Fourth Quarter 2013

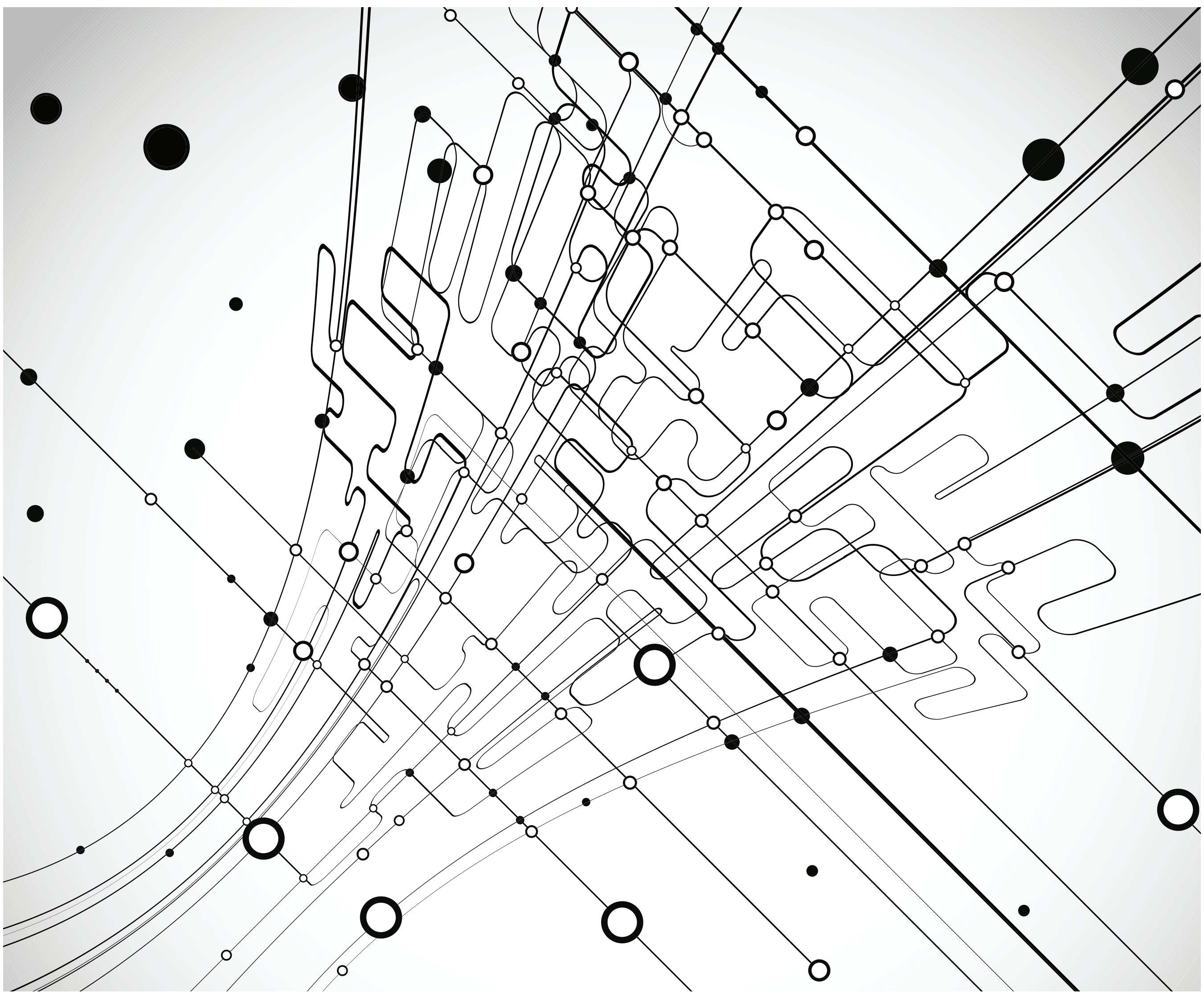
OUTLOOK

Information Management Services

AlixPartners
When it really matters.

IT Spending and Return: A European Perspective

In partnership with Oxford Economics



Executive Summary

Decades into the information revolution, many companies struggle to budget effectively for technology and maximize return on IT investments. To better understand why—and to glean insights into how they might perform better—Oxford Economics, in partnership with AlixPartners in late 2013, surveyed 50 CFOs and other senior finance executives across four European countries. We also conducted one-on-one interviews with seven additional European finance executives to explore in more detail the challenges companies face and to find out how successful companies are meeting them. This research yielded several key findings.

IT results lag IT's promise

The promise of IT spending is not being matched by results. European IT budgets are largely consumed by "keep-the-business-running" projects that seldom drive growth, with IT often failing to provide companies with a competitive advantage. While more robust information would yield meaningful financial benefits, multiple factors impede access to that information, including a lack of analytical skills among workers and a paucity of time, attention, and resources. Weakness in the way their companies vet, select, and monitor IT investments also is problematic.

