



A through-cycle mindset: IT-enabled transformation and leadership

Dr. James Manyika

TODAY'S DISCUSSION

1

The bad news

Tough, uncertain economy ... IT budgets squeezed, yet higher expectations of IT

2

~~The good news~~ The Opportunity

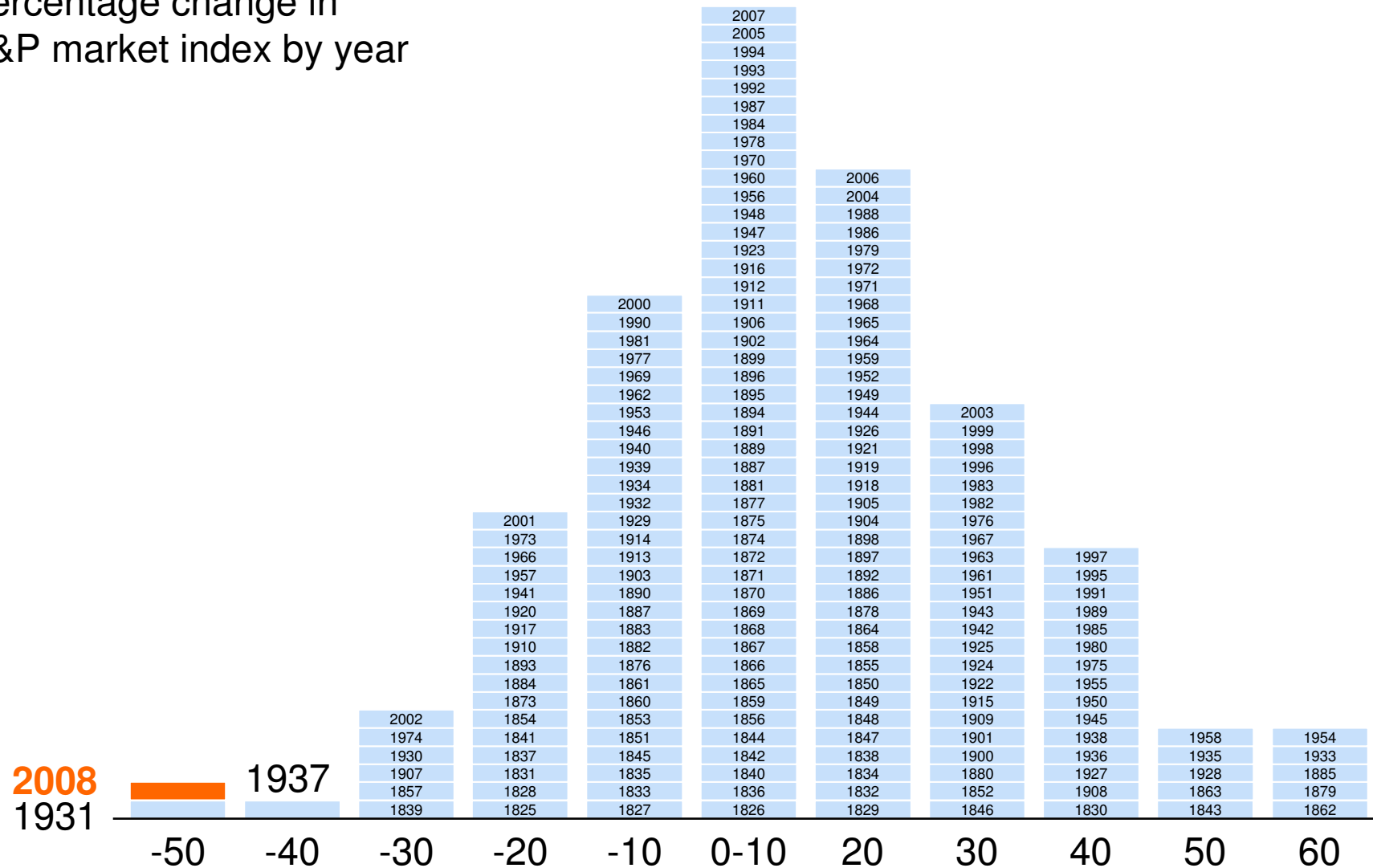
