



***Ken France***

The Knowledge Practice  
**'Building on IT'**

# IT Investment in the Current Challenging Economic Conditions

*...or, How I learned to stop worrying and Love  
the Recession*

*(with apologies to Dr Strangelove)*

# Agenda

- **Current economic climate and outlook**
- **IT expenditure survey in Construction**
- **Business response to the recession in IT spend**
- **Coping strategies construction firms have adopted**
- **Expenditure trend forecasts for 2010**
- **Technology enablers – Focal areas**
- **Investment strategies for recovery**







**Civils bucking construction downturn**

(9 April, 2009)

The construction industry has taken



**UK construction shrinks at fastest pace on record**

(The Guardian - 2 December 2008 11.28 GMT)

Further grim news on the economy emerged this morning.

country's contracted November record. managers measure dived to October. 56.0 at the in August level that March 2 commercial construction abandoning scrapping thousands



**Washington plans for big bank failure**

(March 10, 2009: 1:33 AM)

A bill introduced in the Senate would give FDIC chief, Sheila Bair, a huge loan to handle 'emergency situations' in the banking sector.



FINANCIAL TIMES

**Europe's collapsing savings banks**

March 29 2009 19:42 |

As the world searches for new



**Land Registry: house prices fell 0.4% in March**

(April, 28<sup>th</sup> 2009)



**City jobs cull to get worse as the credit crunch victim list grows**

(20 March 2008)

Anyone who thought the credit crunch was temporary has had a rude awakening with the collapse of Bear Sterns. And when even the world's most successful bank, Goldman Sachs, is warning that profits and the bonus pot will be slashed, everyone knows what is coming next across the City - job cuts.

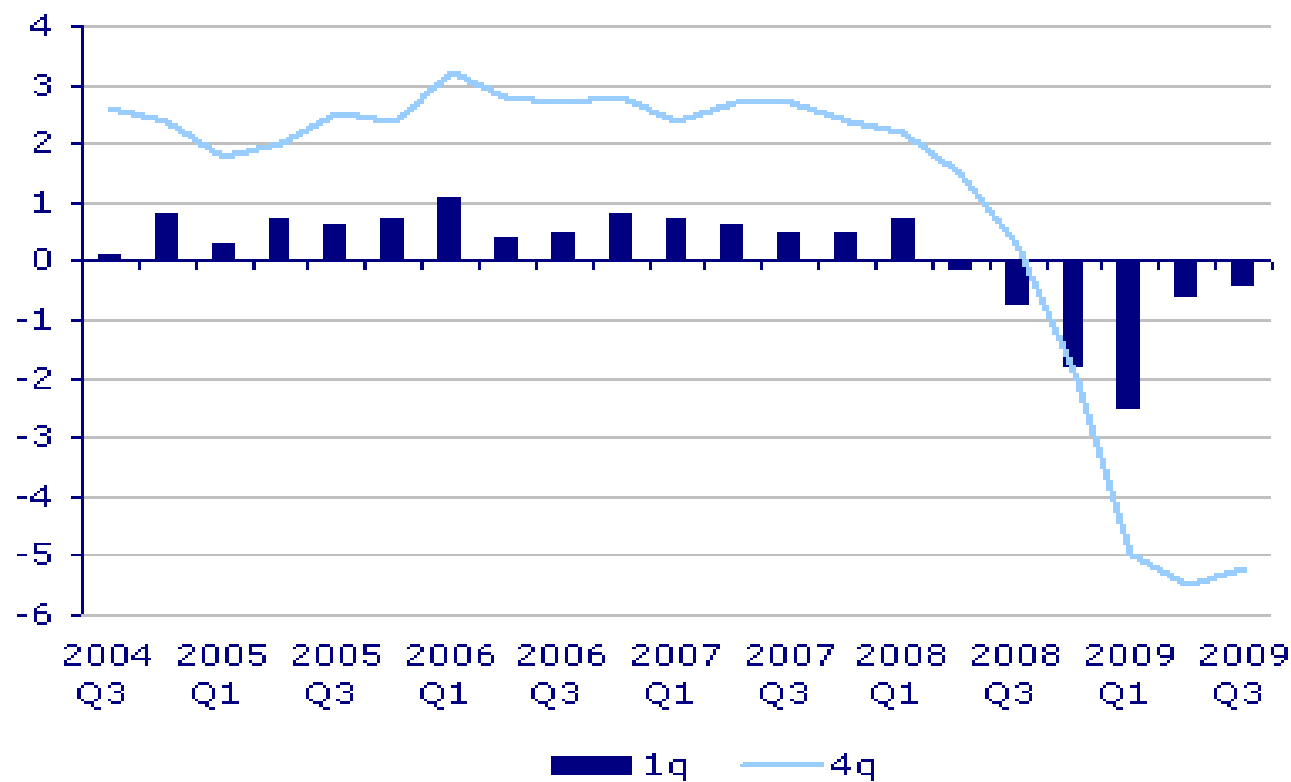
- Housing market in the worst state for 10 years
- Construction projects starts fell 35% year on year during economic downturn
- Building firms insolvency rate has doubled

...but not all bad news....

- Civil engineering starts are up by 20% & the outlook is expected to be positive for 2010

