

# Trendsetter Barometer

July 2011

**Private companies rebuild IT budget to drive growth and efficiencies**  
IT becoming more central to strategy, especially for international firms



## Highlights

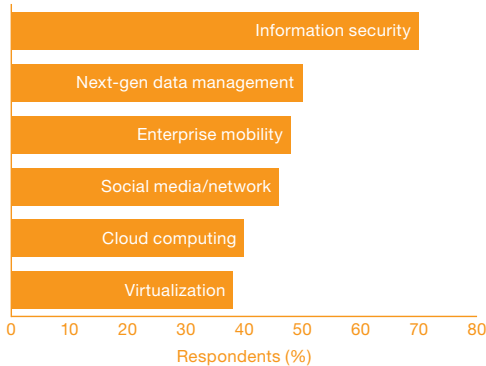
- Many private companies are rebuilding IT budgets after the recession, with nearly half identifying a critical need for IT upgrades and improvement.
- IT expansion is faster and more innovation-focused among international companies, which are embracing the ethos of doing more with less.
- Despite their concern about IT security, most private companies are not integrating cyber risk considerations with their IT investment in risk management.
- The biggest IT impact is expected from technologies that enable smaller companies to close the gap between themselves and larger competitors.
- Private companies' resource constraints and rigid legacy systems may limit the positive impact from IT investment.

Coming out of one of the worst recessions on record, many private US businesses are planning to increase their information technology (IT) spend to catch up on deferred IT investment, improve internal operations, and seize new growth opportunities. The latest *Trendsetter Barometer* survey finds that 29% of private companies are planning to increase IT spending within the next year, raising investment on average from 5.6% to 6.6% of total budget. While this is still below the pre-recession levels seen in earlier surveys, the uptick signals an important shift as executives increasingly look to technology to drive growth.

With recovery proceeding at a sluggish pace in mature economies, the pursuit of growth has extended to fast-growing emerging markets for many private companies. Our research shows that the savviest private firms are planning to leverage new digital technologies — especially business analytics, mobility, cloud computing, and social media — in achieving their growth objectives. In particular, they intend to use these technologies to drive revenue, attract new customers, develop new marketing channels, and keep pace with global competitors. Other business objectives that Trendsetter companies plan to meet via enhanced IT spend are greater efficiency, reduced costs, and increased agility.

While important for all firms, technology is particularly critical for private businesses, enabling them to deliver products and services to wider customer bases quickly and cost-effectively — and surmount the barriers to becoming a global player.

## Investment planned over the next 1–3 years



## Objectives of IT spend over the next 12 months\*

### Overarching goals

Make business processes more efficient	90%
Better manage enterprise data	75%
Optimize business information/analytics	73%

### Impact on sales and bottom line

Attract new customers	58%
Drive growth/competitiveness	55%
Identify the needs of existing customers	55%
Improve sales and delivery	54%
Reduce costs	45%
Create new products/services	38%

### Impact on management

Make the business more agile	58%
Manage change initiatives	40%
Support regulatory reporting/compliance	38%
Consolidate business operations	34%
Support risk management	34%

## Technology powers global growth

Technology’s pivotal role in giving firms a competitive edge in the global market is highlighted in our recent survey of 233 private-company CEOs and CFOs. For example, 54% of international marketers cite critical IT upgrade concerns, compared with 39% of their domestic peers. Trendsetter companies operating internationally are growing faster than those strictly in the United States (10.7% vs. 9.9%)<sup>1</sup> and are more optimistic about their growth (67% vs. 61%). Interestingly, survey results suggest that international marketers are getting more leverage from their IT spend as, on average, their budget allocation for the next year is marginally lower than their domestic counterparts’ (6.3% vs. 6.8%).

Able to transcend borders, digital technology is vital for operating in the global marketplace, particularly in fast-growing markets like China, Brazil, and India. “With rising populations and income levels, these markets are surging — offering extraordinary growth opportunities for private companies that can take advantage of the latest digital channels,” notes Ken Esch, a partner in PwC’s Private Company Services practice. Leveraging wireless technology, for example, is crucial for expanding into emerging markets, which now account for almost three-quarters of the world’s mobile phone use.

