Gartner Integrated IT Spending Perspectives

Building Your Budget for 2010

Barbara Gomolski & Kurt Potter
11 November 2009
9 December 2009

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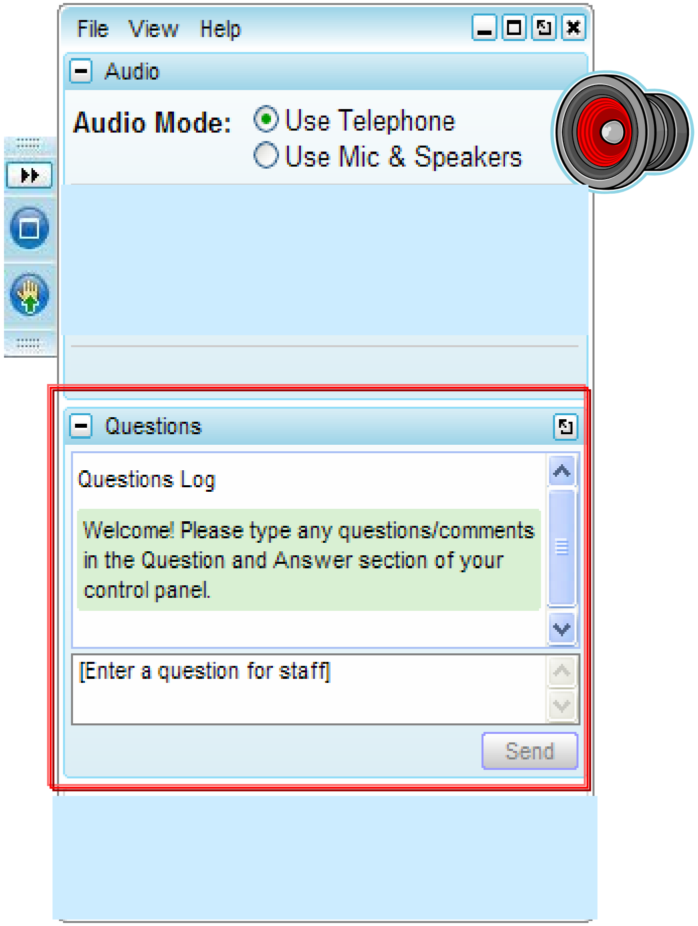

Our world-class, objective insight is drawn from thousands of daily client interactions

- 60,000 Clients
- 10,000 Client Enterprises
- 100,000 IT End-User Inquiries
- 2 Million+ IT End-User Searches
- 650 Analysts Across 80 Countries
- 10,000 Media Inquiries
- 3,700 CIOs
- 60+ Conferences
- 65% of Fortune 1000; 85% of Global 500
- 5,500 Benchmarks

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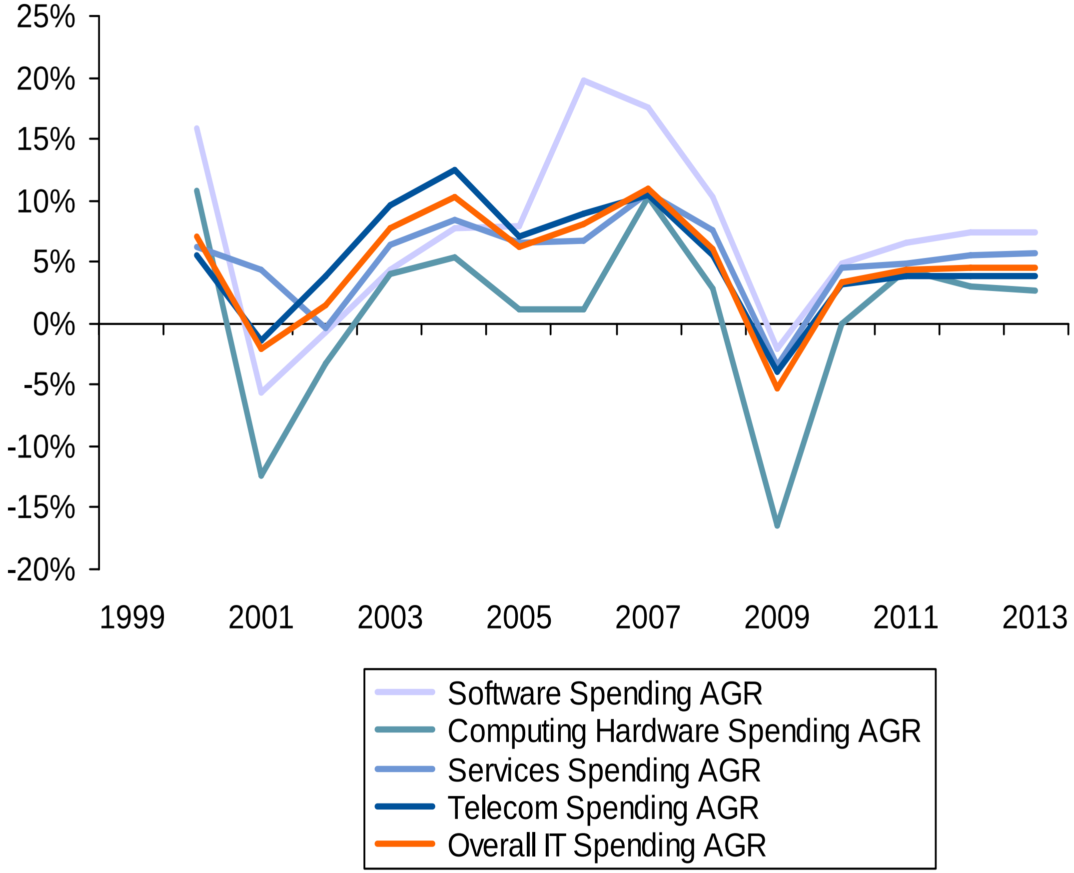
2009: The Worst Year Ever for IT Growth
2010: Return to Growth

Worldwide Annual Growth Rate in IT Spending, US$



	2009	2010
Total IT ($3.2T)	**-5.2%**	**+3.3%**
Enterprise IT ($2.3T)	**-6.8%**	**+2.3%**

Source: Gartner IT Market Data Book Spending Forecast, 3Q09 Update

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IT Budget Planning Results Are Often Like Looking Into a Crystal Ball – 2010 Must Be Different

"Our Revenue Will Increase by 2% in 2010 - IT Budget as Well"

"Even Though Our Market Share is Increasing, IT Budgets Will Decline in 2010"

"Our Acquisition of Company X Will Increase Our Employee Levels by 25% in 2010; Budgets Are Flat"

"We Extended The Useful Life of Hardware; Refresh is Planned in FY 2011"

IT Leaders Must Look Externally for Planning Assumptions

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Key Issues

- What are the key strategic IT industry spending trends, assumptions and rates of change?
- What key IT financial metrics are important for alignment with enterprise goals for IT efficiency and effectiveness?
- How should enterprise leaders use IT market and enterprise spending metrics to ensure more alignment with their annual strategic and budget planning process?

