

Manufacturing Barometer™

Innovation & Technology

Many organizations today struggle to determine how information technology (IT) can help achieve business goals. In light of this, PricewaterhouseCoopers (PwC) asked senior executives from large US-based industrial manufacturers about their efforts to improve their IT functions while balancing cost pressures and the dynamic environment of today's business.

Implementing measures for IT savings and value improvement

While 44 percent of senior executives who participated in the survey reported that they have implemented performance improvement initiatives to eliminate IT waste, more than one-third (36 percent) have not done so, and 8 percent were not certain. In light of the current economic crunch, PwC thinks industrial manufacturers would benefit from improving efficiency in this area to achieve savings.

Even fewer industrial manufacturers reported implementing formal performance improvement initiatives for customer or user satisfaction of their IT—a mere 28 percent. The majority of respondents (52 percent) had not done so, and 6 percent were not certain.

Outsourcing to manage costs

With industry interest in cost reduction building, PwC asked senior executives to share their organizational IT outsourcing strategies. More than half (net 60 percent) of respondents reported outsourcing some of their IT work: 36 percent outsource infrastructure (e.g., data centers, communication networks, help desks) and 50 percent outsource application development or maintenance (e.g., website, e-commerce, specialty applications). Of the remaining participants, 22 percent do not outsource.

Chart 1. Has your company implemented performance improvement initiatives to eliminate IT waste? (N/A responses not shown.)

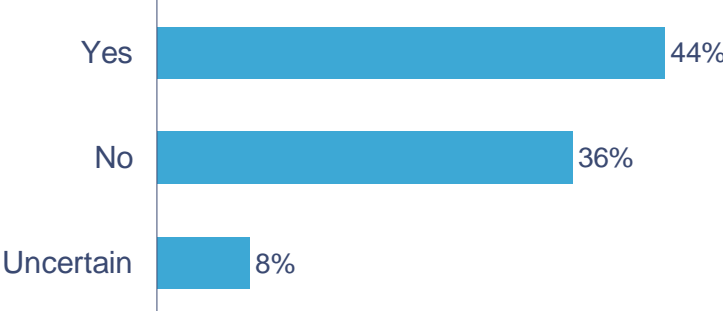


Chart 2. Has your company implemented a formal performance improvement initiative to improve customer/user satisfaction with the IT department? (N/A responses not shown.)

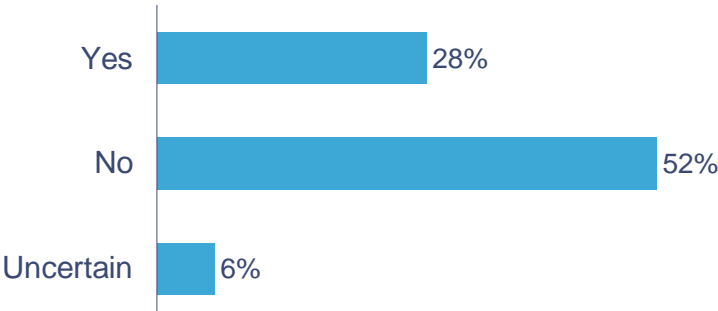
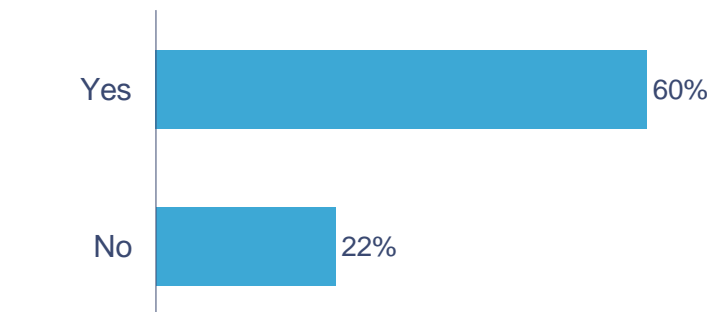


Chart 3. Does your company outsource IT infrastructure or application development/maintenance? (N/A responses not shown.)



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Only 63 percent of senior executives who reported outsourcing IT work said their organizations measure the benefits of these arrangements, 30 percent do not, and 7 percent did not respond. The vast majority (90 percent) of those who measured benefits said they are primarily motivated by cutting costs. Measuring the benefits of these investments would help organizations determine whether their arrangements are cost efficient. Senior executives who reported outsourcing also seek access to outside IT skills (60 percent) and non-cost operational metrics (55 percent), such as service levels and productivity.

