

Cutter Benchmark Review

Multiple Perspectives, Data, and Analysis
on the IT Trends that Matter

Vol. 13, No. 4, 2013

“The *CBR* budget issue really stands out, as we benefit not only from a very consistent survey but also from having two authors — one from academia and one from industry — who have been with us for the entire journey.”

— Joseph Feller,
Editor

IT Budgeting in 2013: Are We Finally Back on Track?

Introduction by Joseph Feller	3
Slowly Rebuilding IT Budgets: Cautiously Investing in the Future by Dennis A. Adams	5
The IT Budget: It Matters! by Bob Benson	11
Wrapping Up 2013: Can IT Turn Data into Value? by Joseph Feller	19
IT Budget 2013 Survey Data Collected by Cutter Consortium	20

NOT FOR DISTRIBUTION
For authorized use, contact
Cutter Consortium:
+1 781 648 8700
service@cutter.com

CUTTER
CONSORTIUM

Cutter Benchmark Review

Reliable forecasts require plentiful data.

Participate in Cutter research and rest assured that our analyses take your own experiences into consideration.

 Go to www.cutter.com/surveys.html

Cutter Benchmark Review[®] is published by Cutter Information LLC, 37 Broadway, Suite 1, Arlington, MA 02474-5552 (Tel: +1 781 648 8700; Fax: +1 781 648 8707; Email: service@cutter.com; Website: www.cutter.com). Print ISSN: 1542-0906; online/electronic ISSN: 1554-5938.

Publisher: Karen Fine Coburn; Group Publisher: Kara Letourneau (Email: kletourneau@cutter.com); Managing Editor: Cindy Swain (Email: cswain@cutter.com); Production Editor: Linda M. Dias (Email: ldias@cutter.com).

Cutter Business Technology Council: Rob Austin, Ron Blitstein, Tom DeMarco, Lynne Ellyn, Israel Gat, Vince Kellen, Tim Lister, Lou Mazzucchelli, Ken Orr, and Robert D. Scott.

©2013 by Cutter Information LLC. All rights reserved. *Cutter Benchmark Review*[®] is a trademark of Cutter Information LLC. No material in this publication may be reproduced or distributed without written permission from the publisher. Unauthorized reproduction in any form, including photocopying, faxing, image scanning, and downloading electronic copies, is against the law. Reprints make an excellent training tool. For information about reprints and/or back issues of Cutter Consortium publications, call +1 781 648 8700 or email service@cutter.com.

Subscription rates are US \$177 a year in North America, US \$227 elsewhere, payable to Cutter Information LLC. Reprints, bulk purchases, past issues, and multiple subscription and site license rates are available on request.

Start my print subscription to *Cutter Benchmark Review* (\$177/year; US \$227 outside North America).

Name	Title	
Company	Address	
City	State/Province	ZIP/Postal Code
Email		

Order online at www.cutter.com/bookstore.html, send email to service@cutter.com, call +1 781 648 8700, or fax to +1 781 648 8707. Mail to Cutter Consortium, 37 Broadway, Suite 1, Arlington, MA 02474-5552, USA.

SUBSCRIBE TODAY

Request Online License Subscription Rates

For subscription rates for online licenses, contact us at sales@cutter.com or +1 781 648 8700.



From the Editor, Joseph Feller

IT Budgeting in 2013: Are We Finally Back on Track?

Welcome to the eighth annual IT budget issue of *Cutter Benchmark Review*. In each installment, *CBR* gathers and analyzes fresh data to understand both the state of IT budgeting in the current year and the emerging trends that can be seen by looking at the changes taking place (or not taking place) between years.

It has been a fairly tumultuous eight years, to put it mildly. Through the annual IT budget issue, *CBR* has provided a running commentary as we have watched IT decision makers react, year after year, to the dramatic movements of global financial, labor, and other markets. In each issue, our authors have “pulled the signal from the noise” by sharing their insights into the dynamic and ever-changing relationships among four key concepts: IT value, IT budgeting practices, IT governance, and IT management/organizational structures.

As the year is drawing to a close, before I introduce our authors and their contributions, I would like to take this opportunity to acknowledge and thank some of the people that make *CBR* possible. First, thanks to Managing Editor Cindy Swain, Production/Editorial Manager Linda Dias, Production Editor Tara Meads, Cutter Consortium President and CEO Karen Coburn, and VP Anne Mullaney for their professionalism, diligence, and good humor — all of which make *CBR* a uniquely valuable resource for our readers and a genuine pleasure for me to edit.

Second, I’d like to acknowledge the work of *CBR*’s 2013 contributing authors: Dennis Adams and Jim Love, who got us started this year with a look at 2013’s IT trends; Dave Sammon, Tadhg Nagle, and Sebastian Hassinger, who shared their insights into the world of Agile data analytics; and most recently, Federico Pigni, Gabe Piccoli, and Manjunath Paramashivaiah, who revisited the emerging space of real-time data, a topic we first explored in 2012. Finally, I’d like to thank Dennis Adams and Bob Benson for delivering yet another insightful look at the world of budgeting in this issue.

As I have said in some of my previous *CBR* introductions, my favorite issues are always those that look at data across the years, such as the annual budget and

trends issues, or the issues where we revisit a previous survey topic. But I think the budget issue in particular really stands out, as we benefit not only from a very consistent survey but also from having two authors — one from academia and one from industry — who have been with us for the entire journey.

As a result, this issue’s authors probably need no introduction to regular *CBR* readers, but in case you’ve just joined us (you’re very welcome!), I’ll introduce them briefly. Our academic author is Dennis Adams, an Associate Professor in the Department of Decision and Information Sciences in the C.T. Bauer College of Business at the University of Houston (USA). As well as contributing to *CBR*’s annual trends and budgeting issues since the beginning, Dennis’s research and analysis of topics ranging from business leadership to the value of IT have been frequently published both through Cutter’s practices and through many other well-respected outlets in the IT research community.

Dennis begins his article on an optimistic note, highlighting the signs of stability and growth in this year’s data and noting some of the differences between budgeting decisions in large and small firms. With his typical pragmatism, Dennis advises that we look at budgeting decisions as investment decisions, constantly keeping in mind the value, not just the cost. He then turns to the drivers behind IT spending, and points out the growing importance — and complexity — of ownership against the backdrop of the cloud and other technology trends. Examining the management practices firms engage in to control IT costs, Dennis calls for a shift in perspective. Savings are only savings if quality is not destroyed; again, it is a question of value as well as expense. He also encourages us to take the long view, noting (in his analysis of multiyear initiatives) “while it is easy to think of budgets from the perspective of a fixed, annual point of view, the wise manager will view his or her budget as a point along a continuum.” Finally, he looks at the data in this year’s survey pointing to a strong belief that IT is a substantial creator of value for firms. If this is your own belief as well, I think that Dennis’s well-expressed case for value-centric

INTRODUCTION

IT thinking, his “cautious optimism” for the future, and his thoughtful advice for “wise managers” will all be well received.

Our practitioner author is Bob Benson, a Fellow with Cutter Consortium’s Business Technology Strategies practice, a member of Cutter’s Government & Public Sector team, and Principal of the Beta Group. Bob brings to his writing over 40 years of academic and corporate experience in helping both companies and government agencies better understand the business value of IT, and the planning and management of IT strategy, finances, and governance. His experience shines through in all of his contributions to the *CBR* budget series, and this year is no exception.

Although Bob approaches the survey data from a different point of view than Dennis, the focus in his article is the interplay between IT budgeting and IT value as well. While hints of growth caught Dennis’s eye, Bob opens by pointing out the relative stability to be seen in this year’s data. He begins with an analysis of the data from an organizational perspective, noting the relative cost of IT and non-IT expenditures, as well as the wide variety of components that make up the IT spend. Looking back over time as well as forward, he draws out some of the implications of this spending landscape for decision

makers. Bob next looks at the subtle differences between IT’s ability to deliver value and IT’s ability to confer competitive advantage, and at the variable contributions of IT to customer experiences, products, and services, as well as to the firm’s bottom line. After an interesting discussion of budget transparency and adaptability, Bob concludes with a considered look at governance practices and the perception of these practices from various organizational points of view. As always, Bob’s article contains a blend of rich observations and practical advice.

Both articles contain fresh data and insights for 2013, as well as rich, historical observations of the trends to be seen in our eight years of survey data. As a result, I trust all our readers will take something away from this issue.

Looking back over the past *CBR* budget series, it strikes me that there are an awful lot of titles and callouts with words like “storm,” “roller coaster,” and “bumpy ride.” But from the relatively steady “calmness” of this year’s data and the “cautious optimism” of our survey’s more forward-looking data, we might tentatively conclude that things are, at last, back on track. That would be nice — it’s been a long hard climb.

So here’s hoping your 2014 stays on track. Enjoy the read.

THIS ISSUE’S CONTRIBUTORS



Dennis A. Adams

Associate Professor, Decision and Information Sciences, C.T. Bauer College of Business, University of Houston



Bob Benson

Fellow, Cutter Consortium

UPCOMING TOPICS

Implementation and Management of an API Program

IT Trends 2014



by Dennis A. Adams, Associate Professor, Decision and Information Sciences,
C.T. Bauer College of Business, University of Houston

Slowly Rebuilding IT Budgets: Cautiously Investing in the Future

An information system is a collection of hardware, software, data, processes, and people that is designed to help an organization save money, make money, comply with external regulations, or provide a foundation for future systems. Because the vast majority of companies are not in the information systems business, it is fair to assume that the use of these systems is driven by some combination of strategic or operational necessity. Some systems are sponsored by a particular business unit, while others are “owned” by the entire organization. How a system is paid for is a key component of its impact on the underlying budget. For example, a system with a short payback period may be paid for as an expense item, while those with longer payback periods may be capitalized or paid for with some form of debt. These decisions are influenced by management’s future-looking beliefs regarding the viability of organizational revenues or the returns that the systems themselves may generate.

As a result, we pay a good deal of attention to the way managers view their IT budgets. The results of *CBR*’s eighth annual IT budget survey provide good insight into what the future may bring, although they can also be tempered by what the preceding years have wrought.

OVERALL IT BUDGETS

Let’s begin our analysis with the survey question that focuses on the overall trend of the IT budget. As shown in Graph 1 (see Survey Data section beginning on page 20), 47% of our respondents indicate that their IT budgets are increasing as of this year while only 24% say they are decreasing. From this we detect some general optimism for the coming year, and organizations are investing in information systems with a hope of either cutting costs or generating more revenue or both.

In reviewing Graph 1 over the past seven years of our annual IT budget survey, we see that, over time, about 30% of respondents have reported that their budgets have been stable from year to year. This year, that number was 29%. When looking at stability over time

through the lens of company size, we discover that beginning in 2011, more large companies reported stable budgets than did their smaller counterparts. This year, 12% of small companies report stable IT budgets compared to 18% of large companies, but when we look at budgets that are decreasing, only 6% of small companies indicate that their IT budgets are shrinking compared to 18% of large companies.

For nearly as long as we’ve been collecting this data, we have noted a greater increase in large company budgets than in small company budgets. This may explain why we have also seen larger numbers of large company IT budgets shrink during the same period. This phenomenon may be a result of the fact that, from one time period to the next, a company may have the revenues or capital on hand to invest in IT in the earlier time period. If that company’s investments didn’t pay off or the company felt it had overinvested in IT, however, it might cut the budget the following year. In the same way, a large capital expense in an early time period might make the following year’s budget decrease more noticeable, since the large purchase may not happen in successive years. Consequently, we see larger budget swings from year to year in large companies than we do in small companies. Larger companies tend to have larger capital reserves and can make larger investments.

The Wise Manager

The wise manager balances the riskiness of IT investments with the potential return on those investments. While people in the field of finance might disagree, many analysts suggest that IT managers use a version of the payback method to evaluate IT projects. In other words, they calculate how long it will take to either make enough money or save enough money as a result of an IT investment to justify making the investment. After calculating how long it will take, the wise manager will then ask: is that too long? This question is key because the rapid pace of IT progress coupled with the competitive intensity within an industry might make a project a poor investment simply because the industry or the underlying technology is changing so quickly.

Even though the return on an investment may be good, if it takes too long to achieve, other investments are probably preferable.

Some decisions, however, such as those involving infrastructure investments, do not lend themselves to payback analysis. An infrastructure investment is a technology or technique upon which future systems are built. The payback period decision would make those future systems infeasible, so they would not be built, but the overall IT portfolio can be made stronger with that infrastructure in place. The option theory decision tool should be used for infrastructure investment decisions. This tool considers what future options are made possible by an investment. It involves a bit of crystal ball gazing, but adequately separates the infrastructure investment from the make/save money system investment.

Even though Moore’s Law tells us that the price of technology decreases over time, it seems that we continue to spend large sums of capital on technology.

WHAT’S DRIVING BUDGET CHANGE?

Next we wanted to understand what is driving the increases or decreases in budgets. We asked survey respondents about the categories that might affect their uses of capital. As shown in Graph 2, 65% of respondents report that security spending accounts for the largest increases in IT budgets. When we look at companies by size, we find that 73% of respondents at large companies have increased their budgets because of security compared to 50% of those in small companies. This may be a response to the idea that large companies are bigger “targets” to hackers.

As business needs change, the delivery of IT services should also change. Of respondents, 62% have increased their IT budgets because of changes in business requirements. Interestingly, small company respondents (83%) indicate that changes in business requirements drive IT budget increases more than their large company counterparts (50%).

The next area driving increases in IT budgets involves technology renewals. Even though Moore’s Law tells us that the price of technology decreases over time, it seems that we continue to spend large sums of capital on technology. Technology renewals drove budget

increases for 47% of survey respondents. There was little difference between large and small companies in this regard.

Compliance can also add to the cost of doing business. Compliance systems run the gamut from accounting to human resource systems. Most companies do their best to minimize regulatory compliance. When new regulations emerge, organizations typically respond by hiring more employees or consultants to deal with the new requirements. Over time, however, most companies choose to automate these activities as a way to decrease the associated costs of compliance. In our survey, 41% of respondents indicate that compliance is a reason for increased IT budgets. Large companies are more likely to experience these increases than their smaller counterparts, which has been true since we started our annual survey.

At the other end of the spectrum, according to our survey results, one of the least significant drivers of budget increases is increasing energy costs. Although some consultants have predicted that energy costs would increase the costs of computing, our surveys have not borne this out. This year, as in the past, energy costs have not factored into the costs of delivering IT services as reflected in annual budgets.

