

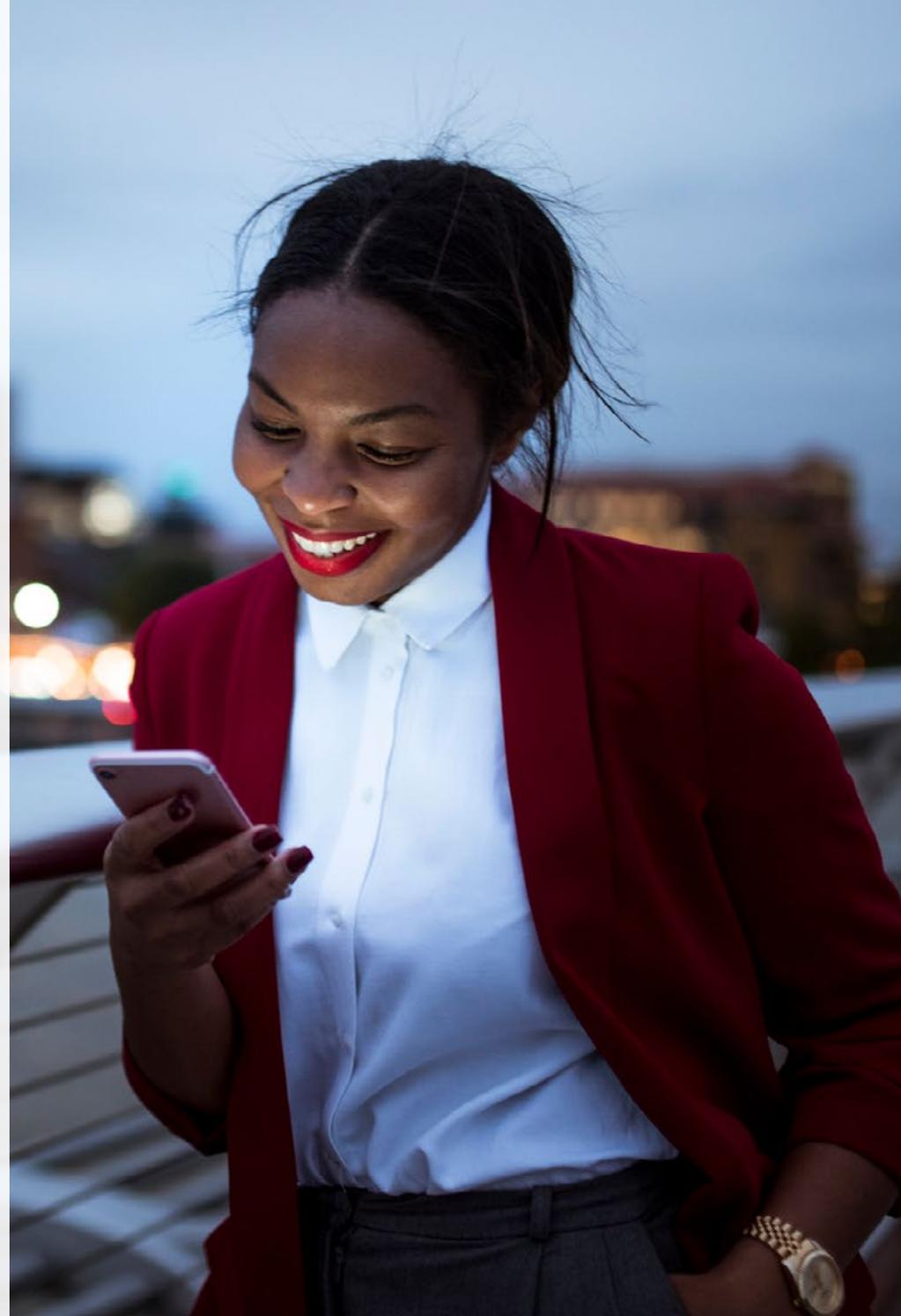
2021 Middle Market Digital Transformation Survey

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About the 2021 Middle Market Digital Transformation Survey

About BDO Digital



Digital Accelerated: Innovating Now for What's Next

Flash back a year and change to March 2020: A fully remote court trial was unfathomable. Omnichannel was predominately a retail term. Telehealth was in its infancy. Remote work was the prerogative of the privileged few.

