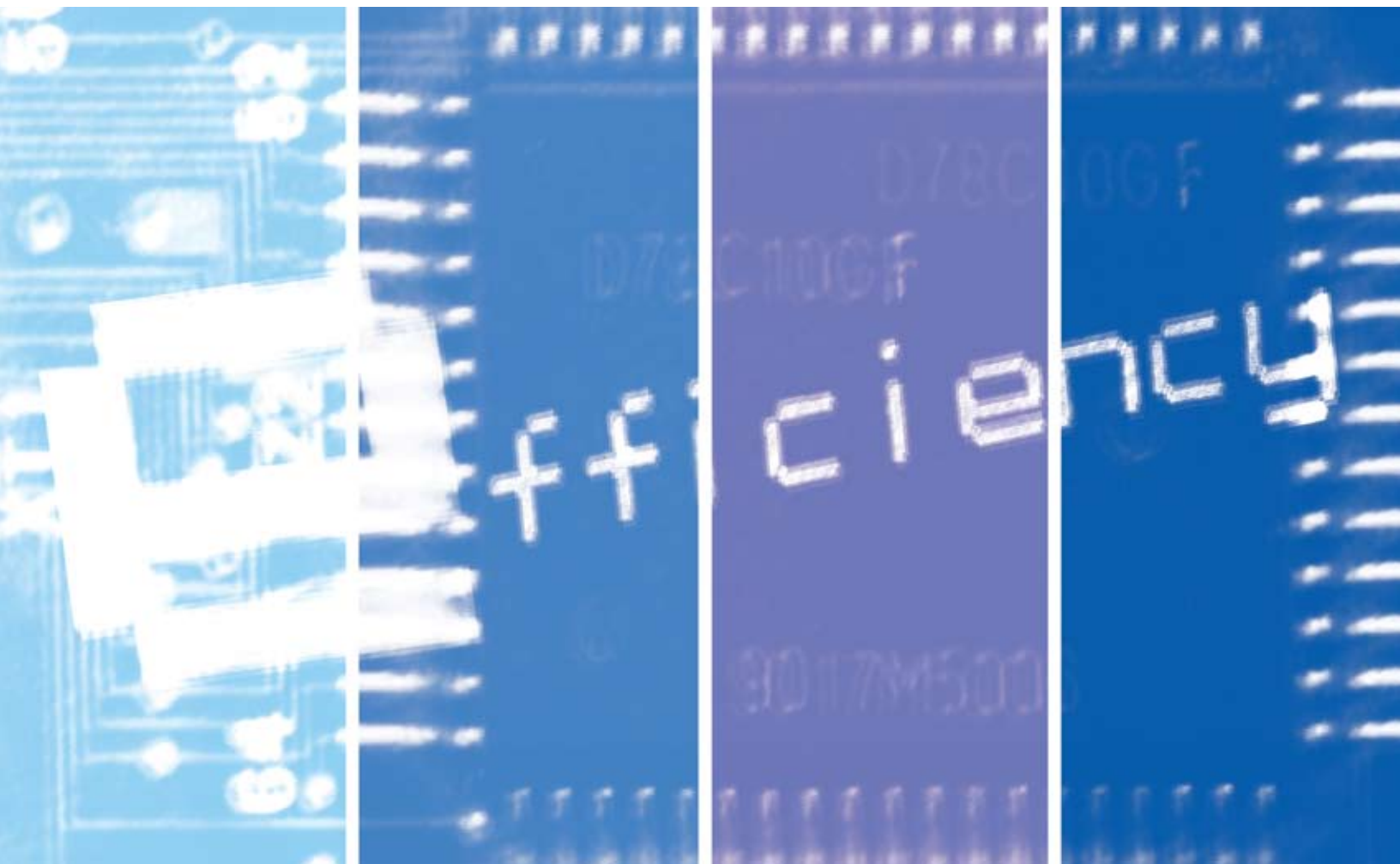


2006

GMA Information Technology Investment and Effectiveness Study





Grocery Manufacturers Association

The Grocery Manufacturers Association (GMA) represents the world's leading branded food, beverage and consumer products companies. Since 1908, GMA has been an advocate for its members on public policy issues and has championed initiatives to increase industrywide productivity and growth. GMA member companies employ more than 2.5 million workers in all 50 states and account for more than US\$680 billion in global annual sales. The association is led by a board of member company chief executives. For more information, visit the GMA web site at www.gmabrands.com



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**EXECUTIVE
SUMMARY**

The *2006 GMA Information Technology Investment and Effectiveness Study*, conducted by IBM on behalf of the Grocery Manufacturers Association (GMA), shows that business executives in consumer products (CP) companies give information technology (IT) more weight than they did a few years ago. Yet neither the status of the IT function nor the allocation of IT investment dollars reflects its increasingly important role.

The most senior IT executives in CP companies typically spend almost one-third of their time working with people in other functions, such as human resources and customer services. They are thus becoming more involved in broad decision making. But, unlike in other industries, few top IT executives report directly to the chief executive officer (CEO). The majority report to the chief financial officer (CFO), so they cannot influence the direction of the business as effectively.

Similarly, responding companies allocate more than two-thirds of their total IT budgets to running the business and improving compliance. Only 21 percent goes toward strategic issues, and an even smaller 10 percent is invested in initiatives to generate greater revenues. Business executives continue to view IT primarily as a means of becoming more efficient and cutting costs, rather than as a tool for supporting growth.

Nevertheless, an increasing number of business executives in CP companies see IT as an essential investment area. Total spending on IT grew 4.5 percent in 2005 and is expected to rise by a similar amount in 2006, although the ratio of IT expenditure to net sales revenues has remained constant – at 2.1 percent – for the past three years.

Most CP companies still rely on in-house personnel for the majority of their IT needs; internal staffing costs account for 46 percent of their operating budgets – more than the next three largest areas of expenditure (external service providers, software and hardware) combined. Responding companies also spend more than half their total applications budgets on two functions: the supply chain and sales and demand fulfillment.

Surprisingly, however, only 55 percent of the CP businesses participating in this year's survey use measures like return on investment (ROI) to evaluate the success of their IT projects. Many companies still use non-quantifiable criteria, despite the evidence that companies which measure ROI typically have higher success rates than those which do not.

Moreover, even though the majority of IT executives now track the success of their projects using non-financial criteria, a significant number of business executives are unaware that such measures are used within their own firms. This may help to explain why they are sometimes wary about investing in IT. The two most frequent reasons business executives cite for hesitating to make an IT investment are lack of clarity about the returns they can expect and competing capital projects with a higher priority.

The technological landscape is continuing to change rapidly. Most CP companies have made considerable progress in implementing various industry initiatives, including Global Data Synchronization (GDS) and electronic data interchange (EDI), although they have adopted a more conservative approach to the introduction of radio frequency identification (RFID) devices. Nearly half report that they are currently piloting RFID internally or in conjunction with a trading partner, but only 3 percent are actively leading the way and aggressively implementing RFID.

One of the biggest IT-related obstacles responding companies face is the complexity of their IT infrastructure – a fact that IT executives recognize, since they list it among their main problems. Many CP firms still run a relatively large number of applications, and a good third of the applications they use are custom-built. This has a direct bearing on the speed and efficiency with which they can implement industry initiatives. Companies with predominantly custom-built applications have been markedly slower to introduce Global Trade Identification Numbers (GTINs) and EDI, for example, than those with predominantly packaged applications.

Despite such difficulties, corporate perceptions of the IT function are becoming increasingly positive. Seventy-four percent of business executives believe their IT departments are effective, or very effective, compared with just 43 percent two years ago. They rate these IT departments highly for their ability to work with other parts of the organization and the alignment of their activities with the company's business strategies.

However, business executives are more critical about the IT function's ability to innovate and communicate. Only 43 percent are satisfied, or very satisfied, with the provision of information regarding new IT products and services. Even more telling, perhaps, is the fact that most business executives do not see IT as a means of supporting growth initiatives, although it is the second most important priority for IT executives. Nor do business executives appreciate the extent to which the complexity of the IT infrastructure can make it difficult for companies to achieve their business objectives. It is thus essential that IT executives in CP companies assume a more proactive role, both in driving the IT agenda and in exerting a much stronger influence on broader business decision making.

INTRODUCTION

The *2006 GMA Information Technology Investment and Effectiveness Study* was conducted by IBM on behalf of GMA. It aims to provide a clear picture of the state of IT within the CP industry; to analyze IT spending and investment trends; and to assess how business executives view the effectiveness of the IT function.

Approach

This year's study is the eighth such analysis to be completed. The findings are based on two separate surveys administered between November 2005 and February 2006: the IT Spending and Investment Survey; and the IT Effectiveness Survey. The IT Spending and Investment Survey targeted senior *IT executives* in GMA-member companies and focused on capturing information about IT spending and strategy. The IT Effectiveness Survey targeted senior *business executives* in GMA-member companies and focused on evaluating the effectiveness of IT.

Thirty-seven IT executives completed the IT Spending and Investment Survey, while 66 business executives completed the IT Effectiveness Survey. In all, 103 respondents from 46 companies with revenues ranging from US\$160 million to US\$14 billion participated in the study. (The figures in the remainder of the report are based on the number of respondents who answered each question, since not all respondents answered every question.) The overall response rate was higher than in earlier GMA IT investment and effectiveness studies (and particularly strong for the IT Effectiveness Survey), illustrating both the continued importance and relevance of IT to business and IT executives alike.

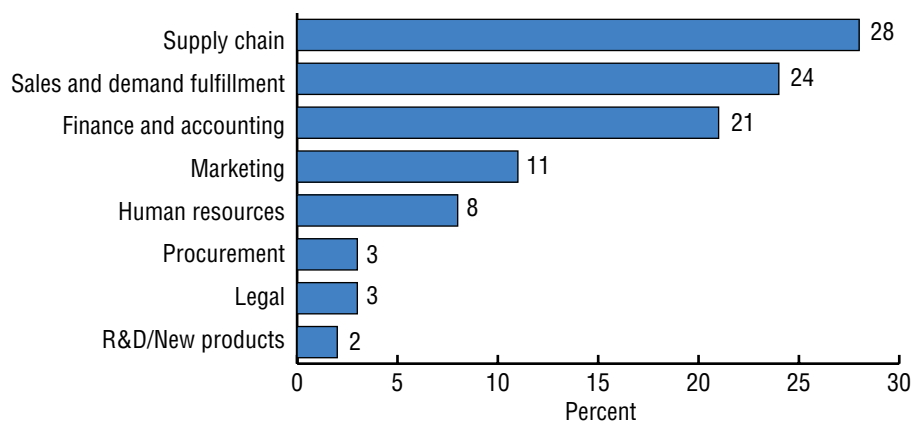
IBM presented the preliminary results of the latest study at the GMA Information Systems/Logistics Distribution Conference in April 2006. This report provides a more detailed analysis of the data. It includes comparisons of the findings with those of the *2004 GMA Information Technology Investment and Effectiveness Study* and similar studies conducted by Forrester Research, where relevant. It also draws on IBM's surveys, thought leadership and extensive experience from client engagements. Appendix 1 provides a brief discussion of the findings in an international context, since GMA is interested in extending the geographic range of future surveys.

Profile of respondents

The IT executives who participated in the IT Spending and Investment Survey represent a cross-section of CP companies. Thirty-three percent work for large companies (with revenues of US\$5 billion or more); 43 percent work for medium-sized companies (with revenues of US\$1-5 billion); and 24 percent work for small companies (with revenues of less than US\$1 billion). These organizations generate more than four-fifths of their revenues in North America. Fifty-six percent are global operations, 33 percent domestic companies and 11 percent divisions of larger concerns.

The pool of senior business executives who provided feedback regarding the effectiveness of IT is equally diverse. Twenty-three percent are CEOs or chief operating officers (COOs); 72 percent are vice presidents or above; and 5 percent are directors or managers. They represent a wide range of functions, regardless of the position they occupy within the organizational hierarchy (see Figure 1).

FIGURE 1:
The functions
represented by
business executives



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.
Note: Survey responses for 66 business executives responding to the IT Effectiveness Survey.

PERSPECTIVES ON IT

The importance of IT

Business executives in CP companies widely regard IT as a strategic asset in which it is essential to invest. But neither the allocation of IT budgets nor the position of the most senior IT executive within the corporate hierarchy reflects the strategic role the IT function is increasingly being expected to play.

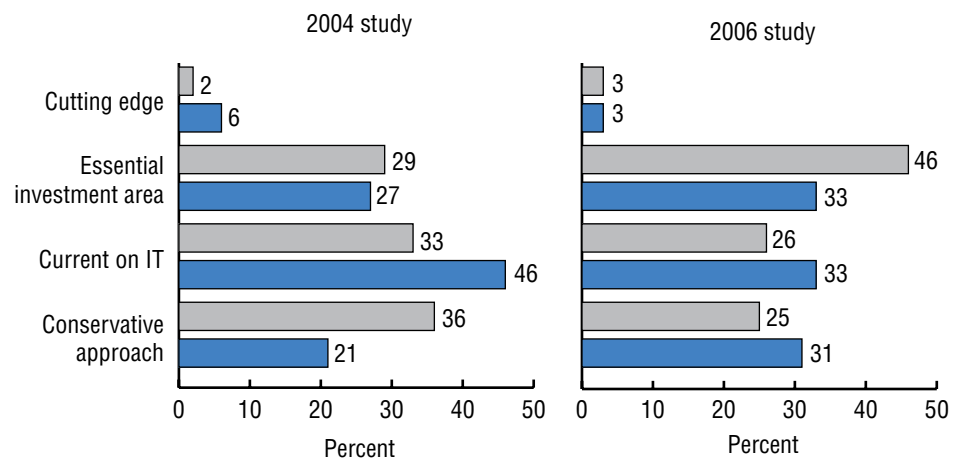
Business executives in CP companies attribute more importance to IT than they did several years ago, but IT executives clearly think that they still fail to give it sufficient weight. Respondents were asked which best describes their companies' use of IT:

- We compete at the cutting edge of innovation and use IT as a competitive weapon
- We view IT as an essential investment area and invest in leading, but proven, technologies
- We stay current on technology without getting too far ahead of the competition; or
- We take a conservative approach, using proven, mature technologies.

Forty-six percent of business executives said that their companies see IT as an essential investment area, compared with just 29 percent of those who were surveyed in 2004. And only 25 percent said that their companies take a conservative approach, compared with 36 percent two years ago. However, IT executives are much more divided in their views: 33 percent said that their companies see IT as an essential investment area; 33 percent that their companies like to stay current; and 31 percent that their companies take a conservative approach (see Figure 2). This difference in opinions shows that IT executives think their companies take IT less seriously than colleagues in other functions believe.

FIGURE 2:
How responding
companies use IT

■ Business
■ IT



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.

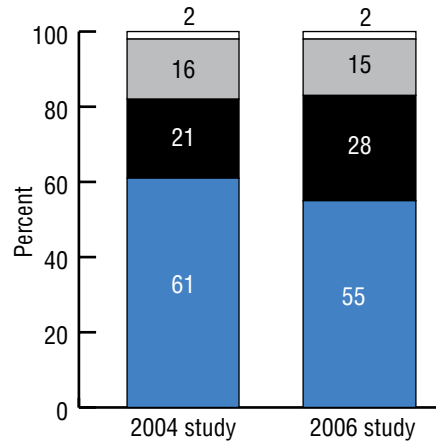
“We are focused on enabling the business, not using IT as a strategic advantage on its own. Everything must be in the context of supporting business goals and objectives”

– survey respondent

Several other pieces of evidence suggest that business executives may indeed be paying less attention to IT than they should. The majority of business executives in CP companies still consider IT a strategic asset and a growing number regard it as a return-producing investment (see Figure 3). Yet they invest relatively little in IT's revenue-producing potential.

