



NATIONAL CENTER FOR
THE MIDDLE MARKET



A REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET

Digitizing the Customer Experience: Are We There Yet?

How Middle Market Companies Are Integrating Digital Tools into Customer Touchpoints

*With The American Marketing Association and Dr. Shashi Matta
of The Ohio State University Fisher College of Business*

IN COLLABORATION WITH





Executive Summary

In 2015, the National Center for the Middle Market studied the state of digitization among middle market companies. Our report, *How Digital Are You?* revealed that companies have made more progress in digitizing back-office functions than those that directly interface with customers or clients. We also found that companies expected to increase the emphasis on customer-facing activities (such as sales, demand generation, and service) in future digital efforts. To see what the result of that investment has been and what progress remains to be made, this study looks at customer facing digitization, and, in particular, how digitization has affected the customer experience, or what customers see, feel, touch, and do when they engage with a company.

There's no question that technology is reshaping the customer experience at touchpoints all along the customer journey. From the way we buy and sell everything from houses to hamburgers, it seems there's an app for that. Middle market companies are no strangers to this phenomenon. Nearly three-quarters of middle market leaders agree that digitization is essential to growing and transforming their business and meeting future needs. And nearly all mid-sized firms say that digital solutions have had some level of positive impact on the way they do business.

Yet many middle market firms have been slow to integrate digital solutions into the customer experience. This is not because they don't value customer experience; in fact middle market companies say that customer experience ranks second only to quality, and exceeds price, in importance to a company's ability to compete.

However, only 34% of companies say that customer experience is a critical part of their overall strategy. Without that strategic focus on customer experience, it's not surprising that digital integration continues to progress more quickly for managing back office functions and business analytics than for customer-facing business functions such as sales and marketing. As a result, only 38% of middle market companies claim to be highly effective at customer experience digitization, or "CX digitization," as we will call it. Just 12% of companies have achieved a truly omnichannel end-to-end digital experience on all platforms. For many companies, CX digitization is reactive, or "just sort of happening," without an intentional initiative to drive it forward.

Some mid-sized firms have embraced CX digitization to a much greater extent than others. As companies progress from Non-Digital, to Digitally Reactive, Digitally Advanced, and, ultimately, Digitally Strategic, their attitudes shift and they adopt a more proactive approach to making technology a strategic part of the customer experience. For firms in the Digitally Strategic cluster, CX digitization is not just about specific tactics. It's embedded into the firm's overall strategy.

The Digitally Strategic firms have a clearly defined digital strategy that directs their significant investment in the digital CX tools needed to deliver on that strategy. These tools range from a social media presence and digital marketing to eCommerce, mobile service and sales tools, and intelligent devices (Internet of Things or IoT). Digitally Strategic firms have invested in the right talent, too; people with the specific digitization expertise and skills needed to see their strategies through. These investments are making a difference. Compared to their peers, Digitally Strategic firms are much better at achieving their customer experience goals, and digitization is contributing to notable improvements across all areas of the business.

These firms also grow at a much faster rate than less-digital firms: They report nearly 10% year-over-year revenue growth and 4.6% year-over-year employment growth. The numbers not only stand apart from the growth rates of Non-Digital firms (4.7% revenue growth and 2.7% employment growth); they are notably higher than growth rates reported even by Digitally Advanced firms (6% revenue growth and 3.1% employment growth). It appears that the benefits of CX digitization are non-linear and begin to accelerate once companies have made the strategic decision to prioritize a digital customer experience and, subsequently, made a significant investment in the right tools and talent to deliver on that strategy.

Fully 80% of companies say they are currently investing in digitization, and much of that investment is being channeled toward the customer experience and customer interaction. But many businesses struggle to capture the direct financial return from their investment in CX digitization. Executives cite conflict between digital and analog areas of the business—for example, brick and mortar sales versus web sales—as a barrier to greater levels of digitization. Some companies simply lack knowledge or the right talent to fully optimize digital CX tools. A few may feel that their digital investments are best directed behind the scenes, and that there is no particular value or advantage to digitizing their direct interactions with customers.

What is clear is that there remains enormous opportunity to profit from customer-experience digitization. In no area of digitization do companies believe they have captured more than half of the full potential benefit. Even among the Digitally Strategic firms, only about a quarter have achieved end-to-end omnichannel digitization.

