



BCG IT SPEND PULSE: HOW COVID-19 IS SHIFTING TECH PRIORITIES

By Federico Fabbri, Akash Bhatia, Alejandro Mayer, Bernd Schlotter, and Jesse Kaiser

THE COVID-19 PANDEMIC HAS upended just about every industry around the world—including tech. Many industry experts expect a serious contraction this year, with some projecting a decline dwarfing the 4% drop observed in the wake of the 2008 financial crisis. Given the high level of uncertainty, specific projections about the size of the impact on the market are not particularly useful. However, in order to adapt, it is valuable for tech vendors to understand how buyers' priorities are shifting; what that shift means for IT budgets; and which customer sectors are holding up relatively well. Absent such insight, tech companies are flying blind as they try to navigate one of the most challenging periods in recent decades.

To help companies make sense of the new reality, we recently conducted a survey of nearly 700 IT buyers in the US and Europe. This BCG IT Spend Pulse found that:

- Certain topics are becoming higher priorities, with technologies that support employees as they work from

home becoming the strongest emerging priority in both the near term (during the crisis) and the medium term (during the economic rebound and through 2022).

- Other topics that were already an area of focus prior to the appearance of COVID-19—the most prominent being the migration of applications to the cloud—look as though they will become even more critical in the rebound.
- The shifting near- and medium-term priorities are reflected in changing demand across different categories of the IT stack, with significant variation in those changes among industries.

As the dynamics of demand evolve, vendors need to ensure that their sales tactics are suited to the new environment. They must position themselves to capitalize on investments in high-priority areas, make sure that they are deploying sales resources effectively and efficiently, adopt digital tools, and integrate go-to-market activities

across sales, marketing, and customer success teams.

The Market Is Not Exactly Zooming—but There Are Pockets of Resiliency

The BCG IT Spend Pulse surveyed a broad sampling of midsize and large companies, with coverage across all sectors. In order to secure proper representation of the tradeoffs among different investments, we recruited respondents who were CIOs or senior decision makers with oversight of their companies' full IT budgets.

The survey revealed the depth and breadth of the economic hit from the pandemic. Somewhat unsurprisingly, 78% of the companies surveyed are experiencing revenue declines, and 46% are laying off or furloughing employees.

Shifting Priorities. The survey also shed light on how the pandemic is reshaping the priorities of buyers both in the near term and during the rebound. It is instructive to look at the dimensions together to understand which issues are likely to be front and center from now through the next year or two. (See Exhibit 1.)

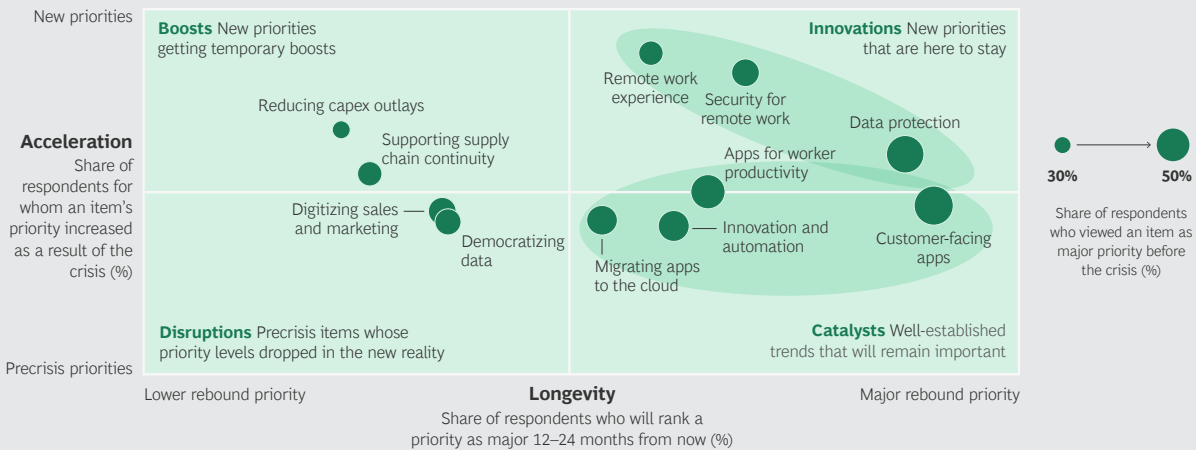
Clearly, reducing IT capital expenditures has taken on greater importance during the

COVID-19 crisis. Nearly 60% of respondents have paused deployments of new technology not currently in their IT stack, 54% have delayed upgrading existing hardware, and 44% have delayed feature add-ons or upgrades to existing software. Notably, even companies whose businesses are not taking a major hit from the pandemic are pulling back: 45% of those companies have paused deployment of new technology and nearly 20% are deferring maintenance expenses. However, the survey finds that reducing IT capital expenditures is unlikely to remain a major priority during an economic rebound: less than one-third of all companies surveyed expect to be cutting IT capital expenditure outlays in a year or two.

