IT Leaders Expect Tech Budgets to Grow in 2020

Economic downturns are inevitable, but IT cutbacks shouldn't be.

IDG Communications, Inc.

DESPITE THE ECONOMIC UNCERTAINTY EXPERIENCED AT THE TAIL END OF 2019, A RECENT IDG SURVEY OF IT DECISION-MAKERS INDICATES THAT MOST EXPECT IT BUDGETS TO CONTINUE TO GROW IN THE COMING YEAR. Further, IT leaders revealed that the IT department will be evaluated mostly on performance on key business measures such as customer loyalty and return on investment.

The findings stand in contrast with the conventional wisdom that as business growth sags, so too will technology investments, and they signal the continued emergence of IT as being a strategic driver of business value and crucial to digital business strategies. As technology increasingly shifts toward cloud-based services and less reliance on expensive, long-term capital investments, there's good cause to think that IT is far better prepared to ride out economic cycles than in the past.

Since 1945 the United States has weathered 11 economic contractions or recessions, and any projections for when the next one is coming should be viewed skeptically. "Wall Street indexes predicted nine out of the last five recessions!" the noted economist Paul Samuelson quipped in 1966. Despite constant predictions that the next recession is coming, the economy has experienced the longest-lasting expansion on record since the end of the "Great Recession," in mid-2009.

Still, ultimately every expansion is followed by a contraction, so it's incumbent on IT leaders to plan how they can best deal with economic cycles.

Past economic recessions have not been kind to IT, with business spending in this area declining at twice the rate of real gross domestic product (GDP), the traditional measure of economic health. That may largely reflect historic views that IT was mainly keeping systems running rather than creating business value.

IT's mission is evolving to play a more central role in an enterprise's value creation, rather than just maintain operations. IDG's *2019 State of the CIO* reported that 62% of the IT leaders in its survey said their job responsibilities involve creation of new revenue generation initiatives, which include the development of new products or services, and 91% indicated that their role is becoming more digital- and innovation-focused.

Previous IDG research on how businesses are pursuing initiatives focused on customer-experience-oriented digital transformation supports the notion that IT is taking on an increasingly strategic business role and is viewed as pivotal to future growth. According to that report, 76% of the IT decision-makers surveyed indicated that they are feeling pressure from multiple sources in the organization to deliver digital customer experiences.

With lines of business increasingly looking to IT to drive revenue and customer satisfaction, there's a strong case to be made that CIOs and their departments will find themselves more "recession-proof" when the next downturn arrives.

To gain further insight into how the trend to value creation is impacting IT budgets, IDG recently surveyed IT decision-makers at companies ranging in size from 200 to 499 employees, to those with more than 20,000 employees.

IT decision-makers bullish on budgets

Most of the participants in the IDG survey expect IT budgets in their industries to grow, with 35% indicating strong growth and 63% saying they'll experience moderate growth (Figure 2). The top factor driving IT budgets is improving productivity through automation and/or the cloud.

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Innovation and/or driving new products and services is the top-ranked business priority of those surveyed by IDG, followed by revenue growth and becoming a more data-driven organization (Figure 1). That's a dramatic change from even just a few years ago, when many organizations viewed IT's role as being more focused on "keep the lights on" activities.

"CIOs have been plagued for decades with endless calls for reduced technology spending which is consistent with the widespread treatment of technology as a cost center. Calls for reduced spending in technology infrastructure services (like networks, help desks, databases, security and applications support) are relentless," writes *Forbes* contributor Steve Andriole, of the Villanova School of Business at Villanova University, who offers advice on how CIOs can focus on the new mission of revenue generation.

Cloud and analytics are seeing the greatest growth among the participants in the IDG survey, with artificial intelligence (AI) and machine learning (ML) following close behind. (Figure 2)

Market research firm IDC projects that AI spending will grow at an almost 30% compound annual growth rate through 2023. "The use of artificial intelligence and machine learning (ML) is occurring in a wide range of solutions and applications, from ERP and manufacturing software to content management, collaboration, and user productivity," explained David Schubmehl, research director, Cognitive/Artificial Intelligence Systems, at IDC, in announcing those findings. "Artificial intelligence and machine learning are top of mind for most organizations today, and IDC expects that AI will be the disrupting influence changing entire industries over the next decade."