Reasons for optimism

More encouragingly, the survey suggests that getting IT spending right can deliver meaningful benefits and drive a virtuous circle of IT investment and profitability. Companies with superior financial performance tend to spend more on IT and are more satisfied with the information they get. That message may not be lost on their peers, as more than half of survey respondents say their companies plan to boost IT spending over the next three years.

The way forward

To make the most of those investments, the survey and interviews suggest a number of ways companies can overcome their IT issues and benefit from a better-honed IT strategy. Firms should:

- Rebalance "keep-the-business-running" and "improve-the-business" IT spending.
- Measure "keep-it-running" and "improve-the-business" investments differently.
- Rethink approaches to human capital.
- Invest in change management.
- Upgrade portfolio management capabilities.
- Mind the culture gap between CFOs and other finance executives.

Technology drives business transformation and bottom-line success. Improving the way they choose and fund IT projects should make it easier for European companies to capitalize on these benefits.

These should be good times for Europe's corporate finance executives. As the region appears to be emerging from an epic recession, CFOs have reasons to be optimistic about their companies' growth prospects (figure 1).

Economic conditions are slowly improving—Eurozone GDP grew modestly in the second and third quarters of 2013, after six consecutive down quarters—and nearly two-thirds of surveyed finance executives say their companies' operating margins have been trending higher over the past three years. Oxford Economics' own forecasts indicate a return to growth for the Eurozone in 2014 and beyond.

Corporate spending to drive growth, meanwhile, also is trending in a positive direction. Over half of respondents to our survey of 50 European CFOs and their direct reports expect to see their information technology budgets grow in the next three years—and IT is understood to be a critical element of their growth strategy. Few respondents still view technology primarily as a cost center; the vast majority now embrace it as a driver of profits, with 30% of respondents seeing that as IT's primary function (figure 2). Little wonder, then, that half of survey respondents say their firms are early adopters of technology.

Yet European companies have much work to do on this front, and it is work of real consequence. A report from the Centre for Economic Performance at the London School of Economics and Political Science, *The Economic Impact of ICT*, says a major reason that European productivity growth has been greatly outpaced by that of the United States is that European firms do not make use of information and communications technology as effectively as their American counterparts.

"Since productivity is the key measure of economic well-being in the long run," the report says, "this is a source for concern."

In short, the promise of IT investment at European companies is not matched by the results of actual technology spending. There is excitement around the rapid rise of social networks, dynamic new mobile channels, an avalanche of business data, and the distribution of computing power through the cloud—but budgets are weighted to other priorities. Survey data reveal that the growth-oriented "improve-the-business" IT projects that C-suite executives covet are getting shunted aside for "keep-the-business-running" projects; respondents say the latter consume nearly three-quarters of all IT expenditures.

The ability to drive growth through IT also is impaired by a lack of robust information about businesses from the technology deployed. And companies have trouble determining where best to focus their IT investments to fix this shortfall. Our survey of senior finance executives shows:

Figure 1: Improving economic conditions

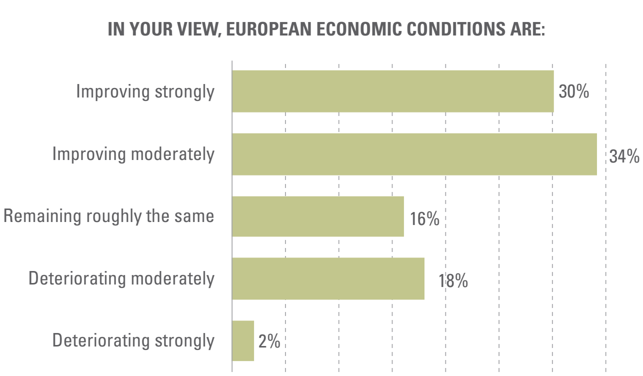
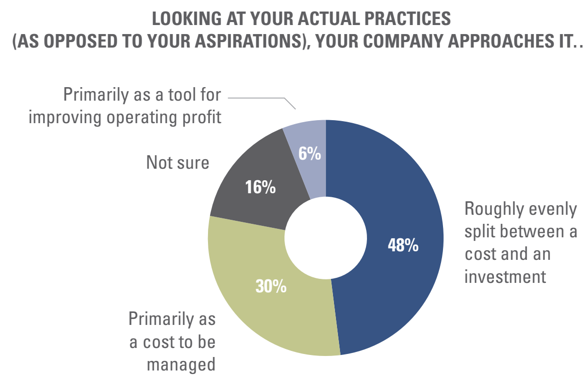


Figure 2: IT as a profit center



- A large majority says more robust information about areas such as revenue, customer profitability, and customer acquisition would yield a meaningful financial benefit for their companies.
- Half say they should be getting better information than what they have, considering what their firms have invested in IT. This calls into question the focus of IT spending and management.
- Access to meaningful data is limited by numerous factors, chief among them a lack of analytical skills in their workforces, followed by a lack of sophisticated analytical models—and a lack of time, attention, and resources.