2010 IT Planning & Budget Process: Often Focused Only on IT Supply – IT Leaders Have a Slanted View

IT Supply

IT Spend
- % Revenue
- % Opex

IT Spend Per Employee

IT FTE % Enterprise FTE

IT Spending by Resource
- Hardware
- Software
- Personnel
- Outsourcing

IT Productivity Metrics
- Cost Per Server
- Cost Per Programmer
- Cost Per Desktop
- Cost Per Help Desk Call

IT Budget Process

- Optimize, Cancel, Change Mix
- Initiate Projects
- Determine "Cutoff" Levels
- Rank Merged Lists
- Allocate Outlay
- Rank at BU Level
- Value, Cost, Risk
- Define

IT Demand

IT Industry Spending
- IT Services
- Software
- Telecommunications
- Hardware
- Internal Services

Business Value Metrics
- Supply
- Demand
- Support

Micro/Macro-Economic Indicators
- Leading
- Coincident
- Lagging

IT Demand:
IT Spending Forecasts by Market Segment, Industry & Region

Worldwide IT Spending by Segment: Business & Enterprise Consumption of IT

Year ($ USD, Billions)

IT Market	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**5-Yr CAGR**
Internal Services	591	618	576	574	583	593	603	-0.5%
IT Services	717	774	746	779	815	859	907	3.2%
Telecomm	601	626	583	599	623	650	679	1.6%
Hardware	267	266	215	214	221	226	229	-3.0%
Software	152	168	164	170	180	193	210	4.6%
Grand Total	2,328	2,451	2,283	2,335	2,422	2,522	2,628	1.4%
Growth Rate		5.3%	-6.8%	2.3%	3.7%	4.1%	4.2%	

- **Return to Growth May Not Mean Return to the Market Peaks of 2008/2007**

Source: Gartner Dataquest

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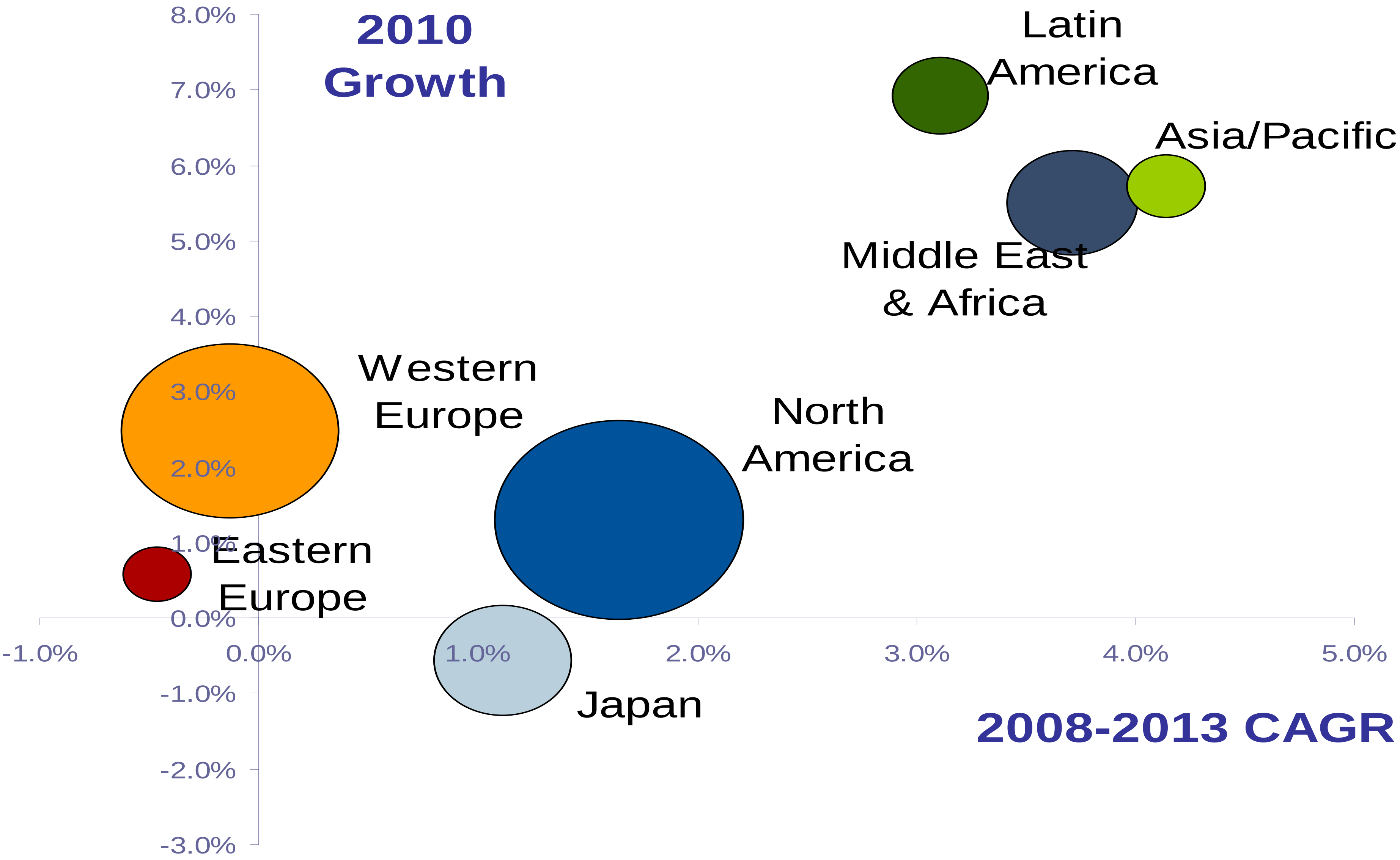
2010 IT Spending Forecast and Budget Assumptions – More Indistinguishable Than Ever

	Industry Assumptions	Possible Budget Assumptions
Hardware	• Asset Lifecycle Extension • Alternative Technologies • Server Virtualization	• Better Deals on Cheap Hardware • Less Hardware, More External Svcs. • Watch for Over-Investment
Software	• Strategic Vendor Higher Maintenance Fees • Alternatives: SaaS, Open Source, Non-Strategic	• Introduce Non-Standard Software in Non-Strategic Areas • Nontraditional Means No/Low Capex • Postponed HW Means Less Infra SW
IT Services	• More Outsourcing, Less Consulting/Dev/Integration • Industrialization/Standards • Offshore Strengthened	• More Shared – Less Owned • Shared Vendor to Shared Technology • Small Safe Deals with Short Term ROI • Cheaper Externally If Industrialized
Telecom	• Delayed Tech Refreshing • Less Price Control • Mobility Svcs. - Favorable	• Increasingly Mobile Staff • Unified Comm. – More Comm. Equip. • Network Svcs. – Constrained Capex
Internal Services	• Less Projects, Less Staff • More Contract Labor • Some Decentralization	• Capped Internal FTEs Levels • More External than Re-Insourced • PMO Skills Compensate for Declining Traditional Skills Percentages