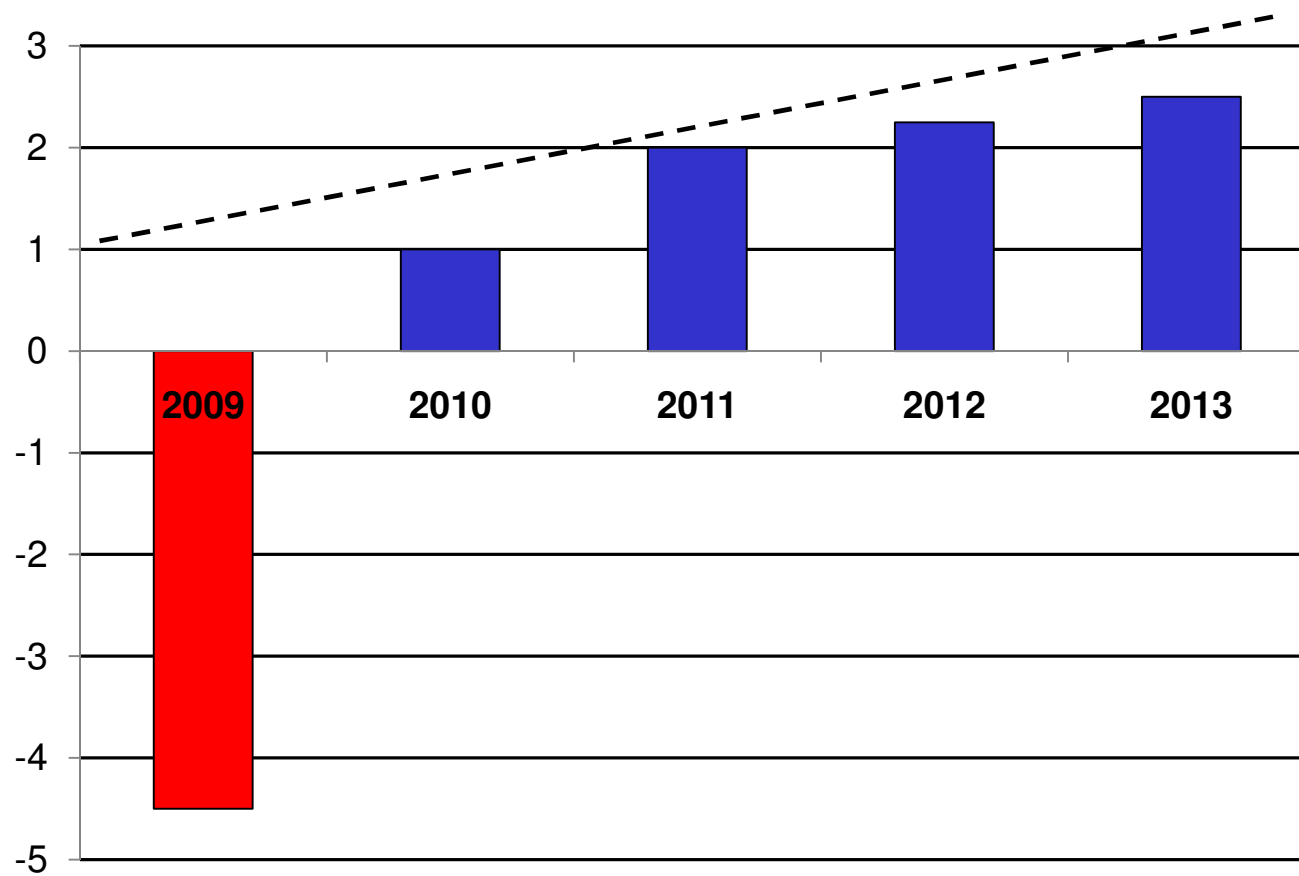
# GDP Growth

Percentages



Source: UK Office for National Statistics (2009)

## M/T forecast for GDP recovery



Source: HM Treasury (2009)

# Economic climate for IT - Conclusions

- Slow recovery
- Pipeline deficiency in 2011/ 2012?
- Further round of job losses not ruled out
- Organisations seeking flexibility to adjust overhead in line with reduced volume
- Return to growth forecast should unlock Capex for investment to improve cost effectiveness in IT

# What has happened to IT budgets in Construction?

## Building on IT

*A survey of IT usage, expenditure trends, IT strategy and plans for  
organisations operating in the UK construction industry*

- **First survey since original Building on IT surveys carried out in 1988,1990 and 1992**
- **Survey of IT expenditure in top 200 firms**
- **40+ companies responded with detailed information (20% of top 200 firms)**
- **Contractors, Professional Services, House builders**

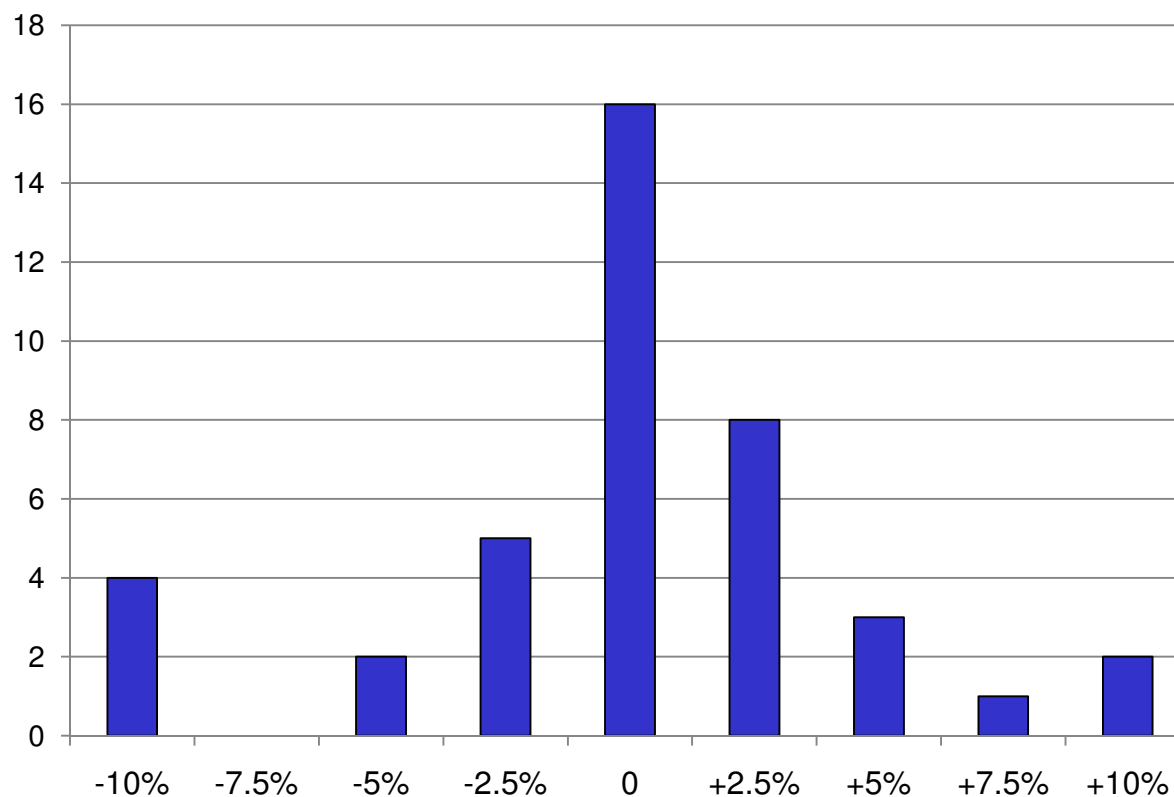
# Building on IT results – Key responses

