

A close-up photograph of a hand holding a pen, with the pen tip pointing towards the bottom left. The hand is in sharp focus, showing the texture of the skin and the details of the pen. The background is dark and out of focus, with some blue light reflecting off the hand and the pen. The overall mood is professional and focused.

# ***DIGITAL*** TO ***THE CORE***

***ARE BRITAIN'S MID-TIER  
COMPANIES PLAYING TO WIN?***

**KPMG Enterprise**

# ABOUT THE RESEARCH

*At KPMG, we believe it is critical to give the UK's mid-tier companies a voice on digital issues. That's why we have undertaken one of the largest surveys of mid-tier firms ever conducted on a digital theme. In total, our survey reached over 1,200 mid-tier companies in the UK. In this report, we define mid-tier as companies with annual revenues of between £50m and £1bn. These included large domestic, fast-growth and entrepreneurial, privately owned and SMEs.*

With YouGov, we probed the views of 600 of these UK organisations. At the same time, KPMG went on the road, running the same survey with a range of UK organisations at a series of events across the country, pushing the total respondents to over 1,200. Respondents were senior executives and finance directors from a wide range of sectors, including finance, IT & telecommunications, manufacturing, construction, retail,

transportation, medical & health, and education.

Finally, alongside the quantitative research, we interviewed senior leaders at a range of leading British mid tier companies.

These included a major mid tier fashion brand, spread betting leader IG, and Oasis Dental Care. Their contributions are profiled throughout this report.

***“TRANSFORMING THE CUSTOMER EXPERIENCE  
IS THE NUMBER ONE FOCUS FOR DIGITAL”***



# **EXECUTIVE SUMMARY**

*The UK's digital economy is gathering pace. Companies of all sizes, and from every sector and region, are harnessing the power of digital to transform productivity and accelerate their growth. Increasing digitisation is asking UK companies to fundamentally rethink their operating principles, their customer experience and their business model.*

The opportunities created by digital are huge. But if the UK is to lead in this area, it is vital that the country's mainstream businesses join the digital race. UK Trade and Investment estimates that the country's mid-tier companies account for about a third of private sector output and more than one in three UK jobs.<sup>1</sup> It is essential that this vital segment of the UK economy does not get left behind.

***“OVER A THIRD OF  
COMPANIES ARE  
INCREASING DIGITAL  
INVESTMENT BY  
MORE THAN 10%”***

The mid-tier has always punched above its weight, but is it ready for the digital challenge? To date, answering this question has been difficult. Research on digital adoption across the UK economy has tended to focus on two extremes: technology start-ups or major corporates. The time is ripe for a deeper focus on how Britain's mid-tier companies are preparing for a digital future.

This study examines how the UK's mid-tier companies are responding to the demands of digital. We probe their digital ambitions and the priority they are giving to investment. We also explore the barriers that hold them back, and how mid-tier companies can compete in a world of accelerated change.

<sup>1</sup> “Mittelstand looks to make its mark”, Financial Times / ft.com, February 16, 2014.

# KEY FINDINGS

## ***MID-TIER COMPANIES ARE RAMPING UP THEIR INVESTMENTS IN DIGITAL.***

First, the good news. Most companies are committed to digital investment. Nearly seven out of ten respondents plan to increase investment over the next two years.

Thirty-five percent say their organisations will increase their investment by over 10%.

With spending on the rise, the challenge for mid-tiers is ensuring that money is spent in the right places. The really smart companies are making a strong link between digital investment and strategy, and encouraging a more entrepreneurial approach.

## ***DIGITAL IS HELPING MID-TIERS TRANSFORM THE CUSTOMER EXPERIENCE.***

Respondents pinpointed “transforming the customer experience” as the number one priority for digital. Mid-tier companies can exploit advances in data and analytics to better understand their customers’ needs. They must service those needs more effectively using well-designed, fully integrated digital channels. It’s a significant test for any organisation, requiring them to think holistically about how they can improve every facet of the customer experience.

## ***HOWEVER, TOO MANY MID-TIERS HAVE BEEN CONTENT TO PLAY CATCH-UP.***

Although most mid-tier companies are investing in digital, the majority are adopting a cautious strategy. Only 14% of respondents describe themselves as digital pioneers who “strive to stay at the cutting edge”. Nearly three-quarters – 72% – are content to follow. While there is nothing inherently wrong in waiting for technology to be proven, in the fast-paced world of digital this can leave companies on the back foot. Meanwhile, nearly a quarter of organisations are placing a low priority on digital. This is particularly pronounced in manufacturing and construction, raising concerns about the competitiveness of these core industries in the years ahead.

## ***AGILE APPROACHES CAN HELP MID-TIERS OVERCOME THE TECHNOLOGY CHALLENGE.***

Technology implementation issues emerge as the biggest barrier to digital projects. The resources to tackle these issues are also more constrained for mid-tiers than for the corporate giants. But these barriers are not insurmountable. New technologies combined with agile development models can make it faster, cheaper and less risky for mid-tiers to roll out their digital services and platforms.

***“BUT 72% ARE CONTENT TO PLAY DIGITAL  
CATCH-UP WITH THEIR STRATEGIES”***



# ***DIGITAL IS HERE TO STAY...***

and the pace will only accelerate and intensify as new technologies come online. This creates a constant state of flux for businesses. Mid-tier companies must be more agile than ever, responding quickly to new technologies and ever-changing customer demands. This report outlines how the UK's mid-tiers can play to win in a fast-paced digital world.



# THE **DIGITAL** **FUTURE** IS HERE

*The digital transformation of the UK economy is truly underway. A recent report by TechCity<sup>2</sup> forecasts that the number of digital jobs will grow faster than all other occupations by 2020. It found that 1.46 million people – 7.5% of the entire UK workforce – are currently employed in the digital industries. Digital companies are spread across the UK, from Scotland to South-East England, with over 20 notable clusters for digital excellence emerging (see Figure 1).*

The UK also has one of the most developed digital economies in the world, according to a recent report from the watchdog Ofcom. The International Communications Market Report (ICMR) 2014<sup>3</sup> found that the UK has the highest e-commerce spending among major nations, with the average consumer paying almost £2,000 for goods each year. This is significantly higher than the next-highest valued market, Australia, at £1,356 per head.

The infrastructure for digital is also maturing. The report found that the UK had the highest coverage of superfast broadband among Europe's five leading economies (the 'EU5' – France, Germany, Italy Spain and

the UK). Nearly eight in 10 UK homes can access superfast broadband, which provides connection speeds of 30 Mbit/s or above.

