

# IT Key Metrics Data 2024: Industry Measures — Strategic Investments & Business Outcomes

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By Analyst(s): Eric Stegman, Jamie Guevara, Shaivya Kaushal, Aditi Sharma

Initiatives: [Technology](#) [Finance](#), [Risk and Value Management](#)

Organizations that aspire to differentiate and lead in their industries need to understand their digital ambition and make clear-eyed, balanced technology investments to measurably grow and transform their business — all as part of an ongoing transformational cycle.

## Overview

### Key Findings

1. While 40% of organizations are cost inefficient based on the CVM, there are opportunities to learn from leading organizations based on profitability and those with heavy business growth and transformation IT investments.
2. Investing in IT does drive business performance. Gartner IT Key Metrics Data shows relationships between organizations spending levels and investment distribution relative to business performance metrics.
3. Organizations with top decile profitability or those undergoing significant transformation deliver better business outcomes based on business performance metrics such as Revenue per Employee, Operating Income per Employee, and Profitability.
4. The top business aspirations for organizations investing heavily in business optimization & transformation (>50% of IT spend) are focused on measurable improvements in customer or constituent experience and workforce productivity.
5. These same organizations are increasing investments in Cloud Services and Solutions, Business Intelligence/Data Analytics, Security, Digital Workplace, and revitalizing core systems such as ERP to enable those prioritized business capabilities.

## Recommendations

1. Align IT spend to business aspirations as a prerequisite to telling a cost *and* a value story based on run the business IT spend as a % of revenue vs. change the business IT spend as a % of revenue.
2. Improve business value stories by showing the links between business aspirations and measurable business outcomes driven by IT spending on growth and transformation initiatives.
3. Use business metrics along with IT financial metrics when presenting the IT Budget and describe how one affects the other. The Gartner Cost Value Matrix is an example of this using common metrics like Revenue per Employee and Operating Income per Employee.
4. Use [IT Budget tool](#) to benchmark your organization in terms of Run/Grow/Transform the Business Spending as a percentage of revenue to help explain variances in IT metrics versus peers that are due to strategic initiatives.

### **Gartner's Cost Value Matrix: 40% of organizations are Cost Inefficient**

When enterprises reduce costs they should do so in a way that doesn't diminish business performance and technical enablement.

An evaluation of the IT Key Metrics Data cross-industry database using the Cost Value Matrix (CVM), shows that 39% of organizations are operating in the "Cost Inefficient" quadrant and are struggling to achieve value for money.

As a company starts to invest in IT, they should target measurable business improvements, such as increases in employee productivity by reducing back-office costs and/or creating new front office revenue streams which will result in business performance improvements in terms of increased revenue per employee or operating income per employee.

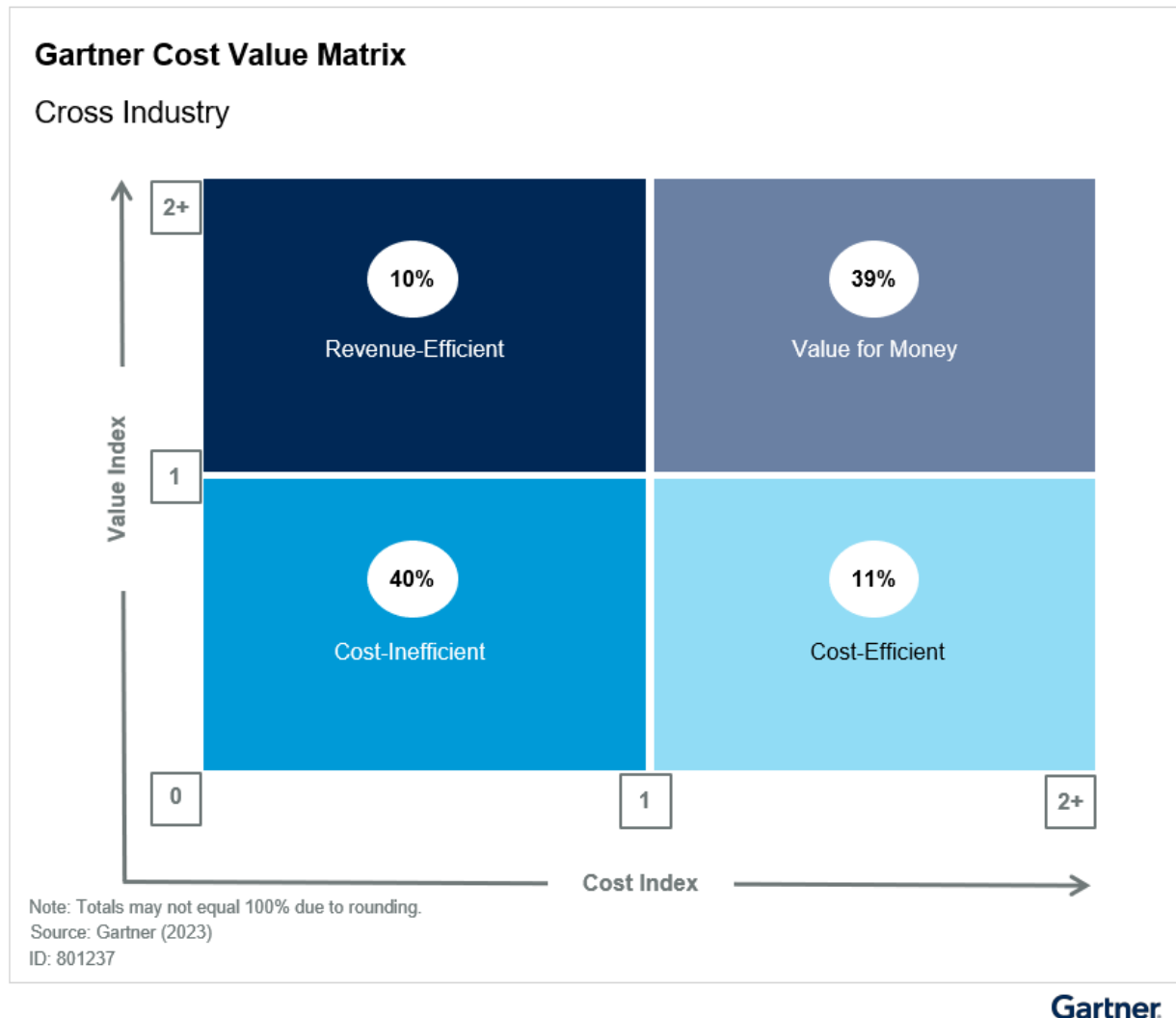
The Gartner Cost Value Matrix (CVM) analyzes the relationships between IT Financial Metrics (IT Spending as a Percentage of Revenue, IT Spending as a Percentage of Operating Expenses) and Business Metrics (Revenue per Employee and Operating Income per Employee) to help assess IT value contribution.

