

Driving business value from IT

Infrastructure, applications investment and
business alignment



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Contents

Contents	2
Table of figures	2
Introduction	3
Executive Summary	3
Budget movement and spend characteristics	4
Factors that could reduce the ongoing maintenance burden	5
Demographics	11

Table of figures

Figure 1: IT budget movement up or down	4
Figure 2: Balance of spend between business as usual and new IT projects	4
Figure 3: Is the elective spend proportion of budget going up or down?	5
Figure 4 Important factors in reducing ongoing maintenance costs – SME	6
Figure 5 Important factors in reducing ongoing maintenance costs – Mid-market	6
Figure 6 Important factors in reducing ongoing maintenance costs – Large enterprise	7
Figure 7 Statements relating to IT spend and new projects	7
Figure 8 How do you measure the effectiveness of your mobile PC management?	8
Figure 9 What level of automation exists in your mobile PC management systems	8
Figure 10 Statements relating to businesss /IT alignment and relationships	9
Figure 11 Do you outsource mobile PC management?	9
Figure 12 Which of the following tasks are included in mobile PC management planning?	10
Figure 13 Job titles of respondents	11
Figure 14 Company size split	11



Introduction

The majority of IT budget in most companies is swallowed by maintaining existing infrastructure. As a result, there is an ongoing struggle within organizations to increase the budget available for improving business performance through the application of new IT projects. The objective for most companies should therefore be to rationalize and reduce the cost of maintaining existing infrastructure, but there are difficulties. The lack of alignment between business needs and the IT that supports those needs is never perfect; there are legacy issues in both applications portfolio and systems integration; and there is rarely a perfect fit between internal IT skills and changing requirements. This study looks at some of those aspects in UK companies across a range of company sizes and considers how serious these issues are.

Executive Summary

The key results in this study include:

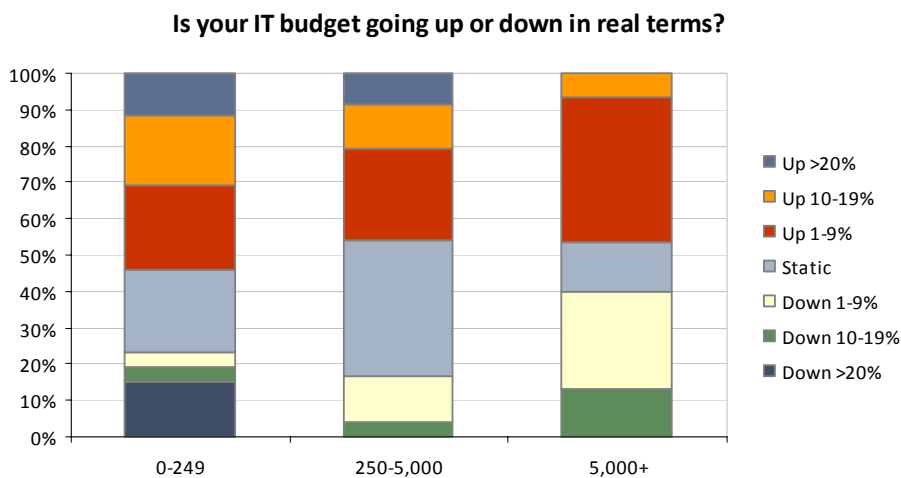
- IT budgets
 - 40% of enterprise scale companies are seeing IT budgets reducing in real terms
 - In real terms (excluding inflationary effects), SME budgets are increasing by 1.6%, mid-market budgets are increasing by 3.4%, but large enterprise is virtually static at 0.3% increase
- Elective spend
 - 78% of large enterprise budgets are swallowed in existing maintenance – ‘keeping the lights on’
 - All sizes of company are seeing (small) rises in the proportion of budgets available for elective spend however, suggesting that they are slowly achieving efficiencies
- Improving IT value
 - For both SME and mid-market respondents, the top issue is still achieving better alignment between IT and the business
 - Both SME and mid-market respondents also see optimized sourcing – increasing the use of external partners and offshore services – as the least important issue
 - Large enterprise see optimized sourcing quite positively however, showing that the outsourcing market is still firmly entrenched in at the larger end of the market
- Barriers to improving IT/business alignment
 - A large majority of respondents in each company size category report that IT training budgets are generally vulnerable to investment squeezes or cuts
 - Most companies are relying on IT portfolio management to achieve business/IT alignment rather than communication and inter-working between the business and IT functions
 - While SMEs have a positive balance of 16% in favour of supporting innovative use of IT regardless of normal financial justifications, that positive differential drops to 4% in the mid-market, and -7% in enterprise organizations
- Advantages for larger organizations
 - Larger organizations show a much stronger sense of shared purpose and cooperation across divisional and functional boundaries
 - They are also rather more likely to analyse and re-engineer business processes before investing in new applications. Mid-market companies, despite having the same requirements, generally lack the resources and skills to achieve such an analysis, and it represents a major hurdle to those companies making progress towards a more optimized infrastructure



