BDO **DIGITAL**

TECH INSIGHTS REPORT

Examining the Impact of Technology on Business
Key Trends, Challenges and Opportunities

2018

FORWARD

The need to modernize business with technology is nothing new; it's what we've been helping our clients do for over 35 years. However, the pace at which technology has impacted business has not been so steady. In the past, major disruption from new technology (such as the office computer) would take years or even decades to truly change business models. Today, a new idea paired with the right technology and approach can disrupt entire industries in mere months. And when you consider the fact that the average lifespan of companies is shrinking – from 61 years in 1958 to just 18 years today[1] – it's hard to ignore the fact that something unprecedented is happening.

In a rapidly changing business environment, speed and agility are key to corporate competitiveness. Year-after-year, we see IT budgets increase as companies of all sizes try to capitalize on new opportunities while avoiding the risk of falling behind. But even with all this focus on leveraging technology to accelerate business, there still seems to be a lot of confusion around how to turn leading-edge IT innovation into real-world transformation. Limiting the objective of digital business transformation to simply speeding up how quickly we get work done would miss the real opportunity to build strength and endurance in a marketplace where competitive advantage is fleeting.

That is the key objective of this report – to provide real-world views and insights on the ways in which businesses are successfully using technology to succeed.

As we continue to look ahead, I hope this report – along with our experience – will help your company identify ways to better leverage technology to achieve your goals amidst today's rapidly changing and complex business climate. Thank you to everyone who took the time to complete this survey and contribute to these findings. With that, I'm pleased to bring you the Tech Insights 2018 Report.

Sincerely,

Bob Knott
Principal, BDO Digital

1. Innosight Executive Briefing

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Summary of Findings

We understand the importance of keeping a pulse on how technology and digital transformation are affecting the companies we work with. That is why we commissioned the Tech Insights Report – a comprehensive study that seeks to evaluate how midsize businesses in the Midwest are utilizing technology to achieve business goals.

This report illustrates the findings from a survey of business and IT executives, managers, and team members across a wide range of industries. We hope it provides a benchmark on which to measure the progress your organization is making, identify some of the top challenges and priorities ahead, and provide recommendations as you navigate your way through today's complex and ever-changing business landscape.

A FEW KEY FINDINGS FROM THE PAGES THAT FOLLOW ARE

IT is considered a strategic contributor to the business

Improving workforce productivity is a high priority

IT organizations recognize the dire threat of cyberattack, but still have a lot of work to do when convincing the business

The race to the cloud is well underway, but midsize companies appear to be trailing their enterprise counterparts

Respondents don't necessarily understand how to enable their people in a rapidly changing digital workplace

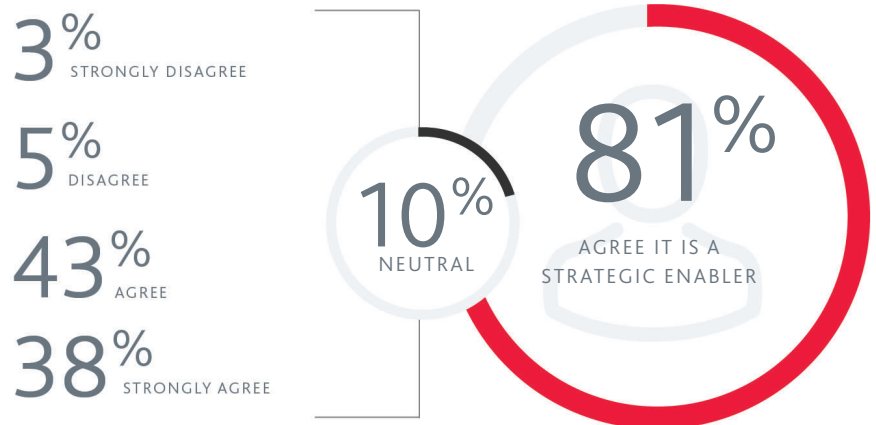Data analytics is a mainstream idea, but still not mainstream in practice

Disruption is a real threat, and a real concern for midsize businesses

STRATEGIC IT

The reliance on technology has escalated to a point where most mission-critical functions of any organization would cease to exist without a responsive IT support team. This new business reality is reflected in our findings. 81% of businesses agree that IT is a strategic part of the business – up from just 45% in 2016.

DO YOU CONSIDER IT TO BE A STRATEGIC CONTRIBUTOR TO THE BUSINESS?

3% STRONGLY DISAGREE

5% DISAGREE

43% AGREE

38% STRONGLY AGREE

10% NEUTRAL

81% AGREE IT IS A STRATEGIC ENABLER

Year-after-year, we see organizations increase IT budgets to keep up with the speed of technology. And it appears that certain aspects of those investments are paying off. 75% of businesses today agree or strongly agree that their IT department responds to the needs of the business in a timely manner.
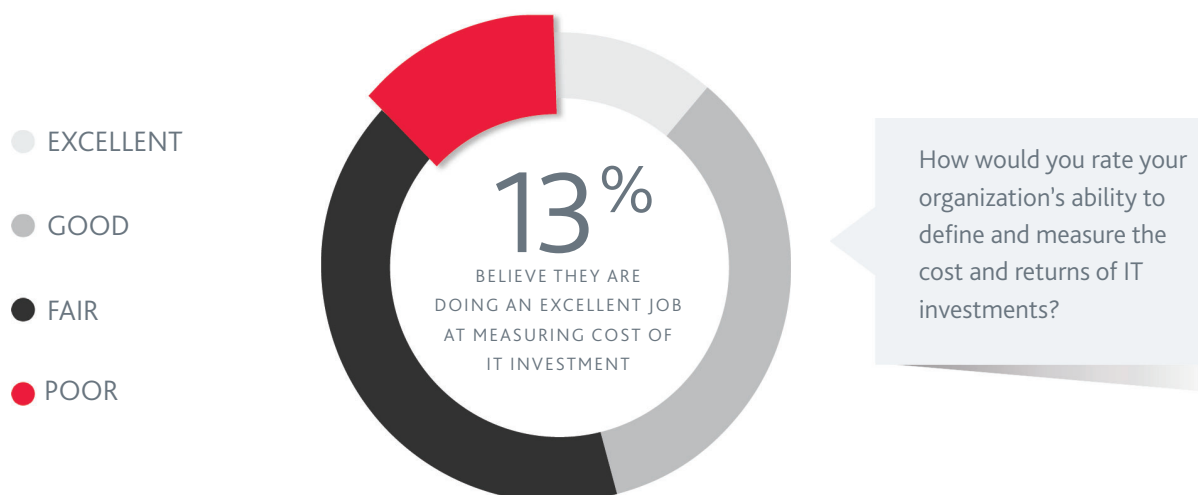
DOES IT RESPOND TO THE NEEDS OF YOUR DEPARTMENT IN A TIMELY MANNER?

