

THE CIO AGENDA:

# TAKING CARE *of* BUSINESS

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International IT Leaders Target  
New Spending, Security and  
Outsourcing Initiatives in 2003

PRESENTED BY



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## EXECUTIVE SUMMARY

Technology spending is stable or rising, security is hot, outsourcing remains a key part of IT initiatives—and, remarkably, at a time when the world economy has forced greater corporate emphasis on cost reduction and profitability, few IT leaders are employing basic ROI metrics to prove the value of technology investments.

These are among the key findings of a new survey of IT executives in the US and Europe, that asked top international technology leaders about their business, IT and spending priorities for 2003. This unique study, conducted by Getronics in association with IDG Research and *CIO Magazine*, is based on interviews conducted with nearly 500 information technology [or Information and Communication Technology (ICT)] executives in the United States and Europe in June and July 2002. Although separated by great geographic distances, these technology executives prove nearly single-minded in assessing how they will spend their money in 2003. Emerging from the economic turmoil—and shrunken budgets—of 2001 and 2002, they express cautious optimism about technology-spending increases in fiscal 2003, with a heightened, post-September 11 emphasis on security.

**Spending priorities are no big surprise.** Among the areas targeted for increased investment are enterprise applications such as e-commerce and customer relationship management (CRM), which remain important to business leaders in both the US and Europe.

**Businesses also will continue to rely on outsourcing** to reduce costs, focus on core competencies and access special expertise.

**The survey's biggest surprise is in fiscal management**, where IT leaders deliver a mixed message: that on one hand they feel compelled to show solid results from IT projects, but on the other they lack any proven methods to measure return on investment.

### ■ 2003 Spending Outlook Improves

The global recession may not be over, but at least IT leaders are planning for growth again. About 41% of executives interviewed report that they plan to increase spending an average of 20% in 2003. Most of the increases will be in hardware, software, telecom, networking and systems integration. As in 2002, IT spending priorities in 2003 are focused on security and enterprise applications. IT standardization is among the leading priorities, perhaps reflecting the need to better use existing resources and reduce support costs.

### ■ Business Strategy Drives IT

Things have changed in the past couple of years. In the US and Europe alike, business now firmly drives IT strategy—not the other way around. This reflects the shift from the Internet era to more traditional technologies and applications.

### ■ Security Gains Importance

Security is the new number-one priority of IT executives everywhere. It is closely followed by some familiar applications: e-commerce, CRM and enterprise resource planning (ERP). Clearly, IT executives are more interested in building on (and protecting) the systems they have than in implementing entirely new systems and technologies.

Wireless and Web services are *not* high priorities, and in fact have a lower public profile than they had during the twilight of the Internet bubble. However, they are still on the agenda, and IT executives appear to be approaching them cautiously.

## ■ ROI is Under-Used

Despite their own increased emphasis on cost reduction and profitability, less than 20% of survey respondents measure IT effectiveness with ROI or another financial measurement. Instead, 50% of respondents say they measure IT effectiveness by whether a project is completed on time and within budget. This perspective is in stark contrast to a CFO survey sponsored by Getronics and conducted by CFO Research Services in 2001. That study found that 86% of the financial executives in the US and Europe use at least one metric to determine IT funding. Finance executives relied on ROI or payback period to judge technology investments. For more information on the 2001 CFO survey, go to:

[http://www.getronics.com/download/pdf/CFO\\_FINAL\\_getronics12\\_12.pdf](http://www.getronics.com/download/pdf/CFO_FINAL_getronics12_12.pdf).

## ■ Outsourcing Remains a Major Budget Item

Fifteen years ago, IT outsourcing was a new—and mostly unwelcome—concept to CIOs. Today, outsourcing accounts for about 30% of IT spending, regardless of company type or home country. Companies in the survey indicate they would increase their outsourcing modestly in 2003, with 22% saying they would outsource more than this year.

