

CEO Concerns 2008: Business Leaders' Top Concerns and How IT Should Address Them

Mark Raskino

Gartner[®]
SYMPOSIUM ITXPO[®] 2008

A horizontal bar composed of several colored segments: blue, light blue, dark blue, orange, and blue.

Gartner[®]

Key Issues

A person wearing a white dress shirt is shown from the chest down, sitting at a desk. They are holding a pen in their right hand and writing on a document. The background is a soft, out-of-focus light color.

- What major issues do CEOs and senior executives face today?
- What actions will they take to address these issues?
- What do these actions imply for IT agendas?

For many of the advanced economies

..err.. Guys...

the sky IS actually Falling*

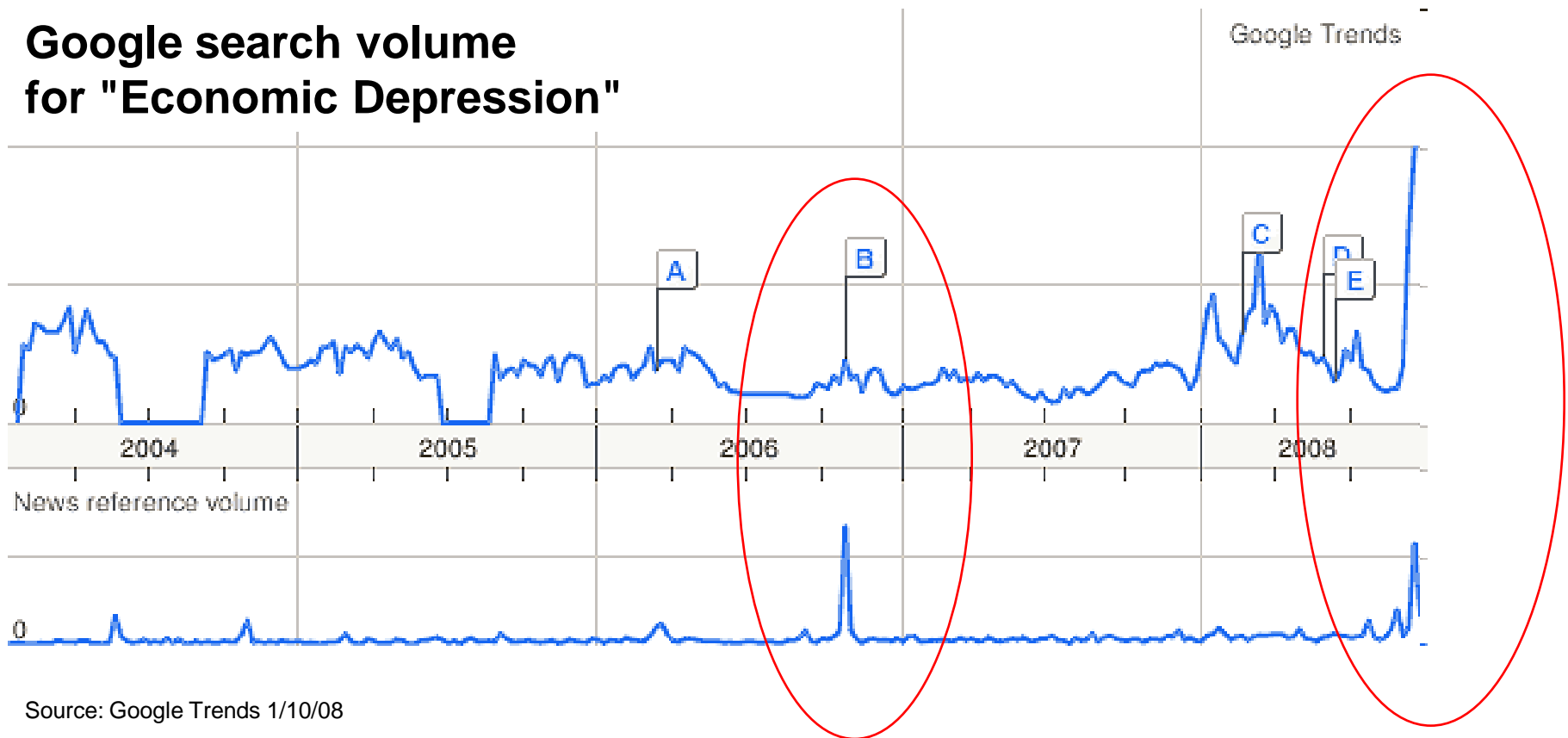
Further denial or 'hope for the best' is wasting
the precious time you have before it hits your industry and your company

* this is thought provocation - we think you must now
consider a worst-case scenario



What Current Fear Looks Like

Google search volume for "Economic Depression"



Superficial concern

"Global warming could cause economic depression, report warns"

Real concern

Gartner

Indy Mae 

 Glitner

 Fortis

Wachovia 

 Dexia

AIG 

 Hypo Real Estate

Bear Stearns

Lehman

\$700 Bn bailout

WaMu

 Northern Rock

**After the Great
Financial Storm
of 2008 Subsides
The CEO keyword
will be ...**

 Bradford & Bingley

HBOS

 Merrill Lynch

Freddie & Fannie



Business has been good..