3

Example market transition

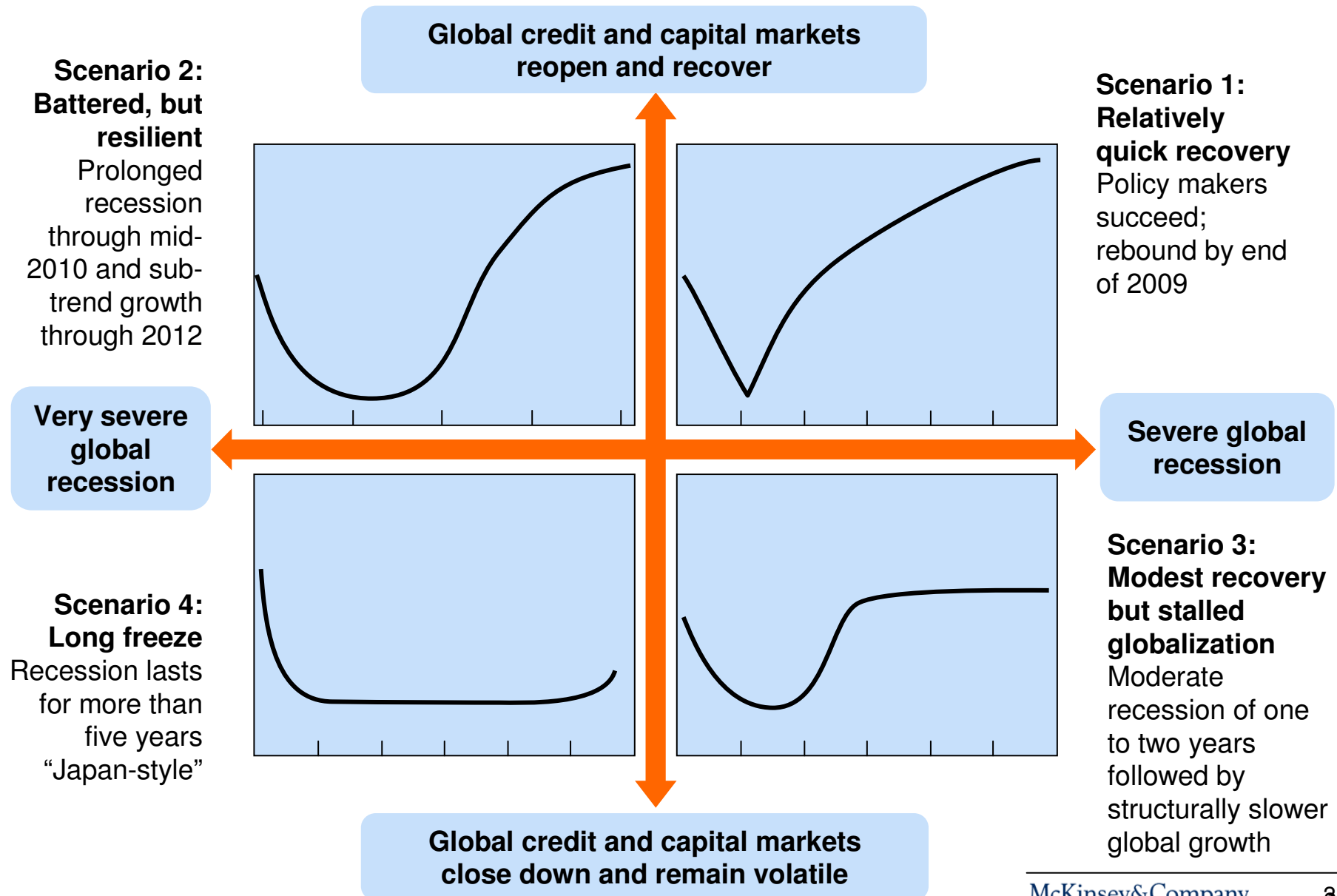


A PERIOD ALMOST WITHOUT PRECEDENT

Percentage change in
S&P market index by year



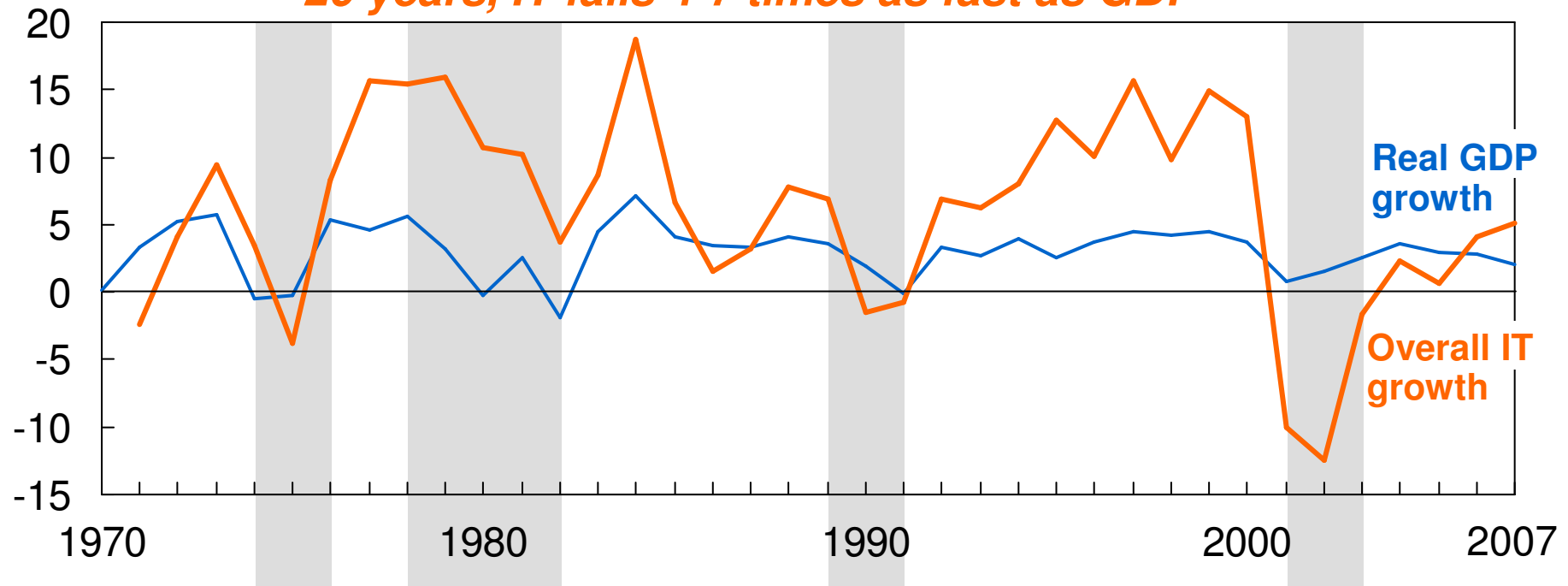
TWO KEY UNCERTAINTIES WILL LIKELY DETERMINE PATH (AND SCENARIOS) FOR THE GLOBAL ECONOMY



