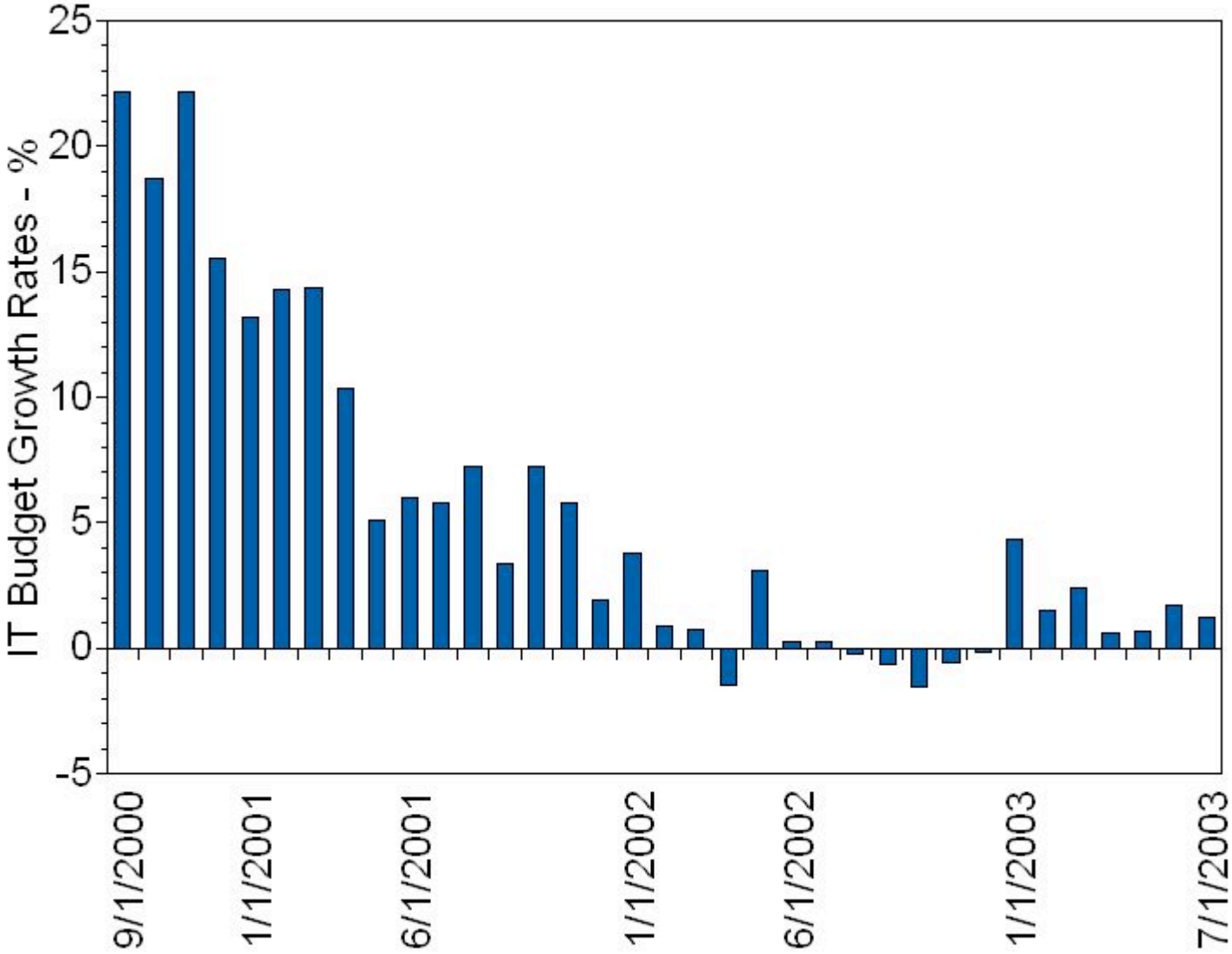
Gartner Group Application Development Conference

