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Technology, Media & Telecommunications

# 2005 Technology Fast 500 CEO Survey Results

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## About the survey

Deloitte's Technology Fast 500 is an annual ranking of the fastest-growing technology companies in North America. More than 150 CEOs participated in this year's survey. The survey questions addressed the full range of business challenges, from strategy and marketing to operations and finance. The questions also looked at the growth prospects for individual companies and the economy overall as well as personal issues of particular relevance to CEOs.

# Executive Summary

Confidence. That's the striking theme that comes across in this year's Technology Fast 500 CEO Survey. With fewer concerns about external factors such as the economy and security, CEOs are focusing inward to strengthen their companies and increase growth.

Indeed, far more CEOs are extremely confident about their company's growth prospects in the next year compared to last year. While in 2004 70 percent were very confident or extremely confident, this year, 74 percent were very confident or extremely confident. Consequently, they show little interest in changing course in terms of IPOs, acquisitions, or mergers. This confidence is also reflected in a lessened anxiety over current economic conditions, geopolitical instability, and overseas competition. They're zeroing in on growing the company through improving internal operations. Recent tax cuts have fewer CEOs prescribing lower corporate and individual taxes to stimulate growth in the tech sector. Instead, they're showing more interest in aggressive investment in national security infrastructure, reduced trade barriers, improved corporate governance and lower interest rates.

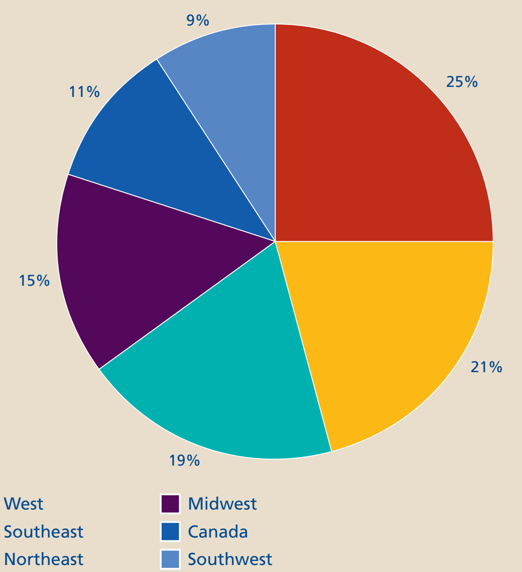
For CEOs, it's now almost all about their people. As in past years, they're of the opinion that high-quality employees are the greatest contribution to the growth of their businesses. But this same emphasis on high-quality employees also creates their greatest operational challenge. For CEOs concentrating on managing their company's growth, finding, hiring and retaining qualified talent is as problematic this year as it was last year. Even developing sound business strategies took a back seat to the talent issue.

Another concern of CEOs is limited access to capital and, increasingly, competitive pressure on prices. They are far less concerned about current economic conditions—a mere two percent identify this as an issue compared to 16 percent last year. But, the challenges of developing and bringing new products to market and growing sales are still front and center on the strategic radar.

IP-based applications are viewed as extremely important in supporting corporate goals and are being employed in a variety of ways, from communication, sales and distribution channels to connecting geographically dispersed workers and assisting in research collaboration.

With concern about global terrorism dropping from 22 percent last year to 15 percent this year, there's slightly more interest in overseas markets, with the greatest potential seen in the Asia Pacific region and the least in South America. The vast majority, however (61 percent) are still looking at North America for the bulk of growth in their companies over the next five years. Intriguingly, the industry segment they see as offering the greatest potential for growth over the next 12 months has shifted from wireless communications services last year (23 percent) to Internet/IP-related services this year (30 percent). Life sciences, which were big on the list last year at 21 percent, rated only nine percent this year. When asked to forecast further out from one to three years, Internet/IP-related services still held sway at 21 percent, followed by wireless communications and life sciences (12 percent each).

**Figure 1. Geographic distribution of CEO respondents in the sixth annual survey**




Finally, in keeping with the theme of focusing on internal operations and managing talent, in particular, far more CEOs—31 percent compared to 23 percent last year—indicated that developing leaders and delegating responsibility was their greatest personal challenge. Further down the list of challenges was achieving and sustaining profitability, perhaps reflecting their confidence in themselves and their accomplishments. These are people who believe that the most important skills for a CEO in a fast-growing technology company are decision-making and focusing on core competencies (a new answer this year). They cite their entrepreneurial spirit and sheer determination to succeed as the greatest keys to their personal success, although they also acknowledge the roles that luck, upbringing, education, mentors and personal relationships have played. These CEOs are showing tremendous confidence in their own skills and abilities, and while two-thirds feel that executive compensation packages in the abstract are in line with executive performance, more CEOs (28 percent) are less convinced that their own compensation reflects their performance this year compared to last year (20 percent).

