



BY MARIANNE KOLBASUK MCGEE AND JOHN SOAT

## **IT spending's getting squeezed, our latest research finds. CIOs are using these strategies to keep their businesses charging ahead.**

**T**IMES ARE TOUGH, and IT budgets are feeling the pressure. Just don't expect CIOs to run away scared.

The last three months have been particularly stressful, our just-completed *InformationWeek* survey about IT spending finds. Of more than 600 business technology executives who responded to our most recent survey, 40% say they decreased IT spending this past quarter relative to their original 2008 budgets; for companies with annual revenue of more than \$500 million, it's 50%.

Still, there are plenty of business technology executives going forward with big projects, even adding to their IT workloads—and budgets—with new projects, backed by managements that see a chance to invest in technology-driven efforts to leap ahead of weakened competitors. CIOs are protecting customer-facing projects—they're about half as likely to be cut as ones that don't touch customers. Not only that, smart CIOs are looking for ways to use the IT tools at their disposal to

cut costs in their organizations and in other parts of their companies.

These are difficult times, no doubt. Any chief worth his or her BlackBerry is putting together the Plan B list—the projects/efforts/areas that can be deferred or eliminated if things get worse. Now's the time to take inventory: Where exactly is the IT budget being spent, which projects are critical, which have tactical short-term benefits, and which can be put on hold?

Here's how these penny-pinching trade-offs can play out. Principal Financial is slowing infrastructure upgrades but plowing ahead on collaboration technologies. At manufacturer R.R. Keller & Associates, cost-saving voice over IP is a go, but a more strategic 3-D design system may wait. A retailer says yes to in-store kiosks, but no to IT "process improvements" such as data cleansing and server consolidation. A major manufacturer might delay an ERP system consolidation.

General Motors CIO Ralph Szygenda declines to discuss any specific IT spending changes at GM, where

the company's facing a multibillion-dollar cost-cutting campaign amid slumping SUV and truck sales and dramatic steps to conserve cash, but he says new application development and deployment "will be maintained as much as possible." In the economy overall, he expects business IT spending to decline, with "key tactical projects" and those in emerging markets staying on track. "Executives do not want to cut key business transformation projects," Szygenda says via e-mail, "but scrutiny is increasing."

**FEAR AND LOATHING**

There's no doubt the outlook's gotten gloomier the past three months. Forty-three percent of respondents to our recent survey think the country is in a recession; in a similar survey three months ago, 32% did. Only 4% now are convinced we aren't in a recession and aren't headed for one.

In terms of the general mood among IT workers, around half of respondents still characterize their IT organizations as "cautiously optimistic"—47% in the current survey, down from 53% in March. Those who see the mood in their IT shops as "fear and loathing" is up to 30%, from 24%.

Andrew Connolly, director of finance at R.R. Keller & Associates, is in the cautiously optimistic camp. R.R. Keller is a privately owned manufacturer of industrial and commercial construction products such as translucent panels used in skylights and windows. Connolly says the company hasn't felt the impact of the economic slowdown—yet. That's because the con-

**DIG DEEPER**

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struction contracts it signs are usually looking out 18 to 24 months. For instance, R.R. Keller is involved with building the new Yankee Stadium, slated to open for the 2009

season. "We tend to lag the economy," Connolly says.

So, for now, his IT budget for this year, which is about 1% of revenue, hasn't been cut. In fact, spending is up a little with a new voice-over-IP project that was green-lighted earlier this month, a project that will cost in the "low six figures." The VoIP system will reduce telecom costs, and ROI still sells.

On the other hand, a planned implementation of 3-D modeling software is likely to be put on hold if the IT budget needs to be tightened next year. The company probably wouldn't feel the impact of a slowed economy until the second half of next year, and if it continues to expand its customer base and rack up sales in the meantime, the impact won't be too bad on IT spending. "I'd like to think it would be flat," Connolly says.