Bulgaria's Economic Growth Hit 5.6% in the Summer

Against the background of the slipping European economies, Bulgaria's National Statistical Institute reported an economic growth of 5.6% in the summer. Over the third trimester of the year, Bulgaria's GDP amounted to 18.555 billion levs. This is quite an encouraging fact, having in mind that some of the European economies are already experiencing recession.

Standart News 15 Nov 2008

..but change is coming.

Prime Minister Sergei Stanishev admitted that the slowing eurozone would have dire consequences for the Bulgarian economy, and ruling coalition members hinted at changes to the 2009 draft budget.

Bulgaria's current account gap widened by a nominative 1.38 billion leva from January to September compared to the year-ago period.

www.sofiaecho.com 17 Nov 2008



Restructure

Gartner



BT warns of an £80m blow to profits and Global boss goes

31.10.08
Telecoms giant BT issued a shock warning today that its profits will come in some £80 million lower than expected in the year to next March. It revealed that it has parted with the boss of its Global Services unit.

HITTING ROCK-BOTTOM

BT share price (pence)



BT Global blamed for profit warning

By Andrew Parker in London
Published: November 1 2008 02:00 | Last updated: November 1 2008 02:00

BT issued a profit warning and made changes to senior management yesterday, blaming it by problems at its division serving multinational companies.

The UK's leading fixed-line phone company said it expected the group's earnings to fall by 10-15% on interest, tax, depreciation and amortisation to decline in 2008-09 compared with 2007-08.

The disappointing performance on stalling the growth of Global Services, the division serving multinationals.



NEWS

BT shares slump on profit warning

BT has issued a profit warning, due to poor performance in its global services unit, sending its shares 19% lower.

Francois Barrault, the head of the global services division has resigned. Finance director Hanif Alani is set to take his place.

The division's results "are



BT's Livingston is forced to tackle the nasties first

By Andrew Hill
Published: October 31 2008 19:57 | Last updated: October 31 2008 19:57

Some of the nasties for those who quit before the nasties emerged is getting crowded. John Tiner, chief executive of...