Use the [IT Budget & Efficiency Benchmarks Assessment](#) to generate your organizations CVM index, in addition to generating benchmark of your enterprise IT spend.

More information about the CVM is available at:

- [The Gartner Cost Value Matrix: Optimize IT to Fund Digital Business Acceleration](#)

**Figure 1: Gartner Cost Value Matrix: Distribution of Enterprises by Quadrant**



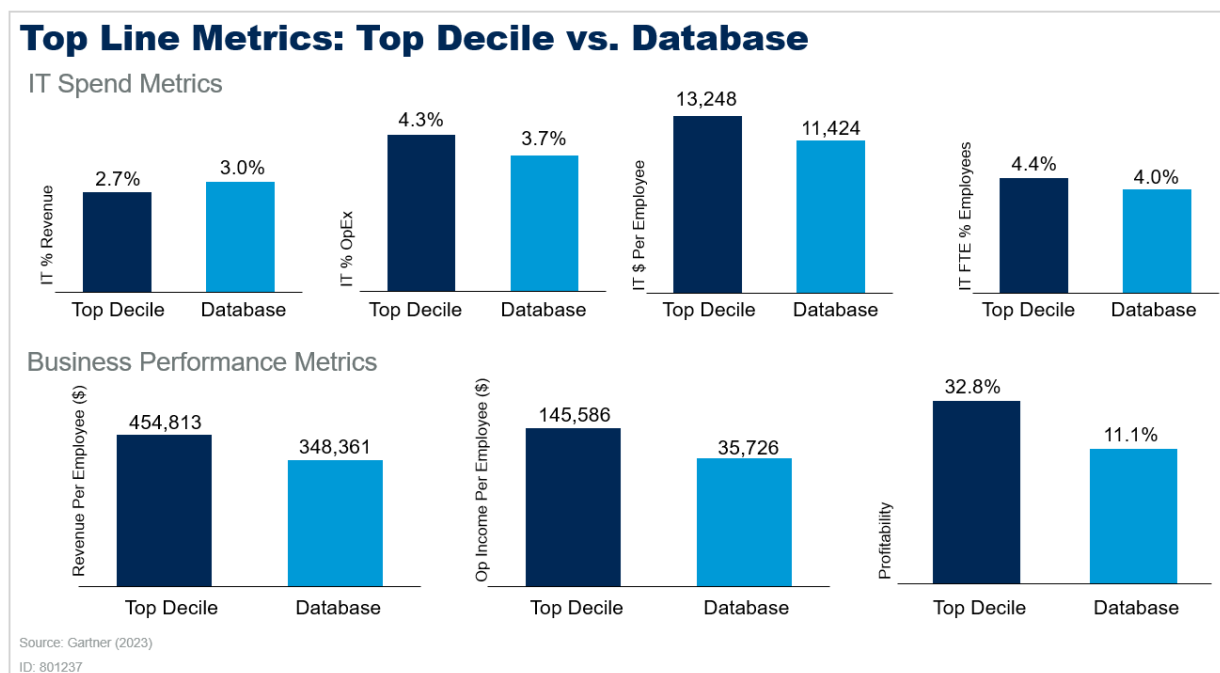
## Top Performers Based on Profitability, Spend more on IT

To better understand the profile of top performers, Gartner analyzed organizations operating in the top decile of profitability in their industry. This approach was used to balance more profitable industries vs others (such as banking and financial services vs. retail).

