



**IBM Worldwide Study**  
2011

Exclusively for midsize businesses

# **Inside the Midmarket:** **A 2011 Perspective**



## About the study

**“Inside the Midmarket: A 2011 Perspective”** was commissioned by IBM and conducted independently by KS&R, Inc. The survey of 2,112 business and information technology decision makers at midsize businesses (100-1000 employees) was conducted across numerous industries, including banking, retail, consumer products, wholesale, transportation, industrial products, and insurance. Participants hailed from more than 20 countries, including the United States, Canada, the United Kingdom, the Nordics (Denmark, Finland, Norway, Sweden), Germany, France, Italy, BeNeLux (Belgium, Netherlands, Luxembourg), Spain, Japan, China, Brazil, India, Russia, Australia, Mexico, Korea, Singapore, South Africa, Poland, New Zealand, and the Czech Republic. The study was conducted in the fourth quarter of 2010. It was designed to capture current and upcoming business and IT priorities as well as investment direction.

As economies around the world continue their steady recovery, midsize firms face a new set of challenges and opportunities to position themselves for success. Midsize companies have been the engines driving economic growth and fueling a smarter planet for some time now. They realize they must constantly adjust to a rapidly changing global marketplace and "new normal" financial environment. And they are.

The strategic mindset of midsize firms has dramatically shifted during these challenging times to place more emphasis on growth, innovation, and customer value. Midsize businesses are taking the steps needed to make better use of the information and resources available to them in order to increase productivity, attract and retain customers, and improve competitive positioning – all within a cost-effective business model.

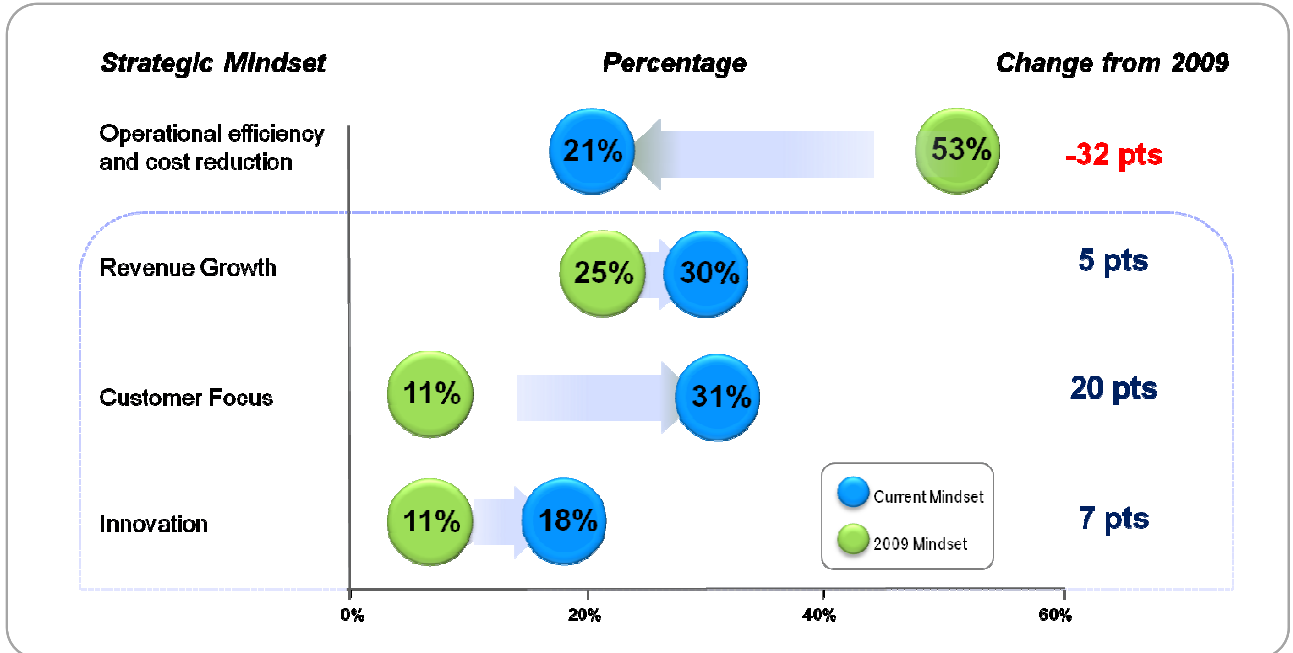
For a growing number of these firms, recent economic disruptions have spawned new ways of thinking about information technology and smart systems. In many ways, technology has moved from being a back office function and enabler of cost reduction, to a driver of growth and value. For some, this transition is a steady journey. For others, the right alignment of IT and business strategy can deliver immediate breakthrough change and transformation.