The #1 CIO Issue: How to Explain and Justify I.T. Budgets

Los Angeles, CA - September 22, 2003

From I.T. Exuberance to I.T. Reluctance



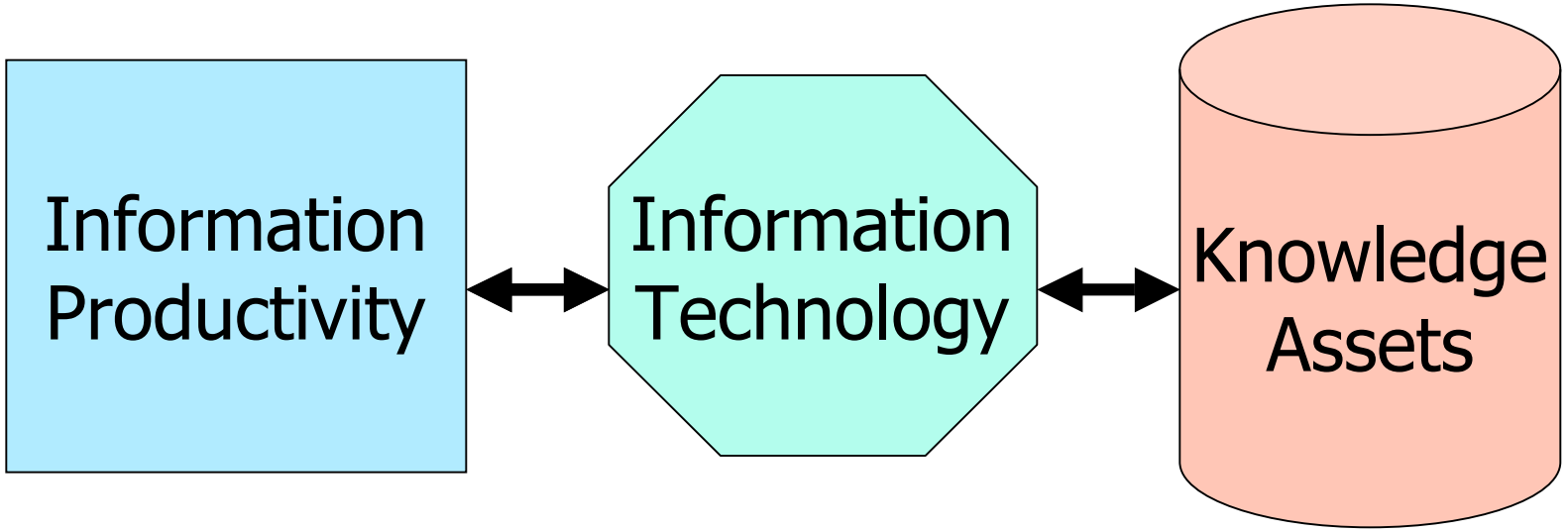
Performance of 3,284 Global Firms Does Not Favor I.T.

	1995-2000	2001-2002
Returns to Shareholders	14.7%	5.6%
Revenue Growth	10.6%	2.0%
Profits / Revenues	5.8%	2.5%
I.T. / Revenues	3.4%	3.4%
Transaction Costs / Revenues	29.5%	29.4%

Alignment Expectations

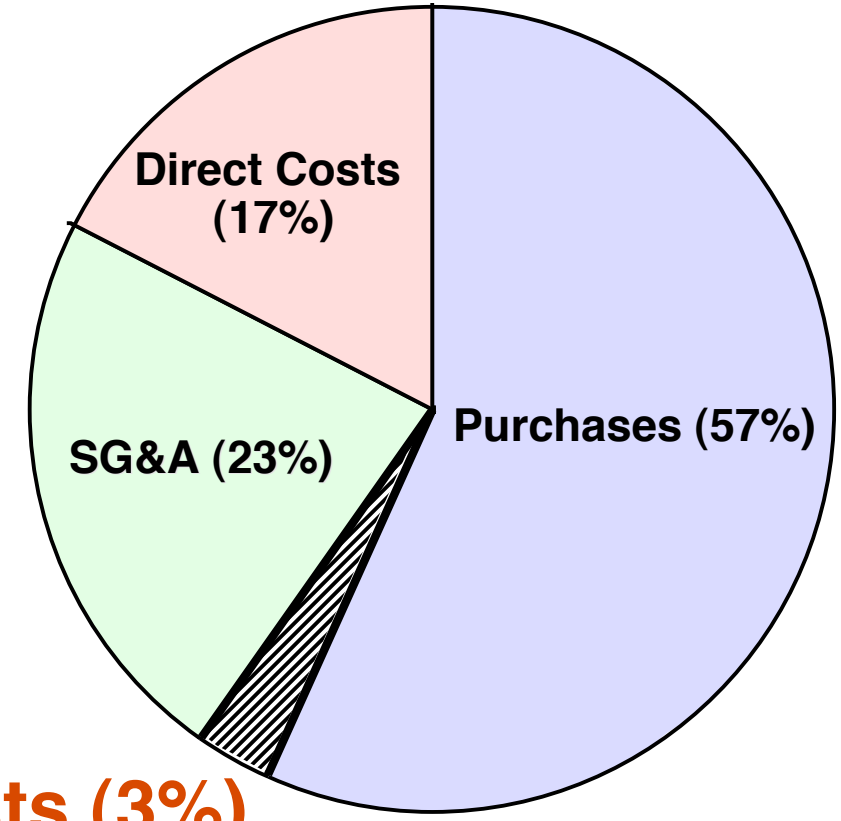
- Reduce Costs
- Improve Productivity
- Enhance Competitiveness
- Increase Security

