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BUSINESS TECHNOLOGY OFFICE

Spend wisely, not more, on IT

Recent research from the banking sector suggests that more IT investment doesn't necessarily boost profits, but targeted investments in particular areas might.

Matthias Hoene

McKinsey's proprietary benchmarking survey conducted annually with a dozen regional and superregional banks in the United States supports the axiom that investing more in IT is not as important as investing smartly. The latest responses gleaned from a small set of executives in each bank (almost 40 executives in total) covered a range of variables, including the amount banks spent on application development, the level of functionality executives believed IT provided to the business (measured as an index of IT effectiveness), and banks' overall profitability. The data showed no significant correlation (only 14 percent) between the amount spent on general application development and the banks' bottom lines. However, it does appear that investing in particular areas of IT functionality—specifically, in automation and in

customer analytics and big data—is correlated with higher profitability. Investment in the automation of back-office processes or in the capability to perform sales analytics, for instance, can yield meaningful efficiencies¹ (exhibit). The upshot? Executives should spend wisely, not necessarily more, on information technologies. ■

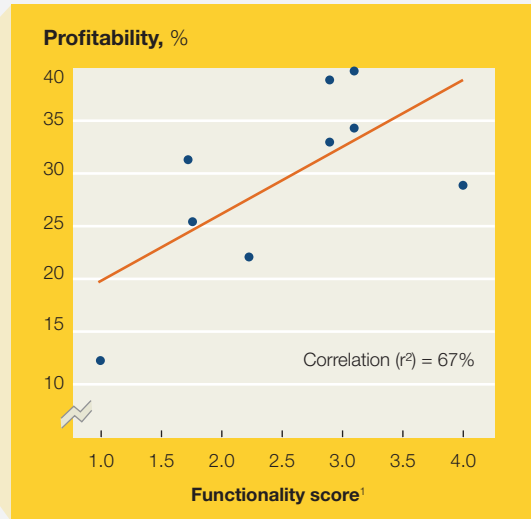
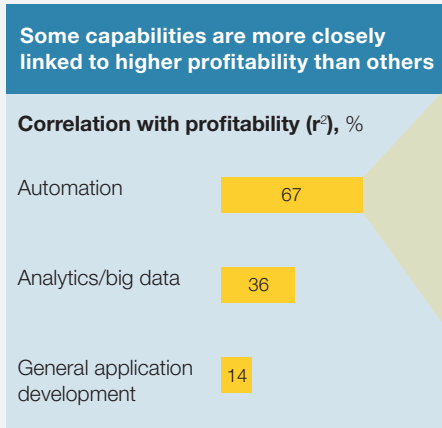
¹ For more, see Giuliano Caldo, Matthias Hoene, and Tunde Olanrewaju, "How winning banks refocus their IT budgets for digital," December 2014, mckinsey.com.

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Exhibit

Targeted, rather than blanket, investments in IT can help boost banks' profitability.



¹Defined as the benefits IT provides to the business through specific functionality, as reported by survey participants from 12 regional and superregional US banks. The score is based on a scale between 1 (basic functionality) and 4 (advanced functionality).
Source: Analysis of data provided by McKinsey Horizon360 (a McKinsey Solution); data are reported annually