software 2006
CIO Insight Survey

Preface

Senior IT decision makers plan to expand software budgets over the next 2 years, and increasingly view Software-as-a-Service and Web Services/Service Oriented Architectures as critical to their business.

The McKinsey & Company/Sand Hill Group Software Buyer Survey picked the brains of 100 senior IT executives[1] to determine how their IT software budgets will change, who will control software spending, and what industry trends will matter most over the next 2 years. Overall, they said that software budgets would grow, innovation is back to center stage, and new technologies like software on new devices and software as a service were increasingly important to them."

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SOFTWARE 2006 *Summary*

Evolution of Budgets

Senior IT decision makers say they will dedicate 30 perent of the IT budget to software spend in 2006, on average, and that figure will likely increase to 35 percent over the next 2 years. This estimate was based on ongoing initiatives involving both spend reduction and new investments.

At the macro level, the breakdown of these companies' software budgets looks relatively stable over the next 2 years. They will spend on new initiatives (35 percent), maintenance (24 percent), new licenses (16 percent), deployment (15 percent), training (6 percent), and other initiatives (4 percent). However, at the company level, individual IT departments are planning to shift an average of 15 percent of their investment among the various software spend buckets.

Where is this money going? The answer differs significantly by company, but a few segment-based trends are apparent. Enterprises with 1,000 or more employees seem to be decreasing investment in new initiatives in favor of software licenses, maintenance, and training for existing infrastructure. Midmarket companies with 100 to 999 employees are typically doing the opposite: ramping up new initiatives in lieu of spending on existing infrastructure.

Software Purchasing Decisions

To centralize or not to centralize software purchasing decisions is a key dilemma for customers. According to our IT management panel, most purchase decisions will remain primarily centralized, with respondents reporting an average of 72 percent of their software budgets as centrally controlled this year. This control will remain relatively unchanged over the next 2 years.

However, the apparent stability in the aggregate misrepresents the changes to come on the company level. A total of 38 percent of IT executives surveyed indicate plans to centralize IT budgets further over the next 2 years, while only 23 percent intend to decentralize control to business units.

Decentralizing companies plan to relinquish control of a larger sum of funds – 30 percent greater – compared to “centralizers.” This difference in budgets nearly offsets the difference in quantity.

Even companies that have a primarily centralized the decision making process are feeling the influence of a wider cross-section of the organization. While IT managers report they are the final decision makers or are formally consulted in 98 percent of all software decisions, the broader organization has substantial impact as well.

While the finance department has historically maintained a seat at the table, business leaders and end users have become increasingly influential and are now involved in nearly as many purchasing decisions. In our survey, business leaders are reported to have formal input or decision making power in 83 percent of all software decisions. Another 62 percent of respondents say business users are involved in a similar manner.

The findings clearly imply that software sales channels will increasingly need to build relationships and develop materials tailored to the business decision makers, at the same time they are addressing the IT department.

Which information channels are best for reaching these decision makers? Software decision makers prefer to base decisions on their own experience (26 percent) or on input from industry peers (23 percent). Vendor proposals, analyst/consultant presentations, and peers outside of the industry are all less effective, garnering 12 percent to 18 percent of responses.

Given these preferences, more software developers and their channel partners may want to develop a rich set of industry-based case studies and reference cases as a primary sales tool. Proof of impact in an industry will be critical to sales efforts.

Software Industry Trends

IT executives were asked to name the trends most likely to make headlines and influence their businesses. Respondents selected “Software on New Devices” (28 percent) as the most important story of the new year, followed by “Continued M&A/Industry Consolidation” (24 percent). Among trends affecting their businesses, services were the real standout. A clear majority of all respondents chose either Software-as-a-Service (30 percent) or Web Services/Service-Oriented-Architecture (SOA) (24 percent) as the most vital trend for their businesses. Clearly, the Software-as-a-Service delivery model is beginning to capture mindshare with customers, and this fact will have far-reaching implications.

IT executives have clear views on where the software industry needs to improve, and called for products that were more innovative, easier to use, and less expensive. A total of 30 percent of respondents identified innovation/new products as the most important area for improvement. Lower cost and greater ease of use followed close behind, and respondents frequently cited both.

Overall, IT executives are asking the software ecosystem to keep delivering on the improved productivity and lower TCO of the last 5 years, while stepping up to offer even more value through innovative, easy-to-use experiences.