FIGURE 3:
How business executives view IT

- Non-value-adding cost
- Necessary business expense
- Return-producing investment
- Strategic asset

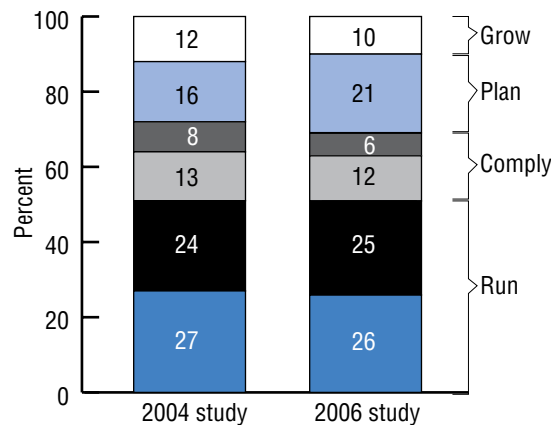


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 Information Technology Investment and Effectiveness Study.

Sixty-nine percent of the total budget responding companies allocate for IT is spent on running the business and improving compliance. Another 21 percent is spent on strategic issues, and only 10 percent on initiatives to generate more revenue. This is likely not enough to deliver real growth (see Figure 4).

FIGURE 4:
How responding companies allocate their IT budgets

- Revenue growth-producing
- Business strategy
- Regulatory compliance
- Customer compliance
- Cost of doing business
- Reducing business costs



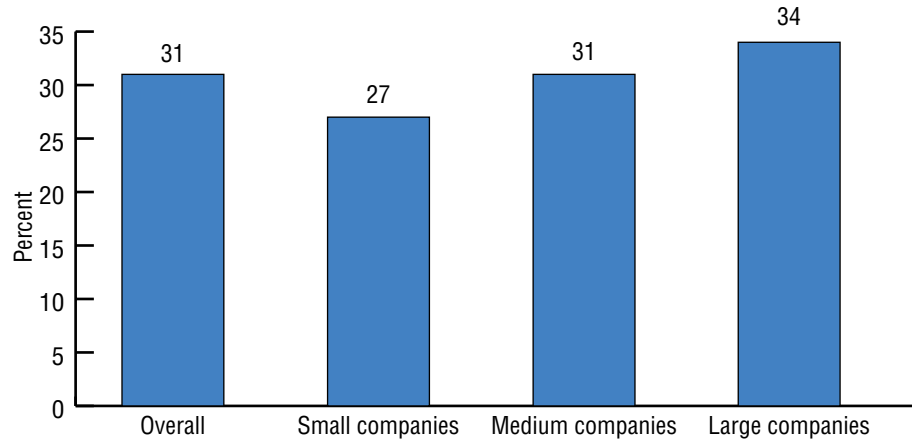
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.

“New products, R&D, marketing ... [we] focus on providing solutions that help grow the top line”

– survey respondent

FIGURE 5:
Percent of time spent outside IT by the most senior IT executive

The most senior IT executives in CP companies spend, on average, almost one-third of their time working with people in other functions, like human resources and customer service (see Figure 5). Predictably, the most senior IT executives in large companies spend slightly more time working in other areas than those in small companies, since large companies are often more complex. This suggests that top IT executives are involved in broad decision making, as distinct from solely functional activities.



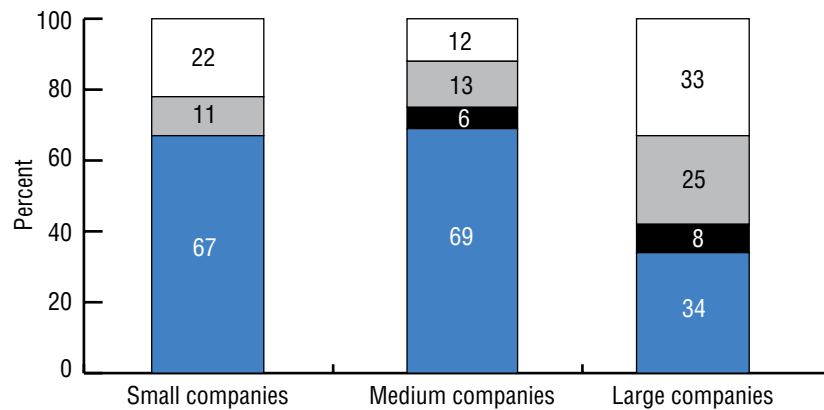
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

The reporting structure

But the reporting structure at many CP companies creates a significant barrier that blocks CIOs from participating fully in broader decision making. Only 16 percent of the top IT executives in responding companies report directly to the CEO; a full 55 percent report to the CFO. Even in large companies only 25 percent of the top IT executives report directly to the CEO. In small and medium-sized companies, the proportions are lower still – at 11 percent and 13 percent, respectively (see Figure 6).

FIGURE 6:
The IT direct reporting relationship

- Other
- CEO
- COO
- CFO



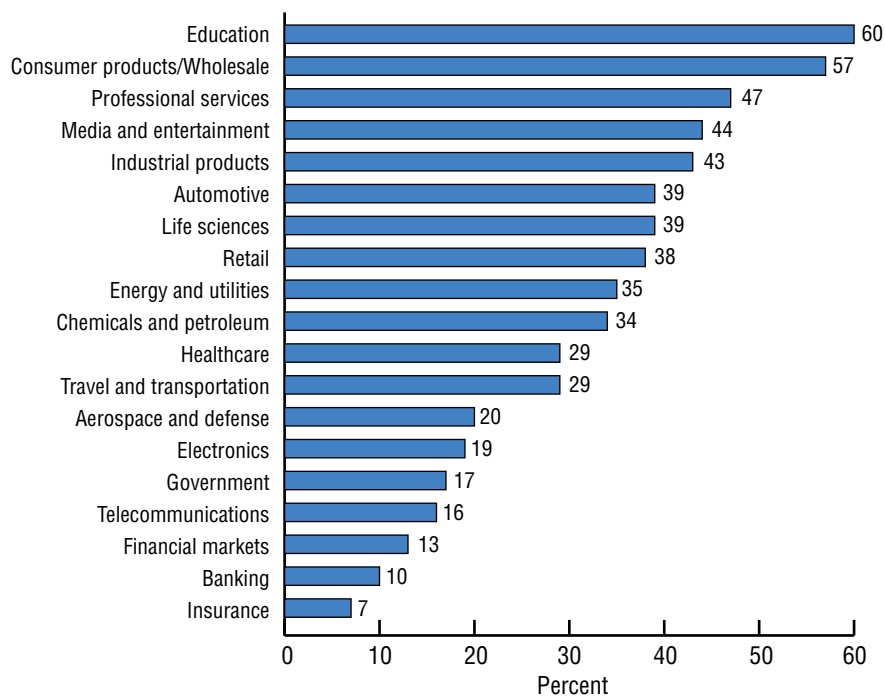
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

“We are focused on business change. The key is leadership. IT can lead but, if IT leadership is tactical, the business will have the lead”

– survey respondent

This is very different from the situation in other industries. Indeed, research conducted by IBM as part of the *2005 Global CFO Study* shows that the percentage of CIOs who report to the CFO is higher in the CP sector than it is any other area except education (see Figure 7).¹ A study recently published by Forrester Research provides further evidence that the reporting structure in GMA-member companies differs dramatically from that in other industries, where between 65 percent and 76 percent of CIOs report to the CEO or President (see Appendix 2).²

FIGURE 7:
The percentage of CIOs reporting to the CFO in different industries



Source: IBM Global Business Services, *The 2005 Global CFO Study*.

A CIO who reports to the CFO rather than the CEO is not in a position to influence the direction of the business as effectively. Correlation analysis of the survey results shows, for example, that companies in which the CIO reports to the CEO typically invest 29 percent of their IT funds in areas that are related to business strategy, versus 22 percent in companies where the CIO reports to the COO or CFO, and just 12 percent in companies where the CIO reports to someone else.³

Again, this is in line with Forrester Research's findings. In a report published in February 2006, the technology research firm concluded that when the CIO reports to the CFO, the focus is on "financial controls and order visibility." When the CIO reports to the CEO, the focus is on "processes and technologies that build brand relevance at the point of purchase."⁴ In other words, a CIO who reports to a CFO is more likely to be engaged in cutting costs than in growing the business.

The issue is, then, that the typical CP IT function is increasingly expected to assume a more significant role in shaping the future of the business. Yet the IT function is still somewhat marginalized and handcuffed by virtue of its reporting structure.

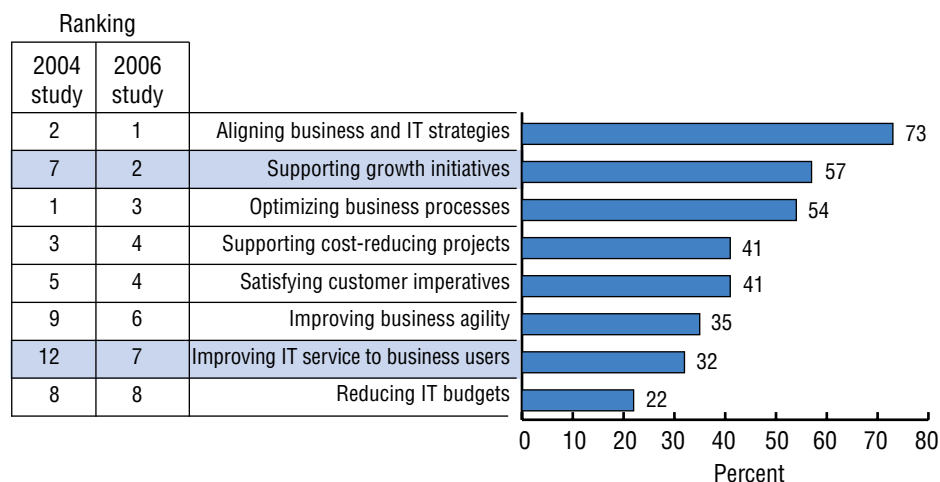
Different concepts of the role of IT

IT executives believe that one of their most important priorities is to support growth initiatives. But even though business executives consider IT a strategic asset, they still see it primarily as a means of creating greater efficiency and cutting costs.

If there is a gap between the role the IT function is expected to assume and the status it is accorded, there is another gap between the priorities of IT and business executives. As Figure 8 shows, for IT executives the three most important priorities for the next 12 months are aligning the IT strategy with the business strategy, securing top-line growth and optimizing business processes.

FIGURE 8:
The priorities of IT executives for the next 12 months

■ Major discrepancies between 2004 and 2006



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.

Note: The sum of all percentages exceeds 100 percent because respondents were asked to select their top five priorities.

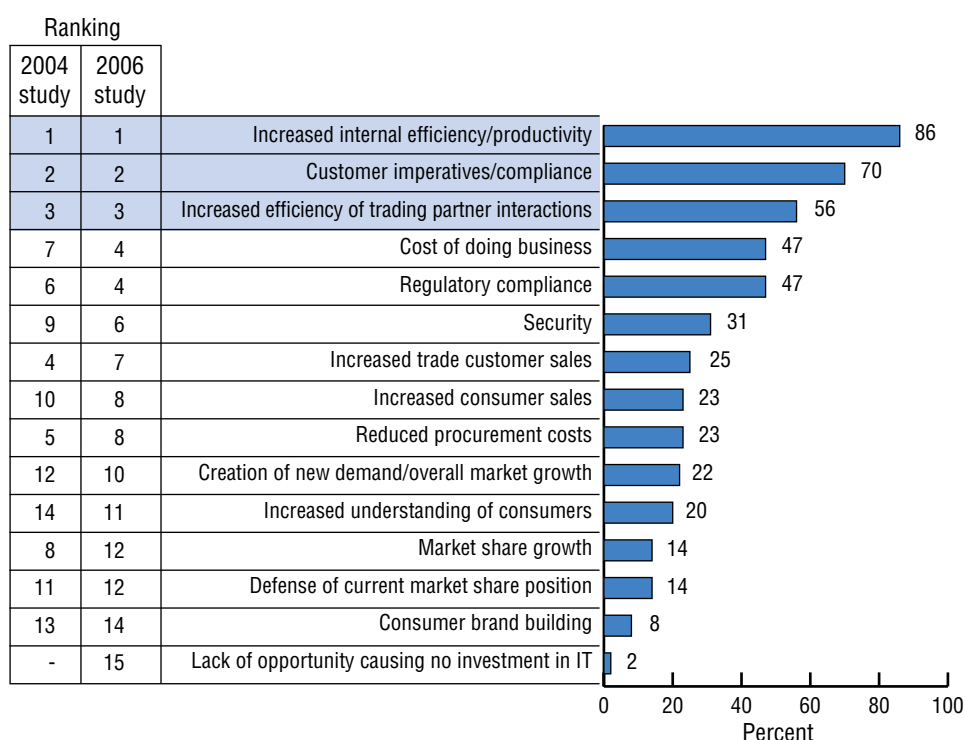
“Our near-term focus areas are “automation and IT around capturing insights, enabling innovation, knowledge management, data analytics and business intelligence...”

– survey respondent

Two features are especially worth noting here. First, the fact that IT executives are so concerned about the alignment of the IT and business strategies suggests that they believe there is more to be done in this respect. Second, there has been a major shift in emphasis over the past two years. Supporting growth initiatives ranked only seventh on the list of priorities for IT executives who participated in the previous study.

However, business executives continue to view IT primarily as a tool for improving the efficiency of the organization and cutting costs. When asked what they regard as the most important reasons for investing in IT, 86 percent of business executives cited increases in internal efficiency or productivity; 70 percent better compliance with customer and regulatory imperatives; and 56 percent greater efficiency in interacting with trading partners (see Figure 9).

FIGURE 9:
The most important IT investment drivers for business executives



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.

Note: The sum of all percentages exceeds 100 percent because respondents were asked to select their top five priorities.

FIGURE 10:
The differences in the
agendas of IT and
business executives

Figure 10 illustrates the divergence between the priorities of business executives and IT executives even more clearly. Business executives identify 15 key drivers for investing in IT, but only four are related to revenue growth. Moreover, they rank those drivers only seventh (increasing trade sales), eighth (increasing consumer sales), tenth (stimulating new demand or overall market growth) and twelfth (increasing market share) in order of priority.

