FOUR WAYS TO COMPETE IN A FAST-CHANGING WORLD

Key insights into how midsize organizations can strategically pursue growth over the next two years.

OXFORD ECONOMICS

SAP

Introduction

Midsize organizations are vital contributors to global economic performance, competition, and innovation—and new data shows they are hyper-focused on growth. But executives must first ensure their organizations are well positioned to overcome macroeconomic concerns, scalability hurdles, and ongoing talent issues to achieve their goals.

According to research from Oxford Economics and SAP, midsize organizations have a clear and unified plan to carry out their strategic initiatives, but there remains room for improvement. Among our key findings:

1. **Achieving their goals** of growth and profitability involves adjusting focus to meet external challenges.
2. **Talent shortage and skills** are top challenges in addition to macroeconomic concerns.
3. **Organizations** have concerns about their ability to scale to meet their goals.
4. **Investing** in relevant technologies and comprehensive data integration drives competitiveness.

How will you stay competitive?

"Utilizing data analytics and AI driven tools to gain insights into employee performance, engagement, and retention, maintaining a skilled workforce and tackling future problems."

— Direct report to the CIO at a professional services firm in India

"When competing against more established firms, technology works wonders as an equalizer."

— CEO at a retail company in the Netherlands

Course correcting on the path to growth

Growth is top of mind for executives at midsize organizations. More than one-third of our survey respondents say their organizations are prioritizing new customer attraction, increased market share, and revenue growth over the next two years; other goals like innovation and agility rank high in importance as well (Figure 1).

Organizations trying to maintain growth face a variety of challenges including: finding and retaining talent, macroeconomic issues, and an inability to meet growth agendas and scale (Figure 2). Related to these scale concerns are doubts about their IT infrastructure's ability to support growth (Figure 3). In fact, the inability to scale processes and systems to match organic growth is more daunting to midsize organizations than potential inaccuracy in forecasting that will lead to a loss of revenue.

However, midsize organizations are not always prioritizing their goals according to their most urgent needs. For example, the executives in our study placed a lower importance on increasing employee productivity and improving talent attraction and retention—despite citing talent issues as one of their top concerns.

Smart technologies such as machine learning, artificial intelligence and cloud computing have the potential to enhance scalability and boost employee productivity. The value derived from smart technology investments is substantial. Our economic modelling, conducted as part of this research program, suggests that midsize organizations that find the right mix of strategies and continue to invest in these emerging digital technologies even during periods of economic uncertainty are more resilient. This resilience positions them well to navigate challenges in a fast-changing global marketplace.

Figure 1: Growth dominates the priority list

What are your organization's top strategic objectives for the next two years?

Figure 2: Threats endanger midsize potential

Which of the following threats present your organization with the greatest amount of risk over the next two years?