IDC says that the top three largest use cases of AI—automated customer service agents, automated threat intelligence and prevention systems, and sales process recommendation and automation—will account for 25% of total spending in that category for 2019.

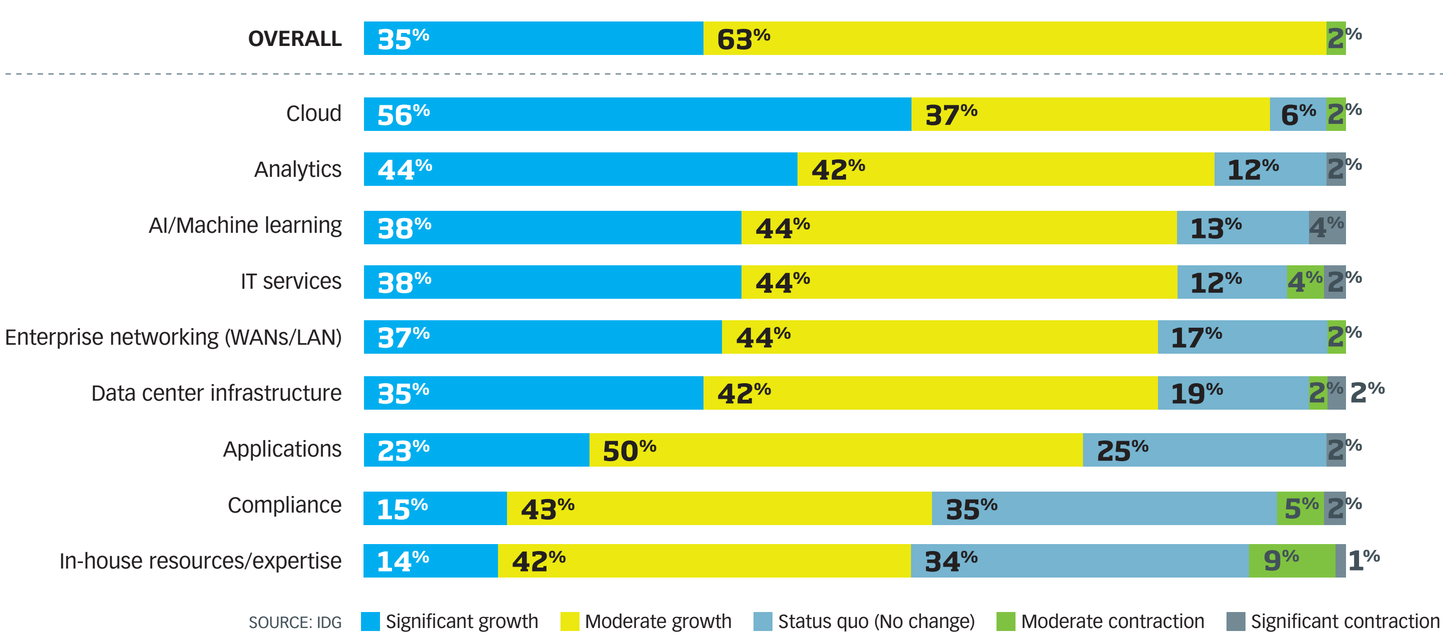
FIGURE 1: **BUSINESS PRIORITIES**
(Average Rank from 1-7 where 1 is best)

OVERALL RANK

- **1st** Innovation/ Driving new products and services
- **2nd** Revenue Growth
- **3rd** Become more data-driven organization
- **4th** Improving customer experiences
- **5th** Increasing Employee Productivity
- **6th** Decreasing Costs
- **7th** Risk management

SOURCE: IDG

FIGURE 2: **BUSINESS PREDICTIONS FOR INDUSTRY IT BUDGETS**



Security remains an ever-present consideration. Securing critical business data and applications ranks just slightly behind the cloud and automation as a top factor impacting IT budgets, according to 67% of respondents.

Even as businesses invest in and move strategic assets to the cloud, they continue to invest in enterprise networking and data center infrastructure. That's a strong indicator that organizations are upgrading or replacing legacy infrastructure with systems that are more resilient and can leverage cloud environments.