- **Hard check on Capex from late 2008**
- **IT upgrade projects postponed**
- **Significant reduction in IT contractors**
- **Initial redundancies and seeking to reduce staff numbers further while rate of recovery remains uncertain**
- **Widespread re-negotiation of services and support contracts**

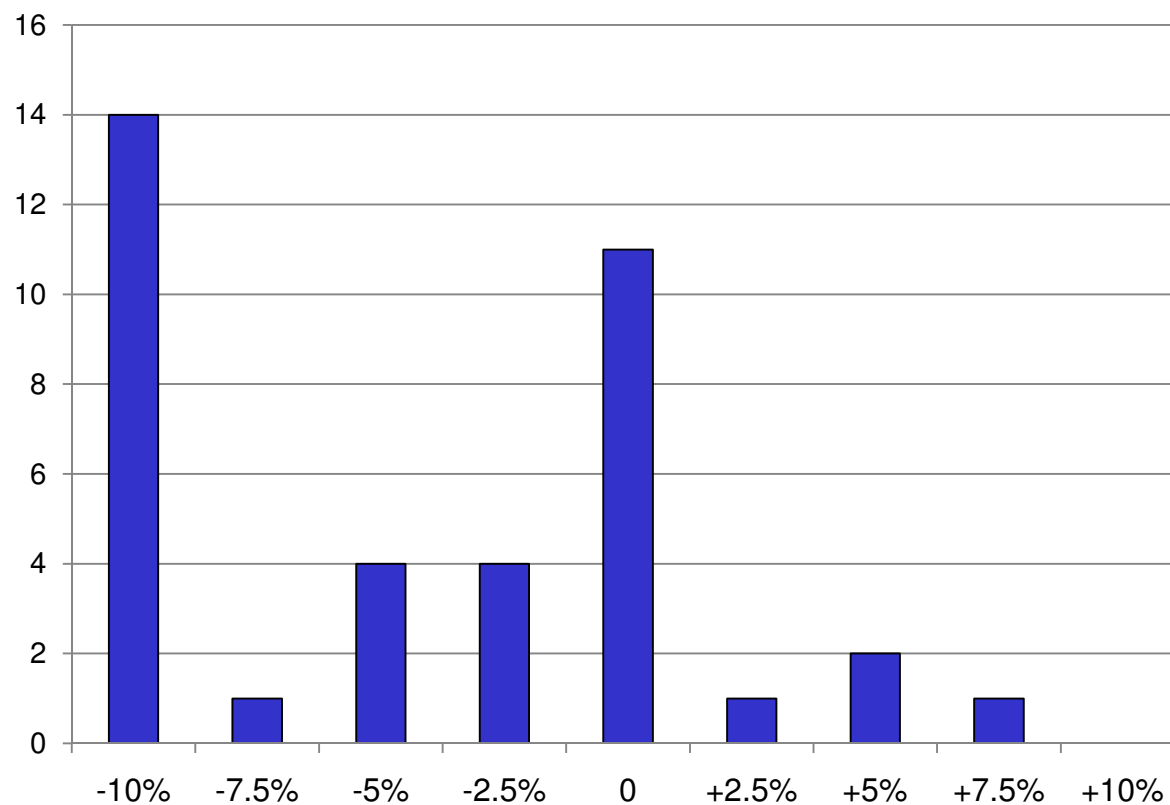
# Results - Opex and Capex trends

- **Capex – 36% average reduction from 2008**
  - **Down 33% - Contractors**
  - **Down 42% - Professional services**
  - **Down 50% - Housebuilders**
  
- **IT budget (operational) 2010 forecast**
  - **0.0% - Best case**
  - **- 4.1% - Worst case**

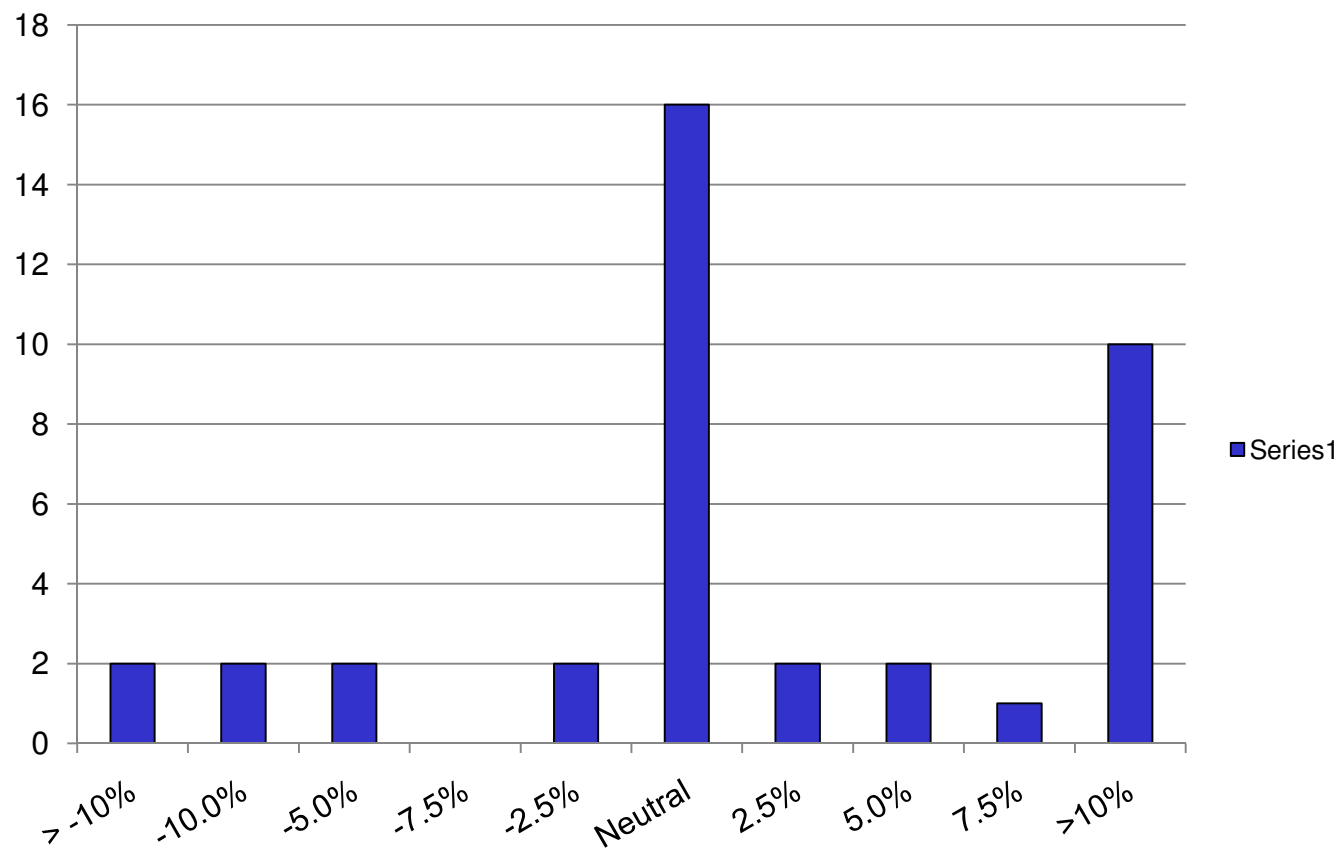
## Next year IT budget change All firms - Forecast 2010 - Best case