To manage IT vendors, large US-based industrial manufacturers use a wide range of practices, including regular vendor meetings (64 percent), joint planning for service level requirements (58 percent), flexible contract terms to allow for changes in services (58 percent), benchmarking to assess cost and effectiveness (56 percent), flexibility for vendors to engage subcontractors (38 percent), vendor involvement in IT strategy development (38 percent), and flexible pricing to share risks and rewards for new innovations (28 percent).

Establishing value expectations in vendor arrangements is critical to maintaining successful vendor relationships and to demonstrating the business value these relationships provide. Once understood, these values should be monitored and sustained throughout the length of the affiliation, which requires a periodic assessment and review of the relationship.

Aligning IT with business strategy

The majority of survey respondents (82 percent) cited technology as very (42 percent) or somewhat (40 percent) important to achieving strategic business objectives. However, only the 42 percent that felt it was very important indicated that their IT strategy was closely linked to their business strategy. Those that felt it was somewhat important noted that IT contributes to their company's strategic objectives only on an "as needed" basis, while 6 percent view IT primarily as a cost center and 12 percent did not respond. Best-in-class companies show a clear alignment of business and IT strategies. To make effective decisions, the business needs accurate, timely, and reliable information. An absence of IT and business alignment can compromise efforts to meet business needs because the business is going in one direction and IT in another.

Chart 4. If your company outsources IT functions, does it measure the benefit? (N/A responses not shown.)

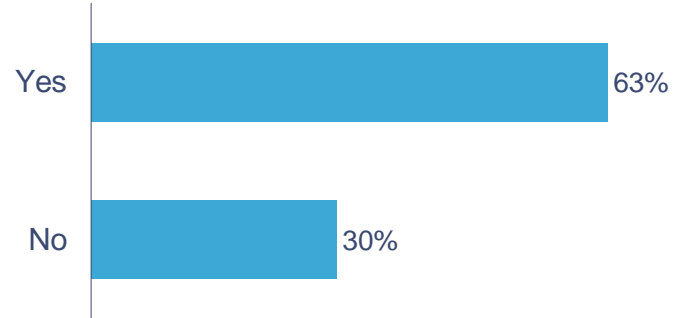
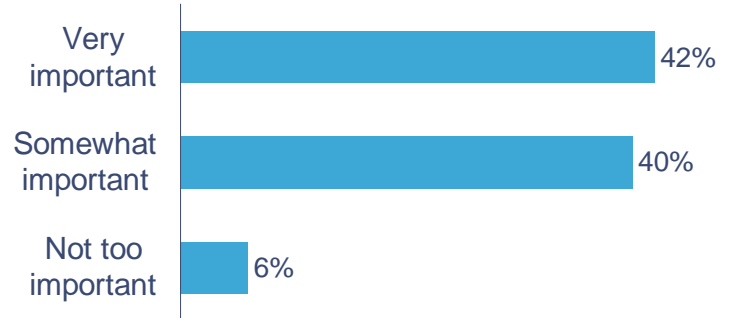


Chart 5. Is technology important to achieving your company's strategic business objectives? (N/A responses not shown.)



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Senior executives reported that during the past two years their IT departments have worked to improve a wide array of functional areas to help their organizations achieve business strategies. The top four areas cited were: business intelligence and reporting (66 percent); data quality analysis, transformation, or integration (64 percent); new or expanded enterprise resource planning integration, process assessment, or redesign (60 percent); and critical system consolidation (60 percent). Other areas of IT focus included: enterprise architecture (54 percent); sustainable cost reduction (52 percent); collaboration with business planners (47 percent); and e-commerce (28 percent). Almost two-thirds (64 percent) reported that these efforts have been successful, with 14 percent listing them as very effective and 50 percent as somewhat effective. Another 22 percent had mixed results (some effective, some not). No survey participants reported that their efforts were not effective at all.

With the US economy wavering, it would make sense for IT departments to work toward sustainable cost reduction. Short-term solutions such as one-time cost reduction efforts, in our experience, tend to cost more over time. For example, short-term decisions to postpone strategic projects or reduce service capabilities that are needed to meet business objectives may cost more over time in opportunity costs, loss of competitive advantage, or an inability to support information needs for critical decisions.