NOVEMBER 3, 2008

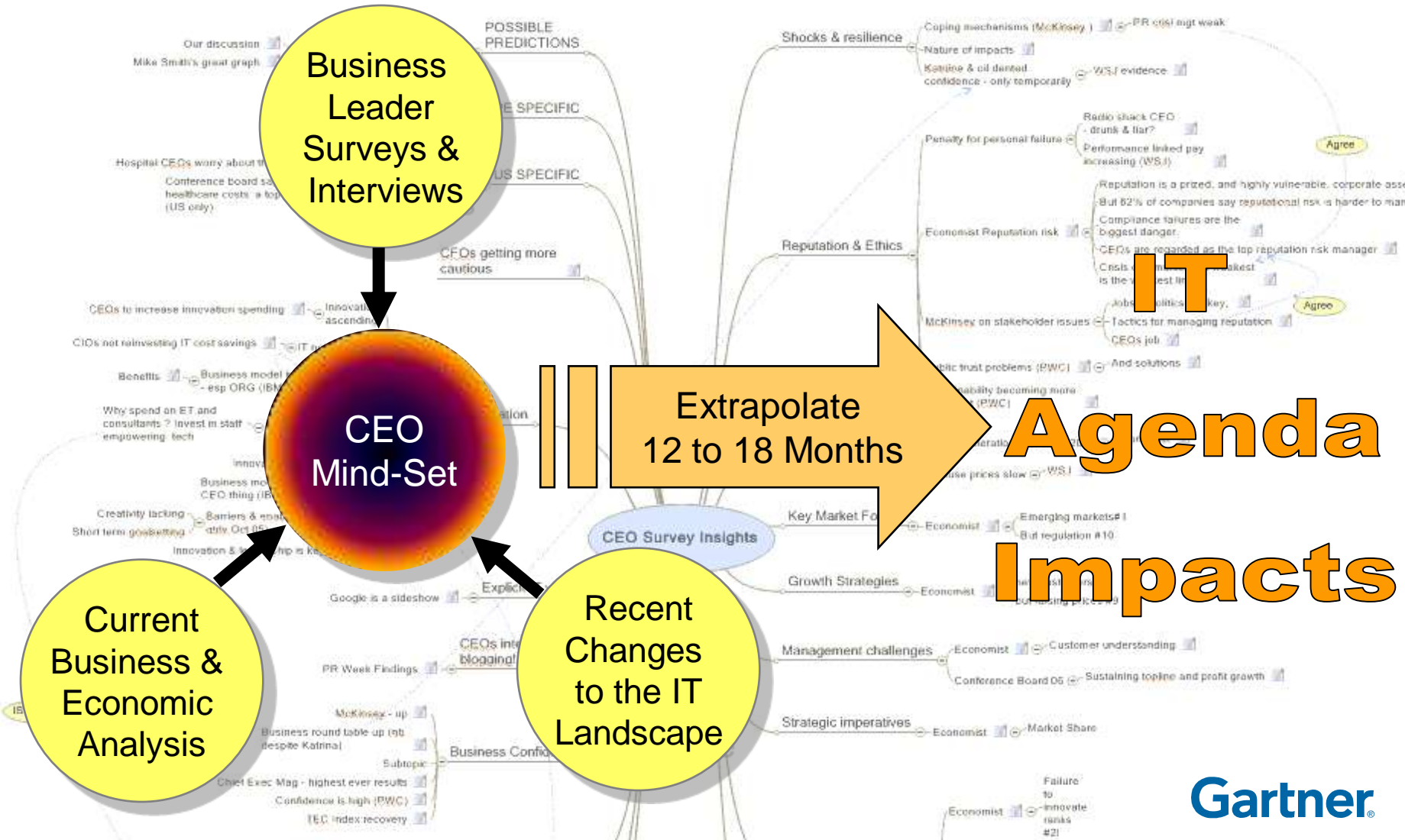
BT Group Lowers Earnings Expectations

U.K. Company Cites Global-Services Division for Revision as Head of the Unit Resigns

By ERICA HERRERO-MARTINEZ

LONDON -- BT Group PLC warned that its fiscal-year earnings will fall slightly, but that provides services to multinational companies

