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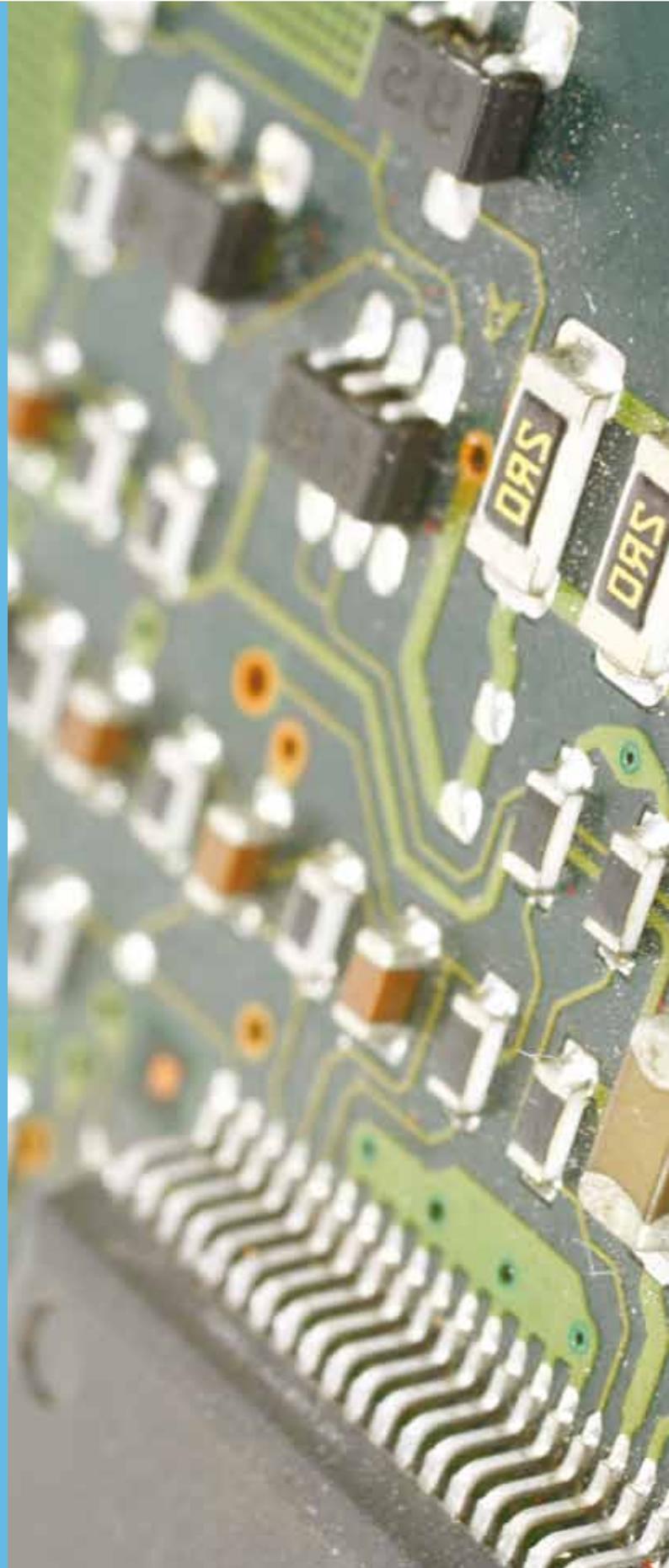
Global TMT Risk
Management Survey
2011

Risks, Challenges
and Opportunities

GfK

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Foreword

We are pleased to present the first edition of Simmons & Simmons' Global TMT Risk Management Survey. The survey outlines the key risks, challenges and opportunities faced by businesses today in the global technology, media and telecommunications (TMT) sector.

The survey looks at the challenges and opportunities for businesses, arising not only from current market conditions, but also from their own individual strategies.

The survey also looks at how businesses identify and manage the risks attaching to those challenges and opportunities.

We took this approach because we believe that a robust risk management policy and, perhaps more importantly, confidence in the application of that policy, facilitate the making of timely and well-informed decisions. Those businesses which are able to make timely and well-informed decisions are likely to be those that will, in turn, enjoy a competitive edge in their markets.

The survey was conducted by GfK NOP Business & Technology on behalf of Simmons & Simmons. It synthesises the responses of business decision-makers from 692 TMT companies globally and the in-depth views of 16 senior executives engaged in risk management in high-profile TMT companies. We would like to express our appreciation to all of those who participated.

We hope that the survey will provide you with useful insights into TMT sector attitudes. We also hope that it will be of use to you in formulating your own view of the risks, challenges and opportunities likely to arise in the TMT sector in the next 12 months.



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Executive summary

This paper outlines key findings from a survey into the risks, challenges and opportunities faced by businesses in the global technology, media and telecommunications sector and the approaches taken to managing these risks. The survey was conducted by GfK NOP Business & Technology on behalf of Simmons & Simmons, a sector specialist international law firm with offices throughout Europe, the Middle East and Asia.

Optimism and markets served

TMT sector businesses are positive about prospects for the coming year, with more than two thirds (69%) expecting growth in their industry. There is particularly strong optimism in Brazil where 88% of respondents expect growth. European businesses are more pessimistic, with almost a third (29%) expecting their industry to decline. European telecoms companies are noticeably more pessimistic than telecoms companies in other regions. When looked at on a global basis, however, the telecoms sector is the most optimistic, with more than three out of four respondents (76%) forecasting growth within their sector.

How businesses perceive their industry prospects is likely to affect how they see the key challenges relating to their position in the market. For those expecting industry growth, taking maximum advantage of these growing opportunities is particularly important. In contrast, for those who foresee a declining market, the most pressing issues are the protection of their individual positions and prospects within this context.

TMT sector businesses largely have an international outlook. Almost two thirds (61%) have overseas premises and 34% gain the majority of their turnover from international sales. Most TMT sector businesses recognise differences in the sophistication of their home and secondary markets, which may lead to specific challenges. Secondary markets are felt to differ particularly in terms of the development of products and services, and industry maturity.

Risks faced by the TMT sector

Behaviour within the TMT sector will be influenced not only by perception of industry prospects, but also by perception of risks and importantly, the level of confidence felt by each business in its ability to manage those risks. Nearly all TMT businesses (96%) believe they face business risks of some kind, with those in the Middle East (87%) slightly less concerned about risks than other regions. The most commonly identified single risk is the rate of technological change, recognised by more than four out of ten TMT businesses (45%). However, economic risks can be seen as the most common type of risk perceived (86%).

Economic and financial risks and drivers

The aspect of economic risk that appears to be of most concern in the TMT sector is economic growth, identified as a risk area by almost four out of ten businesses (37%). Inflation and exchange rates are also identified as important risk areas (36% and 34% respectively). Three quarters of TMT sector businesses (75%) have been affected by the recent “credit crunch” and economic downturn in some way. One third have seen reduced revenue and a similar proportion reduced customer demand. However, the downturn also appears to have encouraged some TMT sector businesses to take pro-active steps in response, for example by expanding into new markets or launching new products.

Around one in four TMT businesses (24%) see competitor activity as a major risk facing their business and 5% consider it the single greatest risk they face. This is a particular concern for businesses in Europe and Asia.

Technology drivers

Technological risks (including rate of technological change) are faced by 70% of TMT sector businesses and for 22% this represents the greatest area of risk they face. Businesses in Asia are particularly concerned about these risks, with 85% identifying risks in this area. Interestingly, while 32% of Asian businesses saw technological risk as the greatest risk area, this was true of only 14% of businesses within the Americas.

Issues around the rate of technological change are closely related to competitive pressures; for example, the risk of being left behind if competitors adopt a new technology more quickly or the potential loss of business through new entrants leveraging new technology in products and services.

Almost all TMT businesses (93%) believe that advances or changes in technology have had an impact on them, with a third (34%) reporting a significant or major impact. Technological changes are most likely to have influenced product innovation or business efficiencies. Nearly all TMT businesses (97%) also predict technology developments will have an influence on their industry over the next 12 months; the most common being the consolidation of IT infrastructure and virtualisation (both likely to affect almost half of all businesses).

Other drivers

Political/legal and social risks can be seen as important to TMT sector businesses, although they do appear to be less of a priority than economic issues. Political/legal risks are identified by 80% of TMT sector businesses and social risks by 71%. Both types of risk generally appear to represent less of a concern in the Middle East and for small businesses.

Political or legal risks may be closely inter-related with technological factors. New technologies can be seen to have important implications from a legal point of view through licensing issues for downloaded TV or movies, privacy issues around customer data and behaviour, and regulatory and

compliance issues. There is also a complex link between economic pressures associated with the economic downturn and the issue of environmental responsibility and “green” business practices. On the one hand, some TMT businesses have reduced some of their environmentally based plans as a consequence of the recession. However, some cost-driven initiatives, such as consolidating business sites, at the same time offer environmental benefits.

The risk of litigation did not rank particularly highly, with only 17% of respondents considering it a major risk to their business.

Managing risk and maximising opportunities

Around nine out of ten businesses in the TMT sector (89%) are confident that they can successfully manage the risks facing their businesses. However, only around a third (33%) would consider themselves “very confident” in this area. Small businesses, those in Europe and those in the media sub-sector are the least likely to believe themselves to be “very confident”.

Interviewees mentioned a number of formal processes for measuring and managing risk, for example through risk maps or risk registers. However, those expressing a particularly strong level of confidence in their organisations’ ability to manage risk highlighted the importance of combining these processes with a more human approach, drawing on the skills of key personnel both within and outside the organisation.