1% STRONGLY DISAGREE

7% DISAGREE

57% AGREE

18% STRONGLY AGREE

17% NEUTRAL

75% AGREE IT RESPONDS IN A TIMELY MANNER
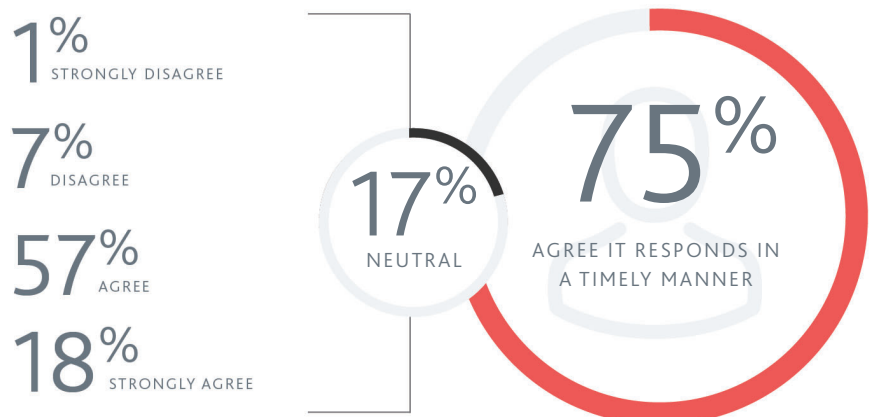
But when respondents were asked to rate their organization's ability to enhance self-service capabilities to resolve IT support issues faster, nearly half (45%) gave their organization low grades.

How would you rate your organization's ability to enhance self-service capabilities to resolve IT support issues faster?

45%
GAVE THEIR ORGANIZATION LOW SCORES FOR THEIR ABILITY TO ENHANCE SELF-SERVICES
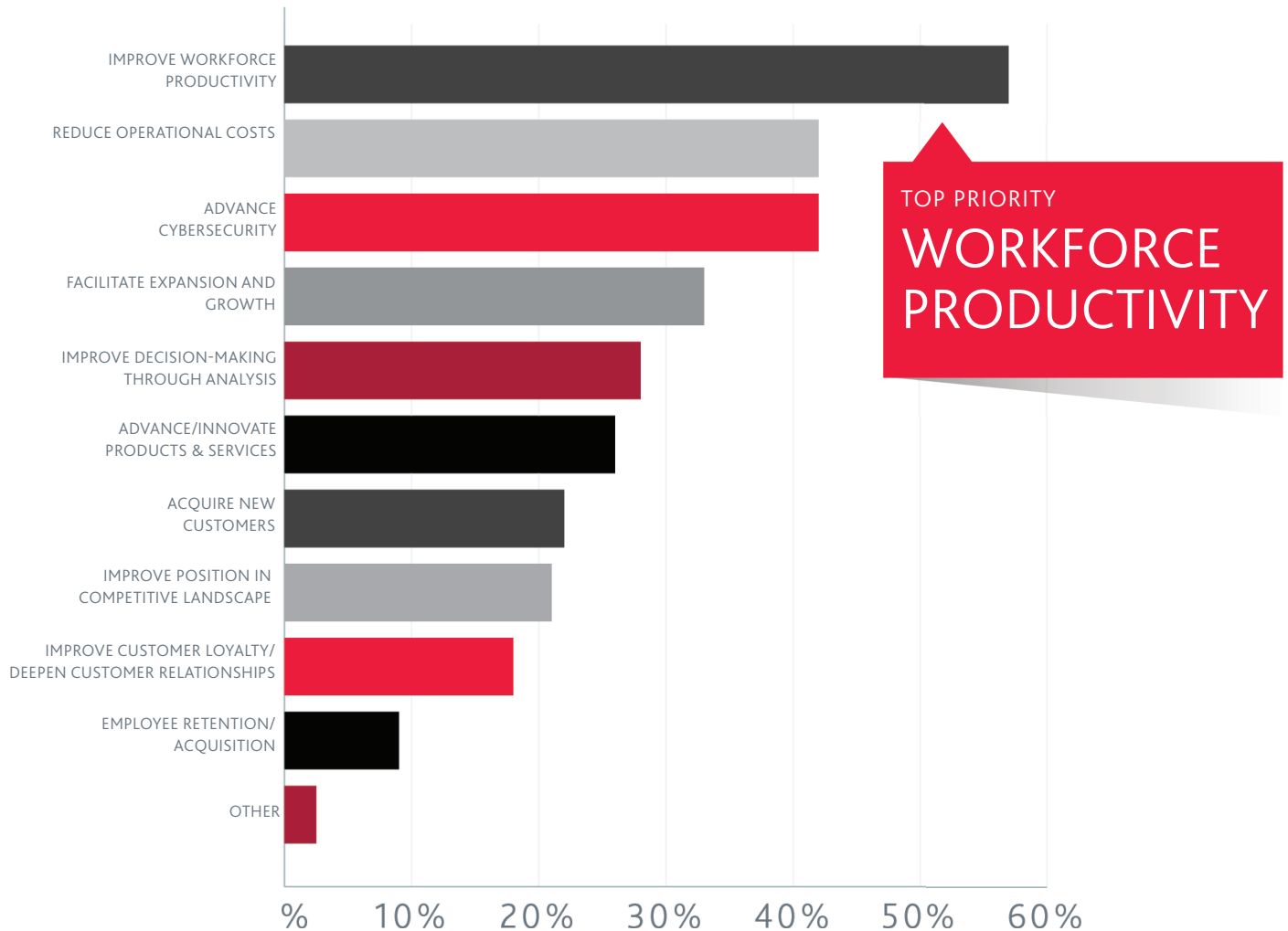
- EXCELLENT
- GOOD
- FAIR
- POOR
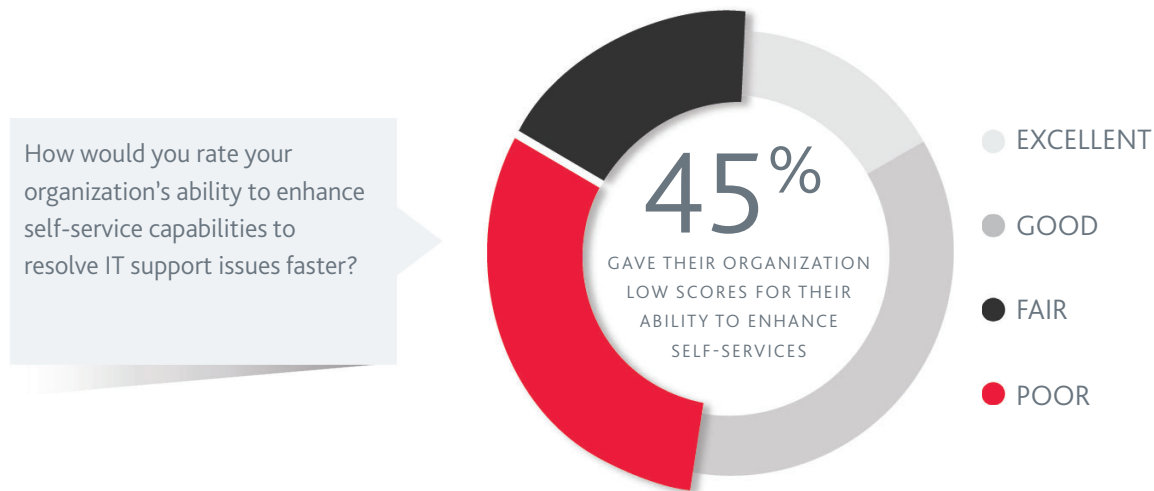
While IT is getting better at putting out fires, the demands of modern business will require a new approach. Modern IT management must not only respond to issues, but also proactively and strategically evaluate new opportunities, map those opportunities to relevant business value, and ultimately deliver measurable results. To throw more money at a largely reactive approach to IT management is missing the real opportunity to get to the root of the issue. However, only 13% of non-IT business executives and managers believe that the company is doing an "excellent" job at defining and measuring the cost of their IT investment.

- EXCELLENT
- GOOD
- FAIR
- POOR

13%
BELIEVE THEY ARE DOING AN EXCELLENT JOB AT MEASURING COST OF IT INVESTMENT

How would you rate your organization's ability to define and measure the cost and returns of IT investments?