How We Do This Research



CEO Headache: The Planning Fog of Uncertainty, Volatility and Raw Fear

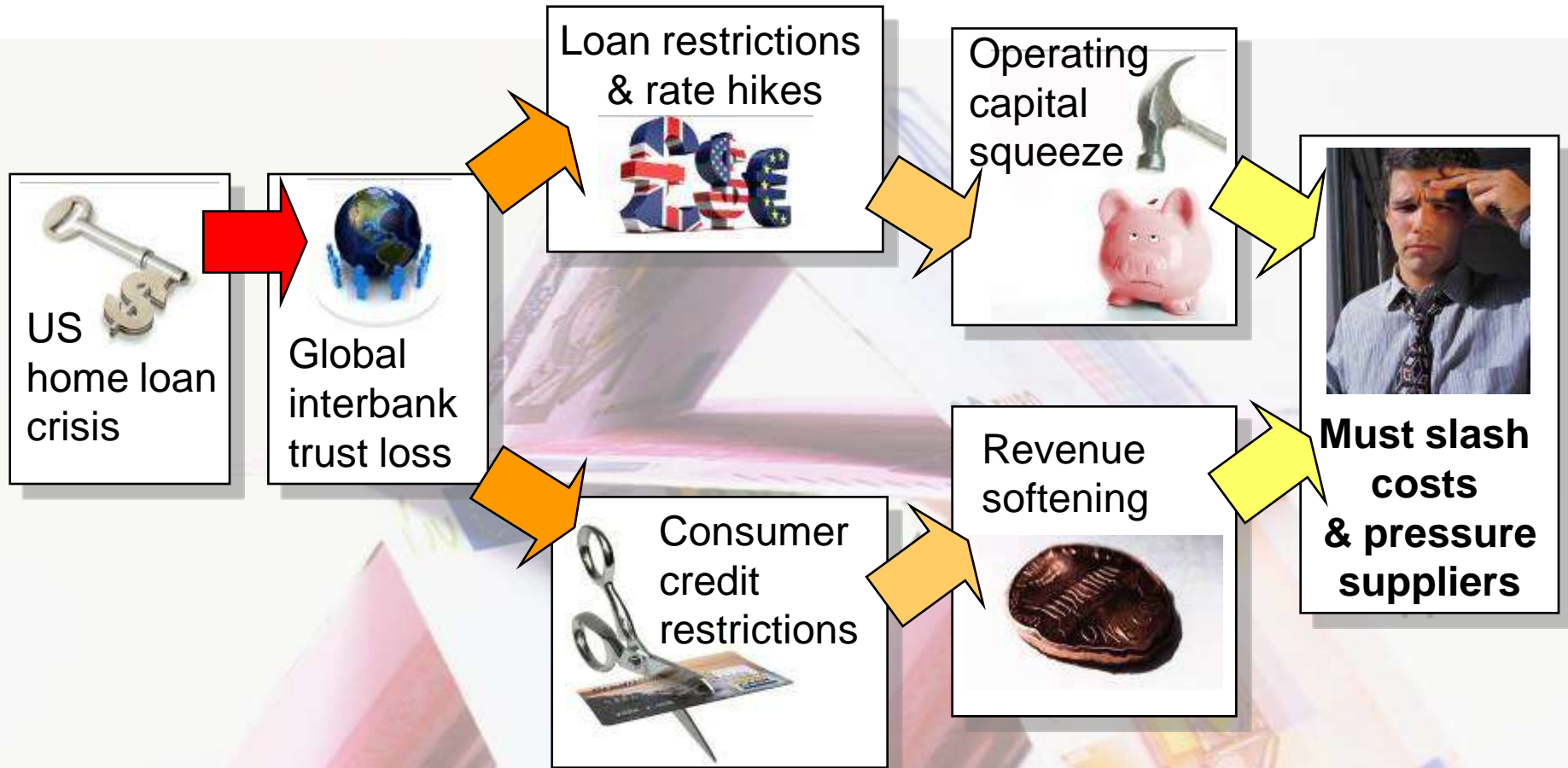
Summer 2007

Spring 2008

Autumn 2008

U.S. recession P < 25%	U.S. recession "already here"	U.S. 2009 "double dip"
U.S. "soft landing"	U.S. "crisis"	U.S. "depression risk"
Europe "likely to escape"	Europe & Japan "headwinds"	European & Japan recession
China & India "decoupled"	Decoupling is a myth	'Global recession'
Biz confidence 25 year highs	Biz confidence falls	Biz confidence 25 year lows
Property markets "cooling"	Property "bubble burst"	Dead property market
\$100 oil "possible"	\$100 oil "floor"	\$50 – inexplicable volatility
Inflation - benign	Commodity inflation crisis	Deflation risks
Post-SOX transparency	Bank risks "unknown"	Will my bank survive?
No problem	Somebody else's problem	Everyone's problem
Carry trade	Dollar reset	Currency chaos
All sectors are thriving	Wall St. won't hurt Main St.	Bailouts hit all pockets

