Enterprise IT Spending Trends

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Data and Survey Methodology

- This presentation is based on a number of sources
  - First, TNS conducted an online survey of roughly 400 IT decision makers in North America and Europe in late February 2009. Respondents are a mix of senior and mid-level IT managers with purchase influence authority from companies across a broad spectrum of industries and company sizes including Fortune 1000 organizations (minimum 250 employees).
  - Over half of respondents were CIOs and director level staff. We also include directional information on the Asia Pacific market based on in-depth interviews with IT decision makers and CIOs in that region.
  - The study examined the impact of the economic crisis on overall IT budgets as well as budgets for specific technologies, stages of technology deployment and how initial and total cost impact decisions. All results are weighted to reflect the company sizes within geography.

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Summary of Findings and Actions

Bottom Line Summary

- ***Spending down but not falling off cliff***
- ***Cloud computing gaining traction***
- ***Virtualization now in mainstream***
- ***Services are fastest to ramp up and ramp down in terms of spending***
- ***New Business and Engagement Models are emerging in AP due to financial downturn***

Actions for IT Vendors

- ***Stress TCO: still a critical factor in investment decision making***
- ***Untapped or non-penetrated emerging markets should be at the core of strategy***
- ***Invest in cloud solutions and partners for first mover position status***
- ***Avoid cutting too many corners in IT services investments***

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Many of near term spending requirements can be summarized in 5 major long term trends

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The IT industry is in its second transformation period

Pre 2001 | **2002 – 2008** | **2009+**

Pre 2001

- Multiple platforms for multiple applications
- Mainframe centric
- Source everything in-house
- CIO as technology influencer
- Infrastructure sprawl

2002 – 2008

- Single platforms for multiple applications
- Server centric
- Outsource Selectively
- CIO as business influencer
- Infrastructure consolidation

- IT spending focused on supporting company strategy
- Investments in areas supporting long term market leadership
- Adding fixed costs as first response
- Use technology to support revenue growth
- IT as cog in the wheel of change
- Tech spending growth of 1%- 5% year

2009+

- IT spending linked to financial performance of company
- CIO as business decision maker
- Investments only if they result in measurable short term ROI
- Variable cost additions as first response
- Use technology to increase efficiency
- IT as driver of process change
- Tech spending declines of 1%- 5% in next 12 to 24 months

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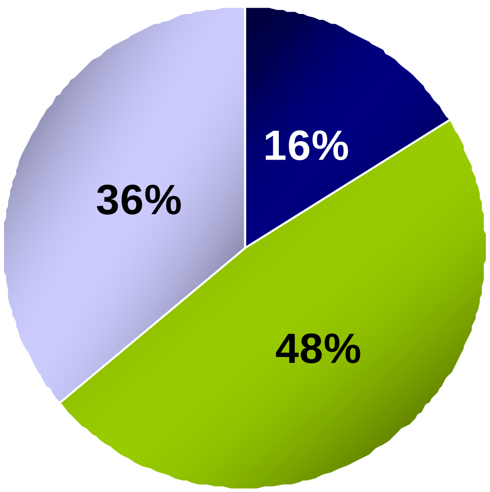
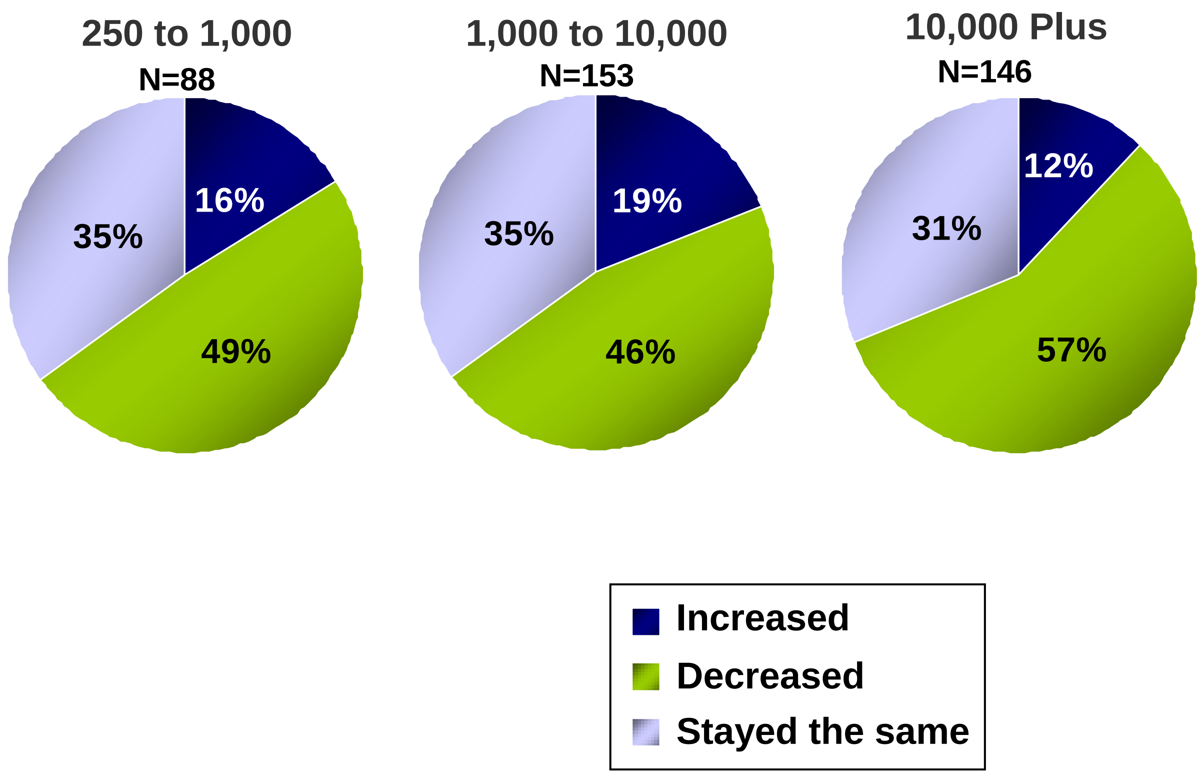
Overall Change in 2009 IT budget relative to 2008

- The news is challenging but not a disaster
- Relative to 2008 by company size … the largest companies are most conservative, they also have the largest discretionary budgets

Total
(n=387)



