

Computer Economics 2010 IT Spending Trends

Even though the general U.S. economy is technically out of recession, IT organizations are still suffering through a third year of tough times. The key findings of our 21st annual benchmarking study show that the majority of IT organizations are holding the line on IT spending and that many are continuing to shed jobs, dimming prospects for any second-half improvement in the employment picture for IT workers.

This is reminiscent of the 2001 recession, when IT spending continued in the doldrums into 2004, well after the general economy had recovered. Yet there are other indications in our recently released study, *IT Spending and Staffing Benchmarks 2010/2011*, signifying that if budgets are not likely to rebound this year, the worst may be over.

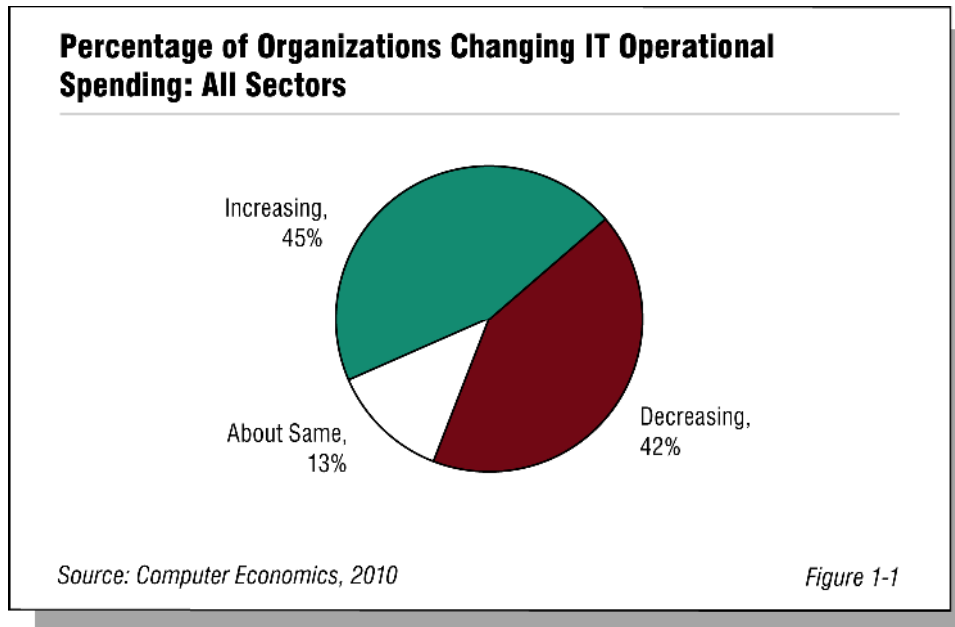
IT executives are far more confident now than they were last year at this time that they will be allowed to spend all the money allocated in their budgets. They do not believe further budget cuts are likely. And while operational budgets are flat year-over-year for the composite sample, some sectors are emerging as early leaders. Government, which generally lags two years behind the private sector in feeling the full effect of recessions, is just now slashing IT budgets and cutting personnel in earnest, marring the economic outlook. But commercial banking, healthcare, and process manufacturing are enriching their IT operational budgets.

Spending on IT capital projects, while still anemic, is also showing some signs of recovery. IT capital budgets are flat at the median, but more organizations are increasing IT capital investments this year than decreasing them. A recovery in IT spending may not yet be evident, but it is likely that we have already hit the low point.

In this article, we summarize the key findings of our annual study, the complete volume of which spans 25 chapters and includes 774 charts and tables.

Finding 1: No Recovery Yet in IT Operational Spending. In most years, the majority of organizations increase their IT operational budgets to meet growing business volume and to spread the use of IT into more of the business. In our tracking of this metric since 1990, we find that a measurement below 50% is typical of a recession in IT spending, as is the case this year.