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# Survey Findings

## I. Critical Success Factors And Challenges For Fast-Growing Technology Companies

**Figure 1. Which factor has contributed most to the growth of your company?**

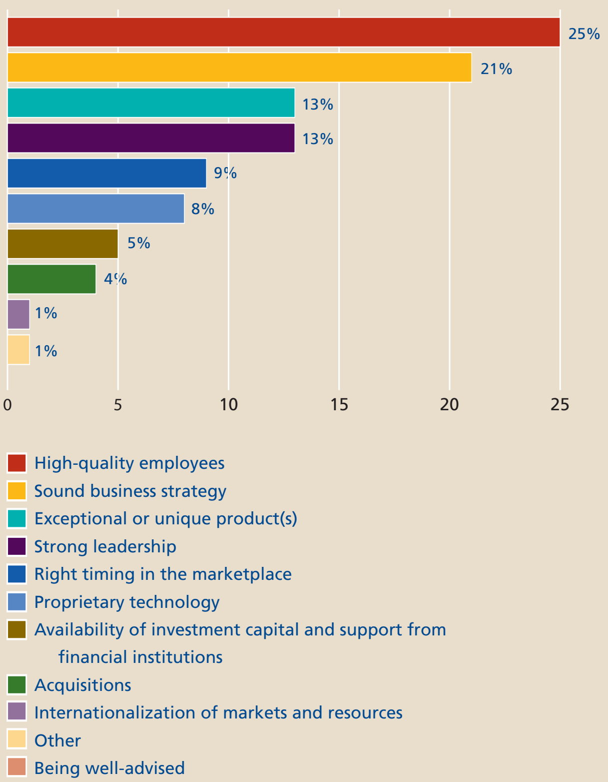
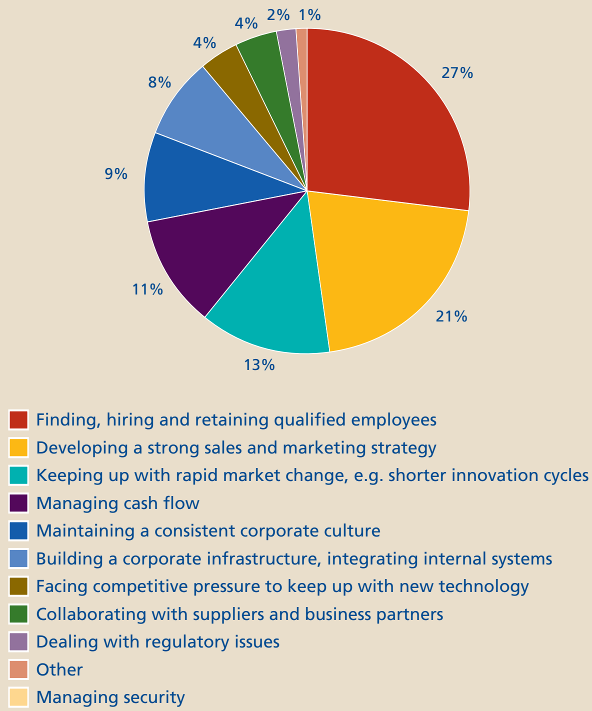


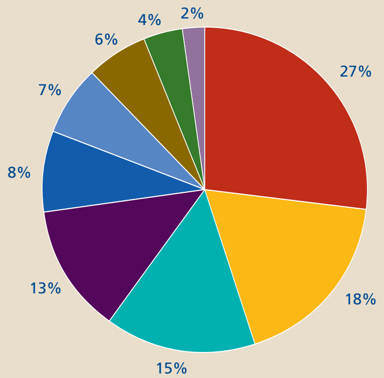

**Figure 2. What is your biggest operational challenge in managing your company's rapid growth?**




This year, the focus for CEOs was on talent management. Last year, only 19 percent gave priority to the importance of high-quality employees, while this year, the number rose to 25 percent. A sound business strategy also grew in importance from 16 percent to 21 percent, while developing exceptional or unique products slid from 24 percent last year to 13 percent.

