

RSM INSIGHTS

Middle Market State of IT



November 30, 2023

Presenters



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Cyber Strategy

Learning objectives

By the end of this presentation, participants will be able to:

- Discuss current and future IT trends.
- Explain the importance of AI integration.
- Recognize the steps to execute a cybersecurity strategy

Field of study: Information technology

Agenda

IT & Digital Transformation

AI in the middle market

Cyber security

IT talent

IT spending

Closing thoughts and Q&A

Methodology

WHO

- Panel of approximately 1,500 Middle Market executives were recruited by The Harris Poll via phone using D&B sample.
- These 1,500 Middle Market executives were invited by The Harris Poll to participate in 4 surveys annually.
- All Middle Market executives were qualified as:
 - U.S. full-time Middle Market executive decision makers working in:
 - Select industries:
 - Agriculture, forestry, fishing and hunting; Mining, quarrying, and oil and gas extraction; Utilities; Construction; Manufacturing; Wholesale trade; Retail trade; Transportation and warehousing; Information; Finance and insurance; Real estate and rental and leasing; Professional, scientific, and technical services; Administrative and support and waste management and remediation services; Educational services; Health care and social assistance; Arts, entertainment, and recreation; Accommodation and food services; Other services (except public administration).
 - Non-financial or financial services companies with revenues of \$10M-\$1B.
 - Financial institutions represented by AUM of \$250M-\$10B.
 - Involved/responsible for business strategy or financial management strategy.
- Total base includes non-financial or financial services companies with revenues of \$10M-\$1B, financial institutions represented by AUM of \$250M-\$10B, and non-profit organizations.

WHEN

- Interviews were conducted from April 3, 2023 – April 24, 2023.

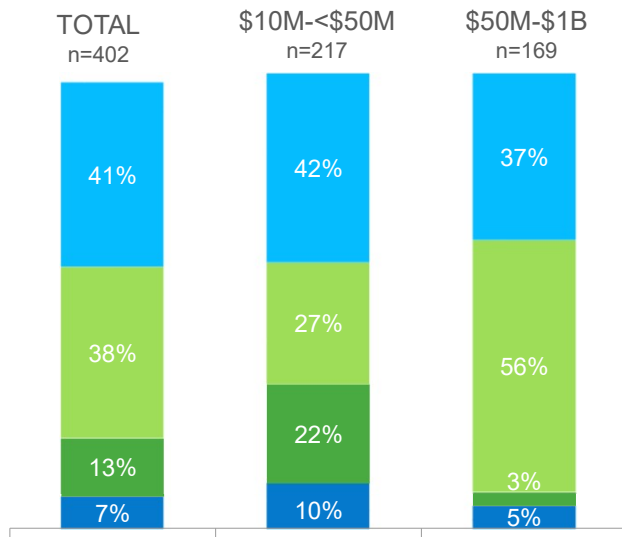
HOW

- Once recruited via phone, potential Council members were emailed a link to an online survey.
- Telephone follow up calls were made to Council members that did not respond to the online survey. They were given the option to complete the survey via telephone.
- Data are weighted by industry.
- 404 senior executives completed the survey (187 panel member; 217 online ad-hoc sample).
- Significance tested at 95% confidence level.

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IT AND DIGITAL TRANSFORMATION

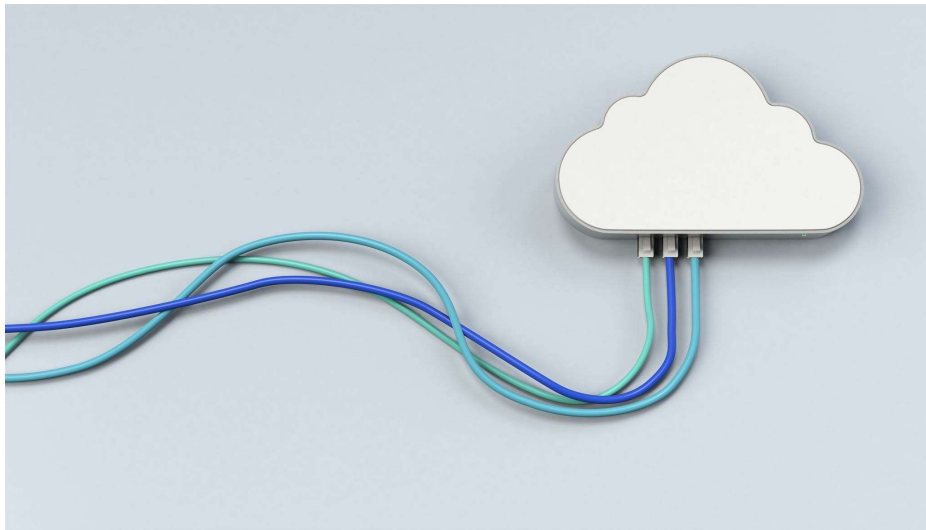
Progress in digital transformation



- My business has initiated some digital projects, but we are way off achieving our digital transformation goals
- My business has substantially achieved our goals in relation to digital transformation
- My business has not begun a digital transformation program because it is not relevant to us
- My business has not begun a digital transformation program, but we need to do so

Main Reasons for Investment in IT & Digital transformation:	Total (n=404)	Q2'23	
		\$10M-<\$50M (n=220)	\$50M-\$1B (n=169)
	(n=404)	(n=220)	(n=169)
	%	%	%
Drive business productivity, e.g. through enhanced automation	25	22	31
Improve customer experience	22	22	22
Enable our employees to be as connected and engaged as possible	19	19	19
Ensure operational security	19	17	20
Generate new revenue opportunities through new digital services	17	14	22
Reduce operational/delivery costs	17	17	18
Connect with new customers	14	13	16
Attract and retain talent	12	12	11
Facilitating better customer feedback	11	8	15↑
Investor imperative	7	4	12↑
Other	2	1	1
Not applicable/Digital transformation is not relevant to our business	14	21	4↓

