The Changing Midmarket IT Landscape

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Midsize Enterprise Summit®

The Changing Midmarket IT Landscape: Moving from Crisis to Recovery

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: The Changing Midmarket IT Landscape — Moving from Crisis to Recovery

The COVID-19 pandemic has shown us that technology is integral to companies around the globe, and technology leaders and IT departments — which until recently were often seen as "necessary extras" — have been thrust into the center of corporate strategy and success. Now, midmarket IT leaders, like their contemporaries in larger companies, must discern how best to support their companies during the "next normal."

Key Takeaways

- 49% of midmarket companies that IDC recently surveyed were still in survival mode, though over half (51%) had moved into recovery mode and were focused on business resiliency, targeted investments, and their future strategy.

- The percentage of digital business among midsize companies is increasing from 36% to 53%; surprisingly, this is consistent with IDC's survey findings from large and enterprise-class companies.

- Exceptional CIOs and their teams avoid thinking only about adding technology on an ad hoc or situational basis; instead, they constantly reinforce the business outcomes associated with a new technology or capability.

Recommended Actions

IDC leaders have discussed the best path forward among themselves and with clients. They see four essential elements of a post-pandemic strategy:

- Foster unity of purpose.
- Trust and empower your people with a compressed chain of command.
- Practice forgiveness and forbearance while asking always for people's best performance.
- Empower and encourage your teams by communicating their collective accomplishments.

Source: IDC, 2020

Meeting the Challenges of COVID-19

In the face of world-changing disruption, a question that every company is now encountering is "what changes will last after the pandemic subsides?" Even as companies cope with a torrid competitive environment, ceaseless security challenges, financial pressures, stressed employees, and alert upstarts eager to capitalize on competitor weaknesses, senior executives must place their bets and invest for the future. But it has become abundantly clear that technology is integral to companies around the globe, and technology leaders and IT departments – which until recently were often seen as "necessary extras" – have also been thrust into the center of corporate strategy and success. Now, IT leaders, in concert with lines of business, are called to place their bets on initiatives that will support their companies after the pandemic subsides.

Understanding the Recovery

Figure 2 presents IDC's five-stage enterprise recovery framework. IDC created this framework to guide our clients as they cope with the disruption caused by the COVID-19 pandemic. IDC found that companies all move through these five stages but at different rates of speed:

- **Stage 1: COVID-19 crisis/business continuity.** This stage deals with how businesses reacted to the crisis brought on by the COVID-19 pandemic and is largely focused on enabling business continuity. However, there are lingering effects with technology leaders recognizing hyper-volatility will increasingly become the norm.

- **Stage 2: Economic slowdown/cost optimization.** In this stage, business is slowing down, and organizations are in cost optimization mode where enterprises look to technologies that can either help them manage the economic hardships or generate financial outcomes for the current fiscal year.

- **Stage 3: Recession/business resiliency.** In this stage, organizations have overcome the initial phase of the COVID-19 crisis and stabilized financials. Their focus now is building business resiliency – the ability to adapt to changing circumstances while maintaining its central purpose. A company's digital transformation remains a primary focus … even as remediation actions are taken to reduce costs or take advantage of pandemic-related revenue opportunities.

- **Stage 4: Return to growth/targeted investments.** At this stage, economic activity is returning to precrisis levels and companies are looking to invest more aggressively, but with a focus on technologies that advance an organization's digital capabilities. Getting back on the path to relevancy in the digital economy becomes critical as companies better prepare for future shocks.

- **Stage 5: The next normal/future enterprise.** When organizations come out of the recession, they will be operating in a new type of economy – the next normal. This will be the beginning of the digital economy with some new twists as a result of COVID-19.

FIGURE 2

IDC's Five-Stage Enterprise Recovery Model

| BUSINESS FOCUS | Business Continuity | Cost Optimization | Business Resiliency | Targeted Investments | Future Enterprise |

| ECONOMIC SITUATION | COVID-19 Crisis | Economic Slowdown | Recession | Return to Growth | The Next Normal |

Source: IDC, 2020

IDC has been calibrating its recovery Framework with data from technology leaders worldwide via biweekly surveys. Figure 3 presents survey data that represents midmarket companies' recovery efforts since the pandemic. In August, when this survey was done, 49% of companies surveyed were in survival mode – in the first two stages, business continuity and cost optimization. They were still coping with their pandemic response, looking no further than two years out and slashing costs, reevaluating projects, and refocusing on their customers and their core mission. However, over half (51%) of midmarket organizations had moved into recovery mode – stages 3-5, business resiliency, targeted investments, and future enterprise. 30% of organizations are building resiliency to ride the recession; 21% of organizations are focused on postcrisis growth and the next normal. Companies in these more advanced stages of recovery are seeking to use this time to accelerate their business strategy. Many are aggressively pursuing acquisitions, whether they are payroll services companies, or manufacturing companies, or logistics companies, or professional service firms.

