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IT as revenue generator:
McKinsey Global Survey results

Executives expect IT's importance for earnings growth to increase dramatically in the next five years, according to our seventh annual survey on business and technology strategy.

Roger Roberts and Johnson Sikes

Information technology is increasingly important to corporate performance. Big data and analytics capabilities are gaining more currency as a must-have for performance. Cloud computing continues to grow as a way to improve IT's agility. These are among the key findings from our seventh annual survey on business technology, which asked executives across all functions, industries, and regions about their companies' use of, expectations for, and spending on IT.[1]

Nearly one-third of respondents believe IT-enabled business innovations will account for at least half of their companies' earnings growth over the next five years—up from 18 percent who said so in 2010, when we last asked the question. Roughly half of all respondents also say their companies are prioritizing the digital-business trends (such as advanced analytics or cloud computing) that could drive this growth. At the same time, there is an awareness that business leaders must be part of the change necessary to realize the full potential of these technologies—and that growing through IT is an issue of importance to those inside and outside the IT function.

Growing through IT

The results indicate that organizations are looking more and more to IT for help in driving growth. Twenty-nine percent of executives say they expect IT-enabled business innovations, such as new services or delivery models, to account for at least half of their companies' earnings growth over the next five years—up from 18 percent who said the same in 2010 (Exhibit 1).

[1] The online survey was in the field from October 9 to October 19, 2012, and generated responses from 667 executives, more than half of whom are executives in IT. Of these respondents, 385 have a technology focus, and the other 282 represent other functions across the enterprise. The respondents represent the full range of industries, regions, company sizes, and tenures. To adjust for differences in response rates, the data are weighted by the contribution of each respondent's nation to global GDP.

Takeaways

In our seventh annual survey on business technology, executives emphasize IT's increasing importance to company growth and show they're closely watching digital-business trends.

Nearly a third expect IT-enabled innovations to drive earnings gains, and topics such as big data and flexible delivery platforms now figure as priorities on corporate agendas; respondents also remain mindful of risks, for example, of losing intellectual property.

To succeed in the days ahead, executives must help their organizations reap full value from new technologies, harness the possibilities of cloud computing, and keep a close watch on issues of cybersecurity.

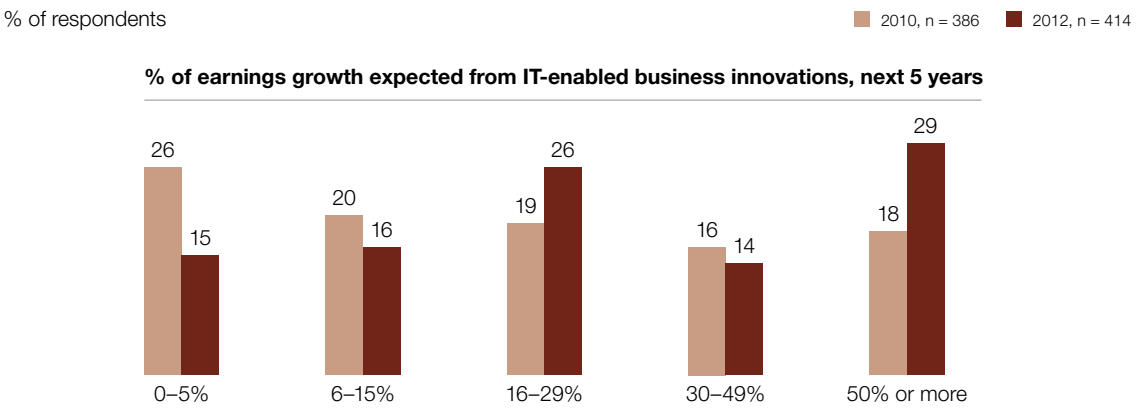
When asked about the major digital-business trends that could support this growth—big data and analytics, digital marketing, social tools and technologies, and flexible delivery platforms, such as cloud and mobile—respondents report that these technologies are prominent topics on the company agenda. About half of executives say each of the four trends is at least a top-ten priority on their organizations' agendas, which echoes the findings from our earlier survey on digital business.[2]