Flash forward to the present day: Fueled by the rapid shift to digital, disruptive market trends that were in the distance are now knocking at our door—and in some cases, are through the door, sitting in our spot on the couch, wearing our favorite pair of work pajamas.

For the last year, most businesses have been scrambling to catch up, or, at best, keep up with the pace of change. The next year can and should be different. To shift from recovery to growth mode, organizations' digital transformation strategies must follow suit: Long-term digital objectives should become short-term priorities, once-farfetched digital risks should be addressed urgently, and three-year roadmaps should be replaced by flexible frameworks that expedite value creation and realization. The next 12 months will be all about digital acceleration.

According to BDO Digital's **2021 Middle Market Digital Transformation Survey**, which polled 500 C-suite executives at middle market organizations across the U.S., more than half of respondents plan on hitting the fast-track button on their digital plans, either by adding new digital initiatives or moving up the timeline for completion on existing ones. For nearly half, the dual health and economic crises of 2020 so dramatically impacted their business they now need to revise their long-term digital strategy. And while finances may still be strained, budget for digital transformation isn't on the chopping block:

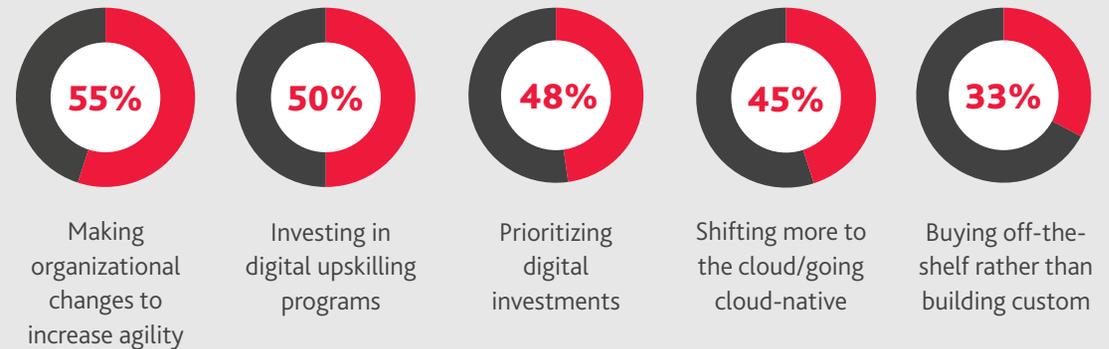
90% of middle market organizations plan to maintain or increase their digital spending in 2021.



AS A RESULT OF THE EVENTS OF 2020...



STEPS TO ACCELERATE DIGITAL TRANSFORMATION*



*Answered by participants that are accelerating their existing digital plans

The events of 2020 have in many ways leveled the competitive playing field. There is so much disruption happening at the same time that no single business can exploit every angle. Innovative solutions can come from anywhere. Organizations that step up their digital game now will be winners in the long run.

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The middle market faces a unique opportunity to leapfrog its less nimble competitors. To capitalize on this opportunity, middle market companies need to rethink their digital strategies, move up their digital timelines and seize new digital opportunities.

