MIDDLE MARKET DIGITAL STRATEGIES ARE SHIFTING—INFLUENCED BY COVID–19

A recent RSM survey finds middle market companies across a range of industries see the benefits of developing a digital transformation initiative, with the majority prioritizing their digital strategy. However, the COVID–19 pandemic has created a shift in technology plans, with companies abruptly making adjustments to maintain key functions and, in many cases, implement a new workforce structure to sustain productivity and keep employees safe.

These adjustments and all those related to digital transformation initiatives are often complex, and how organizations choose, implement and manage evolving technology solutions can position them for success in the middle market. For example, leadership typically contends with several pivotal decisions, spanning from who steers technology decision–making to how implementation projects are prioritized. These decisions have become even more important given the rapid transitions necessary in the midst of the pandemic.

From a decision–making perspective, more voices are being heard and collaboration is increasing within middle market companies. While the survey finds that technology specialists within the organization are still the most responsible for leading digital projects, the CEO and chief financial officer are also now seen as digital leaders within many companies.

While not all digital transformation approaches are appropriate for every company, lessons can be learned by understanding the steps peers are taking to utilize innovation, as well as the investments they are making.

RSM’s Digital Transformation Survey recently polled C–level executives in five critical industries—retail, food and beverage, manufacturing, health care, and banking—to analyze how middle market companies are using technology and developing overall technology strategies. With the insights gathered from the survey, companies can target opportunities for improvement or gain confidence in their strategies compared to peers.

Note: Our survey was conducted prior to the coronavirus pandemic. However, in addition to the survey data, our insights reflect how middle market clients are deploying emerging technology to adjust to the current environment.
SECTION 1

HOW ARE DIGITAL PRIORITIES SHIFTING?
COMPANIES ARE EMBRACING AND PRIORITIZING DIGITAL TRANSFORMATION

OVERVIEW

Innovation drives improvement; therefore, digital transformation has taken a more prominent role within many middle market companies. In fact, in the current environment, innovation has also provided the structure to keep many middle market companies running.

However, along with that increased focus on innovation, organizations must also ensure that they have a defined strategy to manage the processes related to digital transformation. Without those guidelines, companies can make investments that may not align with goals, may not deliver on their expected value and may not be able to pivot quickly to adapt to a rapidly evolving market.

KEY FINDINGS

73% say that digital transformation has become more of a strategic priority in the last 3–5 years

Digital road map: A detailed operational plan that describes how a digital strategy will take place

93% of companies report that they have a digital road map

but only 65% of companies with revenues between $50M–$99M have a road map

All respondents are in some stage of digital transformation:

58% have a strategy that addresses goals and objectives

28% are taking steps toward developing a strategy

14% have always been digital organizations
How the pandemic is changing digital investments

With uncertainty in the markets due to the coronavirus, companies are reluctant to invest in new technology. Most survey respondents reported spending between 1%-10% of total revenue on digital initiatives, and those investments should continue, but it may be on the lower end of that range for the foreseeable future.

Digitizing and personalizing your core business has to be job one. A plan that makes the most impact can be developed by paying attention to how customers and employees use existing technology, how peers are leveraging innovation and how technology strategies may evolve post-pandemic. Effective technology deployment can support sustainability, especially when the economy is in flux.

All respondents are working toward digital transformation—to some extent

It’s clear that middle market companies see the benefits of developing a digital transformation initiative. In the survey, every company indicated that they have a strategy for digital transformation, or are working toward one.

However, companies must also recognize that digital transformation is a continuing journey. When creating a digital strategy with specific goals and objectives, they must not lose sight of the advances that technology continues to make. A plan must be prepared to assess and implement new solutions to address evolving challenges or help reach business goals.
“The current environment only further emphasizes the importance of creating and implementing a defined digital strategy. Without that detailed plan, companies can have trouble choosing where to direct investments and risk falling behind peers. It also creates a structure that can adapt quickly if market conditions or business needs change.”

Bill Kracunas
RSM Principal
OVERVIEW

It’s no surprise that the chief technology officer (CTO) and chief information officer (CIO) or IT director drive the majority of the digital decision-making in the middle market. However, the survey shows a significant amount of collaboration throughout many organizations. Responsibilities for digital strategies are quickly changing, and this teamwork, and input from multiple layers throughout the organization, will be even more important for digital transformation success moving forward.

KEY FINDINGS

Technology specialists are the top three most responsible parties for leading digital projects:

- 76% CTO
- 70% CIO/IT director
- 58% Chief digital officer

The CEO and the CFO are in the top five for digital project responsibility:

- CEO 52%
- CFO 43%

Of respondents expect their role in digital decision-making to expand. How?

