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Patterns of technology economics: Global trends across all sectors



Dek: Using patterns to make data-driven strategic and operational decisions.

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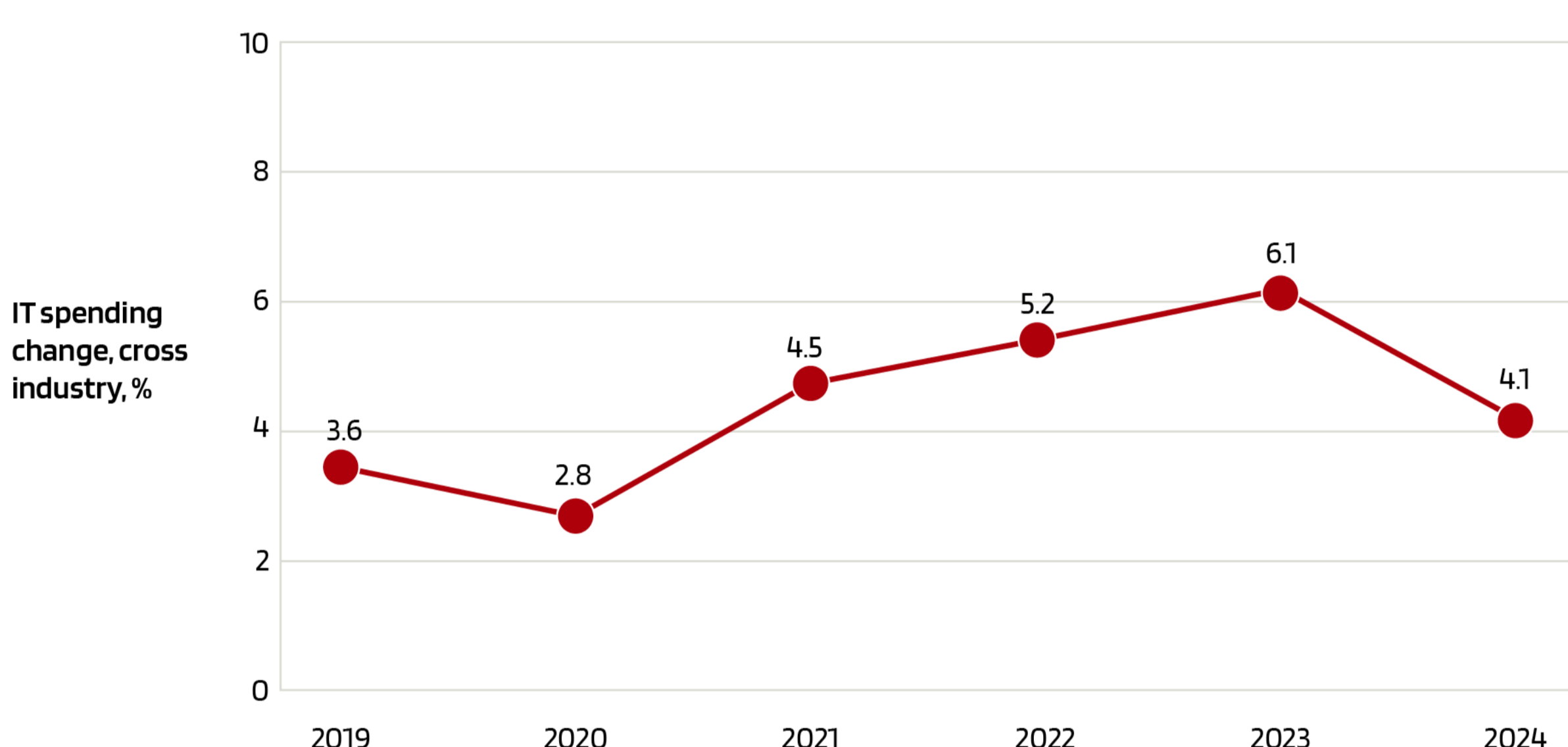
Welcome to the monthly report on the Technology Economics Index (TEI), which provides first-of-its-kind metrics on the impact of digitization on global business, society, quality of life, government, and the environment. This report complements metrics on the TEI website. Organizations can use these indicators to assess their relative technology competitiveness and effectiveness and make data-driven strategic and operational decisions.

For January 2024, TEI provides the following top five findings for the technology economics of cross sector organizations (n=~2,500 organizations spanning 23 sectors worldwide).

1 While 2023 notched a 6.1% upswing in IT spending, only a 4.1% increase was projected for January 2024, a 33% decline.

That means IT spending didn't cover inflationary costs for basic IT cost components, which are rising by 4.8%. These components include compensation, hardware, software, SaaS, cloud, network, and outsourced services. As a result, IT organizations everywhere will need to do more with less, typically driving investment in technologies like AI-powered automation and virtualization that decrease the need for labor and hardware (Figure 1).

Figure 1: IT spending saw an upswing in 2023, but is projected to slow down in 2024.



Source: Gartner

2 Across industries, organizations are decreasing IT spending.

Cross-sector median IT spending as a percent of revenue is slated to drop from 3.3% in 2021 to 3.0% in January 2024 and as a percent of operating expense, from 4.1% in 2022 to 3.7% for January 2024. After fast-paced investment in digitization during the pandemic, C-suite leaders are now holding the line on IT spending to protect profitability.

3 IT intensity is dropping for the second time in 25 years.

IT intensity has dropped 9.4% from its peak driven by reductions in IT spending and staffing. While marketplace change is accelerating, many C-suite leaders likely believe that their need to demonstrate profitability at quarterly earnings calls trumps increasing IT spending to gain a competitive advantage (Figure 2).

Figure 2: IT intensity is dropping in 2024 predictions.



Source: Gartner

4 Transformation spending declines amid financial tailwinds.

Organizations' "run" IT spending to keep operations humming will hold steady at 70% of total IT spending this year, as will its "change" spending at 27%. However, transformation spending will fall from 12% to 10%. This could mean that artificial intelligence (AI) investments, projected to reach \$132B worldwide this year, are being protected at the expense of other transformation imperatives. (Source: Goldman Sachs.)

5 Cloud spending fails to move the needle on IT spending.

Cloud spending, whether public cloud services, Infrastructure as a Service, or Software as a Service, will stay steady at around 5% of total IT spending across industries. Public cloud investment is leading the decline in growth. Having spent heavily on cloud services for several years, many IT organizations have digitized core business processes. In addition, some are partially reversing cloud growth to process data at the edge for AI workloads.

Will cost pressures cost organizations forward momentum?

Reducing IT spending and laying off skilled talent is a familiar playbook C-level leaders implemented during previous downturns. However, marketplace pressures have never been greater, and the race is on to transform organizational business models and processes with AI and other technologies. Those that can protect IT spending to innovate and optimize more will outpace the rest, with the gap widening progressively in the coming years. **TE**

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