

Key Findings from the IT Budget Benchmark



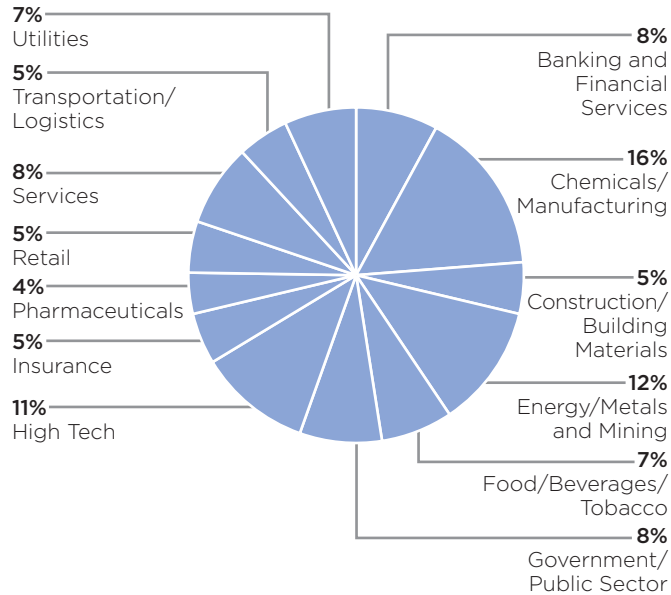
2015–2016

Nearly 160 organizations participated in this year's IT Budget Benchmark, representing \$40 billion in IT spending.

- The survey's scope includes:
 - Total IT expenditure allocations,
 - IT capital expenditures and IT project budgets,
 - IT operating expenditure allocations,
 - Outsourcing
 - Staffing and organizational structure, and
 - IT service models.
- After data were collected, we conducted validation tests to surface responses that were inconsistent or implausible. These data were either corrected by the respondent or removed.

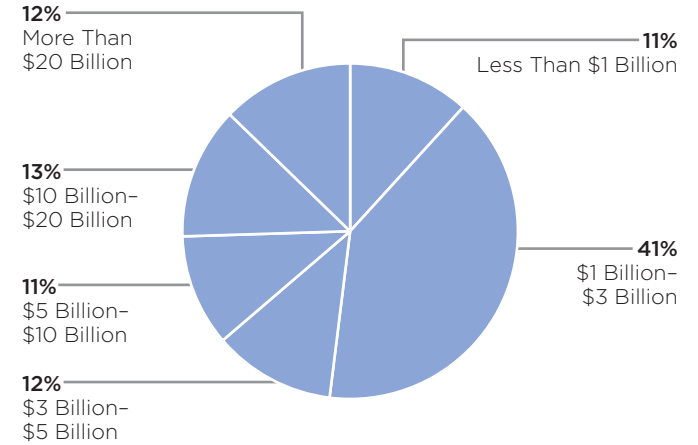
PARTICIPANT DETAILS FOR 2015-2016 COHORT

Respondents by Industry
Percentage of Responding Organizations



n = 154.
Source: CEB 2015 IT Budget Benchmark.

Respondents by Organization Revenue^a
Percentage of Responding Organizations, USD



n = 152.
Source: CEB 2015 IT Budget Benchmark.
^a Revenue is defined as net sales, excluding expected returns. Government organizations provided their agency's enacted budget/annual appropriations.

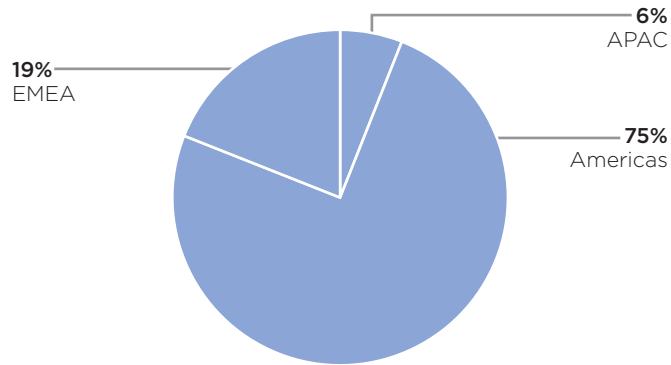
Beyond the traditional peer groups, such as industry, revenue^a, region, and sourcing strategy, CEB also benchmarks budget data based on business model and complexity of IT support environment.

■ Respondents were placed into peer groups for IT Support Environment based on their rating of their business entity on:

1. Complexity of Business Environment—Geographic Location, Stability of Company Workforce, Depth of External Relationships, Concentration of Knowledge Workers.
2. Information Intensity of product, services, and processes—Volume of Business Transacted Online, Use of Sensitive Data, Extent of Knowledge Work, Dependence on IP for Competitive Advantage.

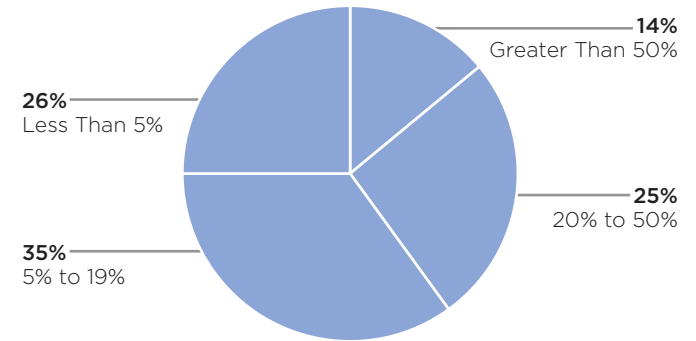
PARTICIPANT DETAILS (CONTINUED)

Respondents by Headquarters Region
Percentage of Responding Organizations



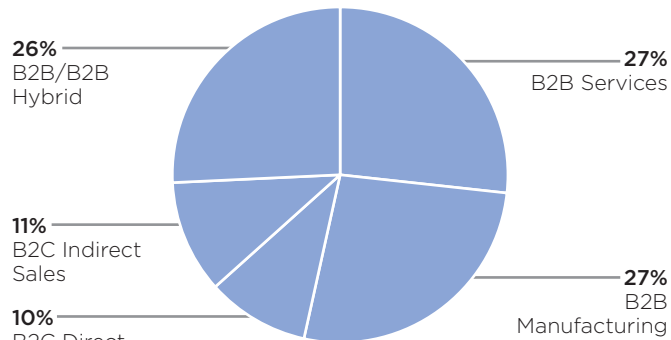
n = 154.
Source: CEB 2015 IT Budget Benchmark.

Respondents by Level of Outsourcing
Percentage of Responding Organizations



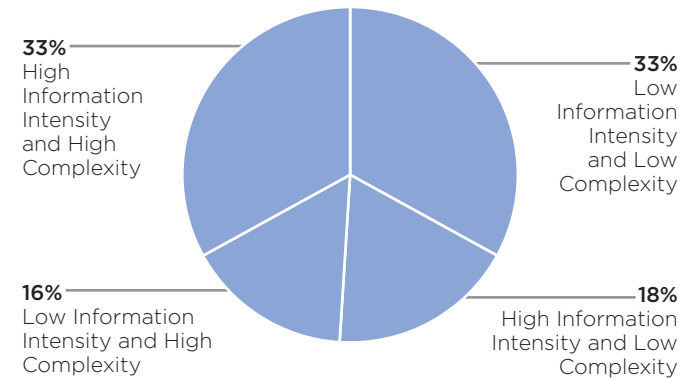
n = 154.
Source: CEB 2015 IT Budget Benchmark.

Respondents by Business Model
Percentage of Responding Organizations



n = 154.
Source: CEB 2015 IT Budget Benchmark.

Respondents by IT Support Environment
Percentage of Responding Organizations



n = 154.
Source: CEB 2015 IT Budget Benchmark.

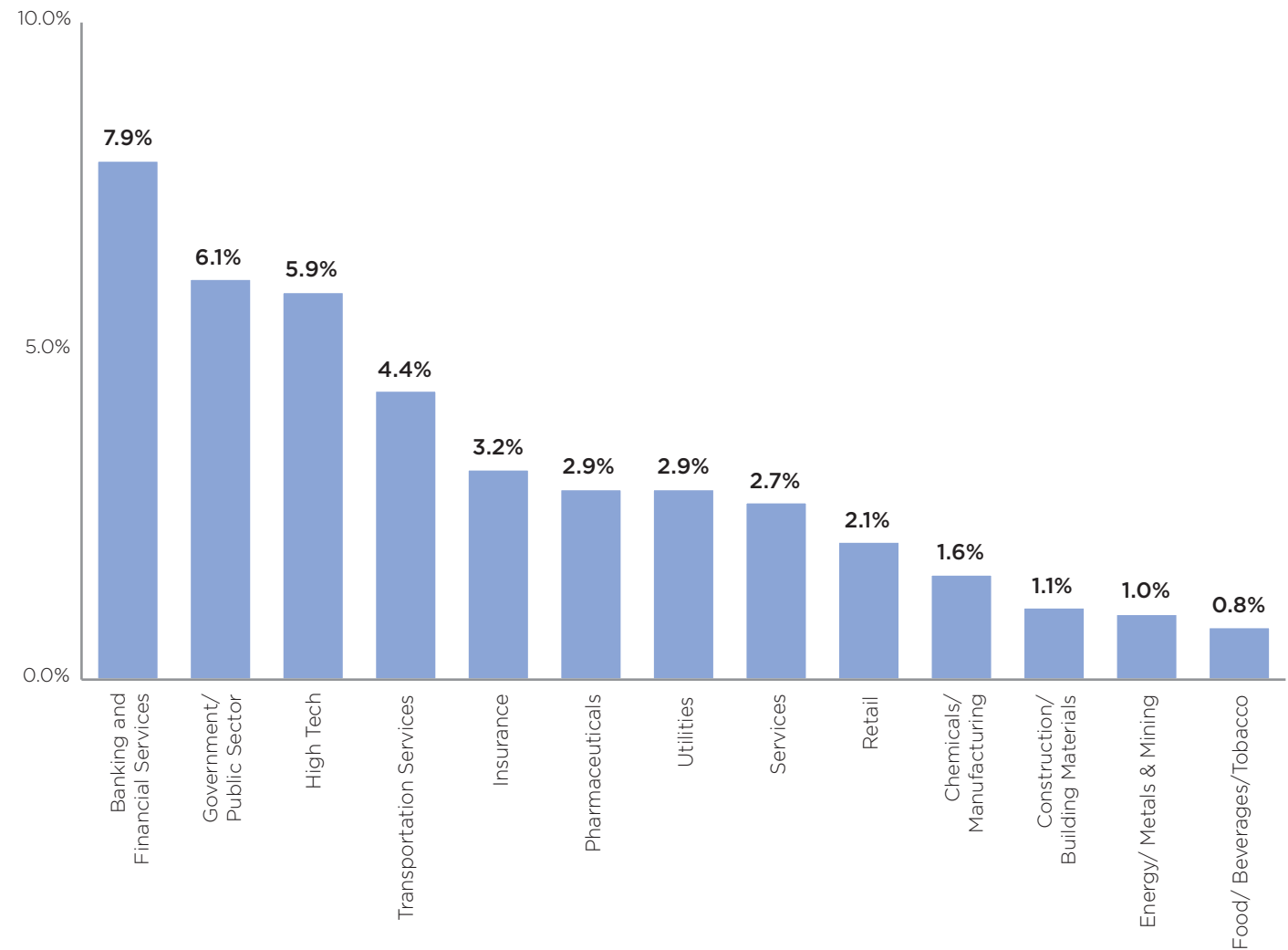
^a Revenue is defined as net sales, excluding expected returns. Government organizations provided their agency's enacted budget/annual appropriations.