Three Alignments – Three Scenarios



Budget Justification

I.T. As a Share of Revenue



I.T. Costs (3%)

CFO vs. CIO Budget Contests

CFO and CIO Perspectives About Results Differ

CFO Perspective

CIO Perspective

Business Plan	2002	2003	2004
Appropriations (Sales)	200.0	210.0	250.0
Costs of Operations (COG)	100.0	104.0	109.0
Overhead (SG&A)	62.0	50.0	50.0
Depreciation	5.0	6.0	6.0
Other	3.0	3.0	3.0
Pretax Income	30.0	47.0	82.0
Project Proposal			
I.T. Investments	12.0	5.0	6.0
I.T. Operating Costs	0.0	1.0	1.0

How to Line Up I.T. Investment Proposals

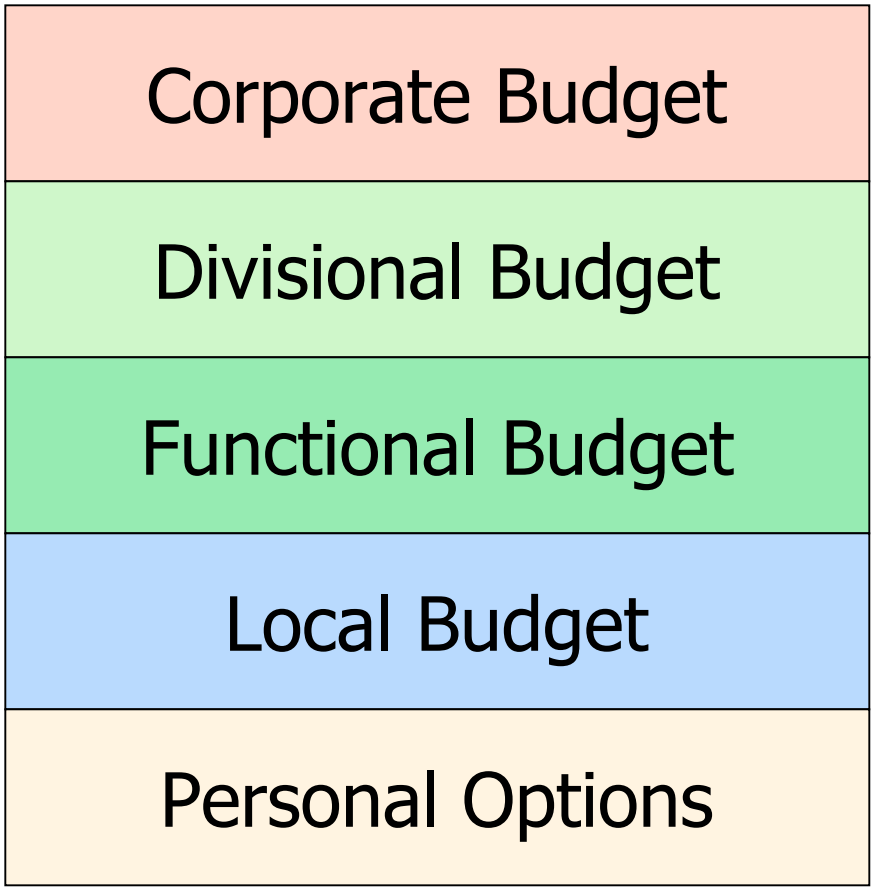
No of Projects	Investment Category	I.T. Investment $000s
16	I.T. Cost Reductions	$2,735
18	Operating Cost Reductions	$3,235
27	Strategic Investments	$6,273
3	Mandatory Changes	$298
	Total Investments	$12,541
	Ongoing Maintenance & Operations	$26,918
	I.T. Budget (Equals 2002 Spending)	$39,459