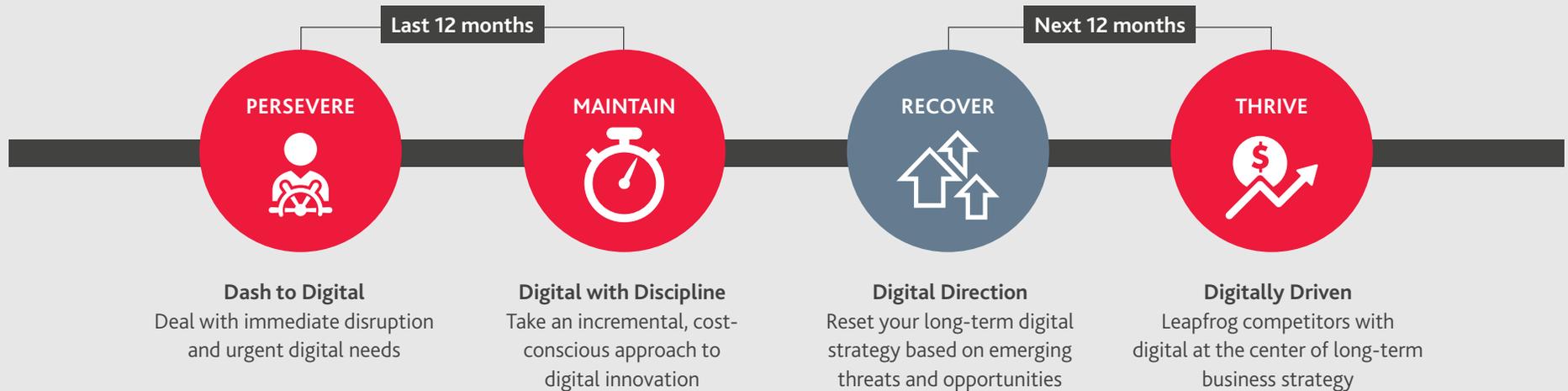
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MALCOLM COHRON

