BDO DIGITAL

MIDWEST MID-MARKET BUSINESSES ARE
BOOMING

2016

SURVEY REVEALS HOW SUCCESSFUL COMPANIES LEVERAGE TECHNOLOGY TO DRIVE GROWTH

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EXECUTIVE SUMMARY

Midwest business and IT leaders are bullish about the future, expecting growth over the next 12 months. And they are relying on technology to drive that growth as evidenced by a substantial increase in IT budgets, according to BDO Digital's Mid-Market IT Survey of more than 780 C-Suite and technology executives.

Today's technology can drive growth and value by increasing efficiency, agility and innovation throughout every layer of a mid-market business, from sales and marketing to operational efficiency to workforce productivity.

This survey, augmented by BDO Digital's experience, reveals four predominant ways companies are successfully using technology:

1

Successful companies ensure IT executives have a seat at the leadership table:
This enables them to bring valuable insight and context to key decisions, which results in tight alignment between technology and business strategies. IT executives earn this position by knowing the business, defining success, holding themselves accountable, and making recommendations based on value. CEOs play a big part in creating a well-aligned IT function by opening the circle to include IT, identifying a business champion for each IT project, and creating incentives for success.

2

Successful companies are migrating to the cloud for agility, scale and economics:
Recognizing the rewards reaped by large enterprises and small businesses that drove the bulk of early adoption, mid-market companies are now committing to using mature cloud technology in meaningful ways. Why? Cloud solutions allow companies to move quickly to address risks or seize opportunities, to start small and scale immediately, and to realize significant savings (when all of the costs of a data center are factored in). Companies achieve success by taking a measured approach to adoption, always keeping users at the center of everything, and ensuring integrations do not suffer. They also identify business value and ROI, consider the cloud first for new implementations, and proactively address continued management and security responsibilities.

3

Successful companies are making data-based decisions about their growth:
Rich and flexible data allows executives to make decisions based on fact, not gut. Companies that find the most value in their analytics platform tend to focus on decisions, not efficiencies. If an analytics solution is built to save a person time in preparing reports, it is often not worth the money invested. Truly valuable analytics solutions allow for better decisions – big decisions that have significant value or many small decisions that add up to big dollars over time. Successful companies start small to manage project risk to ensure the highest-value problems get solved first and quickly.

4

Successful mid-market companies realize they cannot afford to build IT teams that provide the breadth of expertise required today:
It is increasingly challenging for mid-market companies to cost-effectively do everything needed in IT to support the business and contribute value, maximize employee effectiveness using technology, staff and retain the right experts, and ensure 24-7-365 support. This is, in part, because really great technical people tend to specialize as they advance their career, and companies only need a slice of more than a dozen experts at any given time. Best-in-class companies solve the mid-market resource problem through some form of outsourcing, which may include staff augmentation, project outsourcing, targeted outsourcing or vested outsourcing.
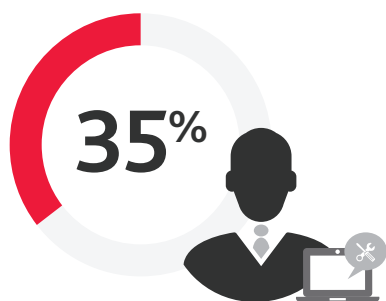
WE HOPE THIS SURVEY, ALONG WITH OUR EXPERIENCE, WILL HELP YOUR COMPANY IDENTIFY WAYS TO BETTER LEVERAGE TECHNOLOGY TO MEET YOUR BUSINESS GOALS AMIDST TODAY'S RAPIDLY CHANGING AND COMPLEX BUSINESS CLIMATE.
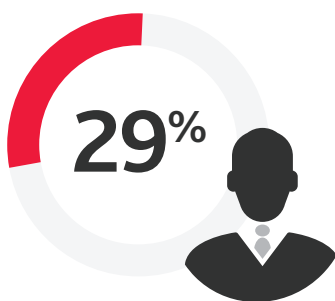
METHODOLOGY

BDO Digital's Mid-Market IT Survey is based on extensive survey data from BDO Digital's mid-market customers and contacts, augmented with BDO Digital's mid-market experience with more than 350 Midwest companies. The survey was conducted between February and August 2016. We received a total of 780 responses, comprising 334 different companies among 23 different industries.

The survey was designed to identify market trends, and reveal how successful companies use technology to overcome challenges and drive value and growth. Our survey provides context and insight on several issues well-known to IT leaders: general market conditions, transition to the cloud, and resource scarcity. In addition, it sheds light on the pervasive disconnect between c-suite business leaders and the technology leaders they rely upon. Finally, some areas of agreement between the business and IT are explored.
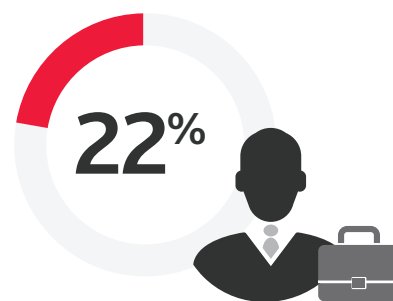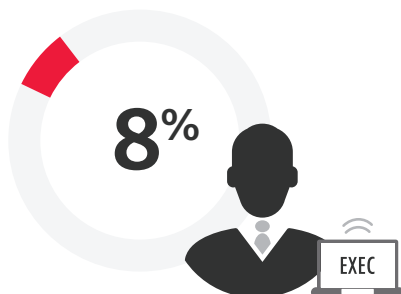
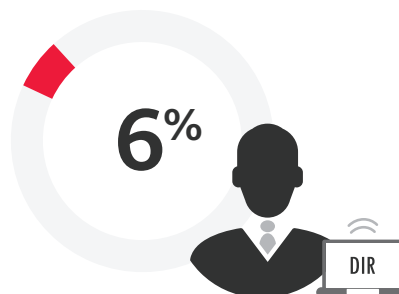## ROLE BREAKDOWN

