

Middle Market Digitization Trends Webinar | March 9, 2016

HOW DIGITAL ARE YOU?

FINDINGS FROM THE NCMM'S 2015 DIGITIZATION TRENDS REPORT

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The National Center for the Middle Market



NATIONAL CENTER FOR
THE MIDDLE MARKET

THE NATIONAL CENTER FOR THE MIDDLE MARKET



ABOUT THE CENTER

Founded in 2011 and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the nation's first and foremost expert on the U.S. middle market. The Center's mission is to serve as the leading source of knowledge, leadership, and innovative research on the U.S. middle market economy.

MIDDLE MARKET RESEARCH & DATA



Quarterly Middle Market Indicator



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THE MIGHTY MIDDLE MARKET

U.S. Middle Market Defined

NEARLY

200,000

BUSINESSES

IN ALL INDUSTRY
SEGMENTS AND
GEOGRAPHIES



REPRESENTING

3.0%
OF ALL U.S.
COMPANIES



**ANNUAL
REVENUE**
RANGING FROM

\$10MM-\$1B



U.S. Middle Market Impact



5TH
LARGEST
GLOBAL ECONOMY



MORE THAN

\$10
TRILLION

IN ANNUAL REVENUE



33%
OF PRIVATE
SECTOR GDP



1/3 OF U.S. JOBS—
APPROXIMATELY
45.6 MILLION



GENERATED
AN ADDITIONAL



\$500
BILLION



IN ANNUAL
REVENUE IN 2013



PROJECTED
TO CREATE



60%
OF ALL
NEW JOBS
IN 2014

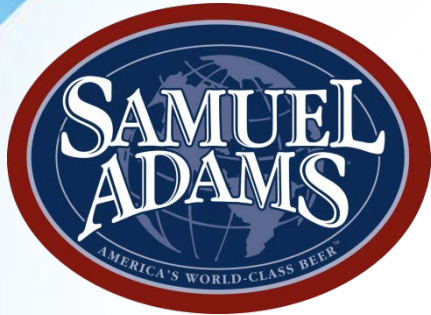


2013-2014 CONTRIBUTED

1.1+ MILLION

NEW JOBS

THE ALL-AMERICAN MIDDLE MARKET



THE MIDDLE MARKET INDICATOR

Q4'15 MIDDLE MARKET INDICATOR EXECUTIVE SUMMARY

- 1 BY A SUBSTANTIAL MARGIN, THE MIDDLE MARKET CONTINUES TO LEAD THE U.S. ECONOMY IN REVENUE GROWTH AND JOB CREATION
- 2 WHILE YEAR-ON-YEAR GROWTH IS HIGH AND JOB CREATION REMAINS STABLE, THE MIDDLE MARKET HAS ENTERED A PERIOD OF DECLINING ACCELERATION
- 3 EXPECTATIONS FOR GROWTH ARE AT THE LOWEST LEVEL MEASURED IN THE PAST YEAR; INVESTMENT APPETITES ARE MUTED
- 4 CONFIDENCE IN U.S. AND LOCAL ECONOMIES REMAINS SOLID, BUT CAUTION IS EVIDENT, ESPECIALLY GLOBALLY

