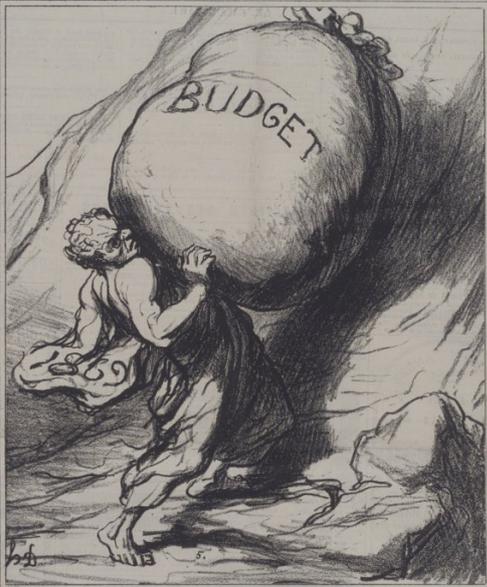


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Breaking Analysis: COVID-19 IT Budget Impact 2020 by, David Vellante

March 21st, 2020

What is COVID-19 IT budget impact for 2020? In this week's Breaking Analysis we're going to share fresh data from the latest Enterprise Technology Research spending survey. In particular, ETR added a drill down question to assess the COVID-19 IT budget impact. This week we had the pleasure of hosting ETR Director of Research Sagar [...]

What is COVID-19 IT budget impact for 2020?

In this week's Breaking Analysis we're going to share fresh data from the latest [Enterprise Technology Research](#) spending survey. In particular, ETR added a drill down question to assess the COVID-19 IT budget impact. This week we had the pleasure of hosting ETR Director of Research Sagar Kadakia who took us through the [details of that survey](#).

In this research we want to accomplish three things:

1. Summarize the macro at this point on the second day of spring
2. Assess the impact from COVID19 on IT spend for 2020
3. Drill into the initial findings from ETRs latest survey

And then we'll summarize.

The Macro Market Picture

Where are we at this point in time? We've gone from fear of missing out (FOMO) in the stock market to to all out fear.

The Macro: From FOMO to Just Fear

- Self-imposed recession - Economic impact is ugly
- Double downward shift in supply & demand at the macro level
- Massive liquidity shocks & credit risk
- Probably not at a bottom

Silver Lining: Water in Venice canals is running clear & N2O levels in China are down

As you well know, the economic impact is ugly. This is the first time we've ever seen a government imposed recession – rightly so to save lives. We've also never seen such an across the board double downward shift in supply and demand. This creates uncertainty and ambiguity in pricing which makes forecasting anything very difficult.

The liquidity shock and credit risks are of primary concern. The price of oil is a big issue because energy companies account for a sizable portion of the high yield credit market – over 10 percent – so as prices fall its harder for oil companies to repay loans which creates default risk. So this has the market functioning very poorly.

Where's the Stock Market Bottom?

It's the question everyone wants to know.

A poorly functioning market signals that we are not yet at the bottom. We're not stock pickers or market technicians but we've seen a lot of downturns. When this author was at IDC we had an exclusive deal with Goldman Sachs and two of their analysts were embedded in our framingham offices. In 1987 on Black Monday and the following weeks, with no Internet, we stared at the Goldman real time terminal and watched the market free fall, then bounce back and then free fall again.

Bottoms are impossible to predict. Because they're not technical, they're psychological. In 1987 and after the dotcom bust and in the 2008 financial crisis...each time you saw the S&P 500 rally - sometimes as high as 10 percent. It would suck investors back into the market and then it would invariably pull back. And that will likely happen here - the market will not be just fine any day now in our view.

If you're looking for a silver lining... the canals in Venice are running clear, which is amazing to see and Nitrous Oxide levels over China are way down.

Implications for IT Spending - Industry Exposure

Let's shift gears and take a look at what the COVID-19 IT budget impact for 2020. How will coronavirus affect IT spending and specifically, what industries that are being most affected right now?

As we show below, there are some obvious sectors like energy and transportation, retail, etc. that are feeling the deepest pain. Sagar Kadakia from ETR provided [additional color in this clip](#) on the industry impact. He also commented on some key findings regarding the supply chain disruption.

As Sagar points out, the ETR survey underscores that we will not likely see a quick snapback - we don't expect a one to two month fix.