Among the Trendsetter companies already operating internationally and planning further foreign expansion, 42% intend to increase IT expenditure. And those operating in emerging markets where digital technology is leapfrogging ahead say they will increase IT spend by 58%.

## Key areas of IT investment

Given the expanded role of technology, it’s not surprising that information security is at the top of the IT agenda, cited by 70% of respondents as an area of planned investment. As private firms embrace technology, they run higher risks of cyber attacks, intellectual property misuse, business discontinuity from system outages, fraud, and reputational damage.

Paradoxically, however, only 34% of private companies view IT as supporting risk-management efforts. Many appear to view data security in isolation from the wider purview of risk management — a dangerous oversight in light of unexpected risks that can wreak havoc in an increasingly digital world.

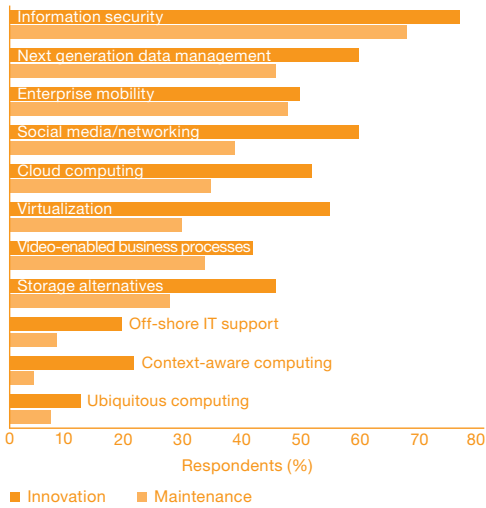
Technology’s growing importance in connecting to customers, suppliers, product developers, and distributors, especially in new locations, requires employees in all departments to recognize and reduce security risks. Chief risk officers and others in charge of operational security must be drawn into an integrated strategy. While it is appropriate for business managers to play a lead role in technology-enabled market initiatives, they should do so in partnership with the IT director to avoid exposing the firm to serious digital risks. The key is to find the right balance — security procedures that protect the firm but not so rigidly as to stifle innovation.

Next-generation business intelligence and analytics are a prerequisite for profitable expansion — making them the second most important area of investment after security. “Mining data for clues to customer needs and new product potential is especially important for private companies,” says

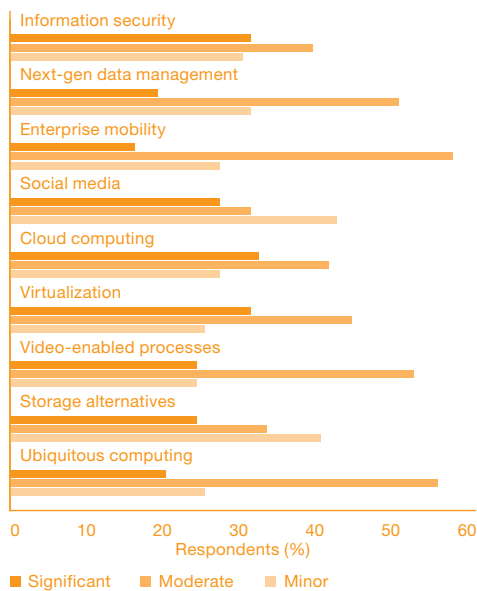
\*Percentage of respondents

<sup>1</sup> Forecasted average 12-month revenue-growth rate

## Future spending focused on innovation



## Impact of IT development over next 1-3 years



Esch, “which often have grown through M&A and do not have integrated business intelligence systems.” For many private businesses, information can be scattered, making it difficult to access the right business intelligence to support decisions and strategic plans. IT is now delivering a cost-effective solution. With 50% of companies planning to invest in new data analytics, more firms are finding it easier to pull disparate data sources together and are relying on more than intuition to identify new trends and opportunities.

