NATIONAL CENTER FOR
THE MIDDLE MARKET

vistavu Solutions

A REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET AND VISTAVU SOLUTIONS

2021 MIDDLE MARKET EXECUTIVE SURVEY

An Overview of Digital Transformation in the Middle Market

Executive Summary

Digital Transformation Is Increasingly Becoming a Strategic Differentiator for Middle Market Businesses

Digital transformation is more than a buzzword. It's been happening in businesses of all sizes for decades as companies look for ways to outperform their peers and set themselves apart in increasingly competitive markets.

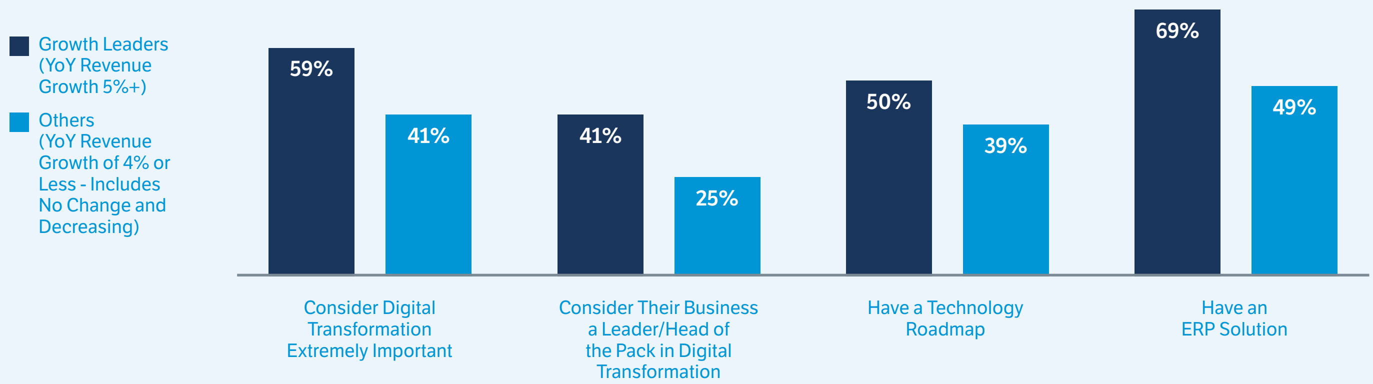
Broadly defined, digital transformation refers to the adoption of technologies to streamline and enhance the way a business operates and interacts with its various stakeholders for the ultimate purpose of adding value for the business, its customers, and employees. Digital transformation includes "digitization" activities such as going paperless, moving to the cloud, and automating paperwork, as well as the integration of data and applications, leveraging emerging technologies such as IoT and AI, and strategic technology choices like centralizing software into a single system.

For the middle market—defined by the National Center for Middle Market as companies with annual revenues between $10 million and $1 billion—digital transformation is especially critical as they compete with both larger companies that have greater resources as well as smaller start-ups with disruptive nimbleness. The most recent Middle Market Indicator survey conducted by the Center shows that digital transformation is indeed top of mind for middle market executives, with 85% of survey respondents indicating that it is an important business priority that can help pave the way to cost savings, efficiencies, and improved customer and employee experiences while also helping to overcome various challenges faced by these organizations.

Of course, some middle market companies are further along in their digital transformation journey than others. The majority have moved beyond converting paper and processes to digital formats and are viewing digital transformation as a means of delivering greater business value. Wherever a business stands in its journey, a central management solution is viewed as an important facilitator of the digital transformation process. The majority of mid-sized companies have already invested in an ERP and are reaping the advantages. For others, a central management solution is a leading destination for near-future technology investments.

While hurdles exist in technology adoption, such as a lack of budget and resources, middle market companies that are more digitally advanced are growing faster than their peers. Growth leaders—middle market companies experiencing year-over-year revenue growth of 5% or more—are much more likely than slower-growing or struggling companies to view digital transformation as extremely important, to have a clear plan for their digital futures, and to currently have an ERP in place.