How the CFO Views An I.T. Investment

	Revenue Impact	COG Impact	SG&A Impact	Depreciation Impact	Profit Impact
I.T. Impact Assessments	+ 9.4%	- 1.2%	- 3.6%	- 2.5%	+ 7.0%

I.T. Architecture
&
I.T. Politics

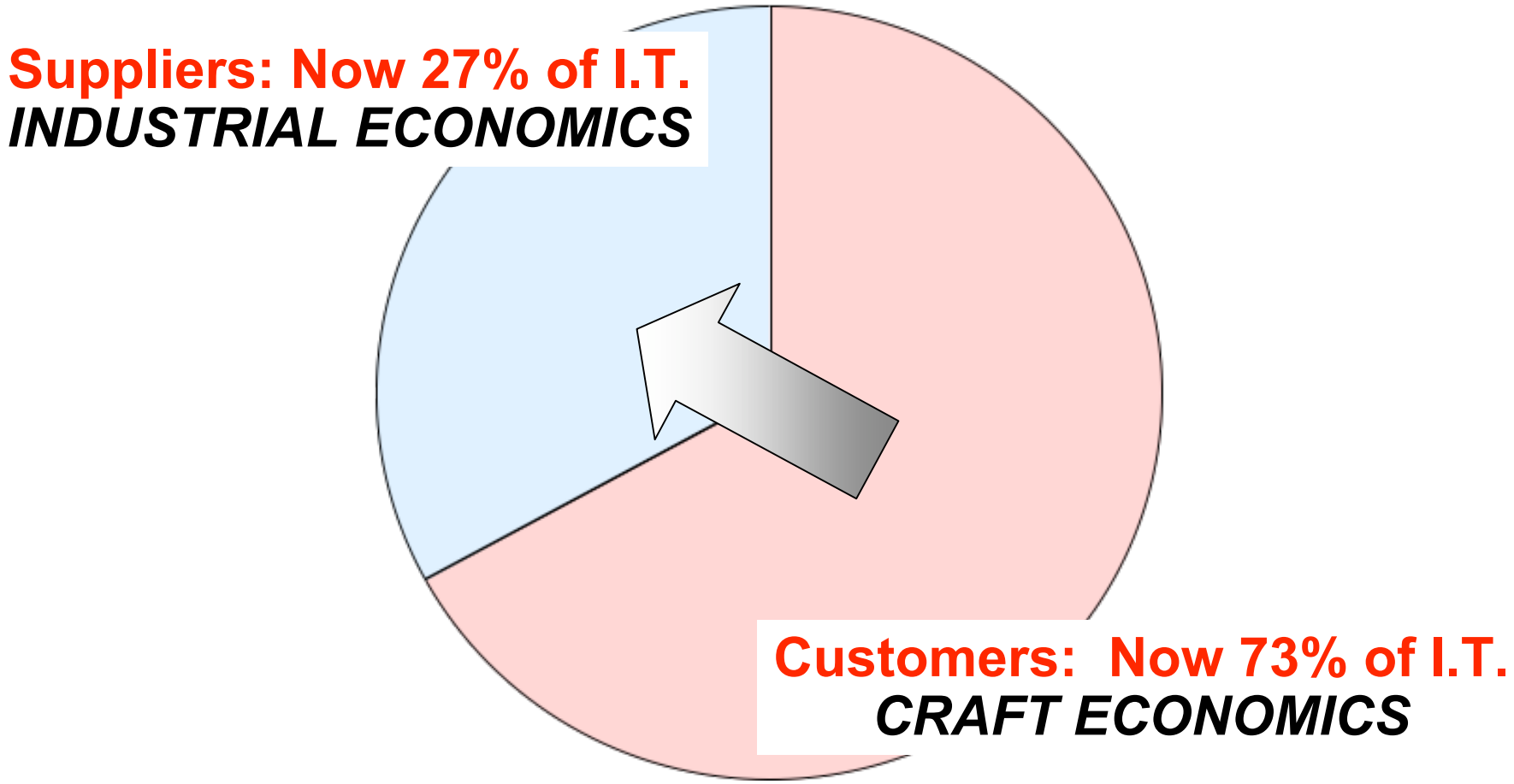
Align I.T. Budgets with I.T. Politics



Alignment Scenario #3

Outsourcing

Money Migrates from Craft to Industrial Economics



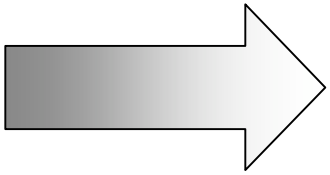
New Directions: Shift Risks to Vendors

- Shift Obsolescence Risks to Vendors
- Move Fixed Costs to Variable Services
- Purchase Application Services
- Take Labor out of Costs of Ownership