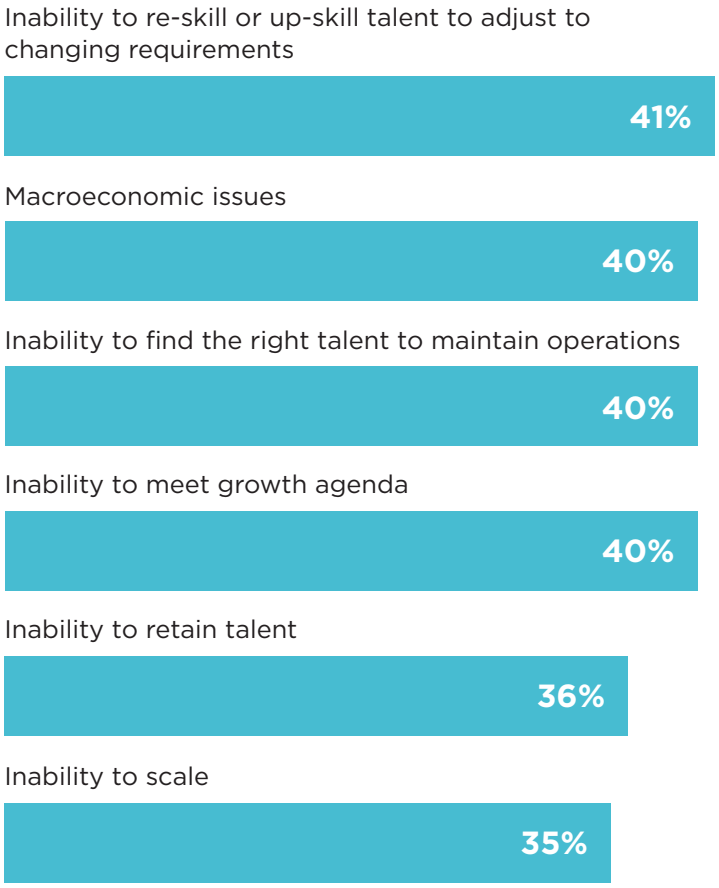
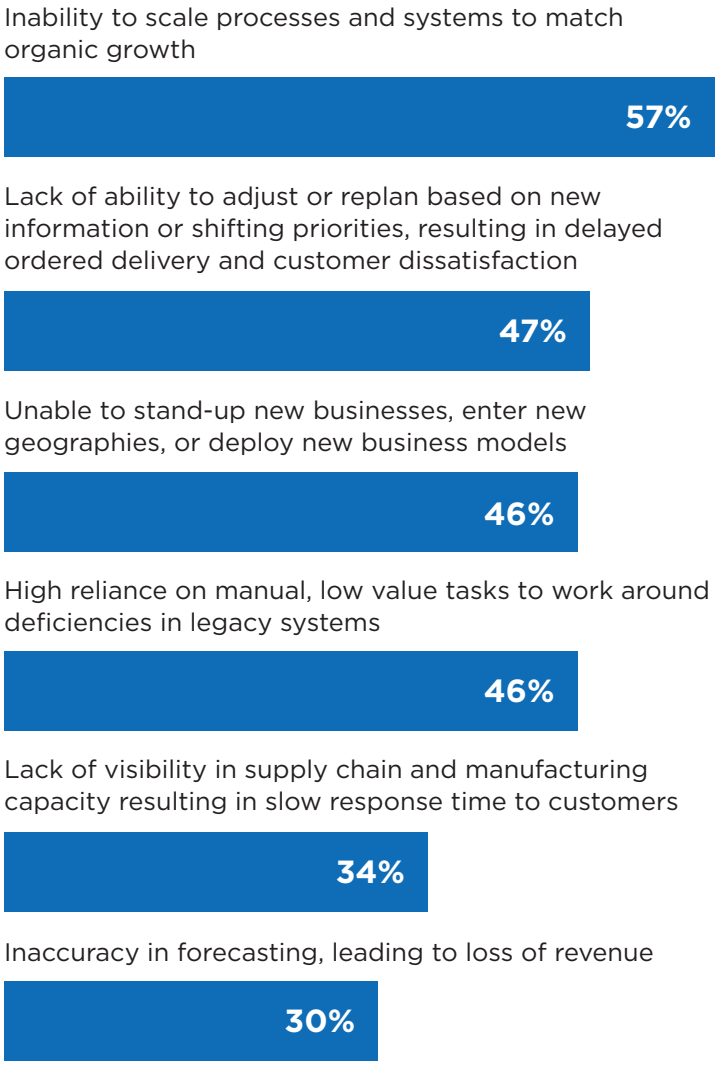


Figure 3: Scaling process and systems is a top concern

Which of the following IT infrastructure challenges are having the greatest negative impact on your organization's ability to scale?