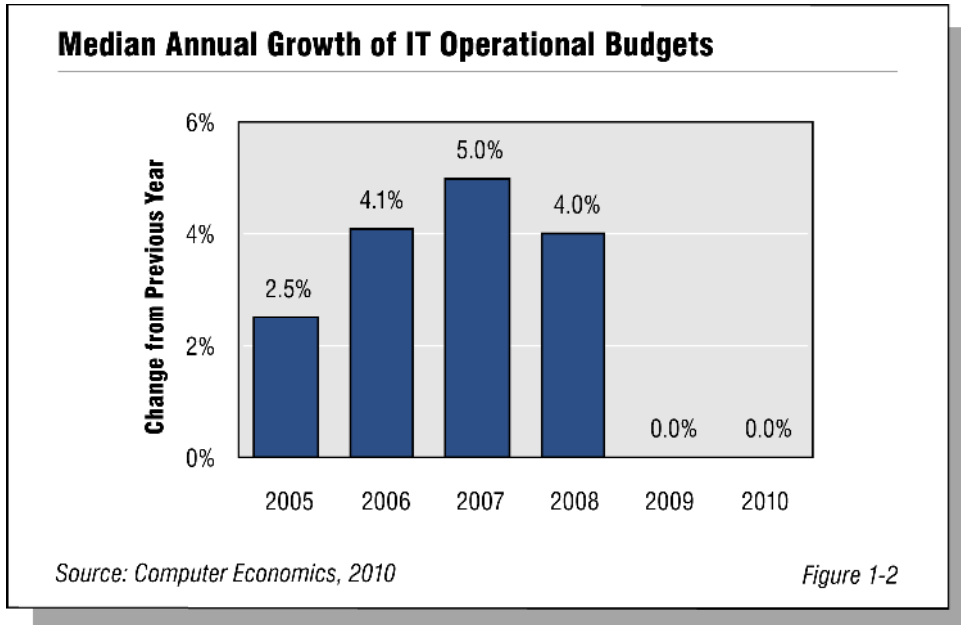
As shown in Figure 1, only 45% of organizations are increasing their IT operational budgets in 2010, confirming a recession in IT spending. Remarkably, even though the general economy is improving, this is the same percentage as last year.



Even more striking, 42% of organizations are actually cutting their IT operational spending this year—a higher percentage than the 38% recorded last year. This is not a good sign for those who were expecting an IT spending recovery in 2010.

Nevertheless, the percentage of organizations increasing their IT operational budgets this year and last year has not sunk to the level of 2002. Then, in the aftermath of the 2001 recession, only 36% of organizations were increasing their IT operational spending. This figure increased to 44% in 2003 before booming to 65% in 2004 and 82% in 2005. In other words, IT operational spending pulled back for two years after the 2001 recession. If the same pattern holds now, we should expect to see this metric break through the 50% threshold in 2011.

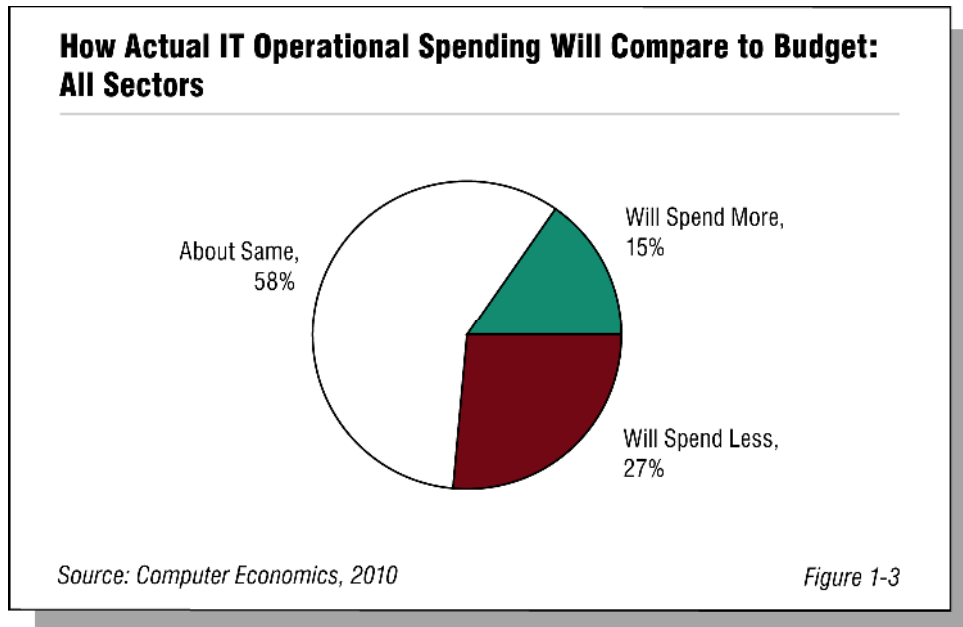
Looking at IT operational budget growth on a percentage basis, we see that, at the median, IT operational budgets in 2010 are flat, compared to the previous year. This is a repeat of last year, when IT operational budgets at the median likewise did not grow or fall, as shown in Figure 2.



Finding 2: The worst may be over for IT operational budgets. In the previous finding, we said that we do not yet see a recovery in IT operational spending. Nevertheless, the worst may be behind us, based on IT executive expectations for the rest of the 2010 budget year, as shown in Figure 1.

