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2023 Planning Isn't Business As Usual

Embrace Discipline And Precision To Navigate Volatility

The Balancing Act Ahead

Economic headwinds coupled with unexpected trends in employment will make planning and budgeting for 2023 trickier than normal. Leaders must temper their overly optimistic predictions for budget increases with discipline and precision. Those who come out on top in 2023 will prioritize investments that maximize revenue growth, profitability, and resilience while cutting spending in areas prone to waste. They also will maintain experiments with emerging technologies that show growing value. Read this guide to explore current budgeting trends across functions and understand where to increase investment, cut spending, and experiment for the largest impact.

Leaders Are Overly Optimistic Heading Into The 2023 Planning Season

Global unrest, supply chain instability, soaring inflation, and the long shadow of the pandemic dominate today's headlines — and point to an economic slowdown. The IMF projects that world economic growth will slow to 3.2% this year, down from 6.1% in 2021. Hiring freezes and layoffs have hit the tech sector in earnest over the past few months, despite a surprising recent uptick in job growth overall.

Slower overall spending mixed with turbulent and lumpy employment trends will make it difficult to navigate 2023 planning and budgeting. To gauge current expectations for 2023 spending, Forrester's Budget Pulse Survey, 2022, surveyed 382 US business and technology decision-makers across functions, representing nearly 1,000 decisions related to budgets in the next 12 months. We uncovered overly optimistic hopes for:

- **Modest budget increases across all functions.** Most leaders in every function expect at least some increase in overall spending in the next 12 months; less than 10% expect a decrease, with the exception of B2B sales (see Figure 1). Marketers and product management leaders are the most bullish; B2B sales and tech/IT leaders are much more cautious.
- **Continued spending on people and skills.** Despite some high-profile hiring freezes and layoffs at firms like Alibaba, Klarna, Meta, and Microsoft, leaders say they're unlikely to drop spending on talent — both internal hires and external services. In fact, on average, 60% expect to increase spending on personnel and 62% expect to increase spending on external services (see Figure 2).
- **More spending on key technologies.** Leaders across functions don't want to slow down tech investments either, with 67% reporting expected budget increases in technology. Category standouts for the biggest expected increases are digital experience software, privacy tools, and cloud security (see Figure 3).

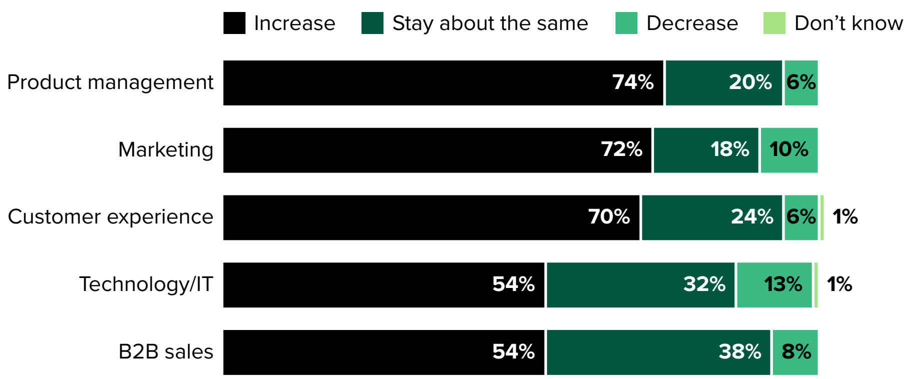
Figure 1 Planned Or Anticipated Total Budget Changes Across Surveyed Functions

Respondents who planned or anticipated a change in their organization's investment in the next 12 months by functional area

Base: 50 to 187 business and technology decision-makers; sample size varies by function.
Source: Forrester's Budget Pulse Survey, 2022

Figure 2 Planned Changes In Organizations' Budget In The Next 12 Months Related To Personnel

