RESEARCH INSIGHTS

Balancing Tech Investment and Cost Cutting in the Face of Macroeconomic Uncertainty

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Executive Summary

Macroeconomic slowdowns, high inflation rates, and high interest rates can create a challenging environment for businesses. During these times, companies may look to cut costs in order to maintain profitability. One way businesses may attempt to cut costs is through reducing technology investments. For example, a company may decide to delay or cancel plans to purchase new software or hardware. Additionally, businesses may also look to reduce headcount, either through layoffs or through hiring freezes.

High inflation rates can also make it more expensive for businesses to operate, as the cost of goods and services may increase. This can lead to companies passing on those costs to consumers through higher prices, which can decrease demand for their products and services. High interest rates can also make it more expensive for businesses to borrow money, which can limit their ability to invest in expansion.

It is no secret that in early 2023, organizations are evaluating a perfect storm of macroeconomic factors that make planning challenging. Inflation is at a record high, and, in turn, central banks have raised interest rates quickly to lower demand but have done so in a manner that creates a "soft landing" for the economy, avoiding a deep recession. However, in practice, taming inflation without causing a recession is incredibly difficult.

Cost-cutting measures can help businesses survive during difficult economic times, but they can also have negative consequences. For example, cutting technology investments may limit a company's ability to stay competitive, while reducing headcount can lead to lower productivity and employee morale. Additionally, cost-cutting measures can also limit a company's ability to invest in the future, which can make it harder for the business to recover once economic conditions improve.

Survey Background

With this backdrop in mind, Foxit commissioned TechTarget's Enterprise Strategy Group (ESG) to conduct a survey of VP and C-suite-level business strategists to better understand forward-looking business sentiment and strategies that will be employed to navigate macroeconomic headwinds, with specific interest in technology spending plans and anticipated changes to headcount.

Key questions in the research survey included:

- Do you believe we are in a recession or headed for one?
- Are organizations taking meaningful steps to reduce or contain costs relative to spending levels in 2022?
- If so, how will headcount be affected?
- How will organizations weigh cutbacks to technology investments?

ESG fielded the survey from November 8 - 11, 2022, with 500 qualified respondents completing the survey. To qualify, respondents needed to hold a VP-level or higher title in their organization and be knowledgeable about their organization's business outlook and have influence over their organization's current and future major technology investments. Respondents represented organizations in the U.S. (40%), Canada (10%), the U.K. (19%), Germany (16%), and France (15%). Additional demographic and firmographic details are presented in the *Research Methodology* section of this report.

Key Findings

Based upon the data gathered as part of this project, the report illustrates that:

- A recession is imminent.
    - Nearly half (45%) of respondents believed we are in a recession today.

    - 83% of respondents indicated the recent rise in interest rates has led to cutbacks on spending/growth plans.

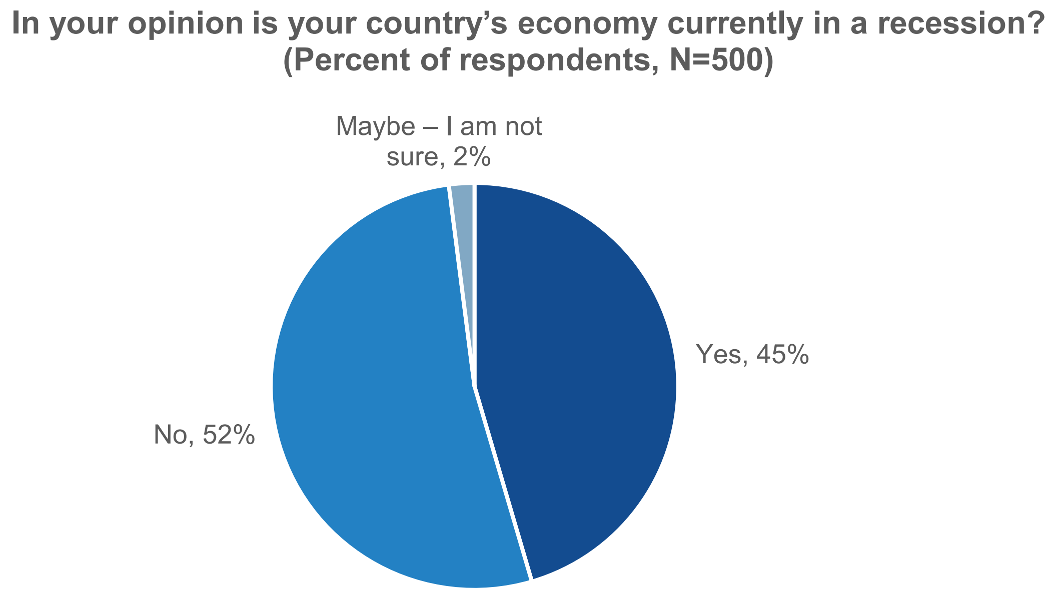
- Though organizations have a strong preference for cutting tech spending, headcount reductions are still expected.
    - Nearly two-thirds (62%) of respondents preferred to reduce spending on incumbent technologies instead of reducing headcount, outnumbering those that have a preference for headcount reductions by ~7:1.
    - 38% of respondents expected to have to lay off people on their team. Among those that expected layoffs, on average they forecasted ~40% of their staff will be affected.
    - The majority of respondents reported that their layoffs would target remote workers and quiet quitters.
- Productivity software could benefit from cost optimizations.
    - 74% of respondents believed users would be receptive to easy-to-use/functionally equivalent productivity software alternatives.
    - 71% reported the rate of innovation delivered by incumbent productivity software vendors lags what's delivered by vendors or other enterprise technologies.
    - 70% feel incumbent productivity software vendors enjoy monopolistic market conditions that allow them to overcharge customers.

Data Points to an Imminent Recession

Nearly half of respondents (45%) believed we are in a recession today, with both manufacturing (51%) and tech (63%) verticals reporting this more often than other industries. With recent layoffs at major tech organizations, it's no surprise to hear that the tech industry has been hit especially hard by the current climate and that they believe we're currently in a recession (see Figure 1).

Of the respondents that don't believe we're in a recession currently, just 27.7% think we will enter one, indicating opinions are far from reaching a consensus. However, in the aggregate, business leaders forecast a 61% chance we will experience a recession in the next year.

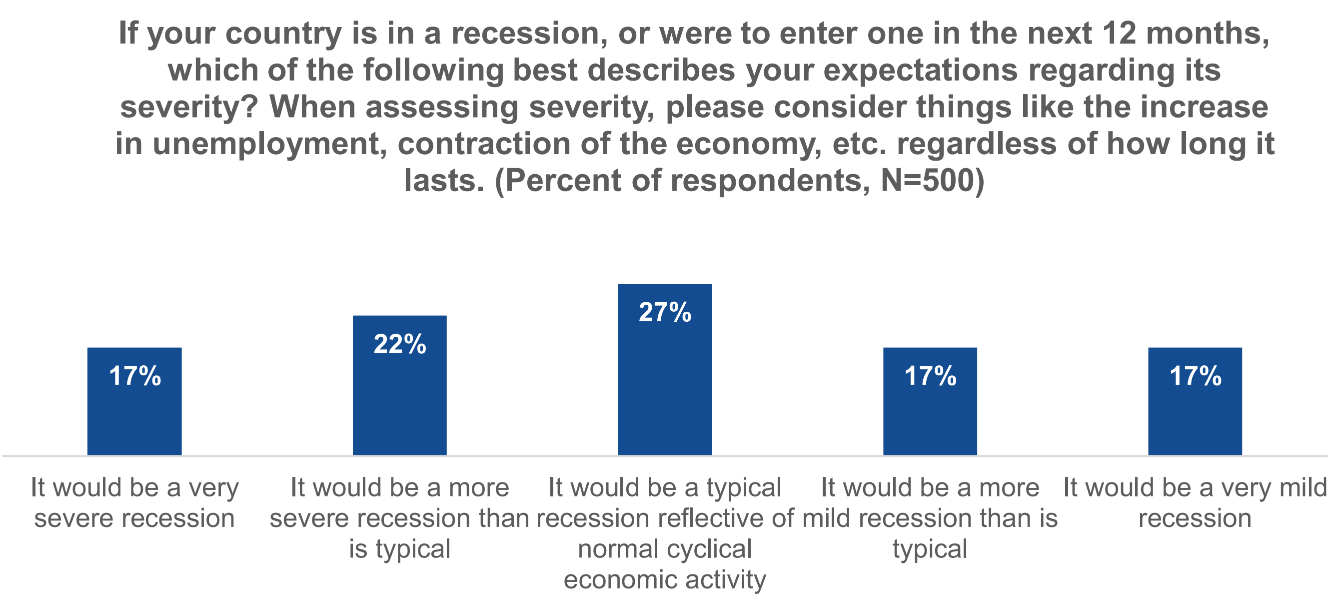
Figure 1. 45% of Respondents Believe We Are in a Recession Today



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Opinions on the severity of a potential recession varied widely, with the most common sentiment being that it would be a typical recession reflective of normal cyclical economic activity (27%), though a combined 39% anticipated that the recession would be either very severe or more severe than is typical (see Figure 2).