Case Study: Sandvik seeks competitive advantage from IT

Mats Backman, CFO and executive vice president of Sweden's Sandvik Group, is among the minority of finance executives surveyed who say their approach to IT helps them gain an edge on their competitors. "IT definitely drives a competitive advantage for us," he says.

Sandvik has worked closely with customers to make sure they get the right product for their needs and can take maximum advantage of the tools and equipment they buy. Now, the company is developing new technology for its Sandvik Coromant brand of industrial tools that will help it fine-tune them for individual customers, drawing in part on customer-supplied data about how the tools will be used. Among other things, the new technology would allow a customer to simulate the behavior of Coromant products in the customer's own operations. Mr. Backman sees the project helping to attract and retain customers, and also as a barrier to entry for potential competitors.

The Coromant project is part of a general ramping up of IT development work at Sandvik over the past two years, now that a lull in spending that followed the 2008 financial crisis has passed. But even as it boosts spending, Sandvik is working to squeeze more value from every krona it invests. It has begun to require "a proper business case" for IT investments, for example, something Mr. Backman says wasn't always mandated in the past.

In an effort to ensure that its best IT initiatives have access to funding, Sandvik maintains separate budgets for "keep-the-business-running" and "improve-the-business" investments, a method shared by 42% of survey respondents. The company tries to maximize allocations to the latter. In fact, to minimize "keep-it-running" spending, Sandvik has outsourced its IT infrastructure to a third party.

"When the competition gets tougher and tougher, we need to provide more value to the customer," Mr. Backman says. "I think IT, at the end of the day, will play a big role in that by allowing us to provide services that complement our products." ■

Underinvestment during the recent lean years is part of the problem. "What we did, especially during the financial crisis, was to postpone a lot of development—and that is something we are catching up with," says Mats Backman, CFO and executive vice president of Sweden's Sandvik Group, a diversified manufacturer of industrial tools, equipment, and products. But even a fresh focus on IT spending will leave many companies poorly equipped to remedy these issues. Our analysis shows a majority of firms focusing investments on ERP systems to the possible exclusion of growth-driving cloud and mobile initiatives; not spending effectively on talent acquisition and retention; and hampered by poor budgeting and management processes for IT projects.

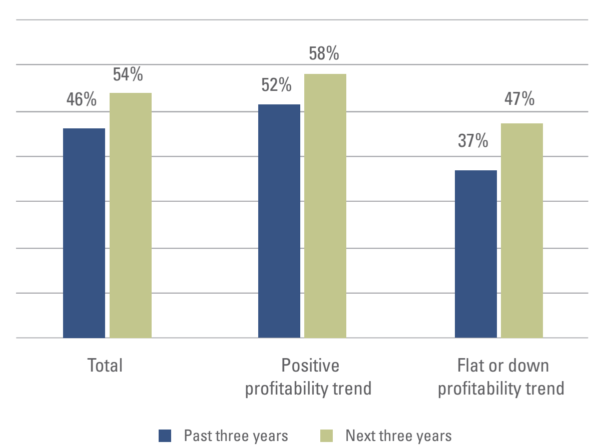
Technology is linked to business success

Getting IT investment right matters. Although the size of the survey sample makes it difficult to draw definitive conclusions in some areas, our data suggest that more-profitable firms not only spend more on IT than their less-successful peers, they also make better use of it:

- Profitable firms are more aggressive about future spending and more likely to have increased their IT spending over the past three years (figure 3).
- Nearly half of companies with rising margins say they spend more on IT than their peers, vs. only 32% of those

Figure 3: IT spending correlates with profitability

HOW HAS IT SPENDING CHANGED AT YOUR COMPANY IN THE PAST THREE YEARS? HOW DO YOU EXPECT IT TO CHANGE IN THE NEXT THREE YEARS?



Figures combine respondents who expect "modest" or "sharp" increases.

with flat or falling margins. The latter are much likelier to blame inadequate technology systems for their lack of robust information.

- Nearly half of companies with rising margins say their access to management information matches or exceeds expectations, vs. only 21% of companies with flat or falling margins.
- Companies with improving operating margins are more likely to say their last major IT project exceeded their expectations (65%, compared with 42% for those with flat or falling margins).

Our research also suggests that companies that are able to improve the measurable value gained from IT can drive a virtuous circle of technology investment and business growth.

Running to stand still

Many companies are seeing measurable returns from their "improve-the-business" spending: 60% of respondents say they are successful at making sure IT projects aimed at improving their businesses yield expected financial returns, and 68% say the financial return on their largest "improve-the-business" project in the last three years met or exceeded their expectations. Only 14% say it fell short. A majority of survey respondents also contend that their company's approach to IT helps drive profit growth (54%), customer service (58%), and the development of new products and services (58%).