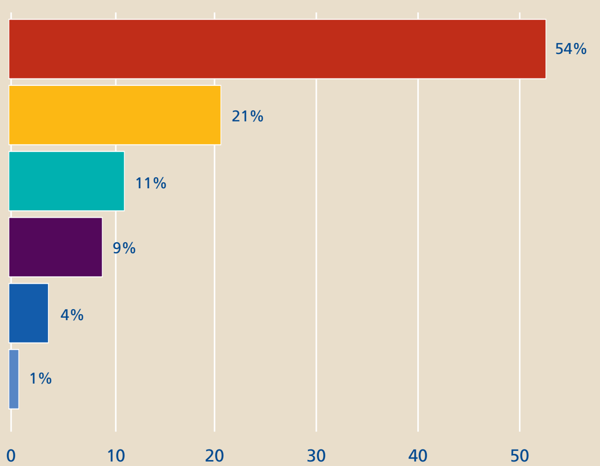
If high-quality employees are the greatest contribution to the growth of their companies, CEOs continue to find that recruiting and keeping them can be the biggest challenge to managing growth. This year fewer identified developing a strong sales and marketing strategy or managing cash flow as their biggest challenges, reflecting greater confidence in the strength of their business and confidence in its growth.

**Figure 3. What is your biggest challenge in sustaining your company's revenue growth?**




- Developing and bringing new products to market
- Hiring the right sales people
- Building strategic relationships
- Competitive pressure on prices
- Establishing and maintaining brand presence
- Other
- Building customer loyalty
- Competitive products
- Current economic conditions

**Figure 4. What is your biggest financial challenge?**




- Growing sales
- Managing cash flow
- Optimizing financial structure
- Raising capital
- Other
- Reducing debt

Displaying less anxiety over the economy this year, far fewer CEOs identified current economic conditions as their biggest challenge in sustaining revenue growth. Consistent with last year are the challenges of product innovation and, again, hiring the right people. Growing in concern, however, is competitive pricing pressure, which more than doubled from six percent last year to 13 percent this year.

CEOs continue to identify growing sales and managing cash flow as their biggest financial challenges. This year, however, we asked how important reducing debt and optimizing financial structure were. A scant one percent identifies debt reduction as an issue, while 11 percent find optimizing financial structure as their biggest challenge.

Reflecting the proliferation of new technologies available to companies in the IP arena, this year our question about the importance of technology asked how IP-based applications were impacting corporate strategy. A total of 61 percent considered IP applications very or extremely important, compared to 47 percent last year, in the context of the Internet and eBusiness. The increase isn't surprising, especially given the rise in anticipation of IP as a growth leader among tech industry segments.

A new question in this year's survey, we find that as companies look for a competitive edge, IP-based applications are taking on an increasingly more important role in facilitating transactions. These applications dominate in the area of communications and bringing co-workers across the country or the world together to collaborate. And, reflecting greater customer dependence on technology to meet their needs, technology companies are heavily invested in IP-based applications in the areas of sales and distribution and customer support.

**Figure 5a. How important are IP-based applications to your company's strategic plans?**

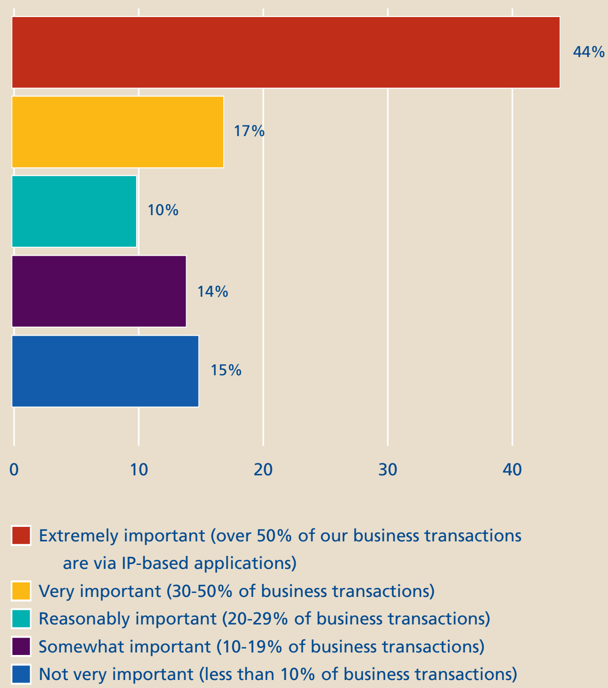
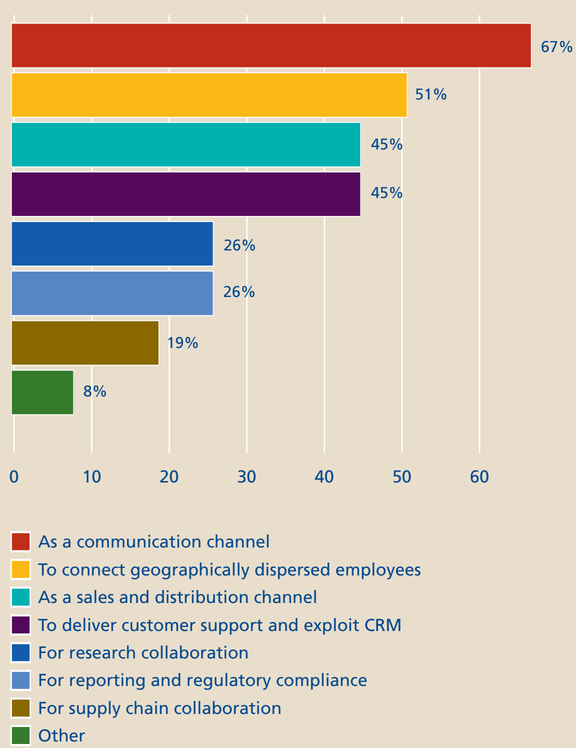



