Digital Marketing in the High-Tech Industry

Publication Date: September 26, 2017

Executive summary

Introduction

The level of competition that high-tech companies face is expected to increase as new players enter the market and established vendors continue to add disruptive technologies to their portfolios. Marketers are responding to these threats by investing in digital marketing.

This survey is part of a series of reports commissioned by Adobe that provide an understanding of the driving forces behind investments in digital marketing platforms and explores how these address the competitive threats. Marketers from 200 different high-tech businesses – covering the software, internet, consumer electronics, technology manufacturer, and professional/IT services subsectors – were interviewed by telephone between May and July 2017 and were asked about digital marketing, the competitive landscape, and their investment strategies.

This report is essential reading for high-tech industry senior managers and digital executives because it will help them to benchmark their digital strategies against industry norms and understand the digital strategies that will define the future of the high-tech industry.

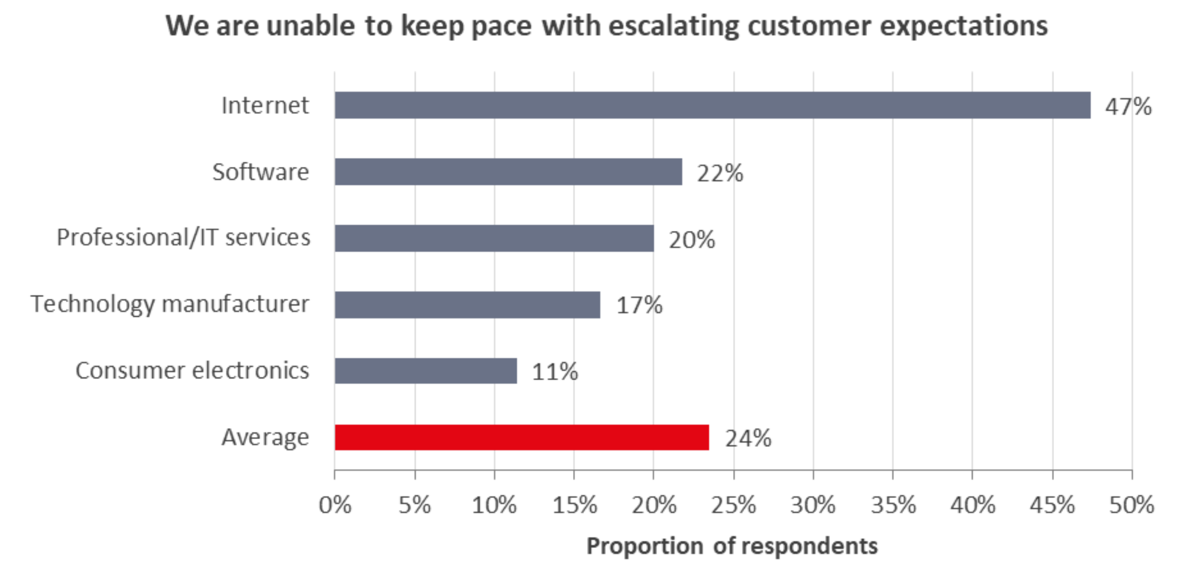
Key research findings

- Almost a quarter (24%) of high-tech businesses are unable to keep pace with changing customer expectations. Software companies are particularly affected, with 22% being unable to keep pace with escalating customer expectations while also facing the second-highest level of competitive pressure at 7.1 (where 1 is low and 10 is high).
- High-tech companies are looking to deliver an increasing proportion of their sales digitally. Almost a quarter (24.5%) of companies expect to deliver 61–80% of their products/services via a digital medium in 2018, and 27% of businesses have an ambition to deliver software-as-a-service (SaaS)-based subscription services.
- The weighted average digital maturity score across the high-tech sector is 0.56 out of 1. The consumer electronics subsector is the most advanced, scoring 0.61 on the digital maturity index, closely followed by the software industry which scored 0.59.
- The use of social, mobile, analytics, and cloud (SMAC) digital tools is becoming increasingly important to help high-tech companies achieve their marketing objectives. Social is the most important SMAC tool for both 2017 and 2018, with an average score of 2.95 (out of 4) in 2017, rising to 3.43 in 2018 (up 0.48).
- High-tech companies still have hurdles to overcome to drive digital transformation successfully. The top barrier was inadequate budgets, with 55% of high-tech digital marketers stating they did not have enough budget to support the levels of innovation required.

Changing customer expectations create challenges and market competition remains high

Almost a quarter (24%) of high-tech businesses are unable to keep pace with changing customer expectations, as shown in Figure 1. The worst affected subsector was companies involved in internet offerings. Close to half of the companies surveyed (47%) felt that customers were expecting more from them than they could deliver. Consumer electronics companies were best able to meet customer expectations, with 89% of those surveyed feeling comfortable that expectations were being met.

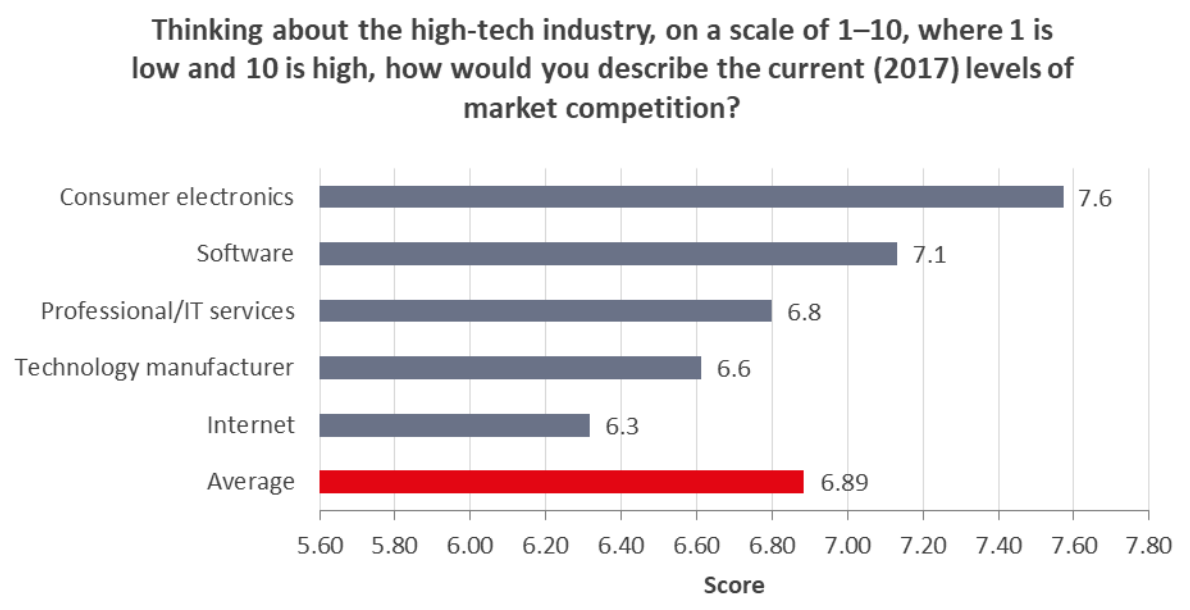
Figure 1: Escalating customer expectations



Source: Ovum

Respondents to the survey were then asked to describe the current level of market competition by providing an "intensity" figure ranging from 1 to 10, where 1 was low and 10 was high. The weighted average score for 2017 was 6.89 (see Figure 2 below).

Figure 2: Current levels of market competition



Source: Ovum

While internet businesses had the highest score for failing to keep pace with customer expectations (47%), they had the lowest score for market competition levels (6.3). Likewise, while consumer electronics were most confident that they were keeping pace with customer expectations (just 11% stated otherwise) this sector faced the highest levels of market competition (7.6). Software companies were seen to be squeezed from two directions: they had the second highest score (22%) for being unable to keep pace with escalating customer expectations and the second highest score for competitive pressure (7.1).