Results highlight while IT spending as a percent of revenue for the top decile cohort is almost same as the database median (2.7% versus 3.0%), IT spending as a percentage of business operating expenses, IT spending per employee, and IT FTEs as a percent of company employees are all higher than the database medians (4.3% versus 3.7%, \$13,248 versus \$11,424, and 4.4% versus 4.0% respectively).

At the same time the business metrics revenue per employee (\$454,813 versus \$348,361), operating income per employee (\$145,586 versus \$35,726) and profitability (32.8% versus 11.1%) are all significantly higher for the top decile relative to the database medians highlighting top performers strategically invest in business optimization and transformation using a more disciplined approach to cost management with targeted and measurable investments supported by adaptive governance.

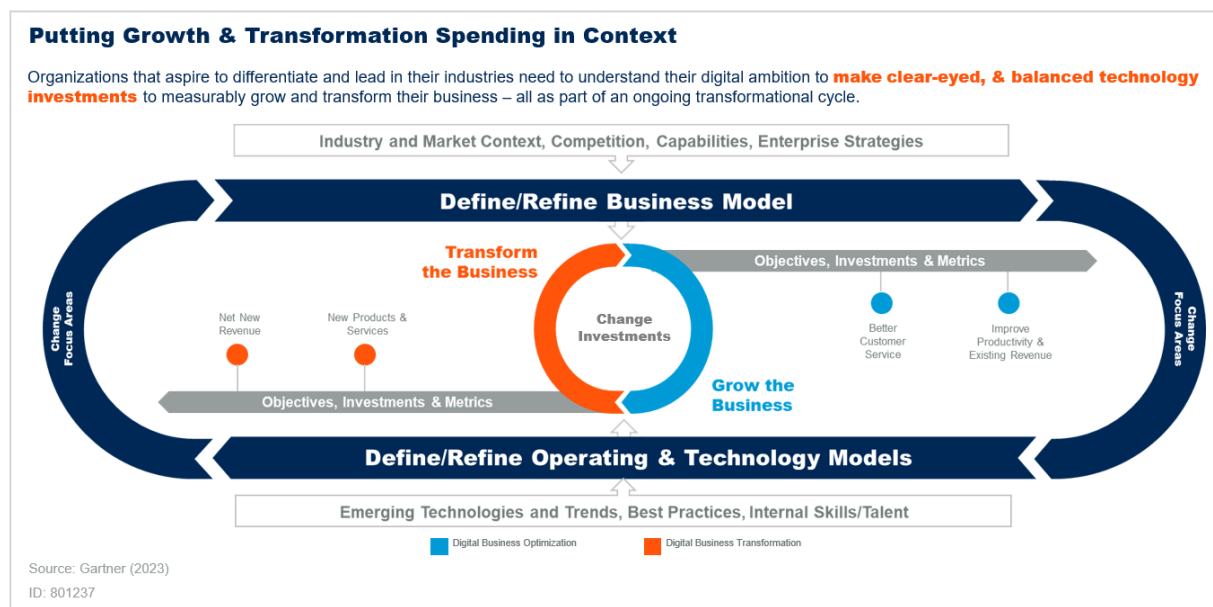
**Figure 2: Top Decile- Top Line Metrics**



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**Digital Transformation Requires Higher IT Spend and Delivers Better Business Outcomes**

Figure 3: Putting Growth & Transformation Spending in Context



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In order to determine how growth and transformational spending affected other IT and Business metrics the organizations in the IT Spending and Staffing database were separated into three categories below based on the percentage of their total IT Spending related to Change activities.

- Transform Cohort = Organizations with 50% or more grow & transform the business IT spend
- Balanced Cohort = Organizations with 25-50% grow & transform the business IT spend
- Run Cohort = Organizations with less than 25% grow & transform the business IT spend

As organizations navigate potential recession, they are targeted for headwins more focused on Grow (Balanced) the Business, thereby directing strategic investments toward non-IT business growth that yield immediate profits.