By continuing to focus on CX digitization as a strategic initiative, by investing in the most effective tools and talent, and by making digitization an intentional, integrated, and coherent component of the overall customer experience, middle market firms have opportunities to transform the way they do business, gain competitive advantage, and advance their growth goals as a result.

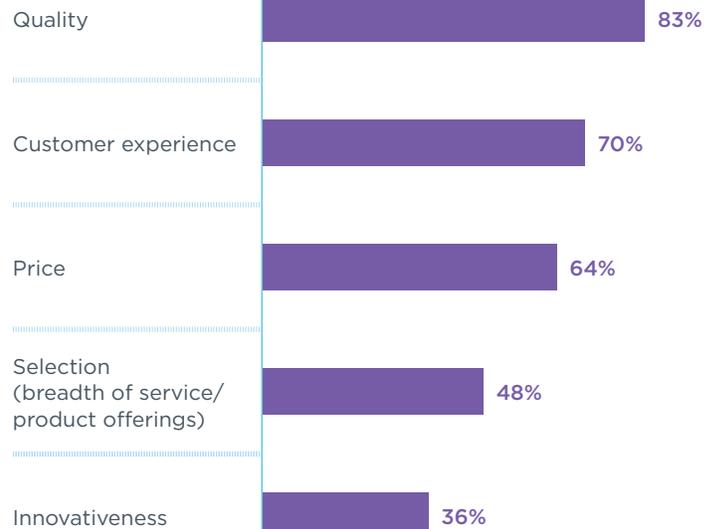
Key Takeaways



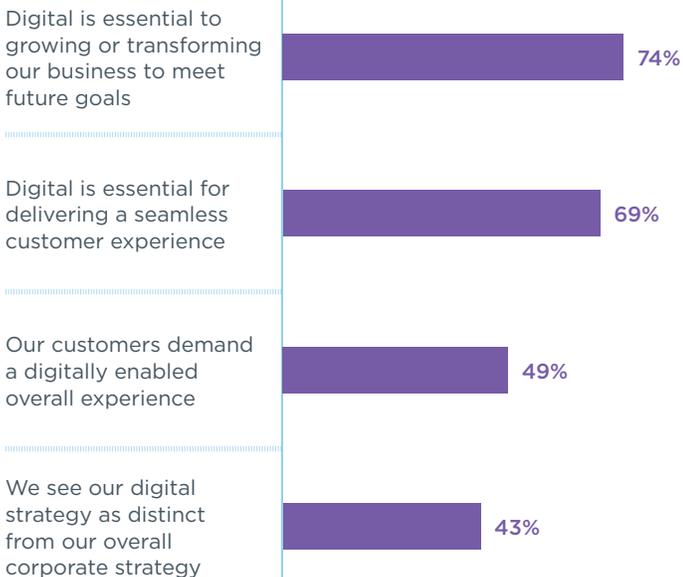
DIGITIZATION IS TRANSFORMING THE CUSTOMER EXPERIENCE.

Middle market executives rank customer experience second only to quality, and more important than price, when it comes to the ability to compete for business. Today, digitization is playing an increasingly important role in delivering that experience. Nearly seven out of 10 leaders agree that digitization is essential for delivering a seamless customer experience. Without doubt, technology is creating opportunities to transform or augment many interactions and touchpoints on the CX journey, from how customers first learn about and begin exploring a company's offerings, to the ultimate purchase and customer support processes.

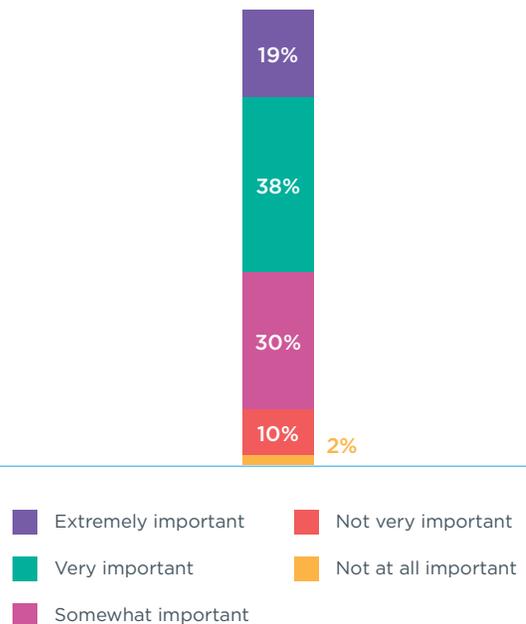
TOP 3 CUSTOMER CONCERNS



ATTITUDES REGARDING DIGITIZING THE CUSTOMER EXPERIENCE



IMPORTANCE OF DIGITAL IN CUSTOMER EXPERIENCE MODEL





WHERE CX MATTERS MOST, IT IS LIKELY TO BE DIGITIZED.