From Outsourcing to Utility Services

Outsourcing

- Custom solutions
- Contract financing
- Customer defined



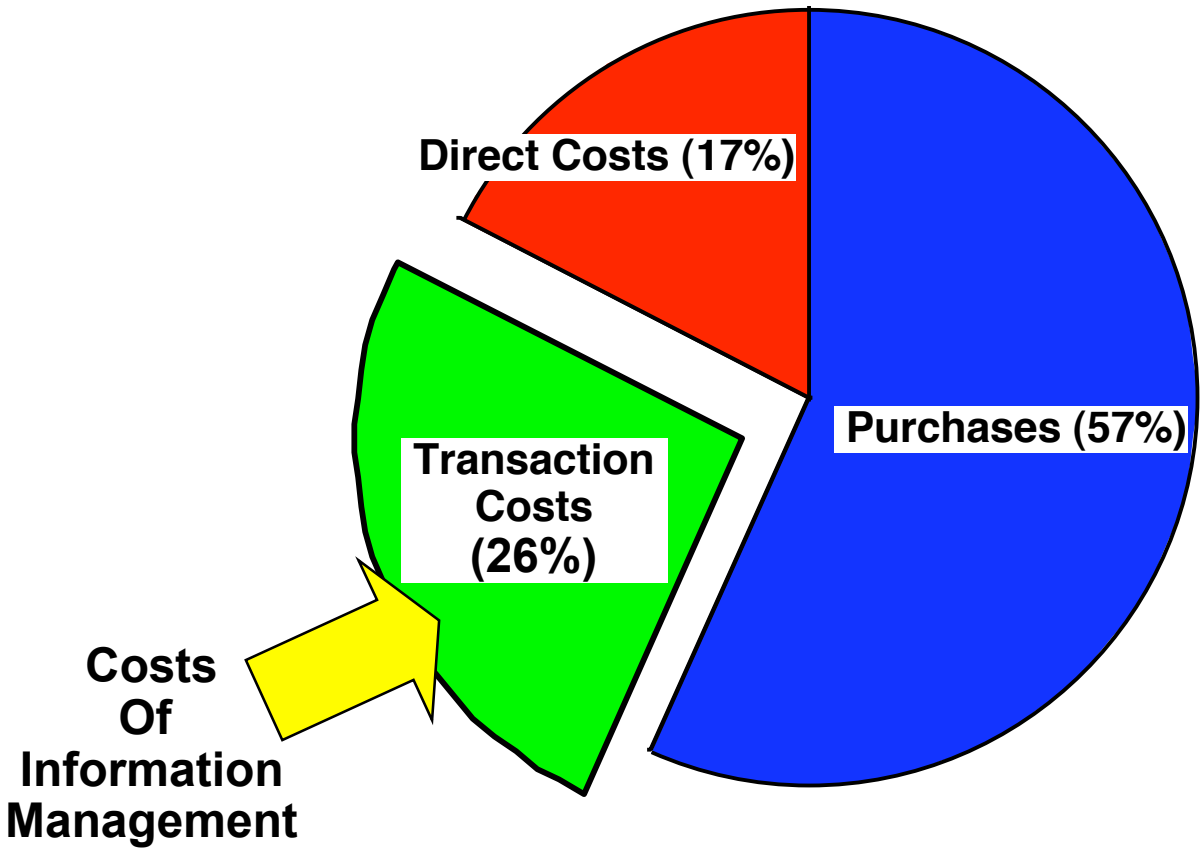
Utility Services

- Standard services
- Usage fees
- Applications market

Outsourcing: Who Will End Up Doing the Work?