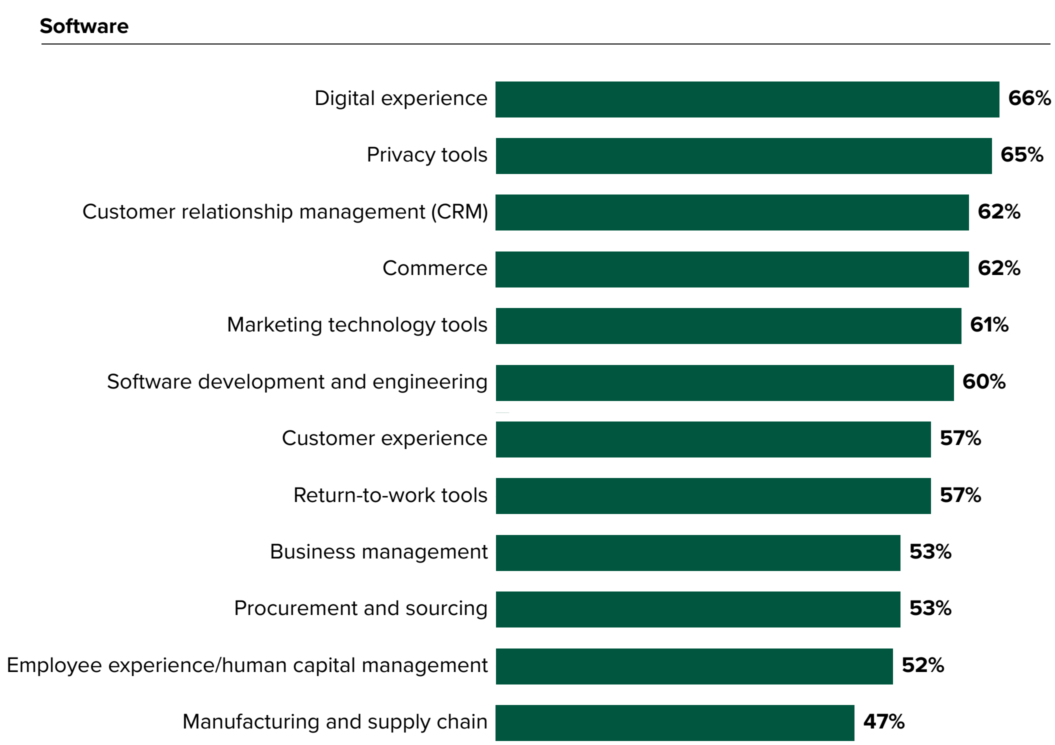
Respondents who planned or anticipated a change in their organization's investment in personnel in the next 12 months by functional area



Base: 50 to 187 business and technology decision-makers; sample size varies by function.
Source: Forrester's Budget Pulse Survey, 2022

Figure 3 Tech Categories For Which Respondents Are Planning A Budget Increase

"Which of the following describes any planned/anticipated change in your organization's budget for the following technologies in the next 12 months?"
(Percentage of respondents who selected "Increase")



Base: 89 software technology decision-makers
Source: Forrester's Budget Pulse Survey, 2022

Tackle 2023 Planning With Discipline And Precision

Kudos for heeding the lessons of the early days of the pandemic when those who boldly invested in digital innovation found success. Slashing budgets with a blunt instrument didn't work in 2020, and it won't work in 2023, either. But don't bury your head in the sand: 2023 budget pressure will be intense, and blindly planning for modest spending increases across the board will backfire. To come out on top, you'll need more discipline and precision to prioritize investments, trim waste intentionally, and place smart and bold investment bets.

Prioritize Investments That Boost Customer Value

It's true that the best way out of a downturn is to continue investing — but only if you pick the right areas. Prioritize investments that maximize revenue growth, profitability, and resilience (see Figure 4). This includes targeted and coordinated investments in technology, talent, and insights that help drive customer value and will accelerate differentiation coming out of the downturn. The top items to defend and ideally increase in 2023 are:

- **Customer insights and engagement.** 2023 is unlikely to look like the 2020 shutdown or any past recession, rendering many assumptions about your customers and their behavior useless. Invest in more relevant and reliable customer data to help sharpen your audience targeting strategy and shift budgets to higher-yielding tactics with proven financial value. Prioritize investments in normalizing and augmenting data from disparate systems and sources as well as customer analytics and tools like experience research platforms that democratize and accelerate customer research. Finally, recalibrate messaging to address new or evolving customer needs, focusing on post-sale experiences that drive loyalty, cross-sell, and upsell opportunities among your existing customers.
- **Technologies that improve customer experience and reduce costs.** Unlike the pandemic-induced need for tech for new digital experiences and anywhere work, the current economic headwinds will demand more focus on tech tuned for optimization and resilience. For example, a cloud cost management and optimization tool can help wrangle escalating cloud spend. But this doesn't mean you should turn your back on digital experience innovation. Keep pushing forward, but prioritize investments that also reduce operational costs. Document extractions, robotic process automation (RPA), and agent assist apps can bolster well-designed self-service experiences with smart escalations to live agents that drive loyalty. And they save money, as self-service channels are less expensive than staffed ones.