About a third (34%) of middle market companies that say customer experience is a critical part of overall corporate strategy. These companies are the most likely to invest heavily in CX digitization tools. In other words, the companies that place the greatest value on the customer experience overall are most likely to see the value in digitizing that experience and, thus, invest in the tools to do so. They approach CX digitization as a cohesive strategy as opposed to a collection of ad hoc tactics.

LEVEL OF FOCUS ON CUSTOMER EXPERIENCE





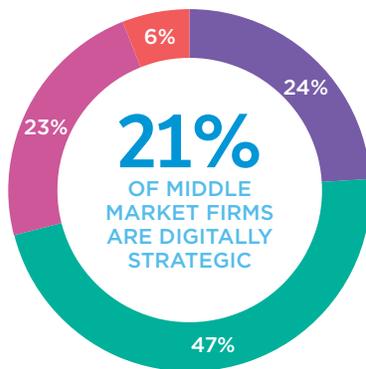
MIDDLE MARKET FIRMS FALL INTO FOUR DISTINCT CX DIGITIZATION CLUSTERS.

Based on attitudes toward digitizing the customer experience and actions that have been taken, the research shows that middle market companies can be divided into four categories. A fifth have strategic, advanced digital capabilities; another fifth are laggards; the rest fall in the middle.

- CX is digital end-to-end and on all platforms/channels
- We are digital in spots only
- CX is digital where we want it to be and not digital where we don't want it to be
- We're barely digital at all
- We are in the process of digitizing and are making good progress

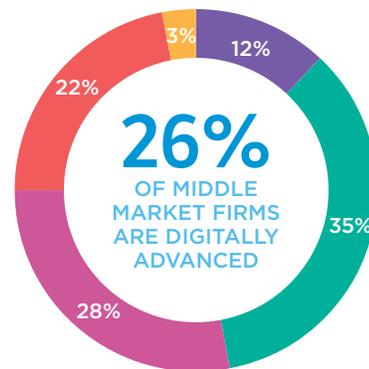
DIGITALLY STRATEGIC

21% of middle market companies are Digitally Strategic. These firms embrace the customer experience and CX digitization. They are most likely to say CX is critical to overall corporate strategy, and they understand how CX digitization is changing their industries.



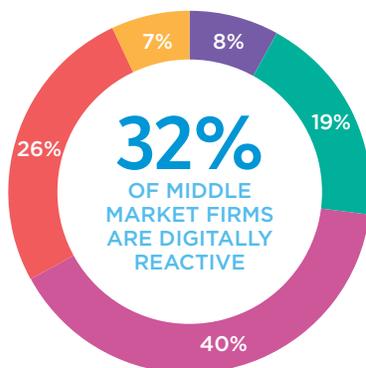
DIGITALLY ADVANCED

Just over a quarter (26%) of middle market companies fall into this cluster. Digitally Advanced companies have a conscious corporate strategy for digitization and believe that digital solutions are transforming their industries and their own businesses. However, they lack the universal or all-hands-on-deck mentality of their Digitally Strategic peers.



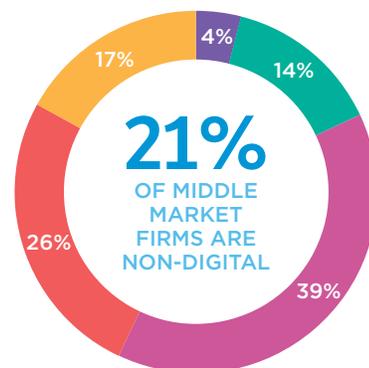
DIGITALLY REACTIVE

The largest segment, representing 32% of middle market firms, is made up of companies that have a reactive versus proactive approach to digitization. They primarily focus digital efforts on internal processes. Digitally Reactive companies have invested in at least one CX digitization tool, but no more than three.



