PROACTION
Aligning IT with Business Imperatives

DRIVING PRODUCTIVITY GAINS IN YOUR BUSINESS:

SOLUTIONS FOR MID-MARKET BUSINESS

Commissioned by

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Global Industry Analyst
Market Research Organization
SMB Data You Can Rely On
Analysis You Can Act Upon
Driving Productivity Gains in your Business: IT Solutions for Midmarket Business

In nearly all midmarket businesses, **staff costs are the single biggest expense** – meaning that **productivity gains have a substantial and lasting impact on the bottom line**. Which technologies deliver the fastest, clearest productivity 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: productivity gains across the organization

Productivity sits at the top of midmarket priority lists in all regions of the world: a Techaisle survey of more than 5,000 small (1-99 employees) and midmarket (100-999 employees) organizations found that improving workforce productivity is the top priority for US midmarket firms (identified as a top-two issue by 42% of respondents; that it is also the #1 ranked business objective amongst midmarket businesses in Latin America (cited by 54% of respondents); and that it is the second-highest rated priority for midmarket firms in Europe and Asia Pacific.

Productivity increases have two main benefits. The first, and clearest, is that it allows for scale: if current staff can deliver higher output rates, midmarket firms can grow without adding staff, or can reduce staff while maintaining current output levels. In this context, even a modest increase in productivity yields meaningful bottom-line results. For example, if staff accounts for 60% of expenditures at a midmarket firm operating at 10% margins, a business that can obtain 3% improvement in productivity can increase revenue by 3% without increasing costs, or can maintain current volumes with 3% less staff. As the table below illustrates, a company that is able to fully exploit new growth opportunities without otherwise increasing costs would achieve a gross margin increase of 21%, while a firm able to fully capitalize on cost savings with no new revenue would improve overall gross margins in the business by 17%.

Obviously, the specifics of this equation will vary from organization to organization: some have staff costs that are higher or lower than 60% of overall expense in the business, some have gross margins that are higher or lower than 10%, and some will be able to attain more or less than a 3% improvement in
productivity. But regardless of the numbers that your firm can plug into this type of table, productivity leads to improved top and/or bottom-line results.

<table>
<thead>
<tr>
<th>Productivity Improvement leads to improved top and/or bottom-line results</th>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
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<tr>
<td><strong>Staff as a % of revenue</strong></td>
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<tr>
<td><strong>Gross margin in business</strong></td>
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<tr>
<td><strong>Change in revenue</strong></td>
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<tr>
<td><strong>Change in staff cost</strong></td>
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<tr>
<td><strong>Change in other costs</strong></td>
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<tr>
<td><strong>Change in costs - total</strong></td>
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<tr>
<td><strong>Change in gross margin</strong></td>
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The other key benefit of productivity gains is harder to represent in a table, but potentially more impactful: productivity gains reduce the need for new staff. There are areas of the business where hiring new staff can be relatively painless – but higher-value areas require longer searches, and new senior-level staff take a long time to fully assimilate into a new position; an article from Harvard Business Review states that “if you’re coming into a challenging job from outside the company, it may take a year” to get fully up to speed in a new position.

Improved productivity addresses this issue in three ways. The first is if current employees are delivering higher levels of output, there is less urgency to hire new staff to react to growth opportunities, enabling the midmarket business to test new markets, campaigns or services before committing to additional headcount. The second is that empowered employees tend to stay with current employers – or put another way, low productivity often leads to turnover, which will further depress productivity by requiring recent hires to grow into their new roles. And the third is that midmarket firms often struggle to attract specialized staff – for example, IT security specialists. Making sure that each key employee is as effective as possible is one excellent way to diminish the business exposure that results from gaps in key spots in the org chart.

**The Processes**

**What will midmarket firms do differently, to capitalize on improved productivity?**

Productivity and technology have long had a symbiotic relationship: the PC completely reset expectations for ‘personal productivity,’ supporting applications that empowered each user. Today, though,
productivity initiatives focus on processes – on the activities that staff members (and in many cases, suppliers and/or customers) undertake together. The best prospects for near-term improvement within midmarket firms are realized by streamlining or accelerating processes; a healthcare facility that can move patients more efficiently from one diagnostic or treatment or processing center to the next, a manufacturing plant that optimizes the handoffs between marketing, sales, production and delivery, or a support team that can more rapidly and predictably deliver services to customers can all deliver tremendous top and bottom-line returns.