### Innovating through technology

Although many private firms are focusing on maintenance issues postponed during the recession, 36% of respondents — the “early adopters” — are focusing their IT spending on innovation. But even those mainly concentrating on maintenance are aware that IT strategy has shifted from retrenchment in tough times to positioning for growth. According to the survey, 58% of respondents are looking to IT to make their business more agile and attract new customers; 55% see it as driving growth and competitiveness; and 54% expect it to help sell and deliver products and services more effectively. This compares with only 34% still focusing on consolidating operations, and 45% focused on cutting costs. And while 75% of respondents want systems to manage data better, almost as many (73%) are planning to invest in data analytics to turn information into actionable insight.

Early adopters are typically first to see new opportunities and are poised to invest in emerging technologies more heavily than other respondents over the next one to three years. The key areas of IT investment focused on innovation include information security (76%), business analytics (59%), social media (59%), virtualization (54%), cloud computing (51%), and storage alternatives (45%).

*Trendsetter Barometer* also finds that IT innovators are likely to grow faster: These companies predict an average 12.1% revenue growth in the next year, compared with 9.1% for the maintenance-minded.

“As a business grows, there’s a dynamic tension between efficiency and innovation,” says Bo Parker, managing director of PwC’s Center for Technology and Innovation (CTI). “Expanding companies often introduce standardized processes for various business functions to make them more efficient. But this can come at the expense of communication, because information ends up in silos.” Larger companies often look to enterprise resource planning (ERP) systems as the solution to this problem, since these can establish standard processes while also breaking down silos, creating a common information environment. But as Parker points out, “Innovation is built on variability and an openness to change, which run contrary to standardization. Here smaller businesses have an advantage, because their workflow isn’t system-driven.”

Of the 40% of survey participants who are planning to invest in cloud computing, 32% expect a significant impact within the next three years, and 40% a moderate impact. Cloud computing — the metered provision of business applications over the Internet or a private network — can enable private companies to scale up quickly to serve new markets and burgeoning customer demand. “The cloud is well suited to private businesses that are unencumbered by the regulatory constraints faced by public firms but do not have deep enough pockets to make huge upfront technology investments,” says Esch.

Similarly, virtualization — which allows disparate IT resources or data to be accessed in a single location — is anticipated to have a significant (30%) or moderate (44%) impact for private companies that plan to

invest in this technology. They're expecting that virtualization can help them get fast and reliable data for decision-making and reduce costs and complexity associated with fragmented IT infrastructure. And though ubiquitous computing — embedding microprocessors in products so they are constantly connected and transmitting information — is still new to private companies, organizations intending to invest in this technology expect significant (20%) or moderate (55%) results.

While early adopters are moving ahead with these efforts, other private companies may be missing an important opportunity, survey results suggest. With portable devices now replicating the power of large, centralized systems, sophisticated software is increasingly becoming affordable to “rent” as well as buy. These new technologies provide private businesses with the benefits once limited to larger, listed competitors.

But leveraging these capabilities through new channels, such as smart phones and tablets, can prove tricky, says Parker. “Although decentralized, user-driven technologies can deliver intimate knowledge of customer and market trends — as well as ‘just in time’ solutions that address changes in those trends — integrating edge-technology data and processes with core systems can be challenging.” Parker’s advice for companies looking to innovate from the edges: “Keep the core as vanilla as possible. This increases the chance that the market will provide integration solutions you won’t have to build yourself.”

### IT complacency and barriers

The survey raises important questions for private business: The results suggest that some private companies are not moving fast enough to stake out their claim in the new digital marketplace. Worryingly, *Trendsetter Barometer* shows that 64% of respondents are spending on IT just to maintain systems.

There is the very real danger that management teams at some private companies might not fully understand innovative tools and what they can do for their businesses. Larger firms, and those tackling markets abroad, are significantly more likely to be prioritizing an IT upgrade in the next 12 months than smaller companies: Survey data show that upgrades are critical for 57% of companies with revenues of \$100 million or more, compared with 37% of those with less than \$100 million in revenues.

