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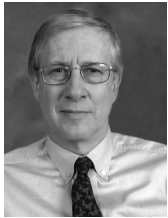
# US IT Spending Benchmarks For 2005

by Andrew Bartels

BEST PRACTICES

# BEST PRACTICES

Includes Business Technographics® data



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## US IT Spending Benchmarks For 2005

Forrester Data On Industry IT Spending Ratios And How To Use Them

by **Andrew Bartels**

with Tom Pohlmann and G. Oliver Young

### EXECUTIVE SUMMARY

Forrester has published many different benchmarks for IT spending levels, but these have been scattered in different reports. In this report, we pull together industry-level data for the US on the two most commonly requested IT spending benchmarks: IT spending as a percentage of revenues, and IT spending per employee. We have also calculated what these benchmarks are for companies of different sizes as well as in different industries. But of these benchmarks, we believe that spending on ongoing IT operations and maintenance as a percentage of revenues is the most useful one for comparing relative costs between companies on an apples-to-apples basis.

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Forrester analyzed data on IT spending as a percentage of revenues from Forrester Business Technographics® surveys, *InformationWeek* 500 surveys, and the US Bureau of Labor Statistics' data on IT staff.

#### Related Research Documents

"US IT Spending: Enterprise Versus SMB"  
March 10, 2005, Market Overview

"North American IT Spending In 2005"  
November 19, 2004, Trends

"US IT Staffing Up, But Outsourcing Takes A Toll"  
September 23, 2004, Trends

## CONSOLIDATED US INDUSTRY AND COMPANY-SIZE BENCHMARKS FOR IT SPENDING

CIOs and IT departments are constantly under pressure from management to justify and defend levels of IT spending. As a result, we get a constant stream of requests for IT spending benchmarks that CIOs can use to determine how their IT budgets compare with those of their peers. The most frequently requested benchmarks are IT spending as a percentage of company revenues, followed by IT spending per employee. While Forrester does not have detailed benchmarks for individual IT budget items, such as spending per employee for personal computers or email systems, or IT performance metrics, such as cost per million instructions per second (MIPS), we do have some general IT spending benchmarks that we have collected through our Business Technographics surveys and our IT spending analysis.

To help our clients (at least those in the US and Canada), we have pulled together from different reports — and updated with the latest available data — the following general IT spending benchmarks for US enterprises and small and medium-size businesses (SMBs):

- **2004 survey-based data on IT spending by industry as a percentage of revenues.** As part of our North American 2005 IT spending forecast report, we provided information: 1) on the average annual spending on IT goods, services, and staffing of North American enterprises from Forrester Business Technographics surveys of enterprises in June 2004, and 2) from the *InformationWeek* 500 survey of US large enterprises in July and August 2004 (see Figure 1-1).<sup>1</sup> As part of our November 2004 survey on IT spending, practices, and priorities of North American SMBs, we published data on the average IT budgets of these companies and the breakdown by category of spending.<sup>2</sup> We also collected data on North American SMB IT spending as a percentage of revenues by industry, which is published here for the first time (see Figure 1-2).<sup>3</sup> Remember, though, that this data covers the IT spending that CIOs know about or have under their control. Spending on computers, software, communications, or services by other departments without the direct knowledge of the CIO goes on in many companies, but it would not be captured in these ratios of IT spending to revenues.<sup>4</sup>
- **2005 projected IT spending as a percentage of revenues by company size.** Due to economies of scale in companies' spending on technologies, larger enterprises will tend to have lower ratios of IT spending to revenues than small or medium-size companies will. Since our first publication of this data in March 2005, we have updated our model for estimating how much US companies of different sizes and in different industries spend on IT goods, services, and staffing, and we have extended our forecast to 2005 (see Figure 2).<sup>5</sup>
- **2005 projected IT spending on IT operations and maintenance as a percentage of revenue.** Forrester views IT spending on ongoing IT operations and maintenance as a percentage of revenues to be the best benchmark for IT spending. We published average industry numbers for this metric in 2004 in our North American IT spending forecast.<sup>6</sup> In this report, we extend our estimates of US IT spending on ongoing IT operations and maintenance as a percentage of revenues to 2005 and apply it to different sizes of companies (see Figure 3).

