



ITSS

A Review of
IT Costs and Expenditure
Island of Ireland Study
2014



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Executive Summary

1.1 Introduction

The Markit Eurozone Composite Purchasing Managers Index (PMI) report on 4th December 2013, collected from 5,000 European manufacturing and service firms noted that Ireland showed strong increases in output and had the highest confidence level about business activity.

That confidence proved to be well founded with Ireland showing some of the highest growth in the EU during 2014.

As the Economy in Ireland recovers an increase in investment in IT Solutions and Services could perhaps be expected. Over the last 6 years many organisations that held back on IT investment as a result perhaps now need to overhaul systems and infrastructures that have become outdated.

This suspicion seemed to be confirmed by some recent research conducted by ¹Computerscope magazine in association with O2 which found that 41% of Irish companies are planning to increase their ICT spend over the next 12 months.

With increased IT investment likely it will be essential that it is well spent, delivering the maximum impact for the business with benefits that are fully realised and which are clearly aligned with the objectives of the organisations.

To better inform Board level decision making and help mid-sized organisations choose and implement strategic Information Technology wisely the IT Solutions and Services partnership (ITSS LLP) (www.itssllp.com), an independent IT consultancy providing CIO services to the mid-market in the UK and Ireland commissioned a market research study.

The objective of the study was to engage with Directors responsible for the delivery of IT solutions and services to their organisation and establish

- Their current and expected levels of investment in Information Technology,
- How IT goods and services were procured in their organisation
- If they felt they were getting best value in IT procurement and the most out of their IT budget
- Views and intentions on internal v outsourced IT Services
- The role of IT, the levels of IT resourcing in their organisation and its related costs.
- Current practice as regards performance measurement of IT services

By gathering and analysing this information ITSS LLP have sought to provide further information to those Directors responsible for IT in their business to help them answer strategic IT questions such as.

- Am I spending the right amount on IT?
- Should I be outsourcing?

"IT budgets are being unshackled and IT is becoming more strategically important to Irish businesses"

Alan Brown, Business Director at O2.

¹ A survey of 267 Irish IT managers conducted during July and August 2013

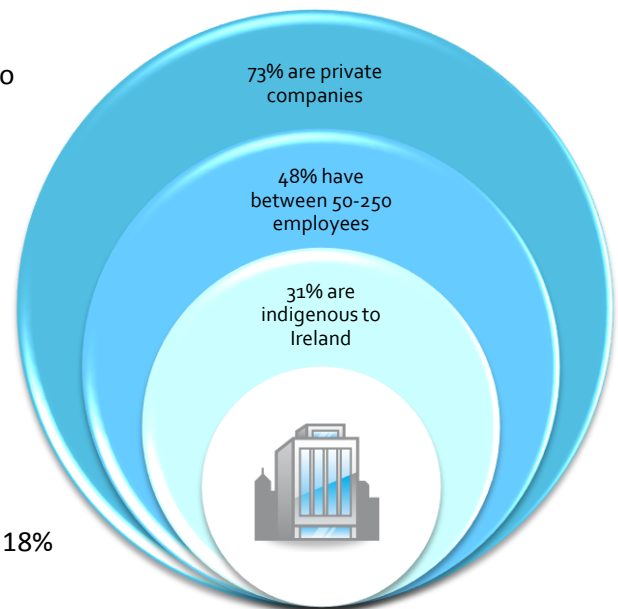
- Is my IT costly to run?
- Have we the right IT establishment?
- Are we managing IT in the right way?
- How can I get best return on my investment?

1.2 Method and Respondents

In total 30 organisations took part in the telephone and email survey across a range of sectors and business size as this helped to ensure a balanced representation.

Fig 1: Profile of Respondents

- The majority of respondents we spoke to were private commercial companies (73%), however the sample also has representation from the public (13%) and not for profit (13%) sectors.
- ² 48% of respondents interviewed are classed as a medium sized business with less than 250 employees but greater than 50 with a further 21% classed as SME's and 31% classed as large enterprises.
- The range of respondents is across the spectrum of company sizes in terms of turnover, highest frequency of respondents fall between £3m-£10m turnover with 18% between £20-30m.
- 31% of respondents are indigenous to Ireland, have an average turnover of £ 4-5m and operate from 1 site within Ireland.



