



How Digital Are You?

Middle Market Digitization Trends and How Your Firm Measures Up

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET AND MAGENTO
WITH RALPH GRECO OF THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS
AND KATI SUOMINEN OF NEXTRADE GROUP, LLC



NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With



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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 and sole proprietorships. 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.

DIGITIZATION PRACTICES

Technology and advanced digital tools are essential to sustainable growth among firms of all sizes. Middle market companies looking to compete with each other and with their larger and smaller peers can use digitization as one of the means of making operations more efficient and productive, cutting costs, building stronger customer relationships, increasing revenues, and gaining greater visibility into their operations and markets. Understanding how middle market companies view digitization, as well as what drives and what hinders digitization success, provides important insight that can help inform best practices for middle market executives looking to gain an edge.

HOW THE SURVEY WAS CONDUCTED

The National Center for the Middle Market, in partnership with Magento, surveyed 500 C-level middle market executives with responsibility for company strategy and business process implementation. The Center and Magento designed the survey to gauge attitudes toward digitization practices and benefits, determine firms' digital readiness and digital performance capabilities, and identify trends in digitization spending. Respondents completed the 15-minute, self-administered survey online between October 2, 2015 and October 9, 2015. This report was jointly designed and prepared by the National Center for the Middle Market and Magento in collaboration with Ralph Greco, Director of the Business Analytics Initiative at The Ohio State University Fisher College of Business, and Kati Suominen, Founder and CEO of both Nextrade Group, LLC and Trade Up Capital Fund; Adjunct Professor at UCLA Anderson School of Management; and Adjunct Fellow, Center for Strategic and International Studies (CSIS).

THE NATIONAL CENTER FOR THE MIDDLE MARKET

Founded in 2011 in partnership with GE Capital, and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research 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. The Center's website, which offers a range of tools and resources for middle market companies, can be visited at www.middlemarketcenter.org.

MAGENTO COMMERCE

Trusted by more than 250,000 businesses worldwide, Magento Commerce is the leading provider of open omnichannel innovation to retailers, brands and branded manufacturers across retail B2C and B2B industries. In addition to its flagship open source digital commerce platform, Magento Commerce boasts a strong portfolio of cloud-based omnichannel solutions empowering merchants to successfully integrate digital and physical shopping experiences. With over \$50B in gross merchandise volume transacted on the platform annually, Magento Commerce is the dominant provider to the Internet Retailer Top 1000, counting more than double the clients to the next closest competitor, and to the Internet Retailer Hot 100. Magento Commerce is supported by a vast global network of solution and technology partners, a highly active global developer community and the largest e-commerce marketplace for extensions available for download on the Magento Marketplace. More information can be found at www.magento.com.

NEXTRADE GROUP, LLC

Nextrade Group is a Los Angeles-based research and platform company that helps leading governments, multilateral development banks, think tanks, trade associations, and corporations to propel trade and digitization in the 21st century global digital economy. Since its founding in 2013, Nextrade has been hired by such global clients as the World Bank, Inter-American Development Bank, Asian Development Bank, Brookings Institution, the United Nations, U.S. Agency for International Development, and the U.S. Small Business Administration. Learn more at www.nextradegroupllc.com.

Executive Summary

The majority of middle market companies place high importance on digitization—the process of converting manual, paper-based, or offline business processes to online, networked, computer-supported processes that facilitate a real-time operating and decision-making environment—relative to other business priorities. For the most part, middle market leaders see digitization in its traditional role: as a means for achieving efficiencies, reducing errors, and cutting the cost of operating their business and serving their customers. To that end, the majority of middle market firms have deployed, or are in the process of deploying, a variety of digital tools and processes to facilitate and streamline sales and marketing, distribution and logistics, workflow and operations, and finance and human resources.

More and more, however, companies are viewing digitization as a catalyst to business transformation. Beyond digitizing individual activities, these companies envision larger-scale organizational change that affects everything from operational excellence to corporate culture, interactions with customers, and how value is created and captured.

An increasing portion of middle market digital spending is being directed toward innovation, analytics, and business strategy development. Already, companies invest about one in every five digitization dollars on projects in these areas, such as e-commerce platforms, computer-aided design, open innovation platforms, and digital tools for new product and service development. What's more, future digitization spending is likely to increase most in these same areas, making digitization a key component in future business growth in addition to a capability that enhances current business operations and practices.

While digitization efforts appear widespread among most types of companies and these companies anticipate increasing their digitization spending in the coming year, there is clearly room for improvement in digitization practices at most firms. Just over a third of middle market organizations view themselves as digital leaders. Indeed, when asked to “grade” their companies on digitization performance, middle market executives most commonly award themselves a Digitization Grade Point Average of 2.8—a C+.

The problem appears to have two dimensions. First, the pace of digitization is not keeping up with the speed of business change. A quarter of middle market companies say digitization happens slowly at their firms. Second, individual digitization projects are not always clearly connected to a larger goal of digital business transformation. The reality is, the road to digital transformation is long and progress is often delayed by cumbersome legacy systems, a lack of internal expertise, a resistance to outsourcing, and a lack of overall management support. Even though executives deem the vast majority of individual digitization projects successful, initiatives can often take three years or more to pay off and synergies among projects are elusive. As a result, business leaders see improvement, but not transformation, as individual digitization efforts fail to come together to significantly move the needle for their companies.

Companies that do find a path toward digital transformation—perhaps by articulating clearly what their digitized enterprise will look like and planning projects and investments to realize this vision—are realizing a higher return overall as well as on their individual digitization projects. Rapid digitization is positively correlated with growth, and the fastest growing middle market firms are also more inclined to prioritize digitization investment and to consider themselves digital leaders in their industries.

DEFINITION OF DIGITIZATION

For the purposes of the survey, respondents were asked to keep the following definition in mind:

Digitization: taking manual, paper-based, or offline business processes and converting them to online, networked, computer-supported processes. **The goal of digitization is to** standardize, automate, and integrate systems and data so as to create a real-time operating and decision-making environment.

Key Takeaways for Middle Market Firms



THE FASTEST-GROWING MIDDLE MARKET COMPANIES ARE DIGITALLY SAVVIER THAN THEIR PEERS

While the majority of middle market companies recognize the importance of digitization, some firms place greater emphasis on digital tools and techniques than their counterparts. Companies experiencing rapid growth (10%+ annual revenue growth), along with companies in the business services and healthcare industries, are the most likely to consider digitization extremely important to their success. These businesses are also the most likely to rate themselves as digitally advanced. They enjoy a faster pace of digitization and achieve a greater ROI from their digitization efforts.