Cloud Computing and As-A-Service Models



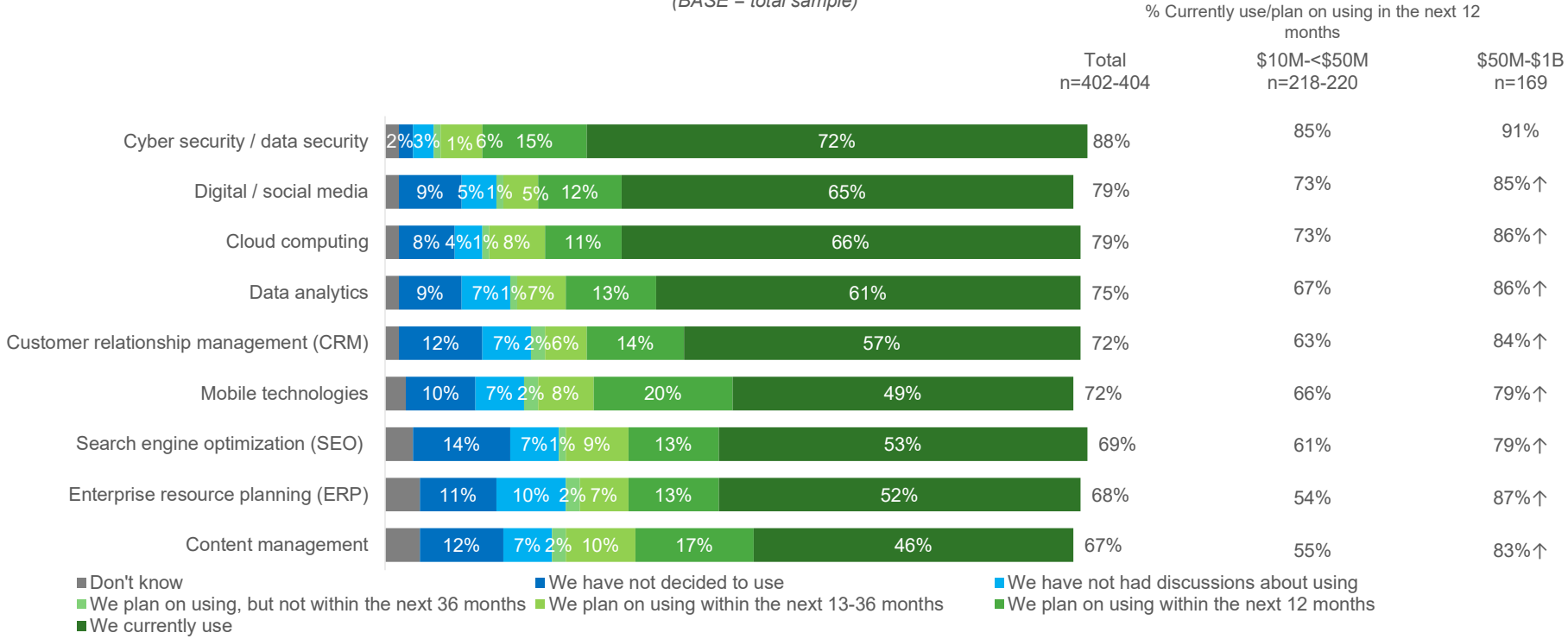
- Cloud computing is an increasingly popular model for IT services due to its cost-efficiency and scalability.
- As-a-service models have become more prevalent as companies move away from traditional on-premise systems.
- Benefits of cloud computing and as-a-service models include increased flexibility, easier maintenance, and greater accessibility.
- 79% of respondents either currently or plan to use the cloud in next 12 months

Metrics:

- Increased flexibility
- Easier maintenance
- Greater accessibility
- Cost-efficiency
- Scalability

Technologies business is currently or plan on using

TECHNOLOGIES BUSINESS IS CURRENTLY OR PLAN ON USING (BASE = total sample)



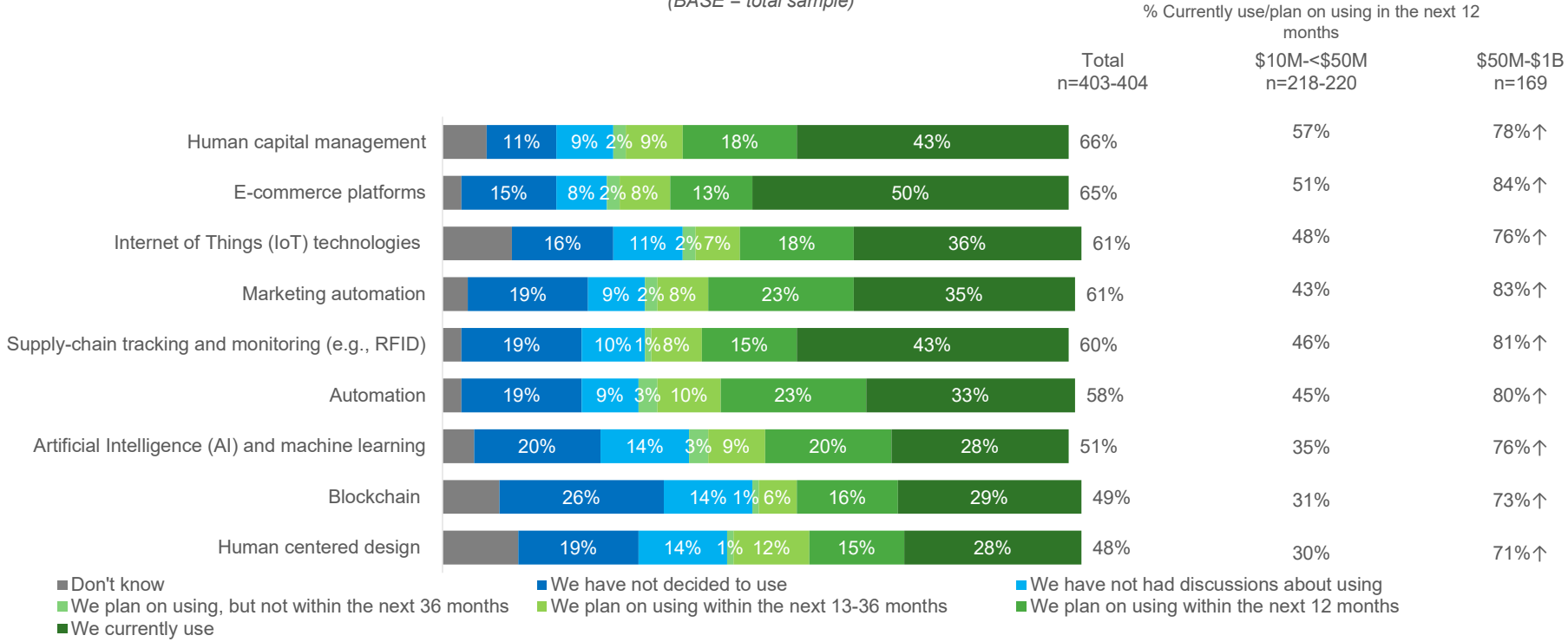
Z27 Companies may or may not be using, or have plans to use, the following technologies.

What is your company's current usage of these technologies?



Technologies business is currently or plan on using cont.