Meanwhile, the UK is leading the way when it comes to embracing 'smart' media devices. Almost a quarter (22%) of UK consumers say they have a 'smart' TV, the highest in Europe, with the vast majority of these (84%) connected to the Internet.

These numbers give a sense of how rapidly digital has become embedded across almost every facet of the UK's economy. This is a world full of opportunities for companies that are bold and nimble enough to harness digital to their advantage.

<sup>2</sup> "TechNation: Powering the Digital Economy", TechCity, 2015

<sup>3</sup> The International Communications Market Report (ICMR) 2014, Ofcom, 2014



- |                       |                         |
|-----------------------|-------------------------|
| 1. Inner London       | 12. Birmingham          |
| 2. Bristol & Bath     | 13. Glasgow             |
| 3. Greater Manchester | 14. Edinburgh           |
| 4. Reading            | 15. Norwich             |
| 5. Leeds              | 16. Hull                |
| 6. Belfast            | 17. Liverpool           |
| 7. South Wales        | 18. Great Malvern       |
| 8. North East         | 19. Brighton & Hove     |
| 9. Oxford             | 20. Bournemouth & Poole |
| 10. Cambridge         | 21. Dundee              |
| 11. Sheffield         |                         |

*Figure 1: UK Digital Technology Clusters ranked by total Digital Employment*

Source: "TechNation: Powering the Digital Economy", TechCity, 2015.

# MID-TIER **COMPANIES** WANT A **SLICE** OF THE **ACTION**

*UK mid-tier companies are keen to seize the digital opportunity. In our survey, 72% class it as an important priority, with 43% making it a high or very high priority. Digital is high on the corporate agenda as organisations seek to delight their customers, empower their people, and work smarter and faster than ever before.*

*Figure 2: Business Priority Attached to Digital (%)*

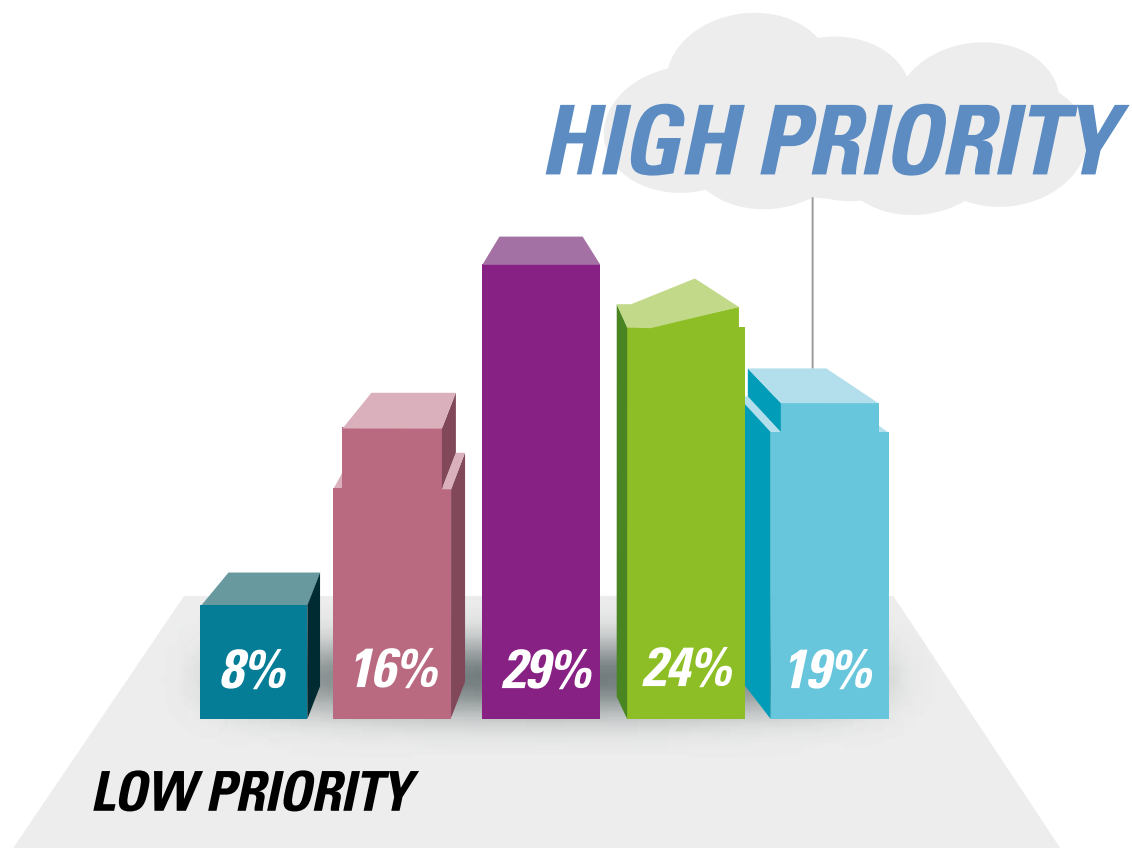
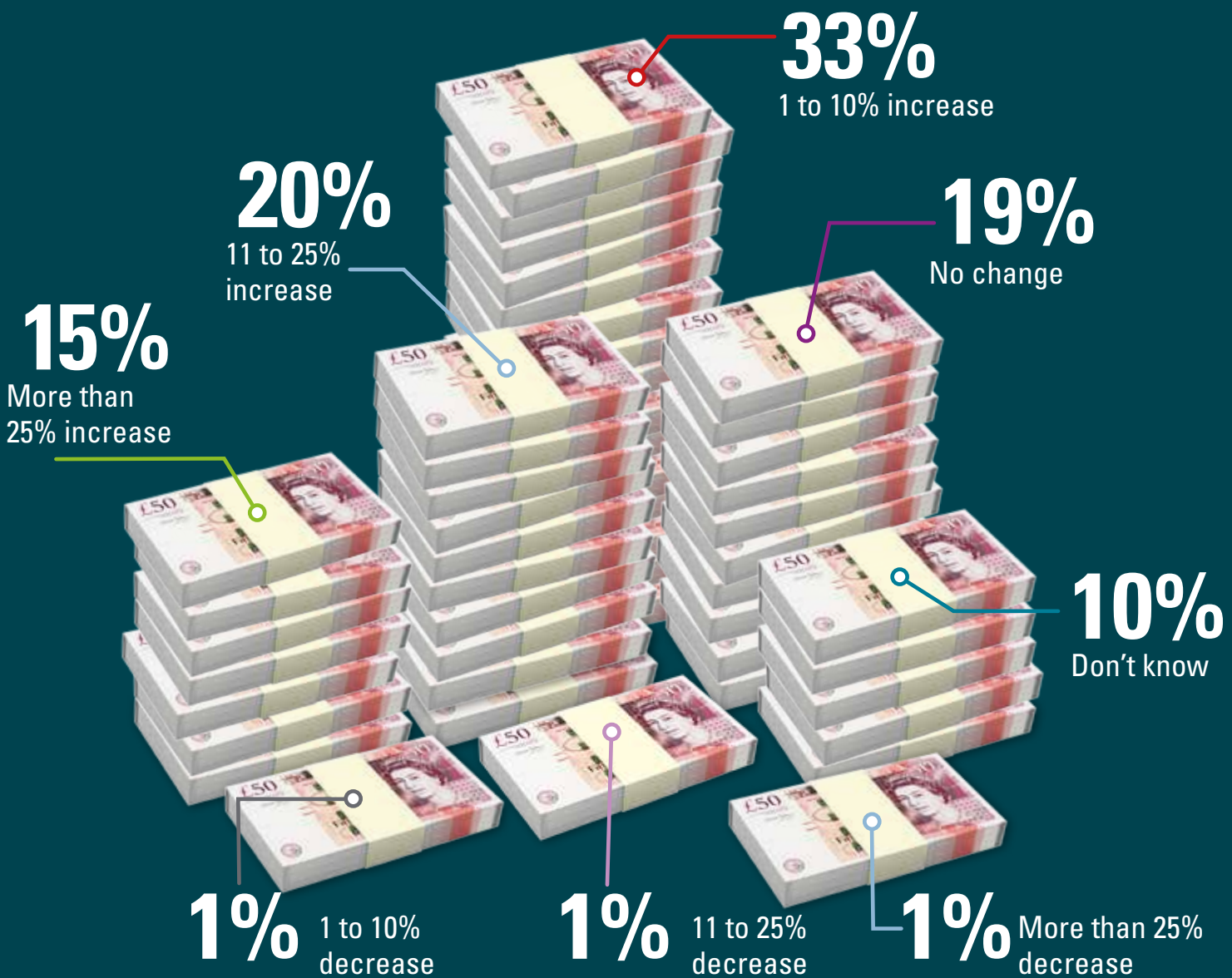