**Figure 5b. How is your company using IP-based applications?**



# II. The Big Picture: Macro-Economic Trends

**Figure 6. How confident are you that your company will sustain its high level of growth over the next 12 months?**

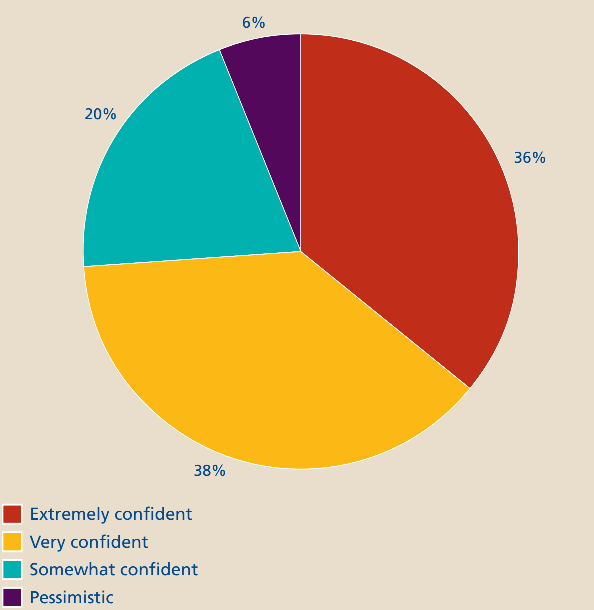
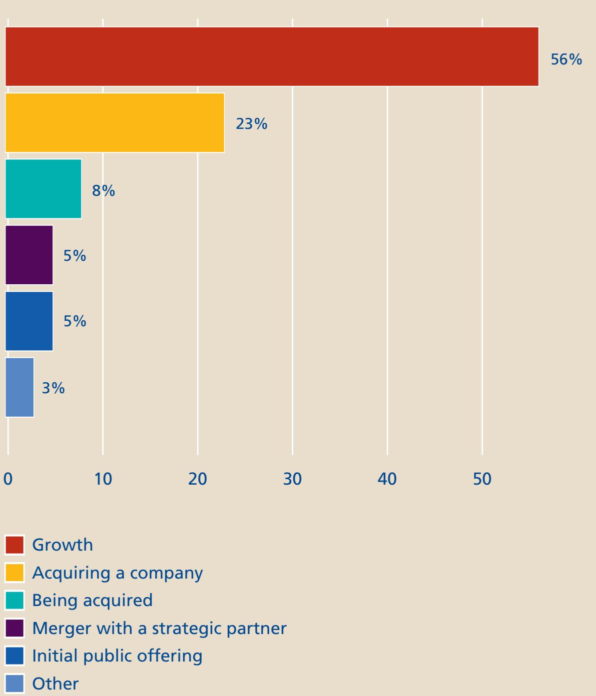


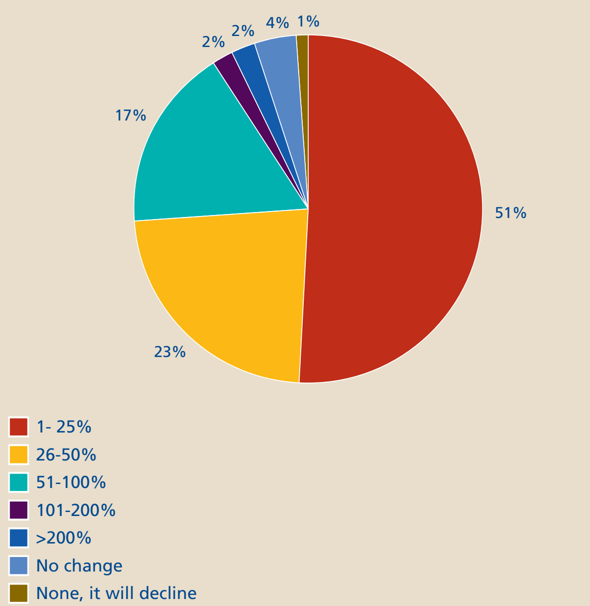

**Figure 7. What do you consider the most likely scenario for your company within the next 12 months?**




Close to three quarters of our CEOs are pretty ebullient about their companies' growth prospects over the next year. Far more CEOs are "very confident" relative to last year.