Information Productivity

Transaction Costs Now Exceed Direct Costs

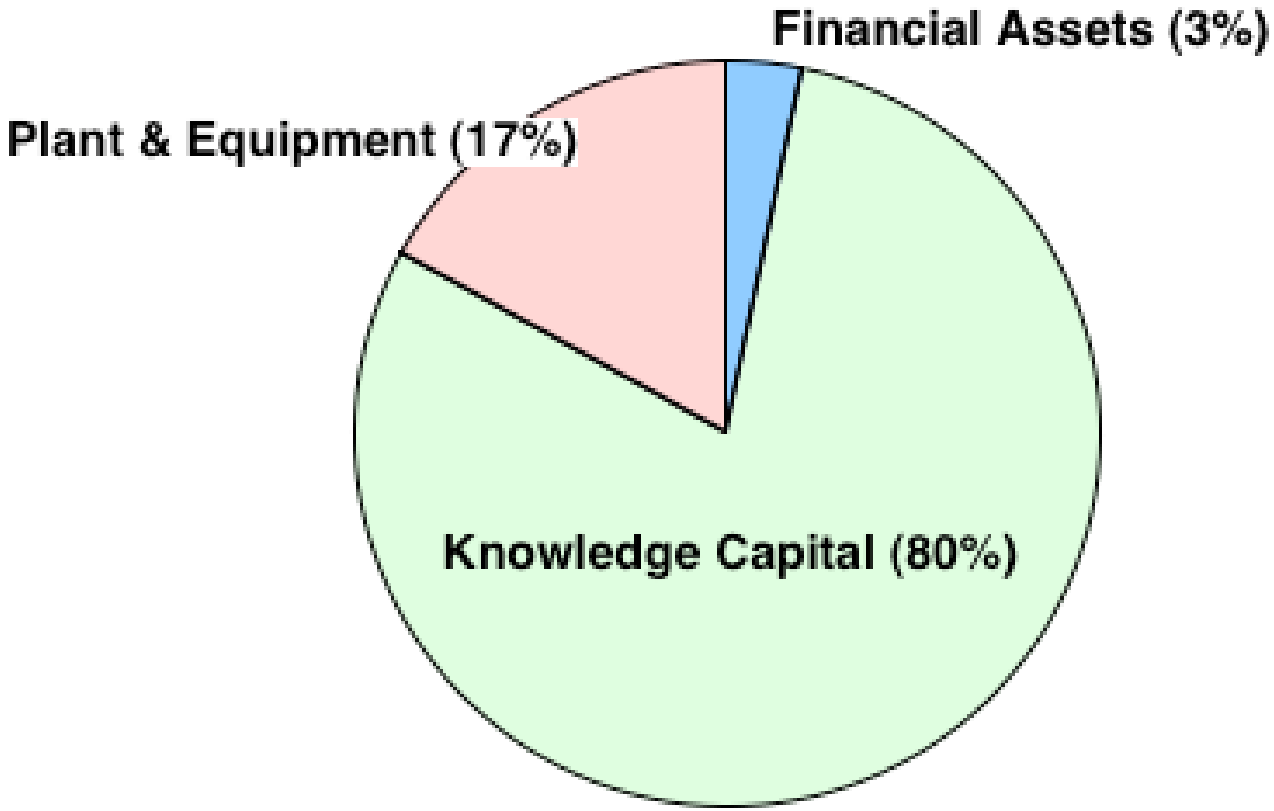


Benchmark Information Productivity

Company	Net Income	Cost of Capital - %	Net Financial Capital Employed	Costs of Information Mgmt	Informatn Productvty
A	$5,891	8.536	$13,242	$7,268	65.5%
B	$2,446	8.08	$7,428	$4,035	45.7%
C	$4,167	8.044	$8,645	$8,830	39.3%
D	$2,110	8.842	$5,165	$4,625	35.7%
F	$3,179	8.284	$8,887	$9,127	26.8%
Your Company	$4,167	8.338	$16,213	$13,103	21.5%
G	$-1,227	7.492	$6,215	$6,780	-25.0%