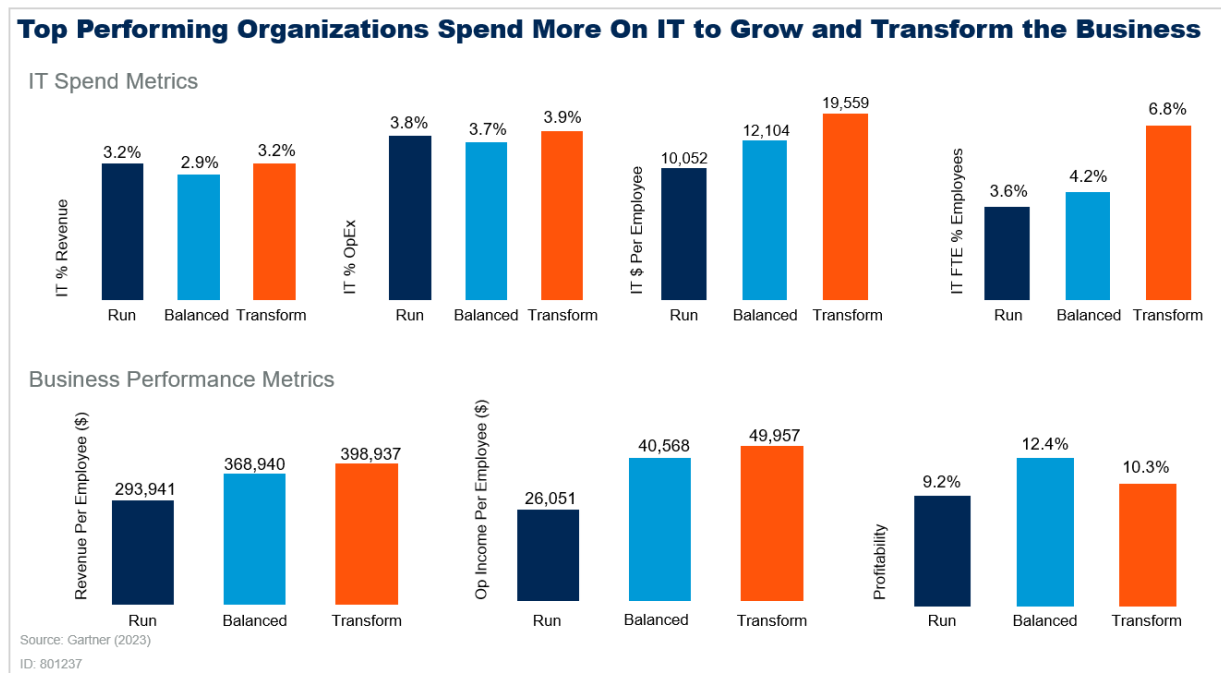
Business investments focused toward growing the business get realized in profits & leading to cost optimization while investments toward transforming the business are more focused on value realization later.

- Transform operating income per employee compared to the Run & Balanced cohort

- Transform profitability higher compared to the Run cohort
- Transform profitability lower compared to the Balanced cohort

In Figure 4 below, we see that while organizations who are investing in IT to drive significant business growth and transformation require higher levels of IT spend and staffing, they also enable better business performance.

**Figure 4: Strategic IT Spending Portfolio**

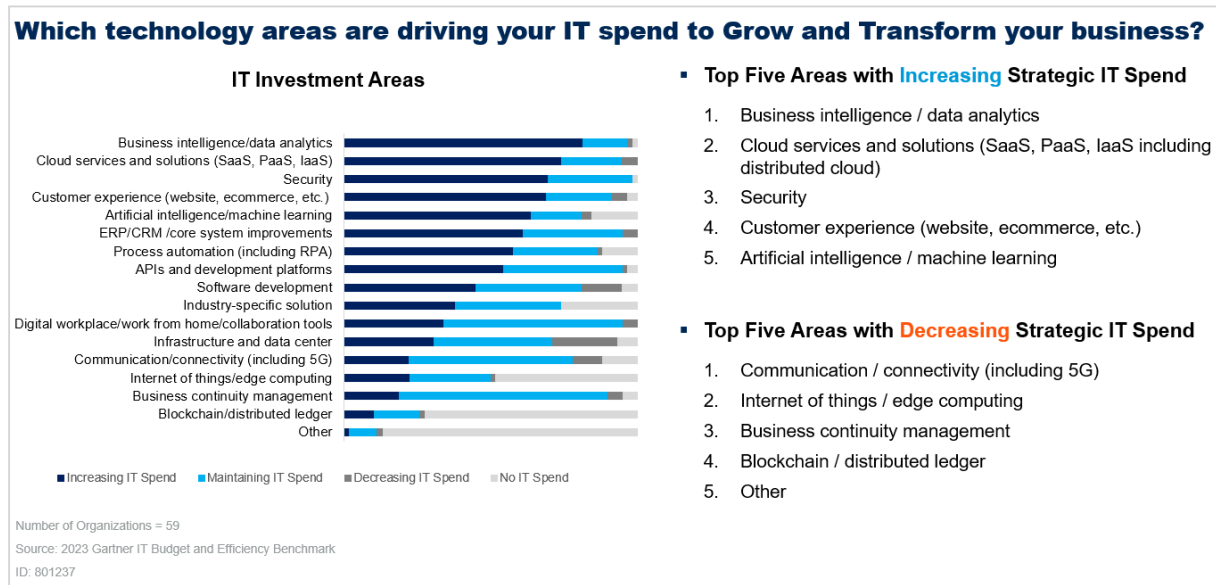


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## Digital Transformation Requires Targeted IT Investments to Enable Business Aspirations

