

## CIO Advisory: Four Recession and Growth Strategies That Make Sense for 2012

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Economic and business indicators in North America and Western Europe have declined to a point that clearly justifies the preparation of multiple contingency plans for another recession now. Our simultaneous recession and growth budgeting advice may seem contradictory. It is not. Confining IT staff to work only on business growth initiatives may seem controversial. It is.

### Key Findings

- Slower than expected economic growth has occurred in 2011 in Western Europe and the U.S.
- August 2011 economic forecasts for growth in 2012 have been revised downward from forecasts created in January 2011.
- Implementation of long-term remedies to fiscal challenges in Western Europe and the U.S. does not seem imminent.

### Recommendations

- Strategy 1: Prepare a new cost-cutting budget.
- Strategy 2: Prepare a growth strategy for 2012.
- Strategy 3: Prepare for mergers, acquisitions and divestitures.
- Strategy 4: Reserve IT resources only for measurable and auditable growth initiatives.

## WHAT YOU NEED TO KNOW

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Within the past month, economists have increased the chances for a recession returning to the U.S. and Western Europe. We provide four strategies for CIOs to successfully navigate a possible downturn.

## ANALYSIS

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### Are Recession Storm Clouds Forming Again?

On 16 August 2011, the European Union's official statistical agency Eurostat reported that inflation-adjusted 2Q11 GDP for both the euro area (EA 17) and EU 27 nations (see Note 1) had grown only 0.2% above 1Q11 levels. On 26 August 2011, the U.S. Commerce Department announced that inflation-adjusted U.S. GDP during 2Q11 had grown only 1% above levels achieved during 1Q11. These results continued a low-growth pattern previously reported in 2011, with the European Union and the U.S. growing only 0.8% and 0.4% above their respective 1Q11 economic growth levels.

The reasons for such lackluster growth are many, but fears of default on sovereign debt, disagreements on how to reduce the national deficit and debt, and uncertainties from looming regulations are all key to why growth has eluded Western Europe and the United States. However, without solutions to prevailing concerns appearing anywhere in the near horizon, Western European and the U.S. economies once again face an increased threat of returning into a recession. Consequently, current forecasts for growth in 2012 are now much more pessimistic than estimates crafted earlier this year (see Table 1).

**Table 1. Forecasts for Growth in 2012**

	<b>January 2011 Forecast for 2012</b>	<b>August 2011 Forecast for 2012</b>
<b>World</b>	3.8%	3.5%
<b>Advanced Economies</b>	2.4%	2.1%
<b>Emerging Markets</b>	6.4%	5.9%
<b>Developing Countries</b>	4.9%	5.2%
United States	2.9%	1.9%
Canada	3.0%	2.6%
Mexico	3.4%	2.5%
<b>Western Europe</b>	<b>1.7%</b>	<b>1.2%</b>
France	1.8%	1.3%
Germany	2.0%	1.4%
United Kingdom	2.2%	1.8%
<b>Asia/Pacific, Excluding Japan</b>	<b>7.2%</b>	<b>6.9%</b>
Australia	3.4%	3.6%

	January 2011 Forecast for 2012	August 2011 Forecast for 2012
China	8.8%	8.3%
India	8.5%	8.1%
<b>Latin America and the Caribbean, Excluding Mexico</b>	<b>4.8%</b>	<b>3.9%</b>
Argentina	4.3%	3.6%
Brazil	5.5%	4.1%

Source: IHS Global Insight

## Recommended Responses to Current Economic Concerns in Western Europe and the U.S.

Predicting whether or not Western Europe and/or the U.S. will fall back into a recession is not a burden Gartner carries. However, because sufficient credible information exists about the growth challenges clients will likely face in 2012, we are recommending clients to follow four interrelated strategies during this 2012 budget preparation season.

### Strategy 1: Prepare a New Cost-Cutting Budget

In addition to the direction to be provided by executives, we recommend clients prepare budgets that will yield actual spending levels for year-end that are 10% below those of 2010's actual spending levels. This will undoubtedly entail a further postponement of updating components of the IT infrastructure and extending the usage of technology products placed into service more than three years ago. However, wherever such extension of usage may introduce any risk of business interruption, client action must be swift and certain. As advisors and counselors, IT practitioners must offer exact, expert advice that warns executives when and where extending a product's or service's life beyond the time frame originally planned will cause a business interruption. Clients are advised to be extremely judicious in putting forth such pending disruption forecasts in the hope of reversing IT budget cuts by remembering that not one enterprise reported business disruption outages due to reduced IT funding in 2008 and 2009.

### Strategy 2: Prepare a Growth Strategy for 2012

While this may seem to contradict the advice above, the key here is to avoid consuming time preparing for growth, should growth opportunities suddenly arise. We propose a growth strategy for a number of reasons. First, any number of business analyses will gladly identify how the economic headwinds prevailing today are far less dire in nature than those swirling around in 2007 and 2008. Banks are in far more stable financial circumstances than just four years ago, and corporations have amassed trillions of dollars on their balance sheets over the same period of time. Therefore, a growth strategy assumes there will not be another economic downturn lasting two or more years and that, however long a distressed economic climate may last, growth will remain a top priority of CEOs and boards of directors.