IT SPEND TYPICALLY FALLS MUCH FASTER THAN GDP DURING RECESSIONS ...

Year over year change (percent)

Based on over 50 contractions over the last 20 years, IT falls 4-7 times as fast as GDP



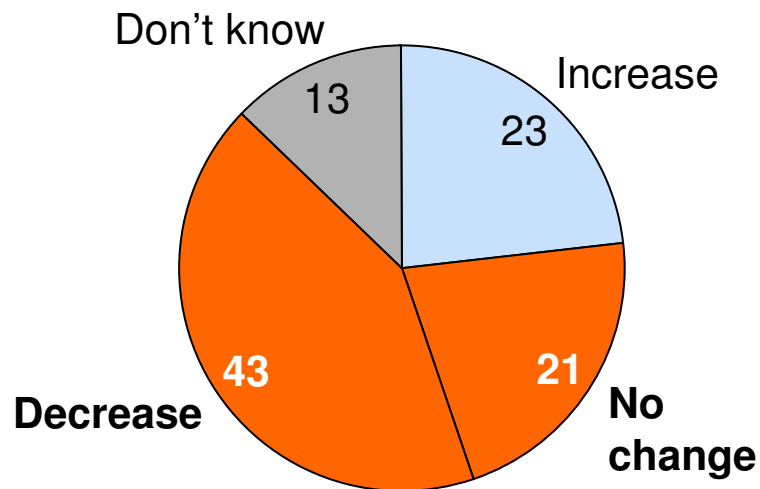
Year	1974-75	1978-82	1989-91	2001-02
GDP	-6.3	-7.5	-3.7	-3.7
IT	-13.2	-12.3	-8.5	-27.0

... AND IT BUDGETS WILL BE SQUEEZED, EVEN THOUGH EXPECTATIONS ARE RISING IT IN DRIVING THE BUSINESS

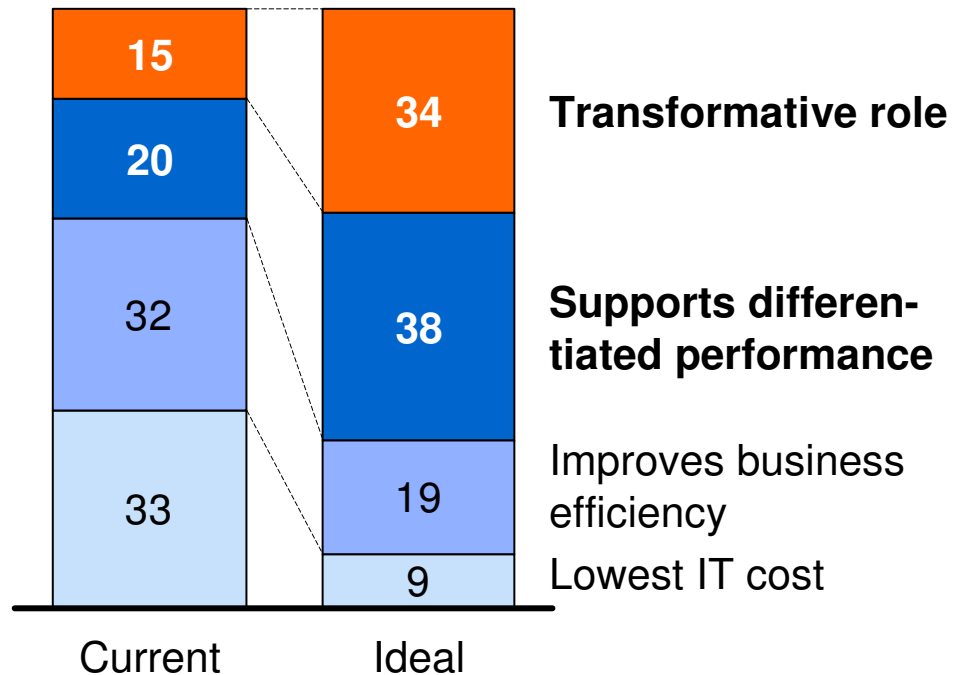
~75% expect flat or decreased IT budgets . . .

. . . yet want IT to take on a more transformative role in the business

What change do you expect in your IT budget for operating expenses and new investments in 2009?