During 2023 we asked clients to tell us to indicate what technology areas they were spending on across their strategic investment portfolio to Grow and Transform the business. We also asked if they were Increasing, Maintaining, or Decreasing IT spend. Figure 5 highlights the Transform Cohorts top technology areas for investment which includes BI/D&A, cloud services and solutions, as well as security.

Figure 5: IT Investment Areas Driving IT Spend for Transform Cohort



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Additionally, the top strategic business aspirations for transform-cohort is to improve customer or constituent experience, improve operating margin or operational cost & improve workforce productivity (Figure 6) .

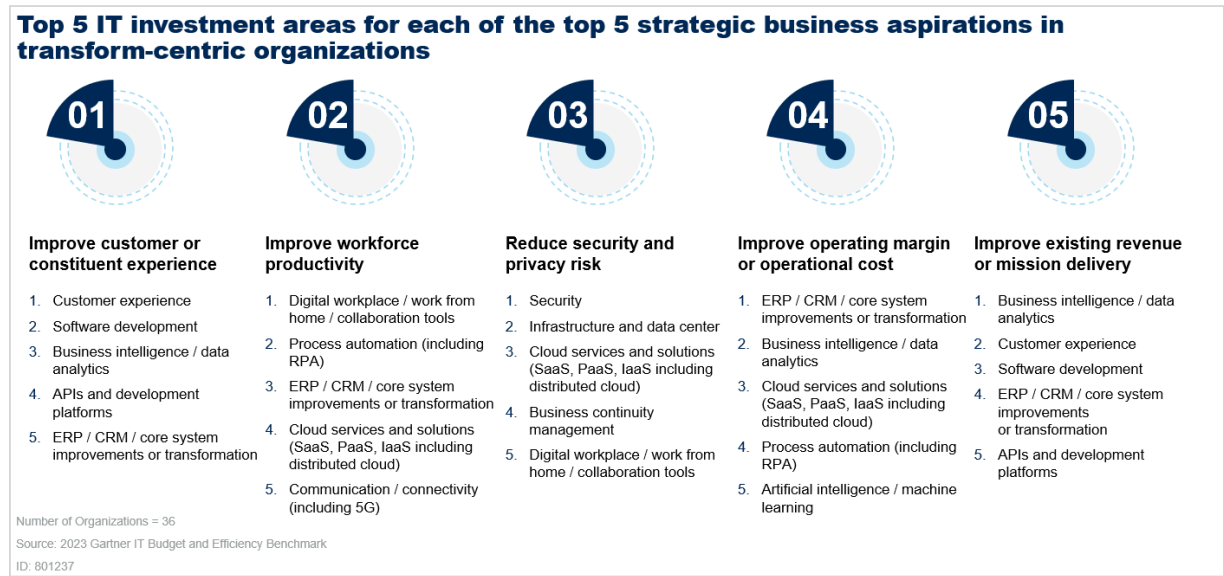
Figure 6: Strategic Business Aspirations for Transform-Centric Organizations