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## Shifting mindsets

Today's midsize firms must reconcile seemingly opposing strategic mindsets – keeping costs down and increasing efficiency while reshaping business models and infusing them with intelligence. Our findings reveal that midsize firms are, in fact, able to juggle these dual priorities to focus on what will offer the most value to their organizations. When asked about their strategic mindset, 79% cited customers, innovation, and growth as their major priorities, with 21% primarily focused on reducing costs and increasing efficiency.

Comparisons between findings from this study and those from 2009 reveal a broadening focus on strategic areas that will continue to help midsize businesses seize opportunity and lead the recovery.



In 2009, midsize businesses (53%) were mainly consumed with reducing costs and increasing efficiencies. The progress and momentum gained from these efforts continue to yield critical benefits and advantages for midsize businesses. Because of this momentum, they are now in a position to turn their attention to more forward-looking aspects of their business. This is demonstrated by the significant increase in focus on customers (+20 pts), innovation (+7 pts), and revenue growth (+5 pts).

To strengthen relationships, improve service, and provide differentiated value, 31% of midsize businesses are shifting their attention toward current and prospective customers. Midsize businesses today have a variety of affordable applications and technologies at their fingertips to accomplish these goals. Technologies, such as social media, Web 2.0, and mobility applications, expand opportunities in terms of reach, collaboration, and accessibility. Other technologies, like information management and business analytics, help companies derive insights from vast amounts of customer data.

Another 30% of midsize businesses are looking to revenue and market share growth as ways to enter new markets, expand globally, and improve competitive positioning.

And, 18% are tapping into new and innovative business processes and models to help them transform into more agile and formidable competitors. With the economy continuing to strengthen, companies are looking for breakthrough innovations and new markets that will drive new revenue streams to carry them into the next decade.

At any given time, corporate culture, available resources, and business environment play major roles in influencing which approach is most appropriate for a company. Regardless of the prevailing mindset, all present different challenges that require careful planning and strong execution to ensure a successful outcome.

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## Investing in today – and tomorrow

Midsize firms are increasing their investment in IT, striking a balance between solutions that drive short term cost savings and those that enable revenue growth and stronger customer relationships. Globally, managing costs, improving efficiencies, driving up productivity, and focusing on superior customer service are all cited as critical business priorities.

**Cost reduction and operational efficiencies** – The demands of today’s “new normal” financial environment require that midsize firms remain focused on efficiency and cost control. Given that, it is no surprise that in our study 76% of midsize businesses cite improving efficiency as a key priority, while 70% cite increasing employee productivity. From a geographic perspective, these priorities are particularly high in China, Brazil, and Mexico where roughly 9 in ten believe improving efficiencies and reducing costs are the top priorities. Many midsize businesses are optimizing key business processes to deliver greater efficiency and competitiveness. This is a particularly high priority in Italy, BeNeLux, and New Zealand.

**Customer focus** – Enhancing customer service (73%) and prospecting for new customers (67%) are top priorities among midsize businesses around the world. In Canada, the United Kingdom, Germany, Mexico, Singapore, and Poland, improving service and better managing customer relationships are the top priorities. In China, 92%

indicate that finding new ways to reach customers (e.g., via social media) and customer acquisition are top priorities.

**Increased insights and intelligence** – Improving insights for better decision making (62%) is a top priority for midsize businesses. This capability allows them to use information more effectively in order to make informed and competitive business decisions regarding customers, competitors, and their own companies.