TECHNOLOGIES BUSINESS IS CURRENTLY OR PLAN ON USING (BASE = total sample)



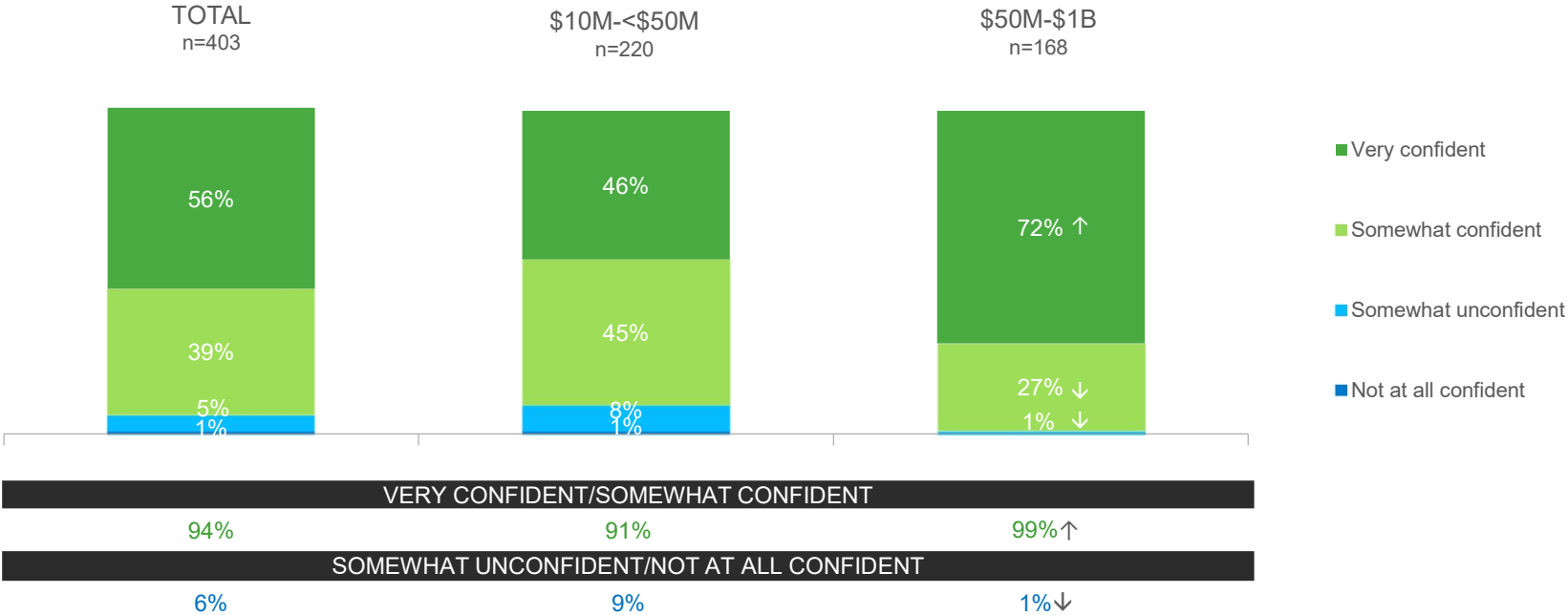
Z27 Companies may or may not be using, or have plans to use, the following technologies.

What is your company's current usage of these technologies?



Confidence with current IT operating model to successfully support business strategy

CONFIDENCE WITH CURRENT IT OPERATING MODEL TO SUCCESSFULLY SUPPORT BUSINESS STRATEGY
(BASE = total sample)

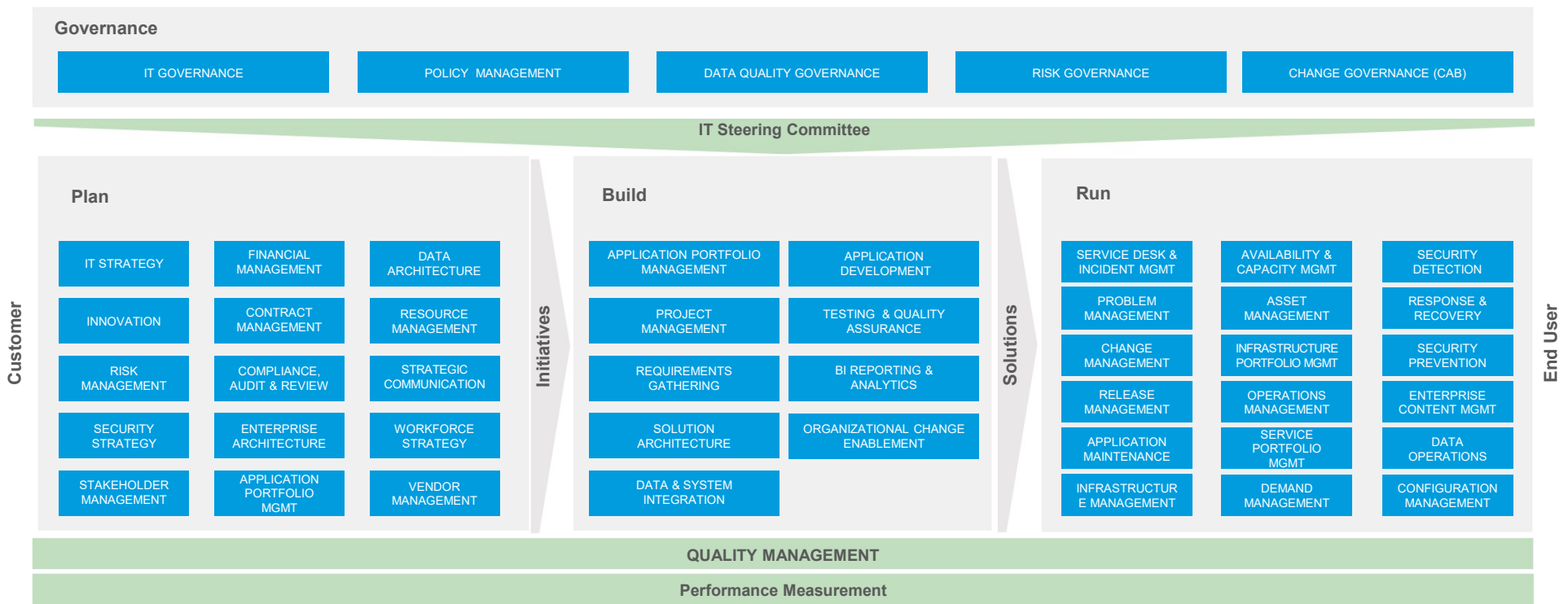



Z31 How confident are you with your current IT operating model to successfully support the business strategy?