DIGITIZATION SPENDING IS MOVING FROM THE BACK OFFICE TO THE FRONT LINE

Today, most digitization projects pertain to keeping the lights on—how a business manages information (accounting, finance, and HR)—and to operating the current business (logistics, operations, marketing, service, and sales including B2B and B2C e-commerce). However, middle market businesses allocate a significant 19% of digitization dollars to innovation and strategy development projects, which more directly affect a company's future revenue streams and growth. Looking forward, 42% of companies anticipate increasing or significantly increasing digitization spending on business analytics and strategy development, while 39% expect to up the digitization budget for innovation projects, representing some of the greatest expected future increases in digitization spending.



COMPANIES ENJOY NEARLY A 28% ROI ON THEIR DIGITIZATION PROJECTS

Close to 90% of middle market companies rate their latest digitization project as a success, measured in part in terms of ROI. Companies expect a high return on these projects—30%—and apparently manage them well, since the actual mean rate of return is 27.5%. The fastest-growing middle market firms and those experiencing a rapid rate of digitization earn even more on their investments, enjoying mean returns of 38% and 37% respectively. Companies that spend the most on digitization (10% or more of annual revenues) do better yet: they expect an ROI of 44% and achieve a return of 39%. These bigger spenders tend to be the best-performing middle market firms, perhaps, in part, because they are digitizing and the resulting operational efficiencies drive higher profits and ROIs.



COMPANIES DON'T ALWAYS CONNECT INDIVIDUAL DIGITIZATION SUCCESSES TO AN OVERALL BUSINESS TRANSFORMATION

Despite individual digitization project success, firms are only marginally satisfied with digitization practices within their organizations. Indeed, their self-assessed "Digital Grade Point Average" is 2.8 on a scale of 0-4, the equivalent of a C+. The slow pace of large-scale business change resulting from digitization projects—even successful digitization projects—coupled with the length of time it takes to see a payoff are serious causes of concern and frustration for middle market leaders, blurring the connection between project success and overall progress for the company.



MOST FIRMS HANDLE DIGITIZATION IN-HOUSE; BUT TALENT CAN BECOME AN OBSTACLE

Middle market companies evince a strong desire to manage digitization projects in-house rather than rely on outside consultants—70% of spending is directed internally. At the same time, however, a large majority of executives (65%) cite a lack of talent as an obstacle to their digitization efforts. Investing in more training for employees and/or shifting more of the digitization spend to consultants, software companies, and technology providers may lead to a greater overall satisfaction rate with digitization practices.

The Digitization Landscape:

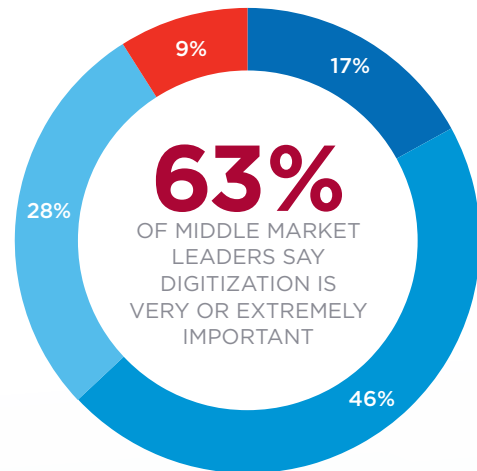
Digitization is a priority, especially for driving efficiencies and cutting costs

Importance of Digitization

A solid majority of middle market leaders—63%—say that digitization is very or extremely important relative to other business priorities. Across the middle market, fewer than one in 10 leaders say digitization is not important at all.

Leaders from the largest middle market companies, with \$100 million to \$1 billion in annual revenues, and those in the services, technology, and healthcare fields are significantly more likely than their colleagues to place a premium on digitization.

LEVEL OF IMPORTANCE OF DIGITIZATION RELATIVE TO OTHER BUSINESS PRIORITIES



■ Extremely Important ■ Very Important
■ Somewhat Important ■ Not Very/At All Important

Importance of Digitization By Company Size and Industry

For the purpose of analysis, we divided companies' digital spending among three buckets: managing back office functions (finance, payroll, and other housekeeping tasks), supporting current business (logistics, operations, sales, and marketing), and developing future business (strategy, innovation, analytics). All companies, regardless of industry or size, ascribe roughly equal importance to first category, back office functions. Differences start to appear in the second and third categories.

When it comes to supporting current business functions, 72% of the largest middle market firms (\$100 million to \$1 billion in annual revenues) prioritize digitization to deliver customer experience compared to just 62% of core middle market firms (\$50 million to \$100 million in annual revenues)

and 58% of small middle market companies (\$10 million to \$50 million in annual revenues). Similarly, 56% of the largest companies say digitization is important for managing inbound logistics compared to 45% of core companies and 43% of the smallest middle market businesses.

The larger firms are also more likely to place importance on digital capabilities needed to conduct business analytics, develop strategy, and support innovation. Specifically, 68% of the largest firms say digitization is important for improving performance in businesses analytics and strategy development compared to 63% of core firms and 58% of smaller firms. For the larger middle market companies, the emphasis on these "higher-order" digitization functions may be a function of greater business complexity, deeper pockets, or both.

IMPORTANCE OF DIGITIZATION BY COMPANY SIZE & INDUSTRY

		EXTREMELY IMPORTANT	VERY IMPORTANT	SOMEWHAT IMPORTANT	NOT VERY IMPORTANT
COMPANY SIZE	\$10-<\$50M	15%	40%	34%	11%
	\$50M-<\$100M	15%	49%	23%	13%
	\$100M-<\$1B	20%	52%	22%	6%
INDUSTRY	BUSINESS SERVICES/ TECHNOLOGY	24%	51%	18%	6%
	MANUFACTURING	19%	36%	38%	6%
	RETAIL/ WHOLESALE TRADE	8%	41%	29%	22%
	FINANCIAL/INSURANCE /REAL ESTATE	13%	55%	24%	9%
	HEALTH PRODUCTS/ SERVICES	19%	53%	21%	7%
	ALL OTHERS	15%	45%	30%	10%

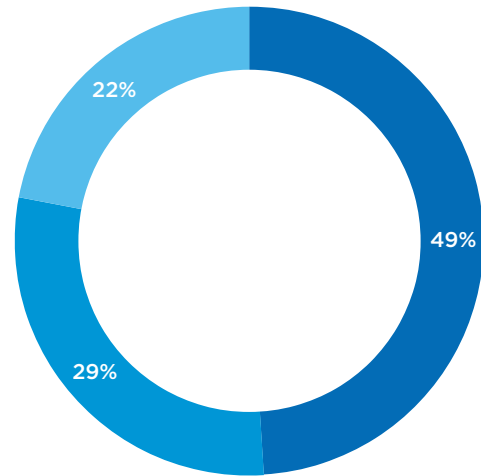
Digitization Drivers and Benefits

Half of all digitization efforts in middle market firms are currently implemented as a means for improving efficiency and cutting costs, perhaps because most firms' digitization emphasis remains on the back office. Information technology can streamline a wide range of business functions—accounting and payroll processing, inventory and customer relationship management, and regulatory compliance and reporting, to name a few—all while cutting error rates and labor costs and reducing paper usage, clutter, and storage.