In many cases, managing risk is seen as a process that goes hand in hand with making the most of opportunities. Some factors that can be seen as risks can be considered opportunities in the right circumstances. Furthermore, a certain degree of risk is inherent in taking action to seize opportunities involving the unknown; for example, new markets or new ways of working. It is therefore interesting to note that the two areas where TMT sector businesses are most likely to see opportunities, new markets and new product development, will involve undertaking and managing previously untried approaches.





1.0 Introduction

This paper outlines key findings from a study into the risks, challenges and opportunities faced by businesses in the global technology, media and telecommunications sector and the approaches taken to managing these risks. The study was conducted by GfK NOP Business & Technology on behalf of Simmons & Simmons, a sector specialist international law firm with offices throughout Europe, the Middle East and Asia.

The evidence presented draws on:

- A quantitative survey of 692 business decision-makers in the TMT sector across four regions (Europe, the Americas¹, Asia and the Middle East)²
- In-depth qualitative interviews with 16 senior managers engaged in risk management in high-profile TMT companies

This work was undertaken between October 2010 and January 2011.

The paper starts with an overview of how TMT businesses view their future prospects, the markets they serve and what they see as the key risks they face. It then explores the impact of some of the sector's most important drivers (economic and financial factors, technology, and other conditions such as regulation) in more detail. The paper concludes with an assessment of how businesses in the sector are managing risk and maximising their opportunities.

1 Throughout this study, the term 'the Americas' is used to refer to the USA and Brazil only.

2 All participating businesses have at least 20 employees. In most cases respondents completed an online survey but in the Middle East participants were surveyed by telephone or face to face.



Most businesses in the TMT sector are positive about future prospects for their industry. Diversification into different markets, including through international trade, is important.

69% of TMT businesses expect growth in their industry

61% have overseas premises

34% gain the majority of their turnover from international sales

2.0 Optimism and markets served

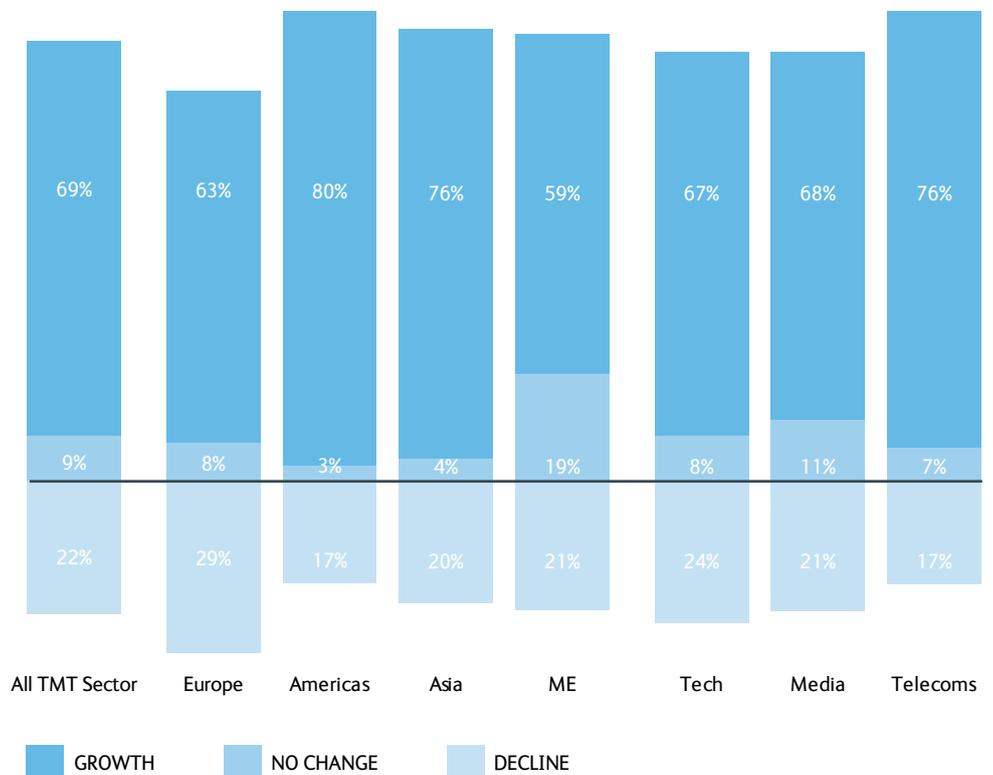
TMT sector businesses appear positive about prospects for the coming year, with more than two thirds expecting growth in their industry (Figure 2.1). The greatest optimism can be seen in the Americas but it should be noted that this reflects particularly strong optimism in Brazil where 88% of respondents expect growth. Figures for the US are on a par with the global average.

European businesses are more pessimistic, with almost a third expecting their industry to decline. In the Middle East around one in five respondents expects stability.

Telecoms businesses appear more positive than those in other sub-sectors. However, there is a sharp contrast between the expectations of European telecoms companies (more than two-fifths foresee decline in their industry) and those in other regions (70-90% foresee growth).

How businesses perceive their industry prospects is likely to affect how they see the key challenges relating to their position in the market. For those expecting industry growth, taking maximum advantage of these growing opportunities is likely to be particularly important. In contrast, for those who foresee a declining market, the most pressing issues are likely to be around protecting their individual positions and prospects within this context.

Figure 2.1: Perceptions of industry prospects for the next 12 months



Differences in perceived prospects by region may reflect differences in the maturity of these markets. In telecoms in particular, saturation in some markets appears to be an important issue.

“There’s 100%+ penetration in the UK and its going up and up... but if you look at India, China, South America, we’ve still got some way to go before we hit the magic 100%. Accordingly, basic supply and demand economics tells you that margins are easier to come by in those circumstances than they are when everybody is looking for their nth account.”

Telecoms business, Europe

Many TMT sector businesses serve multiple markets covering several geographies or offer a diverse range of products or services.

“What we’re doing is trying to diversify into not quite adjacent markets but relevant markets ... to create other revenue lines on the one hand and opportunities for customers on the other that will allow us to have a broader base of revenues in the future.”

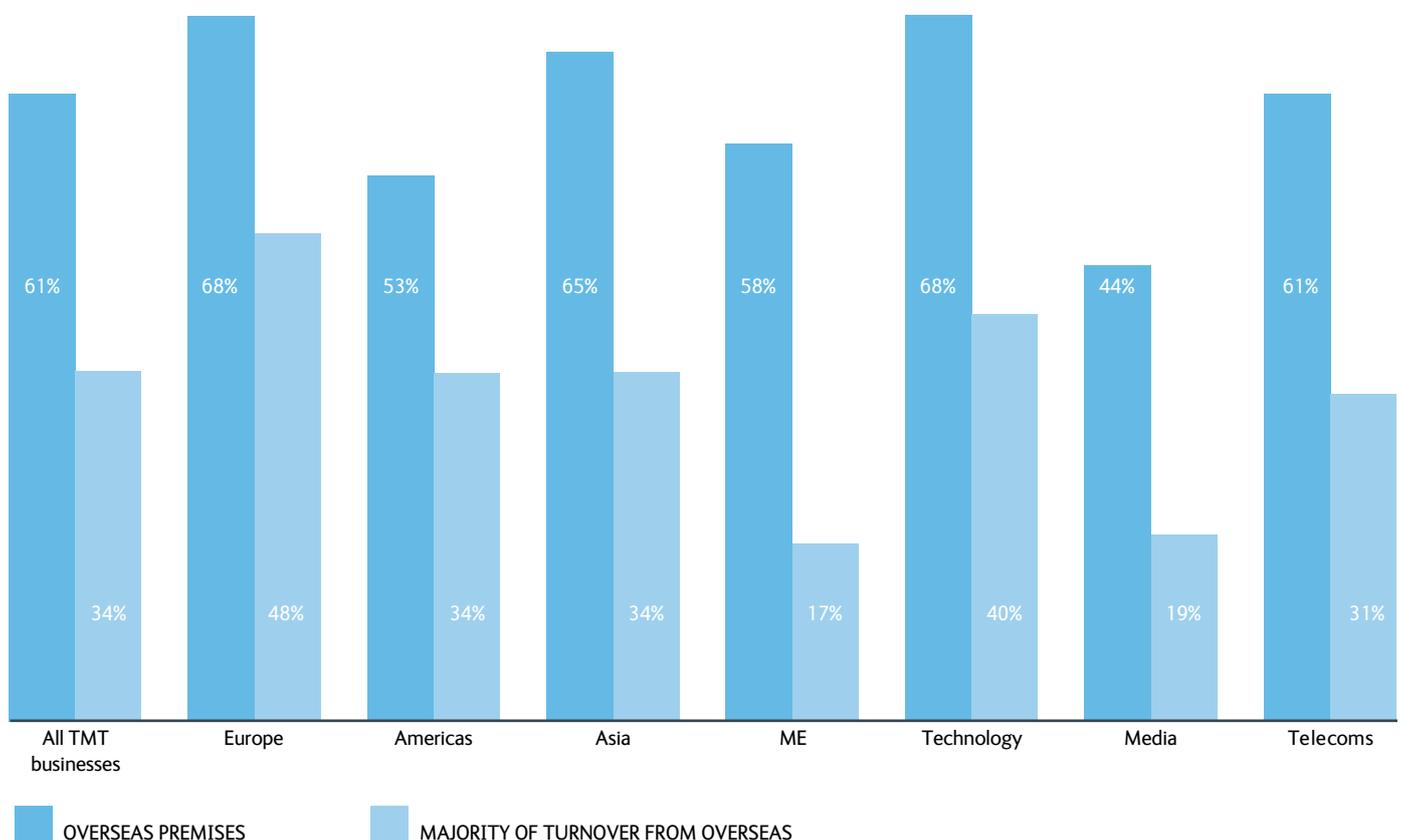
Telecoms business, Europe

The international nature of the sector is illustrated by the fact that 61% of TMT sector businesses have a presence overseas, with 37% having three or more separate overseas premises. More than a third (34%) gain the majority of their turnover from international sources, with a further 42% primarily trading nationally, meaning only a quarter have a predominantly local focus. Dependence on international trade is particularly strong in Europe but less common in the Middle East and the media sub-sector (Figure 2.2).