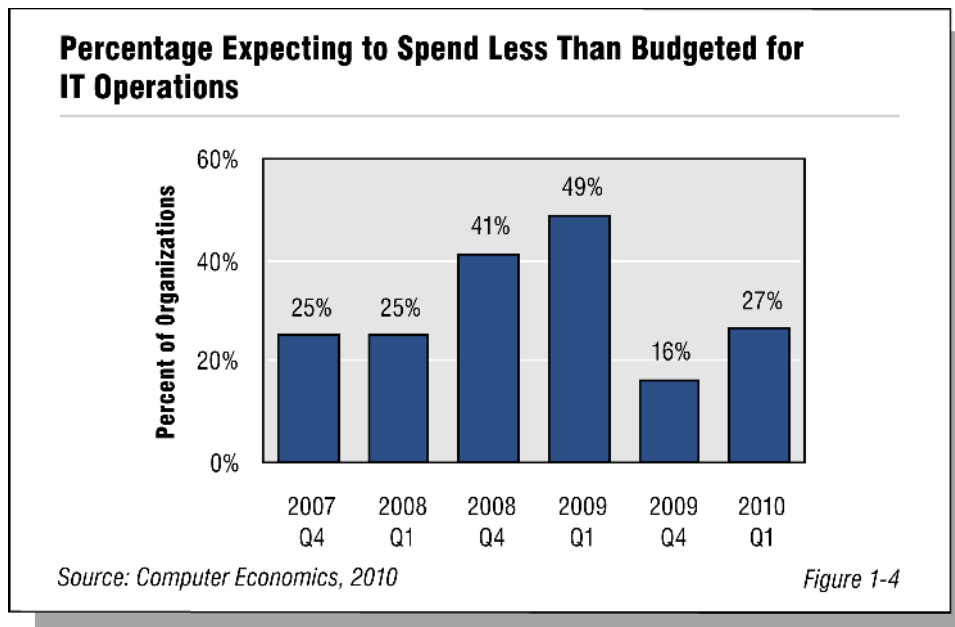
IT executives are far more confident this year that they will get to spend all of the money in their budgets. Figure 3 shows only 27% expect further cuts in this year's operational budgets. This is an improvement over last year at this time, when 49% expected cuts in their 2009 budgets.

Of the remainder, 58% expect to be able to spend all the money that has been budgeted and 15% expect to get a green light to increase their 2010 IT operational budgets.



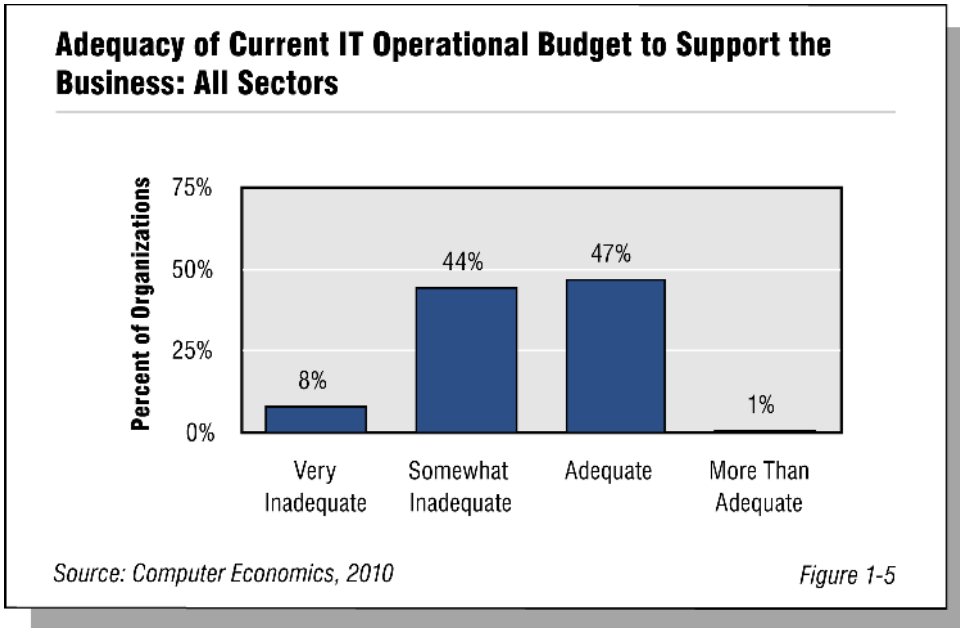
Although these results are encouraging, this outlook is not as positive as it was a few months ago, as shown in Figure 4. When we asked this question in a special survey in the fourth quarter of 2009, only 16% expected their budgets to be cut, whereas now, this metric stands at 27%, an increase of 11 percentage points.

Nevertheless, we do not feel this indicates further pressure on IT operational spending. The 27% who expect budget cuts this year is far below the 49% recorded at this time last year and is even less than the 41% recorded in fourth-quarter 2008. We therefore believe that the worst is over for IT operational spending cuts for the majority of organizations in the U.S. and Canada.