Some digital projects—about three in 10—provide an avenue to increase revenues and better connect with customers. Companies view digitization as enabling better and faster service and response times. Digital tools also facilitate better communication with customers about product and service offerings.

To a lesser degree, companies undertake digitization projects as a way to gain full visibility into business operations. They enjoy easier, faster, and remote access to data. They can better organize large data sets, and they benefit from improved data security. Taken together, such benefits often translate into better and faster decision making.

PROPORTION OF EFFORTS DIRECTED TOWARDS DIFFERENT DIGITIZATION AREAS



- Chiefly to improve efficiency, cut costs, etc.
- Chiefly to increase revenue, connect with customers, etc.
- Gain full visibility of business by digitizing all processes, leading to a 360 degree view of consumer and operations

LEADING BENEFITS OF DIGITIZATION

- + PRODUCTIVITY/EFFICIENCY
- + COST SAVINGS
- + EASY ACCESS TO DATA
- + DATA SECURITY

- + BETTER COMMUNICATIONS
- + ERROR REDUCTION
- + CUSTOMER MANAGEMENT (RELATIONSHIPS)

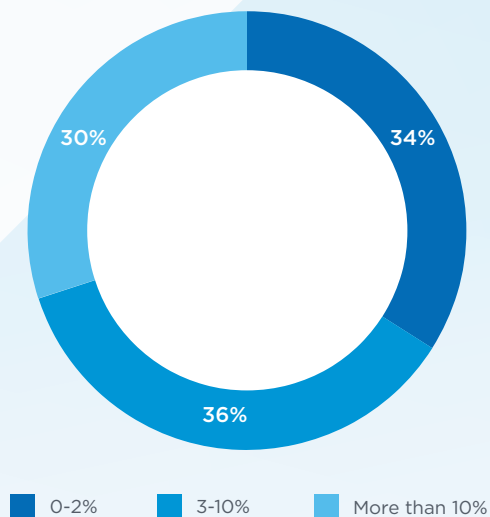
Digitization Spending:

Spending is increasing for future state-of-business initiatives

Current Spending

Over the past 12 months, middle market companies spent an average of 12% of revenues on digitization projects. Those companies that spend more on digitization include the largest middle market firms (14.8% of revenues spent in the past 12 months), companies in the business services/technology (14.3%) and healthcare (15.5%) segments, and firms in which digitization takes place at a rapid pace (16.7%). These big spenders have a number of traits in common. They are likely to consider themselves leaders in digitization and they express greater overall satisfaction with digitization practices in their firms. They are also more likely to hire external consultants to help with their efforts. Big spenders expect and earn a greater rate of return on their investments, and they place more importance on digitization efforts that relate to revenue generating projects, that is customer service and sales.

CURRENT PERCENTAGE OF REVENUE SPENT ON DIGITIZATION



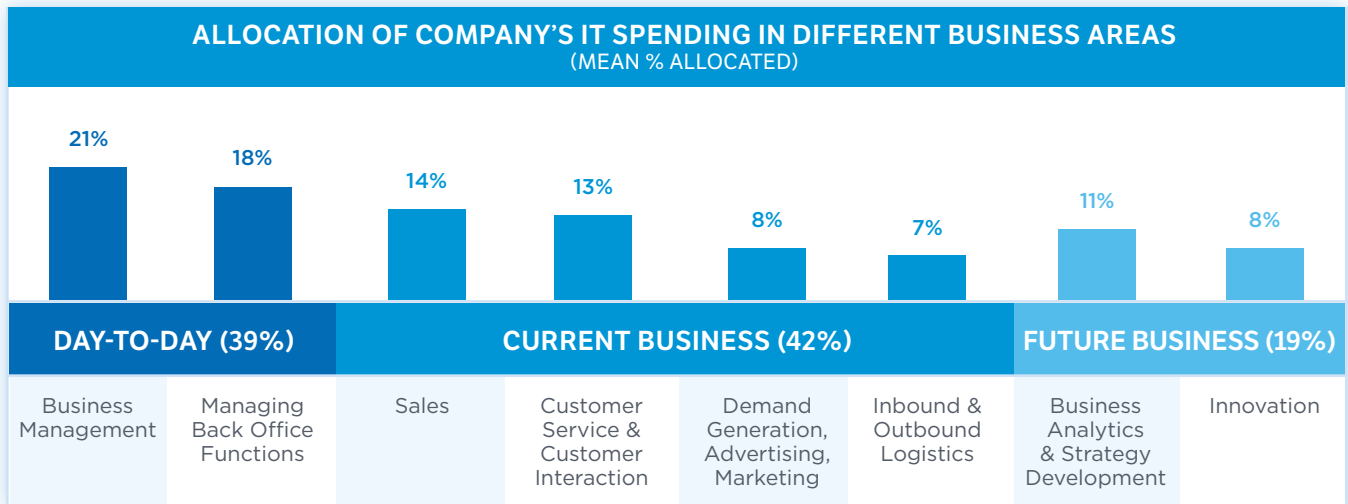
PERCENTAGE OF REVENUE SPENT ON DIGITIZATION PROJECTS IN PAST 12 MONTHS

		0-2%	3-10%	MORE THAN 10%	MEAN
COMPANY SIZE	\$10-<\$50M	37%	36%	27%	10.5
	\$50M-<\$100M	33%	43%	24%	10.2
	\$100M-<\$1B	32%	33%	35%	14.8
INDUSTRY	BUSINESS SERVICES/ TECHNOLOGY	24%	40%	36%	14.3
	MANUFACTURING	37%	45%	18%	7.8
	RETAIL/ WHOLESALE TRADE	47%	22%	31%	12.6
	FINANCIAL/INSURANCE /REAL ESTATE	40%	42%	18%	11.4
	HEALTH PRODUCTS/ SERVICES	26%	33%	42%	15.5
	ALL OTHERS	36%	32%	32%	12.0

Spending Allocations

Regardless of the amount spent, middle market companies allocate about 40% of their digitization dollars to housekeeping and back office functions, like accounting and HR processes. An additional 40% (approximately) of digitization spending goes toward initiatives for facilitating

current business, such as sales, customer service, marketing, and logistics. The remaining 20% (nearly one in five dollars) is invested in innovation, analytics, and strategy development—efforts that will drive future growth and profitability for these companies.