**Figure 1** 2004 US IT Spending As A Percentage Of Revenues**1-1 US enterprises' 2004 IT spending as a percentage of revenues: Forrester versus IW500**

	Forrester's Business Technographics®*		InformationWeek 500†		Percentage used in Forrester's IT spending forecasts
	%	n	%	n	
<b>Manufacturing</b>	<b>2.8%</b>	<b>104</b>	<b>2.5%</b>	<b>187</b>	<b>2.1%</b>
Primary production	3.1%	11	1.0%	9	1.1%
Consumer products	2.9%	30	2.5%	44	2.4%
Chemicals & petroleum	2.2%	15	1.8%	16	1.6%
High-tech products	3.4%	27	4.0%	51	3.8%
Industrial products	2.2%	21	1.7%	67	2.0%
<b>Retail &amp; wholesale trade</b>	<b>3.2%</b>	<b>59</b>	<b>1.6%</b>	<b>58</b>	<b>2.0%</b>
Retail	3.6%	40	1.8%	40	2.1%
Wholesale trade	2.3%	19	1.2%	18	1.7%
<b>Business services</b>	<b>4.5%</b>	<b>74</b>	<b>2.7%</b>	<b>71</b>	<b>3.7%</b>
Transportation & logistics	5.8%	6	2.7%	23	3.1%
Professional services	4.5%	64	4.0%	31	4.2%
Construction & engineering	2.5%	4	0.5%	17	2.0%
<b>Media, entertainment, &amp; leisure</b>	<b>3.9%</b>	<b>58</b>	<b>2.5%</b>	<b>24</b>	<b>2.9%</b>
<b>Utilities &amp; telecommunications</b>	<b>3.9%</b>	<b>23</b>	<b>3.0%</b>	<b>39</b>	<b>3.4%</b>
Utilities	2.0%	10	2.0%	25	1.9%
Telecommunications	5.5%	13	4.9%	14	4.3%
<b>Finance &amp; insurance</b>	<b>5.6%</b>	<b>44</b>	<b>6.3%</b>	<b>89</b>	<b>6.8%</b>
Financial services	8.7%	14	8.6%	50	8.2%
Insurance	4.1%	30	3.4%	39	3.3%
<b>Public sector</b>	<b>6.2%</b>	<b>77</b>	<b>3.5%</b>	<b>32</b>	<b>5.0%</b>
Public services	5.1%	42	3.5%	32	4.9%
Government	7.6%	35	—	—	5.0%
<b>Overall</b>	<b>4.2%</b>	<b>439</b>	<b>3.2%</b>	<b>500</b>	<b>3.6%</b>

\*Base: 439 IT executives at North American enterprises

†Base: 500 US companies that are innovative users of technology, as determined by *InformationWeek*

\*Source: Forrester's Business Technographics June 2004 North American And European Benchmark Study

†Source: "Industry Breakdown," *InformationWeek*, September 20, 2004**1-2 US SMBs' 2004 IT spending as a percentage of revenues: Forrester Business Technographics®**

	%	n
Manufacturing	7.3%	150
Retail & wholesale trade	7.6%	39
Business services	9.1%	142
Media, entertainment, & leisure	6.3%	35
Utilities & telecommunications	7.8%	11
Finance & insurance	9.3%	60
Public sector	10.2%	122
<b>Overall</b>	<b>8.6%</b>	<b>559</b>

Source: Forrester's Business Technographics November 2004 United States SMB Benchmark Study

Source: Forrester Research, Inc.

