2005 IT Spending Consensus Report

By Jim Zimmermann, Executive Editor, Analyst Views

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Introduction

Each year we take an in-depth look at the IT spending predictions from dozens of IT and financial analyst firms. This year, we find general agreement that there will be an increase in IT spending across most of the globe, with pockets of stellar growth and a very few areas with projected decreases in spending. This document provides an overview of some of the predictions from leading firms along with tables containing predictions by geographic region and company size, and our popular "What's Hot and What's Not" chart for 2005.

General Trend Views

The general predictions are for an increase in IT spending in 2005, with several firms projecting an overall global growth rate of between 2.5% to 6%. Worldwide Small and Medium Business (SMB) growth predictions are higher and have a much wider range - from 4.5% to 23%.

IDC's Chief Research Officer John Gantz believes that 2005 "will be a repeat of 2004" and CIO Insight echoed that thought by claiming that in 2005 "restraint rules, and the focus is on executing fundamentals."

According to Gartner, "Worldwide business spending on IT will exceed $2 trillion in 2005. Financial services, manufacturing and government will continue to be the largest global vertical markets." Prudential analyst Steve Fortuna also looks for "a meaningful improvement in large IT enterprise spending in the middle part of 2005."

Forrester Research tried to put current IT spending trends into a longer-term context. Forrester refers to a 10-year cycle of IT spending when it states "…analysis of business investments in IT over the past six decades reveals that eight- to 10-year periods of significant IT spending growth occur after the introduction of a major new technology. These phases are followed by equal periods in which firms reduce their rate of new investment to focus on ROI and process change that drive business value from the new technology. Forrester estimates that the US is halfway through the current cycle of technology digestion, which started in 2001."

META Group (recently acquired by Gartner) states "As a result of the pent-up demand for technology-based products and services to sustain business transformation and growth (and a concomitant focus on IT governance/regulatory compliance), we are now

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entering a period of IT investment recovery and expansion through 2007/08. After 2006, we expect IT budgets to increase to 4%-6% on average per annum."

META also put IT spending into a larger, more investment-focused context. According to META, "The IT recession has morphed into a new IT reality in which cautious technology spending has fundamentally altered how organizations are allocating their IT investments. IT budgets are not simply declining or leveling-off. Rather, they are changing completely. Companies are shifting from a pure cost-cut mode to a model that emphasizes agility and efficiency. They are removing fixed costs in favor of variable costs. As a result, technology spending will have a significant impact on the IT landscape with respect to vendor health and viability in the year ahead."

Forrester breaks down IT spending among product and service types to illustrate where they think the growth in IT spending will occur in 2005:

- Computer hardware spending will hit its stride at 9%.
- Network equipment will grow modestly at an average of 4%.
- Software spending eventually will recover with 7% growth. In 2005, software spending will grow only 3%.
- IT consulting and integrations spending will post modest growth at 4%.

CIO Insight also believes that we are in an IT spending recovery. It states "we're once again in a post-recession growth economy, and both Sarbanes-Oxley and the fight to secure corporate networks and information are forcing companies to spend on IT."

Finally, IDC states "Worldwide IT spending growth in 2005 will continue to recover as the threat of a full-blown energy shock diminishes. Going forward, close monitoring of economic developments in each region will prove vital for understanding the short-term changes in the IT spending outlook."

Results of IT Spending Surveys

In addition to the many predictions reported for 2005, a number of firms conducted surveys of CIOs, IT executives, and other IT budget-influencers to gather some data to substantiate their predictions:

- In December 2004, Forrester conducted a survey of 1,300 IT decision makers in companies with over 1,000 employers and found that these companies plan on increasing IT spending an average of 3.9% in 2005. The study also found that the number one priority of those surveyed was deploying or upgrading a major software application, and the most popular applications cited were business intelligence and content management.
- In September 2004, Forrester also surveyed 1,197 US and 535 European technology decision makers at SMBs. The survey found that "Europeans are more optimistic than their US counterparts – 67% of European SMBs expect at least a positive 2005 for their industries, compared with just 40% of US SMBs." But despite the optimism, the study also found that US SMBs plan to increase their IT budgets by an average of 4.8% in 2005 while European SMBs plan to increase their IT spending by only 3.3% in 2005.
- In December 2004, Gartner surveyed 1,300 CIOs from 30 countries. The results showed that the executives planned to increase their technology purchase budgets by 2.5% in 2005. Gartner concluded that "Businesses are concentrating on growth in 2005, rather than recovery. But they are not significantly increasing their expenditures for 2005, which means CIOs have to create more value for the business from IT than businesses can buy in the marketplace."
- A survey by the Chief Executive Group found that more than 70% of CEOs plan to increase tech spending in 2005. About 25% of those surveyed plan to increase spending by over 10% and 26% expect to increase spending by 5% to 9%. The survey found only about 8% of CEOs expect to decrease spending.
- CIO.com did a Quick Poll of their visitors and found that the main factors causing cuts in IT spending are (listed from most-to-least important):
    - Lower profit forecasts for 2005
    - Commoditization of IT
    - No compelling need to invest
    - Tech vendor merger activity

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IT Spending Priorities for 2005

There were two main sources for predictions of technology priorities for 2005; Gartner's survey of 1,300 CIOs (described above), and InformationWeek Research's survey of 300 business-technology managers. The top ten priorities from each survey are listed below:

Priority	Gartner Survey of Technology Priorities	InformationWeek Survey of Key Business Priorities IT Will Implement or Support
1	Security enhancement tools	Update security procedures, tool or services
2	Business intelligence applications	Simplify or optimize business processes
3	Mobile workforce enablement	Improve customer service
4	Workflow management deployment & integration	Boost worker productivity across the entire company
5	ERP upgrades	Retain skilled staff members
6	Storage management	Establish processes to support real-time business information
7	VOIP	Organize and utilize customer data
8	CRM	Report financial data more accurately
9	Business process integration tools	Use IT for compliance with government regulations
10	Sever virtualization	Reduce the cost of IT operations

The Chief Executive Group also ran a survey that found the following IT priorities among surveyed CEOs:

1. Hardware
2. Security
3. Software integration

A poll of 100 CIOs conducted by Merrill Lynch & Co. found that software and storage are the top technology priorities of corporations. This survey also found that spending on PCs fell to the bottom of the priority list. However, Merrill Lynch's findings are in direct contrast to most of the other surveys and predictions that found replacing/upgrading PCs was a high priority for many companies. For instance, Forrester found that 37 percent of the companies named replacing PCs a priority; it estimates that about one in five corporate PCs will be replaced in 2005.

In a December survey of IT departments, Forrester found that "59% of enterprises consider the deployment or upgrading of a major application a priority. Otherwise, issues related to risk management — disaster recovery, regulatory compliance, and security upgrades - dominated the top of the priority list."

Bloor Research predicts a decline in spending on financial and related applications as firms "lock down" their infrastructure to make sure they can meet the various compliance deadlines set by the government, and Yankee Group believes that investments in applications and technologies that improve the ability of a company to interact with their customers, suppliers and service providers will drive IT spending over the next five years.

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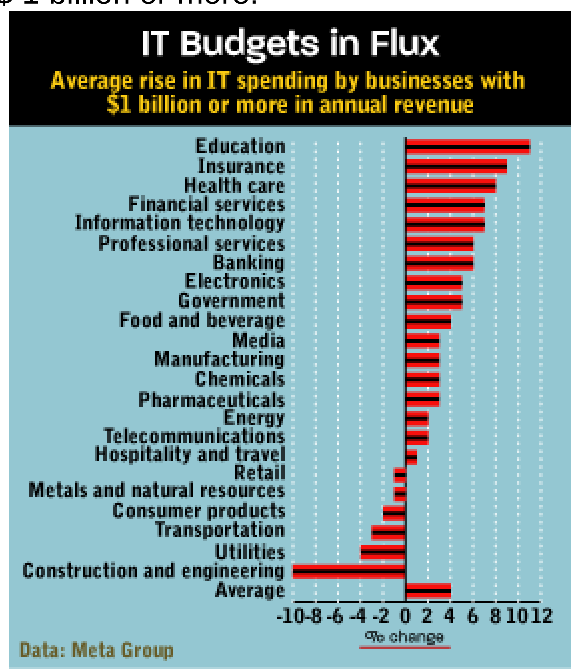
Predictions By Industry