New entrants become an increasingly competitive threat

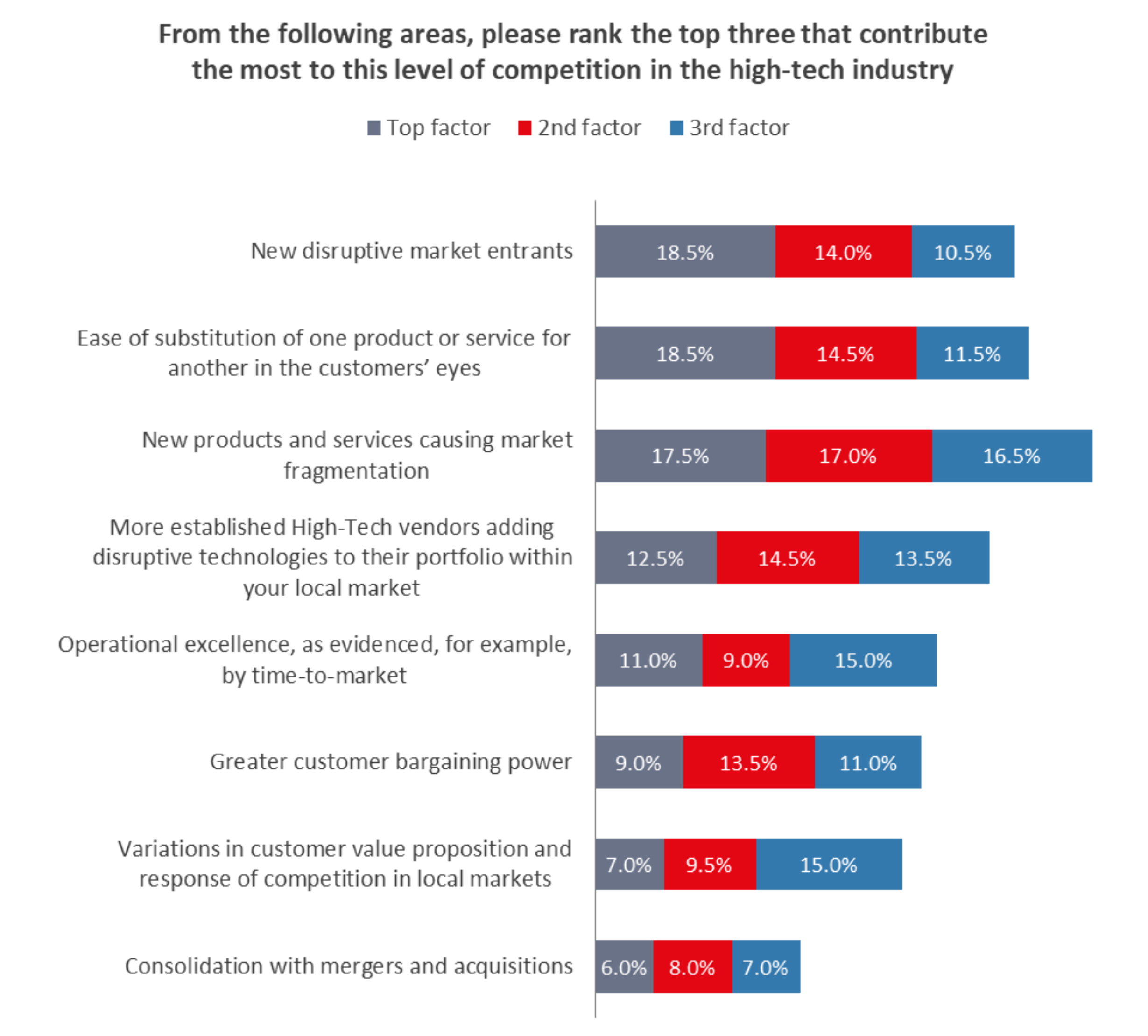
Respondents were provided with a list of eight different factors that might contribute the most to the level of competition experienced in the high-tech industry.

“New disruptive market entrants” are seen as the top-ranked contributing factor to competitive intensity. This accounts for 18.5% of all “top factor” concerns (rising up from the second-placed “top factor” concern in 2016). This top place is jointly held with “ease of substitution of one product or service for another in the customers’ eyes.” The largest overall concern was “new products and services causing market fragmentation.” 17% of people classified this as either their top, second, or third ranked factor that is contributing to the level of competition seen in the high-tech industry in 2017; it also accounted for the third-placed “top factor” with 17.5% of respondents selecting this category.

Respondents did not score “consolidation with mergers and acquisitions” as an important competitive concern. Figure 3 shows that this was the least important contributing factor to competitive intensity.

The breadth of concerns that troubled the respondents in the high-tech industry were all covered within the eight contributory factors, with no one providing any other factors that might affect the level of competition in the market.

Figure 3: Top three factors that contribute to market competition



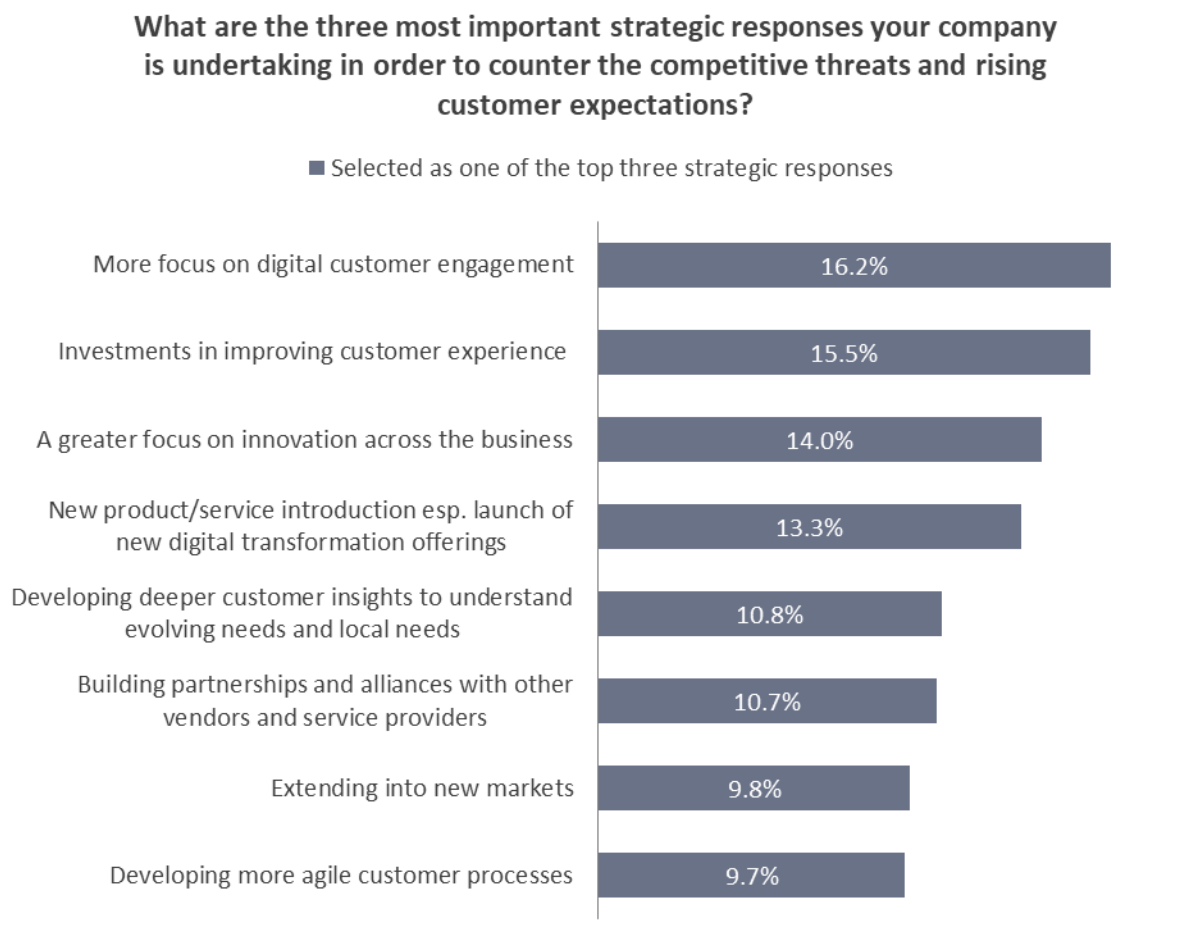
Source: Ovum

Digital engagement is the top strategic response to combat competitive threats

In response to the competitive threats that they experience, companies are developing a range of strategies to address their concerns. Respondents were given a list of eight possible strategic responses to counter competitive threats and rising customer expectations and were asked to identify the three most important (unranked) factors.

"More focus on digital customer engagement" was the top strategic response that companies were adopting, with 16.2% of respondents identifying this category. High-tech companies are also responding by making "investments in improving customer experience" and by seeking to engender "a greater focus on innovation across the business" with 15.5% and 14.0% of respondents selecting these approaches, respectively (see Figure 4).

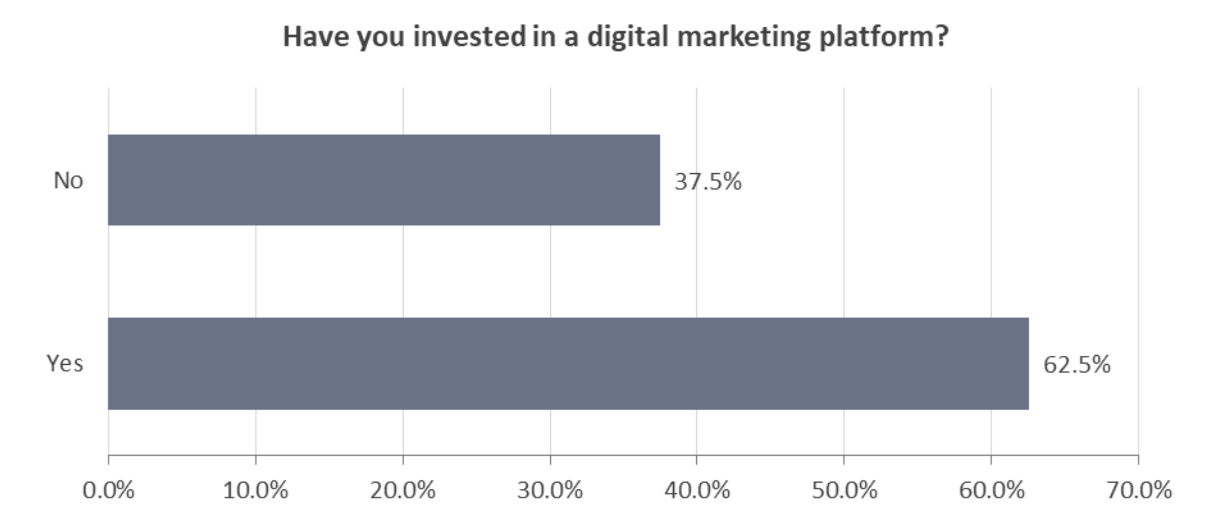
Figure 4: Strategic responses to rising customer expectations



Source: Ovum

As companies seek to increase their digital customer engagement, almost two-thirds (62.5%) are supporting this activity by using a digital marketing platform, as shown in Figure 5.