Enterprises are still learning how and why to outsource, and the survey results reflect this learning curve. Witness: The main reason given for both increasing and decreasing outsourcing is cost reduction.

There is no confusion, though, in IT leaders' message to the outsourcing marketplace: Service providers need to have multiple skills to win contracts, including technical competence, service, understanding users' businesses and competitive price.

## ■ The Differences Between Europe and the US Are Minor

While the firms surveyed in Europe are generally smaller than those in the US, there are few, and relatively minor, differences in their responses.

Europeans plan to increase IT spending at a slightly higher rate. They are now placing a higher priority on security and outsourcing than their US counterparts are, have more interest in improving supplier relationships, and feel less pressure to increase revenue through the use of technology. In Europe, outsourcing is motivated less by a desire to cut costs than it is in the US.

IT has less organizational status in Europe, and corporate business managers are more likely to be involved in IT decision-making than in the US.

## Methodology

During mid-2002, Getronics and *CIO Magazine* interviewed 458 IT decision-makers from the US and six countries in Europe (Germany, Italy, Spain, France, UK, and Netherlands) about IT spending past and future, IT and business priorities, and outsourcing. The respondents represent a broad cross-section of senior IT management. Industries represented included financial services, manufacturing, retail and telecommunications.

Forty percent of respondents report to the corporate or division CEO, and another 30% to the head of IT. They have worked in IT at their current company for almost eight years and in the function for more than 15 years. A large majority have been with their current company for at least three years. When asked if they had a personal "IT hero," 65% said they had none. The most popular was Bill Gates (14%), with no other individual getting more than 2.4%. The creator of Linux, Linus Torvalds, received 1.7%.

When asked what job they aspired to next in their career, 22% mentioned a senior non-IT-related position; 11.5% chose CIO or CTO.

A detailed analysis of the Getronics/IDG Research survey follows.

## SURVEY REPORT

### Cautious Optimism for 2003

Emerging from the recessionary shell of 2001 and 2002, IT spending is likely to increase or remain the same in 2003 at the vast majority of companies.

Executives at 41% of the companies surveyed expect increases in IT spending, while another 44% say they think spending will remain unchanged. This finding is consistent across industry and company size. (See Table 1)

Only 14% of the firms believe they will spend less in 2003 than they did in 2002, indicating that the widespread spending decline of the past two years may be over.

The average forecast increase, among the 41% expecting an increase, is 21% (see Table 2). Half the anticipated increases are less than 10%. This is clearly an improvement over the past few years.

As opposed to the US, the European IT market will be a little more volatile in the coming year. European companies planning an increase anticipate a slightly higher increase in spending in 2003 (12% vs. 10% in the US), and those planning a decrease expect a slightly greater decrease (15% vs. 12.5%).

### Increased Spending on the Basics

Although security and outsourcing both demand increasing mindshare and budget dollars—Europeans said they spend more of their budgets on security (15% of their budget vs. 9% in the US) and outsourcing (10% vs. 7%)—the areas of greatest budgetary increase are traditional categories: hardware/software, telecom/networking and systems integration.

The slowest growing were services and personnel: outsourcing and internal IT staff.

E-commerce is still a high priority application, with the greatest number of respondents (37%) saying they are very or extremely likely to spend money on it. Wireless is at the bottom of the list of applications, with only 17% of the companies saying they are very or extremely likely to spend money on it.

The ratio of internal to external resources remains steady. In both 2002 and 2001, about 70% of spending was on internal staff and resources, with the remaining 30% on external service providers. This is true across industries and company size.

### Business Strategy Drives IT

Just a couple of years ago, information technology was considered a strategic priority in many companies—more so even than business strategies. Enterprises that didn't have an e-commerce strategy didn't understand what was about to happen to them. Now, business strategy more commonly drives IT—not the other way around.

The collapse of the dot-com bubble has lessened e-commerce as a strategic issue (although it remains a spending priority), and de-emphasized time-to-market and supply chain issues.

Meanwhile, economic uncertainty has made lowering costs a higher business priority than increasing profits.

