

IT BUDGET TRENDS: HOW COMPANIES SPEND ON IT



2019 and 2020 are all about [digital transformation](#). As in years past, [global IT spending](#) is expected to continue to grow in 2019, increasing 3.2 percent to over \$3.8 trillion as enterprise software, cloud, and digital transformation projects boost growth.

By fully integrating IT into products, services, and value propositions, instead of just a backend system, companies will quickly gain the true value of IT and its potential.

"It's not looking at what's in the 'IT budget', but at all of those things across the business that can be influenced by IT, which is just about everything," said James Anderson, research director at [Gartner](#). "If you're not on the innovation end of trying to fund digitalization of your business, it's likely some other company is coming up with some type of an optimization technology to eat your revenue."

In fact, the latest [predictions from IDC](#) advise enterprises that if they're not digitally transforming their companies at an aggressive pace, that by 2022, just over two-thirds of their total addressable markets will be gone.

While digital transformation is the obvious front-runner in IT budget trends for 2019, the entire industry is seeing some big shifts in terms of recognition and budget allocations. Although these new changes could encourage CxOs to simply adopt a 'wait and see' approach, most research and surveys suggest otherwise.

Researcher reports on IT budgets

Gartner CIO Agenda

The [2019 Gartner CIO Agenda survey](#), which gathered data from more than 3,000 CIO respondents in 89 countries and all major industries, was presented by Gartner analysts during the [Gartner Symposium/ITxpo](#) in October.

"Although global IT spending is forecast to grow 6.2 percent this year, the declining U.S. dollar has caused currency tailwinds, which are the main reason for this strong growth," said [John-David Lovelock](#), research vice president at Gartner. "This is the highest annual growth rate that Gartner has forecast since 2007 and would be a sign of a new cycle of IT growth. However, spending on IT around the world is growing at expected levels and is in line with expected global economic growth. Through 2018 and 2019, the U.S. dollar is expected to trend stronger while enduring tremendous volatility due to the uncertain political environment, the North American Free Trade Agreement renegotiation and the potential for trade wars."

Gartner's survey suggests that CxOs are likely to be spending more on enterprise application software, mobile devices, infrastructure software and business IT services in 2019 and beyond, and less on (on-premises) data center systems and associated services.

"CIOs should use their financial resources to make 2019 a transformative year for their businesses," said [Andy Rowsell-Jones](#), vice president and distinguished analyst at Gartner. "Stay active in the transformation discussions and invest time, money and human resources to remove any barriers to change. Enterprises that fall behind in digital business now will have to deal with a serious competitive disadvantage in the future."

Harvey Nash/KPMG CIO Survey

Consistent with what Gartner found, [Harvey Nash/KPMG CIO Survey](#), one of the world's largest global IT leadership surveys, reported that CIOs are now enjoying "bigger budgets and headcount growth" compared to last year. As well as continuing investment in digital and cloud, "we also see data privacy, governance and [security](#) draw the attention of boards," the report said, adding that CIOs need to "think smart about how they control and influence technology within the business".

Close to half of the respondents saw budget increases in the past year alone, with nearly half also reporting they expect to see budget increases in 2019, as well. These metrics are some of the highest that have been seen since 2005, and marks a more normal return since the economic downturn.

Computer Economics IT Spending & Staffing Benchmarks Report

Market research firm Computer Economics published its 2019 results from the annual [IT Spending & Staffing Benchmarks report](#), also reporting modest growth in operational budgets and general increases in IT spending.

Some of the biggest differences noticed compared to last year's survey is an increase in IT spending as a percentage of revenue—from 2.3% to 2.7%—which the firm suggests proves "IT organizations are encouraged by their experience with cloud computing thus far and are willing to supplement those efficiency gains with additional spending, especially for business transformation and the continued move to the cloud."

IT operational spending per user is up significantly this year, a 14.3% increase, and almost half of the

organizations surveyed reported an increase in IT capital budgets. With the main focus for new spending being on business applications, IT personnel, and networks, it is apparent that there is a widespread move to cloud-based infrastructure, storage, and applications.

Survey says: trends in IT budgets

According to the surveys summarized below, IT budgets are growing in several key areas: digital initiatives, [shadow IT](#), and [cybersecurity](#). Let's take a look at each.

Digital initiatives

[Digital initiatives](#) are a top priority for CIOs in 2019, with 33% of businesses now in the scaling or refining stages of digital maturity — up from only 17% last year.

There is no doubt that organizations are planning to aggressively invest in digital transformation efforts in 2019. While digital transformation is about business impact, digital maturity is the amount of benefits the company derives from its digital transformation efforts as a whole. For the most part, the more comprehensive and cross-functional a company's efforts are in their digital transformation strategies, the more digitally mature they typically are.