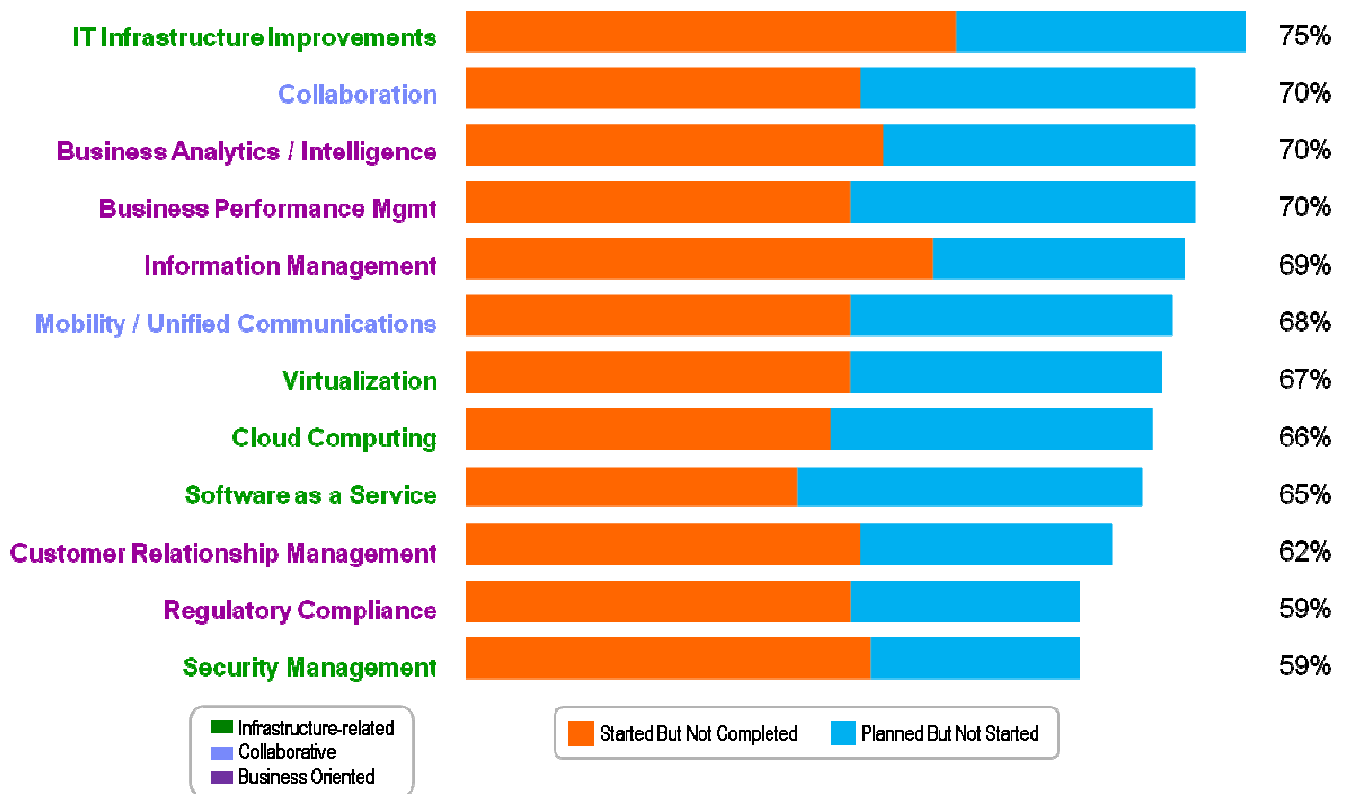


As midsize businesses look to gain better insights, improve collaboration, reach new customers, and improve workforce mobility, their investments in solutions that can deliver those capabilities will continue at a healthy pace. Advanced analytics software, for example, can help extract value from data, see patterns, and anticipate changes. At the same time, however, they must keep their core IT platforms current and secure, so they continue to invest in powerful systems, storage, software, and other infrastructure needs. Midsize firms that can manage this dual focus and who understand the deeper potential of technology as an enabler of change will gain a competitive advantage.