Budget movement and spend characteristics

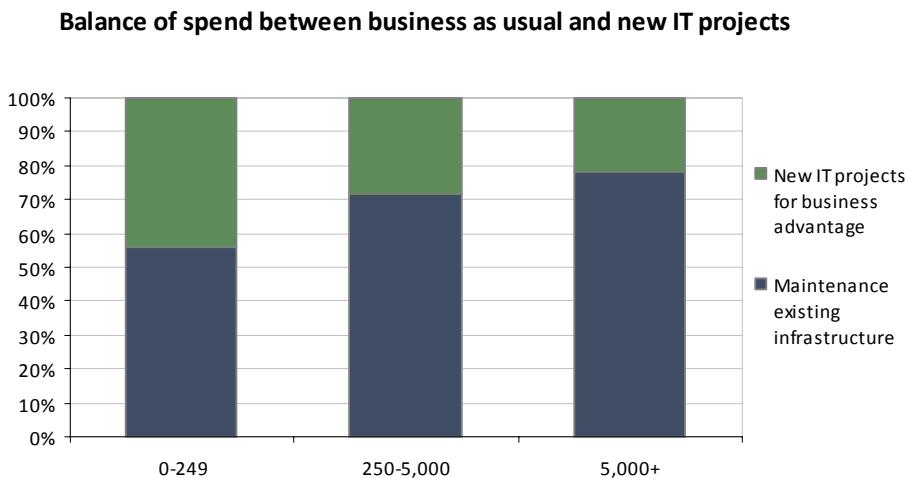
The figures below show how IT budgets are moving, and what they are being spent on for the respondents in this study. Smaller companies are increasing budgets today at a faster rate than the market. This is borne out in many other studies showing SME growth outpacing enterprise spending. Mid-market companies are also better off than enterprise companies, 40% of which have IT budgets reducing in real terms. In fact, analyzing our respondent numbers would suggest an SME budget increase average of 1.6%, a mid-market average increase of 3.4%, and large enterprise virtually static at 0.3%, all in real terms (excluding inflationary effects).

Figure 1:



The majority of those budgets are spent on maintenance of existing infrastructure – ‘Keeping the lights on’ – and not on new projects that have the capacity to enhance business performance. Unsurprisingly, enterprise-scale companies have a higher proportion of ‘business as usual’ (BAU) spend than smaller organizations (78% compared with 56% for SME).

Figure 2:



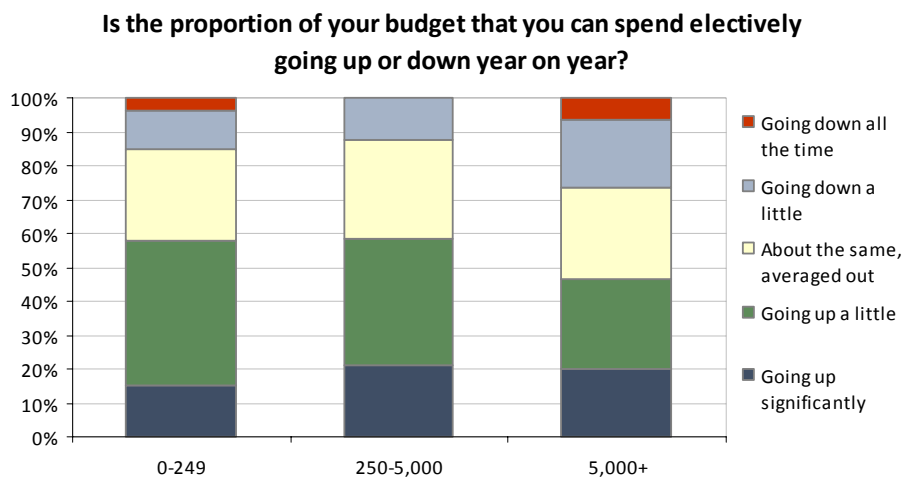


Within the new project or elective spending portion of the budget, there is a pretty even split between the things on which companies are spending the money. Roughly a third of the budget is spent on each of the following project types:

- Reducing costs in the organization
- Providing better information systems
- Completely new innovative solutions for competitive advantage

These proportions of spend type did not vary significantly by company size – the same proportions were spent on the same project types regardless of the size of the organization.

Figure 3:



It would appear from figure 3 that elective spending is going up year on year; not much, but a little each year. Again, it is enterprise companies that fare a little worse, with 27% reporting reducing proportions of elective spend, against 47% going up. This would suggest (given the relative lack of movement in overall budgets), that some efficiencies are being realized, albeit slowly, which is good news.

Factors that could reduce the ongoing maintenance burden

Figures 4, 5 & 6 show how respondents are thinking about how to reduce the ongoing burden of maintenance of existing systems. All the charts illustrate results in the same way – by subtracting those that disagree with a statement fairly and very strongly from those that agree with it fairly and very strongly. This gives a more clearly-defined result ignoring the mass of respondents that have no strong feelings about the issue. Reducing such maintenance burdens means that more can be spent on projects to improve business performance. For both SME and mid-market respondents, the top issue of many years is unchanged – achieving better alignment between IT and the business that it supports.

Both SME and mid-market respondents also see optimized sourcing – increasing the use of external partners and offshore services – as the least important issue, and fewer respondents see that as helpful than those that see it as unhelpful (hence the negative result). Large enterprise however, is a quite different matter. Business/IT alignment is seen as less useful than nearly all the other categories, and optimized sourcing is now quite positive, showing how the outsourcing market is still firmly entrenched in at the larger end of the market. The fact that re-balancing the IT organization more effectively (and raising competency levels) scored highest shows clearly how larger organizations are concerned about internal skills – both the quantity and quality of them.