Q4'15 U.S. MIDDLE MARKET EXECUTIVE SUMMARY

REVENUE GROWTH

6.1%

PAST 12 MONTHS

3.7%

NEXT 12 MONTHS

EMPLOYMENT GROWTH

3.6%

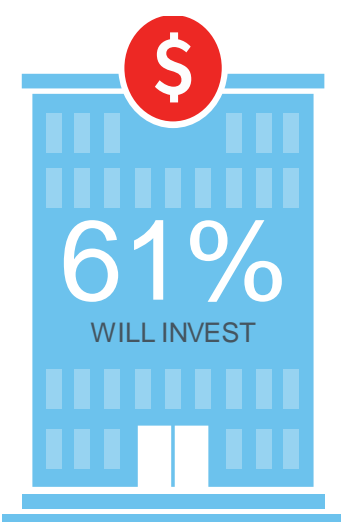
PAST 12 MONTHS

2.2% SMALL BUSINESS 2.0% LARGE BUSINESS

2.7%

NEXT 12 MONTHS

CAPITAL INVESTMENT



CONFIDENCE

47%

GLOBAL ECONOMY



67%

NATIONAL ECONOMY



76%

LOCAL ECONOMY



Q4'15 MIDDLE MARKET INDICATOR REVENUE GROWTH TREND

PAST 12 MONTHS

6.1%

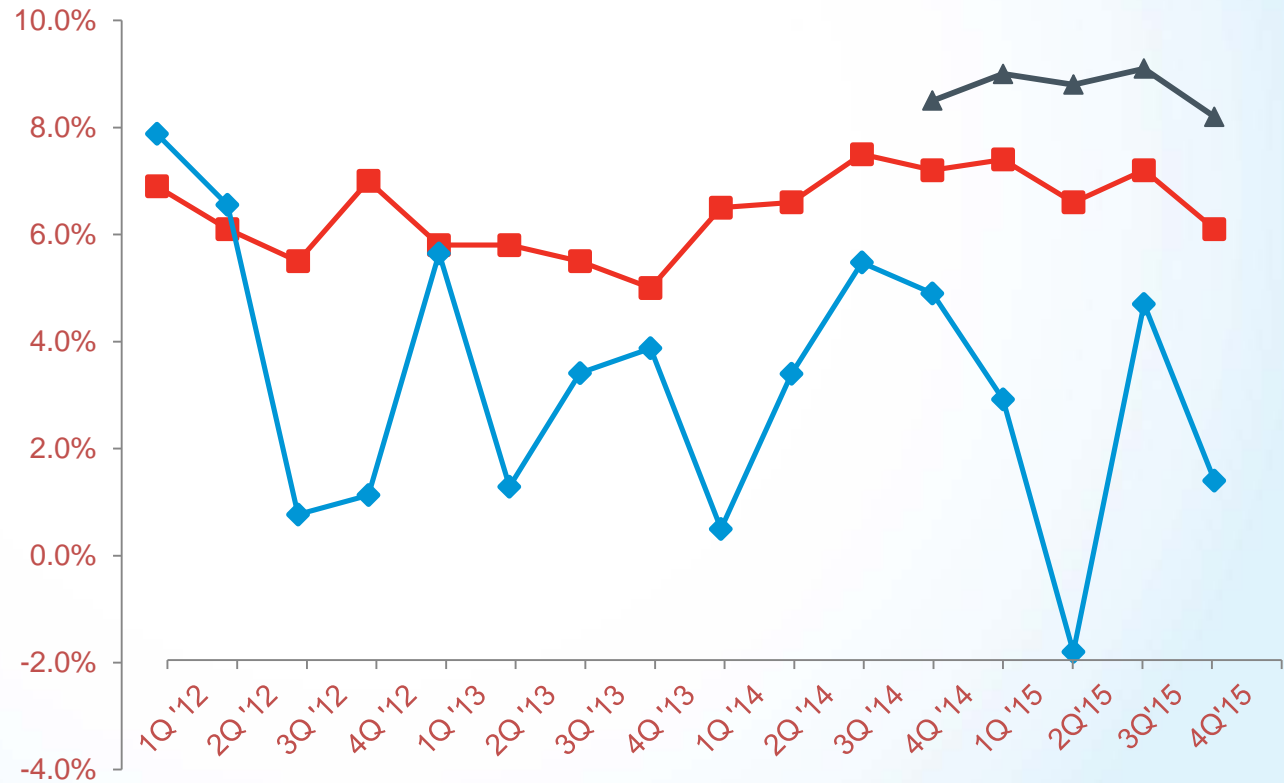
U.S. MIDDLE MARKET

1.4%

S&P 500

8.2%

PE-OWNED FIRMS



Source: 4Q'15 Middle Market Indicator Report

Q4'15 MIDDLE MARKET INDICATOR REVENUE GROWTH *FORECAST*

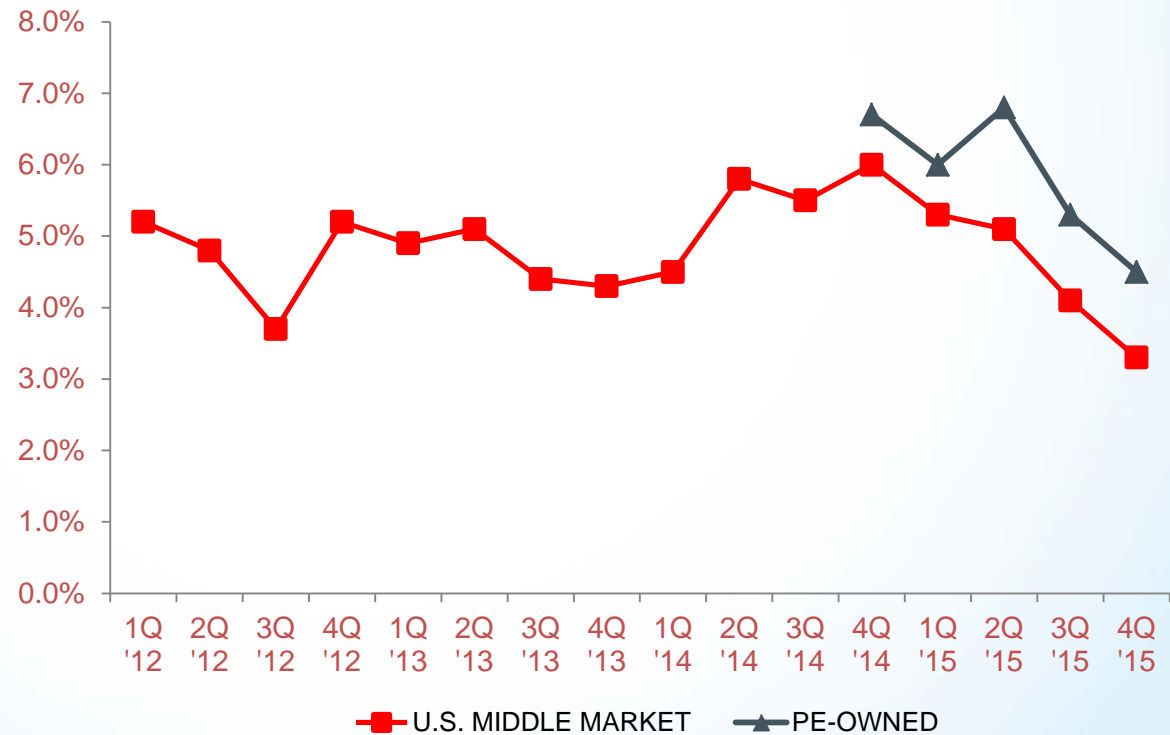
NEXT 12 MONTHS

3.3%

U.S. MIDDLE MARKET

4.5%

PE-OWNED FIRMS



Q4'15 MIDDLE MARKET INDICATOR REVENUE GROWTH *FORECAST*

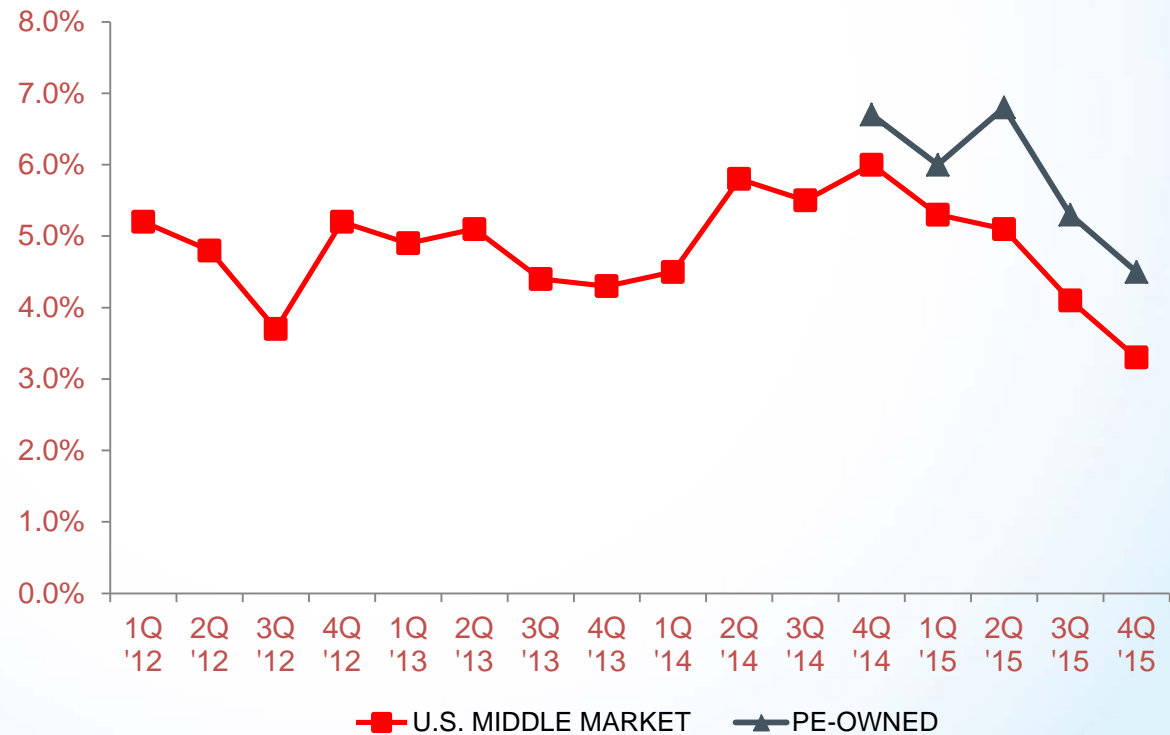
NEXT 12 MONTHS

3.3%

U.S. MIDDLE MARKET

4.5%

PE-OWNED FIRMS



Q4'15 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

3.6%

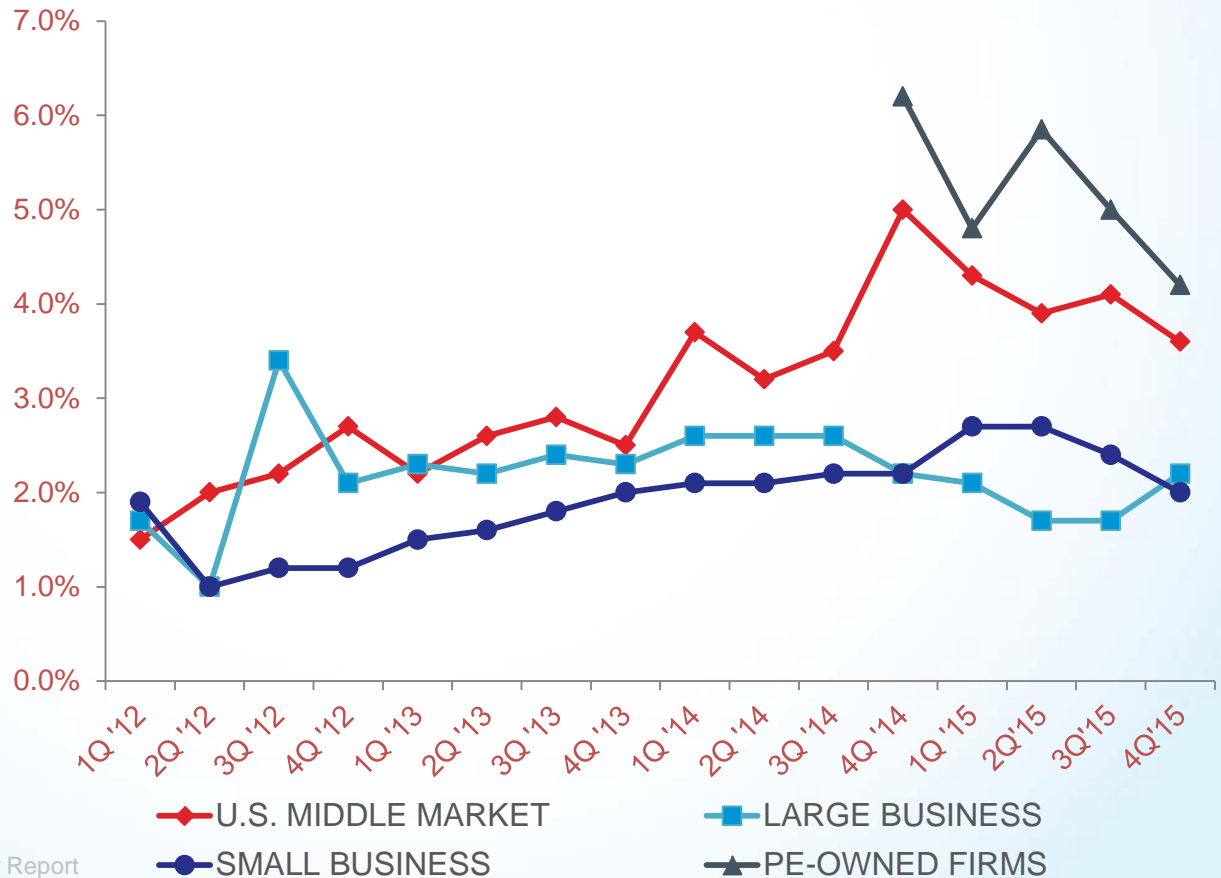
U.S. MIDDLE MARKET

2.0%
SMALL
BUSINESS

2.2%
LARGE
BUSINESS

4.2%

PE-OWNED FIRMS



Source: 4Q'15 Middle Market Indicator Report

Q4'15 MIDDLE MARKET INDICATOR EMPLOYMENT GROWTH

PAST 12 MONTHS

3.6%

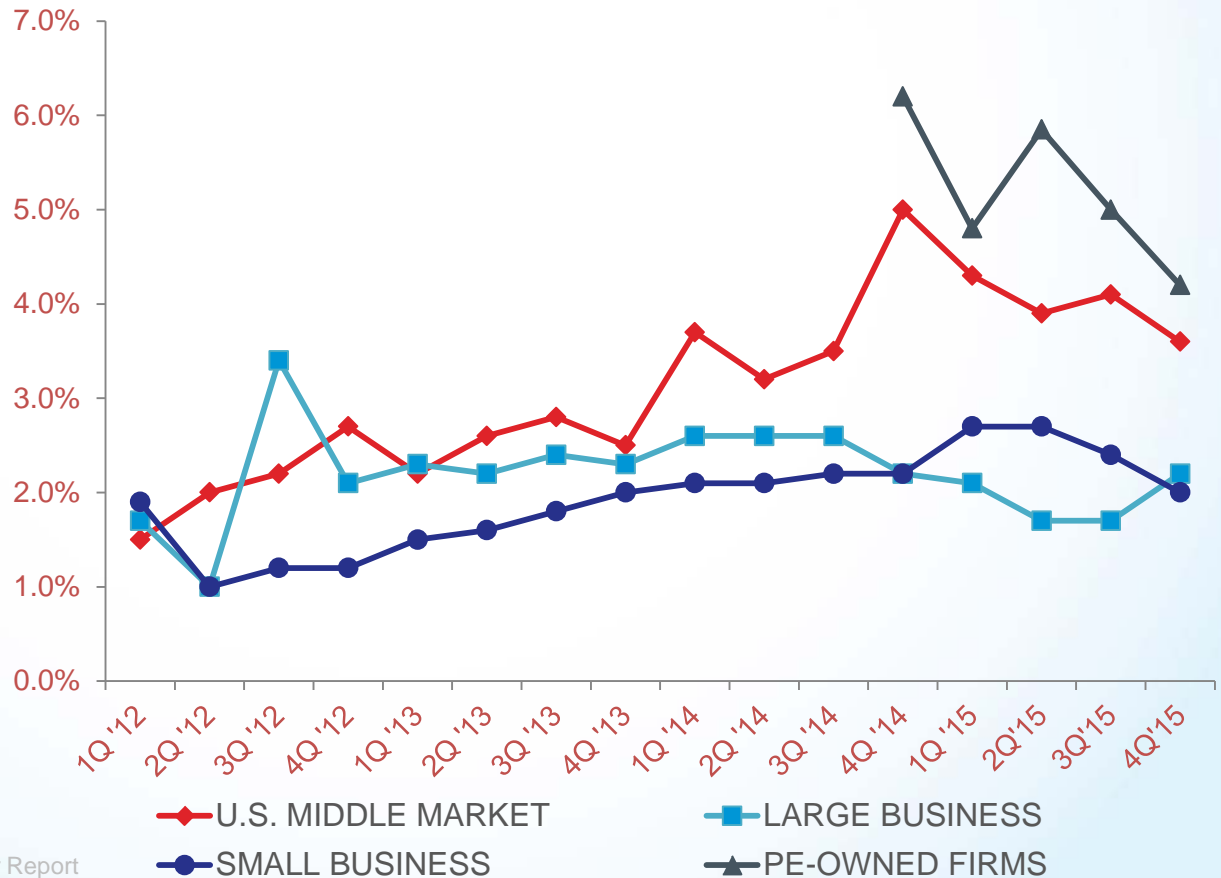
U.S. MIDDLE MARKET

2.0%
SMALL
BUSINESS

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LARGE
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PE-OWNED FIRMS



Source: 4Q'15 Middle Market Indicator Report