IT Market Spending by Region: 2010 Growth vs. 5-Year CAGR



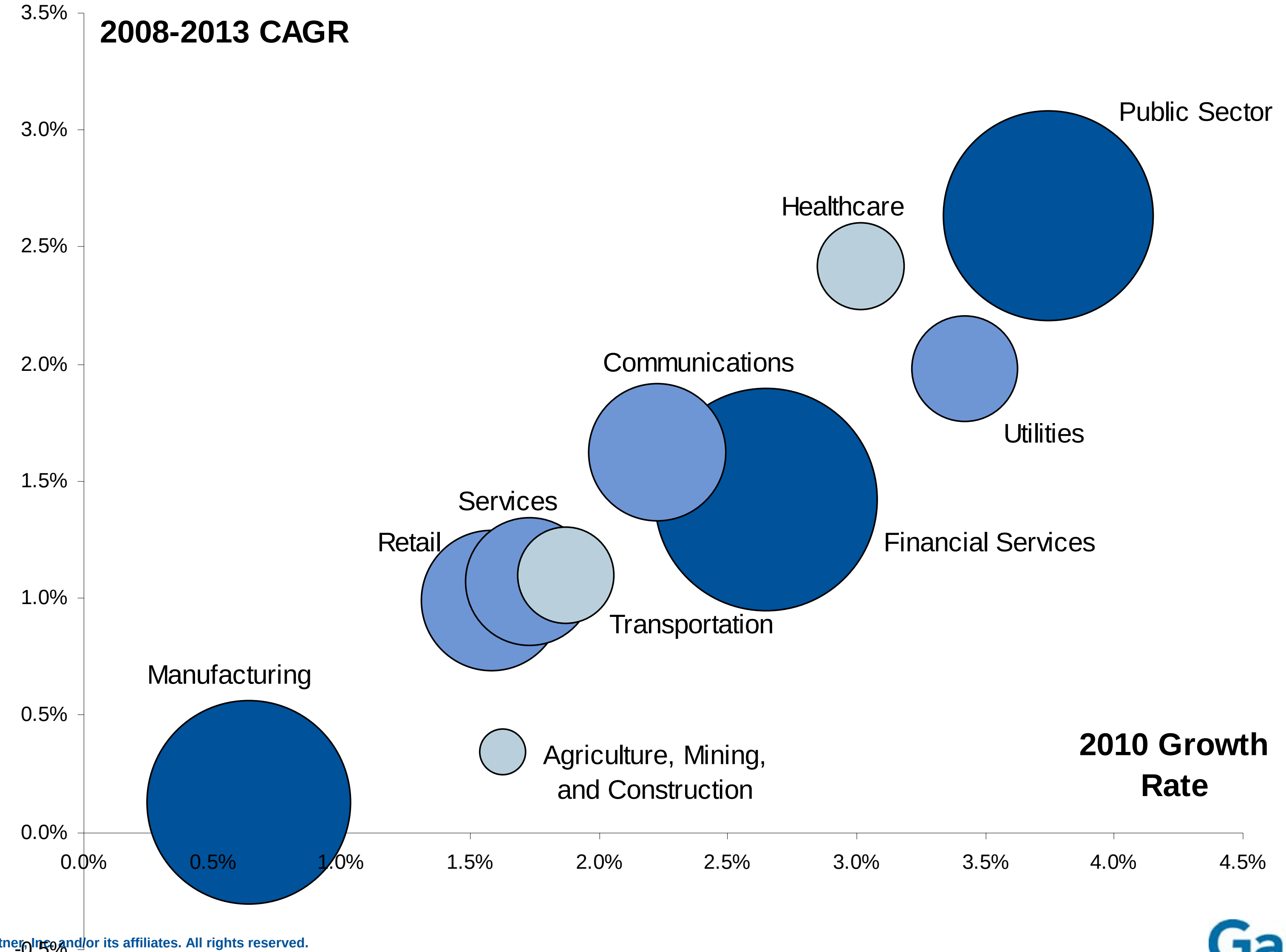
Growth Rates in IT Spending Market by Industry: Almost All Are Under 2008 Growth Rates Indefinitely

IT Spending Rates of Change (Percentages and $ USD Billions)

WW IT Spending 2009	Industry	2008	2009	2010	2011	2012	2013	5-Yr CAGR
503	Financial Services	4.6	-8.3	2.6	4.1	4.6	4.7	1.4
443	Public Sector	5.8	-4.5	3.7	4.5	4.8	5.0	2.6
433	Manufacturing	4.9	-7.9	0.6	2.7	2.9	2.9	0.1
211	Retail	4.6	-7.1	1.6	3.4	3.8	3.6	1.0
202	Communications	6.3	-6.1	2.2	3.9	4.3	4.3	1.6
172	Services	6.4	-5.7	1.7	2.8	3.3	3.4	1.1
114	Utilities	5.7	-6.4	3.4	4.1	4.6	4.6	2.0
100	Transportation	4.9	-8.0	1.9	3.6	4.3	4.3	1.1
80	Healthcare	6.9	-6.2	3.0	4.8	5.2	5.7	2.4
25	Agriculture/Mining/Constr.	1.6	-9.2	1.6	3.6	3.3	3.0	0.3
2,283	All Industries	5.3	-6.8	2.3	3.7	4.1	4.2	1.4

Source: Gartner Dataquest

Industry Return to Growth: A View by 2010 Growth Rates and 5-Year CAGR



IT Supply:
IT Spending Metrics by Industry
IT Productivity Metrics

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IT Productivity & Cost Metrics: Estimating Future Capacity and Supply Requirements

		Server	Processor
• Unix Server Cost Per		$69K	$23K
• Wintel Server Cost Per		$16K	$8K
• Mainframe Utilization:	**63%**	**Installed**	**Used**
• Mainframe Cost Per MIPS		$10K	$14K

- WAN Cost/Device: $339
- LAN Cost/Port: $148
- Internet Access Service Cost/ Gigabyte: $13
- Voice Network Spend/Subscriber: $830

Help Desk

- Cost Per Contact: $23
- 1st Contact Resolution: 65%
- Contacts/FTE/Month: 471
- Avg. Customer Sat: 4.1/5.0

Complexity, Geography, Platforms, Age of IT and Other Factors Will Skew Comparison.

Gartner IT Key Metrics Database

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IT Spending & Staffing Metrics: The Final Report for IT Budgeting and Planning

Cross Industry Averages	2008	2009
• IT Spending % Operational Expenses	5.9%	5.9%
• IT Spending % of Revenue	4.1%	4.2%
• IT Spending per Employee	$13.1k	$13.5k
• IT Employees % of Total Employees	6.3%	6.1%

Run	66%
Grow	20%
Transform	14%

Contractors	23%
In-House	77%

IT Capex	29%
IT Opex	71%

Hardware	19%
Software	19%
Personnel	36%
Outsourcing	18%
Other	8%

Apps Dev.	25%
Apps Sup.	23%
Data Center	14%
Desktop	9%
Data Net.	6%
Voice Net.	3%
IT Mgt.	8%
Help Desk	8%
Fin. & Admin.	4%

