



SAPPHIRE
VENTURES

2020 CIO Innovation Index

Special Report

The Impact of COVID-19 on Enterprise Innovation



Sapphire Ventures CIO Innovation Index

Coming this September



The CIO Innovation Index is an annual quantitative study of benchmarks and best practices for startup engagement for CIOs.

Features data on emerging technology adoption, startup engagement strategies, proof-of-concept processes, and CIO leadership on innovation.

Charting the impact of COVID-19 on enterprise innovation

This year, Sapphire Ventures conducted its second annual CIO Innovation Index survey. As questions were fielded during April and May, we explored trends resulting from COVID-19 in order to better understand how the pandemic is affecting enterprise IT organizations, and the subsequent impact on their engagement with venture-backed startups.

This special report looks at the early impact of COVID-19 on enterprise IT strategy ahead of the September release of the full 2020 CIO Innovation Index. While these findings are only a snapshot in a rapidly changing environment, they provide valuable insights on early indicators for changes to the landscape.

More than 100 CIOs and senior IT leaders weighed in, representing a wide range of industries including retail, manufacturing, financial services, and entertainment.



Despite uncertainty, IT budgets and headcount remain steady

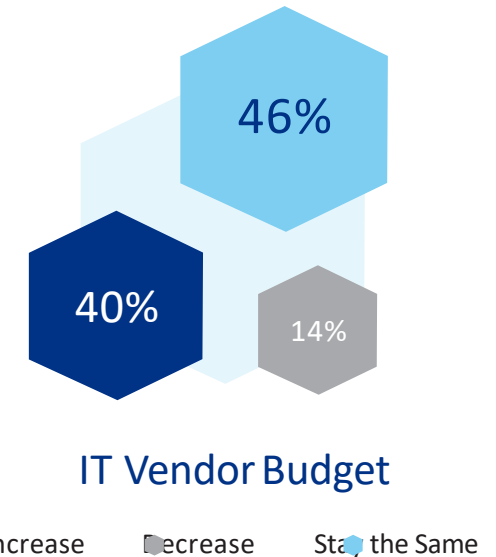
As of June 2020, the majority of survey respondents anticipated overall IT vendor spend to remain constant (46%) or increase (40%) in 2020.

As analysts¹ note, this is an uneven recession across industries. About half of the CIOs and IT leaders surveyed work within industries that are generally recession resistant such as pharmaceuticals, government, telecommunication, and education. For these industries, IT spend was expected to stay the same or increase.

CIOs from heavy-hit industries such as hospitality, travel, real estate, and retail said they were twice as likely to decrease IT vendor spend, and almost half as likely to expect an increase in IT vendor spend.

In addition, 94% of respondents work for companies with more than 5,000 employees, which are generally expected to fare better in terms of IT spending impact from COVID-19 than smaller organizations.

The impact of COVID-19 on specific technology sectors and lines-of-business will vary significantly.



51% of CIOs expect the number of IT staff to **increase** by 2021



¹ <https://www.idc.com/getdoc.jsp?containerId=prUS46228020>

Within IT budgets, spend allocations shift to critical technologies

Over the past few months, Sapphire Ventures has been hosting weekly roundtables with CIOs on the topic of leading through crisis. We've spoken with more than 50 enterprise CIOs to learn about their experiences with navigating the post COVID-19 world. Key insights from Sapphire's CIO roundtable series and the 2020 CIO Innovation Index survey show where IT leaders plan to reduce and increase spend.

AREAS CIOs EXPECT TO REDUCE SPEND

Hardware

After an initial investment in equipping employees with laptops and other devices to enable remote work, CIOs are pulling back on further hardware spend. Spend reduction strategies include introducing BYOD policies, a pause on office hardware replacements, and accelerating the move away from data centers.

Legacy Modernization

Many companies are placing legacy "refreshes," infrastructure updates and technology architecture modernization initiatives on hold for 2020.

"Non-essential" Technology

The combination of economic uncertainty, remote work, and a hold on modernization initiatives has put a focus on rationalization efforts. Many respondents will hold back on making new investments on "nice-to-have" technologies.