Several firms provided growth predictions by industry/market segment:

- INPUT predicts a whopping 40% increase in spending on Homeland Security and Defense Telecommunications by the US Federal Government by 2009.
- META Group provided a number of predictions regarding IT spending by industry:
    - "The largest IT spending increase will be in financial services firms with less than a $500M market cap - +7%."
    - IT spending increases by industry for companies with annual revenue of $ 1 billion or more:



From "Tech Spending's Future Is In Agility And Efficiency", InformationWeek Nov. 22, 2004

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    - "The industries that are spearheading spending growth are surprising. Education, which has shown relatively low IT spending levels in the past year, has indicated the strongest growth in 2005, followed by insurance and health care. Conversely, the construction & engineering, and transportation industries plan to decrease investments."

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Predictions By Geography

META Group found “some surprising geographic information as well as trends, which may forewarn major regional spending reductions.” It goes on to state “Among the most interesting findings are those which debunk the common myth of the relative strength of the North American IT economy, by revealing that 2005 Europe/Middle East/Africa (EMEA) spending is actually projected to surpass North American spending levels. Asia Pacific is expected to experience the most growth among the regions researched, and in so doing, will set a new precedent for IT efficiency. Conversely, IT spending in Latin America is expected to decrease.”

IDC believes that there will be “a modest rise in the U.S. growth rate, a mild rebound in Western European countries, continued weakness in Japan and Latin America, and continued high growth in emerging markets like Central and Eastern Europe and Asia Pacific.”

In Asia/Pacific, Gartner found “Spending on IT by organizations in Asia/Pacific will grow at a compound annual rate of 7.1 percent from 2003 through 2008 to reach $284 billion. China is the largest market by far, with spending nearly double that of second-place Australia.”

IDC backs up Gartner’s predictions for Asia/Pacific: “IT spending in Asia/Pacific Excluding Japan (APEJ) is expected to remain robust in 2005, replicating its growth of 10% in 2004, over the prior year, in constant U.S. dollar terms. Total IT spending in the region will reach US$97 billion in 2005, driven by a healthy 15% growth in China (excluding Hong Kong) and 22% growth in India.” IDC also states that they expect “modest improvement in Western Europe, strong growth in the emerging IT economies of Central and Eastern Europe, China, and India, and growth struggles in Japan and Latin America. Of these assumptions, European recovery has the greatest downside risk.”

Consensus Opinion

Our consensus opinion based on the views of the leading IT analyst firms is that IT spending will increase between 3% to 4% in 2005. As was the case last year, we share the analyst firms' belief that SMBs will outspend large enterprises, with large enterprise spending remaining relatively flat. In many respects, IT spending in 2005 will be very similar to the patterns seen in 2004. There is still no big "next thing" in IT to spur increased spending, and companies are continuing to maximize their investments in the IT purchases they have made over the last several years.

For applications, based on our daily review of analyst opinions and the "What's Hot and What's Not" data collected for this report, our consensus opinion is that Security, Outsourcing, Business Intelligence, Regulatory/Compliance and VOIP will be the application areas experiencing increased IT investments in 2004. Outsourcing will also continue to grow in real terms and as a percentage of companies' IT budgets. Outsourcing is being driven in part by the ongoing trend to try to maximize the ROI on existing applications.

Compliance and regulatory requirements will continue to put a damper on IT spending in certain application areas as companies hold off on new investments until they are sure that they can meet regulatory requirements. The areas most heavily affected will be financial applications, ERP, and Supply Chain. Business Intelligence continues to benefit from compliance and regulatory issues as companies look to BI to help them meet reporting requirements.

For hardware, our consensus opinion is that we expect to see a significant investment in PC upgrades among enterprises and medium-size businesses, increased sales of blade servers, and increased spending for storage and storage management systems. Linux-based servers will continue to gain market share against Microsoft-based servers.

Geographically, the only countries with double-digit IT spending growth rates will be the ones that benefit the most from US and European outsourcing - India and China.