Gartner IT Key Metrics Database

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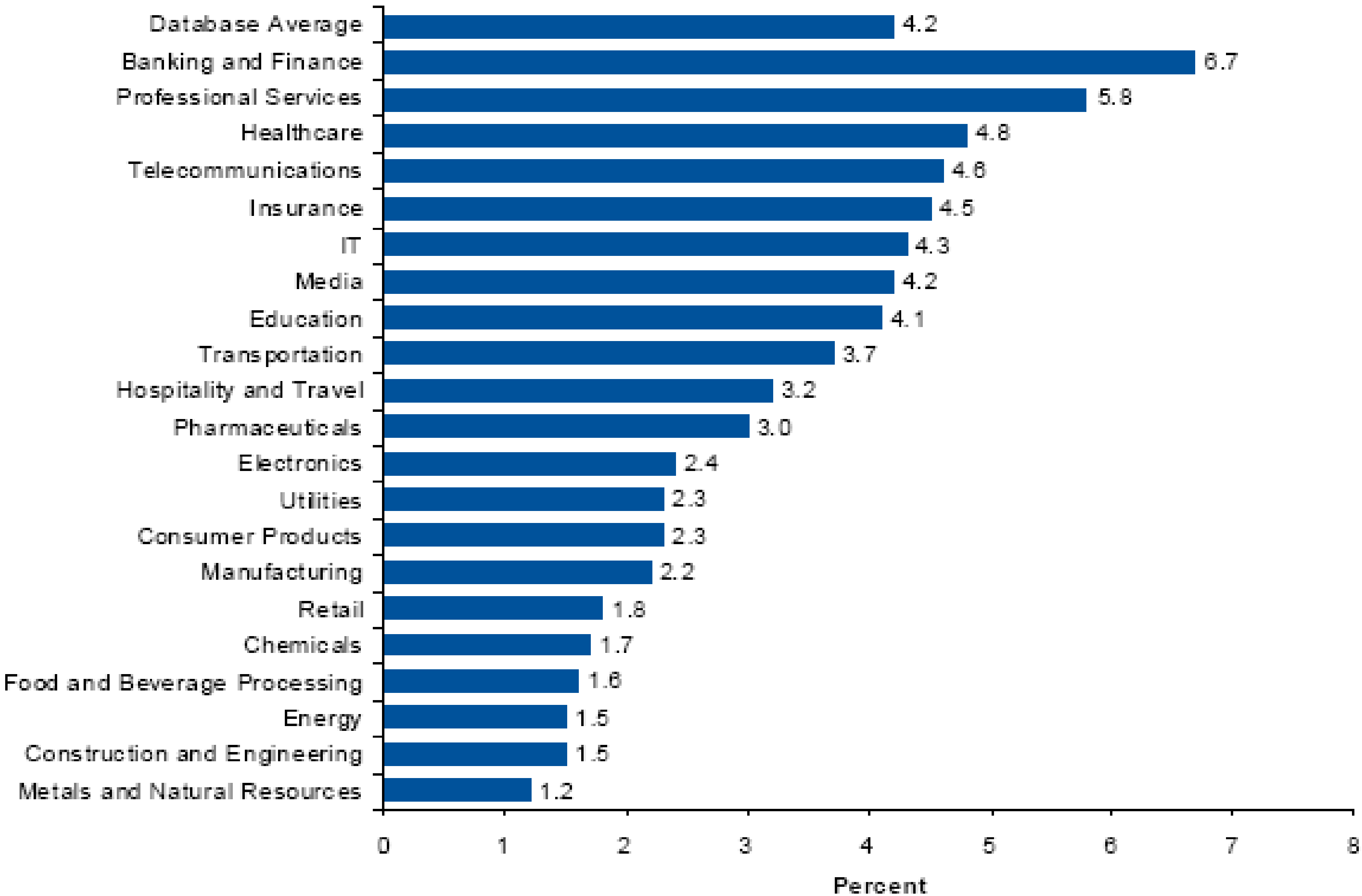
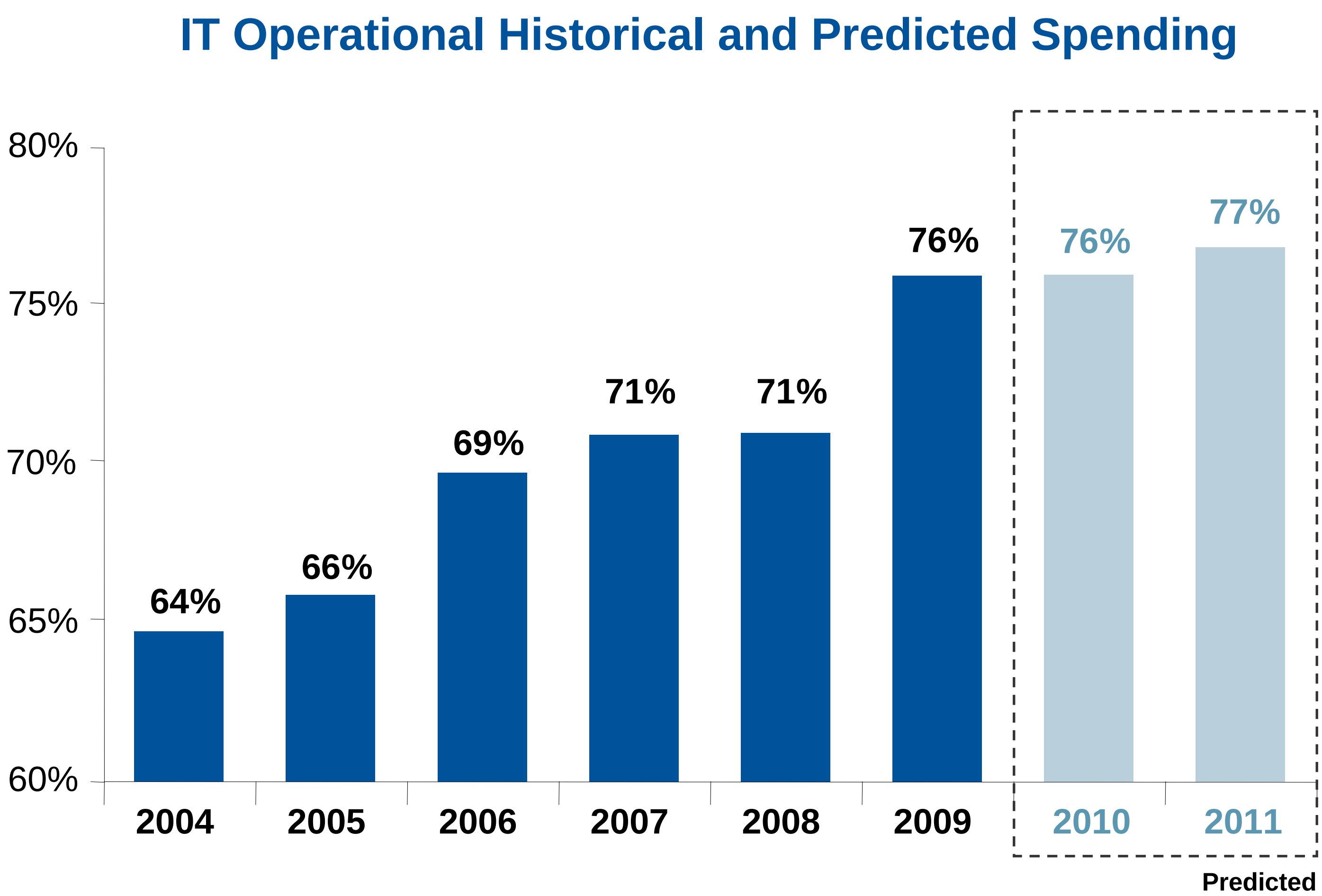
IT Spending as a Percentage of Revenue, 2009
IT Alignment is a Process, Not A Number