Figure 5: Digital marketing platform ownership



Source: Ovum

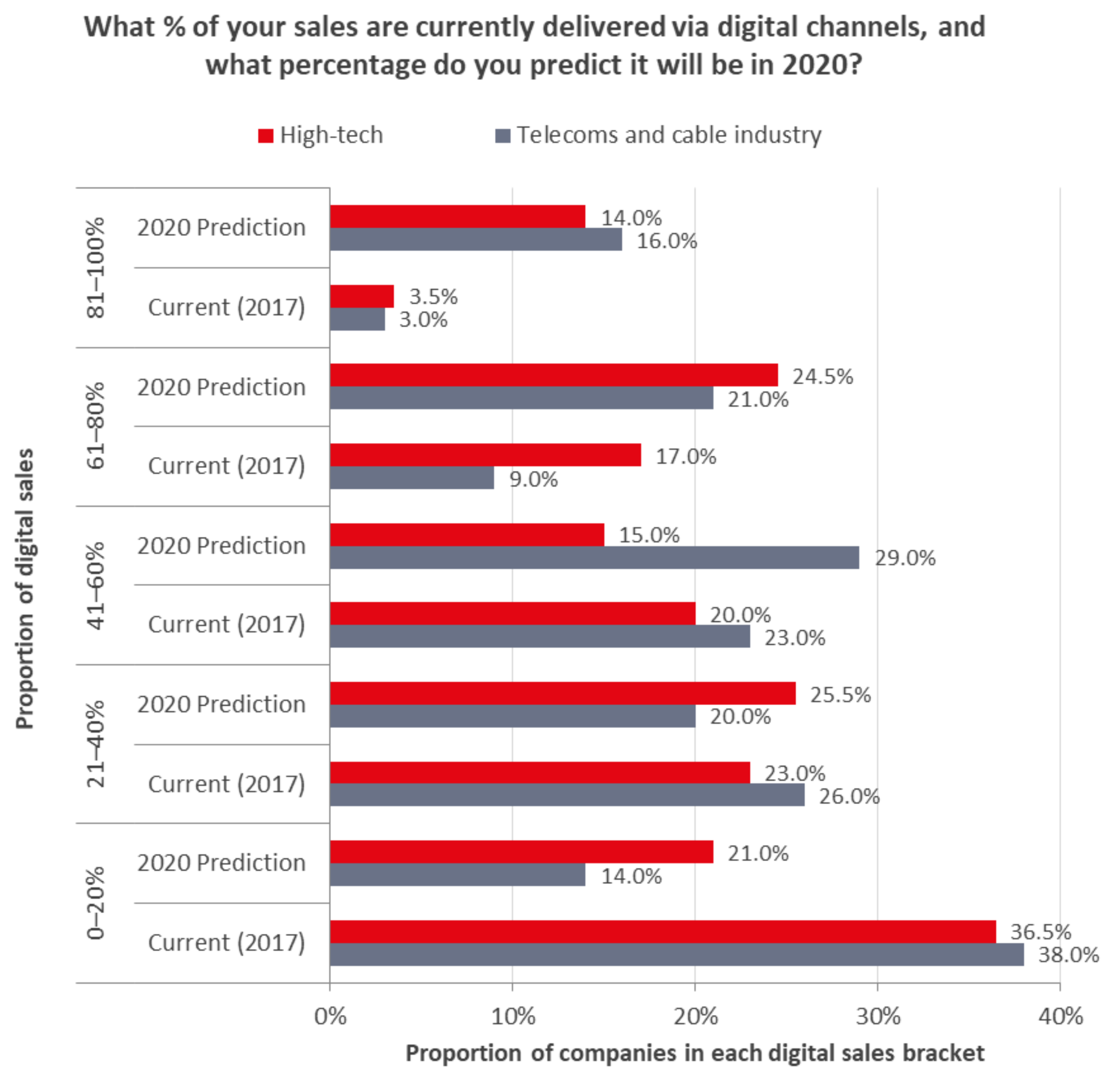
High-tech companies to deliver an increasing proportion of sales digitally

Respondents also expect sales to increasingly be delivered by digital channels. Currently most high-tech companies (36.5%) deliver 0–20% of their sales via digital channels. Figure 6 shows that as the percentage of sales delivered via digital channels increases, the proportion of companies that deliver sales by digital channels declines across each percentage bracket.

High-tech respondents indicate that they expect their companies to undergo a transition by 2020. While just 3.5% of high-tech companies deliver 81–100% of sales by digital channels now, this will increase to 14% by 2020 (up over 10%). While this 81–100% category will remain the smallest of the five percentage brackets, this is a significant increase. The order of the categories changes too, with the 21–40% category becoming the largest and the 61–80% category second largest, as over a quarter of all companies (25.5%) predict that 21–40% of sales will be delivered digitally and just under a quarter (24.5%) predict that 61–80% of sales will be delivered digitally.

A separate Ovum survey was conducted asking the same question of marketers working in the telecoms and cable industry. This allows comparisons to be made with the high-tech sector for the digital sales experienced now and predicted for 2020. The chart below shows that 12.0% of telecoms and cable companies currently deliver over 60% of sales digitally; this is 8.5% less than the high-tech industry. By 2020, the high-tech industry will still deliver a larger proportion of sales digitally (38.5% of companies with digital sales levels at over 60%), but the growth seen in the digital content delivered by telecoms and cable companies means that the gap shrinks from 8.5% to just 1.5%.

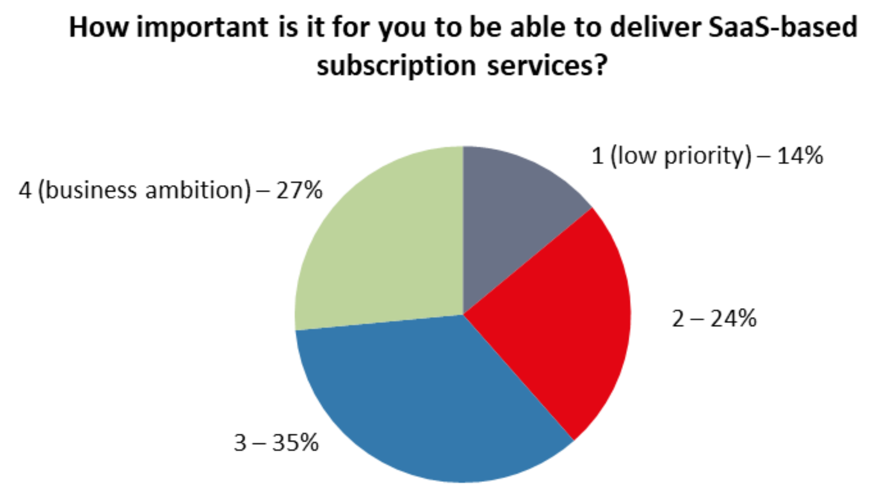
Figure 6: Sales delivery via digital channels



Source: Ovum

Respondents were then asked to state how important it is for them to be able to deliver SaaS-based subscription services. This was done by scoring the question on a scale from 1 to 4, where 1 is low priority and 4 is a business ambition. As can be seen in Figure 7, 62% of high-tech companies surveyed said that being able to deliver SaaS-based subscription services was important (a 3 or 4).

Figure 7: Importance of SaaS subscription services

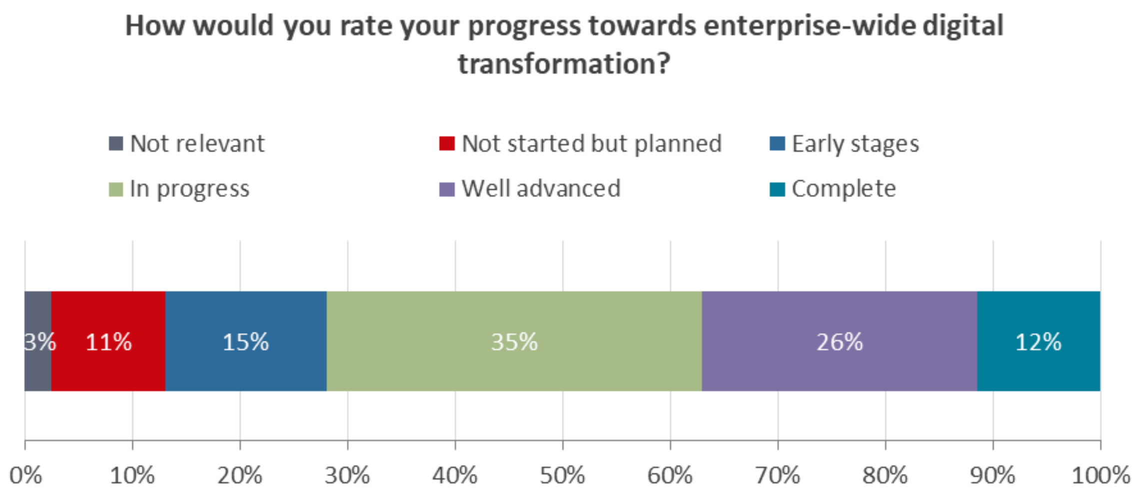


Source: Ovum

The journey continues towards digital transformation

When asked "How would you rate your progress towards enterprise-wide digital transformation?" just 3% of high-tech companies felt that it wasn't relevant to their business. At the other end of the spectrum, 12% of companies surveyed thought that they had completed their enterprise-wide digital transformation. 61% of high-tech businesses stated that they were in progress or were well advanced in the journey towards enterprise-wide digital transformation, as shown in Figure 8.