Relative to 2008 by Company Size



Question: Relative to 2008, the overall 2009 IT budget for my company has

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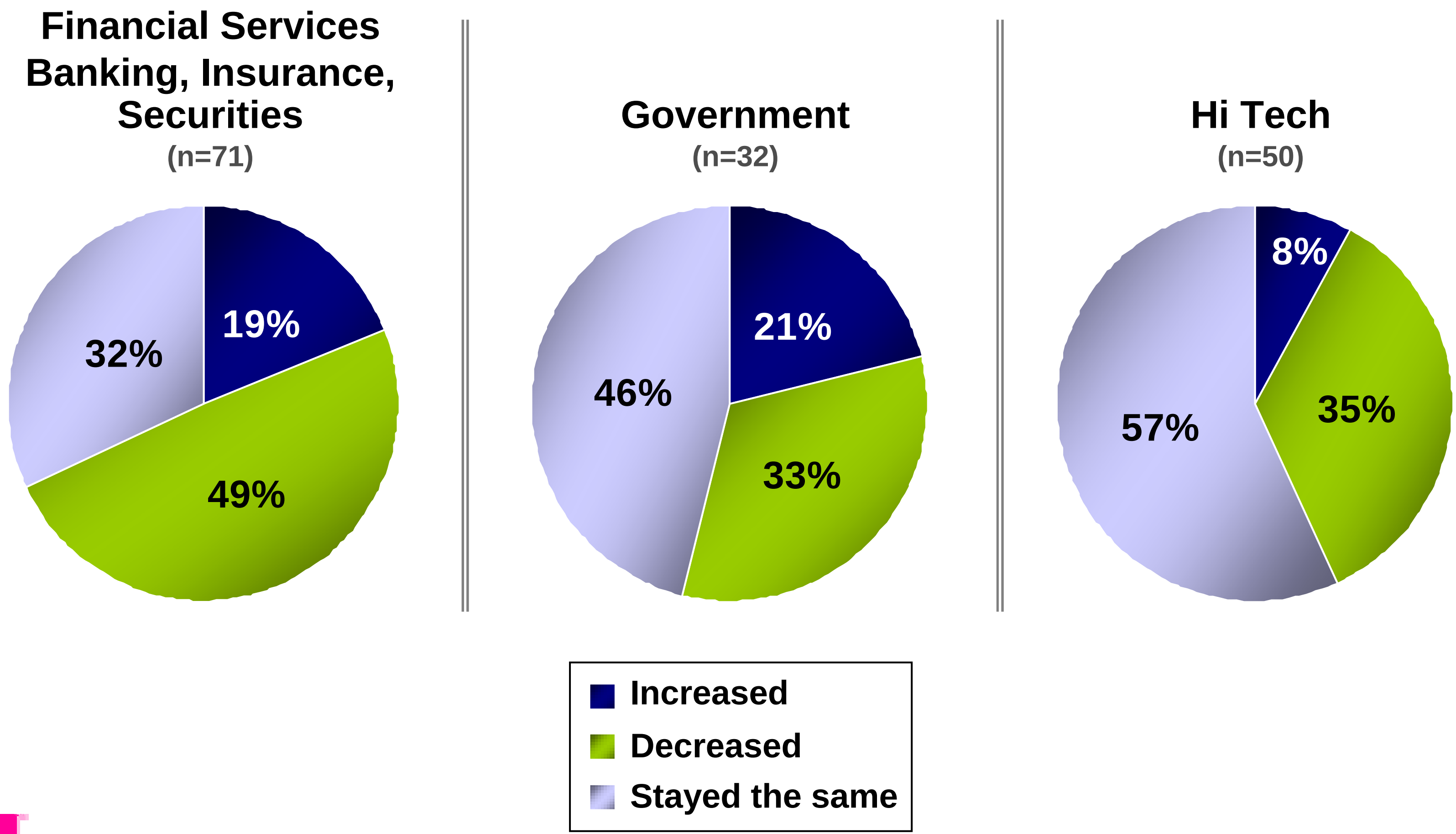
Overall Change in 2009 IT budget relative to 2008 *by Industry*

- Financial Services has the largest decrease, but it also has an average increase
- Tech is treading water



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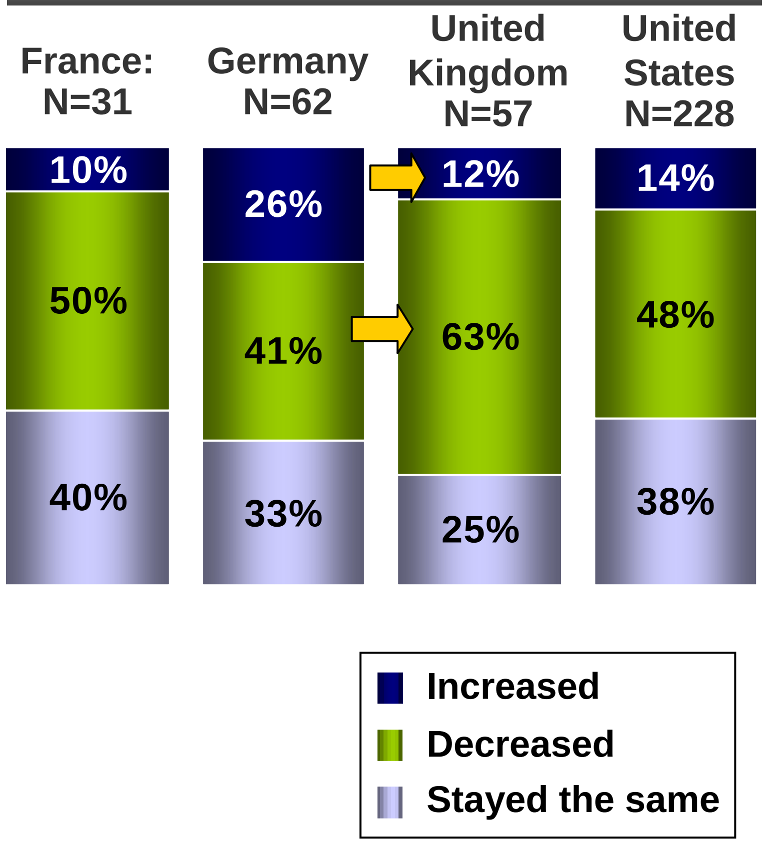
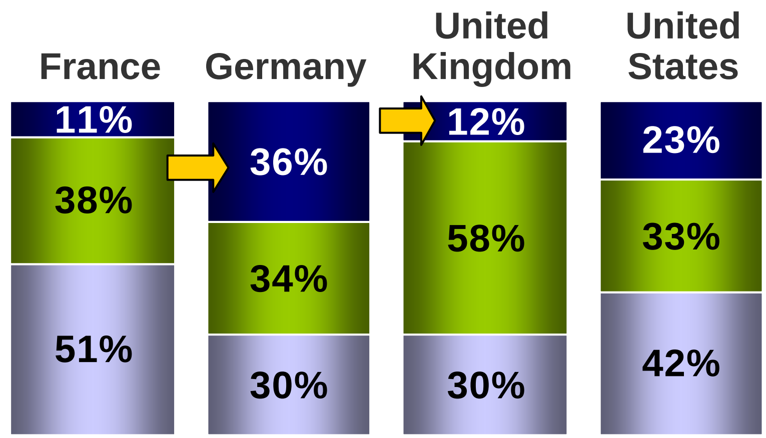
Overall Spending – By Country and Technology