Figure 2. Severity of a Recession



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

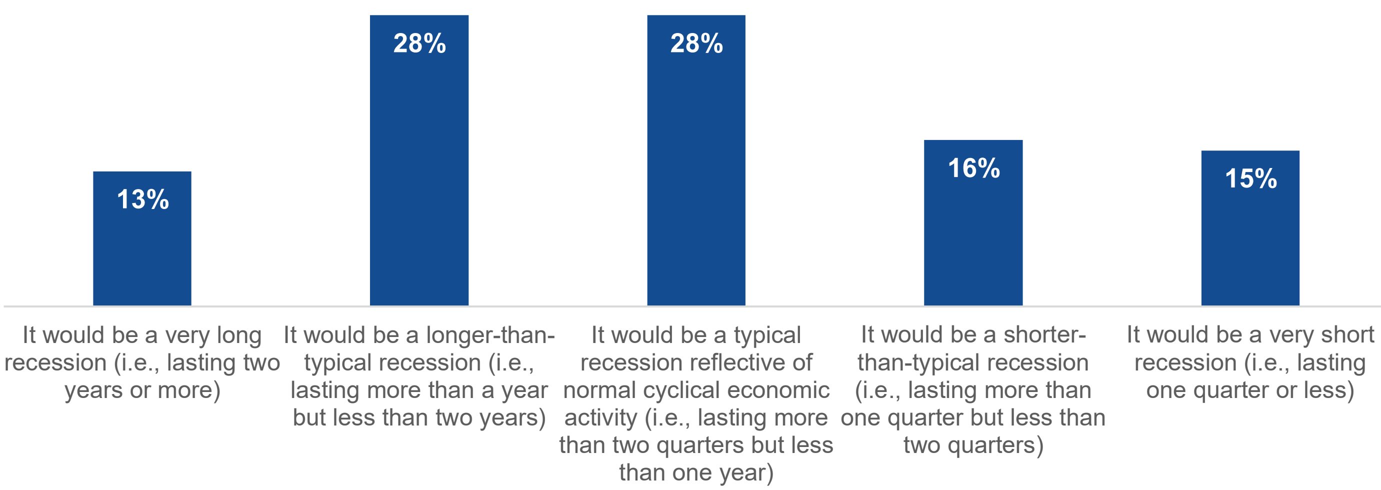
Respondents in healthcare (30%) and tech (34%) were more inclined to anticipate a very severe recession, while those in construction and engineering anticipated a more mild recession (30%). It's also worth noting:

- The more senior a respondent was within an organization, the more inclined they were to believe a recession would be very severe (23% of C-suite-level respondents, compared to 13% of other-level respondents).
- Midsize companies anticipated a very severe recession more often than enterprises did (24% versus 14%).

In terms of recession length, respondents were similarly divided, with the overall sentiment being that a recession would be of typical length (e.g., lasting more than two quarters but less than one year) or slightly longer (e.g., lasting more than a year but less than two years, see Figure 3).

Figure 3. Length of a Recession

If your country is in a recession, or were to enter one in the next 12 months, which of the following best describes your expectations regarding its length? When assessing length, please consider the amount of time that will elapse before the economy begins to grow again, etc. (Percent of respondents, N=500)

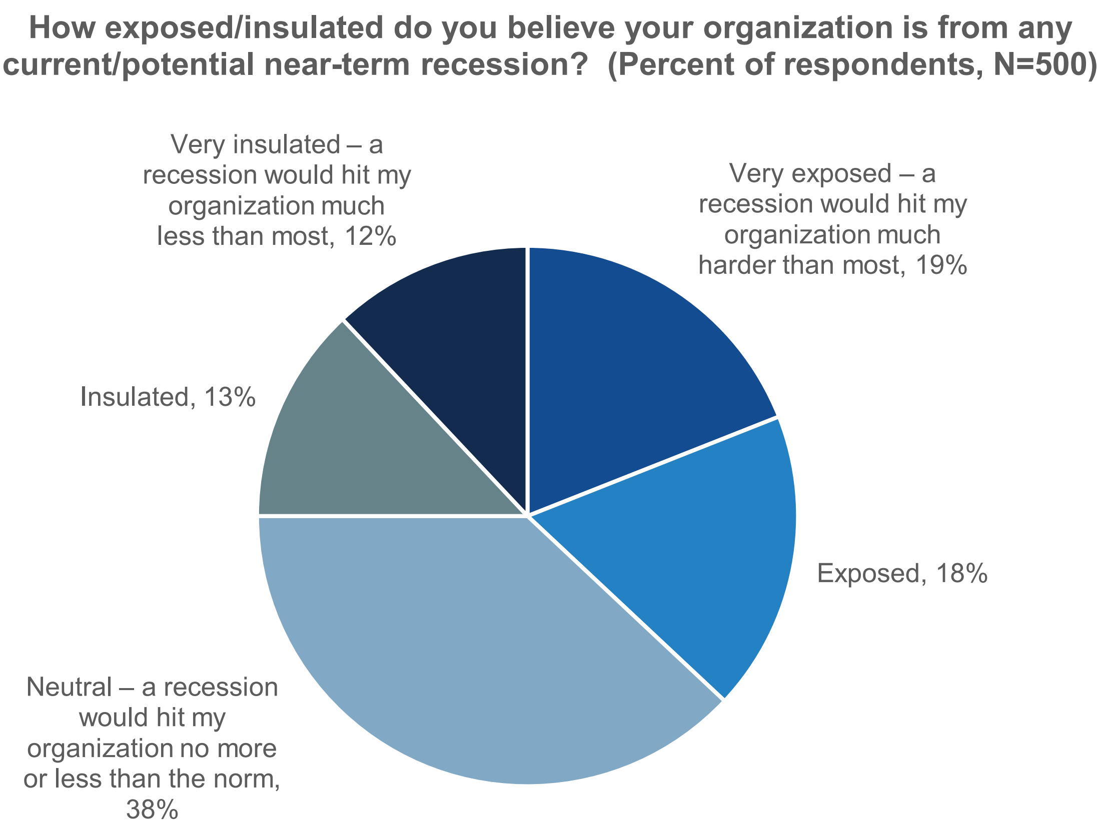


Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Similar to recession severity, both healthcare (23%) and tech (32%) respondents expected a longer recession. C-level respondents (18% versus a mean of 10%) and respondents in midsize organizations (19% versus a mean of 11%) were also more inclined to think a recession would be longer than average.

Assessing how recession-proof an organization is proved difficult. A combined 37% of organizations said they were either exposed or very exposed to a current/potential near-term recession, while a combined 25% thought they were either insulated or very insulated from a recession. With 38% indicating they were neutral and that a recession would hit them no more or no less than the norm, the data shows a similar "typical" sentiment to that of recession length and severity.

Figure 4. Respondent Sentiment on Exposure to or Insulation from a Recession



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

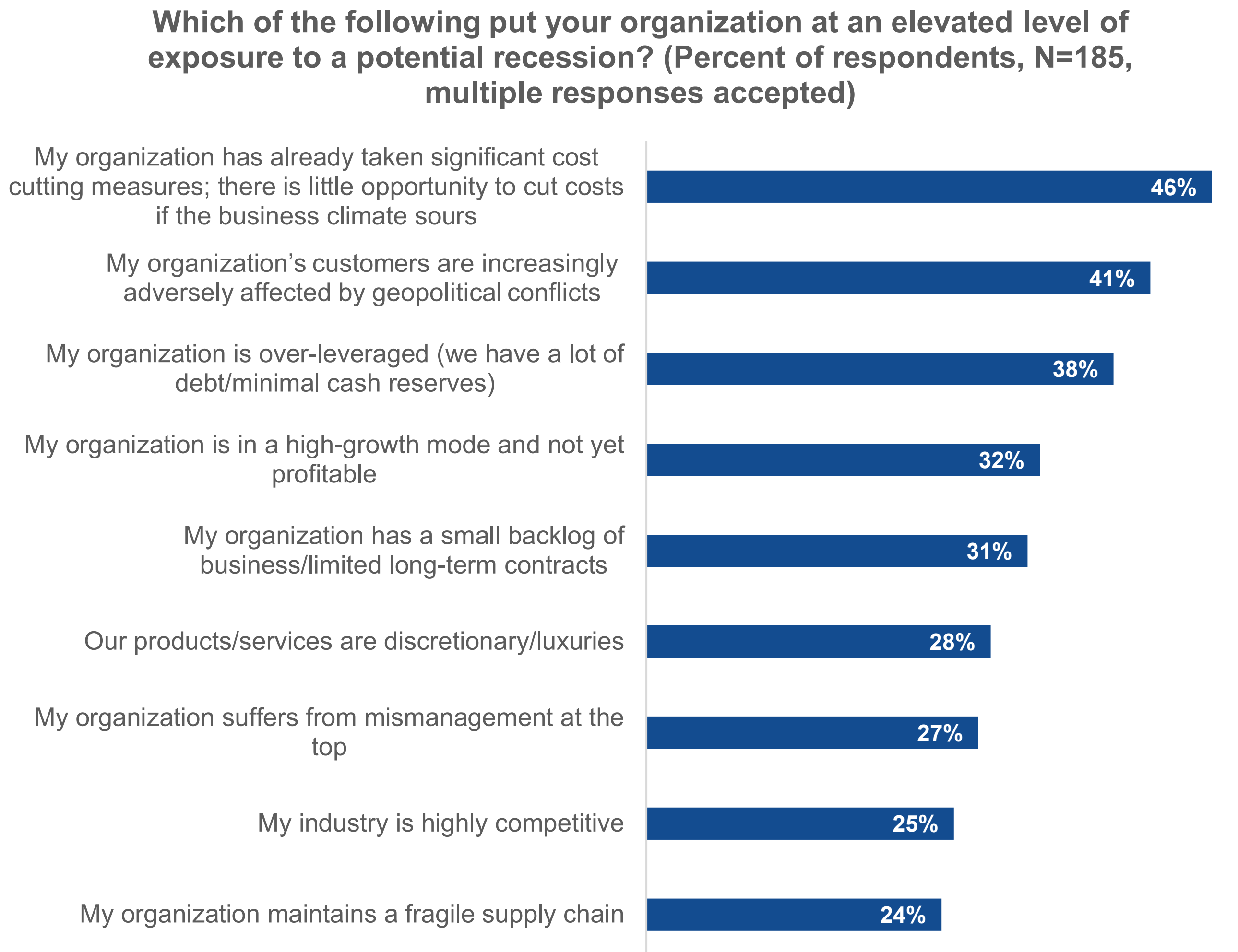
Breaking this down, C-suite respondents (27%) were much more likely to feel they are very exposed to a recession compared to their less senior counterparts (14%).