But driving this growth is not without its challenges. More than half of respondents say their companies' organizational capabilities and business processes would need to change greatly to support their digital-business priorities; smaller but still sizable shares say the same about IT systems and increased budgets or investments (Exhibit 2). These responses reflect our experience: that many companies are focusing on evolving and upgrading their core business processes to realize impact from these new trends. Furthermore, many executives say their colleagues don't have a strong handle on the necessary adjustments. Just 26 percent say their coworkers have an extremely or very good understanding of the changes their companies must implement to take full advantage of these trends.

Advancing data and analytics

Big data and advanced analytics continue to be critical topics for executives and their companies. As we saw in 2011, pluralities say the decision-making processes for most of their major business processes and functions, such as marketing and product development, are becoming more analytic and data driven (Exhibit 3). Sixty-nine percent say these functions have added new analytic tools or refined existing ones in the past year to improve data use. But adoption and meaningful use of these tools is more varied: of all respondents, the largest share (31 percent) report that their functions have made only minor adjustments to business processes, and 29 percent say no changes have been made to take advantage of new insights. The executives who are most familiar with marketing and

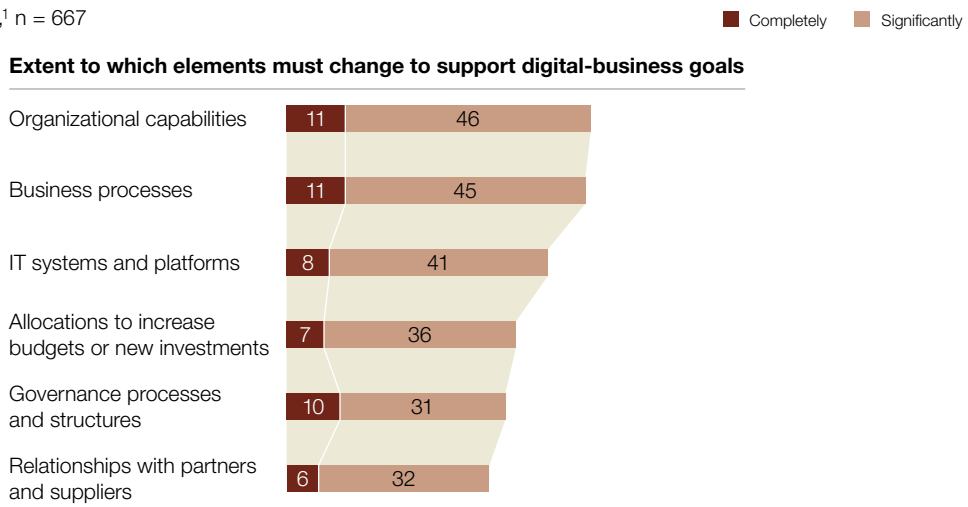
Exhibit 1
More growth is expected from IT.



[2] See Brad Brown and Johnson Sikes, "Minding your digital business: McKinsey Global Survey results," mckinseyquarterly.com, May 2012.

Exhibit 2
Respondents voice a need for organizational change.