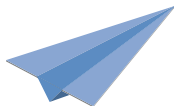
Figure 3: Projected Increase in Digital Investment in Two Years' Time



*Companies are ramping up their digital investments. Sixty-eight percent of respondents plan to increase spending over the next two years, with 35% predicting an increase of over 10% (see Figure 3). This may be an important turning point in the evolution of the UK's digital economy. The investment constraints of the post-crisis era appear to be giving way to a more bullish approach.*

# MID-TIERS **ADOPT** **A CAUTIOUS** STRATEGY WITH **DIGITAL**

*Investment in digital is rising, but most mid-tier companies are proceeding with caution. The majority of companies in our survey prefer to wait until technologies and digital services are well established. Only 14% of mid-tier respondents would describe themselves as digital pioneers who 'strive to stay at the cutting edge'.*



**Digital Pioneers:** we strive to stay at the cutting edge of new digital technologies



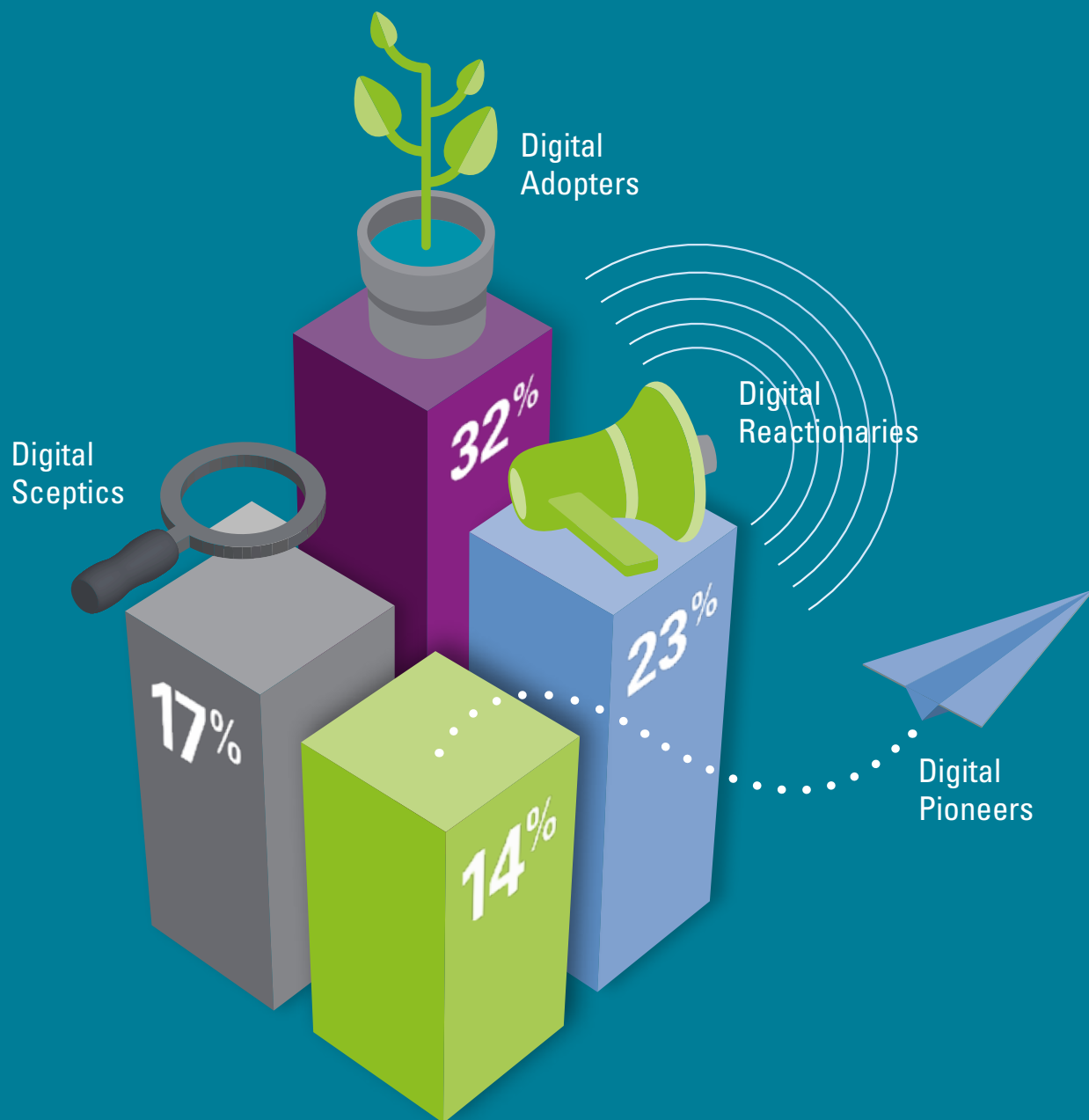
**Digital Adopters:** we wait until new digital technology is well established, but then move quickly to adopt



