

INFORMATION AGE

Five top spending priorities for hard times

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No company is immune from the economy's ebb and flow. So it's no surprise that, in the face of a fearsome downturn, ICT shops are scrambling to figure out where they should cut.

The big three analyst firms – Forrester, Gartner and IDC – are busily slashing their ICT spending projections. But now is the time to stand tough, advises Andrew Reichman, senior analyst at Forrester Research. “Companies should tighten their belts, not take their pants off,” he admonishes.

At brokerage and investment banking firm Morgan Keegan, for example, CIO John Threadgill acknowledges that he has to “come up with better reasons” for the technologies to which he allocates ICT resources. But after he eliminates or delays costs where feasible, Threadgill and his CIO colleagues must continue investing in certain areas, no matter how crazily the economy bounces up or down.

“We'll continue to spend where we need to,” says Threadgill.

So which technologies get funded rain or shine? We consulted a range analysts and CIOs to arrive at a consensus: the five technologies ICT shops must continue to invest in despite the recession. The common theme, says IDC chief analyst and senior vice president Frank Gens, is that “any technologies that can save companies money or reduce expenses will continue to thrive”.

1. Storage: disks and management software

“There are some things that just won't go back in the bottle,” says Mark Raskino, Gartner fellow and vice president of emerging trends and technologies. “Storage is one of those.” Data keeps piling up and IDC continues to estimate that spending on disk storage will double every two years, at least beyond 2012.

Another growth area will be “storage management tools that help ICT get better use out of the hardware they already have”, says Steve Minton, vice president of worldwide ICT markets at IDC. Forrester's Reichman suggests that thin provisioning, data deduplication, and storage virtualisation will prove worthy of investment.

“Data de-duplication can improve performance, success rates, these types of things ... while storage virtualisation is a way to be more flexible and move data nondisruptively.”

Morgan Keegan's Threadgill agrees, saying that spending on storage and security will be his top ICT priority for 2009. “Our biggest spend next year is going to be storage. Data doubles yearly,” he says. “We also might see new regulatory requirements and have to keep our data forever.”

2. Business intelligence: niche analytics

As data continues to accrue, the need to glean insights from it grows, agree analysts from Forrester, Gartner, and IDC. CIOs will keep spending on general business intelligence, but more resources will go toward very focused analytics, explains Andrew Bartels, principal analyst at Forrester. The “analytics that help companies identify and retain their most-profitable customers will be key,” he says.

Gartner fellow and vice president Jackie Fenn adds that companies always need behaviour analytics. In the supply chain, for instance, analytics that trigger alerts when suppliers are running into problems, such as delaying supply or payment, can deliver real value to companies.

“The broader range of data sources will lead to greater need for analytics,” Gartner’s Fenn explains. “There are many different masters, as companies tap analytics to cut costs, avoid errors, predict behaviour of customers before they lose them, grow market opportunities.”

Michael Khan, CIO of international eye care service Specsavers, adds that he is continuing to invest in technologies that improve customer insight and retention because “it’s easier to keep those customers now, even at a cost, than to try and win them back later”.

3. Virtualisation: optimising resources

Virtualisation is the datacentre version of getting the most out of what you already have. Up-front investment in virtualisation tends to be fairly low, but can deliver quick and substantial returns. “Virtualisation will continue to be popular because it allows companies to defer other costs – in this case, that’s mostly hardware,” IDC’s Gens says.

Specsavers began tapping virtualization before the downturn. “Virtualisation is a key tactic we’ve been doing for some time to minimise hardware acquisition costs,” Khan says, “and that will continue.”

Virtualisation has advantages beyond hardware cost reduction. “Everybody’s moving to virtualisation,” Forrester’s Reichman says. “You’re likely to be more efficient with server and storage resources in the long run, and if you have expertise, that return is likely to come fast. A down economy might be the right time to throw down and do it, especially if you can time it with hardware refreshes.”

Transplace, a transportation logistics provider, is reaping the benefits of moving to 90 percent virtualised infrastructure, according to CTO Vince Biddlecombe. “Converting from a physical to a virtual infrastructure is particularly beneficial during tough economic conditions,” Biddlecombe says. “Virtualisation has allowed us to save on power and cooling costs as well as the amount of time our ICT staff spends on server admin. It provides us with more efficient use of capital as well as increased flexibility during challenging times.”

But CIOs should also expect virtualisation to force security investments because, as Threadgill explains, “the virtual machine environment has to be as secure as the physical environment”.

4. Security: data and end points

No surprises here. IDC’s Gens, in fact, says that security is “always the number one concern of IT. As you see more resources out there on the Internet, there’s concern that they’re secure”. Companies will have a particular focus on securing network end points, devices, and those applications that serve them, according to IDC’s Minton. Whether you’re in a recession or not, he says, you don’t want to be front page news for a major data breach.

Threadgill lists security as the second of Morgan Keegan’s top two spending priorities, behind only storage. And Specsavers’ Khan adds that his budget will include security technologies, namely firewalls, tools for securing end points, and data encryption for mobile devices and remote PCs. “There’s no reduction in security expenses,” Khan says. “If anything we’re increasing our security spending.”

Gartner and Forrester agree that companies will continue to ratchet up security. Raskino adds that layoffs and, in turn, new hires will be yet another driver. “An economic downturn and recovery create massive churn,” he says. “The processes and tools for managing and disabling access are going to be critical.”

5. Cloud computing: business solutions

Analysts from Forrester, Gartner, and IDC say that certain pieces of cloud computing will continue to expand – and perhaps even accelerate due to the downturn.

IDC predicts that cloud computing will account for 9 or 10 percent of ICT spending by 2012, up from the 4 percent allocated in 2008. “That’s a conservative forecast made before the Dow tanked,” Gens adds. “So that’s going to accelerate cloud offerings from the big vendors.”

Gens sees many companies moving to the cloud for the applications and services most often sought by business types, who are actually circumventing the ICT department to get what they need. These include such business solutions as salesforce automation, productivity, and marketing campaign software. “The more pure ICT stuff – infrastructure, infrastructure software, application development – those are tech buyers, so there are fewer potential customers,” Gens says.

Tech buyers are taking a hard look at such cloud services as Amazon’s EC2, which allows businesses to scale capacity dynamically by uploading virtual machines to Amazon’s servers.

But other less glitzy areas are getting traction, too. Cloud-based data backup and file storage services are “a really good idea that can be much more cost-effective” than going it the old-fashioned, in-house way, Forrester’s Reichman says.

Gartner’s Raskino adds to the list of cloud resources CIOs will find valuable during a recession such services as e-mail, storage, and lightweight productivity apps. “This is a good time to have a cost-centric argument, so ICT might even take a risk to get a payoff with cloud technologies, if they’re mature enough,” he says.

Looking toward recovery

Over the next four years, IDC expects that the tech industry will lose more than \$US440 billion in revenue due to the spending slowdown. The good news: ICT spending will make a full recovery and enjoy growth rates nearing 6 percent by 2012, according to IDC.

Whether such projections hold or not, Forrester’s Reichman argues that ICT shops must trim their sails and stay the course. “You cannot stop growing,” Reichman explains. “Most companies are already fire-fighting, but you’ve got keep the lights on, keep things going forward, because the datacentre is always in a recession anyway. So keep moving.”

Specsavers’ Khan advises ICT shops to weigh their options carefully, because investments made during a recession often have lasting impact. “In these economic scenarios,” Khan says, “you’ve got to make a judgment on which technologies will bring you advantage when things turn around and get better.”