- **Security.** Cyberattacks and data breaches don't pause with an economic slowdown — especially when geopolitical events and technology disruption continue to fuel a highly sophisticated threat landscape. Prioritize security solutions that protect customer-facing and revenue-generating workloads as well as any infrastructure critical to health and safety for industries like utilities, energy, and transportation. Defend investments that support cloud modernization and your organization's evolution to Zero Trust. And make sure you're able to respond when the inevitable attacks and breaches occur by investing in crisis simulation and purple team exercises.

- **Talent and productivity.** One possible upside of an economic slowdown is a cooldown of the white-hot talent market. But job-hopping — especially among digital talent — is here to stay, with the best employees expecting a competitive salary and benefits plus the tools and technology to allow them to work anywhere, anytime. Don't pull back on the talent acquisition and retention improvements you put in place this year, but balance them with a renewed focus on productivity. Sales leaders, for example, should deemphasize reliance on a few heroic reps or dramatic headcount increases; they should instead invest more liberally in scalable levers like integrated processes rooted in data-driven and actionable insights.

Figure 4 Where To Increase Investment In 2023

Increase investments in:	Examples
Customer insights and engagement	• Customer analytics • Experience research platforms • Recalibrated post-sale experience messaging
Technologies that improve customer experience and reduce costs	• Cloud cost management and optimization • Robotic process automation • Intelligent agents/agent assist apps
Security	• Security solutions that protect customers • Zero Trust • Crisis simulation and purple team exercises
Talent and productivity	• Talent acquisition • Coaching programs • Sales productivity tools

Cut Spending On Unproven Tactics And Waste

Today's economic climate will put outsized pressure on budgets. Use this moment as an opportunity to cut spending in areas prone to waste (see Figure 5). A shortlist of spending reduction opportunities includes:

- **Bloated software contracts.** Economic uncertainty is destabilizing some software markets as established firms struggle to live up to their valuations and new entrants struggle to survive. Use this moment to renegotiate prices (including pushing for consumption-based pricing), optimize terms, and consolidate contracts. Contracts with core enterprise apps likely get regular scrutiny, but don't overlook agreements with point solutions, such as voice of the customer. These offer potential savings by consolidating department-specific contracts and taking advantage of recent M&A activity — such as Qualtrics' purchase of Clarabridge or InMoment's acquisition of ReviewTrackers. Be pragmatic about who needs a license, and scale back seat-based spending to employees who really use it.
- **Technical debt, including cloud.** Many thought cloud would be the antidote to technical debt. But yesterday's lifted-and-shifted workloads are now debt themselves, given how inefficient to operate and difficult to upgrade they are — especially compared to cloud-native options. Plus, even the smallest bit of inadequate governance, misdirected investments, poor coordination, and failure to manage change increase technical debt. Forrester's 2022 data shows that business and technology professionals with future fit tech strategies are more than two times more likely than others to view upgrading, refreshing, or consolidating business apps, hardware, and software infrastructure as critical. In 2023, minimize legacy investments and duplicative or underutilized tools across your entire tech stack as an intentional part of your planning. And yes, consider early cloud deployments as candidates for technical debt reduction.
- **Low-quality data and innovation outsourcing.** External partners will continue to play an important role in your growth, but two key areas are ripe for deep cuts. First, the quality of third-party data continues to drop as regulators and tech companies like Apple aim to tamp down on unchecked data sharing, so streamline your third-party data partnerships to only those that add value to customer relationships and offer a futureproof solution. Second, many firms have relied too heavily on partners for digital innovation — especially during the pandemic-induced digital sprint. Consider bringing more innovation in-house to solve two problems at once: freeing up budget and providing a creative outlet that will help retain talent.
- **Underperforming markets and customers.** While it seems obvious, leaders all too often continue their old habits and miss the opportunity to assess and document the markets that they should exit, pause on, or passively harvest — as well as activities that they should modify or drop. Use this moment to reallocate resources toward high-potential customers and market segments. However, don't completely ignore buyers in those segments negatively impacted by economic challenges; implement lower-cost nurture programs instead. These will reduce your current costs yet still position your organization to be first in line when these organizations recover and are ready to spend again.

