Guide to Using Peer Data

Gartner IT Budget and Efficiency Benchmark

Gartner®

Contents

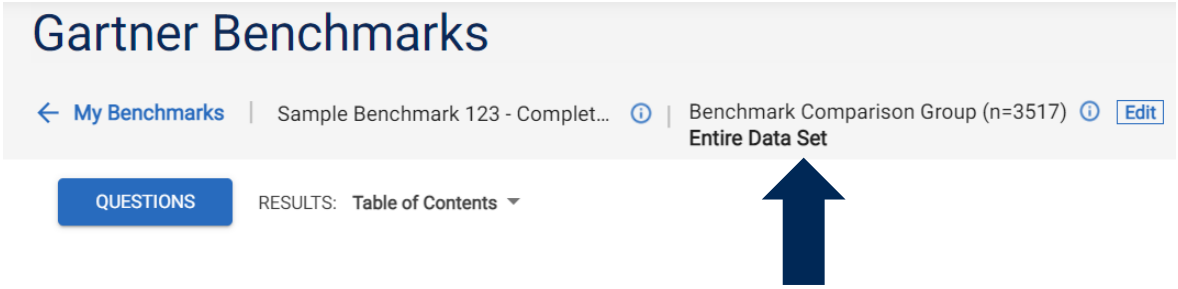
Background

- IT Spending can often be seen as a “black box” to corporate and finance executives.
  - There are no robust public reporting requirements or standards for how to measure IT Spending.
  - There are no third-party media companies like S&P, or Dun and Bradstreet, that can gather and publish this kind of information.
- Gartner’s has created a cost model defined in IT Key Metrics Data 2023: Industry Measures — Framework Definitions to enable our clients to measure IT Spending consistently. We gather data based on this model throughout each year during client interactions including:
  - Gartner Consulting engagements that use the methodology
  - IT Budget & Efficiency Benchmark analyses where users enter their own data to compare themselves to data we have already collected. Gartner can provide insight and analysis by reviewing their data with them using our inquiry process. That data is harvested, validated, and classified for use in our databases.
- These methodologies and tools combined with the unique position Gartner holds in the IT marketplace have allowed us to create the most robust database around IT Spending and Staffing in the world.

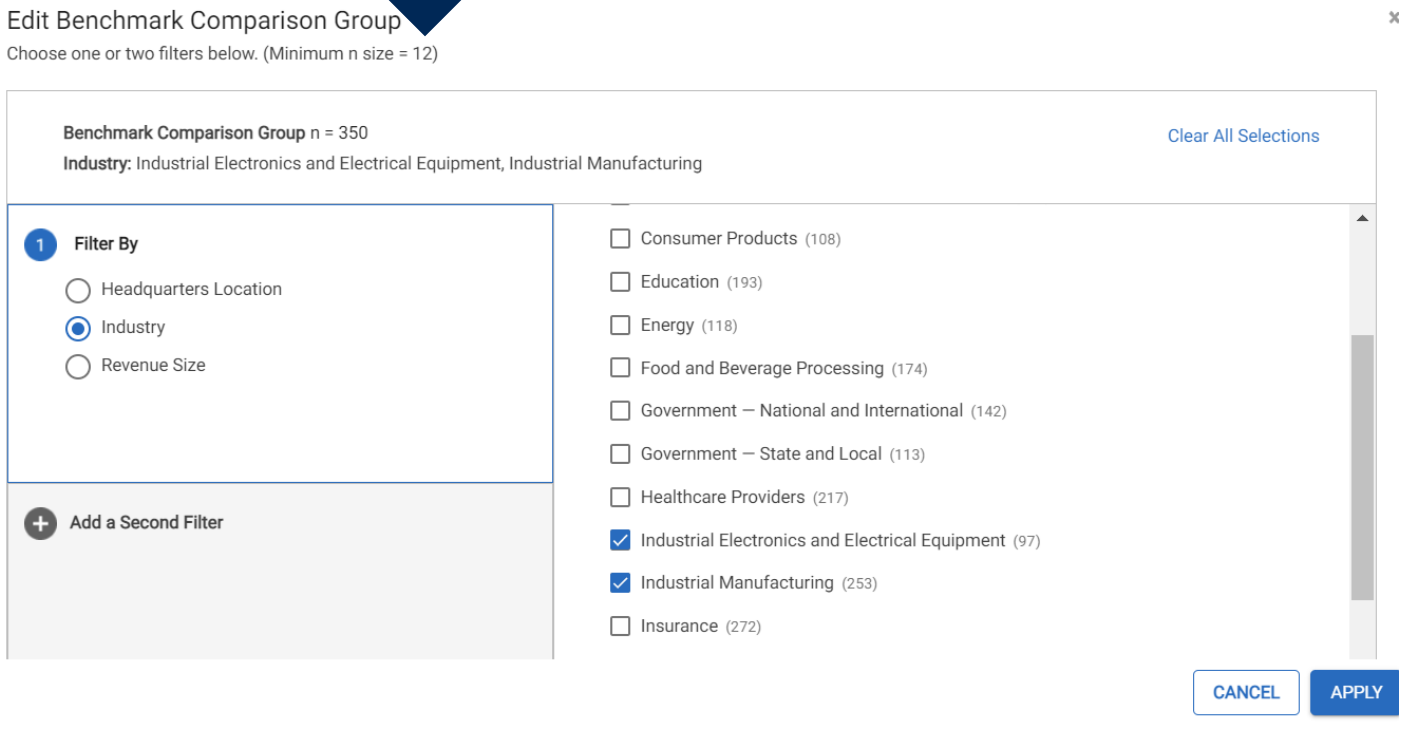
Peer Selection Tool

On the digital results page, click "Edit" to select your peer group comparison. You can define your peer group based on one filter or with a combination of two filters.

All metrics will be available if only the Industry filter is applied. Applying HQ or Revenue size filters may result in sample sizes too small to create a comparison for some or all metrics.