Figure 8: Progress towards enterprise-wide digital transformation

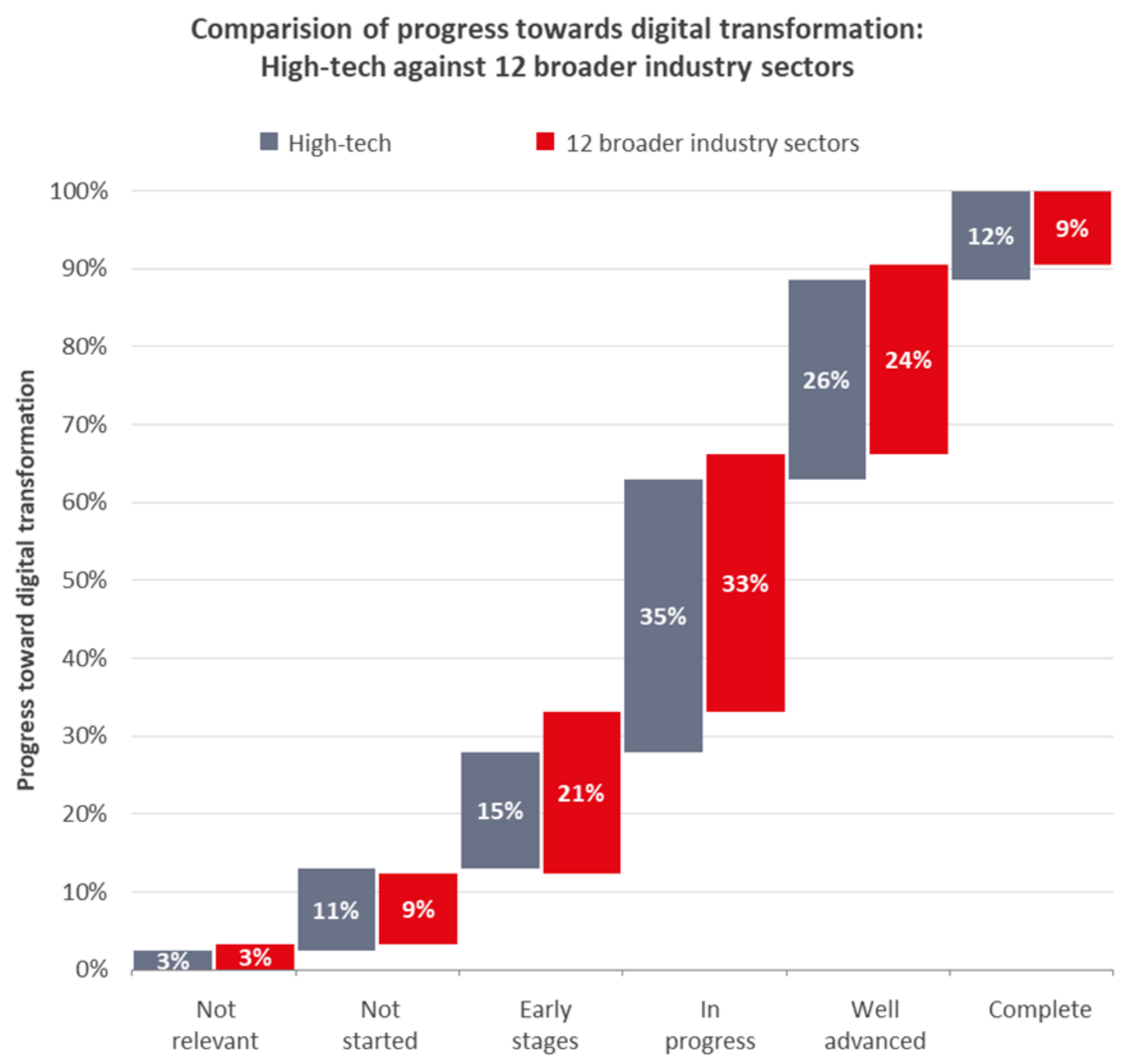


Source: Ovum

The waterfall diagram in Figure 9 below shows how the high-tech industry compares to 12 other markets: education (higher); financial markets; government; healthcare; insurance (excluding health insurance); media; merchants – payments; payments issuers/acquirers; retail; retail banking;

telecommunications; and utilities. Separate surveys were conducted in each of these 12 markets, with over 50,000 businesses responding to the surveys in total. Each respondent was asked about their journey towards digital transformation, and 57% of companies said that they are “in progress” or “well advanced” in their journey, with 9% saying their journey had been completed. When this is compared to progress in the high-tech industry, we can see that high-tech is 5% ahead of the broader market (3% ahead of “in progress” or “well advanced” and 2% ahead of “completed”).

Figure 9: Enterprise-wide digital transformation sector progress comparison



Source: Ovum

Subsectors are each at different stages of digital maturity

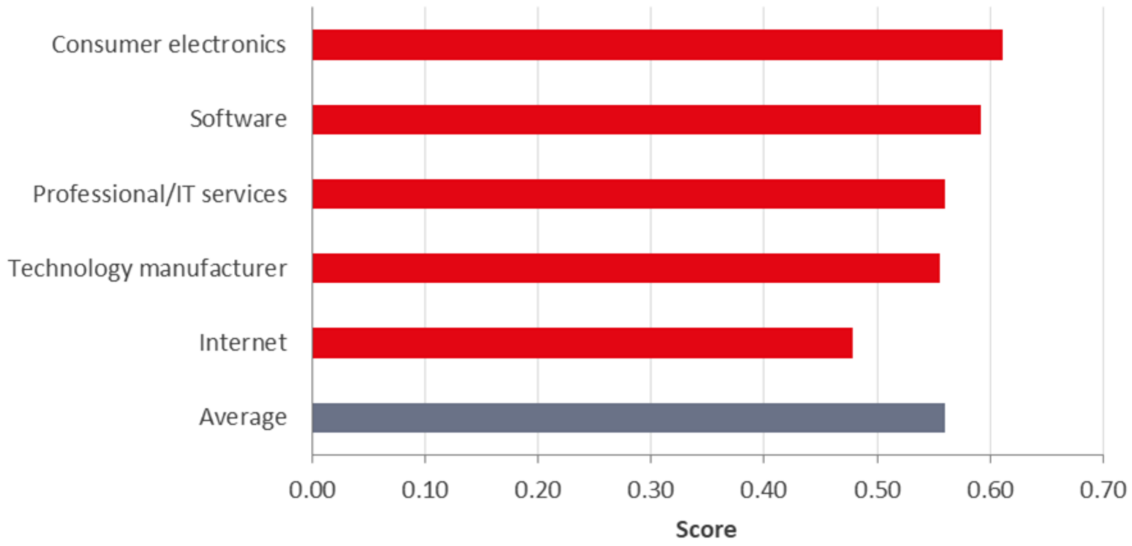
Ovum selected eight questions to understand the digital maturity of the respondent’s company. The answers to each question were scored on a continuum between 0 (digital laggard) and 1 (digital leader), meaning a respondent could score between 0 and 8 in total when the scores of the eight questions were added together. The average score across the eight questions was used to position the company on a scale between “digital leader” and “digital laggard.”

The company average scores were then used to calculate digital maturity scores across the whole high-tech industry and for each of the high-tech's five subsectors.

Figure 10 below shows that the consumer electronics subsector is the most advanced, scoring 0.61 out of 1 on the digital maturity index. This is closely followed by the software industry which scored 0.59. Next, technology manufacturer and professional/IT services jointly scored 0.56, followed by internet with a score of 0.48.

The weighted average digital maturity score across the high-tech sector is 0.56.