Figure 4

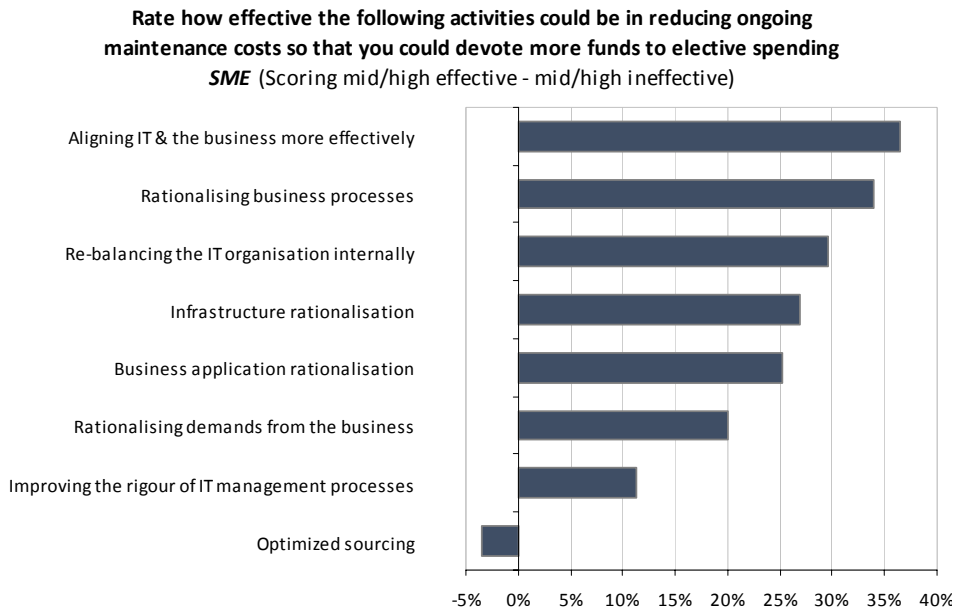


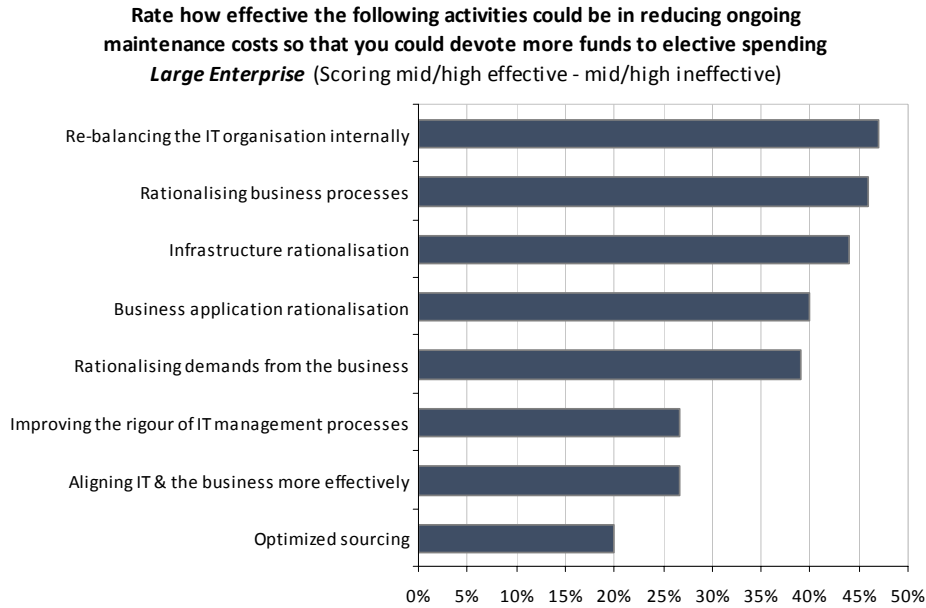
Figure 5



Large businesses seem to feel that they are in need of improvement pretty much across the board – five of the improvement categories scored a net positive response greater than 35%, compared with just one in each of SME and mid-market (IT/business alignment in both cases).

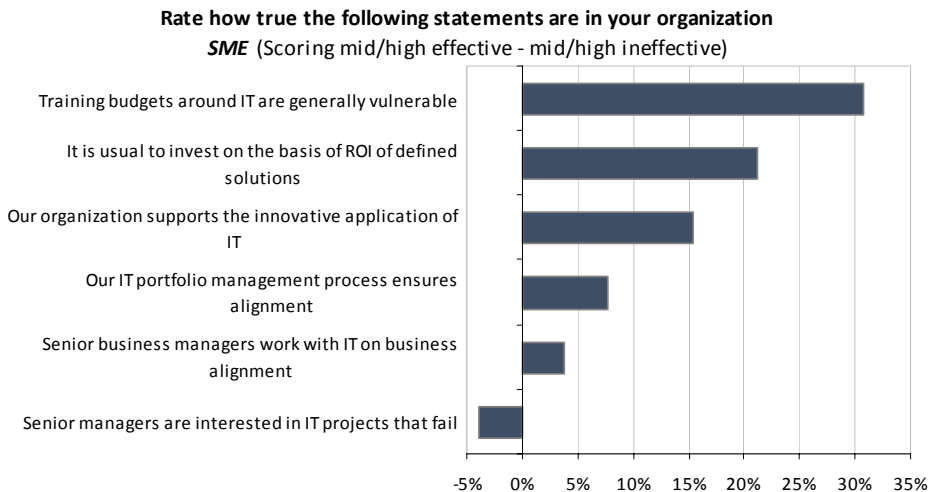


Figure 6



Most of those results relate to rationalization – of business process, infrastructure, applications, and user demands. Figures 7, 8 & 9 below show why some of these issues have become important. The stand-out result relates to training. A large majority of respondents in each company size category report that IT training budgets are generally vulnerable to investment squeezes or cuts. This situation has not changed greatly over the years, giving rise to a number of potential problems both within IT functions, and in the IT training given to business users and managers.