GROWTH LEADERS ARE MORE DIGITALLY ADVANCED THAN THEIR PEERS



ABOUT THIS REPORT

The Middle Market Indicator (MMI) from the National Center for the Middle Market is a bi-annual business performance update and economic outlook survey conducted among 1,000 C-suite executives of companies with annual revenues between $10 million and $1 billion. The health of these businesses and their respective outlook serve as a solid indicator for the greater U.S. economy as a whole. This report is derived from the Q2 2021 MMI survey fielded in June 2021, which included questions specifically related to digital transformation and enterprise resource planning (ERP). In addition to the survey-based data, this report reflects insights and highlights from VistaVu Solutions and its over 25 years of experience supporting the digital transformation journey of middle market companies.

1. Digital Transformation Is Increasingly Critical to Middle Market Companies and Is a Hallmark of Growth Leaders

Compared to other top business priorities, digital transformation is viewed as critical to a majority (52%) of middle market businesses. The current environment has accelerated the importance and increased the investment in digital technologies as companies have needed to rapidly transition many of their traditionally face-to-face customer and employee interactions to online experiences. In many cases, digital transformation is deemed as essential to a company's ability to compete in today's marketplace. In others, it's paramount to the company's very survival as industries continue to evolve rapidly and the world becomes increasingly digitally-driven.

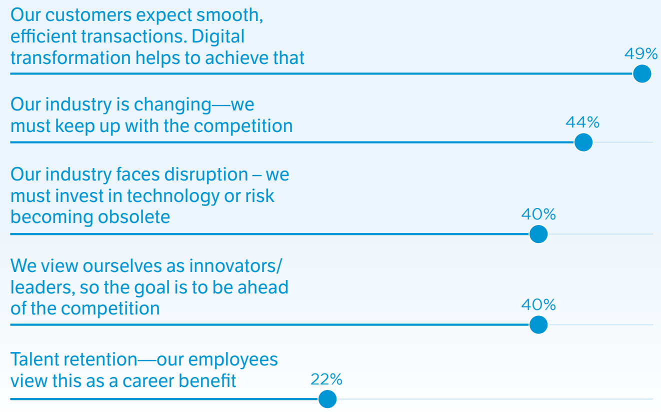
MOST MIDDLE MARKET COMPANIES ARE IN THE MIDDLE STAGE OF DIGITAL TRANSFORMATION.

Whatever the impetus for digital transformation, the majority of middle market businesses have moved beyond converting paper and processes to digital formats (although a full quarter of middle market companies remain in this camp) and are now working to drive better business outcomes and generate increased business value from their digital investments. One in five mid-sized businesses have progressed to a state of enterprise-wide automation where digital transformation has become a true competitive advantage.

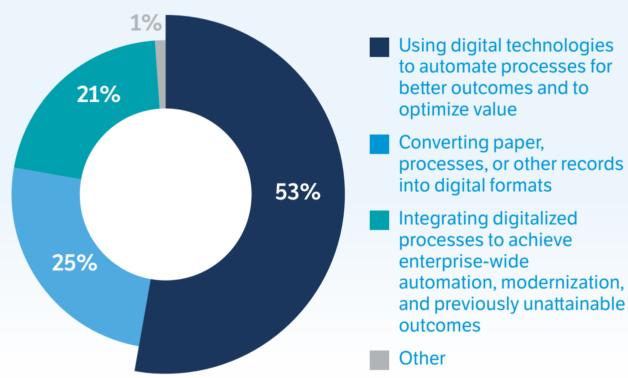
GROWTH LEADERS ARE MORE DIGITALLY SAVVY THAN THEIR PEERS.

Growth leaders in particular are likely to place high priority on digital transformation and are significantly more likely (50% compared to 39%) than their peers to have specific plans in place to guide the next phases of their digital transformation. These rapidly growing businesses are not just blindly adhering to the critical nature of digital technologies; they are fully invested and have outlined a clear path to a more digital future.