When mapping IT investments to greater business value, one of the biggest challenges is whether IT leadership feels comfortable enough with the business strategy and can lead and shape discussion around growth and innovation. That said, forging new connections to solve business problems is a two-way street. The business must also invite IT to the table so they can begin asking the right questions and develop more meaningful and collaborative conversations.
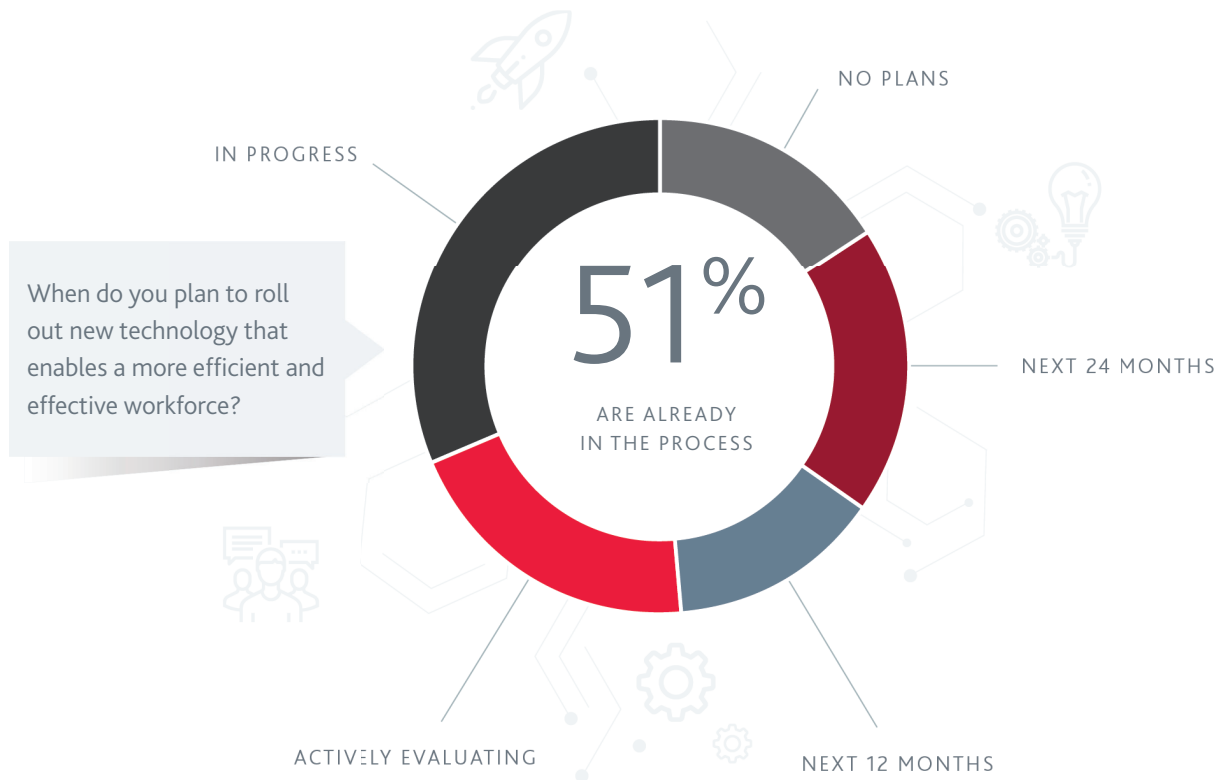
PRODUCTIVITY

When asked to identify the top 3 priorities in 2018, "workforce productivity" was the at the top of the list.

Priority	Percentage
IMPROVE WORKFORCE PRODUCTIVITY	~57%
REDUCE OPERATIONAL COSTS	~42%
ADVANCE CYBERSECURITY	~42%
FACILITATE EXPANSION AND GROWTH	~33%
IMPROVE DECISION-MAKING THROUGH ANALYSIS	~28%
ADVANCE/INNOVATE PRODUCTS & SERVICES	~26%
ACQUIRE NEW CUSTOMERS	~22%
IMPROVE POSITION IN COMPETITIVE LANDSCAPE	~21%
IMPROVE CUSTOMER LOYALTY/ DEEPEN CUSTOMER RELATIONSHIPS	~18%
EMPLOYEE RETENTION/ ACQUISITION	~9%
OTHER	~2%

TOP PRIORITY
WORKFORCE PRODUCTIVITY

WHICH OF THESE ARE YOUR TOP PRIORITIES IN 2018?

As productivity rises to the top of the priority list, organizations are already putting their plans into action. 85% of survey respondents confirm their plans to roll out new technology that will enable effective and efficient workforce communication and collaboration in the next couple years, and 51% are already in the process of evaluating and deploying those tools.

When do you plan to roll out new technology that enables a more efficient and effective workforce?

IN PROGRESS

NO PLANS

NEXT 24 MONTHS

51%

ARE ALREADY IN THE PROCESS

ACTIVELY EVALUATING

NEXT 12 MONTHS

Despite the consensus among business leaders that productivity is important, The Bureau of Labor Statistics suggests that overall productivity has only grown 1-2% per year during the tech boom. If technology is getting better, and companies are actively investing in new tools, then why do organizations still struggle to see greater productivity gains on their investment?

In our experience, it's rarely a problem with the technology itself. Often times, the issue stems from a people or a process problem that must be addressed first.

As we'll learn, digital business transformation is immersive and requires organizations to re-evaluate their processes, platforms, and competencies to fully leverage the changes and opportunities that a mix of innovative digital technologies can provide. Those that fare best go beyond the individual tools and get to the bigger issues of workplace productivity as a whole, the workplace environment and culture, and supporting technology infrastructure that leads to better business agility and greater return on technology investment over time.

SECURITY

As we analyze the business and IT priorities side by side, it's encouraging to see that many of their priorities are aligned.

