivate developers and customer success teams to release the best product possible.

Even the most successful companies recognize they must continually innovate their products and overall portfolios based on market-driven priorities.

TAKING ACTION

Smaller companies and PE firms that have pursued growth through acquisition over the last few years will likely devote more attention in 2022 to product and platform consolidation—taking the best of what they've acquired and moving it forward.

The carrot and stick approach—including a combination of education, appealing new offerings, incentives, and a positive customer experience—can delight customers and nudge them toward modern offerings while also encouraging their use.

Additionally, to monetize investments in SaaS models and improve NRR in 2022, companies will invest strategically to pursue product-led growth—further developing products so that they continue to sell themselves without any involvement from salespeople.

Introducing an appealing new feature or solution to existing customers serves the dual purpose of providing incremental revenue and increasing user engagement.

Profitable growth also calls for improving product serviceability to make products easier and more cost-effective to support. This could include, for example, adding the ability to monitor and log performance, an email that logs back to engineers in the event of a system crash or enabling engineers to remotely access and diagnose problems.

Internal product development—making improvements in areas that surround and support the core product—is often given little attention at tech companies. A targeted investment to improve a customer portal, for example, can move the needle on satisfaction and retention rates.

CONCLUSION

The playbook that produced wildly successful HT&S companies in the past won't support the growing demand from the market and investors on growth and profitability. Legacy organizational structures and silos don't need a complete overhaul—but they do need to align on the same set of KPIs and have an incentive structure that supports common goals (ex: collectively driving NRR versus looking at MQL/SQL conversion).

Functions across the organization—marketing, sales, service, finance, and more—also need a better understanding and view of the full customer journey. To achieve that view, technology often plays a key role. Again, a full-scale re-implementation (CRM, ERP, MDM) or new tech stack is not required to make progress and move forward. However, HT&S companies must be able to pull together very specific data points to understand the customer and drive meaningful insights.

The importance of data continues to remain paramount to these efforts. Data and analytics will provide the insights that inform decisions about revenue operations, every dimension of the customer experience, and product portfolios. All steps toward digitization will only increase the amount of available data and opportunities to leverage it for competitive advantage.

Looking at these topics across the organization is still a newer concept for HT&S, and plenty of lessons will be learned. Our advice for the year ahead? Lead with a product mindset and remember the importance of iteration—creating faster and easier value will be critical to success.

ABOUT WEST MONROE

West Monroe is a digital consulting firm that was born in technology but built for business—partnering with companies in transformative industries to deliver quantifiable financial value. We believe that digital is a mindset—not a project, a team, or a destination—and it's something companies become, not something they do. That's why we work in diverse, multidisciplinary teams that blend industry expertise with deep operational and technology capabilities—moving clients from traditional to digital operating models and creating products and experiences that transcend the digital and physical worlds. Our 2,000 employees have the opportunity to own a stake in the company, so when you partner with us you know we are committed—because your success is our success. Our undeniably different approach breeds undeniable results.

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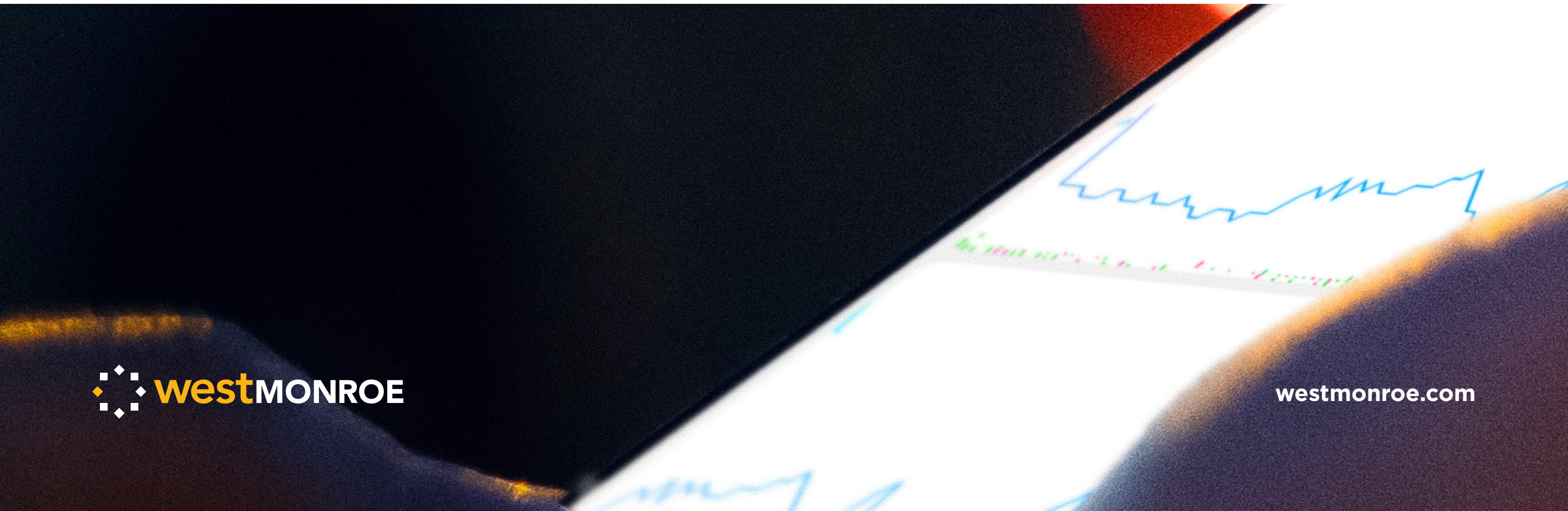

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