“Currently we are in the domestic market and we have worked with several carriers across the world. We are just launching a new product for bandwidth connectivity and IT solutions to our customers who have their ambitions outside India.”

Telecoms business, Asia

Figure 2.2: International nature of the TMT sector



Most TMT sector businesses recognise differences in the sophistication of their core and secondary markets, with secondary markets felt to differ particularly in terms of the development of products and services, and industry maturity (Figure 2.3).

Telecoms businesses are more likely than those in the other sub-sectors to see their core market as particularly sophisticated. Geographically, this is true of businesses in the Americas (both the US and Brazil). Those in the Middle East are much less likely than those in other regions to see their core market as more sophisticated, especially in terms of the regulatory environment and differences between brands. This suggests that Middle East based TMT companies may find trading outside their principal market, in more sophisticated markets, particularly challenging.

“The markets are different in their perspectives. In India, customers are more price-sensitive and customers outside of India are more quality-sensitive.”

Telecoms business, Asia

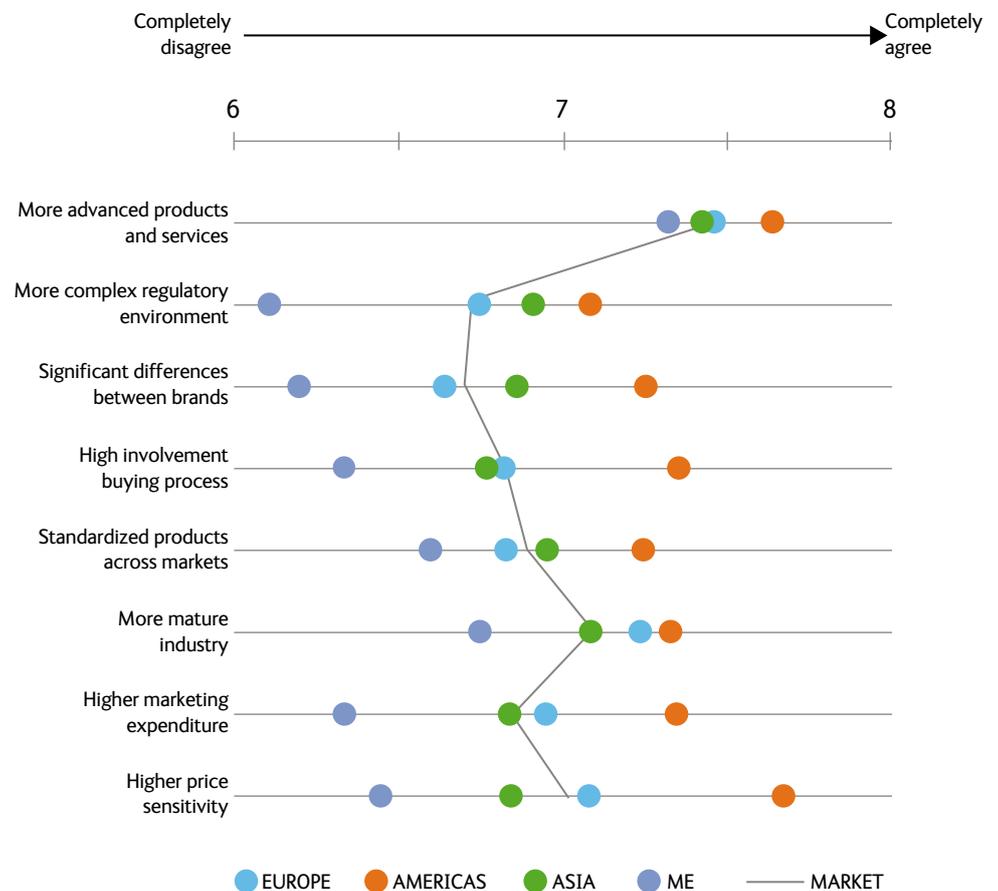
Serving multiple markets can be seen to offer opportunities for diversification away from the most mature and competitive business areas where scope for expansion may be limited. However, there are some particular challenges associated with this approach, especially if these markets differ in terms of culture or regulatory regimes, for example.

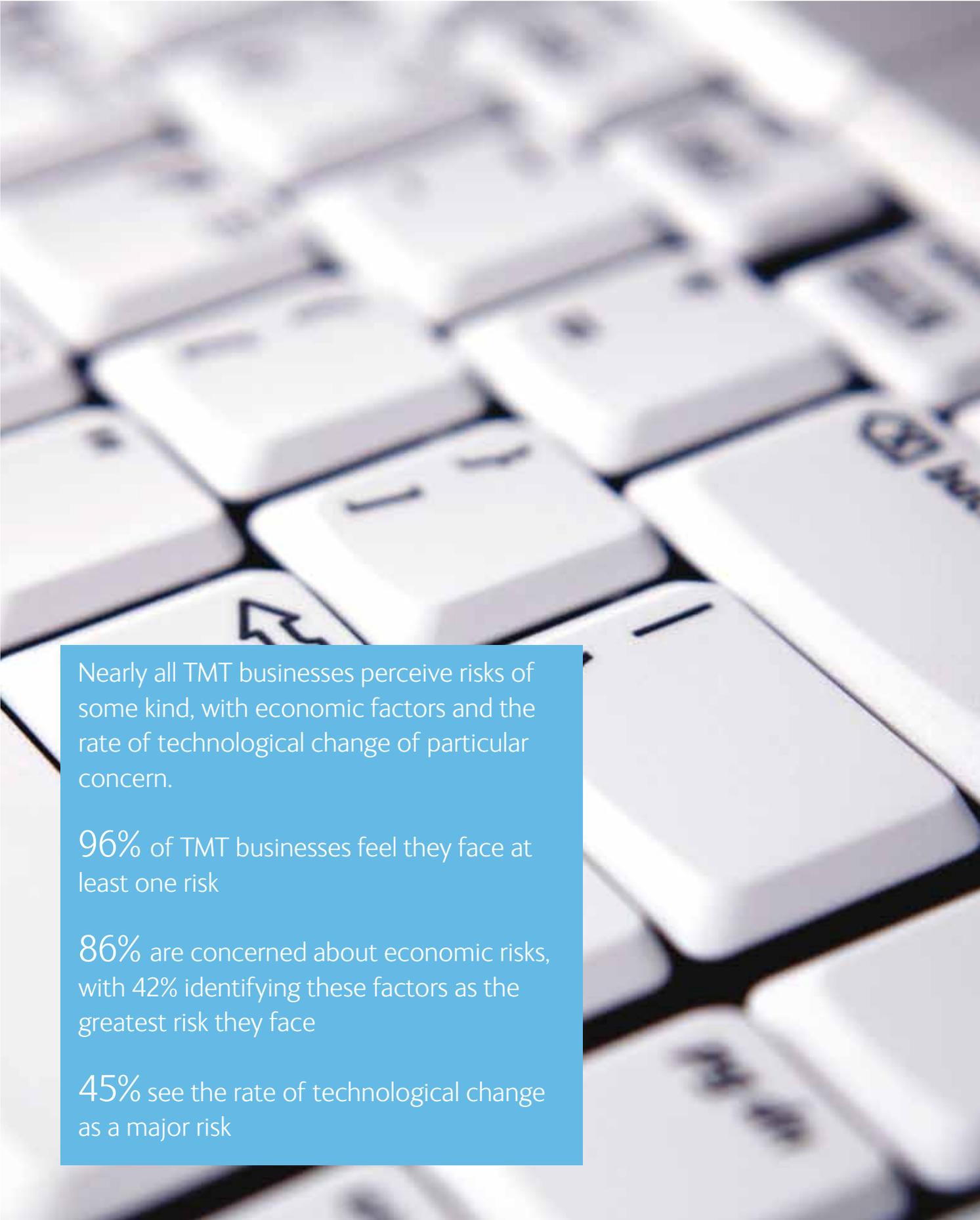
“You may be dealing with countries like the US or UK with strong anti-bribery laws, but perhaps also operating in countries that for cultural/historical/legal reasons have very different attitudes to things like bribery so you have a constant risk of misalignment in your individual operations and countries, with your overall corporate compliance and legal regime.”

Telecoms business, Americas

Figure 2.3: Perceived differences between principal market and other markets

Note: Scale shows average score out of 10 where 10 is completely agree and 1 is completely disagree





Nearly all TMT businesses perceive risks of some kind, with economic factors and the rate of technological change of particular concern.