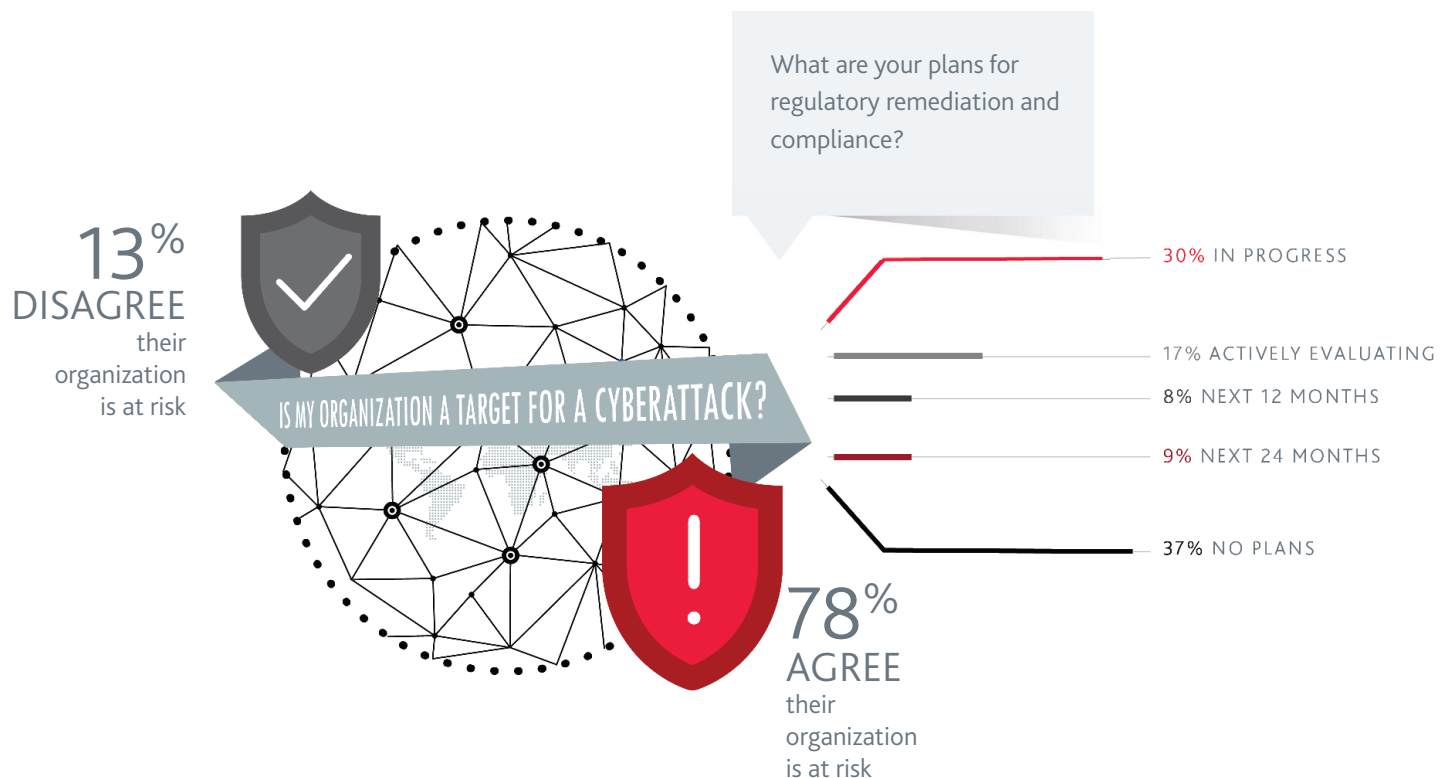## IT PRIORITIES vs BUSINESS
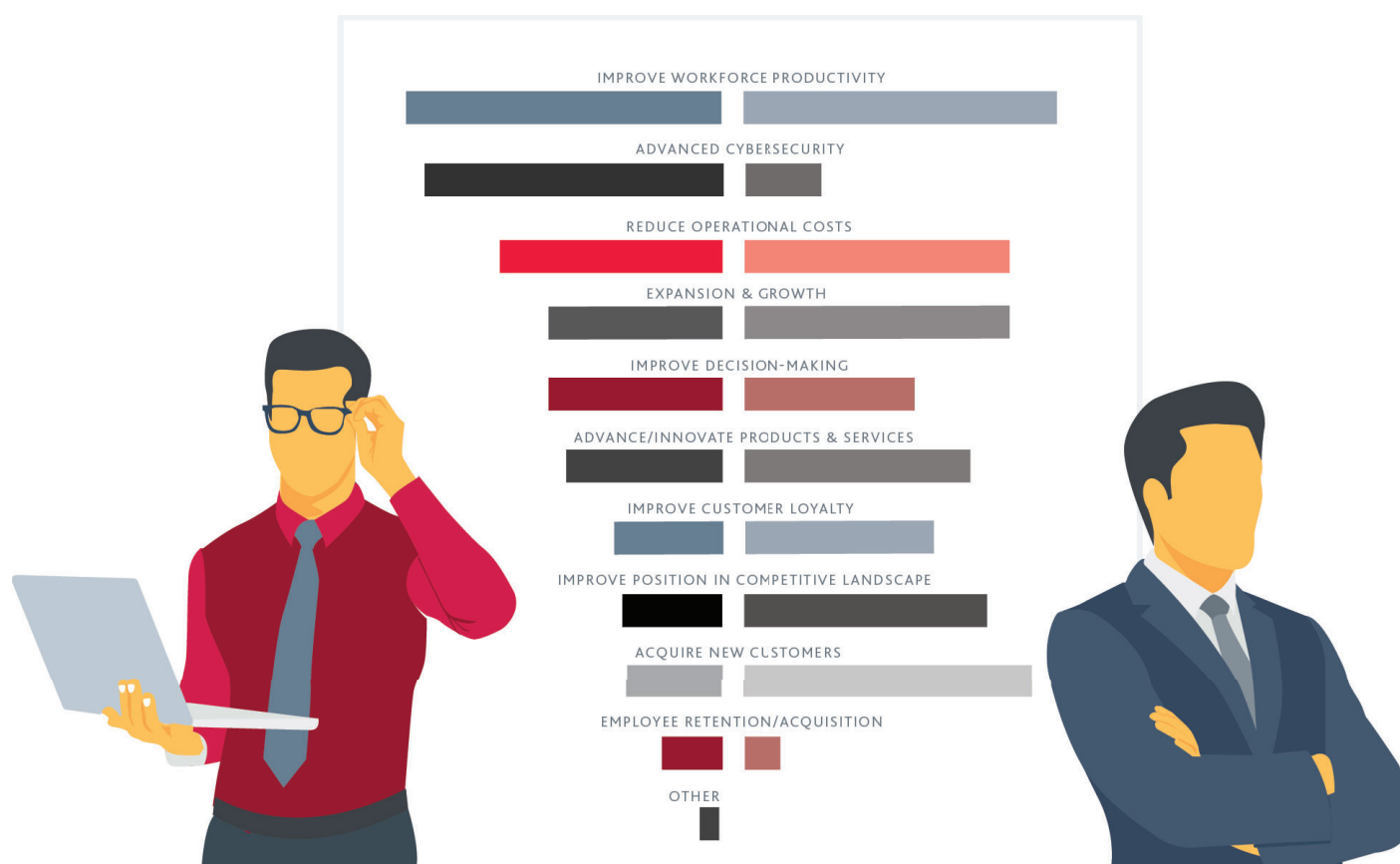
However, one glaring discrepancy is where cybersecurity ranks on their respective lists. IT recognizes the dire threat of a cyberattack – ranking security the 2nd biggest priority in 2018. Whereas the business places cybersecurity low on the list; only 9% of business leaders believe that cybersecurity as a top priority.

Given this recognition that a cyberattack is likely to happen – and the potentially catastrophic financial and reputational consequences that come with such an attack – one would assume that business leaders would be taking a stronger interest in building a solid cyber defense.