35%
IT MANAGER OR
OTHER IT TEAM MEMBER

29%
DIRECTOR OR
MANAGER, NON-IT

22%
C-LEVEL, NON-IT EXECUTIVE
(CEO, CFO, COO, VP)

8%
IT EXECUTIVE

6%
IT DIRECTOR

INDUSTRY BREAKDOWN

350+ COMPANIES

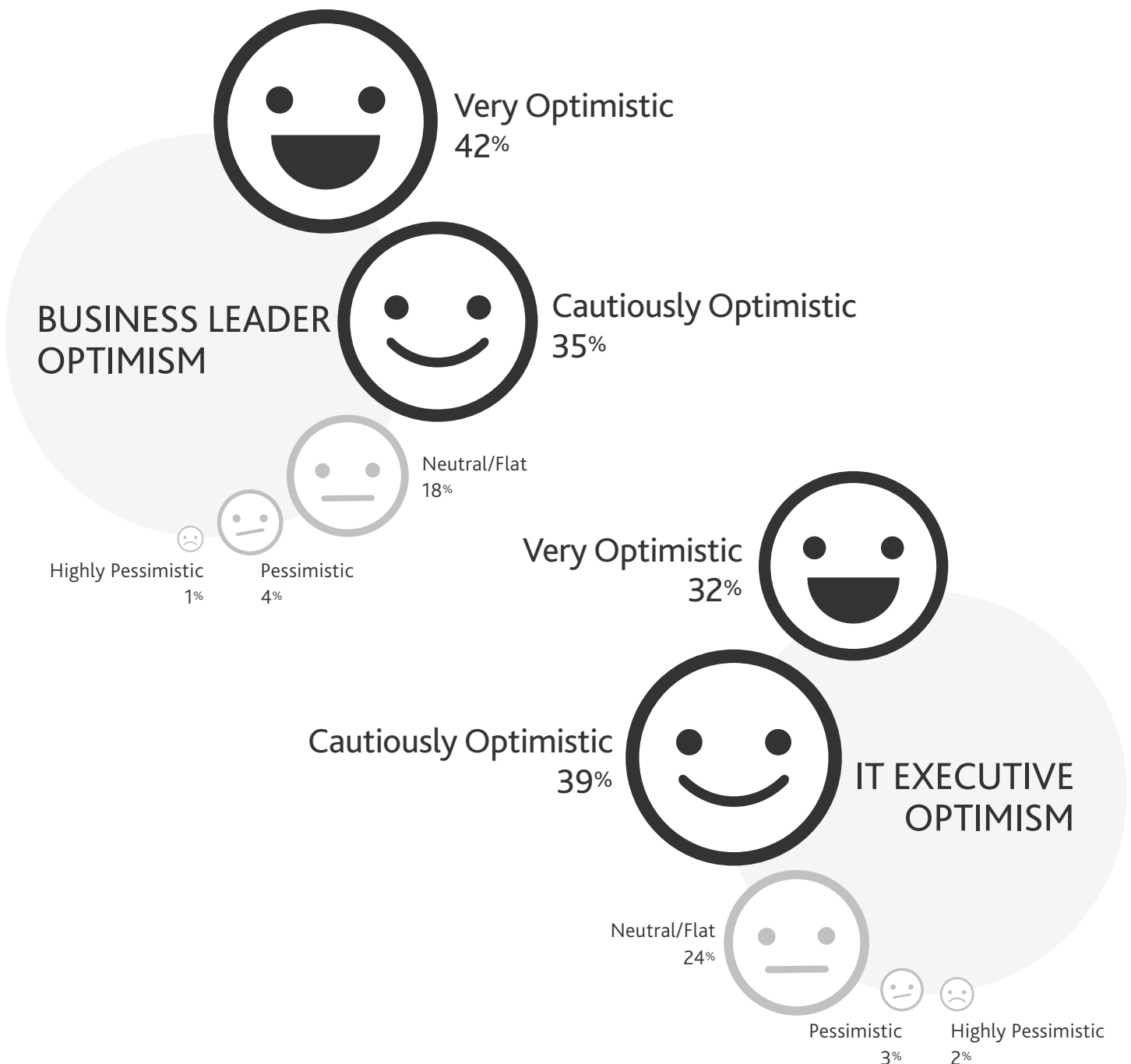| Industry	Percentage
MANUFACTURING	18%
HEALTHCARE	13%
EDUCATION	13%
FINANCIAL SERVICES	10%
NON-PROFIT	7%
TECHNOLOGY	7%
PROFESSIONAL SERVICES	5%
GOVERNMENT	4%
FOOD & BEVERAGE	4%
REAL ESTATE	3%
ARCHITECTURE, ENGINEERING & CONSTRUCTION	3%
CONSUMER PRODUCTS/RETAIL	2%
INSURANCE	2%
LEGAL	2%
AGRICULTURE/NATURAL RESOURCES	2%
HOSPITALITY & LEISURE	2%
MATERIALS	1%
ENERGY & UTILITIES	1%
PHARMACEUTICAL/CHEMICAL	1%
AUTOMOTIVE	1%
COLLECTIONS	1%
NOT PROVIDED	1%
TELECOMMUNICATIONS	0.3%