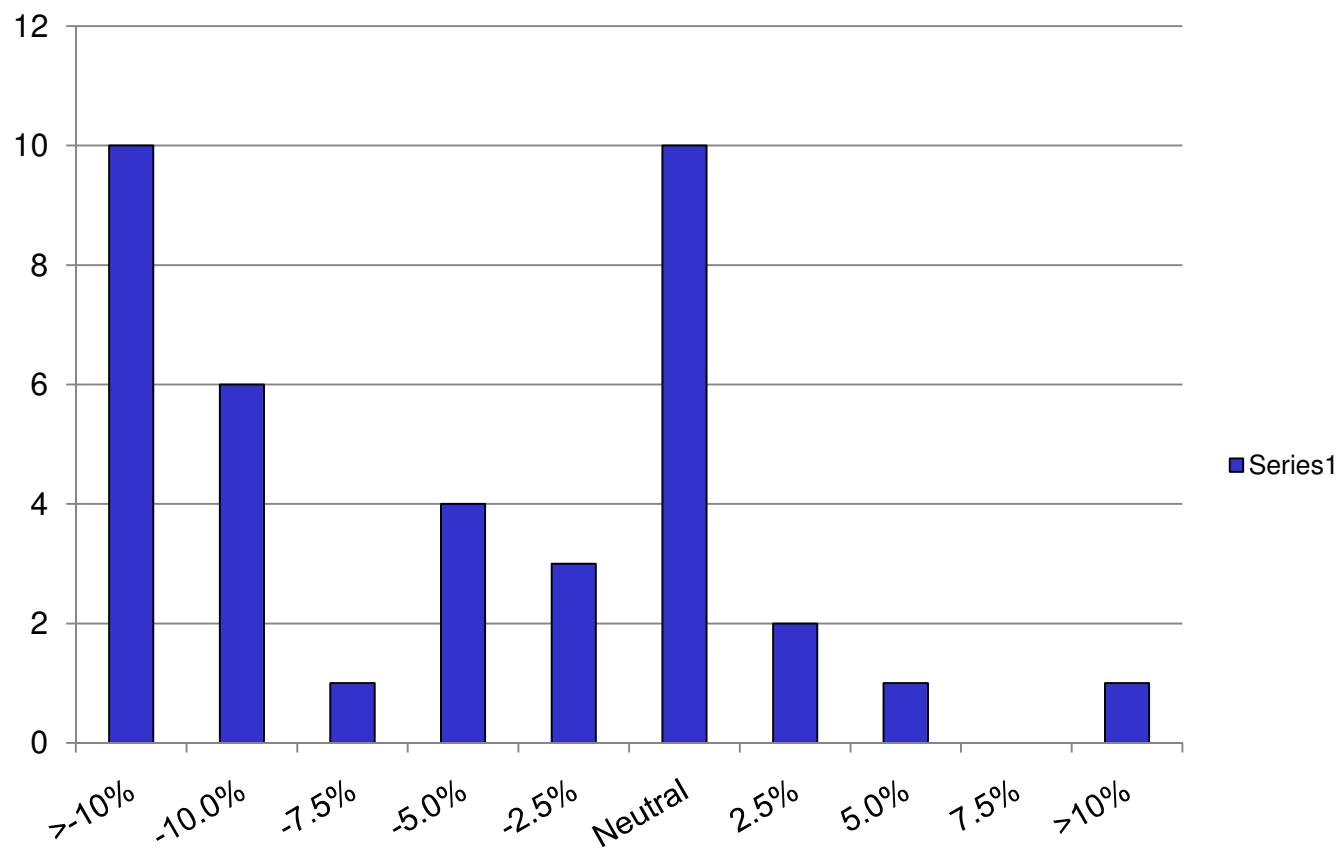
## Next year IT budget change All firms - Forecast 2010 - Worst case