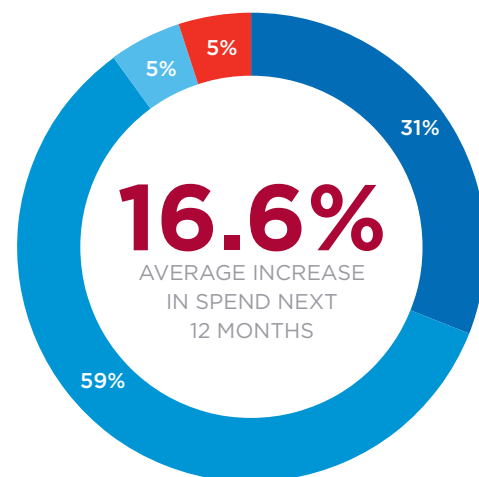


Future Spending

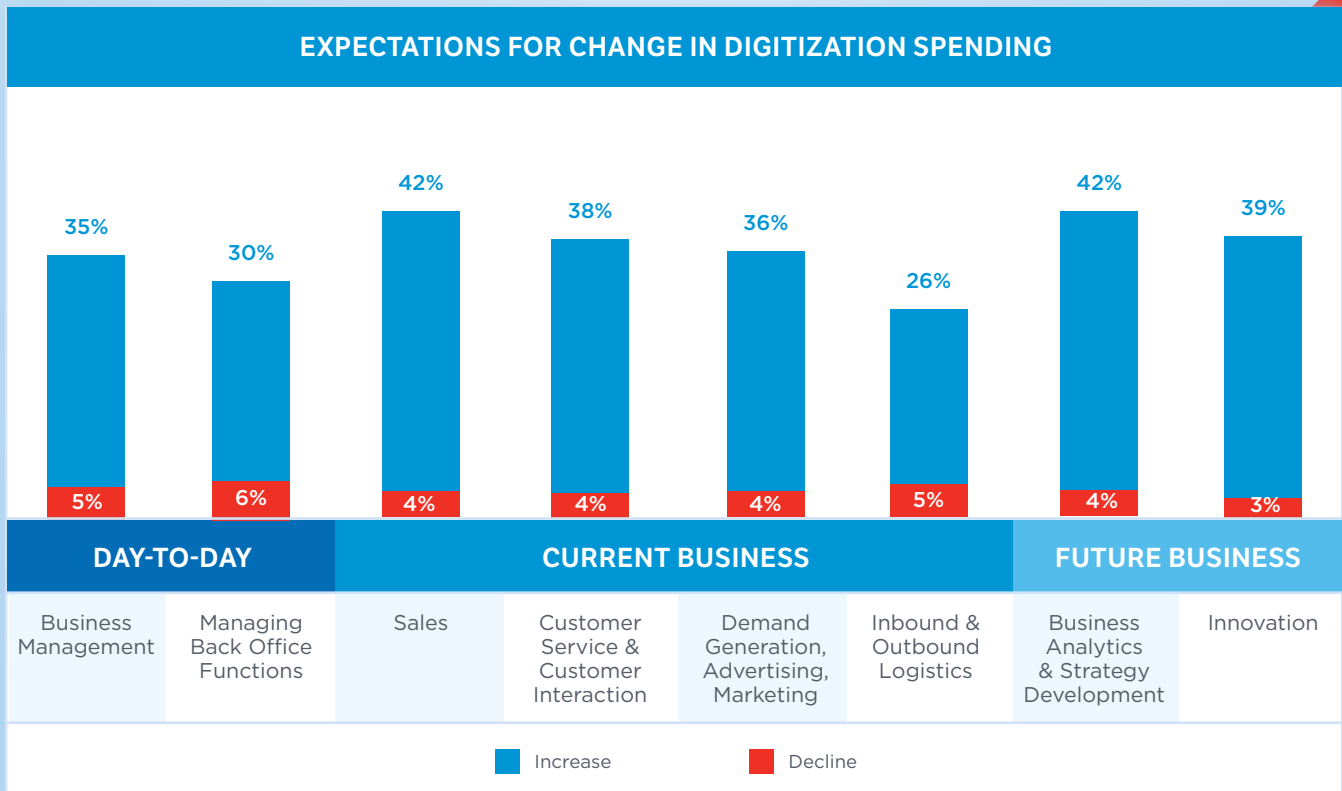
Almost one-third of middle market firms expect to significantly increase their digitization spending in the next 12 months by an average bump of 16.6%. The largest middle market firms and those in the business services/technology sectors—which have been big spenders in the past—will keep spending, with 35% of companies in each category expecting to increase digitization spending over the next 12 months. Additionally, 37% of core (mid-sized) middle market companies and 29% of businesses in the retail sector plan to increase digitization spending.

While spending increases are expected across the board, the largest increases are anticipated in the areas of business analytics, strategy, and innovation as companies move beyond digitizing their core business functions and begin to focus new projects on processes that more directly impact companies' future offerings and operations.

CHANGE IN SPENDING ALLOCATION



NEXT 12 MONTHS CHANGE IN SPENDING ALLOCATION						
		INCREASE	STAY THE SAME	DECREASE	DON'T KNOW	AVERAGE CHANGE
COMPANY SIZE	\$10-<\$50M	26%	60%	6%	8%	16.0
	\$50M-<\$100M	37%	58%	2%	2%	17.0
	\$100M-<\$1B	35%	57%	4%	4%	17.1
INDUSTRY	BUSINESS SERVICES/ TECHNOLOGY	35%	55%	6%	5%	18.1
	MANUFACTURING	28%	64%	5%	3%	5.6
	RETAIL/ WHOLESALE TRADE	29%	57%	2%	12%	22.8
	FINANCIAL/INSURANCE /REAL ESTATE	20%	73%	2%	5%	16.4
	HEALTH PRODUCTS/ SERVICES	26%	56%	12%	7%	22.4
	ALL OTHERS	36%	55%	4%	5%	17.2



Digitization Performance:

Most firms give themselves a C+ for their digitization efforts

Digital Readiness

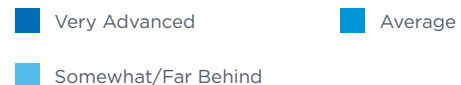
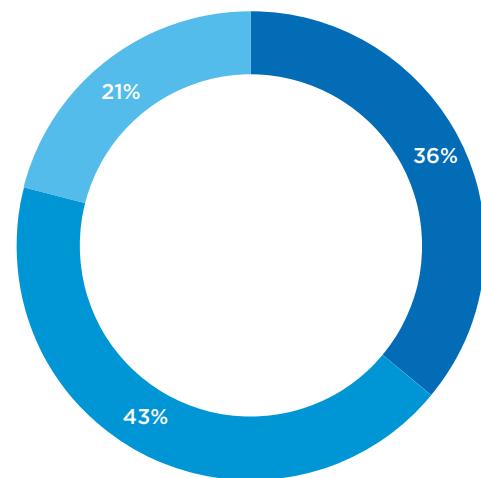
Middle market companies are most likely to believe they are keeping pace with their colleagues when it comes to digital readiness and transformation, with 43% of companies saying they are average compared to other firms in their industries. Just over a third (36%) of businesses consider themselves very advanced or ahead of the pack, while about two in 10 feel they are lagging behind.