**Figure 2** IT Spending As A Percentage Of Revenues, 2005 Benchmark

	Company size (number of employees)						Total
	Small (6-99)	Medium-size (100-499)	Medium-size to large (500-999)	Large (1,000- 4,999)	Very large (5,000- 19,999)	Global 2,000 (20,000+)	
<b>Manufacturing</b>	<b>3.9%</b>	<b>3.3%</b>	<b>2.8%</b>	<b>2.4%</b>	<b>1.9%</b>	<b>1.6%</b>	<b>2.1%</b>
Primary production	2.2%	1.8%	1.5%	1.2%	1.0%	0.7%	1.1%
Consumer products	3.4%	3.2%	3.1%	2.9%	2.4%	2.0%	2.4%
Chemicals & petroleum	3.2%	2.7%	2.2%	1.8%	1.5%	1.1%	1.6%
High-tech products	7.6%	6.3%	5.3%	4.4%	3.8%	2.8%	3.8%
Industrial products	4.3%	3.6%	3.0%	2.5%	2.1%	1.5%	2.0%
<b>Retail &amp; wholesale trade</b>	<b>3.0%</b>	<b>3.0%</b>	<b>2.8%</b>	<b>2.4%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>2.0%</b>
Retail	4.5%	4.1%	3.6%	3.1%	1.9%	1.2%	2.1%
Wholesale trade	2.2%	2.1%	2.0%	1.6%	1.2%	0.7%	1.7%
<b>Business services</b>	<b>4.2%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>3.9%</b>	<b>3.5%</b>	<b>2.7%</b>	<b>3.7%</b>
Transportation & logistics	5.2%	4.5%	3.9%	3.4%	2.7%	1.9%	3.1%
Professional services	5.0%	4.8%	4.5%	4.3%	3.9%	3.1%	4.2%
Construction & engineering	2.4%	2.1%	1.8%	1.3%	0.8%	0.5%	2.0%
<b>Media, entertainment, &amp; leisure</b>	<b>2.7%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>3.1%</b>	<b>3.7%</b>	<b>2.9%</b>
<b>Utilities &amp; telecommunications</b>	<b>3.0%</b>	<b>2.7%</b>	<b>2.4%</b>	<b>3.5%</b>	<b>2.8%</b>	<b>3.8%</b>	<b>3.4%</b>
Utilities	2.4%	2.3%	2.2%	2.1%	1.8%	1.4%	1.9%
Telecommunications	6.7%	6.4%	5.8%	5.3%	4.7%	4.1%	4.3%
<b>Finance &amp; insurance</b>	<b>7.3%</b>	<b>8.2%</b>	<b>8.3%</b>	<b>6.9%</b>	<b>5.4%</b>	<b>4.7%</b>	<b>6.8%</b>
Financial services	8.8%	8.8%	8.8%	8.7%	7.8%	6.2%	8.2%
Insurance	4.6%	4.3%	4.2%	4.0%	2.9%	1.7%	3.3%
<b>Public sector</b>	<b>6.2%</b>	<b>6.0%</b>	<b>5.7%</b>	<b>5.3%</b>	<b>4.0%</b>	<b>3.3%</b>	<b>5.0%</b>
Public services	6.1%	5.8%	5.6%	5.2%	3.6%	2.5%	4.9%
Government	6.4%	6.1%	5.7%	5.4%	4.4%	3.4%	5.0%
<b>Overall</b>	<b>4.4%</b>	<b>4.2%</b>	<b>4.0%</b>	<b>3.8%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.6%</b>

Source: Forrester Research, Inc.