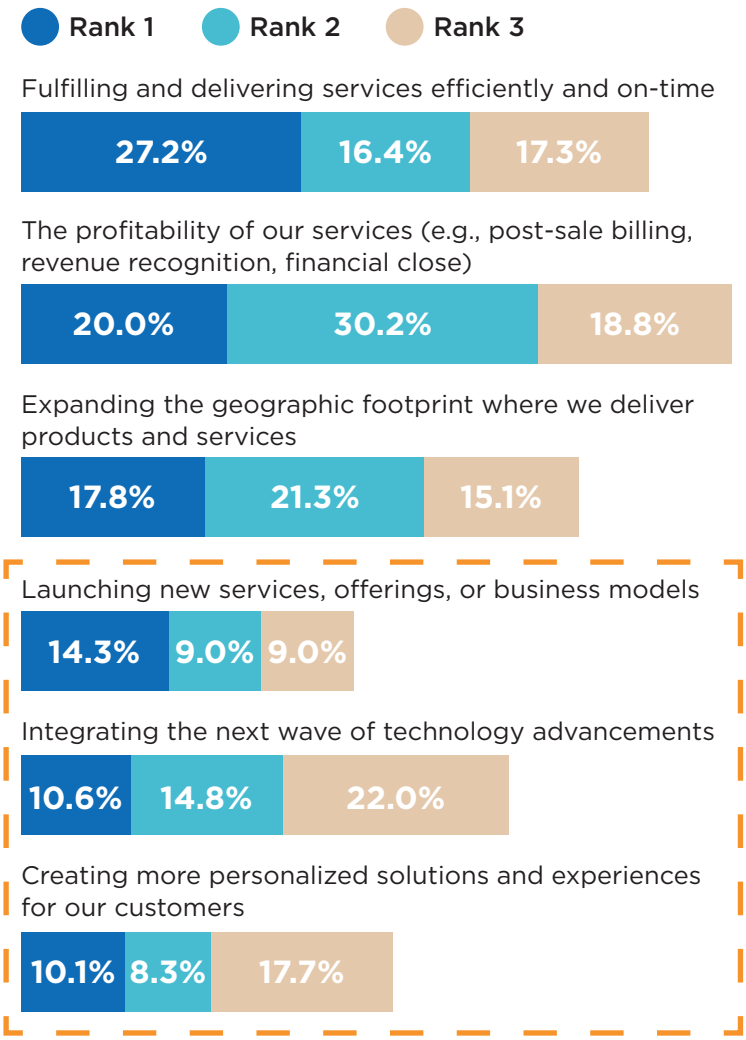
Innovation will support growth and competitiveness

Product, service, and business model innovation is a top priority for midsize organizations, right behind their growth objectives (Figure 1). Still, our research reveals an incomplete approach to innovation.

In their search for a competitive advantage in a tight market, most midsize organizations are focusing their efforts on increasing the profitability of their services and fulfilling them more efficiently and on-time. Fewer, however, are turning their attention to strategic service innovations like integrating the next wave of technology advancements; creating more personalized solutions for their customers; or launching new services, offerings, and business models (Figure 4). Prioritizing these initiatives is crucial to combatting product obsolescence, which is seen as a significant threat by one-third of respondents.

Figure 4: There is not enough focus on innovation initiatives

Which new service initiatives or support capabilities is your organization most focused on in its search for competitive advantage?



How will you stay competitive?

"Our aim is to establish a feedback loop with customers to understand their evolving needs and preferences and to work on R&D according to those needs."

— Chief Digital Officer at an automotive company in Brazil

Fostering innovation requires support throughout the entire organization. Irrespective of one's role or title, everyone should be encouraged to actively participate and share their ideas for building a culture of innovation. Leadership plays a pivotal role in setting the tone for others to follow. They should not only encourage employees to experiment and learn, but also create an environment where failure is seen as a valuable lesson. One driving force for innovation: leveraging customer insights for improving product and services.

Advanced technology can also support innovation. Just about a quarter of midsize companies are currently leveraging AI and machine learning, but more than half (51%) are planning to adopt these technologies in the next 12 months. And many expect their investment to significantly improve their outlook—specifically in the design and launch of new products and services (43%), and personalizing or automating marketing and sales (48%).

How will you stay competitive?

"We are trying to incorporate sustainable manufacturing practices so we can remain compliant with future regulations and make a greener product."

— Direct report to the Chief Operating Officer at a wholesale distribution company in the United States.

Midsize organizations have big plans for sustainability software

Factors like global inflation and geopolitical crises may have refocused midsize organizations attention away from sustainability. Earlier research from Oxford Economics (Gap to Going Green, 2022) showed that improving sustainability was a top strategic focus for midsize organizations, but only 11% of midsize companies surveyed in this more recent research selected sustainability as a top strategic objective over the next two years—placing it last on a list of 16 options (Figure 1).