Technology and productivity continue to work hand-in-glove in this process-oriented environment. The watchword most closely associated with process improvement is agility – building corporate capacity to find areas ripe for improvement, and the ability to respond quickly to these opportunities.

Techaisle’s research often finds that in midmarket businesses, agility is now often positioned as the end goal of digitization and digital transformation – stages in a process that uses technology to encapsulate tasks and connect them into a framework that allows midmarket firms to move from digitizing documents and simple tasks, to digitalizing processes, which reduces cycle time by accelerating hand-offs between related activities, to digital transformation, where businesses are able to deliver “previously-unattainable or un-imaginable outcomes.”

At each stage, midmarket firms use technology to drive productivity improvements that are beneficial to the business. Digitization provides a rapid path to reduced redundancy and improved quality; consider the example of a company that automates its forms to reduce the need for re-keying, which both accelerates form completion (by as much as 40%) and reduced errors attributable to manual inputs. Reduced error rates are a potentially enormous source of improved productivity: errors force customer service representatives to spend time with (justifiably) upset customers, and trigger costly rework to correct inaccuracies. In this case, digitization of forms has both an individual productivity benefit (clerks are able to process a higher volume of forms) and a process benefit (less corrective action required) that would likely boost gains well beyond the 3% improvement used in this paper’s earlier example.

Extending this example, information captured in digital forms can accelerate important processes. A form that contains contradictory or incomplete information can automatically be routed to a help desk or customer support representative for clarification; a form that is complete can be attached to workflow in an environment (to underwriting in an insurance company, to a production scheduling queue in a product
or services firm, to a caregiver in a hospital, etc.) to accelerate handoffs across process stages, or to provide access to needed information at different stages. At the same time, analytics professionals within these businesses can use the digital information to identify bottlenecks and redesign current processes, further improving productivity throughout the organization, while also providing for increased customer satisfaction.

Midmarket firms:
Productivity gain sources in each stage of digital transformation

<table>
<thead>
<tr>
<th>Objective</th>
<th>Example(s)</th>
<th>Productivity gain sources</th>
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<tbody>
<tr>
<td>Digitization</td>
<td>Automated currently-manual documents and tasks</td>
<td>Individual: greater throughput; Process: Improved quality reduces the need for rework</td>
</tr>
<tr>
<td>Digitalization</td>
<td>Process automation</td>
<td>Process: Reduced time required for handoff between process stages; opportunity for analytics to redesign around bottlenecks</td>
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<tr>
<td>Digital Transformation</td>
<td>Development of new capabilities that deliver previously-unattainable or un-imaginable outcomes</td>
<td>Process: ability to connect new requests with delivery capabilities/resources enables introduction of new offerings; improved visibility into demand and delivery capacity enables better supply chain management</td>
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<td></td>
<td>Workflow associated with forms</td>
<td>New product/service development; supply chain optimization</td>
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Source: Techaisle SMB & Midmarket Digital Transformation adoption survey

With the platforms and skills developed to support digitalization, organizations can embark on digital transformation initiatives. The product or services firm may find that it can use its automation capabilities to expand its portfolio, accepting orders for new or highly-customized offerings that can be delivered by existing resources without interrupting normal workflow, or which can be created by engaging members of the current supply ecosystem in new ways. The insurance company may be able to identify ways that it can apply its understanding of risk management in new areas, opening opportunities for relationships that expand into new markets. The hospital may be able to use its data to identify possible environmental causes of illnesses, or benefit from combining its digital information with data from other institutions to identify best treatment regimens for rare or evolving diseases.

Techaisle’s research finds that productivity gains in midmarket firms with organization-wide digital transformation strategies are **1.4 times higher** than gains achieved by midmarket firms that are taking a siloed (department-by-department) approach to digital
transformation – and this data point is reinforced by a growing number of case studies that connect DX with agility and employee empowerment. It isn’t always easy to quantify the benefit of digital transformation at a task level – but the connections between agility achieved through digital business initiatives, productivity and improved business outcomes are clear and compelling.

The logical layer

What IT solutions will need to be in place to support process evolution?

The analysis in the previous two sections of this paper, objectives and processes, represent a business view of the productivity imperative. Once the executive team has determined where it wants to direct the business, and what it is expecting to achieve in terms of productivity (and related business) improvements, the IT requirement comes into focus. Which solutions are most likely to provide clear returns to the organization, and support management objectives?