In the companion article to this piece, my colleague and Cutter Fellow Bob Benson says, “enterprise IT budgets vary widely in the inclusion of nontechnical cost categories. This variability has not changed over the eight years of the CBR survey. This variability makes benchmarks such as ‘IT cost as percent of revenue’ highly unreliable.” While I agree that using these percentages to compare organizations is problematic because it is impossible to make an apples-to-apples comparison, including these costs can be useful in enhancing internal decision making. Particularly when an organization is considering outsourcing facilities management or moving applications to the cloud, these percentages can be useful.

There are likewise items that drive IT budget items down (see Graph 3). Of respondents, 47% report that changes in business demand for decreased costs have caused a decrease in IT budgets. We witnessed a slight difference between large and small companies in this regard, although over time, we have seen more large companies attempt to shrink IT budgets when business requirements dictate. This is to be expected, as small companies typically have less flexibility in the use of their resources.

Hardware consolidation is an ever-popular mechanism for decreasing the IT footprint and cutting costs. Whether through the use of cloud computing, virtualization, or simply faster systems, organizations use consolidation as a way to cut maintenance contracts, hardware refreshes, and other issues associated with footprint. In our survey, 35% of respondents told us that hardware consolidation is a key driver of specific IT budget decreases. It is entirely feasible that as time goes forward, we will see more and more hardware and other services move through virtualization to the cloud as companies become more comfortable with those resources and as network reliability continues to improve. Both large and small companies look at consolidation as a way to cut costs and we believe this will be a continuing trend.

As shown in Graph 3, there has been a steady decline in the use of hardware consolidation over time. This may be a result of the movement of hardware to the cloud or the notion that companies are reaching a limit to the amount of consolidation that is actually possible. Very few of our respondents, however, tell us that cloud computing is saving them money. It may be fair to say that even though there is a growing amount of press regarding cloud computing, it has yet to make a significant impact on most companies. However, 29% of our respondents told us that cloud computing is considered a long-term initiative for managing costs (see Graph 4). So, while it has yet to make a significant impact on annual budgets, as a longer-term strategy, interest in cloud computing is definitely growing.

The Wise Manager

By now, cost-cutting decisions have evolved into ownership decisions. IT managers must decide which technologies it makes sense to own and which should be rented. Technology ownership decisions revolve around risk, strategy, and quality. For example, the risk of putting customer data on the cloud may be deemed too high, no matter the cost savings compared to purchasing and managing servers for that purpose. Likewise, if the company's strategy involves quickly entering markets or others reacting quickly to changes in the competitive landscape, many times this strategic nimbleness is enhanced by owning the underlying technologies necessary to make the changes. Finally, while it is certainly possible to outsource a product help desk, the potential decline in service quality may cause the manager to have second thoughts about doing so. However, as technology improves, costs decline, and quality of service improves, the wise manager will not make the decision about what to outsource, but instead

will decide what it makes sense to keep. In other words, we decide what makes strategic and operation sense to own and what is better sourced.

MANAGING COSTS

As our economies continue slowly to rebound, we find that companies are still implementing programs to cut IT costs. Cutting the costs of delivering IT services doesn't necessarily mean that IT budgets are decreasing, but rather that management is intentionally trying to redirect portions of the budget to other users. These management initiatives typically span single budget cycles. Of our respondents, 76% tell us that consolidation is a key initiative for future budgets. Graph 4 shows the use of consolidation as an initiative over time. While Graph 3 showed the specific impact on individual budgets over time, the results of the survey give the impression that for large companies, the initiative continues. For smaller companies, which historically have less hardware to consolidate, we are seeing less interest in consolidation as an initiative.

It may be fair to say that even though there is a growing amount of press regarding cloud computing, it has yet to make a significant impact on most companies.

Demand and service management techniques are popular methods for managing the long-term costs of computing. Of our respondents, 47% tell us that their organizations are using these service management techniques, and 29% are using demand management, both to improve service quality and to manage costs. Outsourcing is another option that companies use to decrease their IT budgets. About a third of our respondents told us that outsourcing has caused a decline in their IT budgets, with large companies nearly three times more likely to experience this than their smaller counterparts. This year, 35% of our respondents told us that outsourcing was a management initiative to control costs in the long run. It is clear that for large companies, interest in outsourcing as a long-term strategy continues to build. For small companies, however, this is not the case. We asked our respondents to estimate the percentage of this year's and next year's budgets that will be spent on outsourcing. Our survey shows that this year, 32% feel that only 0%-5% of the budget is being spent on outsourcing (see Graph 5). Next year,

however, we can see that they feel a change is occurring in the budget allocations for outsourcing. We can see the gradual shift as our respondents tell us that they believe more of the budget will be spent on outsourcing services.

Taken together, service management, demand management, and outsourcing represent important techniques for changing the cost, quality, and sourcing of IT services. There seems to be a difference between large and small company use of these initiatives. All three of these areas have the potential to allow companies to better control the costs of service delivery. However, the costs of doing so are not insignificant. A slight rewording of the old adage goes, “It takes money to save money.” For most companies, IT is an overhead expense. Managing demand, implementing a tool such as ITIL, or managing an outsourcing relationship can take significant human and capital resources. Large companies typically have more robust IT budgets than do their smaller colleagues. As a result, a larger company might be able to devote resources to these initiatives that smaller organizations cannot.

The sluggish growth of the economy and the not-too-distant memory of the recession continue to drive budgets.

The Wise Manager

When we think about managing the costs of IT, we often think in terms of cuts. While this is the primary objective, the better approach is a two-step method for identifying those areas to investigate. The first step is to take a look at potential savings areas where cuts can be made without any appreciable impact on the quality of service delivered. If the difference between pre-cut and post-cut service quality is large, then that area might be avoided until other potential cuts are made. It’s important not only to consider direct costs, but also estimate indirect costs at this step. Then, the wise manager takes a look at an area and measures the quality of service delivered and estimates what the impact might be if service was reduced. This is done without regard to cost savings. Those areas where the quality of service can be acceptably decreased are potential targets. At the end of this process, the wise manager has a list of cost-cutting candidates, some placed on the list because the savings outweighed the required service quality delivered and others because the IT organization was

delivering too high a service level all along. In both cases, the cuts were managed from the point of view of service quality. It should be noted that the same method could be used to support outsourcing decisions.

MULTIYEAR INITIATIVES

Some budget investments are multiyear initiatives. We asked about projects that were being undertaken or considered. Of respondents, 21% told us that they have initiated projects that were aimed at making money in the short term (less than two years) while only 6% terminated those kinds of projects (see Graphs 6a and 6b). This year, 12% initiated projects that were aimed at making money in the long term (over two years), while 9% terminated long-term make-money projects. Of respondents, 29% told us that their organizations had initiated projects that were aimed at saving money in the short term, and only 3% told us that their organization was cutting those projects. Finally, 35% told us that their organizations had initiated projects that were aimed at saving money in the long term, with 9% telling us that their companies had terminated those projects.

The results clearly show that the desire to continue to invest in systems that save money in both the short and long term are important budget initiatives. The sluggish growth of the economy and the not-too-distant memory of the recession continue to drive budgets. Make-money systems investments represent a less clear initiative for organizations. Make-money systems are inherently more risky and, as a result, are often viewed skeptically by steering committees and senior leaders. If we break the analysis into large and small companies, we find that no small companies have undertaken make-money system investments in either the short or long term, but both large and small companies have begun long- and short-term save-money systems. Also, while large companies have terminated both make- and save-money systems in both the long- and short-term categories, no small companies have terminated any projects.

The Wise Manager

While it is easy to think of budgets from the perspective of a fixed, annual point of view, the wise manager will view his or her budget as a point along a continuum. The impact of a budget cut can last a long time. Consequently, some cuts should be made not with a short-term perspective, but with an eye toward a longer-term future. For example, over time, companies have used information technology to automate tasks

performed by human beings. In this way, the variable costs of the labor needed to accomplish a task were replaced by the relatively fixed costs of IT. Labor costs are variable because they increase or decrease often with key business drivers. For example, opening up new sales territories typically includes adding more sales personnel, and adding a new product often necessitates additional labor to make and sell that product. The wise IT manager knows, however, that some of the costs of IT are also driven by key parts of the business. It may make sense to have the computing resources at hand to handle closing the books at the end of the fiscal year, but those resources aren't really needed the rest of the year. Consequently, companies have begun taking the fixed costs of IT and changing them back into variable costs but tied much more closely to business need and business cycles. The wise manager will use various types of tools such as outsourcing and cloud computing to tie business needs and IT resources more closely together. In so doing, however, he or she is making long-term decisions about what constitutes the IT function in the organization. The wise manager will not only look at the short-term implications of budgets cuts, but also consider the long-term impacts.

IT COMPETITIVENESS

Each year in our survey, we try to find motivations for the IT staff to actively participate in managing costs. Management theory suggests that the closer the IT department is to the actual revenue-generating (or customer-facing) business unit, the more closely managed the IT budget will be and the more responsive the organization will be to business needs. This year 71% of respondents told us, however, that their organizations are centrally managed. Because the costs of running an IT shop are so high, most companies tend to centralize resources to cut down on duplication of effort, maximize purchase and services discounts, and increase standardization. As it turns out, these goals end up at cross-purposes, with centralization winning out. We see this as well when the IT organization devises a way to save the company money. Of respondents, 44% tell us that when the IT organization saves money, the resulting savings are returned to the central, corporate budget, rather than remaining in IT to be used for other projects (see Graph 7).

An information system that is believed to be a positive contributor to the organization often will receive more favorable treatment when it comes to budget allocations. We asked our respondents to reflect on several

aspects of how the IT function is perceived. When we asked how they think senior IT managers feel about the value that IT contributes to the organization, a whopping 88% of respondents agree or strongly agree that senior IT managers believe IT contributes value (see Graph 8). Breaking that number down by large and small companies, over 95% of large companies compared to 75% of small companies agree. In short, IT managers believe they are doing a good job at delivering value. Next, we asked them to reflect on how their customers perceive the value of IT. Of senior corporate managers, 85% agree or strongly agree that IT delivers value to the organization, 86% of large company senior managers agree, and 83% of small company senior managers believe IT delivers value. As we get closer to the business customer, we see that 76% of business unit managers believe IT delivers value. In large companies, 82% believe IT adds value, compared to 67% of small company managers. As we move further from the IT department and toward the end customer, we see the overall perception of IT value move from 88% to 85% to 76%. These declining numbers highlight the different attitudes about IT at different levels of the company. IT managers feel that they do a good job. Senior corporate managers agree but to a lesser degree. Business unit managers are a bit more sanguine about the contribution.

Companies have begun taking the fixed costs of IT and changing them back into variable costs but tied much more closely to business need and business cycles.

We asked our respondents to tell us a bit about how IT contributes to the competitiveness of their organization. As Graph 9 shows, 44% agree that their organization's IT is superior to their competitors'. Also worth noting, 32% are neutral and around 18% actually feel their IT organization is inferior to their competitor's. Of large company respondents, 55% feel their IT is superior, but only 25% of small company folks agree. Regarding how IT gives a competitive advantage with respect to the organization's customers, the reviews were quite mixed, with 24% disagreeing, 32% neutral, and 35% agreeing. These numbers are roughly replicated in both large and small companies. We also asked how IT affects the production of products and delivery of services. For this question, our respondents are more

positive. Of respondents, 44% agree that IT delivers value in this area, with only 15% disagreeing, and large companies being more positive than their smaller counterparts.

The Wise Manager

The wise manager will always keep an eye out for how IT can contribute to the purpose of the organization. IT alignment is often a problem for senior managers, as they feel that IT costs a lot and have difficulty understanding the return they get from the investment. As Bob states in the next article, “Being simply a commodity, a simple service, does not build a platform for business/IT partnership.” A deep understanding of the way the organization makes money and delivers products and services is key, and it’s hard to do that from behind a desk. There is a tendency to focus on the feedback coming from the top of the organization. While this feedback should definitely not be ignored, it is not sufficient to deliver the quality of service needed in the customer-facing parts of the organization. The wise manager will get out into the business environment to learn as much as he or she can about what’s really happening and what business really needs. Bob goes on to say that “the business connection to IT

budget and cost is connected to management belief that IT delivers value.” The wise manager will also realistically evaluate how the organization compares with others in the region and others in the industry and will understand the value drivers for his or her organization.

CONCLUSION

This year’s survey seems to present a slightly more positive outlook on IT budgets than we have seen in recent years. While many organizations have cut costs as deeply as possible, it seems that some rebuilding is occurring. However, it is clear from the investment in IT business projects that money-saving systems are still the rule of the day. IT projects with quick payoffs and those that cut costs are still driving IT investment decisions. Taking an analogy from sports, it is safe to say that for many of our companies, this is a rebuilding year. We have some players that are still under contract and are still mostly contributing to the team, but we are looking for new ways to deliver IT services — many of us with slightly larger budgets — as we get ready for next year’s competition and the playoffs.



by Bob Benson, Fellow, Cutter Consortium

The IT Budget: It Matters!

This year, in *CBR's* eighth annual IT budget survey, we note again that IT financial management practices do not change much over the years. Indeed the 2013 data confirms most if not all process and structure budget patterns remain the same as in previous years. Among other things, this suggests that the observations we made in previous years remain accurate. For example, in 2012 we focused on the difference between corporate- and business unit-focused IT organizations, and noted several significant implications. This difference remains true in 2013.

This year we pursue three main topics. First is the way in which the IT budget is structured and the cost elements included in the budget. Second, we explore how IT budget processes are related to the ability of the enterprise in general and business units in particular to respond to environmental and economic change. Third, we examine how the IT budget process itself is part of the overall IT governance process and, therefore, how the IT budget process is connected to the enterprise capacity to realize value from its IT investments.

The first topic is straightforward and includes issues such as the IT budget structure (ranging from cost center to profit center) and the tendency for IT organizations to include or exclude cost categories such as utilities and benefits in their budgets. And, of course, it includes the consideration of whether the IT budget is increasing or decreasing, along with the factors contributing to that increase or decrease and the budget decisions made in response to overall cost pressures. Dennis Adams, author of the academic piece of this *CBR*, has considered most of these in his article, and we'll explore some of these issues here as well.

The second topic considers how IT budget changeability, IT cost transparency, and processes for assigning costs to business units relate to the ability of business managers to make timely and effective IT resource decisions.

The third topic is more involved, as IT budget involves more than simple governance. IT budgeting engages the

enterprise in understanding IT's cost, and results in the application of cost information in most IT governance processes. For example, project prioritization and portfolio management cannot work without cost information, and cost is of course central to IT budget decision processes. Consequently, the scope of the IT budget survey includes general governance process questions. This and our second topic both connect IT cost with IT value. The *CBR* budget survey collects information about governance, value, and cost, and we have analyzed the connections among these issues, in many cases including data from all eight years — 2006 to 2013.