**TABLE 1**

#### IT SPENDING IN 2003 BY COUNTRY

Will your company's total IT spending in 2003 be likely to increase, decrease, or remain the same compare to 2002?

	INCREASE	DECREASE	REMAIN THE SAME
France	28%	14%	58%
Germany	36	26	38
Italy	43	15	42
Netherlands	48	12	40
Spain	48	11	42
US	42	12	45
UK	45	9	45

**TABLE 2**

#### SPENDING ON THE RISE IN 2003

By what percent will your spending increase in 2003? (among those predicting increase)

5% or less	18%
6% - 10%	26%
11% - 15%	9%
16% - 20%	15%
21% - 49%	7%
50% - 99%	8%
100% or more	3%
Don't know / no answer	15%
Mean	21%
Median	10%

TABLE 3

### BUSINESS GOALS ALIGNMENT WITH IT

How would you characterize the alignment of business goals and IT at your company?

	VERY CLOSELY ALIGNED	CLOSELY ALIGNED	SOMEWHAT ALIGNED	LOOSELY ALIGNED	NOT ALIGNED
Financial	31	47	18	3	0
Manufacturing	21	53	18	8	0
Other	31	44	16	6	2

Business strategy had a significant or critical impact on IT strategy in 82% of the companies surveyed.

This is true throughout in both Europe and the US. However, while Europeans are just as likely to see the role of business strategy as critical or significant, they are less likely to describe the impact of business strategy on IT strategy as “critical” (37% vs. 53% in the US).

Big companies understand the strategic and financial need to keep business and IT strategy aligned. Three quarters of the respondents say that their IT and business goals are closely or very closely aligned (see Table 3). As company revenue increases, the perceived alignment increases as well.

The status of the IT organization within the enterprise does differ between Europe and the US. Low status and priority for IT are especially dominant in Europe. When asked why business and IT are not more closely aligned, the most popular reasons are “business goals are considered more important,” “IT is just another department,” “political reasons” or “budgetary reasons.” (See Table 4)

In the US, coordination and communications are cited as the most important reasons for any lack of alignment between business and IT strategy.

Given the turn of events in the economy and high tech in recent years, IT is now seen as a solution for achieving business objectives, rather than a strategic imperative. Firms that are growth-oriented spend more money on IT. Those with the greatest IT spending are less interested in decreasing costs and more concerned with increased revenue and profit.

TABLE 4 REASONS FOR LACK OF ALIGNMENT

(Base: IT and business goals not, loosely or somewhat aligned)

	FINANCIAL	MANUFACTURING	OTHER
Business goals are considered more important	20	18	19
IT is not the main objective of the company/ It is just a department	5	12	19
Goals are very different	25	6	14
Internal/political reasons	20	10	7
Budgetary reasons	10	16	2
Lack of communication/coordination	30	6	5
IT is not essential to company success	5	6	5
We are currently working to bring IT and business goals together	20	0	5
It is just the way it is/a fact	0	2	7
Other	5	27	19

### Current Business Strategy Emphasizes Cost Savings

Companies are now more interested in decreasing costs than anything else — including increasing profits. Our respondents’ top three business priorities are decrease costs, increase profit and increase customer loyalty.

In Europe, fewer companies are interested in increasing revenue (39% vs. 59% in the US) and more concerned with supplier efficiency (25% vs. 8%). (See Chart 1)

Overall, the lowest business priorities are e-commerce, corporate expansion and providing better quality of service. Although e-commerce is not seen as a key business strategy, its high share of the IT budget implies it is an integral part of the business/IT alignment.

Looking across industries, telecommunications companies are dealing with a special set of issues (overinvestment and failure to sell new services). They are much more interested in decreasing costs and increasing revenue than are other firms.

## SECURITY IS TOP OF MIND

The top IT spending priorities look a lot like they have for the past five years or so, except that security now heads this list.