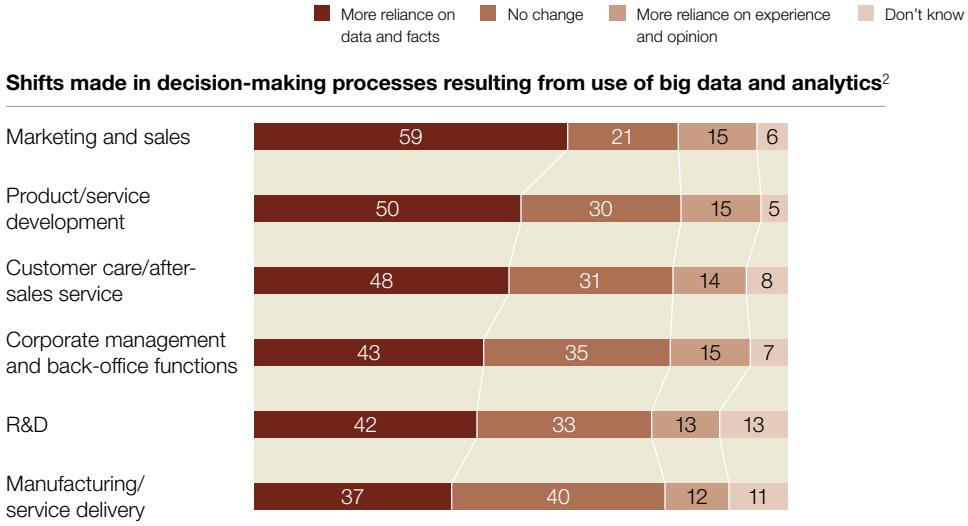
% of respondents,[1] n = 667



[1]Respondents who answered "somewhat," "slightly," "not at all," or "don't know" are not shown.

Exhibit 3
Continued moves toward data are visible.

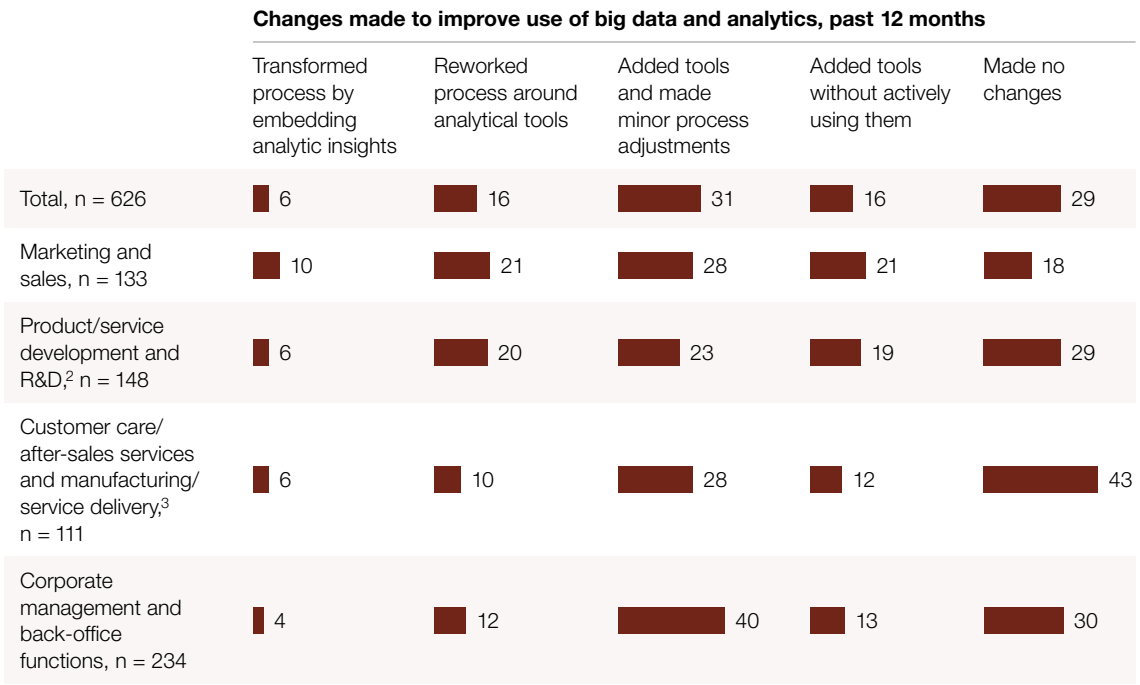
% of respondents,[1] n = 667, by business process or function



[1] Figures may not sum to 100%, because of rounding.
[2] Respondents were asked to describe changes on a scale of 1 to 5, where 1 is "more reliance on experience and opinion," 3 is "no change," and 5 is "more reliance on data and facts." The "reliance on experience" figures above include points 1 and 2 on the scale, while the "reliance on data" figures include points 4 and 5.