If no comparison group is chosen the benchmark will be based on of the entire database



Primary Filter

Secondary Filter

Select one or more options

Click “Apply” when complete

Data Filters — Industry

- Every organization Gartner Collects Data from is classified on a best-fit basis into one of twenty-one industry groups. The industry groups can be used as filters to create peer comparisons.
- The Industry groups are shown below and described in IT Key Metrics Data 2023: Definition of Industries

- Banking and Financial Services
- Chemicals
- Consumer Products
- Construction, Materials and Natural Resources
- Education
- Energy
- Food and Beverage Processing
- Government — National and International
- Government — State and Local
- Healthcare Provider
- Industrial Electronic and Electrical Equipment
- Industrial Manufacturing
- Insurance
- Media & Entertainment
- Pharmaceuticals, Life Sciences and Medical Products
- Professional Services
- Retail and Wholesale
- Software Publishing and Internet Services
- Telecommunications
- Transportation
- Utilities

Data Filters — Industry

- Industry is the most important filter as it is the biggest driver of differences in IT cost efficiency and staff productivity metrics (including size). For example, large banks tend to have metrics that are closer to small banks than metrics from large retailers.
- In the industry definition document, we group organizations based on how they make money and their IT spending and staffing characteristics rather than the sector they exist in. For example:
  - All the types of companies below are distributors. They make money by buying and selling items which leads to high transaction-based revenue. This affects their business metrics (such as Revenue per Employee) and their IT Spending.
  - All the organizations are classified as Retail and Wholesale. From an IT metrics perspective, a pharmaceutical distributor is more like a food distributor than the are like a pharmaceutical manufacturing company.

Type of Company	Gartner Classification Used	Sector (not used)
Pharmaceutical Distributors	Retail and Wholesale	Pharmaceuticals, Life Sciences, Medical Products
Food Distributors	Retail and Wholesale	Food and Beverage Processing
Electronics Distributors	Retail and Wholesale	Industrial Electronics and Electrical Equipment

Data Filters — Revenue and Geography

- In addition to Industry, we classify companies by Revenue Band and Geography
  - Revenue Bands Include
    - Under $250M
    - $250M-$500M
    - $500M-$1B
    - $1B-$10B
    - $10B+
  - The Geographies Include
    - North America
    - Europe, Middle East, Africa (EMEA)
    - Asia/Pacific
    - Latin America/Caribbean

Published Data versus IT Budget and Efficiency Benchmark

- The following types of peer comparisons are available through IT Key Metrics Data published documents and the Gartner IT Budget and Efficiency Benchmark Tool (ITBEB).
- The tool offers more flexibility as it's also a source of data which contributes to future databases.
- This document shows ways to use and interpret peer data to get the most out of your comparison.
- Gartner cannot provide tailored peer group through a research subscription or client inquiry. In most cases the available comparisons are appropriate to allow clients to benefit from the results.

Comparisons	Published	ITBEB
Cost efficiency/staff productivity medians by Industry and by Industry and Revenue Band	✓	✓
Cost efficiency and Staff Productivity interquartile and range data by Industry	✓	✓
Cost efficiency and Staff Productivity interquartile and range data by Industry by any combination of 2 filters among Industry, Revenue Band, and Region		✓
Cost and staffing distributions by industry	✓	✓
Cost and staffing distributions by industry by any combination of 2 filters among Industry, Revenue Band, and Region		✓
Ability to combine industries, regions, and revenue bands		✓
Custom output report		✓

Peer Group Accuracy vs. Value

Benchmark Type	Create Baseline	Identify Drivers	External Perspective	Cost to Execute
No Peer	None	None	None	None
ITBEB Peer	High	High	Medium	Low
Tailored Peer	High	High	Medium/High	High
Ideal Peer	High	High	High	Very High if possible

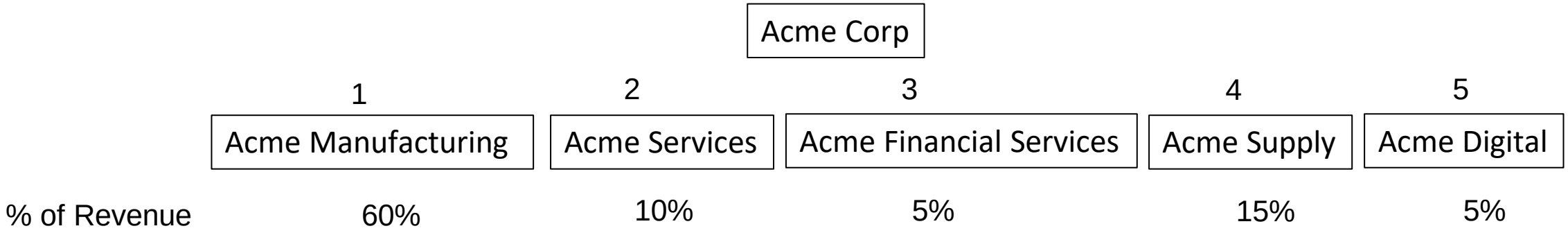
- Past a certain point there are diminishing returns to improving a peer group.
- Not benchmarking/No Peer is the provides the least value as most organizations don't have a good model to set a baseline their IT Spending.
- Using ITBEB allows organizations to set a baseline and identify their spending and staffing drivers. It offers reasonable external reference points to put their IT Spending and Staffing in perspective. Clients can do this as a part of their Gartner subscription.
- Gartner can create a tailored peer through our database, but it requires much more interaction in order to ensure everyone agrees on what the characteristics of the comparison need to be. The quality is also dependent on the amount of data meeting that criteria. A tailored peer will not necessarily be an ideal peer.
- Gartner only provides tailored peers part of a larger engagement where the marginal cost to do so is reasonable.