Q4'15 MIDDLE MARKET INDICATOR – KEY CHALLENGES

TOP CHALLENGES

LONG TERM CHALLENGES (Next 12 months)

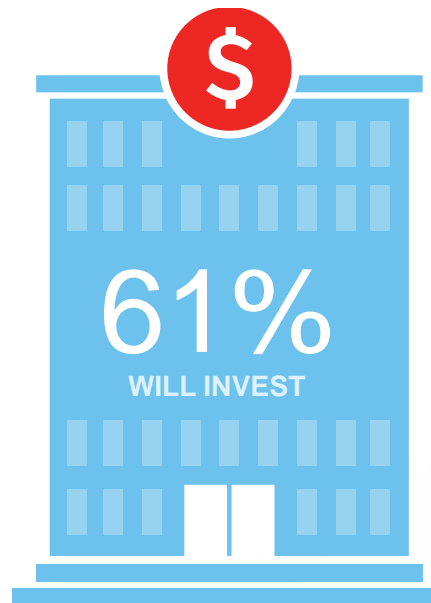
INTERNAL CHALLENGES:

- 1. STAFF/EMPLOYEES **45%**
- 2. BUSINESS **38%**
- 3. COSTS **19%**
- 4. GOVERNMENT **6%**

EXTERNAL CHALLENGES:

- 1. BUSINESS **29%**
- 2. GOVERNMENT **19%**
- 3. COMPETITION **18%**
- 4. ECONOMY **16%**
- 5. COSTS **11%**

CAPITAL INVESTMENT



CONFIDENCE

47%

GLOBAL ECONOMY



67%

NATIONAL ECONOMY



76%

LOCAL ECONOMY





HOW DIGITAL ARE YOU? PART 1: DIGITAL INVESTMENT

For the purposes of the research, respondents were asked to keep the following definition in mind:

Digitization: taking manual, paper-based, or offline business processes and converting them to online, networked, computer-supported processes. ***The goal of digitization is to*** standardize, automate, and integrate systems and data so as to create a real-time operating and decision-making environment.



While business units are implementing digitization efforts with some success, efforts at the overall organizational level are not considered satisfactory.

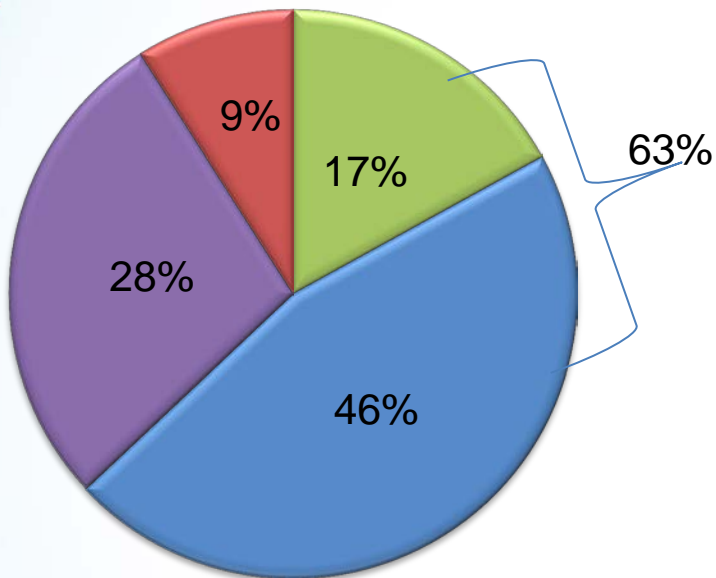


Businesses are cognizant of the impact digitization has on the firm, but the process and the pace is a serious cause of concern and frustration.



Although firms are allocating substantial resources toward digitization, many are not satisfied with the rate of implementation.