² The European Commission

2.0 KEY OBSERVATIONS FROM STUDY

2.1 Levels of IT spend

- 41% of organisations had total IT spend of less than 5% of turnover with a further 28% between 5-10% of turnover. Education and Health sector respondents had higher percentage spend than other sectors with 75% and 86% of respondents respectively spending more than 5% of turnover in IT. The majority of respondents in the Agriculture, Construction, Manufacturing and ICT sectors invested less than 5% of turnover in IT with Transport and Distribution companies investing slightly more.
- 83% of organisations with turnovers of < £10m spent less than 5% of turnover in IT while only 29% of larger companies invested less than 5%. 42% of larger companies invested 5-10% of their turnover in IT

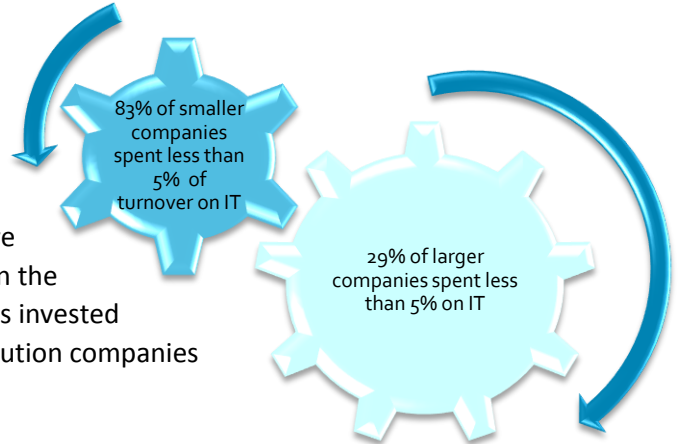
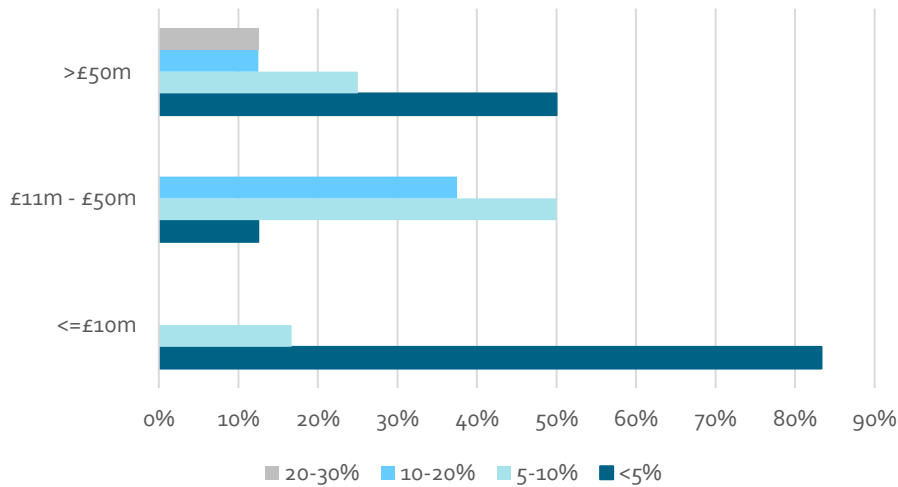


Fig 2: Shows IT Spend as a percentage of turnover by company size.

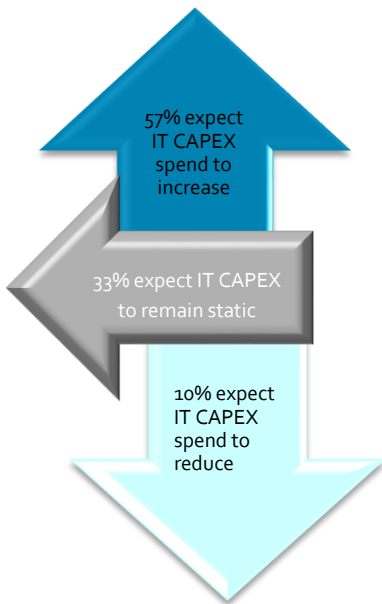
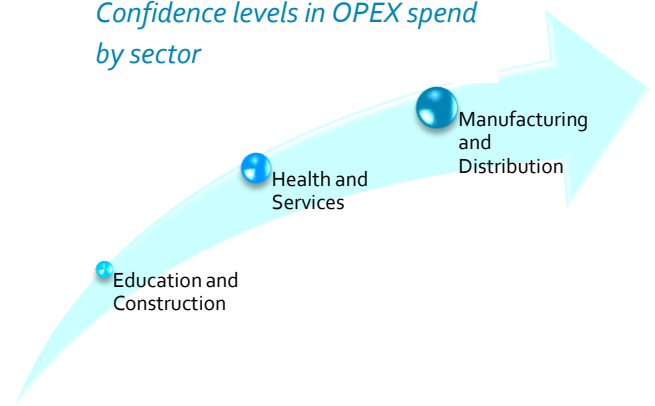