Some issues are high priorities now—and are likely to remain so for the foreseeable future. Spending on tools and projects related to remote working, for example, is a higher priority today than it was before the crisis and is likely to remain so during the rebound. Other issues are not considered of higher importance now but are expected to command disproportionate attention over the long term. About 45% of companies surveyed, for example, expect that migrating apps to the cloud will be a major priority over the next year or two.

Impact on Investments Across the Tech Stack. The prioritization of such issues is

EXHIBIT 1 | COVID-19 Is Creating New Priorities—and Many Will Remain Critical in the Rebound



Sources: BCG COVID-19 IT Buyers Sentiment Survey, April 24–May 5, 2020 (n = 674); BCG analysis.

reflected in spending plans across the stack. (See Exhibit 2.) In general, infrastructure is experiencing the greatest contraction in spending, followed by the middle-ware segment. However there is a good bit of complexity and variation in each area.

For instance, there are positive signs even within the hardest-hit categories. Consider investments in wide area networks (WANs) and campus and branch networks. Right now, those categories are experiencing the steepest declines in IT spending—an understandable trend given the dramatic shift to remote working. However, companies also expect to increase investment in the next wave of technology when the economy rebounds. In fact, among the respondents that expect a reduced need for investments in campus and branch networks over the next several years, about 80% anticipate no change or an acceleration in investments for software-defined WANs and secure access service edges over the medium term.

Other categories that support remote working are also seeing upticks in investment, including security and compliance, as well as communication and collaboration tools.

And still others, such as analytics and business intelligence, along with data centers and the cloud, are holding relatively steady.

The picture is also varied for customer segments. The contraction in IT spending in the financial institutions and media customer segments is modest, driven by increased demand for communication and collaboration tools. Meanwhile, the retail and travel and hospitality segments, not surprisingly, are experiencing outside declines in spending across the stack—68% and 75%, respectively.

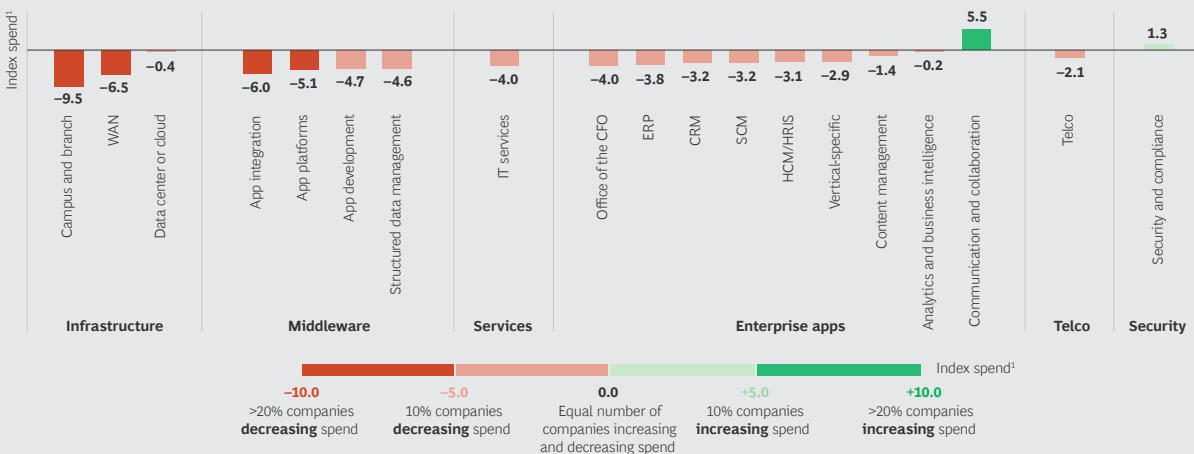
Adjusting the Approach for a Field Sales Force Without a Field

Just as COVID-19 has scrambled spending patterns, it is also forcing changes in sales practices. The survey shed light on the opportunities and challenges this creates—and how tech companies should revamp their sales approaches accordingly.

Increased Digital and Remote Selling. As the pandemic has limited traditional field force’s sales efforts, IT vendors have had to move toward digital and remote sales

EXHIBIT 2 | Impact on Spending Is Not Uniform Across the IT Stack

Q: How do you expect 2020 IT spend to change vs plan within each of the following subcategories?



Source: BCG COVID-19 IT Buyers Sentiment Survey, April 24–May 5, 2020 (n = 674).

Note: CRM = customer relationship management; ERP = enterprise resource planning; HCM = human capital management; HRIS = human resource information system; SCM = supply chain management; WAN = wide area network.

¹The synthetic index is designed to estimate the net direction and magnitude of the percentage of companies increasing or decreasing IT spend. Scores may be greater than +10 or less than -10, if >20% of companies are increasing or decreasing spend, respectively.

channels. Customers, for their part, report ambivalence about engaging with vendors virtually: they are generally comfortable using digital channels to connect with current suppliers but are much less so when it comes to signing on with new ones. In fact, almost one in two of those surveyed expressed some level of concern in working with new vendors; just one in five, however, reported a similar sentiment toward established partners. (See Exhibit 3.)

The reasons underlying any concern related primarily to the evaluation and closing stages. Among the major issues: signing large contracts in the absence of in-person engagement with vendor sales reps and the difficulty of assembling all necessary stakeholders to make an informed decision. (See Exhibit 4.)