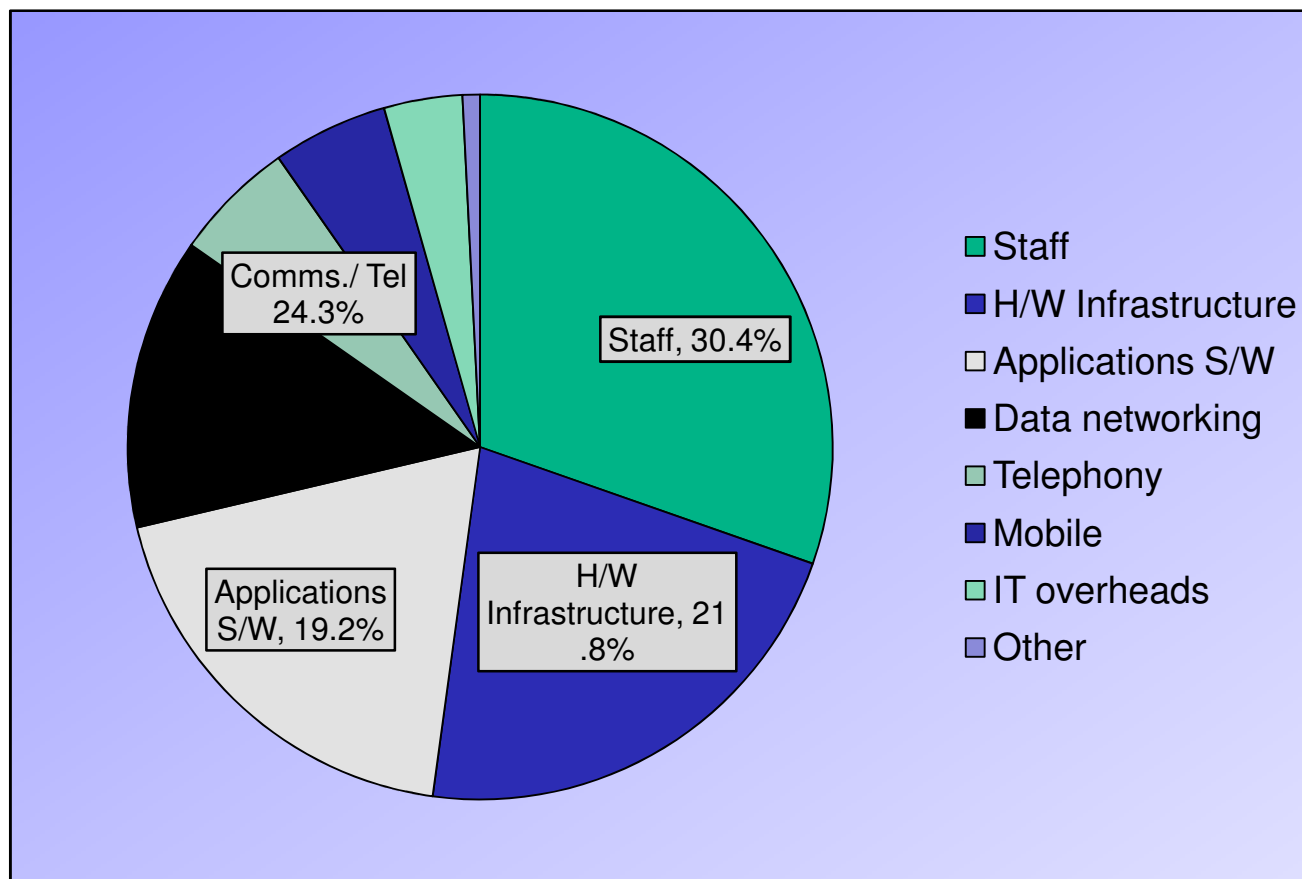
## Next year Capex change All firms - Forecast 2010 - Best case



## Next year Capex change All firms - Forecast 2010 - Worst case



## % Breakdown of IT expenditure



**Average IT expenditure per head (All firms)**

**£2,750**

# Increase/decrease on budget share

	% of respondents (All firms)			Average change (%)		
	Decrease	Neutral	Increase	Decrease	Increase	Overall Weighted
<b>Staff</b>	46%	39%	15%	-14.1	8.0	-5.3
<b>H/W Infra-structure</b>	43%	33%	25%	-9.8	13.1	-0.9
<b>Application S/W</b>	20%	48%	33%	-11.25	9.7	0.9
<b>Data networking</b>	34%	49%	17%	-15.5	7.5	-4.0
<b>Telephony</b>	44%	54%	3%	-10.25	5.0	-4.3

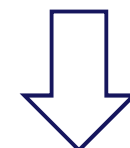


# Managed services

DBMS		Help Desk		Server hosting		Serv. Infr mgt		App maint. & support		Networks	
55%	«	50%	↑	50%	↑	55%	↑	64%	↑↑	73%	↑
15%	«	23%	«	38%	«	38%	↑	54%	↓	54%	↓
17%	↑	17%	«	33%	↓	50%	↓	50%	«	67%	«
37%	↑	37%	↑	44%	↑	49%	↑	61%	↑	66%	↑



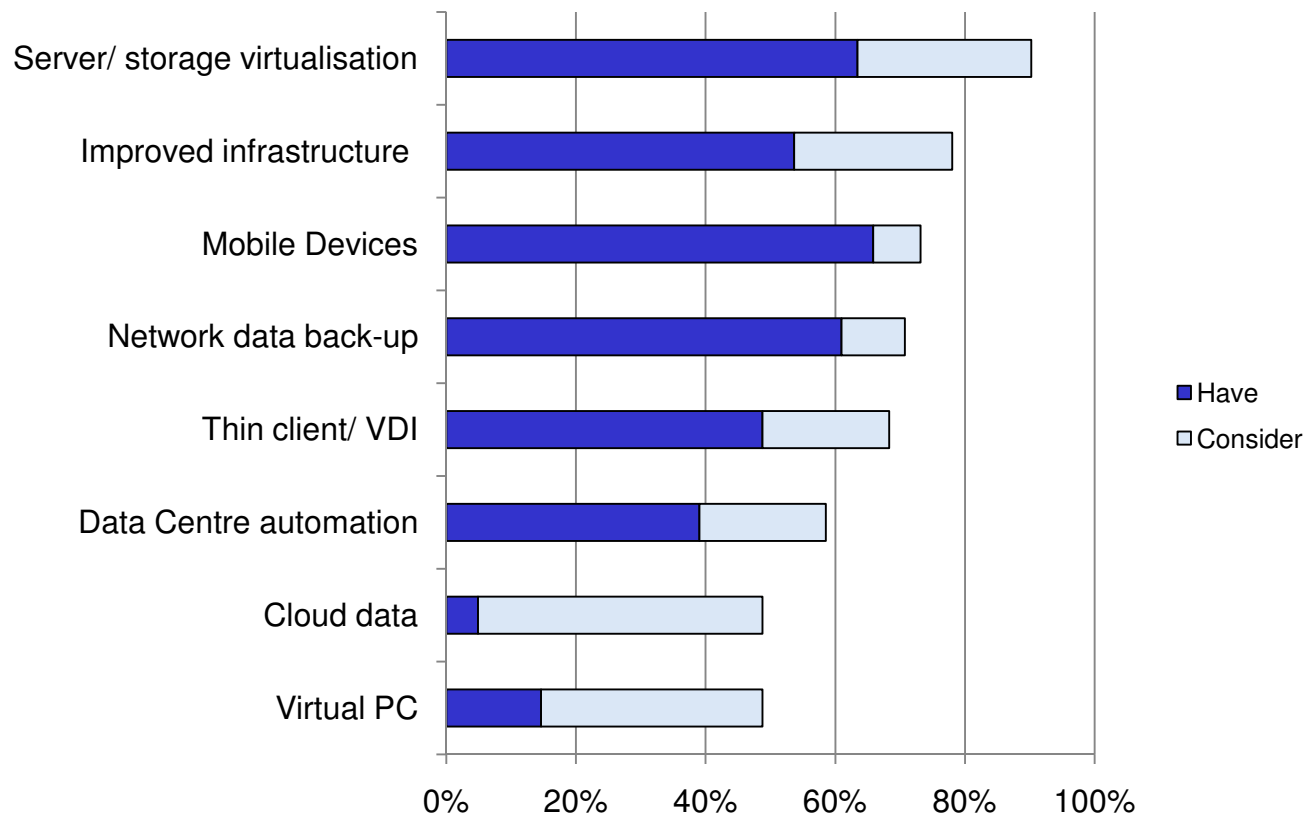
Desktop mgt & support		Applic. Development		Print & reprog.		Telephony		Training	
45%	↑	68%	↓	45%	↓↓	41%	↓↓	41%	↓
23%	↓	23%	↓	54%	↓↓	46%	↓	23%	↓
17%	«	33%	↑	17%	«	33%	«	0%	«
34%	↓	51%	↓	44%	↓↓	41%	↓↓	29%	↓