Figure 10: High-tech digital maturity scores



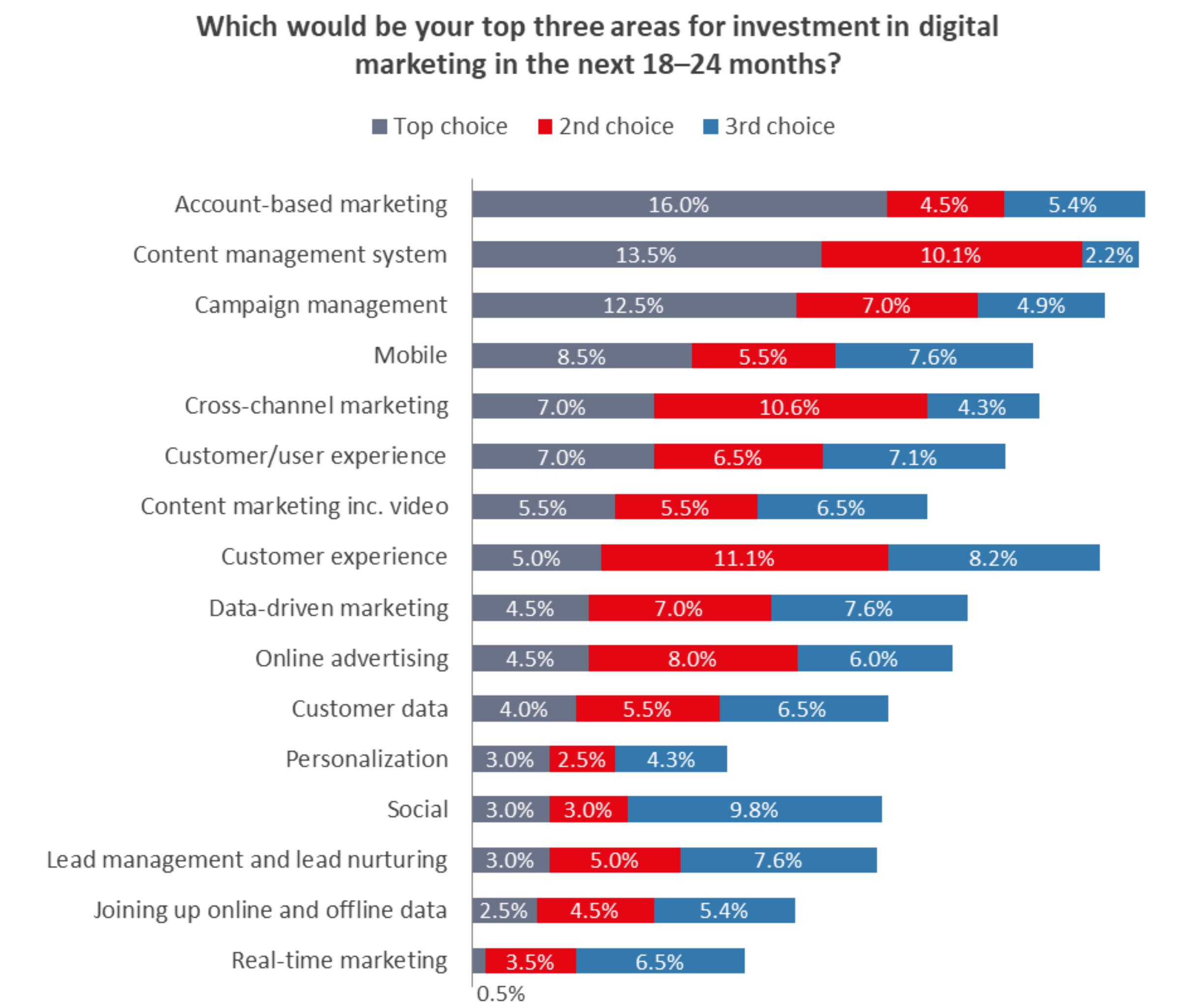
Source: Ovum

Investment plans to support digital transformation

The overall digital marketing areas in which high-tech companies plan to make investments over the next 18–24 months are highlighted in Figure 11 below. When asked to highlight the top three investment areas, account-based marketing was selected by 26.0% of high-tech companies as being either their top, second, or third choice with 16.0% of people selecting it as their “Top choice.” The next most popular digital marketing area to invest in was a content management system. 13.5% of respondents selected this as their “Top choice” and 10.1% as their “2nd choice” investment. Overall, 25.7% of respondents highlighted this as one of their top three investment areas.

Though customer experience was not a popular “Top choice” investment (scoring only 5.0%), 24.2% of high-tech companies selected this as either their top, second, or third choice option, putting it in fourth place only just behind third-placed campaign management at 24.4%.

Figure 11: Top three digital marketing investment areas (18–24 months)

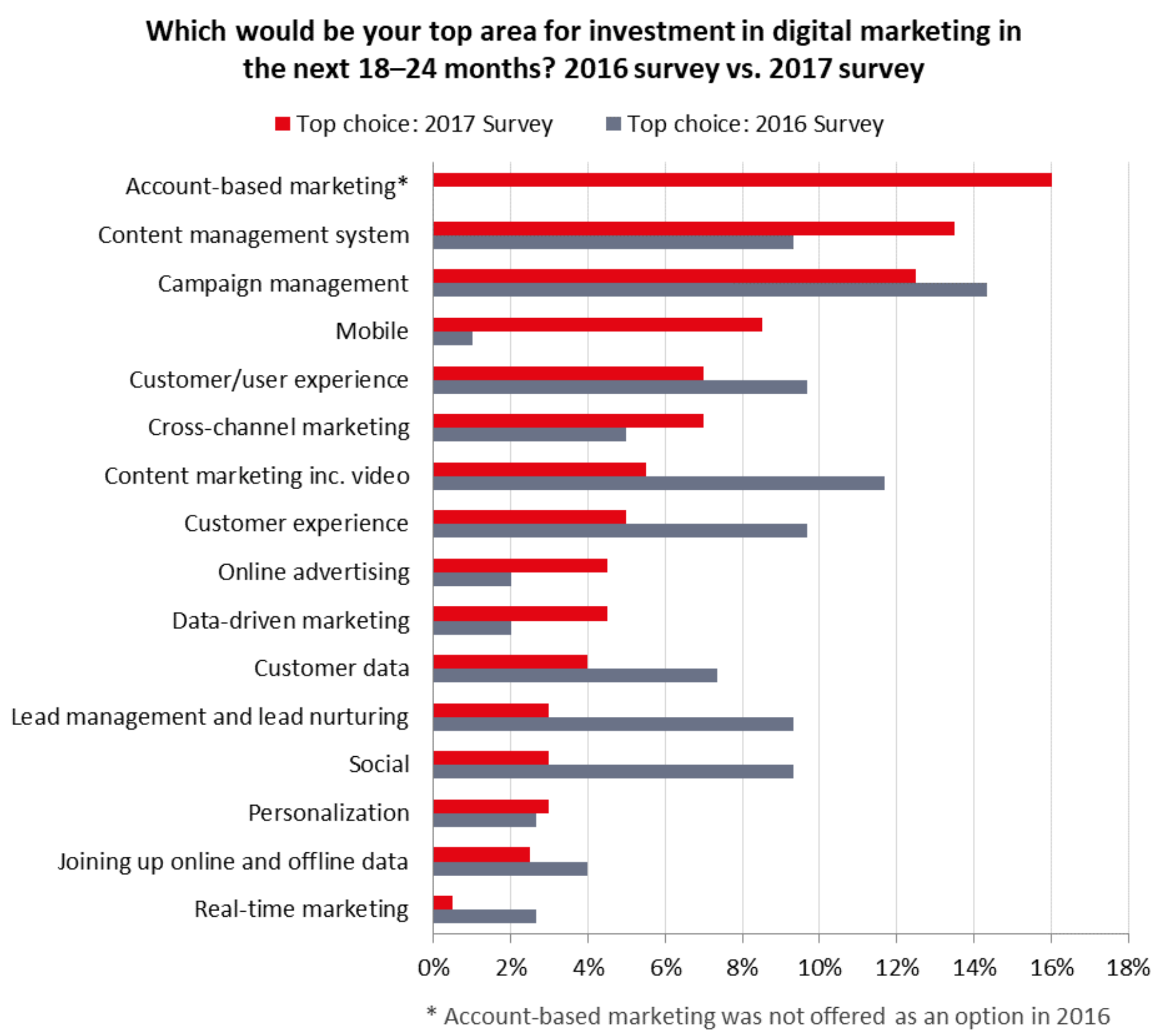


Source: Ovum

When the “Top choice” investment over the next 18–24 months is compared back to the responses from the high-tech community in last year’s survey (2016), it highlights a shift in priorities. Mobile was the least popular “Top choice” in 2016, with just 1% of respondents selecting it as their “Top choice,” but in 2017 the proportion focusing on mobile as “Top choice” increased to 8.5%, up 7.5% which was the largest change between the two surveys (see Figure 12). This pushed Mobile up to the fourth most popular “Top choice.” The next largest change was seen in plans to invest in content management systems. This moved from fifth place as a “Top choice” investment area up to second place, with 13.5% of respondents selecting this (up 4.2% from 2016).

Two areas that saw the largest decline in priority as a “Top choice” were lead management and social. Both accounted for 9.3% of choices in 2016 (fifth place), but declined in popularity to 3.0% in 2017 (down 6.3%, putting them in twelfth position). A similar decline in priority was seen in content marketing inc. video, which was the second most important investment “Top choice” in 2016, but declined to seventh position in 2017 accounting for 5.5% of high-tech business’s “Top choice” (a decline of 6.2%).