TOPIC 1: THE ENTERPRISE FROM THE IT BUDGET AND GOVERNANCE PERSPECTIVE

IT Organization Coverage

Figure 1 shows the percentage of the total enterprise IT spend connected to the (central or corporate) IT organization. That is, in nearly 50% of the enterprises, the central IT organization accounts for less than a third of the

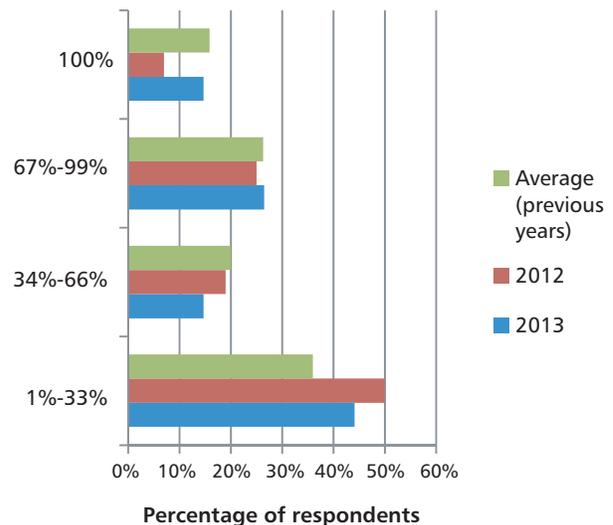


Figure 1 — Total IT spend connected to corporate IT organization.

total enterprise IT cost. We don't know what comprises the rest, although it can include sourcers, cloud, the internal business unit IT, and what we have called "do-it-yourself IT," where the individual manager or small group performs its own IT functions.

Observation: For most enterprises, the majority of IT costs are outside the IT organization.

This observation raises a number of interesting questions, such as whether IT budgeting processes and IT governance cover these "outside" IT activities, and who organizationally/structurally provides the standard governance practices for these activities, such as architecture, prioritization, business cases, and the like. Note that the percentage appears to be increasing over the eight-year perspective of this survey.

Implications for the IT Organization

It may seem obvious that having visibility into these IT activities is important to the IT organization. The business's perception of IT is certainly colored by this visibility. Effective governance — meaning oversight

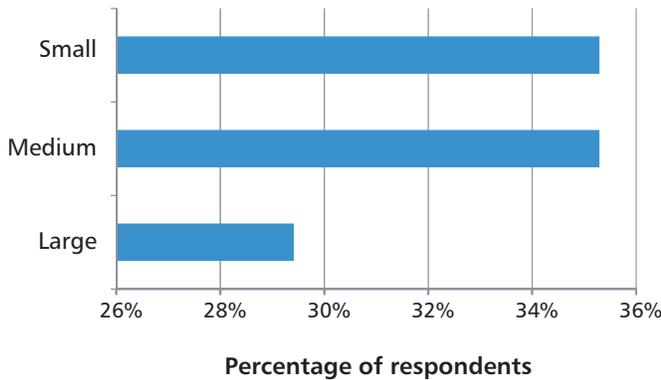


Figure 2 — Respondents by IT organization size.

of cost, performance, and investment decisions — really does require this visibility. No doubt the specific characteristics depend on the enterprise structure and culture, yet thinking about all IT holistically is central to effectively connecting IT's cost to IT's value.

Last year we introduced the idea that the central IT organization faces competition for the IT spend. Specifically, business units have options for acquiring IT from outside sources, such as cloud, internal business unit organizations, sourcers, and do-it-yourself alternatives. This certainly remains true for the enterprises that participated in this year's survey.

Enterprise/Organization Size

We classify enterprise and IT organizations by size for some of the analysis that follows. Four measures are combined into a size index, based on these questions:

- What is the number of employees in your organization?
- What is the number of IT professionals in your organization?
- What are your organization's approximate annual revenues in US dollars (or division if you are completing this survey for your division)?
- What is your organization's approximate annual IT budget (in US dollars)?

Based on the answers, we classified the respondents into three groups as shown in Figure 2. Table 1 illustrates the typical answers to the four questions for enterprises in their size categories.

The 2013 IT budget survey represents a broad distribution of enterprises. Interestingly, in most cases, enterprise size does not seem to affect enterprise responses. With the exception of matters such as formal governance

Table 1 — Typical IT Organization Characteristics

	Large	Medium	Small
Number of employees in organization	More than 100,000 employees	10,001-50,000 employees	1,001-5,000 employees
Number of IT professionals in organization	More than 1,000 IT professionals	100-499 IT professionals	50-99 IT professionals
Approximate annual revenues (in US dollars)	More than \$10 billion-\$50 billion	More than \$100 million-\$10 billion	Less than \$1 million-\$100 million
Approximate annual IT budget (in US dollars)	More than \$5 million-\$10 million	More than \$5 million-\$10 million	More than \$5 million-\$10 million

processes, which tend to be more structured in larger organizations, we observed little difference in questions of value, budget structure, and governance impact.

Costs Included in the IT Budget

Since the first survey in 2006, we have been interested in what cost categories enterprises include in their IT budgets. Graph 11 (in the Survey Data Section on page 27) looks at five specific categories that are not often included in most IT budgets.

Observation: Enterprise IT budgets vary widely in the inclusion of nontechnical cost categories. This variability has not changed over the eight years of the CBR survey. This variability makes benchmarks such as “IT cost as percent of revenue” highly unreliable.

We have made this point in previous surveys, but it is worth repeating here because the practice of comparing IT expenditures across enterprises is so ingrained in corporate practice. Whether one enterprise includes these costs (which, like energy and benefits, can be a significant percent of total cost), and another doesn't, surely skews the comparison of “percentage of revenue.” The degree to which outsourcing costs are included in IT costs, although not covered in this survey, is another area where there may be great variability.

While our observation emphasizes the variability of the cost side, an equal variability in the revenue side affects the benchmark, particularly when an enterprise categorizes a large percentage of revenues simply as “pass-through” costs. An excellent example of this is in oil refining and retailing, where a company might have revenues of \$100 billion, and \$99 billion of that is the cost of oil.

Implications for the IT Organization

To avoid confusing benchmarks, it is important to consider the cost variability in IT budgets. Keep in mind the mantra, “If you don't know cost, you don't know anything.”¹ The costs shown in Graph 11 can be very significant, yet can escape management review.

IT Value to the Enterprise

We pay close attention to IT's value in this survey to understand whether IT budgeting processes and structures have any influence on an enterprise's capability to achieve that value. Broadly speaking, we attempt to answer the question, “Does the way in which an enterprise performs IT financial management affect IT performance?”

The survey asked nine questions about whether managers believe IT delivers value. Six of the questions have been combined into a value index for use in much of the subsequent analysis. These six questions focus on value delivery and the competitive value of IT to the company.

We asked whether senior managers at the IT, corporate, and business unit levels believe IT delivers value to the organization; whether respondents believe their organization's use of information and IT is superior to that in competitive organizations; and whether IT creates competitive advantage with respect to customers, products, and services.

Graph 8 shows the percentage of respondents who agree or strongly agree with these statements (i.e., whether managers believe IT delivers value). Since we began this survey, it has been clear that IT managers certainly do believe IT delivers value. More than 80% of respondents have agreed since we first asked the question. (We have also asked these questions in other CBR surveys, notably IT governance and dynamic IT, and the response patterns have been the same.)

Observation: IT managers believe IT delivers value.

In our 2013 survey, we note one significant change regarding the perceived value of IT. Business managers represented in this survey have come closer to IT managers in their conviction about IT's value. IT managers, of course, have always believed IT delivers value.

Observation: In this year's survey, business and corporate managers mostly believe IT delivers value.

This is a new development compared to prior years. Previously, less than two-thirds of respondents agreed or strongly agreed that managers believe IT delivers value. This year, that number is nearly 80%. It will be interesting to see if this pattern continues in coming years. Please note, of course, that the survey questions are vague. There is no definition of “value,” whether it is cost-based, revenue-based, management information based, and so on. Also, the survey results do not specify the amount of value — whether just a little or a great deal. We explore some of this in the following section.

Our next questions focus on the enterprise's performance compared to its competitors in order to determine whether IT provides distinctiveness to the company's products or services. Graph 9 illustrates the results, with a significantly smaller agreement on IT's contribution.

Observation: Less than half of enterprises believe that IT adds competitive advantage or superior utilization of IT compared to their competition.

We have commented on this outcome in previous years, but we are a bit surprised that enterprise managers appear to be alright with the idea that IT doesn't add distinctiveness and that (in effect) IT is a commodity, at least for half of the enterprises represented in this year's survey. Of course, IT is the backbone of business, and in this role distinctiveness is less important than reliability and consistency. In that sense, the questions we ask are like asking whether the building in which an organization is located adds value, for which the answer is: other than making the business possible, probably not. But at some point, if IT is really to add value, something more is required.

Implications for the IT Organization

Without question, having more than half of business managers — not to mention IT managers — believing that IT does not contribute to the organization's competitive strength, creating distinctiveness is at best a challenge. Being simply a commodity, a simple service, does not build a platform for business/IT partnership.

The third set of value questions narrows the definition of value by asking whether IT delivers value in three categories. Graph 12 shows the percent of enterprises that believe they receive high IT value in three categories. Of course, almost every enterprise responded that IT provides at least some value in each category (the five-point scale ranges from negligible to very high).

These last questions do not differentiate between IT and business manager beliefs but represent the belief of the individual representing the enterprise in the survey, who in most cases is an IT executive.

Observation: IT's value is believed to be at a high level for less than half of enterprises for products/services and for the organization's bottom line.

Again, the notion that IT does not contribute significantly to the bottom line is troubling. Note again that every respondent did indicate some value (ranging from negligible through low/moderate). However, we would expect that a vigorous IT organization would anticipate having a considerable connection to the bottom line, particularly in cost savings and cost avoidance for the enterprise business units.

Observation: While every enterprise gets some value from IT, less than half relate that value in a significant way to the bottom line.

We recognize that discussions about the value of IT have gone on from the beginning of data processing in the mid-20th century, and these discussions have always concluded that it is difficult to trace the exact chain of value to the bottom line. Nevertheless, we are struck by the relative lack of belief of high bottom-line contribution and the relative lack of belief in the value contributions toward competitiveness. This is, ultimately, a culture challenge for IT. By not emphasizing the connections to value for the business, IT will be relegated to the back office, the nonpartnering part of the enterprise.

TOPIC 2: HOW IT BUDGET AND COST PRACTICES CONNECT TO BUSINESS DECISIONS AND IT VALUE DELIVERY

In this section, we focus on how the manner in which the IT budget, and IT financial management in general, is conducted affects IT's delivery of value.

In general, we believe that the main IT value contribution to competitiveness and to the bottom line occurs in the business units, because that's where customers are managed, where products and services are created and delivered, and where resource allocations (both business and IT) are made to optimize business unit performance. It has been our experience that in most enterprises, much — perhaps more than half — of IT is devoted to the corporate "back office" in accounting, finance, procurement, HR, and so forth. These activities have little to do with operational effectiveness from the perspective of the customer, or with competitiveness and distinctiveness, though they do have a great deal to do with cost. While we did not consider the affect of these activities on the IT budget in this survey, we have widely observed it in practice.

In this year's survey, we focus on how well the IT budget and financial management activities make it possible for business units to make effective resource and investment decisions. Two elements concern us: first, how much business units understand about the cost and resources they consume (and, by extension, help to make management decisions about). Second, how adaptable IT budget and financial management processes and structures are in responding to business change. Again, we believe the action is largely in the business units, and adaptability of budget and investment decisions can make a real difference in the bottom-line performance of those business units.

Budget Structure and Cost Transparency

We analyzed budget structure and commented on its connections to IT value in last year’s *CBR* budget issue. The structural pattern of enterprises in this year’s survey is the same as we reported in 2012 (shown in Graph 13 and Figure 3).

We’ve arranged the categories of structure in order of transparency to the business unit. Presumably, profit centers and break-even centers charge for services provided, rendering great transparency (and attention) to cost.

On the other hand, corporate overhead and allocation schemes generally occur at year end as part of fiscal closings, sometimes with no attention to business unit management. In these cases there is little transparency and certainly little ability by business unit management to affect the IT costs allocated to them, except perhaps on a very long-term basis. Figure 3 summarizes this and shows that almost two-thirds of the enterprises represented in the survey provide little transparency via the processes of IT cost distribution to the business units.

Observation: Most enterprises assign IT costs to business units through an allocation process. This pattern remains unchanged from past surveys.

The conclusions we reached in the 2012 survey are much the same this year; namely, it’s generally better to provide IT cost transparency to business units in terms of the IT services they consume in such a way that they can manage it. In practical terms, if a business unit cannot see or control its IT costs (except as a year-end closing activity), IT is a “free” good. That is, cost — particularly for ongoing application and infrastructure services — is not a part of mid-term and short-term decision processes.

Implications for the IT Organization

Without detailed cost transparency, business unit management cannot be fully engaged in governance and effective IT resource decision making. This does not create a good environment for partnership. Aside from the operational aspects of IT budgets and the mechanics of how costs arrive at the business unit, the survey asked a general question about the degree of cost transparency. Note that this form of transparency is not necessarily real time. In fact, most of the enterprises in the category of “all costs to the business unit” do so with allocation, not with timely cost assignment such as charge out. This is not a screed for IT cost charge out. While that’s one way of providing transparency, the key goal is

knowledge of IT cost, in a timely fashion. Simple reporting processes provide this transparency.

Another survey question explored the degree of cost transparency independent of the process used to produce it. The question we asked was, “How transparent are IT costs to business managers? Business units see ...” with alternative choices of the cost categories shown in Graph 14.

Figure 4 illustrates the result of grouping the first two categories into “transparency” and the remainder into “little cost transparency.” While transparency is good, it doesn’t necessarily allow business units timely management of their IT costs. The responses to this question group all sources of knowledge of IT cost, which can include the year-end allocation processes as well as more timely processes, including charge outs.

Observation: About half of enterprises have little cost transparency, even including year-end allocation and reporting.

