

THE MIDDLE MARKET GOES “BACK TO THE FUTURE”

THE DIGITAL TRANSFORMATION JOURNEY



The year is 1955. It's the night of the school dance. A young man trapped in the past is frantically working to trigger the right series of events to get back to his own time. If he fails, he will erase his own future existence.

Most of you will recognize this as the plot of the first *Back to the Future* film. But as science fiction becomes science fact, this 80s classic also serves as an analogy for the middle market's path to digital transformation—and a reminder that action—or inaction—today dictates tomorrow.

The film is predicated on the theory of causal determinism: the past and future are connected by an unbroken chain of past events. Each node in the chain is determined by the deliberate choices we make—as well as external factors beyond our control. The idea, in theory, is simple: The future is built on prior actions that can be traced back to the past.

Taking a page from the later movies in the franchise, imagine your business in the year 2025. What needs to change? Who is your competition? Are your employees commuting to work in flying cars? (That last one might seem like it's right out of the *Jetsons*—but it's not as farfetched as you might think. The Personal Aerial Vehicle already exists.)

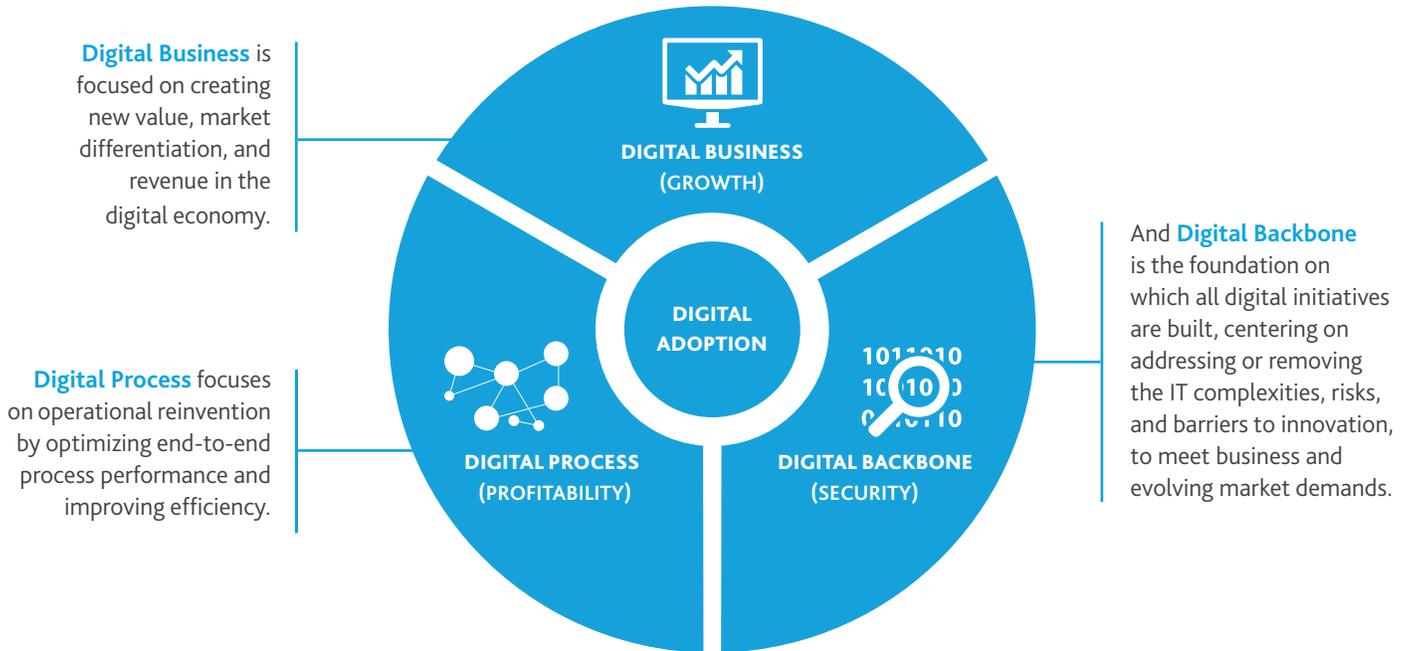
Digital transformation is all about re-imagining your business and operations for the future digital economy. The process of digital transformation is one of a series of deliberate steps to mature the digital capabilities underpinning the desired future state of the business. Once you understand where you need to go, it's a matter of working backwards.