How the Continuing Credit Crunch Gradually Squeezes the "Real Economy" CEO, Too

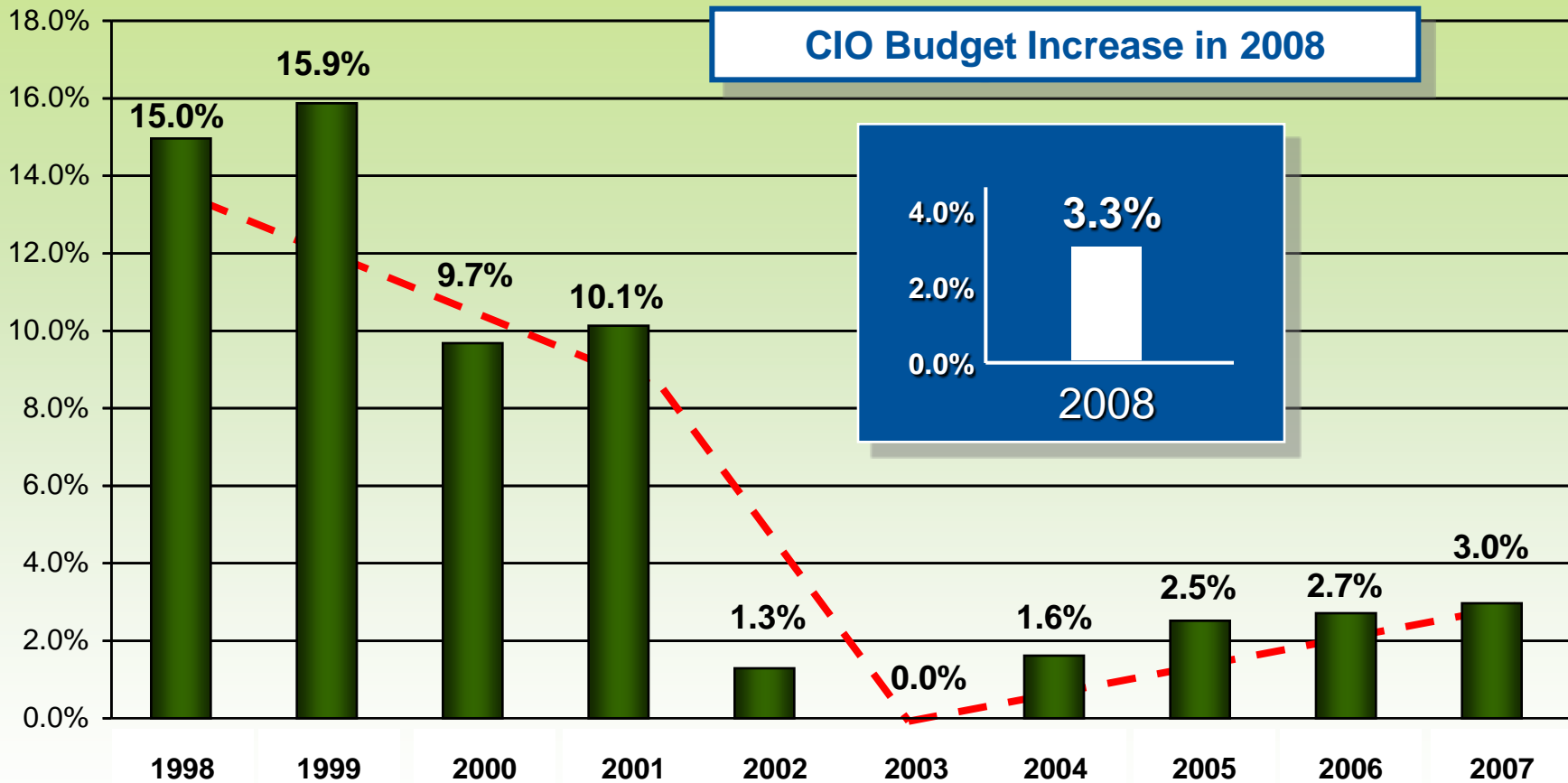


"How absurd it is to suggest one can punish Wall Street without hurting main street. The two streets meet. That's what streets do."

Martin Wolf, Financial Times, Oct 1 2008

This Recession Hits When Western Corporate IT Investment Has Been Mediocre for Several Years

Increases in CIO Budgets Over Previous Year 1997 to 2008 (WW and by %)



--- = Trend Line

CEO Issue 1: Restructuring

Organizational restructuring (e.g. layoffs)

Financial restructuring (e.g. deleveraging)

Corporate restructuring (e.g. entity consolidation)

Industry restructuring (e.g. players failing)

2009



Restructuring: IT Agenda Impact

As the restructuring plan slowly unfolds, CIOs must be prepared to ...

- **Clear the table (of current plans) and start again**
- **Deliver significant cost reduction**
 - in both operating cash flow and capital investment deferral
 - for many, the requested cuts will be double digit*
- **Deliver head count reduction – for ratio realignment**
- **Cancel some major projects**

BUT

- **Deal with unexpected acquisitions & divestitures**
- **Manage HIGHER risk taking on projects (for speed)**
- **Work with LOWER procedural obstacles & stronger CIO powers**

* Analyst expectation, not a formal prediction, and Gartner does not yet have survey data (due in November)



CEO Issue 2: Can't *Write-off* Fast Enough



Must
dump.

- **Assets we don't need**
- **Debts we won't recover**
- **Old assumptions & plans**
- **Investors who won't play**
- **Staff we can't pay**
- **Managers who can't say**
- **Partners we don't need**

Write-Off: IT Agenda Impact

CIOs should expect ...

- To support high / peaky PR-related activity
- Many and varied BI special requests
- Emergency due-diligence requests
- Requests to split systems for divesting
- Pressure on HR and security systems & processes (severance, talent raids)
- Minimum lash-up acquisition integration requests
- Sourcing based on financial re-engineering
- "Zombie" projects without direction or cancellation

**BEWARE the "I'm not seeing it" gap
the restructuring dominoes fall slowly**

CEO Issue 3: Loss of Business TRUST

- It seems anybody could go bust any minute
- Systemic opacity exposed
- The trust of decades trashed in hours
- Human decision makers made frail by the speed of the programmed & connected world

**There isn't enough
trust to go around**

"An economic Pearl Harbor"
– Warren Buffet, September 2008

"The world financial system is becoming multipolar"
– Peer Steinbrueck, September 2008

"The first casualty of economic downturn is the truth"
– Luke Johnson, Chairman Channel 4, FT October 2008

Seeds of Radical Change?



"I believe in capitalism. I also believe there is a role for government. **Raw capitalism is a dead end. I've seen it**"

US Treasury Secretary Henry Paulson in Fortune - 6 Oct 2008

Business Trust: IT Agenda Impact

- New interest in
 - Reputation management
 - E-discovery
 - Business intelligence
- Strengthening of "data driven" management culture
 - Return of "real-time enterprise" thinking
- Information transparency
 - Leading to acceleration of external feeds (e.g. XBRL)
- Possibility of business taking social / open / Web 2.0 *seriously* ...