The proportions of spend as a percentage of turnover show nothing unexpected. Many studies on IT spend have shown these levels of spend and variances by industry. What is interesting is that larger organisations spend proportionally more on technology, presumably to drive out efficiencies and gain a competitive advantage.

2.2 IT Expenditure Outlook

- Only 43% of organisations expect IT Operating Expenditure (OPEX) to increase in the next 3 years, Manufacturing and Distribution had the highest levels of confidence that OPEX would increase (60% and 66%) with Education and Construction having the lowest confidence of an IT OPEX increase (33% and 25%). 69% of organisations expecting IT OPEX increases anticipate growth to be <10% in the next 3 years with 15% see it increasing between 10-20% and 15% seeing an increase of 20-30%. Companies with turnover of less than £20m see the increase as being fewer than 10%. Building and Construction anticipate the greatest increases with Agriculture, Education, Manufacturing and Distribution all anticipating <10% increases.

Confidence levels in OPEX spend by sector



57% of respondents expect to increase IT Capital Expenditure (CAPEX) in the next 3 years, 33% expect it to remain static and 10% foresee a reduction. Manufacturing respondents showed both the highest % of expected decreases (20%) and the highest % of expected increases (80%). Distribution showed an even split between those expecting an increase, decrease or it to remain static.

The recession is over and Ireland and economic indicators show that both UK and Ireland are growing more strongly than other countries. After a number of years of reducing or holding back IT investment the overall picture seems to indicate an increasing IT Capital investment in Information technology and a slightly less increase in IT Operational Expenditure. This idea is confirmed by recent ³research which found one of the key drivers for renewed investment was overall cost reduction – failure to reinvest in IT increased the cost of managing aging infrastructures. The challenge of course will be to make the most of that investment by choosing the right options and getting best value.

³ A survey of 267 Irish IT managers conducted during July and August 2013- Computerscope&O2

2.3 IT Department Role

- 80% of organisations said that the IT function played a leading role in IT solutions procurements. In organisations with less than 5 IT staff this dropped to 68.75% but the prevalence of IT involvement did not seem to be particularly influenced by the size of company as indicated by company turnover.
- Only 33% of organisations operated an IT Service Desk with dedicated staff. Not surprisingly these organisations had higher IT staffing levels of 11+ staff. IT Service Desks start to appear between 40-50 end users where 25% of organisations of this size had one in place. By the time there were 150+ users to support, it became the norm to have an IT Service Desk with permanent staffing for the initial call receipt and first level support (Level 1)
- Only 30% of organisations developed software themselves with all organisations that had 40+ IT staff declaring they developed software. This was not particularly linked to organisational size as indicated by Turnover or Primary business activity.

Developing software significantly increases internal staff costs; the question for each organisation is;

"Is this the most cost effective method?"

There is lesser involvement from IT in the procurement of IT solutions where the IT team is small. This could be due to either a lack of resource or a lack of the necessary skills. In the experience of ITSS LLP the skills in smaller IT departments tends to be more focused on IT infrastructure and technology rather than on an understanding of business need.

The entry point for introducing an IT Service Desk seems noteworthy as is the level at which dedicated staff start to be deployed to attend service requests as they come in.

Developing software significantly increases internal staff costs; the question for each organisation is "is this the most cost effective method?" External software development, although when viewed on a daily rate may seem comparatively expensive when compared with staff in the same geographical location, is a variable rather than a fixed cost and the internal the cost of developing and maintaining internal skill sets must be included in any comparison. External software development costs can also be lower than expected through leveraging a suitable mix of local, near-shore and off-shore resources.

2.4 IT Department Resources

It is important that organisations understand the differences between themselves and their competitors or peers and be comfortable that they are investing valuable resources wisely.