DIGITIZATION IS A HIGH PRIORITY FOR MIDDLE MARKET COMPANIES



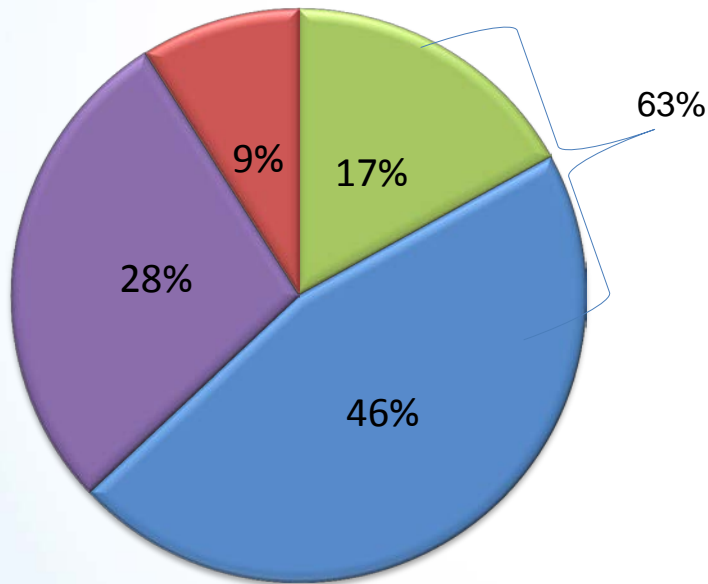
■ Extremely important
■ Somewhat important
■ Very important
■ Not Very/At All Important

	By Revenue Segment		
	\$10M - <\$50M	\$50M - <\$100M	\$100M - <\$1B
Top 2 Box	55	64	72
Extremely important	15	15	20
Very important	40	49	52
Somewhat important	34	23	22
Not Very/At All Important	11	13	6

	By Industry					
	Business Services/ Technology	Manufacturing	Retail/ Wholesale Trade	Financial/ Insurance/ Real Estate	Health Products/ Services	All Others
Top 2 Box	75	55	49	67	72	60
Extremely important	24	19	8	13	19	15
Very important	51	36	41	55	53	45
Somewhat important	18	38	29	24	21	30
Not Very/At All Important (Net)	6	6	22	9	7	10

WHO PUTS THE MOST PRIORITY ON DIGITIZATION?

Level of Importance of Digitization
Relative To Other Business Priorities



■ Extremely important
■ Somewhat important

■ Very important
■ Not Very/At All Important

Leaders

- **62%** consider themselves “*very advanced, a leader in the industry/ahead of the pack*” when it comes to being digital ready compared to other companies

Spenders

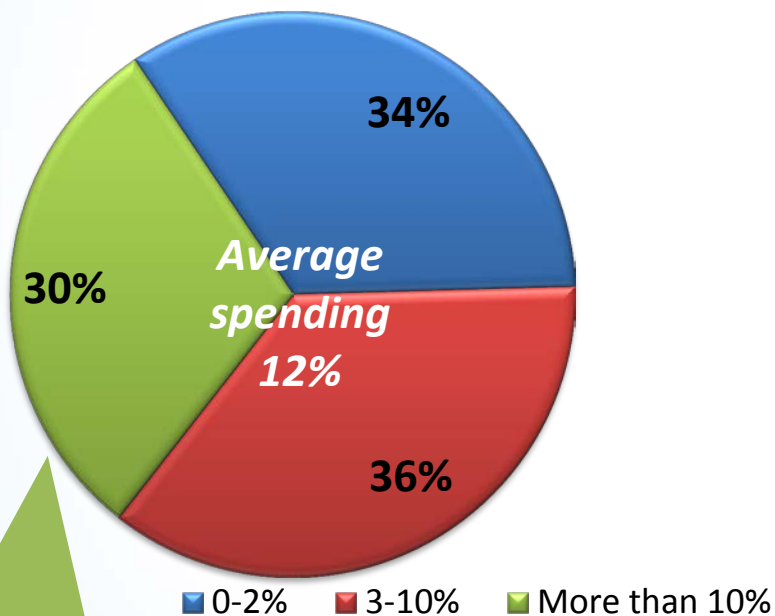
- **59%** spend more than 10% of revenue on IT
- **40%** Spent 10% or more of their revenue on digitization projects in the past 12 Months

Growers

- **43%** have a 10%+ annual revenue growth rate
- **24%** have a 10%+ annual employment growth rate

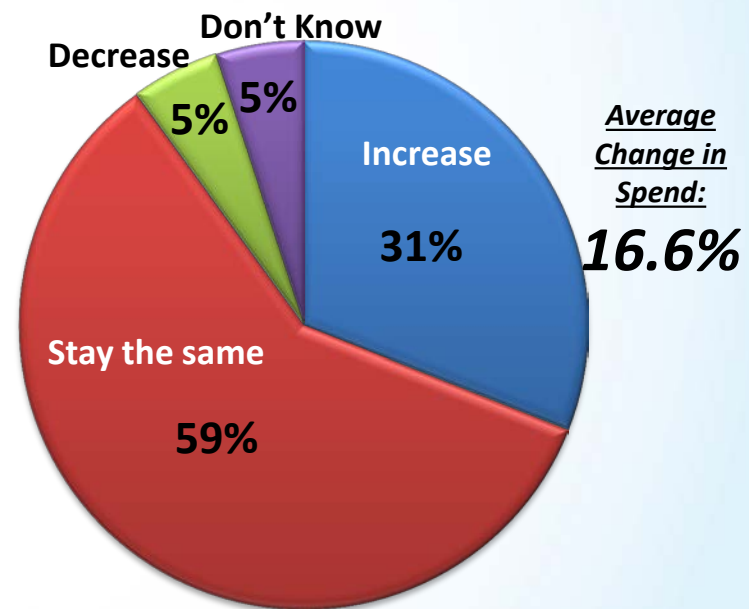
DIGITIZATION SPENDING IS HIGH AND RISING

Digitization spending as % of revenues
Last 12 Months



- 43% Among those with rapid rate of digitization
- 42% Health Products/Services
- 35% Of emerging large markets (\$100M-\$1B)

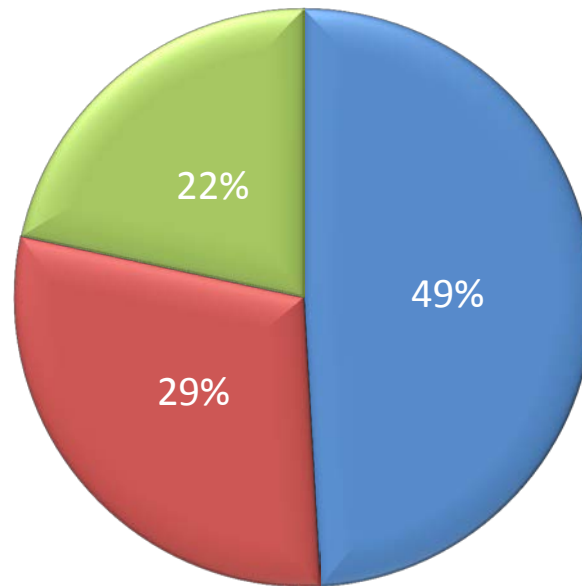
Forecasted change in digitization spending
Next 12 Months