The leading IT spending priorities are security, e-commerce, CRM and ERP. At the bottom are supply chain automation, wireless and upgrade/replacement. (See Chart 2)

An interesting note about security spending: despite the impact of September 11 in the US, security is actually a higher priority in Europe than in the US (38% vs. 23% rating it as one of the executives' top three priorities). CRM is less important in Europe than in the US (32% vs. 39% said it was in their top three).

E-commerce is no longer an end in itself, as it was during the dot-com bubble, but it remains a key solution to such essential business goals as lowering costs, increasing profit and improving customer loyalty.

Perhaps reflecting the lessening drumbeat of hype and increasing realism about what they mean, Web services are rated only moderately important. They place below such stalwarts as CRM and ERP. Only a quarter of the respondents put Web services in their top three priorities.

Other new-economy staples—supply chain automation and wireless—are top priorities in less than 15% of sites surveyed, rating below such low-profile applications as knowledge/-process management and messaging/collaboration.

The largest companies are much more interested in CRM and less interested in security, presumably because they have been dealing with security issues for some time.

There are some country-level differences in Europe:

■ **E-Commerce** — Interest in e-commerce in Europe reflects the general north-south continuum of online penetration. The highest interest in e-commerce is in Netherlands and UK companies. The lowest is in Spain, Italy and France.

## CHART 1

### TOP BUSINESS PRIORITIES

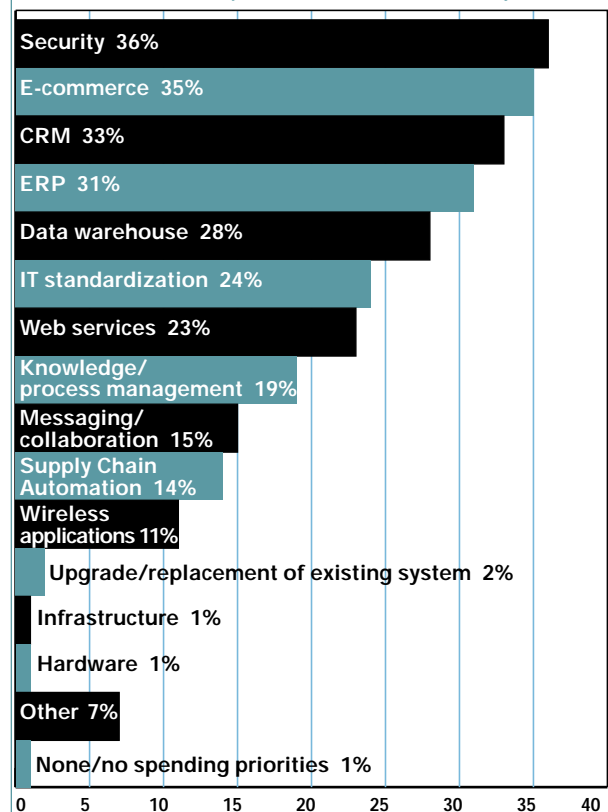
What are your company's top 3 business priorities for the next 18 months (June 2002-December 2003)?



## CHART 2

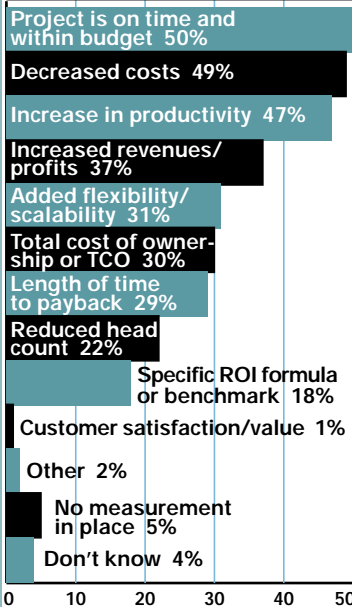
### TOP IT PRIORITIES

What are your company's top 3 IT spending priorities for the next 18 months (June 2002-December 2003)?



