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How Critical is the Digital Platform for Midsize Organizations?

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How Critical is the Digital Platform for Midsize Organizations?

The digital age has created a new level of complexity for every established business around the globe: accelerated change, new business models, consumerization of the workplace, and the explosion of available data are creating unprecedented business opportunities — but also huge competitive and operating challenges. Midsize firms are typically more resource-limited than large firms, but are often more agile with less commitment to entrenched approaches, which can give them a potential advantage. Digital technology offers midsize companies the opportunity to not only compete better, by bypassing entrenched (possibly larger) incumbents slowed down by legacy processes, assets, and business models. But at the same time, they are potentially more vulnerable to smaller, even more agile firms that can leverage technology more effectively to tap the emerging digital economy.

How Important is the Need to Remain Responsive and Agile in Today's Fast-Paced Digital Economy?

This is absolutely critical. The concept of VUCA (volatility, uncertainty, complexity, and ambiguity) is one that originated in the military which is finding new life in the business environment and more so in the digital transformation (DX) age when dealing with competition, customer demand, and economic and even political landscapes. Business leaders have come to realize that surviving and thriving in the digital economy requires a significant transformation of traditional business models — by leveraging the benefits of new technologies and global connectivity, together with the new processes and mindsets that they enable.

IDC predicts that 75% of organizations globally will become completely digitally transformed by 2027, and the rest will go out of business. Why? Because the ultimate benefit of successful digital transformation is business agility — and agility is the only effective adaptation in a VUCA environment.

As an example: a midsize tools manufacturer in Germany recently set up a new ecommerce platform to sell its products, but is also building out new digital capabilities to deliver completely new services and experiences around the platform. This is not a simple online catalog implementation. It has an aggressive target to drive new revenue streams from its new digital products and services, has put in place a chief digital officer (CDO), and has acquired a technology start-up to accelerate its ecommerce business. This DX effort is being driven by the board and the CEO — as it is seen as a strategic priority for the future of the business.

Are There Any Significant Differences Between Large Organizations and Midsize Ones in This Regard?

These trends are impacting organizations of all sizes — all business leaders have to deal with evolving customer expectations, volatile political and market landscapes, and the same dynamic technology landscape as large organizations.

However, digital transformation offers outsized opportunities for midsize firms to compete: they are potentially more agile and able to more quickly absorb and respond to new technologies than larger competitors. And more and more, midsize firms have access to exactly the same technology infrastructure and platform resources as larger firms.

Midsize firms still face challenges, though — we can see this in our research on digital transformation challenges. In a 2018 IDC survey, 50% of organizations with 250–999 employees stated that "integrating digital projects across the organization" is a key digital transformation challenge; and 41% of this same group cited "creating a strategic roadmap for digital investments" as another key digital transformation challenge. A siloed approach to digital transformation is the main reason why the majority of organizations get "stuck" on their digital journeys: an integrated strategy that has digital initiatives integrated right into the core of the business will be the biggest differentiator between the winners and losers for businesses of all sizes.

Approaching DX as a series of isolated one-off projects creates problems at three levels:

1. At a **strategic level** — where DX initiatives are tactical and disconnected from the overall business strategy.

2. **Architecture** — islands of innovation are generated by individual business units in their efforts to deliver innovative use cases.

3. **Organizational structure** — special project teams are created that operate separately from the general business operations, but have a high level of visibility with senior management.

IDC research shows that high-performing or "best run" midsize companies are more likely to have digital transformation initiatives sponsored by central IT (41%) or the senior management/executive team (38%) than lower-performing companies where LOB teams such as sales, finance, and marketing are more often serving as the sponsor.[1]

Why is it Critically Important to Have a Consistent View and Architecture for an Organization's Digital Platform?

As midsize organizations look to create intelligent end-to-end business processes, there is a growing requirement to drive a common integration and data management approach across every single application, app, and system that is part of their enterprise technology architecture.

In order to achieve this, it is necessary to enable a seamless flow of data across the underlying technology environments regardless of delivery model (on-prem, private cloud, hosted, public cloud).

In parallel, the trend to deliver "net new" digital products, services, and experiences is triggering the need to create entirely new business processes that have different data and integration demands. And this is growing at a breathtakingly fast pace. IDC believes that 500 million new apps will be created, equal to the number built over the past 40 years.