**Digital Reactionaries:** we are playing catch up on digital



**Digital Sceptics:** we evaluate digital innovations cautiously, and would prefer to move slowly but make the right investments



*Figure 4: Perception of Company's Digital Investment Approach<sup>4</sup>*

<sup>4</sup> Note: Excludes "None of these" at 7% and "Don't know" at 6%.

Sometimes a wait-and-see approach can make sense. In the hyper-competitive digital environment, however, companies should be ready to move faster. In contrast to the cautious strategies adopted by most firms in our survey, a new generation of tech-savvy mid-tier companies are proving digital's potential. One example is eCourier, a medium-sized firm that was recently named in the Sunday Times Microsoft Tech Track 100 as one of the fastest-growing and most innovative technology companies in the UK. eCourier uses a sophisticated computer algorithm to distribute orders to its drivers in real time based on location, traffic, weather and demand – thereby massively improving efficiency.

Made.com is another UK mid-tier that has harnessed digital to power rapid growth. The company streamlines the furniture design and manufacture process, allowing it to take products from design to sale in as little as four months. The company uses an online voting system to help crowdsource its design plans. Orders are then placed directly with the manufacturer for mass production.<sup>5</sup>

A senior brand communications director in fashion that we spoke to believes that all organisations should anticipate digital change. “Ultimately, everyone has to accept that you cannot have a business in this age which does not embrace digital” he says. “Blockbuster should have owned digital; they should have got into streaming and content. HMV should have owned what iTunes has now. They didn’t because they didn’t think it was going to last. There cannot be a business that doesn’t put digital front and centre.”

***‘ULTIMATELY, EVERYONE HAS TO ACCEPT THAT YOU CANNOT HAVE A BUSINESS IN THIS AGE WHICH DOES NOT EMBRACE DIGITAL IN SOME WAY’.***

<sup>5</sup> Made.com revenues soar ahead of stock market listing, Daily Telegraph.



## ***DIGITAL DISRUPTORS IN ACTION***

- Uber rewrites the rules of the global taxi industry
- ZipCar disrupts the car-hire industry
- Tesla drives massive change in the auto industry
- Just Eat changes the way take-aways are ordered. Founded in 2001, it went public in April 2014 in a float that valued the business at about £1.5 billion.<sup>7</sup>
- Lending Club, a peer-to-peer lender, has taken on traditional banking. Founded in 2006, it now extends more than \$6bn worth of loans through its platform.<sup>6</sup>
- Airbnb changes for ever how we think of travel accommodation
- Alibaba transforms the retail sector in China and highlights healthcare and financial services as ripe for disruption

<sup>6</sup> "Disrupters bring destruction and opportunity", Financial Times / ft.com, December 30, 2014.

<sup>7</sup> "Just Eat flotation delivers with £1.5bn valuation", Financial Times / ft.com, April 3, 2014.



# ***A TWIN-TRACK ECONOMY?***

The survey shows that some sectors are significantly more committed to digital than others (see Figure 5). In addition to the IT & telecommunications sector, media organisations and finance and accounting companies place a high priority on digital for the future. At the other end of the scale, organisations in the manufacturing and construction sectors are much less likely to view digital as a strategic priority.

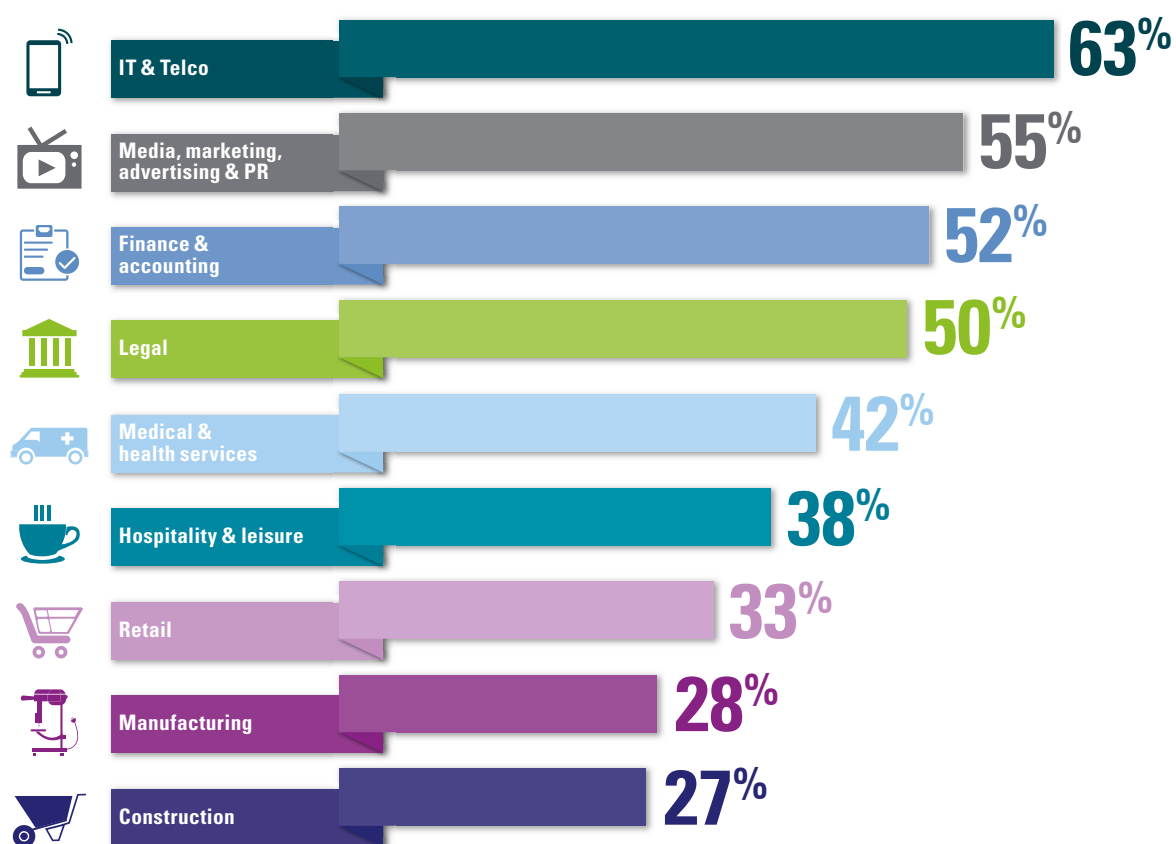
The lack of urgency in certain sectors should be a source of concern. Digital knows no boundaries. It affects everyone from content rich media companies to the most traditional heavy manufacturing organisation (see “Opportunities and Threats Across Sectors”). If this gulf continues to open up between the technology and services companies and heavy industries like manufacturing, we may see a twin track digital economy emerging.