Overall, IT spending as a percent of business entity revenue is 2.3% at the median.

- There is significant variation by industry, with Banking and Financial Services at the top end of the scale at 7.9% and Food/Beverages representing the opposite side of the scale at 0.8%.

IT SPENDING AS A PERCENTAGE OF REVENUE

Median in IT Expenditure as a Percentage of Business Entity Revenue
By Industry, 2015



n = 152.

Source: CEB 2015 IT Budget Benchmark.

Note: Total IT expenditure includes IT operating expenditure and IT capital expenditure.

KEY TAKEAWAYS

- 1 Expectations for 2016 IT budget growth at 2.2% are higher than actual budget growth from 2014 to 2015, but they are lower than IT organizations' predictions from the last several years.
- 2 Spending patterns among IT functions diverged. IT organizations that still own delivery of most technology projects grew their budgets last year at 5.1% while IT organizations that more frequently act as advisors saw their budgets shrink by 2.3%.
- 3 Shrinking IT budgets no longer necessarily represent a negative sign of enterprise technology spending, while growing IT budgets may not represent a healthy growth in enterprise technology investment. IT budget growth needs to be viewed through the lens of IT's posture towards technology projects in the rest of the enterprise.
- 4 Adaptive IT organizations – those that most frequently act as advisors rather than owners of technology projects – are much more likely to have flexible budgets, spend more on analytic and user-focused projects, have high levels of business engagement, and support staff involvement in learning and innovation.
- 5 IT capex growth is slowing as more business-led IT, more cloud investments, and less infrastructure spending all weigh against the need for larger IT capital budgets.

ROADMAP FOR THE PRESENTATION

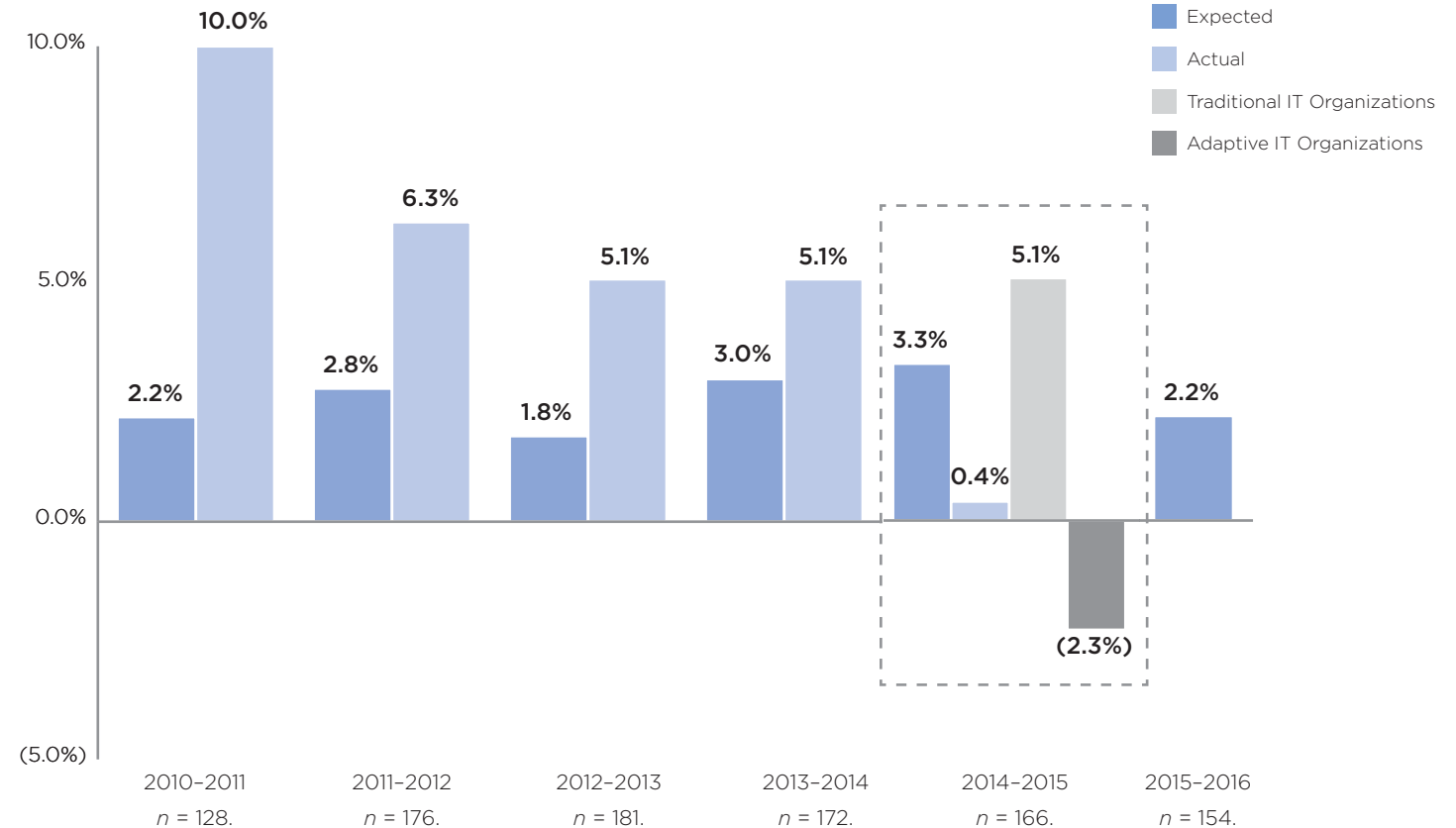


For the first time in five years, actual IT spending growth did not surpass expectations.

- These overall findings mask two distinct groups that have dramatically different spending patterns.
- Approximately one fourth of the surveyed companies indicate that they flex freely in their role in IT decisions between owning technology delivery and advising others on technology delivery.
- These **Adaptive IT organizations** experienced lower growth in total IT spending from 2014 to 2015 as they were less likely to directly own technology projects as funding was channeled through business leaders' organizations instead of IT budgets.
- More **Traditional IT organizations** that still own delivery of most technology projects grew their budgets last year at 5.1%

TOTAL IT SPENDING TRENDS

Median Expected and Actual Change in Total IT Expenditure
2010-2016(E)



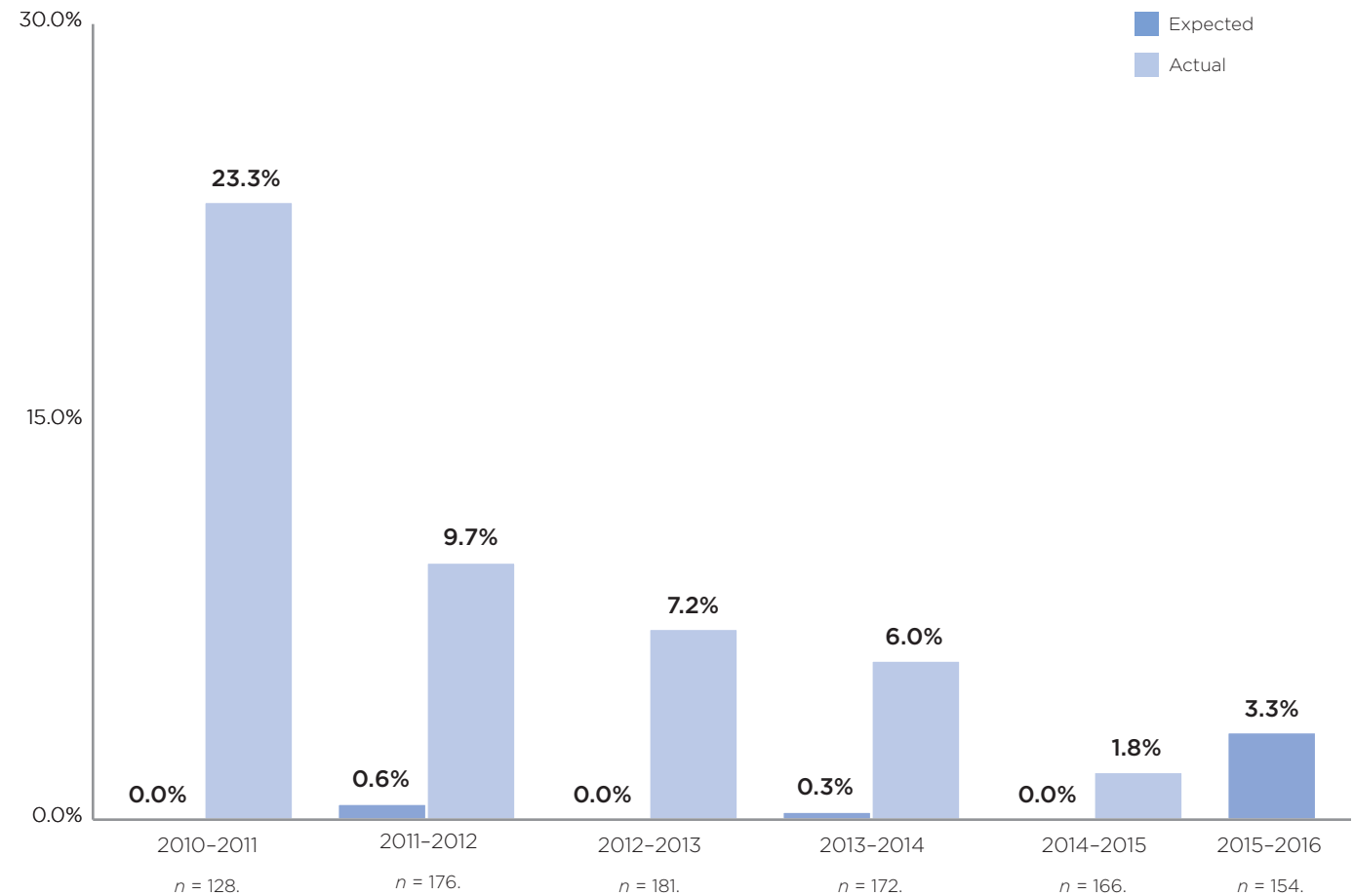
Source: CEB IT Budget Benchmark.

While CIOs often forecast that capex will remain flat for the coming year, actual capex growth has ranged from roughly 6% to 20% over the last five years. In 2015, actual capex growth was only 1.8%, the lowest in five years.

- **Traditional IT organizations** experienced capex growth from 2014 to 2015 of 4.5% at the median, which is in line with previous year's performance.
- **Adaptive IT organizations** experienced lower capex growth from 2014 to 2015 (0.0% at the median) as they enabled these capital dollars to be spent through business leaders' budgets.