According to a recent [survey](#) by Deloitte, higher-maturity organizations are nearly three times more likely than lower-maturity organizations to report net profit margins and annual revenue growth that are significantly above the averages in their industry, further iterating why this expense upfront can prove massive gains down the line.

"What we see here is a milestone in the transition to the third era of IT, the digital era," said Mr. Rowsell-Jones from Gartner. "Initially, CIOs were making a leap from IT-as-a-craft to IT-as-an-industrial-concern. Today, 20 years after we launched the first CIO Agenda survey, digital initiatives, along with growth, are the top priorities for CIOs in 2019. Digital has become mainstream."

One of the biggest drivers for scale is the ability to increase general consumer engagement through digital channels. In order to support customer engagement during this process, businesses are focusing on three main areas:

- **Volume.** Providing reliable services that meet demand while remaining cost efficient
- **Scope.** Supporting a variety of offerings and products
- **Agility.** Anticipating and adjusting to consumer demands in terms of both channel and speed

"All aim at encouraging consumers to interact with the organization," Mr. Rowsell-Jones explained. "In general, the greater the variety of interactions that are available via digital channels, the more engaged a consumer becomes and the lower the costs to serve them are."

Shadow IT

Another component that is gathering speed this year is technology spending controlled by lines of business (LOB) as opposed to the IT department. According to analyst firm IDC, this type of spending, typically referred to as 'shadow IT' is projected to overtake IT department spending across the globe in 2019.

[Shadow IT](#) refers to employee use of IT technologies, solutions, services, projects, or infrastructure without formal approval and support of the internal IT department. This can include free and bought

systems and encompasses [SaaS, PaaS, IaaS](#), off-the-shelf software, and hardware like computers, tablets, smartphones, and other devices.

"Technology is becoming easily available and accessible to everyone, therefore companies are witnessing the surge of business-funded IT investments. By 2021, [LOBs will fund half of the IT spending](#), meaning that business managers will increasingly make decisions independently and without the approval of IT departments," said [Andrea Minonne](#), research analyst, IDC Customer Insights and Analysis.

By 2021, only two of the 16 industries profiled in IDC's report, construction and telecommunications, will still see their technology spending led by the IT department. As this shift continues, and business managers rely less on IT departments for overall technology spending, it's going to become increasingly important for CIOs to keep track of what is being deployed and how to best go about protecting the organization from security threats resulting from shadow IT.

Cybersecurity

As in most years, but particularly in 2018, the IT industry endured significant cybersecurity challenges including [high-profile data breaches](#), costly systems hacks, and exposed vulnerabilities. While privacy and security issues will continue to remain major concerns in 2019, the industry is finding new ways to cope with these issues.

"Threats continue to multiply and expand; breaches seem to be getting worse, in terms of scale, depth and sophistication," said Steve Wilson, vice president and principal analyst at [Constellation Research](#). "Data is the lifeblood of the new digital economy, and the sophistication of criminals seeking to exploit that is growing all the time."

According to a July [report](#) from Neustar, IT security professionals are twice as concerned about data breaches and cyberattacks as they were last year. With 17 percent of respondents to a survey by [451 Research Digital Pulse](#) citing information security as the largest budgetary increase area, it is apparent that these concerns are also impacting the budgeting process.

As Gartner vice president and distinguished analyst Paul Proctor told [ZDNet](#), "I'm not a fan of what is the most common practice out there, which is to ask how much are others spending on cybersecurity," Proctor said. "That is not useful, because there are organizations that are spending a ton on cybersecurity and they have very bad risk postures, and there's others that aren't spending very much but they have very good risk postures. The bottom line is: It's about their level of readiness."

2019 is the year for leaders to truly look at their level of readiness to determine if they are as mature as they would like to be. If the answer is no, then it is time to ask whether more money needs to be spent to get there.

Proctor continued, "Yes, AI is going to be a big deal in security right now, but people are spray-painting the concept of machine learning and AI on every single thing they do."

It is important for IT to mind their spending on newer areas, like AI, choosing only what can add real value to the organization now instead of potential, future value. Past risks and threats must also be audited to see how your company should actually be spending money to protect itself versus what's in the news.

Forecasting IT budgets

Although the global economy is on an upswing, political unrest and instability in various geographies are leaving many businesses at risk. Tariff barriers and trade conflicts only had to the worry for the IT industry, proving to be a few issues that could derail the overall improvement.

Potential political complications aside, IT budgets and headcounts are generally increasing around the globe as organizations focus more on digital transformation. As CxOs continue to recognize the true value of technology and leverage it to optimize a current business process or model, IT's role in the organization will only continue to increase, along with its budget.