The other real-world challenge is that the future is nebulous, and, when dealing with complex, multi-stakeholder systems, change rarely—if ever—follows a perfectly linear path. While we don't have the benefit of a time-traveling DeLorean, we can harness the power of foresight. The real power of foresight is not in making accurate predictions, but in imagining all the possibilities.

However, foresight is meaningless without focus. To quote Thomas Edison, “vision without execution is just hallucination.” Digital transformation initiatives most often fail because of lack of direction and implementation governance. Imagination needs to be tethered to concrete goals and a clear sense of purpose. The possibilities of “what” cannot be achieved without “why” or “how.”

DIGITAL TRANSFORMATION'S FUNDAMENTAL VALUE DRIVERS

The transformation opportunity in the middle market can be boiled down to three foundational areas of future value creation: **Digital Business**, **Digital Process**, and **Digital Backbone**.



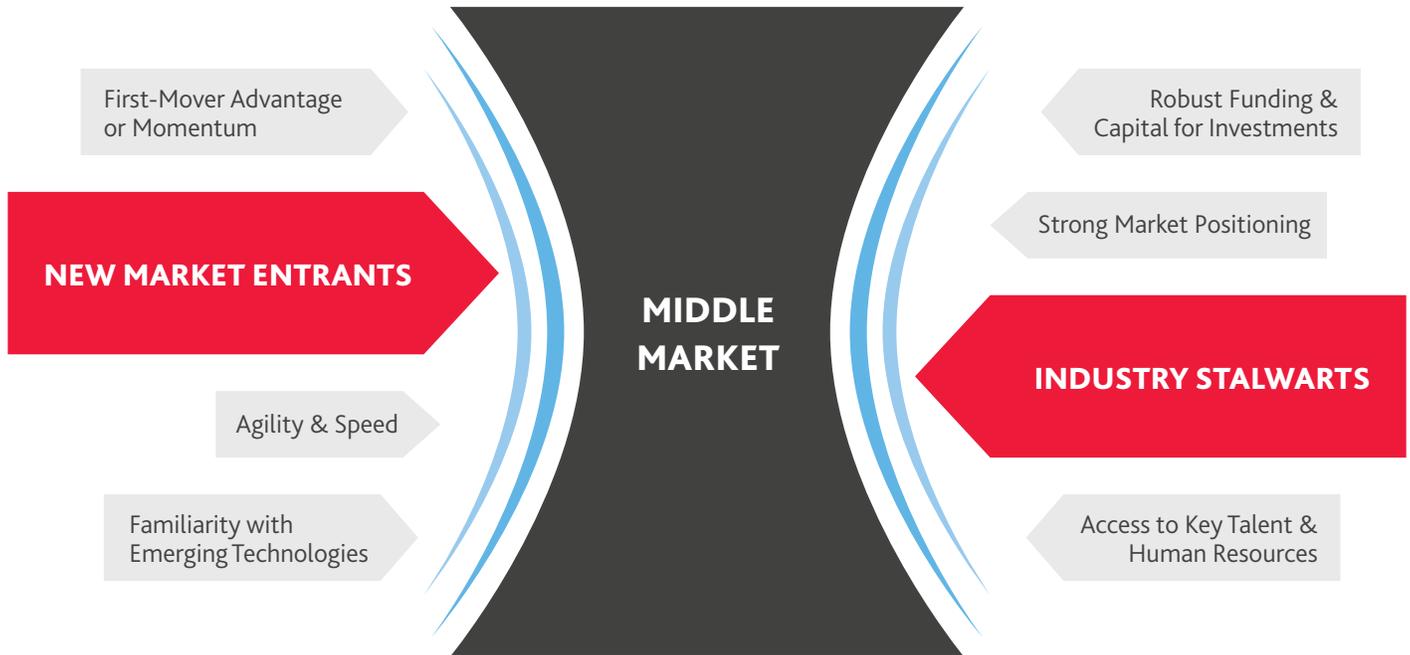
At the heart of digital transformation is **Digital Adoption** by the business and the people behind it. Operational change requires behavioral change in order to truly become integrated into the fabric of the business. You need your people to understand why they need to leave the status quo behind, believe in the strategic vision, and feel engaged in the process. Most importantly, they need to understand what's expected of them and have the resources and training in place to get there.

These fundamental value drivers are interconnected -- and will become even more intertwined as your organization becomes increasingly digital.



