PROACTION
Aligning IT with Business Imperatives

REDUCING COST AND INCREASING PROFITABILITY IN YOUR BUSINESS:

SOLUTIONS FOR MID-MARKET BUSINESS

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Reducing Cost and Increasing Profitability in your Business: IT Solutions for Midmarket Business

Like businesses of all sizes, midmarket firms are focused on reducing operational costs and improving profitability. Midmarket firms, though, have a set of unique challenges and opportunities that will shape their ability to manage expense and boost the bottom line. Which technologies deliver the fastest, clearest cost and profitability benefits to midmarket businesses?

Context:

Midmarket firms are a primary force in local and national economies – but they are often constrained by a lack of targeted strategic inputs, especially with respect to the business impact of IT investments. Large enterprises are able to combine internal, cross-functional specialist teams with advice from management consultants to develop strategy blueprints. Small businesses are typically reacting to immediate requirements; strategy is not a primary consideration. Midmarket firms, though, have need of strategic framework to prioritize and align investments (inside and outside of IT). They often rely on IT resellers and consultants – smaller companies that are focused on addressing single ‘point’ requirements rather than business-wide issues – for insight on specific technology solutions, but may struggle to obtain a more holistic view of IT/business strategy drivers and opportunities.

The Proaction series is intended to address this gap. Using data collected from its extensive, global research on midmarket firms and the deep experience of its principals and analysts, Techaisle has developed reports focused on key IT/business issues: productivity, cost and profitability, innovation and quality, and new customer acquisition. Each report follows a framework designed to address the needs of midmarket organizations.

- The objective: what are midmarket firms looking to accomplish, and why they would invest in IT solutions to achieve success in this area?
- The processes: what will midmarket firms do differently as they attain their objectives?
- The logical layer: what IT solutions will need to be in place to support process evolution?
- The physical layer: what technologies will the IT department need to deploy, in order to deliver the capabilities needed by the logical layer and processes?

Using the Proaction framework, midmarket business and IT decision makers can build fact-based plans that yield significant, predictable benefit to the business.
The objective: effective management in an uncertain environment

What are the key challenges that midmarket management wrestles with? A global Techaisle survey of more than 5,000 small (1-99 employees) and midmarket (100-999 employees) organizations found that financial goals rank high on the list: 35% of midmarket organizations consider “increasing profitability” to be a top business objective, and an even higher proportion (38%) are focused on cost control.

The emphasis on cost is telling, in that it focuses on an issue, expenditures, which can be directly controlled. Techaisle’s research has found that midmarket firms are very concerned by issues that arise from managing in an uncertain environment: they are trying to impose structure on their businesses while coping with:

- Erratic revenue – or more accurately, forecasts that don’t provide a consistent forward-looking perspective.
- Changing competitive environment – new competitors, both those who use technology to expand into new territories and those that are launching entirely-new IT-enabled businesses that threaten to ‘Uberfy’ established markets.
- Slow pace of change – the difficulty in establishing new processes within the business, particularly in comparison to small, nimble competitors, but also in response to large enterprises that are able to use agile practices to launch new “minimally-viable products” into market.
- Absence of capital resources – an inability to invest in advance of new revenue sources, constraining the development of new capabilities.
- Managing business volatility – the sum of all of the above factors: the confusion that results when forecasts don’t predict demand, when competitors can and do emerge without warning, when processes can’t keep pace with market/customer expectations, and when needed investments are delayed or shelved.
In many cases, the adoption and use of advanced technology can help mitigate these risks and uncertainties. However, midmarket IT firms are grappling with a range of optimization challenges. Relative to enterprises, midmarket businesses have a finite user population, meaning that they have less capacity to scale out core technologies than their larger competitors, limiting their ability to match the returns on core systems that larger competitors achieve.

Beyond overall mass, midmarket IT managers – like those in larger and smaller businesses – are challenged to drive adoption and use of new systems and features, which impacts returns on new IT investments, leading to inadequate payback on IT assets. At the same time, midmarket IT departments are struggling to identify and adopt the new technologies that will have a transformative, or even meaningful, impact on their businesses – and they are faced with tight budgets that further constrain options for deploying breakthrough solutions. Those that are unable to navigate these issues face a new source of threat: the Techaisle survey found that 46% of midmarket firms are using digital transformation to decrease costs and/or improve processes – meaning that midmarket companies that aren’t able to break through their optimization challenges risk being left behind by current competitors.

The Processes

Where will midmarket firms focus, to reduce cost and increase profitability?

Most management experts believe that productive change results not just from deployment of new technology, but from changes in business processes that take advantage of new IT-enabled capabilities. Often, the drivers of better performance are divided into issues relating to people, products and processes.
Midmarket firms that are able to align new solutions with enhancements to productivity, agility and delivery are most likely to move predictably from investment to measurable positive result.

Technology helps in cost reduction by addressing people, process and products

![Process Considerations](chart.png)

The key process considerations associated with cost control and improved midmarket profitability include:

- **Improve operational efficiency** (cited by 89% of respondents as a technology objective): this is a direct reference to cost control; efficient operations reduce both expense and uncertainty.
- **Create new processes that constitute a better way of doing business** (88%): this statement reads on both cost reduction and revenue/profit growth, referencing means of using improved processes to deliver better business outcomes.
- **Achieve a higher level of responsiveness to customer needs** (83%): As with the previous point, better responsiveness to customer needs could result in increased profit, reduced cost or both. Firms that adapt rapidly to changes in demand are able to both drive new revenue and to reduce cost associated with production of goods/services that are no longer important to customers.
- **Facilitate automation of core business processes** (79%): This objective speaks to both cost reduction and increased control. Firms that use technology to automate processes will generally achieve lower cost and will also drive increased certainty due to standardization of key activities.
The high proportion of midmarket firms focused on each of the four objectives and the outcomes associated with each demonstrate the strong links between process improvement and improved cost and profitability management. Clearly, these issues have the attention of senior management. The key question from an IT perspective remains, though: what role(s) will technology play in reducing cost and enhancing profitability?