"As spending on legacy technology systems declines, growth will be driven by key platforms: cloud, mobile, social and big data, and analytics," according to analysts with the Brookings Institution. "A growing share of technology spending will be diverted toward newer capabilities such as AI, robotics, and augmented reality, fueled in part by the cost savings generated by cloud-based technology and automation."

Meanwhile, security remains an ever-present consideration. Securing critical business data and applications ranks just slightly behind the cloud and automation as a top factor impacting IT budgets, according to 67% of the respondents in the IDG survey. (Figure 3) Delivering new or updated applications also ranks high, on a par with migrating data center workloads to the cloud, both at 63%.

What's different this time around

When viewed simply as a cost center, IT was an easy target for budget cutbacks in past cyclical downturns. But as IT focuses more on customer experience (CX) initiatives, it is increasingly intertwining its activities with different departments and lines of business united in enhancing CX for customers and workers.

IDC projects that worldwide spending on customer experience technology will reach $641 billion in 2022, up from $508 billion in 2019. "Customer experience has become a key differentiator for businesses worldwide. New innovation accelerator technologies like artificial intelligence and data analytics are at the forefront in driving the differentiation for businesses to succeed in their customer experience strategic initiatives," according to Craig Simpson, research manager, IDC.

The IDG budget survey reveals that customer loyalty and satisfaction scores now rank even with return on investment as the top metrics by which IT will be measured. "Once unlikely collaborators, IT and marketing are partnering closely on new

FIGURE 3: **TOP FACTORS IMPACTING IT BUDGETS**

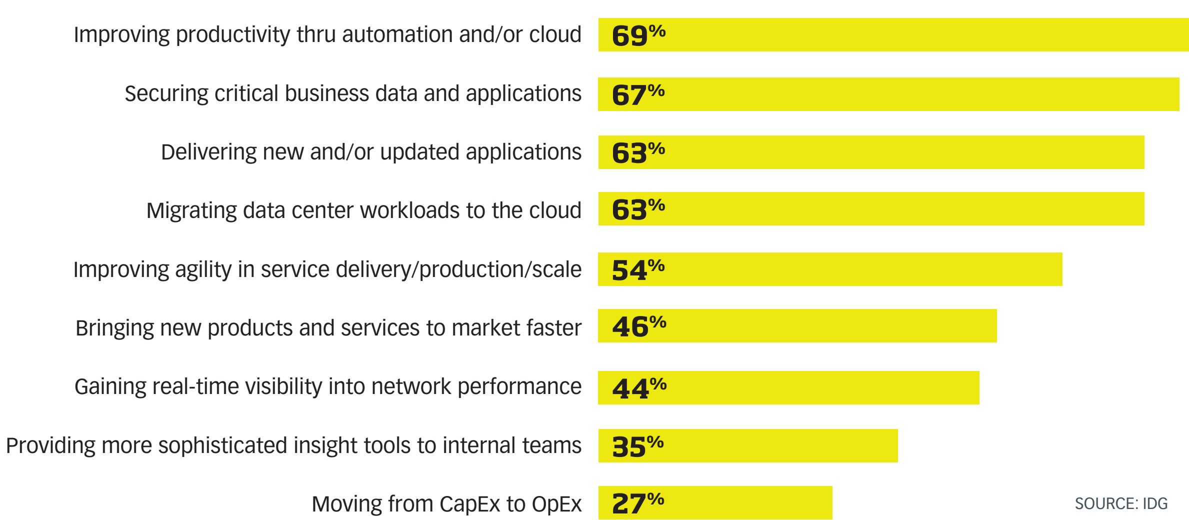
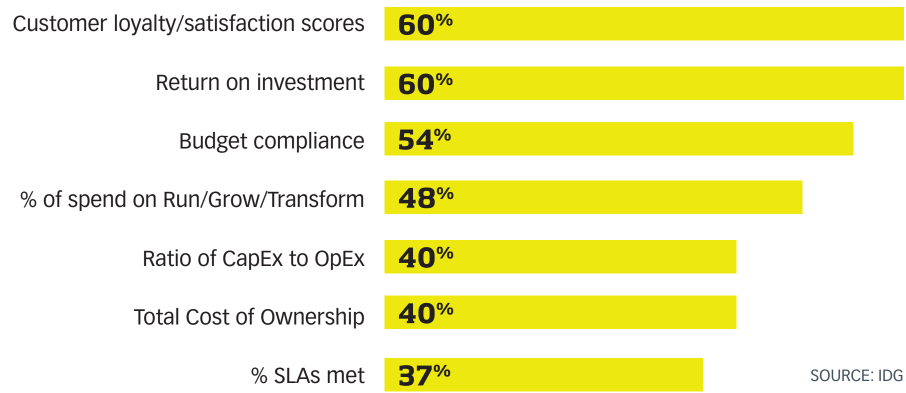