Additionally, a growing number of government and industry regulations, such as GDPR and HIPPA, are creating more reasons to prioritize cybersecurity in 2018. Yet only 29% of companies claim to be actively working on regulatory remediation and compliance readiness initiatives in the face of these high-stakes deadlines, with the majority of respondents claiming to have no plans to address this threat in the next couple years.
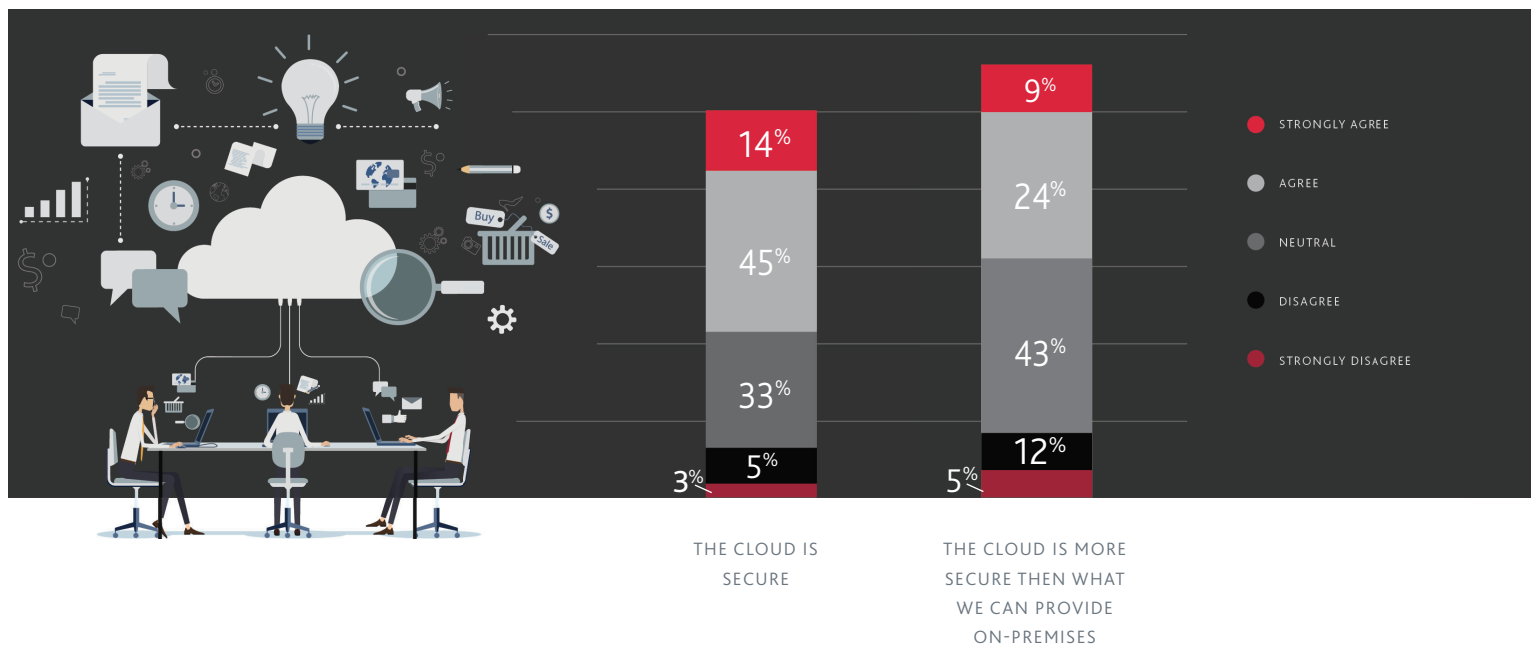
Although security ranks low on the business' priority list, the majority of executives and managers acknowledge that the threat of a cyberattack is very real, with 78% of survey respondents admitting that their organization is a target.

13%
DISAGREE
their
organization
is at risk

IS MY ORGANIZATION A TARGET FOR A CYBERATTACK?

78%
AGREE
their
organization
is at risk

What are your plans for regulatory remediation and compliance?

30% IN PROGRESS

17% ACTIVELY EVALUATING

8% NEXT 12 MONTHS

9% NEXT 24 MONTHS

37% NO PLANS

In our experience, the lack of urgency comes from a lack of information to evaluate cyber risks. Business leaders know what they spend on cybersecurity, but quantifying what they save by preventing malicious attacks is much harder to tally. This is where the importance of business and IT alignment is paramount. IT needs to move beyond presenting a long checklist of security controls when communicating the security gaps to the business. Threats are only meaningful in relation to what the organization is trying to protect. By correlating the items on the checklist to the company's most valuable assets, IT can begin to build a reasonable model for estimating their organization's level of protection against its most likely threats. Equally important, the business needs to let IT in on organization-wide priorities and plans so they can proactively safeguard the assets most important to the business before it's too late.

IS THE CLOUD REALLY SECURE?

Despite the widely accepted research confirming that the cloud is secure, survey respondents still have reservations when placing workloads in the cloud. 42% of survey respondents either disagree or are neutral to the notion that the cloud is secure. Even more, 61% disagree or are neutral to the claim that the cloud is more secure than on-premises.

	THE CLOUD IS SECURE	THE CLOUD IS MORE SECURE THEN WHAT WE CAN PROVIDE ON-PREMISES
STRONGLY AGREE	14%	9%
AGREE	45%	24%
NEUTRAL	33%	43%
DISAGREE	5%	12%
STRONGLY DISAGREE	3%	5%

As we explore what modern cybersecurity looks like for midsize businesses, we hope to see midsize organizations start taking a stronger stance on the benefits of cloud security. While it's true that moving workloads to the cloud comes with a new set of security protocols, it is our contention that cloud security can be one of the greatest defenses for midsize organizations – when managed correctly.

By leveraging big data and analytics in the cloud, organizations can instantly and automatically address known threats and predict the likelihood of new ones on the horizon. Not to mention, enterprise cloud service providers like Amazon and Microsoft invest heavily in the security of their public clouds, as their entire business model depends on it. In the cloud, you not only get access to the best data centers but also some of the most highly trained IT security professionals in the world. While the cloud doesn't completely remove organizations security responsibility, it can certainly give a head start in many areas.
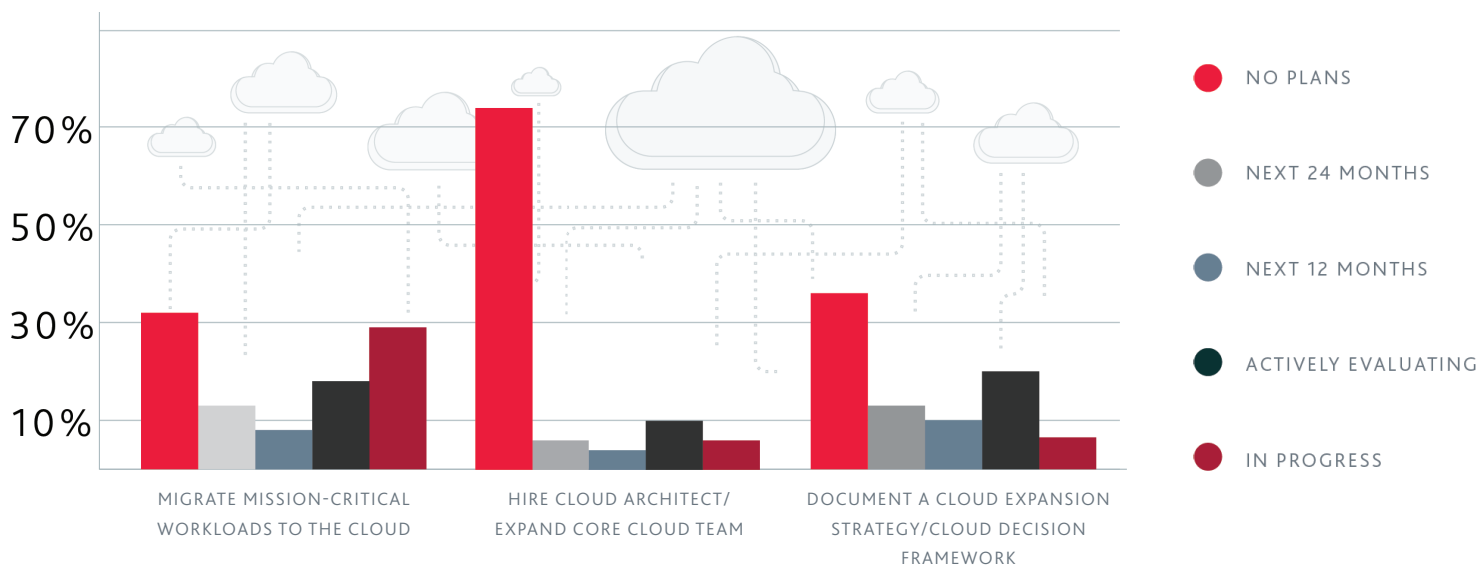
That being said, investments in cloud and newer technology shouldn't be the only way companies think about combating cybercrime, especially when criminals now rely more on manipulating human behavior than breaking through security systems. A continuous, broad-based cyberthreat assessment along with security awareness training is paramount to a modern cybersecurity defense.