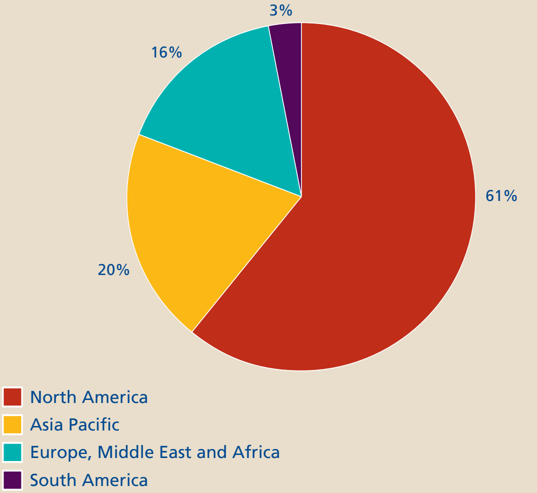
Reinforcing this show of confidence is that by and large, they're staying on the course of organic growth. Slightly fewer CEOs identify growth as the most likely scenario, but they still number more than half. Mirroring last year's results, acquiring a company is second to growing internally on CEOs minds, while being acquired, merging and IPO are relatively unpopular options.

**Figure 8. How much will your workforce grow in the next 12 months?**




Consistent with last year, few CEOs are planning workforce reductions. In fact, CEOs anticipate a larger headcount than in past years, reflecting their confidence in both their own business and the economy in general.

**Figure 9. Which of the following geographic markets represent opportunities for significant growth for your company over the next five years?**




While CEOs may be shrugging off global political instability, certain markets—South America, in particular—remain less attractive than North America. They're still tentative about the risks and the buying potential of overseas markets, although interest in the Asia Pacific region has grown slightly from 16 percent last year.

By far, the greatest show of confidence in industry segments over the next 12 months and three years is in Internet and IP-related technologies. This finding represents, intriguingly, a shift away from life sciences and wireless communications.