IT respondents' view	Business respondents' view
1 Aligning business and IT strategies	1 Increased internal efficiency/productivity
2 Supporting growth initiatives	2 Customer imperatives/compliance
3 Optimizing business processes	3 Increased efficiency of trading partner interactions/transactions
4 Supporting cost-reducing projects	4 Cost of doing business
4 Satisfying customer imperatives	4 Regulatory compliance
6 Improving business agility	6 Security
7 Improving IT service to business users	7 Increased trade customer sales
8 Reducing IT budgets	8 Increased consumer sales
9 Governance and management of IT organization	8 Reduced procurement costs
10 Global Data Synchronization	10 Creation of new demand/overall market growth
10 Improving ROI of IT capital	11 Increased understanding of consumers and consumer needs
12 Improving financial reporting	12 Market share growth
12 Security	12 Defense of current market share position
14 Customer collaboration	14 Consumer brand building
14 Regulatory compliance	15 Lack of opportunity causing no investment in IT
16 Improving trade customer service	
16 Retaining skilled staff	
18 RFID/EPC	
18 Maintaining pace with technology changes	
18 Other	
21 E-business projects	
21 Ensuring disaster recovery/business continuity	

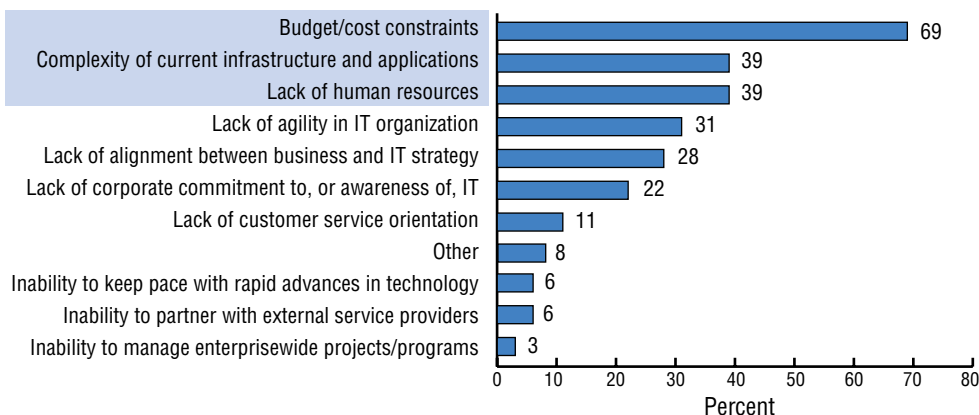
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

The barriers to success

IT executives say that the main barriers to making the IT function more effective are budgetary restrictions, lack of human resources and the complexity of the existing IT infrastructure. But the biggest issue for business executives is uncertainty about returns on investment in IT.

What, then, are the barriers to creating a more effective IT function? The three biggest obstacles IT executives say they face are budgetary constraints, the complexity of the infrastructure and applications that are already in place and lack of human resources (see Figure 11).

FIGURE 11:
The obstacles that reduce the effectiveness of the IT function



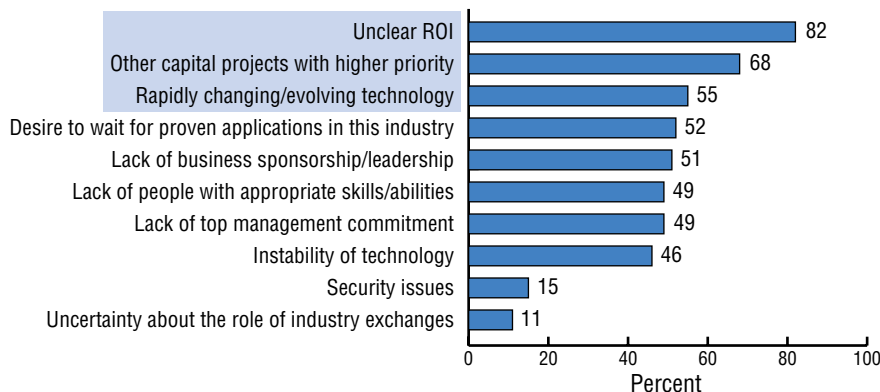
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.
 Note: The sum of all percentages exceeds 100 percent because respondents were asked to select the top three factors.

“We are a zero overhead growth function as measured versus operating budget”

– survey respondent

Conversely, the three most frequent reasons why business executives hesitate to make an IT investment are unclear returns on investment, competing capital projects with a higher priority and technologies that are rapidly changing or evolving (see Figure 12). In fact, it is notoriously difficult to measure ROI in IT projects which take place in the context of multiple functional initiatives or span the entire enterprise. Nevertheless, the survey results suggest that many CIOs need to argue the business case for their IT projects more effectively.

FIGURE 12:
The reasons why business executives hesitate to make an IT investment



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.
 Note: The sum of all percentages exceeds 100 percent because respondents were asked to select the top three factors.

The key issues IT and business executives identify are thus budgets, human resources, returns on investment and the complexity of the technological infrastructure. We shall look at each of these issues more closely in the following pages.

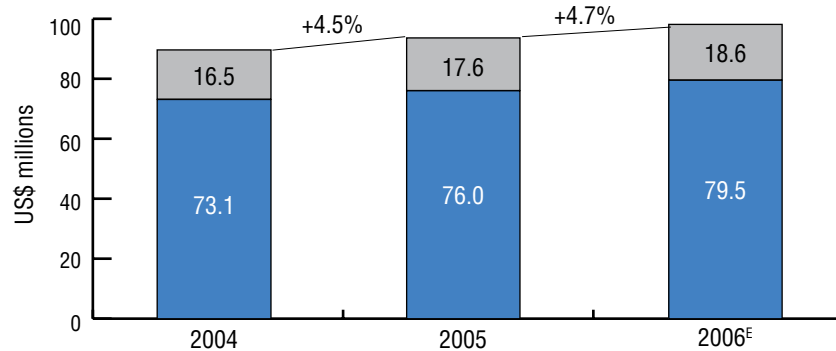
THE IT BUDGET

The proportion of their revenues that CP companies invest in IT is relatively stable, but it is less than companies in many other industries spend on IT.

Responding companies, on average, plan to spend US\$98.1 million on IT in 2006: US\$18.6 million on capital projects and US\$79.5 million on operating expenses. This is 4.7 percent more than the total budget they allocated for IT in 2005 – and a marginally greater uplift than the 4.5 percent increase in the budget between 2004 and 2005 (see Figure 13).

FIGURE 13:
The average IT budget of responding companies

- Capital budget
- Operating budget



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.
^E = Estimated.

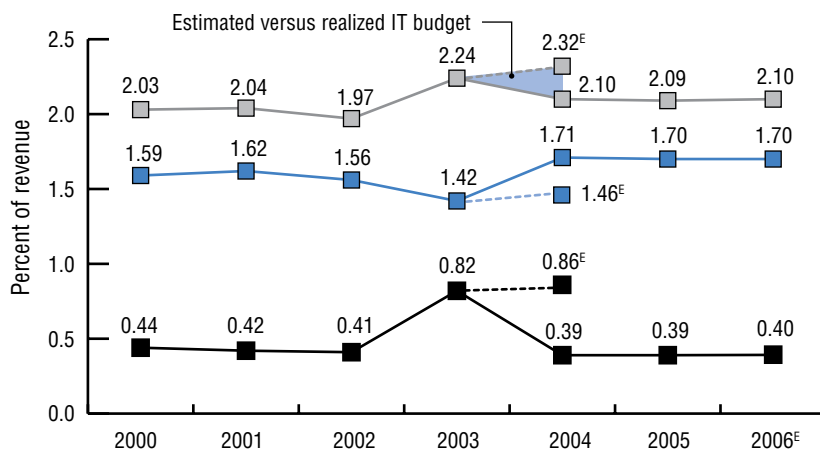
“If we had 10 percent additional budget, we would spend/invest in retail execution and business intelligence”

– survey respondent

However, actual IT spending is not always the same as the amount that has been budgeted. In 2004, for example, the information provided by responding companies shows that the ratio of *projected* expenditure on IT to revenues was 2.3 percent, but the ratio of *actual* expenditure on IT to revenues was just 2.1 percent; in monetary terms, this was 10 percent less than originally envisaged (see Figure 14).

FIGURE 14:
The gap between projected and actual expenditure on IT

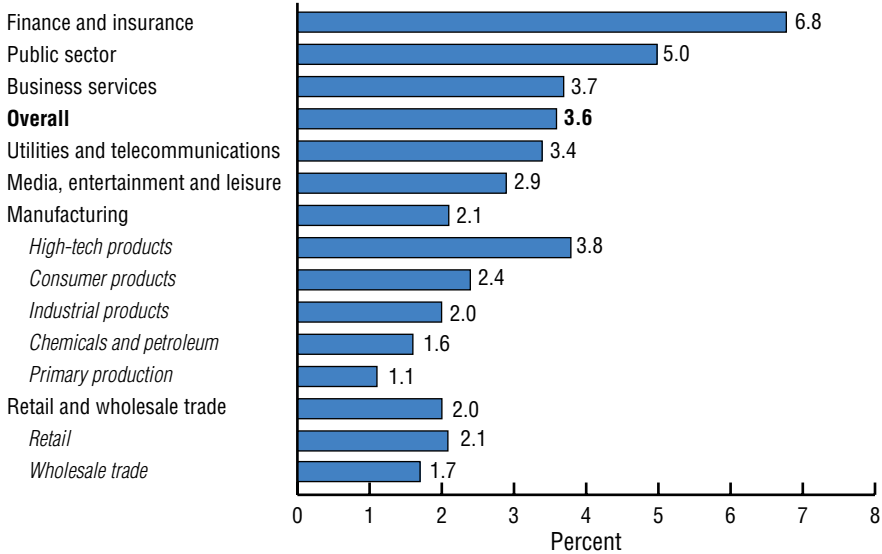
- Total IT budget
- Operating budget
- Capital budget



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.
^E = Estimated.

Yet CP companies already spend less on IT than companies in most other sectors. In its latest survey of US IT spending patterns, Forrester Research reports that projected expenditure on IT as a percentage of revenues is lower in the CP industry than in 11 of the 15 other industries it analyzed (see Figure 15). Indeed, financial services companies and public-sector organizations typically invest 6.8 percent and 5 percent of their revenues respectively – more than double the proportion CP companies invest.⁵

FIGURE 15:
Projected IT expenditure as a percentage of revenues in various industries

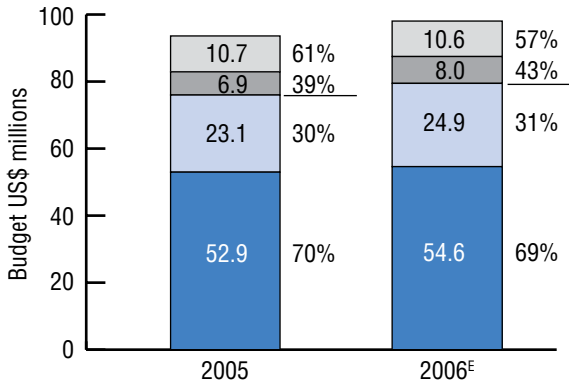


Source: US IT Spending Benchmarks for 2005, Forrester Research Inc., May 24, 2005.

The breakdown between new initiatives and ongoing IT operations is forecast to stay constant. Responding companies plan, on average, to spend US\$35.5 million developing new capabilities and US\$62.6 million maintaining their existing capabilities (see Figure 16).

FIGURE 16:
IT expenditure on new and current capabilities

- Capital budget (developing new capabilities)
- Capital budget (maintaining capabilities)
- Operating budget (developing new capabilities)
- Operating budget (maintaining capabilities)

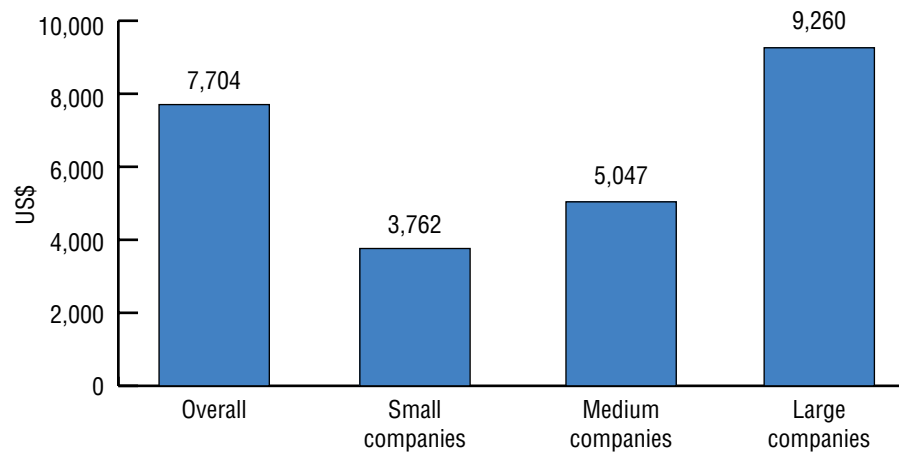


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.
[£] = Estimated.

They intend to devote 31 percent of their operating budgets and 57 percent of their capital budgets to new initiatives, which is directly in line with their expenditure on new initiatives in 2005. However, everything else being equal, a company which spends a smaller proportion of its total IT budget on maintenance, and a larger proportion on new capabilities, than its peer group will likely have better business results.

Large companies spend 45.5 percent more than medium-sized companies, and 59.4 percent more than small companies, on IT per employee (see Figure 17). However, the average IT budget per employee is now lower than at any time in the past three years. The difference is small; it ranges from a high of US\$7,904 to US\$7,704 per employee, and may be attributable to the fact that many CP companies have now finished implementing ERP systems.

FIGURE 17:
The IT budget per
employee, 2005



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

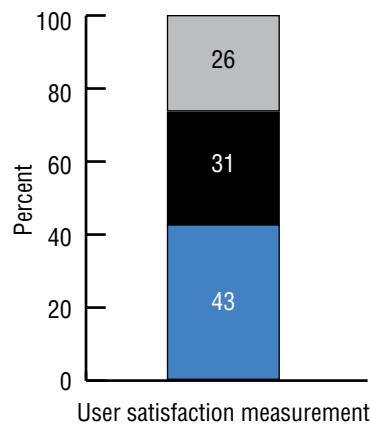
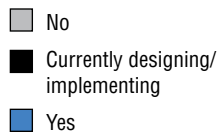
MEASUREMENT OF IT

Most IT projects in CP companies are on time and within budget, and meet their stated objectives. But a substantial number of responding companies still rely on non-quantifiable criteria rather than financial measures to evaluate the success of those projects. Without “hard” measures of what prior projects have delivered – such as ROI – they are unlikely to increase the amount they spend on IT.

The old adage that what gets measured gets managed is as true for IT as it is for any other part of a business. So how does the typical IT function in the CP sector score in this regard? Not very well, it seems.

Ninety-two percent of IT executives report that they have a clearly defined mission within the context of the overall business strategy. But only 43 percent say that they have a formal process for measuring the extent to which business users are satisfied with the services they provide, although another 31 percent say that they are currently designing or implementing such programs (see Figure 18). This reflects the increasing extent to which IT executives are focusing on customer service in the management of their operations.

FIGURE 18:
Measurement of user satisfaction with IT



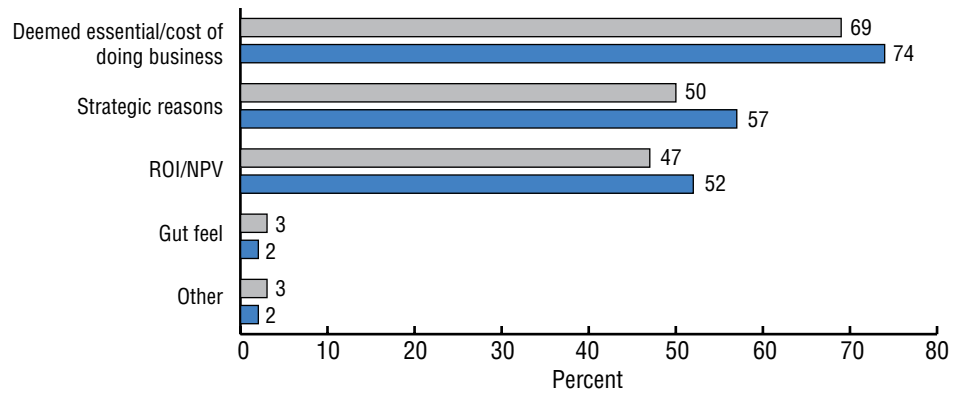
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Not surprisingly, large companies lead the way. Fifty-nine percent of the IT functions in large companies already measure the extent to which users are satisfied with the service they provide, while another 33 percent are currently implementing some sort of feedback program. By contrast, only 37.5 percent of the IT functions in small companies and 33 percent of the IT functions in medium-sized companies already have such tools in place, and only 37.5 percent and 27 percent, respectively, are currently implementing them.