OUTLOOK

OPTIMISM REIGNS

Both business and IT leaders are bullish about the future. A significant majority expect growth over the next eighteen months.

BUSINESS LEADER OPTIMISM

Very Optimistic
42%

Cautiously Optimistic
35%

Neutral/Flat
18%

Highly Pessimistic
1%

Pessimistic
4%

IT EXECUTIVE OPTIMISM

Very Optimistic
32%

Cautiously Optimistic
39%

Neutral/Flat
24%

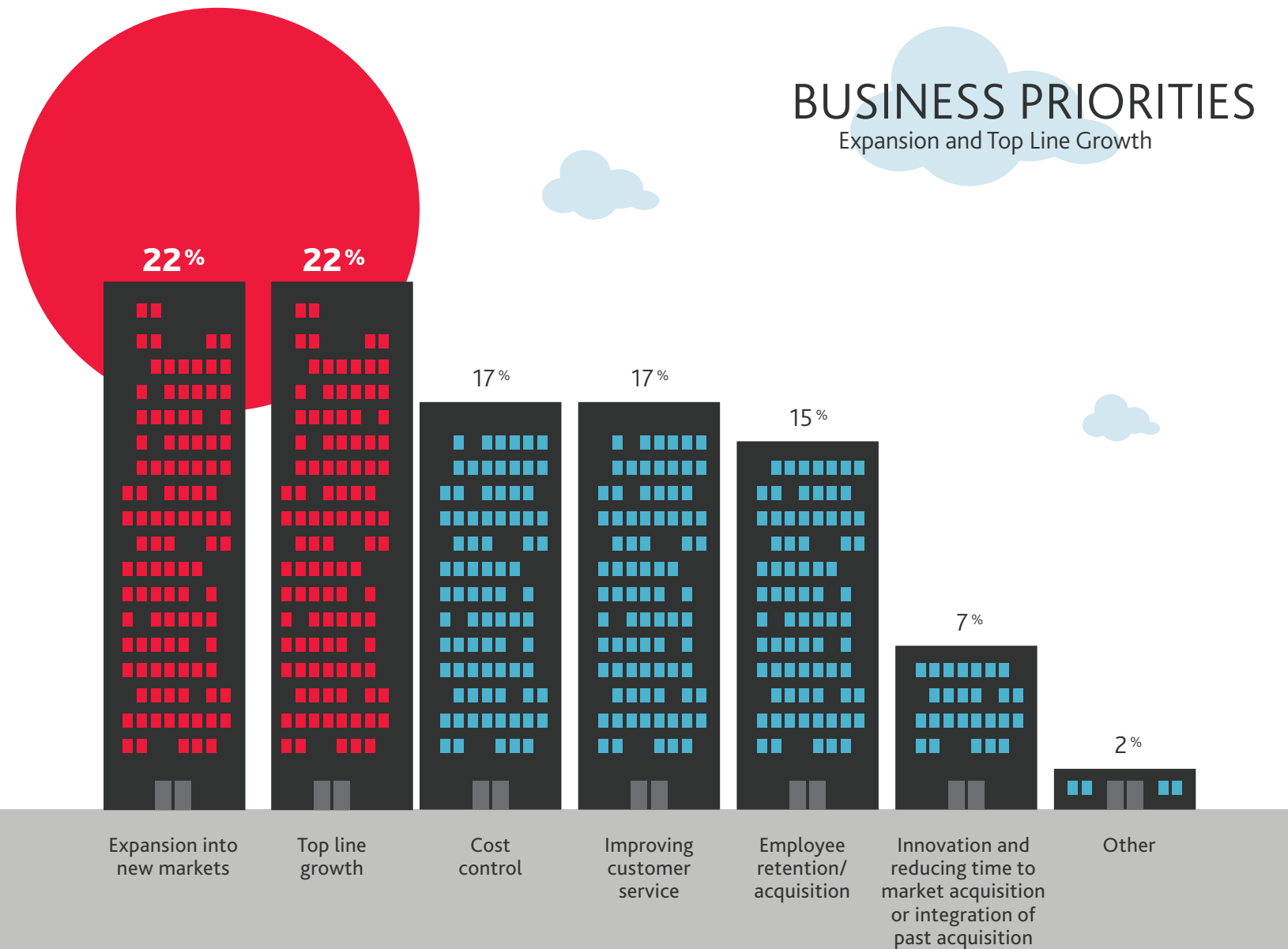Pessimistic
3%

Highly Pessimistic
2%

BUSINESS LEADERS ARE FOCUSING THEIR EFFORTS ON EXPANSION AND GROWTH

Businesses are relying on technology to drive growth, with the majority of our respondents actually experiencing substantial growth in their IT budgets. During downturns and periods of uncertainty, IT budgets have notoriously been among the first to be cut, so this further supports a positive outlook.