- 66% of organisations indicated that they had an IT Director in place although in the case of organisations with only 5 IT staff this was only 46% and for organisations with a turnover of less than £10m the figure was only 38%.
- 76% of organisations with less than 100 users had less than 5 IT staff but at the top end an organisation with 1000 users reported having less than 5 internal IT staff in marked contrast to another that had over 80 IT staff that was in the same Building and Construction sector.
- 41% of respondents expect the use of external IT services to grow in the next 3 years, while 28% disagree that it will grow.
- 55% of respondents expect the internal IT Team to grow in the next 3 years, while 24 % disagree that it will grow.
- 59% of respondents expect increased use of external hosting and cloud services in the next 3 years while 24% disagree that this will increase. No respondents strongly disagreed that this would increase.⁴ICT Ireland and the ISA (Irish Software Association) have identified Cloud computing as one of the main high potential top trends in the technology sector; infrastructure as a service and cloud security services are considered to be strong growth areas.

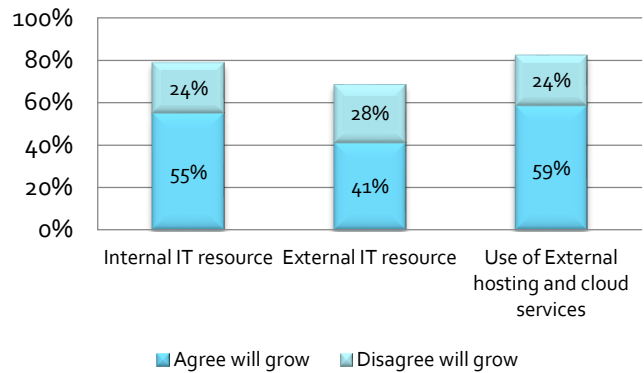
The fact that 67% of organisations stated they had an IT Director in place is somewhat surprising. This would not be the experience of ITSS LLP in dealing with many client organisations across many sectors. The presence of IT at Board level has become more prevalent in larger organisations but in our experience it is still rare that even mid-sized organisations have the need or resource to employ a suitably qualified CIO on a full time basis.

The marked difference in the numbers of IT staffing, often amongst organisations of similar size and in the same sector is interesting and important given the cost of IT staffing. There will undoubtedly be a number of variables that influence this, such as the physical footprint of the organisation, its attitude to software development or external outsourcing of IT Operational support. It is important that organisations understand these variables, the differences between them and their competitors or peers and be comfortable that they are investing valuable resource wisely.

⁴ The Global Technology Hub- How Ireland enables success for international and indigenous technology companies

It is interesting to note that many more organisations expect growth in the use of external IT services and internal IT resources in the near future than those that see no growth. There also seems to be a considerable expectation that use of external hosting and cloud services will grow. This expectation did not seem to vary significantly according to organisational size or sector.

Fig 3: External and Internal Growth



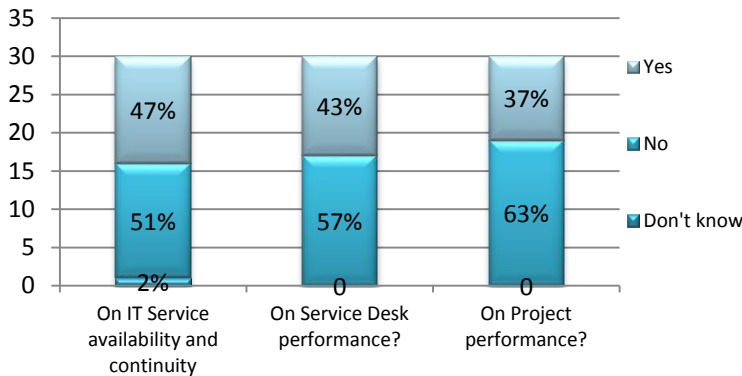
2.5 IT Performance Measurement

Only 47% of organisations produced key performance indicators (KPI) on IT Service availability and continuity, even less (37%) produced any KPIs on IT Project performance and 25% organisations that operate an IT Service Desk fail to produce KPIs on its performance.

Given the now high level of reliance of operational business functions on IT and the business impact of

interruption in IT services it is noteworthy that the majority of organisations produced no KPIs on the availability and interruption of IT services.

Fig 4: KPIs on IT Performance



The investment in creating an IT Service Desk or Helpdesk also seems not to be carried through to on-going measurement of IT support services in a significant number of cases and even fewer organisations clearly measure their performance in IT projects. This is perhaps worth considering given the expected increase in Capital investment in IT and the imperative that such investment is not wasted.

