



CXO SURVEY



# CXO INVESTMENT PRIORITIES 2025

## Management Summary

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There is a huge amount of uncertainty hanging over the software and IT services (SITS) market as we move into 2025.

Economic headwinds and geopolitical volatility are front-of-mind for executives as they recalibrate their digital transformation strategies to meet the changing demands of clients and markets.

But PAC analysts continue to field a lot of questions around the dynamics of many SITS topics. Has the air come out of the Generative AI hype bubble? Have we passed “peak” public cloud adoption as businesses repatriate workloads back on-premise? Are organizations backing up their concerns over cyber-attacks with investment? Has digital sustainability been sidelined?

In order to get an up-to-date understanding on SITS spending priorities, PAC has just completed an in-depth sentiment analysis study with almost 2,500 senior business and IT strategy leaders across 15 of the world’s largest economies.

The results, which are based on interviews conducted during October/November, highlight that while many executives are looking to squeeze cost out of their enterprise IT function, they expect to ramp up their investment in several key areas. In this Management Summary, we highlight some of the key findings and talking points.

## Economic Challenges are Top-of-Mind

PAC’s study found that economic pressures are the main factors that are keeping CXOs awake at night as we head into the new year.

With economies either slowing or receding in key markets such as China, France and Germany, many companies are looking to trim their expenditure in order to protect the bottom line. Some **45%** of CXOs cite their domestic economic situation as a major challenge facing their business in 2025 (including more than half of participants in France and Germany). Meanwhile, more than **40%** state that the international economic situation is a major concern.

A growing line of companies – from Bosch to General Motors and FedEx – are in the process of implementing new cost-cutting programmes and **45%** of CXOs state that this will be a major challenge as they look to stabilize and grow the business. The picture changes across different territories, with more than half of CXOs in the embattled Chinese and French markets viewing cost reduction as a major issue for their business,

versus less than **30%** in the US, where the short-term economic outlook is brighter.

PAC tested the importance of multiple factors that are driving boardroom strategic thinking as part of the study, and one area that increased in significance compared to our assessment from 12 months ago is increased competition. This is now viewed as a major challenge by more than **40%** of CXOs, and we can clearly see the impact of new challenger brands on established players in sectors such as automotive with growth stories such as China’s BYD.

## Cost, Skills and New Tech Headaches

So is this focus on cost reduction impacting software and IT services spending?

More than one third (**39%**) of CXOs cite pressure on IT operations to reduce costs and improve efficiency as a major challenge to their business in 2025. Again, this is particularly high among those companies operating in the more difficult national economies, such as China (more than **50%**) and France (over **40%**).

This is nothing new. Not a year has passed in the last three or four decades when IT leaders haven’t been tasked with reducing their “run” costs through standardization, automation, outsourcing or labour arbitrage. And as we shall see, the mounting pressure to transform the business across all industry sectors means that 2025 will see a healthy increase in spending across many strategic SITS topics.

Technology trends come and go, and there has been a lot of commentary on how many businesses have struggled to identify truly compelling use cases for topics such as Generative AI. More than a third (**39%**) companies state that adopting new technologies will be a major challenge in the year ahead, which will encourage many to lean on external partners to help them with their journeys.

The pace of technology change means that the SITS industry continues to struggle with a talent pipeline issue, and **38%** of CXOs state that that a shortage of skilled IT professionals will be a major challenge to their organization. This is almost flat compared to the level in last year’s assessment, and it is difficult to find any company that is wholly confident in their ability to recruit and retain the expertise they need to support their digital ambitions. This problem will only escalate as companies and industries become more technology dependent. For example, the global construction industry needs to hire an additional 250,000 workers – the majority of whom will require digital skills – in order to meet demand by 2028 (source: RICS).

## Digital Focus Splits Between Internal and External

What are the main focus areas for digital transformation programmes in 2025?

Most organizations are aiming to enhance and modernize on several different fronts. A good example is airline group BA, whose £7bn transformation programme includes a substantial SITS investment that will see it overhaul its customer-facing digital services, but also look to harness data to improve core airline performance.

More than half (**55%**) of CXOs state that improving digital customer experience is a major goal for their transformation initiatives, but a similar level (**54%**) state that the optimization of internal processes is a top target. This is in tune with the wider focus on cost reduction, and while the initial results of Generative AI initiatives have been patchy, many are generating significant gains from their process automation strategies. For example, UPS is aiming to save \$3bn over the next three years through increased automation across its logistics centers.

PAC has been closely monitoring the topic of sustainability and its intersection with SITS investment, and encouragingly, more than half (**51%**) of CXOs state that it remains a key focus for their digital transformation programmes. Europe continues to take the lead on the topic, with levels in Germany (**56%**) and the UK (**55%**) higher than from participants in the US (**46%**).