- Spending in UK decreasing most significantly
- German market bifurcated

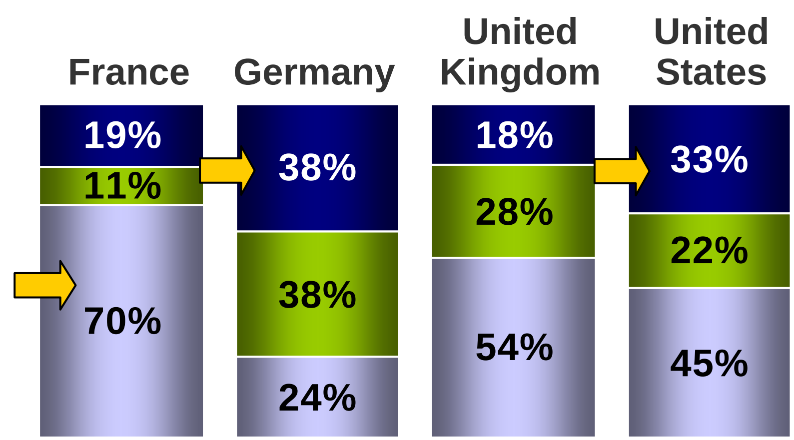
Overall By Country



Server



Storage Hardware



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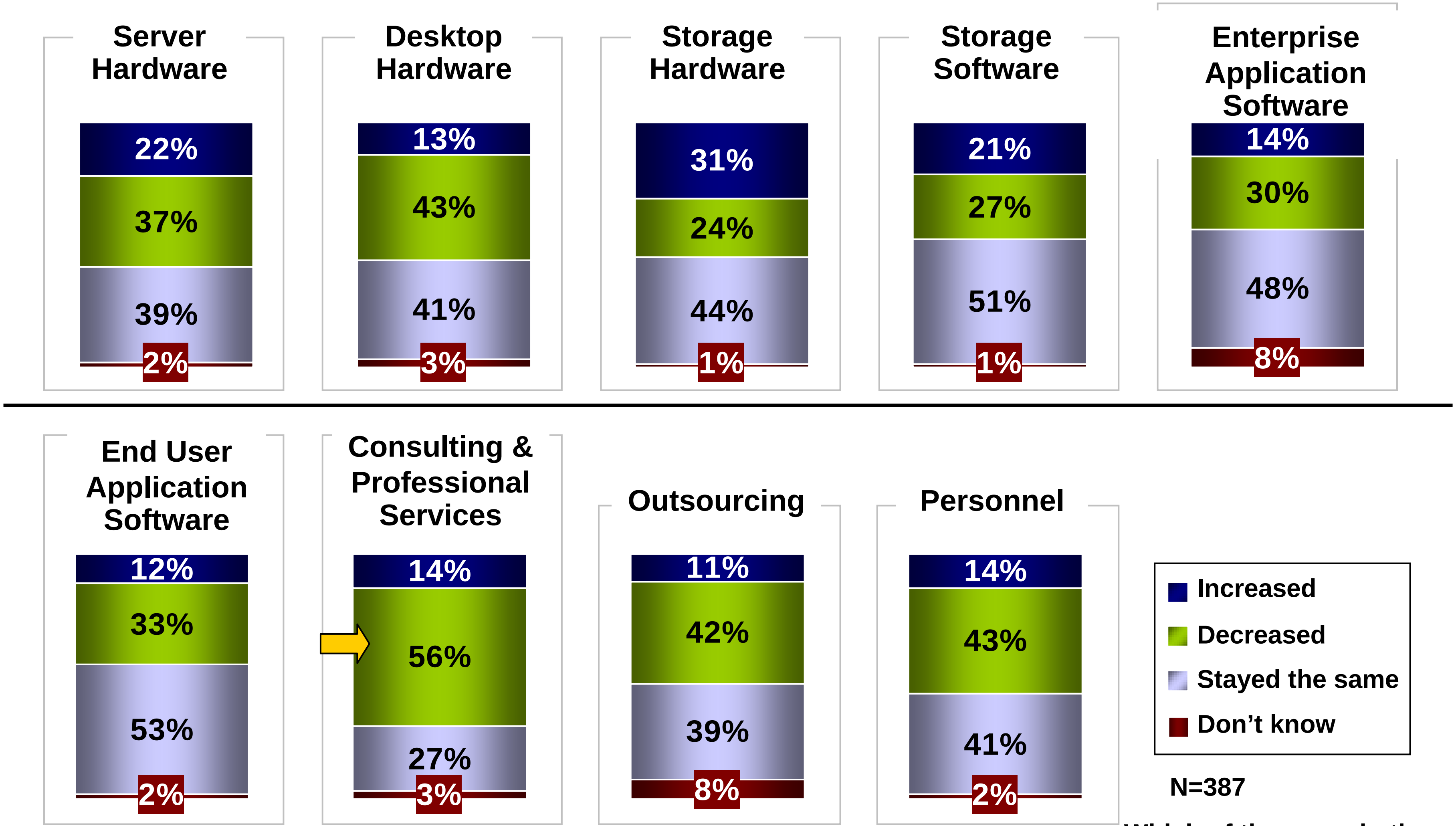
Spending Changes by Technology

- Storage HW sees highest overall growth
- Solutions with highest variable cost components have the biggest decreases

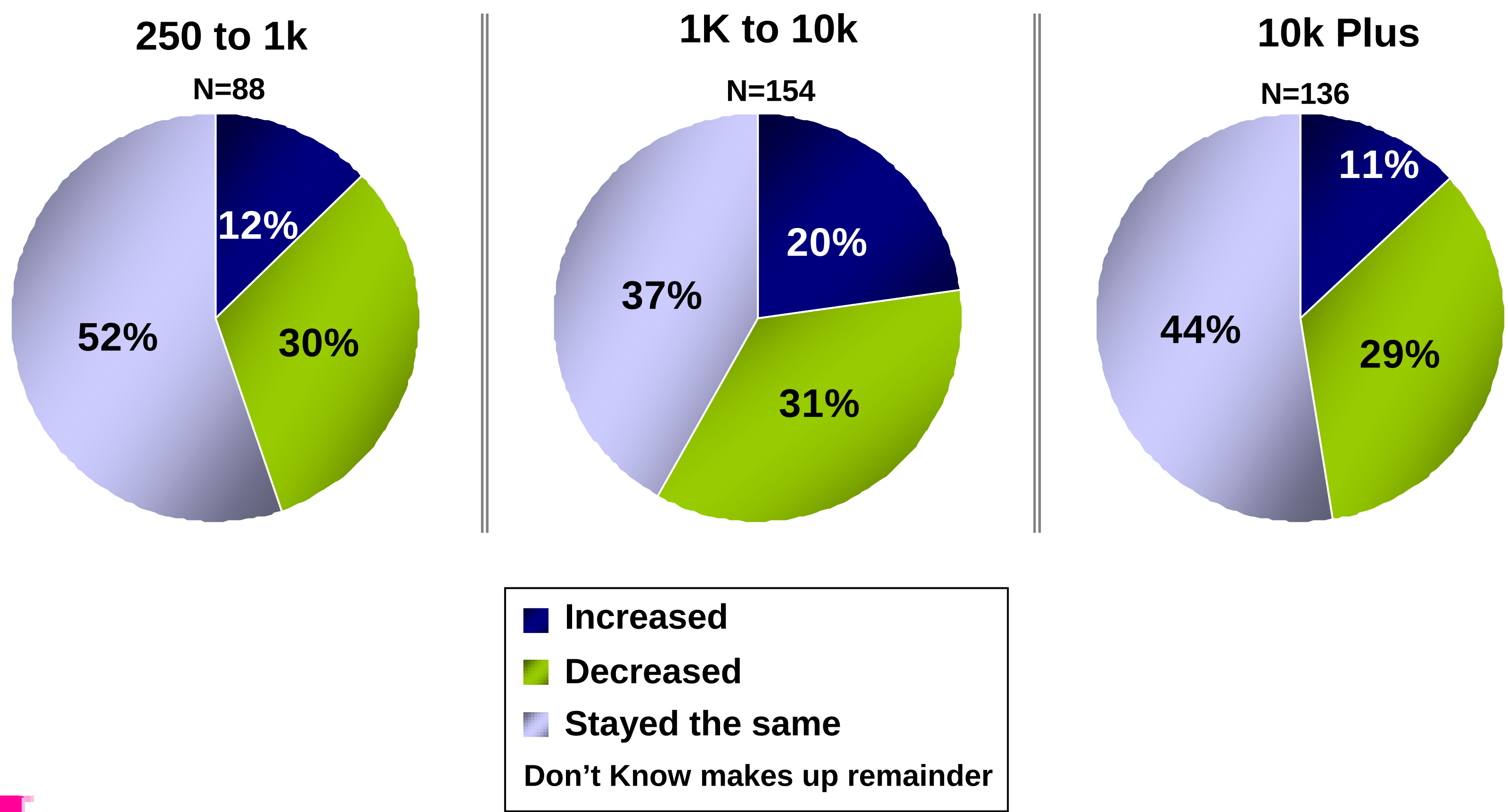


N=387

Which of the areas in the budget has increased, decreased in 2009

Overall Change in 2009 IT budget relative to 2008 by Size: *Enterprise Apps Example*

- Companies in 1k to 10k holding up spending more than smaller and large companies across most tech categories (outsourcing increase is highest in the 10k+)