BUSINESS PRIORITIES
Expansion and Top Line Growth

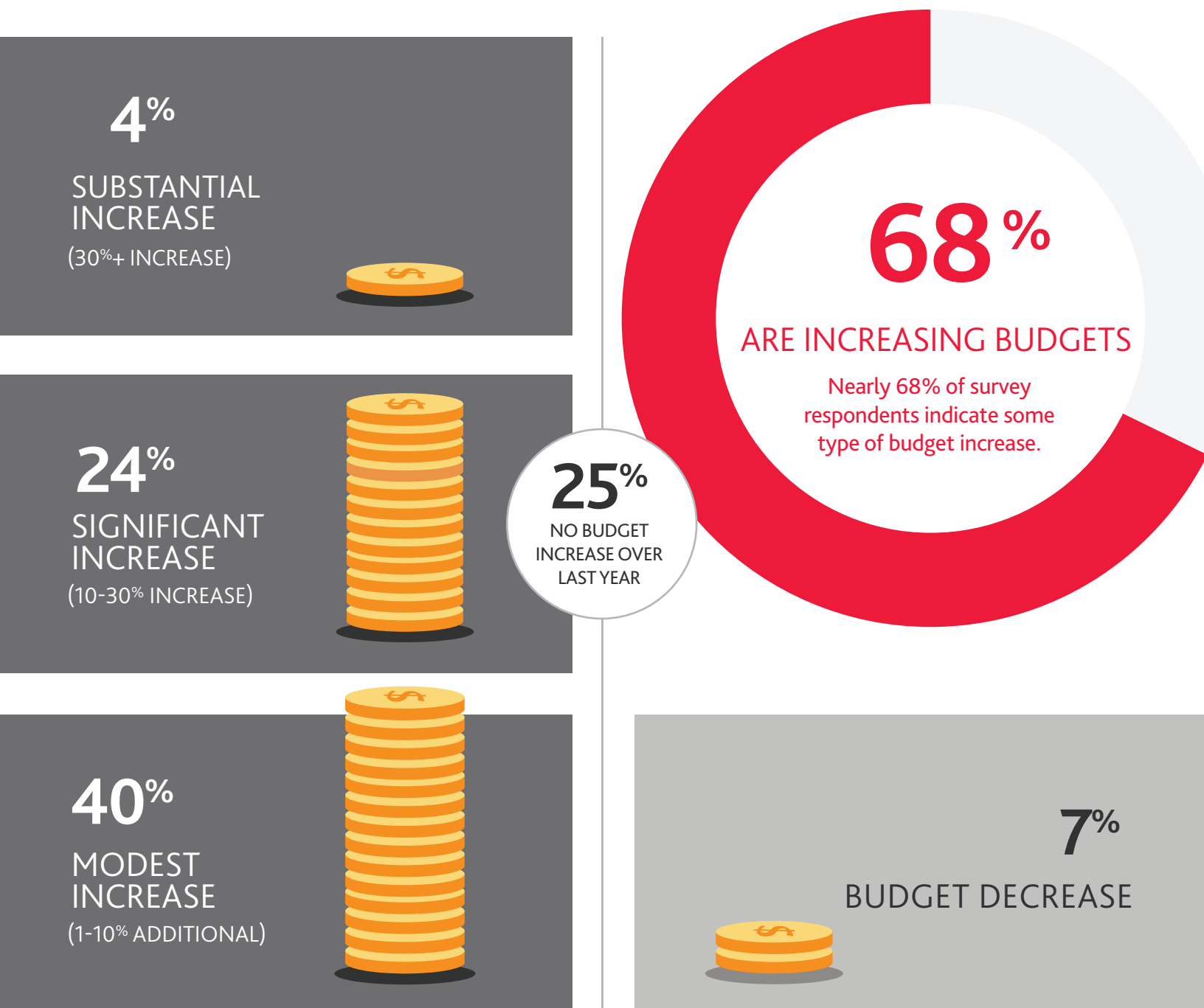| 22%	22%	17%	17%	15%	7%	2%
Expansion into new markets	Top line growth	Cost control	Improving customer service	Employee retention/ acquisition	Innovation and reducing time to market acquisition or integration of past acquisition	Other

IT BUDGETS ON THE RISE

Our experience at BDO Digital is consistent with the survey data; year-over-year revenue growth of our business has been steadily climbing. Customers across the board are making substantial IT investments that had been delayed for years.

IT BUDGET OPTIMISM FOR THE NEXT 12 MONTHS

4%

SUBSTANTIAL
INCREASE
(30%+ INCREASE)

24%

SIGNIFICANT
INCREASE
(10-30% INCREASE)

40%

MODEST
INCREASE
(1-10% ADDITIONAL)

25%
NO BUDGET
INCREASE OVER
LAST YEAR

68%

ARE INCREASING BUDGETS

Nearly 68% of survey
respondents indicate some
type of budget increase.

