Digital Transformation at Midsized Businesses:
Exciting Advances and Potential Roadblocks
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Leading businesses are deploying cloud, mobility, big data, analytics, and artificial intelligence (AI), among other technologies, to speed up their digital transformation journeys. And senior leadership at such companies is now on board, with 85% of enterprises saying that their executives grasp the importance of digital transformation, and are actively supporting those initiatives.

Why are businesses doing this? Because it pays off—and the bottom line shows it. A study by the Harvard Business School sponsored by Microsoft found that “digital leaders” achieved a three-year gross margin of 55%, compared to “digital laggards,” which earned only 37%. When it came to the true bottom line—profitability—leaders outperformed laggards by four full percentage points, with an 11% average profit margin compared to just 7%.

But what about companies that have to consider budget constraints? What are they doing? Little attention has been paid to this segment of the market. So CenturyLink decided to find out what was going on there. A recent Spiceworks survey of 250 IT decision-makers of midsized businesses revealed what they thought about their digital transformation activities and plans. This report explores the survey results.
Digital Transformation: What is it, exactly?

Various definitions are used to describe digital transformation. We asked survey participants what they thought. Here are some of their insights:

- Finding the ideal synergy between digital resources and organizational systems. When the perfect harmony of integrating digital solutions to maximize productivity and morale is reached, that is digital transformation.

- Integrating digital technology in all of our business areas to increase productivity company-wide.

- Using technology to build efficiencies within an organization, [and] creating opportunities for change and advancement within an organization that support strategic initiatives.
Any of these definitions are interesting and thought-provoking in their own right, but for the purposes of this report, we’re going to use the term “digital transformation” as follows:

Using digital technologies to create innovative organizational, operational and business models, ultimately leading to more efficient processes and easier and more transparent interactions with employees, customers, and suppliers.

It’s not surprising that large enterprises are advancing swiftly ahead on their digital transformation journeys. That has been well documented. But midsized firms? Given the size of technology investment and expertise, and the massive process as well as the digital re-engineering required, they have previously been considered behind the curve. But our survey revealed that more than half of midsized businesses (53%) are either already actively engaged in or planning their digital transformations. This number was larger than we expected.

What’s more, midsized firms possess distinctly positive attitudes toward their digital transformation efforts. A full 77% of midsized businesses were “enthusiastic,” and another 75% described their attitudes as “excited.” “Driven” was also mentioned by a significant majority of the respondents (71%)—all of which bode well for the eventual success of these initiatives. (See Figure 1.)
It wasn’t all rosy, however. 40% of midsized firms felt “anxious.” And half of them, apparently worried about how safe they’ll be after they’ve digitized their business processes, said they felt “vulnerable.” The latter is a legitimate concern. Over the past few years, we’ve been bombarded with news of one successful cyber exploit or crime after another. So some midsized firms feel safer doing things the traditional way.

40% of midsized firms feel “anxious” about how safe they’ll be after they’ve digitized their business processes.

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**Figure 2**

**Some Anxiety and Concern About Safety Also Exist**

- **Vulnerable**: 41% Early Adopters, 59% Laggards
- **Anxious**: 31% Early Adopters, 50% Laggards
- **Pressured**: 21% Early Adopters, 38% Laggards
- **Ambivalent**: 14% Early Adopters, 38% Laggards
- **Reluctant**: 12% Early Adopters, 35% Laggards
Digital Transformation is critical for midsized business success

What else did we learn?

First and foremost, digital transformation is strategically important to midsized firms. 57% of all firms, and 80% of “early adopters”—companies that have already deployed digital transformation technology at the time of the survey—think it is highly important to their current business operations. (See Figure 3.) Early adopters of digital technologies were more effusive in other ways as well, with 86% saying that digital transformation is “exciting” and 88% that it “inspires enthusiasm.”

But here’s an intriguing point: Midsized firms are also clearly looking ahead and seeing disruption ahead in their markets, because they say that digital transformation will be much more important in the future. 72% felt it would be highly important—that’s 15% more than the perceptions of current benefits. And when it came to early adopters, 90% of respondents saw digital transformation as a future strategic weapon. (See Figure 4.)
Yet despite these mostly positive perceptions, almost half of respondents are being very “passive” about their approaches.