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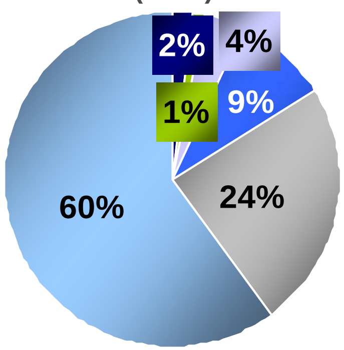
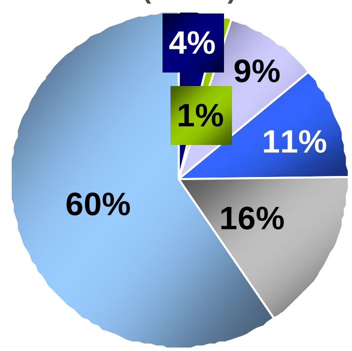
% Of Respondents Who Said **Increase** In Budget Was:

- For those increasing, professional services has a strong positive change

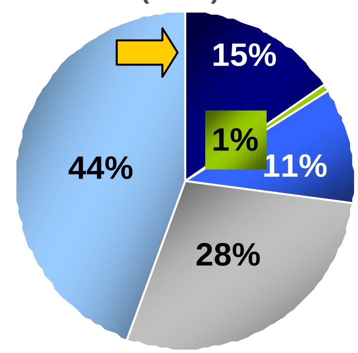
Server Hardware
(n=88)



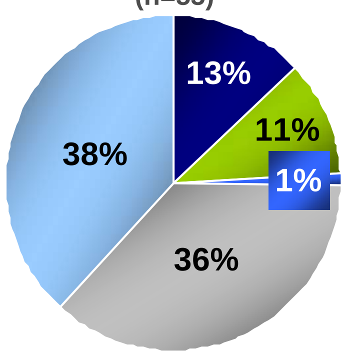
Storage Hardware
(n=116)



Enterprise Application Software
(n=56)

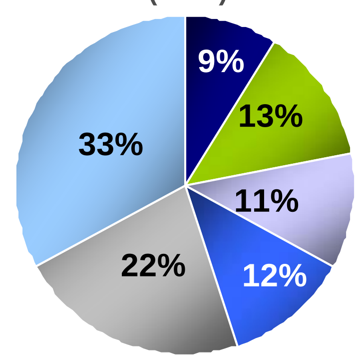


Consulting & Professional Services
(n=55)



- Increased by more than 50%
- Increased by 50%
- Increased by 40%
- Increased by 30%
- Increased by 20%
- Increased by 10%

Outsourcing
(n=42)



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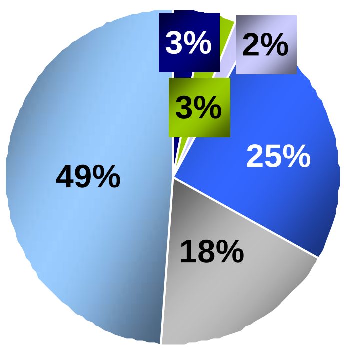
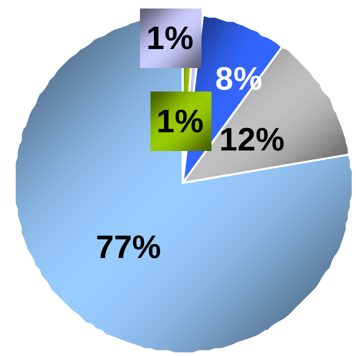
% Of Respondents Who Said **Increase** In Budget Was: *(continued)*

Desktop Hardware
(n=47)

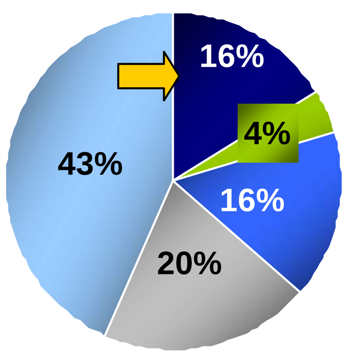


Storage Software
(n=75)

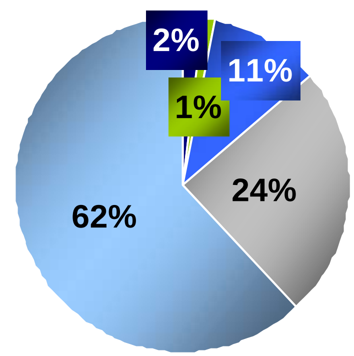


- Increased by more than 50%
- Increased by 50%
- Increased by 40%
- Increased by 30%
- Increased by 20%
- Increased by 10%

End user application software
(n=46)



Personnel
(n=56)



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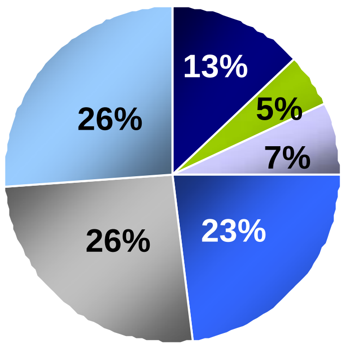
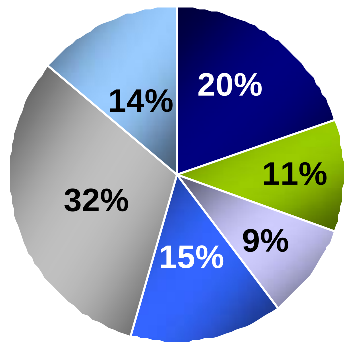
% Of Respondents Who Said **Decrease** In Budget Was:

- Likewise, professional services has the steepest decrease for those whose budget is declining: Shows the importance of being able to right size variable costs

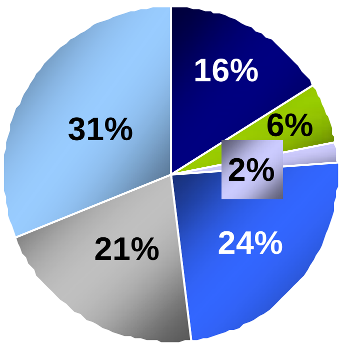
Server Hardware
(n=143)



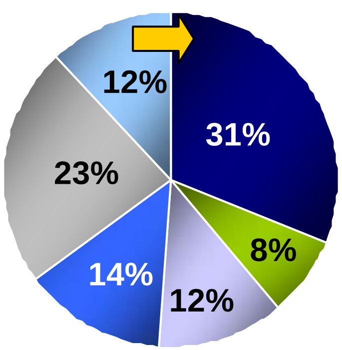
Storage Hardware
(n=95)



Enterprise Application Software
(n=117)

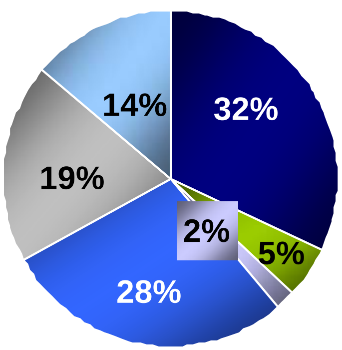


Consulting & Professional Services
(n=209)