Consistent with an optimistic IT budget outlook and critical business priorities that need to be achieved, midsize businesses are proceeding with their IT plans in 2011. These plans include:

- IT infrastructure improvements (75% started/intend to implement) to ensure flexible, resilient, scalable, and secure IT systems
- Collaboration (70% started/intend to implement) to drive innovation, improve employee productivity, and better focus on the customer
- Business analytics (70% started/intend to implement) and information management (69%) to better collect, aggregate, and transform data into insightful and actionable intelligence
- Business performance management (70% started/intend to implement) to monitor financial and operational performance versus key objectives and benchmarks
- Virtualization (67% started/intend to implement), cloud computing (66%), and software as a service (65%) to take advantage of a shared infrastructure to improve efficiencies, lower costs, and improve scalability

### ***Top IT Project Implementations Worldwide***



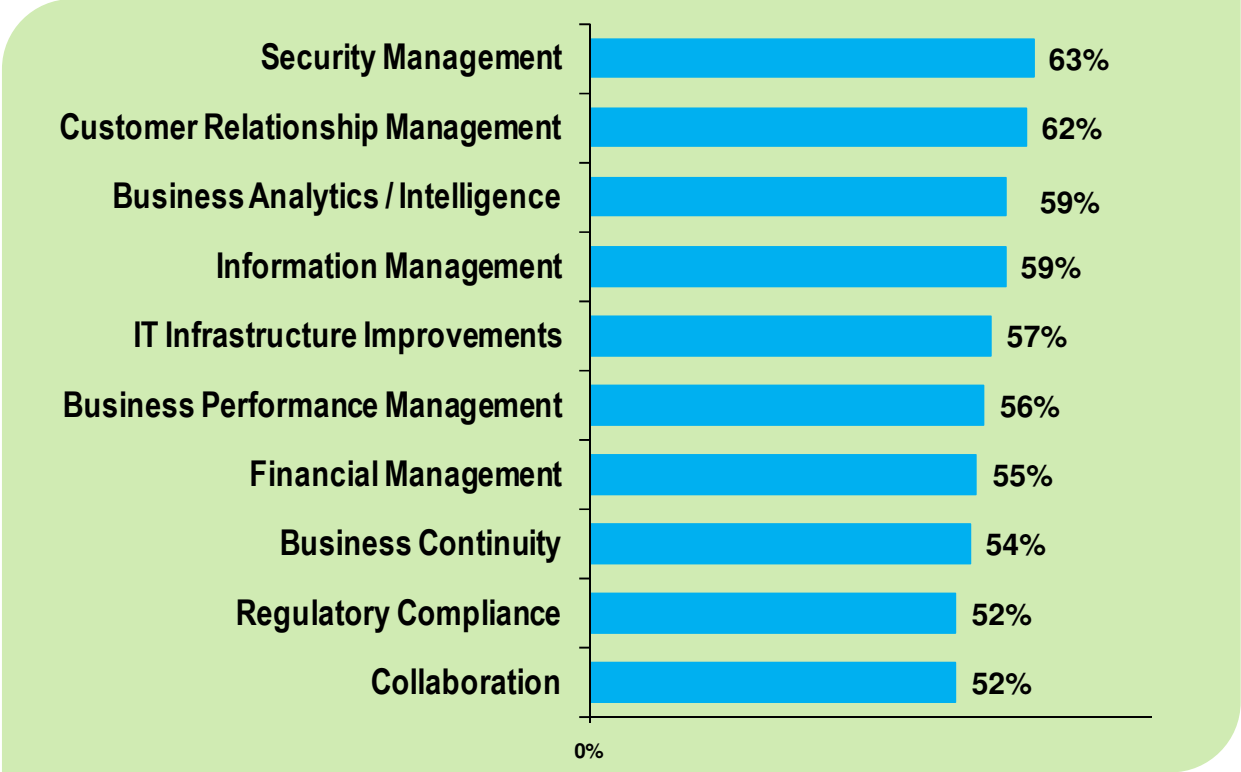
Not surprisingly, the study revealed strong alignment between the business priorities of various industries and their IT focus areas. For example, retail, transportation, consumer product companies, and banking are investing in customer relationship management, Web 2.0/social media, and business analytics to better understand, reach, and service their customers.