## Cyber and AI Spending Increases, Cloud Holds Firm

We have explored the drivers and the focus areas, but into which pots are businesses going to be spending their SITS budgets in 2025?

The escalating and increasingly sophisticated cyber threat facing companies across all industry sectors is putting cyber resilience firmly under the spotlight. This is being backed up by investment with more than half (**53%**) of companies planning to increase their spending on their cyber defences in 2025, with above-average levels from companies in France, Germany and Poland. The Polish Government recently unveiled plans to invest €2.3bn in cyber security and digital infrastructure over the next two years, in order to defend itself from rising attacks from Russia.

Analytics, AI, data management will remain an important focus area as companies look to harness their data to unlock new growth and efficiency opportunities. Some **45%** of participants will increase

their investment in this area, while CXOs remain bullish on Generative AI, with **46%** (including more than 50% in the US) planning to scale up their spending in the coming year.

There has been a lot of discussion recent quarters over whether companies are turning their backs on public cloud services. There has been a widespread trend of IT leaders look to wrestle back control over some of the tactical cloud investment that exploded as companies returned to growth after the pandemic. The major hyper-scalers have seen their growth slow over the last couple of years, and there are many examples of companies repatriating some workloads onto private cloud platforms where the cost or scalability business case didn't quite stack up.

However, more than one third (**37%**) of companies plan to increase their spending on cloud services in 2025 (with CXOs in China and the UK particularly bullish), while a further **47%** plan to maintain the same level as in 2024. This is not a market that is in retreat, and will continue to be driven by the re-platforming of legacy workloads in sectors such as government and financial services, as well as the launch of new digital services in other industries.

## CRM and Vertical Apps Prioritized

One of the biggest trends that has played out in the SITS market over the last few years has been the wave of major ERP modernization initiatives.

Vendors have been pushing their clients to adopt SaaS or cloud-based versions of their application suites, and PAC's study found that businesses will continue to ramp up their investment in this area in the year ahead.

More than one third (**35%**) of CXOs plan to increase their investment on customer relationship management platforms in 2025, which represents a slight increase compared to 12 months ago. Leading platform providers such as Salesforce are increasingly embedding agentic AI functionality into their applications in order to drive new levels of personalization and process efficiency.

A further third of CXOs expect to increase spending in customer experience (CX) management platforms, as they strive to differentiate in what we have seen our increasingly crowded markets. It is also interesting to note a planned acceleration in spending on industry-specific applications in 2025 (31% of participants). Standard ERP platforms don't always deliver the specific functionality required within certain industries, and PAC has observed a rise in core applications modernization initiatives in sectors such as professional services, construction and engineering and insurance.

## Software Development Rises, Consulting Spend Stabilizes

It has been a challenging time for IT services providers as election cycles and the volatile economic backdrop in 2024 forced many companies to reduce or pause discretionary spending on new projects.

This was evident in the slowdown in growth at the “Big Four” consulting firms. But looking ahead, the outlook is more positive, with close to a third of CXOs (**32%**) planning to increase their spending on process and applications-related consulting in 2025.

The area of IT services spending that is set to receive the strongest boost is software development, with **36%** of participants planning to ramp up spending in the coming year. This reflects a trend that PAC observes across many industry sectors, with businesses looking to move on from the planning and test phase with their AI initiatives, into scaling up in the production environment. They are increasingly leaning on partners for software engineering support to help them to achieve this at speed.

There are two other notable areas where a significant proportion of CXOs plan to increase IT services investment in 2025. More than **30%** of companies expect to spend more on the operation of both their private cloud and public cloud infrastructure and services in the year ahead. This reflects the ongoing focus at many organizations in seeking external help in optimizing their cloud spend and workload management.

## Sovereignty Push Shapes Sourcing Strategies

It is encouraging for SITS vendors to see that many businesses expect to increase spending in 2025, with very few planning to cut investment.

But is the type of partner that they are looking to work with evolving in order to support their changing requirements and market conditions? PAC's study found that **59%** of CXOs stated that their clients and regulations are forcing them to work more with domestic technology providers. This is even higher in the US (**67%**), where the Trump presidency's protectionist agenda is likely to make it tougher for overseas suppliers during his second term.

One of the big talking points in Europe has been the rise of the “sovereign” cloud providers that are offering an alternative to clients that are wary of becoming too dependent on non-EU hyper-scaler partners. PAC's study found that almost two thirds (**64%**) of CXOs agree that they are being pushed to working with data sovereignty partners, with the level notably high in France (**70%**) and Germany (**68%**). This will be good news for those organizations in these markets – from France Telecom to German retail giant Lidl – that are pumping tens of millions of euros into standing up challenger cloud propositions.



# About PAC



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