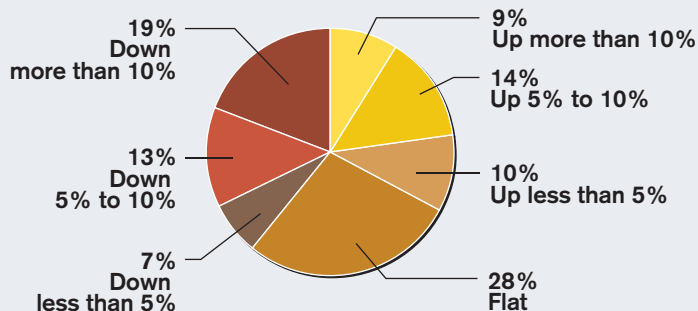
Flat has a good deal of company, with 28% of survey respondents expecting IT budgets this year to match 2007's. But the biggest percentage of respondents, 39%, say they're cutting, and those cutbacks could be significant: 19% say IT spending this year will be down more than 10%. A third say they'll increase spending, though just 9% expect it'll be more than 10%.

As for how they're accommodating the need to cut, 32% say they're being asked to cut a percentage of their IT budgets, 29% are being asked not to increase spending as much as planned, and 24% are being asked to cut specific projects.

Gary Scholten, CIO at Principal Financial, says the company's IT spending is down about 3% this year from what was originally planned. However, it's still up 6% from last year. "There's still healthy growth from '07 to '08," he says. The company is holding off on infrastructure upgrades and delaying a couple of security-related projects "that are still good to do, but not urgent," he says, but it continues to invest in IT for growth areas such as its global operations, which involves spending on collaboration technology and network enhancements.

The CIO of a retail chain in the Northeast says he's already decided not to upgrade the company's IBM iSeries computer this year, and he's put on hold a consolidation effort involving a "small data center" that does mostly online hosting. Also, he's not going forward with some data deduplication work. These

**How will your company's IT spending this year compare with 2007?**



Data: *InformationWeek Research State of the Economy Survey* of 612 business technology professionals

are “investments that improve IT processes,” and as such can be delayed without materially affecting the business, at least for a while, he says.

What he’s not cutting are any IT projects related to customers: a couple of customer-oriented applications, the company’s point-of-sale system, its in-store kiosks, and in particular its e-commerce efforts. Our survey respondents agree: Of those being asked to scale back IT spending, less than a quarter (23%) say they’re cutting, or have cut, “customer-facing” projects. Forty-five percent are cutting ones that aren’t customer-facing.

Interestingly, another 23% say they’re not cutting any IT projects included in their original 2008 IT budgets, which may indicate a preference for seeking other ways to bring down their technology spending—such as reducing expenses related to infrastructure and personnel—rather than eliminating big projects. That helps explain why “new hires” and “infrastructure upgrades” score one and two on the list of projects or investments most likely to be cut back.

A high-level IT executive at a large financial services firm says his company has scaled back areas such as infrastructure and ramped up ones related to global operations, which will net an almost 4% reduction in IT spending this year. For a company the size of his, deferring “tactical” IT investments adds up to significant savings. “If we usually turn around Unix servers after 36 months, we’ll try to squeeze out another four months,” he says. “That doesn’t make a big difference for one Unix server, but it makes a huge difference with 400 servers.”

Even in the volatile financial services industry, not everyone’s cutting. “We’ve been through lots of business cycles,” says Paul Heller, CIO of the Vanguard Group mutual fund company. “We maintain the long-term perspective.” The company spends about 30% of its operating budget on business technology, employing about 2,600 people in IT. 2008 IT spending hasn’t changed from the original plan, and IT spending next year might even rise compared with 2008, depending on demand from the business units. Hot right now are online services to help individuals sort through Vanguard’s 150 funds, based on factors such as their age and goals. Says Heller, “The last thing we’d do in [an economic cycle like this] is to react by cutting back on technology.”

## TECH HAS AVOIDED THE BIG HIT

Like Vanguard, there hasn’t been a knee-jerk reaction to slash tech in this downturn—at least not yet. Tech vendors’ sales results haven’t yet shown signs of a big spending cutback, says the manager of a technology fund at a major investment house. “On the



It's a good time to plug cost "leaks," Cuddy says

edges you’re starting to see weakening numbers,” the manager says. “But we haven’t seen that one quarter where everybody goes—holy s@#!”