Recruiting/HR Tech

Though many respondents still expect to increase IT headcount in the coming months, enterprises are spending less on recruiting platforms and HR technologies.

AREAS CIOs EXPECT TO INCREASE SPEND

Automation

Building IT elasticity is critical to creating stability within the business. Technology leaders are looking to invest in automation to build that elasticity, manage costs, and focus IT resources on strategic initiatives.

Cloud

According to the WSJ¹, enterprise IT teams are investing heavily in cloud services to ensure agility and resiliency in their environments.

Collaboration Tooling

As enterprises remain in a distributed work model indefinitely, solutions that enable seamless virtual collaboration are gaining momentum.

Cybersecurity

The combination of distributed work and increased security attacks are putting a focus on cybersecurity unlike ever before. CISOs are spending resources on tools, testing, and employee awareness.

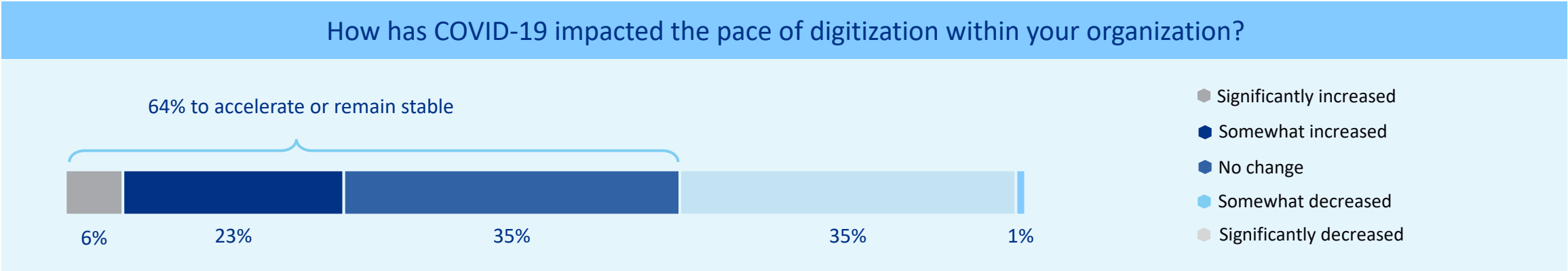
¹ <https://www.wsj.com/articles/companies-devote-shrinking-tech-budgets-to-cloud-ai-11587029400>

CIOs are prioritizing digitization initiatives due to COVID-19

The majority (64%) of respondents indicate that the pace of digitization within their organizations will either accelerate or remain stable despite the COVID-19 crisis.

Those IT leaders who are decreasing their investments in digitization projects are taking longer to complete proof-of-concepts, suggesting that these organizations are likely operating at a slower pace at-the-moment.

Through the Sapphire Ventures CIO roundtable series, we have learned that those CIOs who invested in digitization and greenlighted further progress in the area have seen the value pay-off during the current crisis. For example, organizations that had already migrated to the cloud, have benefited from the agility, elasticity, and availability associated with the move.



For those CIOs accelerating digitization projects, the primary focus is on customer-centric operations and IT capabilities