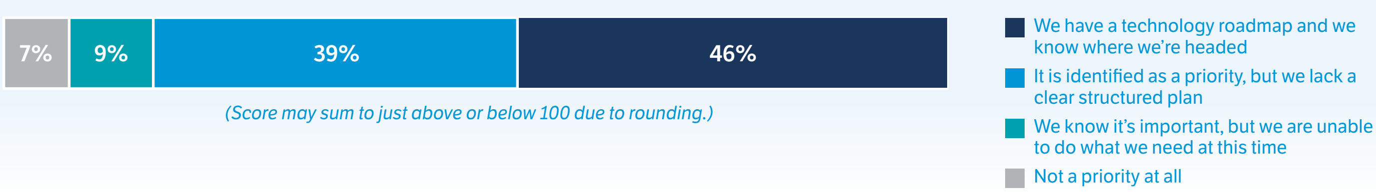
MOST/SECOND MOST IMPORTANT DRIVERS OF DIGITAL TRANSFORMATION



CURRENT STATE OF DIGITAL TRANSFORMATION



HOW DIGITAL TRANSFORMATION IS INCORPORATED IN OVERALL BUSINESS STRATEGY



(Score may sum to just above or below 100 due to rounding.)

2. Investments in Digital Transformation Help Companies Overcome a Myriad of Challenges

Middle market executives believe that digital transformation can help them compete effectively. In a volatile business environment, technology can help companies become more agile and adaptable, while aligning teams to make better and faster decisions.

EMPLOYEE AND CUSTOMER RELATIONS ARE ESPECIALLY DIFFICULT TO MANAGE AND MAINTAIN.

Middle market companies have historically struggled to compete with larger, well-recognized businesses for talent. Today's talent woes are even more pronounced as leaders claim that maintaining employee communications, engagement, and productivity is the number one most difficult aspect of running a business right now, followed by maintaining positive relationships with their customers.

DIGITAL TRANSFORMATION IS BOTH A CHALLENGE AND AN ADVANTAGE.

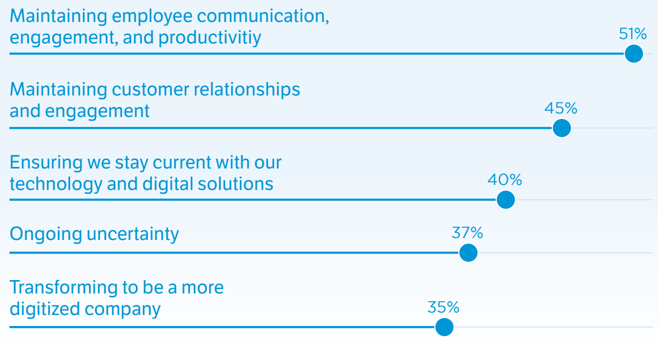
Staying current with technology and successfully transforming digitally continues to be difficult for mid-market companies given the lack of budget, time, resources, and, in some cases, senior management support, which are the main deterrents to technology-related investments.

However, those businesses that are overcoming the hurdles and finding ways to invest in technologies are reaping the rewards as the solutions can help combat and even resolve many of the other top challenges on their list. Not surprisingly, technologies generate cost savings and efficiencies while improving experiences for both customers and employees, ushering in new opportunities for companies to engage people and drive both the productivity of their staff and the profitability of their organizations.

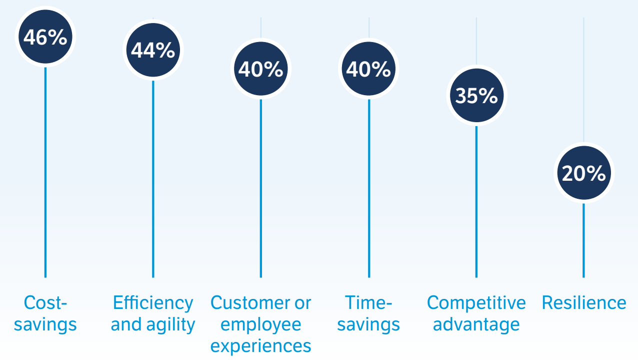
MOVING TO THE CLOUD AND IMPLEMENTING CENTRAL MANAGEMENT SYSTEMS ARE TOP PRIORITIES.