96% of TMT businesses feel they face at least one risk

86% are concerned about economic risks, with 42% identifying these factors as the greatest risk they face

45% see the rate of technological change as a major risk



3.0 Risks faced by the TMT Sector

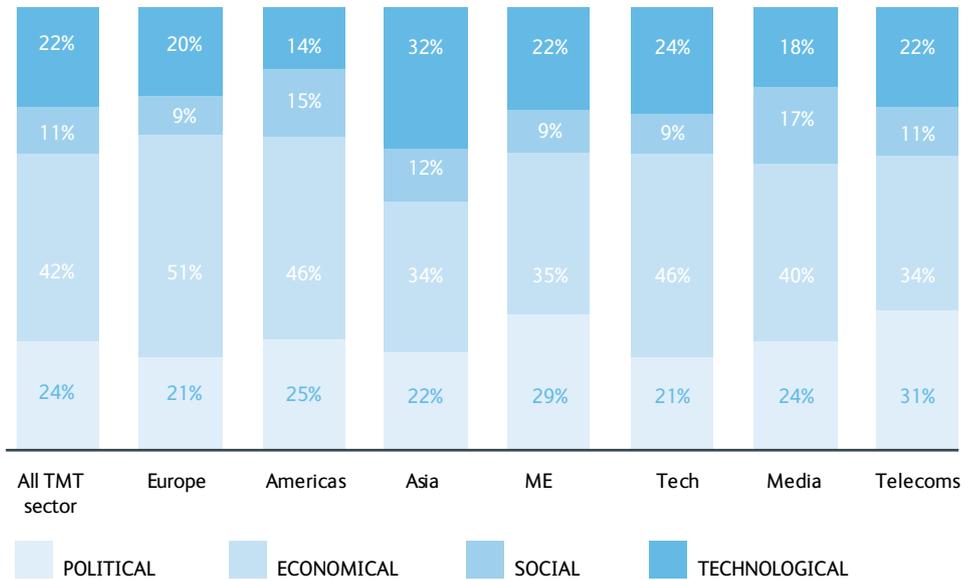
Despite generally high levels of optimism, 96% of all TMT sector businesses feel they face at least one issue that represents a risk to their business. Businesses in the Middle East (87%) appear slightly less concerned about risks than the average for the sector as a whole.

The most commonly identified single risk is the rate of technological change, recognised by more than four out of ten TMT businesses (45%). A notable exception to this was in the media sector, where regulation was perceived as the greatest single risk (45%). However, economic risks can be seen as the most common type of risk perceived (85%).

The importance of economic risk is further illustrated by the proportion of TMT sector businesses who believe these issues to represent the greatest risk they face (Figure 3.1). Economic factors dominate as the greatest risk type identified in most regions and sub-sectors. The exception is Asia, where technological risks attract a similar level of concern. Economic risks appear particularly pressing in Europe, the Americas and the technology sub-sector. Technological risks generally were perceived as less of a risk to media businesses than they were to technology and telecoms businesses.

The following sections explore these different elements of risk in more detail.

Figure 3.1: Greatest risk – by region and sub-sector



4.0 Economic and financial risks and drivers

Economic risks facing the TMT sector include both general underlying economic conditions and the risks posed by competitor activity.

37% of TMT businesses see economic growth as a major risk area

75% have been affected by the global economic downturn

84% see revenue growth as a current priority

24% see competitor activity as a major business risk

The economic risks impacting on businesses in the TMT sector can be divided into two groups:

- External economic conditions, likely to affect all businesses to some extent
- Factors presenting a risk to the financial position of TMT sector businesses linked to the behaviour of competitors – i.e. risks that are internal to the industry or the firm in question

4.1 Underlying Economic Conditions

Three aspects of underlying macro-economic conditions (economic growth, inflation and exchange rates) are viewed as a major risk by more than a third of TMT sector businesses. Businesses located in the Middle East are less concerned on average about most of the economic issues listed. Lower levels of concern can also be seen in the media sub-sector and among small businesses with 20-49 employees.

Figure 4.1: Macro-economic risks in the TMT sector

	% identifying as a major risk	% identifying as the greatest risk
Economic growth	37	8
Inflation	36	7
Exchange rates	34	5
Change in government spending priorities	27	4
Interest rates	25	6
Access to finance	23	5
Unemployment	20	1
All economic risks	86	42

The aspect of economic risk that appears to be of most concern in the TMT sector is economic growth, identified as a risk by almost four out of ten businesses, and the influence of external economic conditions on the sector can be seen in the reported impact of the recent “credit crunch” and global economic downturn. Three quarters of TMT sector businesses (75%) report being affected by the downturn in some way. One third have seen reduced revenue and a similar proportion reduced customer demand. However, the downturn also appears to have influenced some TMT sector businesses to take pro-active steps in response, for example by expanding into new markets or launching new products.

The telecoms sub-sector appears to have been most affected by the downturn and media least affected (Figure 4.2). Loss of revenue appears a particular issue in both the Middle East and the telecoms sub-sector, while expanding into new markets represents a more likely consequence of the downturn in Asia and Europe than in other regions.

Qualitative interviews suggest that the situation in some markets may be “tight” because of competitive pressure, leading to restructuring, cost cutting and downsizing, etc. However, this was attributed by interviewees in both Europe and Asia to wider ongoing trends, rather than the downturn in particular.

Interestingly, a number of interviewees mentioned that they experienced some losses related to the downturn, but also a lack of the growth that they may otherwise have expected or hoped for.

Figure 4.2: Impact of the downturn by sub-sector

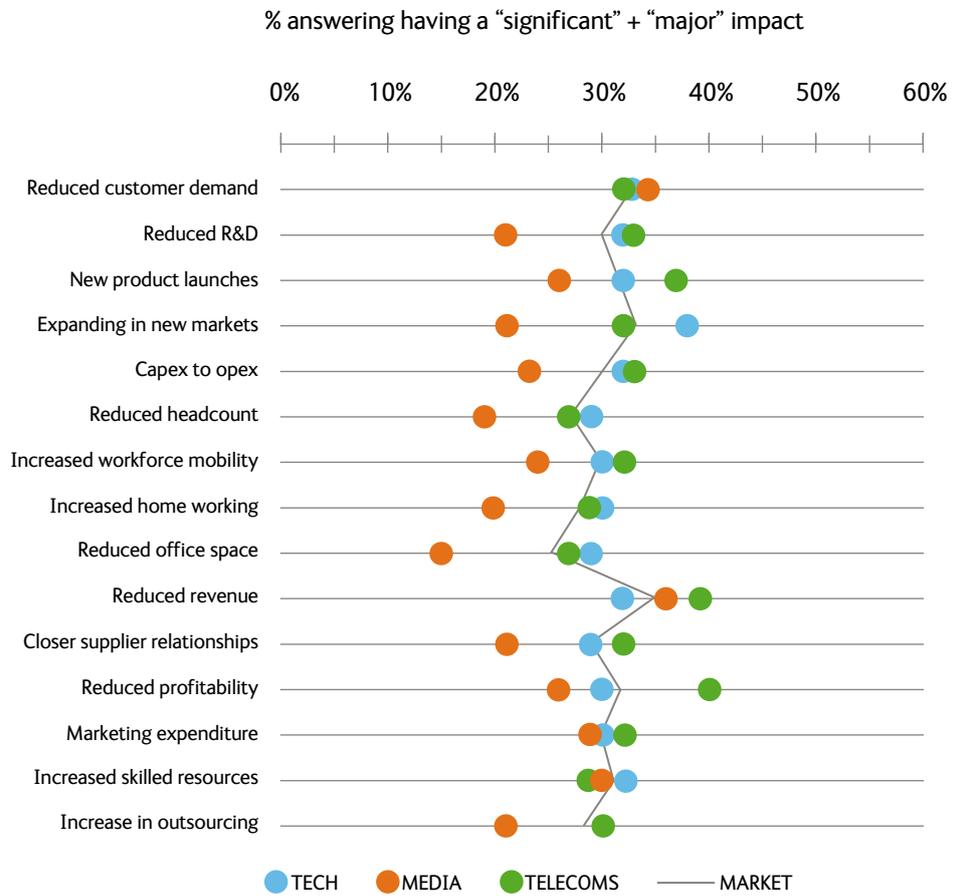
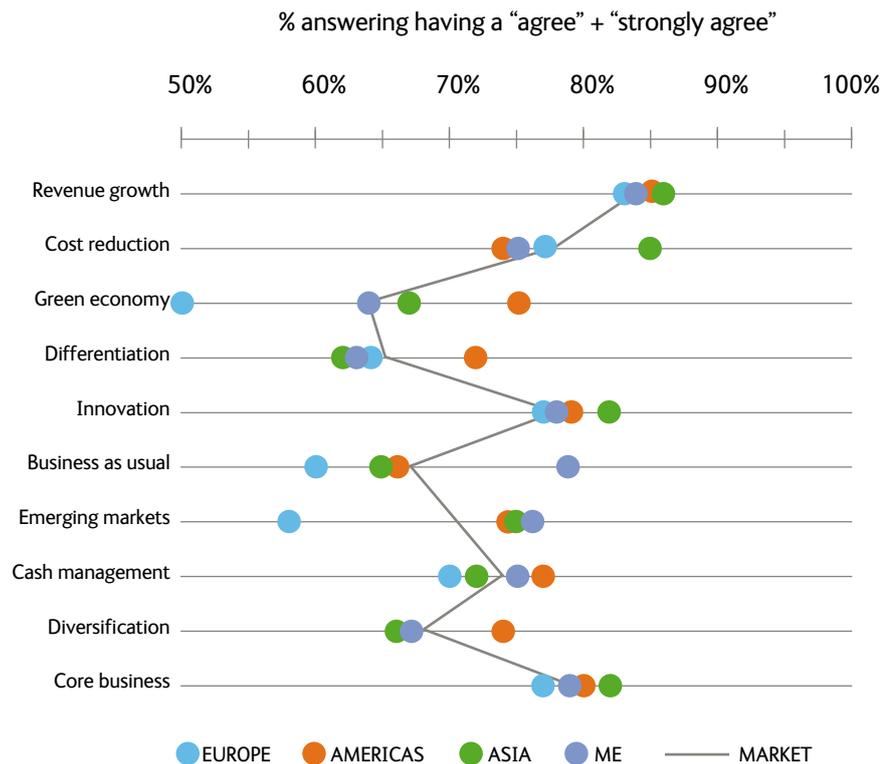


Figure 4.3: Current business priorities by region



“You don’t necessarily see a large number of consumers, even when times get tough, cutting off their phone service, their internet or their television service... there’s a certain amount of incremental impact in that people may not upgrade to the next premium tier of content or the next tier of internet speed – they may downgrade their services but generally we don’t see an overall loss of customers.”