FIGURE 3

**Midmarket Recovery Model — Comparative Data**

n = 73
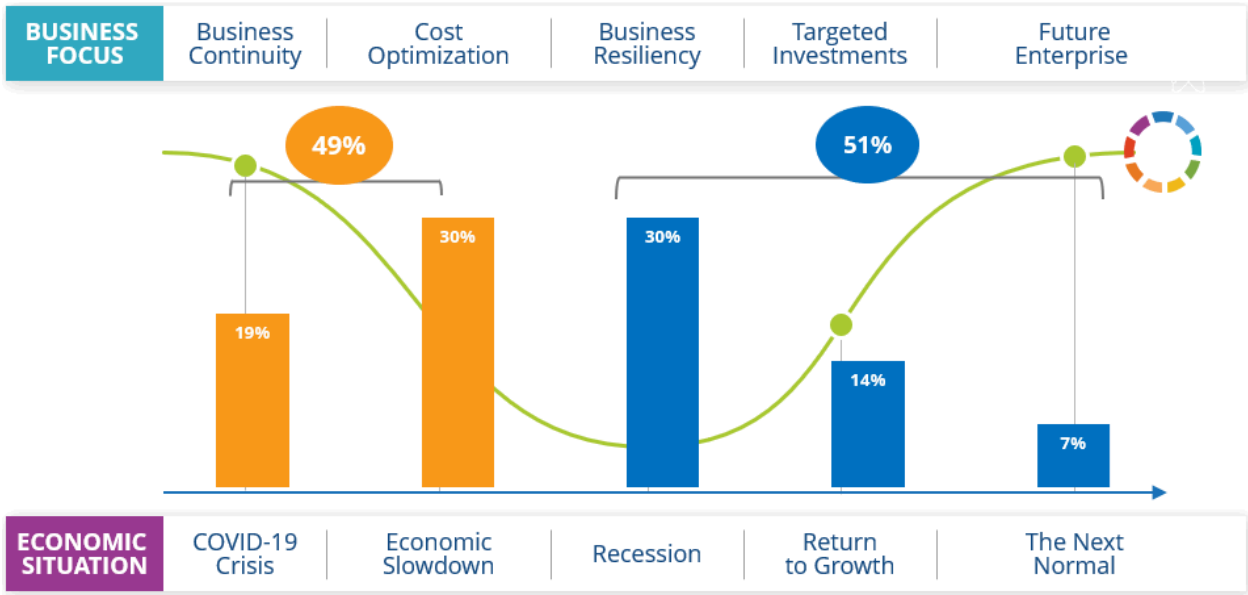
Source: IDC's *State of Midmarket IT Survey,* August 2020

Figure 4 also provides data from IDC's survey of MES participants. Overall, they reported revenue declines of about 5% and expense reductions of about 3%. Interestingly, the profit margin for midsize companies is about 2%. So on average, midsize companies surveyed cut expenses in line with revenue drops to get themselves to a break-even scenario.

FIGURE 4

Midmarket Companies' Revenue and Expense Changes, March–July 2020

n = 73
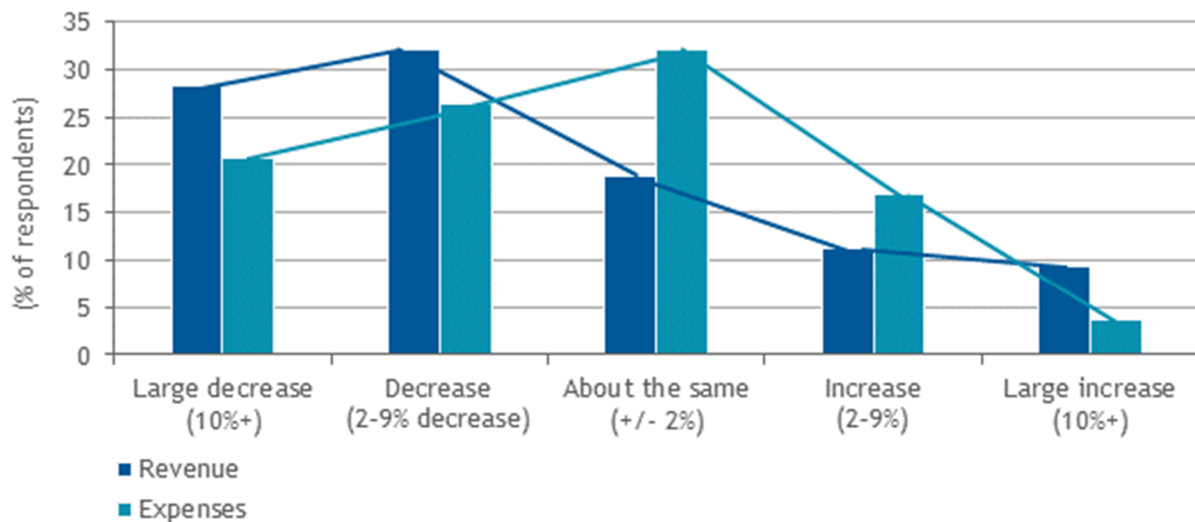
Source: IDC's *State of Midmarket IT Survey,* August 2020