**Figure 3** 2005 IT Spending On Ongoing IT Operations As A Percentage Of Revenues

	Company size (number of employees)						Total
	Small (6-99)	Medium- size (100-499)	Medium- size to large (500-999)	Large (1,000- 4,999)	Very large (5,000- 19,999)	Global 2,000 (20,000+)	
<b>Manufacturing</b>	<b>3.0%</b>	<b>2.5%</b>	<b>2.2%</b>	<b>1.9%</b>	<b>1.5%</b>	<b>1.3%</b>	<b>1.6%</b>
Primary production	1.5%	1.3%	1.1%	0.9%	0.7%	0.5%	0.8%
Consumer products	2.6%	2.4%	2.3%	2.2%	1.8%	1.5%	1.8%
Chemicals & petroleum	2.5%	2.0%	1.7%	1.4%	1.2%	0.9%	1.3%
High-tech products	5.9%	4.9%	4.1%	3.4%	3.0%	2.1%	3.0%
Industrial products	3.4%	2.9%	2.4%	2.0%	1.7%	1.2%	1.6%
<b>Retail &amp; wholesale trade</b>	<b>2.2%</b>	<b>2.3%</b>	<b>2.1%</b>	<b>1.8%</b>	<b>1.2%</b>	<b>0.8%</b>	<b>1.5%</b>
Retail	3.4%	3.1%	2.7%	2.3%	1.4%	0.9%	1.6%
Wholesale trade	1.6%	1.5%	1.5%	1.2%	0.9%	0.5%	1.3%
<b>Business services</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.0%</b>	<b>2.7%</b>	<b>2.1%</b>	<b>2.9%</b>
Transportation & logistics	4.1%	3.5%	3.1%	2.7%	2.1%	1.5%	2.4%
Professional services	3.9%	3.7%	3.5%	3.3%	3.0%	2.4%	3.2%
Construction & engineering	2.0%	1.7%	1.5%	1.0%	0.6%	0.4%	1.6%
<b>Media, entertainment, &amp; leisure</b>	<b>2.0%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>1.9%</b>	<b>2.3%</b>	<b>2.7%</b>	<b>2.1%</b>
<b>Utilities &amp; telecommunications</b>	<b>2.2%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>2.6%</b>	<b>2.1%</b>	<b>2.8%</b>	<b>2.5%</b>
Utilities	1.7%	1.6%	1.6%	1.5%	1.3%	1.0%	1.4%
Telecommunications	4.9%	4.7%	4.3%	3.9%	3.4%	3.0%	3.2%
<b>Finance &amp; insurance</b>	<b>5.2%</b>	<b>5.8%</b>	<b>5.9%</b>	<b>4.9%</b>	<b>3.8%</b>	<b>3.3%</b>	<b>4.8%</b>
Financial services	6.4%	6.4%	6.4%	6.3%	5.7%	4.5%	6.0%
Insurance	3.3%	3.0%	3.0%	2.8%	2.0%	1.2%	2.3%
<b>Public sector</b>	<b>4.6%</b>	<b>4.5%</b>	<b>4.2%</b>	<b>3.9%</b>	<b>3.0%</b>	<b>2.4%</b>	<b>3.7%</b>
Public services	4.8%	4.6%	4.4%	4.1%	2.8%	2.0%	3.8%
Government	5.0%	4.8%	4.5%	4.3%	3.4%	2.7%	4.0%
<b>Overall</b>	<b>3.3%</b>	<b>3.1%</b>	<b>3.0%</b>	<b>2.8%</b>	<b>2.7%</b>	<b>2.6%</b>	<b>2.7%</b>

Source: Forrester Research, Inc.

- **2004 US IT spending per employee and 2004 IT staff as a percentage of total employees.** The last metrics that clients ask us about are IT spending per employee and IT staff as a percentage of total employees. We published data on total US IT staff, total employees, and IT staff as a percentage of total employees in our report on US IT staffing in 2004.<sup>7</sup> However, this data included total employees for an industry, and, companies with less than 20 employees in the vast majority of cases do not have formal IT staff. So in this report, we adjusted our total employee count for each industry by excluding the percentage of employees who worked at companies with less than 20 employees. We also calculated 2004 IT spending per employee for each of the industry groups (see Figure 4).

**Figure 4** 2004 IT Staffing Benchmarks

	IT spending		IT staff	
	Overall (billions)	Per employee	Total IT staff	IT staff as a percentage of total staff*
<b>Manufacturing</b>	<b>\$95.0</b>	<b>\$6,247</b>	<b>313,649</b>	<b>2.2%</b>
Primary production	\$9.7	\$2,999	15,015	0.5%
Consumer products	\$23.0	\$5,372	44,652	1.1%
Chemicals & petroleum	\$15.2	\$17,671	12,687	1.6%
High-tech products	\$26.3	\$13,563	160,591	9.0%
Industrial products	\$20.8	\$4,302	80,704	1.8%
<b>Retail &amp; wholesale trade</b>	<b>\$50.6</b>	<b>\$1,727</b>	<b>179,973</b>	<b>0.8%</b>
Retail	\$34.1	\$1,439	71,742	0.4%
Wholesale trade	\$16.5	\$2,936	108,231	2.5%
<b>Business services</b>	<b>\$196.1</b>	<b>\$6,836</b>	<b>731,562</b>	<b>3.3%</b>
Transportation & logistics	\$18.5	\$4,370	26,868	0.7%
Professional services	\$159.2	\$8,996	693,648	5.0%
Construction & engineering	\$18.4	\$2,724	11,045	0.3%
<b>Media, entertainment, &amp; leisure</b>	<b>\$35.6</b>	<b>\$4,354</b>	<b>112,327</b>	<b>1.8%</b>
<b>Utilities &amp; telecommunications</b>	<b>\$36.0</b>	<b>\$14,627</b>	<b>197,456</b>	<b>8.6%</b>
Utilities	\$7.2	\$7,985	18,413	2.2%
Telecommunications	\$28.8	\$18,469	179,043	12.4%
<b>Finance &amp; insurance</b>	<b>\$123.3</b>	<b>\$21,396</b>	<b>514,971</b>	<b>10.1%</b>
Financial services	\$106.8	\$29,498	368,373	11.5%
Insurance	\$16.4	\$7,677	146,599	7.7%
<b>Public sector</b>	<b>\$196.8</b>	<b>\$5,187</b>	<b>507,028</b>	<b>1.6%</b>
Public services	\$69.8	\$2,512	272,772	1.2%
Government	\$127.0	\$12,498	234,256	2.7%
<b>Overall</b>	<b>\$733.5</b>	<b>\$5,753</b>	<b>2,556,966</b>	<b>2.4%</b>