What does this mean for IT spending

- Energy, transportation, retail, manufacturing, hospitality services, taking obvious hits
- Hospitals too distracted to buy rn
- Many "skunk works" projects are on hold
- Banks have cash and are negotiating hard for deeper discounts
- Many customers have no choice but to spend
- Some companies are actually accelerating spending
- Work from home uptick somewhat offsets declines in other sectors
- Cyber security momentum

In our research in the field and in particular speaking to people in theCUBE network we can make some additional comments highlighted above.

Breaking Analysis: COVID-19 IT Budget Impact 2020

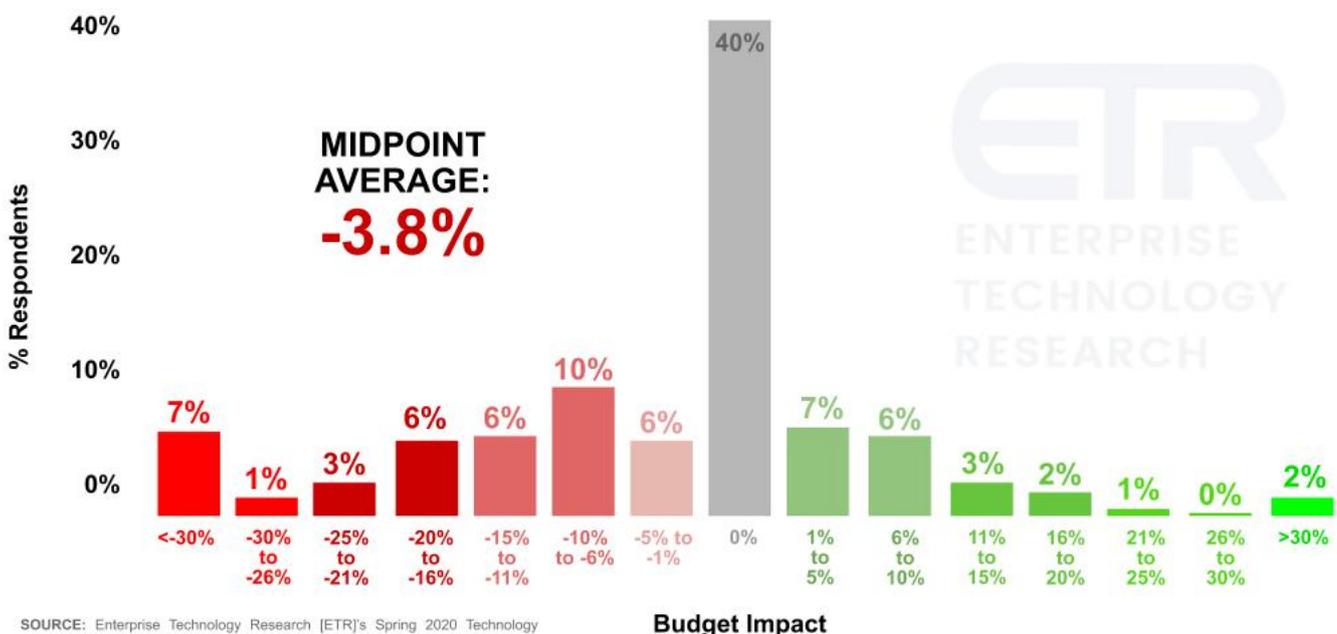
- **Healthcare.** What we see is that healthcare is so swamped right now that they are not buying anything ...they have no cycles.
- **CAPEX.** Most customers are putting skunk works on hold and narrowing capital spend to mission critical items.
- **Banks.** Financial firms are actually still buying - they have cash - but they're smart and are negotiating hard.
- **Renewals.** Many customers have no choice but to buy. They may be on an annual recurring contract and have compliance edicts - e.g. "we have to send out monthly statements." If they don't renew they cant use the software to do that. Somewhat different but similar dynamics exist for maintenance contracts.

We're seeing sales teams bring down their forecasts, but they're not cutting them in half. Not yet anyway.

WFM Infrastructure Spend Cushioning the Downside

In assessing the COVID-19 IT budget impact, ETR found a counter intuitive result. Specifically, a meaningful percentage of customers actually plan to spend more on IT in 2020. Why? Because they're trying to preserve productivity with work from home solutions and they need to add infrastructure. So they're pivoting their budget to WFH. And they need to secure that infrastructure so cyber spend is seeing some momentum.

Impact of COVID-19 on 2020 IT Budgets



The above chart from ETR shows some interesting data. The chart shows survey results from the current sample of respondents (1,000+ CIOs and IT buyers) taken this month. Notably:

- 40% of respondents are currently planning no change in IT spend for 2020.
- 21% expect to actually spend more.