**Figure 10. Which industry segment has the greatest potential for growth?**

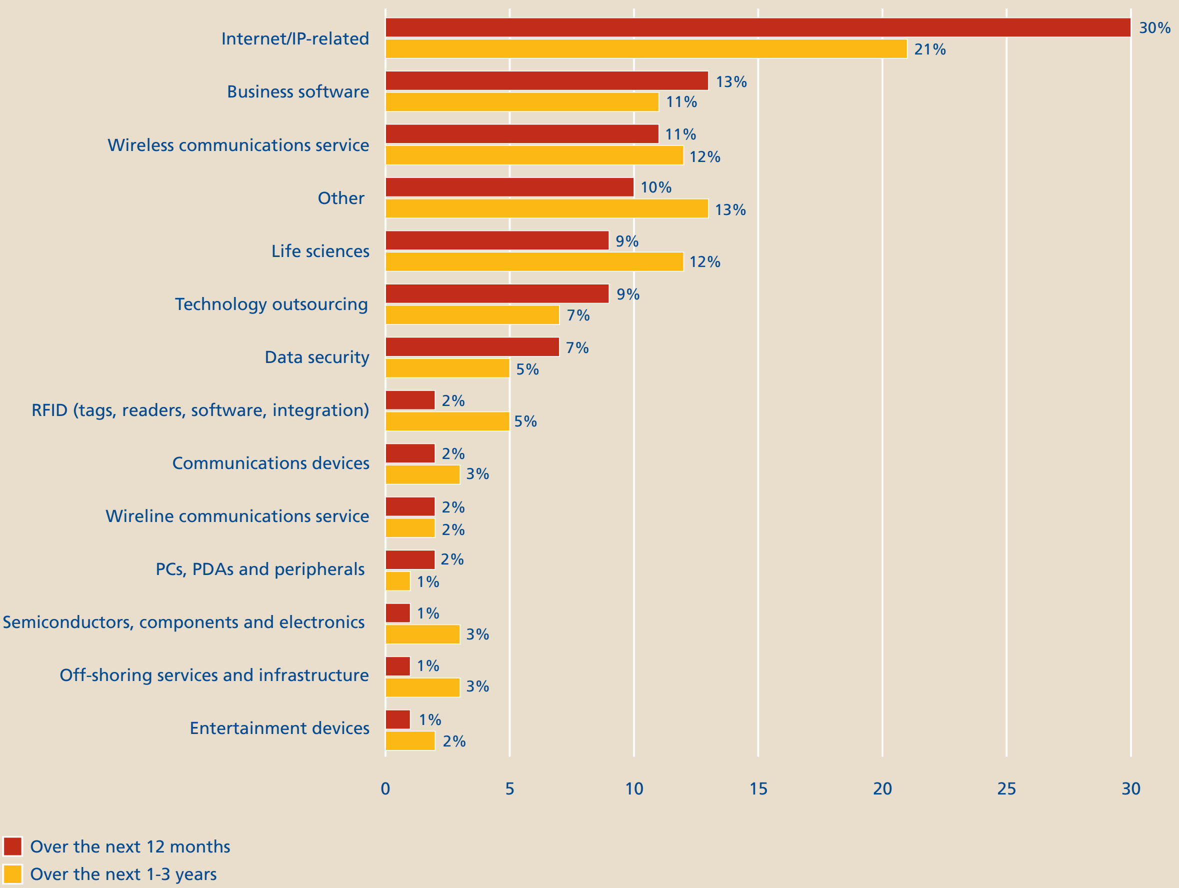


**Figure 11. What is the biggest threat to growth in the technology sector over the next 12 months?**

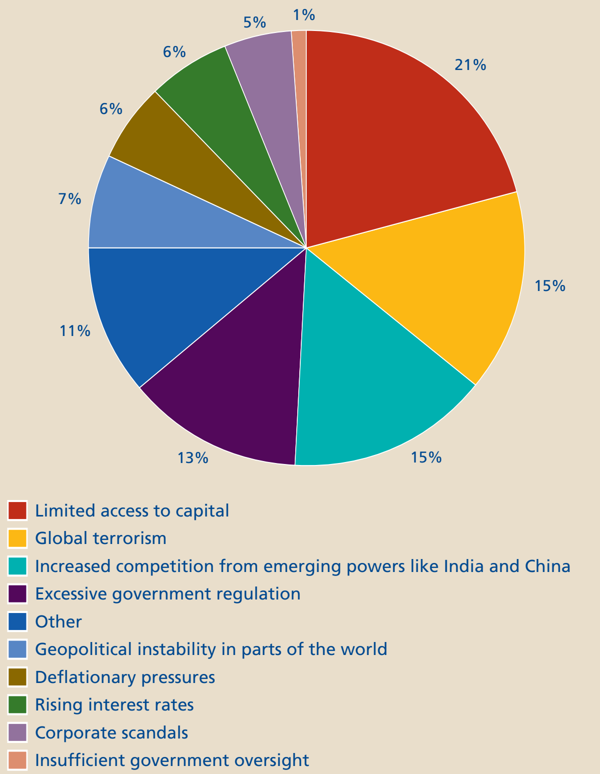
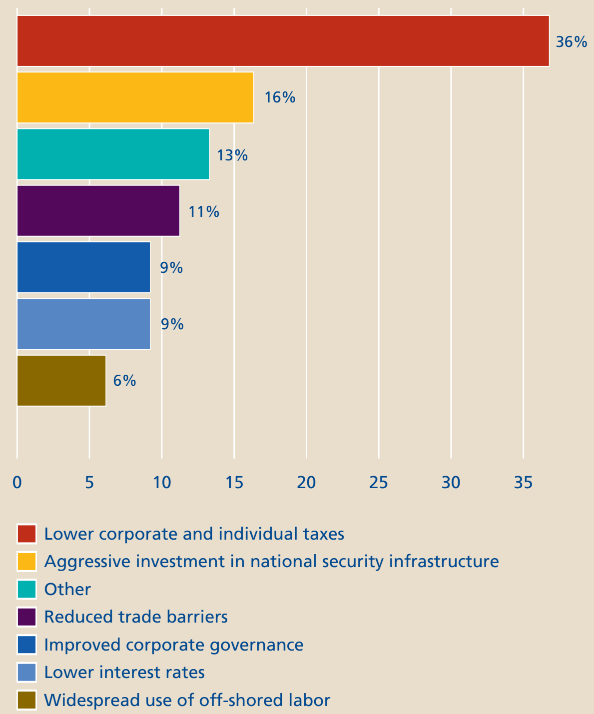



**Figure 12. What would you prescribe to stimulate growth in the technology sector in the next 12 months?**




When technology CEOs look at potential threats to their sector, external issues, such as global terrorism, geopolitical instability, and competition from third-world countries are dropping in importance. What's catching their attention are economic issues that are closer to home, such as government regulation and rising interest rates. On the horizon for some CEOs is the impact of a shrinking Federal budget that may affect their ability to obtain government contracts.