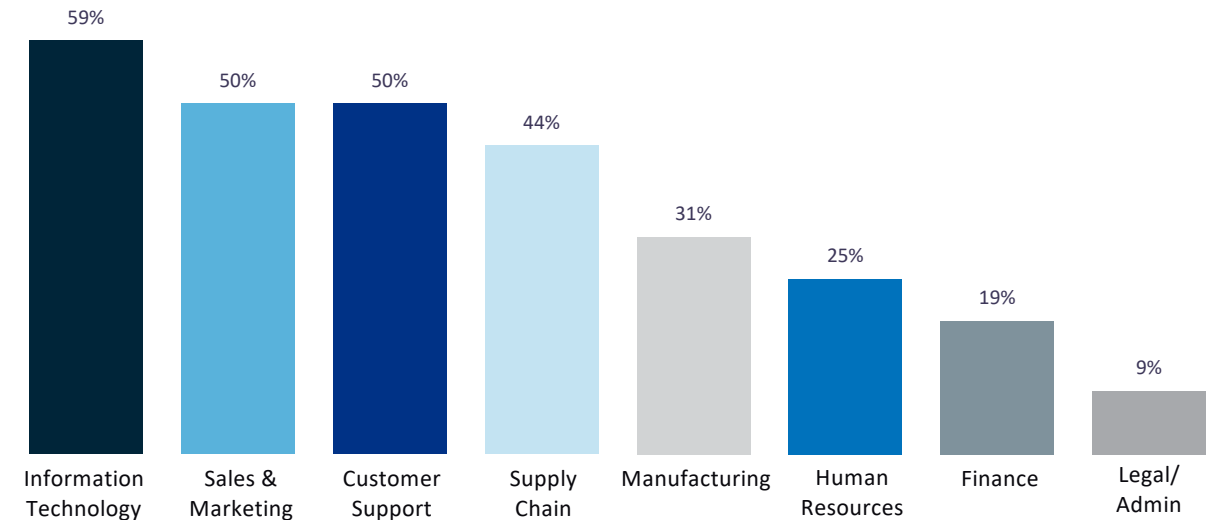
Survey respondents identified digitization as a key priority, which aligns to a major trend that emerged from the Sapphire Ventures CIO roundtables discussions.

In response to the pandemic, CIOs cited customer-facing capabilities, such as ecommerce, sales, and service as top initiatives. Projects ranged from ramping-up customer support infrastructure to better enabling digital sales to responding to shifting consumption patterns.

As a result of the spike in remote work, IT departments have had to accelerate digitization projects associated with operating models and how they deliver internal services. For example, CIOs are investing in digital strategies, processes, and technologies to handle everything from IT ticketing to asset management.

COVID-19's Digitization Impact

Of those companies that are increasing the pace of digitization, these areas have experienced the most acceleration.



CIOs are still eager to work with startups, the majority feel they're key to remote work

Enterprises are eager to work with startups

85%

of enterprises are equally or more likely to work with startups despite the economic impact of COVID-19.

Startups are key to remote work

76%

of enterprises say that startups play at least some role in their shift to a remote work model. This trend is especially evident amongst larger companies with 50K+ employees.

50%

The amount enterprises will increase their spend with startups in the next year. This number is on-par with last year's projection.

What CIOs are saying

COVID-19's impact on startup engagement

More likely to work with startups

"Once everything settles down, these investments will be very fruitful for our company."

"... it seems new companies will recover earlier compared to big organizations..."

"Most startups are struggling to deal with the COVID situation. To help them, we will invest and provide enough resources so that we can become an integral part of their business."

"I assume a lot of companies that are starting up just now will come up with better ways to deal with this situation, which could benefit us too if we sponsor these plans."

Equally as likely to work with startups

"We've had a process pre-pandemic to be able to evaluate and adopt emerging technologies, and we expect to do the same moving forward to simplify and modernize our environment."

"I expect that **new, innovative solutions for remote work will come from startups** at a faster pace than established vendors."

"Startups continue to be a key source of innovation for our company, COVID doesn't really change that."

"We put a lot of emphasis on customer-centricity and startups can help us serve our customers better."

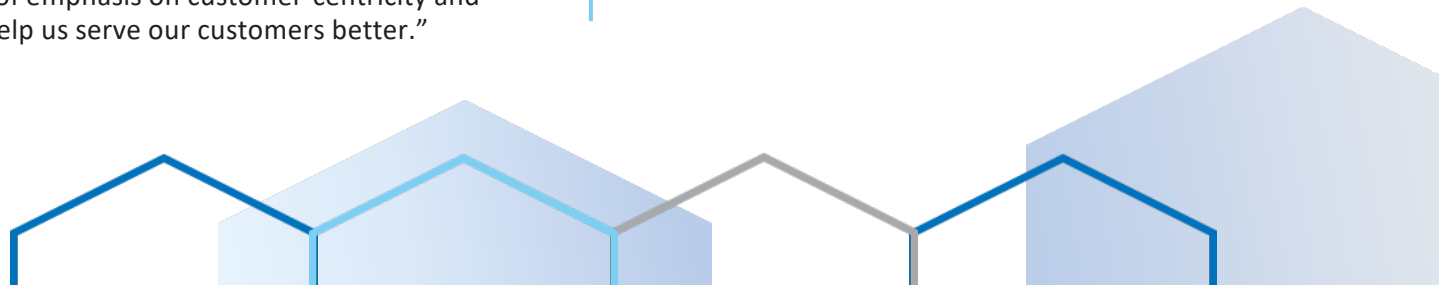
Less likely to work with startups

"Cost management focus will prioritize efforts to maximizing value with current investments."