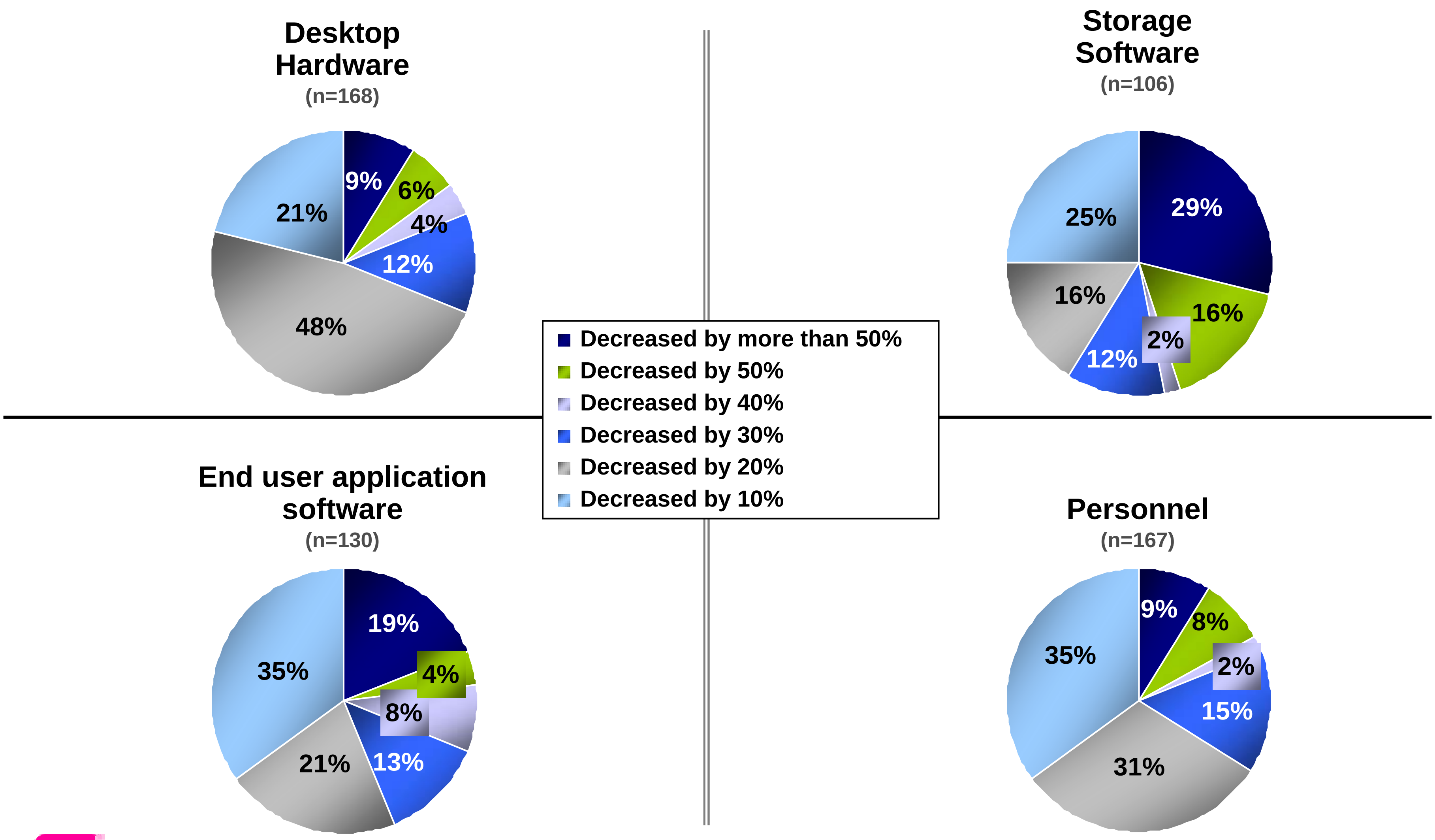


- Decreased by more than 50%
- Decreased by 50%
- Decreased by 40%
- Decreased by 30%
- Decreased by 20%
- Decreased by 10%

Outsourcing
(n=159)



% Of Respondents Who Said **Decrease** In Budget Was:
(continued)



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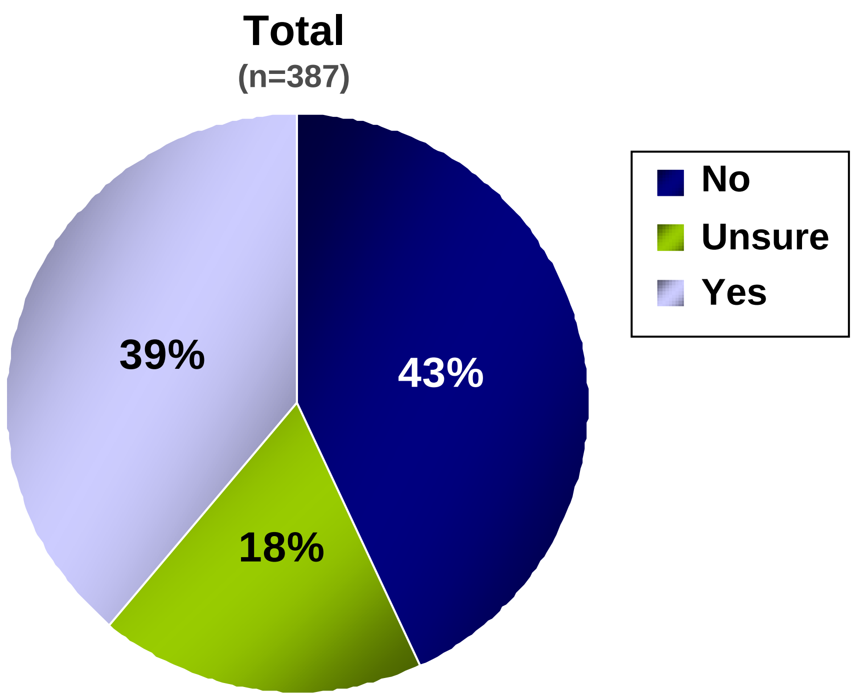
Plans to Allocate Budget Towards New IT Projects That Support Business Growth

Companies are still holding back on supporting growth

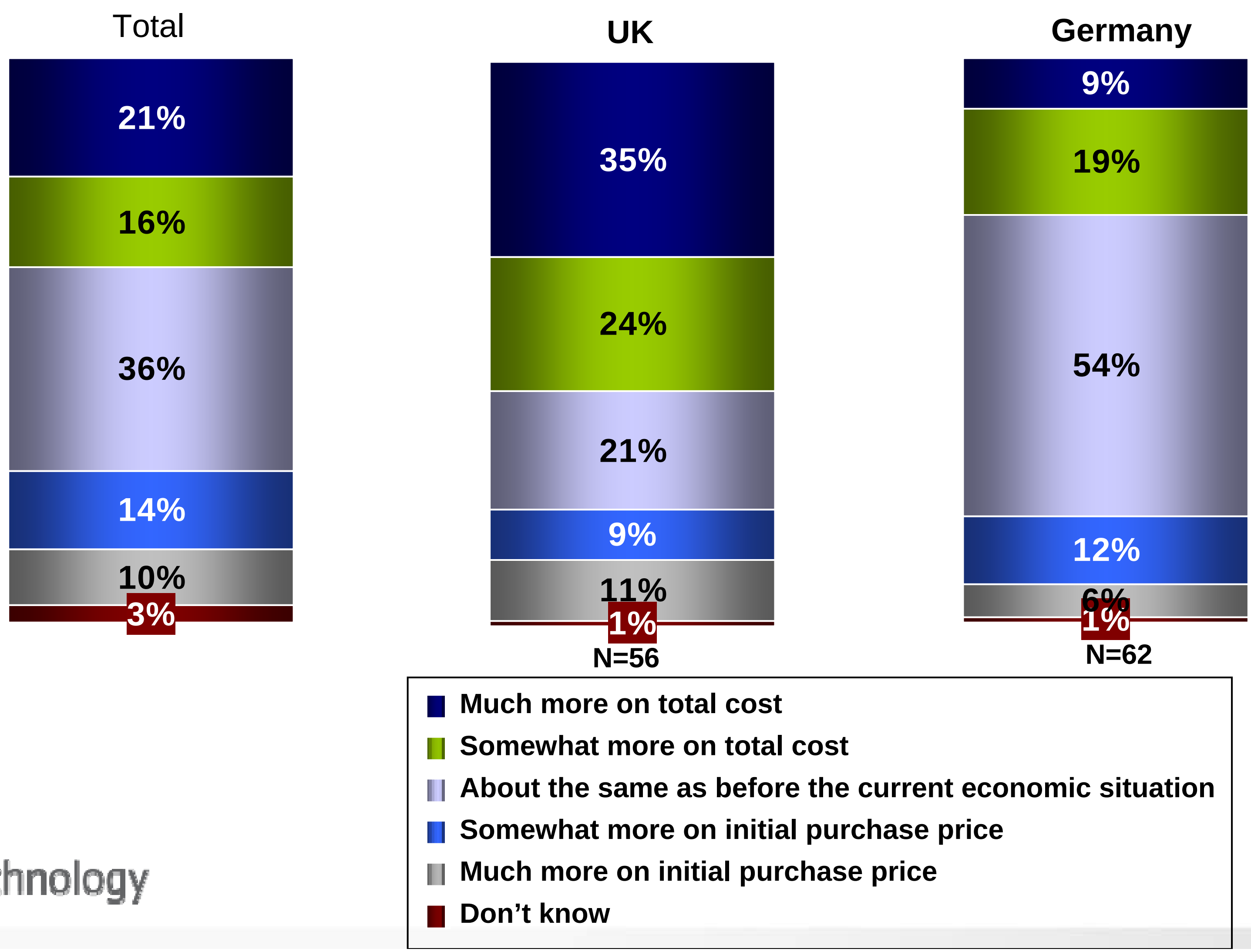
Current cycles share similarities with past cycles

