HP RESEARCH REPORT

CONFIDENTIAL

Survey conducted by Coleman Parkes Research, Ltd

May 2010

The Research Findings

HP recently commissioned a research study that was conducted by independent research company, Coleman Parkes Research in February and March 2010. The survey results include findings from the United States and Canada, Latin America, Europe, Middle East and Asia Pacific region. This summary highlights the challenges that organizations face with innovation gridlock. This term is defined as "a situation where the IT organization is blocked from driving new business innovation because the majority of funding is consumed in operating the current environment." The study also looked at how current IT budgets were spent and how organizations estimated the cost of lost time, effort and opportunities due to innovation gridlock.

Research Methodology

560 detailed interviews using a telephone research methodology were completed with CIOs and technology executives (410 respondents), as well as CEOs and business leaders (150 respondents) of major organizations across the globe. 25 percent of all interviews were conducted with organizations with 500 – 999 employees and the rest with organizations of 1,000 or more employees. A sampling of some of the key findings are summarized below.

Interview Structure – By Region

Region/Country	Number of Interviews
USA	107
Canada	51
Total North America	**158**
UK	18
France	20
Germany	17
Denmark	16
Russia	19
Czech Republic	17
UAE	18
Total EMEA	**125**
India	40
Australia	42
China	39
Japan	40
South Korea	39
Total Asia Pac	**200**
Brazil	40
Mexico	37
Total Latin America	**77**

Interview Structure – By Respondent Type

Region	Business Executive	Technology Executive	Total
North America	50	108	**158**
EMEA	25	100	**125**
Asia Pac	50	150	**200**
Latin America	25	52	**77**
Total	**150**	**410**	**560**

For the purposes of this research the following terms and definitions were provided.

Innovation spend – is that portion of the IT budget spent on projects to deliver new functionality to the business/government.
Elasticity – The economics based term referring to the ratio of change. In technology terms, it is the ability to rapidly scale up or down to meet changing business needs.
Innovation Gridlock – a new term that refers to a situation where the IT organization is blocked from driving new business innovation, because the majority of funding is consumed in operating the current environment.
Self-Funded IT Projects – Funds created from projects that free up operational dollars/monies that can then be invested in new IT projects to drive innovation for the business.

The first section of the survey looked at "innovation gridlock." 1 out of every 2 business executives felt that their organizations suffered from innovation gridlock.

Does the IT organization currently suffer from innovation gridlock? %	Total	North America	EMEA	Asia Pac	Latin America
Yes	46	30	43	62	39
No/Unsure	54	70	57	38	61

When asked how their current budget was spent, 40 percent said mission critical systems, 30 percent on legacy systems, and 30 percent on new IT initiatives.

Where is the majority of your IT operations budget spent: %	Total	North America	EMEA	Asia Pac	Latin America
Mission critical systems	40	53	34	29	47
Legacy based systems	31	21	34	45	12
New IT initiatives	30	26	32	26	42

In looking at the effect of innovation gridlock, almost 7 out of 10 business and IT executives indicated that this gridlock prevents them from investing in new technologies to meet the changing business needs. More than half of executives in both groups felt innovation gridlock also prevented their organizations from keeping up with the competition.

Has innovation gridlock meant that you are prevented from doing any of the following? %	Total	North America	EMEA	Asia Pac	Latin America

Investing in new technologies to meet the business's needs	67	54	69	68	80
Generating real flexibility in your operations	64	54	54	68	80
Keeping up with the competition	56	35	52	63	67
Better meeting regulation and compliance requirements	44	35	37	42	80
Generating rapid change within the business to meet changing business needs	41	42	43	29	83

Furthermore, 73 percent of business executives indicated that it prevented them from generating real flexibility in their operations, while 59 percent of IT execs felt the same way.

Business Executives:

Has innovation gridlock meant that you are prevented from doing any of the following? % Note this is filter base and has small base numbers by region.	Total Business Executives
Investing in new technologies to meet the business's needs	65
Generating real flexibility in your operations	73
Keeping up with the competition	58
Better meeting regulation and compliance requirements	39
Generating rapid change within the business to meet changing business needs	33

Technology Executives:

Has innovation gridlock meant that you are prevented from doing any of the following? %*	Total Tech. Execs.
Investing in new technologies to meet the business's needs	67
Generating real flexibility in your operations	59
Keeping up with the competition	55
Better meeting regulation and compliance requirements	47
Generating rapid change within the business to meet changing business needs	44

When asked what was stopping them from investing more in IT innovation, 1 in 2 of respondents indicated that too much budget is spent on operations.

Which of the following is stopping you from investing more in IT innovation? %	Total	North America	EMEA	Asia Pac	Latin America
Too much budget is spent on operations	49	44	41	53	61
Fears about the economy	53	50	55	55	49
Measuring the success of innovation	38	17	38	49	51
The business risk in innovation	27	13	27	31	47

Not only does gridlock impact ability to drive new innovation, it also results in a cost for the business. The cost of lost time, lost effort and lost opportunity.