Telecoms business, Americas

Reflecting the need for many to work to claw back their pre-downturn position, TMT sector businesses are most likely to identify revenue growth or focus on their core business as key priorities at this stage in the global economic recession (Figure 4.3). However, innovation is also considered a key priority by a substantial proportion (almost eight out of ten).

“After the dip in sales over the last two years, the focus is very much on getting that back and increasing business.”

Telecoms business, Americas

Given the greater level of pessimism about industry prospects in the region, it is interesting to note that TMT businesses in Europe appear to consider emerging markets as less of a priority than the sector average. Media businesses can be viewed as less proactive than those in other sub-sectors in terms of their interest in diversification and innovation.

4.2 Competitor activity

Around one in four TMT businesses (24%) see competitor activity as a major risk facing their business and 5% consider it the single greatest risk they face. This appears to be a particular concern for those in Europe and Asia (33% and 31% respectively highlight competitors as a major risk compared with 15% and 17% in the Americas and the Middle East).

However, TMT businesses in the Americas appear most likely to believe that the next 12 months will be characterised by high levels of competitive forces, for example with increased power among suppliers and customers (Figure 4.4). Businesses in this region also have the greatest propensity to identify factors representing a reaction to competitive forces, such as strong levels of differentiation, as well as trends around industry consolidation and co-operation between brands. It may be that these businesses feel more prepared for competition and are therefore less likely to see this as a risk.

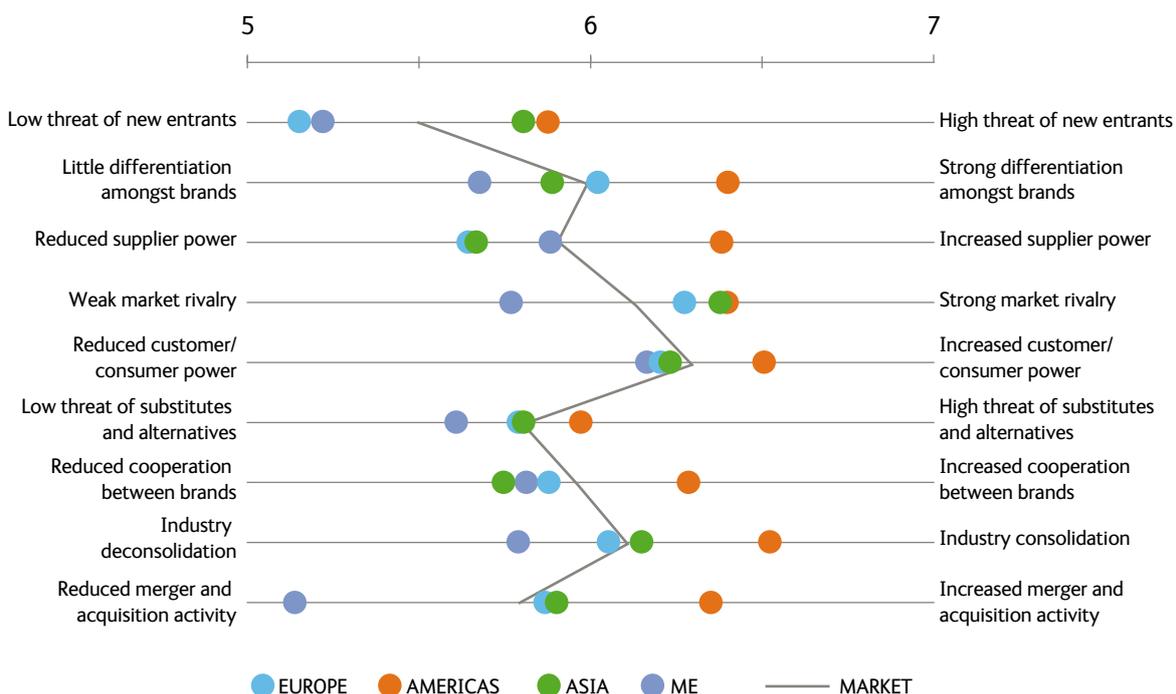
Telecoms businesses appear more likely to expect strong levels of rivalry in the next 12 months than those in other sub-sectors.

“There has been a lot of consolidation in the technology storage sector..... if there are areas where we feel we can gain a competitive advantage by acquiring a smaller company for technology advances we certainly would go on and do that and so would our competitors.”

Technology business, Asia

Figure 4.4: Expected trend in market forces (next 12 months)

Fig 4.4a: Trends by region



Focus: the BIC countries

Brazil, India and China (the BIC countries), when taken as a distinct group of countries, display a slightly different focus to that of the countries comprising any one geographical region.

Types of risk: the two most keenly felt types of risk were economic (31%) and, following closely after, political (30%). 15% of TMT businesses in the BIC countries saw the greatest risk type as social. This is a higher percentage than in any of the four geographical regions.

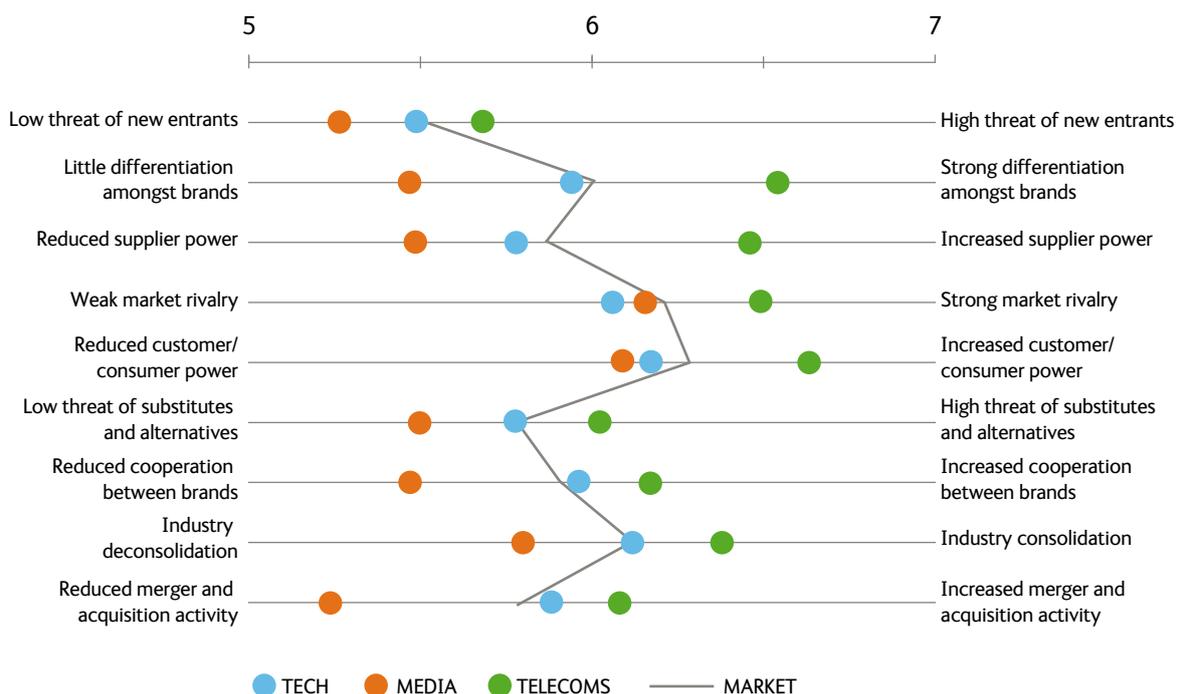
Risk management: 39% of TMT businesses in the BIC countries were