Sometimes it takes some creativity to get critical projects done. Paul Valle, CIO of Papa Gino’s Pizzeria, a restaurant chain in New England, tacked on some programming work to his IT budget this year to support an online ordering project. A third party is handling the online system, but Valle’s IT group had to do the programming to integrate that system into the company’s point-of-sale system so that online orders show up just like the customer ordered the pizza at the front counter. It was “a significant piece of work,” he says.

Papa Gino’s is feeling the effects of the economic slowdown just like every other restaurant chain in the country, Valle says. For that reason, the new project demonstrates to him upper management’s continued commitment to IT. “The point being, they didn’t cut anything else so we could afford to do this,” he says.

Swinerton, a commercial construction company in San Francisco, “bumped up” its IT budget at midyear by \$350,000, says CIO Larry Mathews, to upgrade its cooling systems in the company’s data center and for a new wiki-based knowledge management system so “operational people in the company can share their construction knowledge with the rest of the company.” Despite the challenges in its market and locale, Swinerton has been winning contracts lately—Mathews suspects because some competitors considered those contracts too risky or didn’t bid because they’re having financial problems.

Mathews expects his 2009 IT budget to stay flat with 2008’s new bumped-up budget. Still, all operational groups, including IT, have been asked to consider what

**In response to concerns about the economy, are you being asked to ratchet back IT spending?**

■ July 2008 ■ March 2008



Data: InformationWeek Research State of the Economy Survey of 612 business technology professionals in July and 374 in March

they'd do if they needed to cut their budgets by 10%, Mathews says.

That's where Plan B comes in. Plan B for Mike Cuddy, CIO of Toromont Industries, a Canadian dealer of construction and power equipment, involves putting on hold "discretionary" projects, ones where it's "not essential they be done now or in three months," he says, such as porting an 8-year-old application to .Net 2.0.

"There's no panic," Cuddy says, but there's concern. All major IT projects agreed on last year are going ahead, and he hasn't had to cut his IT budget, which is "a little over 1%" of revenue. But he's looking at the total list of initiatives with an eye, if things do tighten up, to pushing those that have "a shortened payoff period" and deferring those that don't, such as the company's upgrade to Windows Vista. "That would be a candidate we would defer," he says.

There have been no cutbacks to IT in fiscal 2008 at ASCO Power Technologies, a division of electrical products manufacturer Emerson. But director of IS John Connelly thinks fiscal year 2009 could be different. "We're being very cautious about projects in 2009," he says.

ASCO makes AC/DC power products, and while some customer segments, such as health care, are "still moving along," orders in other segments are starting to slow. Emerson's fiscal year ends Sept. 30, and the company is beginning next year's budget process now.

Connelly suspects Emerson will put on the back burner a project to consolidate a mishmash of ERP applications at some 70 divisions onto Oracle. The company would recognize savings in about 10 years by standardizing on Oracle, Connelly says, but the project will cost at least seven figures for his division alone, so he predicts it will be shelved for a year or so until the economic climate improves.

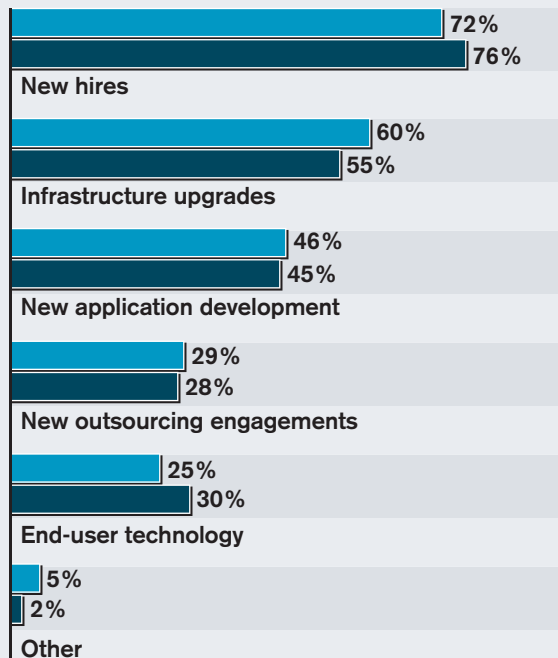
For now, Connelly's 2009 budget proposal "has everything I need," including accommodating the Oracle project. However, Connelly also expects that his division's 30-person IT team will have to make do with current staffing in the coming year, including not replacing a person who recently left.