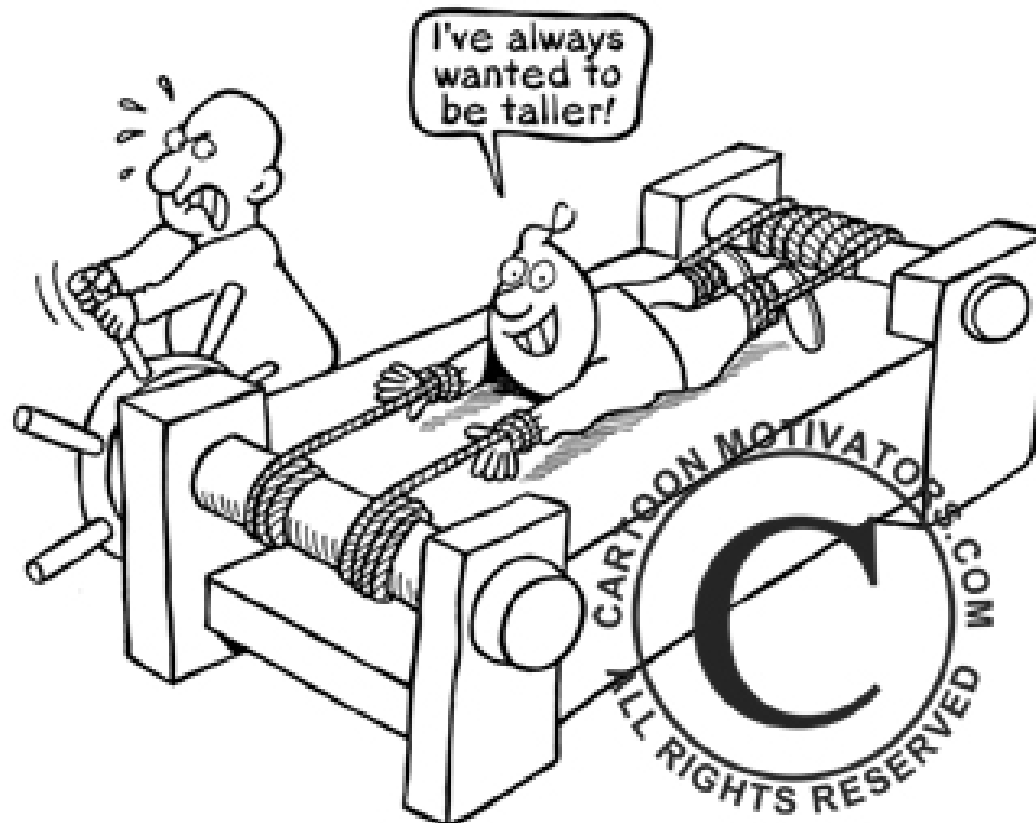


Rank of IT capabilities in terms of how important they are for furthering company goals



“NEVER LET A GOOD CRISIS GO TO WASTE”

There's always good to come out of a bad situation - whatever others do or say!



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A through-cycle mindset is the hallmark of leaders... IT matters, it is at the core of business transformation, innovation and performance

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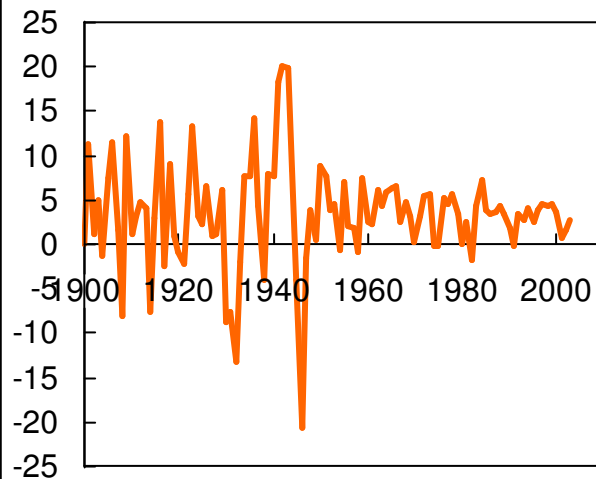
RECESSIONS CREATE AN OPPORTUNITY FOR BIG CHANGES IN COMPANY LEADERSHIP

And so the cycle goes:
recessions happen
...and then they come
to an end

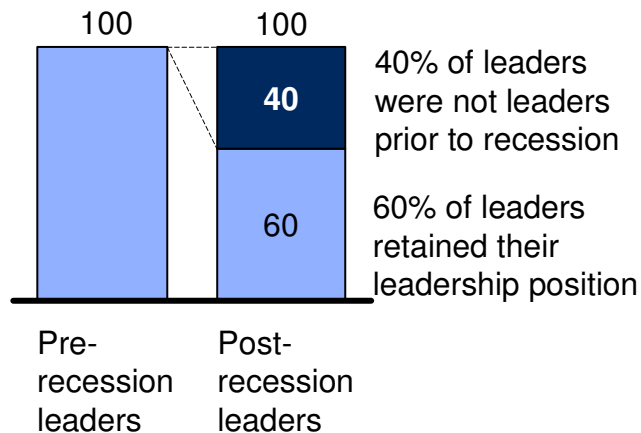
Recessions lead to a
significant reshuffling of
industry leaders ...