FIGURE 4: **IT EVALUATION METRICS FOR 2020**



customer-facing technologies, an acknowledgment that both parties must work together to help their companies—and careers—thrive," writes *CIO*. (Figure 4) "CIOs are also huddling with CMOs and other business line leaders on 'customer journey maps,' critical documents that outline key customer touchpoints."

IT also may be better prepared to weather downturns and cutbacks due to the shift to the cloud and from CapEx to OpEx. That makes it easier for CIOs and CFOs to work together on managing budgets quarter-to-quarter and year-to-year according to business financial needs and to be able to fine-tune outlays more dynamically, without necessarily having to cancel or delay critical projects that can drive innovation.

Businesses, always talent-scarce in key initiative areas, are also increasingly likely to draw on managed services. According to Market Research Future, the global market for managed services is expanding at a 16.2% compound annual growth rate, with organizations offloading various IT operations onto service providers so their internal teams can focus on core business activities and strategies.

With internal teams focused on more-critical business issues, IT decision-makers may be able to make the case for retaining skilled staff and work with the CFO's team to negotiate with managed service providers on cutting less essential services or negotiating for better deals when those providers themselves are facing fiercer competitive pressures.

Preparing for that next economic cycle

Economic expansions don't end due to old age; they generally become terminal due to some surprise, such as the sudden realization of a housing asset bubble in 2008 or a shock such as a terrorist attack. But end they must. IT decision-makers should not be complacent that their newfound strategic role is sufficient to weather any downturn.

Most businesses react by cutting spending to better match changing circumstances. That might cause business leaders to kill or stall needed upgrades to IT infrastructure or hold off on investing in projects that are crucial to future innovation.

"For the CIO, the possibility of a downturn can present an existential challenge," *The Wall Street Journal* warns. "It can take years for digital transformation efforts to show returns. What happens if the economy hits a bump right in the middle of it? Such efforts involve not only investing in new technologies including artificial intelligence, but also adopting new processes and training models to take advantage of new capabilities."

IT decision-makers need to make sure their organization is in the best shape to prove its value to the business. Some recommendations on key steps to take, if they're not already being implemented:

- Stringently evaluate what new initiatives can be financed on an OpEx basis rather than CapEx. It's easier to slow down a project funded on an OpEx basis, whereas CapEx investments that can't be fine-tuned may cannibalize financial resources that would be better spent on innovation initiatives.

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- Continuously evaluate what projects you assign to in-house staff versus managed services. If a managed service provider can perform less-essential work, it will be easier to dial these resources up or down, based on business performance, so as not to risk overexpanding head count during growth spurts or risk having to lay off your highly skilled talent.
- The more you can show the finance team you're in alignment with its strategies, the better you'll be able to compete for resources. Deloitte analysts recommend allocating resources "to oversee the financial strategy of IT operations and initiatives and support the delivery of IT services from a financial management perspective."
- Keep the IT organization fast and flexible. At some point, economic uncertainty will increase and business executives will value IT leaders who can help the business quickly adapt to changing circumstances, whether that's in pursuing new revenue opportunities or curtailing initiatives that are seen as less essential or no longer viable.
- Stay focused on CX and innovation to ensure that your company comes out of the downturn ready to advance ahead of competitors. "Relentlessly cut what doesn't matter to customers," advises consultant Paul Hagen. "Remember that simplifying the lives of your customers will simplify your organization as well, allowing you to cut internal inefficiencies and redundant processes."

Staying in position

IT has made tremendous strides in recent years to position itself as a key player in the transformation to digital business, and the ability to drive new products and revenue growth along with improving the customer experience bodes well. Keeping IT efficient, effective, and focused on business success is essential to ensure continuing success and keep innovation efforts moving forward even if the economy turns gloomy.

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