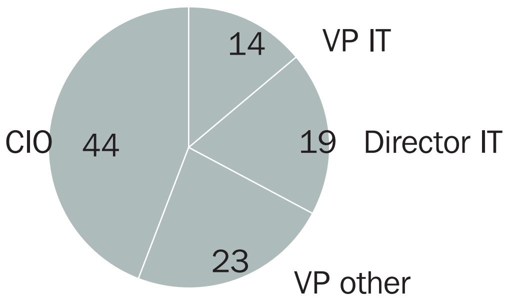
Notes

[1] In March 2006, McKinsey & Company in collaboration with Sand Hill Group launched an online survey of a global sample of senior IT professionals. Qualified IT participants were selected from both the list of attendees to the CIO Dialogue at Software 2006 and from *The McKinsey Quarterly* subscriber base.

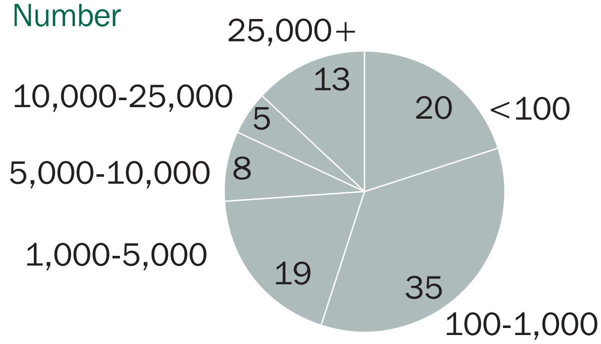
EXHIBITS

Respondent Demographics
n = 100

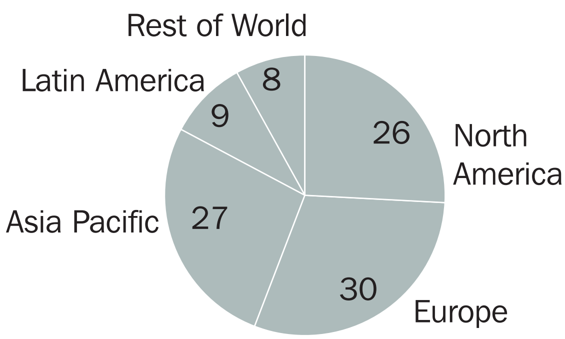
Respondents by role
Number



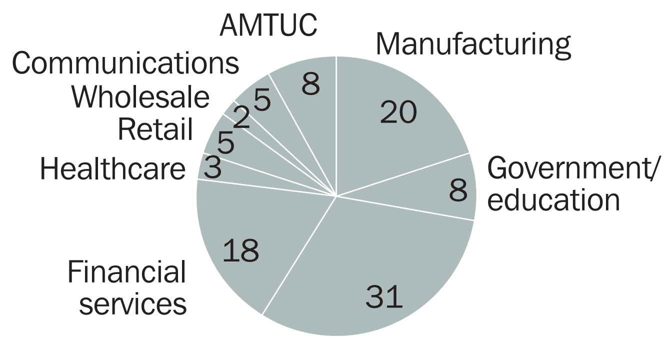
Respondents by company size
Number



Respondents by location
Number



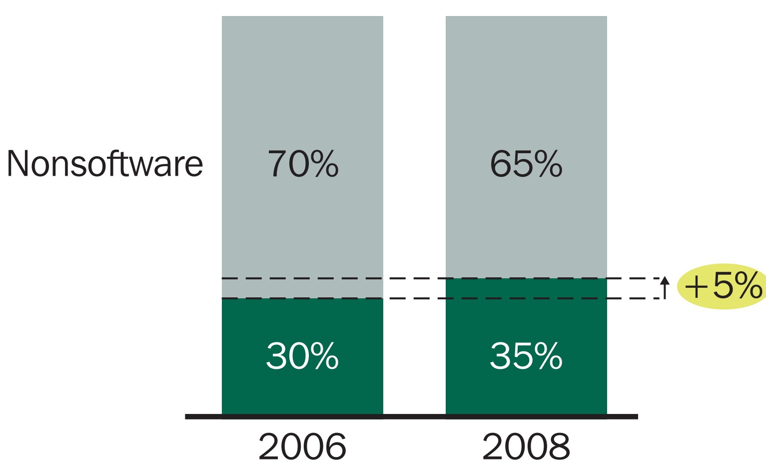
Respondents by industry
Number



Software Budgets

Q1. Approximately what percentage of your organization's total IT budget is dedicated to software-related spend? What percentage do you expect this will be in 2 years?