Meeting the Challenges of COVID-19 — Executive Insights and Guidance

Most companies got through the work-from-home shift intact, although about half of companies reflected that they could have and should have been better prepared and done better overall. The importance of the digital infrastructure, and IT, was recognized, and for many companies, IT leaders have had a chance to take a more active role in their companies' digital strategy. Finally, we saw a number of companies make trade-offs that resulted in the accumulation of technical debt.

To summarize, meeting the challenges of COVID-19 requires IT leaders to do the following:

- Communicate, communicate, communicate.
- You got through it. Now, prepare yourself and your team for the tougher, longer road to recovery that is ahead.
- Debrief; reflect. Your team, your peers, your CEO, and yourself. Lessons learned? Action Plans?
- People don't remember what you say; they remember how you make them feel.
- Ultimately, you will be evaluated by how you and your team positioned the organization post-pandemic.
- Be explicit with nontechnology leaders in your firm about what is being done. Let them know that there will be a future bill — with interest — that will have to be paid.

Finally, to quote a fellow CIO:

> *We will remember this pandemic and its aftermath as an exceptional time of innovation. Who could have imagined that a city of our size could go almost paperless in a week? This is a pivotal moment for all of us.*

Advancing the New Digital Agenda

Figure 5 presents data from midsize companies that demonstrates the percentage of business that comes from digital products, services, channels, or digitally driven improvement to operations now and three years from now. Midsize businesses report that digital business is increasing from 36% to 53%; this represents a 30% increase in the percentage of digital business among the surveyed companies. A surprising aspect of this finding is that this is consistent with IDC's survey findings from large and enterprise-class companies.

FIGURE 5

Advancing the Digital Agenda: Midmarket Companies

Q.   *Using your best estimate, what percentage of your business comes from digital products, services, channels, or digitally driven improvement to operations? What do you expect it to be three years from now?*

n = 73
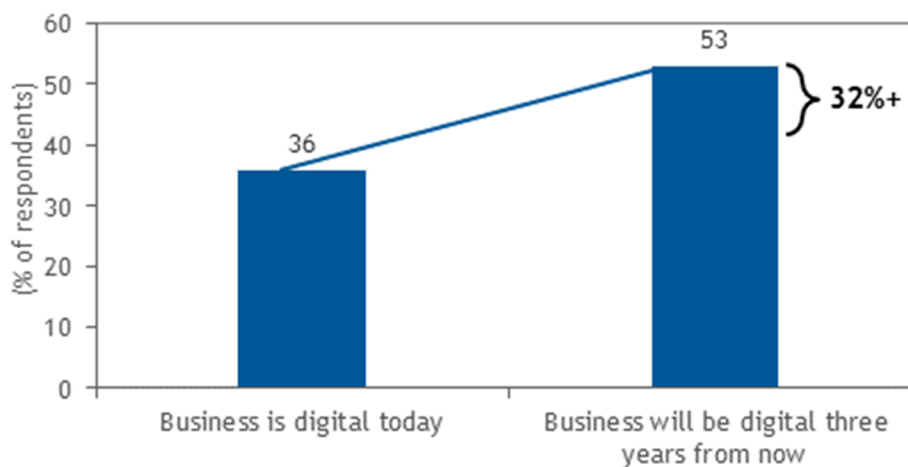
Source: IDC's *State of Midmarket IT Survey,* August 2020

Technology Investments

Figure 6 provides worldwide data for companies of all sizes that indicates which technologies CIOs and IT organizations are investing in. Note that technology purchases align with overall responses to the pandemic. The top 4 technologies are directly linked to continued crisis response and investments in remote work; next in importance is the resilient organization, with investments for scalability and automation; and finally, companies that are driving to the next normal, with investments in automated processes and delivery. Although we did not do a segmentation of midsize companies alone, IDC

believes that this data from all companies also represents midsize companies' technology adoption strategies.