Some types of firms are more likely to put themselves in the digital leadership than others. Notably, a strong correlation exists between digital excellence and top-line growth. Fully 49% of companies growing at an annual rate of 10% or more consider themselves to be digitally advanced versus 36% of the market as a whole.

Not surprisingly, companies that emphasize the importance of digitization—large middle market firms, business services companies, and healthcare organizations—also claim to be more digitally savvy than their peers.

Furthermore, the 17% of firms that rank digitization as extremely important are the most likely to consider themselves very advanced in the digital arena: 62% of these digitally-focused organizations rate themselves as leaders. These businesses are also likely to spend more heavily on IT in general and on new projects specifically.

DIGITAL READINESS COMPARED TO OTHER COMPANIES



DIGITAL READINESS COMPARED TO OTHER COMPANIES

		VERY ADVANCED	AVERAGE	SOMEWHAT/ FAR BEHIND
COMPANY SIZE	\$10-<\$50M	32%	45%	23%
	\$50M-<\$100M	27%	54%	19%
	\$100M-<\$1B	45%	36%	19%
INDUSTRY	BUSINESS SERVICES/ TECHNOLOGY	50%	38%	12%
	MANUFACTURING	26%	53%	21%
	RETAIL/ WHOLESALE TRADE	20%	45%	35%
	FINANCIAL/INSURANCE /REAL ESTATE	36%	49%	15%
	HEALTH PRODUCTS/ SERVICES	47%	41%	12%
	ALL OTHERS	35%	38%	27%

WHICH FIRMS ARE THE MOST DIGITALLY READY?

36%
OF MIDDLE MARKET COMPANIES OVERALL

45%
OF LARGE MIDDLE MARKET FIRMS

47%
OF MIDDLE MARKET HEALTHCARE FIRMS

49%
OF FAST-GROWING MIDDLE
MARKET BUSINESSES

50%
OF BUSINESS SERVICES/
TECHNOLOGY COMPANIES

62%
OF MIDDLE MARKET COMPANIES THAT RATE
DIGITIZATION AS EXTREMELY IMPORTANT

Digitization Performance

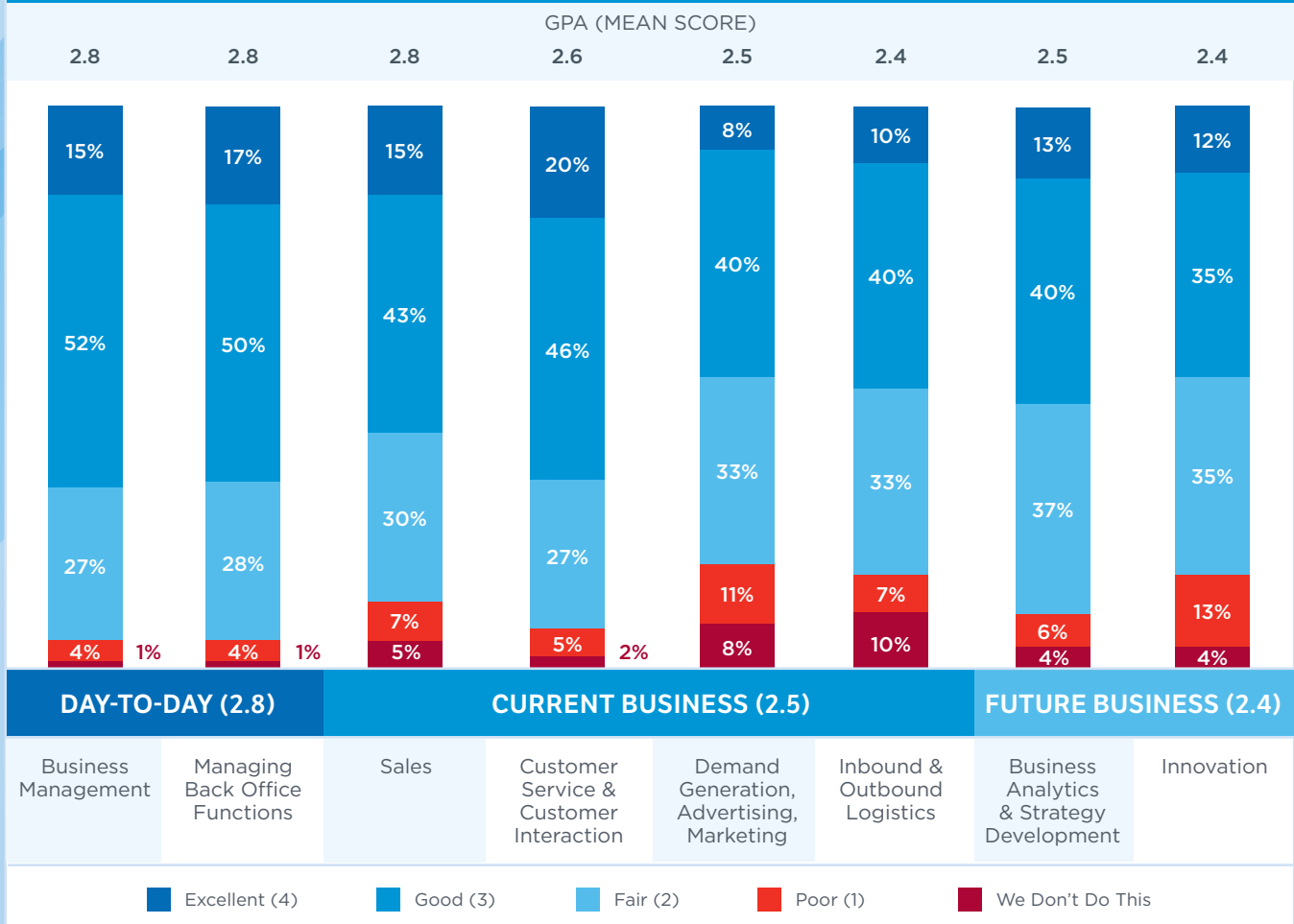
The survey asked middle market companies to rate their excellence in digitization (overall and for specific digitization activities) on a scale from 0 to 4, where a rating of 0 means the company is not engaged in the activity at all, and a rating of 4 means the company is excellent in the area. The results provide a meaningful Digitization Grade Point Average or Digitization GPA for the middle market.

Using this grading strategy, most middle market companies across revenue segments, industry sectors, and geographies give themselves a B or a C for their digitization efforts. Companies score the highest Digitization GPA when it comes to the essentials, with a mean score of 2.8. In other words, middle market firms

do best at automating and leveraging technology for functions such as payroll, accounting, and HR management, but even in this area do not claim to be excellent.

The Digitization Grade Point Average drops to 2.5 for performance related to customer-facing business activities, including sales, customer service, logistics, and advertising and marketing activities. Companies are somewhat less adept at digitization when it pertains to their organizations' futures, such as business analytics, strategy development, and innovation. Here, companies report a Digitization GPA of 2.4. Indeed, companies are just as likely to give themselves a C as they are to score a B for innovation-related digitization.