NON-DIGITAL

21% of middle market companies are decidedly Non-Digital. They have not yet invested in any digitization tools for customer experience, and they feel that digitization has little impact on their business.





THE GREATER THE STRATEGIC INVESTMENT IN DIGITIZATION, THE MORE PRONOUNCED THE REWARDS.

The benefits of CX digitization are many, from cost savings to increased loyalty and share of wallet. But these advantages are not entirely linear. In many cases, they fully materialize only at the leading edge of CX digitization, after companies have

strategically and heavily invested in the right CX technology and talent to deliver on their specific goals. Digitally Strategic firms are much more likely to cite the effectiveness of the digitization tools they deploy than all of their less-digital peers.

EFFECTIVENESS OF DIGITAL SOLUTIONS — EXTREMELY/VERY EFFECTIVE

	Total MM	Non-Digital	Digitally Reactive	Digitally Advanced	Digitally Strategic
Increasing productivity	50%	33%	46%	48%	76%
Servicing our customers	49%	32%	39%	52%	76%
Providing more visibility into the performance of our business	42%	29%	38%	36%	69%
Reducing cycle times	41%	26%	33%	36%	71%
Increasing the quality of our products and services	41%	26%	30%	38%	71%
Lowering costs	37%	23%	33%	34%	60%
Innovating new products or services	37%	25%	29%	33%	63%
Understanding our customers and their needs	36%	21%	27%	39%	58%
Developing new business models	36%	24%	32%	33%	55%
Identifying and selling to new customers and/or enter new markets	34%	19%	22%	34%	64%
Reducing necessary staffing levels	33%	20%	28%	33%	49%