In the HP research conducted by Coleman Parkes Research Ltd, business and technology executives were asked to quantify the effect of innovation gridlock on lost opportunity. According to the respondents, 95 percent of business and technology executives said that innovation gridlock resulted in lost opportunities for their organizations.

How much do you think innovation gridlock as we define it is costing the organization in lost opportunity per year? Would you estimate it to be…. %	Total	North America	EMEA	Asia Pac	Latin America
Cost incurred	95	94	95	96	93
No Idea if cost incurred	5	6	5	4	7
No cost incurred	0	0	0	0	0

Additionally, 91 percent of the total respondents felt that innovation gridlock also cost their organizations in terms of lost effort (from resources).

How much do you think innovation gridlock costs your business in lost effort (from resources) per year? %	Total	North America	EMEA	Asia Pac	Latin America

Cost incurred	91	90	87	91	97
No Idea if cost incurred	8	8	13	7	3
No cost incurred	1	2	0	2	0

The survey also found that if the premise that "time is money" is indeed true, then there were further costs to the success of an organization in terms of lost time. 99 percent of respondents indicated a cost in lost time.

And finally how much does it cost your business/ organization in lost time per year? %	Total	North America	EMEA	Asia Pac	Latin America
Cost incurred	99	100	99	99	100
No cost incurred	1	0	1	1	0

Only 52 percent of major firms in North America, compared with 76 percent in Asia Pacific and 65 percent overall, evaluate the cost of not doing an IT initiative. 62 percent of companies in EMEA also carry out evaluations on the cost of not undertaking an IT initiative.

Does the organization evaluate the cost of not doing an IT initiative? %	Total	North America	EMEA	Asia Pac	Latin America
Yes	65	52	62	76	68
No	35	48	38	24	33

Overall, 44 percent of all companies (63 percent in Asia Pacific, but only 33 percent of those in North America) say the ideal payback window for an IT project is less than 6 months. Companies in Asia Pacific are, by far, the most demanding in terms of short payback periods for investments in major IT projects, with 18 percent stating the ideal payback as being less than 3 months. In general, most firms in Latin America see the ideal payback window falling between 7 and 24 months. 56 percent of EMEA based organizations see an ideal payback window between 3 – 12 months for an IT project. What is most interesting is that one in ten companies overall (16 percent in Latin America, compared with only 5 percent in Asia Pacific) see the ideal payback time as being in excess of 24 months. The conclusion here is that there does not seem to be a common view on the payback window for a major IT project, with significant regional variation

perhaps driven by the effects of the economic downturn, the level of IT maturity within the business and the overall business impact that new IT initiatives will have.

By assigning mid-point values to the ranges and taking the lower limit for the longest payback period mentioned, it is possible to calculate a (conservative) average ideal payback period for an IT investment. Across all countries the average is 9.8 months, ranging from only 7.7 months in the more demanding Asia Pacific region, to 12.3 months in Latin America. This attitude is likely to have a major impact on how the success of IT projects is viewed.

For an IT project what is your ideal payback window? %	Total	North America	EMEA	Asia Pac	Latin America
Less than 3 months	13	10	14	18	8
3- 6 months	31	23	30	45	17
7-12 months	28	38	26	19	36
13-24 months	17	15	19	14	23
Over 24 Months	11	15	12	5	16
Average	**9.8**	**11.0**	**10.3**	**7.7**	**12.3**

Looking at the average maximum time limit for the return on investment for a major IT project, it is clear that, in all cases, the time exceeds the ideal by some way, indicating that current IT projects are not meeting their ideal payback windows. Calculating the average in the same way as before, the average maximum time limit for the return on investment for a major IT project is 11.6 months across all countries and ranges from 8.7 months in Asia Pacific to as a high as 14.1 months in Latin America.

What is your average maximum time limit for return on investment (ROI) for a major IT project. Would it be: %	Total	North America	EMEA	Asia Pac	Latin America
Less than 3 months	17	12	12	29	7
3- 6 months	21	17	22	28	12
7-12 months	22	22	24	18	33
13-24 months	18	19	22	13	25
Over 24 Months	21	30	21	13	25
Average	**11.6**	**13.7**	**12.3**	**8.7**	**14.1**

30 percent of North American based organizations said that the maximum time limit for a major IT investment would exceed 24 months – this compares with just 13 percent of firms in Asia Pacific sharing this view. 57 percent of Asia Pacific firms see the average as being less than 6 months compared with 34 percent of firms based in EMEA and only 19

percent in Latin America. 22 percent of EMEA based firms are happy with an average maximum return on investment time of between 13 and 24 months; this compares with one quarter of organizations in Latin America, and only 13 percent of businesses in Asia Pacific.

It is very clear Asia Pacific based firms seek a far shorter payback and return on investment for IT projects than any other businesses in the other regions.