**CHART 3****EVALUATING IT INVESTMENTS**

How is the success of your company's IT investments measured?

**TABLE 5****WHO MEASURES IT PERFORMANCE?**

Who is responsible for measuring the success of your company's IT investments?

IT corporate management	42%
Business corporate management	38%
Business unit management	23%
IT business unit management	19%
Not specified	4%

■ **CRM** — IT executives in Netherlands are more interested in new technologies and CRM (51% rated them highly vs. about 30% worldwide). Executives in Germany and France rated CRM higher than the rest of the world (42% and 51% vs. 31% worldwide).

**WHERE'S THE ROI IN IT?**

Despite the renewed emphasis on cutting costs and increasing profitability, IT departments report little use of such tried-and-true financial measures as ROI. Instead, IT groups continue to use operational and cost-based evaluations of the success or failure of IT investments. Their focus is on "Did the project come in on time and under budget?," as opposed to "What did we gain from our investment?"

Of the companies surveyed only 18% measure performance using ROI or other financial benchmarks. For most, such outcome-oriented formulas as time and budget, decreased cost, higher productivity and increased revenue are the measurement methods. (See Chart 3)

Size does count when it comes to ROI. The larger the company or its IT budget, the more likely the organization is to employ ROI or some other formal tool.

Europeans are much less likely to use ROI (15% vs. 35% in the US). The most likely of this group are IT executives in Netherlands, 31% of whom cite ROI. Only 3% of Italian and 6% of French executives choose ROI.

Generally, corporate, rather than business unit management, is responsible for measuring the success of IT investments. In the US, this arbiter is typically corporate IT management, while in Europe it is equally likely to be corporate business management as corporate IT management. (See Table 5)

**Why Outsource?**

IT outsourcing is clearly an established part of the IT portfolio, and the practice continues to grow at a modest rate. The top reasons for outsourcing are cost reduction (43%), focus (35%) and access to special expertise (32%). Resource-related reasons (relieve resource constraints, reduce IT staff, augment IT staff) comprise 51% of the responses. (See Chart 4)

Asked what are the driving factors behind outsourcing, Europeans rate providers' specialized skills, while US companies favor outsourcing to save time and money.

**Outsourcing Increases Modestly**

The majority of executives indicate they will hold the line on outsourcing spending in 2003. However, 22% of companies say they will increase outsourcing. The main reasons for increasing outsourcing are vendor expertise (28%), decreasing IT staff (25%) and cost savings (20%).

Among those respondents that plan to decrease their outsourcing, 37% cite budgetary concerns. (Ironically, cost reduction may be a key reason for outsourcing in the first place.) The second most-cited reason is the availability of in-house skills (18%), which highlights the ongoing debate over insourcing vs. outsourcing.



**TABLE 6 OUTSOURCING PLANS FOR 2003**

Do you think you will outsource more, less or the same amount of the following needs next year, in 2003, as compared to the current year, 2002?

	LOCAL AREA NETWORK & CLIENTS	WIDE AREA NETWORK & SERVERS	HELP DESK	DATA CENTER	APPLICATION DEVELOPMENT/ MANAGEMENT	BUSINESS PROCESSES
More	13%	18%	14%	13%	13%	14%
Less	10%	9%	11%	11%	11%	9%
Same	61%	58%	57%	56%	56%	56%
Don't know	16%	15%	18%	20%	20%	21%

## Choosing the Right Outsourcing Provider

To be successful, outsourcing providers must deliver on a broad range of criteria, as identified and prioritized by this survey's respondents.

Seven factors are rated as critical or very important by at least 47% of respondents. They include technical competence, service and support, vendor's understanding of a company's strategy, past experience with the vendor, price, industry experience and reputation. These factors are consistent regardless of company size, IT budget or industry. (See Chart 5)

## What to Outsource?

Europeans are more likely to increase their outsourcing of local area networks and wide area networks. US companies are more likely to increase outsourcing for help desk, applications development and business processes.