The Digital Platform Provides the Data and Integration Capabilities to Deal With This Increasingly Complex Set of Requirements That Defines the New Market Landscape for Midsize Organizations

Source: Becoming a Best Run Midsize Company: How Growing Companies Benefit From Intelligent Capabilities (an IDC InfoBrief sponsored by SAP, January 2019)

Even for midsize organizations, islands of siloed technology innovation are a major inhibitor to scaling digital initiatives. Although it's generally not preferred for the LOB teams to take the lead on technology projects, key LOB functions such as sales, marketing, product development, operations, and finance do need new intelligent business processes with embedded data and integration capabilities. The teams working on these initiatives need to have access to the following capabilities:

- Data governance and access driven by data intelligence, supporting agile business processes
- Business process integration (e.g., estate of predefined business integration flows and connectors)
- Data integration across multiple legacy systems, cloud applications, and data sources to develop new digital use cases via the platform
- Process and API management to deliver deep process and data integration understanding across the respective business domains
- Master data management and orchestration for the combination of analytics and transactional workloads in the same dataset
- An application development environment for the creation of new apps to fill in specific functionality gaps across each pathway
- Machine-learning capabilities for data management, for example determining what features are important to an analysis or automated algorithm, and quickly integrating new data into an analysis approach

The business models of the future require a fully integrated company-wide technology architecture where the systems of engagement are seamlessly integrated with the core IT to provide a single view of the ecosystem. However, these capabilities need to be surfaced across the various teams in a consistent fashion — or else islands of innovation will continue to proliferate.

How is Today's Digital Platform Different From Traditional Application Infrastructure?

Digital platforms deliver value by bringing together, and integrating, functional capabilities that portfolios of applications need — like those capabilities outlined above — in one shared, seamless environment with integrated tooling and life-cycle management services in a way that supports delivery velocity and agility.

Delivering velocity and agility are increasingly becoming critical elements to deliver digital products, services, and experiences. And this has a huge impact on an organization's application architecture.

Historically, companies would develop a small number of business applications in a traditional waterfall development model as part of multiyear transformation program that generally was late, over budget, and not in line with user expectations. However, this approach is fast becoming seen as anachronistic. Companies now expect to be able to roll out and maintain hundreds of apps iteratively and quickly using agile methodologies — where features are delivered in sprints, over weeks and months.

Today's digital platforms don't only support agility and innovation by being cheaper to acquire and faster to leverage — they also provide the basis to bring new capabilities into a business more quickly. When a

platform supplier can operate a digital platform at scale and provide that platform (and all its capabilities and services) to an entire marketplace according to a universal service proposition, it can make new capabilities (for example, around machine learning or IoT) available to clients much more quickly and cheaply than it could when its clients were using traditional application infrastructure — where every client would typically implement that infrastructure in its own way, and possibly customize the infrastructure deeply too.

What Does This Mean to the Role of the CIO/IT Director in Midsize Organizations?

IDC sees two types of CIOs/IT directors in midsize organizations:

1. The **operational CIO/IT director:** focused on business process optimization from the traditional point of view and measures the success of the team based on cost reduction and risk management.

2. The **progressive CIO/IT director:** the orchestrator of the structures, budgets, key stakeholders, and technology capabilities that enable the execution of the digital strategy. This type of IT executive has a cloud-first approach to deliver digital products, services, and experiences

Regardless of the archetype, there are two common threads to the qualities that all CIOs need to develop: firstly, an ability to deliver capabilities in an agile and responsive fashion; and secondly, an ability to more proactively bring resources to bear in order to support business and technology innovation.

How Can Midsize Organizations "Future-Proof" Their Digital Platform to Flexibly Adapt to Changing Requirements?

The emergence of hyperscale cloud platforms is steadily changing the nature of technology spend. In 2017, spending on cloud platforms represented 15% of the total software market, but IDC forecasts that this will exceed 25% by 2021. These cloud platforms provide access to innovation capabilities both directly (from the features they provide themselves) and indirectly (from the features available from platform ecosystems).

As we've already discussed briefly, emerging services on these platforms are gravitating toward new technologies such as machine learning, AI, and IoT — and thereby enabling new kinds of intelligent business processes. For example, a redesigned procure-to-pay business across finance and procurement would have a number of core repetitive tasks automated, while prescriptive workflows would help to drive guided decision making for the financial professionals of the future.

Cloud platform adoption is an imperative for midsize firms — because these cloud platforms are the primary vehicle for being able to access technology infrastructure that scales with their ambition to transform and compete. However, many companies are rightly concerned about platform lock-in. More and more companies are looking for partners that can explicitly support "multicloud" strategies — enabling services and capabilities to be delivered across, and integrate with, a variety of cloud infrastructure platforms (AWS, Azure, Google Cloud Platform, and so on) as well as on-premise hosted applications and private cloud platforms. Key to this is working with partners that have mature application, process, and data integration strategies and technologies.

How do Midsize Organizations Structure Their Digital Platform Alongside Major Standardized Application Packages (SaaS or On-Premises)?