### ***Top IT Business and IT Priorities across Industries***

<b>Industry</b>	<b>Top Business Priorities</b>	<b>Top IT Focus Areas</b>
<b>Retail</b>	<ul style="list-style-type: none"> <li>▪ New ways to reach customers</li> <li>▪ Cost reduction / improved efficiencies</li> <li>▪ Improved customer service</li> <li>▪ Increased employee productivity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Customer Relationship Management</li> <li>▪ Security Management</li> <li>▪ Web 2.0 / Social Media</li> <li>▪ Collaboration</li> </ul>
<b>Banking</b>	<ul style="list-style-type: none"> <li>▪ Cost reduction / improved efficiencies</li> <li>▪ Improved customer service</li> <li>▪ Increased employee productivity</li> <li>▪ Increased flexibility / nimble enterprise</li> </ul>	<ul style="list-style-type: none"> <li>▪ Security Management</li> <li>▪ Business Analytics / Intelligence</li> <li>▪ Information Management</li> <li>▪ Customer Relationship Management</li> </ul>
<b>Consumer Products</b>	<ul style="list-style-type: none"> <li>▪ Improved customer service</li> <li>▪ Cost reduction / improved efficiencies</li> <li>▪ Increased employee productivity</li> <li>▪ Optimization of supply chain</li> </ul>	<ul style="list-style-type: none"> <li>▪ Customer Relationship Management</li> <li>▪ Security Management</li> <li>▪ Business Analytics / Intelligence</li> <li>▪ Information Management</li> </ul>
<b>Transportation</b>	<ul style="list-style-type: none"> <li>▪ Cost reduction / improved efficiencies</li> <li>▪ Improved customer service</li> <li>▪ New ways to reach customers</li> <li>▪ Increased employee productivity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Customer Relationship Management</li> <li>▪ Security Management</li> <li>▪ Information Management</li> <li>▪ Business Analytics / Intelligence</li> </ul>
<b>Industrial Products</b>	<ul style="list-style-type: none"> <li>▪ Cost reduction / improved efficiencies</li> <li>▪ Increased employee productivity</li> <li>▪ Improved customer service</li> <li>▪ Products / services to market faster</li> </ul>	<ul style="list-style-type: none"> <li>▪ Information Management</li> <li>▪ Business Analytics / Intelligence</li> <li>▪ Security Management</li> <li>▪ Business Performance Management</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>▪ Cost reduction / improved efficiencies</li> <li>▪ Improved customer service</li> <li>▪ Increased employee productivity</li> <li>▪ New ways to reach customers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regulatory Compliance</li> <li>▪ Security Management</li> <li>▪ IT Infrastructure Improvements</li> <li>▪ Business Analytics / Intelligence</li> </ul>

Looking at specific IT priorities, midsize businesses are focused on security management, customer relationship management, and business analytics. With IT priorities around security management and associated solutions, like business continuity, midsize businesses can protect their IT systems and sensitive customer data while minimizing potential threats.