Finding 3: IT executive sentiment turns negative on adequacy of budget levels. While the trend in IT spending—as outlined in the first two findings—is important, it is also important to evaluate whether the current level of spending is adequate. As shown in Figure 5, fewer than half (48%) of IT executives feel their IT budgets are “adequate” or “more than adequate” to meet the needs of their businesses. This is a much more pessimistic than a year ago, when the majority (58%) believed their IT budgets were adequate or more than adequate.

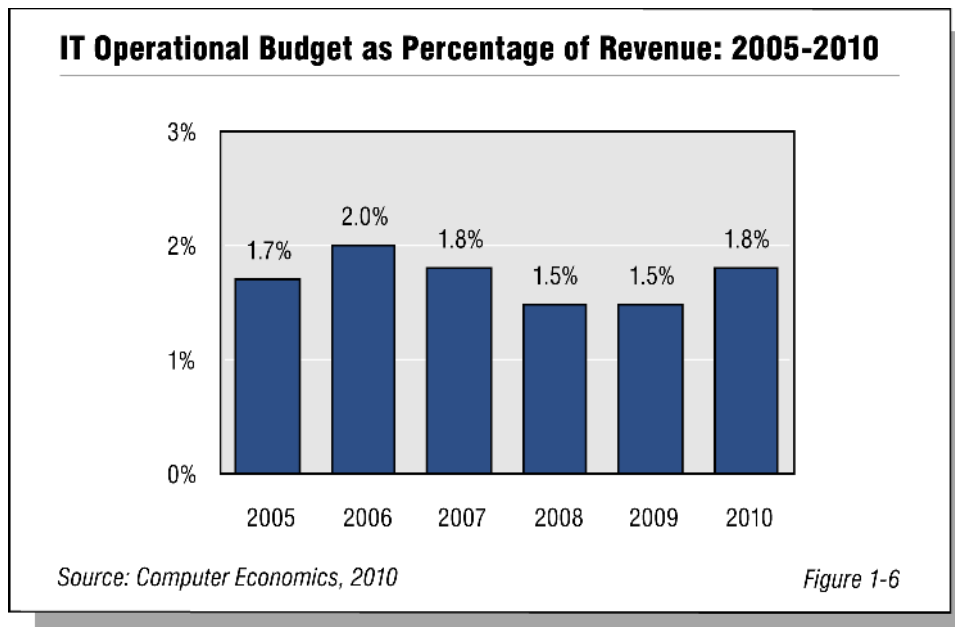
Now 44% believe their budgets are “somewhat inadequate” and 8% think their budgets are “very inadequate.” This outcome is no doubt the result of the deep cuts many organizations have made in IT spending over the past two years, in many cases leaving themselves with insufficient spending to meet the needs of the business. This result may actually be bullish for IT spending: many organizations have a need to increase IT spending and will do so when growth resumes.



Finding 4: IT operational spending is holding up against softness in corporate revenue.

Despite budget cutbacks, IT operational spending as a percentage of revenue actually increased this year, as shown in Figure 6. At the median, IT operational budgets are rising to 1.8% of revenue, from 1.5% last year.

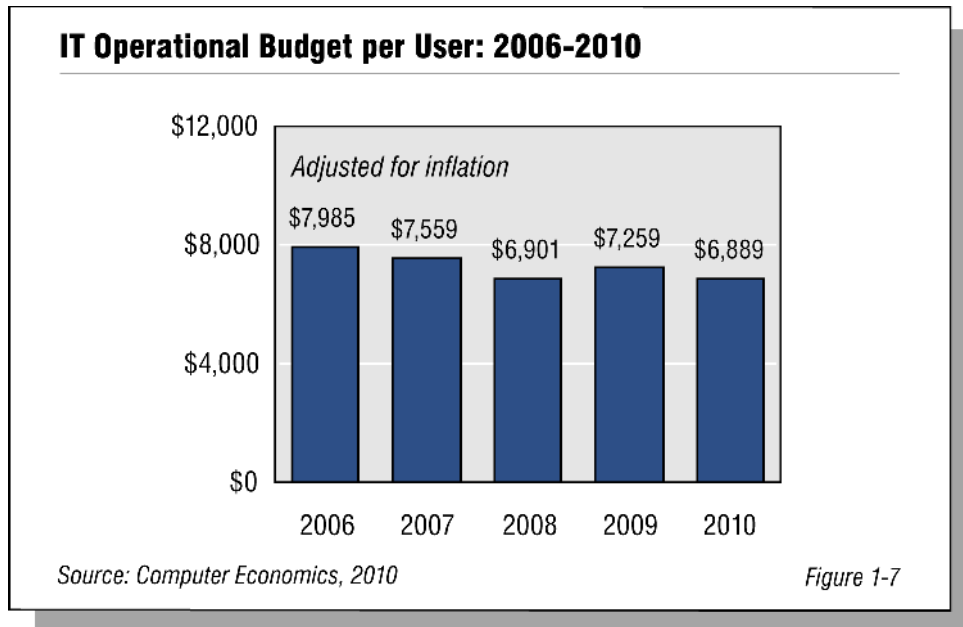
This result indicates that while IT operational spending is flat at the median, corporate revenue growth for many respondents is weak or declining. It is also an indication that a significant percentage of IT operational spending is relatively fixed. Organizations are unable to cut IT operational spending to match falling revenue. This is especially true as many respondents report 2009 revenue in the survey.