Higher numbers of respondents in FinServ (26%), healthcare (28%), and tech (32%) organizations reported being very exposed compared to the mean of 19% of organizations. Respondents in retail organizations only noted feeling very exposed 11% of the time, while those in the construction/engineering industry did not register any responses in the “very exposed” category.

Of those organizations that reported being exposed or very exposed to a recession (N=185), the primary reasons cited for this were (see Figure 5):

- A lack of opportunity to cut costs because the organization has already undertaken significant cost-cutting measures (46%).
- Geopolitical conflicts already having an adverse effect on the organization’s customers (41%).
- The company is over-leveraged and has a lot of debt with minimal cash reserves (38%).

Figure 5. Reasons for Elevated Exposure to a Recession

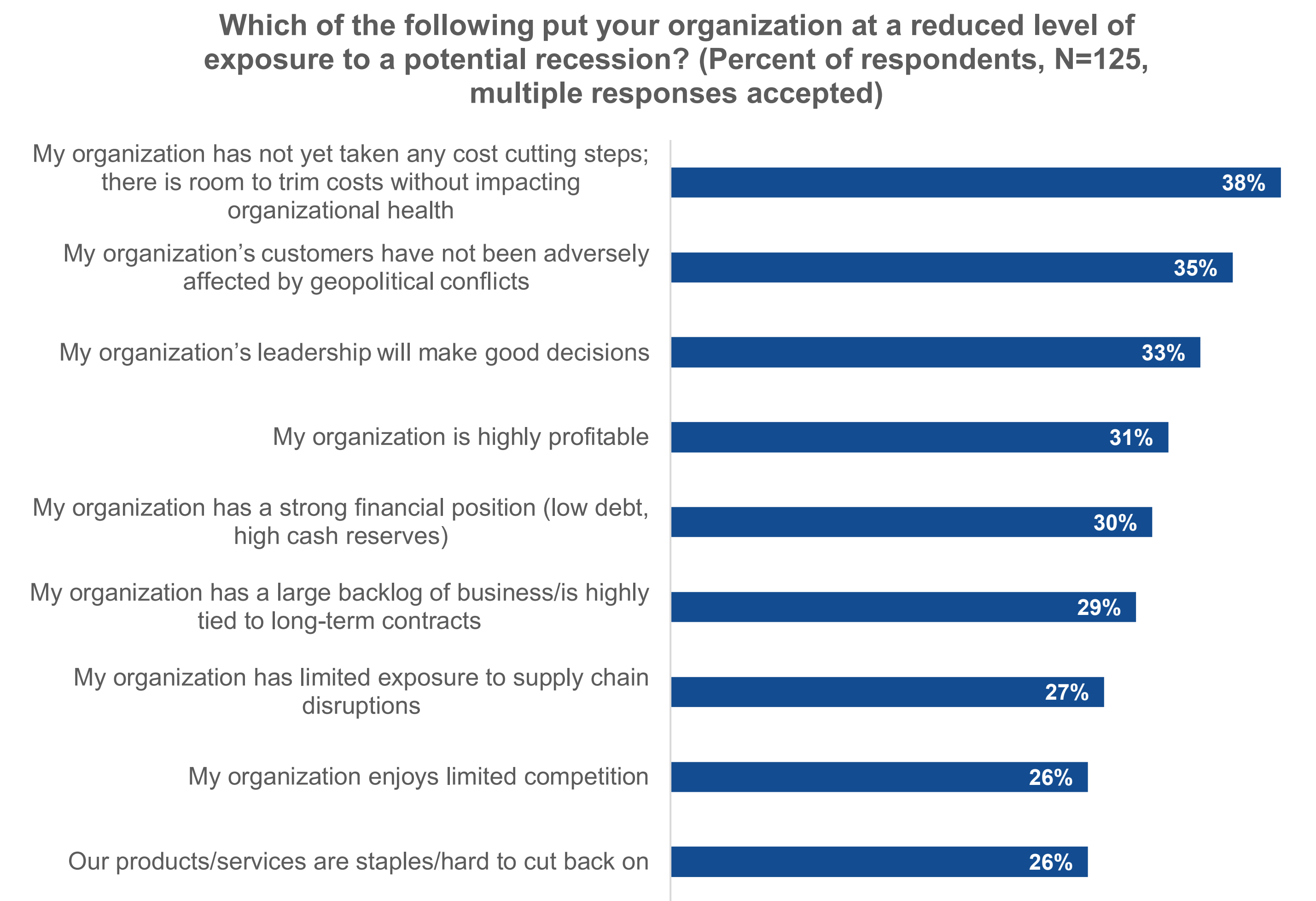


Source: Enterprise Strategy Group, a division of TechTarget, Inc.

On the other hand, organizations that consider themselves insulated from a recession feel they're in a good position due to (see Figure 6):

- Not having undertaken any cost cutting measures yet, meaning there is room to trim costs without impacting organizational health (38%).
- Geopolitical conflicts not having adversely affected the organization's customers (35%).
- Confidence in leadership making good decisions (33%), high profitability (31%), and a strong financial position with low debt and high cash reserves (30%).

Figure 6. Reasons for a Reduced Level of Exposure to a Recession

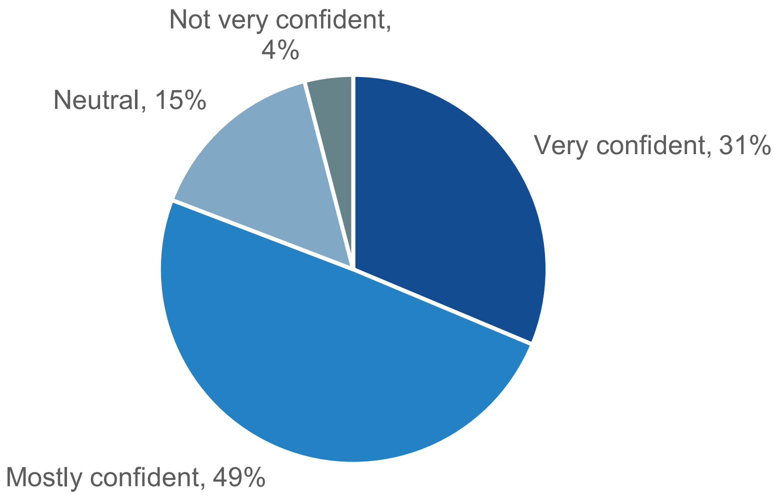


Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Organizations were also asked about their confidence in their country's monetary policy makers. Overall, 80% of respondents believed their central banks' policies will be able to balance issues like inflation, unemployment, and consumer/business demand for products/investments through monetary policy action over the next 12 months (see Figure 7). However, 83% of organizations indicated that interest rate hikes have led to cutbacks on spending and growth plans (see Figure 8).

Figure 7. Confidence in Central Banks to Manage the Recession Is High

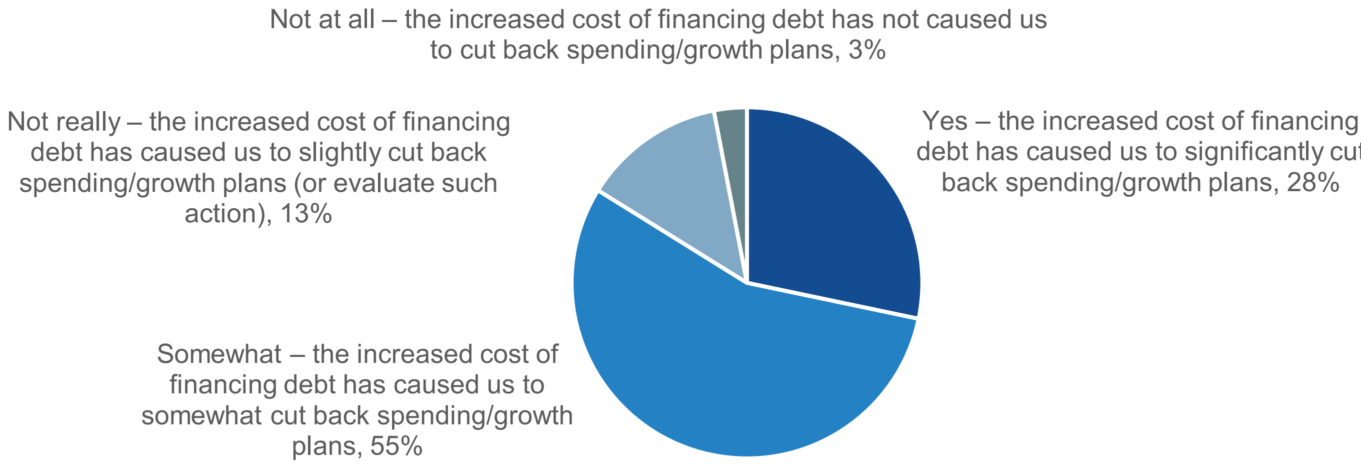
Generally speaking, how confident are you in your country's central bank to balance issues like inflation, unemployment, and consumer/business demand for products/investments through monetary policy action over the next 12 months? (Percent of respondents, N=500)



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Figure 8. Interest Rate Hikes Have Led to Cutbacks

Thinking about your organization specifically, has the recent rise in interest rates impacted your organization's plans for the next 12 months? (Percent of respondents, N=500)



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Organizational Plans for Navigating Through a Recession

After establishing organizations' sentiment on a recession, the research pivoted to understanding what the impact of a recession is or will be on organizations. Overwhelmingly, respondents indicated that they are in cost containment or cost reduction mode, with 16% reporting major cost reductions, 36% reporting moderate cutbacks, and 30% indicating that, while nothing has changed dramatically from 2022 spending, they're monitoring spending carefully and may cancel or postpone some projects (see Figure 9).