## Who Makes the Outsourcing Decision?

Corporate IT executives are the most likely to be involved at all levels in decisions to outsource, except for final authorization, when corporate business executives are the most likely to be involved. (See Table 7)

Division IT executives are most influential in technical evaluation and specification. Division business managers play the least significant role in the process.

**TABLE 7 WHO MAKES OUTSOURCING DECISIONS?**

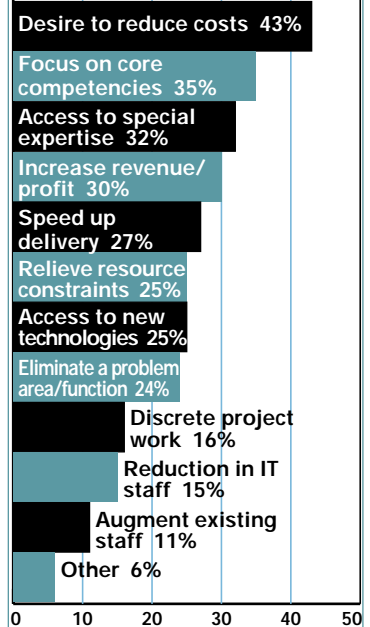
How are each of the following individuals or functional areas involved in IT outsourcing decisions for your company?

	CORPORATE IT EXECUTIVE	CORPORATE EXECUTIVE	DIVISION IT EXECUTIVE	DIVISION EXECUTIVE
Determining needs	56%	30%	30%	17%
Technical evaluations or specifications	63%	12%	31%	12%
Specifying or selecting vendors	58%	15%	31%	11%
Final authorization	41%	50%	14%	19%
Setting goals	50%	44%	18%	17%
Other	0%	0%	1%	1%
Not Involved	8%	13%	20%	29%
Don't Know	13%	25%	34%	35%

**CHART 4**

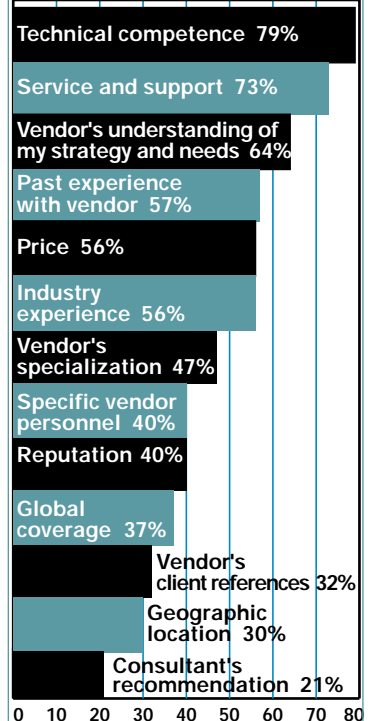
### WHY OUTSOURCE?

What are the key factors driving your company's IT outsourcing decisions for the next 18 months (June 2002-December 2003)?

**CHART 5**

### ESSENTIAL ELEMENTS OF AN OUTSOURCING VENDOR

Please rate its importance to your company when selecting an IT outsourcing vendor. (Percent saying Critical/ Very Important)



## COMPARING US AND EUROPEAN IT EXECUTIVES

Clearly, just as there is a global business place, so there is now an emerging global IT culture. This new reality is highlighted by the relatively few differences in responses between US and European executives or among countries in Europe. Among the most noteworthy points of comparison:

- **Spending** — European companies planning a 2003 increase anticipate a slightly higher increase than do U.S. companies (12% vs. 10% in the US), while those planning a decrease plan a slightly greater decrease (15% vs. 12.5%). European and US IT executives allocate their budgets similarly. One of the small differences: Europeans say they spend more of their budgets on security (15% of their budget vs. 9% in the U.S.) and outsourcing (10% vs. 7%).