- IT spending is clearly linked to line of businesses, but is tighter than ever
- Companies are still cautious: IT investment will lag transaction growth by at least one or two quarters



Economic Impact On Decision: Initial vs. Total Cost

- Initial pricing is still critical in this environment: May point to need of more value priced solutions in near term. 50% of market is price driven. UK more driven by TCO.



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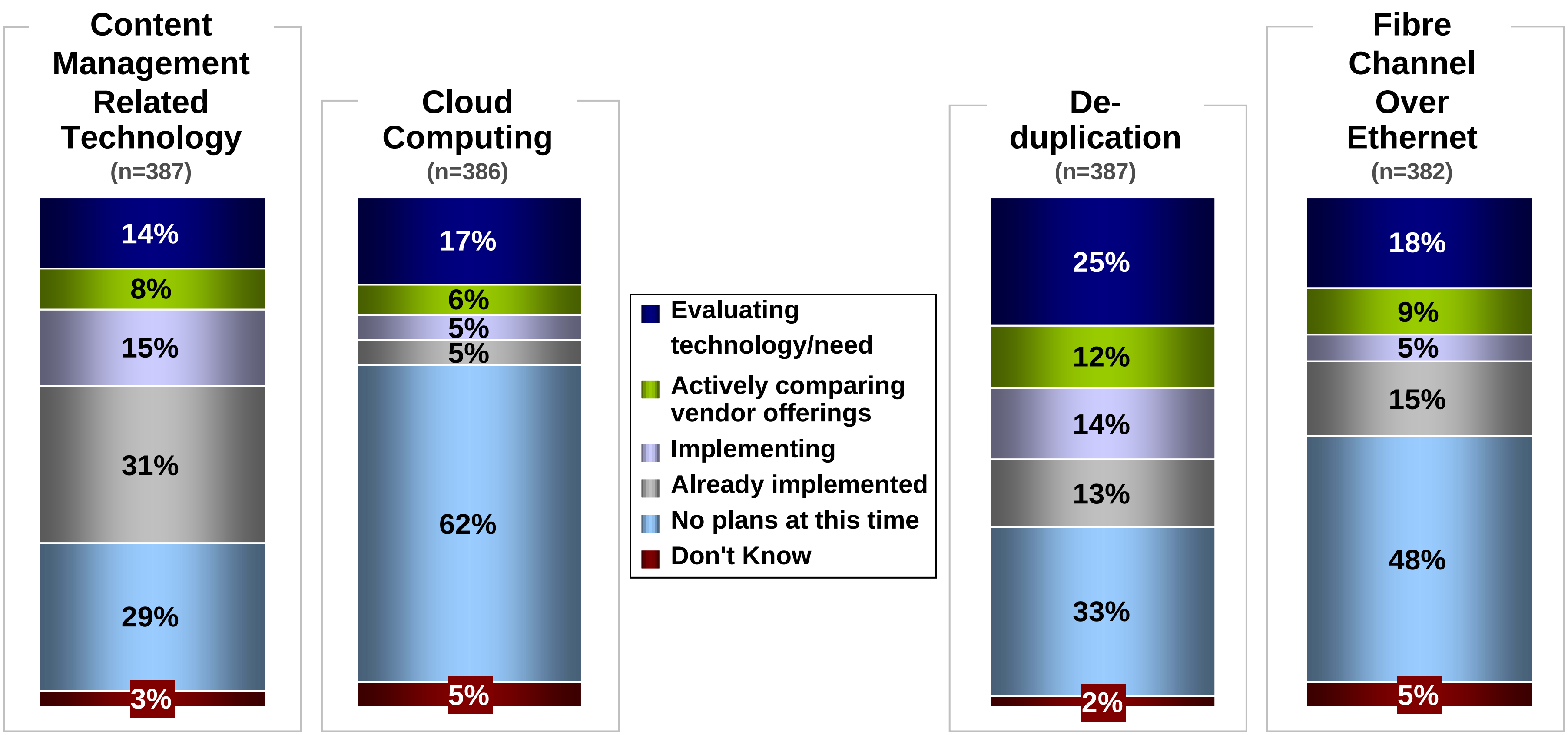
Stage Of Evaluation With Specific Technologies

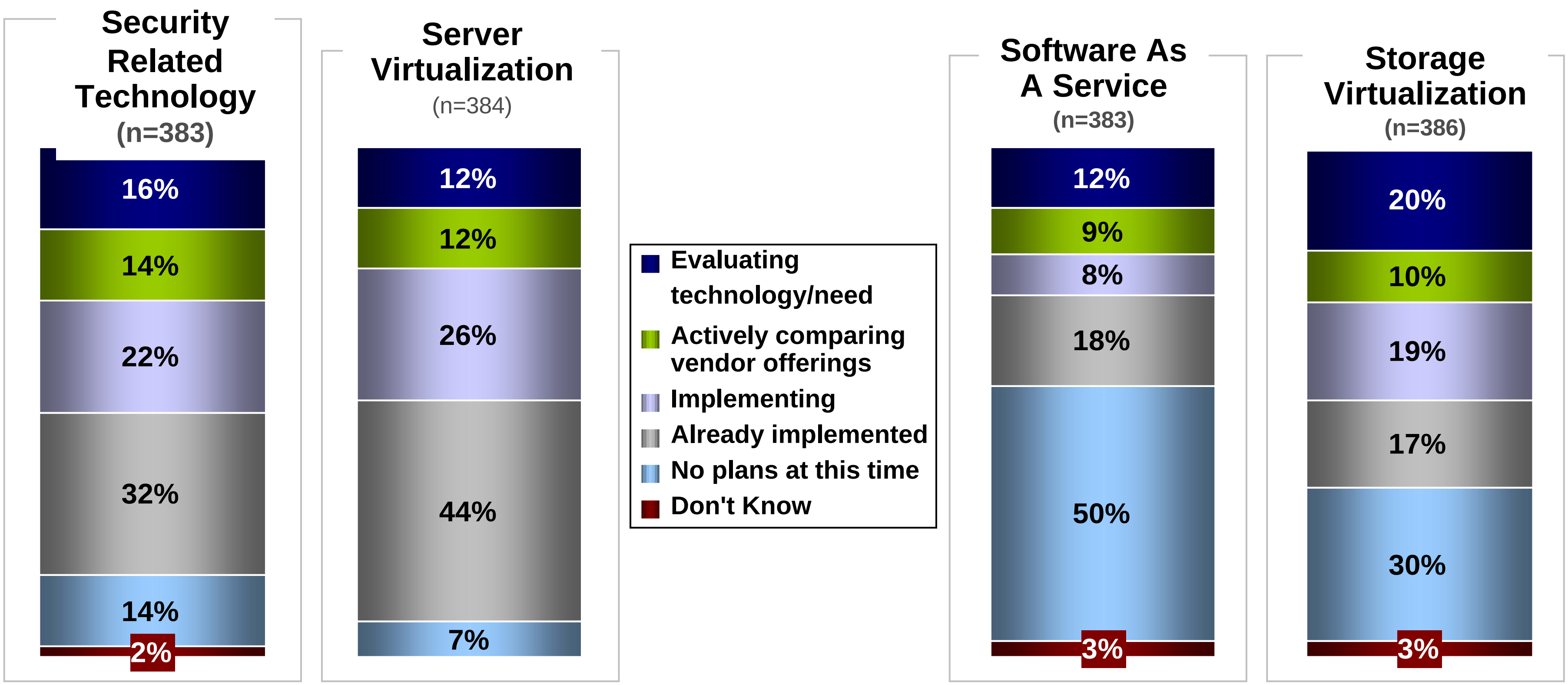
- Cloud computing is gaining traction but still on back burner with most companies