Figure 9. Cost Cutting Measures Are Currently Underway

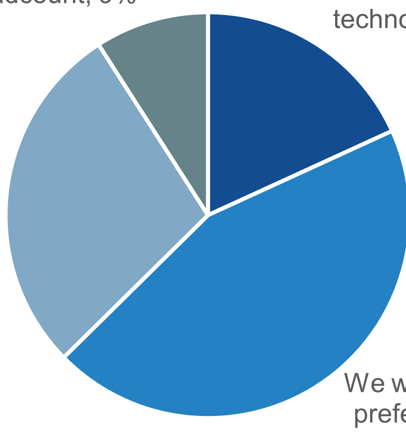
Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Of the combined 82% of respondents who reported some sort of cost cutting or cost containment measures in place in their organization, respondents in the FinServ (23%), tech (29%), and retail (23%) industries were the most likely to report major cost reductions. In the aggregate, 76% of respondents described this cost cutting/containment mode as "proactive."

Equally, if not more important, is where organizations are cutting costs. Respondents were asked which cost containment or reduction strategies they were employing, and the responses favored reducing tech spending (62%) as opposed to reducing headcount (9%) by a 7:1 margin (see Figure 10).

Figure 10. Reducing Tech Spending Is Preferred Over Reducing Headcount

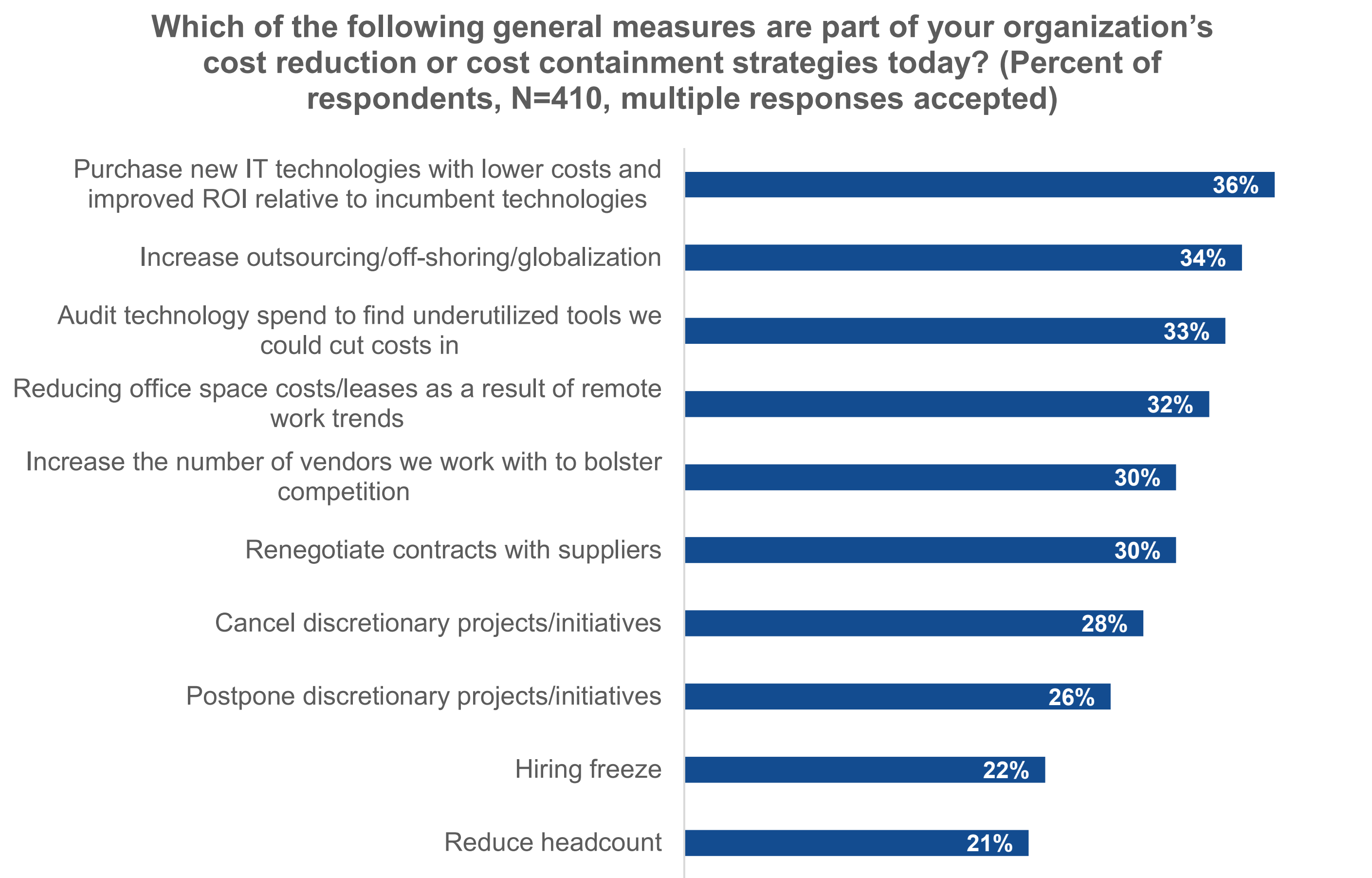
If your organization were forced to either reduce its headcount or find cost savings by reducing spending on incumbent technologies (applications, IT infrastructure, etc.), which would your organization prefer? (Percent of respondents, N=500)



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

When asked for more detail on which cost containment strategies were preferred, respondents indicated that purchasing new IT technologies with lower costs and improved ROI relative to incumbent technologies would be the top priority. Auditing existing technology for underutilized tools and cost-cutting opportunities also ranked highly, while hiring freezes and headcount reductions were the least commonly cited strategies (see Figure 11).

Figure 11. Purchasing Lower Cost Technologies Tops the List of Cost-containment Strategies



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

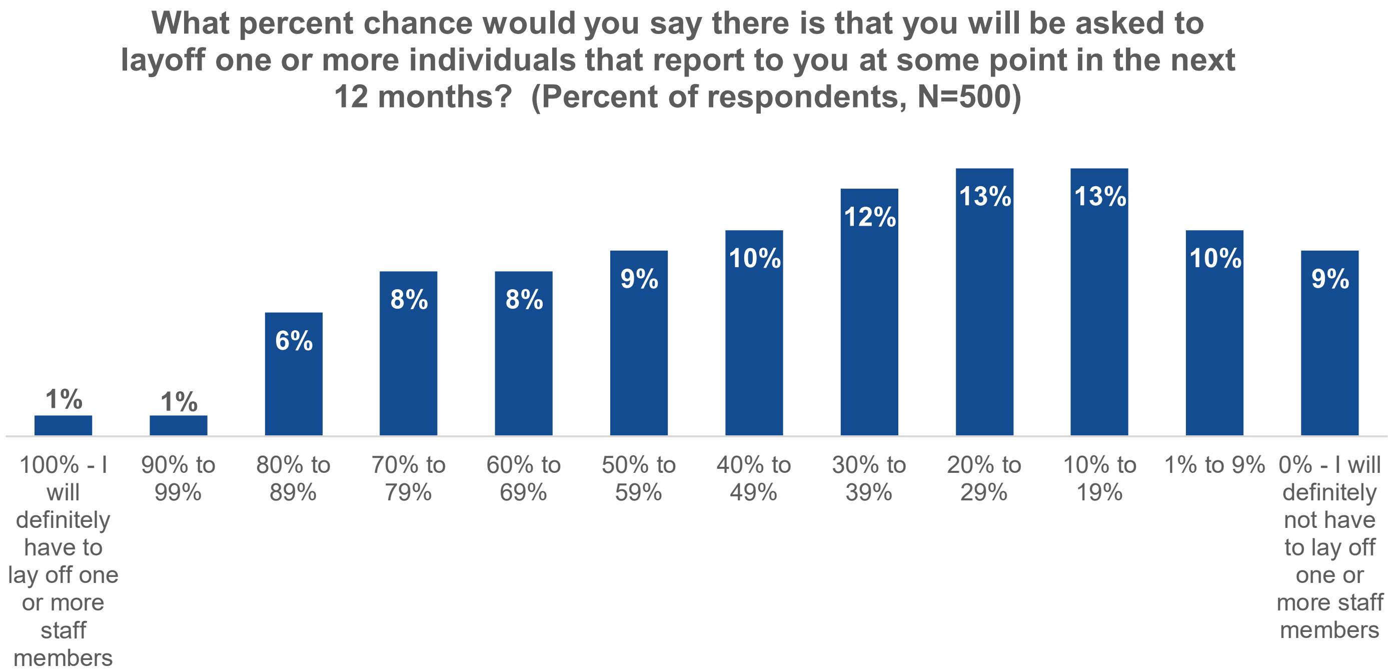
When asked why cutting tech spending was prioritized over reducing headcount, the results were nearly evenly spread out among the following reasons:

- More waste/overlap/redundancy in technology than in staff (48%).
- Teams are already oversubscribed, so cutting staff would exacerbate issues (46%).
- Employees are valued and limiting the impact on them is a priority (45%).
- Hiring and retention is challenging—we don't want to staff up in the future (44%).
- People are a larger differentiator than technology (42%).