Getting the Most Out of Available Peer Data

- We have outlined some ways clients use our data to get the best comparison possible.
  - Understanding how companies relate to industries
  - Ranges instead of medians
  - Analyzing subsets of the enterprise and using multiple peers
  - Blended peer groups
  - Understanding variances within industries
  - Widening criteria
  - Choosing an industry different from your formal classification
  - Working with atypical financials
  - Distribution Data

Understanding How Companies Relate to Industries

- No Industry is monolithic, and companies don't always fall perfectly into a single industry.
- To show how "real world" organizations don't always align perfectly to industry peer groups we show an example company. Acme Corp that has several divisions, which cover multiple industries.



1. Builds tangible products
2. Provides consulting on the best ways to use these products implementation and maintenance services
3. Provides financing so customers can buy product
4. Sells ACME and other companies' products through their own and retail outlets as well as to other retailers.
5. SaaS solution to optimize utilization of product.

Ranges Instead of Medians

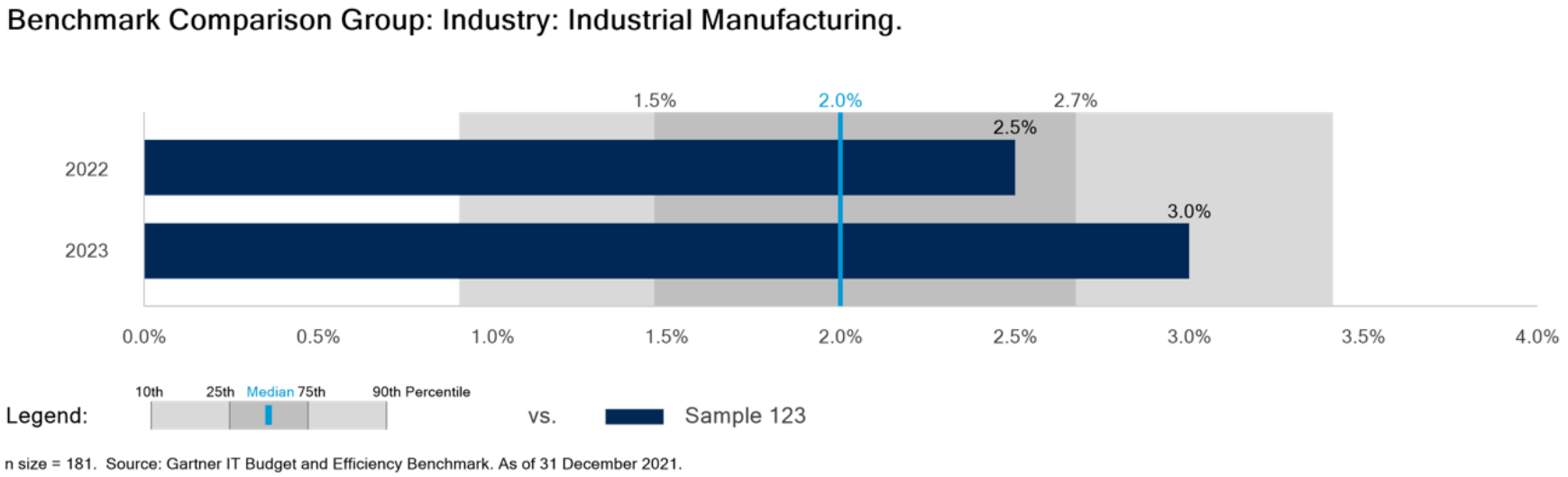
- Acme would be classified as Industrial Manufacturing in the Gartner Database. However other divisions have characteristics of industries such as Professional Services, Banking and Financial Services, Retail and Wholesale, Software Publishing and Internet Services.
- Other differences can exist among peers in the same industry including geography, business strategy, position in the investment cycle etc.
- Given the number of variances one can have within an industry, It's more useful to look at the percentiles and ranges rather than just the median.

Instead of saying

Acme is above the peer median

Say this

Acme falls into the same range as half of the organizations in the peer group for year 1.

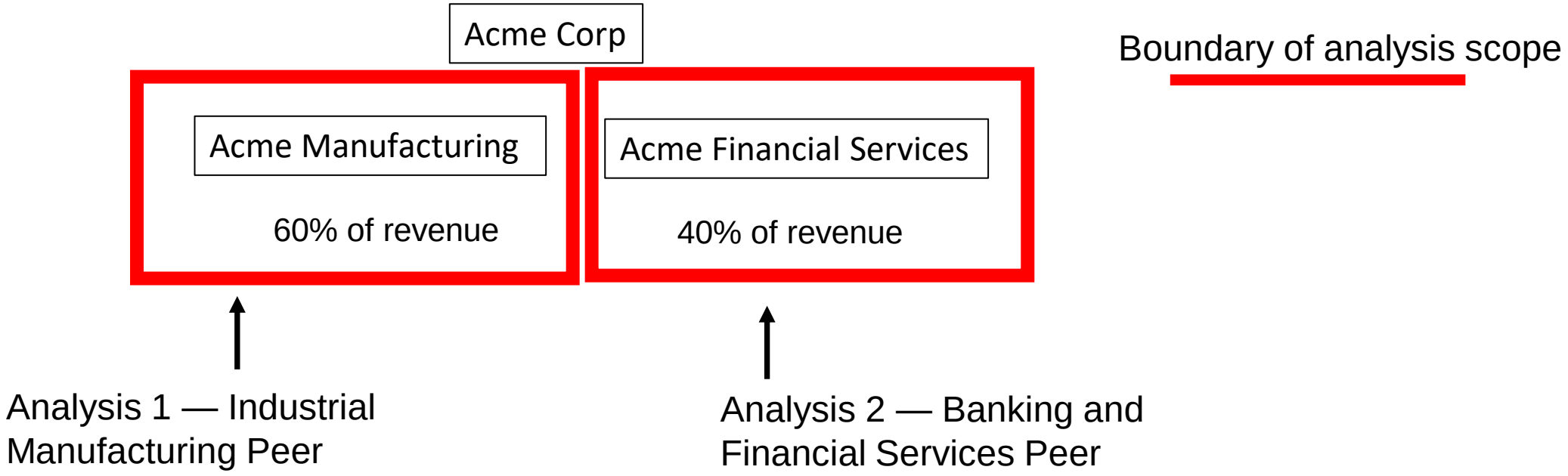


Analyzing Subsets of the Enterprise and Using Multiple Peers

In this scenario Acme has division for Manufacturing and one for Financial Services. Gartner would classify the organization as “Industrial Manufacturing” in the database as that is where most of the revenue comes from.