While only about a quarter currently use sustainability software solutions in their organization today, over half plan to adopt them over the next 12 months. The payoffs from such investments are high: nearly half of midsize companies that currently use sustainability software saw reductions in corporate emissions (46%), an improved ability to benchmark operations for cost and value drivers (47%), and better data collection for ESG reporting (42%) as a result of their sustainability efforts.

Having the right foundation is key

A solid technology foundation is a prerequisite to consistent, sustainable growth and strategic returns. These tech capabilities help accommodate increased workloads and adapt to fast-changing market conditions. It is imperative that midsize companies invest in a variety of technology solutions to achieve comprehensive oversight of their organization, and strong data management plays a pivotal role. A significant majority (83%) emphasize that data integration is critical to creating innovative business models at scale, enhancing knowledge generation for continuous innovation (74%), and accelerating ongoing digital transformation (76%).

However, as noted above, there is still a concern that their IT infrastructure may not be able to meet growth goals (57%) or create innovative business models that open access to new geographies (46%). Established technology solutions are vital to running a successful organization. Business management software such as ERP, workforce management, and business networks allow organizations to seamlessly consolidate data, improve visibility and keep data accurate and up to date, especially when deployed in the cloud.

How will you stay competitive?

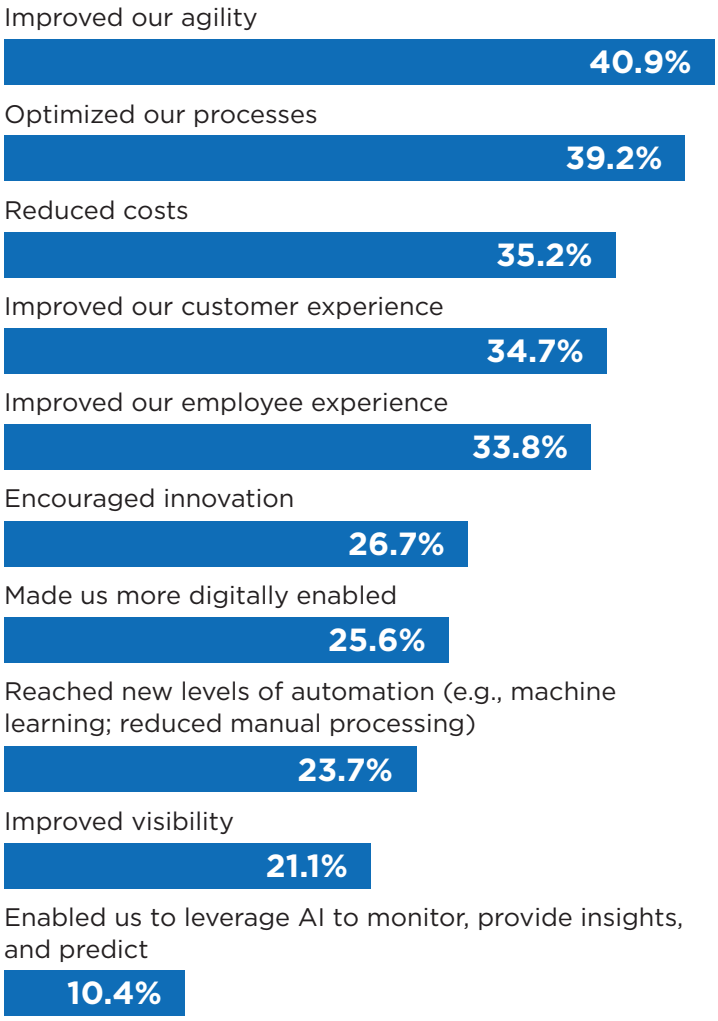
"Our plan is to increase investments in cloud platforms to enable quicker deployment of new services and technologies."

— Chief Financial Officer at a bank in South Korea.

Well over half of the respondents have already adopted business networks, CRM, and ERP, and approximately one-third plan to implement these solutions in the next 12 months. Data management and procurement solutions are important to future technology spending plans—and for midsize organizations, implementation could mean the difference between reaching growth goals and falling short. As such, more than one-third plan to adopt these capabilities in the next 12 months (37% data management and 39% procurement solutions).