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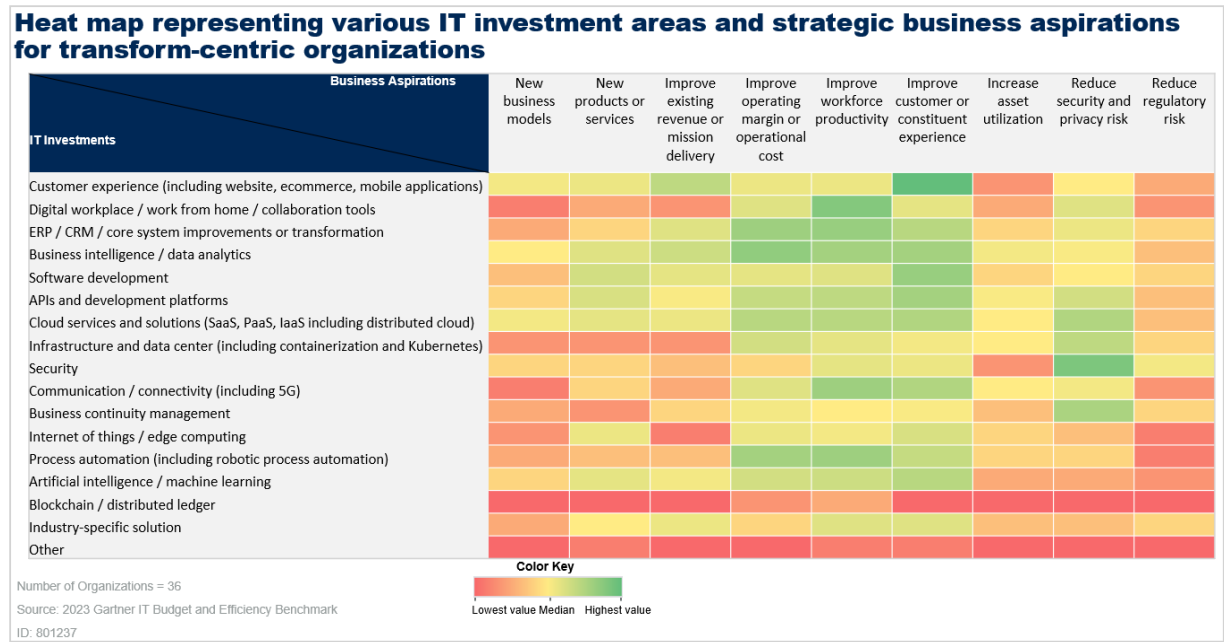
IT Investment Areas vis-a-vis Strategic Business Aspirations

Figure 7: Transform- centric organizations’ top investment areas for top business aspirations



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Figure 8: Transform-centric organizations’ heat map- IT Investment Areas vis-a-vis Strategic Business Aspirations



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Leading organizations also use digital business benchmarks along with IT spend metrics as an important leading indicator of technology and business outcome driven metrics. See: [Digital Business Benchmarks: Enterprises Must Improve](#)

## **Divide Business Value into Run vs. Change the Business Story**

Gartner recommends creating both run and change value stories to build the narrative of two different phases of IT deliverables even though these are intrinsically linked. See [Divide Business Value of IT Conversations Into a Run Story and a Change Story](#)

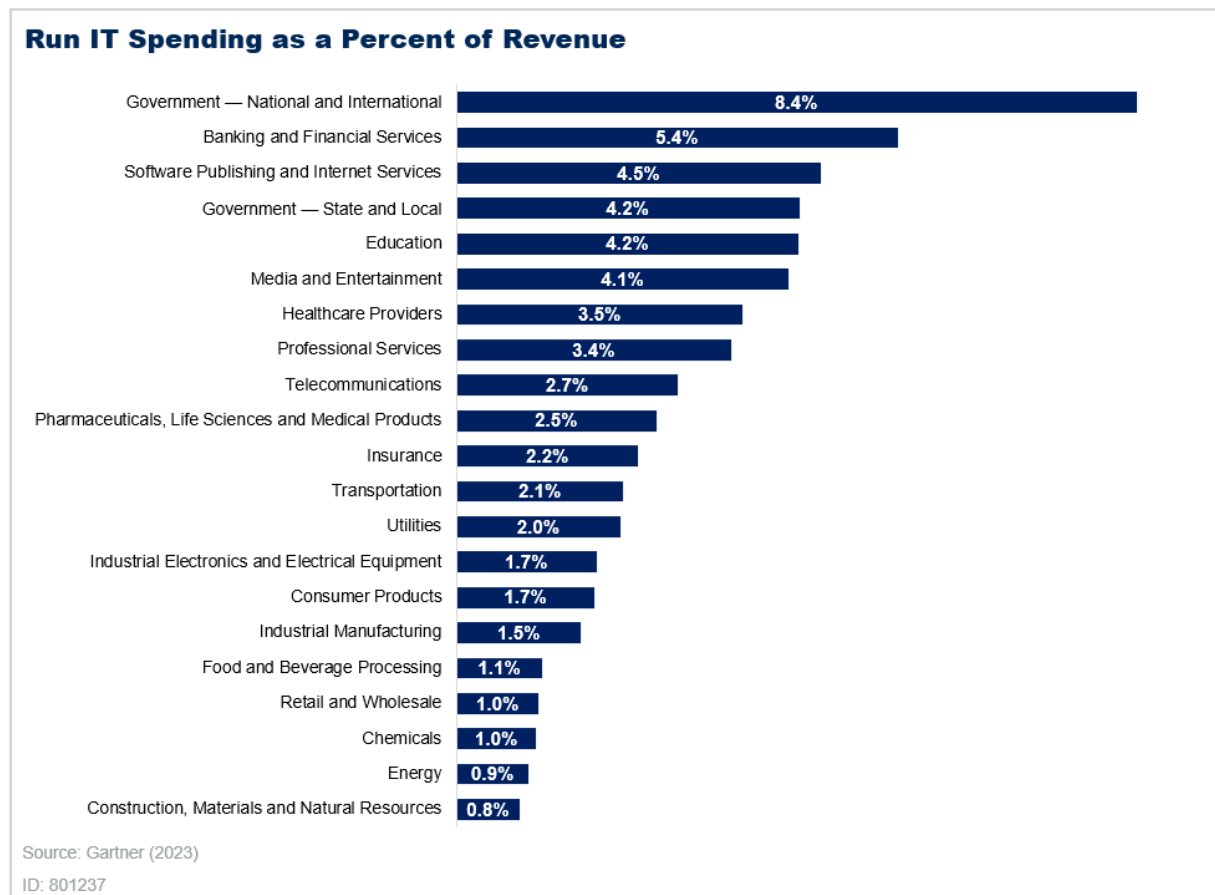
CIOs must do more than explain the change value against the one-time or project cost. The ongoing (life cycle) run cost is too often not adequately estimated nor explained in the business case. They must articulate how all of today's change spending will become tomorrow's run spending.