"Companies that have been stable for years are starting to collapse during this time, **I highly doubt that a startup will be able to hold up well.**"

"Since the pandemic has highly affected the global economy, **exposing our funds to a startup is not be the best idea.**"

"Focus on cost reduction and managing spend--digital innovation will be very targeted."



Background & Methodolgy

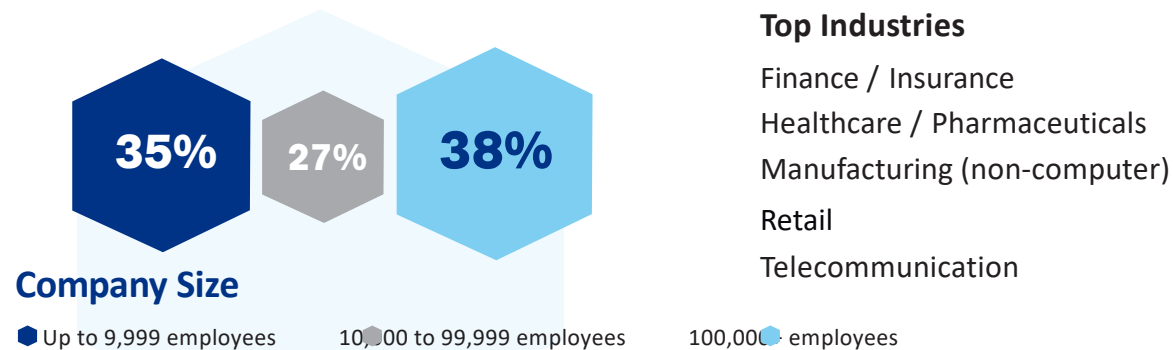
Objectives & Background

Sapphire Ventures and Illuminas partnered on a quantitative market research study to better understand how organizations are engaging with emerging technology. The goals of this effort are to:

- Develop broad-based, quantifiable perspectives about how senior IT decision makers at enterprise companies are investing in emerging technologies and how they are engaging with startups over time.
- Provide CIOs and IT teams with a benchmark, helping them understand trends and best practices, as well as help startups with visibility into enterprise IT priorities.

Sample Overview

We surveyed 109 respondents that were sourced from Sapphire Ventures (29) and Illuminas (80). Sample comprised of a mix of industries and company sizes.



Qualification Criteria

- CIO/VP+ IT decision makers or most senior IT decision maker in the organization
- Can speak to their organization's engagement with emerging technologies
- Primarily organizations in the U.S. with 5,000+ employees

Methodology



U.S. web-based survey, 15-25 minutes in length from online and phone-to-web based interviews



Conducted among CIO/VP+ IT decision makers or most senior IT decision maker in the organization



Fielded: April – May 2020



Our Mission

Sapphire Ventures helps innovative technology companies become category leaders. We leverage years of experience and an extensive enterprise CIO network to invest capital, resources, and expertise in entrepreneurs with market-moving ideas.

The Sapphire Ventures team invests in growth- and expansion-stage software companies across the U.S., Europe and Israel. And our Portfolio Growth team – consisting of business development, marketing, talent, and capital markets executives- is committed to supporting the growth of our investments.

With \$4B+ in assets under management across our investment platforms, Sapphire is well-positioned to elevate innovative technology companies to the global stage.

Learn more about Sapphire Ventures: <https://sapphireventures.com/>

By the Numbers

Active Investments

50+

Investments Since 2011

100+

Enterprise Value Helped Create
Since 2011

\$100B+

AUM

\$4B+

Exits Since 2011

55+

Introductions Made Between Startups
and IT Executives Annually

400+



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