Figure 12: Top three digital marketing investment areas (18–24 months), 2016 vs. 2017



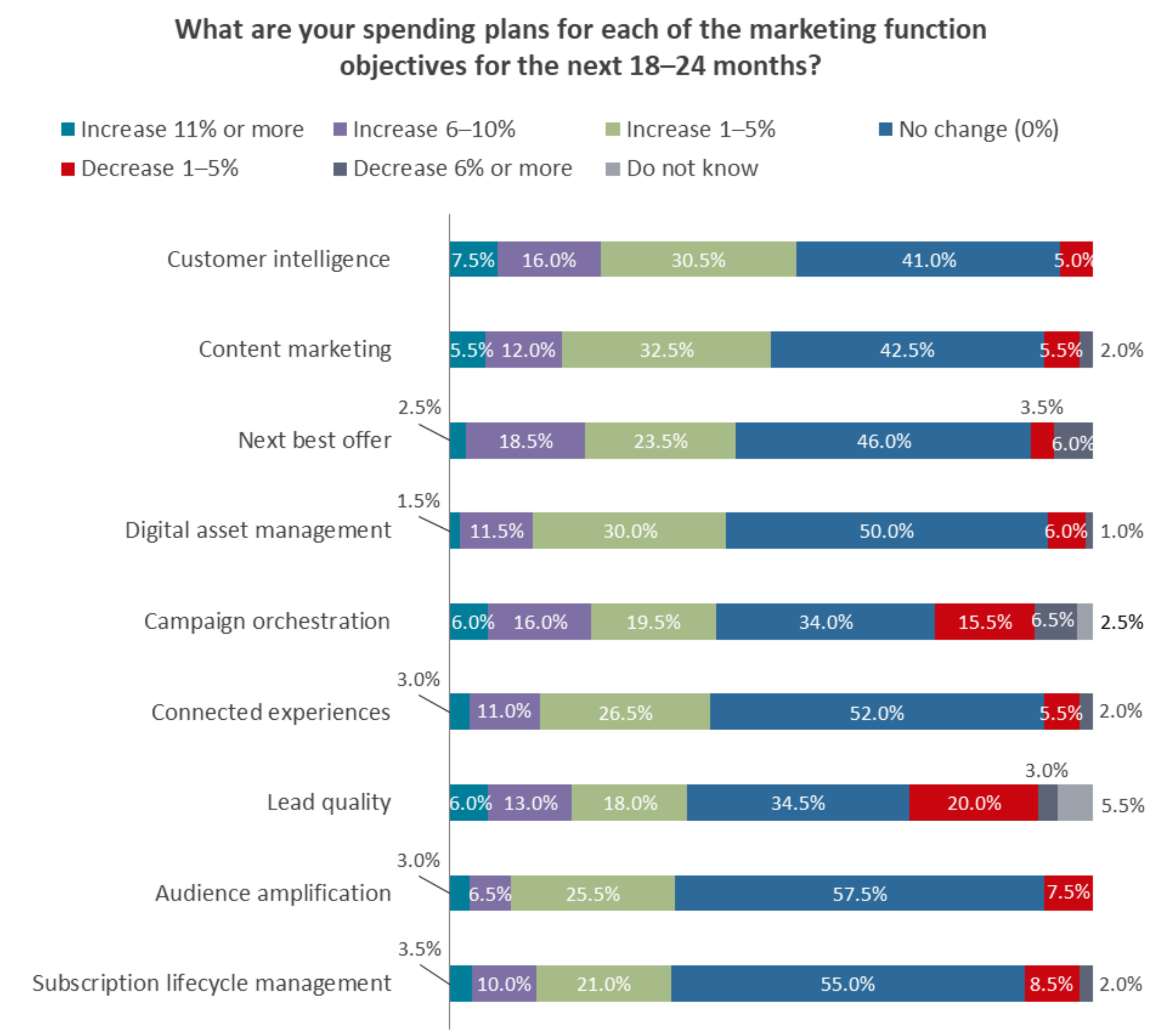
Source: Ovum

Of the companies surveyed, 67% that they would increase digital marketing spend in 2018, with just 1% expecting budgets to be cut.

Figure 13 shows the results where respondents were asked “What are your spending plans for each of the marketing function objectives for the next 18–24 months?” and highlights investment priorities. The largest overall increase in spending relates to “customer intelligence.” 54.0% of high-tech companies were investing in this area because they wanted to get a more holistic view of customers across their interactions. The next activity that would see an increase in investment was “content marketing.” Half (50.0%) of all high-tech companies planned to increase spending for this marketing objective to quickly create, manage, and deliver relevant digital content.

The areas that were going to see the largest increase in budget (behind spending on customer intelligence at 7.5%) were campaign orchestration and lead quality, with 6.0% of those surveyed planning an increase in spending of 11% or more.

Figure 13: Marketing function spending plans for the next 18–24 months

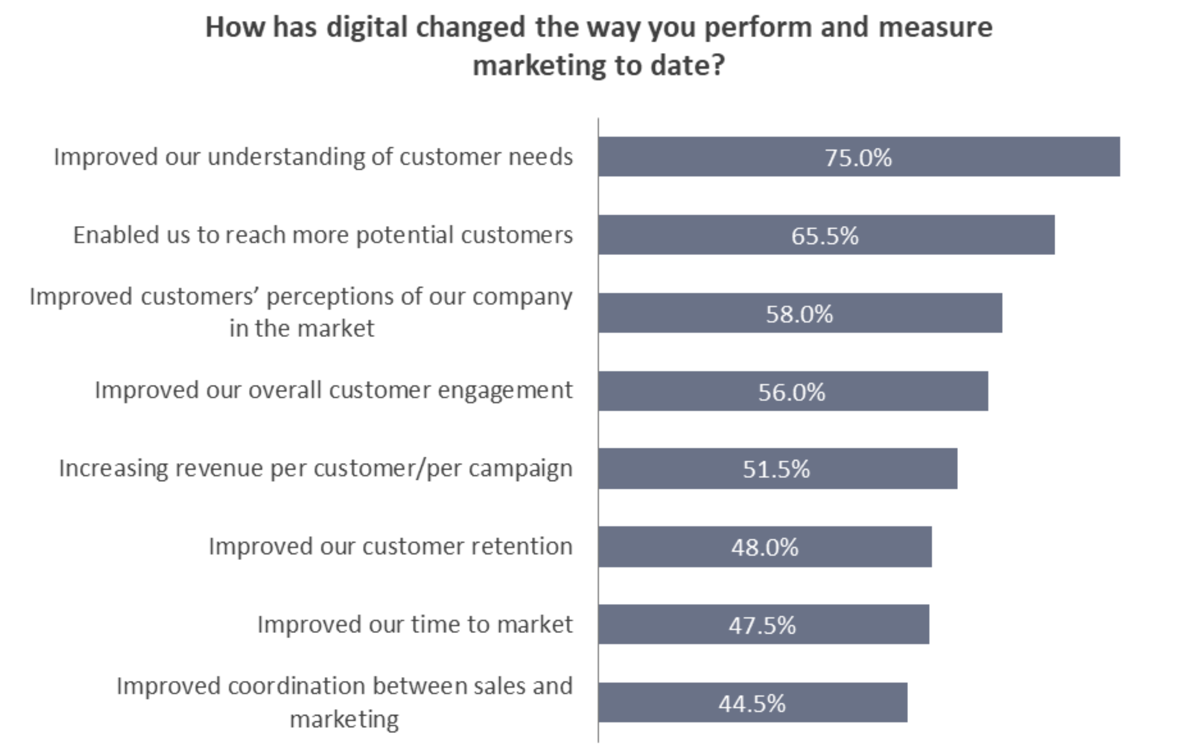


Source: Ovum

Benefits derived from digital marketing

Digital marketing improved the understanding of customer needs for 75.0% of high-tech companies and has enabled almost two-thirds (65.5%) to reach more potential customers (see Figure 14 below). The use of digital marketing has also helped to improved customers' perceptions of 58.0% of companies surveyed.

Figure 14: How digital has changed the way marketing is performed and measured



Source: Ovum

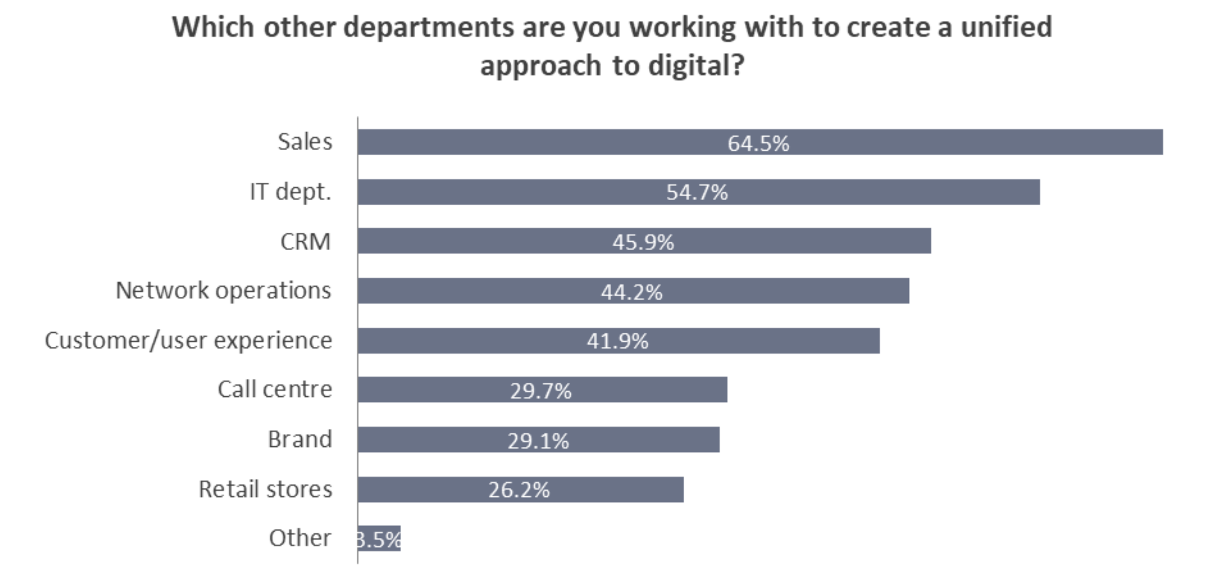
Company-wide collaboration to create a unified approach to digital

86% of respondents said they were working with other departments within their organizations to create a unified approach to digital. Figure 15 shows that of those that collaborate, most engage with the sales department, followed by IT, which scored 64.5% and 54.7% respectively. Interestingly, despite the high level of collaboration between marketing functions and sales, Figure 14 above shows that digital still only improved coordination between sales and marketing for 44.5% of companies.