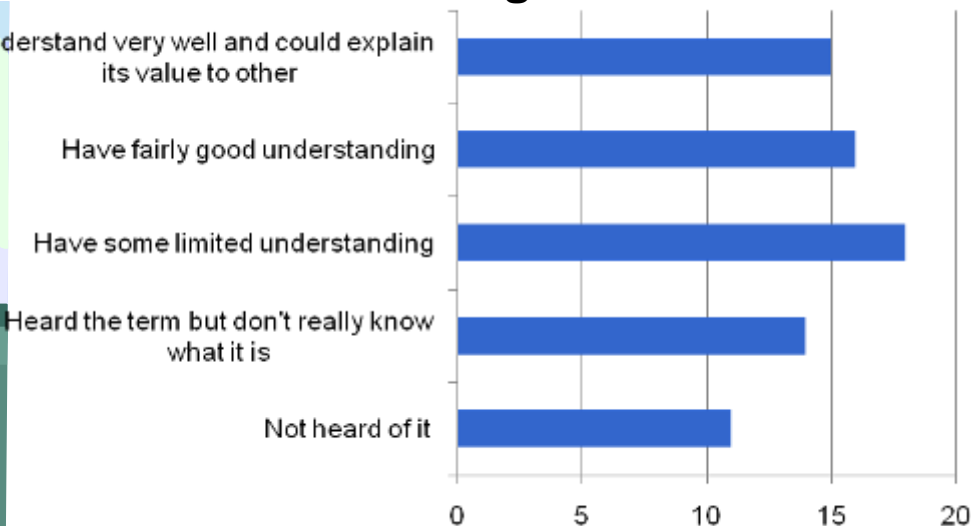


Business Trust: Serious "Enterprise 2.0" (at Last)?



CEOs need new ways to strengthen culture, values and trust as relationships of all kinds are stress-tested.

Understanding of Web 2.0



Gartner / Forbes.com Survey

74 Large-Company CEOs (Sep. 2006)

"85% of C-suite executives see the sharing and collaboration aspects of Web 2.0 as an opportunity to increase revenue and/or margins"

Perhaps this is overdue

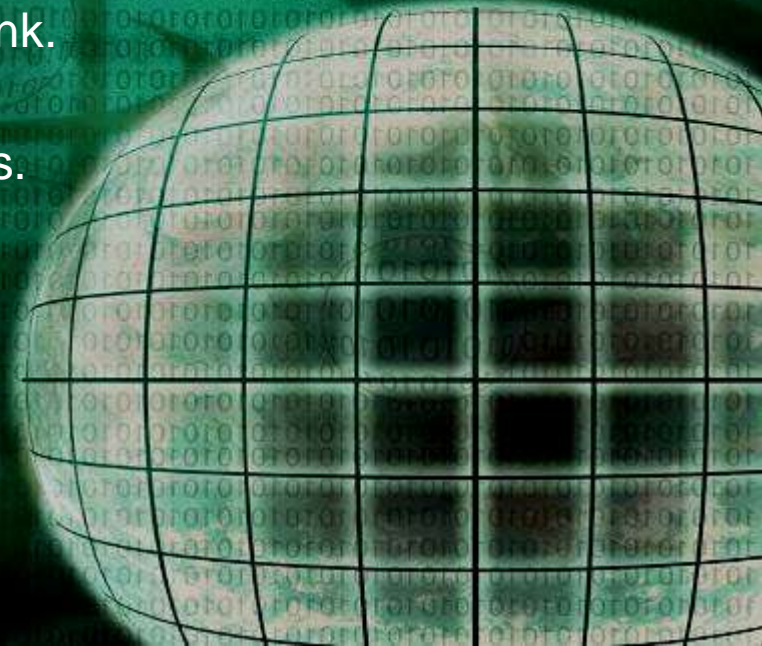
Economist Intelligence Unit
Web.20 Report (April 2007)

Gartner

CEO Issue 4: Globalization Instability



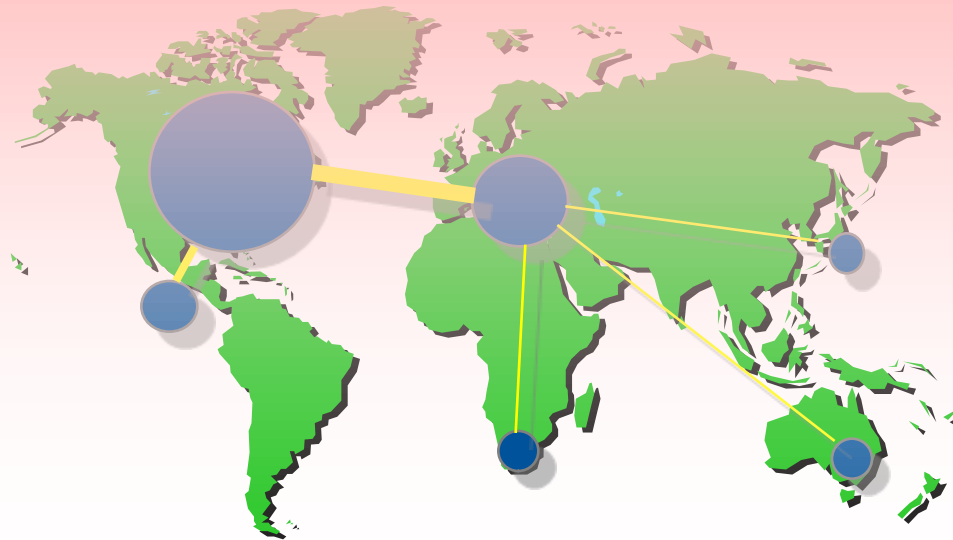
- Two-speed economy tensions rise between fast-growth East and flat-growth West.
- Global counterbalancing strategies of growth, risk and currency need reappraising.
- High cost of oil causes location and transportation topology rethink.
- Potential for trade disagreements.
- Return of Russian bear & growth of Chinese military.
- Unknown U.S. regulation scope.
- Labor migration constraints amplify talent shortages.