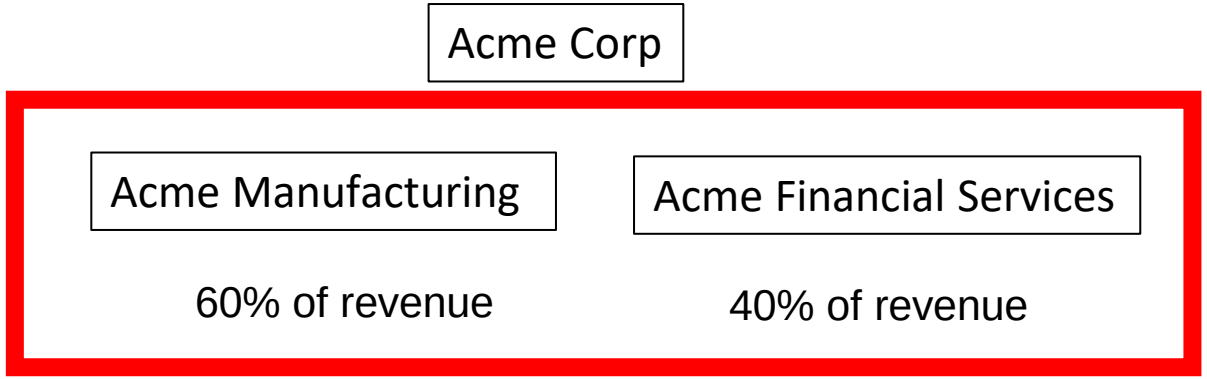
This doesn’t necessarily mean that a client is forced to benchmark the whole company using the Industrial Manufacturing peer group.

The scope of any analysis is demarcated by the business supported as defined by revenue, business operating expenses, and business employees. Therefore, we can create two analyses by drawing the lines around each business unit. Each business unit can be compared to the appropriate peer group. When we do this, IT Spending for each business unit must be allocated properly.



Blended Peer Groups

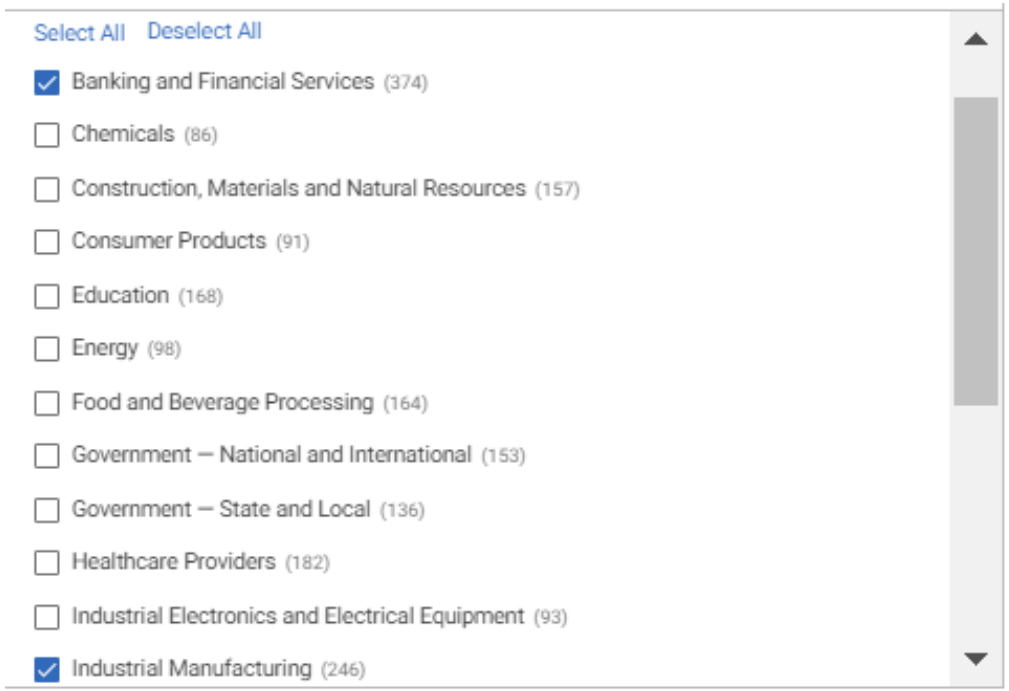
In the situation where it is too difficult to allocate IT Spending by business unit, the IT Budget Tool allows for a blended peer group.