CLOUD

The cloud is transforming business faster and more pervasively than any other technology in history. Gartner predicts that by 2020, a

"corporate 'no-cloud' strategy will be as rare as a 'no-internet' policy is today."

Yet, 32% of companies indicate that they still don't have any plans to move mission-critical workloads to the cloud.

Chart legend:
- NO PLANS (red)
- NEXT 24 MONTHS (light gray)
- NEXT 12 MONTHS (blue-gray)
- ACTIVELY EVALUATING (dark/black)
- IN PROGRESS (dark red)

Categories: MIGRATE MISSION-CRITICAL WORKLOADS TO THE CLOUD; HIRE CLOUD ARCHITECT/EXPAND CORE CLOUD TEAM; DOCUMENT A CLOUD EXPANSION STRATEGY/CLOUD DECISION FRAMEWORK

With the latest advancements in cloud technology, the ability to modernize for the future is easily within reach of organizations of all sizes. So why isn't every organization capitalizing on the speed, scalability, and economic value of the cloud?

As organizations progress down the path towards a cloud-first business model, they'll inevitably need more digital experts as continuous innovation in the cloud will require a whole new set of skills. Our findings strongly suggest this lack of urgency to move to the cloud is due to a lack of specialized skills to help get these projects off the ground. This theory is supported by our findings, which indicate that the large majority (74%) of companies have no plans to hire more cloud expertise, and only 6% of companies claim to be in the process of expanding their cloud team.

It is our contention that those that fare best are backed by a full stack of skills needed to survive and thrive in an increasingly complex and ever-changing digital landscape. Of course, most organizations will find that it's not economically feasible to staff a comprehensive team of expertise in-house, nor will they need to call on these experts on a full-time basis. This is where seeking a partnership with a Managed Services provider can be a powerful competitive differentiator.

PEOPLE

As we've learned, organizations are in the process of purchasing new technology to improve workforce productivity and collaboration, as part of this initiative, organizations are also making plans to improve user adoption when deploying new technology. Our findings show that 81% of businesses plan to improve user adoption in the next couple of years, with 28% of companies already putting those plans into action.

ARE YOU PLANNING ON IMPROVING USER ADOPTION WHEN DEPLOYING NEW TECHNOLOGY?

19%
NO PLANS

28%
IN PROGRESS

27%
ACTIVELY EVALUTING

17%
NEXT 24 MONTHS

9%
NEXT 12 MONTHS
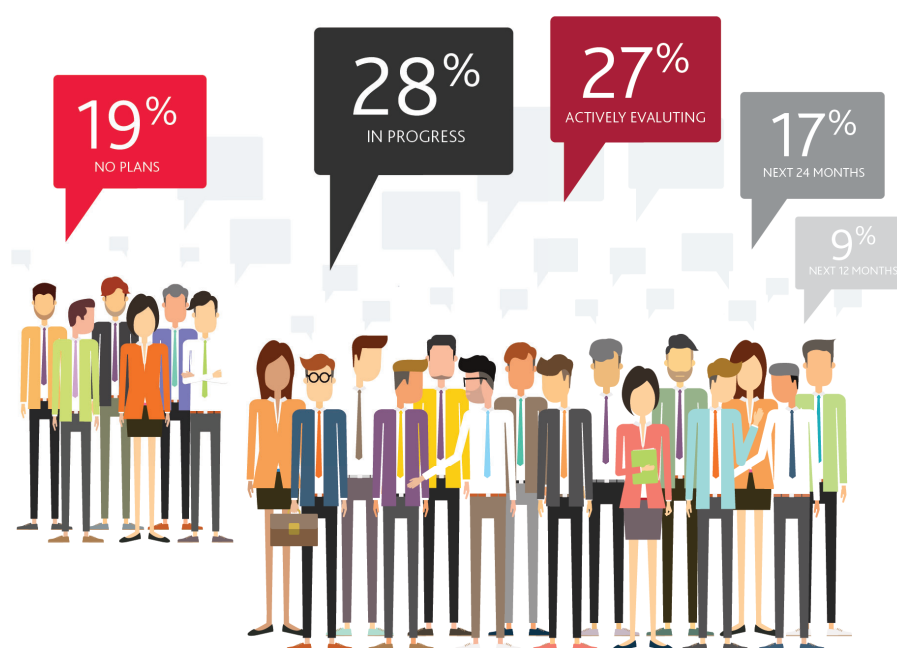
Despite midsize businesses' plans to improve user adoption this year, the efforts around driving an organizational-wide cultural change management program ranks worryingly low on the list of actions taking place. Only a small percentage (12%) claim to have a clearly defined strategy for enabling their people in the face of change.

Where would you rate your organization's ability to ensure optimal user adoption and training for new technology rollouts?

12%
HAVE A CLEARLY DEFINED STRATEGY

- WE'RE FALLING BEHIND
- WE'RE STILL FIGURING OUT WHERE TO BEGIN
- WE'RE FINE-TUNING OUR PLAN
- WE HAVE A WELL-DEFINED STRATEGY

OUTSOURCING

The constant assessment and implementation of new technology in the workplace is fast becoming a challenge for most organizations to manage. It's not surprising that 92% of businesses we surveyed are outsourcing certain aspects of their IT.

Our findings confirm that most companies look to outsourcing service providers for project-based initiatives to fill the gaps in their technical skillsets.

What are the reasons you outsource?

92%
OUTSOURCE SOME OR ALL OF THEIR IT

Our findings confirm that most companies look to outsourced providers for project-based initiatives to fill the gaps in their technical skillsets.

73%
PROJECTS OUTSIDE OF SCOPE OR EXPERTISE

23%
NEW TECHNOLOGY/ SOLUTION ROADMAP GUIDANCE

8%
NEVER OUTSOURCED

37%
NEEDED ADDITIONAL BANDWIDTH

29%
BELIEVE THERE'S GREATER ROI/COST SAVINGS

4%
OTHER

6%
TRAINING AND USER ADOPTION

Keeping up with technology is hard enough but enabling the workforce to fully embrace continual change is arguably the biggest challenge of all. Not only is IT tasked with satisfying the needs of a multi-generational workforce but managing people in the face of digital business transformation has its inherent challenges as well – people don't like change. Despite these challenges, only 6% of organizations indicate that they're leveraging an outsourced provider to help with user enablement and adoption. After a project is finished, the teams disband and the end-users are expected to drive the success of the project home with little to no context or training. This is a clue to why the success rate of IT projects remains notoriously low.
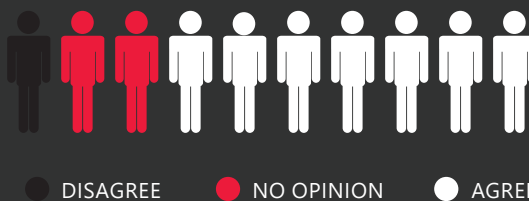
Gone are the days where deploying a technology solution is the last step to a successful IT project. Ensuring the users are leveraging the solution to their full potential, and the business is realizing actual return on their technology investment, is the new measurement of success. As the movement towards outsourcing picks up speed, companies should be looking for partners who can deliver not only the technical capabilities but also on the change management capabilities needed to enable a company's most valuable asset – its people.