- 43% see broadened financial analysis responsibilities
- 40% see more participation in IT transformation projects
- 37% see greater data analysis responsibilities
- 36% see more active involvement in the human resources function for digital talent
A shift in digital decision-making

In the past, the IT department or CIO were solely responsible for technology decisions. Now, with technology becoming so important across the business, executive roles are expanding and new voices are being heard.

Technology specialists are still leading the way for the implementation of digital projects, but the entire C-suite, as well as operations, are providing valuable input into digital transformation strategies.

For example, the chief marketing officer or marketing director is generally gaining more influence in digital decision-making as innovation is such a central element of e-commerce strategies. This role is expected to become more critical in decision-making in the future.

What is the future of digital leadership?

While technology executives will continue to be the main source for digital decisions moving forward, they likely do not have the granular view of the organization to know where solutions fit best at every level of the business. With the potential of technology to improve so many processes, digital advocates should emerge for each key business function.

Structures will need to evolve along with technology, and the true forward-looking organizations will incorporate a broader range of digital stakeholders, gathering input close to the ground to optimize technology investments.

“Executives are now sharing the responsibility for leading digital transformation, and more opportunities have opened up to become involved in technology decisions. As technology evolves, proactive executives will be able to directly contribute to leveraging technology to move the business forward.”

Bill Kracunas
RSM Principal
SECTION 3

WHAT TECHNOLOGIES ARE COMPANIES FOCUSING ON?

OVERVIEW

The technology choices that companies make have a direct impact on process improvements and their relative strength in the market. However, with so many solutions now available, leadership must be judicious about implementing the technology solutions that will drive the most return on investment. Careful planning can help middle market companies become leaders in the market, but also pivot whenever necessary, such as in a crisis scenario.

The survey shows some emerging solutions are popular in the middle market, but also shows where investments may provide a leg up on competition.

KEY FINDINGS

The most important digital applications listed by respondents:

- **50%** 5G technology
- **43%** Artificial intelligence
- **43%** Mobile technologies
- **38%** Cloud computing

Potential underutilized technologies:

- **36%** Robotic process automation
- **33%** Customer relationship management
- **33%** Data analytics
INSIGHTS
FROM RSM

Changing priorities during the coronavirus pandemic

Even prior to the COVID-19 pandemic, companies were focusing more energy on RPA and AI platforms to increase efficiency in manual processes and better analyze data. As companies have had to quickly adjust strategies, these technologies have become even more important, with the potential to sustain productivity and access to data while reducing direct employee interaction.

With companies rapidly shifting to a more remote workforce during the pandemic, and potentially even as a longer-term strategy, technologies such as the cloud and cybersecurity applications will take on even more importance. Middle market organizations will continue to look to digital applications that can seamlessly connect employees to each other and to key information in a secure manner.

Overlooked opportunities?

Middle market companies seem focused on 5G, and it will be the backbone of future technology foundations. However, organizations cannot lose sight of other potential transformative digital solutions. Many foundational and proven platforms such as customer relationship management (CRM) and enterprise resource planning (ERP) systems are still extremely important, but can be overlooked in favor of newer technology. In addition, data analytics platforms should be foundational technologies to understand customer or client behavior and motivations, but some middle market companies may not have taken that step yet.

For example, middle market companies can make significant advanced by implementing a CRM system and connecting it to digital marketing systems and shifting all traditional marketing to digital marketing. By connecting foundational systems, data and websites, companies have the ability to be digital lead-generation ready.

Organizations can also take advantage of gaps in peer strategies by rolling out, or further emphasizing, technologies that may be underutilized. Some solutions that may not be a priority for others can provide more insight into customer needs and processes, and can help tailor product offerings.

“5G technology has the potential to enhance many key business processes, and the middle market is certainly noticing. But companies cannot forget about existing, attainable solutions like the cloud, RPA and data analytics that increase productivity, accessibility and insight.”

Bill Kracunas
RSM Principal
CONCLUSION

The use of digital technology utilization will remain critical in the middle market

Digital transformation is poised to be an ongoing, critical initiative in the middle market, as innovations emerge that can automate or enhance new processes, and existing applications continue to evolve. The coronavirus pandemic has placed an even greater emphasis on technology deployment and utilization, as companies are prioritizing connectivity and automation more than ever before. The challenge for many organizations will be keeping up with advances in digital technology and understanding which applications will deliver the most value to the business.

RSM’s Digital Transformation Survey shows that many middle market organizations are moving in the right direction by continuing to dedicate funds for new investments and increasing collaboration for digital decision-making. However, some organizations still have work to do to create an actionable digital strategy that provides necessary guidelines for planning, prioritization and implementation.

“Companies should focus on their core business, digitize it and personalize it. Be relentless in understanding your customer’s digital journey through your organization.”

Bill Kracunas
RSM Principal

Ultimately, an effective digital transformation strategy is an important element for growth and sustainability. Benchmarking against peers helps to understand where gaps or advantages may exist and where potential opportunities may reside.