Finding 5: IT operational spending per user declines. A second important measure of IT spending is IT operational spending per user. This metric is not as popular as IT spending as a percentage of revenue. Nevertheless, it is more useful as it normalizes IT spending in relationship to the number of users, who directly consume IT services. IT spending and user headcount should move in parallel when there is no change in the level of spending on IT operations.

But that is not what we see this year, as shown in Figure 7, which displays IT spending per user on an inflation-adjusted basis over the past five years. This year, at the median, IT spending per user falls to \$6,889 from \$7,259 last year. This means that, at the median, each user is receiving 5% less in IT operational spending in 2010 than he or she did in 2009. In fact, this year's level is almost exactly the same as the 2008 level and well below the levels reached in 2006 and 2007.

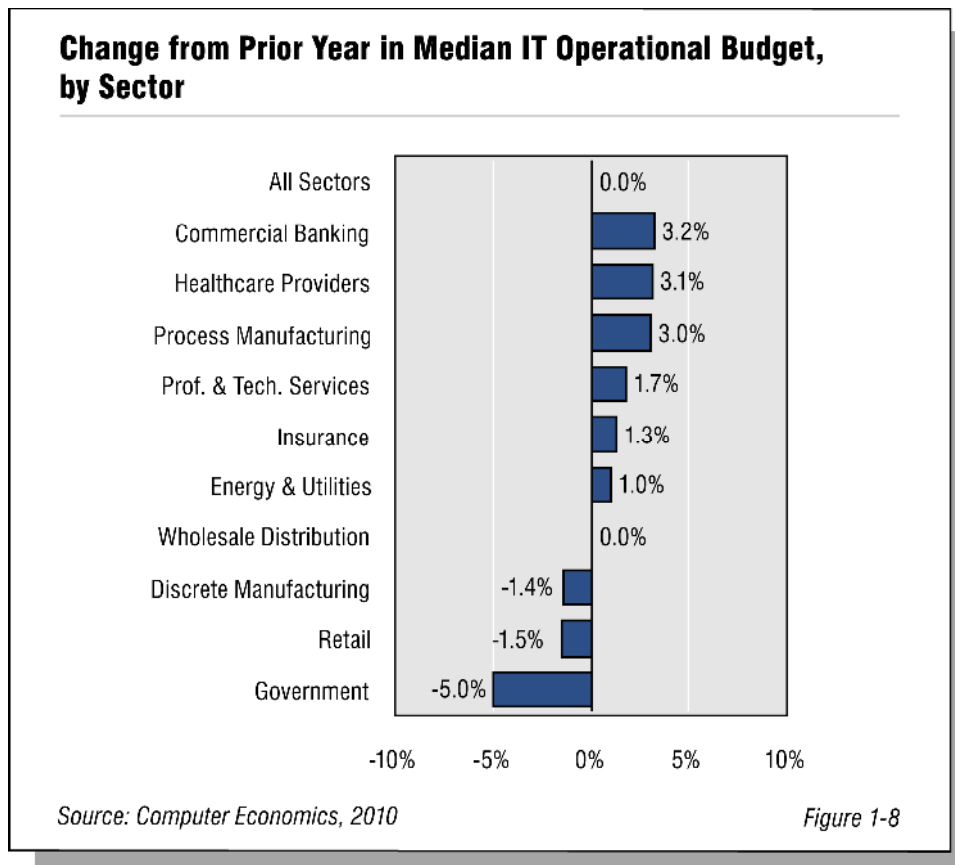
The decline in IT spending per user this year is consistent with the increase in the percentage of IT executives who feel their IT budgets are inadequate to meet the needs of the business. We would be surprised to see this metric decline again next year.



Finding 6: Government, retail, and discrete manufacturing hardest hit by IT spending cuts.

Although IT budget growth is flat for the composite sample, IT budget changes vary significantly by industry sector, with some sectors showing positive growth this year and others showing significant cuts, as shown in Figure 8.