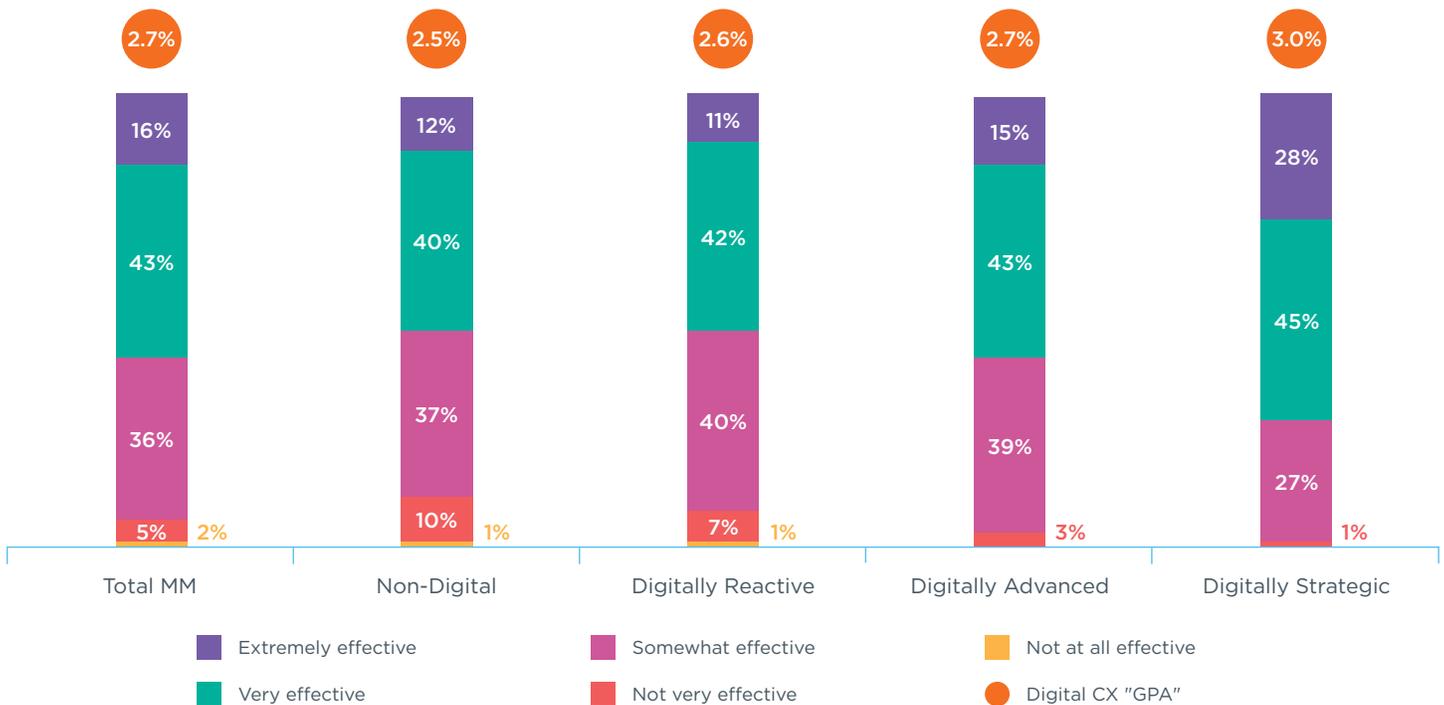


DIGITALLY STRATEGIC FIRMS ARE BEST AT CUSTOMER EXPERIENCE. THEY MAKE THE MOST MONEY, TOO.

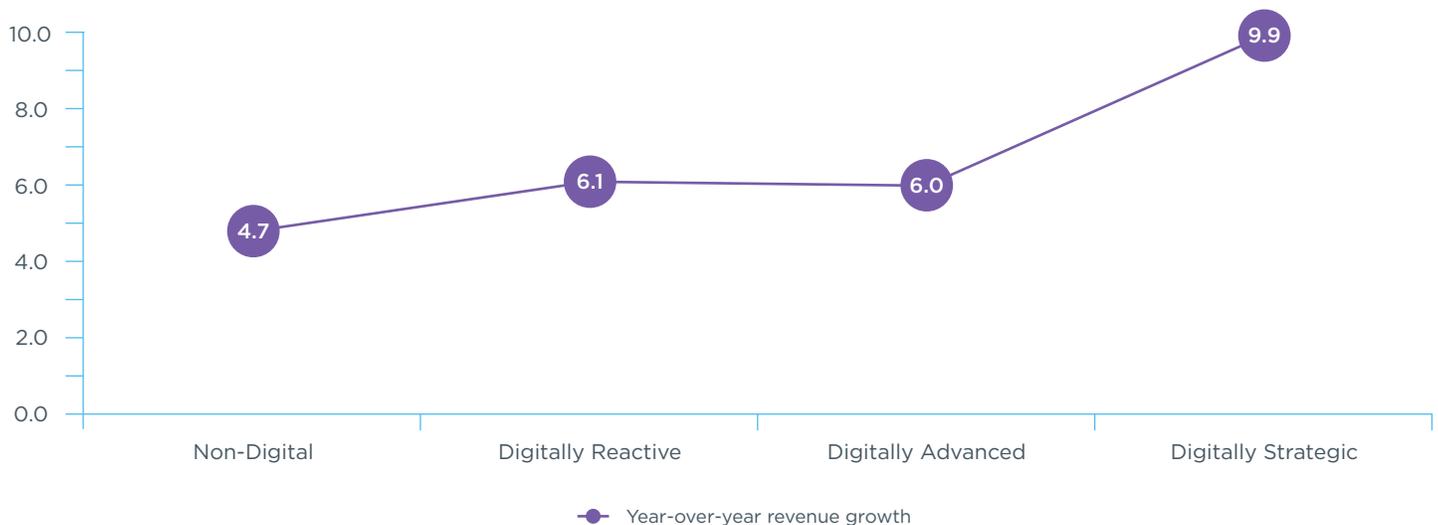
Digitally Strategic firms are much more likely than their peers to believe they do a good job delivering against their customer experience goals. These companies give themselves a grade point average, or GPA, of 3.0 in this area, compared to 2.7 for the overall middle market.

Digitally Strategic companies are growing much faster than their counterparts, too. At 9.9% year-over-year revenue growth, these firms are growing twice as fast as Non-Digital companies and significantly faster than firms in the Digitally Reactive and Digitally Advanced clusters.