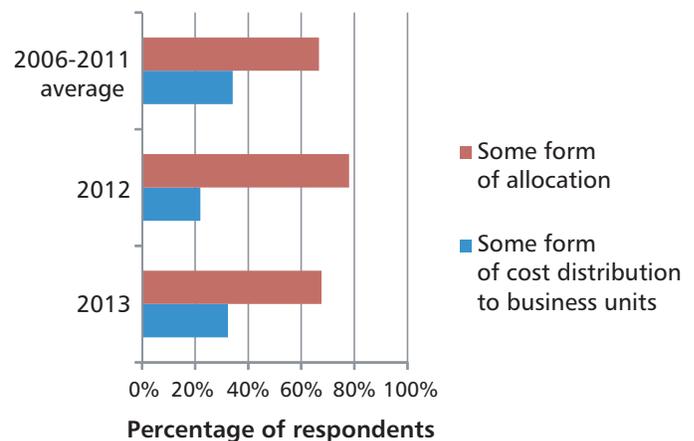


Figure 3 — Cost assignment to business units.

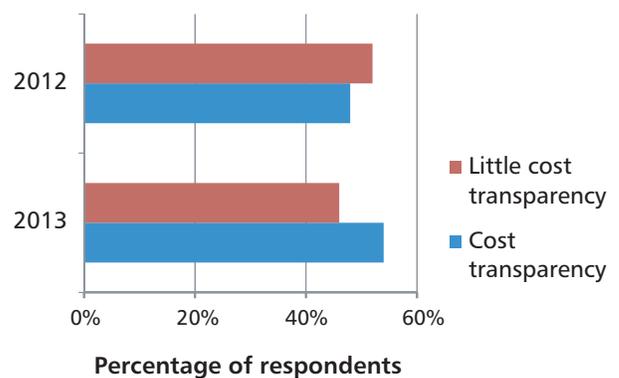


Figure 4 — Cost transparency.

The IT Budget Connected to the Business Unit and Adaptability to Change

We view IT budget and IT cost processes as critical to the ability of the enterprise and the IT organization to respond to turbulence and change. Without awareness of cost as a consequence of resource allocation decisions, and without a budget process with the flexibility to change in response to changing conditions, it is very difficult for IT organizations to respond quickly to new challenges and opportunities. And, as we remarked before, we believe the business units are key to producing IT business value and, by extension, are where the impact of business and environmental change are felt. Therefore, it is vital that business units have the ability to change in response to IT costs and resource allocation decisions.

We employ a business unit connection index to describe the degree to which costs and budgets are connected to the business unit, and by extension make flexibility and resource decision making possible. The index combines budget changeability with budget structure (IT costs are visible to the business unit) and transparency (what business managers believe they see in IT costs). Graph 15 reveals the relative changeability of the IT budget.

Observation: For half the enterprises represented in the survey, the annual IT budget is not subject to change. For the others, the IT budget changes as needed.

In the business unit connection index we connect budget changeability, which affects the ability of business units to adapt to environmental and economic change, to the degree of cost transparency and timeliness available to the business. Figure 5 reveals the resulting business unit cost/budget connection to the IT value index.

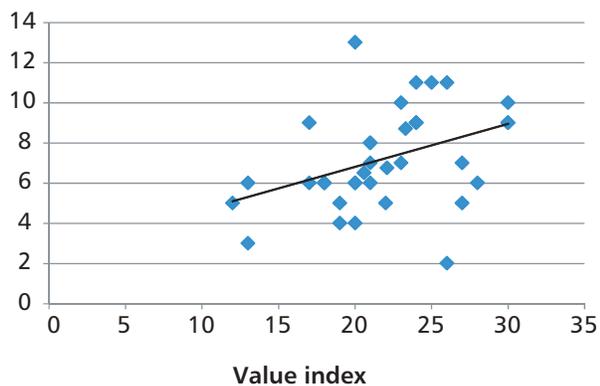


Figure 5 — Business connection to IT budget and cost, compared to IT value.

Observation: The business connection to IT budget and cost is connected to management belief that IT delivers value.

Implications for the IT Organization

Business units are better able to make decisions about costs and investments that affect their performance and bottom line, and IT budget and cost transparency is an important contributing factor to their ability to do so. But if the IT budget process and structure is not responsive to change, the opportunities to respond are short-changed. It should be noted that variability (the ability for the IT budget to change) is not linked to enterprise size (small, medium, and large enterprise are equally divided into the categories) or to budget structure (profit center to cost center).

TOPIC 3: IT GOVERNANCE

IT budget and IT financial management are a core part of the IT governance processes an enterprise employs. Consequently we have used the CBR budget survey to examine more broadly the IT governance processes and their connection to the delivery of IT value.

General IT Governance

The survey posed four questions about the effectiveness of IT governance:

1. Do senior IT managers believe the IT governance process is effective?
2. Do senior (corporate-level) business managers believe the IT governance process is effective?
3. Do senior (business unit-level) managers believe the IT governance process is effective?
4. Are senior IT managers included in organizational governance (e.g., do they sit on the highest-level executive committee)?

The governance index takes results from all four questions into account. Graph 10 shows the percentage of managers who agree that IT governance is effective.

Observation: IT managers believe more in the effectiveness of IT governance than business managers do. The pattern of agreement has not changed markedly over a five-year span. In all cases, a bit less than half of business unit and corporate managers believe IT governance is effective.

These results haven't changed much in five years, yet some connection is seen between whether IT governance is effective and whether IT is perceived to deliver value to the business.

Observation: A belief that IT governance is effective connects with the belief that IT delivers value.

Figure 6 shows the connection: the belief that IT governance is effective is associated with the belief that IT delivers value. This result is the same for each of the last five years.

Not surprisingly, the judgment about IT governance effectiveness is associated with the intensity of use of IT governance practices.

Observation: Higher use of IT governance connects with the belief that IT governance is effective.

Figure 7 shows governance use as it relates to governance’s perceived effectiveness.

Implications for the IT Organization

Overall, IT management should review the current status of IT governance practices. As we’ve seen in the eight years of this CBR survey, governance use is directly associated with business management’s belief in its effectiveness and, more importantly, with business management’s belief that IT delivers value. This should be a strong motivator for improving the deployment and application of IT governance practices.

IT Governance Practices

Figure 8 shows the intensity with which enterprises apply each of the stated IT governance practices. The five-point scale ranges from 1 (not at all) to 5 (a very high level). The information is additionally categorized by the enterprise size (see the enterprise size index for the definitions used to classify enterprises). The number of enterprises in each category is about the same.

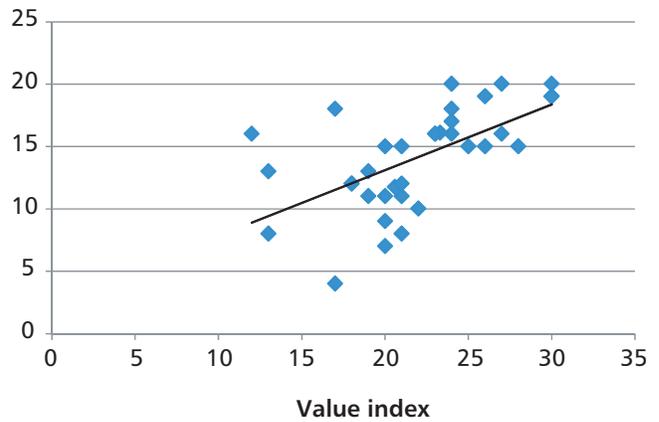


Figure 6 — Connection of IT governance and value.

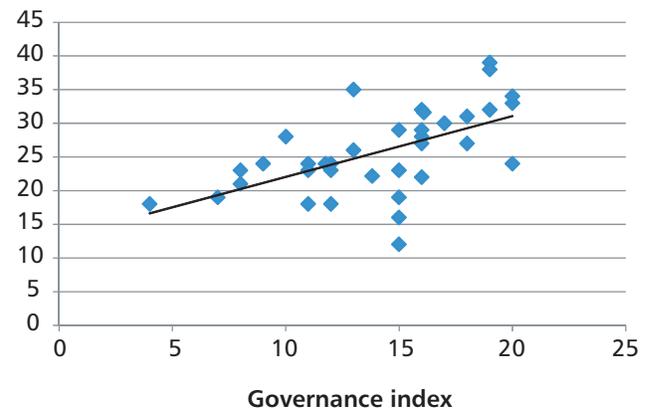


Figure 7 — Connection of governance effectiveness and governance use.

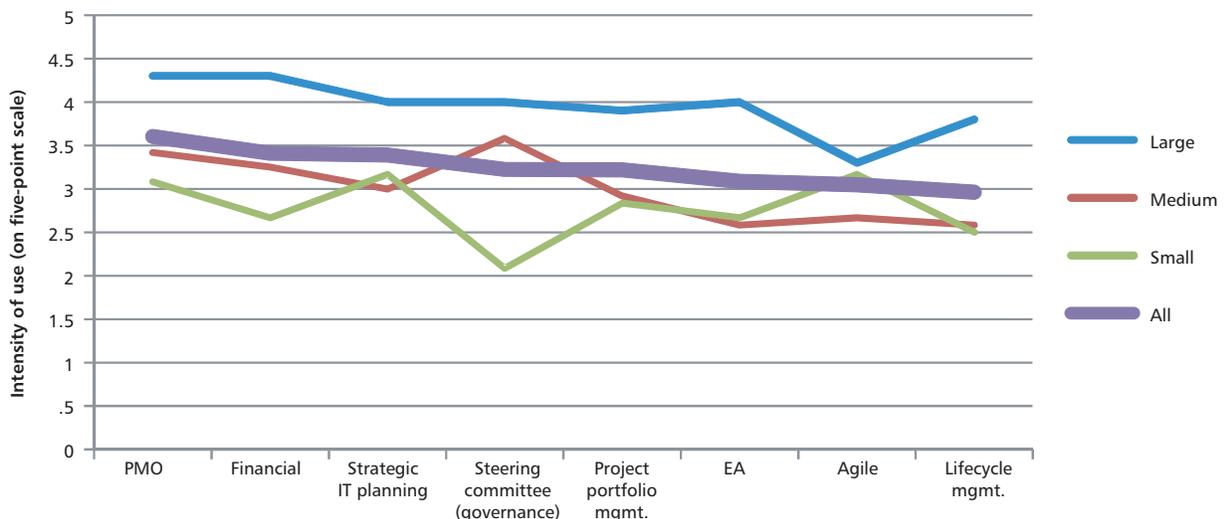


Figure 8 — The use of IT governance practices.

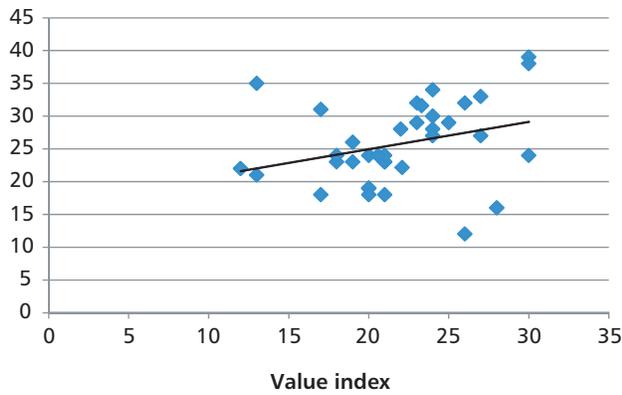


Figure 9 — Governance practices linked to value.

Observation: Large enterprises apply IT governance practices more intensively than smaller enterprise.

This, of course, is not surprising. Large organizations are more complex and require more structure for decision making. In some ways, the surprise is that each practice is not applied even more intensively.

Observation: Project-related management practices (e.g., PMO, justification) are used more intensively, but the difference among the practices is not large.

A few interesting points: first, the use of Agile dips for large enterprises compared to small. This suggests the difficulty of introducing Agile into larger, more structured environments. Second, smaller enterprises tend not to use formalized governance structure (e.g., steering committees) as much, as they will be less formal. Third, enterprise architecture seems to be in the mainstream.

Graph 16 complements Figure 8 by showing the percentage of enterprises applying each governance practice at a high or very high level, covering the eight years of the survey.

Observation: In the context of a relatively small sample, enterprises in 2013 appear to be applying IT governance practices somewhat less than in previous years.

Finally, Figure 9 connects the use of IT governance practices to whether IT is perceived to deliver value to the business. The governance process index represents the intensity of use of all eight IT governance practices. The IT value index is based on six management questions about IT’s value, as described earlier in this article.

Observation: Some positive connection exists between the use of IT governance and the perception that IT delivers value to the business.

Implications for the IT Organization

Overall, the general finding is that the delivery of IT value is connected to IT governance. IT budgets and costs are an important component; indeed, IT costs are a factor in each of the IT governance practices described in this section. IT organizations should devote energy to review and improvement of budget and cost practices.

CONCLUSION

In this year’s IT budget survey for CBR, we have found the patterns of IT budgets, governance, and IT’s value to be essentially the same as in previous years. In comparing the current 2013 data to the data collected over the previous seven years, we conclude that IT budget structures and practices, connected to IT governance, do make a difference in the value IT delivers to the enterprise.

ENDNOTE

¹Benson, Bob, Tom Bugnitz, and Bill Walton. “If You Don’t Know Cost, You Don’t Know Anything.” Cutter Consortium Business Technology Strategies Advisor, 23 August 2006.



From the Editor, Joseph Feller

Wrapping Up 2013: Can IT Turn Data into Value?

Big Data. Open data. Agile data. Real-time data. Social data. User-generated data. Ubiquitous data capture. Data, data, data.

Looking back, this year's *CBR* has been full of interesting discussions about data; about where it comes from, how we can manipulate it, and to what ends. (And this is true not only with *CBR* — the entire business/technology media has been buzzing about data.) These have not been empty conversations. I believe it's important we ask these kinds of questions. Here is why: data is worthless, in itself.

I overstate the case slightly, but the essence holds true. Data is a (really important) "hygiene" factor, a "necessary but not sufficient" condition for producing other, far more interesting things such as information, intelligence, knowledge, and — ultimately — value.

Each issue of *CBR* this year has reflected on this quest for value, and always from the starting point of data. In the "trends" issue (Vol. 13, No. 1), we saw continuing evidence of the importance of new technological contexts (like mobile and social) and the pressures these contexts place on our IT and organizational architects — decision makers constantly striving to create stable, efficient, and flexible systems in a world of proliferating devices (IT consumerization) and data sources (ubiquitous social computing). In our "Agile data analytics" issue (Vol. 13, No. 2), we explored how the mindset, toolset, and skill set of Agile software development might help us to more efficiently and effectively capture, transform, and use data. And in the "real-time data" installment (Vol. 13, No. 3) we looked, for a second time, at the world of "data in flight," a challenging phenomenon that makes many of the mainstays of data management seem strangely outdated (have you ever seen a flying data warehouse?).

But it's actually a small bit of data from this issue that compelled me to write this particular piece. As our contributing authors point out, confidence in the general value created by IT is very high in this year's survey, and importantly the confidence is consistently high across different types of organizational stakeholders.