DIGITIZATION GRADE POINT AVERAGE: COMPANIES' PERFORMANCE IN DIFFERENT DIGITIZATION AREAS

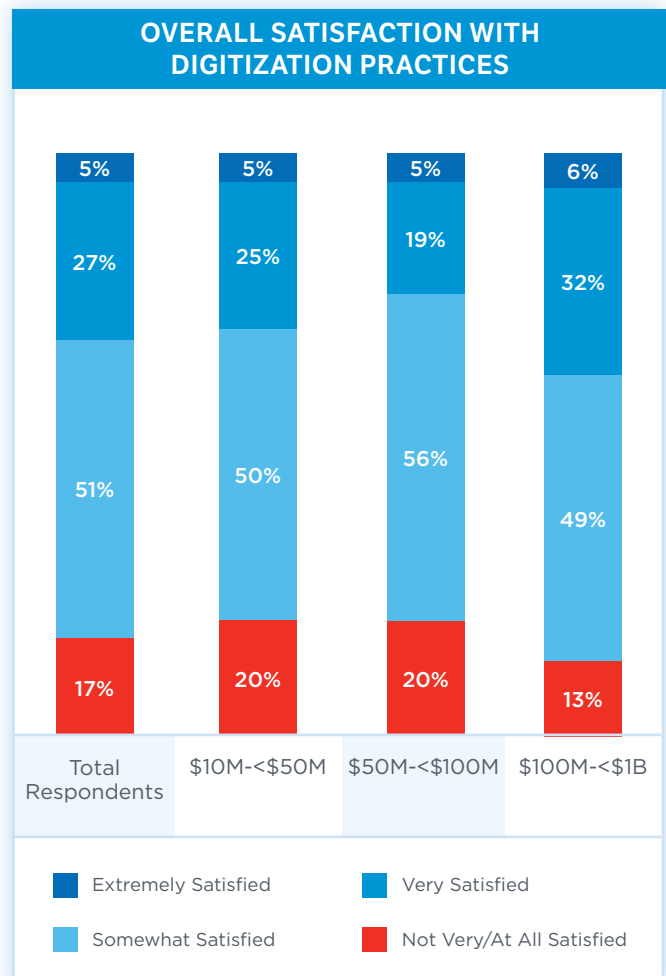


Digitization Satisfaction:

Most middle market business leaders are only somewhat satisfied with digitization practices

With the majority of middle market firms averaging a 2.8 Digitization GPA, it's not surprising that companies are only marginally satisfied with digitization practices at their firms. Just one-third of firms are very to extremely satisfied, although this figure rises slightly to 38% for the largest middle market companies. Across the board, approximately one in five business leaders say they are not satisfied with digitization practices at all, with leaders from small and core middle market companies most likely to fall into this category.

*Most middle market business leaders are only **somewhat satisfied with their firm's digitization practices.***

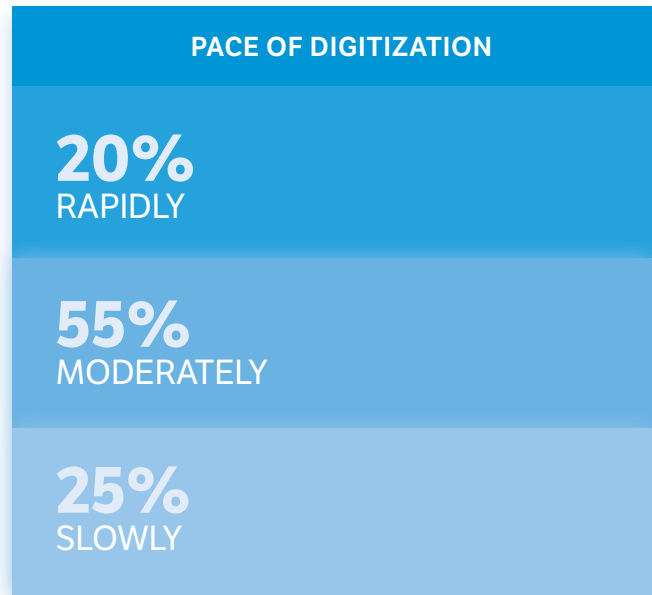


Slow Progress Drives Dissatisfaction

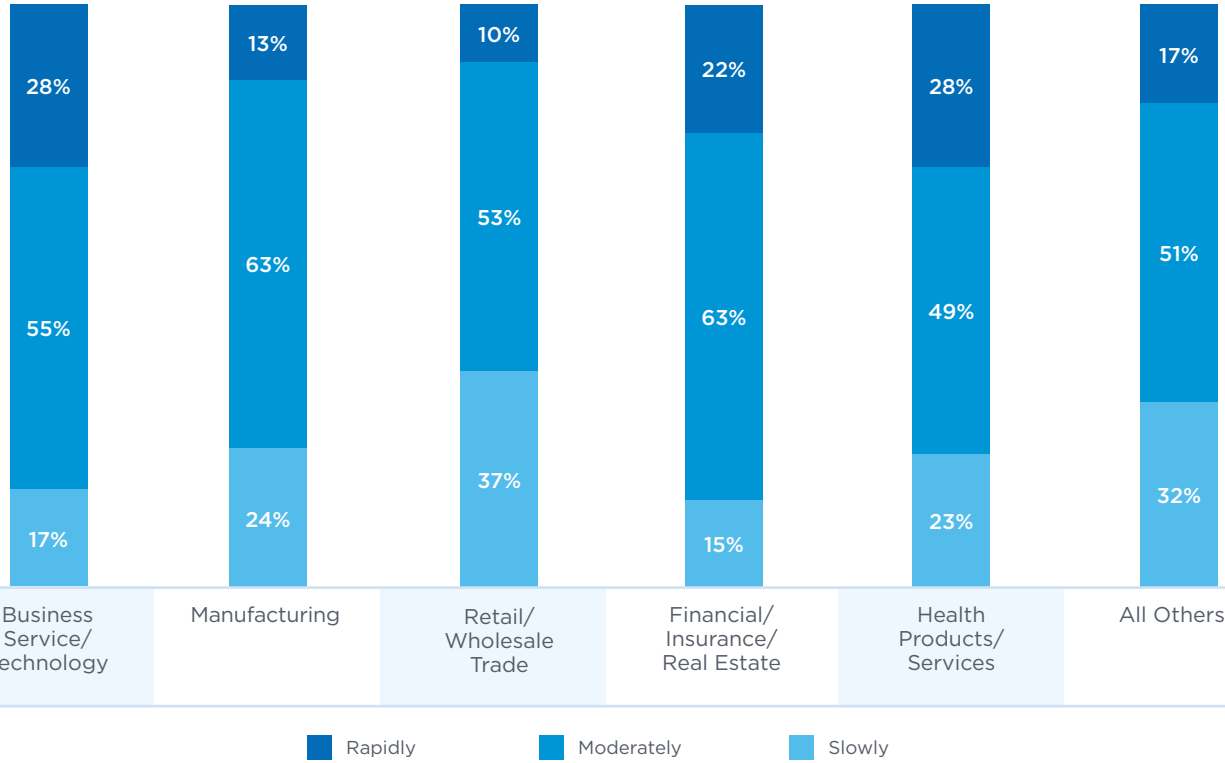
The primary driver of digitization dissatisfaction is the length of time it takes to make significant progress, realize true transformation in the business, and earn a return on investment. While a slight majority of middle market leaders say that digitization takes place at a moderate rate, a quarter of firms say the process is slow, and only one in five say it is fast. Workflow challenges, such as cumbersome legacy systems, combined with a failure to prioritize the implementation of digitization efforts contribute to the problem.