Figure 7



The second noteworthy result shows how respondents are relying on IT portfolio management to achieve business/IT alignment rather than communication and inter-working between the business and IT functions. All three organization size classes report that IT portfolio management is well above senior manager/IT inter-working



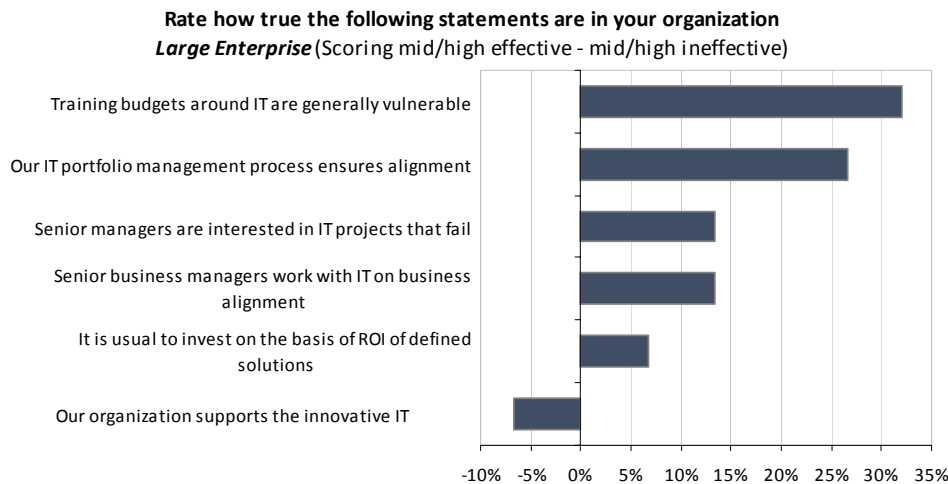
in ensuring alignment happens. While strong IT portfolio management is laudable, it is not a replacement for good working communication between IT and business functions.

The third result from these charts is in innovative use of IT. While SMEs have a positive balance of 16% in favour of supporting innovative use of IT regardless of normal financial justifications, that positive differential drops to 4% in the mid-market, and -7% in enterprise organizations. While this is understandable on the basis of more defined investment processes in larger companies, it is another pointer as to why innovation so often fails to happen in larger companies.

Figure 8



Figure 9



Looking a little more closely at the issue of business / IT alignment, figure 8 shows some of the issues that have a potentially deleterious effect. Larger organizations are as likely to take little account of IT implications in future business strategies as they are to consider it properly. Mid-market are rather more negative about the issue, and SME rather more positive – probably because of the proximity of IT investment decisions to business decisions (and vice versa). The larger the organization gets, the less likely that senior management will get briefings on business implications of IT developments.



Figure 10

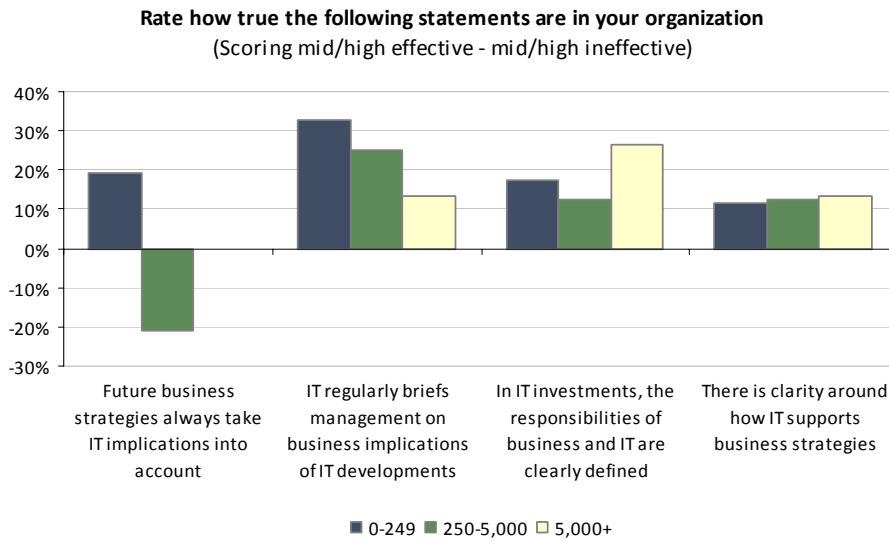


Figure 11



The good news from a large enterprise point of view is shown in figure 11 – a strong sense of shared purpose and cooperation across divisional and functional boundaries is a strong positive in trying to achieve the business / IT alignment that they so clearly desire and require. There is still a relatively low positive balance relating to pursuing business improvement from both business and IT points of view however, which is a reminder of the issues around inter-functional communication.