(numbers have been rounded)

\*Companies with 20 or more employees only

Source: Forrester Research, Inc.

## RIGHT AND WRONG BENCHMARKS FOR IT SPENDING

In the previous section, we provided data on the main IT spending benchmarks that our clients have asked us about. However, not all benchmarks have equal value.

### Why The Most Commonly Used IT Spending Benchmarks Are The Wrong Ones

Many CIOs and IT departments use benchmarks for *total* IT spending, such as IT spending as a percentage of revenues or IT spending per employee. While these metrics have value as indicators of how much a particular company is spending on technology, they are poor overall benchmarks.<sup>8</sup>

The IT budget as a whole for almost every company has two basic components. First, there is the spending to operate and maintain the existing IT infrastructure, applications, systems, and core IT staff.<sup>9</sup> Second, there is the spending in support of new business and IT initiatives. These two parts have different dynamics and different contributions to business value.

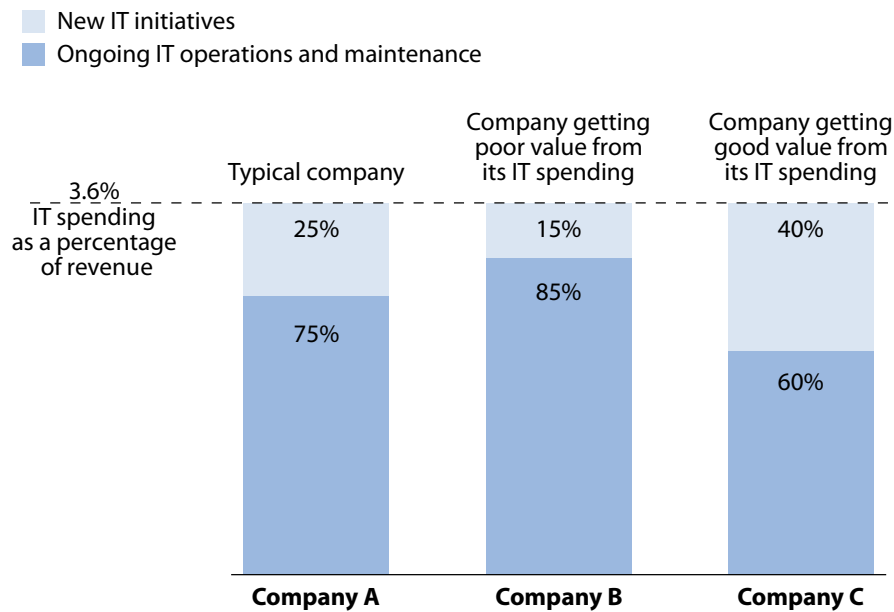
- **Spending on IT operations and maintenance relative to revenues should be lower than peers’.**

Measuring how much a company is spending on technology to support its current business activities is a good benchmark. In general, lower is better because a business that spends less on existing technology to support a given level of business activity will have better profit margins than a company that spends more to support a comparable level of activity. However, actual levels will vary from industry to industry and depend on historical business-process-automation spending. Similarly, a company that has invested heavily in automation may have higher ratios of spending on existing IT operations and maintenance relative to revenues than a company that is still using a larger IT staff.