Headcount Reductions Are Still Expected

Though most respondents believed that there were more opportunities to optimize costs in tech spending than in staffing and that employees were valuable to the business, respondents reported an average of a 38% chance that they will have to lay off staff that report to them (Figure 12).

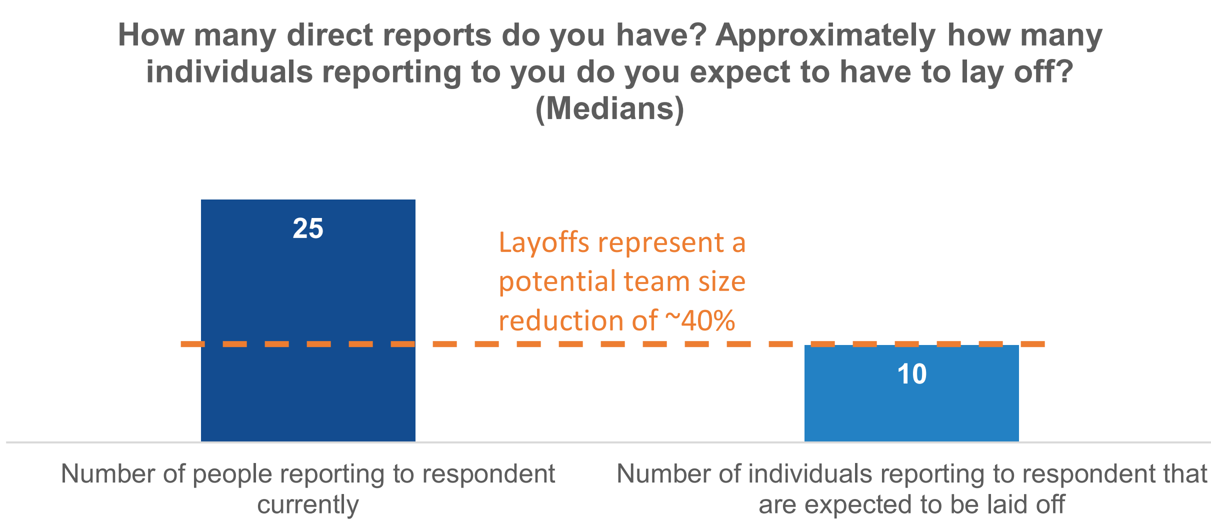
Figure 12. Chance of Layoffs in the Next 12 Months



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Though the average impact of a headcount reduction is difficult to pin down, those that said they had a 50% or greater chance of reducing headcount (N=169) indicated that their average team size today was 25 and that they'd have to lay off 10 people, meaning the average reduction in team size would be 40% (see Figure 13). Note that this does not mean that 40% of employees will be eliminated across the board.

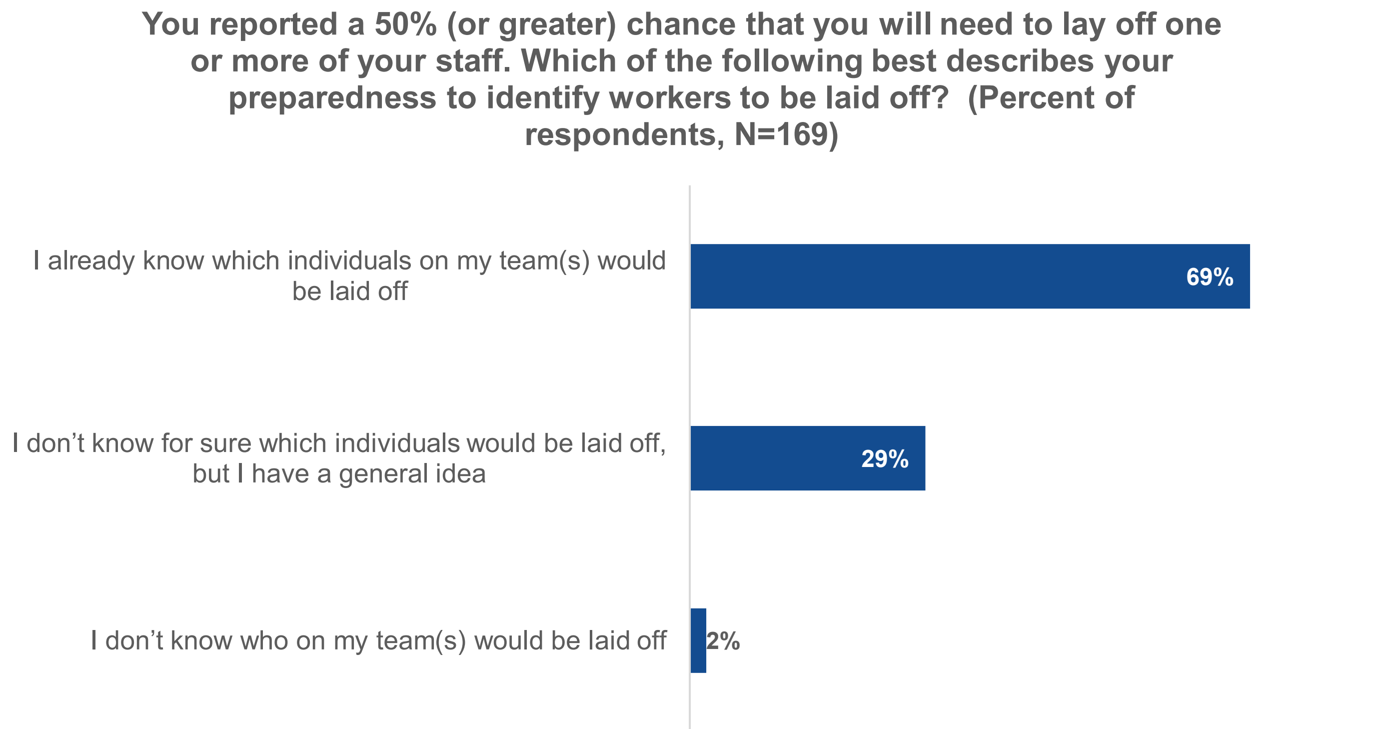
Figure 13. Respondents with a 50% or Greater Likelihood to Lay Off Workers Expect to Reduce Team Size by 40%



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Of those respondents that noted a 50% or greater likelihood of a layoff, 69% noted that they already knew which individuals would be let go, and another 29% didn't know for sure but had a general idea (see Figure 14). This indicates that, for these organizations, it's a matter of "when" the layoff will happen, not "if."

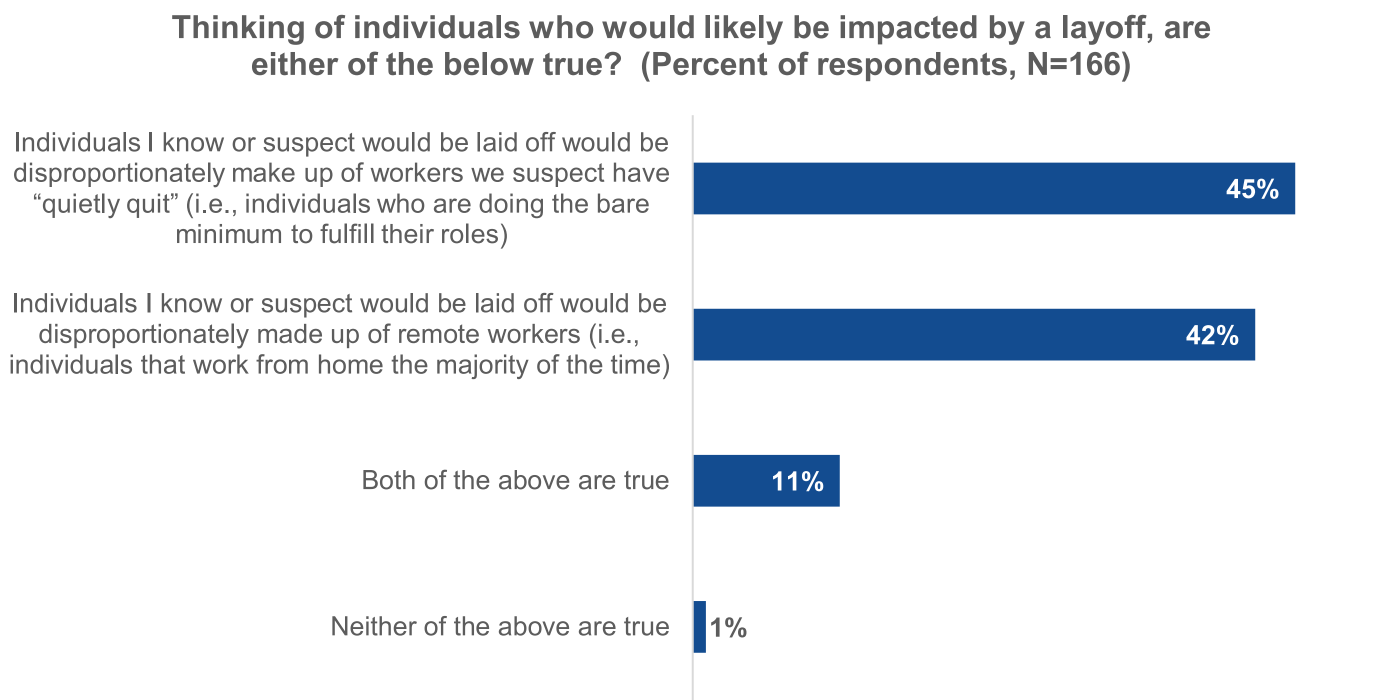
Figure 14. Organizations Already Know Who Will Be Impacted by Layoffs



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

These respondents were also asked if specific types of employees would be targeted during layoffs, and the results were interesting. Nearly half (45%) reported that those laid off in their organization would be disproportionately made up of quiet quitters, while another 42% reported that they would be disproportionately laying off remote workers (see Figure 15). Adding to these figures the 11% of respondents that report both of these employee types will be targeted by layoffs, it is clear that the majority of organizations planning layoffs are doing so with remote workers and suspected quiet quitters in the crosshairs.