Information Competition

Winners Compete for Knowledge Capital



SOURCE: 1,899 Global firms, 2002 Revenues of $8.2 Trillion

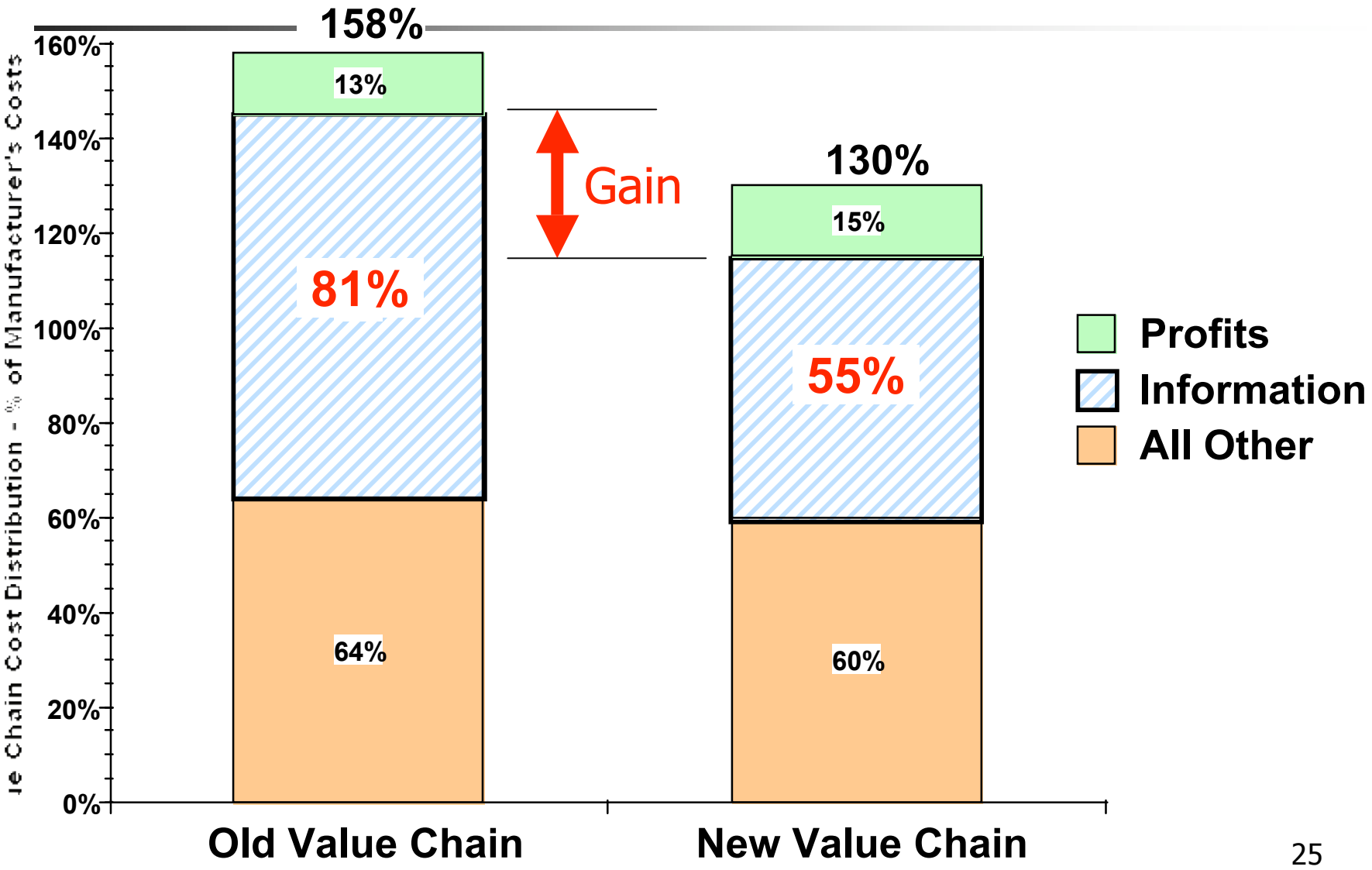
Information Competition and Profitability

	Explanation of Profitability
Market position	**65%**
Strategic moves	**10%**
Operating effectiveness	15%
Random events, luck	10%

Source: The PIMS Program, sample of over 3,000 businesses from over 300 corporations

SOURCE: Empirimetric Corporation

Potential Gains in the Global Automobile Industry



Impacts of Information Technologies

- Information drives economic "arms race".
- Obsolete assets will be discarded.
- Collaboration favors global consolidation.
- I.T. becomes an economic weapon.

Information Security

Safeguard Knowledge Capital

- Secure Archival Repositories
- Index Archival Contents
- Enforce Architecture
- Authenticate Access
- Control Technical Infrastructure
- Apply Risk Insurance Methods

Prescriptions for Alignment

- Deliver cost reductions.
- Generate productivity improvements.
- Produce strategy-based gains.
- Assure security.