...and the impact
of “winning” or
“losing” on
shareholder value
is substantial

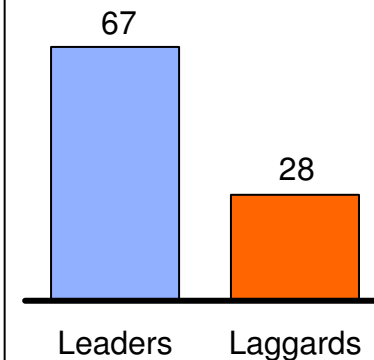
**Real GDP change
(over prior quarter)**



**Leadership changes in
recession***
1998 – 2002



**TRS (Total Return to
Shareholders)**
1989-1993



LESSONS FROM LAST RECESSION – LEADERS ADOPT A THROUGH-CYCLE MINDSET AND INVEST FOR THE FUTURE

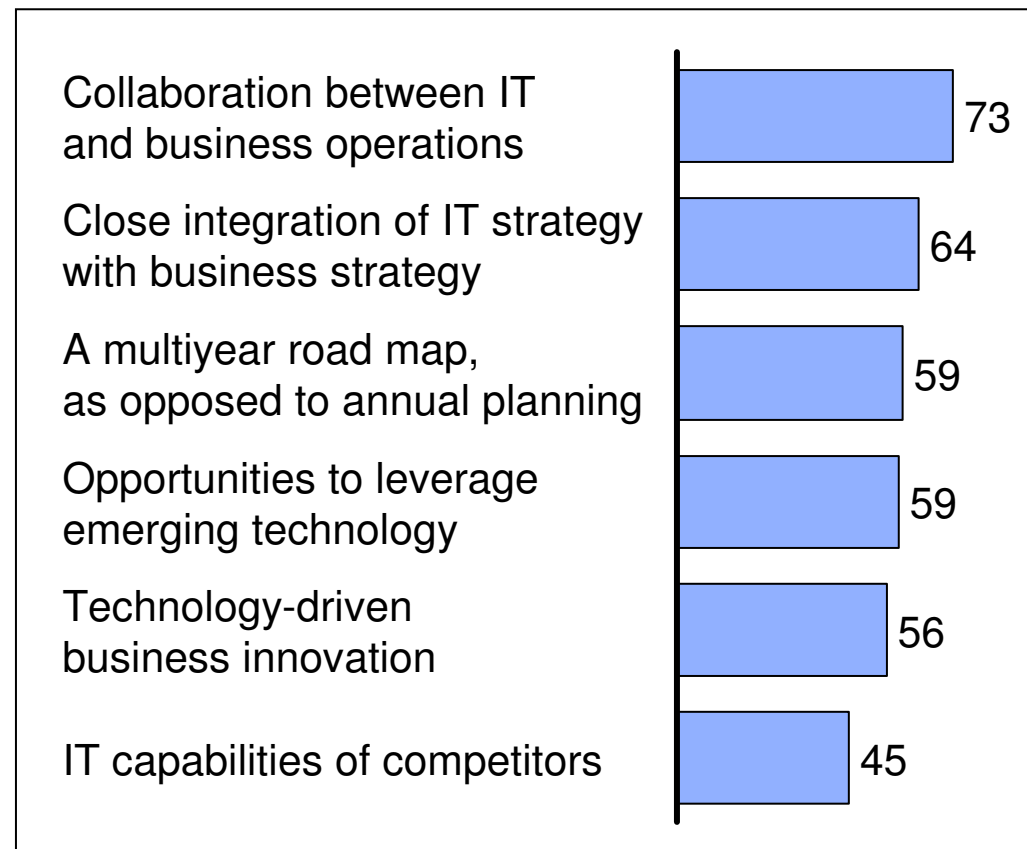
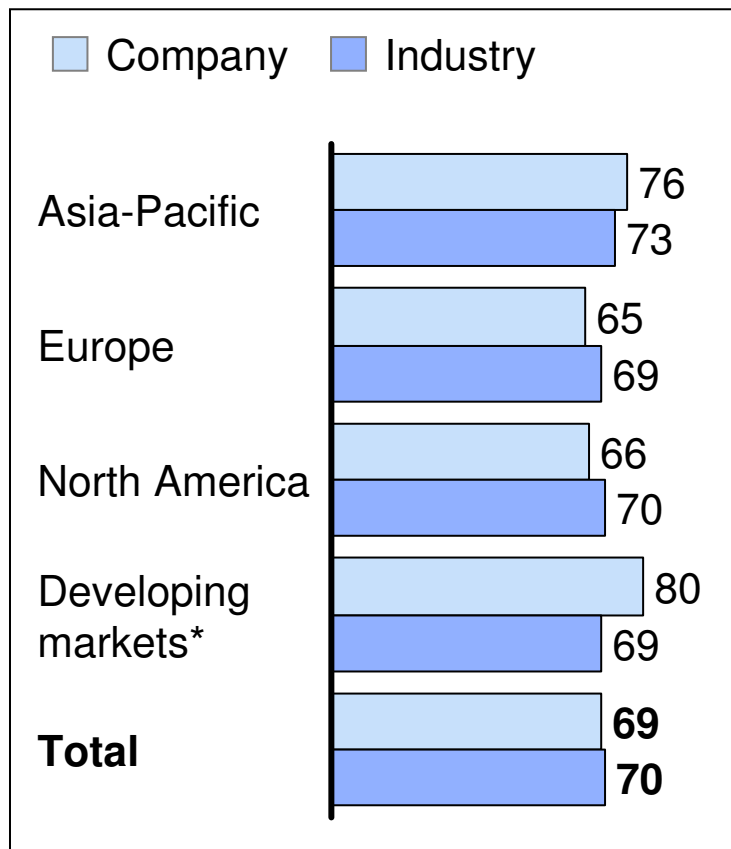
	Post-recession leaders . . .	Post-recession laggards . . .
Manage working capital	A Improved overall cash conversion cycle by more than twice as much vs. laggards	Improved overall cash conversion cycle much less than leaders
Cut costs faster, sustainably, and invest	B Grew their Sales in actual dollars when sales declined C Made headcount cuts immediately AND made bigger sustainable changes to cost architecture	Reduced their Sales in actual dollars when sales declined Made headcount cuts in the second half of the recession ... minimal changes to cost architecture
Focus on Post recession leadership	D Used stronger cash flows to acquire E Divested non-core assets earlier F Invested in transformations for competitive leadership & “next practice”	Did not acquire other companies due to weak cash positions and sizable acquisitions made prior to the recession Continued to retain non-core assets Few transformational initiatives visible
Manage capital structure	G Maintained a leverage level relative to equity stable throughout the recession	Had to increase a leverage level relative to equity