### Strategy 3: Prepare for Mergers, Acquisitions and Divestitures

A ready-to-deploy merger, acquisition and divestiture growth strategy will allow organizations to respond to opportunities that uniquely arise during times of economic stress. Frankly, the ravages of the latest recession have placed a downward pressure on the valuation of many companies'

stocks. Even though plans for mergers, acquisitions and divestitures are usually forged in complete secrecy, steps can still be taken to prepare for a sudden announcement.

Companies likely to be acquired must have a near-perfect depiction of their financial status that is ready to be reviewed by investment bankers when they calculate the costs for integrating IT (and other) environments. Such calculations are vital in establishing the expected charges against future earnings for combining both enterprises, which will ultimately determine the future value of the acquiring company's stock price.

IT practitioners within companies that are likely to acquire other companies due to increasingly attractive (for example, falling) stock prices can also take pre-emptive actions. They can conduct discussions with executives on a theoretical merger or acquisition to ascertain executives' priorities when combining company operations becomes a reality. Questions could include: Should account databases be merged before any other actions? Which employees would be best-suited for placement at a moment's notice on an integration task force? What will be the most likely scenario for closing down the operations of the acquiring or acquired company?

Companies likely to undergo a divestiture of a division or divisions will have to create an entire IT organization within a very short period of time. Based on the most likely business entities to be divested, IT practitioners can help identify the applications that must be migrated to an operating environment of the divested company. Scenarios can be planned in advance of any divestiture announcement to ascertain the default preferences of senior executives, such as whether to outsource IT operations or to create a new IT operations staff.

#### **Strategy 4: Reserve IT Resources Only for Measurable and Auditable Growth Initiatives**

Our final piece of advice is also our most controversial advice. For most organizations, it will require a suspension of current activities, a departure from common practices and strict adherence to fostering only initiatives that offer measurable business growth. We recommend obtaining CEO and CFO approval to dedicate IT practitioner support only to business-initiated projects that will create beneficial financial results for the enterprise.

CIOs should use one of the following three models for dedicating IT practitioner support.

##### **An Effective Use of IT Staff**

- Projects that will yield only measurable financial improvements to the enterprise.

##### **A Far More Effective Use of IT Staff**

- Projects that will yield only measurable financial improvements to the enterprise.
- Projects in which the measurable financial improvements will be confirmed by an audit conducted by members of the CFO's staff.

##### **The Most Effective Use of IT Staff**

- Projects that will yield only measurable financial improvements to the enterprise.
- Projects in which the measurable financial improvements will be confirmed by an audit conducted by members of the CFO's staff.
- Projects in which the results of the audit will have a direct risk-reward effect on the incentive portion of business executives' and IT practitioners' compensation.

One of the most startling and consistent findings from clients who called Gartner for cost-cutting advice during the recent recession was the sheer number of business-initiated projects being worked on by IT staff members. While it was common to hear that client governance approval processes properly authorized all the business-initiated projects that were being undertaken, it was clear that such indulgences were inconsistent with the crises at hand during that period.

It was also clear that many projects were cloaked under the protective blanket of compliance and regulation adherence. However, whenever we asked clients how many business-initiated projects would be canceled — (1) if the business person requesting the project had to sign off on the project's one-time and annual recurring costs before the project commenced; (2) if the project's output had to improve the financial condition of the enterprise; and (3) if the project's output had to withstand a post-project audit — they overwhelmingly answered "most."

## Conclusion

The very same conditions that have created a potentially challenging business growth period ahead have also handed CIOs and IT practitioners a gift. For decades, business executives have wondered about the business value that IT brought to an enterprise. Many have struggled to find a suitable metric that would best quantify that business value. We believe the business value of IT should be directed almost solely at achieving growth and that the best metric to depict that value is money.

Central banks have been working to create the most favorable monetary policies to foster business growth. In the U.S., the Federal Reserve announced its commitment to keep key interest rates at the current level of near 0.00% until mid-2013. Because growth will likely appear as a top priority of CEOs and boards of directors, and with monetary policies already aligned or soon to be aligned with fostering growth, we suggest clients seize this opportunity to suspend working on "nice to have" business-initiated projects so that their sole focus may be devoted to business-initiated projects that promote measurable and auditable growth.

This will be a period in which business executives will be forced to decide whether IT should act as a supply facility for whatever request may come along, or if IT should temporarily suspend servicing any type of request and instead devote its energies toward winning the war against a possible business downturn.

## Tactical Guideline

- Prepare four separate IT budget strategies for 2012 to successfully navigate a potential economic downturn.

## RECOMMENDED READING

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*Some documents may not be available as part of your current Gartner subscription.*

"The 2011 Gartner Scenario: Current States and Future Directions of the IT Industry"

"CIO Advisory: Decide Now If You Will Become a Money-Making CIO"

"Caution: CFOs and ERP Projects May Be Harmful to New IT Innovations and Future Business Growth"

## **Note 1**

### **The EA 17 and EU 27**

The euro area (EA 17) includes Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

The EU 27 includes Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom.

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