National Digital Transformation Services Leader
BDO Digital

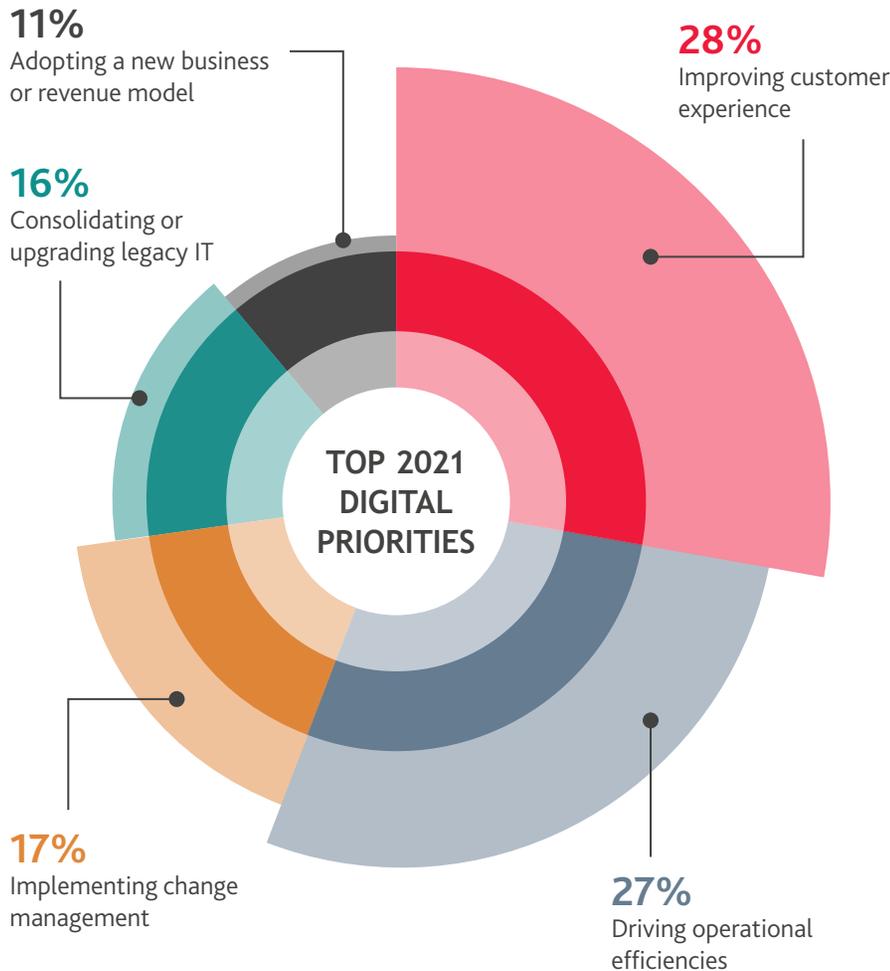
THE PATH BACK TO GROWTH



Digital Vision 2021

CX Edges Out Operational Efficiencies as Top Digital Priority

For the first time in the three years this survey has been conducted, customer experience (CX) jumped to the top of organizations' lists of digital priorities, beating out operational efficiencies by the slimmest of margins. And in fact, more respondents (41%) said the digitization of customer service will have a "significant impact" on their business in the year ahead compared to any other digital trend. Why the emphasis on CX? COVID-19 precipitated changes in customer behaviors, consumption habits and expectations that are here to stay. As the balance of interactions between businesses and customers skews more digital and mobile, organizations are investing in new capabilities to improve the quality of those interactions.



CUSTOMER EXPERIENCE CAPABILITIES—CURRENT AND PLANNED

	Current Capability	Planned Capability
Cloud-based collaboration platform	67%	31%
Data-driven personalization	56%	41%
Ability to capture user info online	54%	41%
Customer/client analytics/real-time intel	53%	42%
Marketing automation	47%	41%
Automated cost estimates	43%	48%
Conversational AI/Chatbots	42%	45%

BDO INSIGHT

Leveraging digital channels to connect, collaborate and sell to customers has become baseline. A next-gen customer experience reduces customer friction points, personalizes interactions at scale and uncovers emerging needs by capturing and analyzing data throughout the customer journey. Centralized data and integrated front- and back-end systems—for example, interoperable marketing automation, e-commerce, customer relationship management (CRM) and enterprise resource planning (ERP) platforms—can help organizations deliver a cohesive, insight-driven customer experience while also improving process efficiencies. Businesses that provide exceptional customer experiences will not only bolster sales and build loyalty, but also unlock customer insights that can help them differentiate their offerings and fuel product/service innovation.

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There's a common misconception that CX is solely a front-end endeavor. But the reality is, digitized back-end processes are a core component to delivering a superior customer experience. Any gaps in interoperability between market and business-facing solutions detract from customer value potential.



ROBERT BROWN

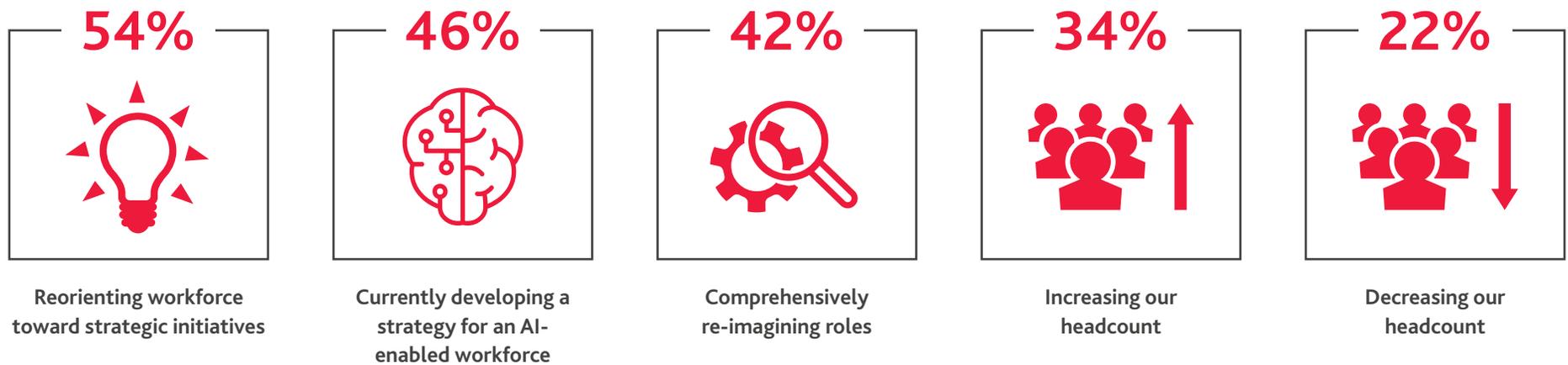
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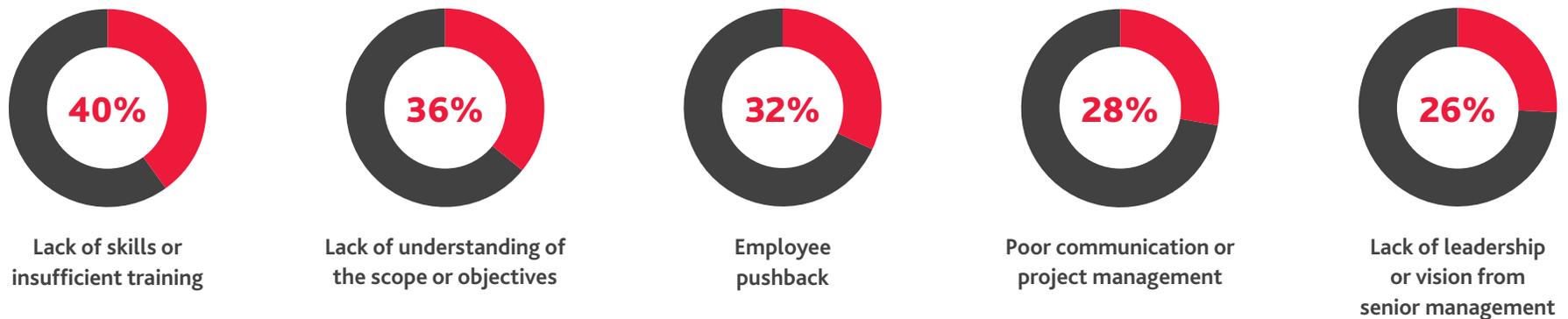
Automation Is Creating Jobs, Not Eliminating Them