2.6 IT Staff Costs

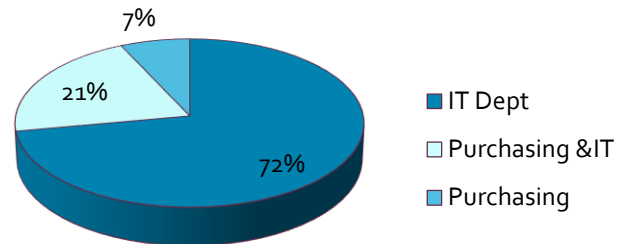
- 92% of organisations with IT staff costs <5% of total IT spend did not develop any software
- 52% of organisations that did not develop software had IT staff costs of less than 5% of total IT spend and 19.05 % had IT staff costs of between 5% and 10% of total IT spend
- 52% of organisations that did not develop software had IT staff costs of less than 5% of total IT spend and 19% had IT staff costs of between 5% and 10% of total IT spend

These costs are worth noting but clearly a deeper analysis of staff costs is needed before an organisation can be comfortable that it is spending at the right level on the right mix of skills to support the business.

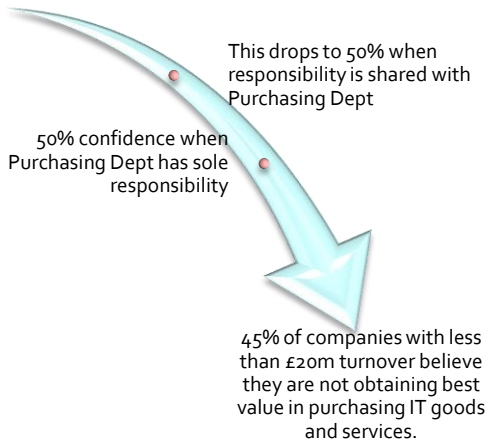
2.7 IT Purchasing

Fig 5: How Companies are Procuring IT

- In 72% of all organisations the IT Department was solely responsible for IT purchasing, with 21% of organisations declaring that it was jointly shared between Purchasing and IT. In only 7% of cases was the Purchasing Department solely responsible for IT purchases.
- In organisations with turnover of less than £10m only 45% of IT Departments were solely responsible for purchasing. In these organisations the Purchasing function took more of a role: in 18% of cases taking sole responsibility and in 36% of cases sharing the responsibility with IT. In contrast, within organisations with turnover of over £10m to £100m the Purchasing Department never took sole responsibility and in 87% of cases IT took full responsibility for IT purchasing.



75% believe they are achieving best possible value when IT departments responsible for purchasing



- Where IT Departments were wholly responsible for purchasing 75% of respondents agreed or strongly agreed that they achieved the best possible value, this figure dropped to 50% when responsibility was shared with Purchasing and only 50% when Purchasing had sole responsibility.
- Interestingly, in organisations with turnover of less than £20m confidence that best value was being obtained in the purchasing of IT goods and service was low with only 45% of respondents believing this was the case. No respondents in that group strongly agreed that they were obtaining best value when purchasing IT goods and services.