IT operating models

The graphic below details the individual functions as they relate to the existing “Plan – Build – Run” model which is most common in mid-market organizations





ARTIFICIAL INTELLIGENCE USE OF CHATGPT OR OTHER GENERATIVE AI TOOLS

Hype Cycle for AI

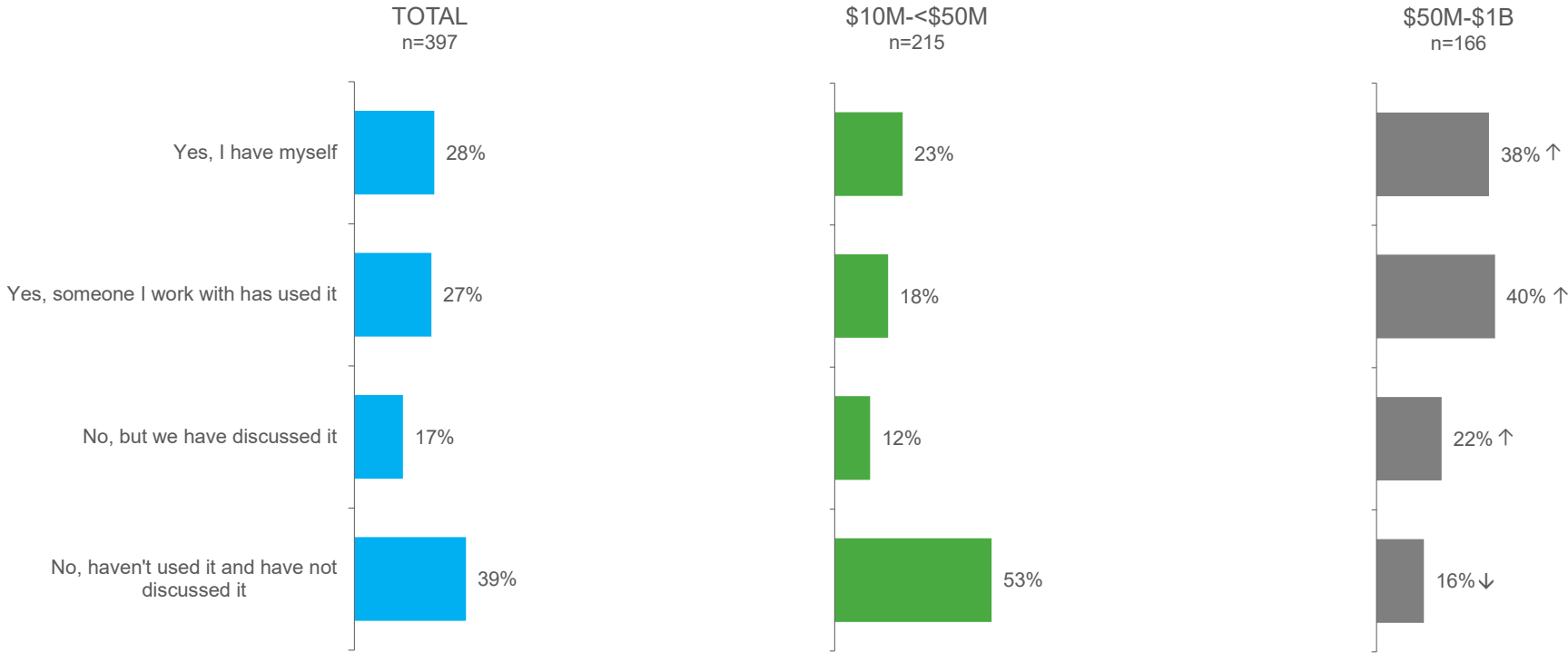
Hype Cycle for Artificial Intelligence, 2023



- AI technology is transforming the way midmarket companies operate.
- AI is being implemented for automation of business processes.
- AI-powered chatbots are being used for customer service and support.
- Predictive analytics is being used to forecast future trends and make strategic business decisions.
- AI-powered cybersecurity solutions are becoming increasingly important for data protection.
- AI is being used for personalized marketing and product recommendations.

Generative AI tools used to support business

GENERATIVE AI TOOLS USED TO SUPPORT BUSINESS
(BASE = total sample)



Z28 Have you, or someone else in your company, used ChatGPT, Bard, or another generative AI tool to support your business?



A decorative element on the left side of the slide consisting of two vertical bars: a green one on the left and a blue one on the right.

CYBERSECURITY

Cyberattacks by the numbers in 2023



Frequency of malware

More than ¹
450,000
new malware programs are detected daily



Frequency of phishing emails

3.4 billion
phishing emails are sent everyday totaling 1.2% of all email traffic²



Average downtime from ransomware

20+ days
of average system downtime and business interruption from a ransomware attack³



Average cost of a breach

Global average cost in 2023 of
\$4.45MM
an increase of 15% over the last 3 years⁴

Slide 17

- SRO** Update - Robert
Snodgrass, Robert, 2023-10-20T17:11:57.334
- SRO 0** Add speaker script
Snodgrass, Robert, 2023-10-20T17:12:14.096

Key trends in the cybersecurity landscape

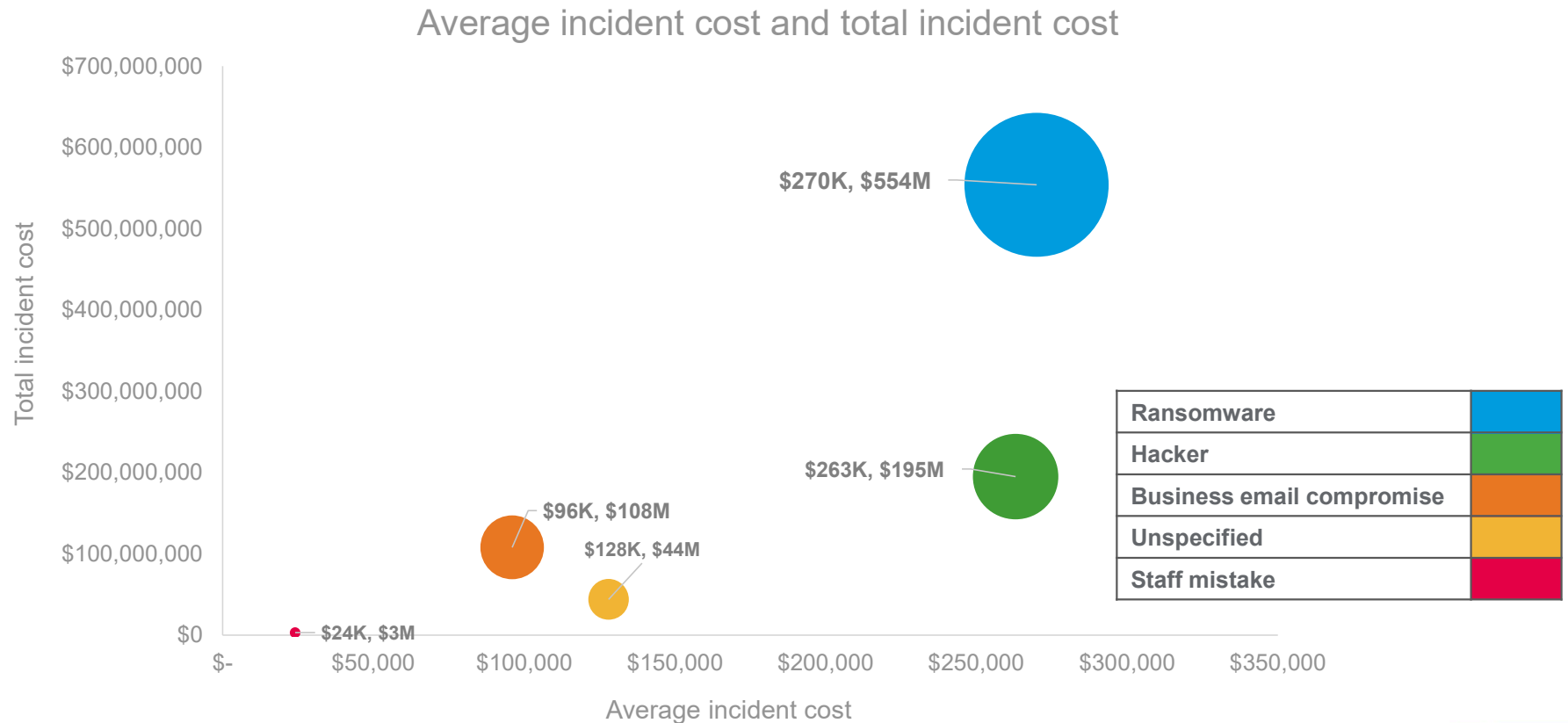
According to the RSM Middle Market Business Index 2023 cybersecurity report:

- **Breaches are slightly down, but significant cybersecurity concerns persist:** 20% of middle market executives claimed their company experienced a data breach last year.
- **However, executives are still worried:** 68% anticipate that unauthorized users will attempt to access data or systems this year.
- **Technology is changing:** 50% of organizations have moved to the cloud in the past year due to security concerns, up from 36% last year.
- **Cyber liability coverage is also changing:** 68% of companies carry a cyber insurance policy, and 70% say premium costs have increased.

63%

of executives feel they are at risk
for a ransomware attack in 2023.

Average and total cost by attack vector: 2017–2021 (small and medium businesses - SMB)



Source: <https://rsmus.com/insights/services/risk-fraud-cybersecurity/the-cost-of-a-data-breach.html>

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Cyber insurance: state of the market 2023

Increased **competition** and **carriers' focus on growth** has resulted in present conditions in the cyber insurance market that are far more favorable than just a quarter ago...⁵

KEY FACTORS AFFECTING INSURANCE MARKETS

SRO

Pricing



- Many buyers may achieve increases of 25% or less at renewal; select buyers with very strong programs may be able to obtain preferable pricing at lower-than-market rates
- Exceptional insureds may achieve flat renewals or slight rate decreases depending on their risk profile and whether they experienced substantial rate increases in 2021
- Majority of pricing flexibility is occurring in the excess layer of cyber insurance vs. the primary

Rebounding capacity



- Capacity returning to the market after seeing significant reductions in coverage in 2021 and 2022 as insurers look for additional sources of revenue and the population of insurable companies becomes more desirable for insurers

Bringing compliance into focus



- Emerging privacy laws and reporting requirements may contribute to increase in claims

Restrictive terms and conditions (representative examples)



- Focus on war exclusions in response to Russia-Ukraine war and past events (e.g., NotPetya)
- Ransomware/cyber extortion coverage continues to be limited without basic cybersecurity controls
- Widespread event exclusions and sub-limits (e.g., SolarWinds)

Cybersecurity controls continue to be scrutinized



- Robust controls remain a prerequisite for insurance coverage for the foreseeable future
- Reviewing for accurate representation of controls; inaccuracies may complicate claims payouts

Slide 20

- SRO** Incorporate SEC impact - Lloyd
Snodgrass, Robert, 2023-10-20T17:14:34.086
- ZLO 0** Checking w/ Lockton on updated slide.
Zygler, Lloyd, 2023-11-06T19:43:01.547

Navigating the shifting cyber-risk landscape

01

Impact of global economic headwinds

With high levels of uncertainty around inflation, challenges in the supply chain and shrinking profit margins, cyber leaders are being asked to do more with less

02

Growing complexity of cyber solution landscape

Cybersecurity software industry is experiencing exponential growth resulting in an explosion of tools in the market; however, there are limited ways to assess solution value, overlap with existing solutions, and validate each is fully configured

03

Lack of board-level understanding of cyber-risk

While cyber more often has a seat at the table, boards of directors are challenged to put cyber-risk in context with business operations and its enterprise risks

04

Increasing gap in the cyber workforce market

The cyber workforce shortfall continues to grow, leaving millions of positions unfilled and an increasing fight for talent

05

Minding the gap of shared responsibility

Vendors play an increasingly important role in cybersecurity (e.g., outsourcing and cloud) but there is a lack of understanding regarding the division of responsibilities

Preparing for the evolving trends of cybersecurity

Identity is the new perimeter

Changing borders of the workplace and IT landscape have forced a shift from network boundaries to a focus on digital identity defenses



Automation will drive action over alerts

Automation will need to extend beyond detection and orchestration in order to drive decisioning in near real time

Tomorrow's cyber workforce is being built today

The war for talent is driving investments into internal staff development through both retooling and upskilling the workforce



Data will fuel risk and opportunity in cyber

Data will serve as an increasingly valuable business and cyber asset but with tightening regulation and growing risk to organizations

Responsibility must align with "as a service"

Complex vendor ecosystem requires constant alignment and communications while also adapting to evolving technologies and regulatory needs



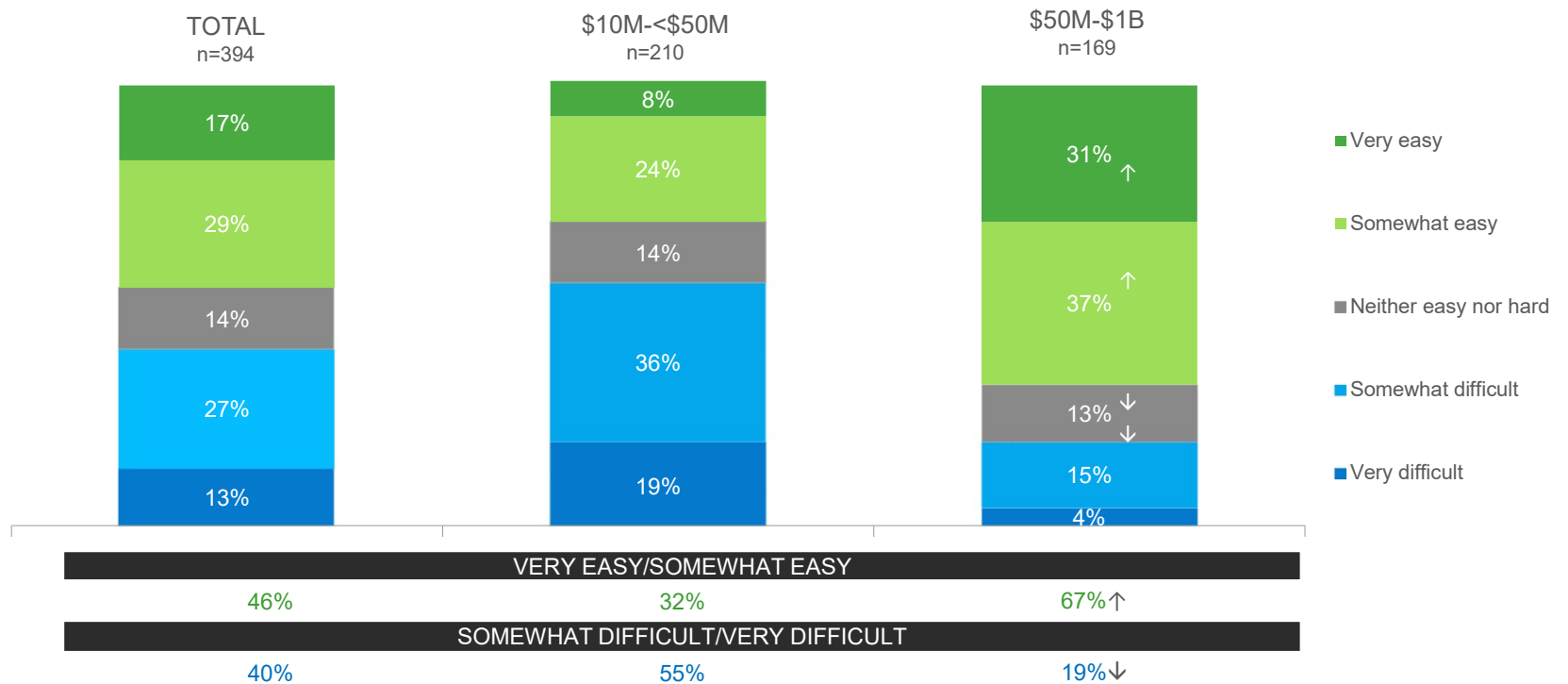
Cyber service and platform markets will consolidate