The robots may be coming, but the net impact will be a positive one. Based on survey participants' responses, automation will create more jobs than it displaces. Still, automation and other digital technologies will augment the workforce, either by increasing the speed and quality of their work or by freeing up employee time to focus on more strategic priorities. Realizing the multiplier effect of technology boils down to the extent to which the workforce knows how to use it and apply it. As a result, the majority of organizations (53%) are implementing training to upskill their workforce with a focus on digital fluency so they can leverage technology to the fullest.

IMPACT OF AUTOMATION ON WORKFORCE STRATEGY



PEOPLE-RELATED REASONS DIGITAL INITIATIVES FALL SHORT



BDO INSIGHT

Change management is the last mile of digital transformation, and so it tends to get short shrift, but it's often what makes or breaks the success of the initiative. Overcoming cultural resistance takes a sustained internal marketing and engagement campaign that ideally should precede the rollout of the new tool or platform. To inspire change and drive employee adoption, businesses need an Innovation Champion. An Innovation Champion is an individual within an organization who moves initiatives forward, aligns business goals and technology, encourages diversity of thought, and eliminates barriers to progress. An Innovation Champion with the right amount of influence and technology acumen can accelerate employee adoption and, by proxy, ROI realization.



Data Analytics and Cloud Use on the Rise, but Maturity Lags

Out of all digital technologies, data analytics and cloud computing have the broadest use and represent the greatest leap in adoption from 2020. The widescale shift to remote work made cloud migration a business imperative. The benefits are hard to refute: greater flexibility and scalability, and stronger security to boot. However, while cloud adoption is increasing, many organizations still have a significant share of their workloads in on-premise infrastructure.



31%

Nearly a third cite reliance on on-prem IT platforms as a significant inhibitor to overall IT resilience.

Adoption of data analytics also gained new urgency as access to data-driven insights enabled faster pivots during the height of the COVID-19 crisis. Still, most organizations are in the early stages of data analytics maturity.