In the short term, digitizing operations will be the number one destination for digital investment dollars, perhaps because 25% of middle market businesses say they are still in the initial phases of their digital transformation (converting paper, processes, or other records into digital formats) and see this as a necessary first step before moving on to more advanced technologies. However, two out of five companies say they have plans to invest in a central management solution, such as an ERP, in the near future. Such an investment suggests a broader view of digital transformation among many organizations as well as a healthy appetite among middle market leaders for leveraging technology to improve all functions of the business.

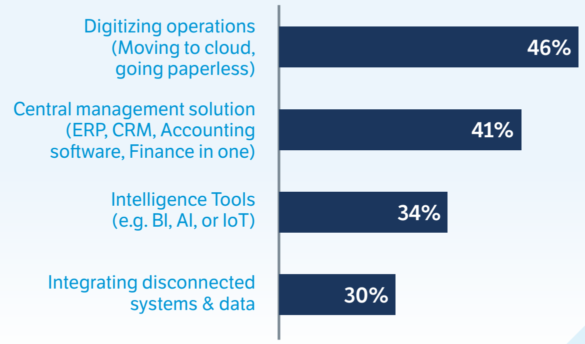
MOST DIFFICULT ASPECT OF RUNNING A BUSINESS IN THE CURRENT ENVIRONMENT



PRIMARY ADVANTAGES COMPANIES EXPECT TO GAIN FROM DIGITAL SOLUTIONS



TOP DESTINATIONS FOR NEAR-FUTURE DIGITAL INVESTMENTS



3. ERP Adoption Continues to Be an Effective and Integral Milestone in Digital Transformation

WHY ERP MATTERS TO DIGITAL TRANSFORMATION

In many ways, ERP is the "Digital Core" that enables further digital transformation. The goal of ERP is to centralize accounting, operations, and other business applications into a single cloud-based solution. Consolidated systems significantly simplify the process of implementing further automation, business intelligence tools, and industry-specific technology into the company's operating environment.

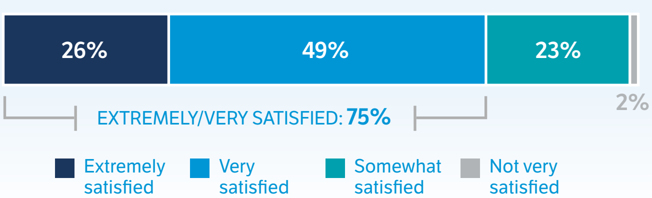
ERP ADOPTION IS GREATER AMONG GROWTH LEADERS.

A majority (59%) of middle market companies already have an ERP in place and that number rises to 69%, or seven out of 10 companies, among the Growth Leaders. Middle market manufacturing, retail trade, and service companies are the most likely to be currently taking advantage of an ERP system while adoption is lowest among companies in the healthcare sector. Across all industries, three-quarters of middle market executives report high levels of satisfaction with their ERP system.

CURRENTLY HAS AN ENTERPRISE RESOURCE PLANNING SOLUTION

69%	59%	49%
Growth Leaders	Middle Market Total	Others

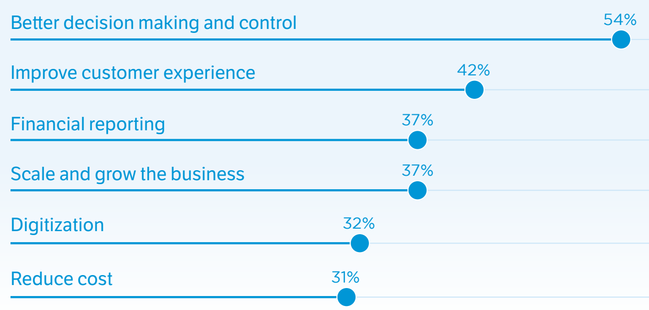
MIDDLE MARKET COMPANIES REPORTING SATISFACTION WITH ERP SOLUTION



ERP SYSTEMS ARE HIGHLY EFFECTIVE TOOLS FOR SUPPORTING CORPORATE GOALS AND GROWTH.