However, this is by no means the only weakness CP companies display when it comes to measuring IT. Eighty-two percent of IT executives and 83 percent of business executives report that the IT projects their firms undertake are completed on time and within budget, and meet their stated objectives. But many companies still put more emphasis

FIGURE 19:
The criteria for evaluating IT investments

■ 2006 study
■ 2004 study



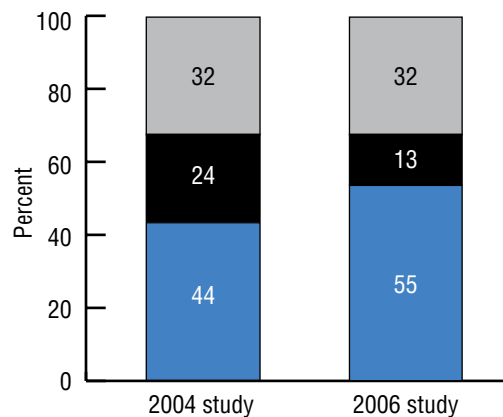
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.

Note: The sum of all percentages exceeds 100 percent because respondents were asked to select their two top criteria.

Worse still, only 55 percent of responding companies currently measure their ROI in IT projects – although the situation is better than it was in 2004, when only 44 percent of responding companies did so. Nearly half the firms which were then designing or implementing benefit-tracking tools are now using them (see Figure 20).

FIGURE 20:
The existence of a tool for measuring returns on investment

■ No
■ Currently designing/ implementing
■ Yes



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.

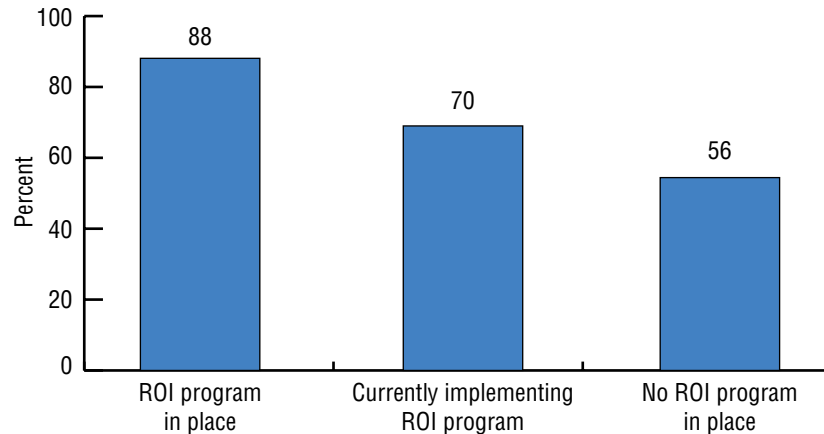
“Everything must have an ROI associated with it. Anything over \$500K must be approved by the senior leadership team ... [which uses] NPV analysis”

– survey respondent

This reticence about measuring ROI in IT has at least two causes. As we have already indicated, it is often difficult to track the benefits of IT projects that are global or cross-corporate in scope or IT projects that are taking place simultaneously with other projects in the same part of the organization. But business executives do not necessarily want to be held accountable for ROI on projects they do not completely control, and they are also wary of double-counting benefits that could be allocated to multiple projects or parts of the organization.

Nevertheless, there are compelling grounds for adopting a quantitative approach, since unclear ROI is the single biggest reason business executives give for hesitating to invest in IT. Using hard financial measures provides a benchmark for future initiatives. It also appears to increase the probability that they will be successful. The percentage of IT projects which meet their objectives, are on time and within budget is 88 percent in companies that measure their ROI in IT – more than one-and-a-half times the 56 percent success rate in companies that do not (see Figure 21).

FIGURE 21:
Project success rates



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

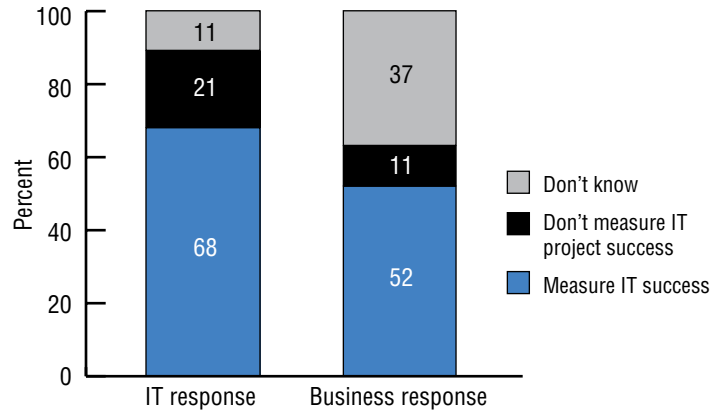
“IT investment return is not adequately identified and/or tracked”

– survey respondent

Moreover, there is a close correlation between those companies which have a program to measure ROI in place and those which believe IT helps to shape their business strategy. This link suggests that organizations with the foresight to measure ROI recognize the value IT can contribute at a strategic level.

It is equally important for IT executives to publicize the fact that they measure the success of the projects they undertake, whatever criteria they use. Although 45 percent of responding companies do not currently measure ROI, 68 percent of IT executives say that they have some sort of measurement system in place. But only 52 percent of business executives are aware that such programs exist within their own companies (see Figure 22). This suggests that some IT executives have failed to explain what they do very effectively, and that they need to improve their communications with other areas of the business.

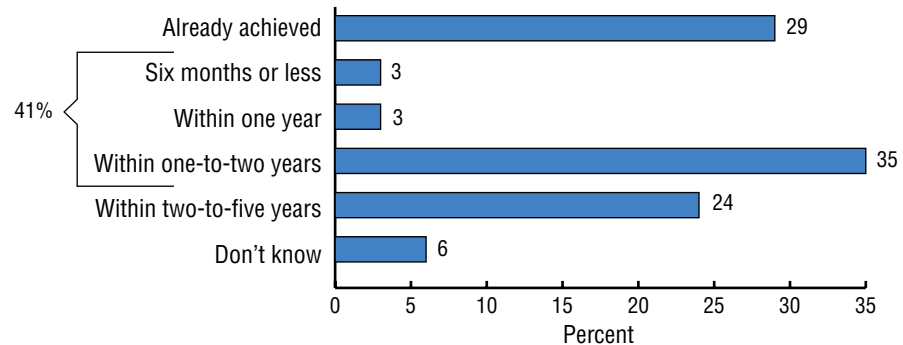
FIGURE 22:
The percentage of IT executives who measure success rates relative to the percentage of business executives who are aware of such measures



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Despite these shortcomings, more than two-thirds of respondents – irrespective of whether they are IT or business executives – believe that their companies have either already achieved a “satisfactory” return on their existing IT investments or will do so within a one-to-two year timeframe. Twenty-nine percent of those surveyed report that their companies have already achieved a satisfactory ROI, while 41 percent note that they expect their companies to do so sometime within the next two years (see Figure 23).

FIGURE 23:
The percentage of responding companies reporting a satisfactory return on their existing IT investments



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study
 Note: These statistics include all respondents, not just those who said they currently have an ROI measurement program in place.

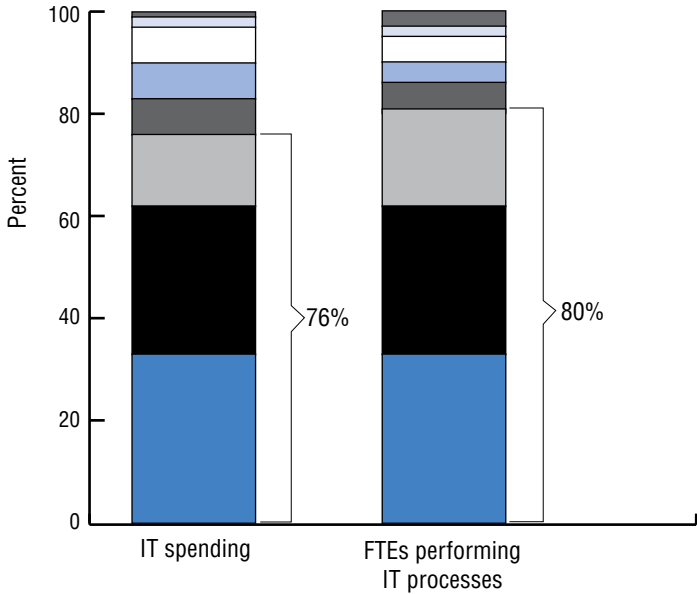
THE ALLOCATION OF IT RESOURCES AND PERSONNEL

CP companies devote most of their IT resources to operational activities rather than high-level issues such as risk management. They spend nearly half their IT operating budgets on personnel (and typically rely on employees rather than contract workers). They spend 60 percent of their IT capital budgets on software and computing equipment.

Responding companies typically spend 76 percent of their IT budgets on operational activities and 24 percent on the management of their IT processes. They allocate their human resources in a very similar fashion; 80 percent of the full-time equivalents (FTEs) working in the IT function are engaged in operational activities, while 20 percent are involved in managing processes. But only 2 percent of IT spending and 2 percent of the workforce is used to manage business resiliency and risk (see Figure 24). This is a remarkably low proportion of resources to devote to such a key issue.

FIGURE 24:
The allocation of IT expenditure and FTEs by process category

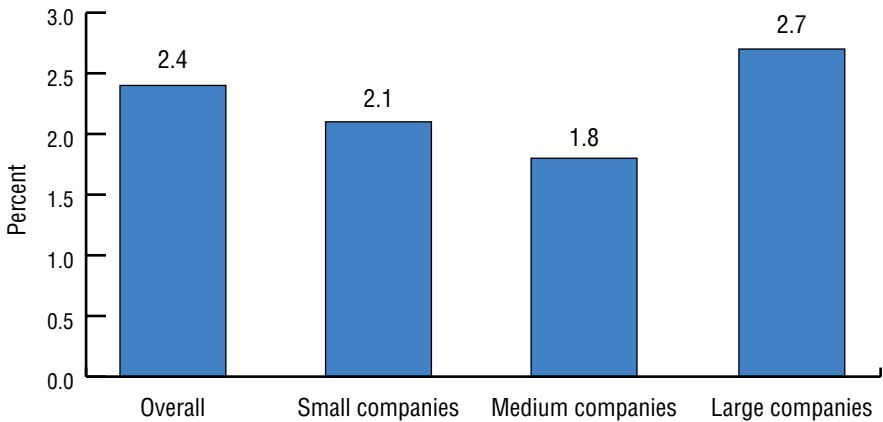
- Manage IT knowledge
- Manage business resiliency and risk
- Manage the business of IT
- Manage enterprise information
- Develop and manage IT customer relationship management
- Deploy IT solutions
- Develop and maintain IT solutions
- Deliver and support IT services



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

On average, just over 2.4 percent of the FTEs employed by responding companies work in IT, although the precise ratio varies depending on the size of the organization (see Figure 25). The percentage of staff engaged in IT activities is highest in large companies, which generally have a more complex IT infrastructure than smaller firms and are more likely to be in the vanguard when it comes to implementing new technologies. It is lowest in medium-sized companies, which usually enjoy greater economies of scale than small firms but incur fewer IT expenses than large companies.

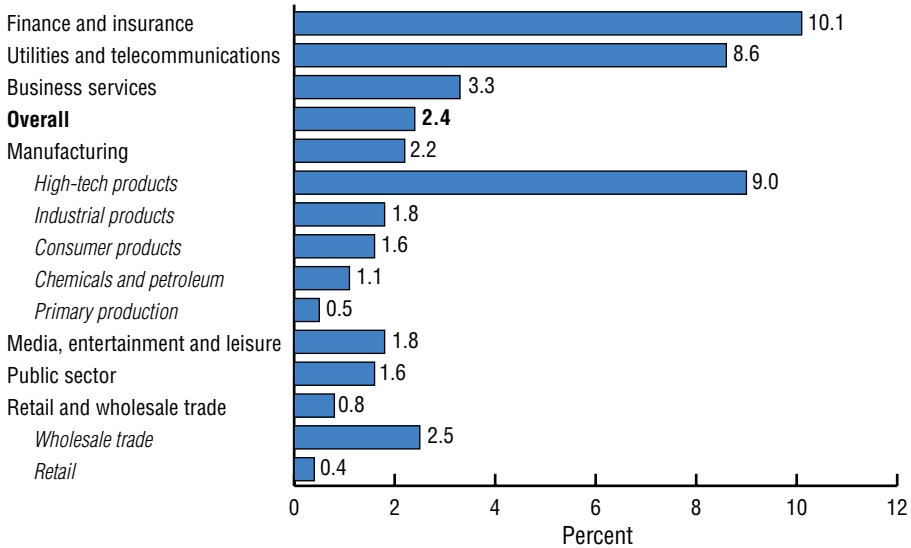
FIGURE 25:
IT FTEs as a percentage of the total workforce



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

The percentage of FTEs performing IT processes relative to the total workforce is much lower in responding companies than it is in other industries such as finance and insurance, and utilities and telecommunications. However, it is in line with the overall industry average, as Forrester Research's latest analysis of US IT spending patterns shows (see Figure 26).⁶

FIGURE 26:
IT FTEs as a percentage of the total workforce in various industries

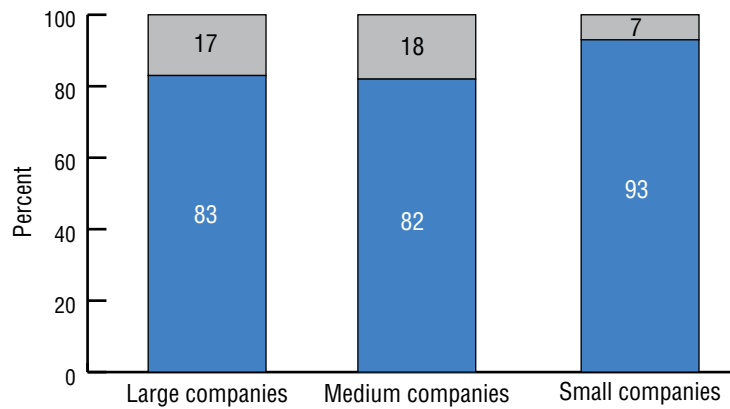


Source: US IT Spending Benchmarks for 2005, Forrester Research Inc., May 24, 2005.

The vast majority of the people whom responding companies employ to perform their IT processes are staff rather than contract workers. Ninety-three percent of the IT personnel in small companies, 83 percent of those in large companies and 82 percent of those in medium-sized companies are in-house employees (see Figure 27).