Techaisle’s research provides a fascinating perspective on this issue. In a worldwide survey, more than 50% of respondents identified one or more of three solutions – analytics, digital workspace and collaboration – as technologies that drive improved productivity within their businesses.

Analytics, as was noted in the previous section, is critical to helping businesses to extract meaning from digital information; it can deliver improved productivity at both an individual level (by enabling professionals to more quickly answer questions that are important to their function) and at a process level (by accelerating workflow across functions, and in more advanced cases, by identifying bottlenecks and/or opportunities for new process design).
Techaisle survey research has found that a unified digital workspace, in which productivity and collaboration applications are delivered in a single environment, is also very appealing to small and midmarket businesses. Asked to assess the impact of a unified workspace, 47% of SMBs reported that it would improve employee productivity, and 56% stated that it would increase overall operational (process) efficiency.

The most fundamental of the three solutions, though, is collaboration. Collaboration systems play a dual role: they contribute directly to productivity, and they amplify the benefits of other attributes and solutions that are improved by better interaction between staff members. Results from the Techaisme survey of midmarket organizations bear out this perspective. When discussing collaboration as a discrete solution, 44% of respondents report that collaboration systems drive increased engagement and innovation, and 51% believe that they reduce turnover. When the perspective was reversed – when the survey probed for factors that support midmarket innovation – the survey found that innovative firms were 80% more likely than non-innovators to have gained improved productivity from collaboration systems.

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?

A scenario in which IT and business are aligned on target organizational outcomes, process change and solutions is ideal from an IT management perspective. From an IT resource allocation level, however, there is a further requirement – to understand what is required to support the strategy from a budget and activity perspective.

As with the logical layer, Techaisle’s research identified three technologies that midmarket businesses consider to be essential to enabling productivity gains: Modern PCs, cloud and mobility.
Over the past several years, mobility has moved from being an important extension of core infrastructure to being an intrinsic component of infrastructure strategy. From an IT perspective, mobility makes management and security of the IT stack much more complex. However, the link between mobility and productivity (and between mobility and attraction and retention of younger staff) is so compelling that midmarket IT operations need to build the capacity for mobility deployment and support.

If PCs act as the primary building block of productivity by empowering individual employees – and they do – then modern PCs can be fairly seen as fundamental to enabling staff members to capitalize on current and emerging productivity solutions. The capabilities that are built into modern PCs – support for mobile work, for collaboration, and for the security layers that protect an ever-more-flexible work environment – are essential to deployment of logical-layer solutions supporting agile processes.

Cloud isn’t actually ‘physical’ – but like mobility, cloud is a non-optional component of current IT infrastructure – and like modern PCs, cloud provides support for functions, including collaboration and access to applications and information/data – that are critical to supporting essential processes. Beyond these comparisons, though, cloud provides the ability to accelerate processes in ways that no other platform technology can match. The nearly-infinite options available in the cloud can generally be connected via APIs to create a set of capabilities that mirror, and adapt to, nearly any process requirement. Cloud is the platform that ties together physical layer technologies and enables the entire platform to support solutions that tie to process and business objectives, particularly those that are focused on productivity.
The bottom line: using IT to drive productivity in midmarket businesses

In its decades-long analysis of midmarket IT trends, Techaisle has observed a shift in how businesses connect technology and productivity, and in the objectives that are attainable through the marriage of IT and organizational goals.

In the past, the primary point at which technology and productivity met was the individual employee: new systems focused on staff enablement. For the most part, midmarket organizations used off the shelf components – desktop PCs, servers and networking – to enhance individual productivity, and then built on these basic platforms to digitalize and accelerate individual business processes.

Moving forward, midmarket firms are shifting their priority from individuals to a much wider set of processes, and to the business as a whole. Increasingly, effort is focused on group rather than individual productivity; IT departments are moving ‘up the stack’ to manage connections between groups, applications and data sources, rather than simply managing and securing network infrastructure. Digital business is permeating all functions, rather than being confined to targeted workloads, and efficiencies are sought across systems, not simply within them.

This ‘new world’ of midmarket productivity requires new logical and physical assets, and new IT management skills. It requires vision and commitment throughout the organization, from the C-suite, from the IT department and from staff across different operating groups. Taking a proactive stance demands that midmarket IT and business management develop the perspective necessary to create a strategy that will support all stages of digital transformation – but the payoff is improved productivity at each stage of the process, and a framework that builds predictably to longer-term viability and success.
About Techaisle

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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