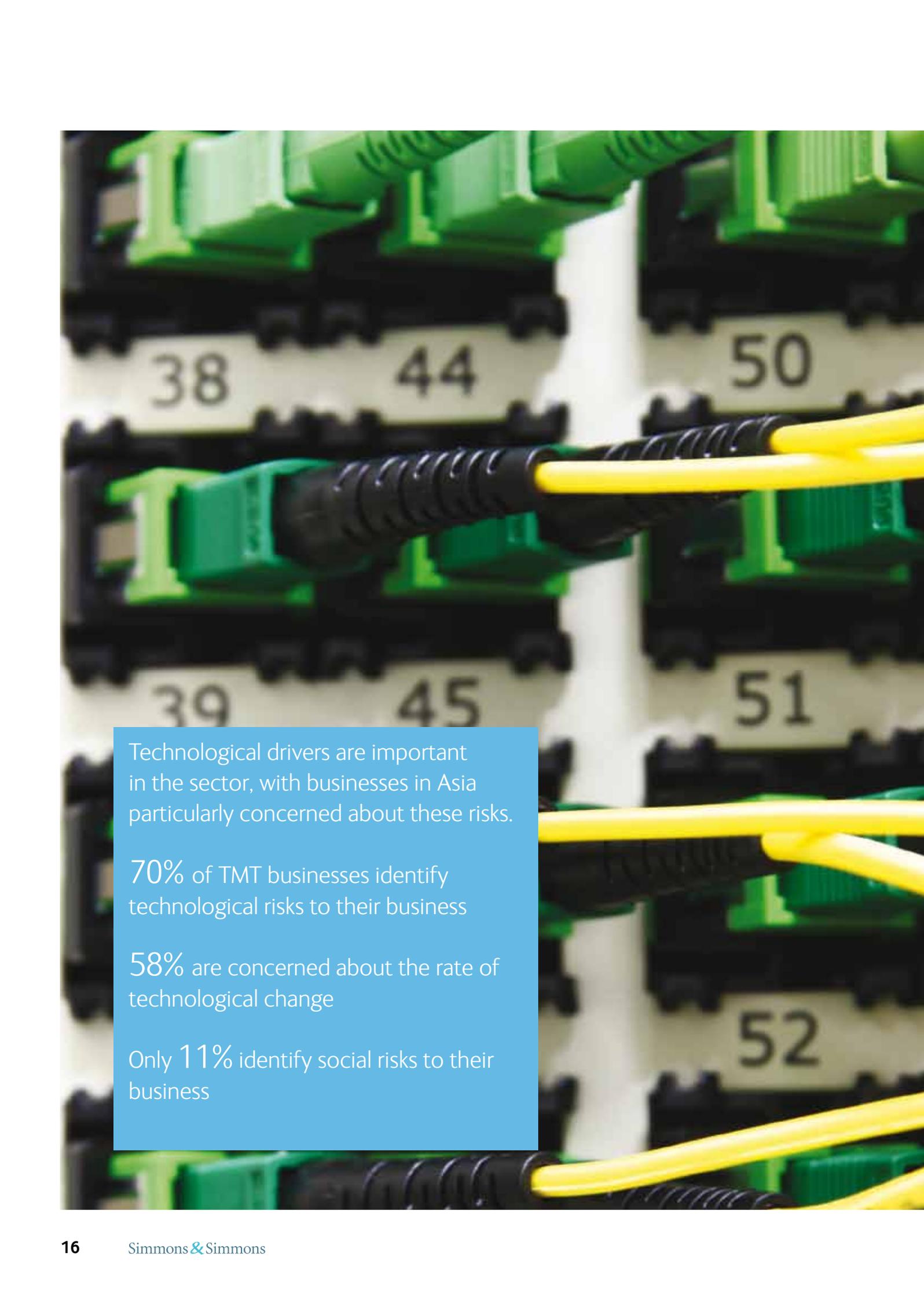
'very confident' of managing risk. This figure is higher than for any of the four geographical regions.

Growth: 81% of TMT businesses in the BIC countries expect growth in their industry. Again, this is more positive than any of the four geographical regions.

Market forces: TMT businesses in the BIC countries believe that the next 12 months will be characterised by market rivalry, along with increased customer power and industry consolidation.

Fig 4.4b: Trends by sub-sector





Technological drivers are important in the sector, with businesses in Asia particularly concerned about these risks.

70% of TMT businesses identify technological risks to their business

58% are concerned about the rate of technological change

Only 11% identify social risks to their business



5.0 Technology drivers

Technological risks are faced by 70% of TMT sector businesses and for 22% this represents the greatest area of risk they face. The rate of technological change appears a particular issue – a risk for 45% of the sector and the single greatest risk for 13%.

Technological risk as a broad category can be seen as a particular issue in Asia (identified by 85% of businesses as a major risk area and by 32% as the greatest risk area). This is reflected in particularly strong concern in respect of all three technology related risks asked about in the survey (Figure 5.1).

Figure 5.1: Technology risks in the TMT sector

	% identifying as a major risk	% identifying as the greatest risk
Rate of technological change	45	13
Energy use and cost	36	5
Commercialisation and affordability of technology	28	4
All technological risks	70	22

The issues around the rate of technological change appear to be closely related to competitive pressures; for example, the risk of being left behind if competitors adopt a new technology more quickly, or the potential for losses to new entrants who take advantage of new approaches afforded by technological developments.

“In this industry, technology is constantly evolving and constantly creating potentially disruptive market aspects because any time there is a shift it potentially puts new players into the market and destabilises the position of the incumbents.”

Telecoms business, Americas

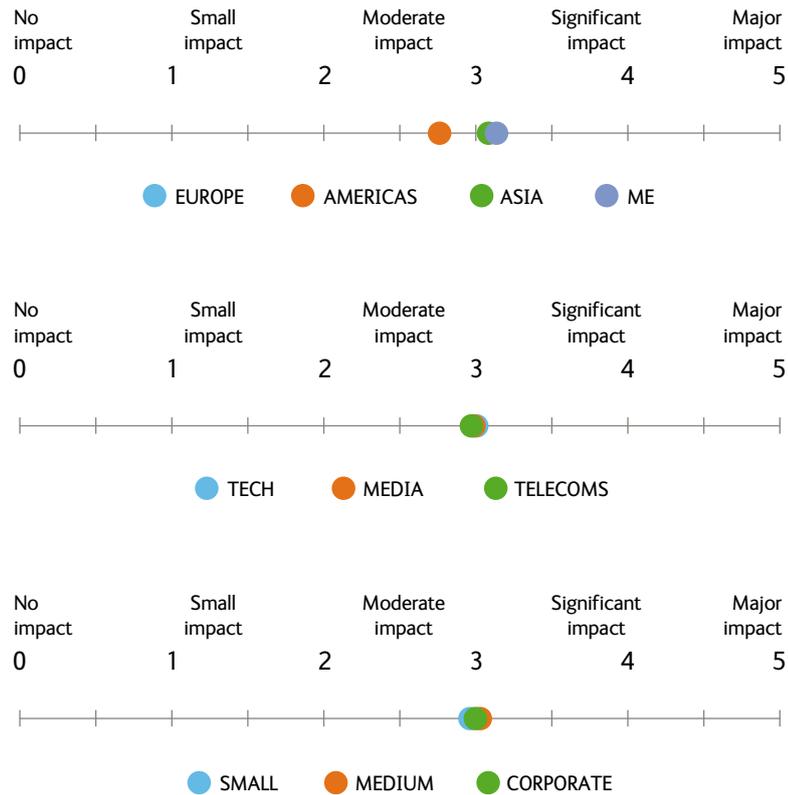
“We always have to put our bets 12 to 18 months ahead of time in terms of looking at the trends in technology, and the next generation products that we need to put our investments in, because it does take a long cycle to get the products out to the market place. So from a technology perspective it certainly would pose a bigger risk to us than some of the other factors.”

IT/Telecoms business, Asia

As could be expected given the nature of the sector, 93% of TMT businesses believe that advances or changes in technology have had an impact on them, including 59% identifying a small or moderate impact and 34% reporting a significant or major impact.

The extent to which technology has had an impact appears fairly uniform across sub-sectors and businesses of different sizes (Figure 5.2). However, TMT businesses in the Americas report less of an impact linked to technological change than those in other regions, with only 25% identifying a significant or major impact.

Figure 5.2: Impact of technology changes by type of business



As shown in Figure 5.3, technology changes are most likely to have had an impact on product innovation, followed by business efficiencies. Innovation impacts appear particularly important in Asia (59%) but less important in Europe (44%).

Almost all TMT businesses (97%) identify technology developments that will have an influence in their industry over the next 12 months, the most common being the consolidation of IT infrastructure and virtualisation³ (both likely to impact almost half of the businesses surveyed). It appears that consolidation of IT infrastructure may be particularly important in the telecoms sub-sector (identified by 52% of businesses) and virtualisation of particular importance in the Americas (identified by 56%).

Cloud computing is seen as a key development by around four in ten TMT sector businesses (Figure 5.4). It was suggested that while adoption of this technology is currently quite limited, this is likely to increase rapidly and become a major trend over the next few years.

³ Virtualisation allows multiple virtual machines to be run on a single physical machine, sharing the resources of the one physical computer across multiple environments.

Figure 5.3: Technology change – Type of impact

Note: Product LC = Product Life Cycles, SC Mgmt = Supply Chain Management

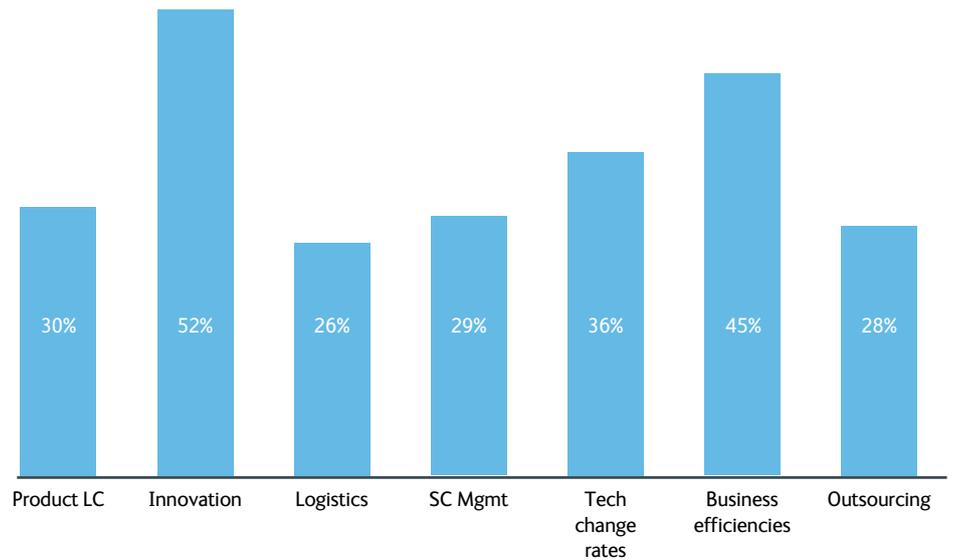
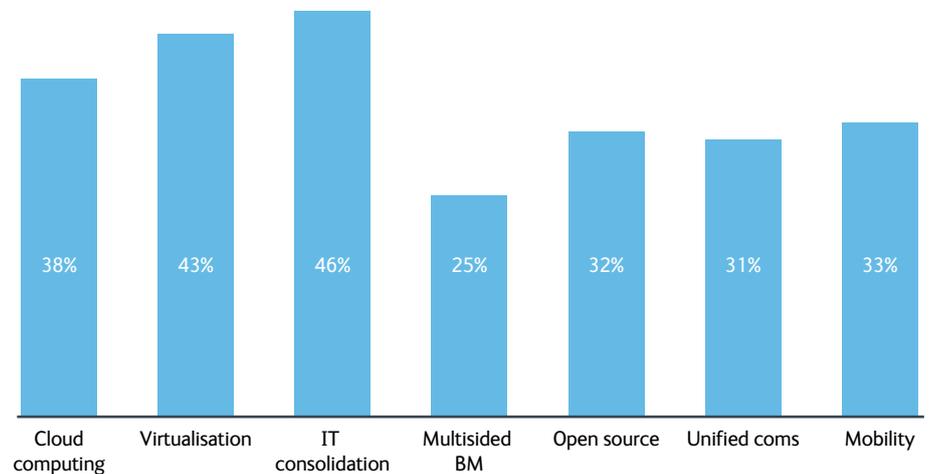