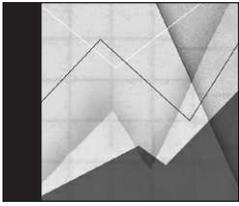
Interestingly, there are different opinions regarding how IT creates value for firms (improving the bottom line versus product and services versus the customer experience). And, more interestingly, one of these areas stands out: a substantial majority of respondents report that IT creates "high" or "significant" value by *improving the customer experience*.

While it might be nice for the IT profession if all the areas enjoyed higher numbers, in terms of the relative importance between the areas, we are, by my thinking, more or less where we should be. In fairness, it took awhile to get here. Eighteen years ago, in the midst of the first e-commerce revolution, Jeffrey Rayport and John Sviokla wrote about "Exploiting the Virtual Value Chain" in *Harvard Business Review*.¹ Details in the article obviously are noticeably dated ("Today thousands of companies have established sites on the World Wide Web...."), but it remains an enduringly useful article that I still dredge up often (perhaps embarrassingly often) in both my lectures and writings. One of its central observations is the move from early IT (focused on enhancing the visibility of physical value chain activities) to a second generation of IT (focused on digitally mirroring or virtualizing those activities) to next-generation IT (focused on creating new customer relationships).

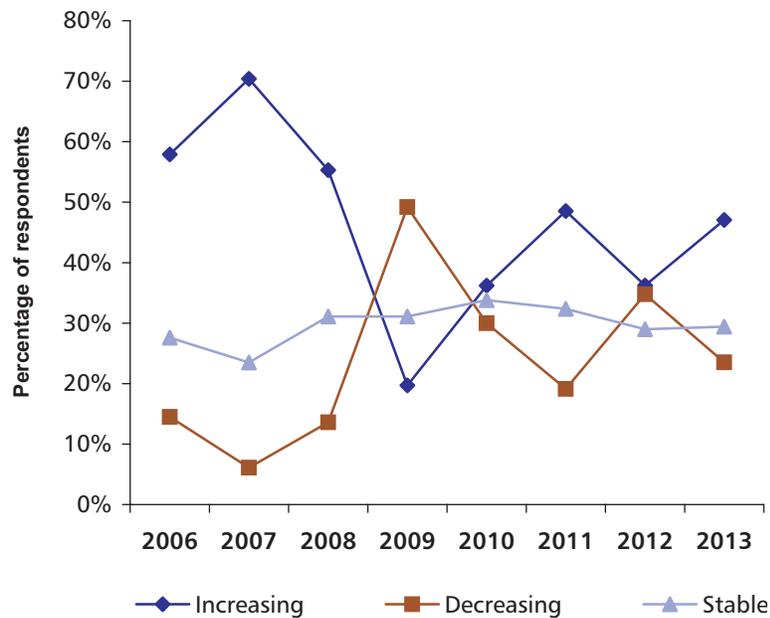
Rayport and Sviokla argued that the true promise of e-commerce (and IT in general) lay in gathering, transforming, and distributing information to create new customer relationships. I agreed with them then, and I still do. So, for me, the biggest takeaway from this whole year of *CBR* is simply this: if you would like to answer the question "How can IT turn big/open/real-time/pick-your-word data into value for my company?" start by asking "How can IT turn big/open/real-time/pick-your-word data into value for my customer?"

ENDNOTE

¹Rayport, Jeffrey F., and John J. Sviokla. "Exploiting the Virtual Value Chain." *Harvard Business Review*, 1 November 1995.



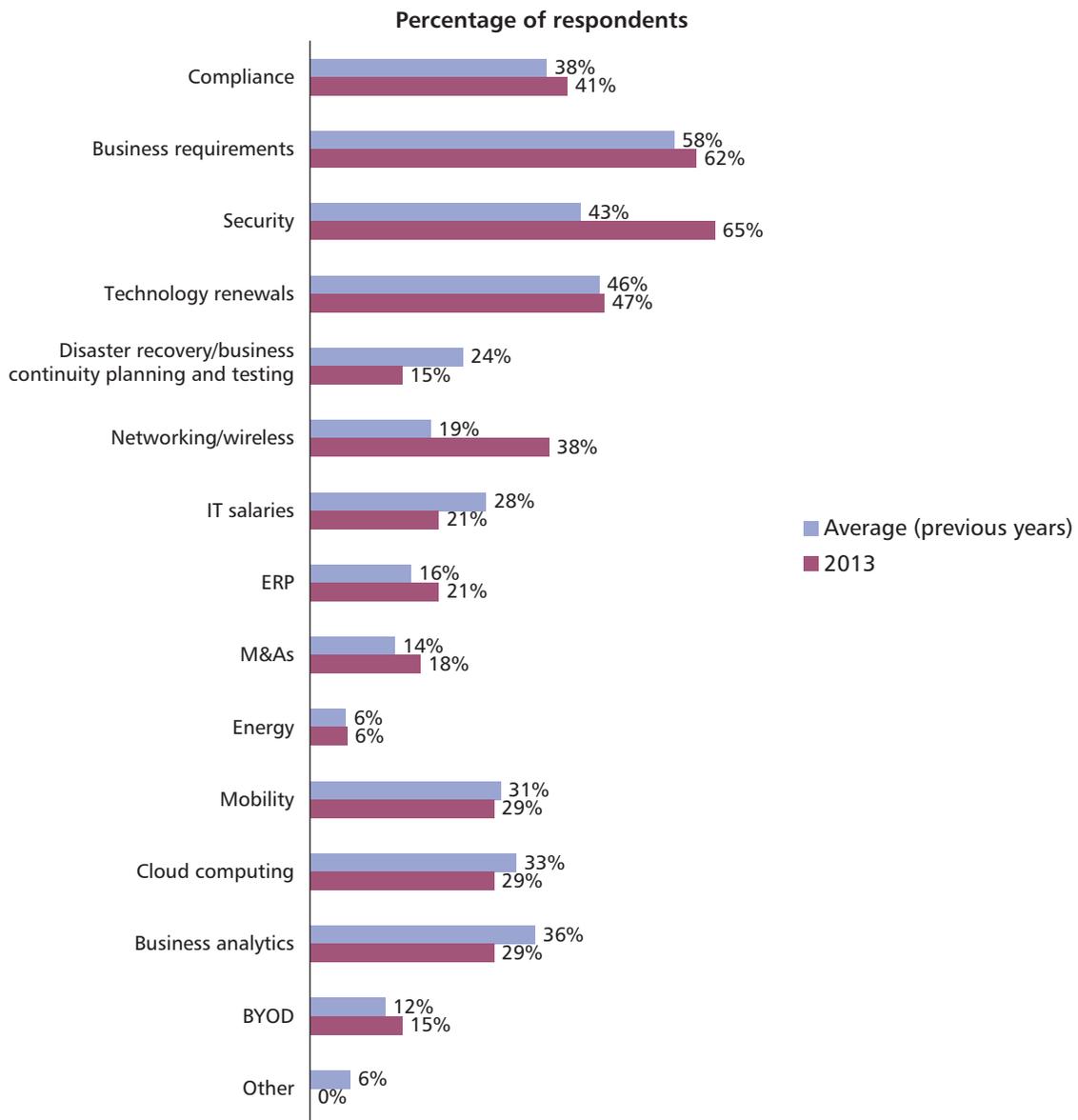
IT Budgeting 2013



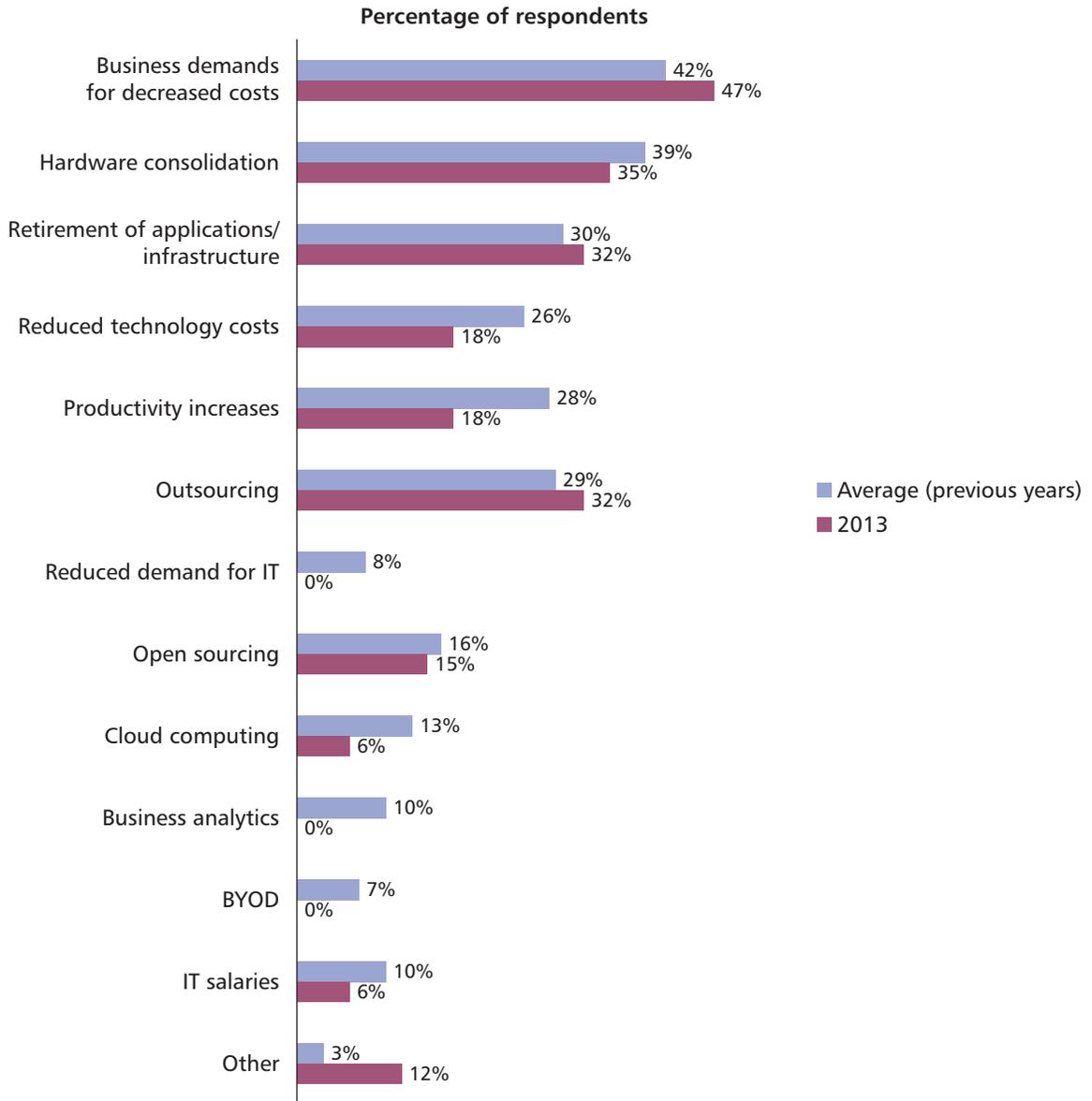
Graph 1 — Are IT budgets increasing or decreasing?

SURVEY DEMOGRAPHICS

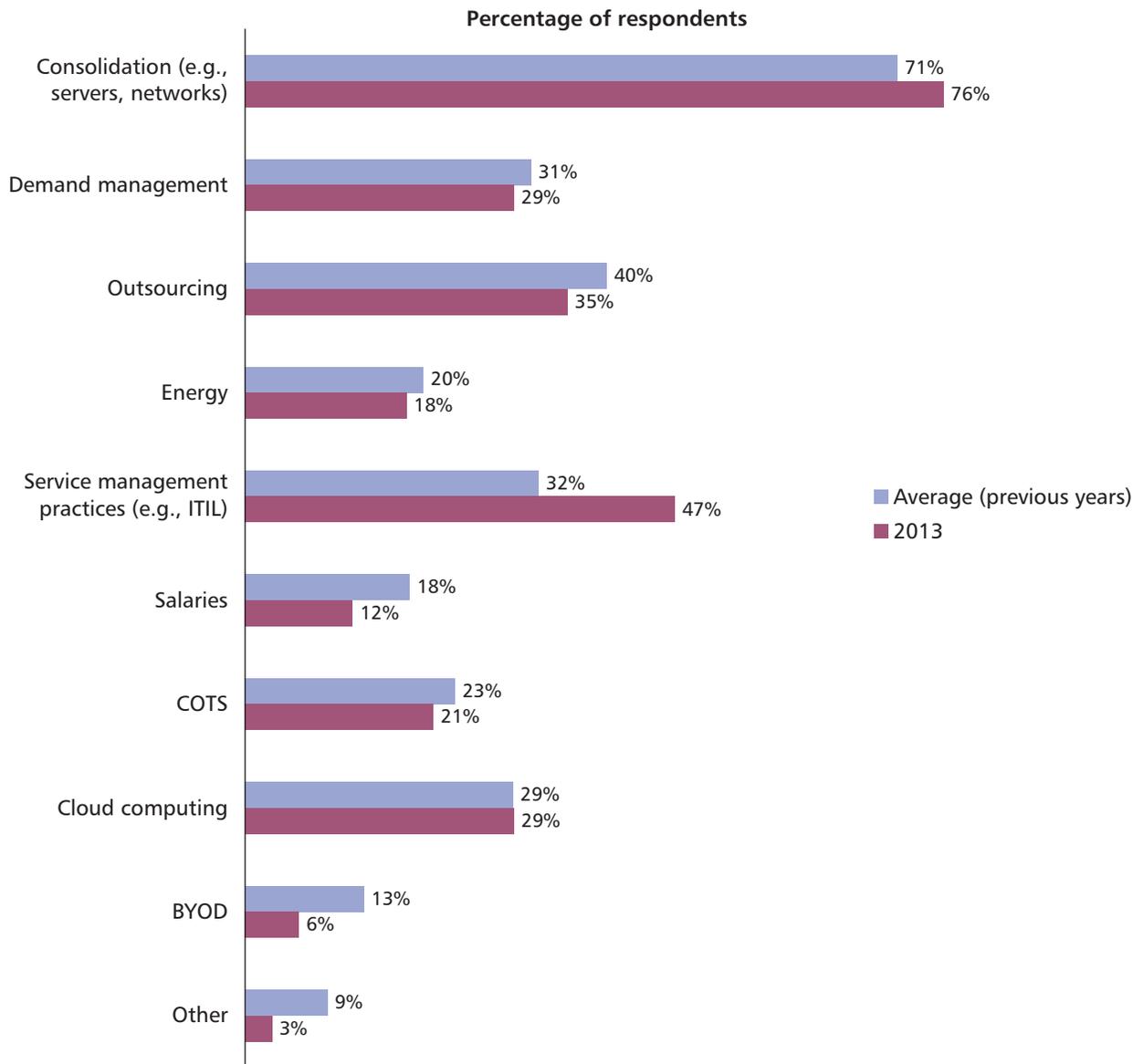
This survey, our eighth annual IT budgeting survey, examined general and specific aspects of IT budgeting in 34 organizations, 59% of which are headquartered in North America; of the remainder, 21% are headquartered in Asia/Australia/Pacific, 9% in South America, 6% in Europe, and 6% in Africa. Twenty-six percent of responding organizations have annual revenues of more than US \$10 billion, 24% have annual revenues between \$1 billion and \$10 billion, 15% have annual revenues between \$100 million and \$1 billion, 9% have annual revenues between \$10 million and \$100 million, and 26% have annual revenues less than \$10 million. Annual IT budgets range from less than \$500,000 (29%) to more than \$100 million (15%). Eighteen percent of responding organizations have more than 50,000 employees, 18% have between 10,000 and 50,000 employees, 29% have between 1,000 and 10,000 employees, 21% have between 100 and 500 employees, with the remainder having 100 or fewer employees. The number of IT professionals in responding organizations ranges from less than 20 (26%) to more than 1,000 (24%), with 9% having between 20 and 100 IT professionals and 41% between 100 and 1,000.