Government, retail, and discrete manufacturing show cuts in IT operational spending at the median this year. The remaining sectors either show no growth or slightly positive growth. No sector shows growth above 3.2%.



Government is the main culprit dragging down median IT operational spending. Last year, IT operational budgets for the government sector were up 5%. That is changing dramatically this year, with a 5% reduction at the median, due to declining sales, income, and property tax revenues, which are now resulting in significant spending cuts.

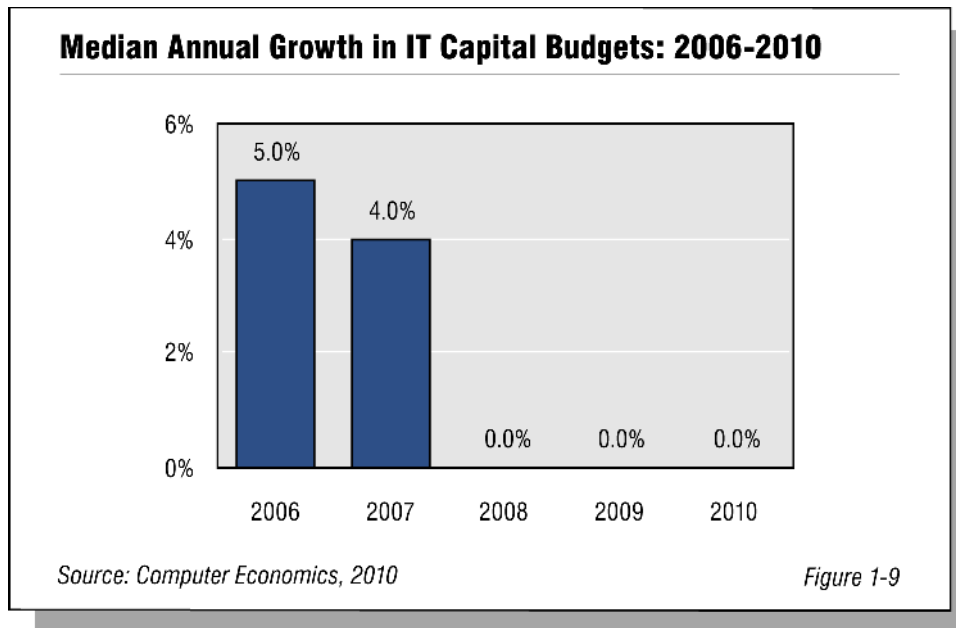
Other sectors are showing improvements over the prior year. In 2009, process manufacturers reduced spending 2.5% at the median, whereas this year they are increasing IT operational budgets 3.0% at the median. The sector includes food and beverage, pharmaceutical, and semiconductor manufacturers.

Retail is the only sector where the median operational budget declined for the second year in a row. It is down 1.5% this year. On the positive side, commercial banking, healthcare providers, and professional/technical services show growth in IT operational spending this year as well as last year. For these sectors, IT operational budgets are 3.0% to 3.2% this year, compared to growth in the 1% to 3% range last year.

Finding 7: Capital spending improves, but only marginally. In addition to the IT operational budgets, most organizations maintain IT capital budgets to fund long-term investments in IT

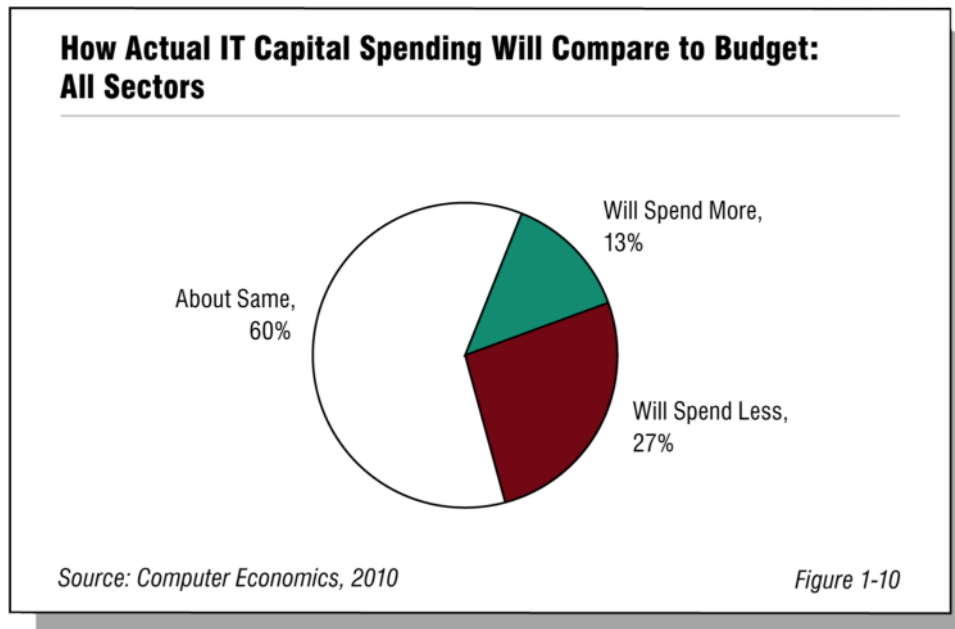
infrastructure, equipment, and major systems. These investments are then depreciated as an operational expense over a number of years.