Boundary of analysis scope

Single Combined–Industrial Manufacturing and Banking and Financial Services Peer

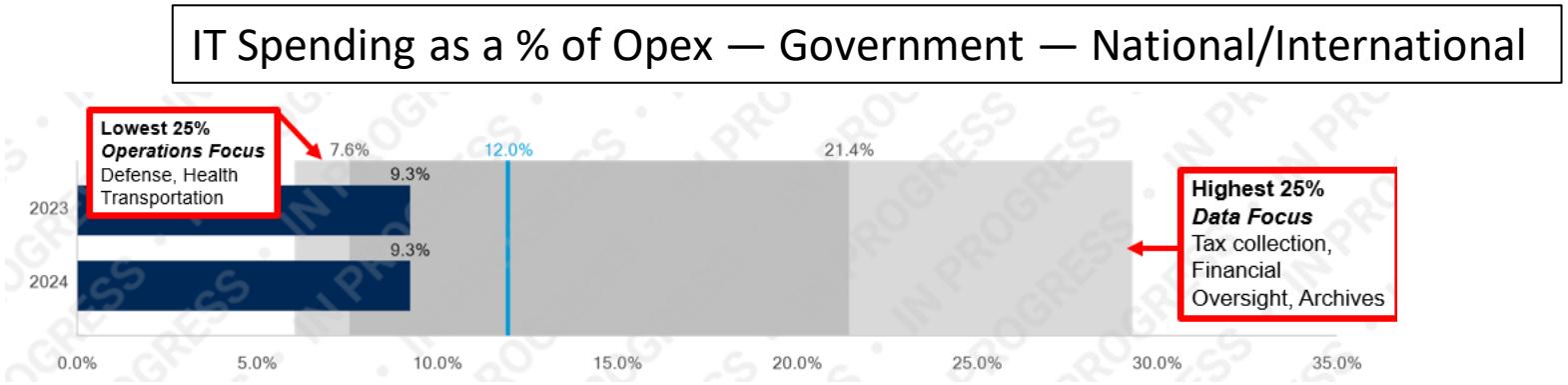
Peer Selection Tool



Understanding Variances Within Industries

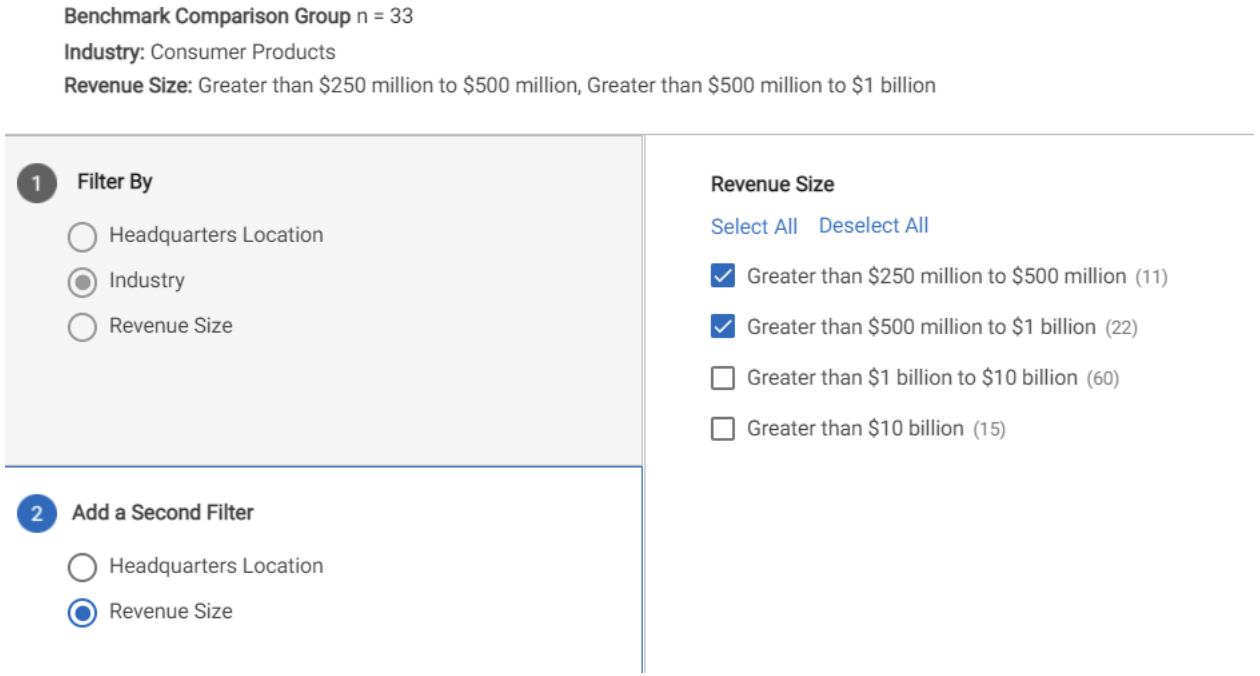
While Government tends to be IT intensive, not all Government agencies are the same.
The chart below shows that Government agencies with a more operational focus tend to have lower IT Spending as a % of Opex, while agencies with more of a data focus are higher on that metric.

While there may not be enough data for a perfect peer group for each agency, knowledge of the characteristics of each industry can help add better perspective. Gartner experts can often help provide this additional insight.



Widening Criteria

- The IT Budget and Efficiency benchmark will allow a peer comparison group to be filtered by 2 out of 3 dimensions including Industry, Revenue Band, and Region.
- Any individual comparison metric will only be generated if the number of data points contributing to it is greater the threshold set (currently 12 organizations).
- Not all organizations contribute a complete set of metrics. There will often be more data available for metrics such as IT Spending as a % of Revenue than there will be for a lower-level distribution metric such as % of SaaS versus traditional software.
- In the example on the right, we might want to create a peer group for Consumer Products 250-500M in Revenue. As there are only 11 organizations contributing, we won't get a result.
- If the $500-$1B revenue band is also checked, we will get top level metrics like IT Spending as a % of Revenue.
- In order to get a metric like a technical function distribution (Infrastructure vs Applications etc.) we would need to widen the peer to include 1-10B