7%

BUDGET DECREASE

FINDINGS

FOUR WAYS LEADING COMPANIES SUCCESSFULLY LEVERAGE TECHNOLOGY TO DRIVE GROWTH

Our survey provides context and insight on several timely issues including the technology and business leader disconnect, cloud technology, data analytics and resource scarcity. Let's explore each of these issues by looking at what the survey says, what our experience tells us, and how our customers find success.

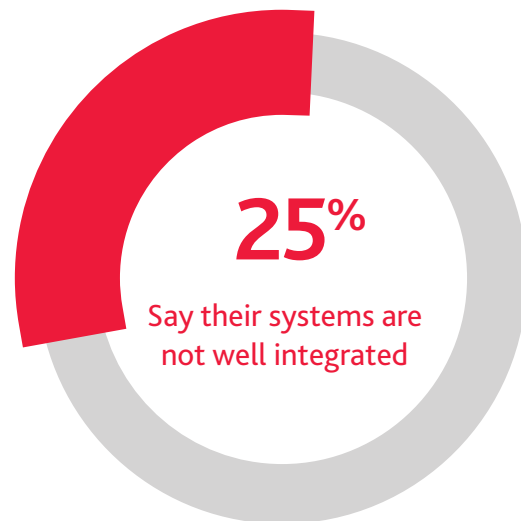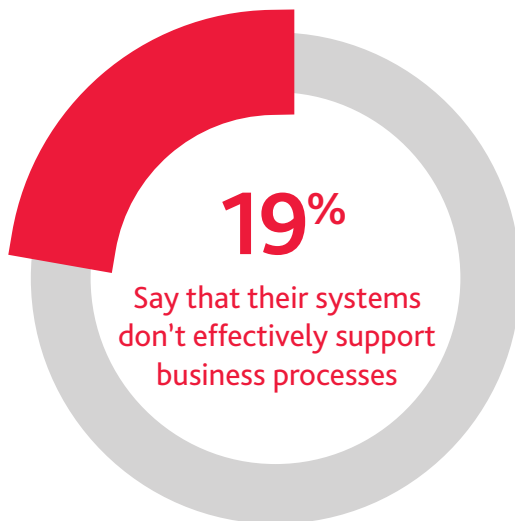## 1 | BRIDGING THE TECHNOLOGY/BUSINESS DISCONNECT

SURVEY SAYS

The data confirms a disconnect that we've experienced time and again in mid-market companies. Although more than 45% of business leaders say that IT is critical to their success, many find that IT is not well-aligned with their business strategies.

Business leaders were asked if IT aligns their work with the business' goals and strategies.

THE RESULTS

19%
Say that their systems don't effectively support business processes

25%
Say their systems are not well integrated

OUR EXPERIENCE TELLS US

Our discussions with C-Suite executives often reveal frustration with the IT organization's effectiveness. The CEO seldom rises through IT and often has a limited knowledge of the challenges IT faces. The frustration often comes from the gut and centers around questions and statements like: "Am I getting what I'm paying for? Am I spending too much or too little?"

Meanwhile, our discussions with IT leaders often reveal a parallel but different set of frustrations. They feel left out of the loop on key decisions and saddled with unrealistic expectations. They feel that the CEO doesn't understand the unique challenges of IT. Many find it difficult to get approval for efforts that they know are important.

IT LEADERS FEEL THAT THEY ARE NOT ALLOWED AT THE TABLE AND MADE THEIR FEELINGS KNOWN.

> **At this organization, IT is more like a necessary evil**
>
> *IT Executive*

> **I agree that we are being strategic and are in alignment with the business, but I'm not convinced top level management feels the same way**
>
> *IT Director*

> **IT is a low priority in our organization**
>
> *IT Executive*

HOW CUSTOMERS FIND SUCCESS

At our most successful mid-market customers, IT leaders are part of the leadership team, and they bring valuable insight and context to the key decisions. The result is a tight alignment of technology to the business strategies and a significant contribution of value by the IT team. This doesn't happen by accident – it is the result of very intentional actions by both the CEO and the IT leader, usually starting with the IT leader.

The most successful mid-market IT leaders earn their seat at the table. This usually happens with some combination of the following:

THEY KNOW THE BUSINESS

They make a point of creating relationships with key line managers in order to understand the processes, problems, and opportunities. They identify the company's unique differentiators and competitive advantage. They understand and respect the history of the company and how it affects the company's strengths as well as the ways in which it drives dysfunction. They ask about the strategies and tactics that will drive future success. Through it all, they learn to speak the language of the business rather than the dialect of IT.

THEY DEFINE SUCCESS AND HOLD THEMSELVES ACCOUNTABLE

Great IT leaders aren't afraid to address how their success will be measured – instead, they demand it. They negotiate service level agreements and they report against them – win or lose. They also expect accountability from their team. They require estimates and detailed plans for all significant projects, and their teams track and allocate every minute of their time.

THEY MAKE RECOMMENDATIONS BASED ON VALUE

They don't recommend an upgrade because it is the "latest and greatest." They don't buy hardware because the gear they have is "getting old." They don't re-write software because the team doesn't like the language it was written in. Instead, they tie every significant investment to an increase in revenue or a decrease in cost or risk. They work with the business to predict these impacts and build the ROI case. After the investment is made, they drive the measurement and evaluation of the ROI case. In short, they translate technology decisions to business decisions and vice versa.