Figure 5 Where To Cut Investment In 2023

Cut investments in:	Examples
Bloated software contracts	• Outdated pricing and terms • Duplicative contracts • Inactive seats
Technical debt, including cloud	• Legacy investments • Duplicative or underutilized tools • Early cloud deployments
Low-quality data and outsourcing	• Third-party data partners • Digital innovation outsourcing
Underperforming markets and customers	• Expensive programs for low-potential customers

Figure 6 Emerging Technology To Experiment With In 2023

Experiment with:	Description
Edge intelligence	Tools that help firms conduct advanced analytics and algorithmic decision-making on localized data that's collected and processed away from data centers and public cloud
Intelligent agents	Software that can make decisions or perform a service based on its environment, user input, and experiences; often referred to as bots, chatbots, or digital workers
Extended reality, the metaverse, and Web3	A set of interlinked technologies that hold the promise of immersive experiences linked to token-based ecosystems using cryptocurrencies and public blockchains

Experiment Carefully With Emerging Technology

Despite the need for real cuts, don't fall prey to the temptation to eliminate all experimentation, especially when it comes to emerging technology. These experiments — and the creative muscle they build — create and sustain competitive differentiation and justify further investment. We recommend running small experiments in order to discover new opportunities without sacrificing precious budget dollars (see Figure 6). Evaluate and invest wisely among our list of top emerging technologies with growing and promising value:

- **Edge intelligence that brings analytics directly to the customer.** Edge intelligence is an evolution of IoT advanced analytics in which much of the data analysis and machine learning is done on compute resources that exist much closer to where the data is generated. It includes tools that help firms conduct advanced analytics and algorithmic decision-making on localized data that's collected and processed away from data centers and public cloud. Customer digital experiences will benefit from edge intelligences as edge servers or smart devices process large local data sets and generate personalized interactions.
- **Intelligent agents (IAs) that make experiences more human.** IAs are software that can make decisions or perform a service based on their environment, user input, and experiences. Often referred to as bots, chatbots, or digital workers, IAs use combinations of RPA, digital process automation, business rules, machine learning, natural language processing, and conversational AI. Plan for ongoing experimentation, as IAs won't reach their full potential for several more years due to the number of dependencies and vast amounts of data required for them to make experiences more human.
- **Extended reality, the metaverse, and Web3 that offer immersive experiences.** These interlinked — and arguably overhyped — technologies hold the promise of immersive experiences linked to token-based ecosystems that use cryptocurrencies and public blockchains. Despite massive publicity and venture funding, these technologies must overcome many hurdles in order to deliver on the integrated future they promise for consumers. Still, firms in consumer industries should experiment with metaverse precursor platforms like Roblox and Decentraland to open doors to new audiences now. And all industries should consider employee-facing experiments to drive collaboration, remote assistance, training, and onboarding.
- **TuringBots that write code on their own.** These AI-powered bots can augment developers' ability to design, build, change, test, and refactor software in automatic and autonomous ways. TuringBots leverage various AI technologies, such as program synthesis; natural language processing; computer vision; machine learning; deep learning; transfer learning; reinforcement learning; generative adversarial networks; and, of course, software development, testing, and release.
- **Privacy preserving technologies (PPTs) that protect data.** PPTs like homomorphic encryption, multiparty computation, and federated privacy enable organizations to protect customers' and employees' personal data while processing it, such as when exploring personal data to build data models for AI or sharing sensitive personal data across the organization for analytics projects. PPTs promise to unleash the potential of high-performance AI models while satisfying privacy, ethics, and other regulatory requirements.

Intentional experimentation — combined with prudent spending choices — will help businesses navigate volatility and strengthen their position long term. Though planning for 2023 will come with unique pressures, it is also an opportunity to sharpen focus, create differentiation, and enhance customer value.

Survey Methodology: Forrester's Budget Pulse Survey, 2022, was fielded in July 2022. This online survey included 382 respondents in the US from companies with 500 or more employees, representing nearly 1,000 budget-related decisions.

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