Figure 5: Cloud adopters are more lean, agile, and cost efficient

Which of the following benefits have been most significant as a result of your adoption of cloud solutions?



Bringing on new solutions via cloud computing offers a great opportunity for midsize companies. Being able to predict future costs, rely less on internal technology resources, stay current with new innovations, and skip lengthy software updates will give midsize organizations the competitive advantage they seek. Our survey respondents confirm this belief, as nearly three-quarters (73%) of respondents have adopted cloud solutions and have seen a variety of benefits, including agility, optimization, and reduced costs (Figure 5). Those that have yet to do so are concerned about risk factors—primarily cybersecurity risk and risk of data breaches—which may indicate a lack of mature technology implementation. Midsize organizations can address these flaws by selecting a trusted provider and following best practices.

Practices of top-performing organizations

To assess which practices might be considered most valuable, we took a look at what the top-performing organizations are doing. We created a "leader" segment based on those with at least 5% revenue growth and at least 10% profitability and compared them with "laggards" on the other side of the scale. Of the 2,100 respondents surveyed, 125 met our criteria to be defined as a midsize "leader."

In terms of higher-level goals, leaders emphasize their focus on expanding the geographic footprint where they operate, and growing revenue more than others, especially though a heightened focus on international competition.

They plan to achieve their goals by integrating data seamlessly across their organization and creating cohesive innovation strategies to boost efficiency. They recognize the important role of having a solid stable of technology solutions and as such are significantly more likely to have ERP in place today. Notably, their understanding of the importance of data-integration solutions translates into a slightly higher likelihood of being cloud-ready.

Leaders vs laggards

	Leaders	Laggards
Expanding the geographic footprint where they operate	**46%**	**39%**
Focused on Growing revenue	**43%**	**38%**
Competition Competing at the international level	**32%**	**19%**
Having an ERPs solution in place today	**70%**	**54%**
Already adopted cloud solutions	**78%**	**73%**

By definition, leaders perform better financially, but they see tangible benefits beyond that. They are slightly more likely to have seen agility boosts (45% leaders vs. 41% laggards), improved employee experiences (39% leaders vs. 33% laggards) and increased visibility across the organization (26% leaders vs. 21% laggards) from their use of cloud technologies.

The value of technology innovation

Digital expenditures: A key lever for growth

Investing in digital transformation during times of economic uncertainty may be the difference between achieving growth goals and shuttering operations. Our macroeconomic analysis considers how midsize organizations pursue tech spend over time—showing continuous innovation to be an indicator of growth, regardless of industry.

New investment heights

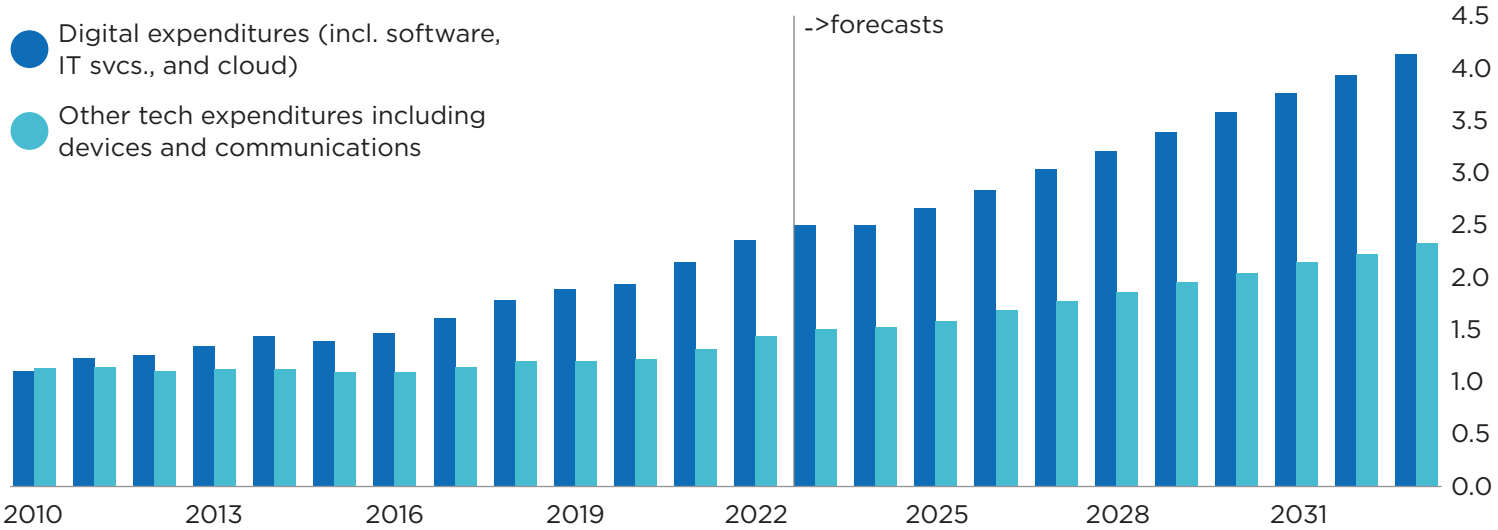
In recent years, shifts to widespread remote work, accelerated digital adoption, and advancements in machine learning and AI have led to greatly increased investment in digital technologies. An analysis of a unique tech spend dataset compiled by Oxford Economics confirms that in 2022, organizations in major economies of the developed world spent over $2 trillion on digital technologies (a term that covers a wide range of tools and systems, as defined below). This expenditure is part of a decade-long trend of robust growth, with an average annual increase of 6.4%. This rate notably exceeds the 2.7% average annual growth in spending on other technologies, including devices and communication services.