Question: What is your stage of evaluation with the following technologies

Stage Of Evaluation With Specific Technologies

- Virtualization has gained critical mass
- Storage Virtualization has most uptake in UK
- SaaS similar to Cloud in lifecycle



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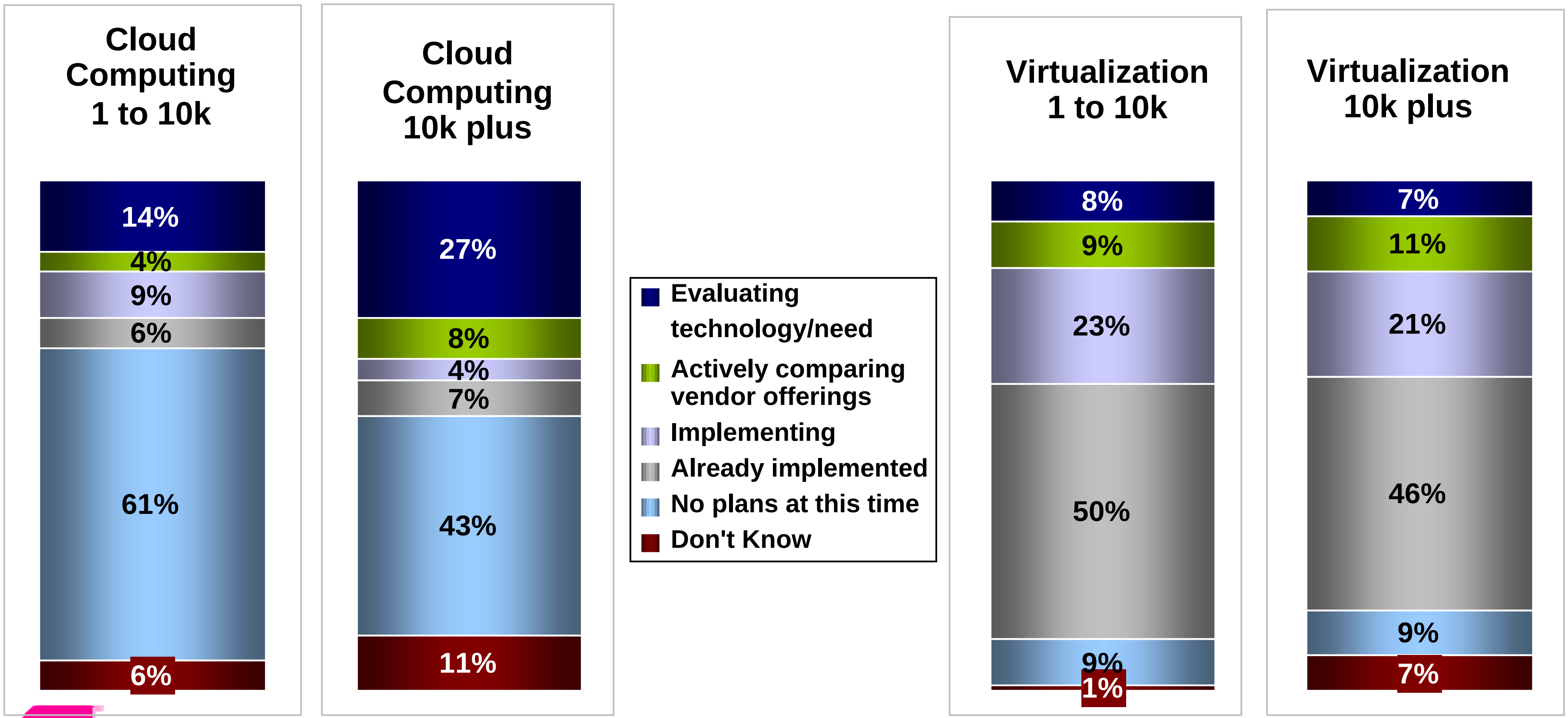
Stage Of Evaluation by Technology: Size of Company

- Cloud computing is gaining traction faster in larger companies: Opposite of recent McKinsey study, but implementation is still low
- Virtualization implementation is gaining at same rate of speed among all companies
- 40% of companies between 250 and 1k employees have implemented virtualization already with 29% implementing now



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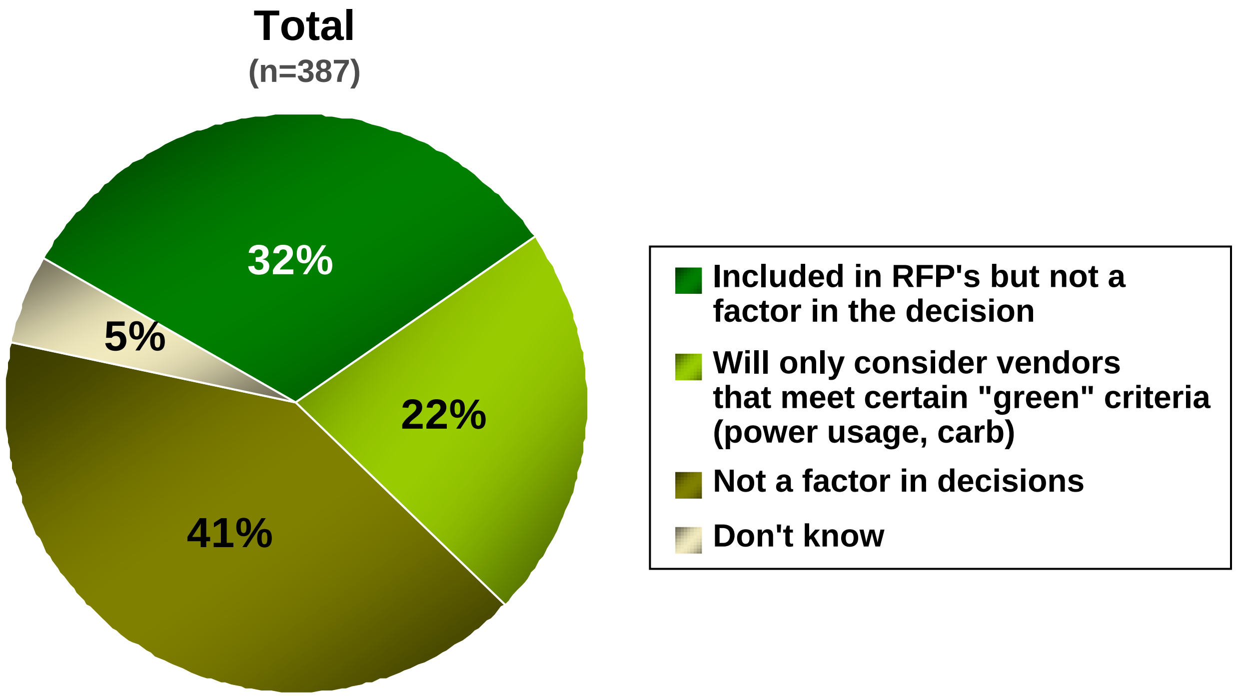
Impact Of **"Green"** IT On IT Decision Process