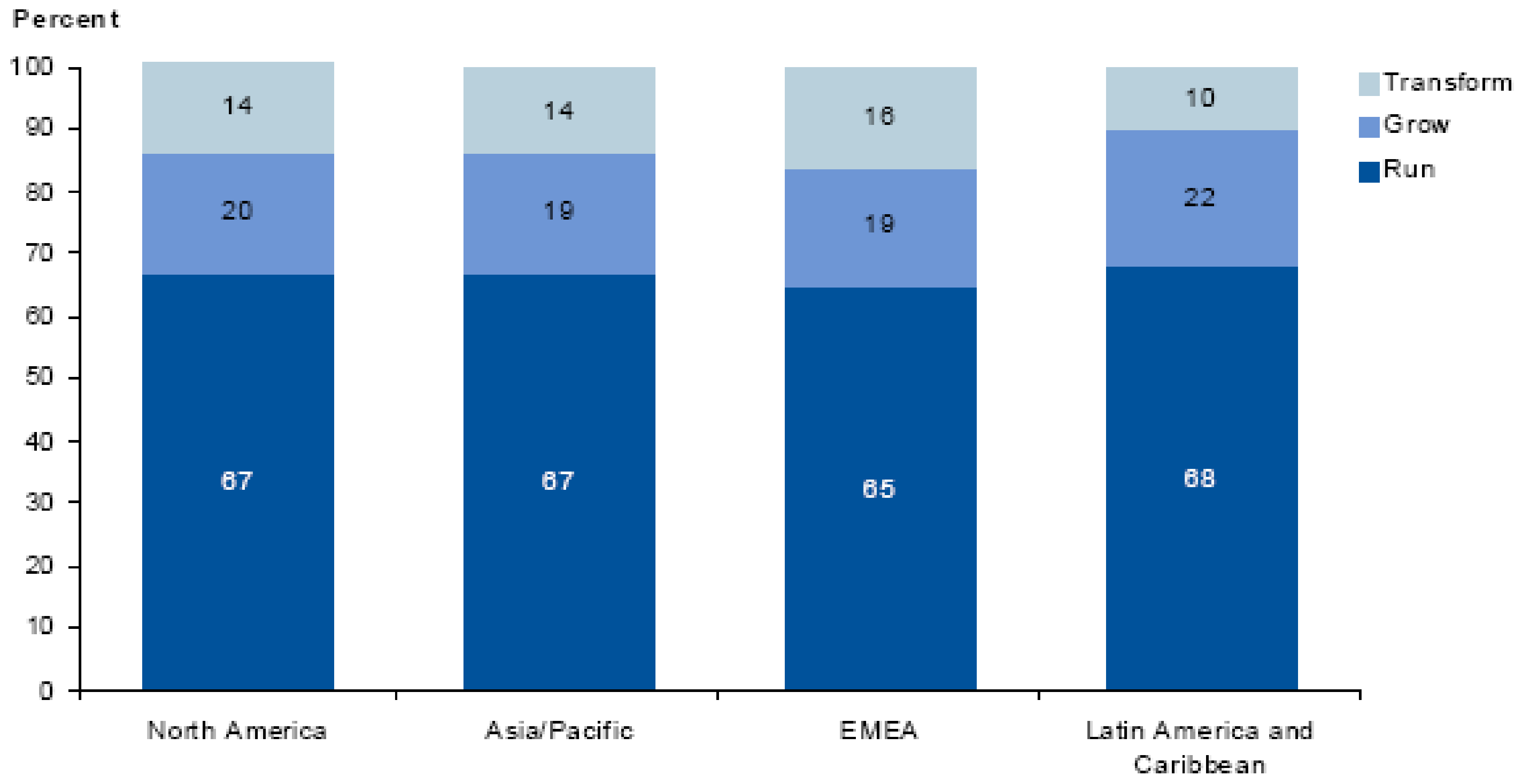


IT Spending & Budget Split: The Shift Away From Higher Percentages of IT Capex Continue



Source: Gartner IT Key Metrics Data 2009, Gartner forecasts

IT's Contribution to Business Value: Necessary Requirements in Budget & Project Planning



Regional Run-, Grow- and Transform-the-Business IT Spending, 2008

IT Demand: Micro and Macro-Economic Indicators, Business Value Metrics

IT Services Portfolio and Catalog: Connect IT Supply to Demand For Information Technology

Supply

IT Cost / Wintel Server

Wintel Servers Per FTE

IT Cost / Unix Server

Unix Servers Per FTE

IT Cost / HD Call

Help Desk Calls Per Agent

IT Cost/ Managed Desktop

Desktops Per FTEs Support

IT Business Value

IT Spend % Revenue
IT Spend % Opex

Hardware - Software

IT Services
Managed Desktop
Application Hosting
Project Management
Apps Development

Personnel – Outsourcing

IT Spend Per Employee
IT Staff % Enterprise Staff

Demand

IT Cost / Auto-mobile

Automobile Forecast Trends

IT Cost / Bank Transaction

Banking Forecast Trends

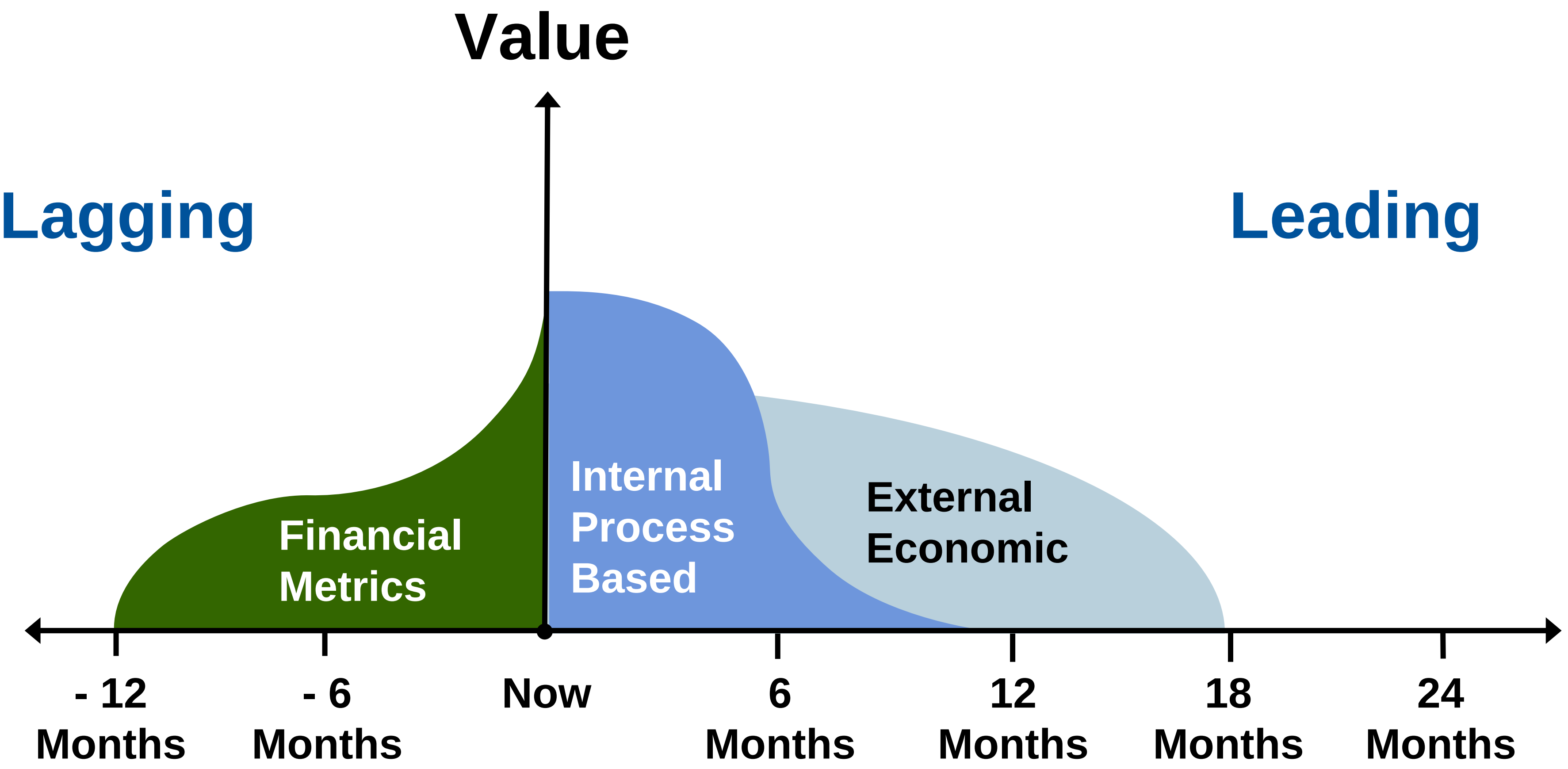
IT Cost/ House Constructed

Housing Starts Forecast

IT Cost / Airline Passenger

Airline Passenger Forecast

The Focus of Transparency: Shifting From Lagging to Leading Indicators



How are leading indicators being used by businesses?