- **Spending on new IT initiatives relative to revenues may be higher or lower than peers’.**

This measure concerns how much a company is spending on new technology to support new business strategies or achieve key business goals (e.g., upgraded security, improved disaster recovery capabilities, regulatory compliance). Because this spending can vary significantly from company to company for very legitimate reasons, this is a poor benchmark. For example, if a company in recent years has made new investments to upgrade its financial management and human resources management systems and improve disaster recovery, its spending for new initiatives may well be lower than a peer company that has to make these investments this year to catch up. For the first company, lower spending on new initiatives this year is probably a good thing, but for the second company, spending more on the same set of initiatives is also good.

All things being equal, a company that spends less of its overall IT budget on ongoing IT operations and maintenance than the peer group average will have better business results than one that spends more — even if both companies spend the same proportion of their revenues on IT goods, services, and staffing (see Figure 5). This statement, of course, assumes that the spending on new initiatives is done prudently and is focused on projects that can deliver real, positive ROI.

**Figure 5** Why The Overall Ratio Of IT Spending To Revenues Is A Bad Benchmark

Source: Forrester Research, Inc.

### The Best Benchmark: Spending On IT Operations And Maintenance

For these reasons, leading CIOs have a goal of driving down the ratio of IT spending on ongoing IT operations and maintenance relative to revenues. Doing so helps them accomplish four goals:

- **Demonstrate that they are effective managers of the IT function.** By driving ongoing process improvements, effective internal IT cost management, and good vendor management practices, a CIO can keep ongoing IT costs at least growing more slowly than business activity and ideally declining in absolute terms.
- **Make room for new IT initiatives that back business strategies and goals.** The key to this is keeping flat or even reducing the total ratio of IT spending to revenues while still increasing spending on IT initiatives with real and positive ROI. If a company can achieve all of its strategies and goals in a given year without increasing the total amount it spends on technology relative to revenues, then it can improve its profit margin and take more to the bottom line.
- **Fund technology R&D without seeking extra funds.** Every CIO should be researching new technologies that are emerging and have the potential to improve business performance and results. By driving down spending on ongoing IT operations and maintenance, a CIO can use some of the savings to fund this research and development.

- **Cut overall IT costs, if required.** Should the mandate come from the CEO to cut IT spending as part of an overall corporate austerity program, a declining ratio of spending on IT operations and maintenance makes it easier for the CIO to achieve this goal without cutting or delaying high-priority new initiatives.

## RECOMMENDATIONS

### USE THE RIGHT BENCHMARK IN THE RIGHT WAY — CAUTIOUSLY AND WITH CAVEATS

US and Canadian companies that want to see how their spending on ongoing IT operations and maintenance stacks up against peers should use Figure 3 and find where they fit on the matrix by industry and size of company. European and Asian companies should recognize that these benchmarks are for their North American counterparts, but they may not be representative of what geographic and industry peers are spending on technology. All should use our ratios of spending on ongoing IT operations and maintenance to revenues with a certain amount of caution for the following reasons:

- **These ratios may not measure what you measure.** First, this data measures IT spending as reflected in income statements — that is, with depreciated values for capital equipment like computers and network equipment; it is not a measure of new capital investment. Second, the data does not include spending on communications services. Third, it is ultimately based on what IT decision-makers tell us about what they consider to be IT spending, so it may not reflect what is being spent on IT beyond the CIO's or IT decision-maker's knowledge. A company that has done a thorough job of bringing all IT-related activities under the purview of the CIO will tend to have a higher percentage of IT spending relative to revenues; a company that has highly decentralized IT spending with a poor central track record of what is being spent will tend to have lower percentages.
- **The ratios should be part of a larger framework that looks at total costs relative to revenues.** While a lower ratio of spending on IT operations and maintenance as a percentage of revenues compared with that of peer companies is generally good, there are exceptions. If there are widely different levels of automation and technology spending between peer companies, then a company with a higher ratio of spending on IT operations and maintenance may well be at a competitive advantage over lower-spending peers if those IT investments have contributed to lower, nontechnology operating costs.
- **The ratios are calculated benchmarks — not observed benchmarks.** The actual survey data on the ratio of IT spending as a percentage of revenues comes from different Forrester Business Technographics surveys than the data on the percentage of IT budgets devoted to ongoing IT operations and maintenance. Moreover, the sample size of the responses for many cells in the matrix was well below the levels needed for statistically valid results. So

we have smoothed the ratios for companies of different sizes along a curve that fits the data points with the most responses — and, therefore, the highest confidence levels — and ignored data points with small sample sizes and higher or lower averages that were less trustworthy.