CAPITAL EXPENDITURE TRENDS

Median Expected and Actual Change in IT Capital Expenditure 2010-2016(E)



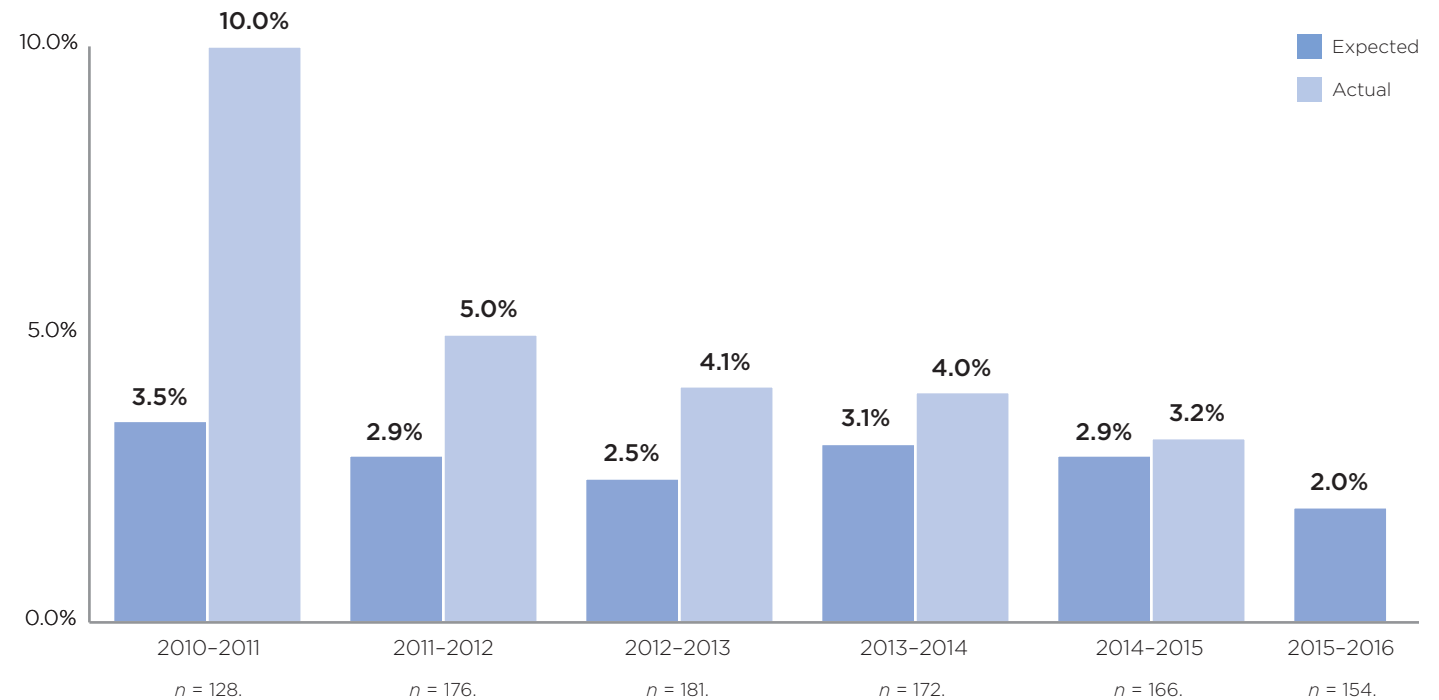
Source: CEB IT Budget Benchmark.

Across the benchmark, IT operating expense continues to grow at a strong rate.

- **Traditional IT organizations** experienced opex growth from 2014 to 2015 of 4.2% at the median, which is higher than the last several years.
- **Adaptive IT organizations** experienced lower opex growth from 2014 to 2015 (1.0% at the median) as they took advantage of operational efficiencies.

OPERATING EXPENDITURE TRENDS

Median Change in IT Operating Expenditure from the Previous Year
2010-2016(E)



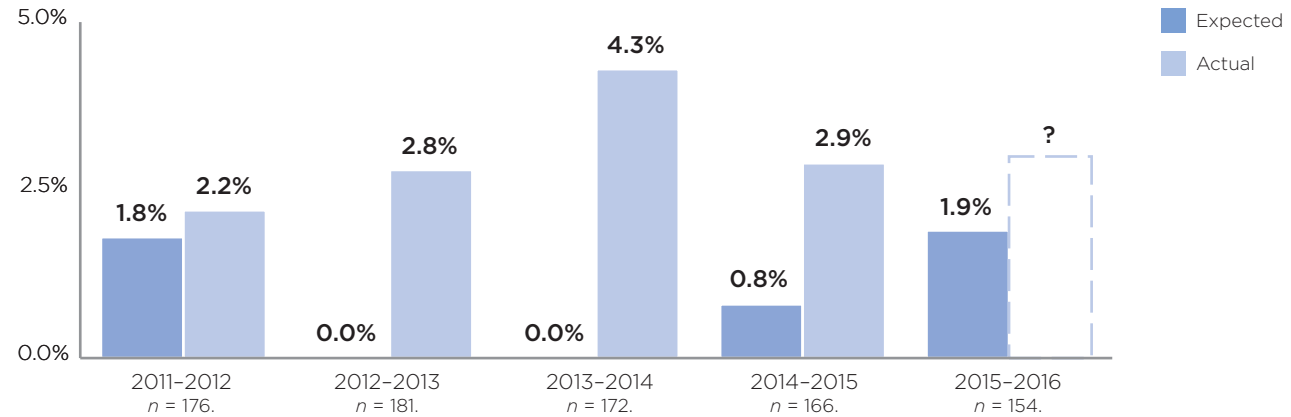
Source: CEB IT Budget Benchmark.

2016 staff growth may outpace current projections.

- While IT teams expect to grow 1.9% at the median, teams may expand further as the 2016 project queue is finalized and staff needs become more clear.
- While staff projections may fluctuate beyond expectations, allocation by sub-function is likely to hold steady, as it has in years past.
- Both Traditional IT organizations and Adaptive IT organizations experienced growth in IT team size 2014 to 2015, at the median. Traditional IT organizations grew 2.7% and Adaptive IT organizations grew 3.3%.

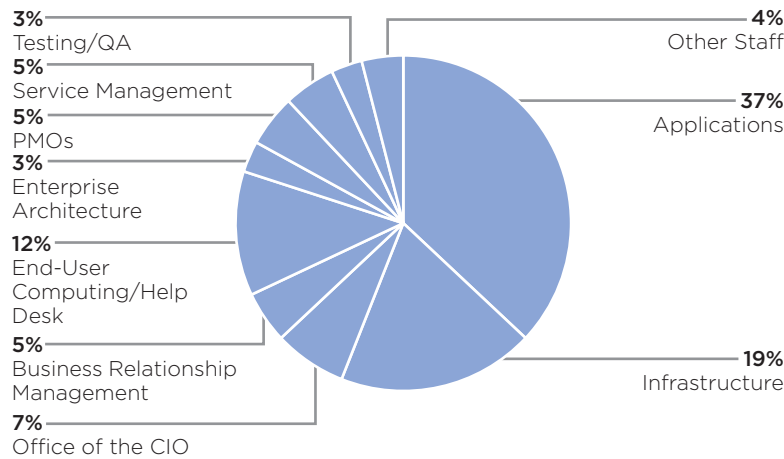
IT STAFF TRENDS

Median Change in Internal IT Staff from the Previous Year
2011-2016(E)



Source: CEB IT Budget Benchmark.

IT FTEs by Sub-Function
2015



n = 154.

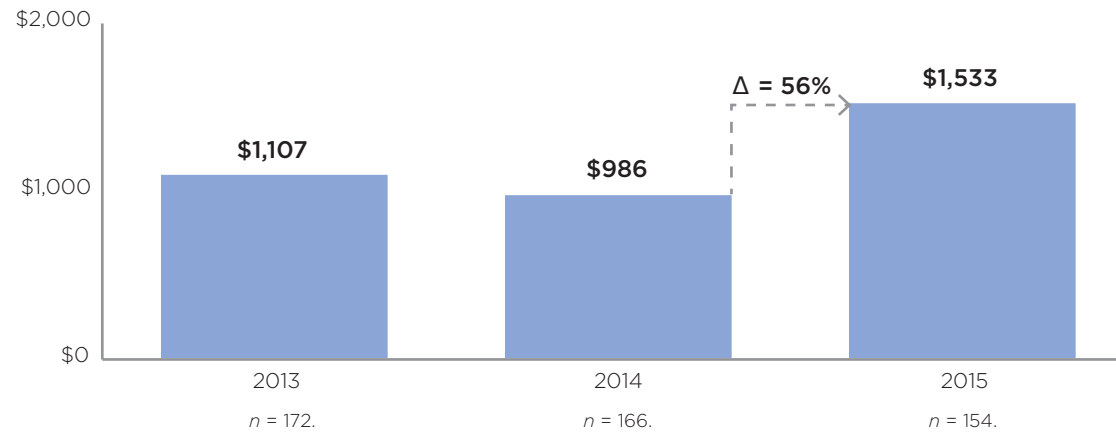
Source: CEB 2015 IT Budget Benchmark.

From 2014 to 2015, CIOs increased training spending per staff member by nearly 60%.

- More than one-fourth of training budgets are spent on building engagement competencies and collaboration/experimentation skills to prepare IT employees to offer the advice, resources, frameworks, and connections for business partners to exploit new digitization opportunities.
- Adaptive IT organizations spend more on training and invest training funds more heavily in emerging technology skills. For full details, see page 27.

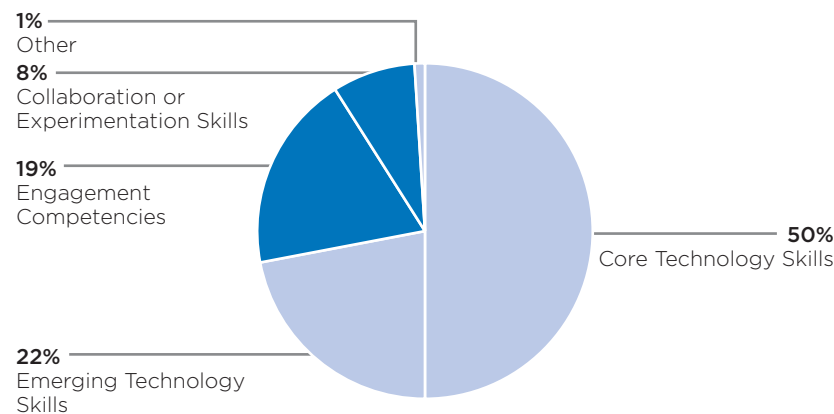
IT TRAINING BUDGET TRENDS

Training Budget Per Internal IT FTE
USD, 2013-2015



Source: CEB IT Budget Benchmark.

Allocation of IT Training Budget by Skill and Competency Type
Average Across Respondents, 2015



n = 154.