Leading spending categories behind this expansion include enterprise software, internet services, and cloud computing, which recorded close to 10% average annual growth.[1] The total expenditure on these technologies now accounts for a sizeable share of the world economy. In the US, for example, this represents more than 5% of GDP. This trend suggests an increasingly important role for these technologies in shaping the global economic framework in the years ahead.

Our macroeconomic model projects that demand for digital technologies will continue to outpace spending on other types of technology over the next decade, with the potential to double by the mid-2030s.

Figure 6: Technology expenditures

Private sector in major advanced economies*, US$ trillion



*Sample includes G7 countries as well as Australia, Austria, Belgium, Czech Rep., Finland, and the Netherlands

[1]Digital expenditures covered in this study: Enterprise software: includes operating spend (OpEx) on published software and capital investments (CapEx) on pre-packaged software. IT services: refers to operating expenditures on computer systems design and related services as well as capital expenditures on custom software and on own account software. Internet, cloud, and data processing ("Internet and cloud"): includes spend on data processing, internet portals, and search engines. Other types of spend are excluded from the above "digital tech expenditures" category but considered under our broader definition of technology expenditures. These include spending on devices, wired, wireless, and satellite telecommunication services, and other operating and capital technology expenditures.

While large firms have been at the forefront of digital adoption over the past decade, our analysis reveals that the same digital expansion has permeated midsize organizations as tech spending has accelerated in response to the COVID-19 pandemic.

Our global executive survey reinforces this insight, highlighting a growing belief in these sectors that such digital technologies can serve as a catalyst for achieving increased efficiency, enhanced customer satisfaction, and accelerated growth.