Economic confidence and a few years of tax cuts have made an impact on our CEOs. Although still the most popular category, only 36 percent this year, compared with 52 percent last year, prescribe lower corporate and individual taxes as the best means to stimulate growth in the tech sector. There's slightly more interest in lower interest rates, reflecting the recent steady rise of rates, and more attention being paid to aggressive investment in security infrastructure.

# III. CEO Personal Issues

**Figure 13. What is your biggest personal challenge as CEO?**

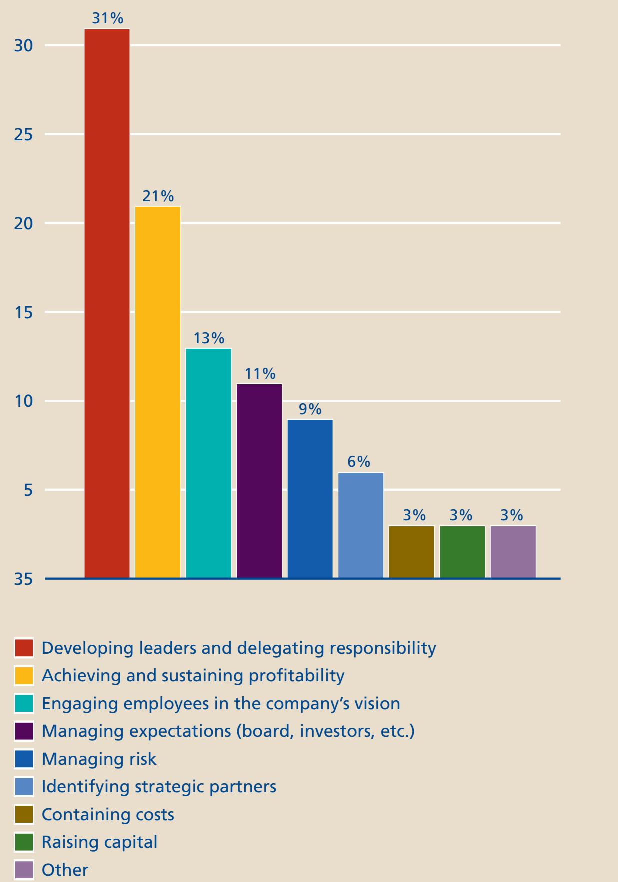
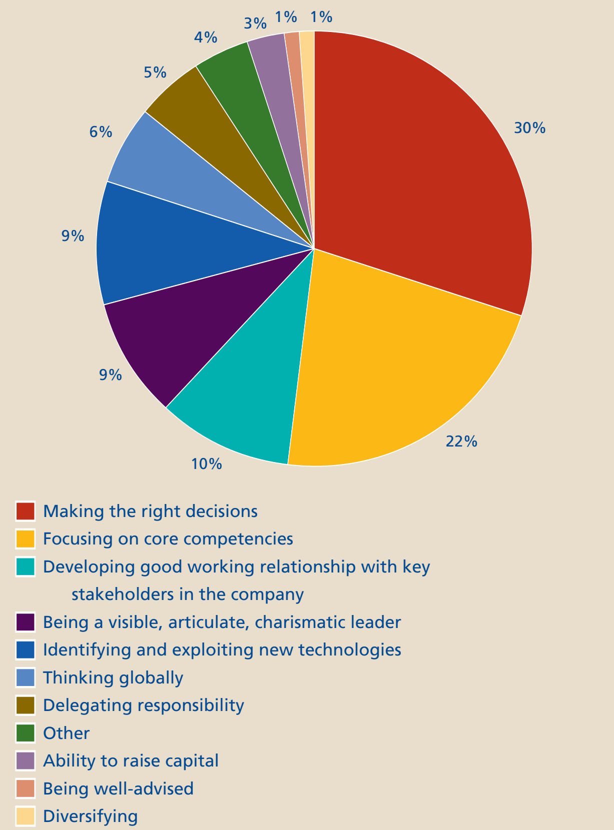



**Figure 14. Which skill do you see as most important for a CEO of a fast-growing technology company?**




Our CEOs are focused on building for the future, and they continue to put leadership development in the forefront of their personal challenges. Nevertheless, they are still very much occupied with the challenge of making the company profitable. Issues once of tremendous concern to CEOs in shaky times—cost containment, raising capital and managing risk—are of significantly less concern these days.

CEOs are, of course, decision makers, and it's no surprise that being able to make the right decisions ranks at the top of the list of essential skills. We added a new category this year, and many of our CEOs flocked to identify this as the most important—focusing on core competencies. This year, our CEOs found it far less important to be able to raise capital (a drop from 13 percent to three percent) or to delegate responsibility (dropping from 12 percent to five percent).