Anticipate vendor convergence to expand core capabilities, drive margin, enhance interoperability and unify disparate solutions



IT TALENT & OPERATING MODELS

Ability to find and retain IT talent



What about the big tech layoffs in 2023?

Professions with Highest Percentage of Layoffs

Occupation	% of Laid-Off Employees
Software Engineer	19.3%
Recruiter	4.6%
QA Tester	3.7%
Coach	3.7%
Customer Success Specialist	3.2%
Product Manager	2.9%
Marketing	2.6%
Web Developer	2.3%
Application Engineer	2.3%
Sales Associate	2.3%

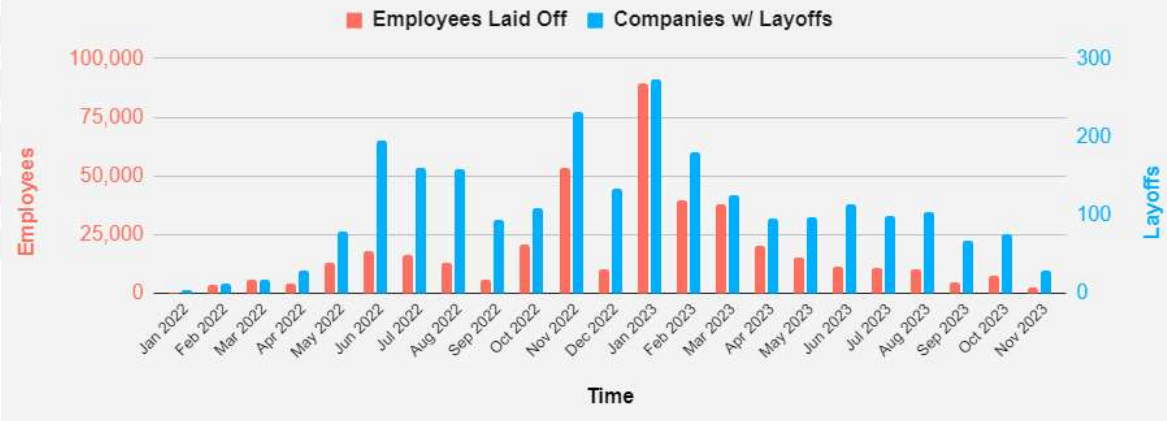
Source: Revelio Labs

Layoffs.fyi

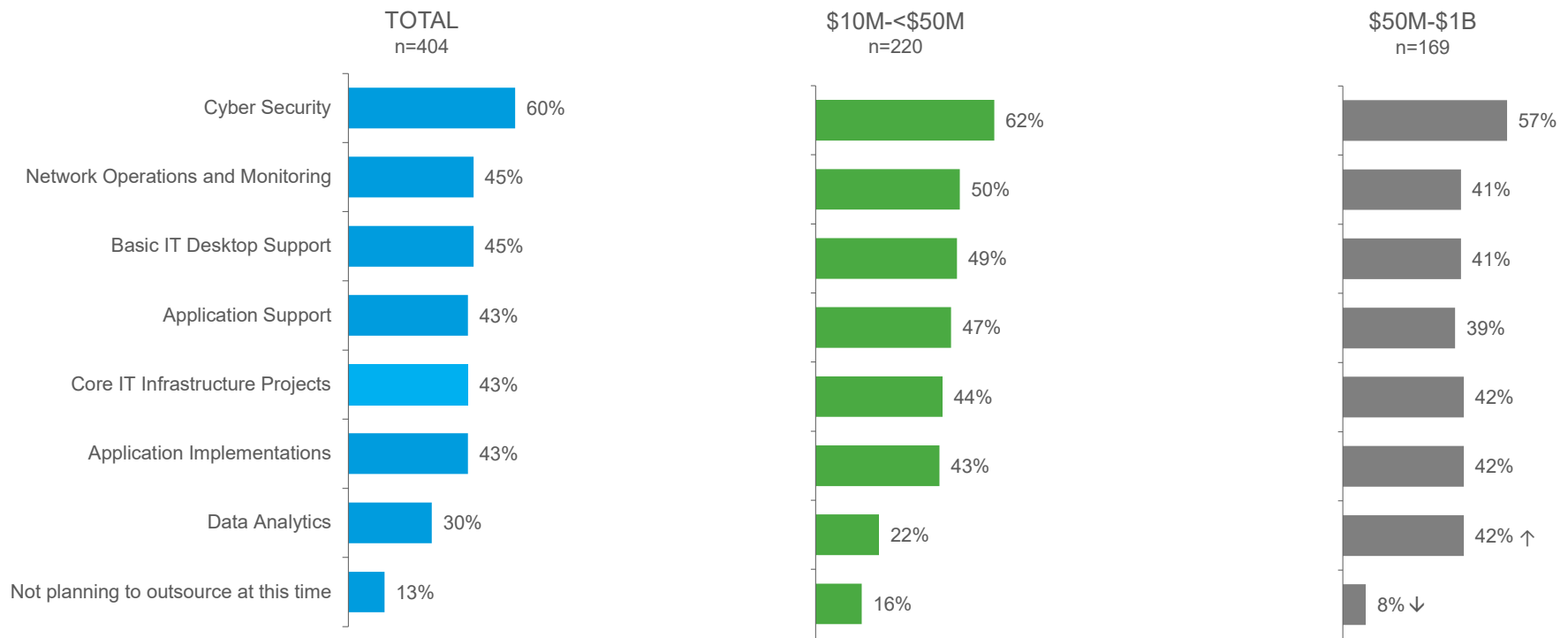
1113 tech companies w/ layoffs - 249354 employees laid off -