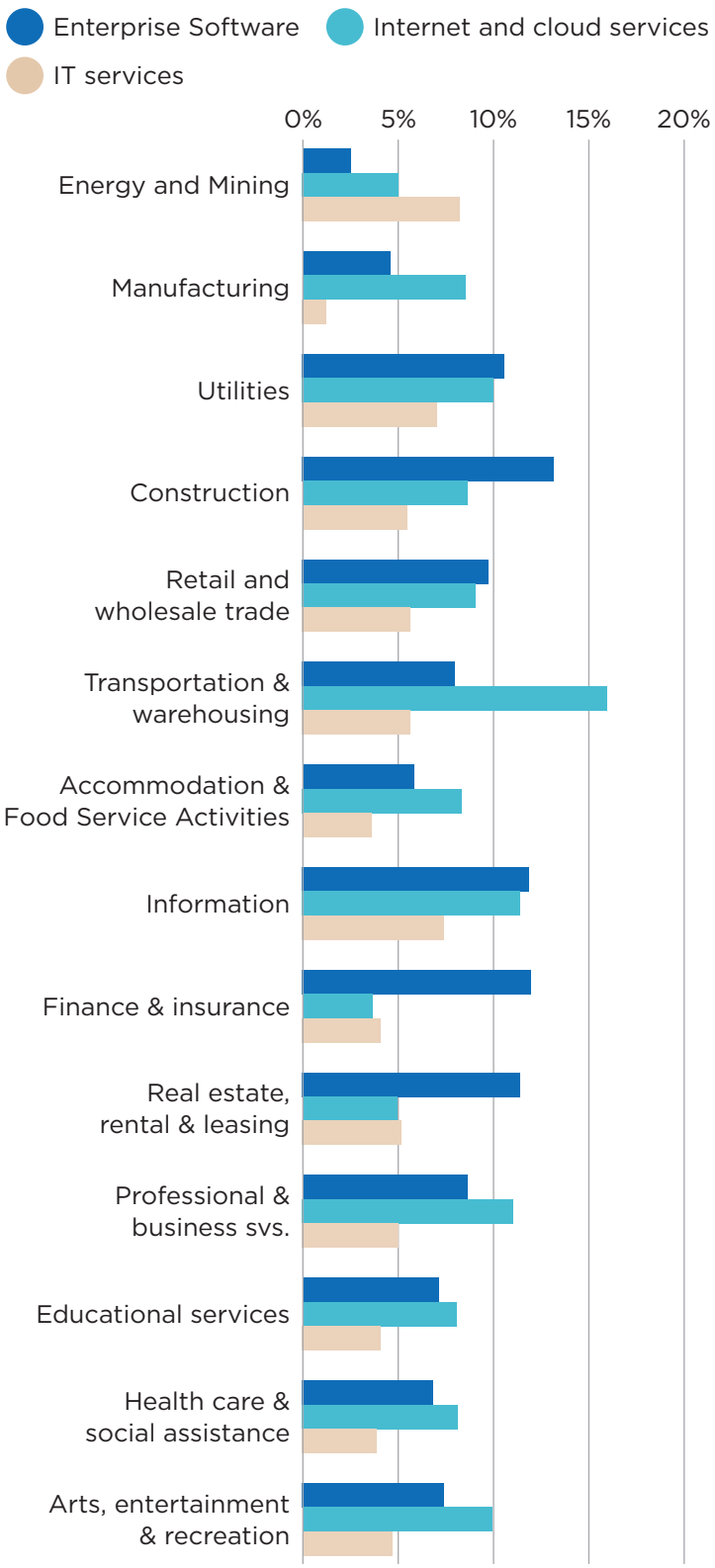
Quantifying the impact on revenue growth

We employed regression analysis to examine the relationship between expenditures in digital services and technologies and revenue growth across a diverse range of industries in the US, Australia, and Germany. Our findings suggest midsize organization growth is more likely to be impacted by reduced digital investments compared to larger counterparts.[2] On the flip side, increased investment in digital technologies can boost revenue growth more significantly in midsize organizations relative to larger peers.

Increased investment in digital technologies can boost revenue growth more significantly in midsize organizations relative to larger peers.

Figure 7: Digital Expenditure Growth by Sector

Select industries in advanced economies, %CAGR 2012-22



[2]After controlling for technology prices and industry-specific differences in revenue trends, our findings indicate 10% reduction compared to average expenditures on software, IT services, and internet and cloud spending could have lowered average annual sales growth by 0.3 percentage points from 2015 to 2021. This reduction is benchmarked against the average spending in these categories for similar industries, serving as a proxy for an "expected" level of investment. Overall, this is a significant consideration given that these expenditures have typically hovered around 2% of revenues. The impact was found to be even more pronounced in industries with a higher concentration of midsize organizations, reaching up to 0.4 to 0.5 percentage points. Since that these sectors generally exhibit lower relative tech spend levels, this result indicates that midsize organizations revenue growth could be more responsive to fluctuations in digital spending.

Conclusion

Midsize organizations have a clear focus on growth. Achieving this goal requires building an innovation strategy and using business models that leverage technology and complement existing and future human capital needs. Emerging technologies play a critical role but require a stable foundation to build upon.