Our experience shows us that the CEO also plays a big part in creating a well-aligned IT function.

CEOs THAT DRIVE SUCCESS TEND TO

OPEN THE CIRCLE

Highly qualified IT leaders who have earned a seat at the table are invited into the inner circle. They are made aware of high-level business strategies and are in the room for the important decisions so that the technology implications of those decisions are considered.

IDENTIFY THE BUSINESS CHAMPION

Whenever possible, significant IT projects must have a business stakeholder with clout and accountability. The Business Champion will partner with the IT leader to ensure that the business unit supported by the IT initiative fulfills their responsibilities and that the project stays aligned to the true needs.
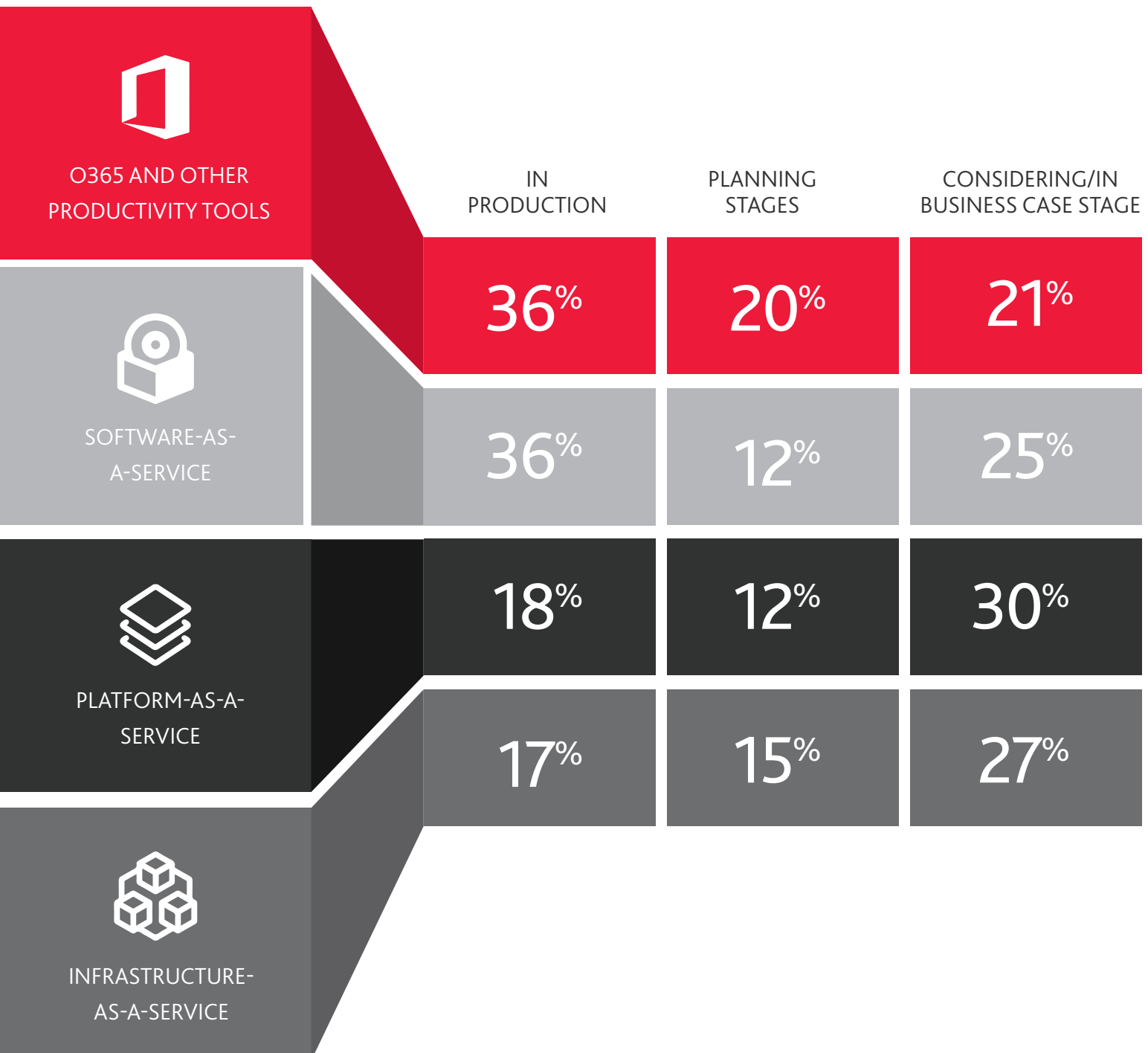
ALIGN INCENTIVES

When a significant portion of the IT leader's variable compensation is based upon the financial success of the business, barriers to alignment evaporate.

2 | SHIFTING TO THE CLOUD

SURVEY SAYS

The survey data makes it clear that shifting to the cloud has become a priority for a majority of our mid-market customers.