Tech layoffs in 2022-2023

Source: <https://layoffs.fyi>



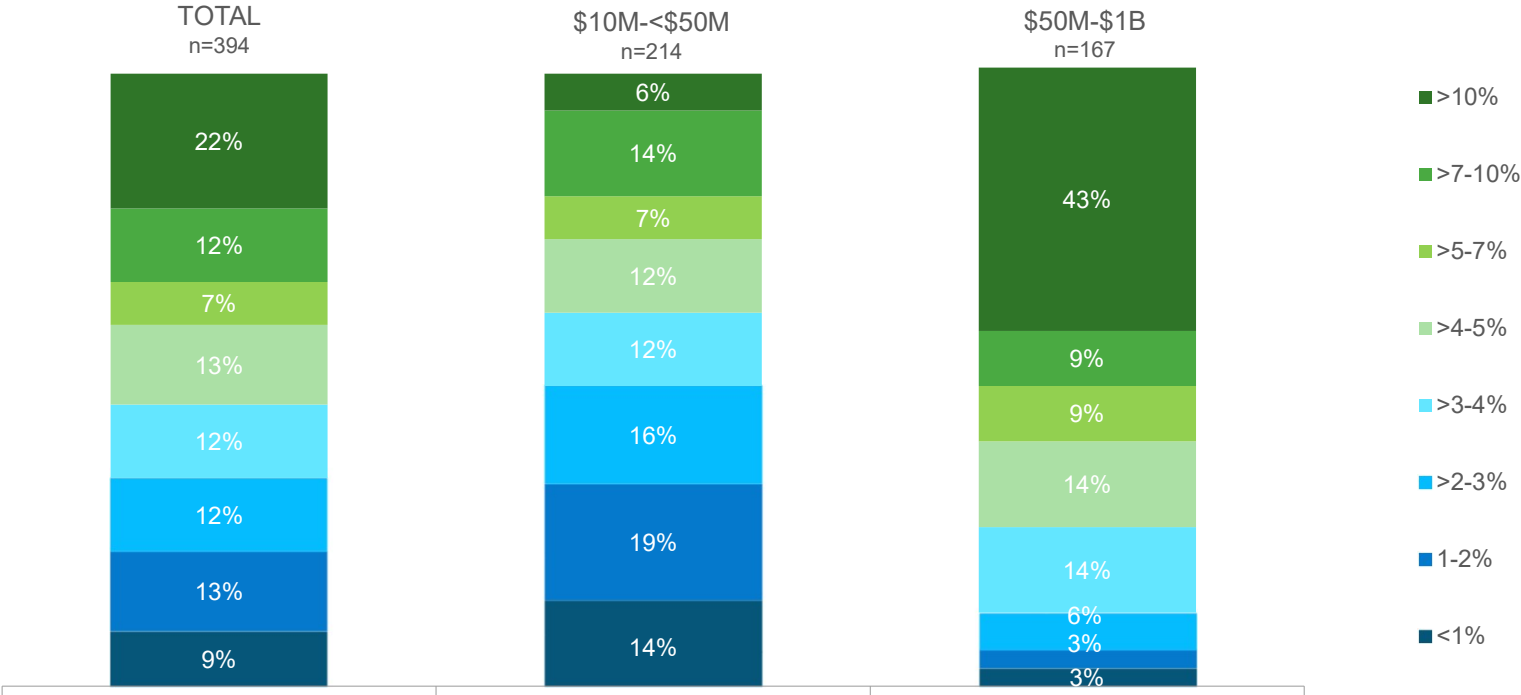
Areas of IT that are outsourced or plan to outsource in 2024





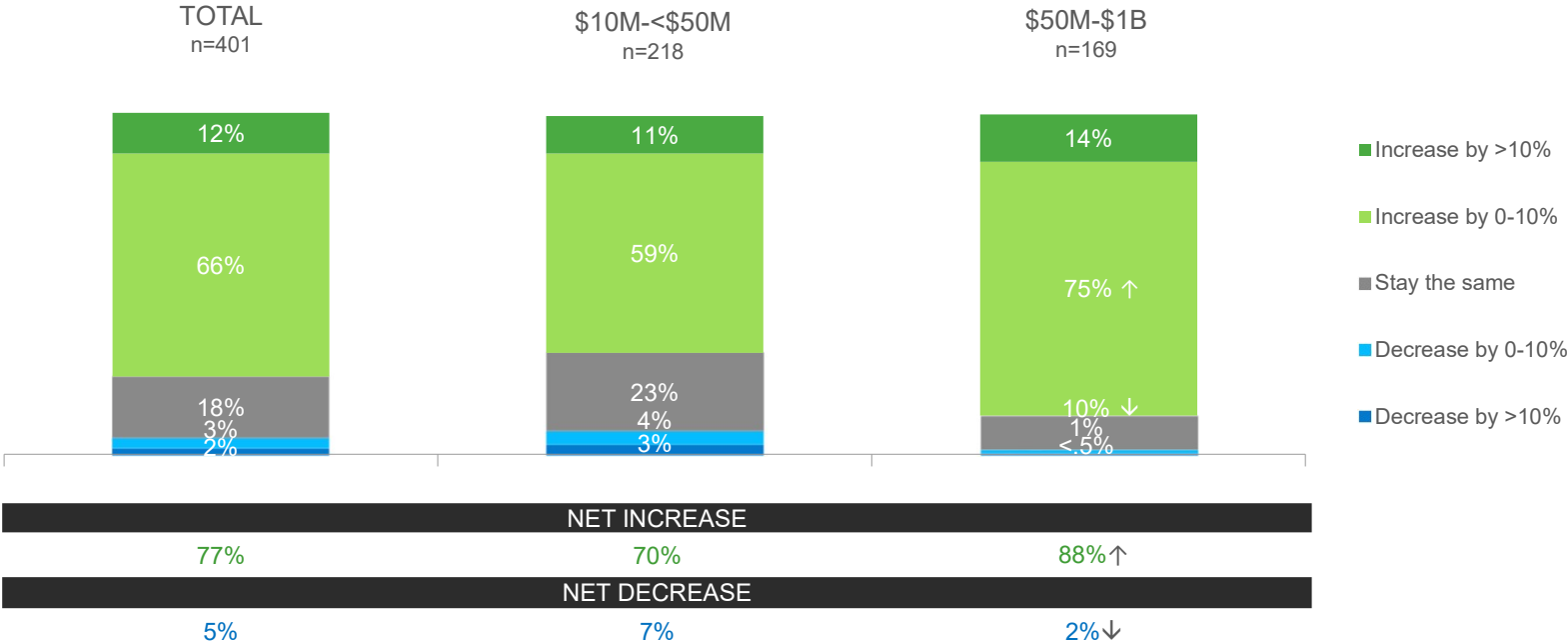
IT & DIGITAL SPENDING TRENDS

Revenue percentage that goes to IT



IT budget increase or decrease in 2024

IT BUDGET INCREASE OR DECREASE IN 2024
(BASE = total sample)