IT MATTERS - IT CAPABILITIES ARE A MAJOR COMPETITIVE LEVER THOUGH COMPANIES ARE NOT TAKING FULL ADVANTAGE

Percent of respondents

Execs agree IT capabilities in the top 3 competitive levers ...

... yet several issues not fully considered when developing IT strategy to get impact



IT IS AT THE CENTER OF MARKET TRANSITIONS LIKELY TO DRIVE BUSINESS TRANSFORMATION AND INNOVATION

Technology-enabled business trends

- Customers in the value chain/ New customer experiences
- Co-creation
- Everyone an employee **Collaboration**
- Value from Communities
- Value from interactions
- Globalized supply chains
- New business models/ Everything as a service
- Mining the tail
- Analytics/Extreme inference
- Data-driven management
- Green
-
-

Technology trends

- Web X.0
- UC/Telepresence . . .
- XaaS
- Cloud computing
- Virtualization
- End point proliferation, Internet of everything
- Mobile computing
- Open source
- Smart Grids
- Immersive interfaces
- Semantic web
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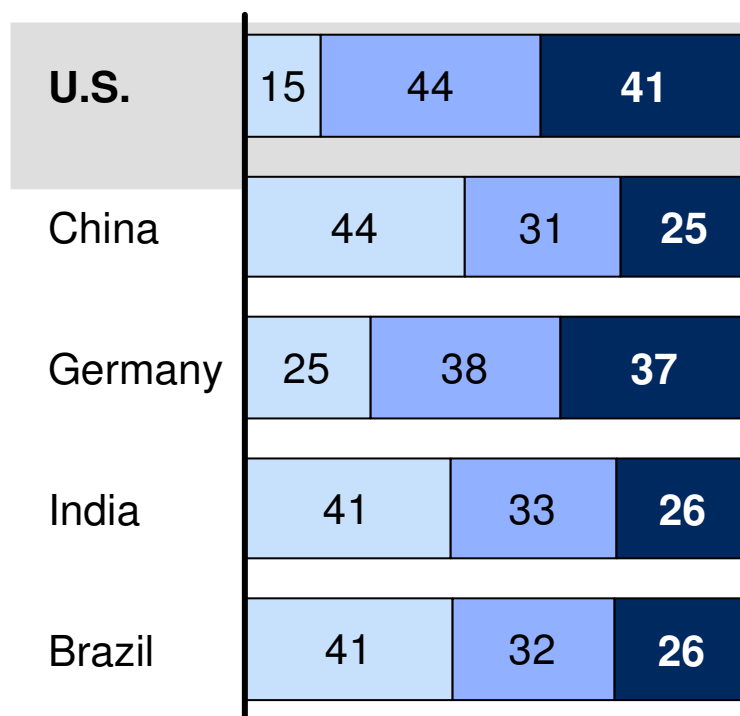
Example market transition

Collaboration: the next wave of productivity, innovation, unlocking cost savings and revenue growth ... but new mindsets required