That's of a piece with our research. Of those cutting back on IT, almost three-quarters say they're not hiring new IT staff. Yet only a sliver, 7%, are being asked to cut IT people. More common (17%) is eliminating third-party consultants. However, the majority of respondents (57%) say they aren't being asked to cut staff or consultants. In our March survey, the figure was 63%.

Sean Finley, deputy director of IT at ABM In-

**Which types of projects or investments are you most likely to scale back?**

■ July 2008 ■ March 2008



Data: InformationWeek Research State of the Economy Survey of 612 business technology professionals; 386 respondents in July and 208 in March experiencing IT spending cutbacks

IN DEPTH / IT SPENDING

dustries, doesn't expect his 38-person IT staff will grow next year, but he thinks he'll be able to replace people who leave. ABM, a \$2.7 billion facility services company, has been growing through acquisitions, and that requires an investment in IT, Finley says. His company, which provides janitorial and other services, is in the budgeting cycle for next year, and while other parts of the company might be asked to scale back, IT won't, he predicts. "IT has become like a utility. You have to spend on it. It's not an option," he says.

In fact, Finley predicts spending on IT will be slightly higher next year, mostly because of the continued rollout of a new payroll system and an ERP upgrade, both of which are four- to five-year projects that the company is only halfway through. "You can't stop mid-flight," he says.

But the economy is affecting ABM. Rising fuel prices affect its mobile workforce and raise airfare costs for executive travel, just as the company is in the process of relocating from the West Coast to the East Coast. Also, a lot of IT is outsourced to IBM, Finley says, so ABM staff travel east frequently to meet with the vendor.

As a result, ABM has been getting a lot more use out of videoconferencing services provided by Glowpoint. "We got videoconferencing right after 9/11, and it was helpful then when travel was difficult, but we're using it more now," he says. Finley uses the system "about twice as much as before, a least a few times a week" to communicate with fellow employees, IBM contractors, and others, he says. ABM has had Glowpoint install additional circuits to support the heavier use of videoconferencing. "Also, more people are telecommuting, so we've had people add home offices," he says.

**BLOOD FROM A STONE**

For many companies, the emphasis is on squeezing as much out of existing investments and relationships as possible. Mark Ricca, an analyst at Intellicom Analytics, says now's the time to wring deals out of vendors, including making the most of existing contracts.

That's because vendors are more willing to haggle with repeat customers or customers they think will bring additional business later, he says.

Consultant Deborah Hagar is seeing more companies using decision-support tools such as those from Cognos and Oracle to analyze spending—identify cost savings, the length of time of payback, or the revenue increase from IT investments and other business investments.

Over the last several months, Toromont's Cuddy has used this thinking to target areas of the company where there might be "leakage"—unidentified and/or unnecessary costs—and address that by employing IT tools. Travel costs are a likely leak, and the tool

Cuddy's throwing at that is videoconferencing. Another has to do with accelerating the implementation of a vehicle-tracking system. And another involves using business intelligence tools to identify customer credit risks and exposure.

Some companies see this shaky economy as a chance to leap ahead.

Jeff Kennedy, senior director of technology at Synovus Financial, a \$33 billion bank holding company, says IT spending this year is a "mid-single digits" percentage higher than in 2007, and there has been no call to cut back. However, he's re-evaluating whether to use contractors to fill open IT positions. "We're being prudent," Kennedy says. "It's less about stopping and cutting and more about taking a hard look at where the next dollar gets spent."

Even with that cautious eye on expenses, Kennedy expects the IT budget next year to be a bit higher than 2008's because the company wants to take advantage of the opportunities created as competitors struggle. That includes making IT investments related to growth areas of the company, including its corporate cash management services and the online needs of its retail and commercial customers.

"When the clouds part," Kennedy says, "we want to take advantage of the sun."

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