FIGURE 6

Technologies with Increased Adoption: All Companies

Q.   Due to COVID-19 and the need for new technology and changes to the working model of some organizations, for which of the following technology investments do you think demand will change, and in which direction?
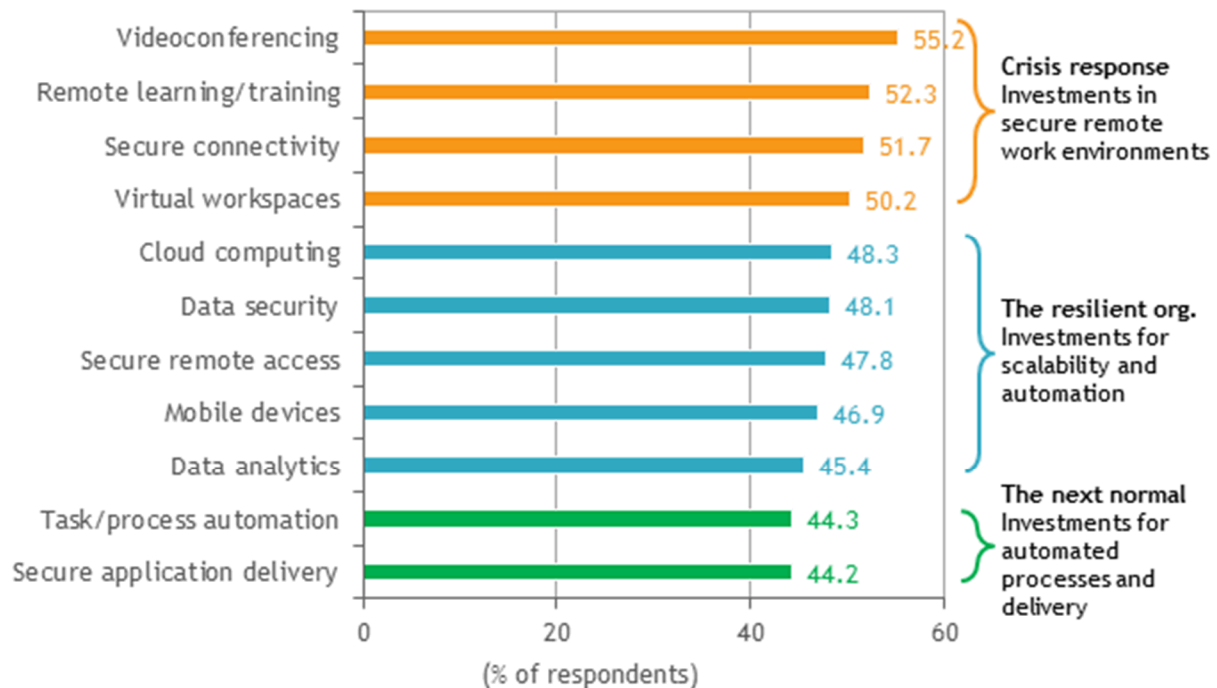
n = 882 global technology leaders

Note: The survey was conducted May 7-14.

Source: IDC's *COVID-19 Impact on IT Spending Survey,* May 2020

Digital Capabilities

Figure 7 presents the importance of a number of areas of IT focus to the continued development of digital capabilities in each respondent's organization. Data in orange highlights technologies that involve response and recovery, with cybersecurity as number 1 priority among necessary digital capabilities, which also include collaboration and communication and IT service management. In turn, those in green reflect the need to invest in preparation for the next normal, or "go forward" technologies and priorities: automation and data analytics; architecture, in particular cloud strategy; and application development.

FIGURE 7

Midsize Companies' Top IT Digital Capability Priorities

Q.   How important are the following areas of IT focus to the continued development of digital capabilities in your organization?
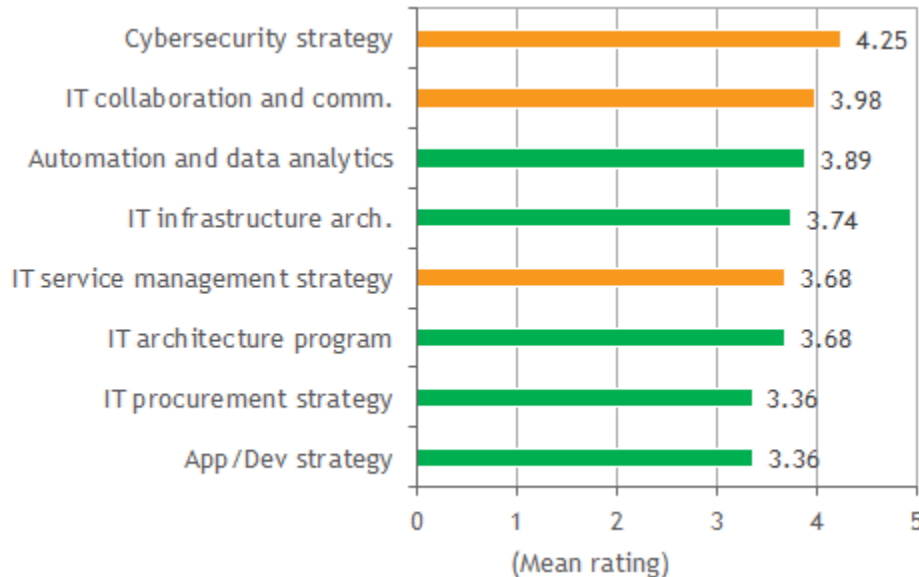
n = 73