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Tables

Overall IT Spending

	Alinean Research	AMR Research	CIO Magazine	e-Marketer	Forrester	Gartner	IDC	META
Worldwide - All	+5% to +8%					+2.5% (survey of 1,300 CIOs from 30 countires)	+6.1% in 2005, +6.4% CAGR through 2008	+3 to +4% for 2005 and 2006, +7% in 2007
Worldwide - SMB				+6% to +8%	+4.8	+7%		+23% (companies w/ revenues less than $100 million)
Worldwide –Large Enterprise						+9%		+0% (companies w/ revenues exceeding $10 billion)
North America					+7% (+7% CAGR thru 2009)			
North America - Enterprise					+3.9%			
U.S.			+5,4% (from 1/05 CIO poll)		+7		+5.8% in 2005, +5.9% CAGR through 2008	
Canada					+4%			
U.S. SMB		+6.6%			+4.8% (survey of 1,200 SMB decision makers)			
European Enterprises					+2.9%			
Nordic Enterprises					+7.5%			
German Enterprises					-2.2%			
European SMB					+3.3%			
Asia/Pacific (excluding Japan)						+7.1% CAGR from 2003-2008	+10%	
China							+15%	
India							+22%	

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Software/Application Spending			
	Forrester	**Gartner**	**IDC**
Worldwide			+7%
North America	+7%		
U.S.	+3% (+7% CAGR thru 2009)		+6.6%
Asia/Pacific including Japan		+9.9% CAGR 2003-2008	+13%

- "Almost 60% of medium-size firms will buy security software, and one-quarter will purchase systems management help from providers like Microsoft. Application software, ranging from finance apps to tools to manage back-office complexity, will be high on the list for 36% of SMBs." – Forrester Research
- "In the $100 billion application market, it will become clearer that competition is moving away from developing "the killer app". Instead, applications software vendors like SAP, Oracle, and PeopleSoft, and middleware vendors including IBM and BEA, will continue jockeying to define and own "the killer application platform." - IDC

Hardware Spending			
	Forrester	**Gartner**	**IDC**
Worldwide			+6.2%
U.S.	+14% (+9% CAGR thru 2009)		

- "Gartner expects hardware purchases to remain near the typical 20 percent of the IT budget in 2005, due to increased data storage requirements and other hardware purchases carrying over from the recession." – As quoted by Alinean Research
- "In the hardware side of enterprise IT market, commoditization, with downward pricing pressure, will continue to squeeze suppliers. The growing acceptance of blade servers will put additional downward pressure on the overall server market while low-cost, high-capacity drives will bring about further price erosion in the storage market. Meanwhile, the semiconductor market will experience a correction in the first half of 2005, followed by a modest recovery." - IDC

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Services Spending			
	Forrester	Gartner	IDC
Worldwide			+5.7%
U.S.	+3% (+4% CAGR thru 2009)		+5%
Asia/Pacific including Japan			+13%

- "Companies will increase spending on outsourcing non-strategic activities, such as infrastructure and application maintenance, to a quarter of their budgets next year, from a fifth in 2004. Along those lines, market researcher IDC predicts that spending on IT services will expand at a nearly 7% compound yearly rate in the next five years." - IDC

What's Hot and What's Not in 2005	Alinean Research	AMI-Partners	AMR Research	CIO.com	Forrester	Gartner	IDC	META	Merrill Lynch	Nucleus Research	Yankee Group
Automated Provisioning					+						
Business Intelligence					+	+				+	
Compliance/Regulatory (includes SOX)	+			+	+		+			+	
Content Management					+						
Disaster Recovery					+						
Enterprise Performance Management			+								
Hosted CRM										-	
Hosted eCommerce										+	
Linux / Open Source		+			+		+			+	
Networking							+				
Outsourcing			+			+	+	+		+	+
Replacing/Upgrading OS					+						
Replacing/Upgrading PCs	+				+	+			-		
RFID					+					-	
Security	+	+		+	+	+	+	+	+	+	
Server Virtualization					+						
Software/Applications					+				+		
Storage				+							
VoIP		+					+				+
Web Application Development								+			
Web Services						+					

Key:
"+" indicates that an analyst firm believes the spending area will be hot in 2005
"-" indicates that an analyst firm believes the spending area will not be hot in 2005

(Please note that in this table, just because an analyst firm is not listed next to a spending area does not mean that they don't have an opinion, it just means that they did not make their opinions public.)

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