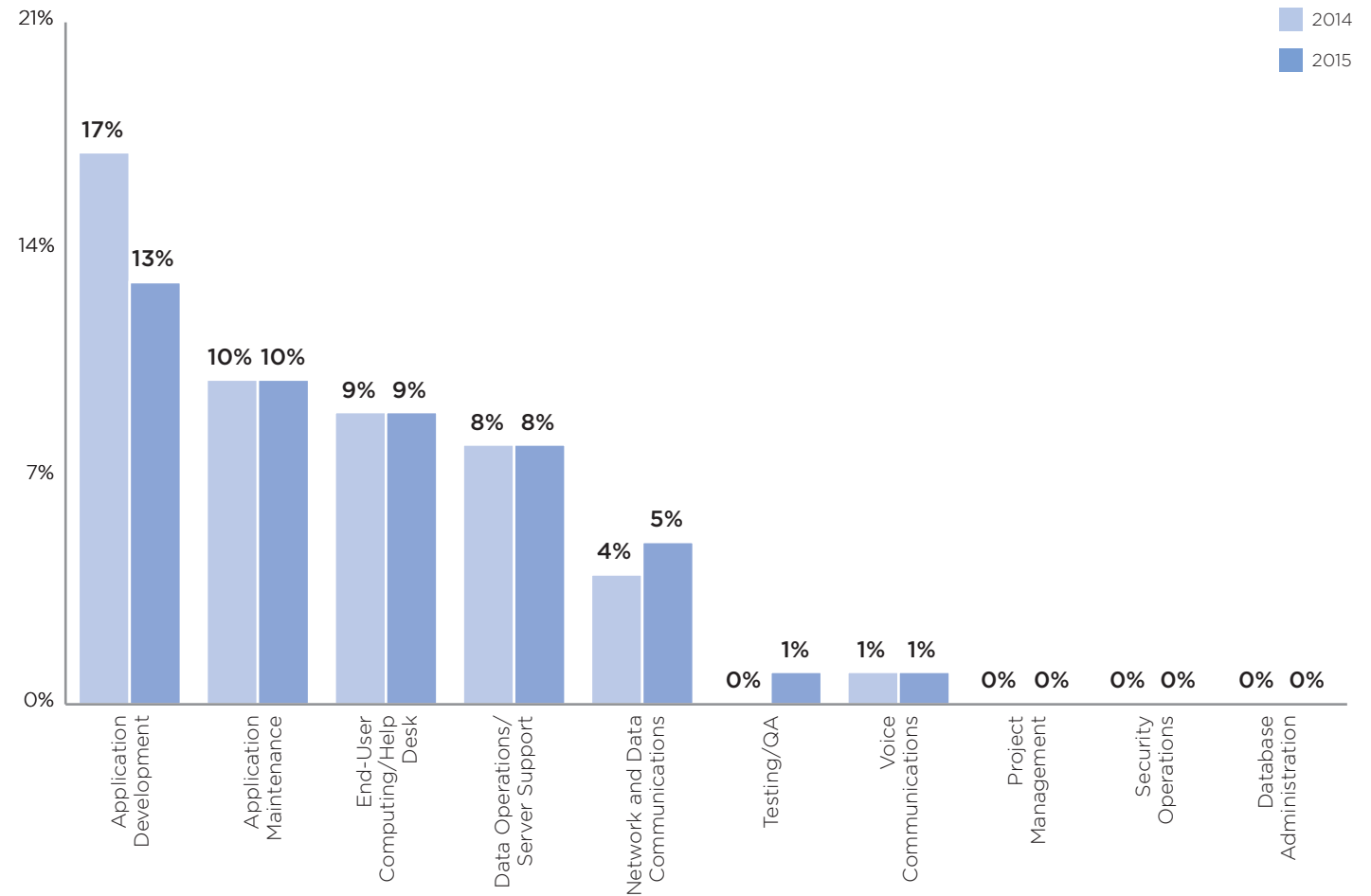
Source: CEB 2015 IT Budget Benchmark.

At the median, IT organizations outsource approximately 13.5% of their total IT spending.

- For the last several years, IT organizations have consistently outsourced applications development and applications maintenance with the highest frequency.

OUTSOURCING TRENDS

Median Percentage of Total Sub-Function Expenditure Outsourced
2014, 2015



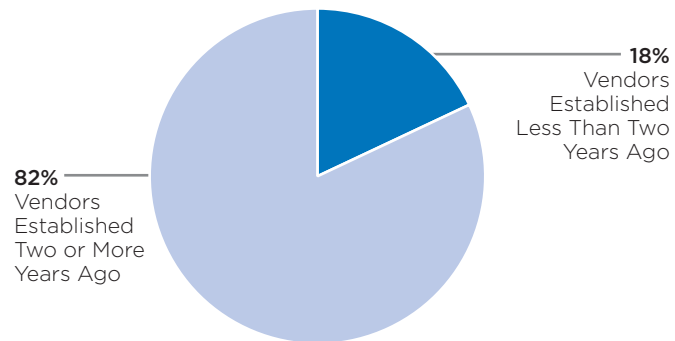
n = 166 in 2014; 154 in 2015.
Source: CEB IT Budget Benchmark.

CIOs report working closely with both new-to-world vendors and vendors with specific business expertise.

- Nearly one fifth of technology vendors in companies' sourcing portfolio are new-to-world vendors.
- CIOs also report that 40% of their vendors support a specific business niche rather than provide broad ecosystems of solutions.

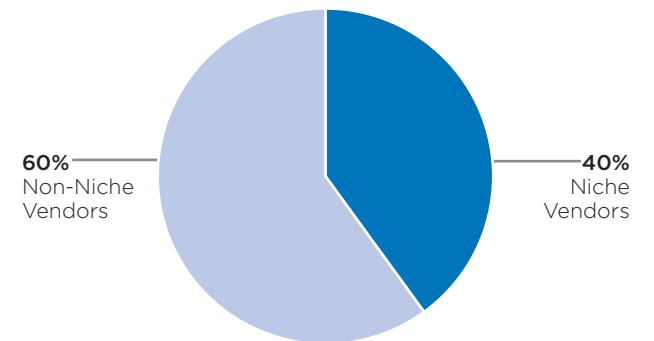
USE OF EMERGING VENDORS

Vendors Established Less Than Two Years Ago
Average Across Respondents, 2015



n = 154.
Source: CEB 2015 IT Budget Benchmark.

Vendors That Support Specific Business Needs
Average Across Respondents, 2015



n = 154.
Source: CEB 2015 IT Budget Benchmark.

ROADMAP FOR THE PRESENTATION

High-Level Spending
and Staffing Trends



**Detailed Budget
Allocation**



Adaptive IT
Organizations



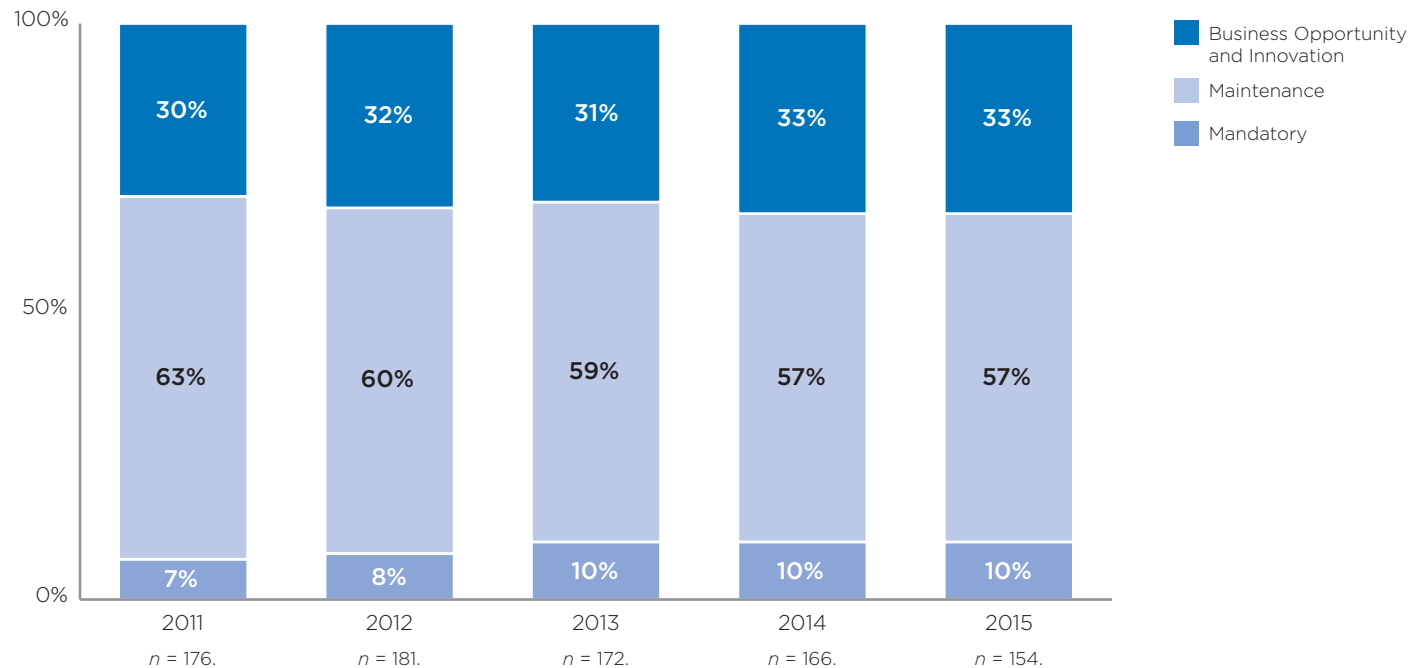
Key Takeaways

While nearly all CIOs aspire to invest more in building new capabilities, it is challenging to shift allocation away from “keeping the lights on.”

- CIOs were more successful in shifting the IT budget to Innovation and Business Opportunity in 2014 than in recent years and maintained these gains in 2015.
- This result is partially fueled by a steady reduction in the share allocated to maintenance spending, down from 63% in 2011 to 57% in 2014, which held steady in 2015.

STEADY INNOVATION AND BUSINESS OPPORTUNITY

Allocation of Total IT Expenditure by Asset Class
2011-2015



Source: CEB IT Budget Benchmark.

Business Opportunity: Investments that deliver new capabilities that drive the realization of business benefits; typically involve initiatives that expand your organization’s current line of business (e.g., a new customer-facing system).

Innovation: Transformative sources of competitive advantage; investment returns are typically hard to measure; typically involve initiatives that are outside your organization’s current line of business (e.g., a system for sharing competitive intelligence).

Maintenance: Projects designed to maintain existing service levels, reduce IT costs, or optimize existing IT assets (e.g., an ERP upgrade).

