

Tech leaders optimistic for industry turnaround

May 21 2010, By Brandon Bailey and Steve Johnson

Many technology companies made it through the recent recession by cutting costs as sales declined to keep their profits up. But a wave of upbeat earnings reports in recent weeks has made it clear that Big Tech is seeing a return to growth that may continue into next year and beyond.

Consumers are flocking to buy the latest [smart phones](#), tablet computers and other mobile [gadgets](#). Many businesses are starting to replace aging fleets of PCs, server computers and networking gear. Others are shopping for new equipment to make the most of recent advances in commercial software and the explosive growth of online services, which has prompted companies to expand their networks and computer centers.

"Companies are starting to reinvest" in technology, said Sean Randolph, president and [CEO](#) of the Bay Area Council Economic Institute.

Experts warn that continued economic uncertainty, particularly now in Europe, could throw a wrench in the tech recovery. And even though several Silicon Valley companies have promised to add employees, it's not clear whether they will be hired in the U.S. or overseas.

But the tenor of tech earnings reports in recent weeks has been overwhelmingly upbeat:

- Intel reported sales were up 44 percent in its most recent quarter, compared with a year ago. CEO Paul Otellini said last week that he expects sales and profits will continue to grow by 10 percent or slightly

more over the next few years.

- Cisco Systems CEO John Chambers said he expects sales to grow 25 percent to 28 percent in the current quarter, compared with a year earlier. He added that the prospect for meeting the company's long-term goal of 12 to 17 percent average year-over-year growth "appears to be even more likely."

- Hewlett-Packard raised its forecast for 2010 for the second time since last fall; it's now predicting annual revenue will grow 8 to 9 percent over the \$114.6 billion in sales that the company reported in 2009.

That kind of growth is especially dramatic, given that all three companies are already huge. Intel is the world's biggest maker of chips for PCs and other computers. Cisco is the world's biggest supplier of routers and switches for computer networks. HP is the world's largest technology company by sales, and the leading maker of PCs and printers as well as a major supplier of commercial computing gear and tech services.

"After many customers deferred hardware purchases in 2009, we are seeing strong growth in a number of our businesses," HP CEO Mark Hurd told analysts this week.

Consumer-oriented companies like Apple, Netflix and Electronic Arts have all reported big sales increases in the past month. Google and Yahoo have also given upbeat reports. But analysts say the biggest shift may be occurring in the commercial tech sector.

Consumers kept buying gadgets during the [recession](#), especially after some companies lowered their prices to prop up sales. Those habits will continue, said Ben Bajarin at the industry consulting firm Creative Strategies: "So much technology has been woven into the fabric of

society that people just depend on these things."

Many businesses, meanwhile, froze their budgets and stopped buying tech gear in 2008. Now corporate buyers are buying again, or getting ready to do so. According to Ken Male of TheInfoPro, a research firm that tracks business tech purchasing, "you will see pretty good spending through the year and probably into 2011, too."

The past two quarters have been "easy compares" for tech companies, since weak sales during the recession made it relatively simple to show improvement a year later. But experts say that longer-term industry trends are giving executives good reasons to expect continued growth.

New "virtualization" software helps companies operate their data centers more efficiently, but it's also prompting them to buy new hardware designed to make the most of those benefits. And the wider adoption of cloud computing, which lets customers and employees access information and services over the Internet, is prompting companies to expand their networks and data centers.

"That's going to continue for the next couple of years," said tech analyst Ronald Gruia at the Frost & Sullivan consulting firm.

"The big question," Gruia added, "is what's going to happen to the world economy."

Several Wall Street analysts, in fact, said they were surprised when HP and Cisco executives recently downplayed concerns that the Greek financial crisis might create broader havoc across Europe. Stephen Minton at the IDC research firm said some corporate customers are buying hardware that they need right away, but they're still reluctant to make longer-term investments because the global economy remains unsettled.

(c) 2010, San Jose Mercury News (San Jose, Calif.).
Distributed by McClatchy-Tribune Information Services.

Citation: Tech leaders optimistic for industry turnaround (2010, May 21) retrieved 19 April 2024
from <https://phys.org/news/2010-05-tech-leaders-optimistic-industry-turnaround.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.