***Top Ten Technology Focus Areas***

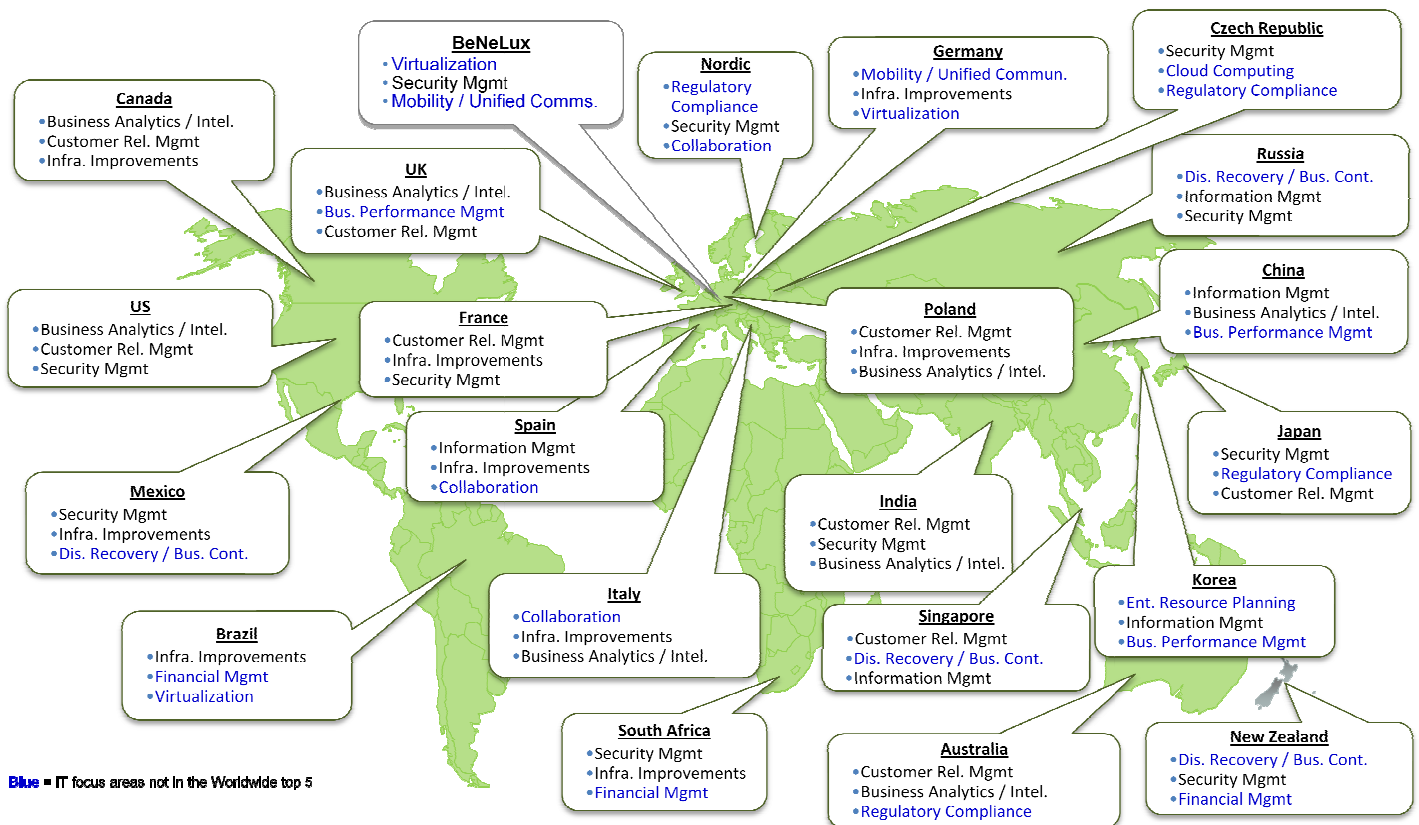


Midsize businesses are looking to use data to build customer loyalty – providing them with the information they need, when they need it, and in the form they want to consume it. Investing in customer relationship solutions helps midsize businesses gain a better understanding of customer groups and their expectations in order to develop more targeted strategies.



The research also reveals that while there are many common areas of IT focus for midsize businesses around the world, some areas are higher priorities in certain countries than others.

- Maintaining the viability of core IT systems is critical in many countries through infrastructure improvements to server, storage, and network environments. This is most evident in Canada, Brazil, Mexico, Italy, Spain, France, South Africa, Poland, and Germany.
- In Russia, New Zealand, Singapore, and Mexico, disaster recovery and business continuity are top IT priorities for 2011.
- Financial management to improve finance operations such as claims automation, risk simulation, and compliance are key areas of investment and focus in Brazil, South Africa, and New Zealand.