Figure 12

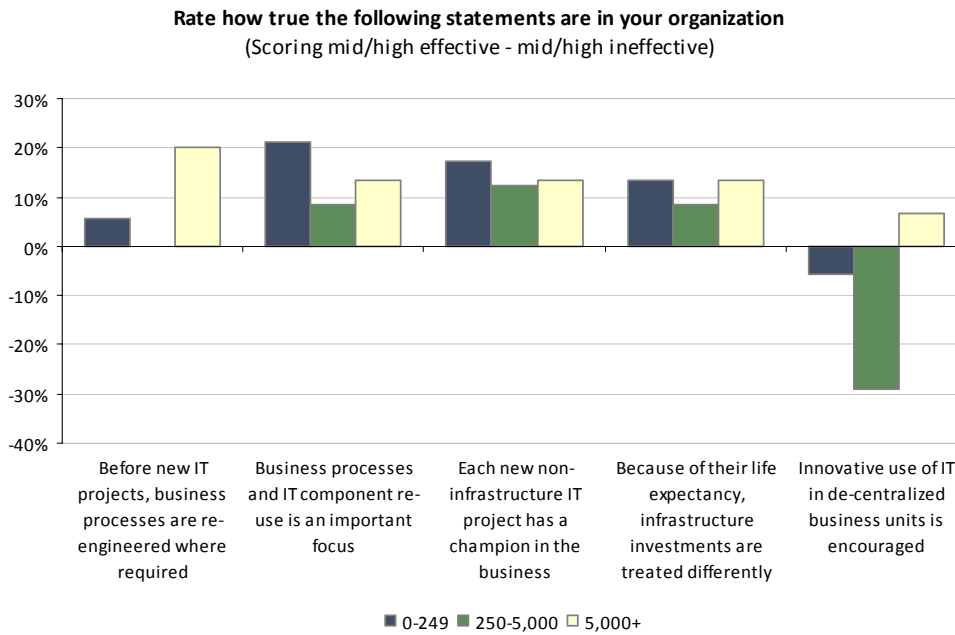


Figure 12 again shows fairly weak positive balances across a range of subjects; larger organizations, as expected, are rather more likely to analyse and re-engineer business processes before investing in new applications. Mid-market companies, despite having the same requirements, generally lack the resources and skills to achieve such an analysis, and it represents a major hurdle to those companies making progress towards a more optimized infrastructure. Again, the largest negative response is to innovation – this time where organizations encourage de-centralized business units to use IT innovatively regardless of company technology standards.



Demographics

115 respondents contributed to the research in this report, spread across all senior job categories, and a range of company sizes.

Figure 13

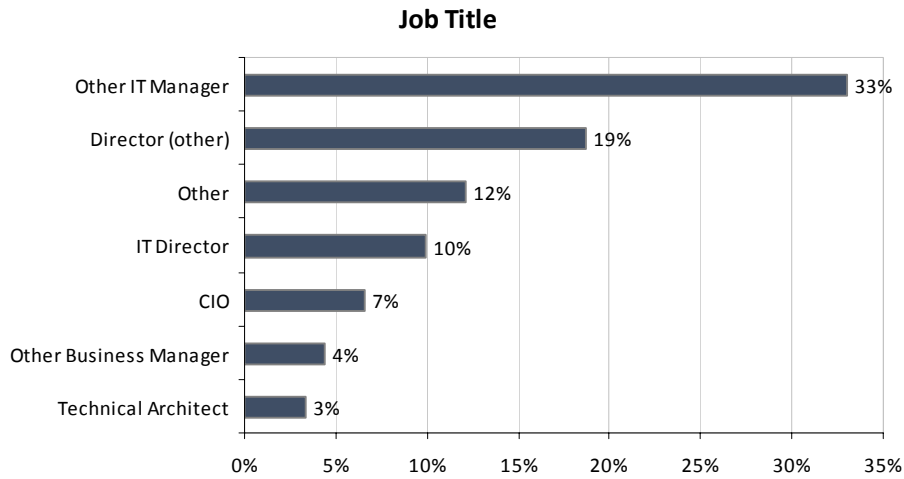


Figure 14