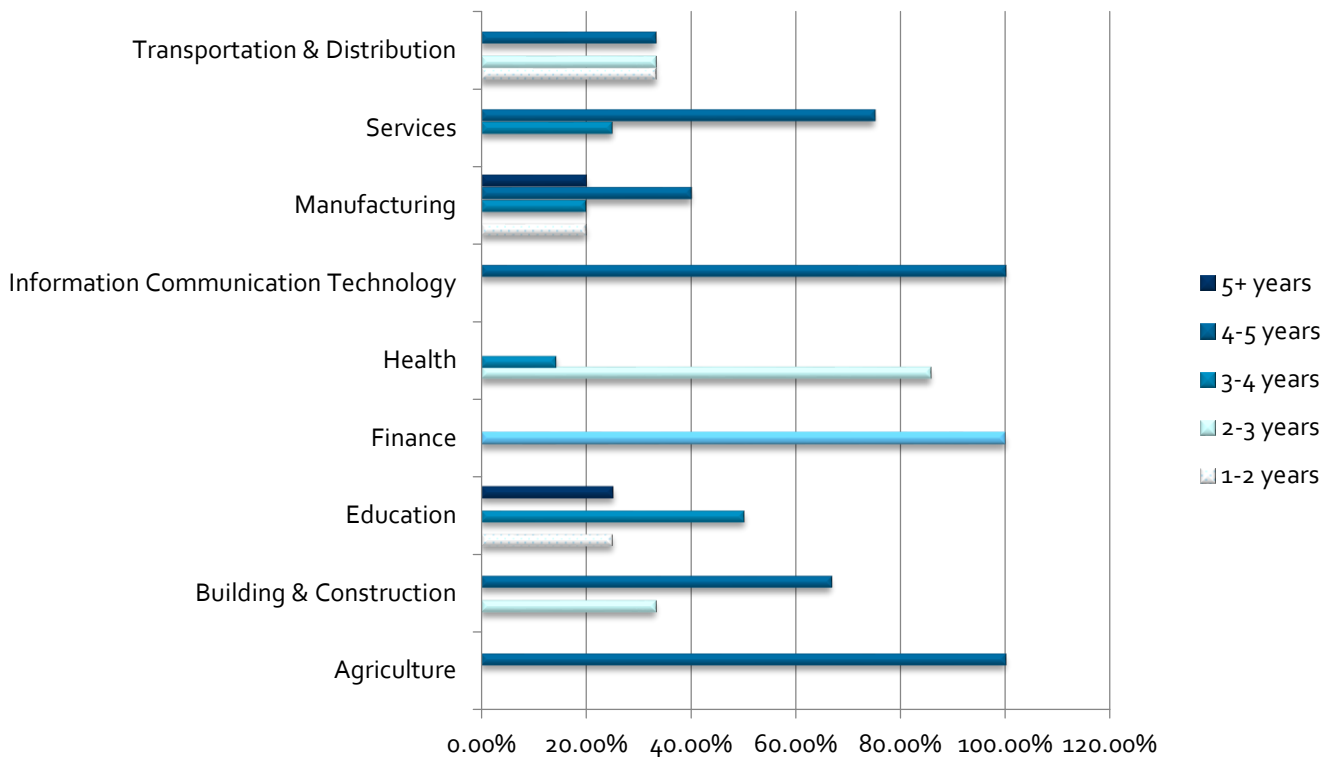
The technical and fast changing nature of IT often makes it more difficult for purchasing professionals to have a high level of involvement in IT procurement. That does not mean that the procurement skills and processes honed by those professionals are not needed. The high percentage of instances where IT takes full responsibility for IT procurement must raise the question as to whether strong procurement expertise is leveraged and if best value is obtained

Overall only 50% of respondents believed that they were securing best value in the procurement of IT products and services, so there still appears to be significant scope for improvement through applying higher levels of resource and expertise in this area.

2.8 IT Refresh

- 83% of organisations refresh both hardware and software in years to 2-5. There was no marked difference between the two. Of these the proportions across the years were fairly evenly split. Healthcare organisations were marked in that their refresh cycles seemed shorter than average and Agriculture companies longer than average.

Fig 6: IT Refresh by Sector



IT refresh policies and timeframes have a high impact on the cost of IT and the impact that IT has on supporting business operations to achieve enhanced productivity, service customers and meet business objectives. It can also have a significant impact on the level of risk posed to the organisation as a result of IT failure. The survey indicates that there is still much variability in the timing and approach taken to IT refresh and the experience of ITSS LLP is that many organisations fail to consider IT refresh policies closely and manage accordingly.

3.0 Insights taken from the Research Study

An objective of the ITSS LLP survey was to provide some input to Directors of organisations in their strategic considerations on Information Technology investment. The following section seeks to provide some insights of value.

Am I spending the right amount on IT?

The limitations of this study in scope and size means that it provides only a few inputs of value when considering this question in the context of your own organisation. The first point is that Irish organisations are starting to invest again and that means that your competitors will likely be investing too. If those competitors invest wisely and as a result start delivering improved products and/or services at a better price point then how can you respond? Technologically driven business change often has a substantive lead time to implement so lost competitive advantage may take some time to recover if you are not already somewhat down the improvement path yourself.

The survey indicates that there is still much variability in the timing and approach taken to IT refresh cycles which have a considerable impact on how much is spent on IT. This is an area where it appears many organisations still have to do some work to satisfy themselves that they are not sacrificing productivity and IT service levels and/or increasing costs elsewhere as a result of sweating IT assets for too long.