	IN PRODUCTION	PLANNING STAGES	CONSIDERING/IN BUSINESS CASE STAGE
O365 AND OTHER PRODUCTIVITY TOOLS	36%	20%	21%
SOFTWARE-AS-A-SERVICE	36%	12%	25%
PLATFORM-AS-A-SERVICE	18%	12%	30%
	17%	15%	27%
INFRASTRUCTURE-AS-A-SERVICE			

OUR EXPERIENCE TELLS US

In the early days of cloud technology and solutions, although mid-market customers wanted to learn about the cloud and understand its potential implications, few committed to the transformation in a meaningful way. Large enterprises drove the bulk of early adoption because they had the resources and staff required to manage the risks and reap the rewards. Small businesses (10 – 50 users) with small legacy technology investments also moved quickly. Mid-market companies with their significant legacy technology footprints and their aversion to the risk of early cloud adoption, stayed on the sidelines.

All of that has changed. BDO Digital's cloud-related work as measured by transformational projects has increased in 2016 by 40% compared to the previous year. Our projects related to on-premise upgrades of commodity productivity applications like e-mail have all but evaporated, replaced by migrations to cloud-based solutions like Office 365. Forbes confirms our experience, citing data that 87% of mid-market leaders see the cloud as their future and that 70% of IT budgets for 2016 are allocated to cloud-related initiatives.

Along with the substantial and growing maturity of today's cloud offerings,
there are three primary drivers of this shift to the cloud:

AGILITY

Cloud solutions allow companies to move quickly to address risks or seize opportunities.

SCALE

When the adoption of a new solution is unclear in the early stages, the cloud allows companies to start small and scale immediately (and infinitely) as necessary.

ECONOMICS

When all of the costs of a data center are factored in (hardware, software, and technical support), many cloud solutions can offer significant savings. This is especially true when environment usage and load varies over time.

HOW CUSTOMERS FIND SUCCESS

Our customers that achieve best in class results tend to approach the cloud in a similar fashion.

- First, considerations like integration, performance, and compliance compel them to keep some workloads on premise for at least the medium term. A push to completely eliminate the data center can prove risky and counterproductive.

- They challenge themselves to identify the reduced cost, increased revenue, or reduced risk related to every cloud initiative. Business value and ROI are at the center of all cloud decisions. Often the reduced costs are best identified and managed when the cloud roadmap is integrated with the hardware refresh cycle – sunk costs have a way of dragging additional investment into the water with them.

- If they implement something new, they always consider the cloud first.

- When contemplating migrations of existing functions, they start with commodity workloads like e-mail and instant messaging. Integration and customization is often minimal – smoothing the path to success.

- They are aware of their continued management and security responsibilities with each cloud solution and proactively address those responsibilities.

- When they move functions to the cloud, they don't allow the integrations with other systems to suffer.

- They keep users at the center of everything. They ensure that their users know how to use the new cloud solutions, that they are aware of changes to the platform as they happen, and that they fully leverage all the relevant functionality.

3 | THE ALIGNMENT ON ANALYTICS

SURVEY SAYS

Although CEOs perceive a disconnect on business priorities, the data shows that the business and IT are aligned on the most important technology initiative: business analytics.

TOP TECHNOLOGY PRIORITIES

IT EXECUTIVES		BUSINESS LEADERS
IMPROVING ANALYTICS	**1**	IMPROVING ANALYTICS
IMPROVING SECURITY	**2**	IMPROVING CURRENT BUSINESS PROCESS
IMPROVING CURRENT BUSINESS PROCESS	**3**	IMPROVING COLLABORATION

OUR EXPERIENCE TELLS US

Our customers have implemented point solutions over many years. There is usually an intention to make those systems 'talk to each other' but that integration was often the easiest item to cut from the project scope and the most difficult effort to return to later. This results in 'islands' of information, redundancy, and many conflicting sources of the truth. Two primary problems result: inefficiencies and blind spots.

The inefficiencies speak for themselves and are often easily measured. Hiring another person often 'solves' the problem. The blind spots, however, deserve a bit more attention. Often the information that allows business leaders to identify the biggest problems and opportunities and make the most important decisions lives in multiple disconnected systems. Many of our customers have tried to address this problem by extracting data from multiple systems and manually correlating the data in a 'spreadmart'. This effort is manually intensive, only sometimes right, and highly inflexible.

The lack of flexibility presents the biggest problem. When facing big decisions, a rich and flexible data context proves critical. Business leaders want to be able to slice and dice the data by a variety of key attributes in order to confirm their conclusions and support their decisions. The significant manual effort to create each view of the data means that a rich and flexible data context is seldom achieved. The result: important decisions get made from the gut and not from facts.

HOW CUSTOMERS FIND SUCCESS

Companies that find the most value in their analytics platform tend to approach the challenge in similar ways.

- **Focus on Decisions, not Efficiencies –** If an analytics solution is built to save a person time in preparing reports, it is often not worth the money invested. Truly valuable analytics solutions allow for better decisions – big decisions that have significant value or many small decisions that add up to big dollars over time.

- **Predict and Measure the Value –** It is easy to brush off ROI discussions by saying that it is hard to measure the value of better information. Maybe so, but it is critical to do so. Which decisions go unsupported by data? What is the value, in dollars, of getting those decisions right? How often are those decisions faced? Will the envisioned solution provide the information required to fully support the decision? A structured process keeps mid-market leaders from building solutions that satisfy morbid curiosity, it helps them decide where to spend their money first, and it will inform their decision about what to tackle next.