Figure 5.4: Most influential technology developments (next 12 months)

Note: Multisided BM = Multisided Business Model



Focus: mergers and acquisitions

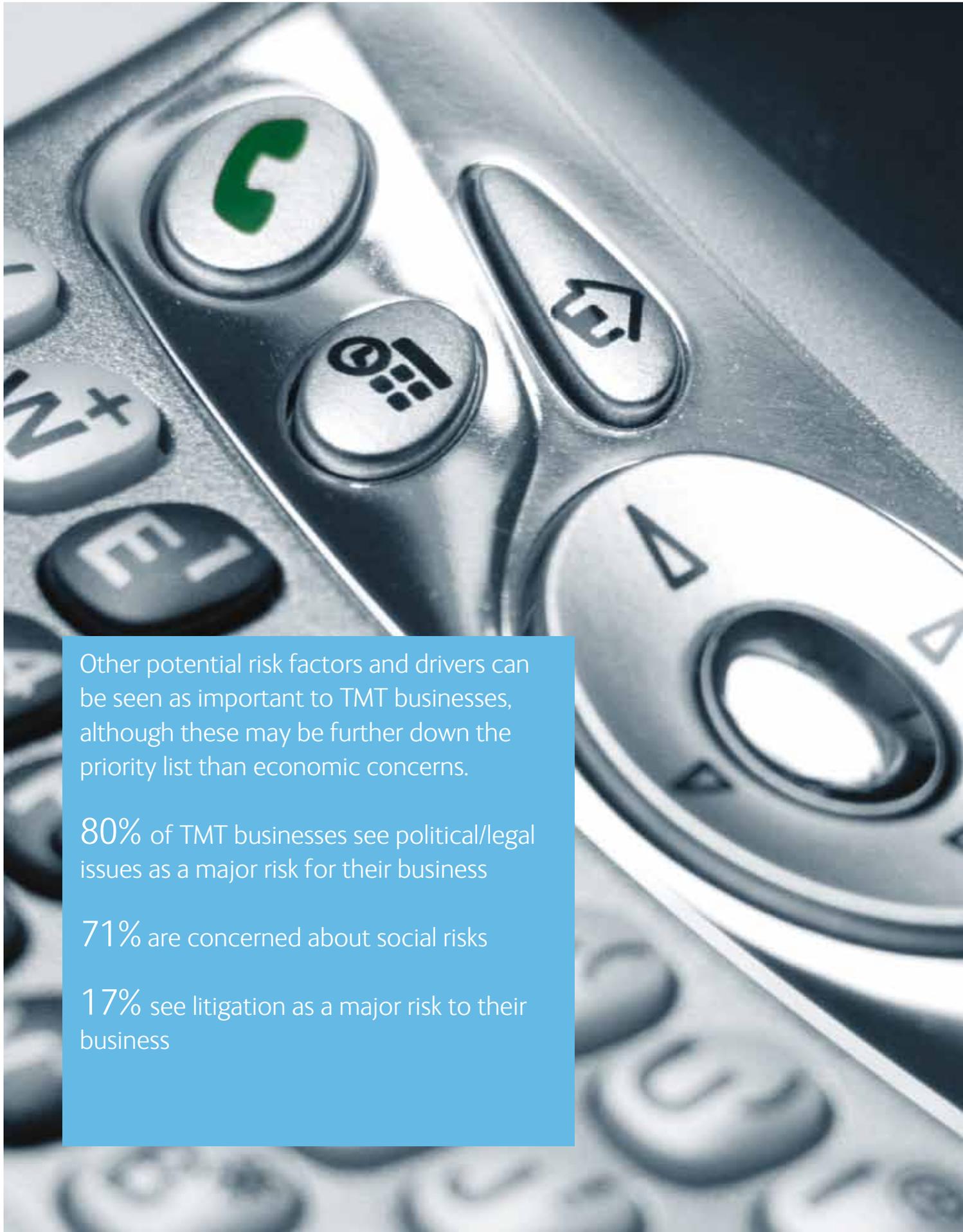
33% of all TMT businesses surveyed saw M&A as a major or the greatest opportunity for their businesses over the coming 12 months. Europe was the most positive geographical region in this respect, with 40% of respondents stating this to be the case.

Increased M&A: respondents in all regions and in all sub-sectors, expect an increase in TMT M&A in the next 12 months.

Regional M&A: findings set out elsewhere in this study (see section 4.1) suggest that emerging market

opportunities are being prioritised less by European TMT businesses than by TMT businesses in each of the Americas, the Middle East and Asia. It may be, therefore, that in Europe at least, M&A may take the form of in-region consolidation.

Sectoral M&A: findings suggest that TMT businesses are prioritising core business functions over diversification. TMT businesses may, therefore, look to M&A as a tool to achieve growth within sectors in which they already operate, as opposed to a means of diversifying their offerings.



Other potential risk factors and drivers can be seen as important to TMT businesses, although these may be further down the priority list than economic concerns.

80% of TMT businesses see political/legal issues as a major risk for their business

71% are concerned about social risks

17% see litigation as a major risk to their business



6.0 Other drivers

Political/legal and social risks can be seen as important to TMT sector businesses, although they do appear currently to be less of a priority than economic issues. Political/legal risks are identified by 80% of TMT sector businesses and social risks by 71%. Both types of risk generally appear to represent less of a concern in the Middle East and for small businesses. Political/legal risks are considered greater in the media and telecoms sub-sectors than in the technology sub-sector.

Political or legal risks may be closely inter-related with technological factors. New technologies can be seen to have important implications from a legal point of view; for example, through licensing issues for downloaded TV or movies, privacy issues relating to customer data and behaviour, and regulatory and compliance issues. Developments such as cloud computing were considered to bring particular risks relating to the responsibility for customer data.

“With VOIP and cloud computing, there are a lot of interesting issues around complying with wire tap orders or subpoenas for example. Is data accessible to law enforcement authorities in one country because that’s where the data sits? How do customers feel about that? What consents do they need to give?”

Telecoms business, Americas

There also appears to be a complex relationship between potentially competing priorities. One example is the link between economic pressures associated with the economic downturn and the issue of environmental responsibility and “green” business practices. On the one hand, some TMT businesses appear to have had to reduce some of their environmentally based plans as a consequence of the recession, with “the green economy” one of the least commonly cited current priorities in the survey (see Figure 4.3). Europe prioritises this the least of all the regions surveyed. However, some cost-driven initiatives, such as consolidating business sites, at the same time offer environmental benefits.

“We’ve been looking at cycling through the vehicle fleet to more hybrid vehicles and other green energy vehicles. Previously, we might have tolerated a bit of a longer payback period on that than we would in the current environment....With the downturn, we’ve probably been a bit more aggressive with building consolidation – this isn’t an environmental footprint issue, but it actually may have some environmental benefit.”

Telecoms business, Americas

This also ties in with the importance of energy use and cost, as one of the most commonly identified risks in the sector (reported by 36% of businesses). As environmental issues appear to be something that TMT businesses would like to prioritise more highly, support on bringing together these objectives with actions that could help to improve efficiency, save energy or promote other savings may be particularly welcome.



Some TMT businesses lack a strong level of confidence in their ability to successfully manage the risks they face but approaches are being taken to try to minimise risk and maximise opportunities.

67% of TMT businesses lack a strong level of confidence in their ability to successfully manage key risks

91% rely on partners to help them manage risk

47% see opportunities related to new markets

45% see opportunities linked to new product development



7.0 Managing risk and maximising opportunities

Around nine out of ten businesses in the TMT sector (89%) are confident that they can successfully manage the risks facing their business. However, only around a third (33%) would consider themselves “very confident” in this area and there are important differences in confidence levels between different types of business in the sector. For example, while 37% of larger corporate businesses have a strong level of confidence in their ability to manage risk, this figure falls to just 21% among small businesses with 20 to 49 employees (Figure 7.1).

Figure 7.1: Confidence in managing risk by business size

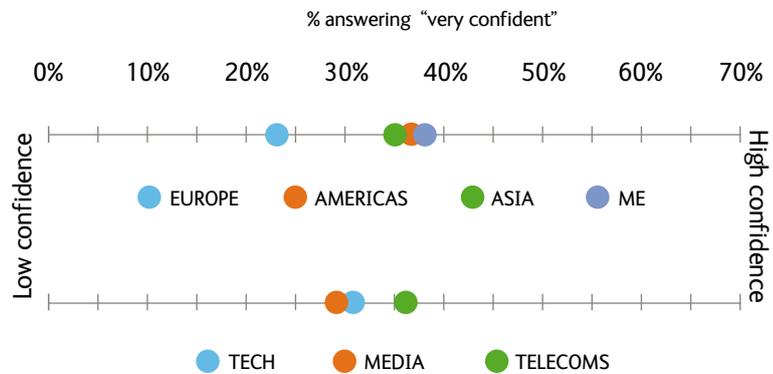
	All TMT Sector	Small business (20-49 staff)	Medium business (50-249 staff)	Corporate (250+ staff)
Confident	56	65	53	54
Very confident	33	21	33	37
Total	89	86	86	91

“Technology is un-calculable. You would never know the changes that will happen tomorrow.”