FIGURE 27:
The use of in-house IT staff versus external contractors

■ External contractors
■ In-house IT employees

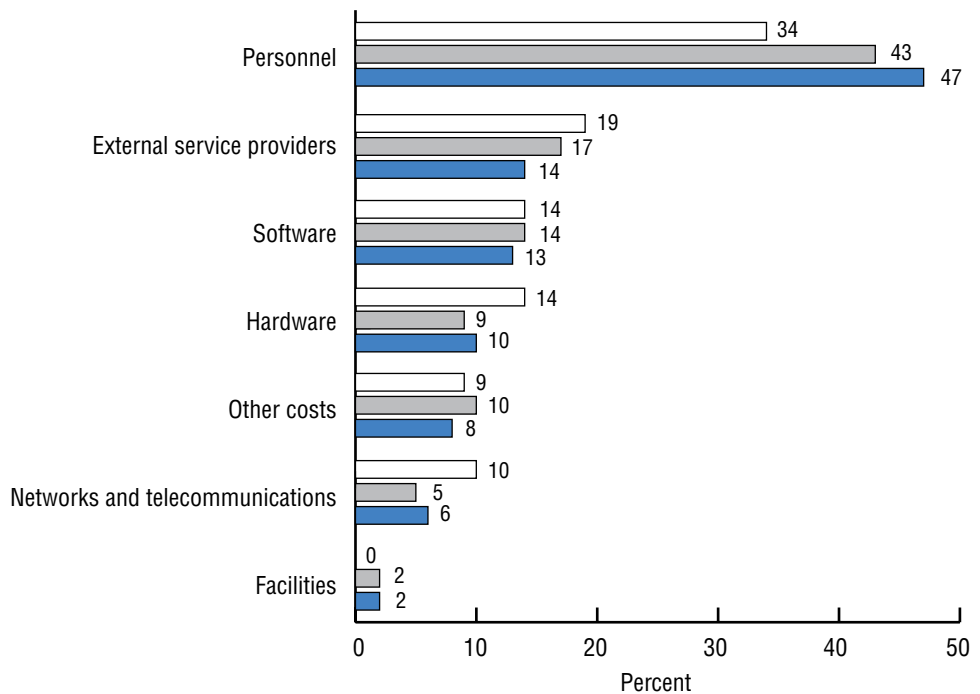


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Expenditure on personnel comprises by far the biggest part of the IT operating budget at CP companies, more than the next three largest categories of expenditure – external service providers, software and hardware – combined. In 2005, responding companies spent, on average, 46 percent of their IT operating budgets on staff. Again, however, there were significant variations depending on the size of the company. Staffing costs accounted for 47 percent of the IT operating budget at large companies, 43 percent at medium-sized companies and 34 percent at small companies (see Figure 28).

FIGURE 28:
Allocation of the 2005 IT operating budget

□ Small companies
■ Medium companies
■ Large companies

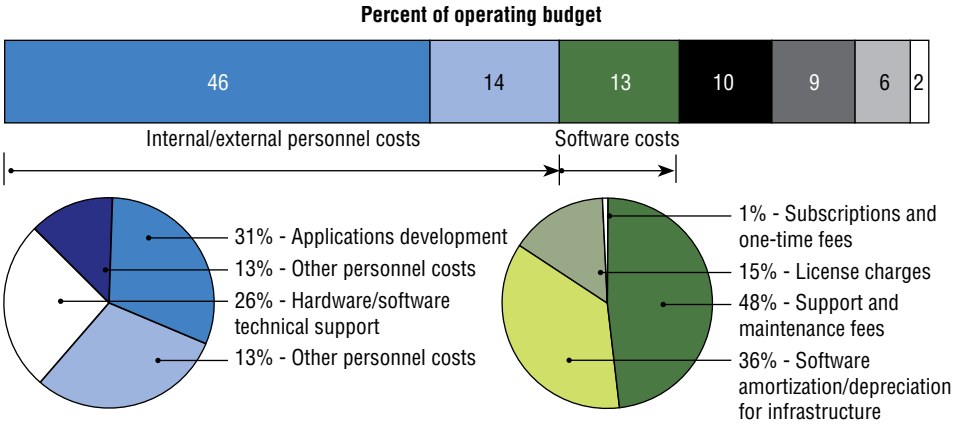


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Further analysis shows that 31 percent of these personnel costs were allocated to applications development, and 26 percent to technical support (see Figure 29). Another 30 percent was spent on external services and outsourcing.

FIGURE 29:
Breakdown of the IT operating budget, 2005

- Personnel
- External service providers
- Software
- Hardware
- Other costs
- Networks and telecoms
- Facilities



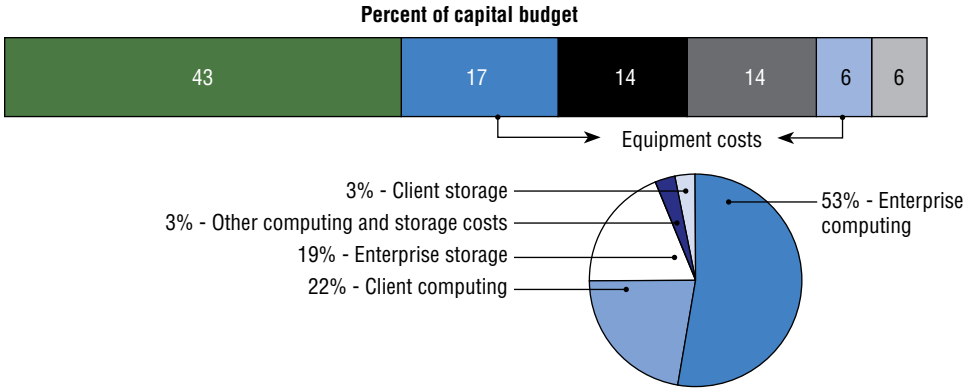
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Meanwhile, support and maintenance and software amortization accounted for the bulk of responding companies' operating expenditure on software, at 48 percent and 36 percent, respectively. Similarly, data and voice telephony jointly accounted for 88 percent of their operating expenditure on networks and telecommunications.

However, software and computing equipment accounted for a much larger share of capital expenditure. In 2005, responding companies devoted 43 percent of their capital budgets to software and 17 percent to computing equipment (see Figure 30). More than half the money they invested in computing equipment was spent on enterprise computing (application servers, database servers, integration servers, brokers and so forth for use throughout the organization). Another 22 percent went toward client computing (high-end workstations and personal computers), and 19 percent was spent on enterprise storage (storage on application servers, database servers, Network Attached Storage (NASs) and Storage Area Networks (SANs)).

FIGURE 30:
Breakdown of the IT capital budget, 2005

- Software
- Computing equipment
- External service providers
- Other capital budget items
- Storage equipment
- Networks and telecoms



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

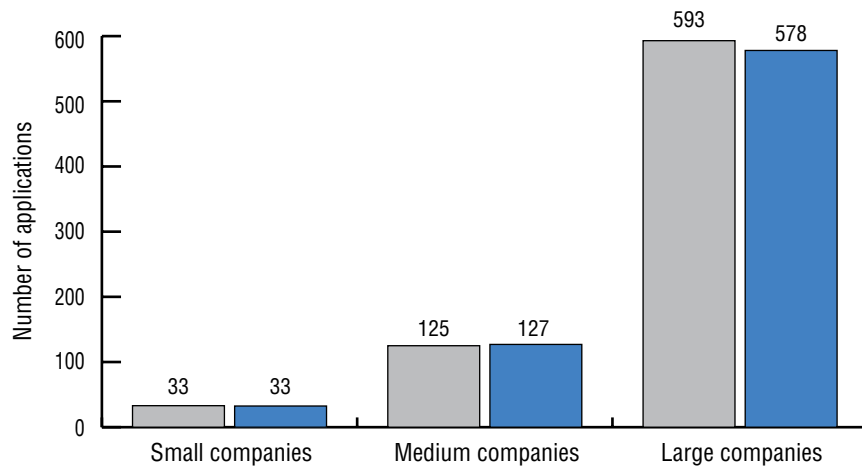
THE TECHNOLOGICAL ENVIRONMENT

Many CP companies still have an unduly complex IT infrastructure. A substantial number of the applications they use are also custom-built, which makes it more difficult for them to integrate their systems with those of their partners and customers.

The complexity of the technological environment in which CP companies operate remains a serious obstacle. As Figure 31 shows, most responding companies still run a relatively large number of applications, and have been slow to reduce the number – in marked contrast with the trend toward simplification and integration in other industries. The problem is especially notable in large firms; in acquiring or disposing of brands and businesses to fine-tune their product portfolios, many such organizations have increased the complexity of their applications infrastructure.

FIGURE 31:
The number of applications responding companies run

■ 2004 study
■ 2006 study



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.

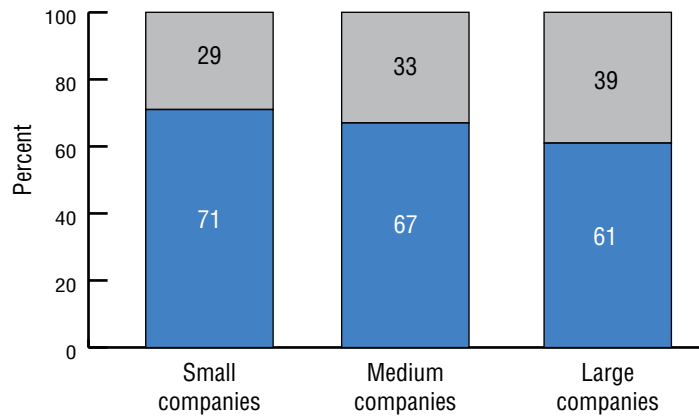
“Keep it simple ... standardize, standardize, standardize”
– survey respondent

A full third of the applications responding companies use are predominantly custom-built rather than packaged products. This makes it much more difficult to integrate a company’s systems, both internally and with those of its partners and customers, so that it can collaborate with them more effectively. There is, for example, a close correlation between those responding companies that rely more heavily on packaged applications and those that report higher rates of success with their IT projects.

Again, the problem is particularly acute in large companies, where 39 percent of the applications are predominantly custom-built. Conversely, small companies are more inclined to use packaged applications, probably because they have more limited budgets and fewer in-house resources on which to call (see Figure 32).

FIGURE 32:
Use of predominantly custom-built versus predominantly packaged applications

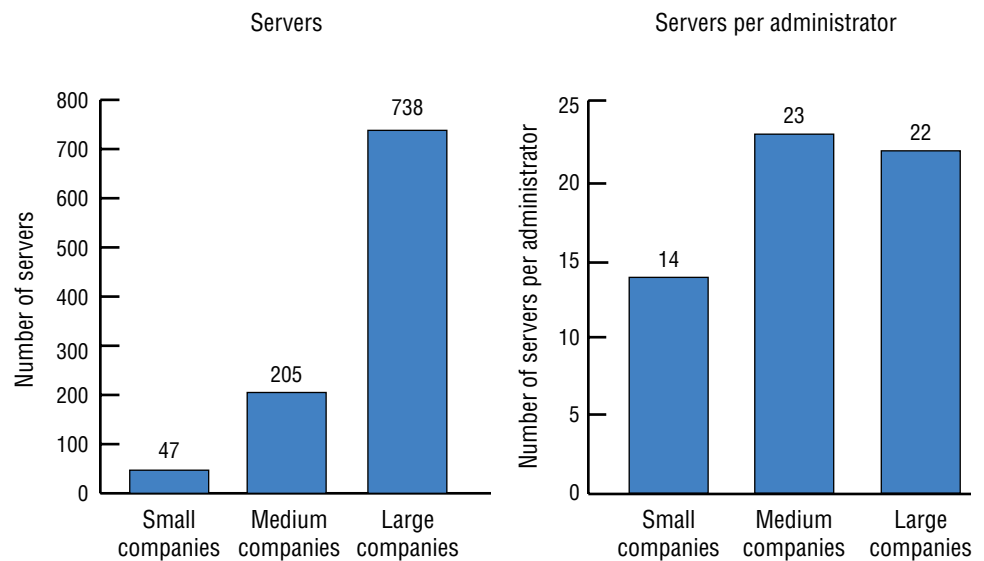
■ Custom-built
■ Packaged



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

The same pattern holds true with servers. On average, large CP companies now have 738 servers apiece, even though servers are becoming increasingly powerful (see Figure 33).

FIGURE 33:
The number of servers and servers per administrator

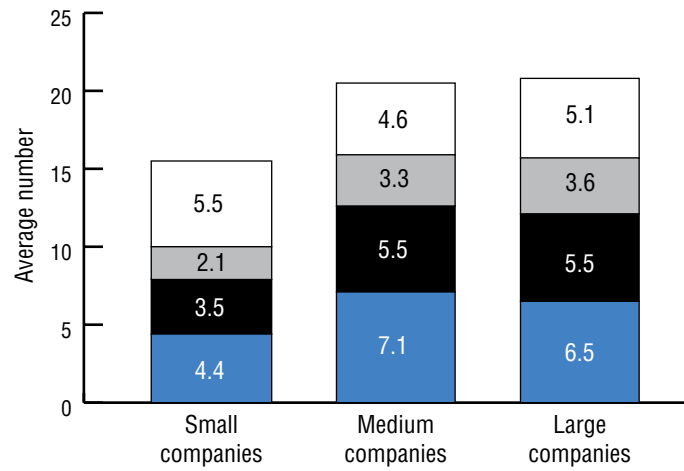


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Large CP companies likewise have more database management systems and storage platforms than small or medium-sized companies, although this is hardly surprising; the volume of data they must enter, organize and store is necessarily much greater than it is in small firms. Conversely, medium-sized CP companies have more operating systems, and small CP companies more middleware technologies (see Figure 34).

FIGURE 34:
The technological environment

- Middleware technologies
- Storage platforms
- Database management systems
- Operating systems



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.
 Note: The data are based on the average number of middleware technologies, storage platforms, database management systems and operating systems used by responding companies.

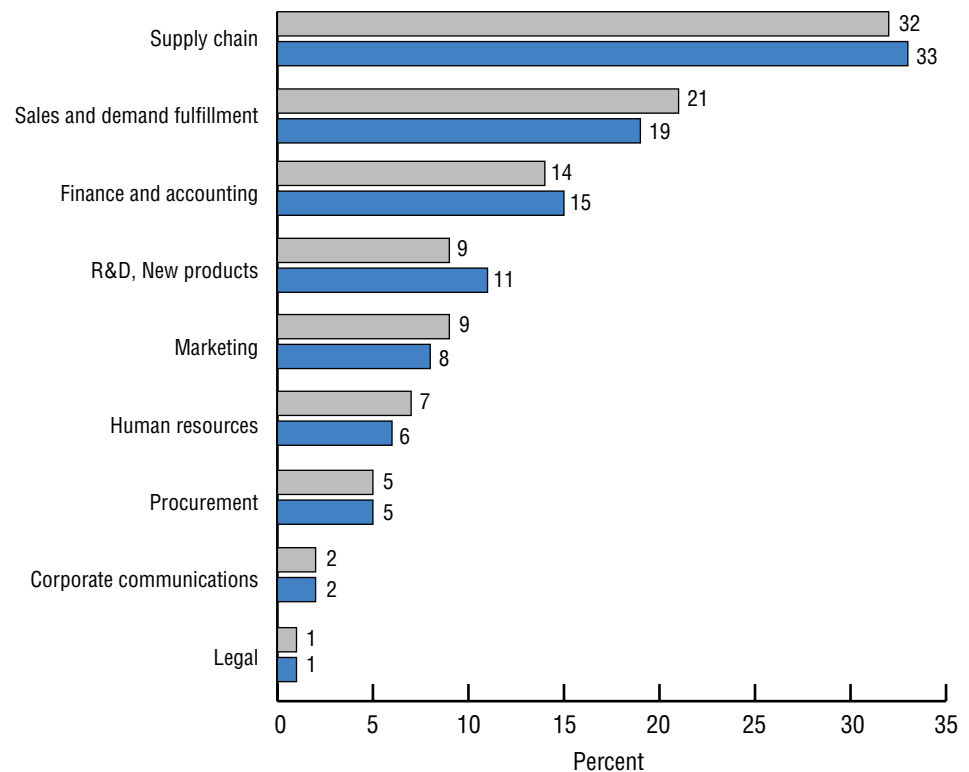
Adoption of new technologies

CP companies have generally been conservative in their approach to industry initiatives like GDS, EDI and RFID. The complexity of the technological environment in which they operate has also impeded the speed and efficiency with which they adopt such initiatives.