It should be noted, however, that the fastest growing middle market businesses, as well as service and healthcare companies, are somewhat more likely to report a rapid pace of digitization. These are the same types of firms that are more likely to prioritize digitization and to consider themselves leaders in the digital arena.

Rate of return is also slow for most firms. On average, digitization projects take three years to pay off. For many firms, the wait can be even longer, up to five years or more, making it even more difficult for middle market leaders to associate such efforts with their companies' overall success. What's more, since many digitization projects focus on essentials, such as automating accounting, for example, there is less of direct connection between the project and new revenue or growth for the business.



PACE OF DIGITIZATION (BY INDUSTRY)



NUMBER OF YEARS IT TAKES FOR DIGITIZATION PROJECTS TO PAY OFF



■ 5 Years or More
 ■ 3-4 Years
 ■ 1-2 Years
 ■ Less Than One Year
 ■ Don't Know

Lack of Knowledge, Talent, and Management Support

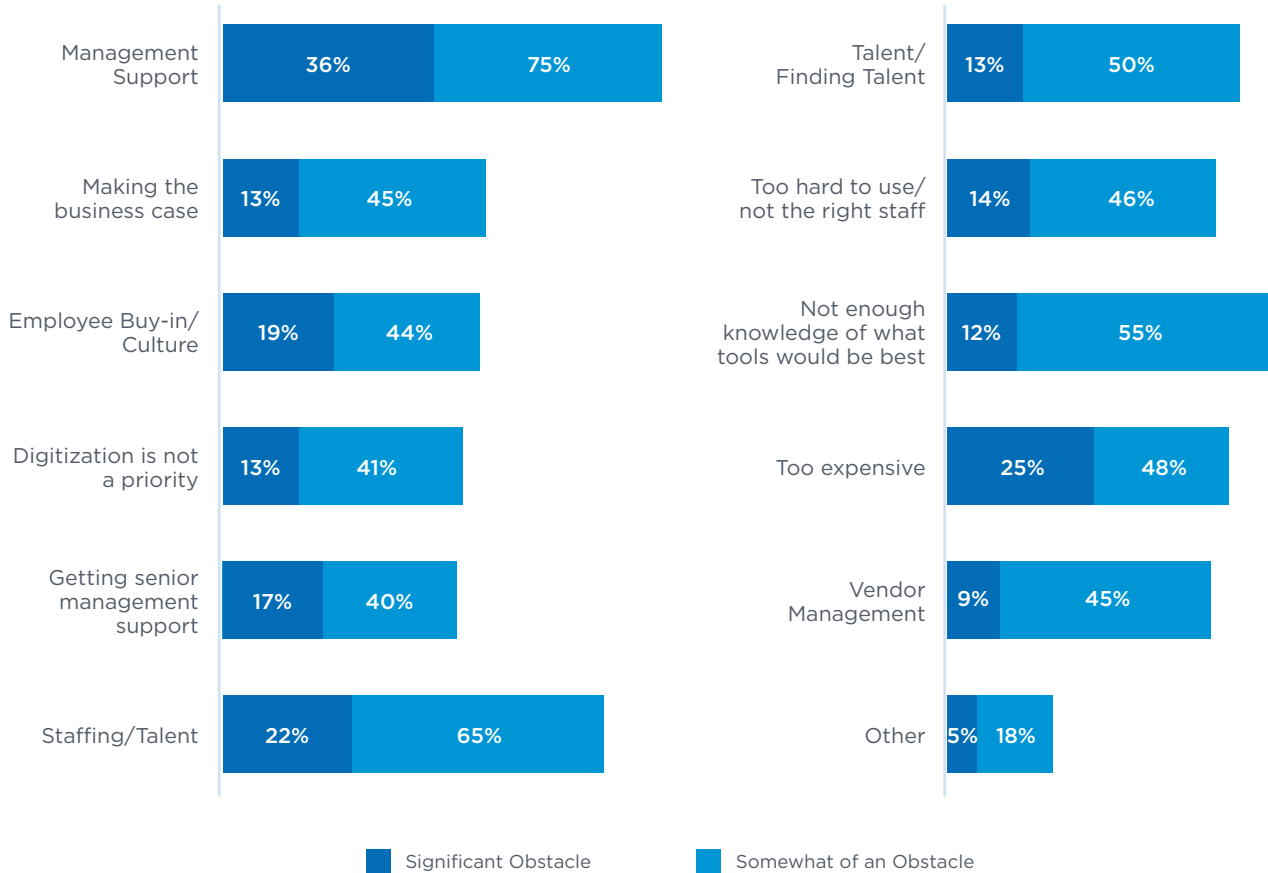
For many middle market companies, the major obstacles to digital efforts are a lack of management support, inadequate talent, and insufficient knowledge. Three-quarters of firms say that management issues—including a lack of senior management buy-in and failure to prioritize digitization—are an obstacle, with 36% of companies saying management issues are a significant barrier.

Not having the right talent on board is a problem for 65% of businesses. Despite this, digitization efforts are heavily weighted toward using internal resources.

On average, companies allocate only 32% of the total digitization spend to outside consultants and experts. This proportion is fairly stable across all middle market revenue segments and industries.

Lack of knowledge about the best tools is an impediment to digitization for 55% of middle market companies. To a lesser extent, the cost of digitization and issues with vendor management also stand in the way of digitization satisfaction.

COMMON DIGITIZATION OBSTACLES



Individual Digitization Projects:

The vast majority of digitization projects succeed

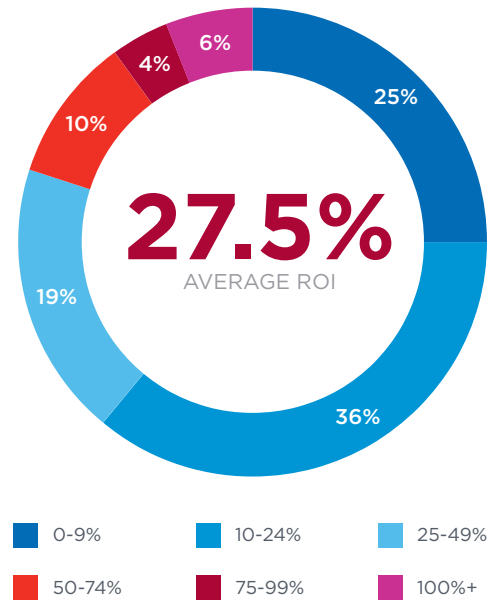
Although digitization efforts can be challenging and time consuming for many middle market companies, individual digitization projects are largely considered a success. In fact, 87% of companies say that their latest digitization effort succeeded.