- **Start Small –** BI projects fail more often than others. Starting small allows our best in class customers to manage this increased risk. Moreover, business users become better at identifying and communicating their requirements once they've done it once and digested the results. Our most rigorous customers adopt the mindset that some of the value generated by the last analytics project must contribute to the cost of the next project, effectively "earning" their way to the next phase of the solution.
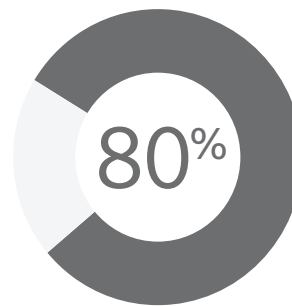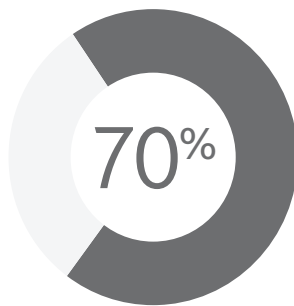
4 | SOLVING THE RESOURCE PROBLEM

SURVEY SAYS

Leaders across the board responded that finding the right people is difficult and one of the most significant challenges facing their IT function.

> **FINDING TOP IT TALENT REMAINS THE TOUGHEST CHALLENGE FOR OUR IT ORGANIZATION**

BUSINESS LEADERS AGREED OR STRONGLY AGREED — **70%**

80% — IT EXECUTIVES AGREED OR STRONGLY AGREED

OUR EXPERIENCE TELLS US

Many of our customers – even those who boast foosball tables and fun company cultures – face a difficult challenge hiring top talent. This is because mid-market IT organizations face a structural hurdle that the enterprise and small business sectors (and IT services companies like BDO Digital) can avoid.

- First, really great technical people tend to specialize as they advance their career. The great BI architect, developer, security expert, or database specialist often has experience and interest in related technologies, but they tend to go deep where their passions lie. As they become experts, they choose jobs that allow them to follow their passion.

- The typical mid-market company can't afford to hire all the experts they need, and if they could, they wouldn't be able to keep all those experts busy. They need only a slice of each expert, but they need them to be available and up to speed at the right time. If a mid-market company needs six FTEs to fully staff their entire IT function, those six FTEs will need expertise in 10 to 15 different technical domains.

The result: great people, who want to specialize, are asked to cover more technical ground than they are qualified for. Retention suffers at the same time that quality suffers. The hot market for IT professionals exacerbates the problem, but it is not the underlying problem.

HOW CUSTOMERS FIND SUCCESS

Best in class companies that solve the mid-market resource problem face the reality that they cannot afford to keep all the experts that they need on staff, and recognize that even if they could, they would fail to fully leverage and engage those experts in the long term. This inevitably leads them to some form of outsourcing. Not all outsourcing strategies have the same outcome.

- **Staff Augmentation** – Although sometimes necessary to fill a critical slot, this is seldom a satisfactory long-term strategy.

- **Project Outsourcing** – This approach can result in deep engagement and high-quality delivery of a project and can allow a company to outsource the peaks and staff for the valleys. It is important, though, to map internal skills and bandwidth to the support requirements. The newly implemented technology won't run itself and the outsourced project resources may disappear into other projects.

- **Targeted Outsourcing** – Many companies find success by rigorously defining which technology roles and functions they are going to excel at, and which they'll outsource to a qualified third party. Sometimes the choice is made pragmatically, based on the skills of the existing team, but sometimes it is made strategically, for instance, outsourcing the commodity support while retaining the strategic work for internal staff. Either way, complete ownership falls to the outsourcing firm for quality and efficiency of the functions they take on.

- **Vested Outsourcing** – Often after success with a targeted outsourcing relationship, some companies decide to focus more fully on their core business and outsource the entire IT function, retaining few, if any, internal staff. These relationships achieve the best results when the outsourcer is rewarded for efficiencies and innovation.

TAKEAWAYS

INVITE IT LEADERS INTO THE INNER CIRCLE.
- Bringing your IT leader into your executive leadership circle ensures tight alignment between technology and business strategies.

IDENTIFY YOUR DECISION BLIND SPOTS.
- Value these blind spots in terms of lost opportunity or the cost of wrong decisions. Let this insight guide your analytics strategy.

ASK HOW, NOT WHEN.
- Don't ask your IT leader when everything can move to the cloud. Ask your IT leader how to get started on your journey to the cloud.

CONSIDER OUTSOURCING.
- Outsourcing is a cost-effective way to provide the IT resources needed to support your business and contribute value.

LEADERSHIP TABLE.
- Know the business, define success, hold yourself accountable, and make recommendations based on value.

CREATE CLOUD ROADMAP WITH BUSINESS IMPACT.
- Develop a cloud roadmap with business value at the center of all your recommendations.

IDENTIFY AND VALUE YOUR EXECUTIVE TEAM'S MOST IMPORTANT DECISIONS.
- Understand the information gaps that make those decisions difficult and develop a plan to close those gaps.

BE OPEN TO OUTSOURCING.
- Outsourcing provides you with a cost-effective way to grow your IT team and free your existing team to more directly support business strategies.