There is some improvement in capital spending by IT organizations this year, but spending remains restrained. The picture is divided: 40% of IT organizations are cutting their capital budgets, while 47% are increasing capital budgets. Overall, fewer organizations are reducing capital spending this year and the reductions are smaller than last year. We take this as an optimistic sign, again, that the worst may be behind us. But the improvement is weak. At the median, capital budgets are showing no growth over the prior year, as shown in Figure 9.



While not shown, another positive sign for capital spending is that it is rising from 20% of operational spending last year to 24% this year. That means organizations are increasing capital spending at a faster rate than operational spending—or, in some cases, reducing it at a slower rate.

Consistent with this outlook, fewer IT executives this year expect additional cuts in their IT capital budgets. Figure 10 shows only 27% expect to spend less than currently budgeted. Last year, this percentage was much greater, at 43%.



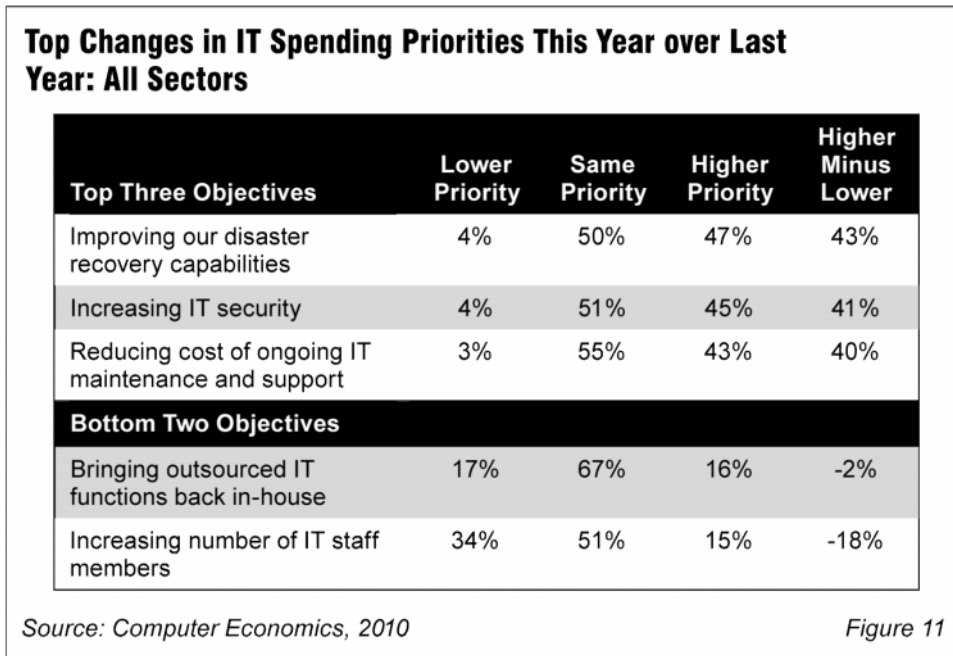
Finding 8: Security and disaster recovery move to top priorities. IT budgets and staffing levels are not set in a vacuum—they are planned and approved with key goals and objectives in mind. For example, while some organizations are focused on developing new systems, other organizations are focused on improving existing applications. Looking at such priorities across a number of companies is useful in understanding what priorities are currently most important to the greatest number of organizations.

To better understand their current priorities, we asked our respondents to consider 16 common objectives and to indicate whether these objectives were a greater priority this year, remaining the same, or decreasing in priority over the prior year. The results for the top three and bottom two objectives are shown in Figure 11, in the column labeled “Higher Minus Lower.” This column represents the percentage indicating an objective is a lower priority subtracted from the percentage indicating it is a higher priority this year.

The objective showing the highest percentage of IT decision-makers increasing its priority is “improving our disaster recovery capabilities,” followed closely by “increasing IT security.” Interestingly, cost reduction is no longer the top priority, as it was last year. “Reducing the cost of ongoing maintenance and support” does round out the top three priorities, however.

