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Technology decision-makers may loosen their purse strings a bit in 2004, but they will also expect much more for their IT monies. That is according to several industry analysts who say the free-spending late 1990s are gone for good.

Specifically, IT capital spending budgets will begin to grow again at a modest pace of 1.6 percent in 2004, based on the responses of some 600 IT executives surveyed for a report released jointly yesterday by research companies Gartner and SoundView Technology Group.

Still, the report indicated that though corporate IT buyers are highly confident that their employers' business prospects are rebounding, they are less sure that this rebound will translate into improved IT spending.

"Historically, business confidence tends to lead IT spending confidence in an economic recovery," said Brian Smith, a Gartner research director. "It makes sense that companies want to first focus on profits and lowering expenses, so it's only natural they will withhold IT

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spending for some time."

New Focus on ROI

Essentially it was the onset of an economic downturn in 2000 that dragged on through this year that not only had a devastating effect on spending the last three years, but reshaped the way many IT leaders approach spending today, analysts say.

"If it had been just a downturn that lasted six months to a year, it would have been easier to revert to the freewheeling ways of the late 1990s," said Laura DiDio, senior industry analyst, The Yankee Group, a research company. "But this was no cyclical blip. These last three years were painful. Today, IT managers need to align their technology more closely with their business needs. When requesting funding for projects, they have to make a tangible case, and that means justifying (Total Cost of Ownership) and demonstrating (Return On Investment)."

Throwing money at an IT problem is no longer a viable strategy, said Al Gillen, research director for IDC, a technology advisory firm.

"Companies now are more likely to look at existing resources to overcome IT obstacles, rather than immediately look to purchase solutions and services," Gillen said. "And, when they do look to buy, they are now so much more demanding. They want solutions that are more complete, including not only software and hardware, but also services. And, they want competitive pricing."

In fact, though both DiDio and Gillen are projecting single-digit industry-wide IT spending increases, comparable to Gartner's numbers, they said that these gains are tied directly to specific projects, as opposed to annual blanket budgeting increases.

Likewise, Gartner's Smith added that the survey also highlights that the concepts of controlled spending and a strict focus on ROI will remain the rule in 2004.

"An insistence on ROI will not be the exception, but the rule, with IT managers expecting a payback on the investment to come within two

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years," Smith said. "In the past, when it came to ROI, there was more naivete when it came to measuring ROI. Now there is a 'show-me-the-money' mentality where you have to justify every IT dollar before it is spent."

Security Leads New Priorities

During the last three years, the majority of IT spending was earmarked for keeping systems and services functioning, Smith said.

"In general, just enough money was spent to keep the IT plumbing working," Smith said. "IT spending priorities focused on infrastructure projects. Now, with the economy improving, attention is turning back to new projects, so spending is getting hotter in areas such as new application development, application integration, and spending on outsourcing."

According to the survey, other hot areas for 2004 will be security software and hardware, wireless local area networks, Web services, storage, Linux and business intelligence software.

"They may have learned their lesson to invest more wisely and take their time evaluating products and services," The Yankee Group's DiDio said. "But, whether you are talking about applying Web services, integrating Linux with Windows, or any number of IT issues, they still have some very difficult decisions to make."

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