Responding companies plan to spend more than half their applications budgets on two functions – the supply chain and sales and demand fulfillment – in 2006 (see Figure 35). This is very much in line with the allocation of IT spending in 2005, and reflects the importance of both functions within the CP industry. As the pressure to produce more and better products ever faster increases, so does the necessity for efficient, flexible supply chains and fulfillment processes.

FIGURE 35:
The allocation of the IT applications budget

■ 2005
■ 2006 estimated



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Responding companies identified lot recall/traceability as the industry mandate receiving the greatest proportion of their IT budgets. They plan to invest 2 percent of their total IT budgets for 2006 on track-and-trace technologies – more than any other area except compliance with the FDA Bioterrorism Act of 2002 (see Figure 36). Again, this makes sense. After the events of September 11, 2001, the US government elevated measures to counter bioterrorism in the food and agricultural industries to the top of the political agenda. The European Union has also introduced traceability laws, and there is now a growing global consensus that food supply chains should be wholly accountable for the quality of the end products they deliver.

FIGURE 36:
The proportion of the IT budget to be spent on specific industry mandates

		2002	2003	2004	2005	2006 [£]
Lot recall/traceability	% of IT budget			0.9	1.8	2.0
	% of companies	38.0	38.0	31.0	55.0	59.0
FDA Bioterrorism Act	% of IT budget			1.3	1.4	1.8
	% of companies	12.0	26.0	28.0	41.0	41.0
Sarbanes-Oxley Act	% of IT budget			2.9	1.5	1.3
	% of companies	21.0	67.0	45.0	52.0	48.0
FDA electronic audit trail (21 CFR Part 11)	% of IT budget			0.9	1.1	1.2
	% of companies	19.0	21.0	24.0	28.0	21.0
Allergens tracking	% of IT budget			0.6	0.9	1.0
	% of companies	14.0	21.0	28.0	28.0	24.0
Trans fat labeling	% of IT budget			0.6	0.6	0.8
	% of companies	19.0	21.0	21.0	21.0	17.0
GMO tracking	% of IT budget			0.2	0.3	0.8
	% of companies	5.0	10.0	7.0	10.0	14.0
Country of origin labeling (COOL)	% of IT budget			-	0.1	0.7
	% of companies	10.0	14.0	-	14.0	14.0

Percentage of IT budget

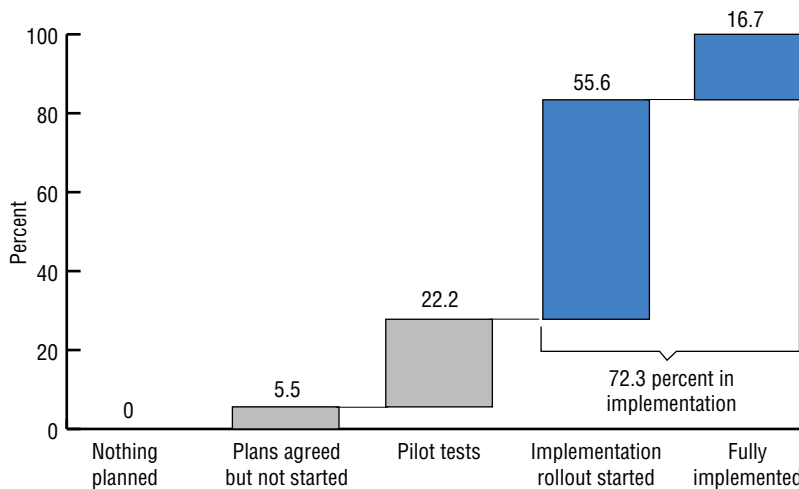
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.
£ = Estimated.

“The rate the industry moves on major initiatives is so disparate that it is difficult to build critical mass, effectively reducing the advantages of adoption”

– survey respondent

However, the complexity of the technological environment in which CP companies operate has a direct bearing on the speed and efficiency with which they adopt many industry initiatives. As Figure 37 shows, nearly three-quarters of responding companies have either implemented, or are in the process of implementing, GDS.

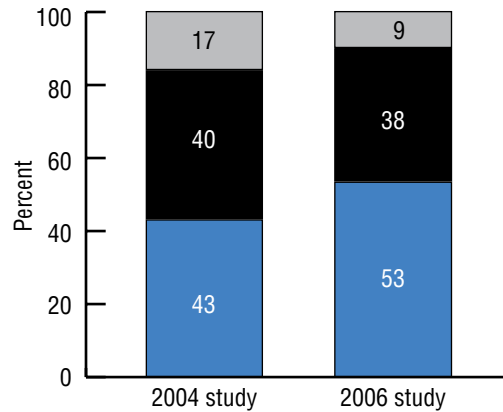
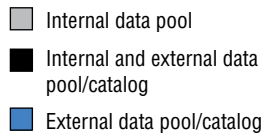
FIGURE 37:
Implementation of GDS



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Figure 38 illustrates more specifically what they have already done. Most responding companies have switched to external data pools and catalogs, for example, and rely to a much smaller extent on internal data pools. In 2004, 17 percent used internal data pools, but only 9 percent of those that participated in the most recent survey plan on doing so.

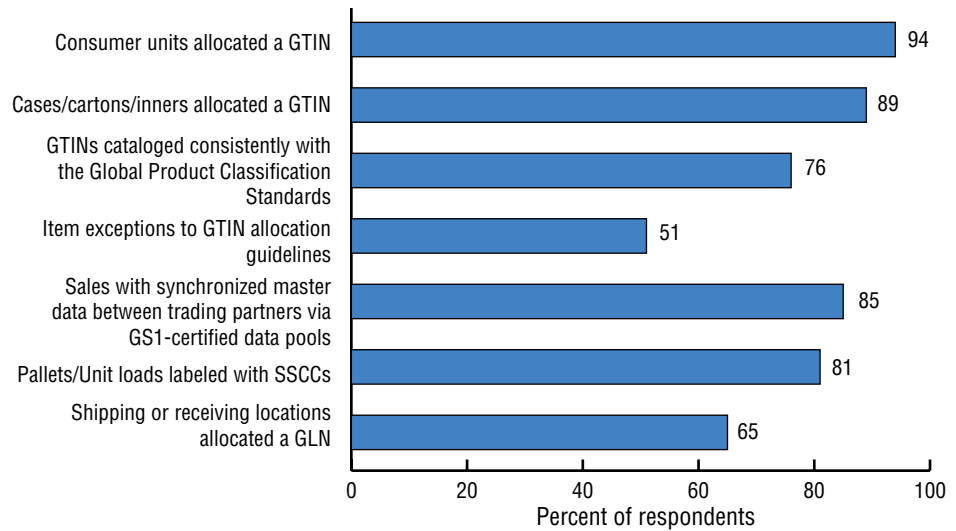
FIGURE 38:
Use of internal and external data pools



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 GMA Information Technology Investment and Effectiveness Study.

Most responding companies have at least started to allocate GTINs, global location numbers (GLNs) and serial shipping container codes (SSCCs), as Figure 39 shows.

FIGURE 39:
Respondents with activity on current industry initiatives

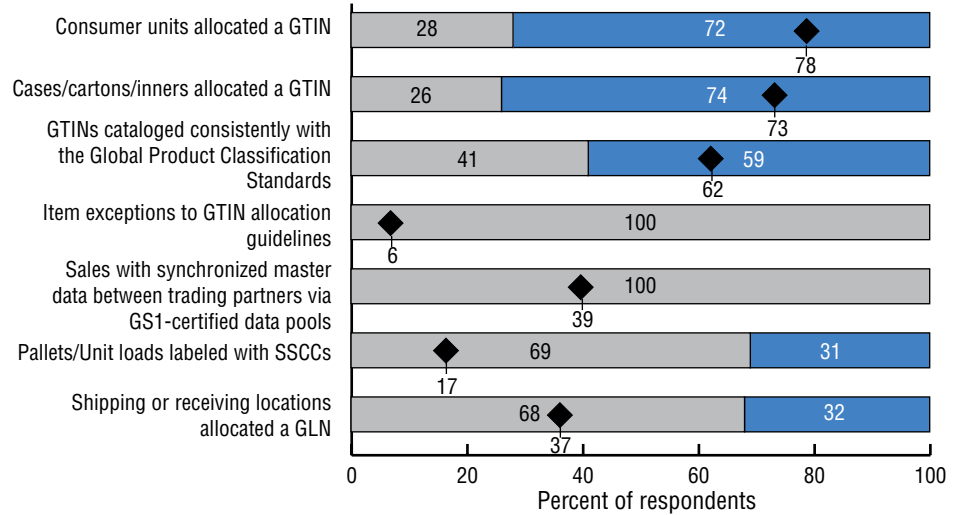


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

However, some companies have made relatively slow progress. On average, 78 percent of consumer units, and 73 percent of cases, cartons or inners, have now been allocated GTINs – and 62 percent of GTINs are cataloged in accordance with the Global Product Classification standards. But the master data on only 39 percent of sales is synchronized between trading partners via GS1-certified data pools, and only 17 percent of pallets or unit loads have been allocated SSCCs (see Figure 40).

FIGURE 40:
Level of respondent activity on current industry initiatives

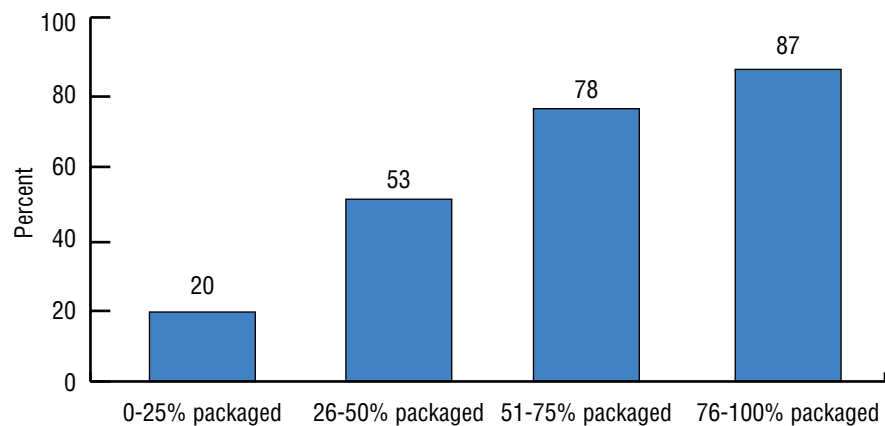
- Activity level between 0 and 50 percent
- Activity level between 50 and 100 percent
- ◆ Average activity level for all respondents



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

What is especially noteworthy is the fact that responding companies with predominantly packaged applications have typically been faster to implement such measures than those with predominantly custom-built applications. Responding companies whose applications are over 75 percent *packaged* have allocated GTINs to 87 percent of their cases, cartons or inners. Conversely, responding companies whose applications are over 75 percent *custom-built* have allocated GTINs to only 20 percent of their cases, cartons or inners (see Figure 41).

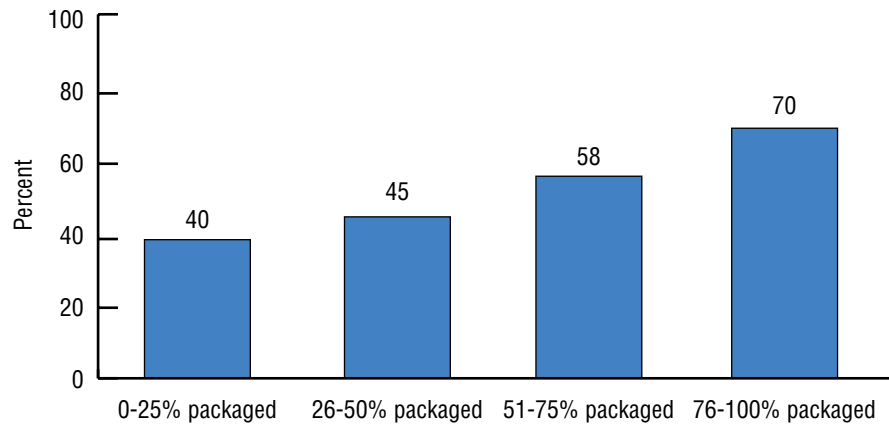
FIGURE 41:
Cases, cartons or inners allocated a GTIN, relative to use of packaged applications



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

The same is true with other industry initiatives like EDI. The bigger the percentage of packaged applications a company uses, the bigger the percentage of invoices it transacts via EDI. So, for example, responding companies whose applications are over 75 percent *packaged* issue 70 percent of their invoices via EDI, whereas those whose applications are over 75 percent *custom-built* issue only 40 percent of their invoices via EDI (see Figure 42).

FIGURE 42:
Invoices transacted via EDI, relative to use of packaged applications

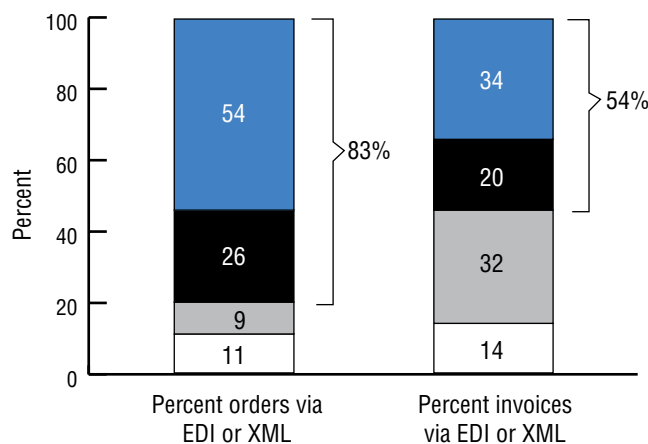


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Moreover, many of the CP companies that have adopted EDI or extensible markup language (XML) have focused primarily on ordering rather than invoicing. Eighty-three percent of responding companies use EDI or XML to manage over half their orders, but only 54 percent use EDI or XML to manage over half their invoices (see Figure 43). A substantial number of CP companies have thus responded to the demands of retailers to manage their invoices via EDI or XML, but they have not embraced these new technologies on their own behalf.