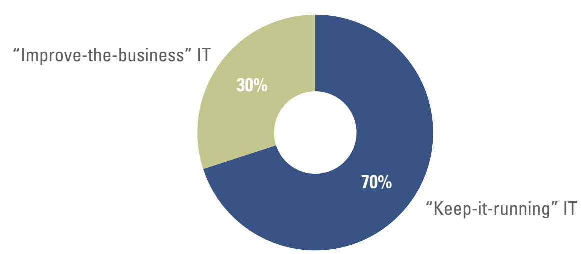
Despite these positive findings, survey respondents report significant shortfalls in what their IT systems are delivering in terms of their business agendas. Technology spending is aimed mostly at keeping the lights on instead of generating growth, with "keep-it-running" IT activities consuming 70% of IT budgets and "improve-the-business" initiatives only 30% (figure 4). When asked which technologies are the biggest investment priorities, respondents most often cite ERP systems (62%). Analytics rank second at 58%, with investments in growth-driving initiatives such as cloud and social media lagging much farther behind.

Satisfaction with the imbalance between growth-oriented projects and operational ones may indicate a misplaced complacency about spending priorities.

A long ERP implementation may bring business value, but it can come at the expense of other IT investments. While necessary for some core functions, says Craig Forbes, finance director at Chubb Fire and Security UK, an ongoing ERP deployment "sucks all the available resources and time." Getting to the next stage of using IT to really understand the profitability of different activities has to wait.

Figure 4: "Keep-it-running" outpaces "improve-the-business" IT

WHAT IS THE PERCENTAGE OF YOUR COMPANY'S IT SPENDING OVER THE PAST TWO YEARS THAT IS FOR "KEEP-IT-RUNNING" IT VS "IMPROVE-THE-BUSINESS" IT?



Who took the survey?

In late 2013, Oxford Economics surveyed 50 executives across four European countries: France, Germany, Italy, and the UK. Respondents work for companies headquartered in 13 countries, including the US (20%), the UK (16%), and Germany (14%). They included CFOs and other senior-level finance executives from 14 industries, with the largest number coming from telecommunications (16%), wholesale/retail (14%), and healthcare (10%). Just over half the represented companies (55%) had annual revenues between €500 million and €4.99 billion in their latest fiscal year; the remainder had annual revenues of €5 billion or more. Among the respondents, 14% said their company's operating margins had remained roughly the same over the past three years, 24% said their margins had decreased, and 62% said their margins had improved.

WHICH BEST DESCRIBES YOUR JOB TITLE?

Chief Financial Officer ‣ 56% | VP of Finance ‣ 16% | Director of Finance ‣ 12% | EVP or SVP of Finance ‣ 8% | Treasurer or Controller ‣ 8%

"We are still working with IT to get that type of information set up," he says. "That is very much a work in progress."

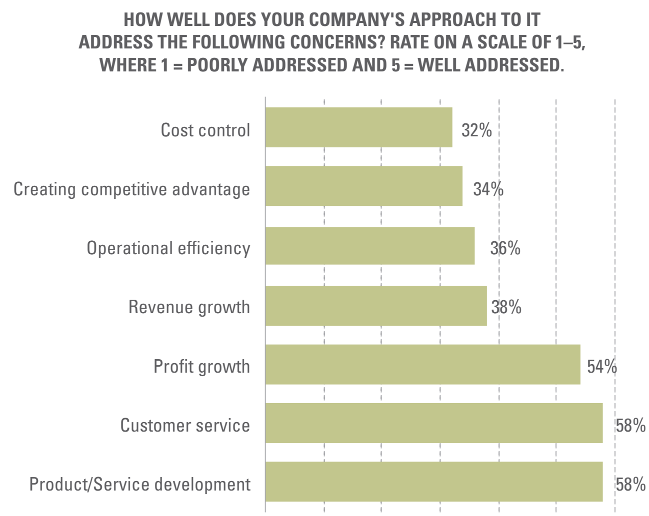
Yet despite the imbalance between growth-oriented projects and operational ones, nearly 60% of respondents say the ratio of "keep-it-running" and "improve-the-business" spending is ideal at their companies, which may indicate a misplaced complacency about spending priorities. By way of comparison, a similar survey of North American finance executives last year found the same 70/30 split between "keep-it-running" and "improve-the-business" projects. However, only a third of those survey respondents regarded that as an ideal balance, with half contending that their IT spending was too heavily weighted toward keeping the lights on (see Sidebar: Transatlantic lessons).

Not everyone is happy with the spending patterns, but change can be difficult. "We are doing everything possible to push it to 50/50 or something like that," says Rasmus Werner Nielsen, CFO of Sweden's Nordea Bank. "It is a challenge with all the regulatory requirements being imposed on financial institutions. But things are changing dramatically, quickly, and we are revising [our IT priorities] all the time, setting up new initiatives."