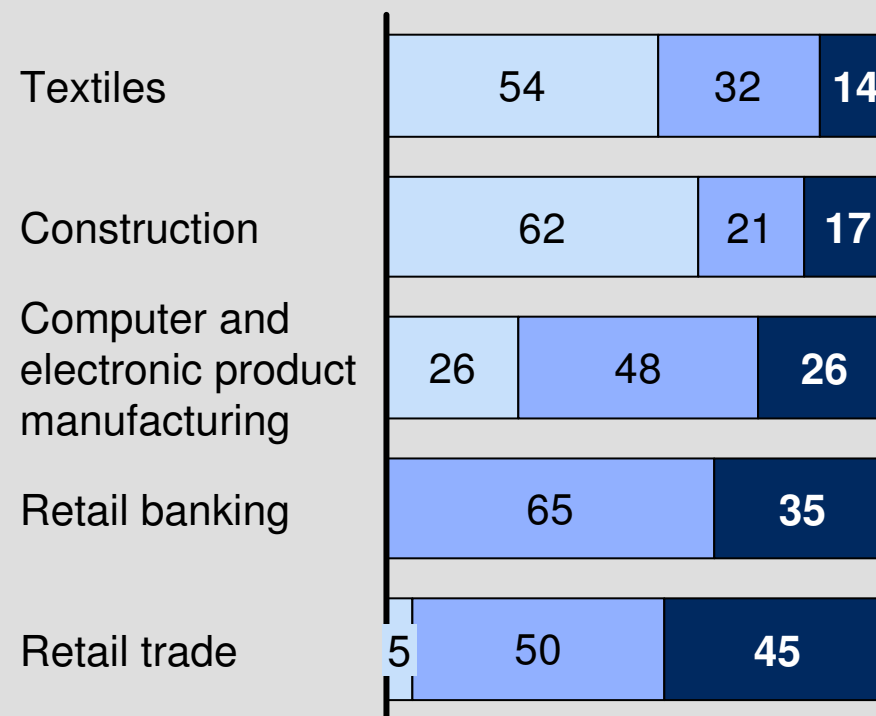


WORK INVOLVING HUMAN COLLABORATION HAS GROWN SUBSTANTIALLY, ESPECIALLY IN ADVANCED ECONOMIES

Composition of economies – by country (percentage of workforce)



Sample industries – U.S.
Percent



Collaboration
 Transaction
 Production

TRANSFORMING HUMAN INTERACTION AND COLLABORATION MATTERS ... AND IS NOW POSSIBLE

Lots of expensive people involved

\$2.5Tr Cost of collaboration in US

18 - 60+% Share in construction -> share in I-Banking, Prof. services

70% Share of new jobs created in US involving collaboration

55-75% % higher wages for collaboration workers

Little investment in productivity to date

>3X Multiple of productivity gains in last decade from production and transactions vs. collaboration

2.5X Multiple of IT investment in transactions vs. collaboration

Potential for innovation, differentiation

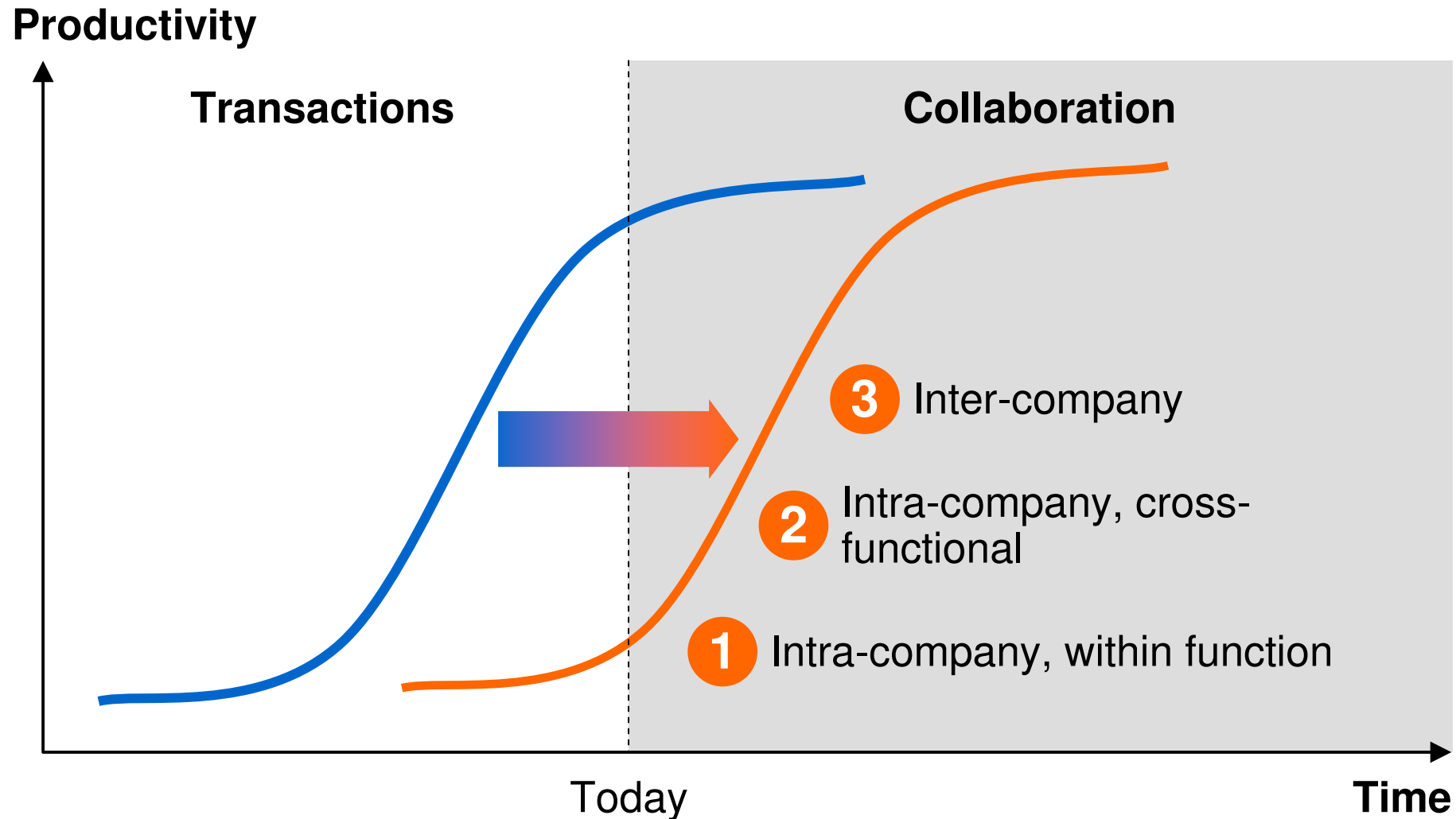
16 million Community of collaborators, contributing product reviews