Exhibit 4
Marketing leads the way in data use.

% of respondents,[1] by business process or function with which respondents are most familiar



[1] Respondents who answered "don't know" are not shown.
[2] Responses for product/service development and R&D were combined.
[3] Responses for customer care/after-sales services and manufacturing/service delivery were combined.

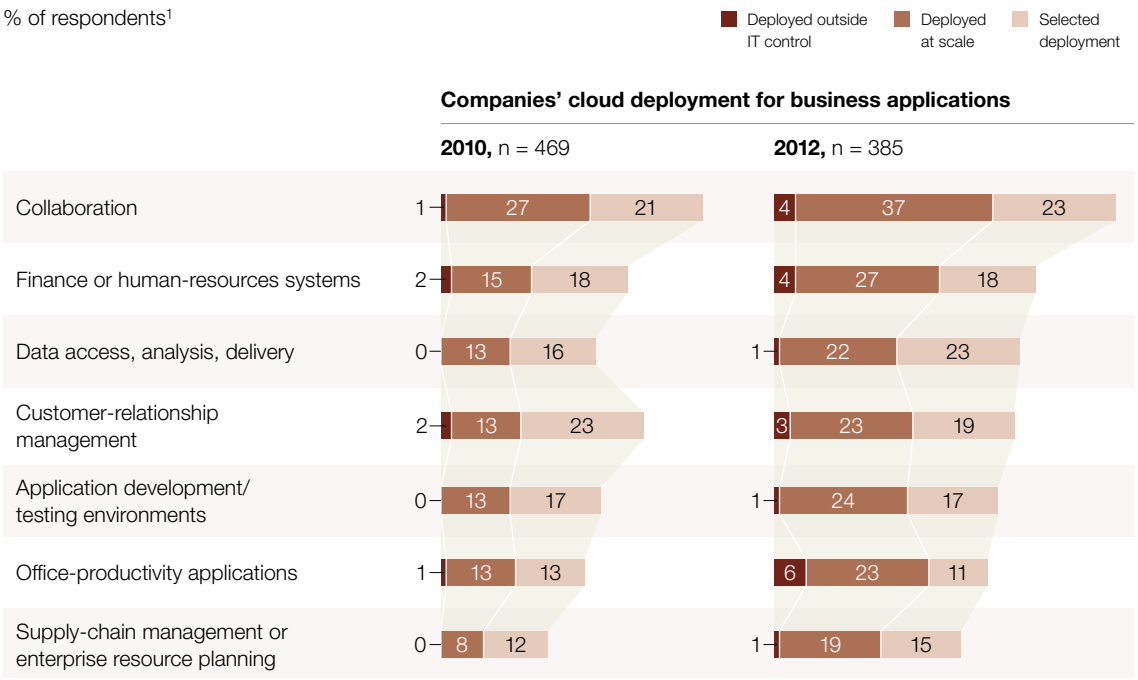
sales are likelier than all others to report that these changes have been made (Exhibit 4).

Since 2011, we do see notable change in the major barriers to data use that companies are facing. In past surveys, respondents have cited more fundamental barriers—a lack of data, for example, and a culture that favors experience over data in decision making. Now, however, executives are most likely to say the biggest barrier to increasing data use at their companies is a lack of skills in translating and synthesizing analysis into usable insights (in other words, a lack of analytically capable managers and power users). Given these findings, it seems that executives and their companies are beginning to view data and analytics as a competitive necessity, not just one option of many in their strategic arsenals.

Managing the cloud

Cloud computing and software as a service (SaaS) also continue to gain traction within organizations. Since we last asked about the topic in 2010, adoption across every type

Exhibit 5
Cloud deployment is broadening.