DIGITALLY STRATEGIC COMPANIES ARE MORE LIKELY TO ACHIEVE THEIR CX GOALS



COMPANIES IN THE STRATEGIC CLUSTER GROW MUCH FASTER THAN OTHERS



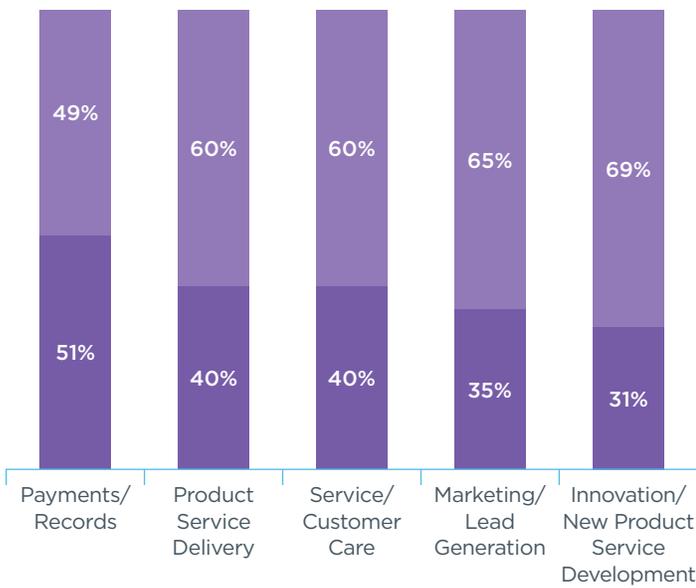


ALL FIRMS HAVE OPPORTUNITIES TO REALIZE GREATER BENEFITS FROM CX DIGITIZATION; BUT THEY WILL HAVE TO OVERCOME KEY CHALLENGES FIRST.

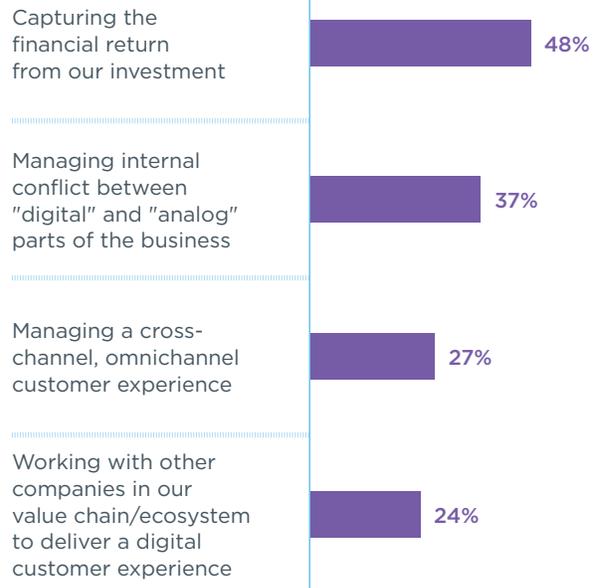
Just 12% of all middle market companies and 24% of Digitally Strategic businesses have achieved an end-to-end omnichannel digital customer experience on all platforms. What's more, middle market leaders indicate that they have only just begun to realize the advantages of customer experience digitization, and they have made the most progress in back office areas. Even in those back office functions, such as payments and records, companies have realized just half the potential benefit.

There is even greater gain to be had in customer-facing functions, such as service and marketing. To achieve these benefits, middle market firms must first find ways to overcome some key barriers to customer experience digitization, including capturing the financial return from their customer experience digitization efforts and managing conflict that may exist between digital and analog areas of the business.