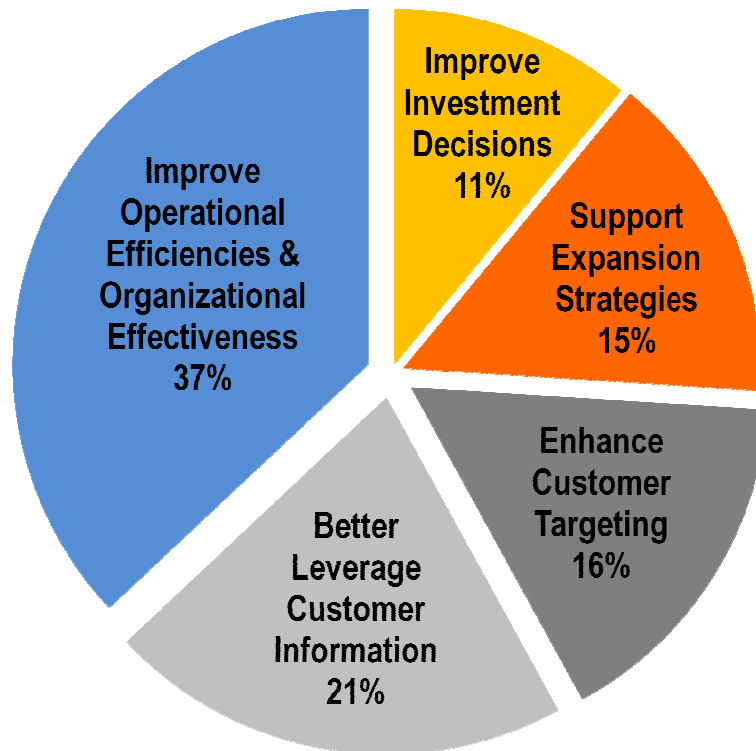
## ***Business Analytics***

In today's highly competitive and challenging environment, midsize businesses need to continually assess and redirect their actions in order to stay on top of the markets they choose to serve. They are challenged by the ever-growing volumes of data and information being generated and available for analysis. In order to set and execute effective strategies, they find themselves in need of deeper insights about their customers and the effectiveness of their sales and marketing campaigns.

To address these challenges, midsize businesses have prioritized business analytics and information management as top IT solution investment areas. This is no surprise given the growing dependence on reliable and useful information. In fact, approximately 70% of the companies surveyed are either planning these types of projects or are already in the process of implementing them, with significant IT budgets being allocated to ensure their success.

Key drivers of these solutions include assisting midsize businesses in: improving efficiencies (37%), improving customer targeting and information / knowledge (37%), and driving expansion strategies (15%).

### **Drivers of Business Analytics and Information Management Solutions**

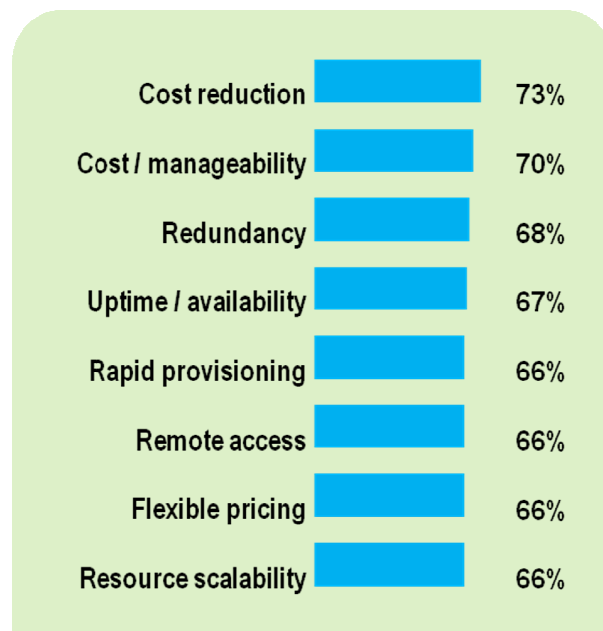


## ***Cloud Computing***

Midsized firms look to cloud computing for cost savings, ease-of-use, availability, flexibility, and efficiency. Over the past several years, the need for a highly flexible, resilient, and efficient IT infrastructure, coupled with continued cost pressures, has intensified. Simply put, flexible and efficient IT systems are vital on today's smarter planet. Rather than one-to-one server to application architectures, midsized businesses realize they need to take advantage of virtualized, shared architectures to make the most of their IT investment while quickly provisioning the IT resources their end users and customers need. This allows them to stay closer to their customers and go after new opportunities wherever they may be.

Cloud computing continues to take hold in this regard. Whether for computer resources, business continuity provisions, applications and software as a service, or harnessing business analytic capabilities, the cloud is considered a viable alternative versus traditional one-to-one architectures.