Using a Different Group Than Your Formal Classification

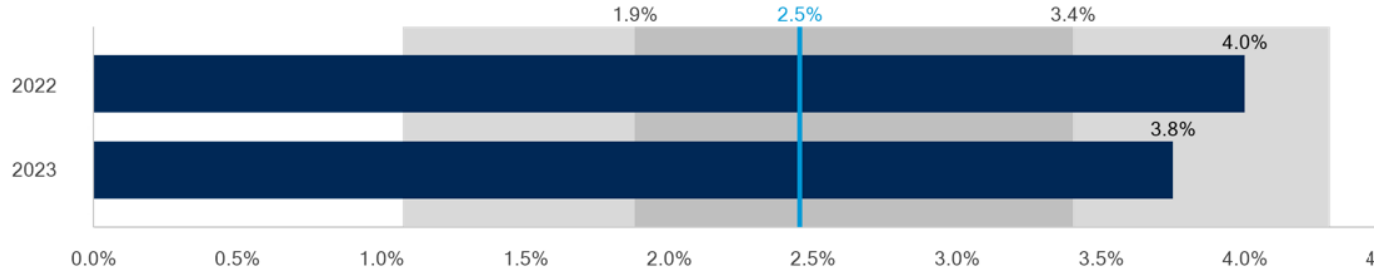
Organizations may have characteristics of an industry other than their classification

Electronics companies building software embedded into their products are an example.

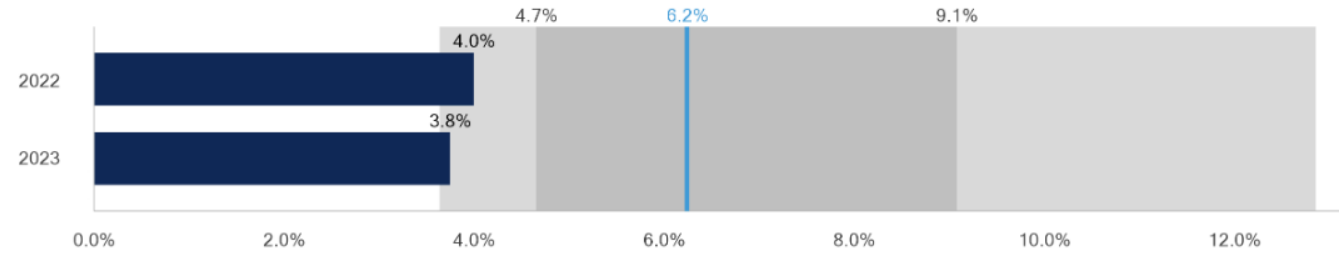
Software Publishing and Internet Services can be used allowing the company to show themselves.

- Higher than the Industrial Electronics peer
- Lower than the Software peer
- Close to the blend of both groups.

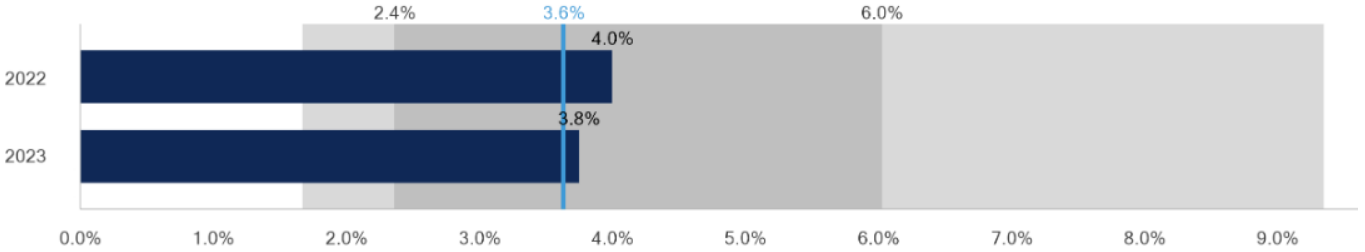
IT Spending as a Percentage of Revenue
Comparison Group — Industrial Electronics/Electrical Equipment



IT Spending as a Percentage of Revenue
Comparison Group — Software Publishing and Internet Services

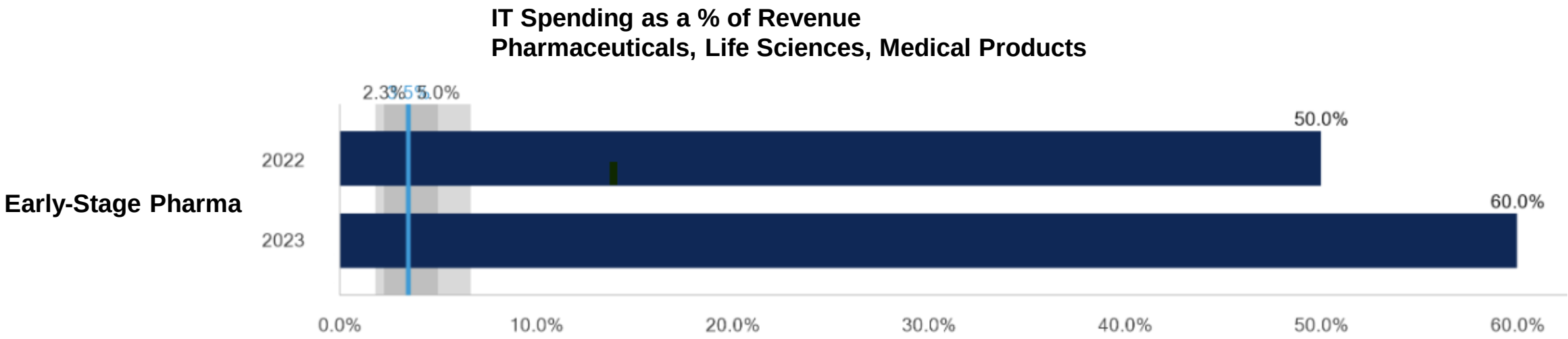


IT Spending as a Percentage of Revenue
Comparison Group Industrial Electronics/Electrical Equipment and SP&IS



Working With Atypical Financials

- Using revenue as an input to metrics calculations is useful because it can be measured across industries.
- However, there some cases using revenue leads to unusual results. In the example below we have an early-stage pharmaceutical company which has very little revenue.
- In this case IT Spending as a % of Revenue might look like this:



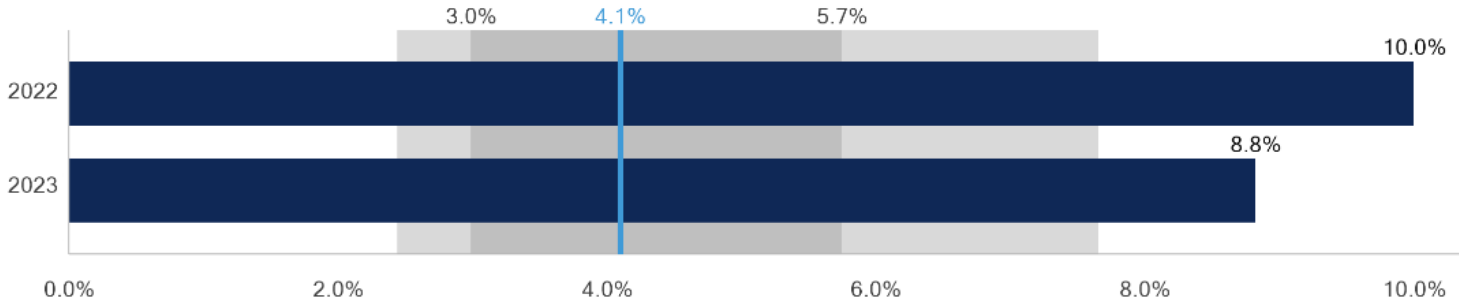
Working with Atypical Financials

For the Early-Stage Pharma company, we may still be able to use Business Operating Expenses and Employees as workload factors.

A growing company may still have relatively high IT Spending as they are investing for the future, but the results are more realistic. We can also see improving performance on these metrics from Year 1 to Year 2.

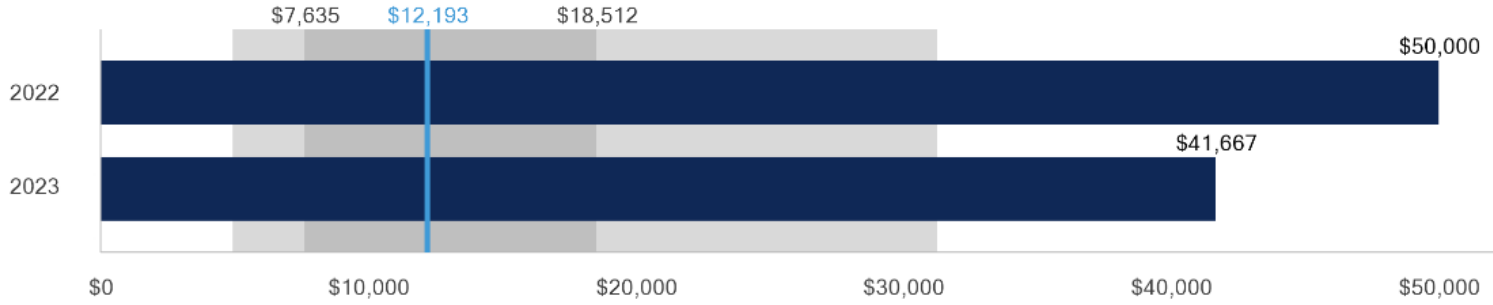
Early-Stage Pharma

IT Spending as a % of Business Operating Expenses
Pharmaceuticals, Life Sciences, Medical Products.



Early-Stage Pharma

IT Spending per Employee
Pharmaceuticals, Life Sciences, and Medical Products



Working With Atypical Financials

There are other types of organizations that tend to have unusual financials around Revenue and Businesses Operating Expenses.

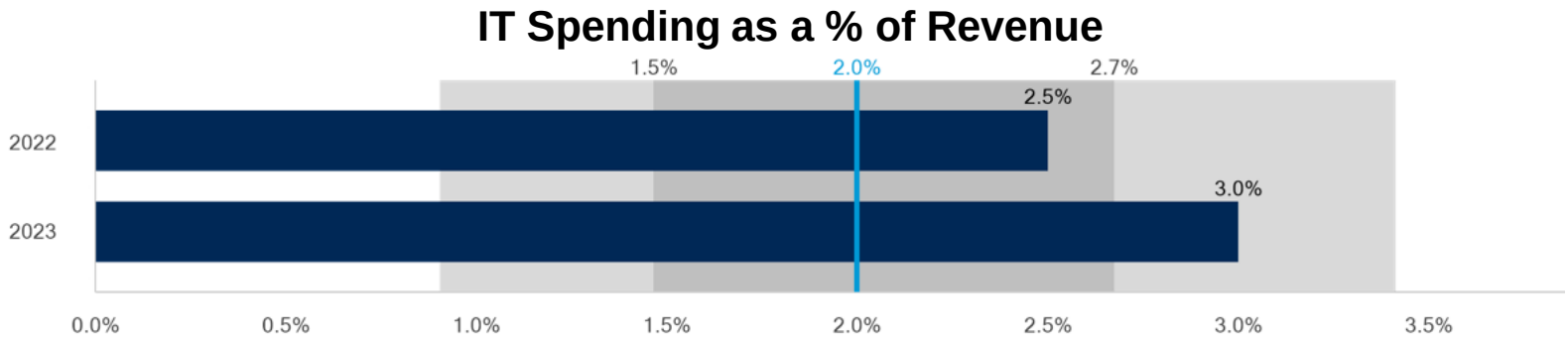
Pensions, Life Insurance, Annuity, and many investment organizations can have large gaps between when they make money and when they have expenses. These can happen in “chunks”.