When seeking guidance on what is the 'right' amount to spend, knowing the spend bands for your business sector are of limited value. While some more detailed benchmarking against competitors and learning from organisations in other sectors with similar challenges may have some value; perhaps more important is understanding that IT is an enabling function. Key to deciding if enough is being invested is getting a clear understanding if those tasked with delivering business performance across the organisation are happy that they have the right IT tools for the job. Establish if there is a gap and address it, focusing not on technology itself but on the facilitating outcomes that the technology needs to deliver.

Is my IT costly to run?

The study showed that there can be significant differences in IT staffing levels and related operational costs across organisations, even those in the same sector and of the same size.

The organisational approach to IT services such as software development and IT Support Services (e.g. IT Service Desk) clearly drive the level of IT cost in the organisation. Given the differences the organisational approach to IT is something that should be subject to close scrutiny to make sure that the perceived needs (e.g. need for bespoke software) and desired outcomes (e.g. a given level of IT user support) that have determined the IT service provision are sound and that the optimum route has been taken to deliver the required outcomes in the most effective way.

Establish if there is a gap and address it, focusing not on technology itself but on the facilitating outcomes that the technology needs to deliver for your business.

Have we the right IT establishment?

There are still a significant proportion of organisations (20% in the study) in which IT did not play a significant role in IT solutions procurement. Organisations with such a 'we buy it you run it' approach, where IT is perceived as being solely the implementer of technology, would be advised to consider carefully how they are maintaining cohesive IT architectural strategies. Such strategies are essential to ensure that IT solutions do not overlap unnecessarily, integrate effectively, have an optimal lifecycle and can be well supported whilst minimising the level of ongoing IT operational expense needed. Where the organisation feels that internal IT skill sets are insufficient to provide this input then they would be advised to consider sourcing such skill sets externally, periodically as required.

The need for an IT Service Desk or IT Help Desk, the point at which one is implemented, how it should operate and how it staffed are common considerations in organisations. Whilst factors such as the physical organisational footprint and user profiles will have a bearing on decisions in these areas the study showed that typically organisations start implementing as service desk at 40-50 users and typically by the time they have 150+ users manned IT Service Desks are common. The survey showed that establishing an IT Service Desk did not always include the implementation of suitable KPIs and performance measurement. Given the opportunity, establishing an IT Service desk provides the numbers that give an insight into both business operations and IT service levels - organisations would be well advised to invest suitably in clearly defined resources, processes and measures at the time an IT Service Desk is being established.

*50% of smaller organisations **were not** confident that they are achieving best value when purchasing IT goods and services. Organisations must carefully consider their own resources, skill sets and the mechanisms through which they are procuring IT goods and services.*

Are we managing IT in the right way?

A higher number of organisations than expected identified that there was an IT Director in place but there are still a high proportion that do not have an individual with the requisite depth of experience of Business acumen and IT knowledge at Board level. In those instances it would be wise to question if the organisation has the degree of guidance that is necessary to ensure that technology is being leveraged and managed to best effect.

The survey showed that there is still a large deficit in organisations when it comes to measuring the performance of IT.

The majority of organisations surveyed did not produce Key Performance Indicators (KPIs) on IT availability and continuity in the organisation and even fewer produced measures on IT project performance. While the relevant proliferation of IT policies and clearly defined IT delivery and support processes were not sampled in the survey the relatively high level of absence of IT performance measures would suggest that organisations should also consider these areas when looking under the IT bonnet.

Should we be outsourcing?

The survey showed that the majority of organisations of all sizes and in all sectors expect an increase in both external and internal IT resourcing in the coming 3 years, as well as an increase in the use of external hosting and cloud services.

The challenges will be to get the balance correct to make sure that the right IT skills and resources are delivered for the best possible price and that related business risks are identified and managed. Due to the obvious

conflict of interest of IT staff when the mix of in-house v external IT resourcing is being considered some impartial and independent input would often be advisable.

Are we procuring IT in the best way?

The survey indicated that in the majority of cases (72%) IT was wholly responsible for the purchase of IT goods and services, with only 7% giving the Purchasing Department that responsibility and the balance saying it was a joint Purchasing and IT responsibility. Interestingly no respondents indicated that end users purchased IT goods and services, which is at odds with wider studies that have indicated that as much as 25% of IT spend could be 'hidden' from IT, being incurred directly by end user departments.