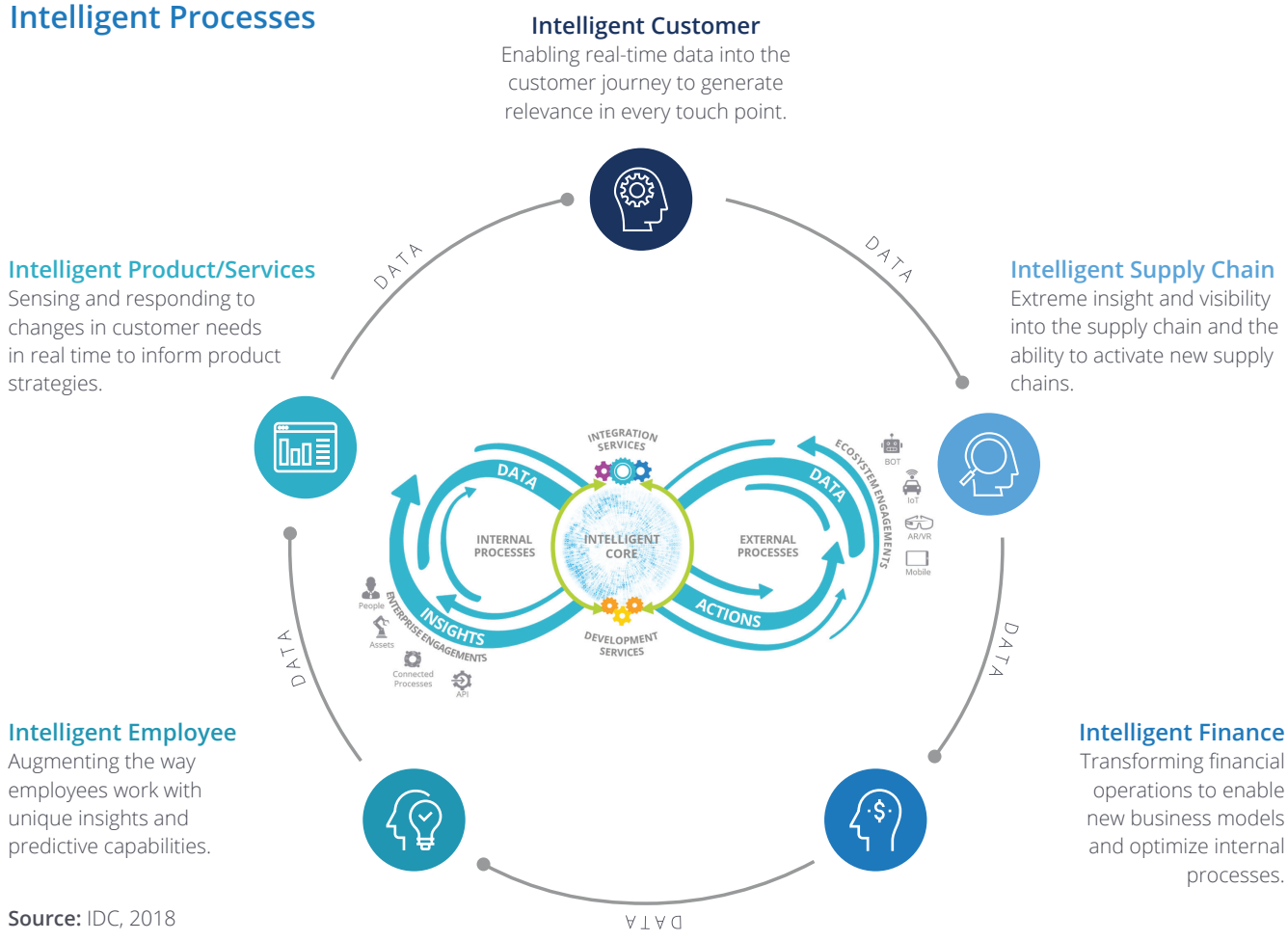
Along with the steady infrastructure shift toward cloud platforms over the past 10 years, we've also seen a significant — but less obvious — shift in the way that insights, business processes, and decisions are enabled by data through new kinds of application architecture.

Historically, creating business insights from data — business insights that could drive business change and innovation — was very much a siloed activity, carried out by a specialized set of professionals using a specialized technology stack (based around data warehouses, BI, and analytics tools). Operational data was copied from ERP, CRM, and SCM applications, and moved into a separate analytical data management environment, to be worked on in isolation. Analysts would then prepare insights for sharing with managers (perhaps quarterly, monthly, or in extreme cases, weekly).

However, this is changing fast. Now, business processes are becoming intelligent — decisions, tasks, actions, and flows are being driven "in the moment" by insights from operationalized analytics (see Figure 1). There is no separation between analytical and operational data, or their products or uses.

FIGURE 1

Intelligent Processes



Source: IDC, 2018

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Established midsize companies may have significant IT investment heritages, so the resources that need to be marshalled to support these new intelligent business processes frequently span packaged applications, custom-built web-based and desktop applications, and mainframe-based applications too.

In line with this, as mentioned at the beginning of the document, an integrated digital platform supporting these new application architectures and business processes must be built on a strong foundation of integration capabilities — a foundation that can work seamlessly across a multicloud environment.

To put it another way: a digital platform that delivers the capabilities we've described is the ideal environment from which to run key application workloads, as well as providing a central integration hub for connecting into other applications and services. A strong digital platform is the fundamental platform that allows for developing, extending, and integrating business processes, but it is also extensible itself — providing a vehicle for the introduction and incorporation of new and emerging technologies.

Such a digital platform will be critical to differentiate for any midsize organization looking to deliver sustainable competitive advantage and outcompete larger firms in the future.

About the analysts

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