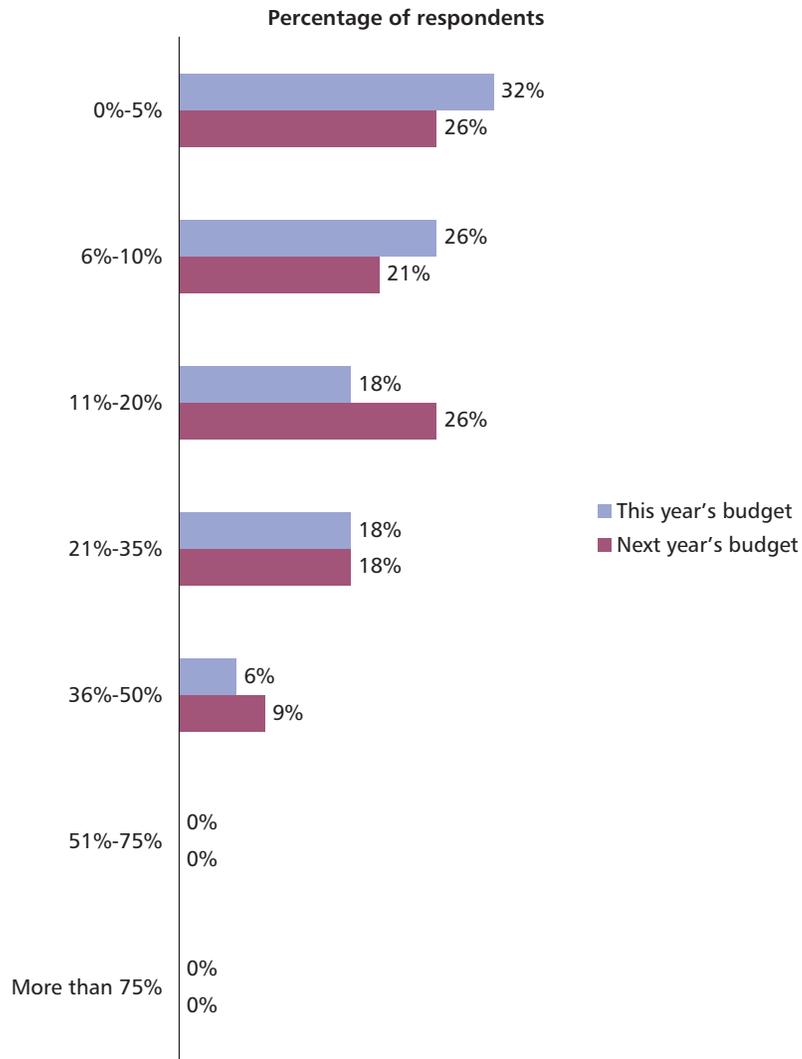
Graph 2 — For areas of increased spending, what is driving the change?



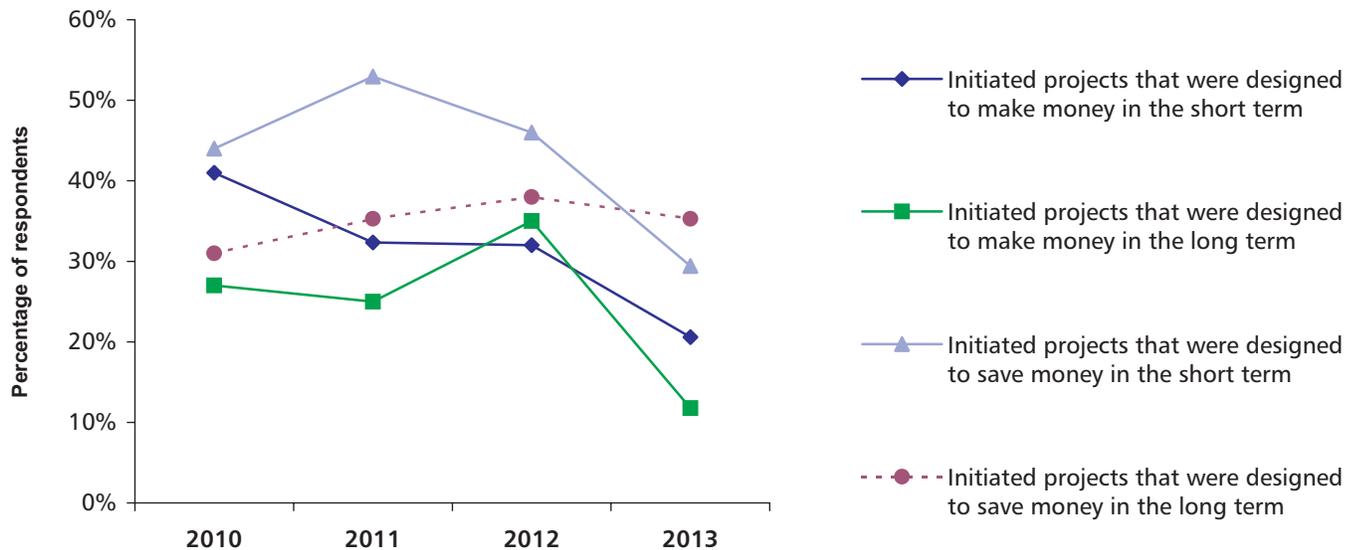
Graph 3 — For areas of decreased spending, what is driving the change?



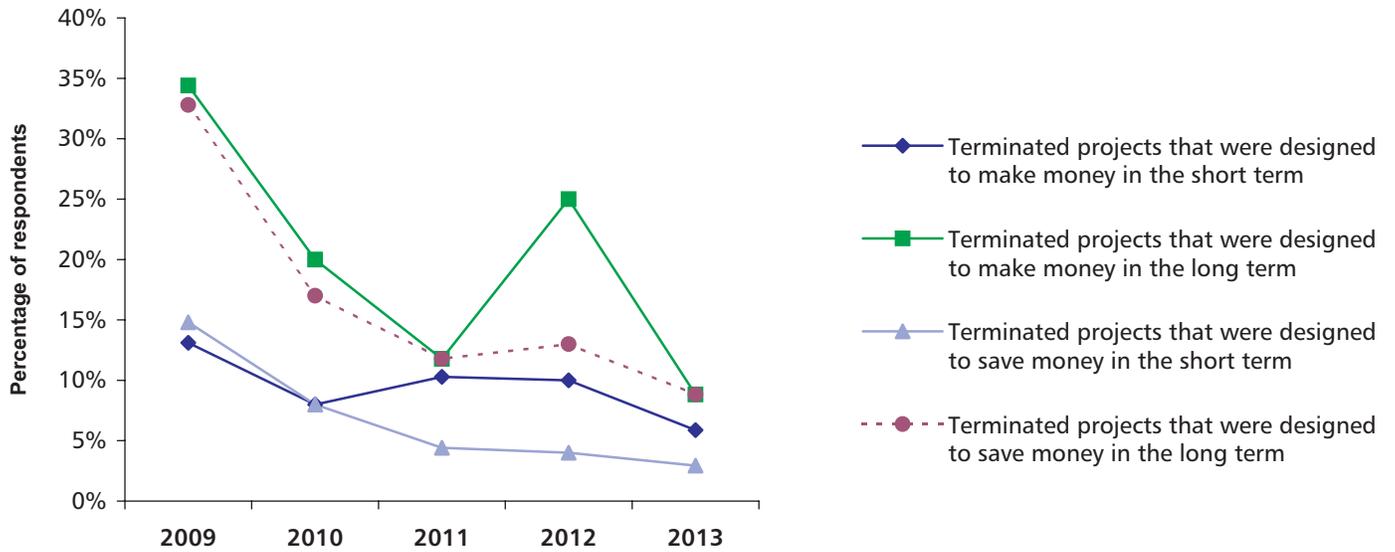
Graph 4 — What are the most important management initiatives taken to reduce IT costs?



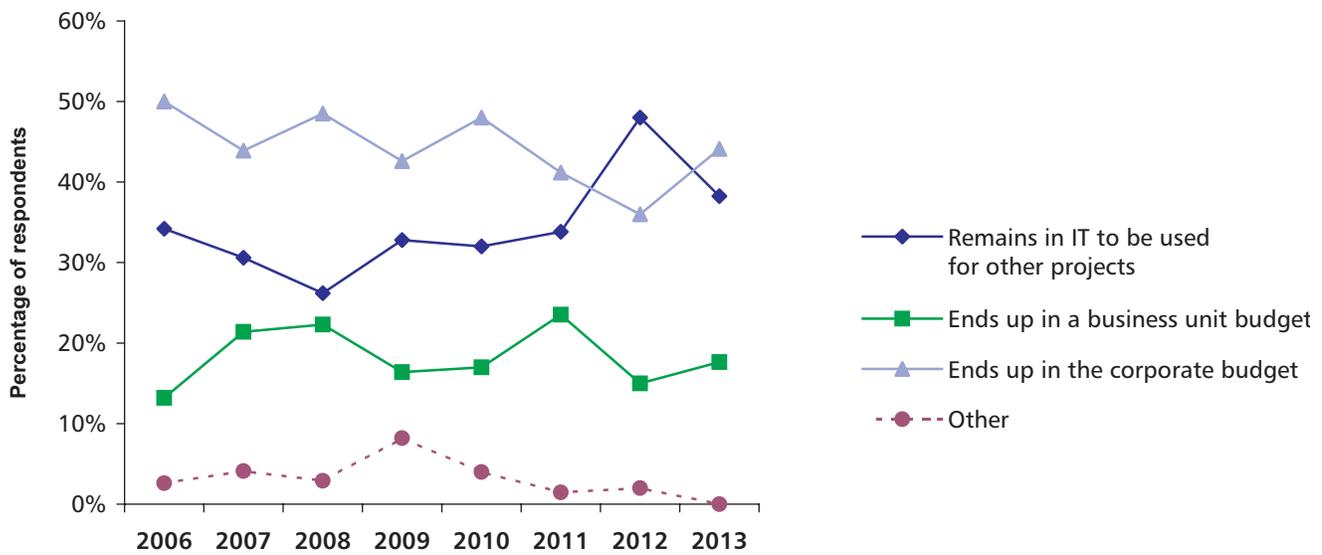
Graph 5 — What percentage of the total IT budget is being spent on outsourcing (2013 survey respondents only)?



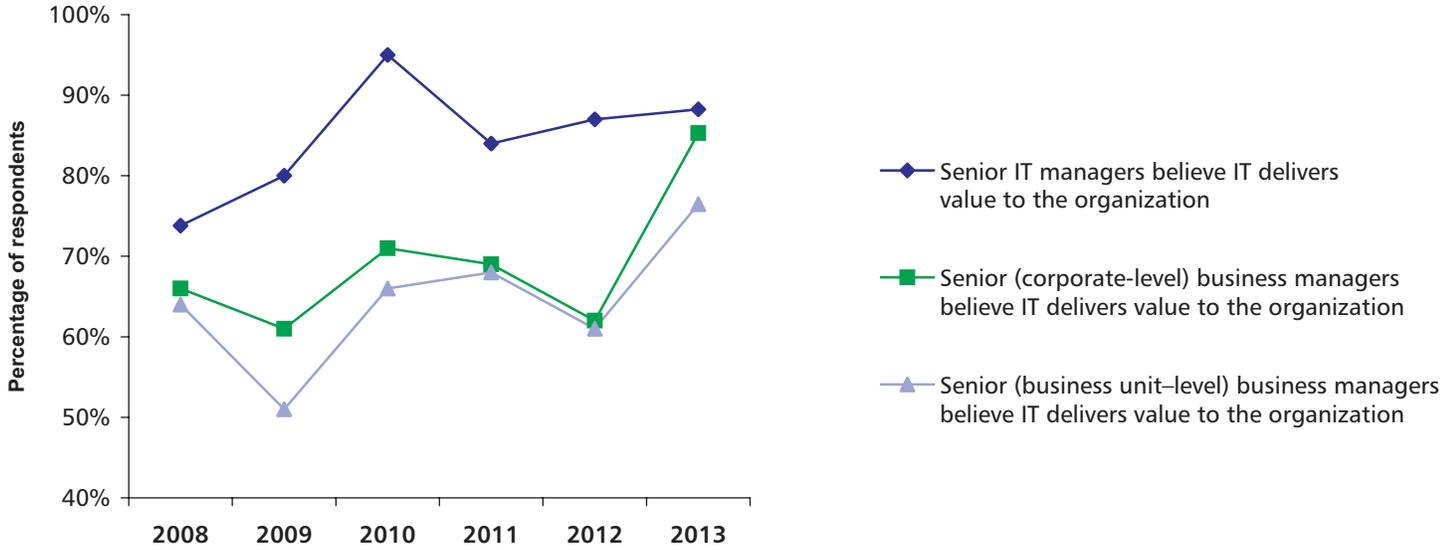
Graph 6a — What steps has your organization taken to reduce IT costs?