Media business, Asia

There are also some differences by geography and sub-sector. Only 23% of TMT businesses in Europe consider themselves “very confident” and this is true of only 32% of technology businesses globally, compared with close to four out of ten of those in media and telecoms (Figure 7.2).

Figure 7.2: Confidence in managing risk by geographic region and sub-sector



Almost all businesses in the TMT sector (91%) rely on partners to help them manage risk; most commonly marketing agencies or consultants (used by 39% of businesses) or accountants (used by 38%) (Figure 7.3).

Some businesses in the sector identify a close relationship between external partners and their own internal strategies for managing risk.

“We’ll sometimes work with outside consultants to do a general risk management or identification but the risk management itself, taking that information and figuring out what we need to worry about, we take that inside and manage it within the company.”
Telecoms business, Americas

However, it appears that not all TMT sector businesses derive complete confidence in their ability to manage risk from the partners they are currently using. Two thirds of those using partners (65%) would not consider themselves “very confident”.

Interviewees mentioned a number of formal processes for measuring and managing risk; for example, through risk maps or risk registers. However, those expressing a particularly strong level of confidence in their organisations’ ability to manage risk, highlighted the importance of combining these processes with a more human approach, drawing on the skills of key personnel both within and outside the organisation.

“There are some real mechanisms in place to mitigate risks but they’re all a little bit dry. If you’re talking about how we’ve made decisions about the things we’ve done over the last few years, the quality of the decision makers is absolutely outstanding.”
Telecoms business, Europe

In many cases, managing risk is seen as a process that goes hand in hand with making the most of opportunities. Some factors that can be seen as risks can be considered opportunities in the right circumstances. Furthermore, a certain degree of risk is inherent in taking action to seize opportunities involving the unknown; for example, new markets or new ways of working. It is therefore interesting to note that the two areas where TMT sector businesses are most likely to see opportunities, new markets and new product development (Figure 7.4), will involve undertaking and managing previously untried approaches.

Opportunities relating to both new markets and new product development, are most likely to be seen by TMT sector businesses in Asia and the Middle East. It is interesting to note that SMEs more commonly see new product development opportunities than larger corporate businesses.

“The main issue in terms of development in the next 12 months is getting more of the products into the digital platform.”
Media business, Asia

Figure 7.3: Risk partners used by region

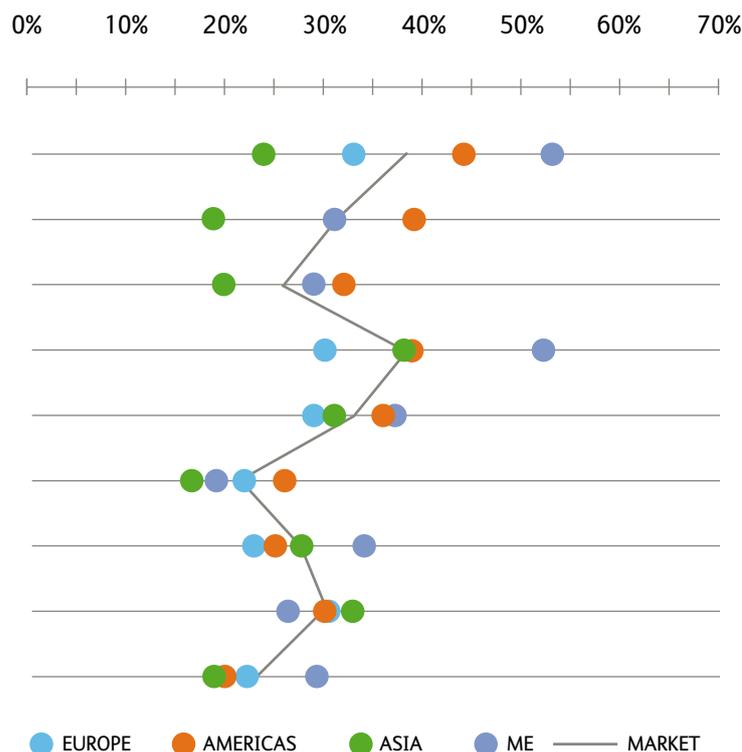
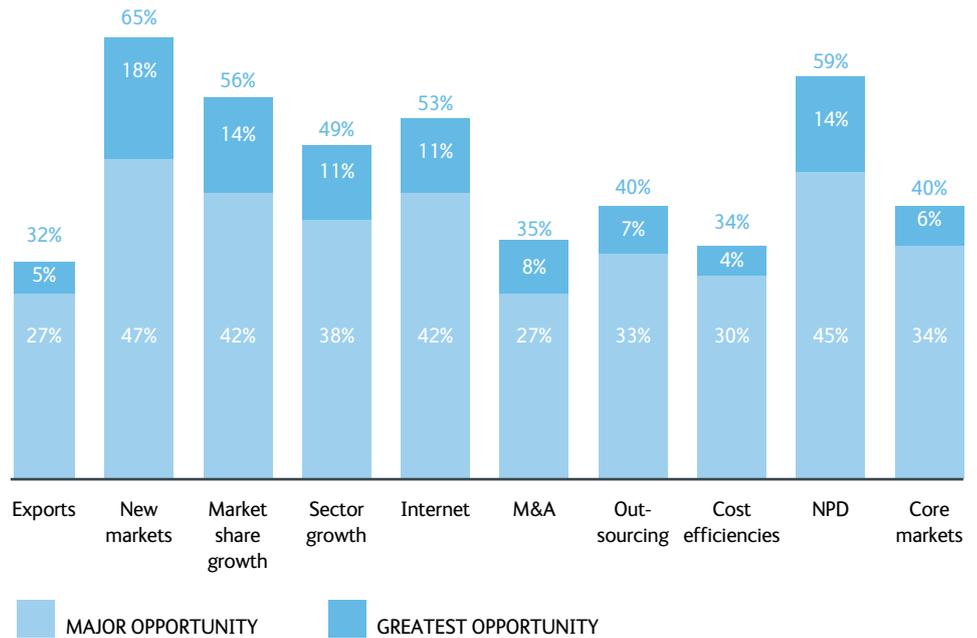


Figure 7.4: Opportunities

Note: NPD = New Product Development



Focus: differences in regional and sectoral priorities

While TMT businesses displayed a degree of uniformity on a global basis, certain differences as between geographical regions and between sub-sectors were noticeable.

Europe: TMT businesses took a more positive view of M&A than respondents in other regions (see Focus: mergers and acquisitions).

Asia: respondents were more positive on outsourcing and new product development than were respondents in other regions.

Americas: respondents were more positive on cost efficiencies, with outsourcing perceived as far less of an opportunity than in the other regions surveyed.

Middle East: respondents were more positive on breaking into new markets than respondents elsewhere.

Media: media businesses are valuing opportunities arising from the internet more highly than technology and telecoms businesses.

Technology: tech businesses are focussing more on new product development and outsourcing than media and telecoms businesses.

Telecoms: telecoms businesses are prioritising the growth of market share, while the internet, somewhat surprisingly, takes something of a back seat.





8.0 Conclusions

Three overarching messages can be drawn from this study:

Growth and new markets

The growth outlook for the TMT sector in the coming twelve months is positive. That said, confidence in the markets is unevenly spread, with TMT businesses in Europe displaying greater concern in this respect than TMT businesses in the Americas, Asia and the Middle East.

Moving into new markets, either geographic or thematic, can be seen as a key area of opportunity for the sector. Many TMT businesses are doing this already as illustrated by their international outlook. However, there are challenges and risks involved in this.

In this context, it is interesting to note that TMT businesses in Europe are prioritising emerging market opportunities less than businesses in any of the other regions surveyed.

While the differing perspectives on growth outlook may result from the relative position of each region in the economic cycle, it does mean that companies operating in Asia and the Americas and, to a lesser degree, in the Middle East, are arguably better placed to exploit opportunities in the next 12 months.

Importance of recognising risks

Risk management is not just a matter of minimising the potential damage to core operations; it is also key in giving businesses the confidence to step into the unknown in order to benefit from new opportunities.

Just because businesses do not identify risks, this does not mean that the risks are not there. Some may require help to fully assess and understand the range of risks they face. Confidence in managing risk implies some level of confidence in recognising risk and it is interesting to note that small businesses are less likely than average to identify risks in a number of areas but are also less confident about their risk management abilities.

It is also possible that businesses not identifying risks are not stretching themselves in terms of doing new things in the same way as those who are more concerned about risk identification.

It is interesting that, of the regions surveyed, TMT businesses in Europe have the least confidence in their ability to manage risk.

Complexity of the relationship between different risks

Different areas of risk do not operate in isolation. Drivers such as technological change are important because of the implications they have for factors such as legal exposure or competitor activity, for example. It is the combined effect of these risks taken together that is likely to be important.

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Breakdown of respondents

	No of interviews
Europe (UK, Germany, France)	189
Americas (US, Brazil)	163
Asia (India, Malaysia, China, Singapore)	170
Middle East (Abu Dhabi, Dubai, Qatar, Oman, Bahrain, Saudi Arabia)	170

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