With that in mind combining the Run/Grow/Transform metric with the IT Spending as a Percentage of Revenue metric can be an effective tool to communicate these two types of investments. An organization that is high relative to peers for Total IT Spending as a Percentage of Revenue may be that way because they are at a peak of investment. They may actually be closer to or below peers when just looking at Run the Business IT Spending as a Percentage of Revenue.

This situation, or a situation where an organization's variance is due to higher run costs can also be an opportunity to discuss what is driving the run cost. CIOs can communicate the actions they take to optimize IT Spending. They can also point out how demand, in the form of legacy or duplicative applications, drives run cost.

Run the Business, Grow the Business and Transform the Business are defined further in the [Framework Definitions](#) document.

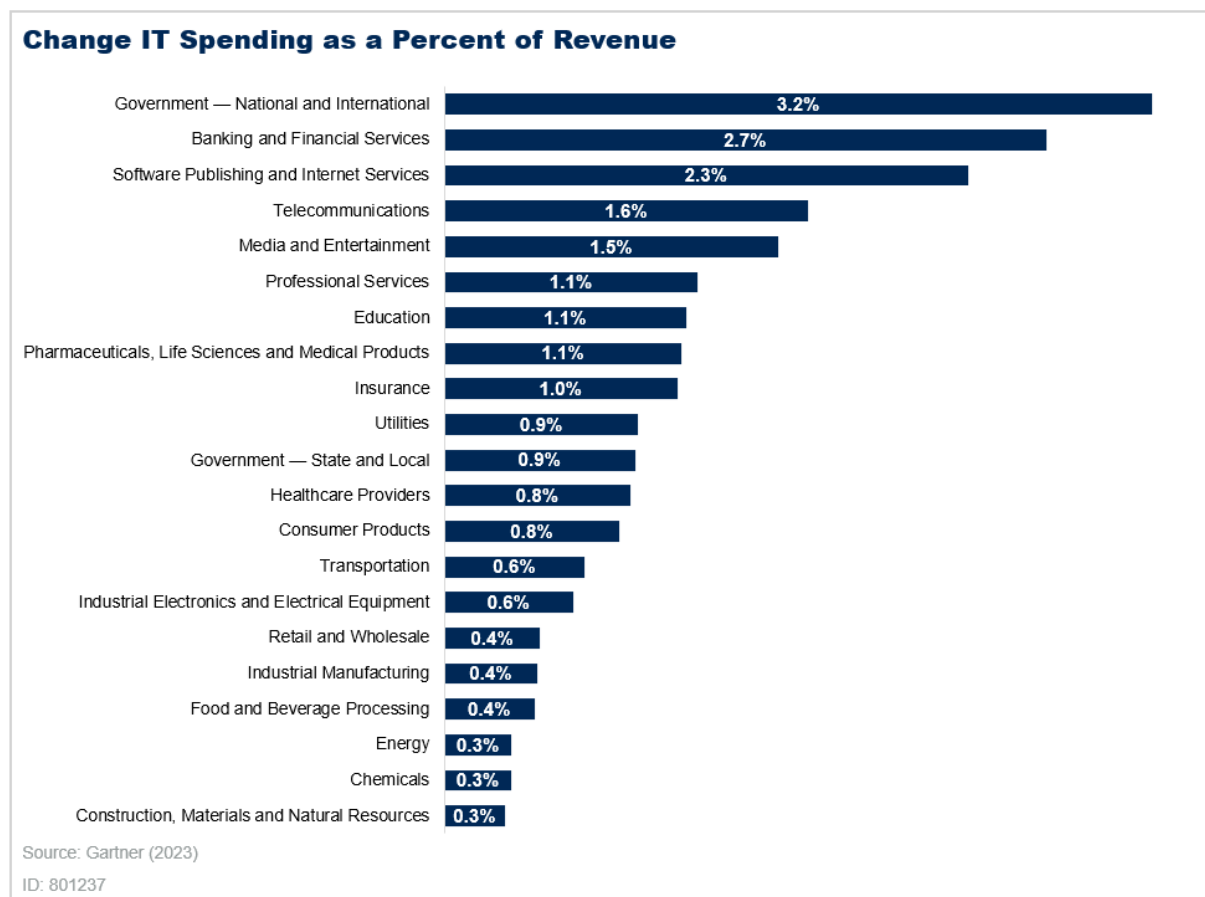
Figure 9: Run the Business IT Spending as a Percent of Revenue by Industry