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The Gartner Business Value Model: Microeconomic and Leading Indicators of Financial Performance

Business Aspect	Aggregates	Primes			
Demand Management	Market Responsiveness	Target Market Index	Market Coverage Index	Market Share Index	Opportunity/Threat Index
		Product Portfolio Index	Channel Profitability Index	Configure-ability Index	
	Sales Effectiveness	Sales Opportunity Index	Sales Cycle Index	Sales Close Index	Sales Price Index
		Cost of Sales Index	Forecast Accuracy	Customer Retention Index	
	Product Development Effectiveness	New Products Index	Feature Function Index	Time to Market Index	R&D Success Index
Supply Management	Customer Responsiveness	On-Time Delivery	Order Fill Rate	Material Quality	Service Accuracy
		Service Performance	Customer Care Performance	Agreement Effectiveness	Transformation Ratio
	Supplier Effectiveness	Supplier On-Time Delivery	Supplier Order Fill Rate	Supplier Material Quality	Supplier Service Accuracy
		Supplier Service Performance	Supplier Care Performance	Supplier Agreement Effectiveness	Supplier Trans-formation Ratio
	Operational Efficiency	Cash to Cash Cycle Time	Conversion Cost	Asset Utilization	Sigma Value
Support Services	Human Resources Responsiveness	Recruitment Effectiveness Index	Benefits Administration Index	Skills Inventory Index	Employee Training Index
		HR Advisory Index	HR Total Cost Index		
	Information Technology Responsiveness	Systems Performance	IT Support Performance	Partnership Ratio	Service Level Effectiveness
		New Projects Index	IT Total Cost Index		
	Finance & Regulatory Responsiveness	Compliance Index	Accuracy Index	Advisory Index	Cost of Service Index

Macroeconomic Business Cycle Indicators – Use for High Level Assumptions

Leading	Avg Weekly Hrs – Mfg	POSITIVE	70% Positive
	Money Supply M2	NEGATIVE	
	Interest Rate Spread	POSITIVE	
	New Orders - Mfg	NEGATIVE	
Coincident	Payroll FTEs: Non-Ag	NEGATIVE	50% Positive
	Personal Income	POSITIVE	
	Industrial Production	NEGATIVE	
	Mfg & Trade Sales	POSITIVE	
Lagging	Avg Prime Rate	FLAT	100% Negative
	CPI Services	NEGATIVE	
	Credit/Income	NEGATIVE	
	Inventory/Sales Ratio	NEGATIVE	

Source: The Conference Board – July 2009

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Indicators of Economic Return to Growth

Key Indicator	2008	2009
Men’s Underwear (Forecast)	$4.9b	$4.8b
De Beers Diamonds (6 mo.)	$6.9b	$1.4b
NA Auto Production YTD June	6.9m	3.5m
Total Housing Starts (NAHB)	900k	561k
FRB Capacity Utilization	78%	68%

2010

Not Surprisingly: 2010 Forecasts are Better than 2009

2010 Return to Growth Does Not Mean Return to Normal

Men’s Underwear: Source: Mintel International Group, http://www.mintel.com/, 8/4/9

National Association of Home Builders, www.nahb.org, 7/23/9

J.D. Power and Associates 8/4/9, http://www.jdpower.com/corporate/automotive/forecasting/

Federal Reserve Bank, http://www.federalreserve.gov/releases/G17/Current/table11.htm

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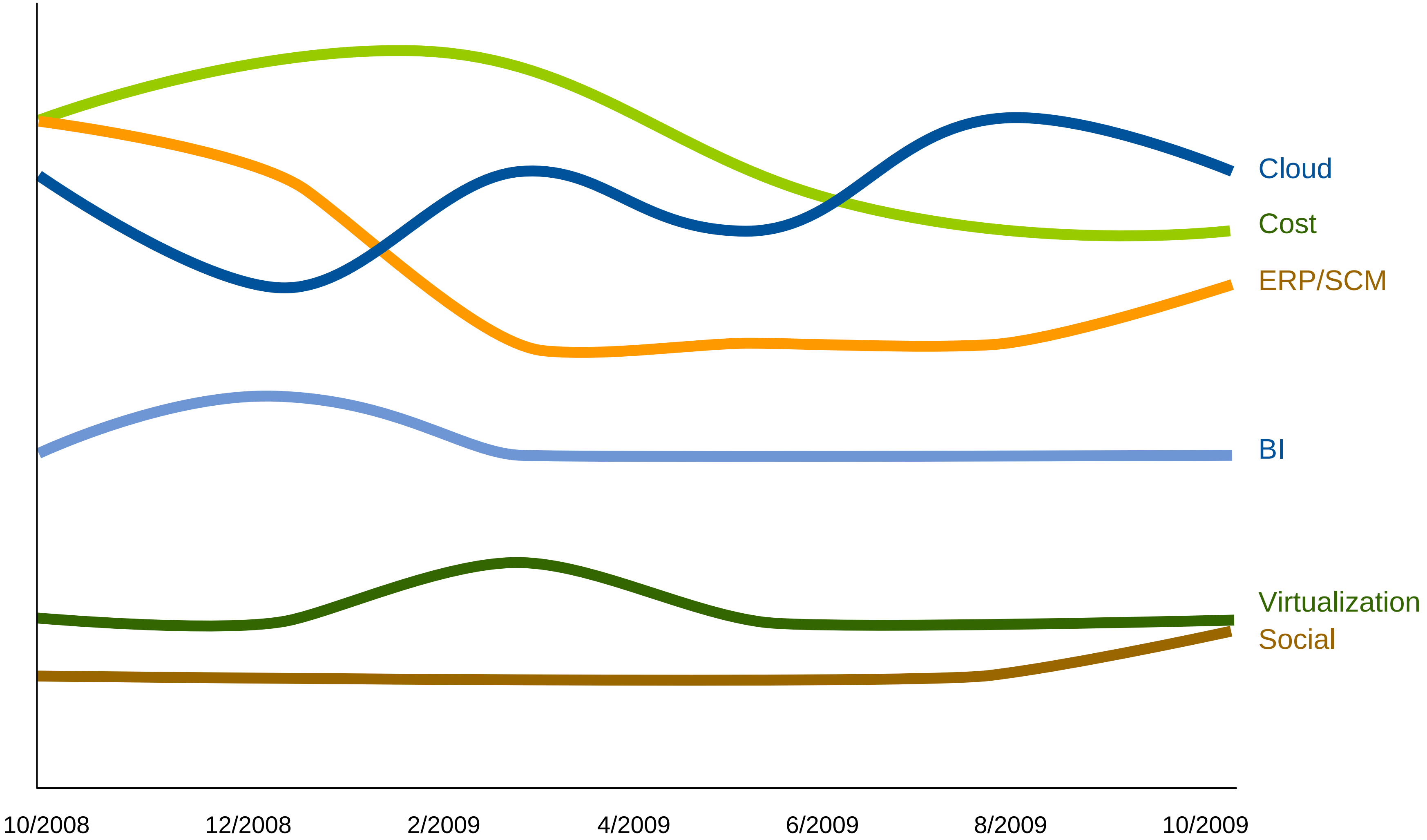
■ ■ ■ ■ IT Trends and Assumptions: Business Value, Key Initiatives, Cost Focus Continuation