***“IT WOULD BE A CONCERN IF SECTORS LIKE MANUFACTURING FELT IMMUNISED FROM DIGITAL’S IMPACT. THERE ARE REAL THREATS – AND EXCITING OPPORTUNITIES – ACROSS ALL SECTORS.”***

Nathan Beaver, Customer & Growth Director at KPMG, believes that all sectors need to be prioritising digital. “It is understandable that industries that have been hit hard by significant waves of digital disruption, such as media and telecoms, give it a higher priority,” he explains. “However, it would be a concern if sectors like manufacturing felt immunised from digital’s impact. There are real threats – and exciting opportunities – across all sectors.”

The digital economy is accelerating: creating jobs, boosting economic growth and furthering the UK’s world standing as a digital nation. Mid-tiers want to participate, but our research indicates that a large number are adopting approaches that are cautious and, in some cases, even reactive. The danger is that while many companies are entering the digital game, they are not playing to win. The pioneers will be bolder and faster in grasping the opportunities created by digital transformation.

*Figure 5: Sector Respondents Giving Digital a High Priority<sup>8</sup>*



<sup>8</sup> Note: Includes respondents who gave it a 1 or 2 in terms of priority.

# ***OPPORTUNITIES AND THREATS ACROSS SECTORS***

*Digital will affect all corners of the economy, as our brief summary of disruptive innovations reveals.*

## ***MEDIA, MARKETING, ADVERTISING & PR***

The media sector was one of the first to have to adjust to the dislocation caused by digital innovations – think how streaming music disrupted the market for CDs, or online news undermined print media. Traditional media is now having to explore new payment models. Companies are finding new ways to personalise

content and to combine this with an array of novel advertising formats and tools. At the same time, advertising and communications agencies have had to learn how customers interact with brands in the free-flowing world of social media.

## ***HEALTH AND LIFE SCIENCES***

Over 40% of medical and health services organisations are prioritising digital as they look to transform healthcare delivery and the relationship between care providers and patients. In Birmingham, a GP ‘super practice’ – The Vitality Partnership – has launched a clinical contact ‘Vitality Healthcare Hub’ that can be accessed via the web, phone or a dedicated mobile and tablet app for a local population of

65,000. Three practices are already offering internet call consultations with a doctor. Using digital technology in this way creates economies of scale and frees up doctors to spend their face-to-face time treating people with more complex needs.<sup>9</sup> Given healthcare’s challenges, such as burgeoning waiting lists, digital process improvement could bring huge efficiency gains to a sector under extreme pressure.

<sup>9</sup> Vitality is leading the way in creating the NHS of the future”, Vitality Partnership, 4 November 2014.  
“A digital healthcare model can take the heat off primary care”, Digital Life Sciences, December 19, 2014.  
<sup>10</sup> “Apple Inc. Wants to Start Producing Cars as Soon as 2020”, Bloomberg Business, February 19, 2015.

## *AUTOMOTIVE*

The automotive industry shows how quickly digital technologies can reshape an industry. Innovations include driverless vehicles, in-car telematics and intelligent highways. The traditional automotive brands may have to compete with digital pioneers in the coming decade. Recently, media speculation has been rife that Apple Inc. is to start building cars. Bloomberg claimed the firm wanted to have

a car in production by 2020, following reports that Apple Inc. has hired engineers from the electric-car pioneer, Tesla.<sup>10</sup> In addition, the advanced sensors and electronics that increasingly feature in modern cars are often made by suppliers, not the car manufacturer. That creates potential high-value niches for today's mid-tier engineering firms.

## *RETAIL*

According to the survey, only 33% of mid-tier retail companies are making digital a high priority. This is a surprise given that many of the country's biggest retailers are embarking on a

wave of digital investment to meet consumer demand for an integrated omni-channel experience.

## *MANUFACTURERS*

In our survey, manufacturers, like construction firms, are not on the digital front foot. Yet, digital has huge ramifications for the sector. The Internet of Things – where embedded devices in products 'talk' to each other – adds a whole new range of intelligent features into their products. As 3D printing becomes both more

cost effective and more flexible, its potential to disrupt traditional manufacturing models will only increase. The 28% of manufacturing respondents who do believe digital is a priority for their organisations could be stealing a significant march on competitors who are not making it a strategic focus.

# CASE STUDY

## ***OASIS HEALTHCARE: CUSTOMER INTELLIGENCE MAKES FOR A SMARTER DENTAL PRACTICE***

For many of us, the experience of visiting a dentist has remained unchanged for many years. But, even a traditional area like dentistry is not immune from the impact of digital. In fact, pioneers in the sector are using digital to help transform the customer experience and the way that dental practices operate.

The UK's Oasis Healthcare, which has turnover of over £149 million a year, is redefining the digital customer experience in dentistry.<sup>11</sup> This is part of Oasis's overall strategic ambition of redefining the UK's fragmented dental market. Oasis, which has a network of 320 practices and 1,300 dentists, aims to build the first national chain that is the definitive go to brand for dentistry in the UK.