THE BIGGEST REASON COMPANIES INVEST IN DIGITIZATION: SAVING MONEY

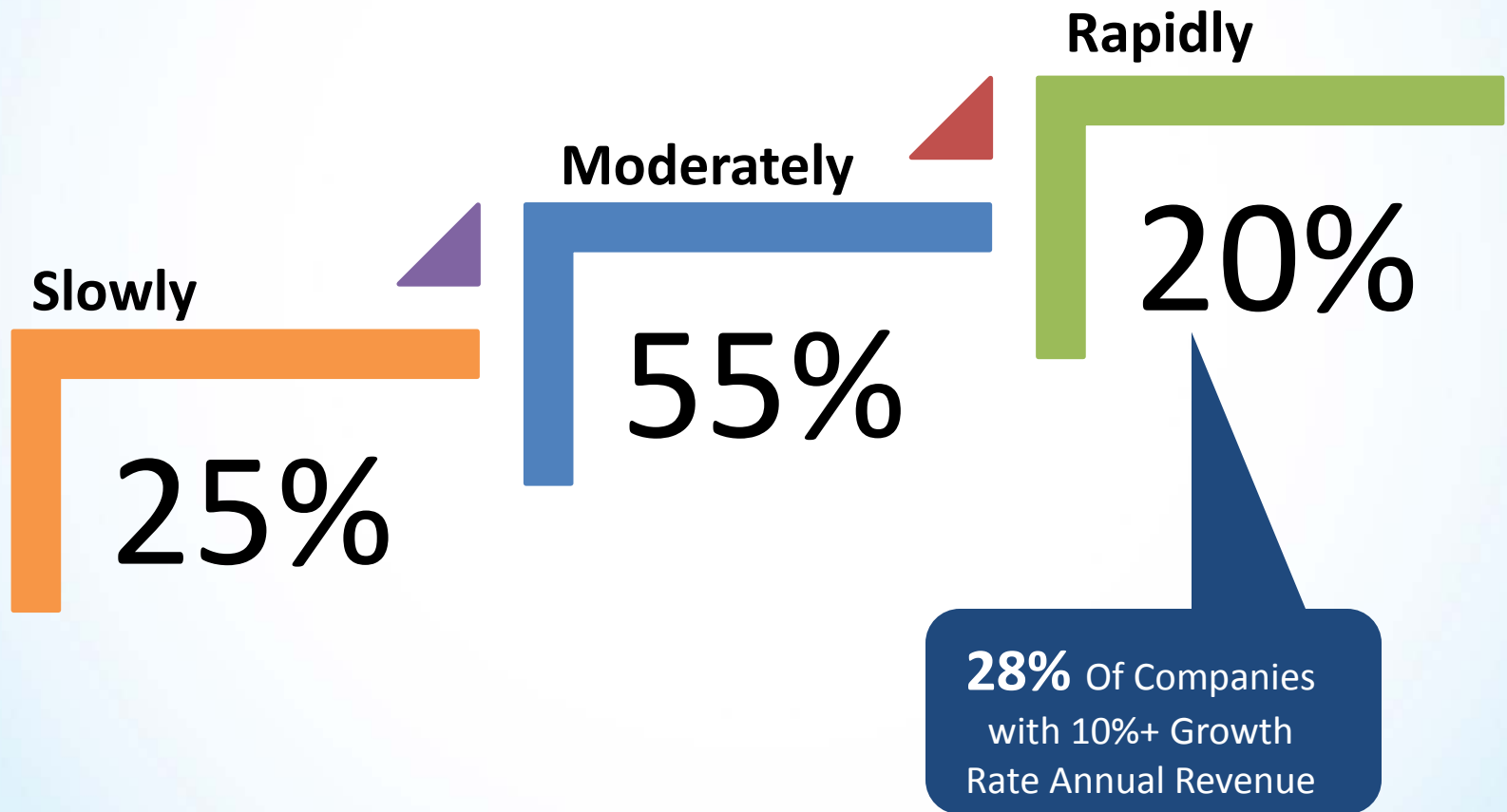
Proportion Of Efforts Directed Towards Different Digitization Goals

27% Among those who spend more than 10% in past 12 months on digitization practices



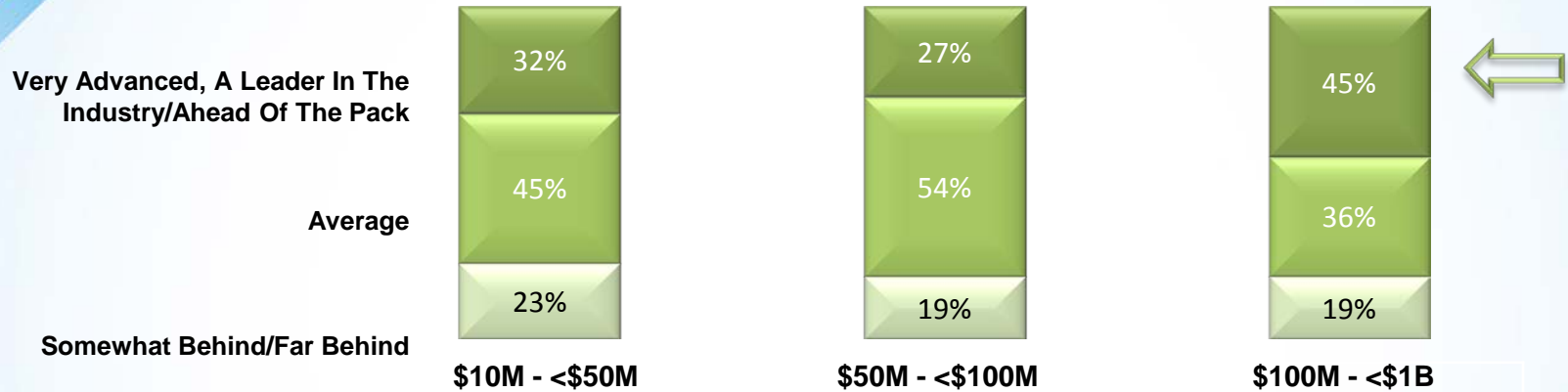
- Chiefly to improve efficiency, cut costs, etc.
- Chiefly to increase revenue, connect with customers, etc.
- Gain full visibility of business by digitizing all processes, leading to a 360 view of consumer and operations

MOST COMPANIES REPORT A MODERATE PACE OF DIGITIZATION

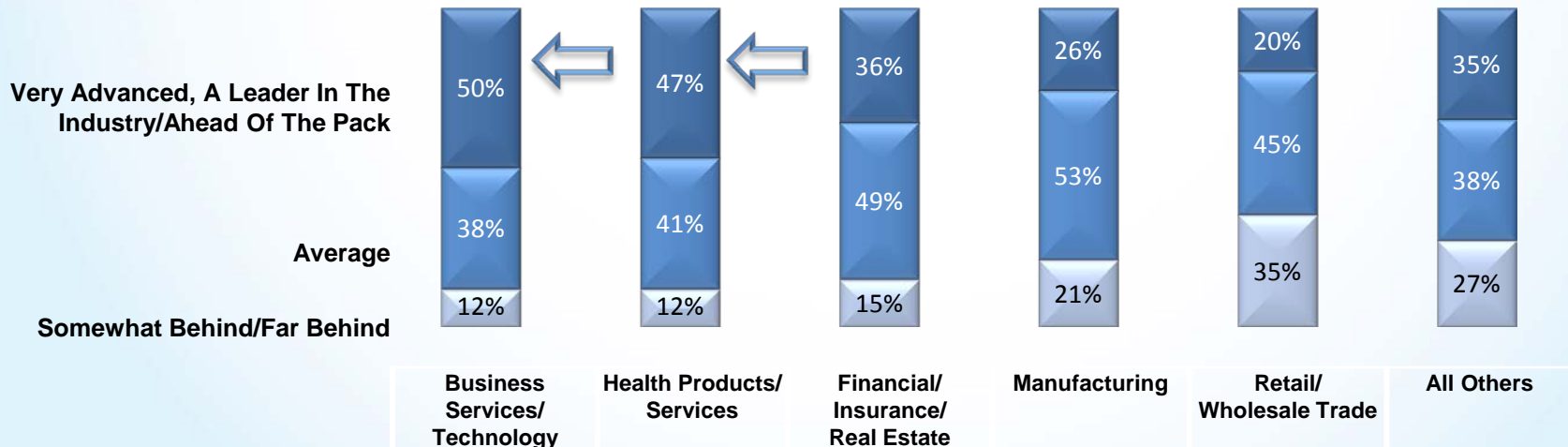


LARGER COMPANIES, HEALTH CARE, SERVICES ARE MOST ADVANCED

By Revenue



By Industry



**HOW DIGITAL ARE YOU?
PART 2: THE MIDDLE MARKET'S
DIGITAL GRADE POINT AVERAGE**

A FIVE POINT SCALE ...