9X Performance differential from better managing collaboration (top-line and EBIDTA)




























500 Mt CO₂ abatement potential by adopting collaboration tools

**Emergence and adoption of enabling technologies
AND
Use-case and business impact best practices emerging**

COLLABORATION: THE NEXT S-CURVE IN PRODUCTIVITY, INNOVATION AND COMPETITIVE ADVANTAGE?



NUMEROUS EXAMPLES EMERGING OF BUSINESS BENEFIT AND INNOVATION FROM TRANSFORMING COLLABORATION

	Sample applications	Case examples
Inter-Company	Customers	  
	Talent pools	  
	Suppliers	  
Intra-company, cross-function	Expertise	  
	Decisions	  
Intra-Company, intra-function	Knowledge	  
	Coordination	 
Person to person, community to community	Social networks	 
	Knowledge	  
	Rich media	 

Customer and Talent engagement

Innovation

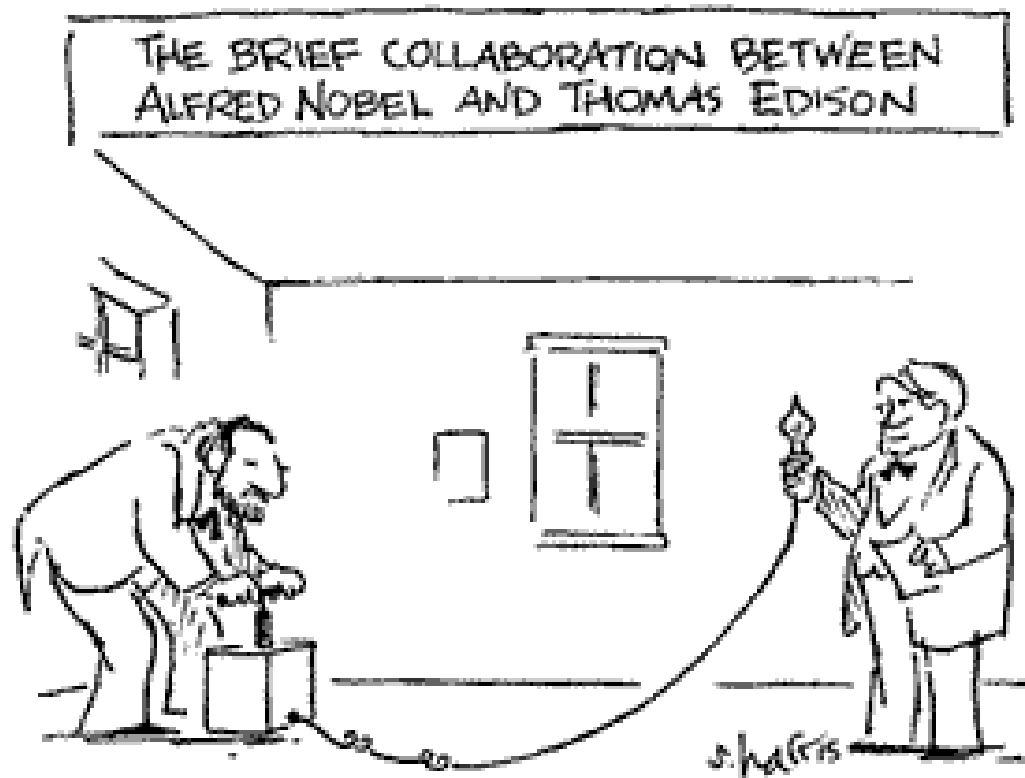
Productivity

Insight/ Expertise

Agility

Green

GETTING COLLABORATION RIGHT IS CRITICAL



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NEW MINDSETS REQUIRED TO CAPITALIZE ON THE COLLABORATION OPPORTUNITY

Traditional IT ("It's about systems")

New mindsets ("It's about people")

Automated mechanized transaction processes

Understanding the business

How work gets done, how people innovate, what business problems matter

Formal structures, departments, functions, and hardwired processes

Arena of impact

Communities of work, social networks, intra/inter-company, customers, ecosystems

Enforce enterprise standards

Policy approach

Proliferate the most adopted enabling technologies

Planned rollouts based on road maps

Technology deployment

Experiment, scale, and deploy based on usage and adoption

Top-down efficiency and consistency oriented

Decision making

User-centric, usage and effectiveness oriented

Labor-capital tradeoffs, IT productivity/ROI efficiency, throughput

Economics of impact

Labor and capital, total factor productivity, effectiveness, and outcomes