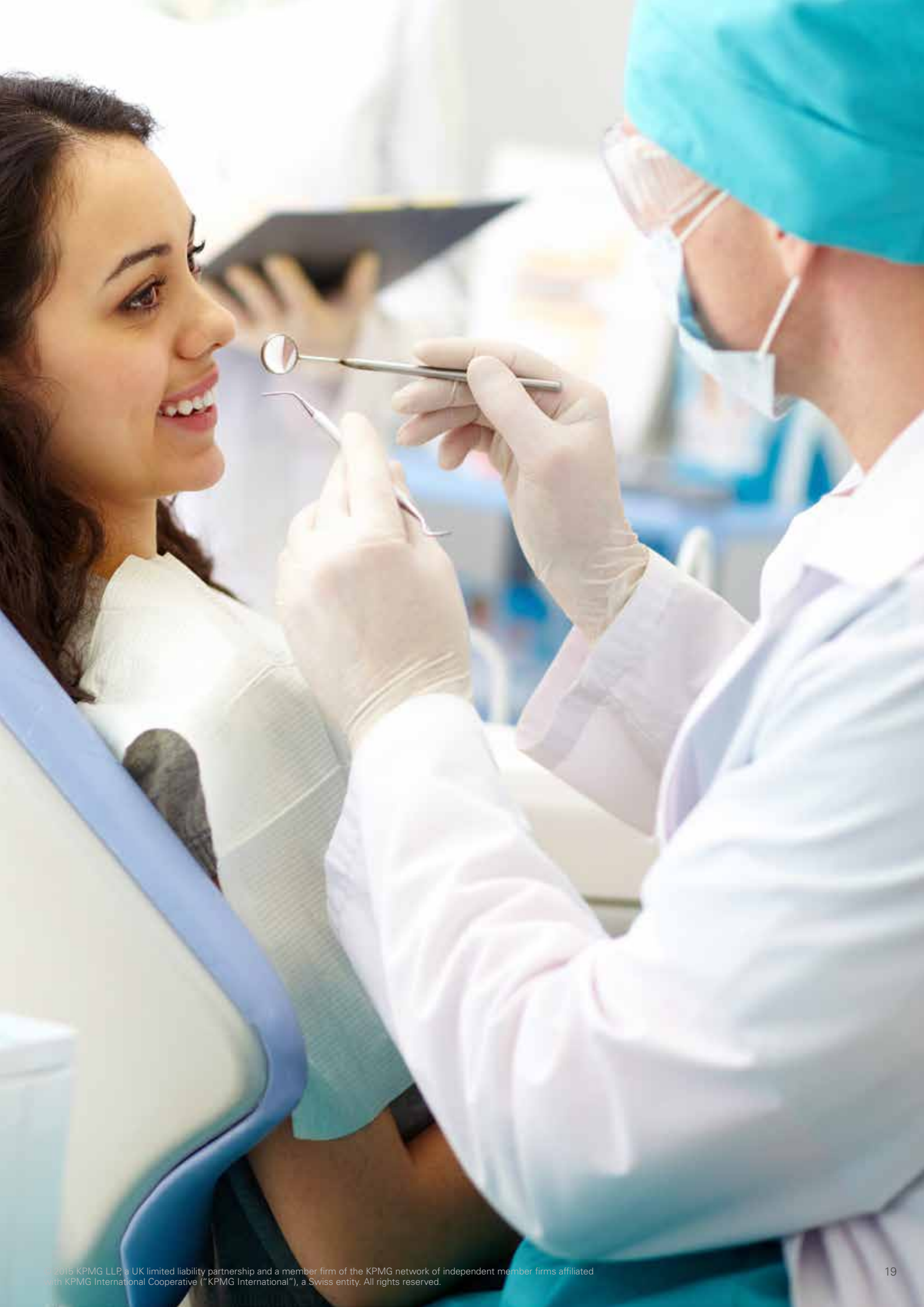
Oasis's investment has focused on digitising the customer experience and using the resulting data to build a rich understanding

of market needs. It launched online booking across its practices, and can now track customer activity on its websites on a minute by minute basis. Oasis can see who accesses the web, user clicks, what services most interest them, and whether they make an appointment.

Justin Ash, Oasis chief executive, sees one of the main benefits as the data analytics that Oasis can generate on customer activity and what customers need. "People who are looking to switch dentists will use digital tools to see what their options are," he explains. "We now get daily charts of exactly how many people are doing what. People maybe don't often associate the dental business with the cutting edge, but we are spending a lot of time and money on digital."

<sup>11</sup> Annual report, year-ending 31 March 2013, Duke Street Capital Oasis Holdings Ltd.







# *DIGITAL GAINS*

*REDEFINING THE  
CUSTOMER EXPERIENCE*

*The majority of mid-tier companies are investing more in digital – but where are those investments targeted? And what benefits do companies expect to achieve from their digital initiatives?*

One thing is immediately clear: for mid-tier companies, digital is very much focused on innovation and growth. This is important. A lot of technology spend in the past has been focused on efficiency and cost reduction. Examples would include process automation or replacing manual labour. But when we asked mid-tier firms about the main objectives of their digital strategy, all the top answers were focused on value- and revenue-generating initiatives.

Transforming the customer experience is top of the list of priorities. Close behind, companies cited expanding to new markets and customers through digital channels as other important areas of focus. Both these objectives are ultimately about reaching and creating more value for the customer.