Here are four ways your organization can compete more effectively:

1. **Define clear goals and values:** Orient priorities to align closer to stated needs and threats and ensure that employees understand and align with these principles.
2. **Leverage technology:** Adopt relevant technologies like business management software in the cloud to remain competitive and stay up to date with industry trends.
3. **Engage in continuous strategic workforce planning:** Assess current and future organizational needs so that you can plan for growth and changes in the market.
4. **Be adaptable and agile:** Foster a culture of innovation that encourages people to think of new ways of doing business and meeting market needs—without fear of failure.

By implementing these strategies, midsize organizations can create a competitive and dynamic workforce that is motivated, skilled, and aligned with the organizations' goals.

About SAP

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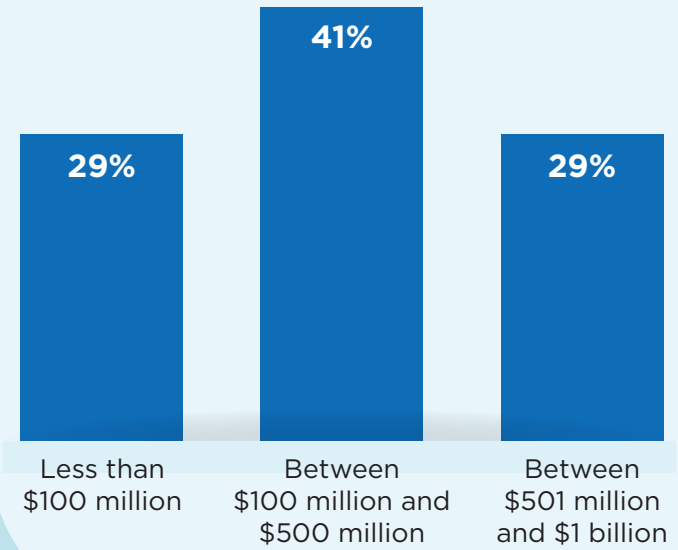
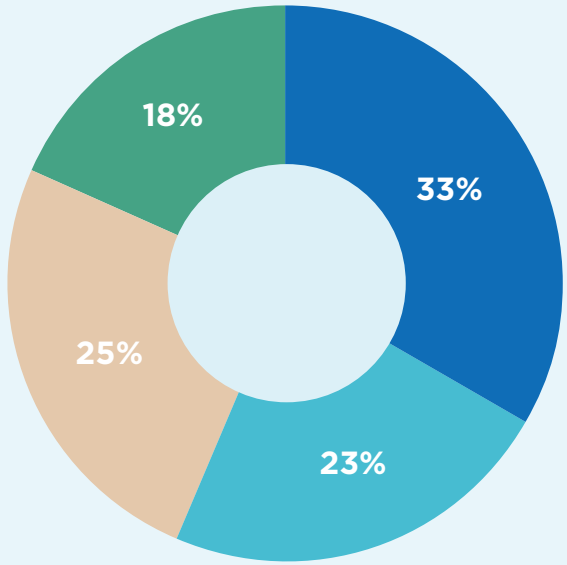
Respondent breakdown

This report focuses on the responses of 2,100 executives from 30 countries around the world. These are the demographic details of our sample:

- **Executive titles:** Chief Experience Officer, Chief Customer Officer, Chief Human Resources Officer, Chief Digital Officer, Chief Technology Officer, Chief Information Officer, Chief Data Officer, Chief Operating Officer, Chief Data Officer, Chief Information Security Officer, and the aforementioned titles' direct reports
- **Industry:** Professional services, industrial manufacturing, high-tech hardware, high-tech software, media, entertainment and communications, mills products, banking, wholesale distribution, consumer products, automotive, travel and transport, public sector, and retail
- **Revenue (USD):**



- **Organization size:**



- **Locations:** United States, India, Brazil, Saudi Arabia, France, China, Japan, Canada, Italy, Netherlands, United Kingdom, Australia, Germany, Singapore, South Korea, Mexico, Malaysia, Switzerland, Austria, Taiwan, New Zealand, Indonesia, Ireland, Philippines, Spain, Denmark, Finland, Norway, Sweden
- **Dates fielded:** October – November 2023

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