Nearly half (47%) are being laggards—just beginning to consider implementing digital transformation strategies—and also skeptical. (See Figure 5.)

Looking at it from the glass-half-full perspective, however, 53% being “early adopters”—either embracing or being active early adopters—is not bad for midsized companies, which in the past were much more likely to be laggards on adopting leading-edge technologies.

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Adopters (Net)</td>
<td>53%</td>
</tr>
<tr>
<td>Laggards (Net)</td>
<td>47%</td>
</tr>
<tr>
<td>Active Adopters</td>
<td>21%</td>
</tr>
<tr>
<td>Slow to Adopt</td>
<td>35%</td>
</tr>
<tr>
<td>Skeptical</td>
<td>8%</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>3%</td>
</tr>
</tbody>
</table>

Figure 5 Half of Midsized Firms Are Being Passive About Digital Transformation
A focus on business goals—but IT holds it all together

Despite the fact that digital transformation has traditionally been in the domain of the IT (information technology) department, midsized businesses principally hope to derive true business value from it. The number one goal was improved efficiency and productivity (60%). Not surprisingly, reducing costs was another significant goal, specified by 39% of respondents. Increased accuracy and reduced human errors came in at 37%, and increased revenues and enhanced customer experience tied at 30%.

Figure 6

Overall Goals of Digital Transformation

- Improved Efficiency/Productivity: 60%
- Lower Costs: 39%
- Eliminate Legacy Systems/Modernize System: 39%
- Increased Accuracy/Reduce Human Errors: 37%
- Increased Revenue: 30%
- Enhance Customer Experience: 30%
- Competitive Advantage: 25%
- Improved Decision Making: 20%
- Enable Better Self-Serve Options for Customers: 18%
- Enable Better Self-Serve Options for Customer Service: 18%
- Increased Innovation: 16%
- Increased Employee Engagement: 15%
- Market Expansion: 12%
- Reduce Reliance on Physical Assets: 10%
- Streamline Offerings: 10%
- Speed to Bring Products to Market: 7%
One IT goal was fairly high up: Eliminating legacy systems was named by 39% of participants as a critical goal.

Despite this focus on business goals, IT remains at the center of digital transformation activities at midsized firms. Everything centers on it. That’s almost certainly because IT professionals know the all-important corporate network inside and out and are the ones responsible for implementing the technologies that support the business results of digital transformation.

Our respondents said they depended on IT to fulfill three roles in particular: to keep goals in line; their technical knowledge and expertise; and their ability to act as a central connector or clearing house for every department and person touched by digital transformation.
Keeping goals in line with what’s realistic

“Because users have a tendency to over-expect what can be delivered at what price and commitment.”

Technical knowledge and expertise

“IT is responsible for maintaining and securing the network, and also includes the people who know how external systems can/do interface with internal systems. In the end, you can (and should) have other departments like sales and marketing involved. However, someone has to be able to provide technical information about current systems’ capabilities.”

Integration with legacy technologies and business processes

“To help make connections for other departments, learn what works, and find common threads to avoid re-inventing the wheel.”
Although IT plays an integral role setting digital transformation strategies, having non-IT departments involved is invaluable when preparing a digital transformation strategy.

Almost 60% of midsized businesses said that IT involved other, external departments in digital transformation initiatives. After all, professionals from marketing, sales, finance, and other important functions will be seeing their processes dramatically changed in a successful digital transformation initiative.

The fact that so many IT departments are now decentralized, or have their employees embedded in business units, means this happens naturally. A full 89% found having this valuable, with 30% saying external input on strategy was “extremely valuable,” 34% saying it was “very valuable,” and 25% saying it was “valuable.” Considering that only 10% of respondents said it was “somewhat” or “not at all valuable,” this means that in the future, we are likely to see more involvement of other departments in digital transformation initiatives. (See Figure 7.) Why is this important? Because IT primarily focuses on the technology itself. IT needs guidance from the people and departments that will actually use the technology to make sure they don’t deploy a new digital system that no one actually uses.