Note: Respondents rated importance on a scale of 1-5, with 1 meaning unimportant and 5 meaning critically important.

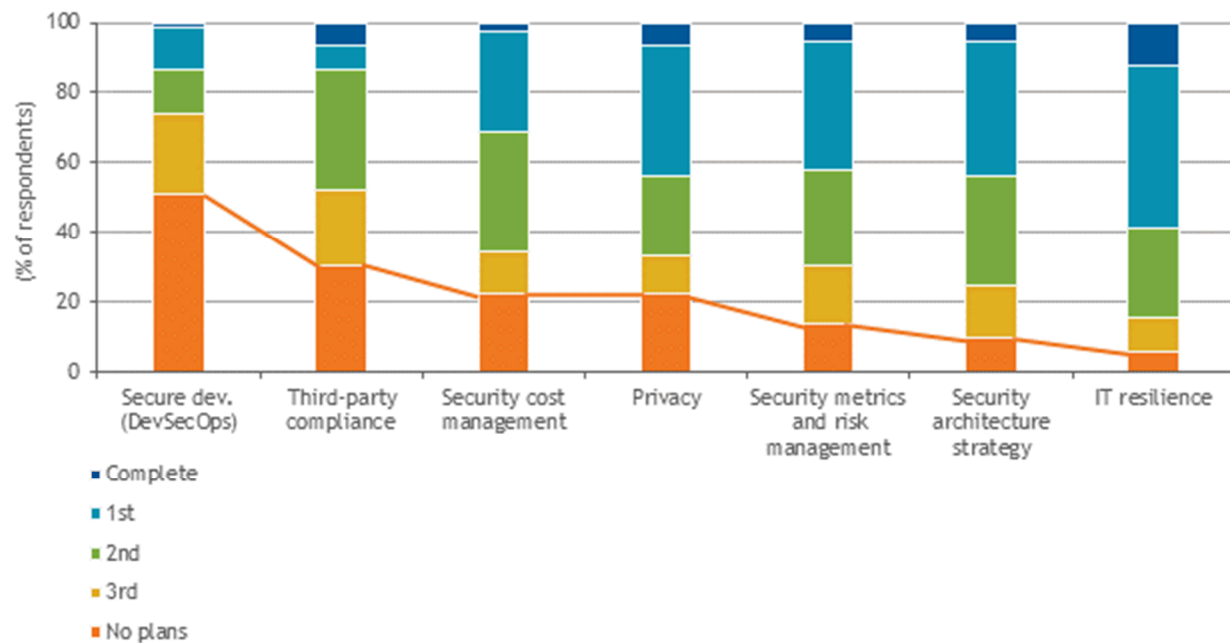Source: IDC's *State of Midmarket IT Survey,* August 2020

Cybersecurity

Figure 8 details midsize company spending strategy in relation to cybersecurity, which is a top investment area. The United Nations reported that cyberthreats increased worldwide by 600% since the pandemic began (source: www.voanews.com/covid-19-pandemic/un-warns-cybercrime-rise-during-pandemic): investing in cybersecurity is an appropriate and necessary priority. IDC found that midsize company respondents are tightly focused on IT resilience, which scored either complete, priority one, or priority two for 85% of companies; in particular, they are investing in security metrics and risk management. Similarly, a security architecture strategy has become a top priority for these respondents, with 75% of respondents rating this either complete, priority one, or priority two. In contrast, DevSecOps ranks last on the list of priorities, with only 25% of respondents ranking this complete, priority one, or priority two; clearly, midmarket respondents are choosing to wait on the advantages of combined DevOps and security measures.

FIGURE 8

Midsize Companies' Approaches to Creating an Effective Cybersecurity Strategy

Q.   *As you consider your organization's IT strategy over the next three to five years, what is the priority of the following projects or use cases in relation to your cybersecurity strategy?*

n = 73

Note: Respondents rated importance on a scale of 1-5, with 1 meaning unimportant and 5 meaning critically important.