- **Priorities** — In 2002, European and US companies had slightly different strategic interests. In Europe, fewer companies were interested in increasing revenue (39% vs. 59% in the U.S.) and more in increasing supplier efficiency (25% vs. 8%)

- **Business/IT Strategies** — European companies' business and IT strategies are less tightly coupled than those in the US. While Europeans are just as likely to see the role of business strategy as critical or significant, they are less likely to describe the impact of business strategy on IT strategy as "critical" (37% vs. 53% in the US).

- **Top Initiatives** — Security is a higher priority in Europe than in the US (38% vs. 23% rating it as one of their top 3 priorities. CRM was less important in Europe (32% vs. 39% said it was in their top 3).

- **Outsourcing** — European and US points of view are especially divergent over outsourcing. Europeans rate providers' specialized skills as the driving factor behind outsourcing, while US companies favor outsourcing for saving time and money. European companies are more likely to involve their corporate business executives in all phases of IT outsourcing, from determining needs to final authorization.

### Subtle Differences Among European Nations

Although the survey finds more commonalities than differences among European nations, there are some noteworthy exceptions. Among them:

- The 2003 IT spending outlook is generally more positive in the UK, Netherlands, Italy and Spain than in France or Germany—two countries that have been harder-hit economically than the others;

- Germany is the European leader among countries whose companies best link IT and business strategies;

- Yet Germany trails other countries when it comes to being more open to the prospect of outsourcing. It could be that German business executives need to do a better job selling the benefits of outsourcing;

- All European counties need to do a better job demonstrating ROI from their IT projects. Currently, Germany does this best among the surveyed nations; Netherlands trails the pack.

## CONCLUSIONS

In reviewing the survey data, one sees that, with subtle differences, US and European IT leaders are of like minds as they look ahead to 2003. Business drivers, spending priorities and outsourcing strategies are all quite similar, leading to a clear set of conclusions. Among the key takeaways:

### IT Executives Must Embrace ROI

Despite corporate managers and finance executives who continue to increase their scrutiny of IT budgets, IT executives appear to have little appetite for measuring the financial performance of their projects. In fact, many IT leaders simply do not appreciate the importance of return on investment. This attitude might make sense for security investments, where the risk and cost of doing nothing cannot be measured. But how can there be significant investments in e-commerce, CRM and ERP without also measuring the financial impact and results? Based on the importance CFOs placed on ROI in the 2001 Getronics survey (ROI and payback period were the strong favorites of finance executives), this apparent ROI disconnect between business and finance executives and IT leaders may make it harder for IT to get projects approved in the future.

### A Mixed Story for IT Spending in 2003

Just about as many IT executives foresee a modest budget increase as expect level funding in 2003. The survey results indicate IT is emerging from the bottom of the spending slump.

### Business Strategy Will Drive IT

Expect business strategy to drive IT strategy. There was a brief moment at the end of the 1990s when it appeared that information technology was going to be a driver of business strategy. That moment has passed and technology spending must now be justified on its ability to satisfy corporate business requirements.

### IT Is Going Back to Basics

IT leaders shouldn't neglect e-commerce, CRM and ERP. Despite some negative press in recent years, enterprise applications are still the highest priorities among IT executives worldwide.

Web services and wireless applications are still the province of pioneers. Money is being spent on them, but they don't appear to have gained strategic importance yet. Given that neither has delivered on the promise of their early years and the lack of an emerging consensus, IT executives are taking their time in implementing these technologies.

### Security Is Ascendant

Security concerns are top-of-mind. While this isn't surprising in itself, the degree to which they have eclipsed traditional revenue- and customer-oriented applications is noteworthy. While its primacy may be a short-term phenomenon, security will certainly continue to be a principal concern of IT executives for the near future.

### A Global IT Viewpoint Is Emerging

A global culture and viewpoint are emerging among IT management in the US and Europe. While there were some differences between the continents, it's clear that the diminishing diversity of software environments and increasing internetworking are making companies in the US and Europe increasingly uniform. IT executives worldwide should be even more careful to observe standards and to work toward infrastructure and applications interoperability. ■