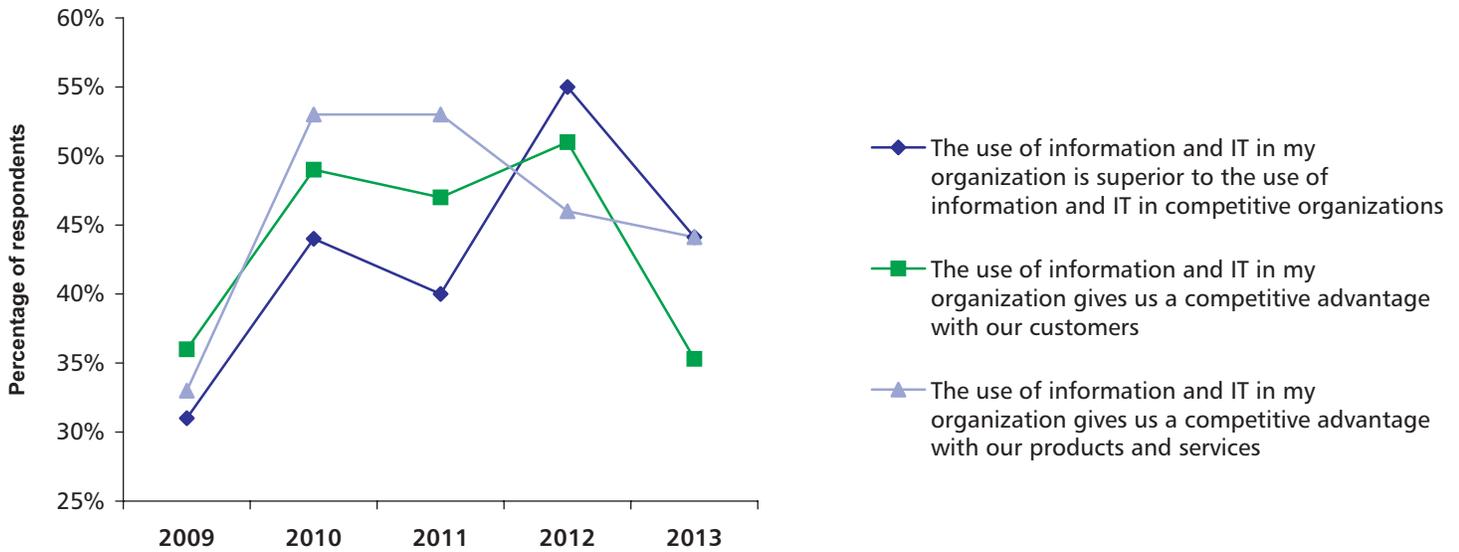
Graph 6b — What steps has your organization taken to reduce IT costs?



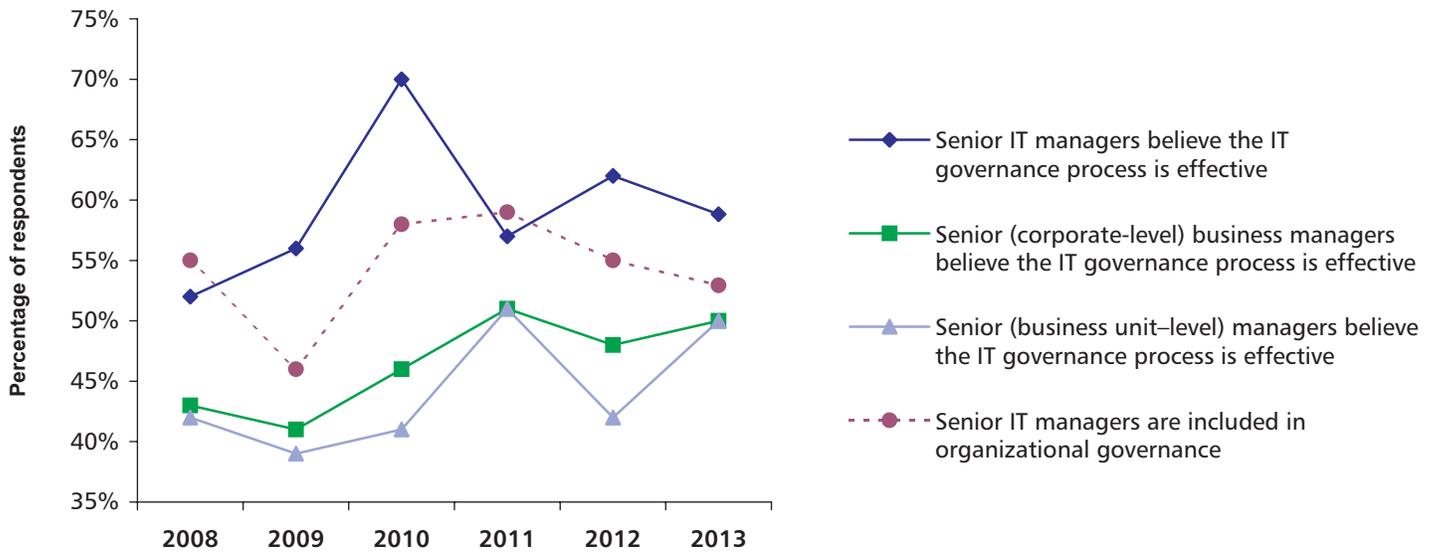
Graph 7 — If the IT organization undertakes a project that decreases the costs of providing IT service, that savings ...



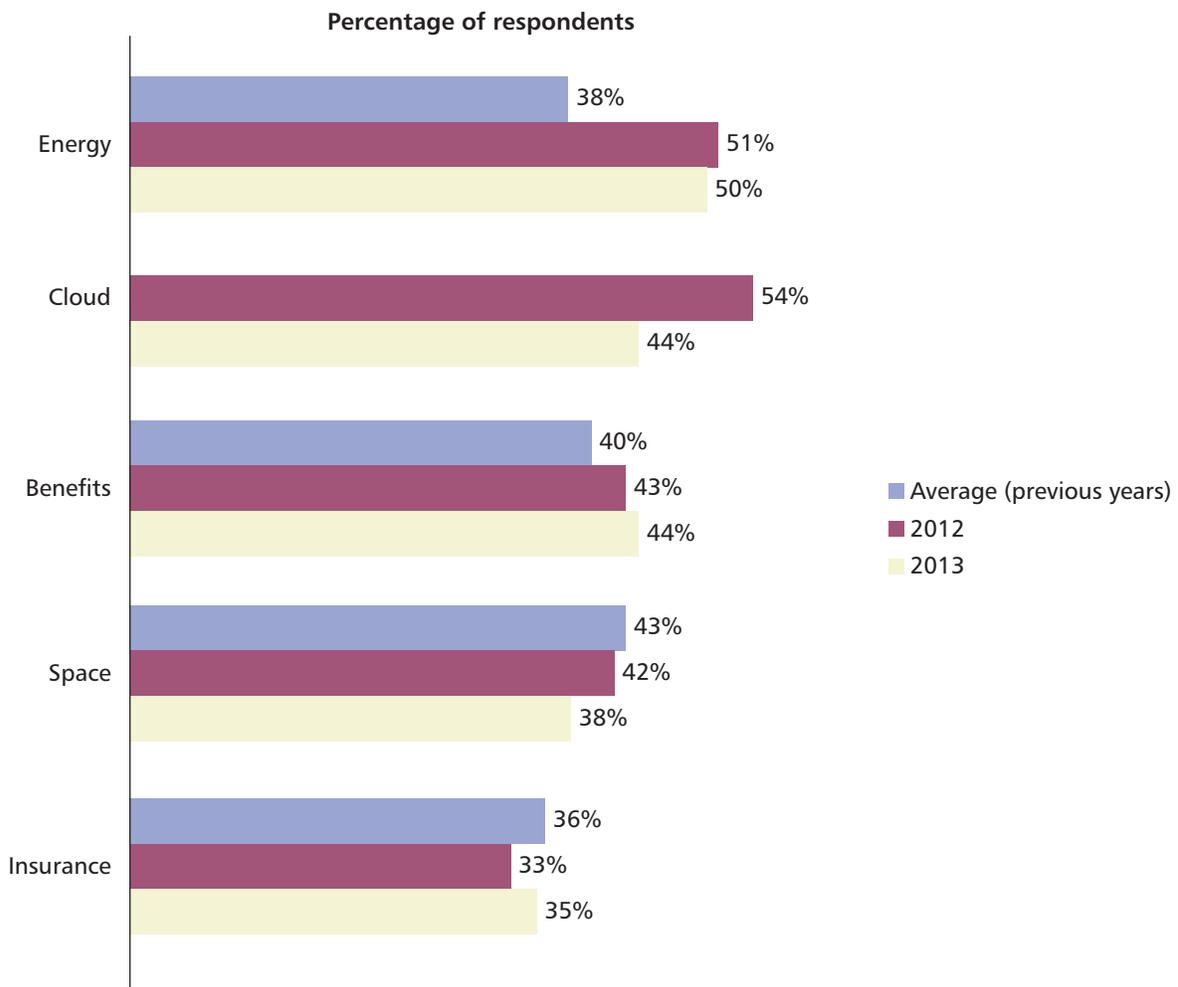
Graph 8 — Respondents who agree or strongly agree that managers believe IT delivers value to their organization.



Graph 9 — Respondents who agree or strongly agree about IT compared to the competition with each of the following statements.

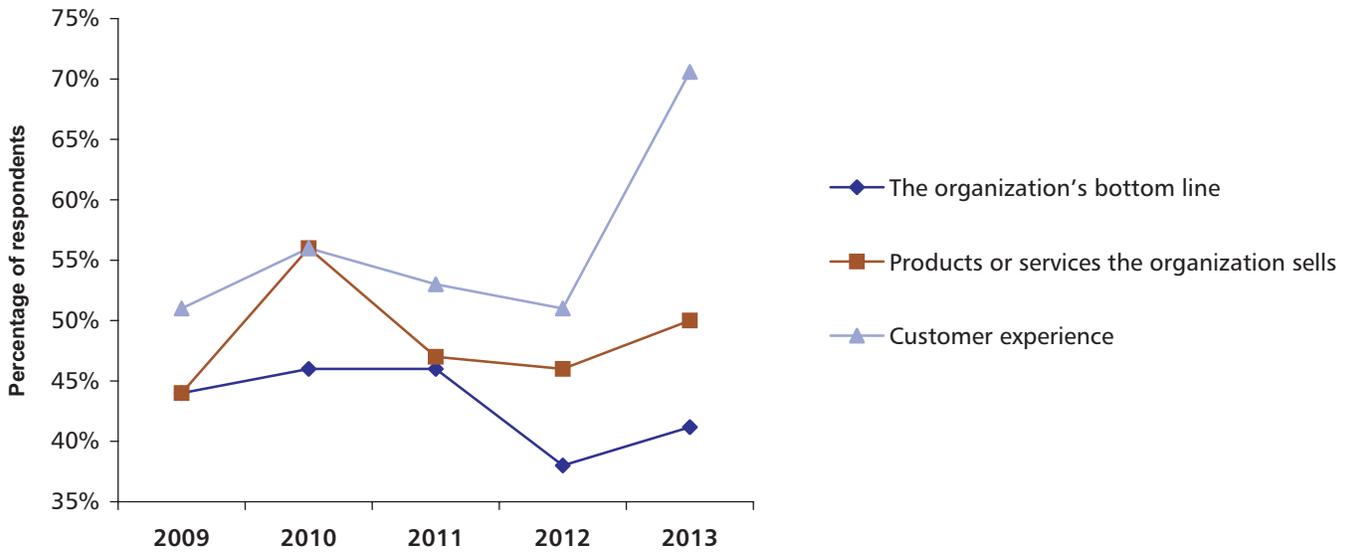


Graph 10 — Respondents who agree or strongly agree that managers believe IT governance is effective in their organization.

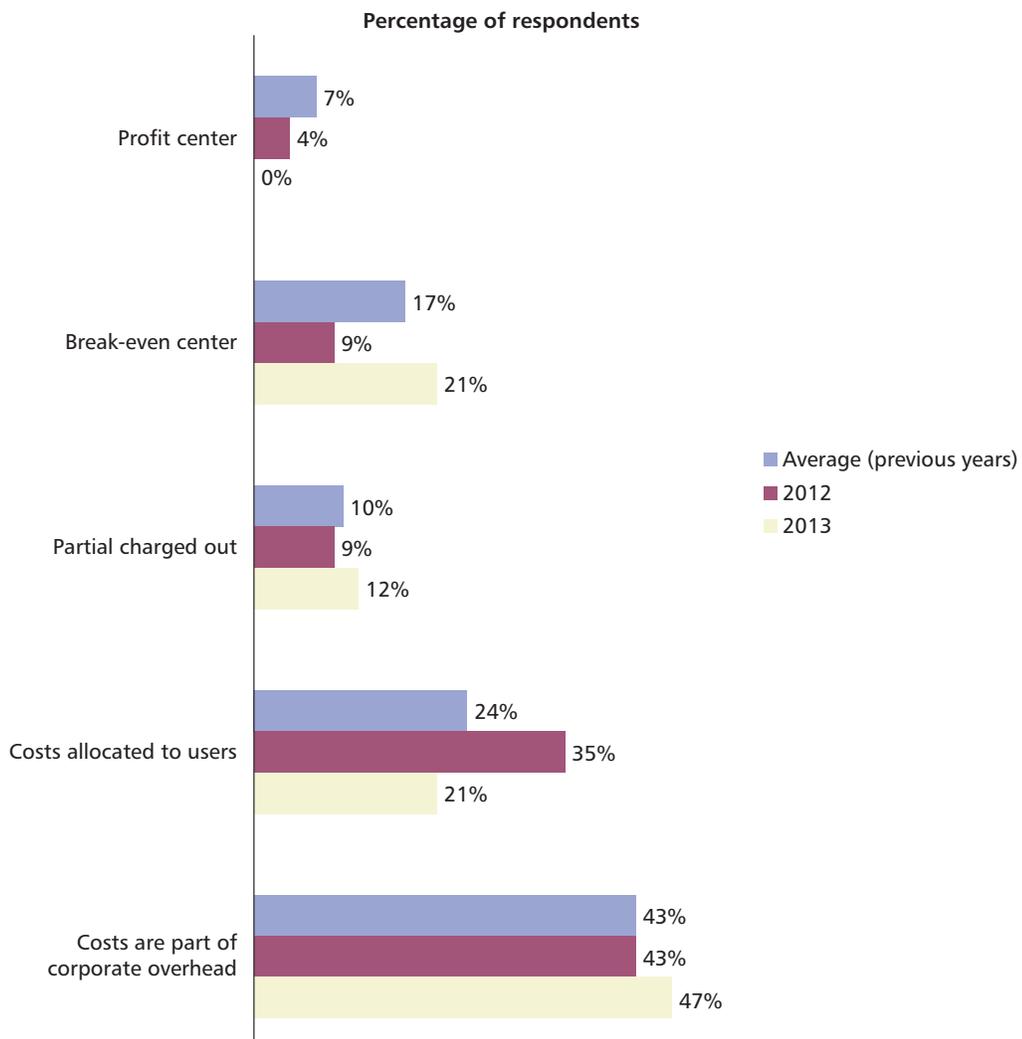


Graph 11 — Results for five areas often not included in central IT organization's budget.