Technology Areas of Focus for 2010

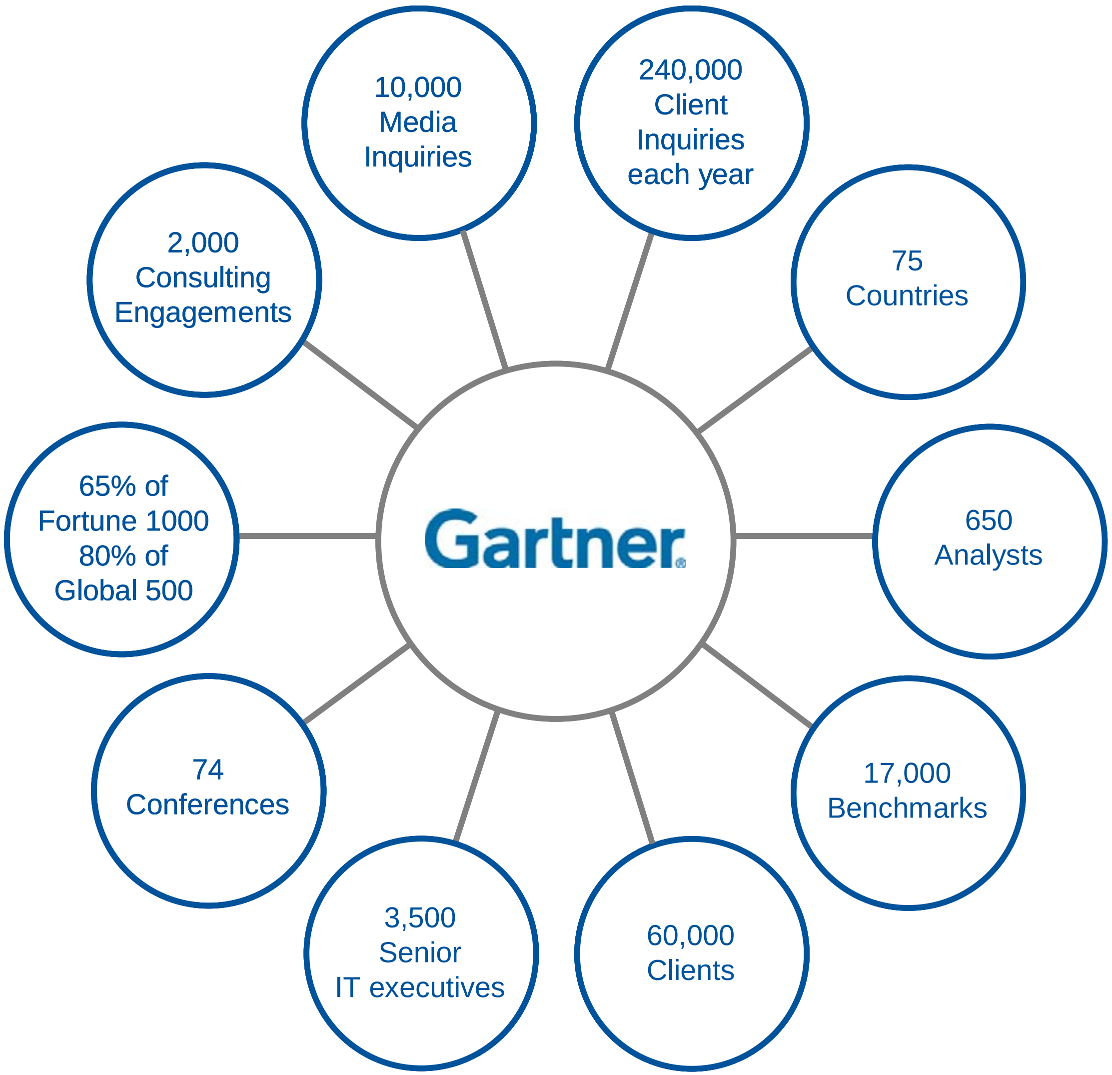


Source: Gartner

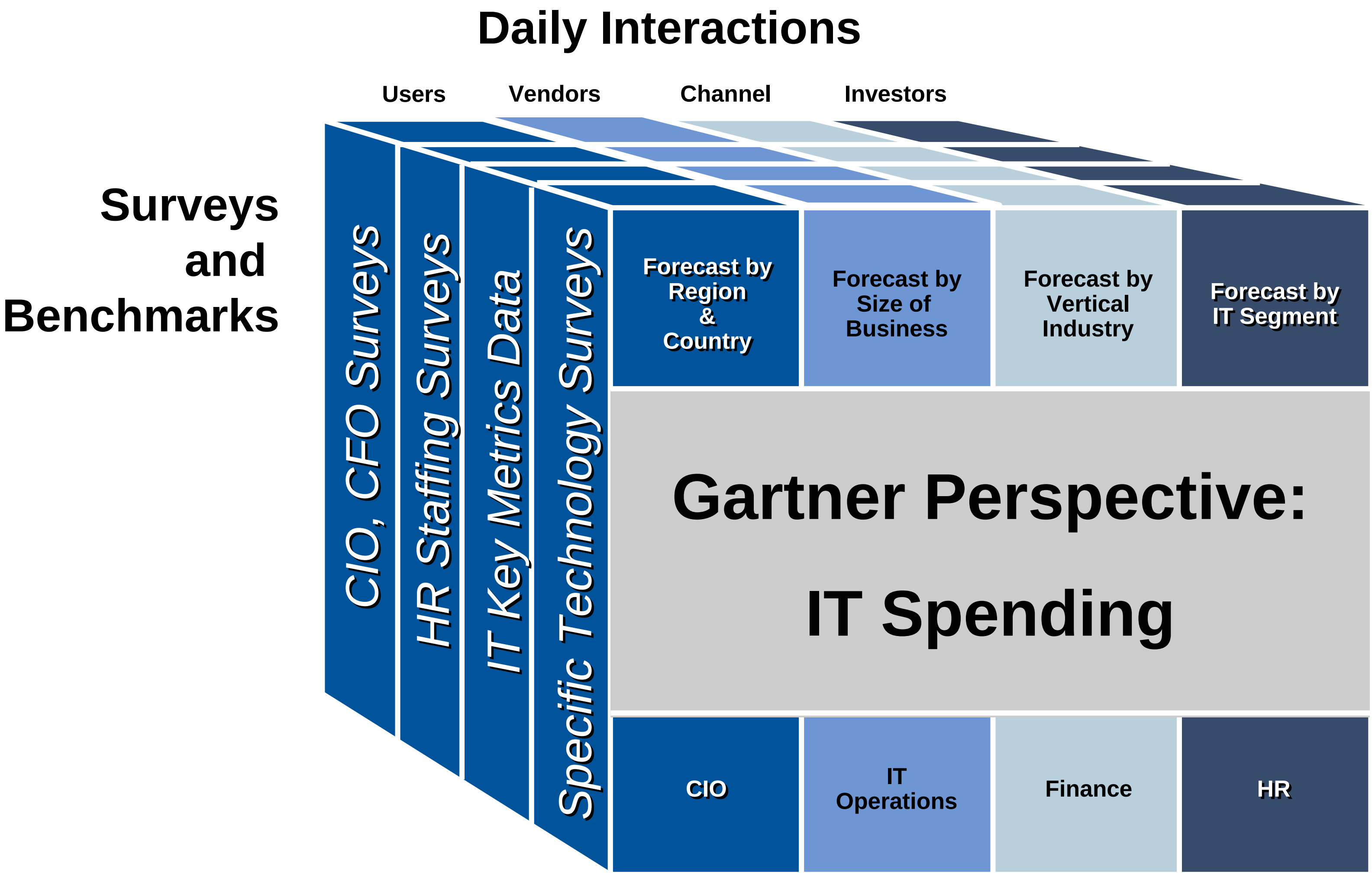
These Changes Will Require the IT Industry to Reframe Value in Business Terms