PROGRESS MADE TOWARD ACHIEVING FULL BENEFIT OF CX DIGITIZATION



TWO BIGGEST CHALLENGES DIGITIZING THE CUSTOMER EXPERIENCE

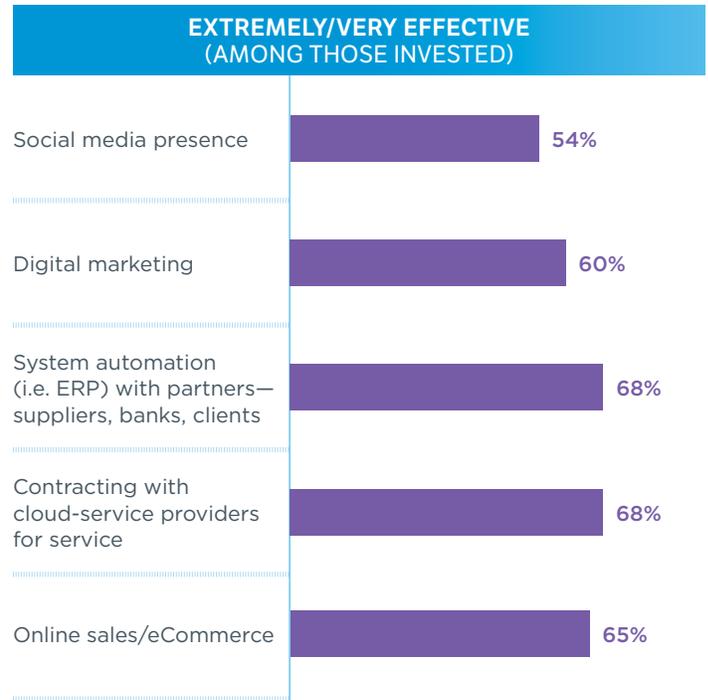
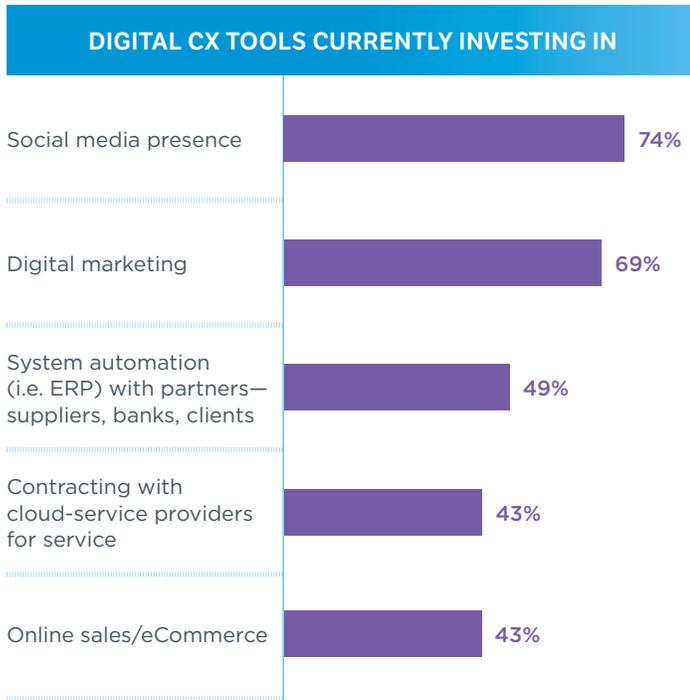




STRATEGICALLY INVESTING IN THE MOST EFFECTIVE CUSTOMER EXPERIENCE DIGITIZATION TOOLS MAY HELP COMPANIES ACHIEVE THEIR GOALS FASTER.

Companies say they will continue to invest in CX digitization—and that investment will have the highest return when it is tied to a company’s overall customer experience strategy versus ad hoc deployment of various digitization tactics and tools. However, the most popular CX digitization tools are not always the most effective. Customer/partner collaboration tools, Internet of Things

(IoT) and smart devices, and system automation with partners appear to offer the most promising returns. By choosing the most appropriate and effective tools to deliver against specific goals, and ensuring the right talent is in place to deploy those tools successfully, middle market firms can create meaningful and advantageous digital experiences across the customer journey.



About This Report

THE U.S. MIDDLE MARKET

The U.S. middle market comprises nearly 200,000 companies that employ 44.5 million people and generate more than \$10 trillion in combined revenue annually. The middle market is defined by companies with annual revenues between \$10 million and \$1 billion. In addition to their geographic and industry diversity, these companies are both publicly and privately held and include family-owned businesses, sole proprietorships, and private equity-owned companies. While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private-sector GDP and jobs. The U.S. middle market is the segment that drives U.S. growth and competitiveness.

THE IMPORTANCE OF DIGITIZING THE CUSTOMER EXPERIENCE

Experts agree that a superior customer experience is no longer a nice-to-have; it's a must have. And in a world where technology plays an increasingly starring role in all touchpoints along the customer journey, digitally-savvy companies have a competitive edge. Yet, many businesses struggle to find ways to meaningfully connect with their customers on digital platforms. Middle market firms, in particular, face challenges when it comes to integrating digital solutions into the customer experience: Only 38% claim to be very adept at the process. Those who have figured it out—the 21% of middle market businesses that we've dubbed Digitally Strategic—are capitalizing on the advantages it affords in more ways than one. Strategic use of digital assets in managing the customer experience is positively impacting all areas of their businesses, from customer service, to productivity, to performance visibility. And these firms post some of the highest year-over-year revenue and growth rates in the middle market. Understanding how these firms integrate customer experience digitization in their businesses, and the advanced tools they are using to transform how customers experience their brands, can help the middle market as a whole do a better job of transforming the customer experience and, thus, a better job of competing with larger firms for customers and market share.