While IT investments are helping companies with the development of products and services, and with customer service generally, they provide relatively little help with cost control, operational efficiency, or revenue growth (figure 5). In fact, barely one-third of respondents say their IT programs provide their companies with a competitive advantage in the marketplace. Relying on technology merely to keep pace with competitors is not a winning strategy, and certainly not one that investors would willingly accept in the long term. At the least, European companies appear to be missing an opportunity to leverage technology to win in the marketplace.

Christian Plumer, CFO of Swinton Group, which operates one of the UK's largest insurance brokers, says his company could

Figure 5: Effectiveness of IT approach



Figures combine "adequately addressed" and "well addressed" responses.

Transatlantic lessons

For a group that lists numerous shortcomings in its approach to IT budgeting and resulting performance, European finance executives are surprisingly sanguine about the state of IT at their companies, at least compared with their counterparts in North America.

It's not just that Europeans are more content with their split between "keep-the-business-running" and "improve-the-business" IT spending. More than half of the North American finance executives surveyed for the 2013 AlixPartners' report, Maximizing the Value of Information Technology, said their ability to ensure that "improve-the-business" projects yield their expected financial returns was "fair to poor." In Europe, by contrast, 60% said they get it right.

North American finance executives also acknowledge more process problems when it comes to figuring out which IT initiatives to finance. Twice as many respondents to the North American survey said their companies failed to fund a worthwhile "improve-the-business" project due to inadequate formulation, documentation, and presentation of the business case.

Given that European business often takes its lead from what's happening in North America, European finance leaders—disgruntled as they are about what they're getting for their IT investments—may want to ask if they are actually too complacent.

do better. "At the moment, because of a lack of IT investment, we probably are at a competitive disadvantage," he says. "Our website is probably five or 10 years behind the times in terms of what you can do there." His company has recently embarked on a major IT transformation that he expects will provide a much better experience for customers and create a competitive advantage for Swinton (see Case Study: Swinton transformation banks heavily on IT).

Finally, few survey respondents—less than one-third—say their IT budgeting process is effective in helping them support a culture of innovation, deliver measurable return on their IT investment, or hire and retain the workers their organizations need. The latter figure is particularly disappointing given that many respondents say their companies lack the analytical skills needed to fully leverage the IT investments they have already made. It also suggests their ability to attract and retain critical, qualified IT workers may actually worsen over time.

European companies also have trouble completing IT projects within budget. Even though 68% say their return on their last big "improve-the-business" IT project met or exceeded expectations, about 40% say it cost more than expected. None report that it cost less. Repeated cost overruns do not suggest that IT investments are not worth making, but they could promote a climate in which executive leadership begins to take a skeptical view of IT, making it that much harder to win funding for even the most promising projects.

Few survey respondents—less than one-third—say their IT budgeting process is effective in helping them support a culture of innovation, deliver measurable return on their IT investment, or hire and retain the workers their organizations need.

One reason that IT investments suffer from cost overruns is because companies go into them expecting a standardized solution to meet their needs, but wind up doing more customization than anticipated. That ultimately drives up implementation costs and ongoing maintenance expense. Swinton's Mr. Plumer also blames failure to precisely define objectives at the start of a project, and "scope creep," or the seemingly unavoidable tendency to try to add more bells and whistles to a project once it's underway. At Chubb, sponsors of IT projects must document the impact of initiatives on revenues, costs, profitability, cash flows, and the company's overall business objectives. The approach, says Mr. Forbes, "is designed to ensure there are no 'nice to haves' in there, and that it is all business focused."

Opportunities to enhance performance

More than half of survey respondents say their companies plan to increase IT spending over the next three years, but

Case Study: Swinton transformation banks heavily on IT

Eighteen months after installing a new executive management team, UK-based Swinton Group is pursuing a £60 million strategic transformation of its business. Half that sum is earmarked for IT projects, following what the company's CFO, Christian Plumer, describes as a lack of investment for many years. Priorities include an overhaul of the company's outdated website, which drives about half the firm's revenue, and replacement of the aging telephone system that connects the company's 500 branch offices across the UK.

A new level of rigor will guide the process by which the company assesses and prioritizes these urgent IT investments at a portfolio level, with a clear line of sight to the costs and benefits. "Our IT projects have to go through a project governance process, and as part of that, there needs to be a business case," Mr. Plumer says. "And then that is monitored as the project progresses." Things were done differently in the past. "Historically there hasn't been much input on these decisions from finance."

Finding the right balance between gut decisions and robust ROI forecasting has its challenges. "It's sort of swung a bit the other way now, in that everybody is spending hours and hours on the business cases for their projects because that's what they think they need to do to get them through," says Mr. Plumer. "We're actually trying to push back the other way a little bit, because my finance team hasn't got the time or bandwidth to go to the level of detail people are asking for when preparing all of those business cases for them. What we're trying to say is, don't over-engineer these things. We just need something that gives us a rough idea of the benefits and costs so that we can make an informed decision."