FIGURE 43:
Use of EDI or XML for ordering and invoicing

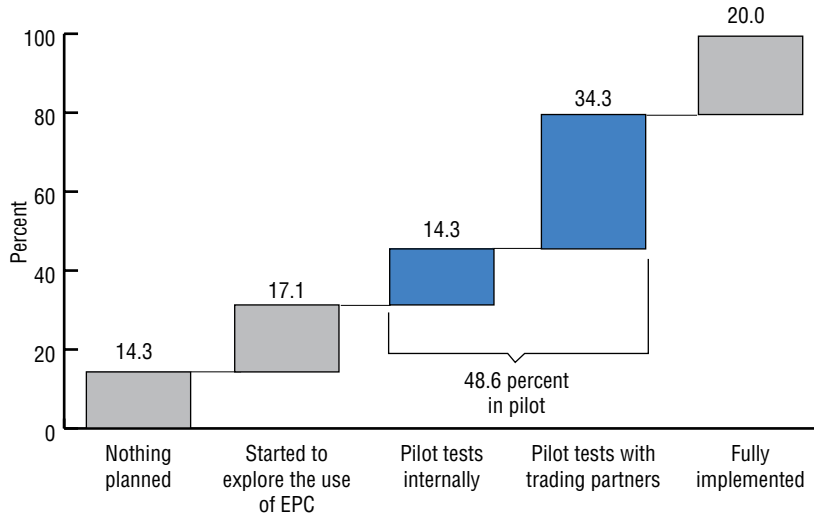
- 76 - 100 percent
- 51 - 75 percent
- 26 - 50 percent
- 0 - 25 percent



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

FIGURE 44:
Implementation of
RFID or EPCs

Only 20 percent of responding companies have adopted RFID devices or electronic product codes (EPCs). Another 48.6 percent are conducting pilot studies, either alone or in conjunction with their trading partners (see Figure 44). Again, however, the rate of adoption is quite slow.



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

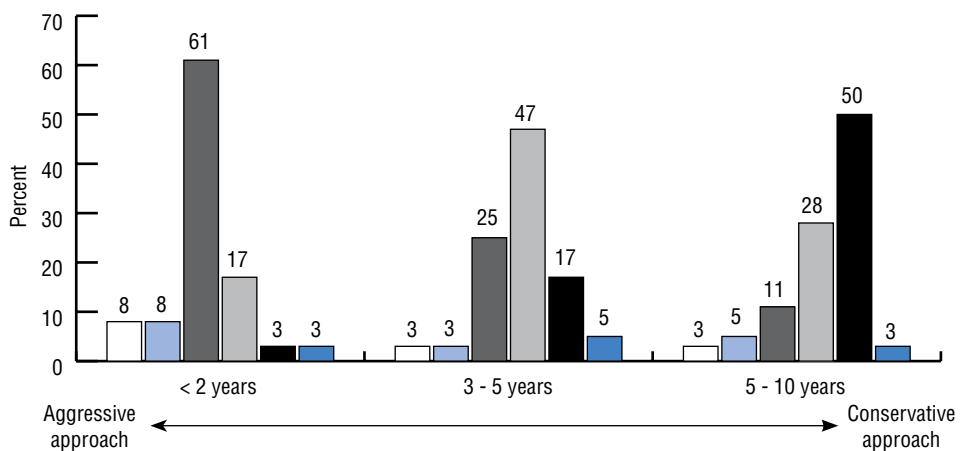
“IT leads the business in RFID, obtaining data, building the business case ... now the business has started to pick up the initiative”

– survey respondent

Sixty-one percent of responding companies report that in the next two years they plan on doing only enough to satisfy the key requirements of their customers; a mere 3 percent plan on actively leading the way. But this pattern is likely to shift over the next three to five years, when 47 percent of responding companies expect to become “fast followers” (see Figure 45).

FIGURE 45:
Rate of adoption of
RFID or EPCs

- Resist implementation until necessary
- Wait until mature in the industry
- Do only enough to satisfy key customer requirements
- Fast follower
- Invest in infrastructure to achieve internal benefits
- Actively lead the industry development

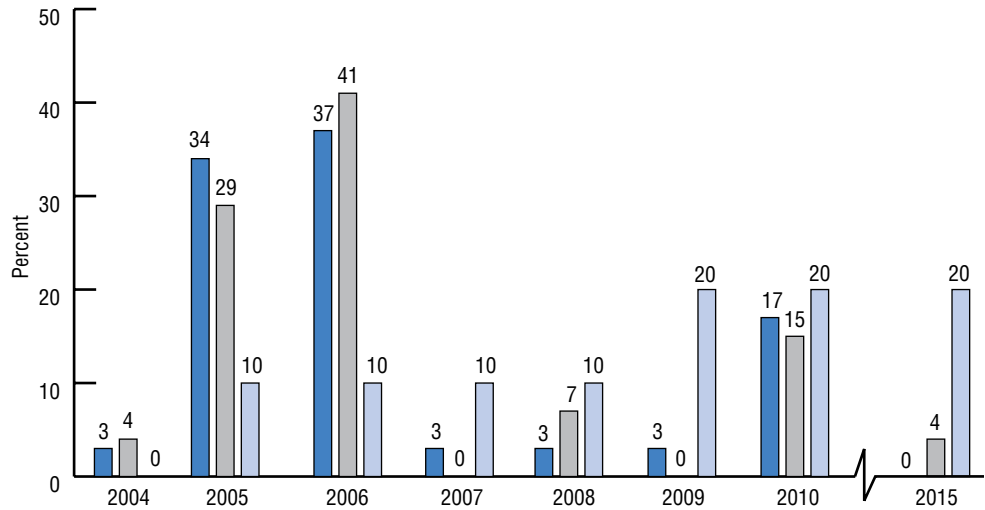


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Most companies intend to focus on implementing RFID at pallet- and case-level for the next few years. Use of RFID at item-level is not expected to start until 2009 – and 20 percent of responding companies say that they do not expect to move to item-level until 2015 (see Figure 46).

FIGURE 46:
Projected implementation of RFID or EPCs at pallet- and case-level

- Pallet-level
Average year of implementation = 2005
- Case-level
Average year of implementation = 2006
- Item-level
Average year of implementation = 2009



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

The relatively slow pace at which responding companies are adopting RFID is probably due to the fact that there are still technical problems with the readability of the tags and that there is no clearly demonstrated business case under the current conditions. In another survey recently conducted by IBM, 48 percent of CP companies reported that they could see little, or no, short-term value in adopting RFID. They cited two key obstacles: problems with data quality and failure to change the relevant business processes.⁷

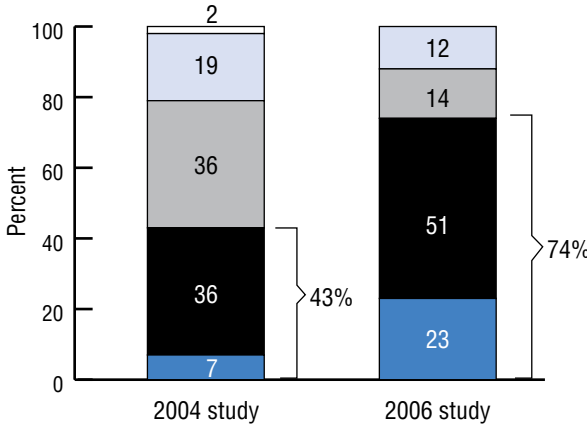
THE EFFECTIVENESS OF THE IT FUNCTION

Business executives in CP companies are increasingly satisfied with the effectiveness of the IT function. Nearly three-quarters of those who participated in this year's survey believe that their IT departments are effective or very effective. They rate the IT function particularly highly for its ability to work with the rest of the organization and the success with which it aligns the IT strategy with the business strategy.

Corporate perceptions of the IT function are becoming increasingly positive. Seventy-four percent of business executives believe that the IT departments in their companies are effective or very effective. This is a marked improvement on the situation in 2004, when only 43 percent of business respondents thought their IT departments were effective or very effective (see Figure 47).

FIGURE 47:
The effectiveness of the IT function

- Not effective
- Somewhat effective
- Acceptable
- Effective
- Very effective

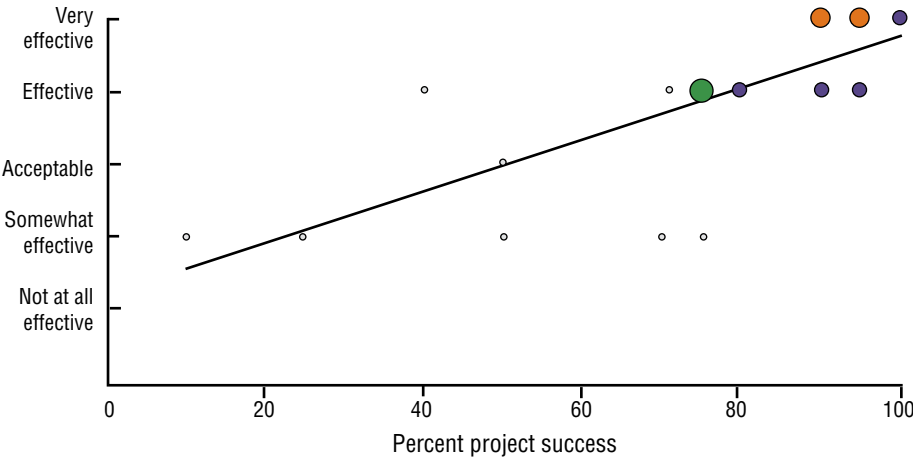


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study; CSC, 2004 Information Technology Investment and Effectiveness Study.

There is also a close correlation between those companies where business executives report that the IT function is effective and those that report high levels of success with their IT projects (see Figure 48). Clearly, therefore, running an efficient and effective IT function is something that the other functions within the business notice and appreciate.

FIGURE 48:
The correlation between IT effectiveness and project success rates

- 1 response
- 2 responses
- 3 responses
- 4 responses

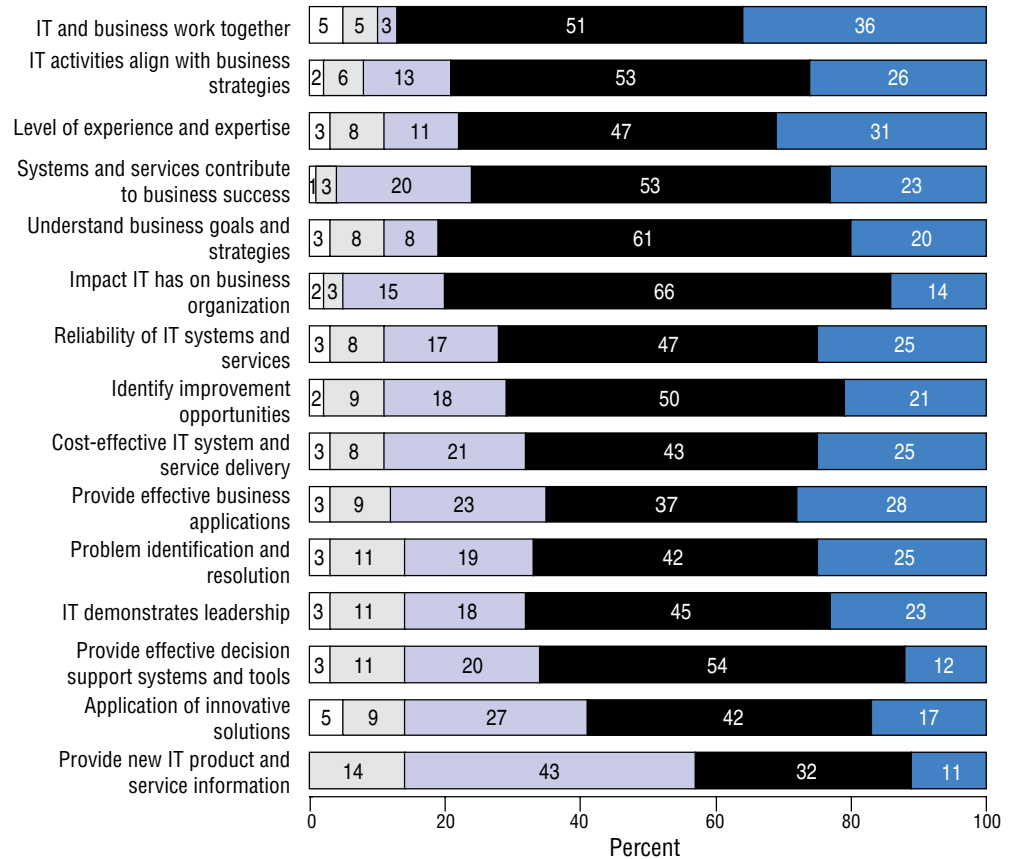


Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Business executives rate the IT function particularly highly in two respects. Eighty-seven percent say that they are satisfied, or very satisfied, with their IT department's ability to work with other parts of the company. And 79 percent say that they are satisfied, or very satisfied, with the way in which their IT department aligns its activities with the company's business strategies (see Figure 49).

FIGURE 49:
Levels of satisfaction with key attributes of the IT function⁸

- Very dissatisfied
- Dissatisfied
- Neutral/No opinion
- Satisfied
- Very satisfied



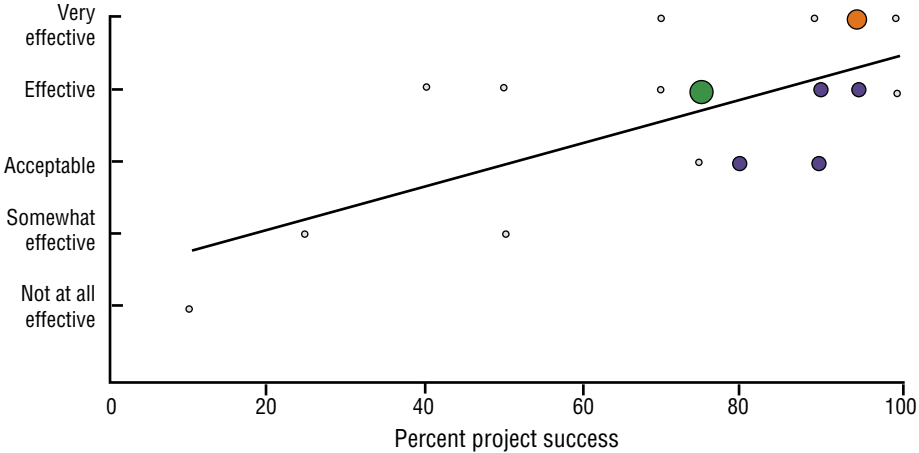
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

In fact, aligning the IT strategy with the business strategy is the IT function's first priority, as Figure 8 showed. So it seems that IT executives are either performing better than they realize in this regard or that, even though the majority of business executives are satisfied with the performance of their IT departments, IT executives still feel disconnected from the rest of the business. There is, for example, a clear correlation between responding companies in which business executives agree, or strongly agree, that "IT does a good job in meeting its customers' requirements" and those that score highly on innovation.

In general, however, the IT function does not score very highly when it comes to innovation or communication. Only 59 percent of business executives say that they are satisfied, or very satisfied, with the extent to which their IT departments devise innovative solutions. Budgetary constraints may well play a part here; as we have already seen, CP companies spend much less on IT than companies in many other sectors, and lack of financial resources is the single biggest hurdle IT executives identify in achieving their goals. But there is also a close link between the degree to which business executives are satisfied with the innovativeness of the IT function and the degree to which both business and IT executives judge IT projects successful (see Figure 50).