Breaking Analysis: COVID-19 IT Budget Impact 2020

- The current mid-point of the current is -3.8% decline in 2020 spend – this is dynamic and the number will be updated as more survey data streams into ETR daily.

ETR's [Kadokia](#) further explains the chart in this clip.

Consensus is Rapidly Changing...From 4% down to Flat

Kadokia went on to explain that consensus expectations were that Global IT spend would be roughly 4% before coronavirus and the pullback takes us to flat or zero percent. But what's not been reported is the offset to the declines particularly from WFH infrastructure.

Obviously this could all change. And the chart below underscores the uncertainty and dynamic nature of the risk right now.

Anticipated IT Budget Growth Rate



This chart shows the daily impact of the expected retraction. Earlier in the survey ETR saw about a 2% retraction and you can see by March 17 it's down to flat. So as we heard from Kadokia, the ETR thesis is calling for 0% IT spend growth in 2020 because of some of the offset we discussed earlier. If news continues to worsen the outlook will follow and will be adjusted accordingly.

Key Takeaways and Go Forward Outlook

The current call is for flat IT spend in 2020. It would be worse if not for the uptick in WFH infrastructure – not just collaboration and video tools but virtualization solutions, VPNs, network upgrades, mobile devices, laptops and the software to secure them.

Despite the work from home offset, we expect this picture to worsen over the next three months. Watch the duration of remote work at home mandates and travel bans, as well as the no meeting policy. There's little doubt that productivity will be hurt. As we discussed yesterday with ETR, you can't just flick a switch and scale remote worker productivity.

Takeaways and Outlook

- The current call is for 0% IT spend growth in 2020
 - Expect worsening over the next three months
 - WFH & Cyber have momentum
- Watch the duration of WFH, no travel, no meetings - productivity will be impacted
- Current outlook is the spending declines will be temporary - unclear if it's a v-shaped comeback or a slow slog
- Permanent change in mindset - Digital transformations, WFH, Distance learning
- Seem to be some environmental impacts that are positive
- ETR and theCUBE will continue to update you

Having said that, the expectation from CIOs is this will be temporary. What's unclear is the shape of the recovery. Will it be V-shaped or a slow slog? We can see the distant rim on the other side of the canyon but we just don't know how far away it is or how deep is the canyon.

In our view, however, there will be changes that in our opinion will be permanent. [As we said on our last Breaking Analysis](#) - over the next several months, organizations will learn new things that will shape their thinking in the future. We expect accelerated digital transformations, sustained viability of WFH options, new capabilities from distant learning with the college shutdowns...new risk mitigation paradigms...the list goes on.

As we said earlier, there seem to be some environmental benefits if you're looking for some positives here.

What to Expect from ETR and theCUBE

This is the new normal. We know it's a cliché but it's true. theCUBE skeleton crews are in studio and we're keeping the content flowing. Many on our team are working from home but are still on the grid. Currently, our Palo Alto studio is fully operational for four days each week capturing remote guests on camera and tying into our Boston studio operation. So get in touch if you need anything - we are here to help.

You have our [commitment that theCUBE](#) and ETR will keep you up to date. ETR survey data keeps rolling in - you can get [updates on their Web site](#) - and they're vigilant on this issue as are we from our remote studios.

Remember these episodes are all available as [podcasts wherever you listen](#). Ways to get in touch: Email david.vellante@siliconangle.com | DM [@dvellante on Twitter](#) | Comment on [our linkedin posts](#).

Also, you may want to check out this [ETR Tutorial we created](#), which explains the spending methodology in more detail.

Thanks for watching everyone...Wishing good health and safety for you and your families.

Watch the full video analysis:

David Vellante is co-CEO of SiliconANGLE Media, as well as co-founder and Chief Analyst at The Wikibon Project, the world's leading open source technology research community. Dave is a long-time tech industry analyst, entrepreneur, writer and speaker. As co-host of theCUBE - "The ESPN of Tech," Vellante has interviewed over 5,000 experts since 2010. He is also a co-founder of CrowdChat, an angel funded startup based in Palo Alto using big data techniques to extract business value from social data. Prior to these exploits, Dave founded a CIO consultancy and spent a decade growing and managing IDC's largest business unit. He lives in Massachusetts with his wife and four children where he is active in town activities including serving as the president of his town's local "Kiddie Sports" association. Dave holds a B.S. in Applied Mathematics from Union College.



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