Figure 7  Non-IT Departments Are Heavily Involved in Digital Transformation

<table>
<thead>
<tr>
<th>Team Involved in Setting Strategy</th>
<th>Value of External Input on Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralized (IT + Other Departments)</td>
<td>Extremely Valuable 9%</td>
</tr>
<tr>
<td>Centralized (IT Department only)</td>
<td>Very Valuable 25%</td>
</tr>
<tr>
<td></td>
<td>Valuable 34%</td>
</tr>
<tr>
<td></td>
<td>Somewhat Valuable 30%</td>
</tr>
<tr>
<td></td>
<td>Not at all Valuable 1%</td>
</tr>
<tr>
<td></td>
<td>Don’t Know 1%</td>
</tr>
</tbody>
</table>

60% of midsized businesses said that IT involved other, external departments in digital transformation initiatives.
Midsized firms are taking their time on their journeys

Although they are moving forward, completing digital transformation takes time. Most midsized companies estimate that they’ve got another year and a half to go. (See Figure 8.)

Figure 8: Expected Time to Complete Projects

- 1 Year or Less: 14%
- 1-5 Years: 6%
- More than 5 Years: 6%
- Never: 6%
- Don’t Know: 46%

Figure 9: Completed Steps Toward Digital Transformation

- Plan: 54%
- Design: 53%
- Develop: 59%
- Produce: 48%
- Execute: 38%
Plan

This first step involves identifying what business or technical challenges your organization faces that could be solved by digitization. It’s also important to define a concrete final objective or goal of the digital transformation initiative. Then, by analyzing where you are now and what it will take to get you where you want to be, you can create a “gap analysis” as well as a SWOT (strengths, weaknesses, opportunities, and threats) matrix.

54% have completed
- Identify drivers of change 36%
- Define the final objective or goal 32%
- Run gap analysis or strength assessment 18%

Design

This very important step takes the goals identified in the planning stage and considers what you will do to ensure the security of the data that will inevitably be generated by your digital transactions and activities. You should also create a road map for the entire transformation process during this stage, and obtain buy-in from internal stakeholders.

53% have completed
- Develop data security strategy 32%
- Create road map for transformation process 28%
- Obtain internal stakeholder buy-in 27%

Develop

This is the hands-on stage where you optimize your IT infrastructures—including retiring or modifying legacy systems, building the appropriate digital infrastructure, and auditing all legacy technologies for their appropriateness.

59% have completed
- Optimize IT infrastructure and practices 41%
- Build out IT infrastructure 36%
- Audit legacy technology 33%

Produce

This pre-execution step is where you automate workflows and practices and transform existing security systems so that security is built into your new digitized infrastructure.

48% have completed
- Automate practices 37%
- Build security into new model 24%
- Transform existing security systems 18%

Execute

Finally, this is where you get to reap the rewards of your work. Here is where you test and modify the new systems, do a full production rollout, and assess the impact—and therefore the success—of your digital transformation initiative.

38% have completed
- Test and modify new systems 31%
- Assess impact/success 20%
- Implement full production rollout 13%
The actual digital transformation projects include backup and recovery, retiring and upgrading legacy systems, and workflow automation. (See Figure 10.) These are the logical projects to do first. Backup and recovery are essential operations to have in case of a disaster—manmade or otherwise—and digitizing them makes them more reliable and robust. Retiring and upgrading legacy systems are necessary parts of the digital journey. And workflow automation today is increasingly considered a requirement to improve productivity, reduce costs, and increase competitiveness.