DATA ANALYTICS

Data analytics is a mainstream idea, but our findings suggest that it is only just beginning to become mainstream in practice. This means there are big opportunities for midsize organizations to leverage Big Data as a fulcrum to launch themselves ahead in their respective industries.
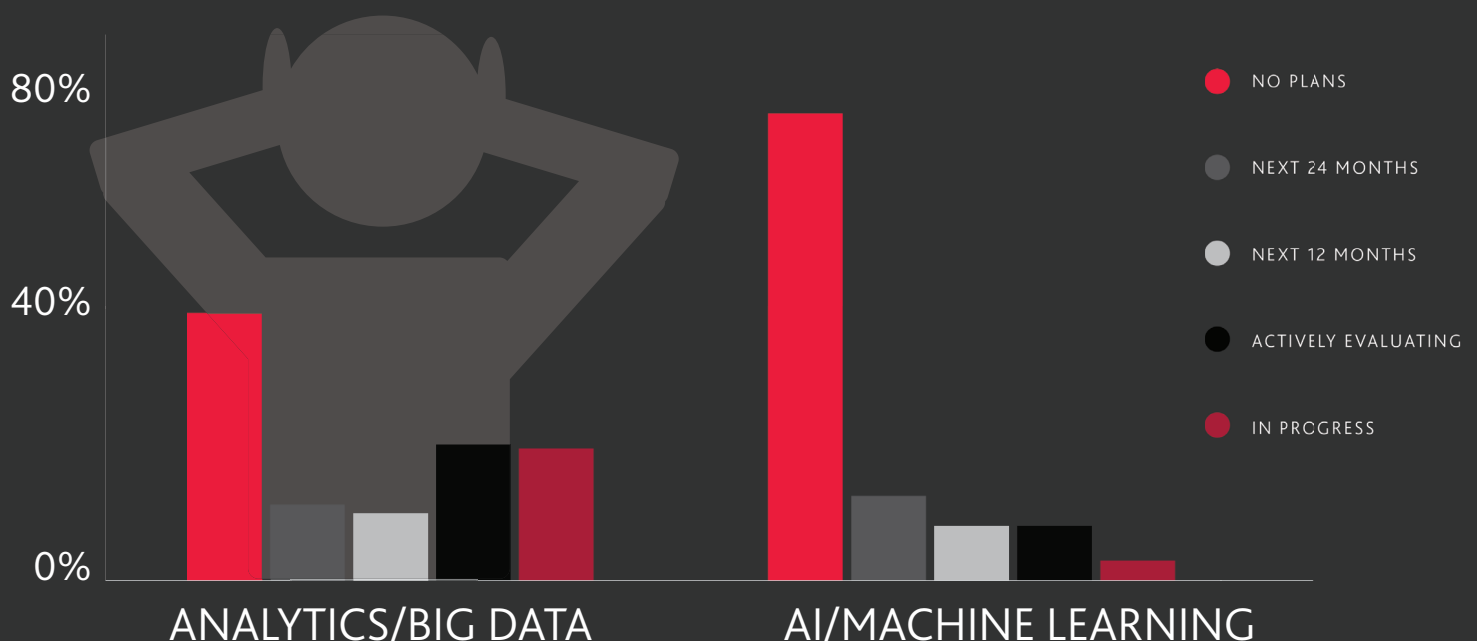
Not surprisingly, companies overwhelmingly agree that strategic business decisions should be based on data. But despite an abundance of data and a desire to leverage it to improve decision-making, most midsize businesses have yet to really get started. Only 19% are actively planning their analytics/big data initiatives. Even less (3%) are exploring emerging technologies such as artificial intelligence and machine learning.

BUSINESS DECISIONS SHOULD BE BASED ON DATA

80% AGREE

● DISAGREE   ● NO OPINION   ○ AGREE

HOWEVER....BIG DATA INITIATIVES ARE SLOW TO GAIN MOMENTUM.

● NO PLANS

● NEXT 24 MONTHS

○ NEXT 12 MONTHS

● ACTIVELY EVALUATING

● IN PROGRESS

ANALYTICS/BIG DATA   AI/MACHINE LEARNING

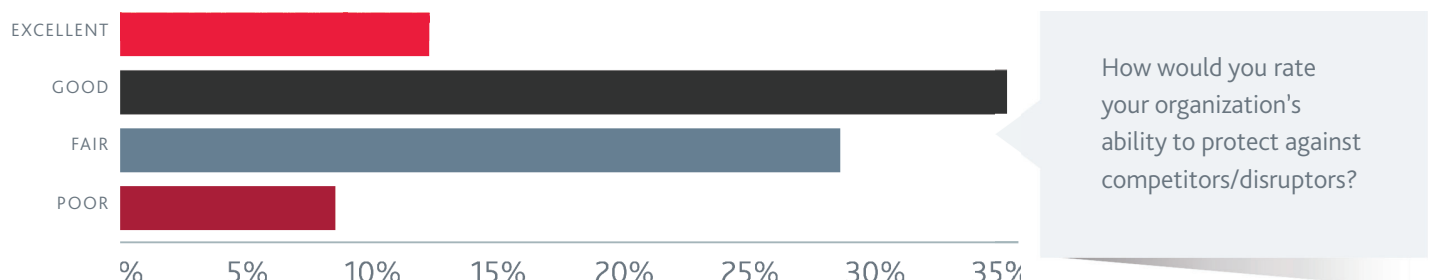## DRIVING A CULTURE OF DATA-DRIVEN DECISION-MAKING

The cost of technology is coming down, and new innovative solutions are making it easier than ever for non-technical teams to access, scale, and analyze data in the cloud. Additionally, the advent of the cloud has transformed the way crucial business decisions are made. Generating new insights in real-time takes minutes, not months. This means companies can make immediate changes or fixes wherever necessary. In an age where competitive advantage is fleeting, organizations that embrace the fastest and most efficient means of analyzing data are poised to succeed.

However, our findings suggest that getting started remains the biggest challenge. Data quality and data warehousing require specialized skills that aren't often found in midsize organizations. Fortunately, more service providers are emerging that understand the needs of midsize companies and can help bridge the skill gap and guide organizations of all sizes through the process. While midsize companies have been slow to adopt more advanced analytics solutions, it is our strong belief that there has never been a better time for midsize companies to get in the data analytics game.

DIGITAL DISRUPTION

Today's technology is transforming business at a pace we have never seen before. Our survey findings show that nearly half (45%) of businesses believe their industry will be disrupted by emerging technology in a major way in the next couple years.

As productivity rises to the top of the priority list, companies have already started down the road of digital business transformation to help their people work smarter and faster. This is an encouraging sign that midsize businesses not only recognize that the threat of disruption is real, but also that business transformation starts by transforming how the workforce gets things done. Despite these efforts, only 13% of survey respondents believe they are doing an "excellent" job at protecting against disruption. This belief is affirmed with the latest market research; according to the IDC report FutureScape: Worldwide CIO Agenda Predictions, " 70% of siloed digital transformation initiatives will ultimately fail because of insufficient collaboration, integration, sourcing or project management in 2018."

EXCELLENT
GOOD
FAIR
POOR

% 5% 10% 15% 20% 25% 30% 35%

How would you rate your organization's ability to protect against competitors/disruptors?

CONCLUSION

As business leaders seek to be the disruptor, not the disrupted, they must combine the impact of people, process, and technology to support ongoing innovation and create real value over time. This will require an end-to-end strategy that aligns IT with your organization's ever-shifting business strategies. Naturally, there's also the requirement to keep your business running today, which entails navigating the expectations of a dynamic workforce, mitigating evolving cybersecurity threats, and addressing a host of other interconnected and complex challenges along the way.