However, the survey also found some positive signs for IT companies shifting to digital and remote sales channels. Buyers report that they are adopting new digital tools for selecting vendors, including attending more virtual events, such as webinars and conferences, and more frequently arranging remote product demonstrations. And many buyers identified positive benefits for digital and remote sales beyond near-term health and safety advantages, including the potential for cost savings.

How Vendors Need to Adjust. To win in the new post-COVID-19 reality, tech companies need to take four primary actions:

- Position for the wave.** Companies need to be ready to capitalize on the most critical buyer priorities. Companies in the enterprise software space, for example, can invest in developing new features, or more aggressively promoting existing ones, related to security and collaboration. They can also create attractive offers that bundle high-demand products or solutions with certain core offerings that may be lower priorities among buyers for now. And they should explore partnerships or M&A opportunities that would allow them to expand or strengthen offerings in areas that buyers consider to be high priority.
- Drive efficiency in go-to-market activities.** Companies must assess whether they need to direct more of their selling firepower toward customers in industries where IT spending is holding up relatively well. They also should determine whether to invest in tools to monitor demand in order to be able to respond swiftly to inevitable changes in the market. And they should evaluate if they need to shift some

EXHIBIT 3 | Buyers Are Wary of Signing New Vendors in the Current Environment

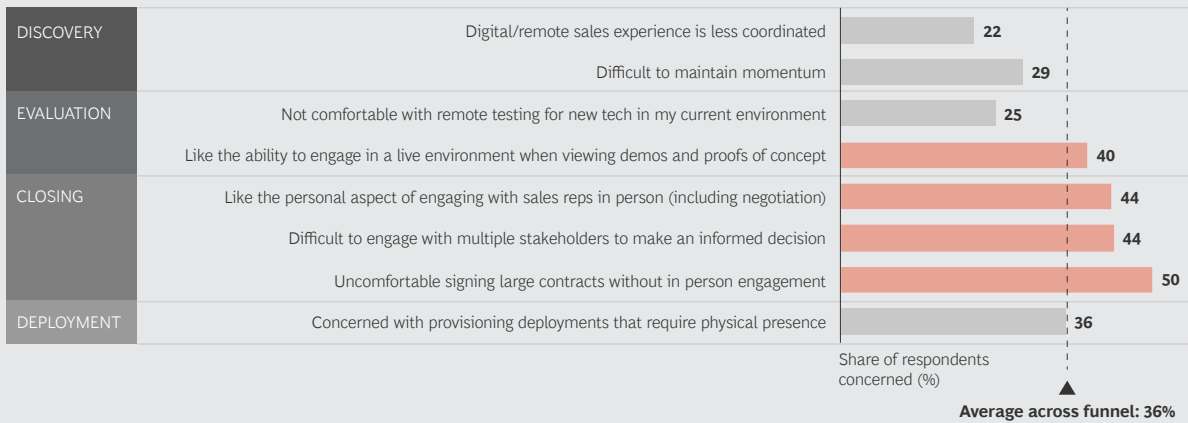
Q: Regardless of your vendors' readiness, how concerned are you given the current constraints (i.e. more digital/remote selling) when it comes to making IT purchases?



Source: BCG COVID-19 IT Buyers Sentiment Survey, April 24–May 5, 2020 (n = 674).
Note: For this survey question, n = 631. Because of rounding, not all percentages add up to 100.

EXHIBIT 4 | IT Buyers Have Concerns With Remote Selling in the Evaluation and Closing Stages

Q: Why are you concerned with digital/remote selling for IT solutions?



Source: BCG COVID-19 IT Buyers Sentiment Survey, April 24–May 5, 2020 (n = 674).

employees away from focusing on landing new business and toward cross-selling or upselling to existing customers. Meanwhile, companies deploying customer success teams (groups that work with customers to ensure successful product adoption) should ensure that those teams are fully engaged with the broader sales force in identifying new leads within the current customer base. When launching such initiatives, companies must adopt a data-driven approach that concentrates on activity tracking and the maximization of productivity. Advanced inside sales teams have been doing this for years, and they can often provide a well-established playbook.

- Harness the power of digital.** Vendors need to aggressively adopt digital sales tools and integrate processes across the entire go-to-market organization. If they do not already have a digital demand center in place to track sales leads centrally and coordinate the handoff of those leads between marketing and sales, then they should create one immediately. They must also invest in

digital tools to create visibility into activities and outcomes across all levels of the sales funnel to avoid any leads or opportunities falling through the cracks.

- Drive integration.** Companies should consider how to achieve better integration across the go-to-market organization (including marketing, sales, and customer success), such as by creating a single “revenue ops” team. This can improve transparency and business agility while reducing costs by removing duplicative roles and tools.

TECH COMPANIES ARE grappling with how to respond to a dramatically changed market—and more surprises are likely to pop up in the months ahead. But amid all the turmoil and noise, it is possible to discern new priorities and buying patterns. Tech companies that move to capitalize on those trends will be poised to lead in the rebound.

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