MIDDLE MARKET TECHNOLOGY ADOPTION

	2021	2020
Cloud computing	72%	66%
Data analytics	72%	57%
Enterprise resource planning software	59%	-*
Internet of Things	57%	53%
Artificial intelligence/Machine learning	46%	45%
Blockchain/Digital ledger technology	44%	33%
Robotic process automation	31%	33%
Virtual/Augmented reality	31%	33%
3D printing	21%	29%
5G	19%	*

*Added to answer set in 2021

DATA ANALYTICS CAPABILITIES



BDO INSIGHT

With the power of 5G connectivity in conjunction with mobile applications' edge computing, companies will have access to even more data, faster, from more devices, and with lower latency. The strength and speed of computing power will provide a foundation to innovate and execute new applications and business models. Businesses that ensure their infrastructures and applications can support the next iteration of network speed, storage and computation will be at an advantage, as these technologies promise to enhance performance and amplify the customer experience.

Business Model Innovation Is Born out of Creative Partnering

Fifty-seven percent of respondents are anticipating their digital investments will increase their revenues in the next 12 months—including 15% who anticipate revenue growth in the double digits. To fast-track growth, many organizations are planning to make changes to their business or operating models. In an environment where speed is of the essence, many middle market organizations are looking to amplify their innovation capacity by partnering externally. About a fourth (24%) of respondents are turning to joint ventures to accelerate their digital transformation strategy. But a newer form of creative collaboration is gaining more steam: digital partner ecosystems—platforms that bring together users and partners to exchange and cocreate value. While owning and monetizing a digital ecosystem is the holy grail, organizations also can benefit from simply participating in one by gaining access to new external applications and data sources.

BUSINESS OR OPERATING MODEL CHANGES IN THE NEXT 12 MONTHS

	Planning to adopt
Introducing new digital revenue streams	51%
Pursuing enterprise agility	50%
Joining/expanding a digital partner ecosystem	46%
Expanding into new markets or customer segments	45%
Digitizing the supply chain	43%
Adding new payment models	42%

BDO INSIGHT

Looking ahead, reliance on digital partner ecosystems will only continue to grow given their potential for co-innovation and revenue growth. Fruitful digital ecosystem partnerships start with a shared vision and understanding of the customer need they are seeking to address, but the synergies can't end there: Platform compatibility, risk appetite and culture all play a role in the ultimate success of the partnership. Digital ecosystems are also more scalable and flexible when they represent a range of industry segments and a broad geographic footprint.

Conclusion

COVID-19 is permanently reshaping the way we live and therefore, the way businesses operate. The changes made out of necessity or to capitalize on new growth opportunities as a result of the pandemic have the potential to become lasting pillars for an organization. The key is to not take a pause after this period of rapid digital acceleration—ride the momentum you have built to continue not just adapting, but transforming your business, to stay ahead of customers ongoing behavioral changes and needs.

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As companies start to rethink their strategies for a post-COVID world, digital has to be at the center. But there's no one-size-fits-all path or solution. Every organization needs to evaluate the forces of change within their industry and competitor set to determine the digital strategies that will be needed to support ongoing transformation.



MICHAEL LEE

Principal and Senior Client Executive
BDO Digital

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To benchmark your digital maturity and transformation readiness against your peers, explore our [2021 Middle Market Digital Transformation Survey Benchmarking Report](#).