THE MIDDLE MARKET: AT A DIGITAL CROSSROADS

Middle market organizations are at a digital crossroads. Large enterprises, armed with robust human resources and capital, are generally ahead of the middle market in digitizing their businesses and investing in new digital capabilities. That gap will only continue to widen, unless middle market companies act fast. At the same time, startups are already nipping at their heels. These new market entrants—untethered by traditional rules—are starting out with the tools and technologies fundamental to competing in a digital world.



However, middle market organizations are not without their own advantages. More money than the average startup means more funding and resources for innovation (and more room for smart risk-taking); while less bureaucracy and red tape than the big boys means more flexibility, fewer walls, and faster decision-making.

But the window of opportunity isn't limitless. If the middle market doesn't embark on digital transformation now, they will soon be eclipsed. In fact, a recent SAP survey found that more than 80 percent of midsize businesses believe digital transformation is critical to their survival in the next two years.

And yet, the middle market is just getting started. According to the same survey, just under 20 percent of midsize businesses have completed digital transformation projects in at least some areas of the business.

READY, SET...TRANSFORM?

If the majority of the middle market is convinced of the transformative potential of digital technologies, what, exactly, is the hold up?

The middle market needs its own playbook.

What works for a large enterprise—setting ambitious targets that require significant upfront investment—is unlikely to get off the ground in most midmarket organizations. By the same token, what works for a startup—often already digitized, with innovation in its core DNA—is likely to fall flat at a company new to agile development methodologies. But a one-size-fits-all middle market “template” also falls short. The middle market represents a wide spectrum of digital capabilities deployed in different ways, with different needs that translate into different digital transformation priorities.

Industry matters.

Digital maturity and disruptive potential vary significantly from industry to industry—and those differences significantly impact digital transformation strategy. All it takes is a little foresight to see how. Consider the hospitality industry, for example, which is up against significant business model disruption from alternative accommodation providers like Airbnb and HomeAway. Hoteliers are unlikely to beat alternative accommodations on price, so they'll need to weight their transformation strategy heavily toward improving customer experience—not just in the breadth of experiences offered, but the way in which they're accessed and delivered.

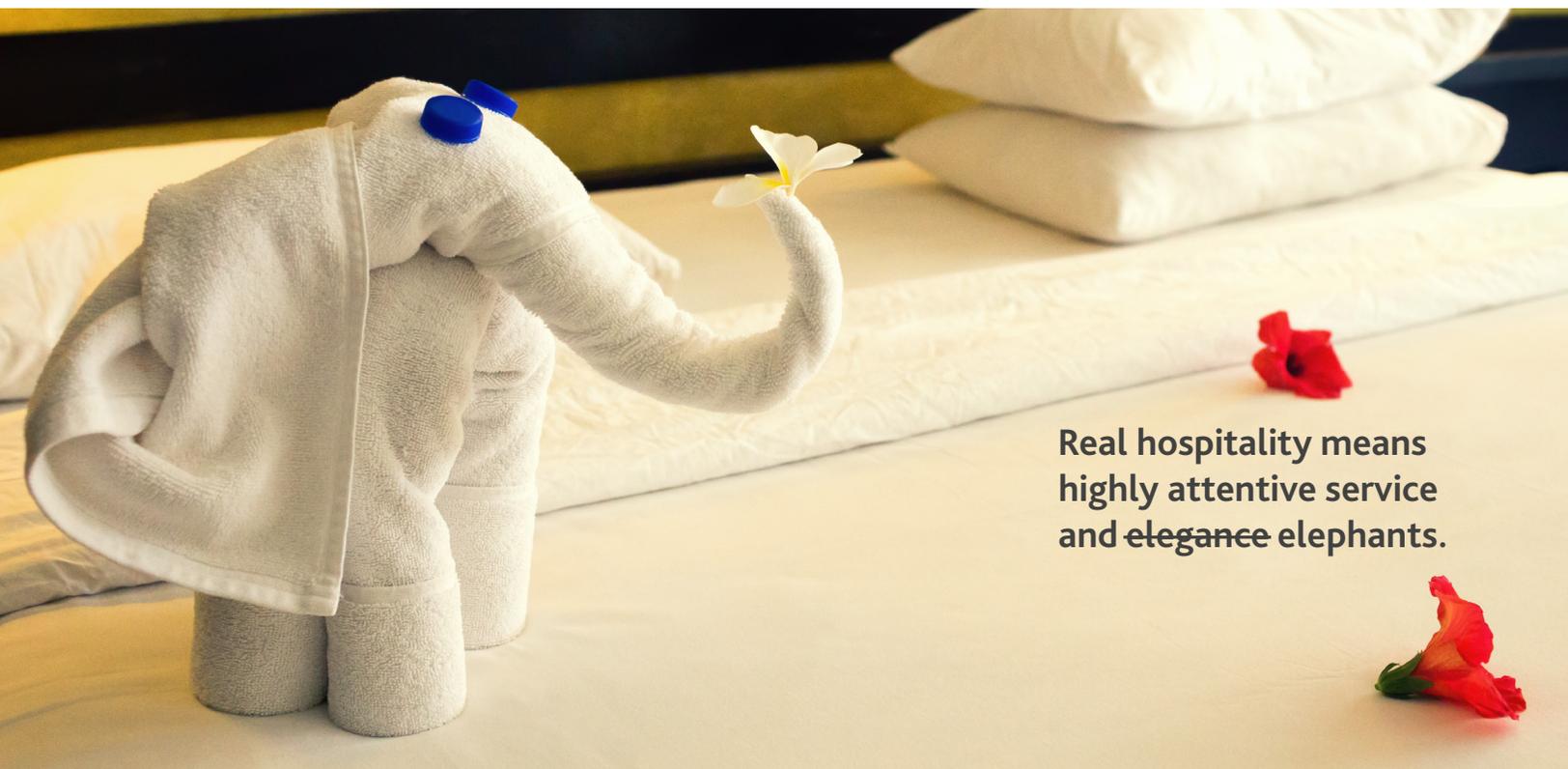
The legal industry, by contrast, is arguably ripe for disruption, but law firms aren't facing the same existential crisis as hotels. Commoditization is a real threat, but there is currently no legal Airbnb equivalent to displace them. Law firms' path to digital transformation is therefore likely to be more conservative and slower paced.