HOW THE RESEARCH WAS CONDUCTED

The National Center for the Middle Market surveyed 400 strategic decision makers from middle market companies who share responsibility for managing the customer experience. The Center designed the survey to understand how middle market companies view the customer experience, uncover what actions they are taking to digitize that experience, evaluate the impact of digitization, and understand the obstacles to customer experience digitization. Respondents completed the 20-minute, self-administered survey online between August 16, 2017 and August 28, 2017. This report was designed and prepared by the National Center for the Middle Market, in consultation with the American Marketing Association and Shashi Matta, Clinical Associate Professor of Marketing, at Fisher College of Business.

THE NATIONAL CENTER FOR THE MIDDLE MARKET

The National Center for the Middle Market is a collaboration between The Ohio State University's Fisher College of Business, SunTrust Banks, Inc., Grant Thornton LLP, and Cisco Systems. It exists for a single purpose: to ensure that the vitality and robustness of middle market companies are fully realized as fundamental to our nation's economic outlook and prosperity. The Center is the leading source of knowledge, leadership, and innovative research on the middle market economy, providing critical data analysis, insights, and perspectives for companies, policymakers, and other key stakeholders, to help accelerate growth, increase competitiveness and create jobs in this sector. To learn more visit: www.middlemarketcenter.org.

THE AMERICAN MARKETING ASSOCIATION

The American Marketing Association (AMA) is the essential community for marketers. The AMA leads an unparalleled discussion on marketing excellence and provides opportunities for marketers and academics to connect with the people and resources they need to be successful and to provide solutions for both today and tomorrow. Through differentiated content from unrivaled scholarly journals, like the Journal of Marketing, and award-winning publications, like Marketing News, AMA focuses on the tension between Best Versus Next Practices™. To learn more visit: www.ama.org.



The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused on the U.S. Middle Market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. Stay connected to the Center by contacting middlemarketcenter@fisher.osu.edu.



From business as usual to business unusual, Fisher College of Business prepares students to go beyond and make an immediate impact in their careers through top-ranked programs, distinguished faculty and a vast network of partnerships that reaches from the surrounding business community to multinationals, nonprofits and startups across the globe. Our students are uniquely prepared and highly sought, leveraging Fisher's rigorous, experiential learning environment with the resources of Ohio State, a premiere research university with 500,000 proud Buckeye alumni.



SunTrust Banks, Inc. is a purpose-driven company dedicated to Lighting the Way to Financial Well-Being for the people, businesses and communities it serves. Headquartered in Atlanta, the company has three business segments: Wholesale Banking, Consumer Banking and Private Wealth Management, and Mortgage. Its flagship subsidiary, SunTrust Bank, operates an extensive branch and ATM network throughout the high-growth Southeast and Mid-Atlantic states, along with 24-hour digital access. Certain business lines serve consumer, commercial, corporate and institutional clients nationally. As of December 31, 2015, SunTrust had total assets of \$191 billion and total deposits of \$150 billion. The company provides deposit, credit, trust, investment, mortgage, asset management, securities brokerage, and capital market services. SunTrust's Internet address is suntrust.com.



Founded in Chicago in 1924, Grant Thornton LLP (Grant Thornton) is the U.S. member firm of Grant Thornton International Ltd, one of the world's leading organizations of independent audit, tax and advisory firms. In the United States, Grant Thornton has revenue in excess of \$1.3 billion and operates 57 offices with more than 500 partners and 6,000 employees. Grant Thornton works with a broad range of dynamic publicly and privately held companies, government agencies, financial institutions, and civic and religious organizations. "Grant Thornton" refers to Grant Thornton LLP, the U.S. member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Please see grantthornton.com for further details.



Cisco is the worldwide leader in IT that helps companies seize the opportunities of tomorrow by proving that amazing things can happen when you connect the previously unconnected. At Cisco customers come first and an integral part of our DNA is creating long-lasting customer partnerships and working with them to identify their needs and provide solutions that support their success. Learn more at cisco.com.