IT Agenda Item: Emerging Market Globalization Requires a New Enterprise Topology

From Industrial Networks

Linking 20th-century industrial control centers



To Frictionless Networks

Balancing 21st-century activity volumes



CEO Issue 5: New Major Regulation Coming

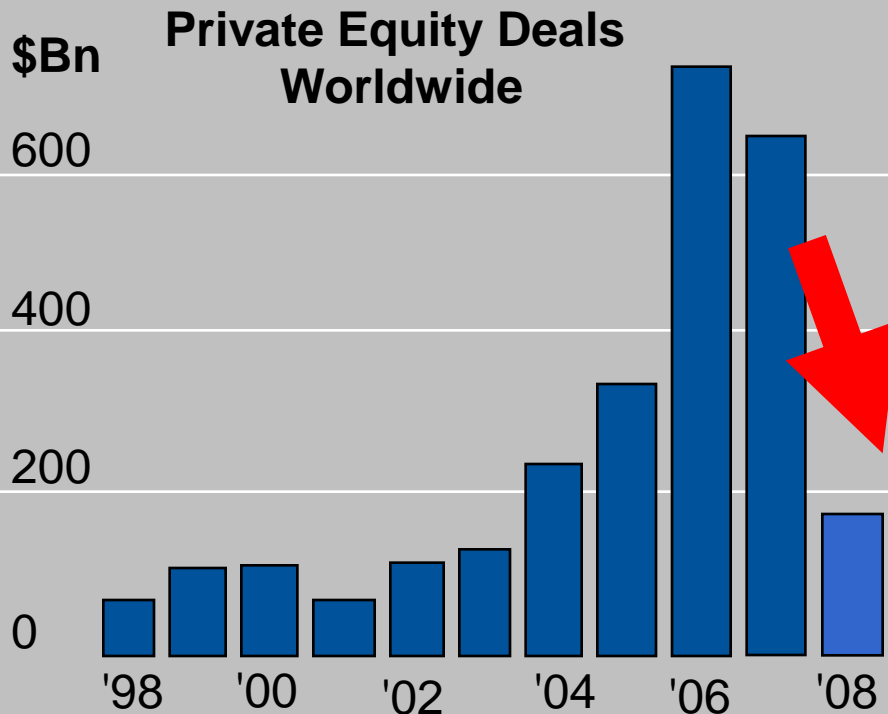
- Difficult to know type or scale of impact.
- Don't mistake sudden stop-gap regulatory intervention for the real thing.
- Likely to be aimed at redefining free-market structures — to make them work.
- New questions about "social model" capitalism.
- Likely to be about policy rewrites and interventions, not "superficial transparency."
- No "Sarbanes Oxley 2 " — because SOX 1 didn't work.
- "End of Reaganomics era" – watershed — ramifications will extend far beyond financial services.
- The words "**too big to fail**" will be at the center of the debate (note U.S. *car company* bailout).



IT Impacts: major, but detail too early to say.

CEO Issue 6: The Rise of Sovereign Wealth Corporate Finance

From Private Equity



Sources: Dealogic via WSJ.com & Reuters

To Sovereign Wealth

Country	Fund \$ Billions
UAE	875
Norway	380
Saudi Arabia	330
Kuwait	300
China	250
Singapore	159
Libya	200
Qatar	50
Algeria	43
U.S. (Alaska)	38
Brunei	30
Other	171
Total	2,876

Source: The Economist



"Sovereign wealth funds made strategic investments worth \$25 billion in 1Q08, more than half the \$48.5 billion they invested in the whole of 2007."

Implication of the Sovereign Wealth Switch — *Long-Term* investment



- Private equity was the engine for M&A growth from 2005 to 2007.
- The credit crisis has crushed deal funding.
- Sovereign funds are jumping in to fill the gap.
- This "patient capital" can wait 10 to 20 years for returns (vs. 3 to 5 years for private equity).
- 🇺🇸 U.S. as next big "sovereign wealth fund"?

Long-Term Investment: IT Agenda Impact — Offer *Longer-Term, Visionary* IT Value Strategies

- Investor time horizon changes.
- Your CEO needs long-term-project stories.
- Big-ticket IT-enabled change takes **5 to 10 years** (think back to ERP, CRM and e-commerce)
- Look forward to:
 - Real-time enterprise
 - Mobile commerce
 - "Wikinomics" / social enterprise (Web 2.0)
 - Business agility from SOA and BPM
 - Virtual-world commerce
 - Large-scale IT modernization
 - Strategic IT productivity change

Many CEO's will be interested in serious innovation How will you innovate *your* business?