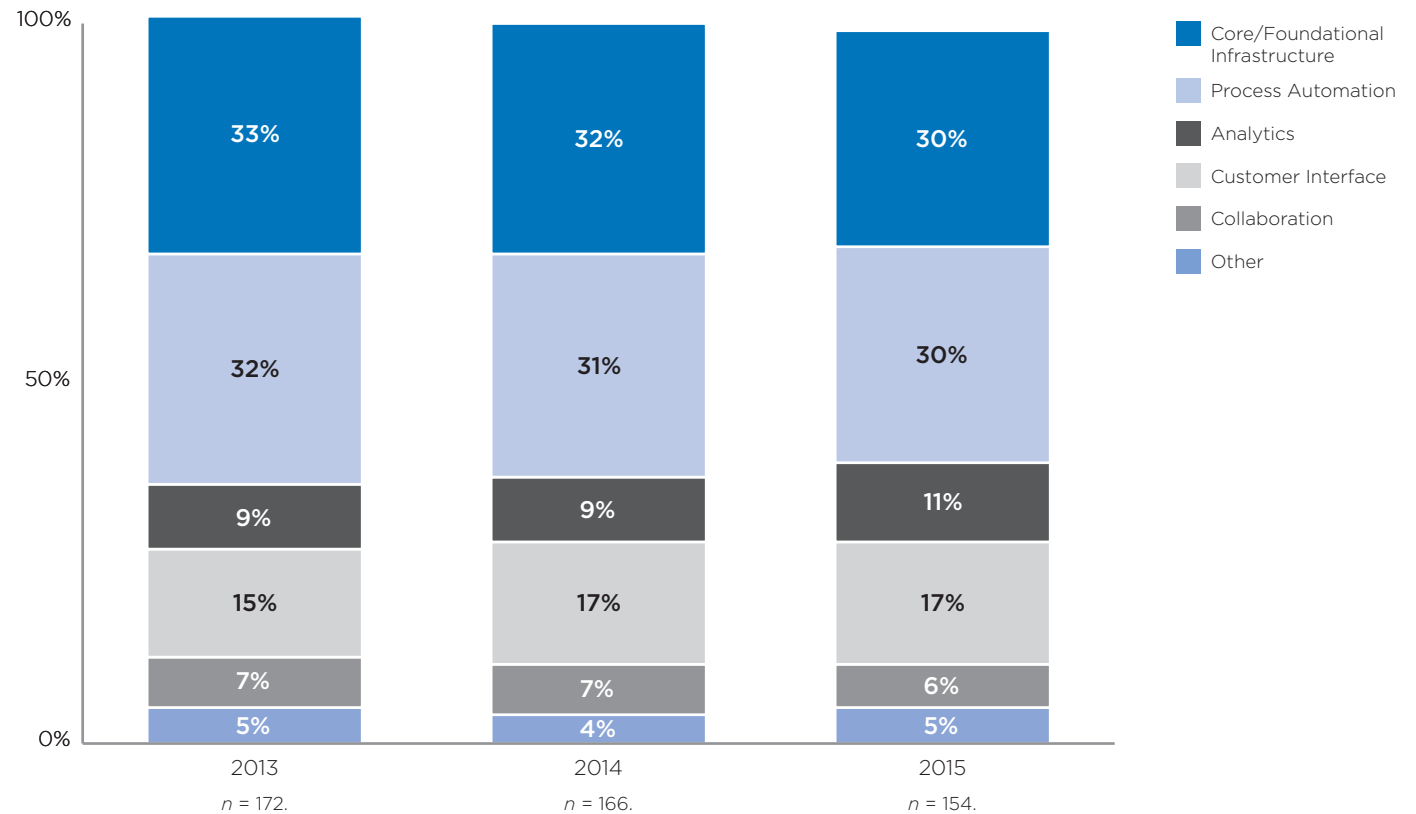
Mandatory: Investments required for legal or regulatory compliance (e.g., a payroll tax deduction system).

Companies continue to invest less on process automation and core infrastructure projects, compared to previous years.

- These two categories of spend have declined from 65% of the total IT project budget in 2013 to 60% in 2015.
- In place of more traditional IT projects, investments in analytics, customer interface, and collaboration have grown from 31% to 34% of the IT project budget from 2013 to 2015.

TRADITIONAL IT PROJECT INVESTMENT IS DECLINING

Allocation of IT Project Budget by Enablement Types
2013-2015



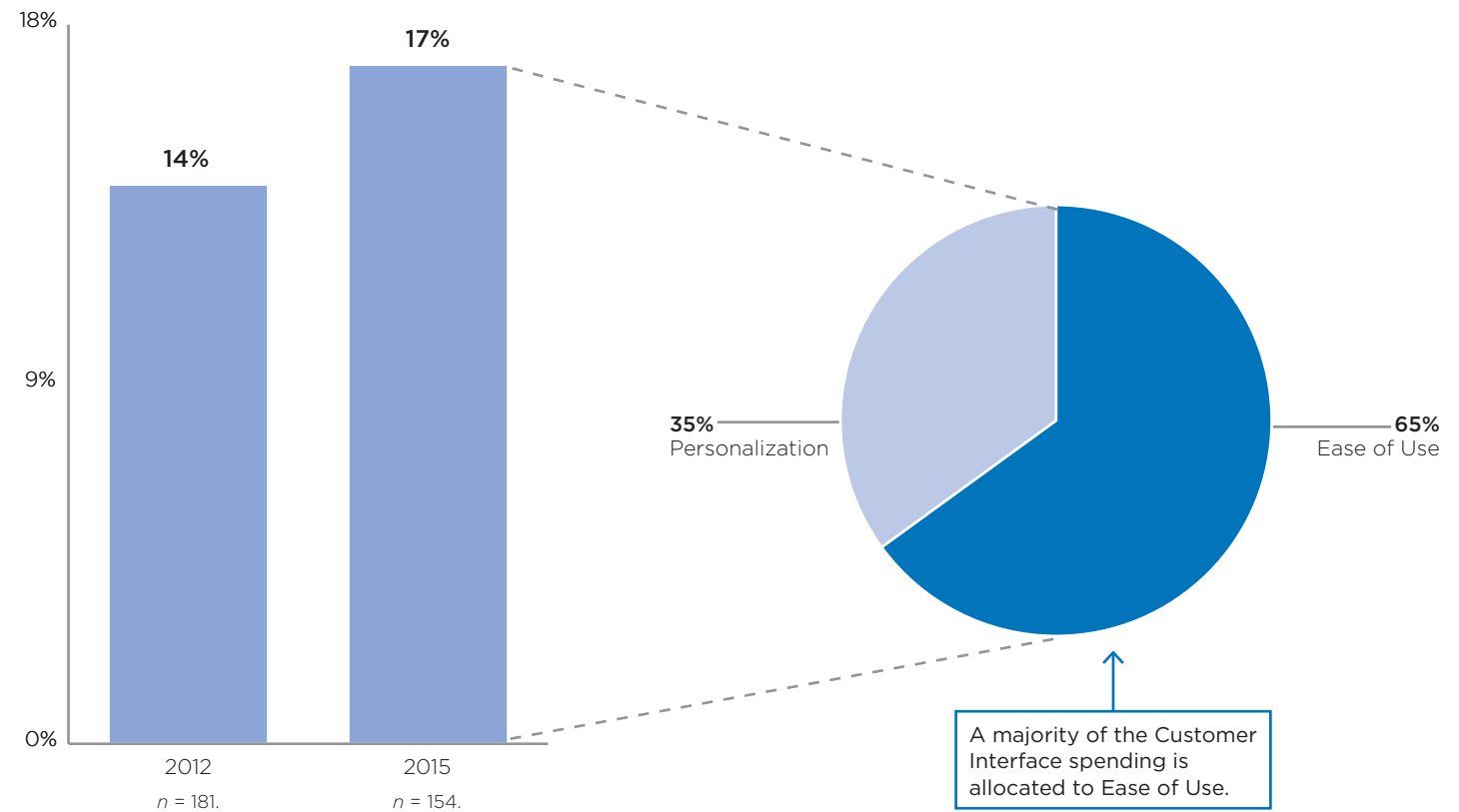
Source: CEB IT Budget Benchmark.
Note: Total may not equal 100% due to rounding.

In response to rising expectations for technology ease, CIOs are allocating more budget to the end-customer experience in 2015 than in years past.

- With reducing customer effort top of mind for many CIOs, 65% of Customer Interface spending is allocated to ease of use.
- Additionally, the role of user-experience designer is expected to be present in at least 50% of companies by the end of next year, further underscoring IT's commitment to improvements in this area.

USABILITY TRUMPS PERSONALIZATION

Percentage of IT Project Budget Allocated to Customer Interface
2012, 2015



Source: CEB IT Budget Benchmark.

n = 154.

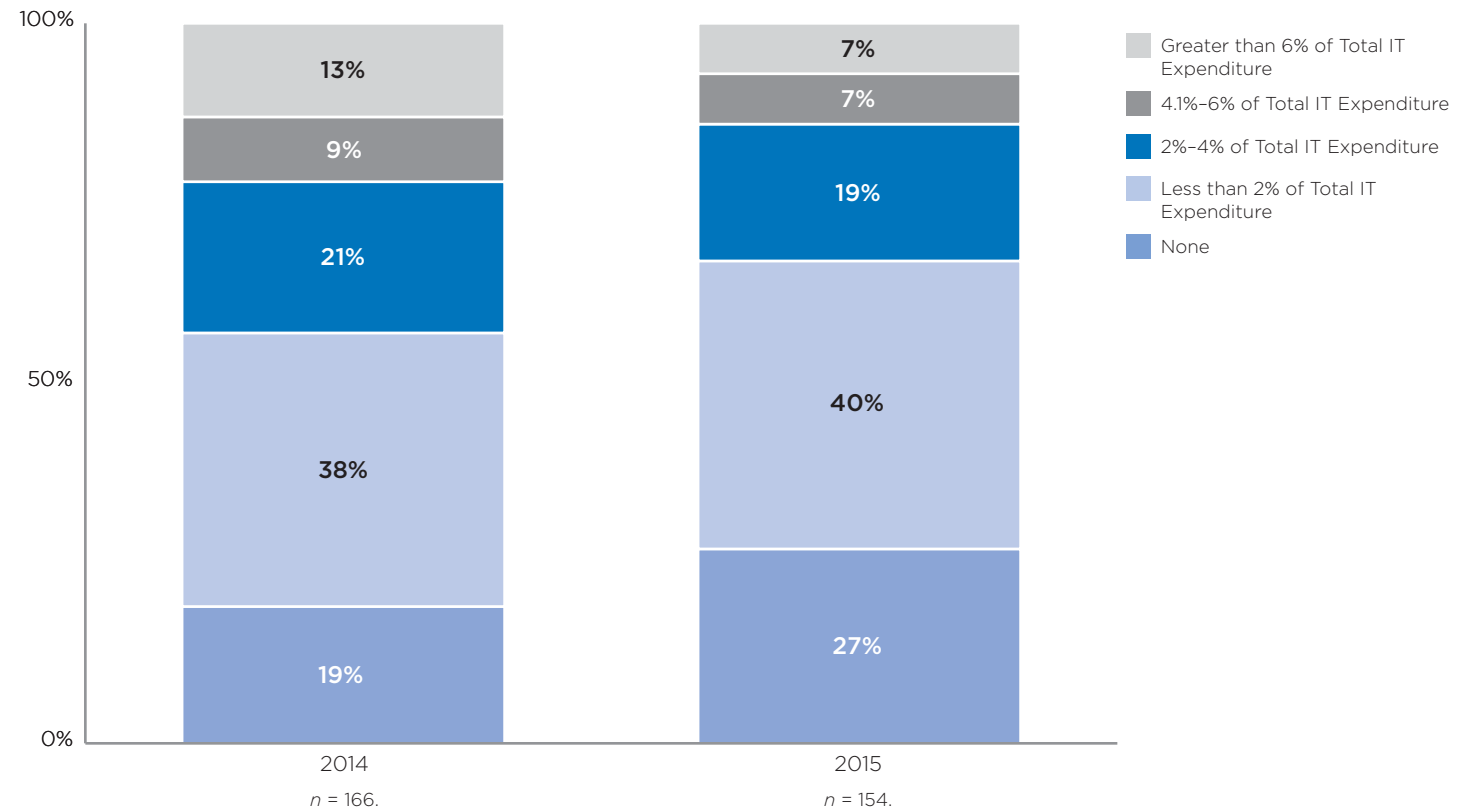
Source: CEB IT Budget Benchmark.