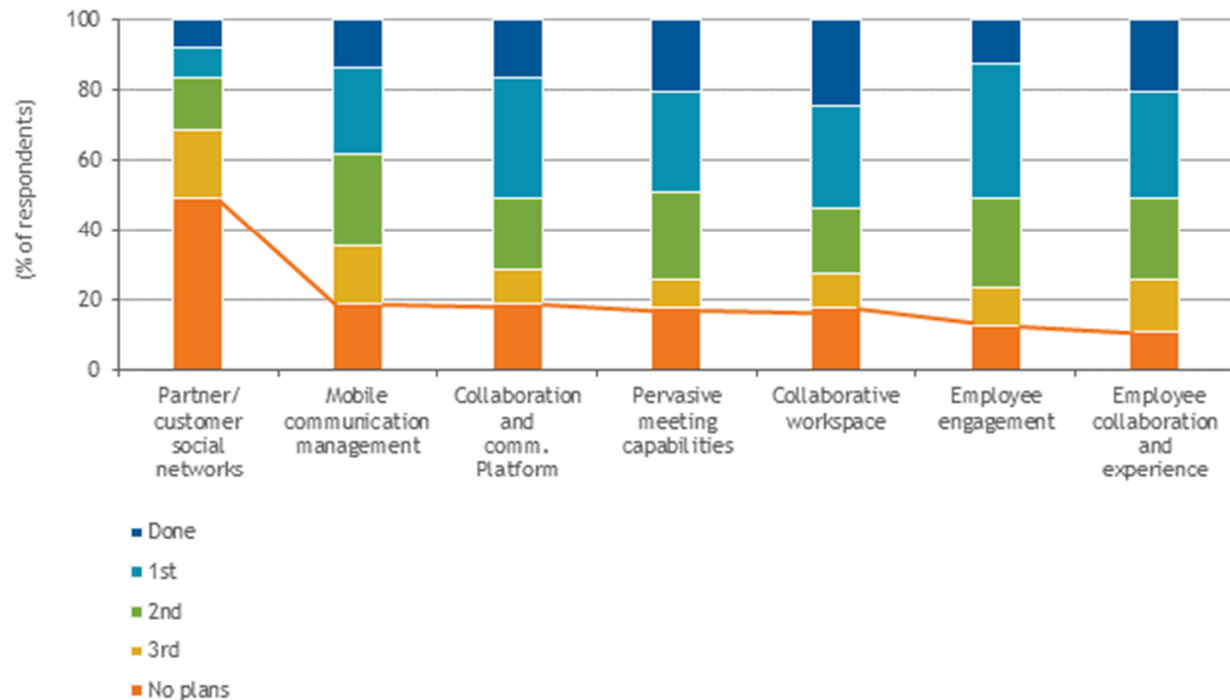Source: IDC's *State of Midmarket IT Survey,* August 2020

Communications and Collaboration

Communications and collaboration technologies assumed unprecedented importance in the early days of the pandemic, and they have continued to carry countless companies and their employees through their work requirements. Clearly, these technologies will continue to have an important place. As demonstrated in Figure 9, employee collaboration and experience and employee engagement are leading priorities, with about 50% of respondents reporting that these are complete or priority one, and 54% reporting collaborative workspaces as complete or priority one. In contrast, note that partner/customer networks have taken a lower priority for now, with only 16% reporting these as complete or priority one, and 49% have no plans to invest in these technologies.

Midsize Companies' Approaches to Communicating and Collaborating for Success

Q. *As you consider your organization's IT strategy over the next three to five years, what is the priority of the following projects or use cases in relation to your IT collaboration and communications strategy?*

n = 73

Note: Respondents rated importance on a scale of 1-5, with 1 meaning unimportant and 5 meaning critically important.

Source: IDC's *State of Midmarket IT Survey,* August 2020

Automation and Data Analytics

We asked MES attendees to report in on the following question: "As you consider your organization's IT strategy over the next three to five years, please prioritize the following projects or use cases for your automation and data analytics strategy." As shown in Figure 10, respondents reported the following:

- 15% have already built a data management platform, with another 25% noting this is a priority-one initiative.
- 30% report that enterprise intelligence sharing is done or priority one.
- 55% report that a data science program is not on their agendas for the foreseeable future; presumably this will be an outsourced capability due to recruitment challenges, but these companies may nonetheless find themselves behind where they need to be in the future.

This aggressive investment in automation and data analytics may be the most important of all the changes made as part of the adaptation to COVID-19. As an example, we have already seen that many manufacturing plants have installed intensive monitoring and data analytics to reduce the need for real-time staffing in their manufacturing facilities, utility plants, and water treatment plants.