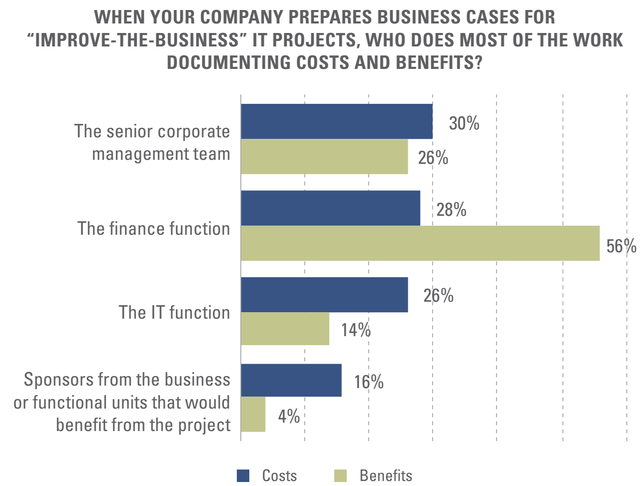
Mr. Plumer suspects that Swinton is spending "a lot more" on IT than its peers, just to catch up to where some of them already are. "I imagine we'll end up spending about the same as them when we get to a more steady state," he says. Swinton splits projects into three categories: mandatory change driven by regulation, transformational change driven by the company's business plan, and "discretionary-change projects that are kind of fitted in when we can fit them in, prioritized in terms of value and need." The company also sets aside about 10% of its IT budget for "small change" projects that crop up unexpectedly or opportunistically. "We protect that category," Mr. Plumer says, "because otherwise it would just completely disappear. You wouldn't do any of that stuff." ■

maximizing return on those investments and generating the necessary quantity and quality of management information presents challenges. Improvements here will only come from the "improve-the-business" initiatives that few companies emphasize.

Critically, respondents acknowledge numerous weaknesses in the way their companies vet, select, and monitor IT investments (figure 6). Only one-quarter say their companies have a rational, standard framework for assessing and prioritizing IT projects, and nearly half admit that factors other than a carefully considered business case, such as internal politics and personal persistence—a willingness to be the "squeaky wheel"—influence the funding of "improve-the-business" IT projects more than they should. These shortcomings have consequences. In addition to complaints about inadequate IT systems and the need for more robust management information, 22% of survey respondents say their companies failed to fund a worthwhile "improve-the-business" project in the past three years simply because the sponsor could not formulate and document a business case.

Even companies that can fund all IT initiatives and assemble a rigorous and economically sound framework for prioritizing them might still find themselves challenged to realize their full

Figure 6: Making the case for IT



A disconnect between CFOS and non-CFOs

Our survey shows that CFOs and non-CFO finance executives have significantly different views on a number of IT-related topics. While the results are not statistically definitive, they are strongly suggestive of a cultural divide within the finance function. Some key examples:

- **The impact of IT.** CFOs by a wide majority (75%) say their companies' approach to IT helps with product and service development, compared with only 36% of non-CFOs. By contrast, non-CFOs see their companies' IT approach being more helpful with operational efficiency (50% vs. 25%) and in providing a competitive advantage (46% vs. 25%).
- **Prioritizing IT projects.** CFOs are much more relaxed about how well their companies decide which "improve-the-business" IT projects to pursue, with 32% saying their companies have a rational, standard process. Only 18% of non-CFOs say the same.
- **Who formulates the business case for IT projects?** Nearly 41% of non-CFOs say the finance function does most of the work to document the cost of "improve-the-business" IT projects, but CFOs apparently don't see it that way; only 18% recognize finance for shouldering that load. And while 23% of non-CFOs credit the IT department with taking primary responsibility for preparing the business case for IT projects, only 7% of CFOs say IT plays that role.
- **Who should have more say on which IT projects get funded?** Three-quarters of CFOs say senior management should have a greater voice in funding "improve-the-business" IT projects, compared with 46% of non-CFOs.
- **Social media technology.** CFOs have little interest in funding social media IT investments—only 14% cite it as a priority—while 41% of non-CFOs consider it important. CFOs are much more interested in cloud (57%) and CRM (54%) projects, by contrast, vs. 27% and 32%, respectively, for non-CFOs.