Disaster recovery and IT security have always ranked highly in our IT spending surveys, whether in boom times or recessionary periods. This indicates that IT executives are serious about ensuring business continuity and protecting the information assets of the business. The high priority given to these objectives is also influenced by government regulations such as the Gramm-Leach-Bliley Act (GLBA), which strengthens privacy and security requirements in the financial services industry, the Health Insurance Portability and Accountability Act (HIPAA), which mandates protection of

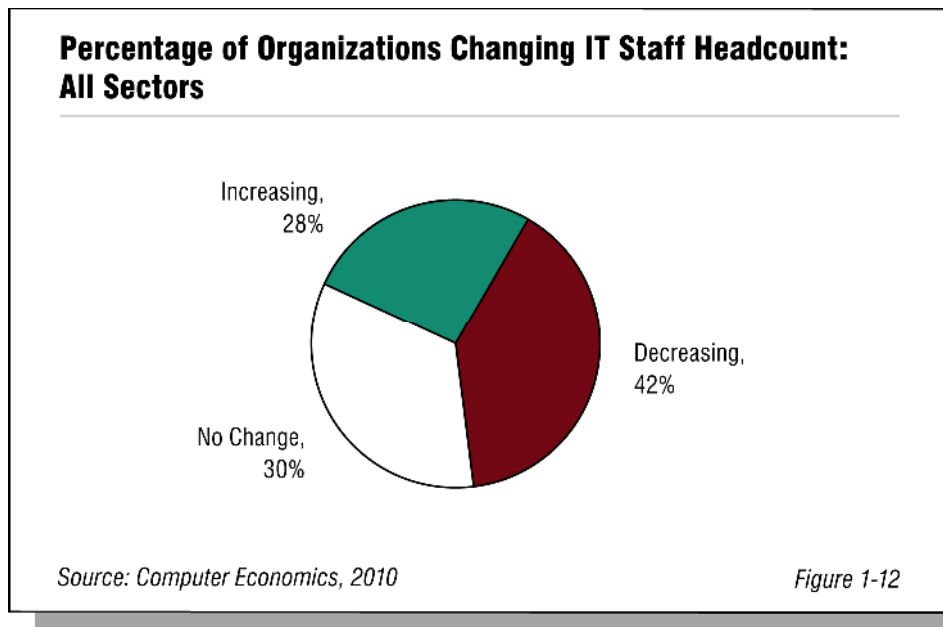
personal health information, and the Payment Card Industry (PCI) Data Security Standard, which increases controls required around credit card information. An increase in high-profile security incidents and greater awareness of the risks of cybercrime also contribute to the continued high priority given to IT security initiatives.



The lowest-ranking priorities provide further insights. The lowest priority is “increasing number of IT staff members.” Only 15% rank it a higher priority while 34% rank it a lower priority. IT executives plan to make do with reduced staff levels. Also sinking in priority this year is “bringing outsourced IT functions back in-house.” After reducing outsourcing budgets last year, IT executives appear to be looking to maintain the status quo.

Finding 9: IT staffing remains under pressure. We do not see a significant change from last year, when IT organizations made serious reductions in headcount. Once again, there are more organizations cutting staff than increasing headcount, as shown in Figure 12. This year, 42% of IT organizations are cutting headcount, which is about the same as last year when 46% of IT organizations were laying off staff. Only 28% are increasing headcount—about the same as last year’s 27% level.

Some line items in the IT operational budget are relatively fixed, such as depreciation, equipment lease payments, and software maintenance expense. Therefore, the personnel line item—which approaches half of the IT operational budget in most companies—often takes a disproportionate share of the cuts.



About the Study

The Computer Economics *IT Spending and Staffing Benchmarks* study, now in its 21st year of publication, provides key metrics to assist organizations in the financial and strategic management of information technology. Each year, we conduct an in-depth survey of IT executives in the U.S. and Canada to gather detailed metrics concerning their IT spending and staffing levels, use of outsourcing, adoption of IT management best practices, and economic experiences with various technologies and IT initiatives. The respondents include executives in the public and private sectors. By repeating this survey each year, Computer Economics is in a unique position to identify long-term trends and understand the challenges of managing IT organizations.

This study provides:

- More than 90 IT cost management and other support metrics for benchmarking an organization's IT operational spending levels by comparing them with those of organizations of similar size and industry sector
- More than 10 specific IT capital spending metrics for measuring an organization's IT capital budget spend levels
- More than 20 IT staffing ratios for evaluating an organization's IT headcount

The study is based on a survey of more than 200 IT executives conducted in the first quarter of 2010. It provides composite statistics of IT spending and staffing data, a segmentation of the same statistics by organization size, and individual chapters for 16 commercial and government sectors. We also provide selected key metrics for six specific subsectors.

A detailed description of the study's content, design, demographics, and methodology can be found on our website at www.computereconomics.com.