**Figure 15a. Are executive compensation packages generally in line with executive performance?**

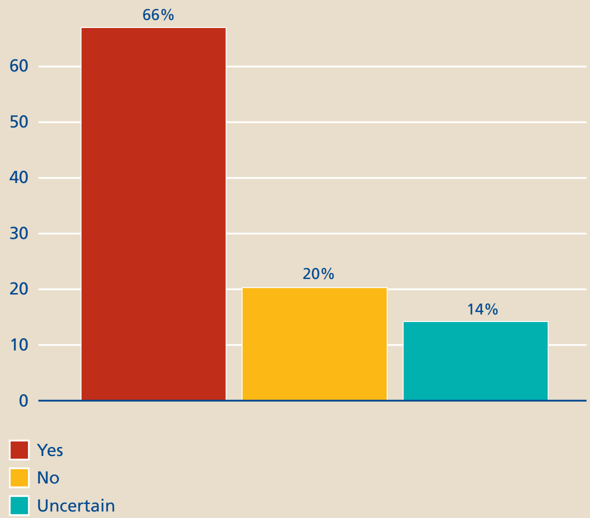
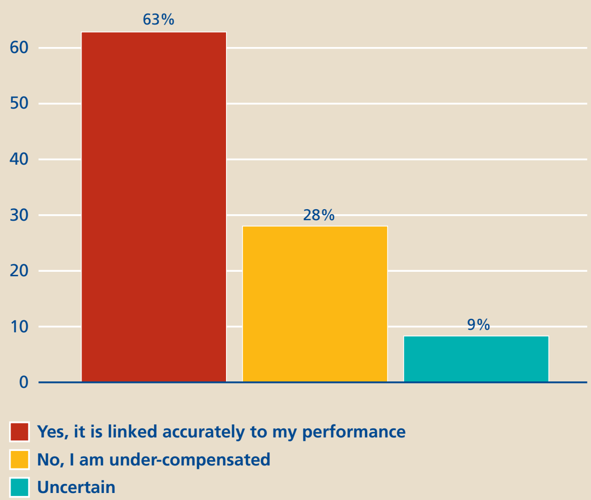
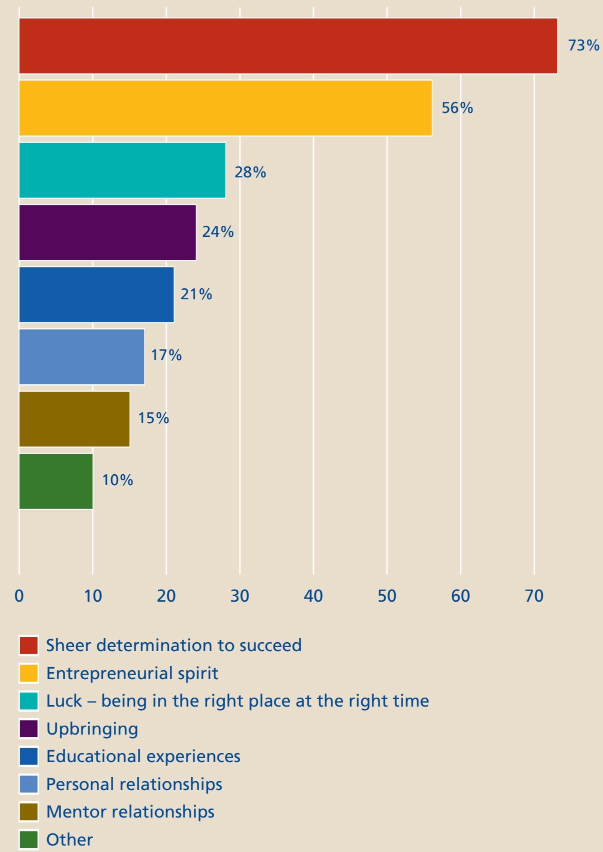



**Figure 15b. In your opinion, does your compensation reflect your performance?**




While about two-thirds of CEOs still find executive compensation packages appropriate as a general rule, if you ask them about their own compensation, fewer this year than last believe it reflects their performance. These CEOs have ridden out economic storms, believe they've excelled in growing their businesses, and more (28 percent compared to 20 percent last year) are unconvinced that their pay reflects that this year.

**Figure 16. To what do you attribute your personal success?**




Sheer determination—it's what got them through the dot.com bubble burst, a recession and the fall out from geopolitical instability. A whopping 73 percent of CEOs attribute their personal success to this quality, compared to 26 percent last year. They're also far more likely to credit their entrepreneurial spirit for their ride to the top, but are also willing to give a nod to the role that luck has played, as well as personal and professional relationships and their education. The reasons for success are multi-faceted and these CEOs acknowledge that they've grabbed every opportunity to make it happen for them.