Whether companies already have an ERP system or will be investing soon, the primary driver is better decision making and control followed by the ability to enhance the customer experience. ERP systems clearly deliver on their promises by helping companies achieve these goals as well as by advancing the company's overall digital transformation journey.

TOP DRIVERS OF ERP SYSTEM INVESTMENT

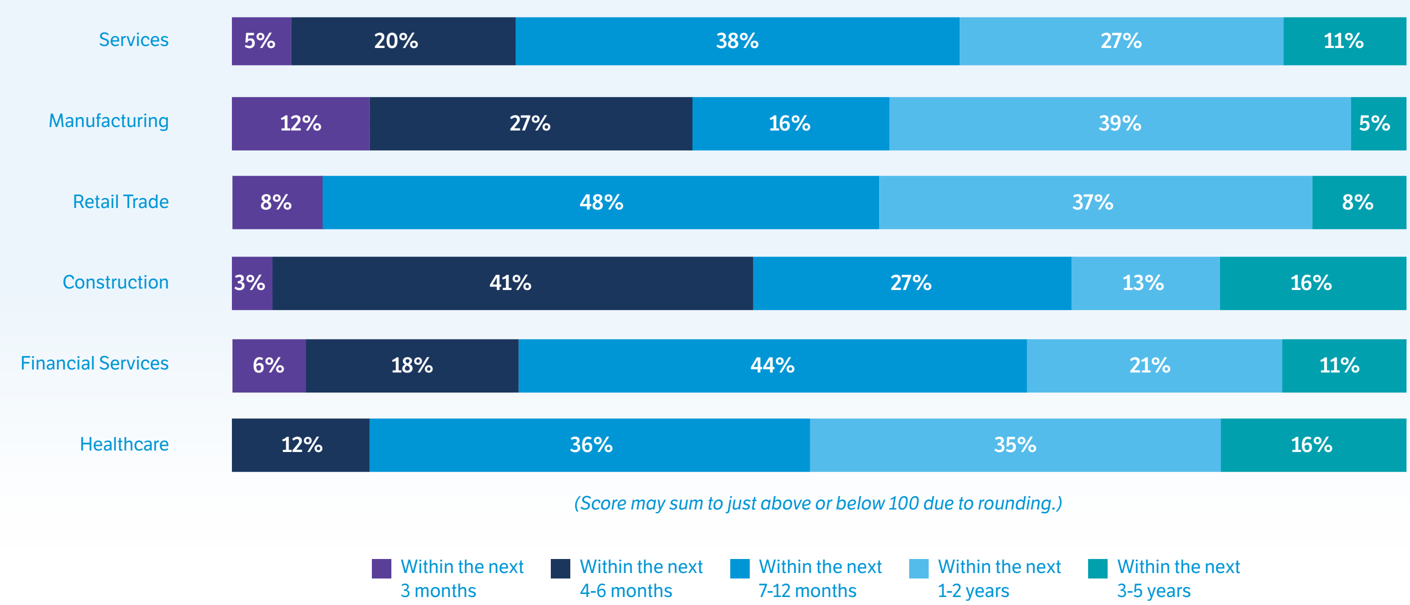


EFFECTIVENESS OF ERP SYSTEMS IN ACHIEVING GOALS (EXTREMELY/VERY EFFECTIVE)

COMPANIES THAT LACK AN ERP WILL INVEST SOON.

Among middle market companies that have not yet integrated an ERP system, more than half have plans to put one in place within the next five years and most of these businesses intend to invest sometime over the next 12 months. Within industries that have been slower to adopt ERP solutions (healthcare in particular, and financial services and construction companies to a lesser degree), ERP integration is poised to accelerate in the near term. Across all industries, a majority of mid-sized businesses will have an ERP system in place by 2026.