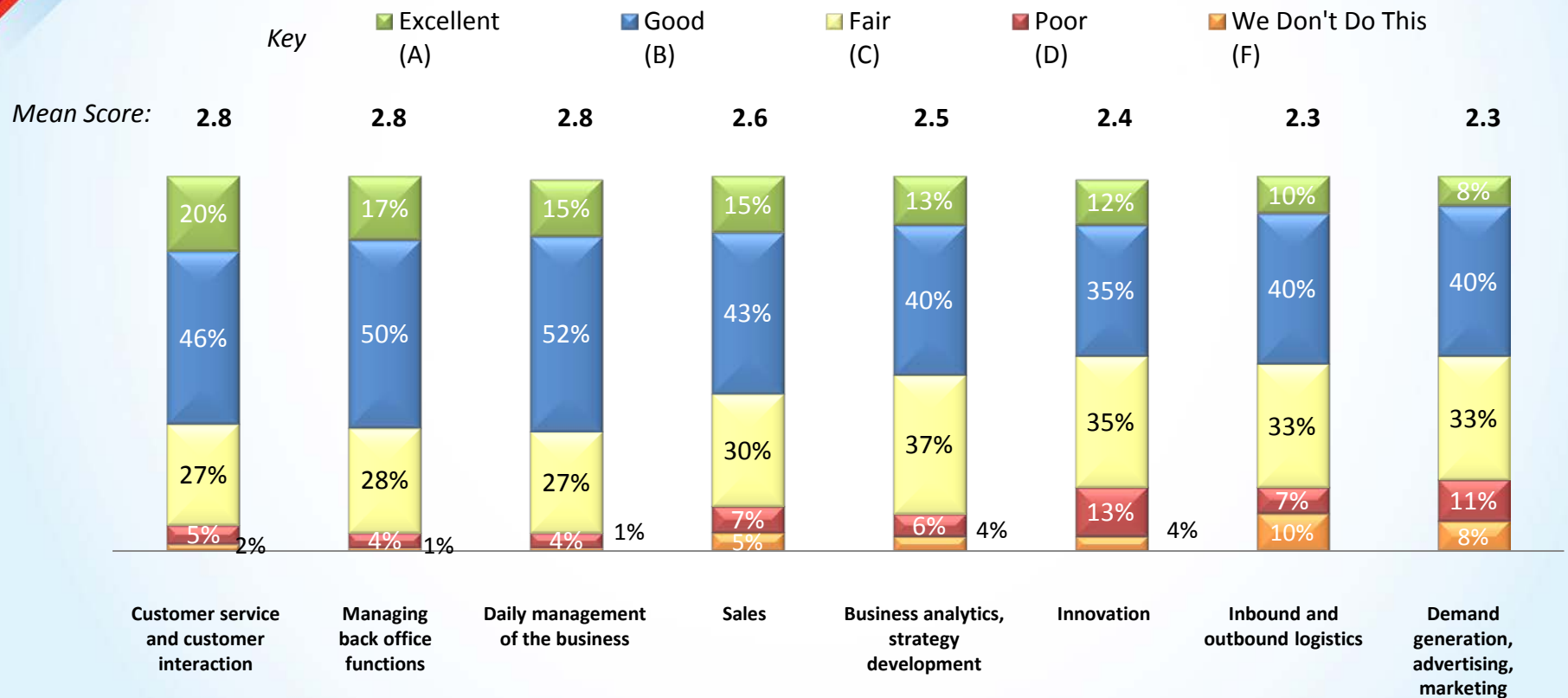
0	We don't do this
1	Poor
2	Fair
3	Good
4	Excellent

TO GAUGE COMPANIES' DIGITAL EFFECTIVENESS BY FUNCTION

Manufacturing and distribution/logistics

- Real-time warehouse or inventory management
- Digital product/service development
- Digitization of core finance functions: use of electronic invoices, automation of accounts payable, working capital optimization
- End-to-end order tracking and supply chain visibility
- Digital integration of supply chain with suppliers
- Real-time management accounting (for example, real-time sales information and other dashboards)
- Use of intranet for career management (e.g., staffing, job posting)
- Predictive modeling and analytics
- Use of online sources to access capital (e.g., Lending Tree, OnDeck, Kickstarter)
- Self-service benefits management (desktop and mobile)
- On-demand manufacturing

THE MIDDLE MARKET'S "DIGITAL GPA": JUST 2.6



THERE ARE FEW DIFFERENCES IN DIGITAL GPA BY COMPANY SIZE

Company's Performance In Different Digitization Areas (By Revenue Segment)

	Revenue Segment		
	\$10M - <\$50M	\$50M - <\$100M	\$100M - <\$1B
Customer service and customer interaction	2.7	2.8	2.8
Managing back office functions	2.7	2.8	2.8
Daily management of the business	2.7	2.8	2.8
Sales	2.6	2.6	2.6
Business analytics and strategy development	2.4	2.6	2.6
Innovation	2.3	2.3	2.5
Inbound and outbound logistics	2.2	2.4	2.4
Demand generation, advertising, marketing	2.2	2.4	2.4

MOST INDUSTRIES PERFORM BEST AT “ORDINARY” DIGITAL WORK

Company's Performance In Different Digitization Areas
(By Industry)

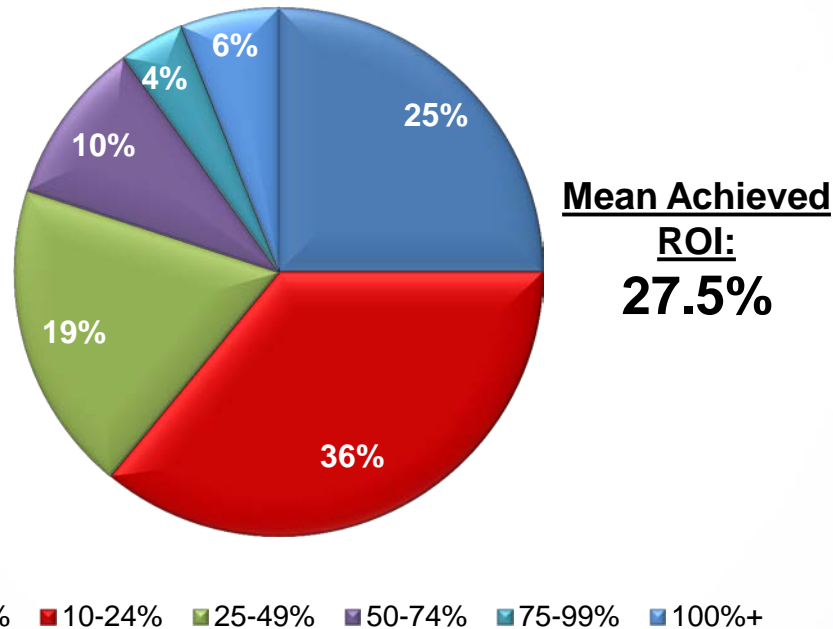
	By Industry					
	Business Services/ Technology	Manufacturing	Retail/Wholesale Trade	Financial/ Insurance/ Real Estate	Health Products/ Services	All Others
Customer service and customer interaction	2.8	2.8	2.9	2.9	2.7	2.7
Managing back office functions	2.7	2.8	2.7	2.9	2.7	2.8
Daily management of the business	2.8	2.8	2.7	2.9	2.7	2.7
Sales	2.5	2.8	2.8	2.7	2.5	2.4
Business analytics and strategy development	2.6	2.6	2.4	2.5	2.7	2.4
Innovation	2.6	2.4	2.1	2.4	2.4	2.3
Inbound and outbound logistics	2.3	2.6	2.5	2.0	2.3	2.3
Demand generation, advertising, marketing	2.4	2.2	2.5	2.3	2.3	2.1



HOW DIGITAL ARE YOU? PART 3: BECOMING DIGITAL

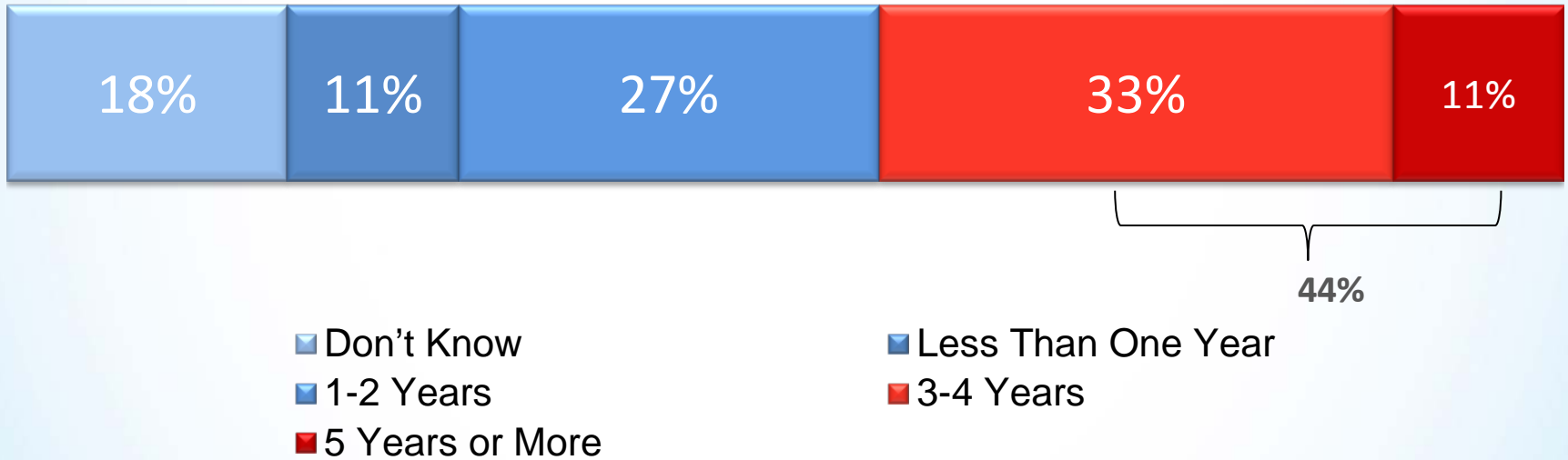
COMPANIES ACHIEVE A HIGH RETURN ON DIGITIZATION PROJECTS

Achieved Rate of Return on Digitization Projects



Companies with "Rapid" Rate Of Digitization Achieve a Mean ROI of 37%
Companies with A 10%+ Annual Revenue Growth Achieve Mean ROI of 38%

... BUT THE PAYOFF IS A LONG TIME COMING ...