## REDEFINING THE CUSTOMER EXPERIENCE

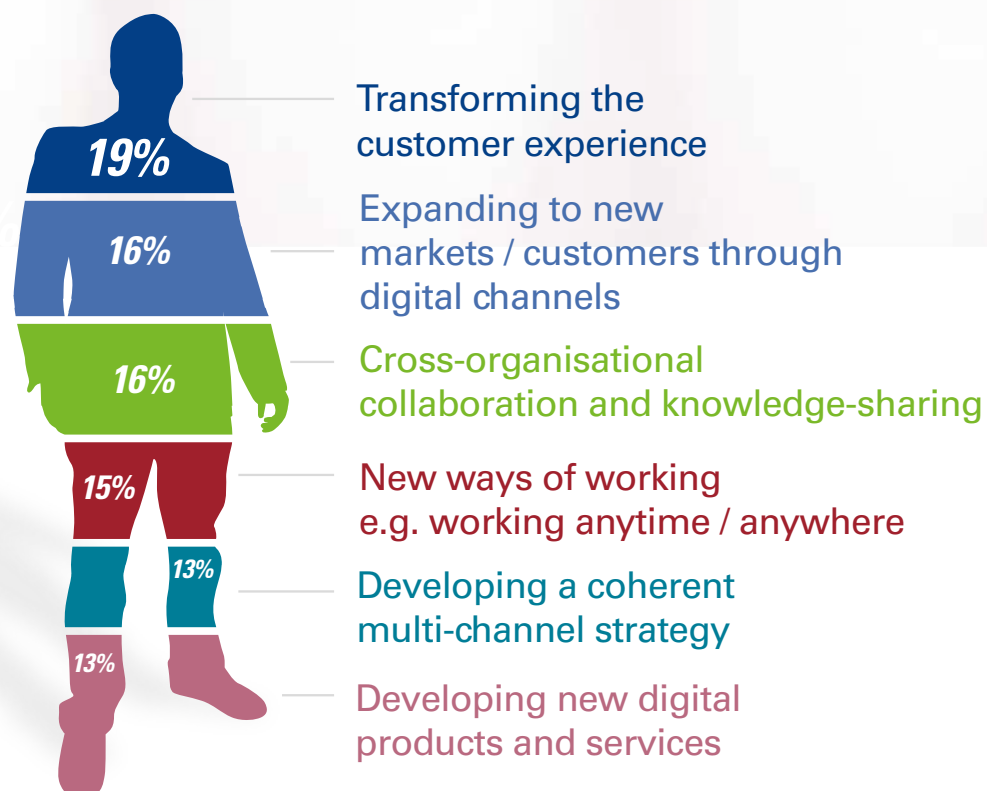


Figure 6: Digital Priorities<sup>12</sup>

<sup>12</sup> Note: Respondents were asked to select all areas that applied. 1,882 selections were made by 1008 respondents. "Other" and "Don't know" responses have not been included in this chart.

This focus certainly makes sense in a digital world. Customer expectations have changed fundamentally. Consumers now measure the performance of organisations by the standards of digital natives such as Amazon. Customers expect the same response times, the same seamless multi-channel experience, and the same level of real-time information. Reshaping the customer experience to meet those heightened expectations means bringing together four elements of the customer journey:

- A compelling experience. Create a user interface that is appealing, intuitive and smart, which means marrying your brand values to the right technology platform.
- A frictionless experience. If customers find themselves waiting for your application or content to load, they will simply click to the competition.
- A tailored experience. Companies need to find new ways to provide tailored content that is relevant and personalised to the individual.
- A seamless experience. Any breakdown in fulfilling an online order rapidly degrades trust, so the handover between digital interaction and physical fulfillment needs to be fast, professional and seamless.

These goals sound simple. In practice, they require companies to develop deep insights into the way customers interact with brands. This is why it often makes sense to involve the end user in your planning and development. The best digital players tend to create a positive feedback loop with their customers, where every interaction creates more information about how to improve the value and relevance of the services they provide.

“Data can be used to build a much more intimate understanding of the customer and to target them with specific propositions,” says Nick Viles, Customer & Growth Director at KPMG. “This can be challenging since customer data may need to be integrated from both on- and off-line channels to give a coherent view. Get it right, however, and companies can start to create real value for their customers.”



# CASE STUDY

## **IG:** *OPTIMISING THE DIGITAL CUSTOMER EXPERIENCE IN A MULTI-CHANNEL WORLD*

IG is the UK leader in financial spread betting with an award winning online platform and revenues of over £370 million a year.<sup>13</sup> The company recently set out to build on its success by creating a platform that would enable customers to access its services on the move and from a wider range of devices.

CIO Jon Noble emphasises that customers increasingly expect a seamless and robust experience. “Most of our clients are interacting with us across multiple devices, multiple operating systems, and multiple browser types,” he says. “They expect everything to work regardless of what they’ve got in their hands. That’s the world that we’ve moved into.”

Given the importance of providing its clients with a coherent customer experience across multiple devices, the company spends a lot of time listening to its customers. It has an exhaustive range of initiatives to encourage customer feedback, including online customer forums, physical focus groups, social media monitoring, a customer experience lab, and digital feedback mechanisms. This highly engaged process enables the company to continuously refine and improve its digital platforms, while remaining alert to new opportunities and needs as they arise.

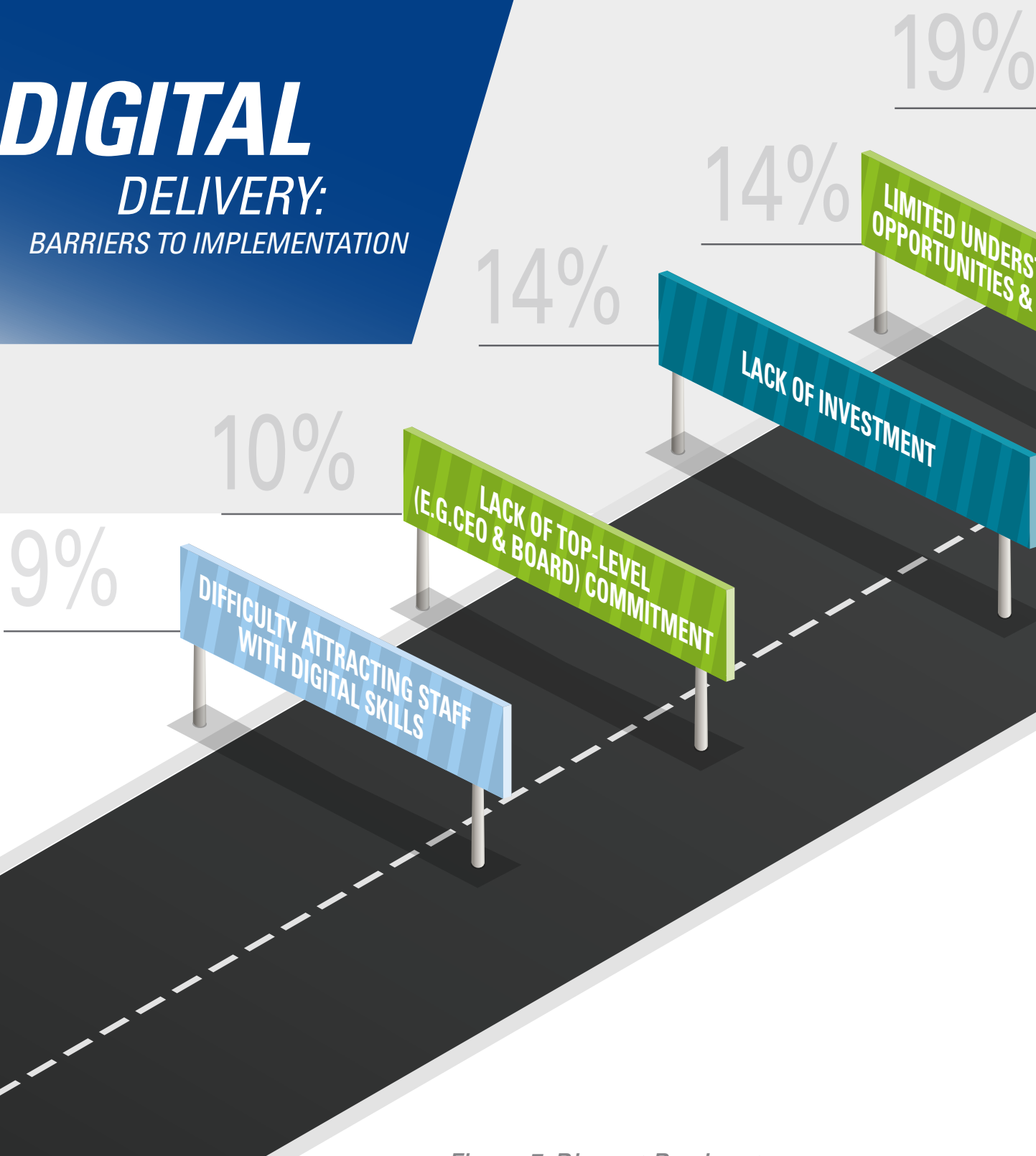
<sup>13</sup> IG Group Holdings PLC, Annual Report 2014