[1] Respondents who answered "piloting," "proof of concept," "none," or "don't know" are not shown.

of application has increased (Exhibit 5). In particular, 30 percent of IT executives say their companies are implementing a private cloud, up from 16 percent who said the same in 2010.

Still atop the list of barriers to realizing value from the cloud are concerns about security and business-continuity risks, such as protecting information and intellectual property and dealing with cloud providers' potential disruptions or outages. Nearly one-quarter of respondents rank this barrier first. As with data and analytics, cloud computing appears to suffer from a skills gap: the third-ranked barrier is developing the right skills to build, manage, and support cloud systems. In 2010, this was the least-cited concern.

For many IT departments, a critical concern with SaaS has long been that some business users acquire and use these tools independent of IT's involvement, thereby avoiding IT governance and safeguards to protect corporate data and manage security risks. Yet the responses from respondents outside the IT function indicate strong IT involvement with these tools. Forty-five percent of non-IT executives say SaaS applications such as Salesforce.com are used in their business areas; 76 percent of this group say IT is involved in procuring and managing these services, and 90 percent say IT's influence in the process is positive. These results suggest that business users have become savvier about the issues associated with these services and that IT

departments have become more flexible in how they govern the business use of these tools.

Cybersecurity on the rise

With respect to risks, cybersecurity is a growing concern. Nine percent of respondents say their companies have experienced a loss of customer data or intellectual property in the previous year,[3] and some of these executives report multiple incidents. These events can be costly: while one-quarter of those whose companies experienced a breach say the economic impact was less than 0.5 percent of annual revenue, more than one-third note a greater impact. Indeed, one in five respondents at smaller companies[4] that experienced a breach say the economic impact was 10 percent or more of their companies' revenue.

To address these risks, over two-thirds of all respondents say their organizations have tested their vulnerabilities or responses in some way. Notably, executives at consumer-facing organizations report that they're a bit further along in deploying these tests than their business-to-business counterparts, perhaps because of the many risks related to the disclosure of consumer data.

Spending holds steady

In 2011, executives said they expected their companies' IT spending to increase; our 2012 results indicate that spending will be a bit more constrained, likely due to persistent macroeconomic uncertainty. But this is not to say that companies have stopped spending on IT: more than half expect new investments to increase in 2013 (Exhibit 6).

Respondents report the use of a wide variety of tactics to improve IT's performance and cost-effectiveness; they are most likely to say their companies use infrastructure-virtualization technologies (in their companies' data centers, for example) to do so. In 2012, more than half also say reducing IT costs is a current priority for their companies' budget cycles—up from 44 percent in 2011—but only 13 percent

[3] Compared with our experience, this figure is fairly conservative and likely reflects respondents' lack of knowledge or their preference not to divulge such information about their own companies, even in an anonymous survey. Roughly one-quarter of the responses to the survey question—whether their organizations have experienced a leak, loss, or extraction of intellectual property or customer data in the past year—are "don't know."

[4] Companies with annual revenues of less than $1 billion.