Middle market leaders measure success primarily in terms of cost savings, time savings, and ROI. They expect and typically achieve a return of about 27.5% on their investment. It is worth noting that there is a just small gap between the 30.3% return companies expect from digitization projects and the 27.5% return they actually achieve—an indication that project management is advanced in middle market companies, at least in the digital area.

The mean ROI is even higher for companies with a rapid rate of digitization, for the fastest growing middle market companies, and for companies that spend the most on digitization. Specifically, the fastest-growing firms (companies that experience 10% plus annual revenue growth) expect and achieve a rate of return of about 38%, while their counterparts that grow more slowly expect a 25% rate of return and earn just 22% on their digitization projects.

Similarly, companies that spend the most on digitization (more than 10% of annual revenues) expect a 44% rate of return and achieve 39% ROI. Those firms that spend between 3% and 10% on digitization have much more muted expectations in comparison: they anticipate an ROI of 25% and achieve an ROI of 22%. The rate of return drops to just 16% for companies that spend 2% or less on digitization.

ACHIEVED RATE OF RETURN ON DIGITIZATION PROJECTS



EXPECTED RATE OF RETURN ON DIGITIZATION PROJECTS

	0-9%	10-24%	25-49%	50-74%	75-99%	100%+	MEAN
TOTAL	25%	33%	17%	14%	3%	7%	30.3%
10%+ GROWTH RATE ANNUAL REVENUE	14%	31%	22%	18%	4%	10%	38.5%
LT 10% GROWTH RATE ANNUAL REVENUE	31%	34%	15%	12%	3%	5%	25.5%
0-2% PAST 12 MO. REV. SPENT ON DIGITIZATION	45%	38%	7%	5%	3%	3%	18.5%
3-10% PAST 12 MO. REV. SPENT ON DIGITIZATION	22%	40%	20%	10%	1%	6%	25.2%
MORE THAN 10% PAST 12 MO. REV. SPENT ON DIGITIZATION	12%	23%	23%	25%	6%	12%	43.8%

ACHIEVED RATE OF RETURN ON DIGITIZATION PROJECTS

	0-9%	10-24%	25-49%	50-74%	75-99%	100%+	MEAN
TOTAL	25%	36%	19%	10%	4%	6%	27.5%
10%+ GROWTH RATE ANNUAL REVENUE	12%	39%	18%	15%	5%	11%	37.6%
LT 10% GROWTH RATE ANNUAL REVENUE	32%	35%	20%	7%	3%	3%	21.9%
0-2% PAST 12 MO. REV. SPENT ON DIGITIZATION	43%	37%	12%	5%	0%	3%	16.4%
3-10% PAST 12 MO. REV. SPENT ON DIGITIZATION	30%	42%	17%	5%	3%	4%	21.6%
MORE THAN 10% PAST 12 MO. REV. SPENT ON DIGITIZATION	9%	32%	26%	17%	7%	8%	39.2%

Implementation of Digital Tools

Middle market companies are adept at implementing digital tools across various business areas, with a clear majority of firms rating their implementation efforts as good. Depending on the tool type and business area, around 20% of firms say they are excellent at implementation.

Cyber security measures are the most popular type of digitization in use by middle market companies today. Nearly three-quarters (73%) of firms have fully deployed, or are in pilot states of deploying such tools.

Other commonly deployed digitization tools and techniques include:

- + Customer relationship and customer experience management tools for sales and marketing teams (67%)
 - + Real-time warehousing and inventory management tools to aid in distribution and logistics (67%)
 - + Electronic invoices and automation for other core financial functions (65%)
 - + Workflow management techniques to streamline operations (64%)
 - + Digital training, learning, and development tools to assist with managing people (64%)
 - + Computer-aided design (CAD) to facilitate innovation (59%)
-

Clearly, digitization affects nearly every functional area within middle market businesses. In spite of obstacles and lengthy project timelines, the majority of middle market firms are successfully implementing the digital tools they need to stay competitive and drive future growth.



From Digital Projects to Digital Transformation: A Look at the Future

By definition, a digital enterprise would be one that uses technology for both back office functions and customer facing functions (internal and external) to stay ahead or separate the company from its competitors.

For a middle market company, becoming a digital enterprise would be more than just using the term “digital DNA” and having a separate team housed somewhere that is working on digitization. It would be a pervasive mentality that the entire corporation shares. All functions, all aspects of the company would be involved, from the base financial systems to product delivery.

So, can you recognize a digital enterprise in your own company or in your competition?

How are your customers handled? How do you view them? Do you have constant feedback from customers on their experience and what are you doing to improve or maintain that experience? Digital tools exist to aid in this quest. Multiple studies have shown that customers will leave after a bad experience, whereas highly satisfied customers are willing to pay more. The digital enterprise today uses a number of methods to reach out to customers and look for their feedback. Facebook, Email, Twitter and other social interactions can provide insight into customer sentiment. Digital enterprises use these interactions to work with customers to solve their concerns, not just collect the feedback and generate a report to be used 30 days after the information came in. Speed of data collection and response is becoming the norm for a digital enterprise.

Do you have one view of your customer, or do you have to go to multiple places to find that information? A digital enterprise has a single view of the customer and is able to track and maintain that view from the first lead through ordering and feedback.

Innovation happens across all aspects of the digital enterprise. Data and analytics can drive innovation. Improving internal processes—product development is an example, can be accomplished through the use of both data (collected thru testing and experimentation) and analytics (what insights can we get from this data). Digital enterprises use these tools to keep ahead of the competition. They move quicker than others because of their willingness to embrace data and analytics. They use a/b testing and are constantly improving their customer-facing websites. They use tools like 3D printers for rapid prototyping. The products generated by the digital enterprise are what customers are looking forward to receiving.

Digital enterprises are constantly looking for digital talent that will provide a competitive advantage. That may mean bringing in individuals from other industries if they are the very good at what they do. As we have seen in the study, many companies feel that they don't have the talent to pull off a digitization program or project. Those that are succeeding have the talent, whether grown from within but more likely brought in from the outside. Digital enterprises bring together people who are experts in their fields and can provide perspective from many industries. It is this talent that will drive the digital enterprise. From their thinking, their experience and their ambitions. Finding those individuals should be a top priority of most companies, and it is in the digital enterprise.





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