Failing to see the forest for the trees.

Even with a plan in place, it's easy to get overwhelmed by urgent priorities and put off necessary-but-not-exigent digital initiatives. How do you make progress toward the long-term when the short-term can't wait? You address the immediate in the context of the broader strategy. Upgrading legacy IT? Consider whether an upgrade will adequately address future business needs or if you'll ultimately need an overhaul. Dealing with a data breach? Once you've contained the breach, turn disaster into opportunity by revamping information governance and privacy to improve data insights, as well as compliance and security.

The intimidation factor.

Digital transformation may seem like something to aspire to, not a practical investment for where midmarket organizations are today. Advanced intelligent technologies like artificial intelligence, virtual reality, or blockchain might seem like distant dreams for companies that are still focused on migrating to the cloud. The reality is that technology is a critical business enabler to competing in today's marketplace—let alone the marketplace in two years. Your digital strategy should focus on how your organization needs to evolve at the business level to succeed in the future, whether that calls for optimization or total business model transformation. The path “back to the future” is your digital transformation implementation playbook: connecting the current state to the ideal future state in small, achievable increments. Critically, ROI should be realized at every increment; a sound digital transformation roadmap shouldn't make you wait until some ambiguous end to see payoff.



Real hospitality means highly attentive service and elegance elephants.

THE MIDDLE MARKET MANDATE

The middle market needs to take a hard look at the disruptive forces reshaping their industries—beyond the underlying technology advances. Technology is the catalyst to market disruption, but the bigger threat is from the new ideas and business models it unlocks. Disruption can be turned from threat to opportunity, but only with a combination of foresight and focus. For the middle market, that means establishing a digital strategy that balances the long-term vision with realistic short-term goals, and committing to continuous progress toward a more digitized future.

You don't need a flux capacitor to see that inaction doesn't lead anywhere good. Time horizons for change are shrinking as the pace of technological shifts accelerates, digital capabilities go commercial, and emerging upstarts topple old stalwarts. The middle market has reached a tipping point where the consequences of ignoring the rapidly evolving digital landscape are no less dire than Marty McFly's near-fatal fate: obsolescence. Getting back to the future needs to start today, with foresight and a digital transformation roadmap to light the way.

To discuss your organization's digital transformation journey, please contact Malcolm "Chip" Cohron, BDO's National Digital Transformation Services Leader, at ccohron@bdo.com.

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