# The economic challenge

- Short term economic uncertainty – Pressure from Boards for ‘More for Less’ – Opex budgets neutral or in decline
- Increasing competitive environment – Requires improved processes & performance / Reduced overhead/ Focused business strategy / Greater agility
- Clients / global / industry drivers creating new service opportunities and ‘Raising the Bar’
- Which areas to drive down cost and which areas in which to invest for business value?

# Areas to target - Infrastructure



# Areas for cost saving - Infrastructure modernisation

- **Managed data centre services (Cloud?)**
- **Full scope benefits from virtualisation and data centre consolidation, ie**
  - **Virtual desktop**
  - **Server virtualisation**
  - **Storage virtualisation**
  - **Data backup and recovery management**
  - **Infrastructure & data management tools**
- **Case study benefits indicate 30% savings potential with improved reliability and service quality**

## Investment areas (opportunities)

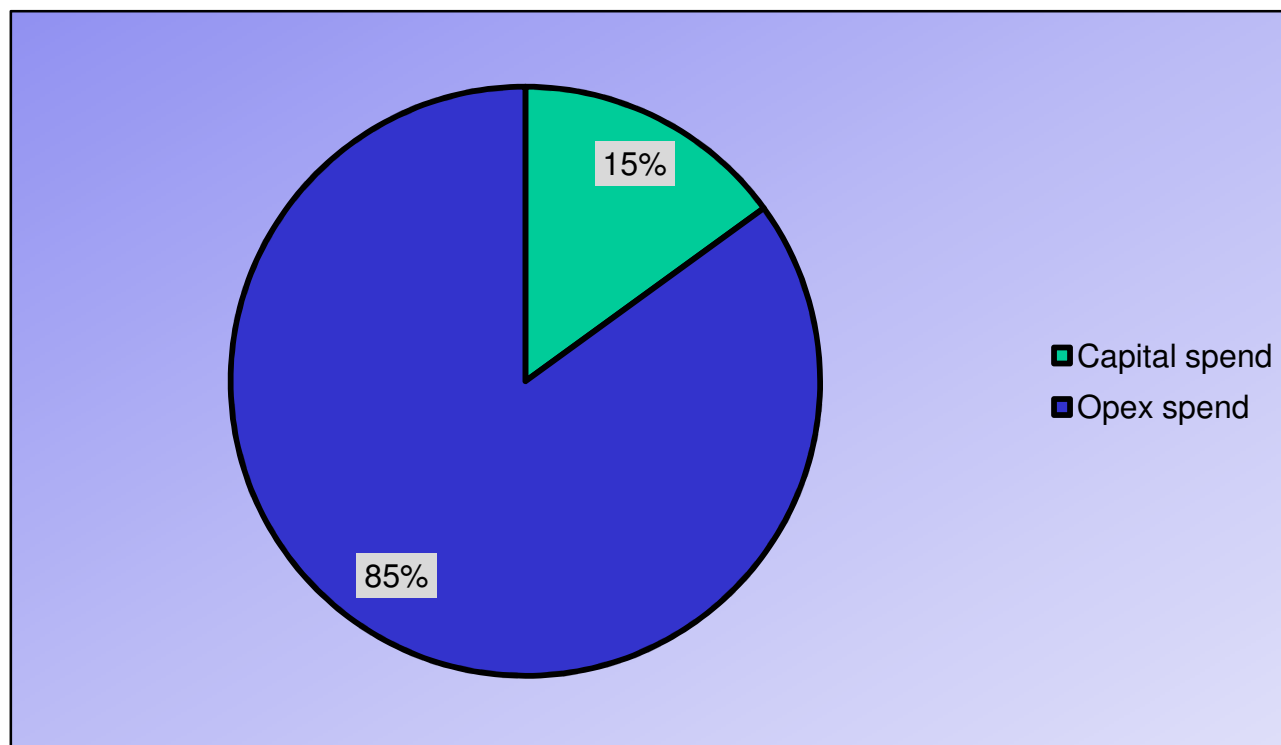
- **Construction 'ERP'/ Shared Services or BPO**
- **Business process management – Task level functionality in collaboration space:**
  - **SaaS applications**
  - **Next generation desktop and collaboration tools**
  - **KM-based process enhancement using 'E2.0'**
  - **Real time control systems**
- **Enhanced IT security for the new environment**
- **Regulation, compliance, IT governance**



