Breaking Analysis: Cloud, Containers, AI & RPA Support Strong Rebound in 2021

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In this week’s Breaking Analysis, we'll update our latest thinking on spending levels and priorities for the coming year. We’ll also share fresh ETR data from its most recent COVID drilldown study.

A Forced March to Digital Transformation

Since early this year we’ve been reporting our outlook for 2020 of a negative 4 to 5 percent drop in IT spending. Despite a stronger Q3 than expected we see no reason to alter that expectation. However recent survey data and discussions with C-level executives lead us to believe that 2021 could exceed our 2 percent growth forecast and that figure could be as high as 4 to 5 percent in the coming year.

2020: A year of pivots and accelerated digital

- We maintain a -4% to -5% IT spending downturn for 2020
- Our current 2% growth in 2021 appears to be conservative - could be as high as 5% - we’ll update you in January formally
- ETR survey data shows positive signs of recovery
- Companies learning to leverage the cloud
- COVID created a massive digital business PoC
- 2021 will be a year of rapid operational reinvention - experiments-->operations
- IT spend could snap back dramatically in 2021

A better understanding of how to leverage the cloud, increased productivity, business transformation and recent ETR spending data suggest that digital business initiatives that have been accelerated are paying dividends. We believe CEOs and boards of directors are willing to double down on successful initiatives from the learnings of the past ten months.

Our research suggests that the digital experiment forced upon us by COVID has created a dynamic where CxOs want to double down on sure bets and further compress the future. IT spending in 2021, we believe, will be the beneficiary.

CIO Spending Patterns Show Positive Signs

While the overall spending momentum in the ETR survey data remains muted relative to 2018 and 2019, pointed questions asked of CIOs in the latest drilldown study give us reason for optimism. The chart below shows the responses to ETR’s November survey asking CIOs “When do you see budgets returning to pre-COVID levels?”
Historically, CIOs have been conservative in our view and so we’re keying on the upper end of the confidence interval in the data above. While that may be an optimistic assumption, we believe it reflects both the reported earnings outlooks from major bellwether companies like Microsoft, Dell, HPE, Cisco AWS and others; as well as the unreported upside and pent up demand that we think exists in the global market.

The key figure to us in the above data is that only 4% of respondents feel spending levels won’t bounce back to pre-COVID levels for more than 2 years. And only an additional 20% believe this won’t occur until after 2021. Reasonable people can argue that there’s still a large portion of the survey that projects a negative outlook and that winter is coming in the northern hemisphere comprising the world’s largest economies. But with a vaccine coming soon, the clarity organizations have gained regarding the coming digital economy and muted spending in 2020, we believe there is more upside than downside to the forecast.

Tactical Moves Lead to Strategic Pivots

The chart below shows results from the COVID drilldown survey asking respondents to identify the factors that enabled business resiliency during the pandemic.
Not surprisingly, the ability to work remotely has been a critical factor. Forty-four percent of respondents cited Business Continuity Plans as a key factor. Several customers have told us however that their business continuity plans were far too focused on disaster recovery and as such they made tactical investments to shore up their digital capabilities.

C-suite and Budget flexibility were cited as major factors. We see this as a real positive in that the corner office and boards of directors are tuned into digital. They understand the importance of getting digital ‘right’ and we believe that they now have good data from the past ten months which investments will yield the highest payback. As such we expect further funding toward digital initiatives. Balance sheets are strong for many companies as several have tapped corporate debt and taken advantage of the low interest rate climate.

Twenty-seven percent cited the use of emerging technologies as a factor. Some of these it could be argued fall into the first category – working remote. The bottom line is we believe that the ten month PoC that came from COVID puts organizations in a position to act quickly in 2021 to further accelerate their digital transformations; filling gaps and identifying initiatives that will bring competitive advantage.

**Containers, AI & RPA are Driving New Innovation**

We now want to better understand which technologies buyers are adding. It isolates the New Adoptions portion of the ETR Net Score methodology. Remember, Net Score looks at the percent of customers Adopting New, Spending More, Spending Flat, Spending Less and Replacing. Net Score is calculated by taking (Adopting New + Spending More) - (Spending Less + Replacing). It is a measure of spending velocity.
The chart above isolates on the New Adoptions portion of that detail.

As you can see, the three top areas CIOs cite for New Adoptions related to containers, ML/AI and RPA. There are four takeaways from this data in our view:

1. Containers are driving application modernization and enabling developers to be more productive and agile;

2. Machine learning and AI are being applied to massive troves of data that we’ve collected over the past ten years and organizations are attempting to get more value from data and drive insights using machine intelligence;

3. Robotic process automation (RPA) as we’ve reported previously, the automation mandate is here and was also accelerated by the pandemic. Organizations are programming software robots to do mundane tasks and driving automation initiatives across their organizations;

4. These factors are all leading to productivity gains as CIOs have reported in previous surveys.

**CIOs are Doubling Down on Cloud**

You may be looking at the previous slide and wondering...with all this talk about cloud migration, why isn’t cloud computing higher? The chart below addresses this question. It shows the percent of customers using the ETR Net Score methodology and isolates on those areas where customers are increasing spending.
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Note the elevated levels for Cloud Computing at 46%. This tells us that customers have generally already adopted some type of cloud computing model and they’re doubling down on that investment. Once again, we see containers ML/AI and RPA as areas where customers are spending more – above the 40% level. There are several other areas of increasing spending such as database, but these 40%ers are notable.

Factors to Watch

As we exit 2020, we’re watching four key factors in addition to our spending data:
Factors to watch

- Propensity toward lockdown creates uncertainty & caution
  a. New administration
  b. Fiscal stimulus?
  c. Creates further pent up demand
- 10 months of learnings from forced digital transformations are informing 2021 tactical plans
- Long term planning has changed - speed and the ability to turn on a dime are now fundamental principles of the digital economy
- Boards of Directors and CEOs got a glimpse of the future in 2021 and those that act will win. Those that don’t will be out of business.
- At the macro, the have nots may dampen spending but the survivors will prop spending in 2021 above our current forecasts

The propensity toward shelter in place is heightening, especially with the new incoming administration. We’re watching how this along with the fiscal stimulus will impact 2021. We feel that further lockdowns, while painful, will be short lived and we’re more prepared this time around. We believe this will create further pent up demand and support our latest premise.

We strongly believe that the silver lining in this terrible year is the the learnings we’ve absorbed. Speed and responding to the unknown is now a fundamental ingredient of success; more so than ever.

C-level execs we believe will provide top down support for digital. The meme about who was most responsible for your digital transformation hit home with the corner office and CEOs have taken the opportunity to act, using COVID as an agent for change.

While we haven’t formally changed our outlook for 2021, we expect to do so. We will wait until our next survey snapshot to assess the most current data. We understand that there is still much pain in the economy but unlike those companies crossing the chasm, where their legacy businesses are still not growing fast enough to offset the declines, in this new era, virtually all businesses must go digital (at least to some extent). As such we see the leading industries accelerating technology spending and even those survivors hit hard by COVID will prioritize technology investments.

As a result we believe that our 2% growth figure for 2021 could double to 4% or more.

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Also, check out this ETR Tutorial we created, which explains the spending methodology in more detail.
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