FIGURE 10

Midsize Companies' Approaches to Supporting Automation and Data Analytics

Q.   *As you consider your organization's IT strategy over the next three to five years, what is the priority of the following projects or use cases in relation to your automation and data analytics strategy?*
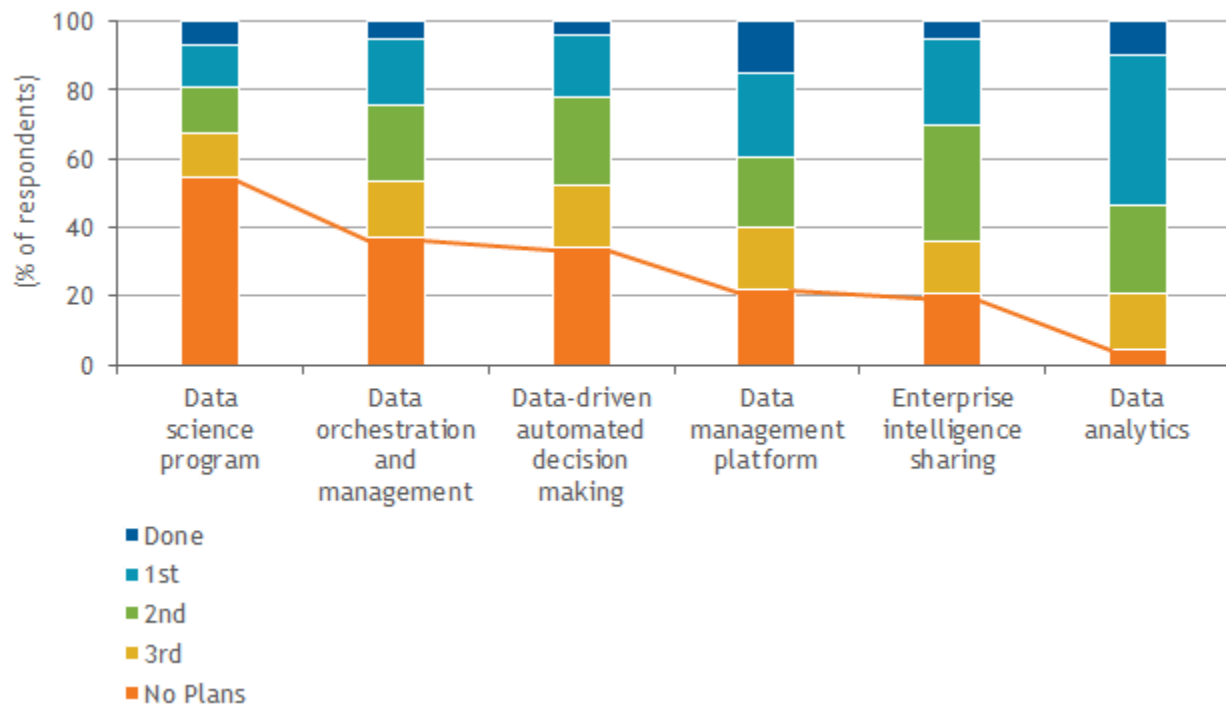
n = 73

Note: Respondents rated importance on a scale of 1-5, with 1 meaning unimportant and 5 meaning critically important.

Source: IDC's *State of Midmarket IT Survey,* August 2020

Adding New Capabilities

In conclusion, as we discuss exploring new capabilities, it's critical to distinguish exceptional CIOs and IT leaders. The exceptional CIOs and their teams avoid thinking only about adding technology on an ad hoc or situational basis; instead, they constantly reinforce the business outcomes associated with a new technology or capability. For example, the exceptional CIO says, "We are streamlining our patient onboarding process, with the goal of a 20% improvement, by adding AI capabilities," or "we are improving access to our inventory data so our sales reps can access it in real time with a new cloud computing platform." Figure 11 provides a snapshot of the future state "agile IT" to help senior IT

leaders build your IT digital transformation use case map to communicate strategy throughout the IT and line-of-business organizations.

Consider this shift, for you and your team, of always leading every discussion with *business outcomes powered by technology* instead of ad hoc technology solutions. Your business colleagues will appreciate the difference.