IT budget dedicated to software-related spend
Percent

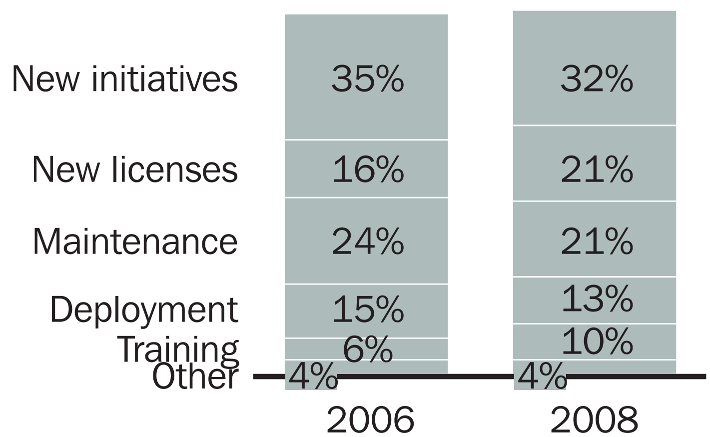


Distribution of Software Spend

Q2. How does this spending divide across the following categories? (allocate 100%)

Q3. Given ongoing initiatives (both spend reduction and investment), what will these categories look like in 2 years time? (allocate 100%)

Software budget dedicated to categories
Percent



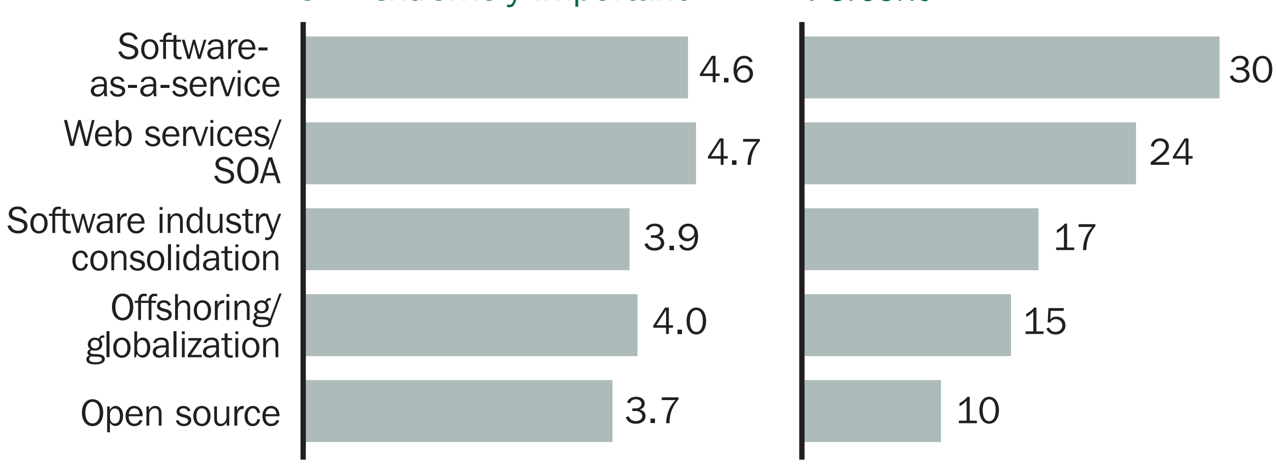
Importance of Industry Trends

Q4a. How important is each of the following for your business? (scale of 1-6)