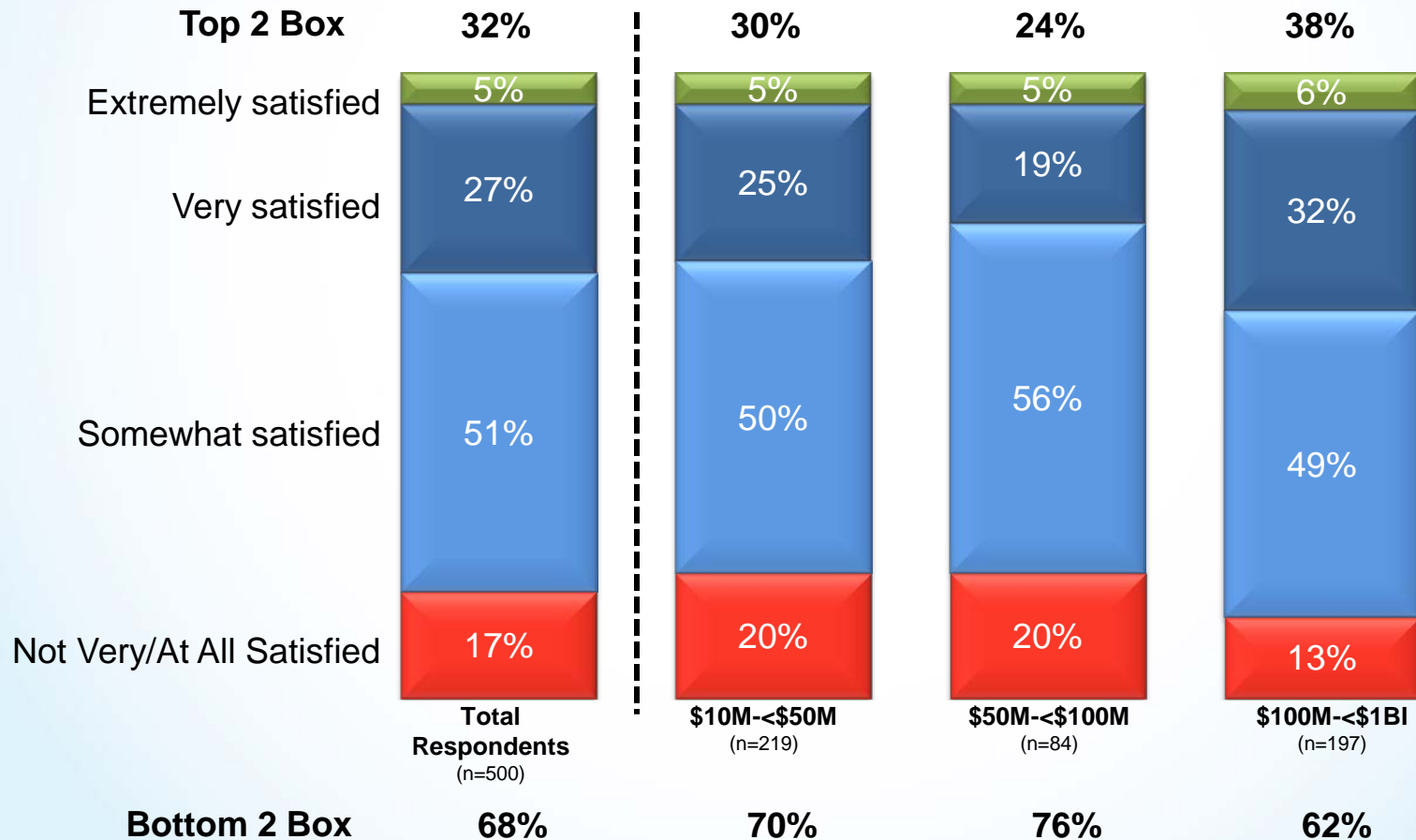


Mean # Years

2.9 yrs.

AND DISSATISFACTION WITH THE RESULTS OF DIGITAL SPENDING IS WIDESPREAD

Overall Satisfaction With Digitization Practices



COMPANIES REPORT FOUR MAIN SOURCES OF DIGITIZATION BLUES

Progress Too Slow

- Process to implement is taking too long
- We are not progressing as rapidly as I would like
- It is moving slower than I would like and we aren't seeing the ROI I think we could be at this time
- It should be done faster, but resources permit limited optimization
- We are not moving quite as quickly as we should be. Training is a huge issue.

- We are unable to implement due to lack of skilled workers
- Need to identify the right people to help us get there
- We don't have strong leadership from the two principals in our business
- Incompetent CIO

Lack of Internal Resources

Work Flow Challenges

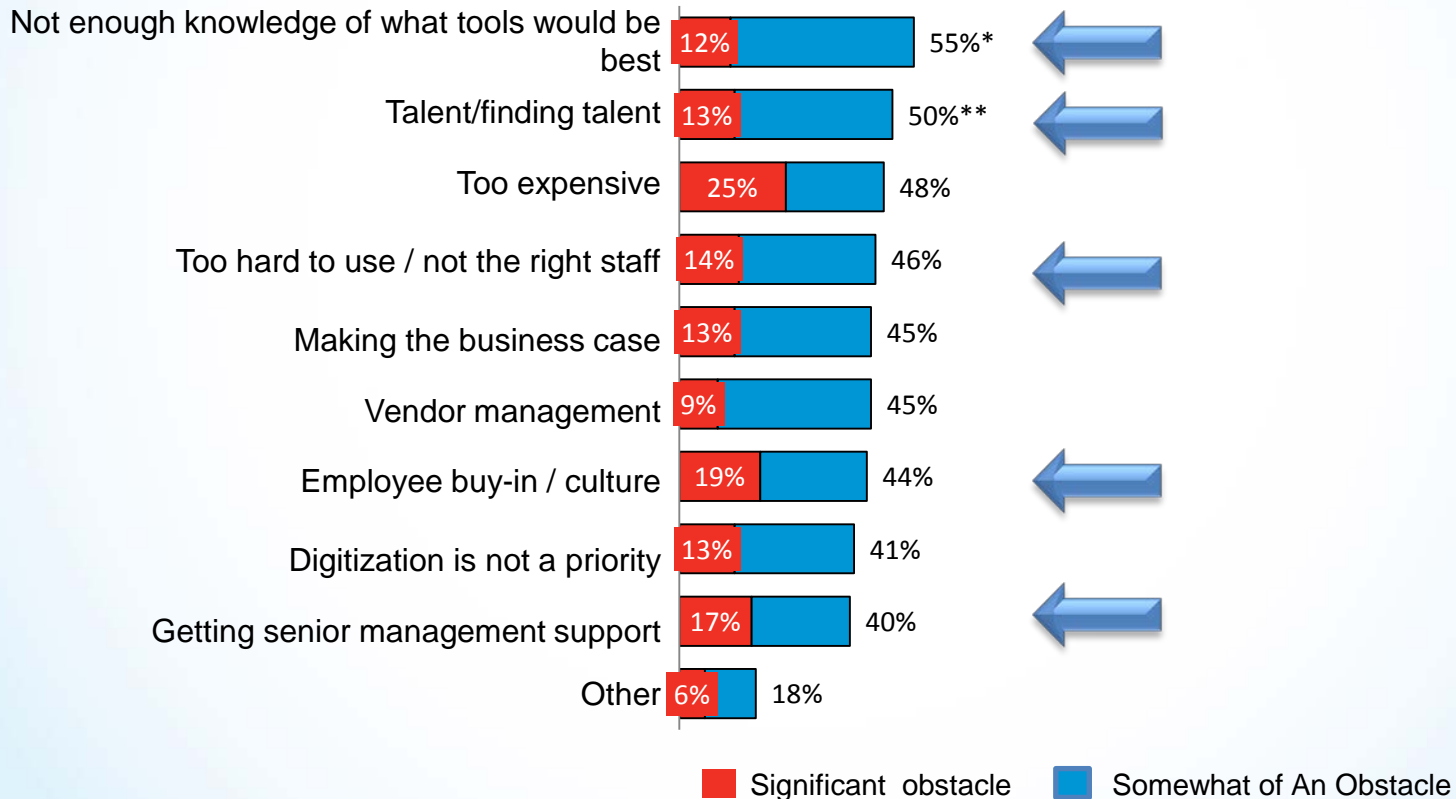
- We are not very sophisticated in this process and we should be.
- Too cumbersome
- Systems were thrown together, not integrated, so don't function very well and not getting any efficiency gains yet