IT-Centric		Business Value-Centric
ERP solution	→	Business process change
Network uptime	→	Point of sale availability
App Dev lifecycle	→	Product development lifecycle
Critical IT infrastructure	→	Growth-enabling infrastructure
CRM	→	Customer acquisition and retention
Cutting IT costs	→	Delivering business value
Scalability	→	Agility

Extensive and Deep Interactions with our Client Base Provide a Unique Perspective on IT



Integrated Perspective on IT Spending



Your Action Plan

- **Monday Morning**
  - Re-evaluate your IT budget plans for 2010. Make sure your investment priorities align with your organization's strategic objectives.
- **The Next 12 Months**
  - Drive IT investment decisions from the perspective of enterprise strategy, and ultimately, business value.
  - Balance the need to maintain the discipline around cost management with the need to support the enterprise's return to growth.
- **On the Radar Screen**
  - Rethink your process to IT investment planning—moving from a static budget to a "rolling forecast" that will be more adaptable throughout the year.

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Related Gartner Research

- ***IT Spending and Staffing Report, 2009,*** *Michael Smith, Kurt Potter (G00164940)*
- ***It is Time to Rethink the IT Budget Process****, Barbara Gomolski, Michael Gerrard, Susan Landry (G00170705)*
- ***It's Time to Prepare for a Return to Business Growth****, Ken McGee, Mark Raskino (G00167574)*
- ***The Four Levels of Cost Optimization****, Barbara Gomolski, Kurt Potter, Mark Raskino (G00164219)*

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Do you have any questions?

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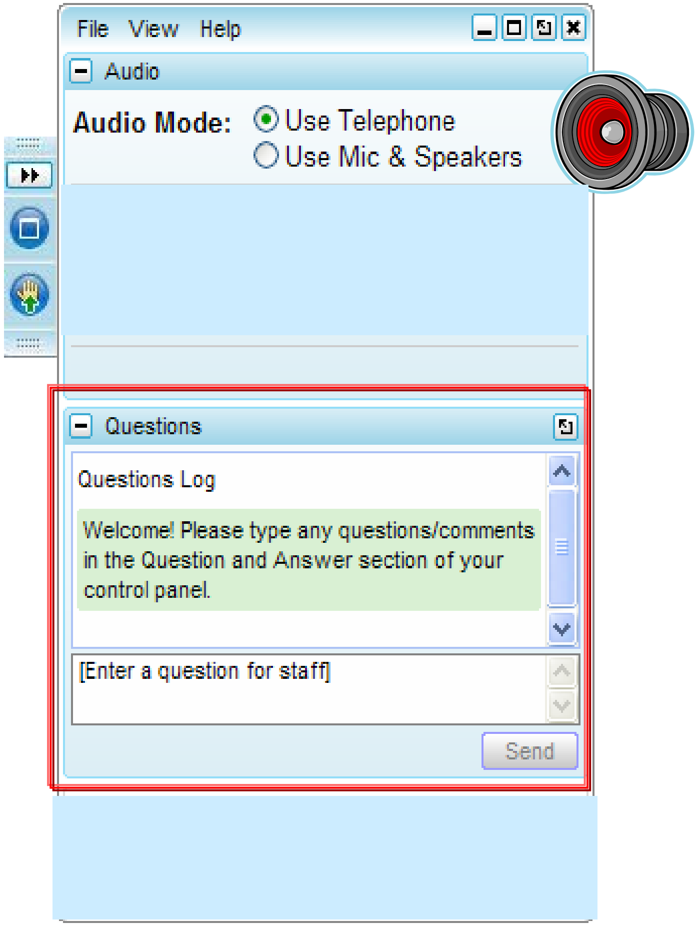

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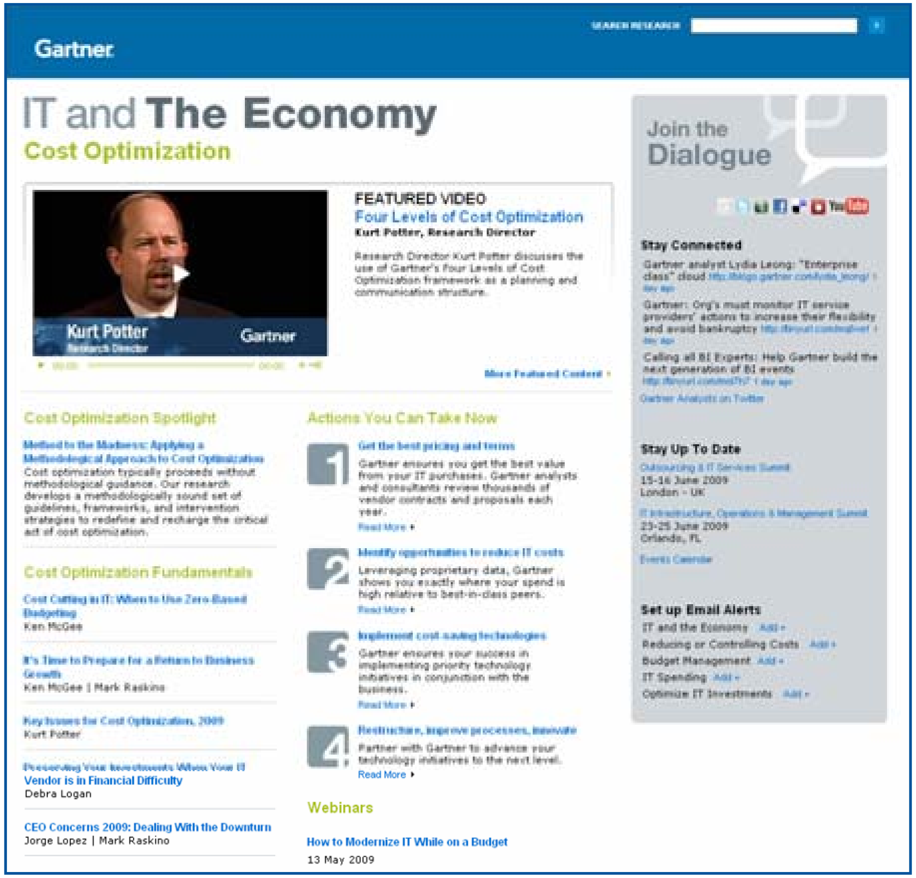
Gartner can take the cost out of IT in four ways



- Get the best pricing and terms for your IT purchases
- Identify major cost-saving opportunities
- Implement cost-saving technologies
- Implement cost-saving process improvement

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