# M.O.O.S.S.E.

*\* Maintenance, Operations & Ongoing Support of Systems, Software & Equipment*

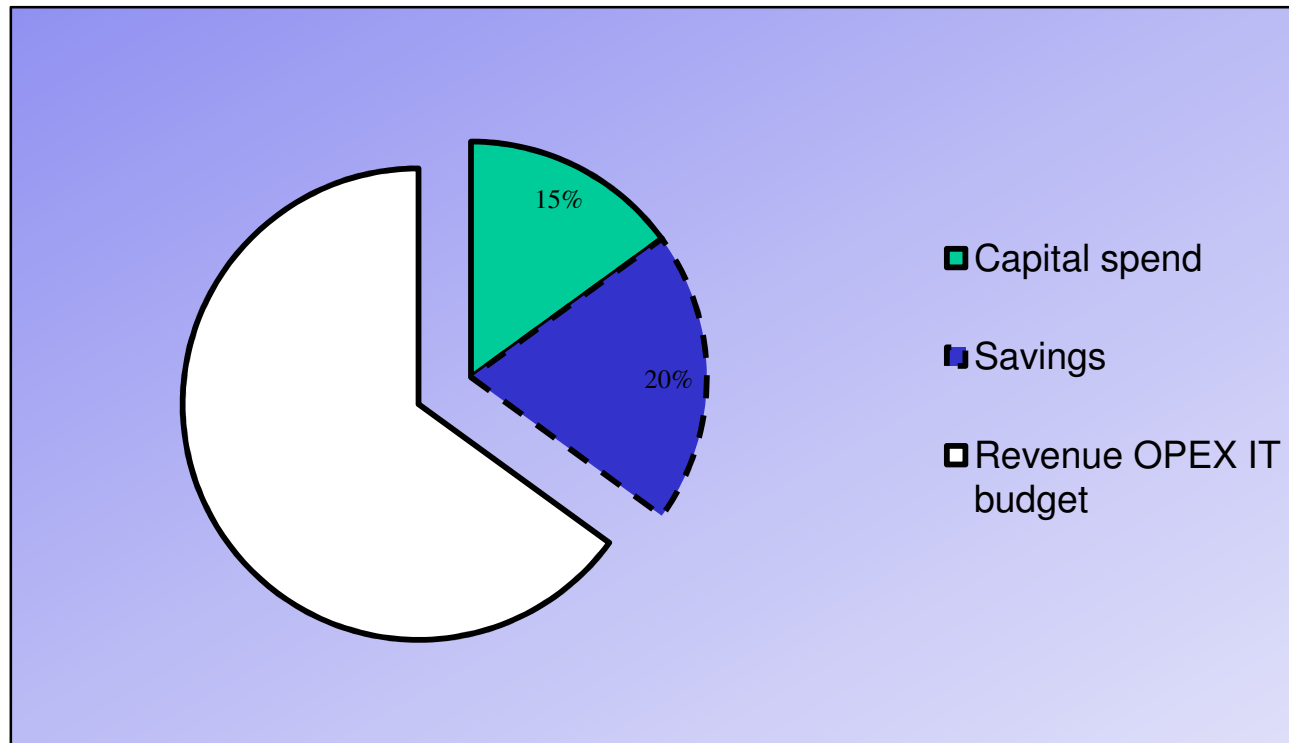
## Ratio of IT budget (Opex) to Capex



**UK construction industry all firms  
average IT expenditure per head**

**£2,750**

## Sustaining higher levels of investment at constant overall spend per head

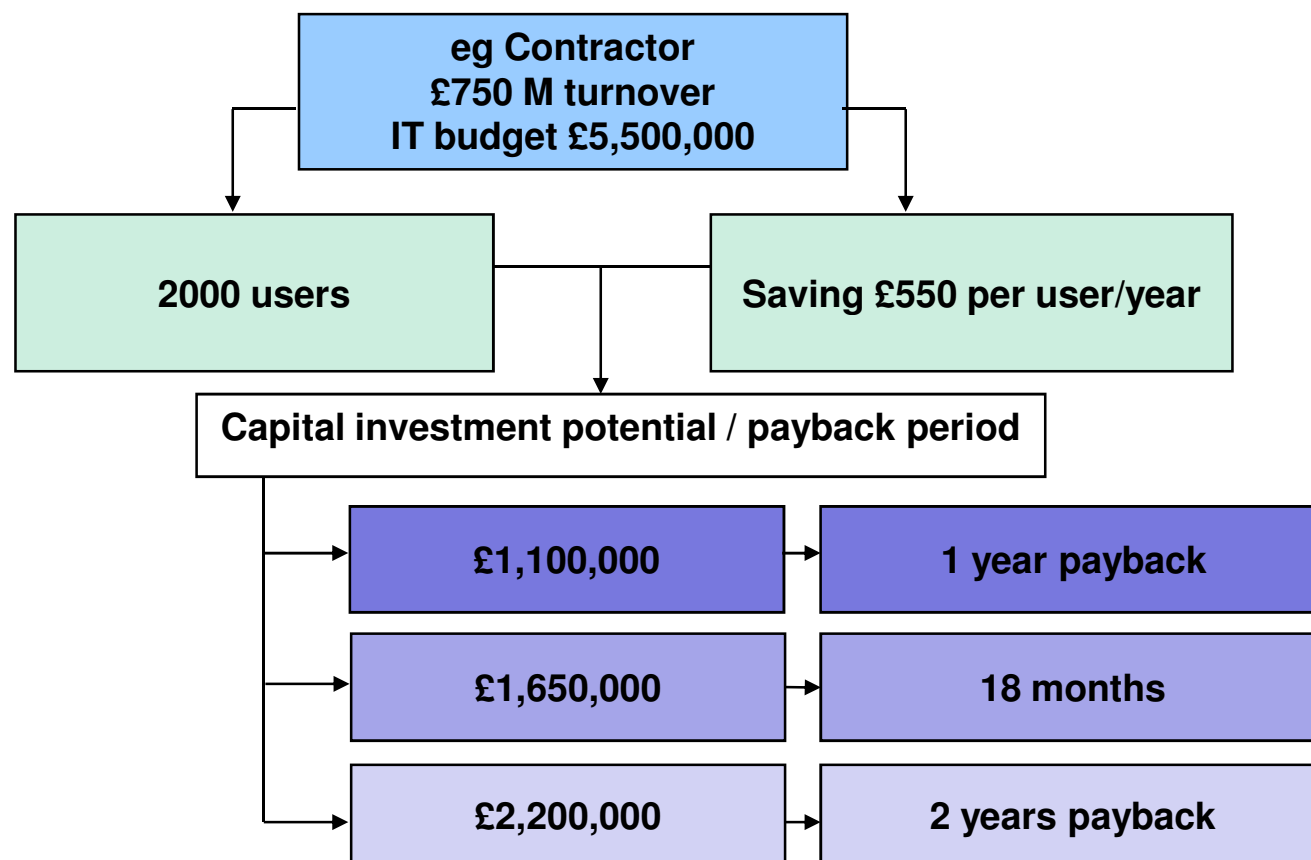


**New IT budget target spend (Opex)**

**£2,200**

(£550 per head saving)