The logical and physical layers
What IT solutions are needed to support management action on cost and profitability management? And what technologies will the IT department need to deploy in order to support key solutions and processes?

The analysis in the previous two sections of this paper provides clear evidence of management’s focus on growth in profitability and effective cost management. IT, which is a major cost center in many businesses, can sometimes be a target for austerity measures. But IT is often (and increasingly) seen as part of ‘the solution’ as well – as a means of helping a midmarket business to rein in costs and deliver increased profitability. If IT is seen as a critical resource, slashing it doesn’t seem like a sound cost-cutting measure. Midmarket leadership is likely to ask IT to be an active participant in achieving its goals.

Generally, IT leaders will look to parse this kind of mandate into two broad sections: the ‘logical layer’, or software-based solutions that provide business users with the tools that they need to address the challenges at hand, and the ‘physical layer’, or the products and services needed to deploy and support the solutions. However, Techaisle research finds that this distinction is difficult to impose in pursuit of cost
reduction strategies. Application-layer solutions and foundation-layer technologies are both intertwined in the ongoing pursuit of bottom-line improvement, especially with respect to cost savings.

No single technology is sufficient – a basket of technologies is necessary

<table>
<thead>
<tr>
<th>Technology</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Use cloud for cost reduction</td>
<td>39%</td>
</tr>
<tr>
<td>Use managed services for cost reduction</td>
<td>54%</td>
</tr>
<tr>
<td>Use collaboration for cost reduction</td>
<td>42%</td>
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<tr>
<td>Use analytics for cost reduction</td>
<td>61%</td>
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<tr>
<td>Use HCI/UCI for cost reduction</td>
<td>41%</td>
</tr>
<tr>
<td>Use SDx cost reduction</td>
<td>49%</td>
</tr>
</tbody>
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Source: Techaisle SMB & Midmarket cloud adoption study | Techaisle SMB & Midmarket managed services adoption study | Techaisle SMB & Midmarket collaboration adoption study | Techaisle SMB & Midmarket analytics adoption study | Techaisle SMB & Midmarket C/HI adoption study

In its survey, Techaisle asked users of different logical and physical-layer products to identify the motivation for investment in these areas. Specific sources of savings vary, but the research found that roughly 40%-60% of current/planned users of converged infrastructure/hyperconverged infrastructure, cloud, ‘SDx’ (software-defined data center technologies), managed services, collaboration and analytics see each of these IT strategies as contributing to cost reduction.

The bottom line: using IT to drive cost savings and improved profitability in midmarket businesses

IT occupies a unique position in midmarket firms that are looking to drive bottom-line success: as a major cost center (often representing 5%-12% of revenue), IT is clearly a potential focus of cost-cutting measures; but as a source of efficient business infrastructure, IT can also serve as a means to boosting profitability and cutting costs through task digitization and process automation.

The pace of change in technology and opportunity for technology-enabled competitive advantage is a complicating factor in this decision process. Midmarket firms often prefer to wait on new technology adoption, letting larger enterprises (and often, smaller firms as well) to prove out the benefit of emerging solutions. Research shows, however, that this may not be a sound approach in the current environment:
Techaisle’s global survey found that compared to midmarket organizations that are still taking a department-by-department approach to digital transformation, midmarket firms with organization-wide digital transformation strategies are two times more successful at using IT to reduce business process costs.

This finding puts an emphasis on taking action – but action by itself is no guaranty of successfully using technology to improve profitability and/or reduce cost. More than three-quarters of midmarket firms are planning to invest in each of seven different technologies that have been found to reduce operational costs. For midmarket firms, the differentiator won’t simply be ‘me-too’ action, but connecting different priorities in a roadmap that yields continuous positive impact on cost and profitability. Midmarket businesses need to build plans that attach each digital business option to a defined objective. In the race to a better midmarket bottom line, strategy plus action will deliver better outcomes than either an action-only or wait-and-see approach.
Techaisle is a global SMB IT Market Research and Industry Analyst organization. Techaisle was founded on the premise that Go-to-Market strategies require insightful research, flexible data, and deeper analysis. Understanding the value of data consistency across markets to inform strategic planning, Techaisle has remained holistic in its approach to Insights and provides globally consistent SMB and Channels analysis across geographies. To achieve its objectives Techaisle conducts surveys with SMBs and channels to understand market trends, opportunities, buying behavior, purchase intent, and IT priorities. Besides covering emerging technologies such as SMB cloud computing, managed services, mobility, social media usage, virtualization, business intelligence, big data, collaboration, networking its channel research coverage provides in-depth understanding of resellers and channel partners globally. Techaisle’s insights are built on a strong data-driven foundation and its analysts are conversant with both primary research and industry knowledge, which is a rare combination. Techaisle offers its clients: Syndicated Research, Custom Primary Research, Consulting Engagement, Competitive Intelligence, and Segmentation. For more information, visit www.techaisle.com

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