COMPANIES PLANNING TO IMPLEMENT AN ERP BY INDUSTRY



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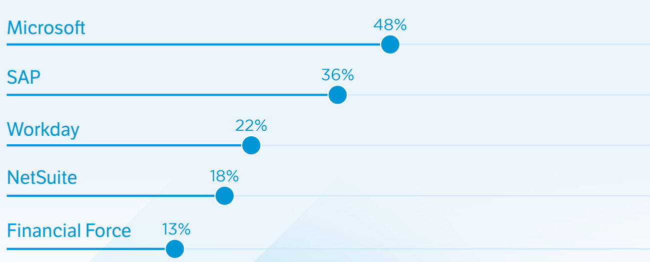
MOST FAMILIAR ERP SOLUTIONS TO MID-MARKET EXECUTIVES



OVER 36% OF MID-MARKET COMPANIES RECOGNIZE SAP'S ERP SOLUTIONS.

Those who are aware of SAP have higher annual revenues, more employees, target both B2B and B2C, use accounting software, mobile apps, digital payment solutions, and are more likely to invest in research and development. Two of SAP's leading ERP solutions, Business ByDesign and Business One, provide transparency and control over all business operations to help midsize companies grow profitably. Both solutions are adaptable and personalized to meet diverse business requirements with minimal time, effort, and cost.

Empowering Executives and Delivering Real Value

Here are some examples of how VistaVu has empowered executives and delivered real value through technology:

SEF ENERGY

Industry:
Energy

Sub-Industry:
Oilfield Services & Equipment

Employees:
100

SEF Energy is a market leader and technology innovator in the oil & gas industry. In 2020, when global oil demand fell by 25% and companies were forced to lay off 14% of permanent employees, SEF surged from the top quartile in their space, to number one. This success can be attributed to prior investments in technology such as cloud ERP, AI and IIoT, which provided SEF with a strong digital landscape to support automation, forecasting and optimization in the office and the field. Alan White, VP of IT at SEF noted that "the pandemic forced us to evaluate our processes and drove us to accelerate our programs and we are a better, stronger, company today than we were before."

It's never too early to invest in technology. Alan adds, "SEF pushed the boundaries of our industry even when a lot of other folks were very rigid and didn't want to go outside the box." Taking risks and trusting in the power of technology is key to establishing your company as a market leader, no matter which industry you're in. Read more.

SCHOOLHOUSE

Industry:
Manufacturing & eCommerce

Sub-Industry:
Consumer Packaged Goods

Employees:
142

Schoolhouse is a vertically integrated manufacturer of high quality, American-made lighting and home goods products. They rely on technology solutions such as Cloud ERP, eCommerce platforms and iPaaS to automate manual processes, scale and improve communication between employees and systems. With their technology investments in place and supported by integrations, Schoolhouse has a trusted platform to augment their pragmatic technology strategy which includes AI and EDI investments in the near future. By taking a proactive approach to their technology landscape, Schoolhouse has timelier & more accurate fulfillment processes which in turn has improved their overall customer experience. Read more.

With over 25 years of experience in delivering value to 250+ mid-market companies, VistaVu Solutions understands the challenges of starting a digital transformation journey and the unique requirements that each business has.

Regardless of where an organization is in their technology adoption, VistaVu provides industry-tested methods and actionable steps to help companies better align functional groups and increase operational efficiency. The VistaVu team delivers full lifecycle ERP implementations and responsive support to growing North American companies through partnerships with SAP Business One, SAP Business ByDesign, Dell Boomi, and Amazon Web Services.

With expertise in six core industries – Discrete Manufacturing, Wholesale Distribution, Industrial Field Services & Rentals, Industrial Machinery & Components, Life Sciences, and Aerospace & Defense – VistaVu understands the nuances and regulatory requirements in each and provides award-winning services to help customers RUN GREAT!