So, what does it take to achieve success in a world where uncertainty has replaced business-as-usual? This survey, augmented by BDO Digital's experience, reveals six predominant ways companies are evolving to build resilience and competitive advantage for the fast-moving digital future.

- **Business/IT Alignment:** IT professionals who are able to speak the same language as the business are in a unique position to drive change across the entire organization. However, in order to achieve better business outcomes, IT must be let in on company-wide objectives so they can better align technology investments with the things that will ultimately drive business growth and innovation.

- **Transform Workforce Productivity:** The massive impact of technology on business today means companies need to make greater investments in IT to gain operational efficiency and reduce risk wherever possible. Increasing corporate speed, agility, and ROI is no longer just about capitalizing on isolated technology trends. True transformation requires an immersive strategy across multiple layers of digital, including people, process, platform, and protection.

- **Accelerate Cloud Migration:** Cloud solutions allow companies to move quickly, scale immediately, and realize significant savings. As organizations try to capitalize on the benefits of the cloud, they'll inevitably need to acquire more digital experts to devise a clear, staged approach to their cloud migration strategy. And the sooner midmarket organizations can seize on those opportunities, the more likely they are to avoid disruption from market newcomers or faster innovation from existing rivals.

- **Make Security a Company-Wide Initiative:** Business leaders need to shift their mindset from thinking of cybersecurity as just another "IT problem" to placing it at the top of the company-wide priority list. Once again, this is where the importance of business and IT alignment is paramount. IT needs to move beyond the checklist of security controls when communicating security gaps. Equally important, the business needs to let IT in on organization-wide priorities and plans so they can proactively safeguard the most important assets before it's too late.

- **Improve Data-Driven Decision-Making:** New innovative solutions are making it easier than ever for non-technical teams to access, scale, and analyze data in the cloud. While midsize companies have been slow to adopt more advanced analytics solutions, it is our strong belief that the use of real-time analytics is how leading companies will stay ahead and build competitive advantage over the next few years.

- **Don't Forget About Your People:** Gone are the days where deploying a technology solution is the last step to a successful IT project. Ensuring your users are leveraging the solution to their full potential, and the business is realizing actual return on their technology investment, is the new measurement of success. As the movement towards outsourcing picks up speed, companies should be looking for partners who can deliver not only the technical capabilities but also the change management strategies needed to enable a company's most valuable asset – its people – in a digital business environment where change is constant.

In our experience working with clients, here are just some of the challenges businesses are faced with when trying to move forward:

- Lack of business and IT alignment
- Inability to work across silos
- Change management capabilities
- Lack of strategic vision
- Lack of internal resources
- Insufficient budget
- Legacy systems
- Cybersecurity concerns

This is an indicator of why we are also seeing more outsourcing across the board.

While digital transformation is not a new concept, for many midsize organizations, the journey is just getting started. The good news is that you don't have to go at it alone. Partnering with a holistic service provider like BDO Digital can provide your company with the full stack of skills and experiences to survive and thrive in today's technology-driven world.

Our hope is that, by shedding light on how organizations are leveraging technology to succeed, we can continue to educate business and IT leaders on the ever-evolving and deeply interconnected digital world. As you continue your journey, we hope BDO Digital can be with you to tackle any challenges and embrace every opportunity the future may bring.

About BDO Digital

WE ARE THE TEAM BEHIND THE TECHNOLOGY THAT POWERS YOUR BUSINESS

BDO Digital is an award-winning provider of IT solutions, bringing together the right people, processes, and technology to deliver business value to midmarket organizations. We believe in forging lasting relationships by providing insights and inspiration as an extension of your team, helping you leverage the opportunities technology can bring to your business.
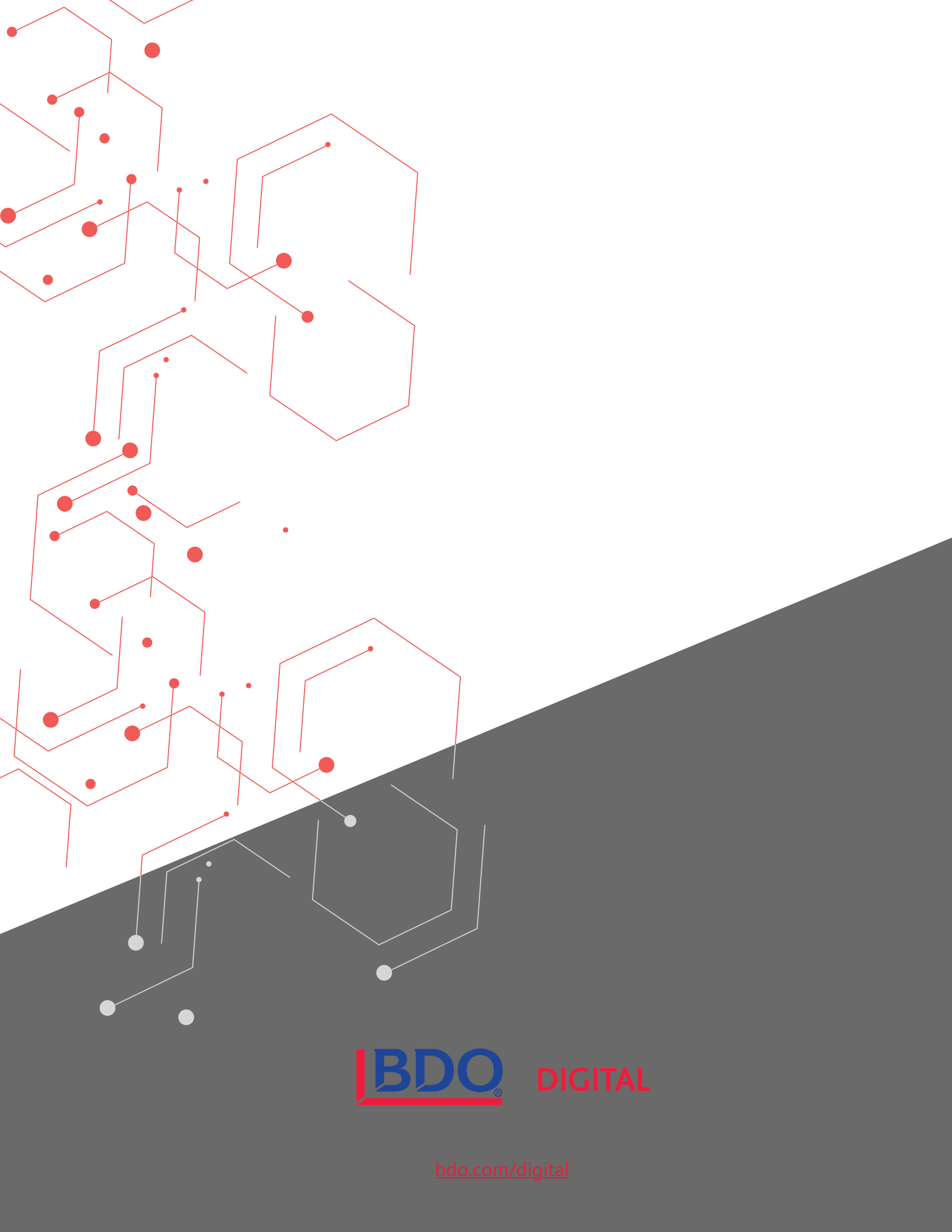
OUR MISSION

To forge lasting partnerships, inspire change, and be the catalyst for success through teamwork and technology.

CONTACT BDO DIGITAL TO EXPLORE HOW WE CAN HELP

Transform Your Business Together

www.bdo.com/digital

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