Actual projects are underway, but roadblocks remain

Actual Digital Transformation Projects

<table>
<thead>
<tr>
<th>Project</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backup and Disaster Recovery</td>
<td>55%</td>
</tr>
<tr>
<td>Retiring/Upgrading Legacy Application/Workloads</td>
<td>50%</td>
</tr>
<tr>
<td>Workflow Automation</td>
<td>50%</td>
</tr>
<tr>
<td>Enhance Data Network Connectivity</td>
<td>35%</td>
</tr>
<tr>
<td>Cloud Migration</td>
<td>34%</td>
</tr>
<tr>
<td>Consolidating Platforms to a Single Service</td>
<td>21%</td>
</tr>
<tr>
<td>Location-based technology (e.g., beacons, Wi-Fi, etc)</td>
<td>18%</td>
</tr>
<tr>
<td>Establishing Digital/eCommerce Platforms</td>
<td>18%</td>
</tr>
<tr>
<td>Internet of Things (IoT)</td>
<td>18%</td>
</tr>
<tr>
<td>Big Data/BI Analytics</td>
<td>17%</td>
</tr>
<tr>
<td>Cloud Migration PaaS</td>
<td>16%</td>
</tr>
<tr>
<td>Open-source Software</td>
<td>15%</td>
</tr>
<tr>
<td>Agile Development</td>
<td>10%</td>
</tr>
<tr>
<td>Multi-channel Integration</td>
<td>9%</td>
</tr>
<tr>
<td>Artificial Intelligence</td>
<td>5%</td>
</tr>
<tr>
<td>None</td>
<td>7%</td>
</tr>
</tbody>
</table>
But challenges stand in the way, particularly constraints of resources: budgets, time, and staff. (See figure 11.) These challenges are real: After all, IT budgets have been relatively flat for several years—since the 2008 crash, in fact—although Gartner believes that will change starting in 2018, where it predicts global IT spending will grow an impressive 6.2%—the most substantial increase since 2007. Perhaps this is a sign of the investment that companies are making in their digital journeys. We’ll be watching this in the coming months to see.

Figure 11

Constraints Still Abound

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Budget</td>
<td>58%</td>
</tr>
<tr>
<td>Limited Time/Staff</td>
<td>57%</td>
</tr>
<tr>
<td>Competing IT Priorities</td>
<td>35%</td>
</tr>
<tr>
<td>Resistance from End-users/Customers</td>
<td>34%</td>
</tr>
<tr>
<td>Resistance from Internal Business Decision-makers</td>
<td>34%</td>
</tr>
<tr>
<td>Limited Skill/Expertise</td>
<td>31%</td>
</tr>
<tr>
<td>Integration with Legacy Systems</td>
<td>31%</td>
</tr>
<tr>
<td>Competing Business Priorities</td>
<td>24%</td>
</tr>
<tr>
<td>Management Complexity</td>
<td>22%</td>
</tr>
<tr>
<td>Compliance Regulations/Standards</td>
<td>20%</td>
</tr>
<tr>
<td>Inadequate IT Solutions</td>
<td>16%</td>
</tr>
<tr>
<td>Partner Limitations</td>
<td>12%</td>
</tr>
</tbody>
</table>
Conclusion: Midsized firms are well on their way

Organizations have a broad timeline towards completion of their digital transformation steps, with the most-completed step to date being optimizing IT infrastructure and practices.

At the end of the day, midsized firms hope to see enhanced productivity as a result of their work towards digital transformation, but they still have some roadblocks standing in the way of complete transformation.

As midsized firms continue to optimize their infrastructures and prepare for digital transformation, they are looking for networking solutions providers who offer support and pointed expertise. With that kind of help, midsized firms have a good chance of successfully digitally transforming themselves.

What they need: a reliable infrastructure to support the evolving “always-on” technology landscape they are now operating in. They need solutions from their third-party vendors and partners so that they can save precious time and money—not to mention the kind of expert and skilled help that vendors can provide to midsized firms with limited staff and expertise.

By achieving such a partnership, midsized firms can grow their businesses by achieving internal efficiencies, cutting costs, and growing revenues.

Ready to take the next step? CenturyLink can help create a foundation for innovation in your business.

About the Survey

In June 2018, Spiceworks surveyed IT decision-makers in the U.S. in an online research panel on behalf of CenturyLink. All 250 respondents were from organizations with 11 to 500 employees, and they were required to have influence on digital business practices for their organizations.

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