Figure 15. Quiet Quitters and Remote Workers Will Be Disproportionately Targeted During Layoffs



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

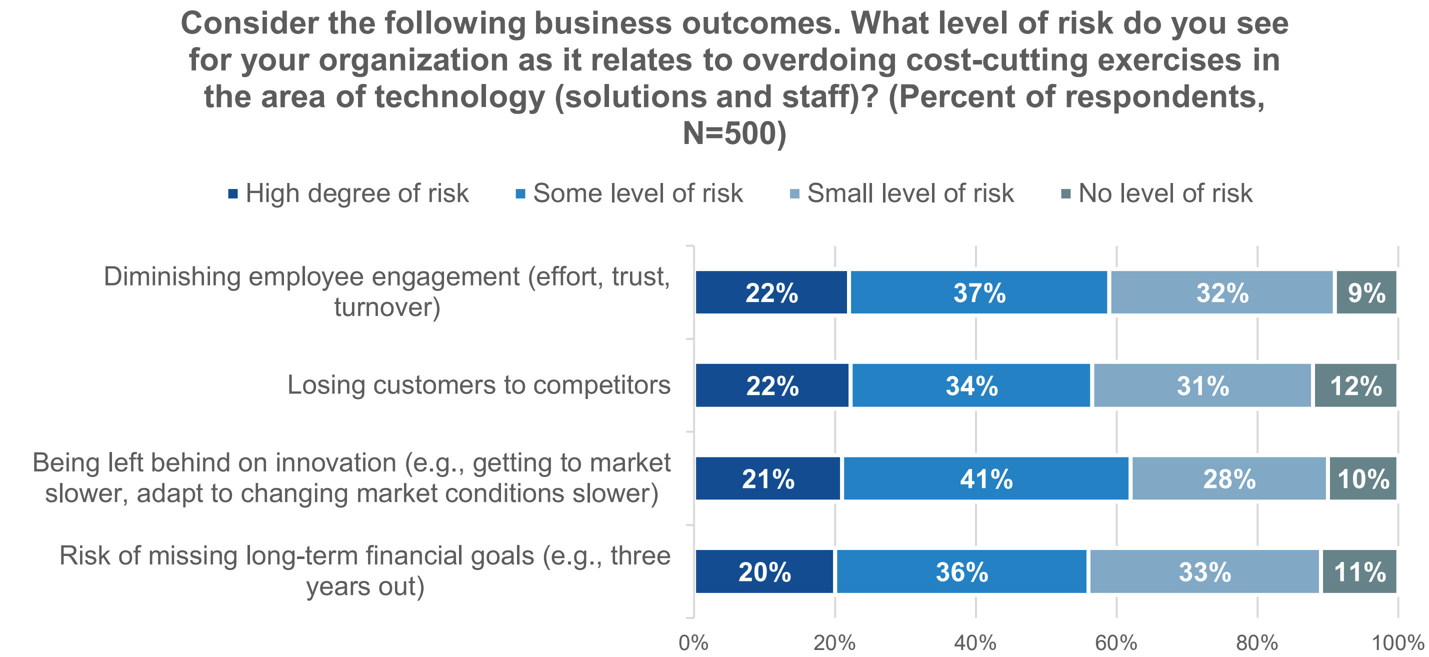
While targeting so-called quiet quitters is understandable, targeting remote workers is an interesting strategy, as separate Enterprise Strategy Group research has indicated that 76% of organizations have some kind of hybrid work strategy with varying degrees of remote workers.[1] Organizations that value talent retention and acquisition should think twice before taking this step because competitors that do embrace remote work might use this to their advantage.

Organizational Plans for Right-sizing Tech Spending and Avoiding Headcount Reductions

While headcount reductions are a strategy that will likely be used during a recession, the vast majority of respondents indicated that they’d prefer to reduce tech spending. We asked respondents about the risks they see for their organizations as they relate to overdoing cost-cutting exercises for both technology solutions and staffing (see Figure 16). 56% of respondents saw at least some level of risk of losing customers to competitors, while 62% were concerned about being left behind on innovation, such as not getting to market or adapting to changing market conditions quick enough. 59% of organizations were concerned about reducing employee engagement, effort, or trust or increasing turnover, and 56% were worried about missing long-term financial goals. These numbers indicate the need for deliberate, strategic decisions as opposed to broad cutbacks, and business leaders are concerned with threading that needle.

[1] Source: Enterprise Strategy Group Complete Survey Results, *End-user Computing Trends*, February 2022.

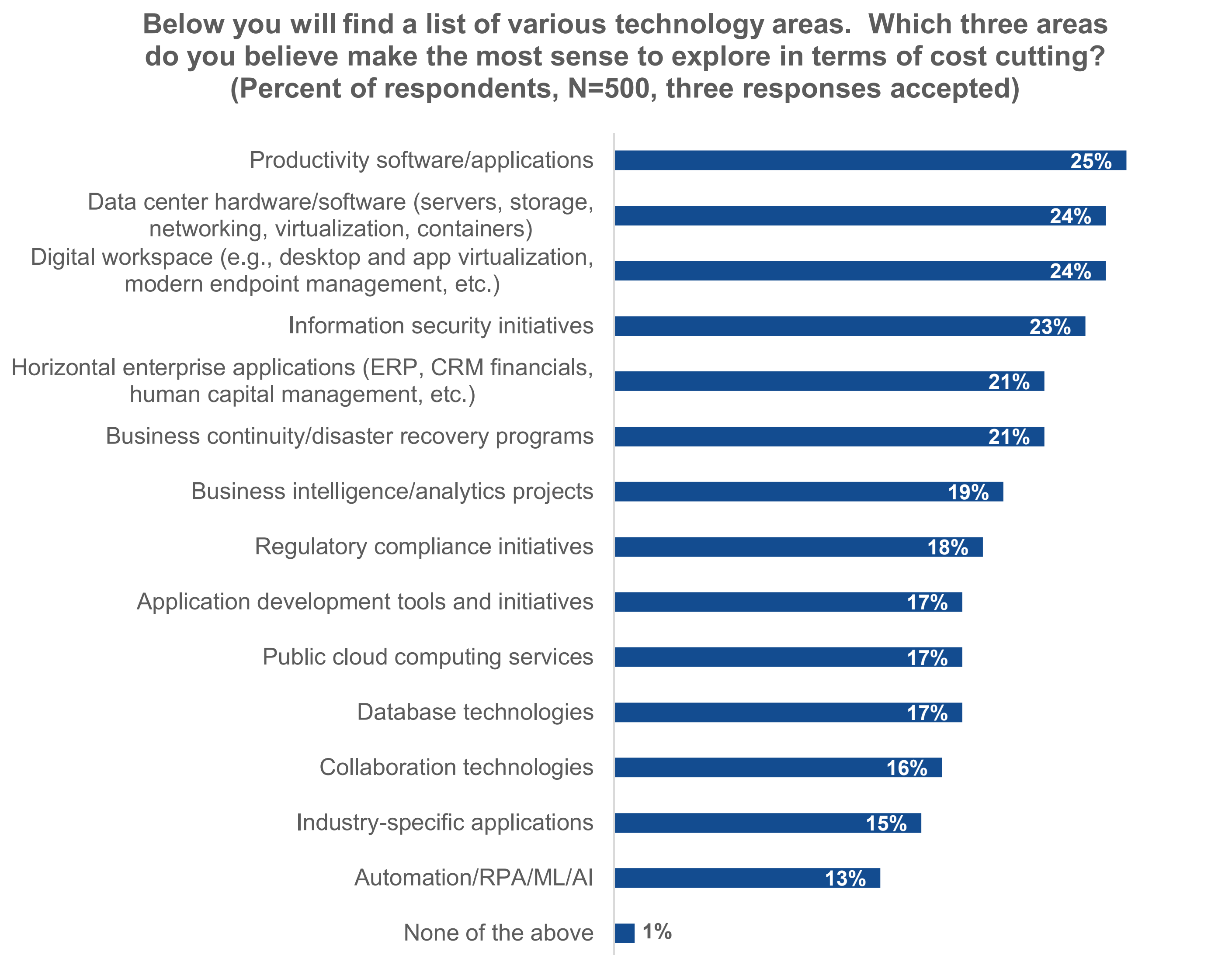
Figure 16. Risks to the Business as a Result of Cost Cutting



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Risks aside, respondents did clearly indicate a preference for reducing technology costs over reducing staff costs. When asked about what areas of technology spending organizations saw the best opportunities to cut costs in, respondents most often cited productivity software/applications (25%, see Figure 17).