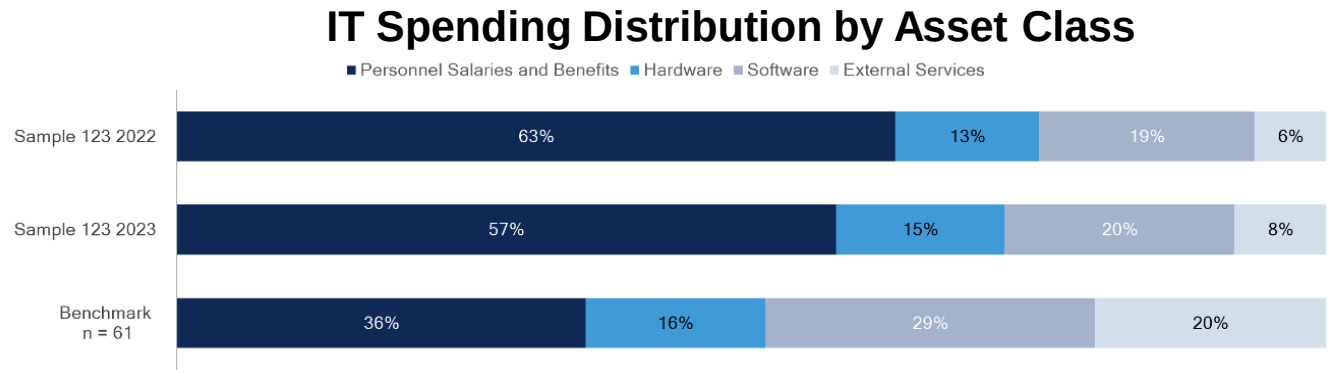
While employees can be used to measure workload it can also help to create custom workload metrics that better reflect business volume. For example, the organizations above can look at IT Spending as a % of Assets Managed. While comparisons for these organizations may not be available the metrics can be useful for planning and trend analysis.

Using Distribution Data

- Top level metrics such as IT Spending as a % of Revenue good for putting IT Spending into perspective but they don't provide guidance help improve performance.
- Distributing data into asset, technical function, and investment categories can be challenging, but it can help drive the organization towards helpful actions.

The organization that just does the top-level spending analysis may know that it's IT Spending relative to revenue are relatively high.

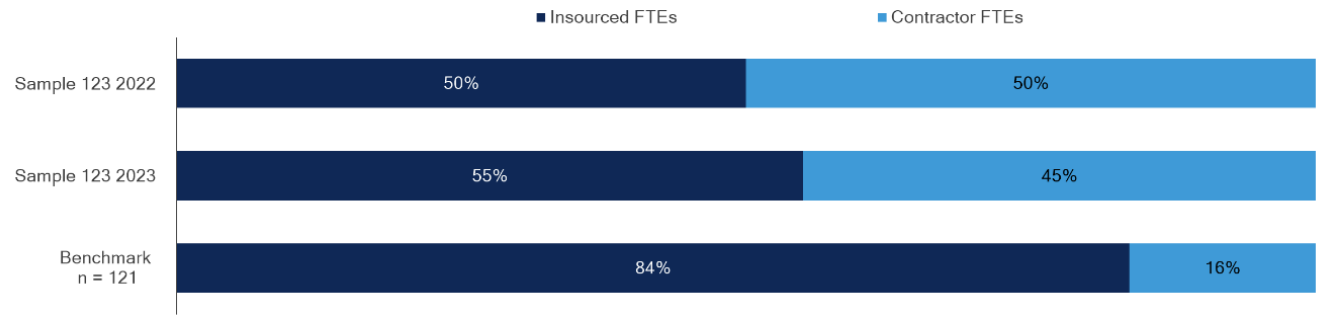


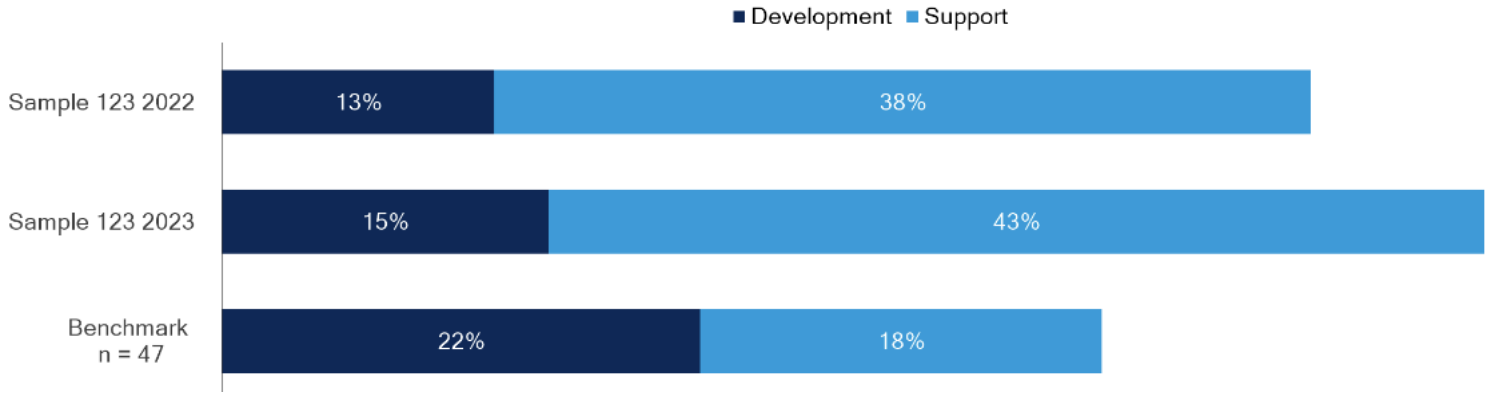


The organization that performs the asset distribution also knows that personnel costs may be driving the variance.

Using Distribution Data

The organization that also distributes it's IT FTEs by internal versus contractors may be able to reduce spending by rethinking staff sourcing.





The organization that distributes it's applications staff by development versus support may also knows it may be accumulating technical debt and crowding out investment in new capacities.

The organization that distributes its spending using the investment distribution may be able to use this graphic to explain its plans to optimize Run Spending to make more room for grown and transform spending.