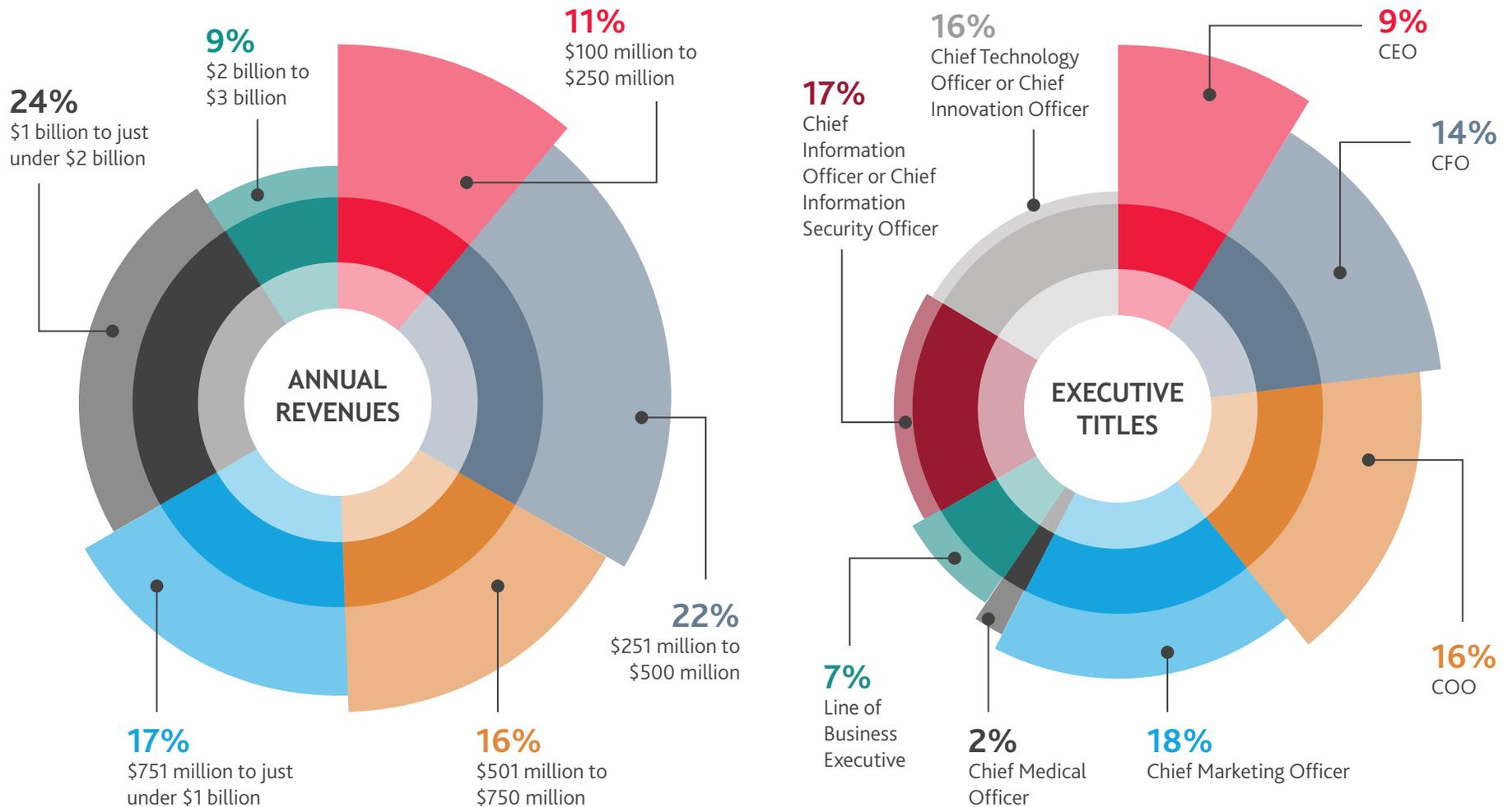
For a personalized evaluation of your organization's maturity level and opportunities, sign up to receive our Digital Performance Indicator.

SIGN UP NOW ►

About the 2021 Middle Market Digital Transformation Survey

The 2021 Middle Market Digital Transformation Survey was conducted by Rabin Research Company, an independent marketing research firm, in January 2021. The survey included 500 C-level executives in a wide range of capacities from companies with annual revenues between \$100 million and \$3 billion.

WHO WE SURVEYED



INDUSTRIES

Digital maturity and disruptive potential vary significantly from industry to industry—and those differences significantly impact digital transformation strategy. Explore sector-specific survey findings in our industry benchmarking breakout reports:



For a personalized evaluation of your organization's maturity level and opportunities, sign up to receive our Digital Performance Indicator.

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About BDO Digital

A subsidiary of BDO USA, BDO Digital, LLC, provides a holistic portfolio of technology and transformation services and solutions, tailored by industry and designed for the middle market. The collaborative, cross-disciplinary team is comprised of more than 400 professionals, including digital strategists, systems integrators, data scientists, software developers, change management professionals and industry-specific advisors, who work together to solve clients' immediate digital needs and unearth new opportunities to drive competitive advantage. Learn more at bdo.com/digital.

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