- We have not focused on it and are behind
- We present to be a lean and sustainable organization but digitization is not a very high priority
- Lack of commitment to the implementation has delayed the majority of the benefit

Not a Priority

THE BIGGEST OBSTACLES ARE EXPERTISE, TALENT, AND ATTENTION

Significance of Digitization Obstacles

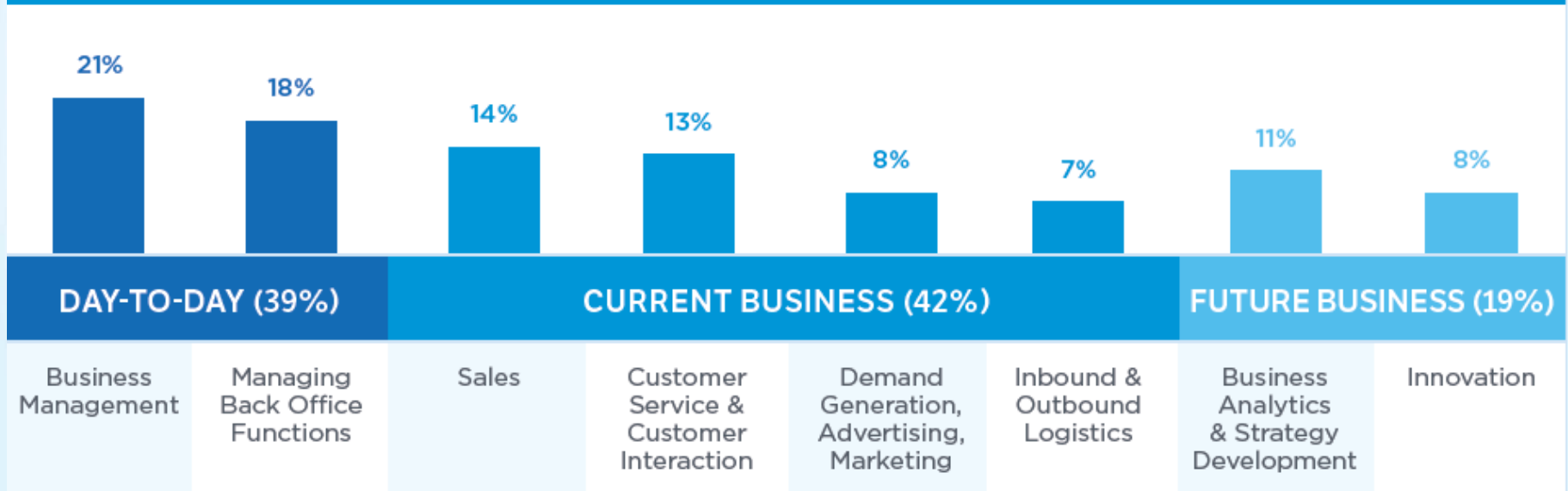


***69%** of respondents in the Manufacturing industry

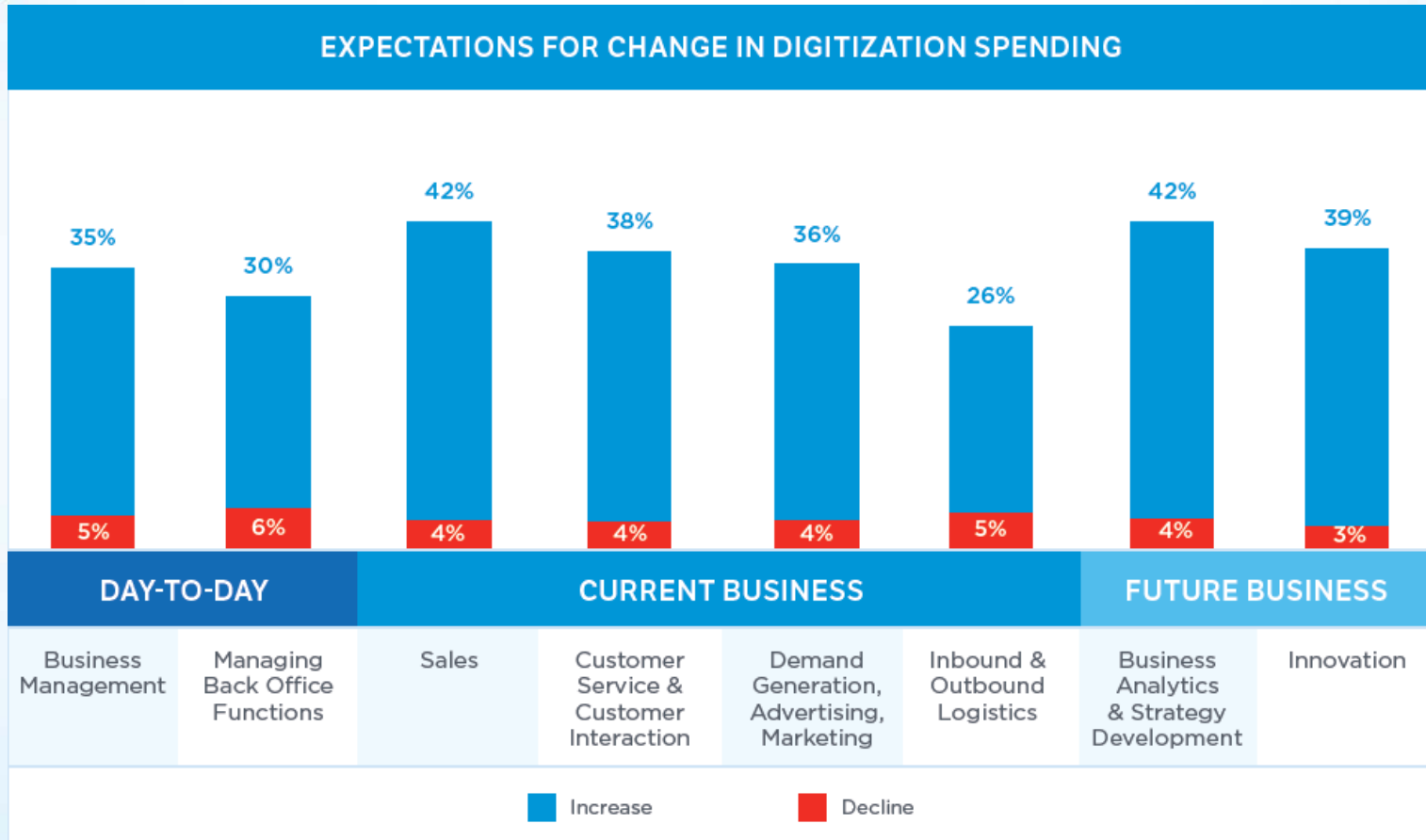
****60%** among those who spend more than 10% revenue in the P12M on Digitization

MOST IT SPENDING GOES TOWARD HOUSEKEEPING AND DAILY MANAGEMENT

ALLOCATION OF COMPANY'S IT SPENDING IN DIFFERENT BUSINESS AREAS
(MEAN % ALLOCATED)



...BUT INVESTMENT PLANS SKEW TOWARD TRANSFORMING THE BUSINESS





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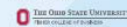


How Digital Are You? Middle Market Digitization Trends and How Your Firm Measures Up

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET AND MAGENTO
WITH RALPH GRECO OF THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS
AND KATI SUOMINEN OF NEXTRADE GROUP, LLC



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