FIGURE 11

Agile IT Digital Transformation Use Case Strategy Map
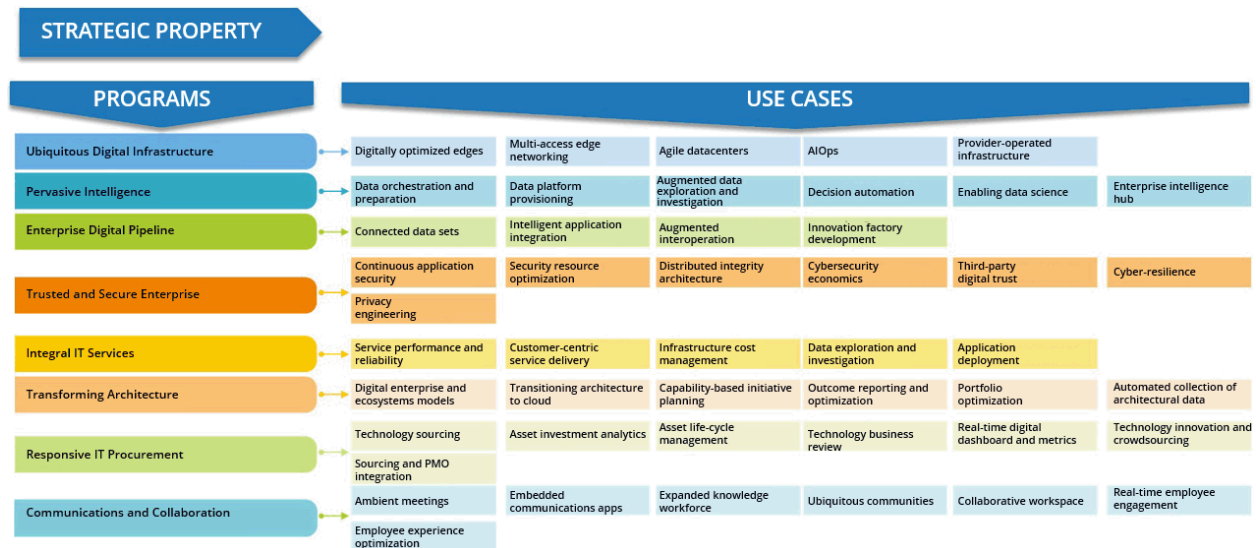
Source: IDC, 2020

ADVICE FOR THE TECHNOLOGY LEADER

A critical question for IT leaders as we look to the future is, "how do we as IT organizations sustain the energy, purpose, fun, and effectiveness that inspired us as we changed around the world to work from home. IDC leaders have discussed this among themselves and with clients and see four essential elements of a post-pandemic strategy:

- Foster unity of purpose.
- Trust and empower your people with a compressed chain of command.
- Practice forgiveness and forbearance while asking always for people's very best performance.
- Empower and encourage your teams by communicating their collective accomplishments.

IT's legacy from this pandemic will be that IT has seized the moment and helped pivot its organizations. The critical role of IT and our digital infrastructure is clear: IT is no longer a tool to improve productivity — IT has become the foundation for our businesses. Following are points of guidance as you lead through the disruption that we all face:

- Consider what will be the lasting changes to your business and how IT will help the entire organization adapt.
- Be aware of the five stages of enterprise recovery – crisis, cost cutting, recession, growth, next normal – when having a business planning meeting.
- People don't remember what you say; they remember how you make them feel.
- You and your team made conscious decisions to accrete technical debt: own it, manage it, fix it.
- Consider what are you doing daily as a leader to sustain the energy and the sense of purpose, empowerment, and accomplishment that teams felt just after lockdown.
- Consider IDC's digital transformation use case planning framework; connect "technology" to specific business outcomes as part of your digital shift.
- The widespread and aggressive investment in automation and data analytics may be the most important COVID-19 legacy.

LEARN MORE

Related Research

- *CIO Leadership on the Journey to Recovery: Insights from IDC's CIO Sentiment Survey, 2020* (IDC #US46809620, September 2020)
- *IDC PeerScape: Practices for Using IT in Helping Business Survive and Thrive in the Post-COVID-19 Era* (IDC #US46551619, June 2020)
- *The CIO's Guide to the Future of Intelligence* (IDC #US46249720, May 2020)

Synopsis

This IDC Perspective provides comprehensive data that reflects the challenges and concerns of midmarket CIOs and IT executives as they lead their teams through a period of world-changing disruption. Like their peers in larger companies, midmarket executives are asking "what changes will last after the pandemic subsides?" It has become abundantly clear that technology is integral to companies around the globe, and technology leaders and IT departments – which until recently were often seen as "necessary extras" – have also been thrust into the center of corporate strategy and success.

"IT leaders, together with lines of business, are called to place their bets on initiatives that will support their companies after the pandemic subsides," notes Joe Pucciarelli, group vice president of research with IDC's IT Executive Program (IEP). "Even as they cope with tough competition, security challenges, financial pressures, stressed employees, and upstarts eager to capitalize on competitor weaknesses, senior executives must keep focused on making it through the crisis and positioning their companies for the future."

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

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