Q4b. Please select the most important item for your business from the list

Importance to business
1 = not important,
6 = extremely important

Selected "most important"
Percent

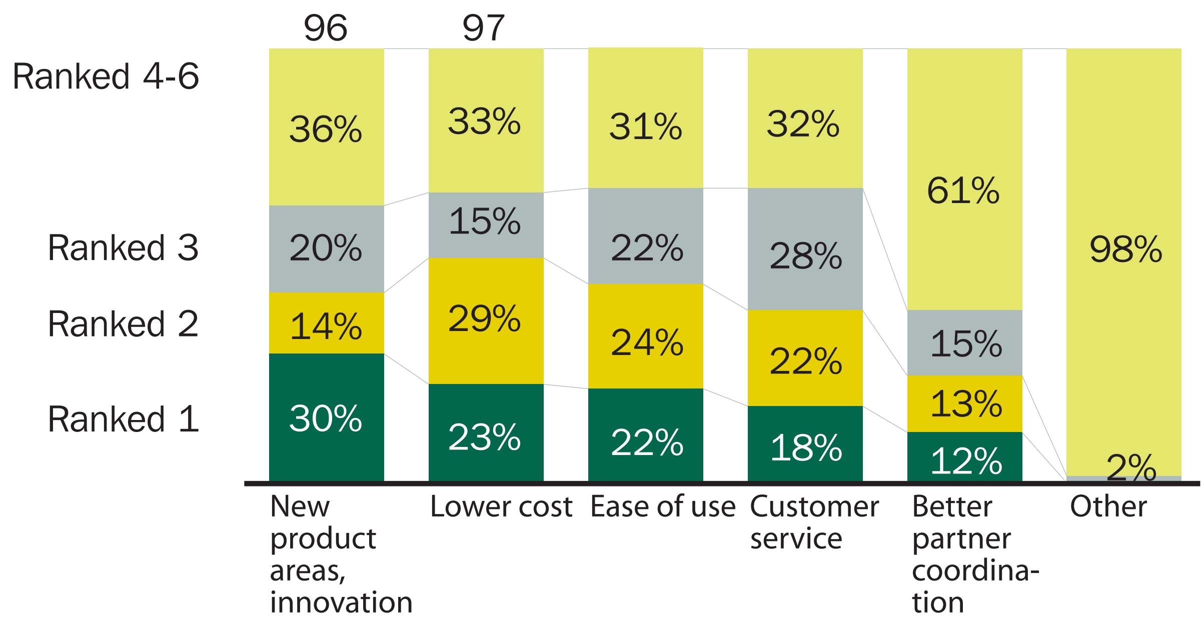


Software Industry Areas for Improvement

Q5. What are the areas in which you think the software industry in general could improve? (Rank in order of importance)

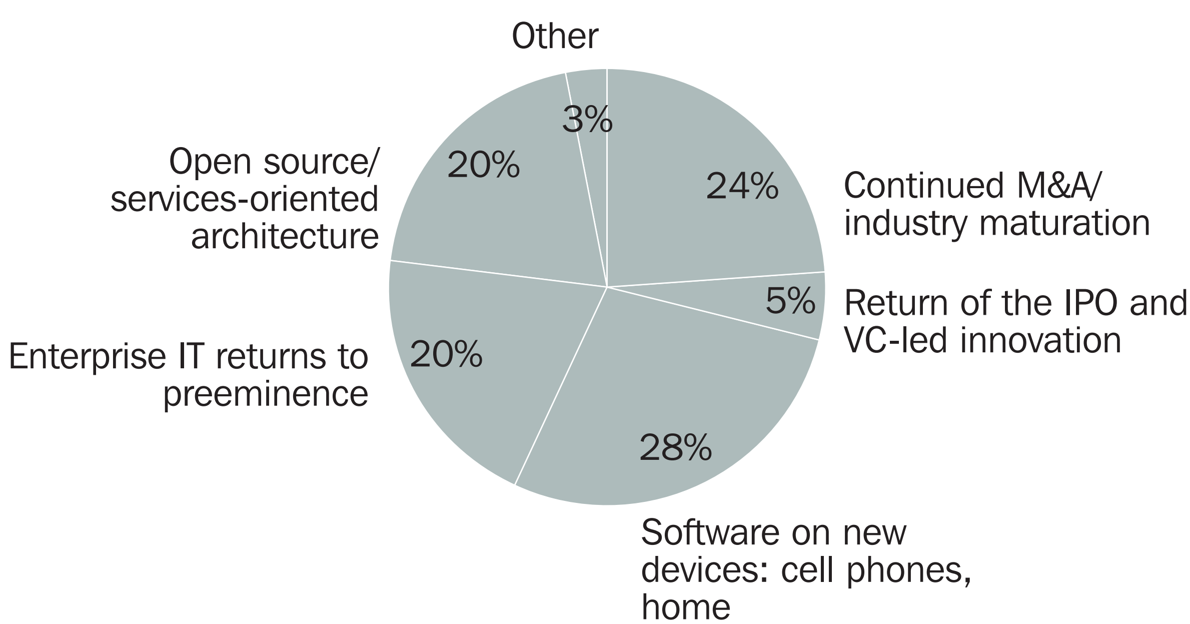
Relative ranking of software industry-improvement areas