Figure 17. Productivity Software Is the Top Cost-cutting Opportunity



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

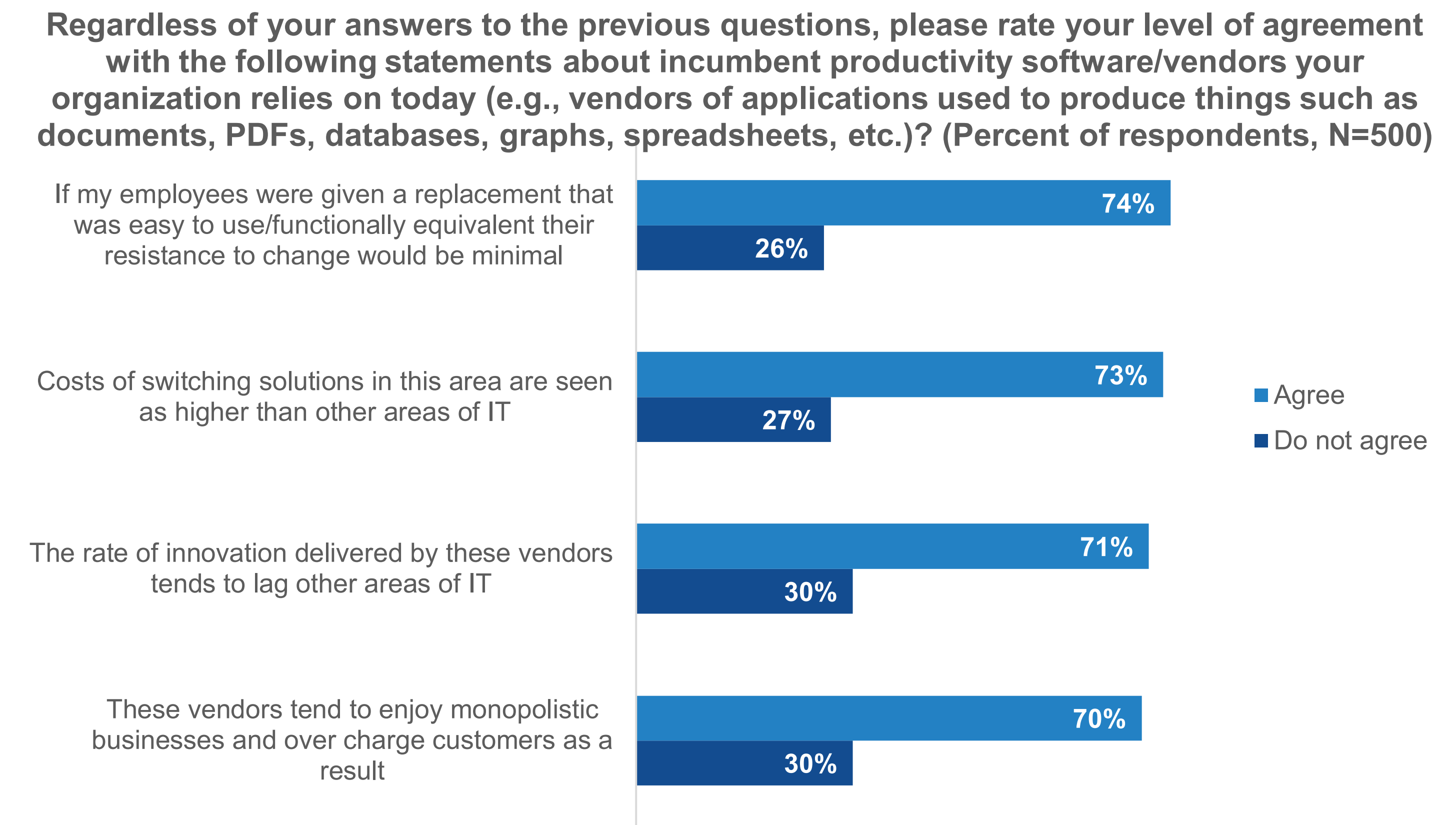
In fact, 92% of respondents indicated that their organization would be conducting a serious evaluation of new productivity software vendors over the next 12 months in order to reduce costs (see Figure 18).

Figure 18. Most Organizations Will Look to Reduce Productivity Software Costs

Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Cost reduction isn't the only reason organizations are considering switching productivity platforms. In fact, 70% of respondents felt that their current productivity software vendors enjoy monopolistic businesses and over charge them as a result. 71% also say that the rate of innovation delivered by these vendors tends to lag compared to other areas of IT (see Figure 19).

Figure 19. Dissatisfaction with Incumbent Technologies Is Creating an Opportunity for New Vendors



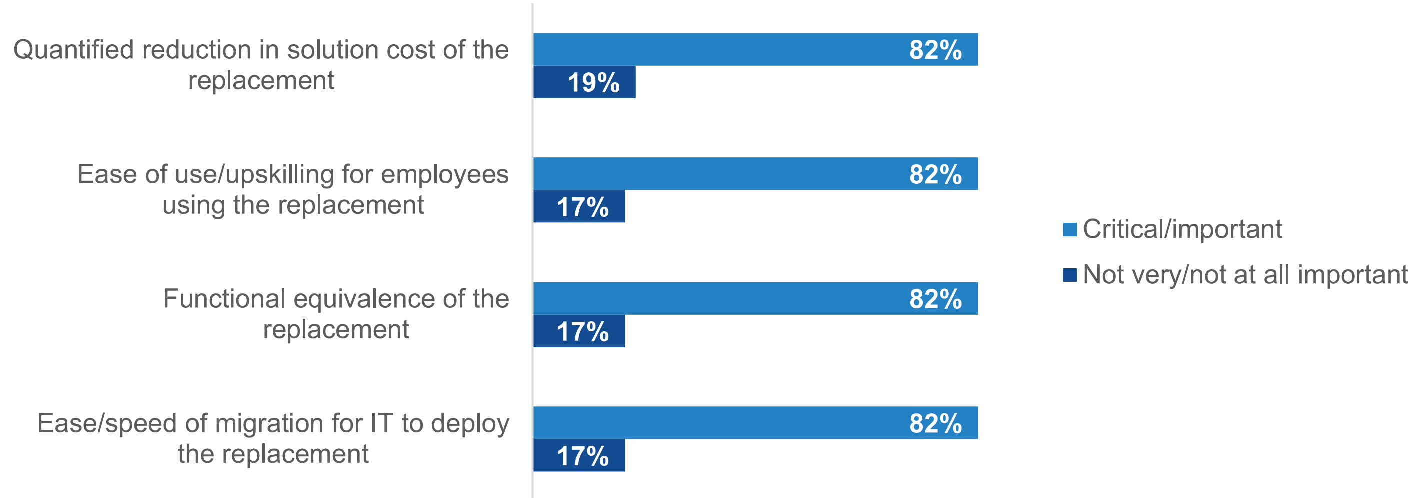
Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Though the cost of switching productivity solutions is seen as potentially higher than other areas of IT (73%), that's understandable because productivity software touches everyone in an organization and requires retraining of IT and other workers. For this reason, it's important to note that 74% of respondents said that if their employees were given a replacement that was easy to use and functionally equivalent, their resistance to this change would be minimal. Of course, this would also reduce the costs associated with rolling out the new platform and training staff.

Across the board, respondents emphatically agreed that to replace incumbent productivity software, vendors need to show a quantified reduction in the overall solution cost, ease of use and upskilling for existing employees, functional equivalence, and the ability for IT to perform the deployment or migration quickly (see Figure 20).

Figure 20. The Path to Replacing Incumbent Technologies Is Clear

If your organization were going to replace incumbent productivity software/vendors today, how important would the following be to prove, before your organization made a switch? (Percent of respondents, N=500)



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Conclusion

The data collected here paints a picture that, recession or not, an opportunity exists to cut productivity software costs, though the business perceives risks that are likely causing organizations to stick with “the devil they know.” Fortunately, a clear roadmap exists to help those customers mitigate risk and maintain user satisfaction while positively affecting the bottom line. To be successful, organizations should:

- Take time to assess their technology spending and usage with the ultimate goal of understanding where cuts can be made effectively and without too much disruption to day-to-day operations.
- Take a measured approach to technology cutbacks. Too much at once can create friction and reduce the chances of a successful overall project that preserves functionality and user experience, which could result in a rollback that ultimately costs more money.
- Seek out replacement technology that shares the same features and functionality of the incumbent solution to help ease the transition.
- Consider employee training and IT deployment efforts, too, and ask if the replacement solution can help in these areas.

Taking a proactive approach while in the early stages of cost cutting or cost reduction, as most companies appear to be doing, will help if and when a recession develops. Foxit, in particular, has PDF creation and editing tools that deliver the same content creation capabilities customers have today, while reducing expenses and helping them meet their cost containment/cost cutting goals.

For more information, check out this analysis of how Foxit could help your organization lower its cost without sacrificing functionality.

