

MORE BANG FOR YOUR BUCKS

Are ERP buyers still doing more with less or are the purse strings starting to loosen? Dan Roberts analyses the latest IT spending research.



Dan Roberts: reduction in ERP spending

Cambashi tracks the level of ERP and other technology spending – as well as the state of the UK and global economy – by regularly monitoring the performance of around 100 different market sectors across 50 different countries.

We distil these sectors into 10 standard sectors which we can then compare. One good indicator of the underlying performance of each sector is its 'value-add'. This is a measure of the work done in each sector, and roughly speaking it measures the total sector revenue minus the total sector spend on materials.

At an industry level, this provides a good indication of the gross profit that is available to invest in IT projects. Based on this underlying performance, Cambashi can then estimate how much each sector spends on a number of IT categories – including application software such as ERP.

So, back in 2009, the UK's 'value-add' scores clearly showed the doom and gloom that characterised our economic situation. That year, all 10 of Cambashi's industry sectors dropped their value-add. The worst-hit sectors were machinery (-19%), process/energy (-19%) and transportation equipment (-16%).

In contrast, the figures for 2010 showed that all sectors grew, which is encouraging. And the three worst-hit sectors in 2009 were among the fastest-growing sectors in 2010 – all growing between 9% and 11%.

There were two other high-performing sectors last year – aerospace & defence grew 9% and healthcare 10%. Healthcare includes hospitals, as well as pharmaceuticals and medical devices, so is relatively insulated from the economic situation. Aerospace & defence is also relatively insulated because of the long timescales of its deals.

Cambashi then models spending on application software. Despite the widespread industry decline in 2009 (total value-add dropped by 3%), application software spending actually grew overall by 6%. But there appears to be something of a timelag in software budgets, with companies committed to new system rollouts and two or three-year maintenance deals.

So in 2010, application software spending declined by 5%, despite overall value-add growth of 6%. Clearly, during the current climate the IT budgeting process is more influenced by the past year, than forecasts for the current year.

So worries about a further recession and general market unease have understandably led to a reduction in ERP and other IT spending. Companies that were unable to take a break in their maintenance contracts in 2009 may have chosen to do so in 2010 in order to get their cashflow back into the black.

However, the initial forecasts for 2011 are more encouraging. Overall, application software spending is forecast to grow by 4%, although overall value-add is forecast to grow by 14%.

The conclusion? Companies are going to continue cutting their application software budget as a proportion of value-add. Doing more with less looks like it is here to stay for another year.

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