Percent



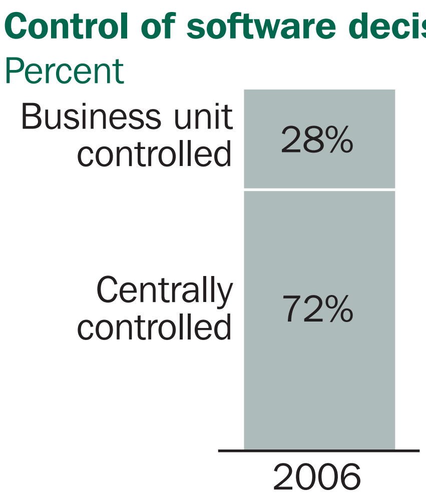
Significant News Stories

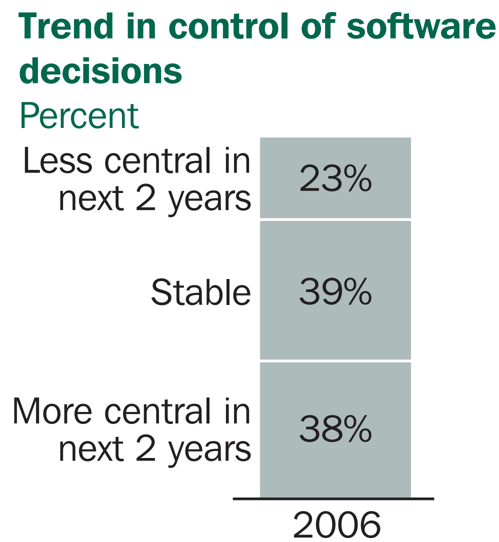
Q6. What is likely to be the most significant software news story of next 12 months?



Software Purchase Centralization

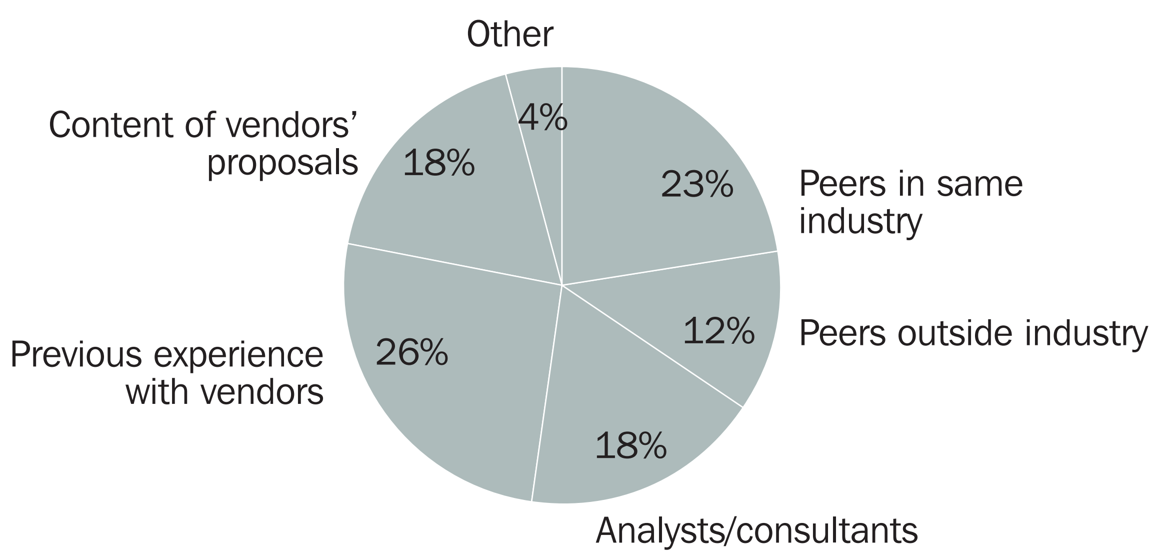
Q7. Please estimate what portion of final software-purchase decisions (specific software brand/product selections) are centrally controlled vs. controlled by business units, today and 2 years from now?





Software Information Sources

Q8. Who do you look to for advice about software-purchase decisions? (Allocate 100%)



Software Decision Makers

Q9. For central software purchases, how involved are each of the following in software-related spend decisions?