An increasing number of organizations are investing no portion of their IT budget in mobile applications development

- IT organizations that are spending in this area indicate that 57% of mobile application development spending is allocated to internal employees, indicating the importance of enabling employee productivity.
- Mobile application development spending includes foundational efforts (such as investment in new hardware, training, SOA services, etc.) as well as spending to develop new-to-world mobile applications and to convert currently existing applications to mobile versions.

RETRENCHMENT IN MOBILE SPENDING

Share of Total IT Expenditure Allocated to Mobile Applications
 Percentage of Respondents, 2014, 2015



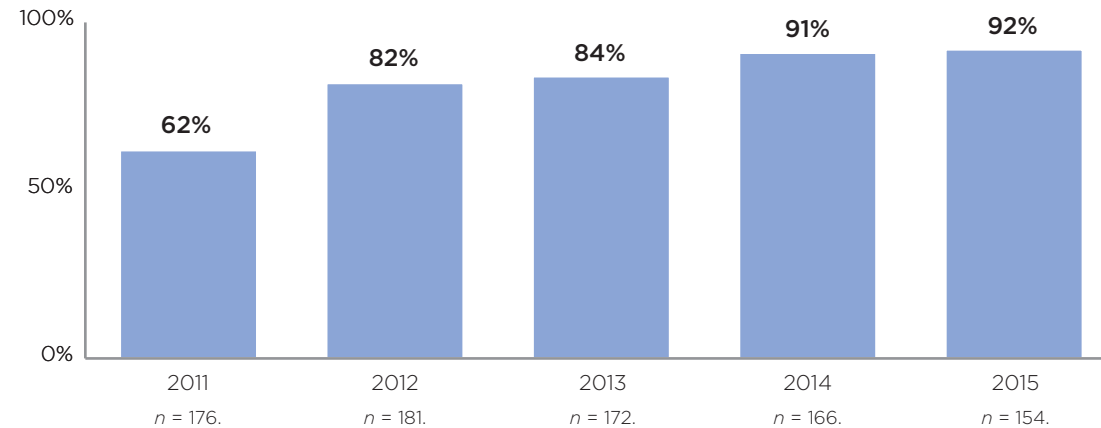
Source: CEB IT Budget Benchmark.

Adoption of cloud solutions is near universal—almost all CIOs are allocating at least some portion of their budget to cloud.

- Depth of deployment has also increased, with 45% of companies allocating at least 6% of spending to cloud solutions (up from just 20% in 2013).
- This rapid acceleration of investment in cloud-based solutions is driven by IT organizations' desire to enable greater service responsiveness and cost flexibility.
- While SaaS has been near universal for the past several years, 2015 marked the tipping point for IaaS. In 2014, 46% of companies reported use of this capability compared to 63% in 2015.

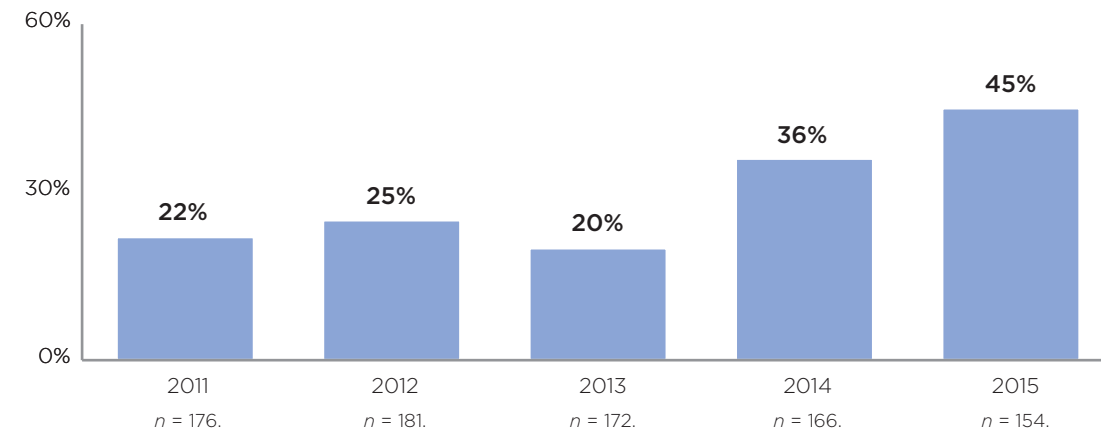
CLOUD INVESTMENTS ARE NEAR UNIVERSAL

Organizations Allocating At Least Some Portion IT Expenditure to Cloud Sourcing
Percentage of Respondents, 2011–2015



Source: CEB IT Budget Benchmark.

Organizations Allocating More Than 6% of IT Expenditure to Cloud Sourcing
Percentage of Respondents, 2011–2015



Source: CEB IT Budget Benchmark.

ROADMAP FOR THE PRESENTATION

High-Level Spending
and Staffing Trends



Detailed Budget
Allocation



**Adaptive IT
Organizations**

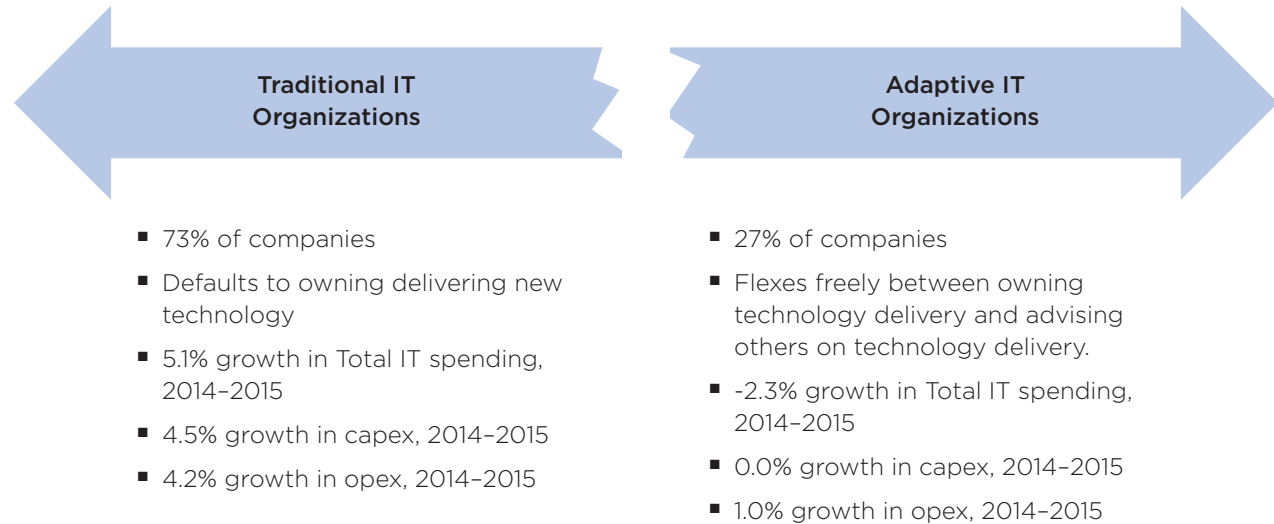


Key Takeaways

In 2015, spending patterns among IT functions diverged.

- The slower budget growth, particularly in capex, in Adaptive IT organizations suggests that these organizations are enabling the growth of their companies' technology budget at the expense of the corporate IT budget.

DIVERGENCE OF IT ORGANIZATIONS



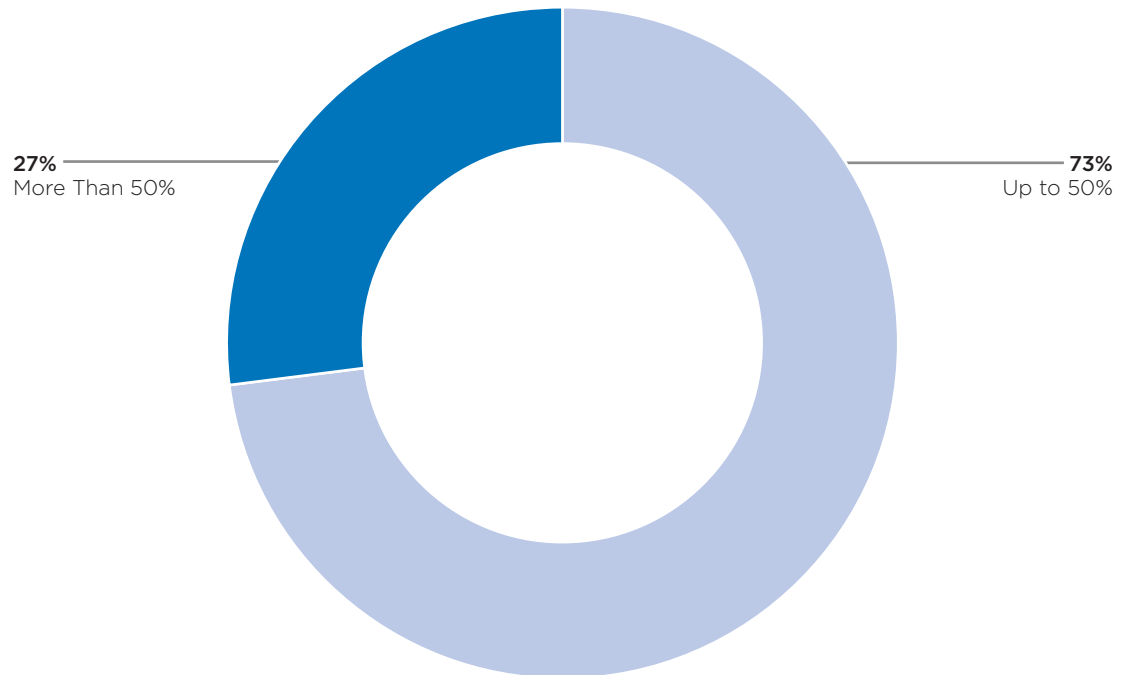
Source: CEB IT Budget Benchmark.
Note: All growth rates are median values.

Approximately one fourth of the surveyed companies had dramatically different spending patterns than the rest of the benchmark—we're calling them adaptive IT organizations because of how they operate.

- These adaptive teams report that corporate IT is much more likely to play an advisory role in technology projects, instead of owning those projects directly.
- In addition, Adaptive IT organizations:
 - invest in enabling staff to innovate,
 - focus on business engagement skills
 - spend less on traditional IT projects, and
 - flex to changing business needs.

WHAT IS AN ADAPTIVE IT ORGANIZATION?