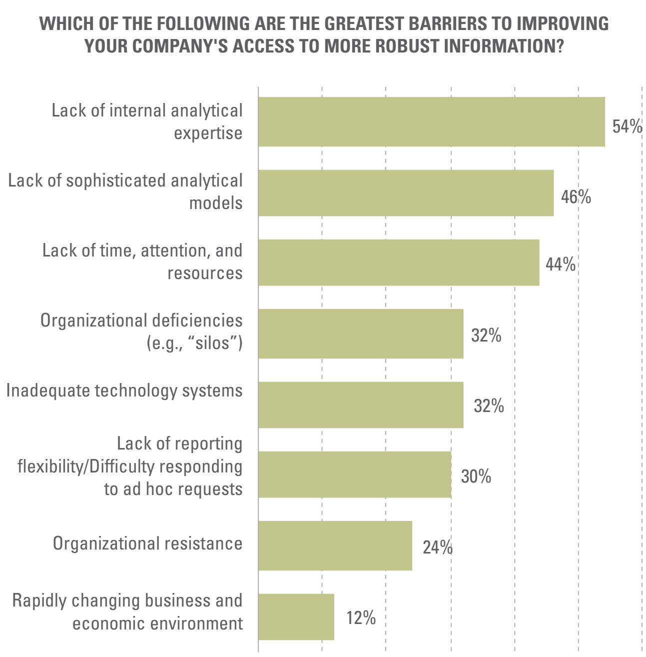
These findings indicate that CFOs may be out of touch with what their direct reports are seeing within their companies, and also that they may need to do a better job of making sure they and their top lieutenants are on the same page.

value. More than half the survey respondents—54%—say their companies lack the necessary internal analytical skills to generate more robust management information, and 46% say that problem is compounded by a lack of sophisticated analytical models (figure 7). In addition, 44% say their efforts in this area are also hindered by a general lack of time, attention, and resources.

"ERP systems are amazing machines with respect to chomping data," says Deirdre Mahlan, CFO of UK-based beverage company Diageo. "But actually turning that data into information has been a challenge. It's almost like data overload. People aren't quite sure what to do with all of it, and as a result they sort of sub-optimize by staying in their own little comfort zone and don't get full value from the system." To combat that problem, Diageo has been creating "centers of expertise" for certain analytical activities in its shared service centers (see Case Study: How Diageo prioritizes IT projects).

CSR, a British designer and developer of semiconductors and software for a variety of technology platforms, is looking to take a similar approach. "I'm moving to have one sort of center of excellence for reporting all information across the whole company," says CSR CFO Will Gardiner. "The sophistication of analytics is changing quite rapidly, so having a team who is really focused on that will, I think, give you a better chance of being best-in-class."

Figure 7: Opportunities for improvement



Overcoming the challenge of IT underinvestment can yield measurable benefits. Our data suggest that companies with improving operating margins approach IT differently than firms with flat or falling margins:

Case Study: How Diageo prioritizes IT projects

With sales in more than 180 countries, UK-based beverage giant Diageo leans hard on information technology to make the production, marketing, and distribution of its iconic brands like Johnnie Walker whiskey and Smirnoff vodka as efficient as possible. CFO Deirdre Mahlan says the company devotes nearly 20% of its capital budget to IT.

With so much money on the line, Diageo is focused on spending in the right places. The company takes a long-term approach. After an overhaul of its back-office systems, Diageo began converting to a single, unified SAP ERP system six years ago, a project it continues to refine. While business-unit leaders at Diageo can and do make suggestions about where to focus IT spending, final decisions are controlled centrally.

"Nobody can spend anything without our chief information officer approving it," Ms. Mahlan says. "You can't go do your own thing. That's partly because we have a single instance of SAP and we can't have people bolting stuff onto it, and partly so that we can prioritize and allocate our resources across the group so that we are putting discretionary resources into the places that will drive the best possible outcomes."

Once Diageo has drafted an IT spending plan for the year, the plan is vetted by the company's executive committee, which can decide if any projects should be reprioritized to meet corporate strategic goals or if the IT budget itself should be increased. The process has taken time to mature. "I think we've only gotten good at it the last three or four years," says Ms. Mahlan.

The new approach keeps some projects from starting as quickly as business leaders would like. "Like any other investment, you have to be satisfied that you're getting a return before you race ahead with an IT project," she says. Business leaders tasked with improving a process often look for a technology solution before knowing how the process itself must change. "I tell them to figure out what they believe is the right process, and then, if we need to automate it, I'll look at a tool," Ms. Mahlan says. "If you try to put in a tool first you're going to end up sorry. You'll be stuck with a lot of depreciation on some system you don't really like."

Ms. Mahlan says Diageo's approach to prioritizing IT projects ensures that none are undertaken unless they are aligned with the company's business strategy. Otherwise, she says, "We'd be frittering money away on all kinds of stuff that doesn't make any sense." ■

- Among those reporting flat or declining margins, 21% place primary responsibility for prioritizing projects on the IT department. None of the companies with improving margins do this.
- Firms with improving margins also are less likely to entrust cost documentation for "improve-the-business" projects to the IT department, and much likelier to give that responsibility to sponsors from the business or functional units that would benefit from the projects.

"My experience has been that one of the most important things you can do, especially when you're investing for change, is to get senior people outside IT to own that change and be accountable for it," says Neil Page, group finance director for Carpetright, one of the UK's largest floor-covering retailers. "They're the ones who must be held responsible for the delivery and the benefits."