- **Green** is still a secondary factor in making decisions…but nearly a quarter of market make it a requirement



Directions in AP

APAC Insights – Typical Respondent Profile

- APAC insights are based on in-depth interviews with IT decision makers in large and medium businesses. The insights are directional in nature with emphasis on:
  - ✓ Key business challenges and how is IT spending affected
  - ✓ How has spending changed and future outlook
  - ✓ How has decision making been impacted
  - ✓ Key areas of spending and immediate road map

- Markets covered :
  - ✓ Australia, India, Hong Kong, Singapore, Malaysia

- Business verticals covered (no of in-depth interviews per vertical) :
  - ✓ Manufacturing – Discrete and Process; Retail/ Whole sale Trade ; Banking/ Finance/ Insurance; IT, Telecom and Communications; Others

- Typical profile of respondent :
  - ✓ IT Director, VP or CIO/ CTO
  - ✓ Person who has an organization wide view of Technology spending and has decision making input/ authority

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Technology Areas – Immediate Outlook - APAC^

	Low/ Medium Growth Areas	High Growth Areas
Medium/ High $$$	**Quadrant 4** Infrastructure (PCs, Servers, Network, peripherals etc) replacement, large business app deployment and customization, disaster management/ business continuity solutions	**Quadrant 1** Supply chain optimization (RFIDs) , Virtualization, Business Intelligence, CRM (specifically churn management), Hosted solutions/ managed services/ IT asset outsourcing
Low / Medium $$$	**Quadrant 3** Software upgrades, e-commerce application development, security applications, In-house data back up applications, 'Green Tech' initiatives	**Quadrant 2** Knowledge management applications, Unified communications/workgroup solutions, web-based customer interaction & servicing solutions

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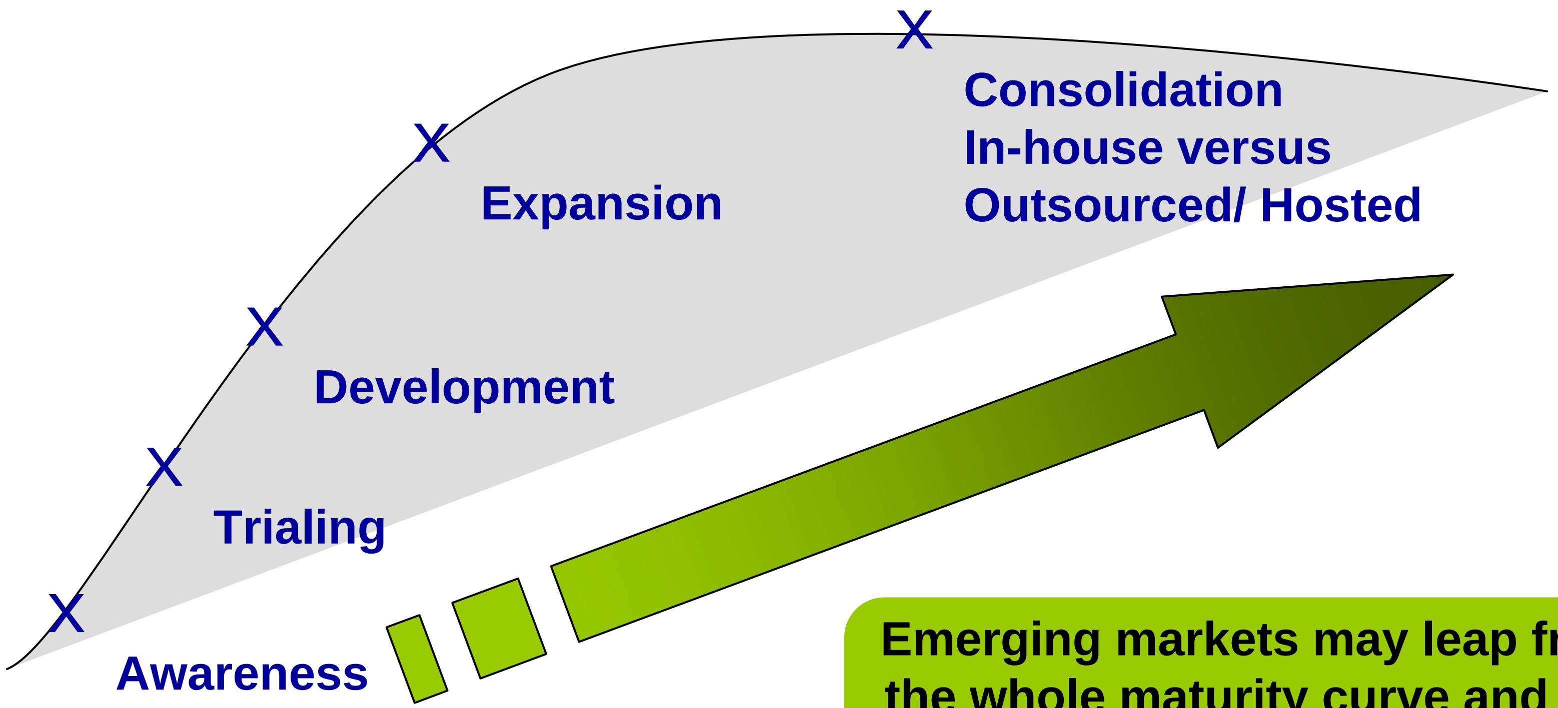
^India and China expected to continue infrastructure spending

How Is Emerging APAC Different On Tech Spends

Developed Markets - Global Trends	**APAC - India, China, Malaysia, (Indonesia & Thailand)**
Reduced spending on infrastructure - Mature infrastructure, limited growth	**Infrastructure expansion in Tier 2/3 cities** - Banks expanding network, supply chain and automation - Phenomenal growth in SMB space - Transactional technology spending models do not fit well
Technology standardization - Consolidation of touch points - Platform standardization	
Push towards Internet Based channels for customer service	**Trade-off between legacy systems and IT-skill set labor cost**
Channels and partnerships evolving rapidly	**Balance between Internet based channels and traditional touch points**
Business Intelligence & KM spending on the rise	**New business models to cater the 'Tech laggards' space emerging**

Impact of Financial Downtown in Emerging Markets

Typical IT infrastructure maturity curve



Emerging markets may leap frog the whole maturity curve and go directly to new business models of hosted/ SaaS model

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What Does It Mean For *The Hardware Vendors?*

Lengthening of hardware cycles

- Even the most technology savvy organizations may skip refresh cycles altogether or at the least lengthen them

Increasing Heterogeneity

- With new hardware added to legacy systems (which do not get replaced)

Solutions with low capital investments become lucrative

- Server and desktop virtualization road map can gather momentum
- Hosting and outsourcing of hardware may increase with data centers and hosting companies becoming key consumers of hardware

Boost in devices required for non-traditional channels

- Increase for authentication and identification devices (as non-physical channels gain priority)
- Kiosks or self-help hardware in demand