- **The ratios should be treated as approximations.** Any ratio should be considered as the central point of a range that extends up and down by a quarter of a percentage point or so. For example, a large retailer with 1,000 to 4,999 employees should view the appropriate benchmark for spending on IT operations and maintenance as 2.1% to 2.5% of revenues, not just as the 2.3% of revenues shown in the matrix.

## ENDNOTES

- <sup>1</sup> Forrester’s calculation of IT spending includes spending on communications and network equipment but does not include spending on telecommunications services. Companies that do include telecommunications services spending in their IT budgets should subtract this spending from their calculations of IT spending to have comparable numbers to those used by Forrester.

We also discussed the strengths and limitations of the Forrester Business Technographics data and the *InformationWeek* 500 data at length, citing sample size, companies surveyed, and survey methodology as the main sources of discrepancies between the two. See the November 19, 2004, Trends “North American IT Spending In 2005.”

- <sup>2</sup> On average, SMBs we surveyed claim to spend more than \$2 million annually on IT, 30% of which goes to full-time IT staff. But going into 2005, only one in four small businesses expect to hire new IT staff — a major drop-off from the 45% that are increasing their IT headcount at the beginning of 2004. See the November 18, 2004, Data Overview “The State Of IT Spending In SMBs: Business Technographics United States.”
- <sup>3</sup> Forrester uses its own industry categories; there are 17 industry groups with descriptions of which sectors are included in each industry category. Industries like healthcare and education are included in our public services industry category, automotive is included in industrial products, and pharmaceuticals are included in consumer products. See the March 24, 2004, Quick Take “Business Technographics Taxonomy.”
- <sup>4</sup> Telecommunications expenses are a leading item that is often not controlled by or reported by the CIO as IT spending, at least in the US. For this reason, we have not included telecommunications spending in our calculations of IT budgets. The story is different in Europe, where communications spending is generally the responsibility of the CIO. That is one reason why Europeans often talk about “ICT spending,” meaning “information and communications technology,” while North Americans talk about “IT spending,” meaning “information technology.”
- <sup>5</sup> We first published our estimates of IT spending as a percentage of revenues for companies of different sizes in different industries as part of our basic background tables for our sizing of the US SMB and enterprise IT spending markets in March 2005. We have since revised that 2004 data due to our misclassification of the industry subcategory labeled “Management of Companies” in the NAICS industry codes used in

US government data sources for industry gross output and enterprises by number of employees. We had included Management of Companies in our industry group of professional services because that is where it is included in government data sources. However, further research showed that Management of Companies actually is equivalent to Bank Holding Companies in the earlier SIC code classification. As a result, we have shifted the companies in this segment — and their resulting IT spending — from the professional services industry to the financial services industry. See the March 10, 2005, Market Overview “US IT Spending: Enterprise Versus SMB.”

- <sup>6</sup> As we still do today, we encouraged caution in the use of these figures, as total IT spending is a mix of spending on new initiatives and spending to operate and maintain existing IT infrastructure, systems, and software, and spending on *new* initiatives is highly variable — both year by year and between companies. See the November 19, 2004, Trends “North American IT Spending In 2005.”
- <sup>7</sup> We predicted that with IT salaries growing by 2.8% in 2004, on average, and at 2.6% annual rates through 2008, total US spending on IT staffing by companies and governments will grow by only 6% per year during this period. See the September 23, 2004, Trends “US IT Staffing Up, But Outsourcing Takes A Toll.”
- <sup>8</sup> One of the major additional arguments against this sort of benchmarking is the concept of “average” as being merely mediocre, as well as the reduction of business complexities to simple spending metrics. See the March 10, 2004, Best Practices “Industry Averages For IT Spending: In Search Of Mediocrity.”
- <sup>9</sup> Spending on ongoing operations and maintenance would include: 1) depreciation on previously purchased computers and network equipment; 2) maintenance fees for purchased software; 3) salaries and benefits for IT staff who maintain and operate existing IT systems — but not staff dedicated to managing new projects; 4) existing outsourcing agreements; 5) ongoing IT consulting and integration payments for IT projects carried over from the prior year; 6) CIO and core IT senior staff, as well as security, enterprise architecture, and vendor management positions that would continue even if there are no new projects; and 7) any other expenses that would be ongoing, even if there were no new IT projects.

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