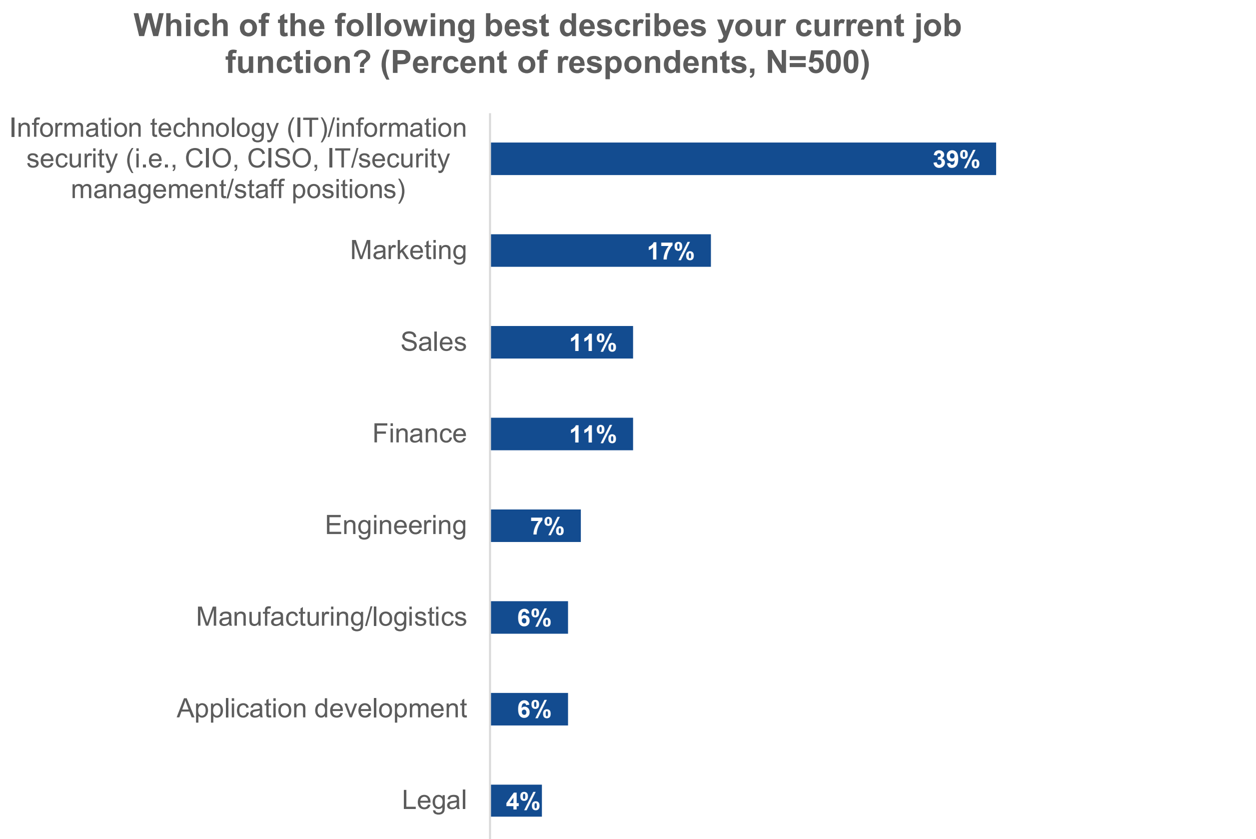
Research Methodology

Enterprise Strategy Group conducted a comprehensive survey among senior IT (39%) and line-of-business executives (61%) influential in technology planning and investments. Respondents represented organizations in the U.S. (40%), Canada (10%), the U.K. (19%), Germany (16%), and France (15%). Organizations represented skewed toward enterprises, with 70% having 1,000+ employees and 30% having 500-999 employees. The survey was fielded in November 2022. All respondents were provided a financial incentive to complete the survey.

After applying screening criteria and data quality control best practices, a final sample of 500 respondents completed the survey. Figure 21 - Figure 24 detail the demographics and firmographics of the respondent base.

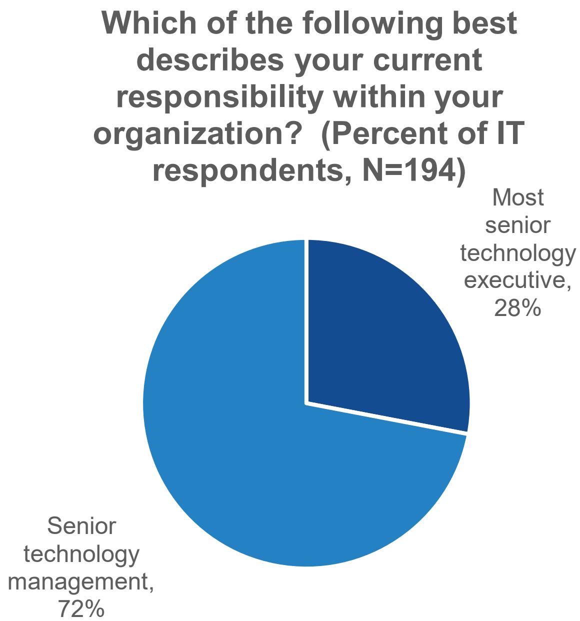
Note: The margin of error of a sample of N=500 is + or - four percentage points. Totals in figures and tables throughout this report may not add up to 100% due to rounding.

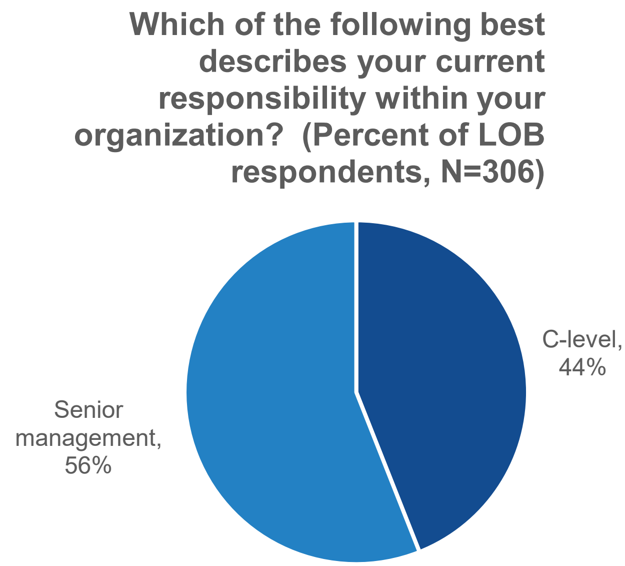
Figure 21. Respondents, by Job Function



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

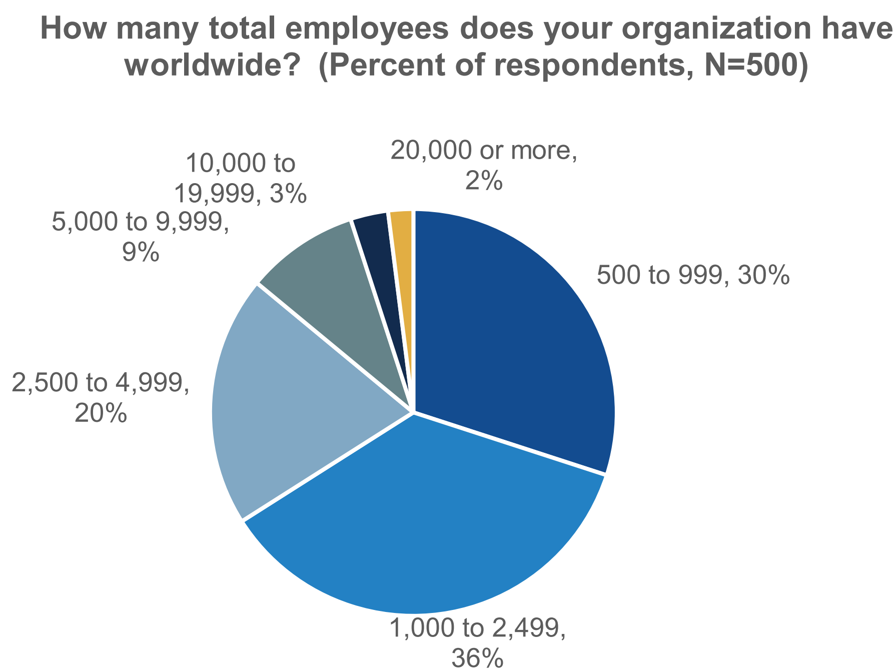
Figure 22. Respondents, by Seniority





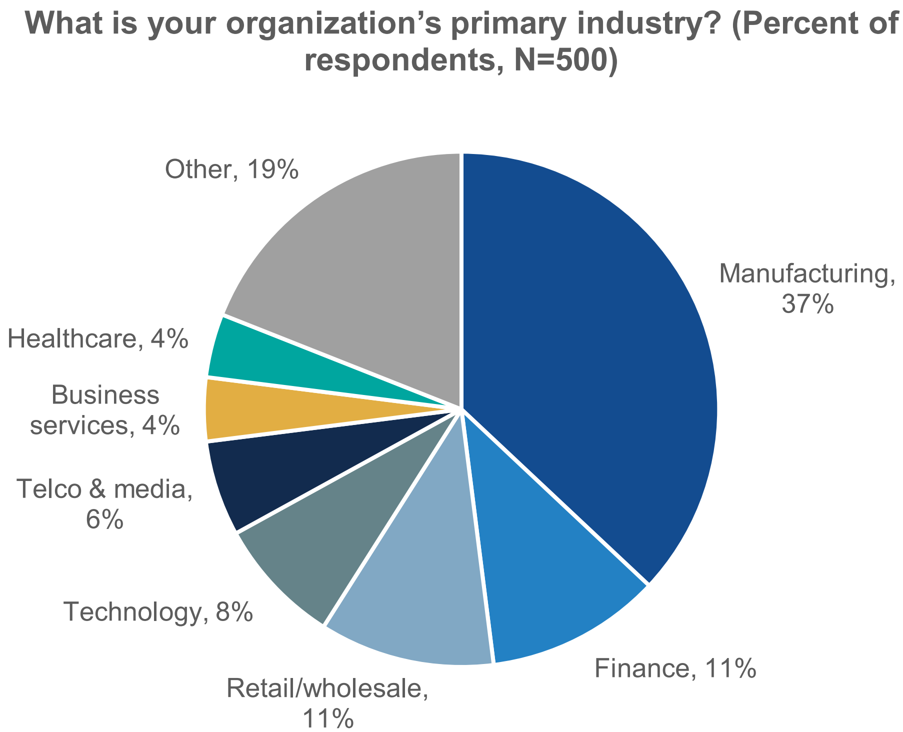
Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Figure 23. Respondents, by Company Size



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

Figure 24. Respondents, by Industry



Source: Enterprise Strategy Group, a division of TechTarget, Inc.

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