Percentage of Portfolio Where IT Acts as Consultant or Advisor on Technology Projects
Percentage of Organizations, 2015

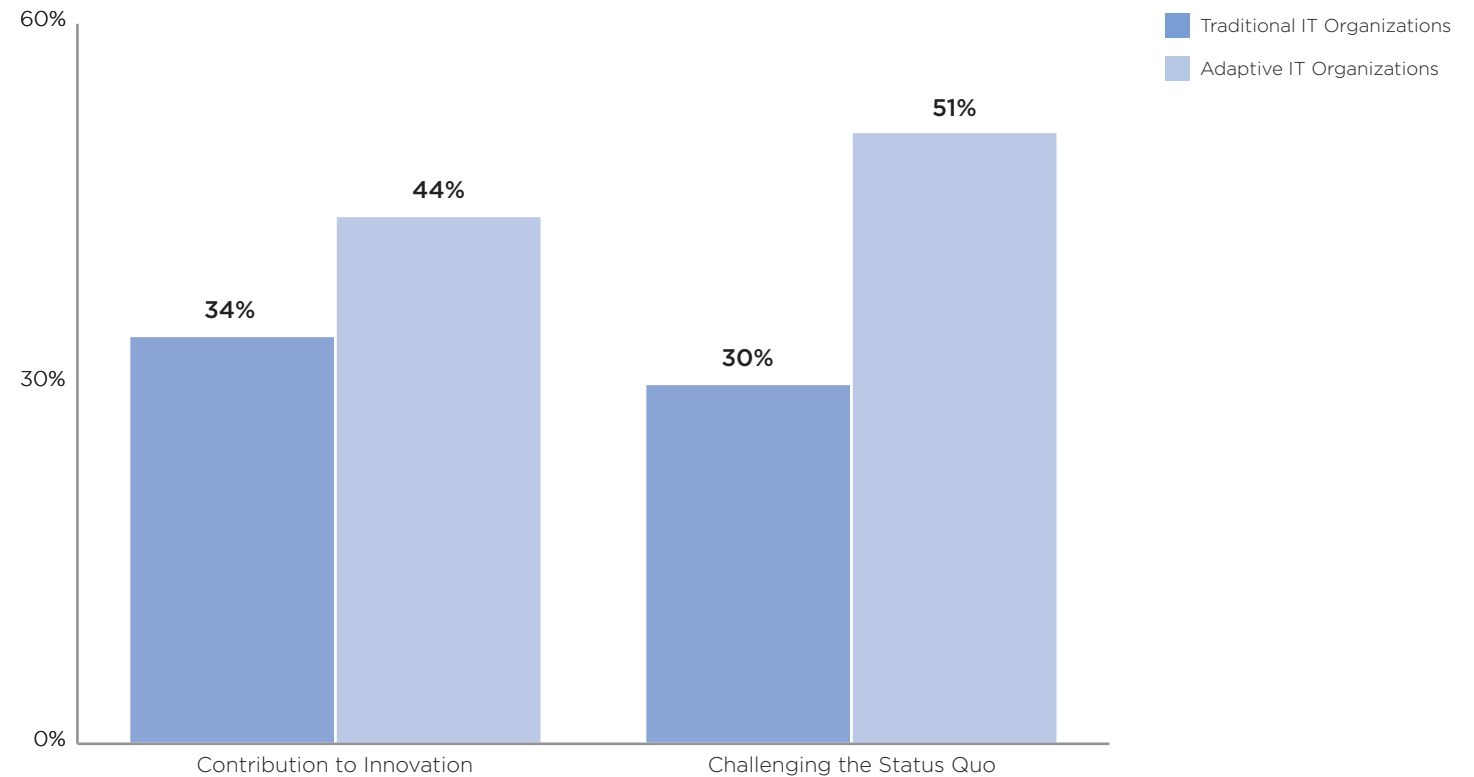


n = 154.
Source: CEB IT Budget Benchmark.

Adaptive IT organizations give their teams personal performance objectives focused on innovation and challenging the status quo.

A FOCUS ON INNOVATION AND CHALLENGER MBOS

Percentage of Staff with Innovation and Challenging the Status Quo MBOs
By IT Organization Type, 2015



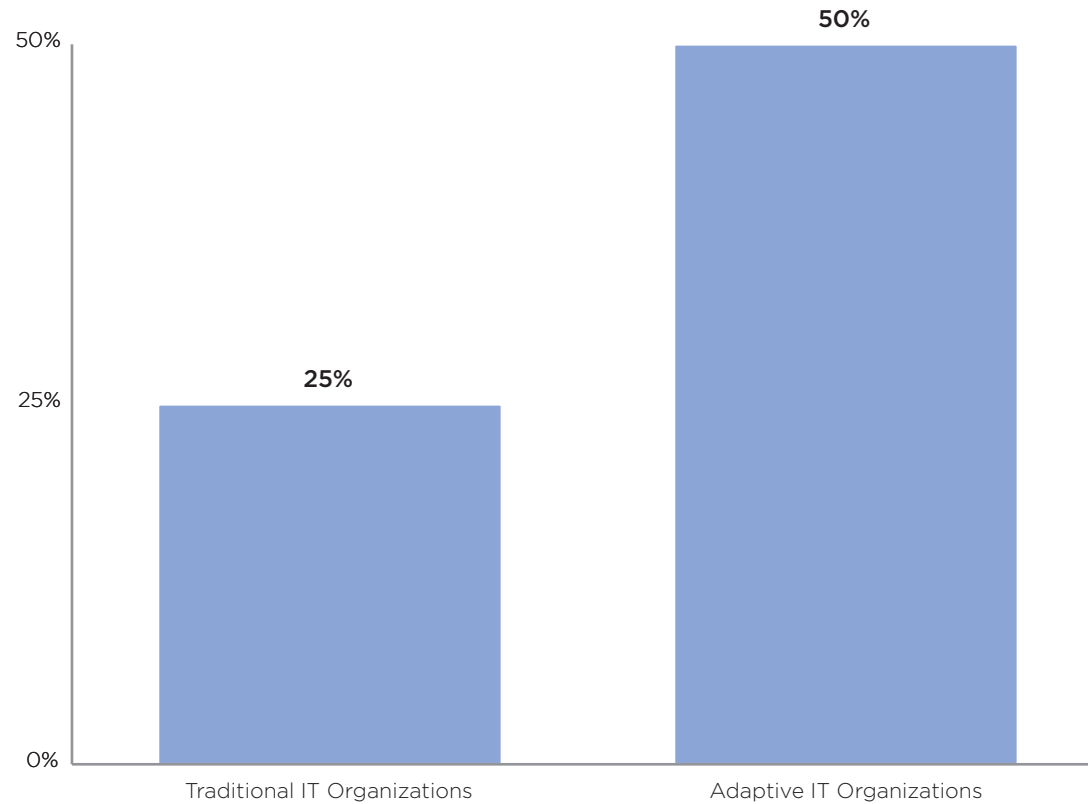
n = 154.

Source: CEB 2015 IT Budget Benchmark.

Adaptive IT organizations are more likely than their traditional IT peers to have staff with stronger business engagement skills.

A FOCUS ON STRONG BUSINESS ENGAGEMENT SKILLS

Percentage of Staff Who Are “Good or Excellent” at Business Engagement
By IT Organization Type, 2015

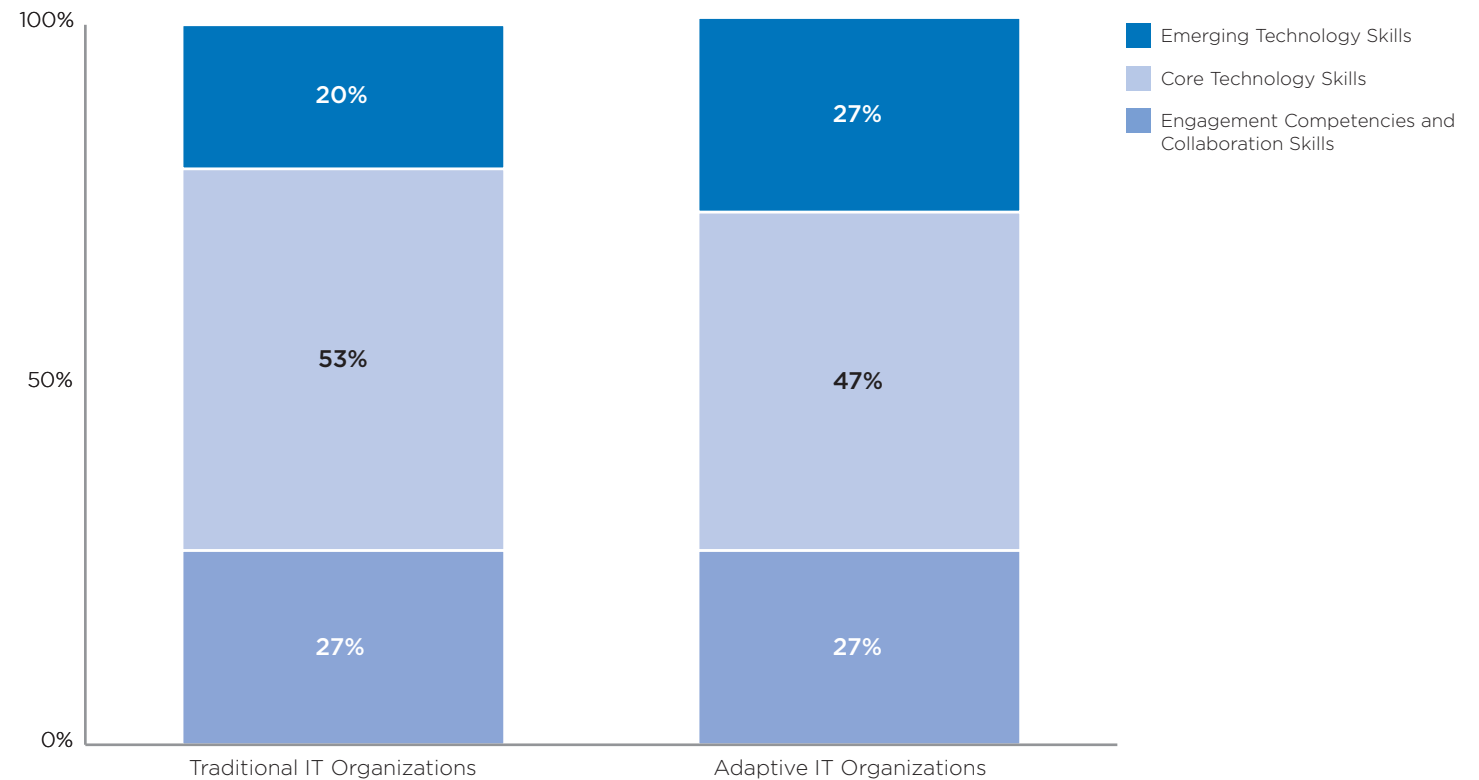


n = 154.
Source: CEB 2015 IT Budget Benchmark.

Adaptive IT organizations balance training dollars to ensure that IT employees are up to date on emerging technology skills, while reducing training in core technology skills.