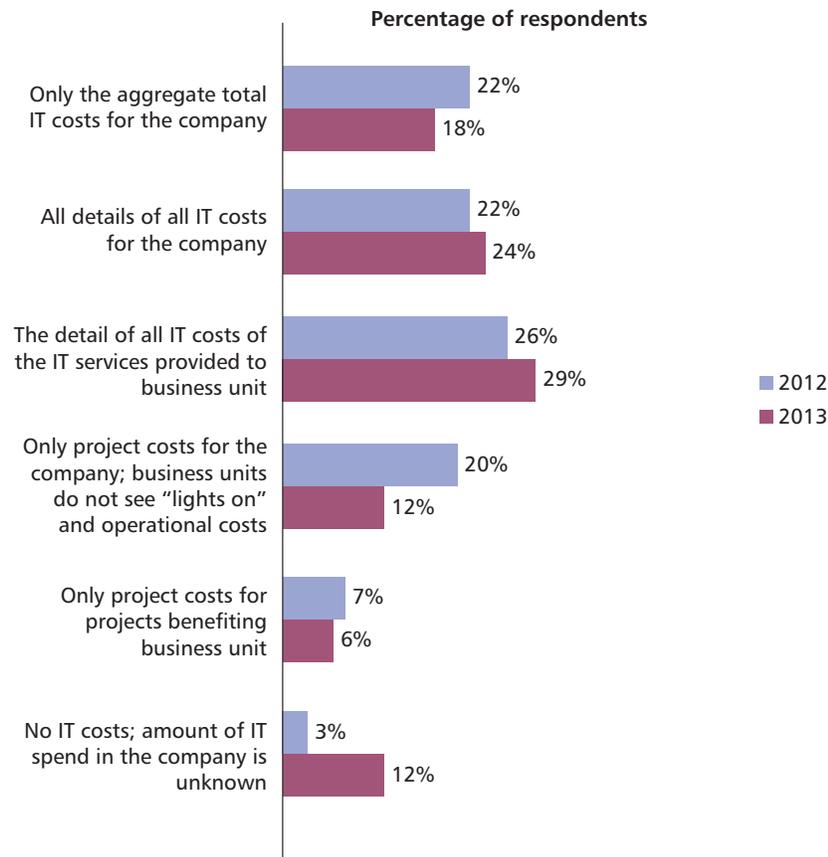
SURVEY DATA



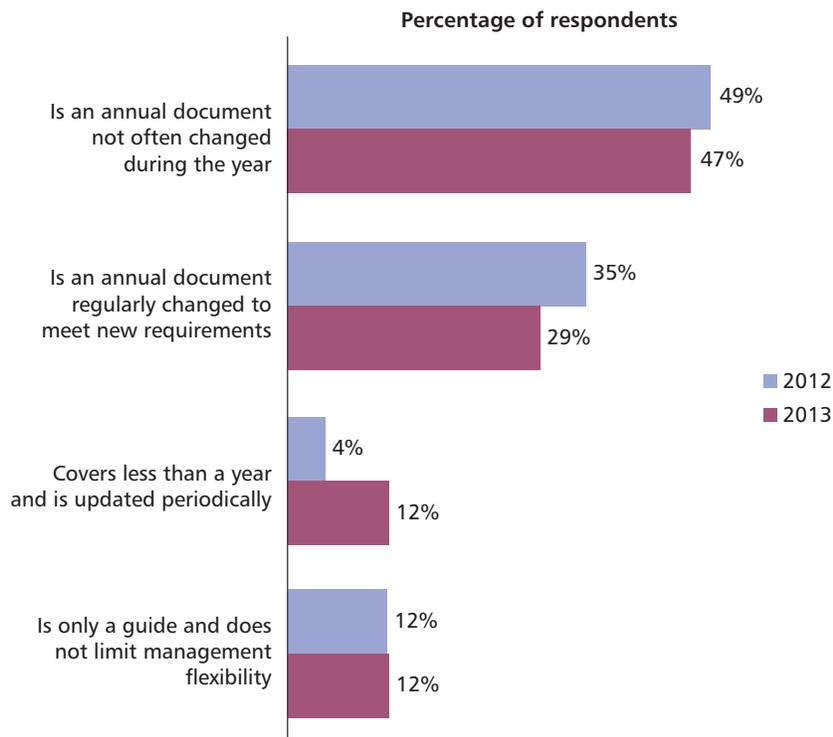
Graph 12 — Respondents who believe IT delivers value to their organization in the following areas in a high or significant way.



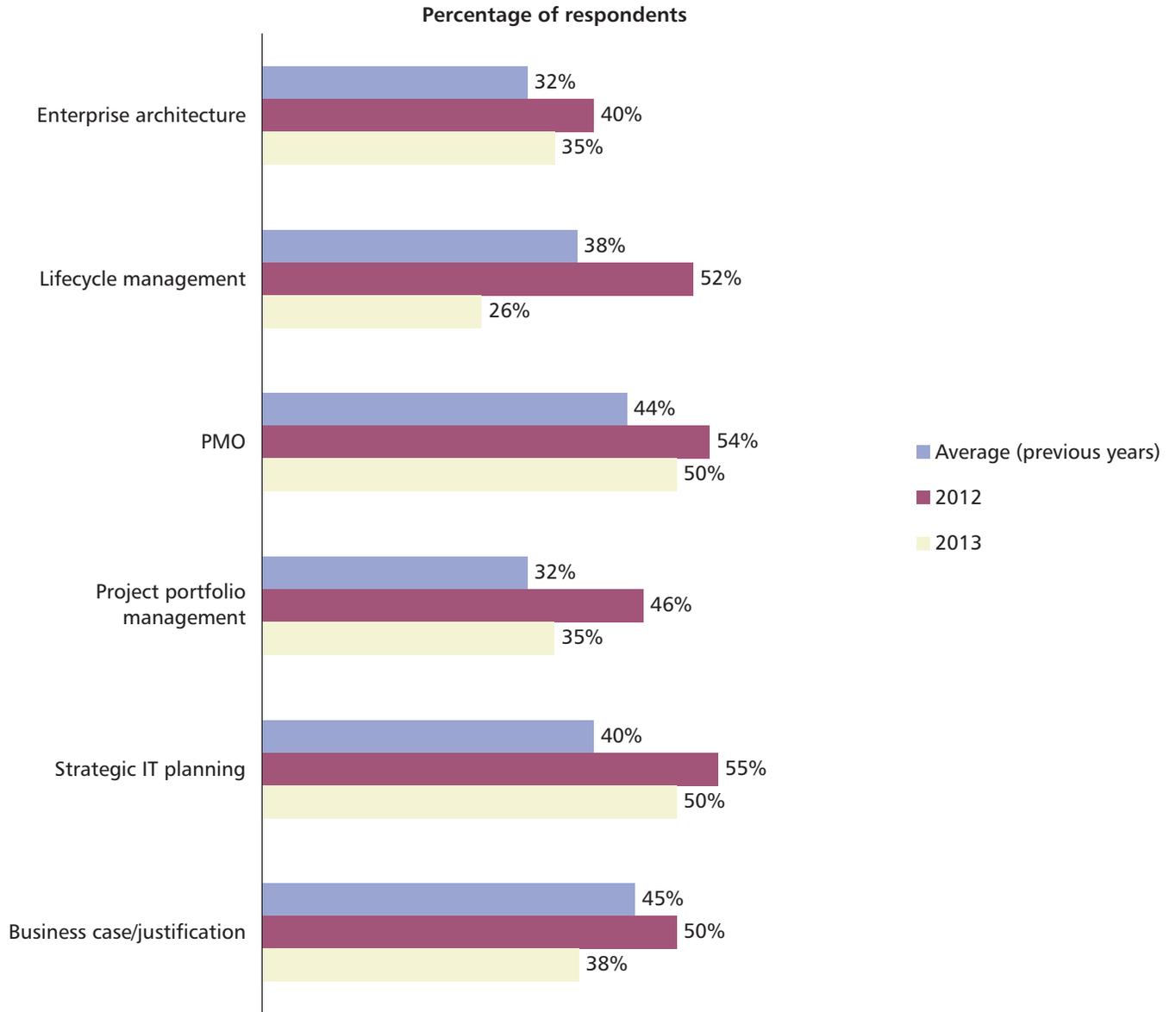
Graph 13 — Which of the following best characterizes the IT budget structure?



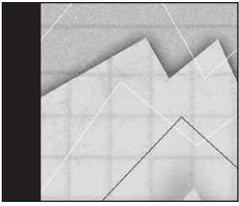
Graph 14 — How transparent are IT costs to business managers? Business units see ...



Graph 15 — The IT budget in my organization ...



Graph 16 — To what extent are each of the following processes currently used in your organization in a high or very high way?



About the Authors

Dennis A. Adams is an Associate Professor in the Department of Decision and Information Sciences in the C.T. Bauer College of Business at the University of Houston. He has published articles in journals such as *Interfaces*, *Information Systems Research*, *The DATA BASE for Advances in Information Systems*, *MIS Quarterly*, and *Information & Management* and is a yearly contributor to *CBR*. His research interests include leadership and the effects of and techniques associated with valuing the bottom-line contribution IT makes to organizations. He can be reached at adams@uh.edu.

Bob Benson is a Fellow with Cutter Consortium's *Business Technology Strategies* practice, a member of Cutter's *Government & Public Sector* team, and Principal of the Beta Group. Mr. Benson applies more than 40 years of academic and corporate experience to assist companies and government agencies with understanding the business value of IT, strategic and financial IT management, strategic IT planning, effective IT application development, and IT governance. He is a frequent contributor to Cutter publications and has consulted for and conducted workshops with Cutter clients in the US, Mexico, and Poland. Mr. Benson has been instrumental in the development of portfolio management methods and strategic and financial management methodologies based on Information Economics used by companies and consulting organizations around the world. He has conducted executive seminars and management courses on these subjects globally and has consulted with more than 100 companies and organizations in 20 countries. Mr. Benson taught computer science and information management at Washington University in St. Louis (USA) for 40 years, where he also served as Associate Vice Chancellor for Computing and Communications and in other executive positions. He also has taught information management at Tilburg University (the Netherlands) for 20 years and is a member of its faculty. He is coauthor of several books and numerous articles and monographs, including *From Business Strategy to IT Action:*

Right Decisions for a Better Bottom Line, *Information Economics: Linking Information Technology and Business Performance*, and *Information Strategy and Economics: Linking Information Systems Strategy to Business Performance*. Mr. Benson has keynoted at numerous executive conferences, including *Cutter Summits* in the US and Mexico, *Information Management Forum CIO*, *Enterprise Architecture Conference*, IQPC-sponsored *Summits*, and others. He holds a bachelor of science degree in engineering science and a law degree, both from Washington University. He can be reached at bbenson@cutter.com.

Joseph Feller is a Senior Consultant with Cutter Consortium's *Data Insight & Social BI* practice and editor of *Cutter Benchmark Review*. He is a Senior Lecturer at the University College Cork (UCC), where he coordinates the PhD program in business information systems, supervises postgraduate and postdoctoral researchers, and conducts research. Prior to joining UCC, Dr. Feller taught at the Ringling College of Art and Design. His research focuses on open innovation and the peer production phenomena, including open source software, open content, crowdsourcing, innovation marketplaces, citizen science, and social media collaboration platforms. Dr. Feller has published five books, more than 60 academic papers, and more than 100 practitioner articles and reports. His research in open source software has been particularly influential, cited over 1,000 times in academic literature. Dr. Feller has directed various international research projects funded by Irish and EU agencies, private industry, and government partners. He is a frequent presenter and panelist at international conferences and has been invited to deliver keynotes, seminars, workshops, and policy briefings by numerous industry organizations, private firms, NGOs, and Irish and European government bodies. He can be reached at jfeller@cutter.com.

About Cutter Consortium

Cutter Consortium is a unique IT advisory firm, comprising a group of more than 150 internationally recognized experts who have come together to offer content, consulting, and training to our clients. These experts are committed to delivering top-level, critical, and objective advice. They have done, and are doing, groundbreaking work in organizations worldwide, helping companies deal with issues in the core areas of software development and agile project management, enterprise architecture, business technology trends and strategies, enterprise risk management, business intelligence, metrics, and sourcing.

Cutter delivers what no other IT research firm can: We give you Access to the Experts. You get practitioners' points of view, derived from hands-on experience with the same critical issues you are facing, not the perspective of a desk-bound analyst who can only make predictions and observations on what's happening in the marketplace. With Cutter Consortium, you get the best practices and lessons learned from the world's leading experts, experts who are implementing these techniques at companies like yours right now.

Cutter's clients are able to tap into its expertise in a variety of formats, including print and online advisory services and journals, mentoring, workshops, training, and consulting. And by customizing our information products and training/consulting services, you get the solutions you need, while staying within your budget.

Cutter Consortium's philosophy is that there is no single right solution for all enterprises, or all departments within one enterprise, or even all projects within a department. Cutter believes that the complexity of the business technology issues confronting corporations today demands multiple detailed perspectives from which a company can view its opportunities and risks in order to make the right strategic and tactical decisions. The simplistic pronouncements other analyst firms make do not take into account the unique situation of each organization. This is another reason to present the several sides to each issue: to enable clients to determine the course of action that best fits their unique situation.

For more information, contact Cutter Consortium at +1 781 648 8700 or sales@cutter.com.

About Cutter Benchmark Review

Discover the strategies and tactics of companies worldwide and, more important, where they're succeeding and failing along the way with *Cutter Benchmark Review*.

CBR draws its expertise from two sides: a distinguished academic and a practitioner from the field. The contributors frame each issue's topic for you, explaining how it relates to other trends, and address the pressures and interests surrounding it. They provide a framework to help you make sense of the topic as it applies to your organization. This analysis — often supported by the collection of fresh survey data — plus future predictions and their potential impact from Editor Joseph Feller provide you with a solid understanding of "today's new thing" based on the decades of experience of our contributors in the fast-moving IT world. You can't afford to miss such insider information.

Whether you use *CBR* to help you understand how your organization compares to others in your industry, to identify key IT initiatives worth pursuing, or to identify the potential impact of today's trends on the future health and direction of your company, *CBR* is a resource unlike any other, making it possible for you to look critically and objectively at your IT organization through various lenses.