FIGURE 50:
The correlation between levels of satisfaction with the application of innovative solutions and project success rates

- 1 response
- 2 responses
- 3 responses
- 4 responses



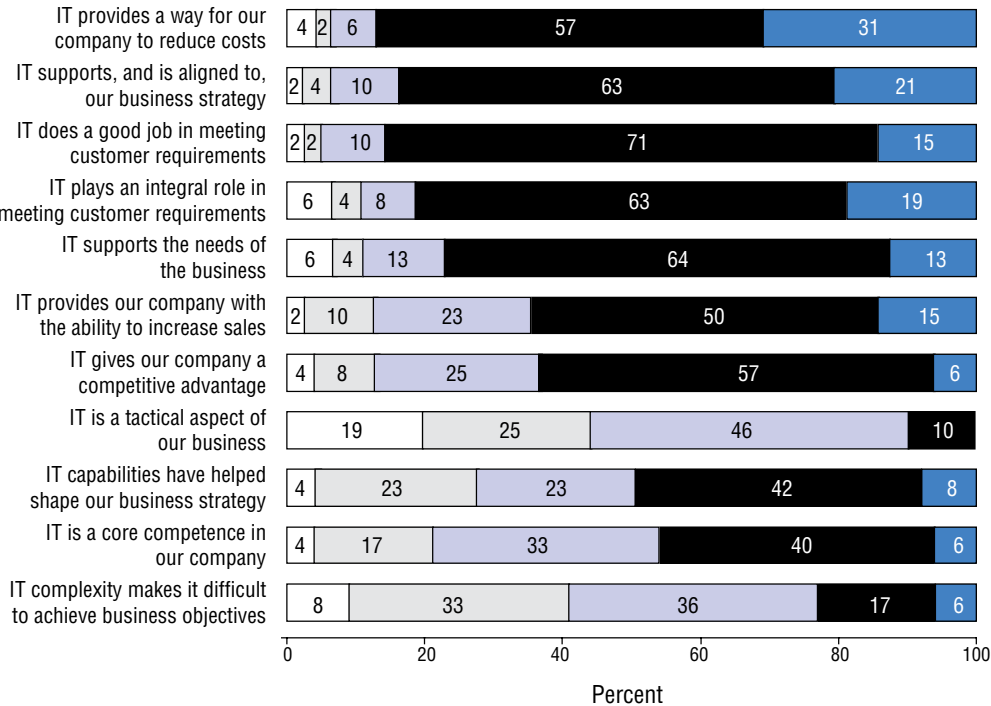
Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

Similarly, only 43 percent of business executives are satisfied, or very satisfied, with the provision of information regarding new IT products and services, while 14 percent are dissatisfied. This suggests that IT executives need to concentrate on communicating the business case rather than the technological advantages of any improvements they propose to implement, and explain their investment rationale more carefully.

Further evidence of the IT function's failure to communicate very effectively comes from the way in which business executives view IT. IT executives see supporting growth initiatives as a much more important goal than cutting costs. But only 65 percent of business executives agree, or strongly agree, that IT can help to increase sales, whereas 88 percent agree, or strongly agree, that IT provides a way of cutting costs. Moreover, only 23 percent of business executives agree, or strongly agree, that the complexity of the IT infrastructure makes it difficult for the company to achieve its objectives (see Figure 51). Yet for many IT executives in CP companies, IT complexity is one of the most serious challenges.

FIGURE 51:
What business executives think about IT

- Strongly disagree
- Disagree
- Neutral/No opinion
- Agree
- Strongly agree



Source: IBM Global Business Services, 2006 GMA Information Technology Investment and Effectiveness Study.

CONCLUSION

In short, most CP companies perceive IT as a strategic asset, but do not position it as such. They also focus their IT spending on cost reductions and improvements in efficiency rather than using it to support their growth-oriented business strategies. There is thus a major opportunity for the CIOs of CP companies to close the gap in perceptions of the part IT can play.

It is equally important for CIOs working in the sector to remove some of the impediments to the performance of the IT function. The absence of proper tools with which to measure ROI is one such barrier to the elevation of the IT function. The cost and complexity of the IT infrastructure is a second problem, since it diverts senior IT management from more strategic activities and ties up scarce resources; when 80 percent of IT employees work on operational issues, for example, relatively few are free to work on more strategic concerns.

The complexity of the technological environment also makes it more difficult to implement key industry initiatives like GDS and RFID. Here, however, one of the biggest obstacles lies outside the control of the CIO; disagreements between retailers and CP companies as to how the benefits should be shared are a major barrier to greater collaboration, and are likely to remain so for some years to come.

In the meantime, though, there is much that CP companies can do. They can treat IT as a strategic resource and change their reporting structures accordingly. They can also exploit the potential for reducing costs and increasing their functionality via outsourcing and off-the-shelf applications. And, they can adopt financial measures to quantify the returns they earn from their IT expenditure – a discipline that is likely both to ensure better returns and to give top management the reassurance it needs to invest in IT.

APPENDIX 1 **Comparison of the responses of GMA-member companies with the current state of CP companies in Europe and Asia Pacific**

The 2006 IT Investment and Effectiveness Study was set up with a North American perspective; however, we have drawn on IBM's experience from client engagements to include a brief comparison of the responses of GMA-member companies with the situation of CP companies based in Europe and Asia Pacific.

CIO reporting structure

As in North America, the CIO of a typical European CP company reports to the CFO rather than the CEO or President. The same is true in most Asian CP companies and in the Asian operations of multinationals.

Budgets

The IT budgets of European CP companies are under pressure – possibly even greater pressure than those of North American CP companies, because the market as a whole is growing more slowly. Competitive pressures and the introduction of the euro have also spawned numerous change initiatives, with the result that many European CP companies currently have a limited appetite for further such initiatives.

Meanwhile, most of the Asian subsidiaries of multinationals (including those based in China) are moving toward global templates originating in other parts of the world. Some companies are also switching from bespoke to packaged applications to reduce costs. This is especially true of CP companies headquartered in Japan, which have traditionally maintained large internal IT departments to develop bespoke software solutions. Some of these companies are now purchasing packaged software, starting with basic accounting and Material Requirements Planning (MRP) applications.

Growth and innovation

Many European CP companies report that their core goals include growth and/or innovation. However, anecdotal evidence suggests that they lag behind their North American counterparts in achieving these aims. The situation in Asia is much more varied. In China and India, the main goal is flat-out growth, often driven by innovations tailored to local market conditions. Conversely, in Japan, continuous product innovation is essential merely for survival. In mature markets, the focus is largely on maintaining profitability.

Returns on investment in IT

Many European CP companies develop upfront business cases for the majority of their IT investments. But, like North American CP companies, they are much less consistent about tracking their progress during IT projects to ensure that they realize the benefits.

The same is true in Asia. Many of the IT investments currently being made by CP companies located in Asia are based on global roll outs. The business case for such investments typically rests on a combination of local benefits and the advantages of global consistency, including lower maintenance costs. But the emphasis is generally on completing IT projects within budget rather than tracking the benefits they deliver.

Outsourcing

Some European CP companies are actively outsourcing non-core business processes. Nestlé has outsourced its finance function, for example, while Unilever has outsourced its North American procurement function, European IT function, global HR function and certain finance and accounting processes.

A number of the larger, global CP companies have also outsourced various non-core operations in Asia Pacific, and some CP companies with their headquarters in Japan have started to outsource certain back-office functions to China. However, since Asia is frequently the location where the outsourcing is carried out, the case for outsourcing in many parts of the region is not as strong as it is in other areas of the world.

Cost and complexity

The cost and complexity of the IT infrastructure and applications supporting European CP companies is generally even greater than it is in North American CP companies. Structural barriers in the European labor market (such as differences in language, culture and legal regimes) have also produced significant cross-border variations in terms of IT labor costs and capabilities, as well as creating different outsourcing challenges.

The IT infrastructure of many CP companies operating in Asia is likewise very complicated, since Asia is a highly diverse region with markets at very different levels of maturity. Most companies have therefore managed their IT on a country-by-country basis, but that is now changing and a growing number of firms are rolling out global or regional platforms. However, this process is still incomplete – and in the interim CP companies must manage their legacy systems alongside their new systems.

Industry initiatives

Implementation of technologies such as GDS, EDI and RFID is generally less advanced in both Europe and Asia than it is in North America. EDI has been widely adopted in Western Europe but is still relatively unusual elsewhere in the region. Many global CP companies are also piloting and implementing RFID in North America prior to investing in such initiatives in Europe. One reason for this relative lack of progress is the absence of a dominant retailer compliance mandate. However, Tesco, Carrefour and several other big retailers are now beginning to take up the mantle.

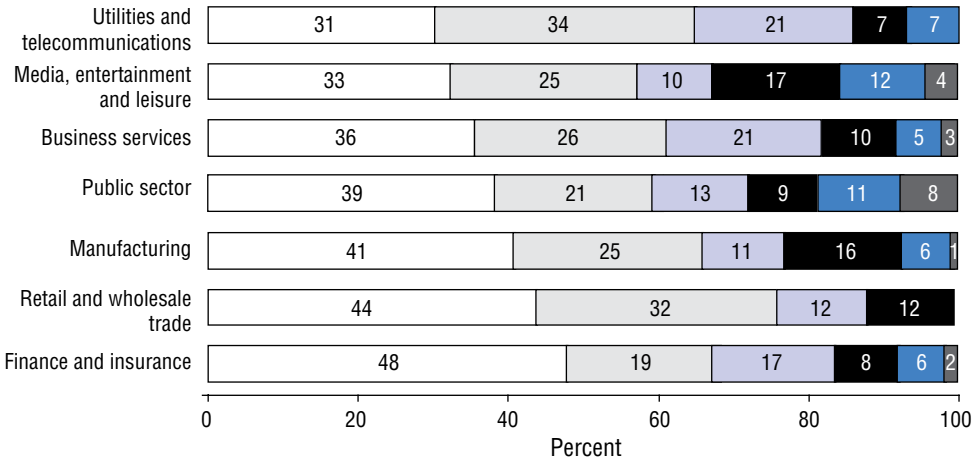
Asia lags still further. EDI is widely used for simple orders. Several Asian countries have also built national GDS data pools, and the leading CP manufacturers have uploaded their data. But there is no active synchronization of data between manufacturers and retailers. The picture is similar with RFID. A number of large US importers have now started experimenting with RFID on deliveries from a few of their Asian suppliers, but we are not aware of any large grocery retailers in Asia using RFID or asking their suppliers to use RFID tags on cases or pallets.

APPENDIX 2 The reporting structure in a range of industries

In “The CIO Profile,” Forrester Research examines the reporting structure in a range of industries. As Figure 52 shows, the percentage of CIOs reporting to the CEO or president is 76 percent in the retail and wholesale trade sector; 67 percent in the finance and insurance sector; and 66 percent in the manufacturing sector. This is very different from the situation in GMA-member companies, where more than half of all CIOs report to the CFO.

FIGURE 52:
The CIO reporting structure in different industries

- CEO
- President
- COO
- CFO
- Business unit head
- Other



Source: The CIO Profile, Forrester Research Inc., October 7, 2005.

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GMA Information Systems Committee

Aaron Alsaker, The Schwan Food Company
 Paul Amorello, Pepperidge Farm, Incorporated
 Kevin Barnes, E. & J. Gallo Winery
 Randy Benz, Energizer Holdings, Inc.
 Donna Braunschweig, Campbell Soup Company
 Neal Bronzo, The Pepsi Bottling Group
 Marc Brown, Del Monte Foods Company
 George Chappelle, Sara Lee Corporation
 Paul Cunningham, The Dial Corporation
 Clay Curtis, CROSSMARK
 George Davis, The Hershey Company
 Robin Evitts, The Clorox Company
 Ron Gilson, Johnsonville Sausage, LLC
 Thomas Greene, Colgate-Palmolive Company
 Havalyn Hensley, Coca-Cola Enterprises
 Stephen Hrpcek, S.C. Johnson & Son, Inc.
 Diane Kandis, The Procter & Gamble Company
 Paul Klein, Rich Products Corporation
 Jeff Malat, McCormick & Company
 Nick Moore, Wm. Wrigley Jr. Company
 Mark Nichta, Nestlé USA, Inc.
 George Rembold, H.J. Heinz Company
 Janis Ross, The Procter & Gamble Company
 Todd Schnobrich, Cargill, Incorporated
 John Schoeberlein, ACH Food Companies
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Project members

Guy Blissett, Consumer Products Leader, IBM Institute for Business Value

Maureen Stancik Boyce, Distribution Team Leader, IBM Institute for Business Value

Carola Kratzer, Business Analyst, IBM Global Business Services

Isabelle Pontille, Distribution Team Member, IBM Institute for Business Value

Bonnie Ray, Research Relationship Manager, Consumer Products, IBM Research

Lori Simonson, Learning and Knowledge Delivery Manager, Benchmarking, IBM Global Business Services

Chris Thompson, Enterprise IT Architect, IBM Global Business Services

Project advisers

Bill Gilmour, Consumer Products Industry Leader, IBM Global Business Services

John Winstead, Americas Consumer Products and Systems Integration Leader, IBM Global Business Services

Richard Henderson, Associate Partner, IBM Global Business Services

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- ² Forrester Research Inc. "The CIO Profile: Are CIOs Too Tech-Oriented To Communicate Well With The Business?" October 7, 2005.
- ³ Correlation analysis shows the strength and direction of a linear relationship between two random variables. The correlation is 1 in the case of an increasing linear relationship, -1 in the case of a decreasing linear relationship, and some value in between in all other cases, indicating the degree of linear dependence between the variables. The closer the coefficient is to either -1 or 1, the stronger the correlation between the variables. All the correlations included in this report are statistically significant to at least 0.05 (2-tailed).
- ⁴ Forrester Research Inc. "How IT Leadership Shapes Manufacturer And Retailer Collaboration." February 28, 2006.
- ⁵ Forrester Research Inc. "U.S. IT Spending Benchmarks for 2005." May 24, 2005. Forrester Research found that CP companies planned to spend 2.4 percent revenues on IT in 2005. This is marginally more than the 2.3 percent that GMA-member companies planned to spend in 2004, and somewhat more than the 2.1 percent they actually spent, but the discrepancy is easily explained by variations in the two survey samples.
- ⁶ Ibid. Forrester Research found that IT FTEs represent 1.6 percent of the total workforce in CP companies. This is significantly lower than the 2.4 percent they represent in GMA-member companies. Variations in the sample and measures used account for the discrepancy.
- ⁷ IBM Global Business Services. "EPC/RFID: Proposed Industry Adoption Framework. Manufacturer Survey and Pilot Learnings to Date." April 2006. Available at www.gmabrands.com

⁸ Complete descriptions for items in Figure 49.

- Ability of IT and your organization to work together
- Alignment of IT activities with business strategies
- Understanding of, and sensitivity to, business objectives, goals and strategies
- IT's ability to provide reliable and dependable performance of systems, products and services
- Ability to identify improvement opportunities
- Application of innovative solutions
- Degree to which IT demonstrates leadership
- Impact IT has on business organization
- Problem identification and resolution
- Information provided regarding new IT products and services
- IT's ability to provide systems, products and services that contribute to business success
- Delivery of systems, products and services in cost-effective manner
- Provide effective business applications (e.g., ERP, finance, etc.)
- Provide effective business decision support systems and tools (e.g., data warehouse and data analysis tools)
- Level of experience and expertise



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Grocery Manufacturers Association
2401 Pennsylvania Avenue N.W., Suite 200
Washington, DC 20037
U.S.A.

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