EMPHASIS ON EMERGING TECHNOLOGY TRAINING

Allocation of IT Training Budget by Competency Type
By IT Organization Type, 2015

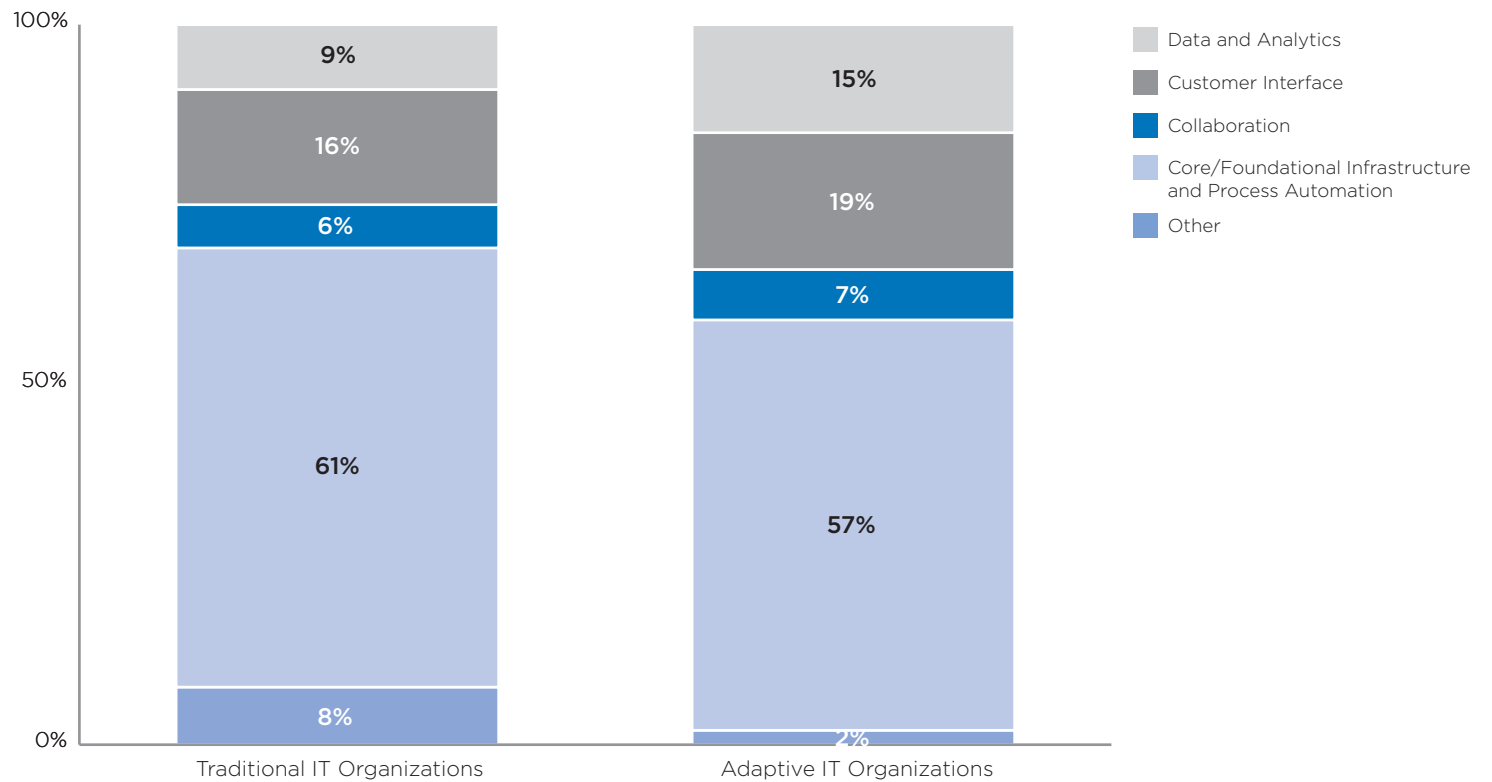


n = 154.
Source: CEB 2015 IT Budget Benchmark.

Adaptive IT organizations invest more heavily in data & analytics and customer interface projects and do so by reducing their investments in process automation and core infrastructure projects.

LESS SPENDING ON TRADITIONAL IT PROJECTS

Allocation of IT Project Budget by Enablement Type
By IT Organization Type, 2015



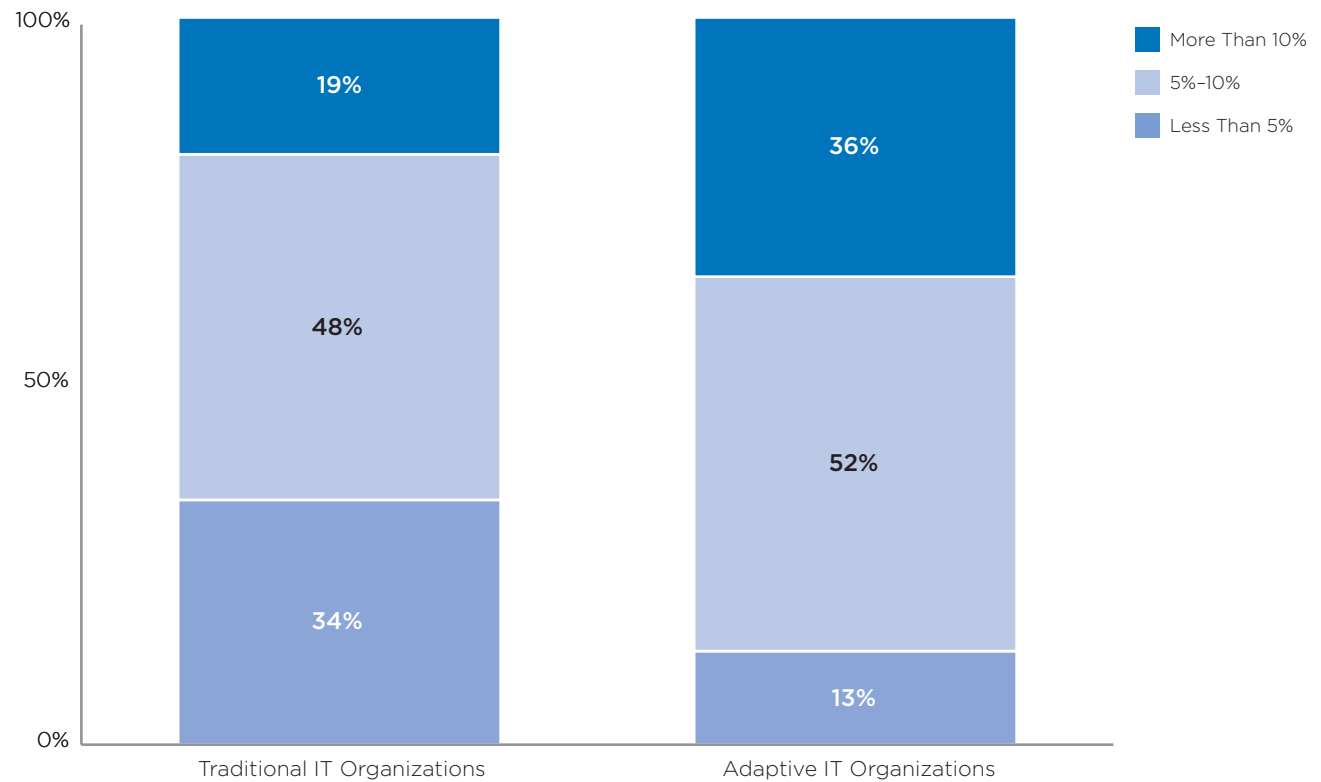
n = 154.
Source: CEB 2015 IT Budget Benchmark.

Adaptive IT organizations are more likely than their traditional IT peers to reallocate more of the IT budget in response to changing business needs.

- At the median, Adaptive IT organizations reallocate 10% of the IT budget while traditional IT organizations reallocate 5%.

MORE FLEXIBILITY IN SPENDING

Extent of Reallocation of the IT Budget in Response to Changing Business Needs
By IT Organization Type, 2015

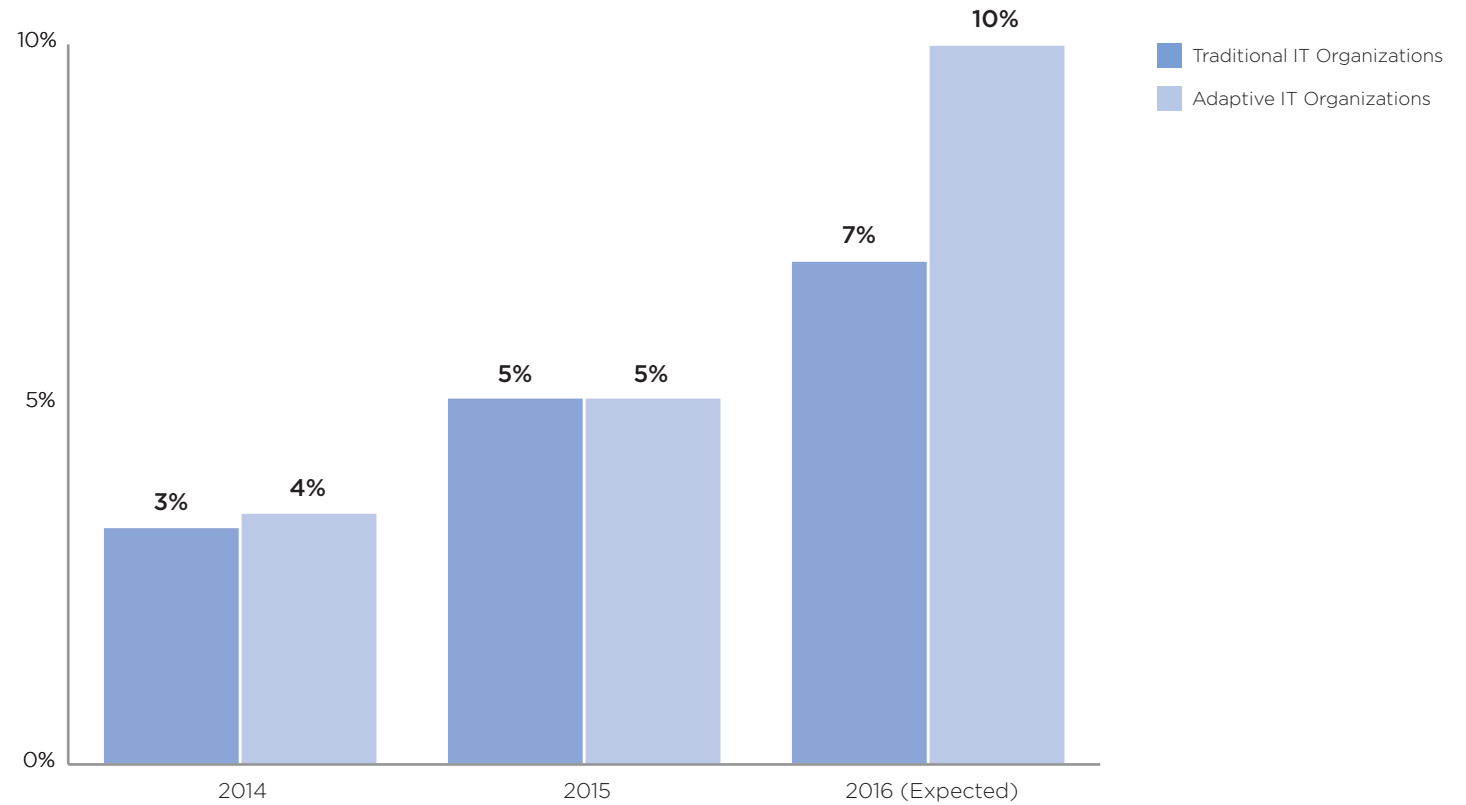


n = 154.
Source: CEB 2015 IT Budget Benchmark.

Adaptive IT organizations plan to invest more heavily in cloud solutions in 2016, widening the gap between these organizations and their traditional IT peers, as they seek to enable greater responsiveness to changing business needs.

GREATER EXPECTATIONS FOR CLOUD COMPUTING

Percentage of IT Budget Allocated to Cloud Sourcing
By IT Organization Type, 2014-2016 (Expected)



n = 154.
Source: CEB IT Budget Benchmark.

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