The third- and fourth-highest areas of collaboration were with CRM (45.9%) and network operations departments (44.2%). Other departments (3.5%) that respondents engaged with were:

- business development department
- business strategy
- communications
- development
- legal department & accounting
- product & alliance.

Figure 15: Departments that marketing engages with to create a unified approach to digital



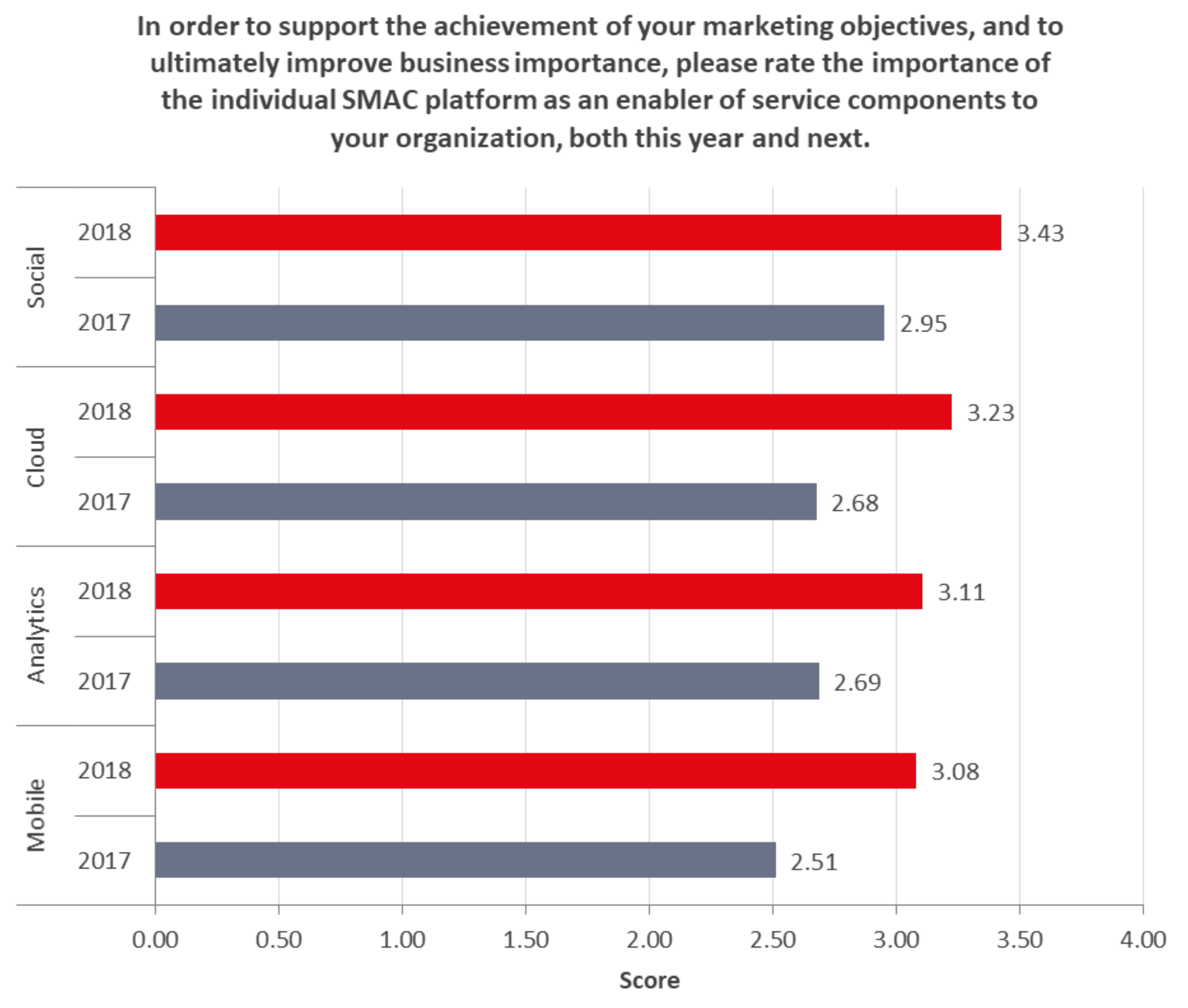
Source: Ovum

SMAC digital tools will become increasingly important to support the achievement of marketing objectives

The use of social, mobile, analytics, and cloud (SMAC) digital tools is becoming increasingly important to help high-tech companies achieve their marketing objectives. The survey asked “In order to support the achievement of your marketing objectives, and to ultimately improve business importance, please rate the importance of the individual SMAC platform as an enabler of service components to your organization, both this year and next.” Each respondent gave a score between 1 and 4, where 1 was a low importance and 4 referred to a business-critical enabler.

Figure 16 shows the weighted average scores that respondents provided for both 2017 and 2018. The scores for each of the SMAC tools increases year on year, with mobile having the largest increase (up 0.57), despite remaining the least important SMAC tool. Social is the most important SMAC tool for both 2017 and 2018, with an average score of 2.95 in 2017, rising to 3.43 in 2018 (up 0.48). Between 2017 and 2018, we see a change in the importance that respondents place on cloud. It moves up from third position in 2017 (with a score of 2.68) to second position in 2018 (3.23, up 0.55), overtaking analytics which grew 0.42 (the smallest year-on-year growth) to 3.11.

Figure 16: The importance of a SMAC platform



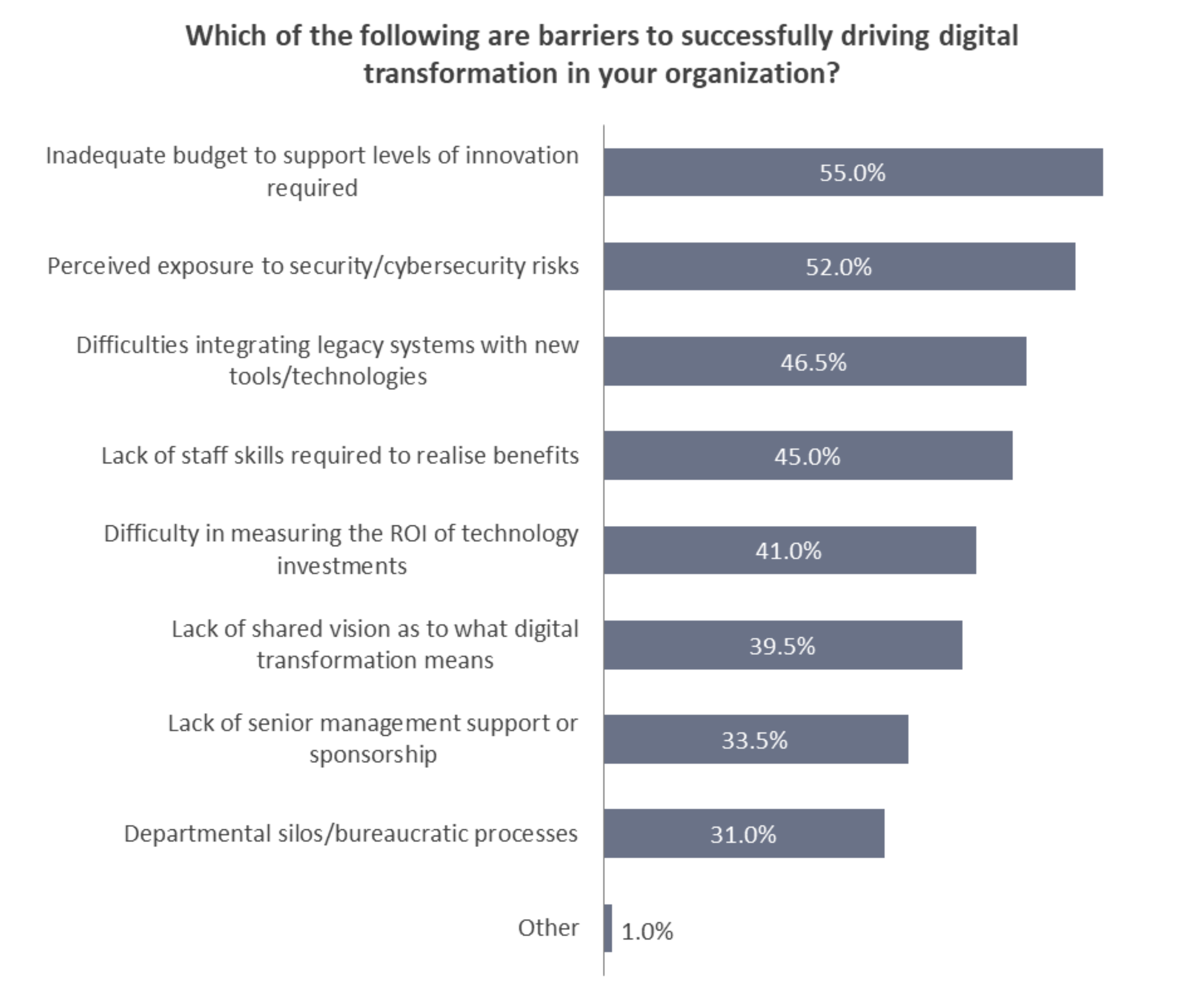
Source: Ovum

High-tech marketers still have hurdles to overcome to drive digital transformation successfully

Many of the barriers come from internal constraints. Despite increasing budgets (67% of companies surveyed said that they would increase digital marketing spend in 2018), 55% of high-tech digital marketers still feel that their budgets are inadequate to support the levels of innovation required. It was also felt that “difficulties integrating legacy systems with new tools/technologies” and “lack of staff skills required to realize benefits” were hurdles to successfully driving digital transformation, with 46.5% and 45.0% of respondents identifying these respectively, as shown in Figure 17.

