



"Companies in spending mode, IBM survey says"

Published: Friday, February 27, 2004
BY RADHIKA KAUSHIK

Say goodbye to across-the-board cost cutting. Big Blue contends companies worldwide are entertaining the idea of spending money on growth initiatives, such as investing in new ventures, during the next two to three years.

While cost containment remains important, 80 percent of CEOs view revenue growth as a priority for strengthening their financial position, according to a survey by IBM released Feb. 23. The Global CEO Survey, conducted by IBM Business Consulting Services, was based on face-to-face interviews with 450 CEOs of global companies with more than \$500 million in revenue.

IBM says the findings of the new study are contrary to the findings of its survey of business managers conducted last year, when the economic downturn led to widespread cost cutting. In the past, IBM has surveyed business managers; this is the first time it surveyed CEOs.

When asked to identify the greatest opportunities for revenue growth in the next three years, CEOs pointed to new product and services development, as well as expansion into new markets.

However, many company heads cautioned that roadblocks still exist. Many execs say their companies are not flexible enough to reach for new market opportunities. And while 80 percent identified their company's ability to respond to changing business conditions as a top priority, only 13 percent rated their organizations as "very responsive" to changing market forces.

IBM execs believe that investment in information technology will be a high priority among companies seeking agility. Of course, IBM plans to hone into companies' priorities with its outsourcing e-business -- its "on demand initiative" designed to help companies adapt to change.

"Outsourcing, when done right can make change occur faster. More companies are flipping to the on-demand concept," says Kris Pederson, global relationship partner for IBM Business Consulting Services.

Michael Valocchi, partner for strategic change solutions with IBM Business Consulting Services, says the survey points to cautious optimism. Business heads are accepting more internal responsibility and do not fear getting hounded by down markets.

However, new markets, such as China, are viewed both as a threat and an opportunity because many more services can now be done better and at lower costs offshore, says Valocchi.

Market researcher Gartner followed up with a report on the IBM survey, saying the survey should be used to facilitate discussion within businesses. However, Gartner advises caution over CEOs emphasizing "responsiveness" as a key issue to adapt to changing markets. Gartner believes further time-reduction in business projects might in fact deliver diminishing returns, rather than help business time cycles.

Donald Doane, CEO of Open Demand Systems Inc., an IBM customer based in Newark, N.J., participated in the survey. He says it is reassuring to know that many other CEOs are focused on growth. The software testing company has been using Big Blue's database products for the past two years. Now Doane believes the company is prime for growth and new market opportunities.

"Over the last six to nine months, we have had increased demand from our customers to provide software tools for monitoring back-end systems like web servers and mainframes," Doane says. "We are [now] moving into the monitoring market."

Doane says the company is working with IBM to license its Tivoli products -- software that incorporates self-monitoring technology -- to add value to customer systems.

Companies move over cost reduction into the background after several years of cost reductions, the boosting of the turnover is on top of the companies executives' priority list again.

This is the result of a survey done by IBM's consulting division. The company surveyed more than 450 Chief Executive Officers all over the world. The study encompasses companies of all sizes and different industries.

For more than 80 percent of the CEOs, the turnover is the key factor for improving the financial statements within the next three years. According to the study, the companies have arrived "on the other side of the cost reduction stadium", which dominated over the last two years. At the same time, it is of great importance for the interviewees, that the cost consciousness, that was reached through cuts, will be continued in the future. A CEO was cited with the words: "I preach turnover growth to the management and cost reductions to the rest of the company." On the return to the path of growth, the companies see the clearly aggravated competitive environment as the biggest challenge. There was talk of the "Wal-Martization of the world", an allusion to its low-price policy. In numerous industries a cheap-business model has emerged as threat for established providers, for instance in the flight industry. Apart from that, CEOs have observed a distinct tougher competition of threshold country companies.

According to the study, most of the interviewees admitted that their companies do not adjust to changing market conditions nor react to new opportunities fast enough. For the CEOs, the key for future growth lies in the implementation of new products and services. In this context, Asia and especially China were named as market with the biggest potential.

IBM study: companies have lost too much know-how in times of crisis

Turnover growth instead of draconian saving is the top priority of companies once again. This was the result of a broadly approached IBM Business Consulting Services study. Four of five of the interviewed CEOs aim at widening their total revenues. Independent of industry and region, the international "CEO Study 2004" sums up a change of mood in the top-management. "When the signs point that clearly towards growth it will more than likely deposit itself in an increase for the national economics as well, " says Dirk Siegel, Practice Area Leader FSS S&C/ Solution Area Leader S&C Central Region. 456 CEOs in the US, Asia and Europe were surveyed.

However, some of the ambitious CEO's will be thwarted on their way to their company-goal - by their own management and their employees. Only those companies will be successful that adjust fast and flexible to the drastically changing customer preferences and new general frameworks. "Quality and dedication of the employees are the only factor that account for the success in the search of opportunities for turnover growth", says one of the interviewee.

The interviewed CEO's showed themselves surprisingly honest and self-critical under the cloak of anonymity: only 13 of all CEO's think their company acutally "very able to respond" in terms of changing business conditions. On the contrary, many CEOs think their employees and their own management too inactive, too slow or inapt in order to react to strongly changing market conditions and -risks. The topic is independent of industry - no matter whether it's retail, pharmacy or public administration- it's always the same: The present know-how of employees does not fulfill the expectations and requirements. "Primarily, we have to invest in the search for new employees and schoolings", said three of four interviewees. Thereby it is not only a matter of professional qualification. According to the study, it is more important to further the dedication and the motivation of the employees.

Paradoxically, many companies get hit with what they announced as survival guarantee in the last couple of years. The cost cuts have lead to a loss of kow-how and employee satisfaction in many of the surveyed companies. " In conversations we heard over and over again that brutal, near-term applied cost savings programmes have caused impairments in the companies", says Siegel.