In PwC's experience, organizations are looking to achieve cost reduction or cost effectiveness when managing their IT function. Survey results support this trend. About two-thirds (62 percent) of survey participants stated their organization requires a portion of its IT funding be driven by return on investment (ROI). On average, senior executives reported 37 percent of their IT funding is driven by ROI. Of the remaining respondents, 22 percent do not drive their funding based on ROI. What is clear in these results is that companies need effective ways to measure the value and return for their IT investments. Without such measures, companies may lose money by cutting costs too deeply or postponing projects that promise returns greater than their costs.

Chart 6. How effective were IT actions taken to achieve your company's strategic business objectives? (N/A responses not shown.)

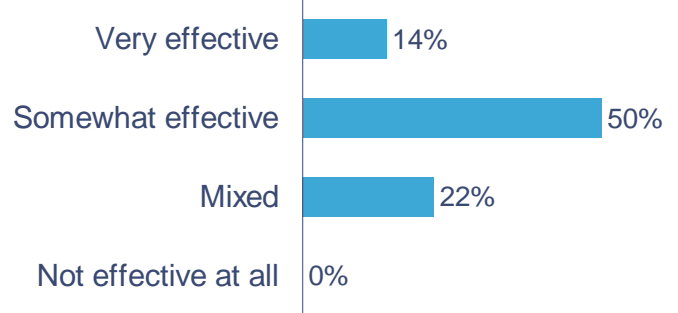
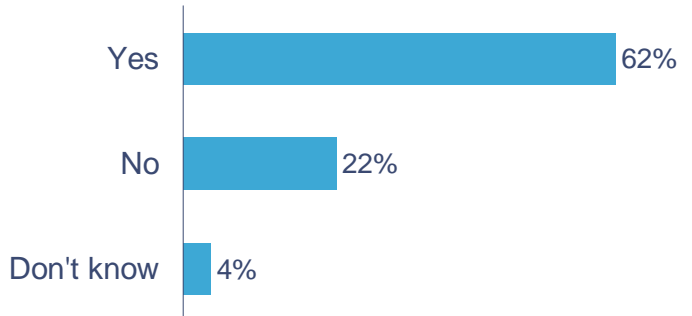


Chart 7. Do you require any portion of IT funding to be driven by Return on Investment (ROI)? (N/A responses not shown.)



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Conclusion

Overall, survey results suggest US-based industrial manufacturers can enhance their approach to IT. While senior executives report taking steps to begin the process of making IT more efficient, the state of the market makes it imperative to dedicate more focus to this endeavor. Doing so will not only improve the organization's ability to meet its goals, but will also eventually result in reduced spending. Some ways to potentially garner immediate improvements are:

- Align IT and business strategies so they can successfully contribute to business objectives.
- Implement sustainable cost-reduction efforts. Short-term focus, while potentially beneficial, can result in missed opportunities to provide meaningful and measurable business benefits.
- Execute performance measurement and improvement efforts. Traditionally, IT organizations have had trouble valuating their services. Executing an effective and ongoing approach to service valuation (e.g., ROI) helps drive effective decision making for IT investment.

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About the research

The Manufacturing Barometer is one in a series of quarterly business outlook surveys from PricewaterhouseCoopers. The survey provides a view on the 12-month outlook for revenue growth, new investments, new hiring plans, emerging business barriers and more. In addition to the business outlook, we hear from our panelists about special issues they face as the business climate changes. Results of the quarterly business outlook surveys and special issue surveys are available from www.barometersurveys.com. To receive our survey results by email, visit: www.barometersurveys.com/mail.

Methodology

PricewaterhouseCoopers' Manufacturing Barometer is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. Our regular survey panel consists of senior executives from a geographically balanced sample of large companies in the United States. Ninety-five percent of the panelists hold titles such as president, CEO, CFO, VP of finance, treasurer, controller, internal audit director or other related title.

Demographics

Who	Fifty senior executives of US-based, industrial manufacturing organizations
Average number of employees	7,125
Average business unit revenues	\$3.22 billion
Average enterprise revenues	\$8.00 billion
Market capitalization	\$5.92 billion

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