Case Study: Budgeting for talent management at Chubb

Hiring and retaining employees with the skills to handle analytics is a critical challenge, with more than half the European CFOs we surveyed saying their teams lack the analytic skills needed to help drive their businesses forward. Less than a quarter of respondents say their budget allows them to hire and retain the necessary workforce.

Budgeting to provide skilled employees with attractive career paths is one way CFOs can combat the talent gap. Craig Forbes, finance director for Chubb Fire and Security UK, says he has gone to great lengths to keep with his employees who understand both finance and IT, and know how to leverage IT and the data it produces to improve the business. "There is one person on my team who has those skills and has worked for me for 15 years," Mr. Forbes says. "And when I've moved companies, I always take him with me, because when you get people who have those skills, they are absolutely worth their weight in gold."

Mr. Forbes also tries to leverage the expertise and insight of those employees by making sure they work with and mentor others who show promise. "In our business, for example, there are two other individuals who are really starting to have a flare for that type of thing," he says. "We're getting them involved in projects, almost like a deputy, so they can further develop those skills."

Still, Mr. Forbes harbors few illusions that it will be easy to add to the ranks of employees who can recognize and articulate business information needs, relay those needs to the IT team, and then work with business leaders to leverage any resulting IT investments. "It always comes down to a small group of people who have that skill set," he says—"people who can immerse themselves in the details, but view things from an overview perspective as well." ■

Conclusion: The way forward

Technology drives business transformation and bottom-line success, presenting companies with a huge opportunity for future growth. Results already attained by leading firms show that progress along the road forward can be mapped. Our survey results and interviews with senior finance executives suggest a number of ways companies can overcome their IT issues and realize the benefits of a well-honed IT strategy:

- **Rebalance "keep-it-running" and "improve-the-business" investments.** Survey respondents are happy with their mix of IT spending, yet they want more from IT in terms of supporting business growth. This suggests that spending priorities need adjustment, with greater efficiency and smarter sourcing decisions on the "keep-it-running" side freeing up capital for other needs. For example, ERP systems are the top IT investment priority, but they are expensive and often fall short of delivering their expected returns; other technologies (e.g., analytics, mobile, social, cloud) may be better suited to growth strategies. "Our investments in our ERP systems have been limiting our investment in some of those other things," says CSR finance chief Will Gardiner.
- **Measure "keep-it-running" and "improve-the-business" investments differently.** For "keep-it-running" initiatives, focus on minimizing costs; for "improve-the-business' projects, focus on maximizing return on investment.
- **Rethink approaches to human capital.** Barely one-quarter of survey respondents (26%) say their IT budgeting process is effective in supporting a culture of innovation, and even fewer (24%) say their approach to budgeting helps them hire and retain the workforce they need. Given that a lack of internal analytics expertise is the leading barrier to obtaining adequate data, and that IT budgets are growing, turning to external sources of talent and expertise may be a smart alternative.
- **Invest in change management.** Diageo CFO Deirdre Mahlan says IT projects typically do not fail because of poor software but because the people who use it are not ready or willing to change the way they work. "The success or failure of a system is related to the commitment of management to define requirements, and then insist that people stick with those requirements," she says.
- **Upgrade enterprise portfolio management capabilities.** Prioritization and optimization of projects lag when decision-making is in the wrong hands. Realistic cost

estimates and benefit cases that deliver on business-growth objectives suffer, too. Firms with improving margins do not give their IT departments primary responsibility for prioritizing projects, but more than one-fifth of those reporting flat or down margins do so. “When you have successes, it is very often driven out of other entities than IT,” says Nordea Bank’s Mr. Nielsen.

- **Mind the gap between CFOs and other finance executives.** Big differences in perceptions of investment and management effectiveness point to communication issues that could hobble IT strategy and execution. Top executives may benefit from greater clarity and insight on the details of IT performance, while their direct reports may need more information about high-level goals and priorities.

FOR MORE INFORMATION, PLEASE CONTACT:

Rob Hornby
Managing Director
rhornby@alixpartners.com
+44 20 7098 7566

Meade Monger
Managing Director, Global Leader of
Information Management Services
mmonger@alixpartners.com
+1 (214) 647-7621

ABOUT ALIXPARTNERS

AlixPartners is a leading global business advisory firm of results-oriented professionals who specialize in creating value and restoring performance at every stage of the business life cycle. We thrive on our ability to make a difference in high-impact situations and deliver sustainable, bottom-line results.

The firm's expertise covers a wide range of businesses and industries whether they are healthy, challenged, or distressed. Since 1981, we have taken a unique, small-team, action-oriented approach to helping corporate boards and management, law firms, investment banks, and investors respond to critical business issues. For more information, visit alixpartners.com.

AlixPartners. *When it really matters.*