Revealingly, 61% of executives identify barriers that may prevent their firms from benefiting from the adoption of new technology. Around one-third cite a lack of IT skills and resources, and 28% report cumbersome IT infrastructure. But these concerns may reflect not only legacy systems, but also a cultural hesitation to embrace change. According to Esch, “Part of the reluctance to dive into new technology is mindset. When considering a new technology, executives at a number of private businesses automatically think about the internal resources required and the return on investment. Outsourcing and partnerships are not comfortable concepts.”

And yet cloud computing, virtualization, and offshore IT support have the potential to deliver greater performance with fewer internal IT resources, allowing private companies to step outside the constraints of patchwork legacy systems. Where

replacement systems have lower capital cost, resources can be freed to address additional human-resource and skill requirements. These may be lessons that the one-third of innovative adopters have learned more quickly than the two-thirds still focused on maintaining current IT systems.

In short, firms not yet investing in these technologies should determine their applicability to the business over the long term, and consider the potential risk of ceding first-mover advantage.

### The role of senior management

The survey delivers some critical findings on C-suite effectiveness. Encouragingly, 63% of businesses now report extremely or very effective relationships between finance and IT, suggesting an important shift in IT’s understood value to the business.

But while finance has become more IT-literate and appreciative of the technologies now in place, other C-suite executives are still waking up to the competitive advantage of technology. The survey counsels against complacency: While 44% of companies rate their CIO as extremely or very effective, that effectiveness faces immediate tests in their ability to adopt new technologies at the right pace and clear away the IT barriers.

In a world where IT has moved from a support function to a main driver of growth and customer acquisition, there are clear lessons for the 56% of respondents whose CIOs are rated, at best, as only moderately effective: It is not enough to win C-suite support for and company-wide adoption of new systems. Says Esch, “Today’s private-company CIO needs to be a strategic thinker, able to drive home the message that technology can transform the business and create new value in a world where the digital marketplace is becoming the primary marketplace.”

PwC's *Trendsetter Barometer* tracks the business issues and best practices of privately held US growth businesses. The 1Q 2011 results incorporate the views of 233 chief executive officers (CEOs/CFOs) interviewed between February 1, 2011 and May 5, 2011:

**Profile of management panel demographics:**

Average # of employees	1,250
Average revenue	\$185.2 M
Average enterprise revenue	\$265.4 M
Average five-year growth	74%

PwC's *Trendsetter Barometer* is developed and compiled with assistance from the opinion and economic research firm BSI Global Research, Inc.

To find out more about Barometer surveys, including recent economic-trend data and information about topical issues, please visit our website: [www.barometersurveys.com](http://www.barometersurveys.com)

For more information on the survey findings, please contact the following individuals at PwC:

**Ken Esch**

Partner  
Private Company Services  
312-298-3419  
[ken.esch@us.pwc.com](mailto:ken.esch@us.pwc.com)

**Bo Parker**

Managing Director  
Center for Technology and Innovation  
408-817-5733  
[bo.parker@us.pwc.com](mailto:bo.parker@us.pwc.com)

Moving beyond tomorrow's uncertainty and growing your business matters to you, and to us. Experience what it is like to work with professionals dedicated to serving private companies and their owners. Working with you on both day-to-day and more-complex issues such as compliance, controls, cash flow, expansion, succession, and personal financial matters — this is PwC's Private Company Services.

You talk, we listen and share insight. We are proud to serve as advisors to more than 60% of America's Largest Private Companies,\* collaborating to help you achieve long-term success.

Experience the difference. Visit us online at [pwc.com/us/pcs](http://pwc.com/us/pcs), email us at [pcs@us.pwc.com](mailto:pcs@us.pwc.com), or call us at 800-844-4PCS to start the conversation.

\* 2010 Forbes America's Largest Private Companies List