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fGrow plus transform spending is often referred to as “Change the Business.”

Figure 10: Change the Business IT Spending as a Percent of Revenue by Industry



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## Recommended by the Authors

*Some documents may not be available as part of your current Gartner subscription.*

[“Effectively Communicating Cost Optimization Across the Enterprise: A Strategy Perspective”](#)

[“Research Roundup for Digital-Outcome-Driven Metrics for Industries”](#)

[“Executive Essentials: Develop a Strategic Approach to IT Cost Reduction, Optimization and Investment”](#)

[“The Quintessential Guide to Strategic Planning”](#)

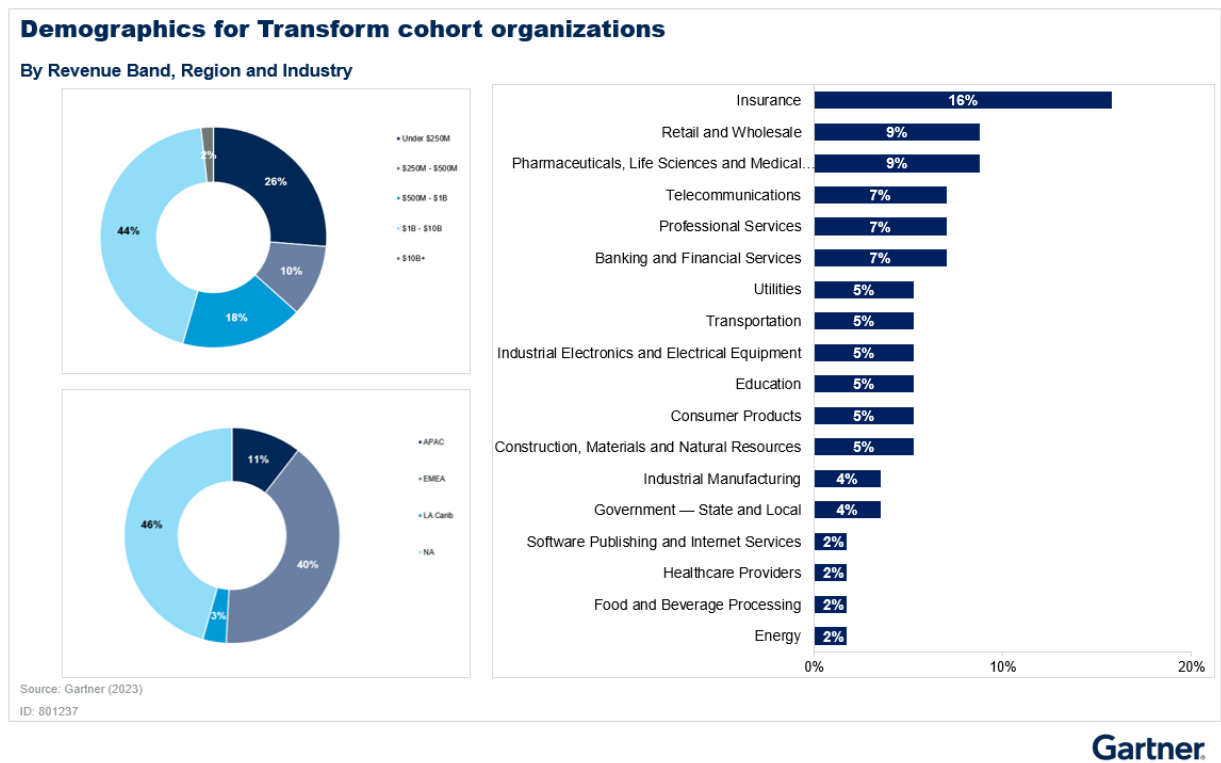
[“Strategic Cost Optimization Score for IT”](#)

[“The CFO’s Guide to Funding the Enterprise’s Digital Investments”](#)

Demographics

Demographics

Figure 11: Demographics for Transform cohort organizations



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Document Revision History

IT Key Metrics Data 2023: Industry Measures — Strategic Investments & Business Outcomes - 8 December 2022

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