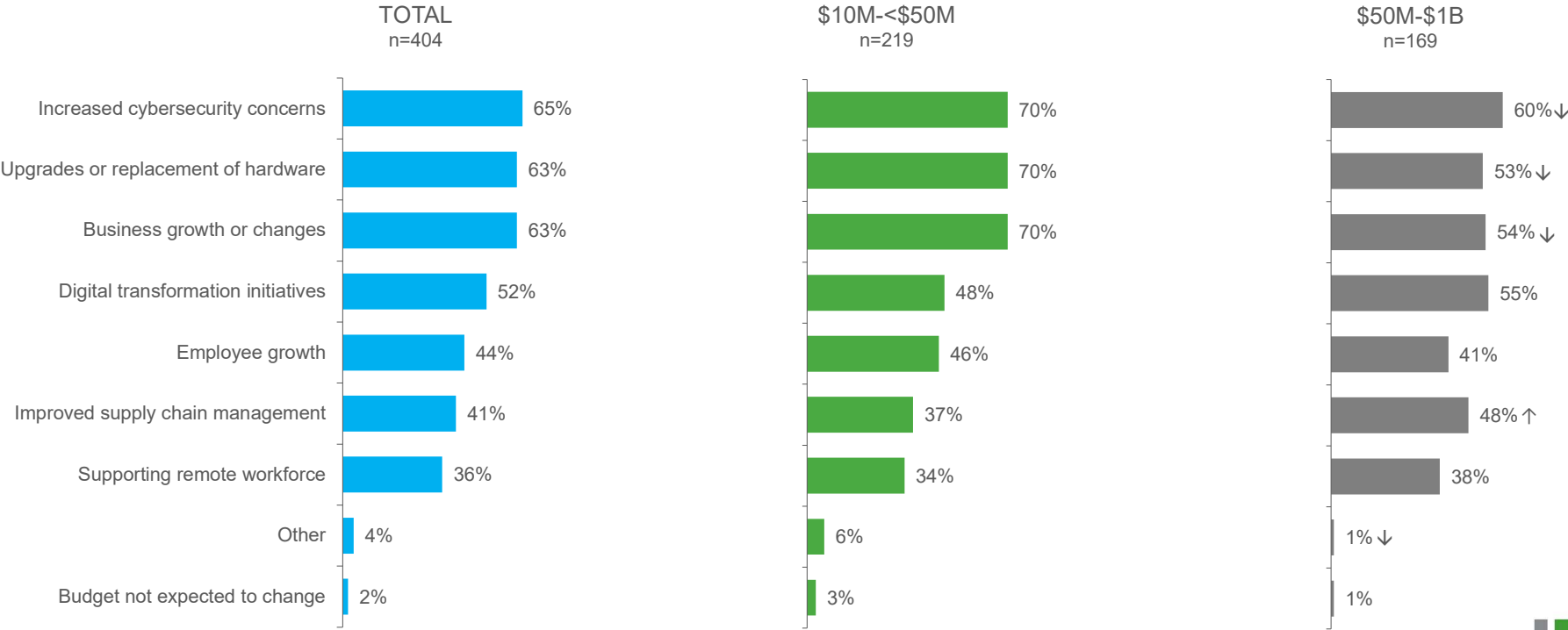


Z25 In 2024 do you expect your IT budget to increase or decrease?



Key drivers of budget changes

KEY DRIVERS OF BUDGET CHANGES (BASE = total sample)



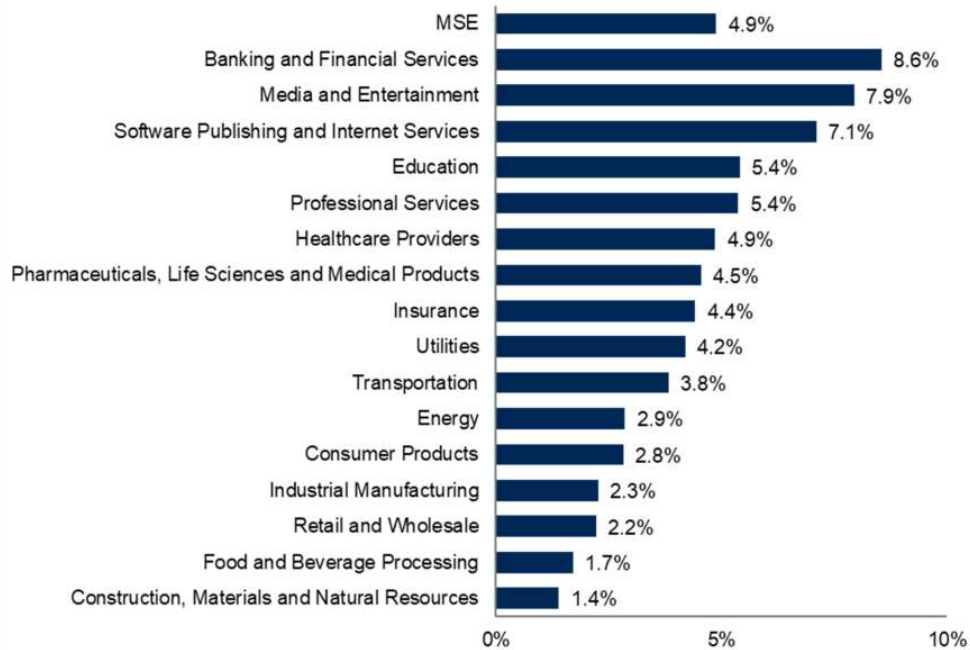
Z26 What are the key drivers of budget changes? Please select all that apply.



Additional research

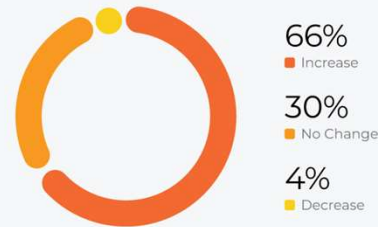
IT Spending as a Percent of Revenue

Midsize Enterprises



Source: Gartner (2022)
ID: 779690

How do you expect your total IT budget to change from 2023 to 2024?



From:
Spiceworks 2024 State of IT

<https://www.spiceworks.com/research/state-of-it/>

Which of the following factors have led to an increase in IT budgets at your organization?





QUESTIONS AND ANSWERS

Connect with the presenters



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Matt Franko
Principal – Risk Consulting
Cyber Strategy


Matt.Franko@rsmus.com

Additional information resources

- [MMBI digital transformation report](#)
- [Middle market approach to digital transformation still coming into focus](#)
- [The cost of a data breach: 2023 NetDiligence® Cyber Claims Study](#)
- [2023 RSM US MMBI Cybersecurity Special Report](#)
- [Keeping the house in order: Enabling IT investment by cutting costs](#)
- [Keeping technology personal: A Q&A with RSM's enterprise digital leader](#)

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