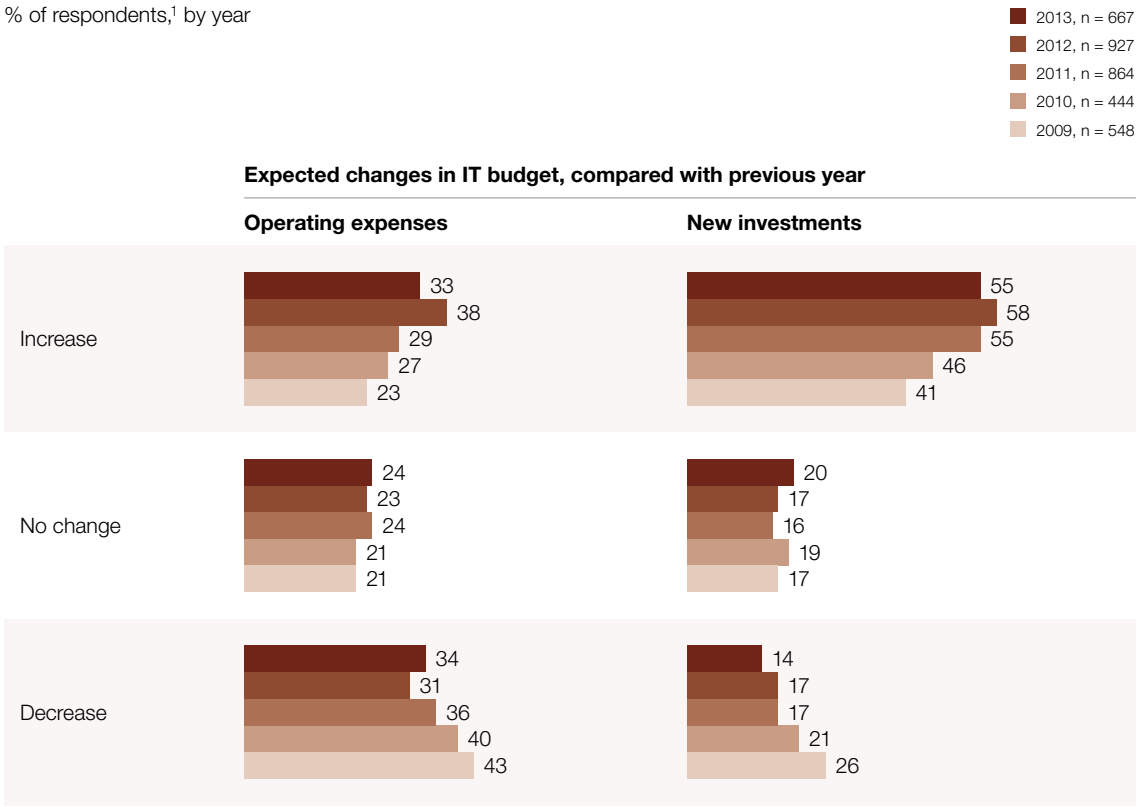
cite it as an ideal priority. Instead, the largest shares of respondents say their companies should improve the effectiveness of business processes (55 percent), create new products or services (50 percent), and improve the cost efficiency of business processes (46 percent).

Looking ahead

- Digital-business priorities are finding a prominent place on the company agenda, and more executives expect IT to drive growth through the use of these technologies over the next few years. Yet many respondents indicate that their colleagues fail to understand the non-IT changes that must be made to take advantage of digital trends. It is therefore increasingly important for IT executives (as well as business executives who are well versed in these issues) to continue helping others throughout the enterprise to understand the adjustments required to prepare the company for capturing the full value from new technologies—and their role in making these adjustments happen.

Exhibit 6
Investments will be a focus.

% of respondents,[1] by year



[1] Respondents who answered "don't know" are not shown.

It is increasingly important for IT executives (as well as business executives who are well versed in these issues) to continue helping others throughout the enterprise to understand the adjustments required to prepare the company for capturing the full value from new technologies.

- Cloud computing has developed substantially in the past couple of years, and IT organizations have made great progress in establishing better governance and risk-management systems around cloud and SaaS applications. IT functions should carry this momentum forward as the cloud vendors and the organizational demand for cloud solutions evolve.

- Cybersecurity is a fast-growing concern, and many IT organizations have yet to begin developing a more expansive view of all the risks and implications (both technical and business related) that are associated with cyber incidents. Outside the IT function, executives' understanding of these risks tends to be even more fragmented or incomplete. To benefit their functions and their companies as a whole, IT executives must elevate their game by taking a holistic view of the technical and nontechnical risks; they must also engage the rest of the organization in clear dialogues about the importance of managing these risks and the ways to address them.

Contributors to the development and analysis of this survey include **Roger Roberts,** a principal in McKinsey's Silicon Valley office, and **Johnson Sikes,** a consultant in the New York office.