### **Top Business Benefits of Implementing Cloud Computing**



The research points to a number of key benefits midsized businesses prioritize that are driving their increased adoption of cloud computing. Cost, ease of management, redundancy, uptime, rapid provisioning, flexible pricing, and scalability are all key elements of the cloud's value proposition. The research tells us that these are the benefits midsized businesses around the world are achieving through cloud computing.

Change in 2011 IT Budget	Global	Mature	Growth
Increase (+)	53%	51%	69%
Decrease / unsure (-)	16%	16%	12%
Unchanged	31%	33%	19%

The study shows that midsize businesses are turning a corner in 2011, with more than half showing confidence that the recovering economy will support their plans to increase IT budgets to help them focus on growth and customer value, while continuing to improve operational efficiencies. At a worldwide level, 53% expect to increase their IT budget in 2011 – versus only 20% in 2009. Another 31% expect no change, and only 16% are planning for a decrease. In fact, of those that expect to increase their budgets, almost half expect an increase of 10% or more versus their 2009 IT spend.

The study also reveals that companies in growth market countries (69%) are even more likely than more mature market countries (51%) to increase their budgets in 2011. In countries such as China, Brazil, India, Korea, and Singapore, more than 7 in 10 midsize businesses are planning for a budget increase next year.

## Partnering for growth

To advance these priorities, more than 70% of midsize firms are seeking a consultative, versus purely transactional, relationship with their primary IT provider. And whether they are part of the two-thirds who view themselves as advanced when it comes to IT adoption or among those who lag, all midsize firms cite product reliability, product performance, and competitive pricing as the top reasons for choosing their primary IT vendor.

Although midsize businesses clearly want to adopt new, innovative business strategies, make changes required to improve their performance, and partner with an IT provider who can help advance their business strategy, they still face substantial challenges to executing against those goals. Not surprisingly, a key barrier, despite increasing budgets, is cost. This is cited by 58% of respondents as being one of the top barriers to achieving their key IT priorities. Difficulty implementing new technology also represents a top challenge worldwide.

## ***Barriers to addressing top IT priorities***

	<b>Global</b>
▪ Cost	58%
▪ Difficulty in acquiring / implementing solution	44%
▪ Inability to implement technology with existing resources / infrastructure	43%
▪ Lack of skills / resources	39%
▪ Access to financing	36%
▪ Inability to demonstrate ROI	31%

The study shows differences in IT barriers across different countries. In mature market countries, cost is cited more frequently as a key inhibitor (59%). For example, in Japan nearly 7 in 10 cite cost as a top barrier to achieving their IT priorities in 2011. Countries in growth markets are more likely to point to skills and resource challenges, as well as an inability to demonstrate a return on their IT investments, as key inhibitors. In China, Korea, Singapore, and the Czech Republic, over half mention lack of IT skills and resources as a significant inhibitor in realizing their objectives. Difficulty demonstrating return on investment is a major challenge in China (60%) and Korea (50%).

Challenges, such as cost and demonstrating short-term return on investment, coupled with the ongoing need to improve operational efficiencies, are driving more companies to virtualized systems and cloud computing as key components of their IT environment.

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As this year's research has shown, yields from a prior mindset around cost and efficiencies are allowing midsize businesses to turn their attention toward driving innovation and building stronger customer relationships. Continuing to manage costs, improve efficiencies, and increase productivity will continue to be top business priorities. IT solution priorities around areas like security and customer relationship management remain consistent from year-to-year, with some new areas beginning to take the investment spotlight. IT budgets are signaling strong growth over prior years, positioning IT solution investments in a positive light. As expected, business and IT priorities can only be successful when key barriers to adoption are removed. Ensuring a cost-effective, collaborative environment with access to the right skill sets will go a long way in knocking some of those barriers down.

In our increasingly intelligent, instrumented, and interconnected world, midsize businesses are finding new ways to use information and technology to be smarter about how they work, where they invest, and the way they interact with their customers. Smart midsize firms know that aligning business and IT priorities isn't enough. Investment is critical. Midsize companies that recognize the benefits of solutions like business analytics and cloud computing will be the ones best positioned to bring value to their stakeholders – further helping to fuel today's smarter planet.

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