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The year 2009 will be challenging for CIOs. Here's how to play your hand.

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When downturns hit, there is a certain inevitability to their impact on IT. Declining profits will place tremendous pressure on IT budgets in most sectors and regions. CIOs will be called on to rationalize projects, downsize organizations, renegotiate contracts, and seek out other cost-reduction opportunities.

5 trends that will shape business technology in 2009

1 IT and corporate finance converge

The year 2009 will be a tipping point for the CFO's involvement with IT. Large businesses have hundreds of millions or even billions of dollars locked up in their IT organizations—including data center facilities, systems assets, and organizational capabilities built over time. In a world where capital is at a premium, CFOs will seek to use IT assets as a lever to generate cash. They may sign outsourcing deals that include a bigger financing aspect, such as having IT service providers make a large up-front payment in return for higher margins over the course of a contract. They may sell and lease back hard assets, such as data center facilities. They may place favorable vendor financing at the core of hardware and software purchasing decisions, as many companies in heavy industry do when they buy industrial equipment and as telcos have done for years. Successful CIOs will give the senior-management team practical ideas on how to optimize cash.

2 Tension around IT budgets increases

Since 2001, IT capabilities have become ever more strategically important for most sectors. Yet IT budgets in many organizations will come under tremendous pressure in 2009, reducing investment for new business capabilities. Internal competition for rationed IT resources will become especially fierce as senior executives see access to them as critical to the success of their business units and their careers. Successful CIOs will have to position themselves as honest brokers, pushing hard to evaluate IT investments in a fact-based way yet avoiding any perception of being allied with one business unit or another.

3 The "last" IT project?

While it's clear that technological competence is critical in most industries, the variation in returns on IT investments is daunting. In retailing, for example, a CFO knows with some precision what an additional location will cost and how much revenue it is likely to generate. In contrast, an IT project's total cost could be off by an entire order of magnitude and its value either minimal or game changing. Senior executives at some organizations that have used IT less successfully in the past will probably throw up their hands and shut off all discretionary IT projects for the duration of the downturn. Naturally, this situation will challenge CIOs. The most effective course will be to explain what it would take to improve the value equation for IT investments.

Much has changed, however, since the last big downturn, in 2001: technology budgets are larger, businesses have automated more processes, employees make greater use of tech-based productivity tools, and e-commerce has moved to the core of day-to-day operations. At the same time, IT organizations have established better mechanisms to govern IT decision making and have consolidated local IT operations to cut costs.

Taken together, this combination of cost pressures and IT organizations that are leaner, larger, and more vital to company goals will have new implications for business technology in 2009. Here's what may be in store.

4

Regulators demand more from IT

Government scrutiny of business will intensify in many developed countries. Already, in the United States, the Office of the Comptroller of the Currency weighs in on the resiliency of banking systems, the Food and Drug Administration (FDA) requires that many pharmaceutical systems be "validated," and Sarbanes–Oxley drives decisions about accounting systems in every industry. In the future, policy makers and regulators will probably demand that IT systems capture more and better data in order to gain greater insight into and control over how banks manage risk, pharma companies manage drugs, and industrial companies affect the environment. Government officials also will monitor many legal and business rules more closely to ensure compliance with mandates. Successful CIOs should enhance their relationships with internal legal and corporate-affairs teams and be prepared to engage productively with regulators. They will need to seek solutions that meet government mandates at manageable cost and with minimal disruption.

5

The offshoring and outsourcing landscape shifts

A decade ago, how many CIOs at Fortune 100 corporations would have guessed that Indian companies might now be among their largest and most strategic technology vendors? Just as the 2001 downturn led to a surge in offshoring, the 2008 downturn will also have far-reaching effects. A shake-up in the vendor landscape will likely follow the huge capacity increases of recent years, the current downward pressure on aggregate demand, and massive uncertainty in currency markets. Adding to the pressures are the strategic, government-sponsored initiatives launched by China and other nations to grab market share. Major mergers are more likely than not. New entrants will grow rapidly and some players could experience significant reverses. Successful CIOs will manage their vendor relationships as a portfolio so they will be well positioned as new winners evolve. CIOs will also need to be vigilant about how to manage transitions created by the consolidation or weakness of some service providers.

Major, often unexpected, changes will directly affect IT organizations in 2009. The successful CIOs will be those who execute well, expand their influence within the enterprise, and, perhaps, are a little bit lucky. MoBT

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