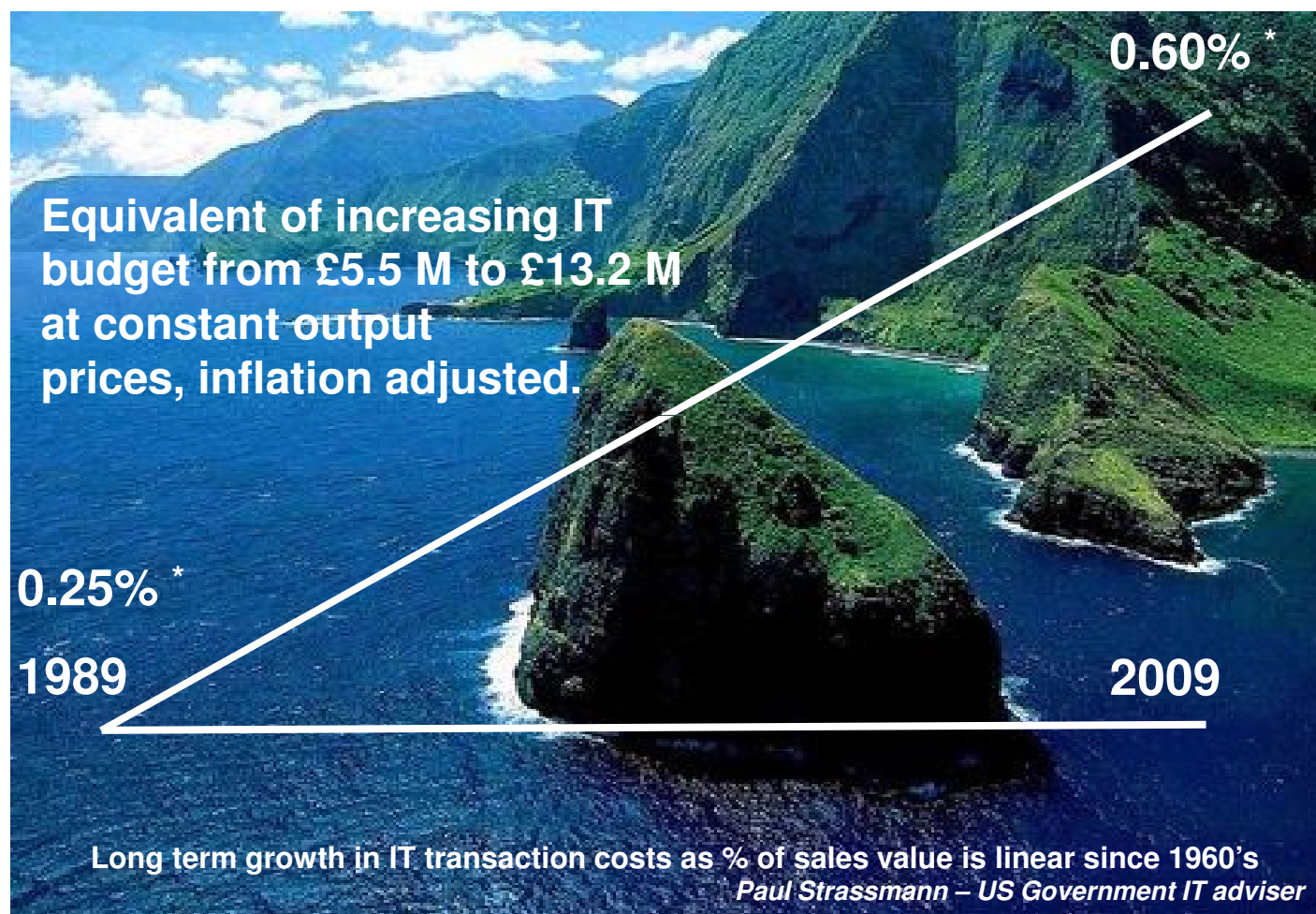
# IT Infrastructure modernisation - New investment potential for 20% target savings



# New economic model - Summary

- Construction firms are well placed to take advantage of current technology modernisation opportunities
- Winners will be those accelerating change - 'Asset-based internalised' to 'SaaS collaborative' models on highly efficient and highly secure infrastructure (PaaS/ IaaS)
- Higher sustained investment and reduction in MOOSSE ratio from 85% to 65%
- Investment in new software-driven business capabilities increases by factor of 3x to 5x - at normal levels of IT budget growth resulting in competitive position

## Hawaii (Mauna Loa)



Source: *The Knowledge Practice – Building on IT Surveys 1989 - 2009*

# Long term value projection for IT

- ‘Mauna Loa’ (Strassmann) effect equates the extra value from IT in UK construction to 10% (approx.) of staff cost over the last 20 years
- If productivity from IT now increases geometrically over the next 20 years, the extra value created by IT would be equivalent to 50% saving in staff cost in real terms.
- This could translate into 25% higher productivity at 25% lower cost. But higher compliance costs and greater complexity (risk) might tend to hold up output price
- IT would be at the core of business process and risk management capabilities, as in other industries now.

# Planning a way forward

- Utility computing model will become ubiquitous within a 10 year timeframe. NB Rentokil Initial (35,000) users have signed a deal with Google for total IT service – first contract of this scale for Cloud services)
- Early adopters will complete deployments in 5 – 7 years
- Construction industry leading firms can be in this first wave in order to fund more capable, collaborative solutions.
- Robustness of business case should support investment decision for first stage enabling projects.
- An impending upswing is a conducive time for IT managers to launch a radical agenda, one based on sound research.

**The time to start is now.**

**Thank you for your attention.**