A key external barrier was that of cybersecurity. This was a big concern for companies, with over half (52.0%) concerned about the perceived exposure to security/cybersecurity risks.

Figure 17: Barriers to successful digital transformation



Source: Ovum

Conclusions

High-tech companies need to shift gears if they are to exceed customer expectations while remaining competitive

Almost a quarter (24%) of high-tech businesses are unable to keep pace with changing customer expectations. Gone are the days when high-tech businesses could just do the minimum required to meet customer expectations. Internet companies are keenly aware of this, being the worst affected high-tech sector, with close to half (47%) of companies feeling that customers were expecting more from them than they could deliver.

The industry is undergoing rapid change as advances in technology alter the way that companies interact with customers and vice versa, caused in part by the rapidly increasing penetration of the internet and smartphones. As a result, consumers are increasingly able to access products, services, and experiences anytime and on-demand.

So it may not come as a surprise that almost half (47%) of internet companies reported that they were unable to keep pace with customer expectations. High-tech companies need a change of gear to catch up and then put themselves into a situation where they exceed customer expectations.

Software companies have the added pressure that not only are 22% of businesses unable to keep pace with escalating customer expectations, but this subsector also faces the second-highest levels of competitive pressure (7.1) across the high-tech industry. The latter is caused in part by new products and services creating market fragmentation, new disruptive market entrants, and ease of substitution of one product or service for another in the customers' eyes.

This Ovum survey has shown that although high-tech companies are investing in customer experience as one of their top three choices, with 8.1% of companies selecting this as either their first, second, or third option, it hasn't been shown to be a top priority for high-tech companies. This needs to change. Digitally enabled customer experience strategy needs to be a C-level agenda item in order to facilitate a wider cultural shift that puts the customer at the center of everything the organization does.

High-tech companies will increasingly deliver sales and services digitally

The high-tech industry will undergo a significant change over the next few years as tech companies look to deliver an increasing proportion of sales digitally. Almost a quarter (24.5%) of companies expect to deliver 61–80% of sales via a digital medium in 2020 (up from 17.0% of companies in 2017) and 26.5% of businesses have an ambition to deliver SaaS-based subscription services. Turning these aspirations into reality is going to require investment – not only in technology but also in people. High-tech companies will need to both recruit and train visionary staff members who can lead the reengineering of existing infrastructure and the migration onto new platforms.

Customers increasingly demand fast delivery of products and services. This isn't surprising as instant gratification has been increasingly possible with the rise of music and video streaming, and Amazon Prime customers are now able to choose 1-hour delivery for items bought on its website. As a result, consumer patience is diminishing. High-tech companies need to acknowledge that customers are increasingly asking for what might be deemed impossible at first glance. But to remain competitive, businesses need to think "out-of-the-box" (as Amazon has done) to develop compelling customer solutions that will exceed expectations.

High-tech businesses are on the journey to digital maturity but still have a long way to go

Ovum selected eight questions to understand the digital maturity of each respondent's company. The answers to each question were scored on a continuum between 0 (digital laggard) and 1 (digital leader). This provided a weighted average digital maturity score across the high-tech sector of 0.56 out of 1. This indicates that high-tech businesses are (on average) just over halfway towards digital maturity. The rate of technological change means that this will remain a journey, with companies having to work hard just to keep up with their competition.

In order to push their digital maturity forwards, high-tech businesses will in many cases need to alter their strategic direction to focus on digital marketing. This is no easy task and will require senior executives to be convinced that this is not only necessary but essential for improving customer service, bringing cost efficiencies into the business, and creating a competitive, viable business for the future.

One way to achieve this level of buy-in is to run a visioning workshop for senior executives. The purpose of the session (or series of sessions) is to break out from the view of the world looking very much like it does today and instead encourage “blue-sky thinking.” This blue-sky thinking could be achieved through a scenario-planning activity, which would allow a range of possible futures to be explored for the wider industry, which in turn would allow the current business strategy to be assessed against the most probable future competitive landscape.

Engaging with individual customers remains vitally important

This survey highlighted that the use of SMAC digital tools is becoming increasingly important to help high-tech companies achieve their marketing objectives. Of these four tools, social is the most important to support the achievement of marketing objectives for both 2017 and 2018, with an average score of 2.95 in 2017 (out of 4), rising to 3.43 in 2018 (up 0.48).

Social allows businesses to enter into very targeted conversations with individual customers or customer segments, which can be built upon providing multichannel experiences that are responsive, consistent, and – importantly – relevant for customers. The challenge for marketers is to develop compelling campaigns that will engage the interest of target audiences. Cisco has done a good job at achieving just this. Its social outreach – particularly on Twitter using the #GlobalProblemSolvers hashtag – has been used to share real stories about how its products and services have made a difference. One example of this is Cisco’s work with key partners to support humanitarian crises such as lack of clean drinking water.

In order to develop these compelling campaigns, high-tech companies need to ensure that they provide consistent, relevant, and responsive multichannel experiences. This provides marketers with the tools they need to drive profitable growth through the acquisition and retention of new customer and stakeholder relationships. These relationships need to be used to engage audiences with the right messages at the right time.

To undertake a successful digital transformation, high-tech companies need to ensure continual investment

Without the budgets necessary to invest in digital systems and processes and employ the staff needed to run them, high-tech companies will struggle to drive digital transformation successfully. This survey found that the top transformation barrier was inadequate budgets, with 55% of high-tech digital marketers stating they did not have enough budget to support the levels of innovation required.

Of course, one of the benefits of digital marketing is the ability to collect data and analyze results. This provides marketers with the facility to measure returns on investment. It is vitally important that marketers build compelling business cases to underpin their requests for investment and then prove these business cases by measuring the return garnered. Some creative thought needs to be given in order to measure subjective objectives such as “delighting customers.” One way this can be achieved is by utilizing the regular customer touchpoints that digital engagement provides. For example, this could cover measuring customer satisfaction after engagement via “chat.” Asking how customers would have made contact if the chat function hadn't existed is a means to understanding the cost saving of that online conversation.

But as well as budget concerns, over half (52%) of high-tech businesses stated that digital transformation was inhibited by the potential exposure to security/cybersecurity risks that it engendered. One of the main tenets of digital marketing is that it gives companies the opportunity to build deeper relationships with customers and offer customized communication based on the data the organization collects about its target audiences. While this brings a plethora of benefits, it also carries a risk; should a successful cybersecurity attack occur, the organization's brand could be significantly tarnished.

In the UK, the internet service provider TalkTalk experienced an attack in October 2015, which saw personal details of more than 150,000 customers stolen, bringing extensive negative publicity and a £400,000 fine which the Information Commissioner's Office ordered because TalkTalk's security was so poor the attack had succeeded "with ease" (Ico.org.uk, 2016)[1]. As a result of attacks like this, lessons are starting to be learnt across the industry. Companies are right to be cautious about the impact on their business of a breach, but this should not lead to inaction. Rather, customer protection should be firmly rooted at the core of the digital strategy and marketers need to work closely with the offices of the CIO and CISO within their organization to ensure marketing and security strategies are aligned and understood.

With access to the budgets necessary to successfully undertake a digital transformation, and with customer protection a constant reference point when making both strategic and tactical decisions, marketers will be well placed to counter competitive threats and rising customer expectations, which in turn creates a firm foundation for the long-term viability of the company.

Appendix

This report was researched, authored, and produced by Ovum in association with Adobe.

Research methodology

The goal of this research project was to assess the current state and the future of digital marketing adoption and investments within large organizations in the high-tech industry. Between May and July 2017, Ovum, on behalf of Adobe, conducted 200 telephone research interviews with marketing directors, marketing managers, and digital marketing managers in high-tech companies with 500+ employees operating in Europe, Asia, and North America. Ovum conducted telephone interviews with software, internet, consumer electronics, technology manufacturer, and professional/IT services companies.

[1] Ico.org.uk. (2016). TalkTalk gets record £400,000 fine for failing to prevent October 2015 attack. [online] Available at: https://ico.org.uk/about-the-ico/news-and-events/news-and-blogs/2016/10/talktalk-gets-record-400-000-fine-for-failing-to-prevent-october-2015-attack/ [Accessed September 22, 2017]

Ovum Consulting

We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help you. For more information about Ovum's consulting capabilities, please contact us directly at consulting@ovum.com.

CONTACT US

www.ovum.com
analystsupport@ovum.com

INTERNATIONAL OFFICES

Beijing
Dubai
Hong Kong
Hyderabad
Johannesburg
London
Melbourne
New York
San Francisco
Sao Paulo
Tokyo