It seems that the majority of organisations either think that IT is best placed to procure IT effectively because Purchasing would lack the necessary understanding of the subject matter or, perhaps, the technical nature of IT makes it easier for the IT Department to keep that responsibility and does not perceive that a Purchasing Department can bring additional valuable skills and processes to the IT sourcing process.

Organisations must carefully consider their own resources, skill sets and the mechanisms through which they are procuring IT goods and services.

The survey found that only 50% of smaller organisations (i.e. those with turnovers of less than £20m) were confident that they are achieving best value when purchasing IT goods and services. These organisations in particular may benefit from engaging some external, specialist IT procurement expertise to assist them or health check their performance in this area.

How can I get best return on my investment?

To get the best possible return on the IT investment organisations need to get the right people in place to set the right direction, involve the right IT stakeholders to define what outcomes IT goods and services need to deliver and then deploy appropriate skill sets to define, source or build and deliver the optimum IT products and services.

The survey and other previous surveys show that while IT investment is expected to increase there is significant variability in the degree to which organisations are attending to each of these enabling activities, to make sure that their investment will be well spent.

Consider carefully how you are maintaining cohesive IT architectural strategies. Such strategies are essential to ensure that IT solutions do not overlap unnecessarily, integrate effectively, have an optimal lifecycle whilst minimising the level of spend required.

4.0 Impact Table

Observation	Impact
The trend seems clear that overall IT investment is set to increase now that growth has returned	Considering external benchmarks as well as internal needs will help in the decisions around 'how much' investment is needed.
Reluctance in some sectors to invest in IT.	Failing to invest effectively soon in IT when competitors are doing so could result in a competitive edge being lost that would take some time to recover and ultimately lead to greater spend requirements on IT.
Differing attitudes and approaches to IT investment and IT delivery mechanisms means that there can be significant differences in IT spend even between similar organizations within the same sector	The organizational approach to IT should be subject to careful scrutiny to ensure that it is investing wisely. Factors such as its attitude to buy vs build, insource vs outsource, levels of IT service levels and IT risk are important. In considering insource vs outsource questions care must be taken with regard to vested interest of existing staff responsible for IT.
25% of Directors responsible for IT overall and 50% of those in organizations with turnovers <£20m pa are not confident that they secure best value when procuring IT goods and services	It is important that organizations carefully review their expertise, responsibilities and processes as regards IT procurement, benchmarking performance and availing of external IT procurement expertise as necessary.
The majority of organizations surveyed did not produce Key Performance Indicators (KPIs) on IT availability and continuity in the organization and even fewer produced measures on IT project performance.	No matter whether IT services are sourced internally or externally organizations should consider if they have clear metrics to measure IT performance rather than measuring by perception.
20%+ of organizations did not significantly involve IT in IT Solutions procurement	Such organizations should take steps to make sure that the overall IT architectures for IT solutions and infrastructures are sound and not compromised by this lack of IT input. If appropriate skills are lacking external expertise may be required.

5.0 Profile of ITSS

IT Solutions and Services (ITSS LLP) is a vendor independent, technologically agnostic IT consultancy partnership that provides business focused IT services from experienced CIOs. Its strategic Information Technology services together with IT Procurement and IT Supplier Management helps organizations make the right IT choices and get the most from their IT investment.

The ITSS LLP offering revolves around reviewing the way IT is leveraged and managed in an organization and helping it put in place appropriate IT solutions and supporting services at the best possible price to meet the outcomes that the business requires. The ITSS way is to be business outcome focused rather than technology driven.

ITSS LLP input can include delivering IT Governance or IT programme Health checks, establishing or re-configuring internal IT functions, outsourcing IT development, delivery and support services or competitively sourcing new IT Solutions or services. The partnership also provides call off IT Director Services to help define IT strategy, manage important IT centred business change or just review that things on track. ITSS consultants have extensive industry experience in helping organizations with between £/€ 10 million and £/€ 300 million in the UK and Ireland drive business performance through best in class Business Processes and IT Solutions.

For more information on ITSS LLP visit the website www.itssllp.com, Twitter @ITSSLLP, Facebook www.facebook.com/ITSSLLP or mail us on info@itssllp.com. Alternatively, for an exploratory conversation with one of the Partners call ++44 (0) 845 519 9021 or ++44 (0) 2890292759.