DHL

Has a dedicated innovation center. It is developing an **RFID 'smart sensor'** tracking service for high value cold supply chain items



www.dhl-innovation.de/en/



Harrahs

CIO Tim Stanley was first to market deploying '**surface computing**' in a casino bar in 2008. The table-like multi-touch display offers games, cocktail 'mixology' and dating.



www.microsoft.com/surface



Procter & Gamble

One way CIO Filippo Passerini is helping meet CEO A.G. Lafley's imperative to improve collaboration between countries: 300 '**telepresence**' **HD video-conferencing** suites



www.cisco.com/telepresence

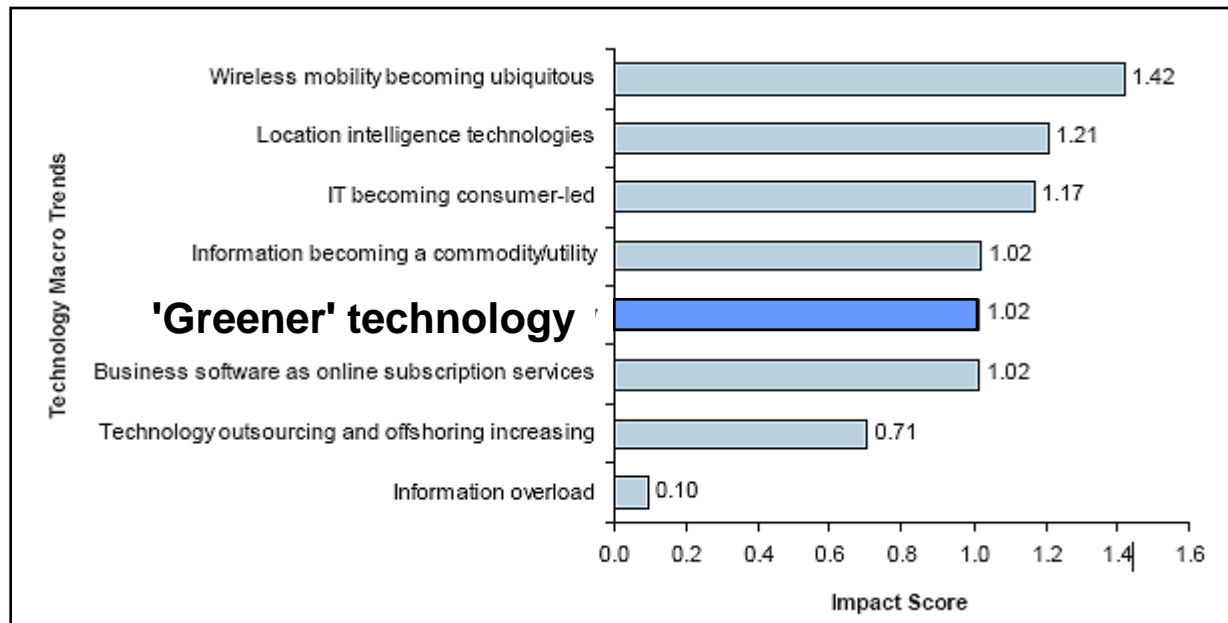
CEO Issue 7: "Green" Is Not Going Away



"In light of increased business uncertainty and fragile consumer confidence, it might have been tempting to quietly shelve Plan A, our 100-point, five-year ecoplan. We could have heeded critics who said, 'Times are tough, best ditch the fluffy stuff.' But we didn't."

Stuart Rose, CEO, Marks & Spencer

Source: HBRGreen



Business impact of various technology trends

Gartner / Forbes.com business executive survey

Green IT Agenda Action: *Switch* Effort From First-Order to Second-Order Green IT

Gartner Definition of Green IT:

"**Optimal** use of information and communication technology (ICT) for managing the **environmental sustainability** of **enterprise operations** and the supply chain, as well as that of its products, services and resources, **throughout their life cycles.**"



First Order:

Direct results of IT's existence



GHG Emissions



E-Waste

Second Order:

Results of IT's *application* to reduce other impacts



Travel Substitution



Transportation Optimization

Third Order:

Long-term, socioeconomic structural changes (e.g., the layout of cities)



Energy Intensity



Transportation Intensity

Gartner

When navigating the
economic downturn,
do not install
this hardware upgrade





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But do *act*:

- **The economic downturn will hit your customers.**
- **However, it's unfolding at different rates in different sectors.**
- **We expect significant (sometimes double digit) IT budget cuts in 2009**
- **Some tough negotiations vendor are coming.**
- **"Accept the inevitable" show goodwill, work with your CEO from the start**
- **Be ready for restructuring-led new business opportunities.**
- **Create 3 plans for 2009 – main scenario, best case and worst case.**
(Guidance: set your worst case as at least a 20% cut in the IT budget.)