# ***DIGITAL***

## ***DELIVERY:***

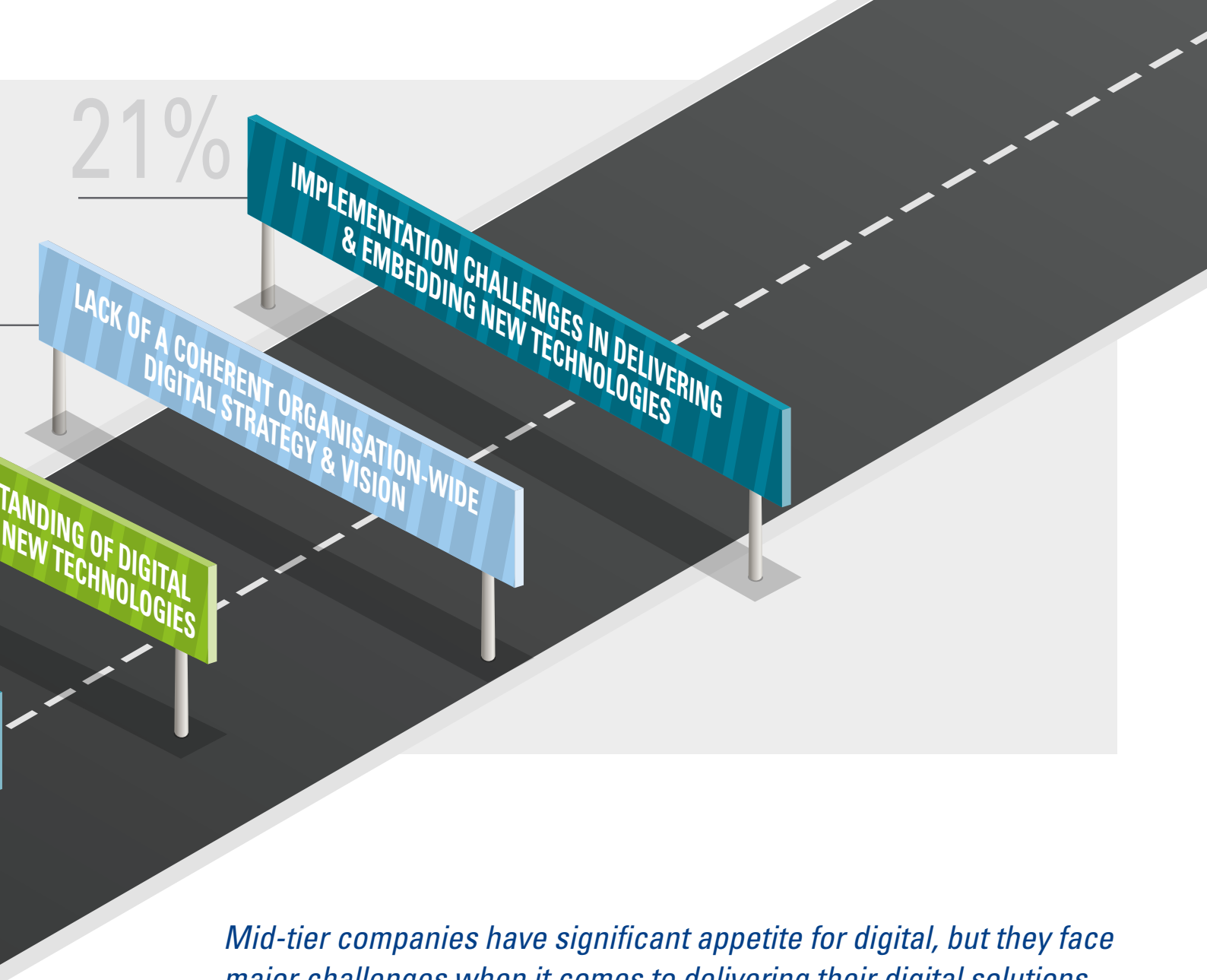
***BARRIERS TO IMPLEMENTATION***



*Figure 7: Biggest Barriers to Implementing Digital<sup>14</sup>*

Figure 7: Biggest Barriers to Implementing Digital 14

21%



***Mid-tier companies have significant appetite for digital, but they face major challenges when it comes to delivering their digital solutions.***

Technology implementation is the number one concern, according to the survey (see Figure 7). This is understandable given the complexity involved in rolling out a digital project. An end-to-end solution for servicing customers over digital channels will involve existing and new technologies and platforms, and all of them have to work in harmony. Our research suggests that many mid-tier companies are falling at this hurdle.

These implementation issues may also be a symptom of the second barrier to digital cited in our survey: the lack of a coherent strategy. To fix this, companies need a strategy and process for rolling out a portfolio of digital initiatives that is fast, scaleable and repeatable.

These challenges are compounded by the sheer pace of change in the digital environment. There is no point spending twelve months rolling out a beautifully engineered technology solution if the competition can get something almost as good to market in half the time. Digital is all about being able to move and adapt at speed.

Keeping up to date with digital technology is a challenge for organisations of any size. But this is particularly true for companies at the smaller end of the mid-tier spectrum, who are unlikely to have deep pockets or large technology teams in-house.

14 Note: Respondents were asked to select all areas that applied. In all, 1,731 selections were made by 1,211 respondents. "Other" and "Don't know" responses have not been included in this chart.

*Fortunately, today's approaches to technology deployment can help mid-tier companies overcome these hurdles and accelerate time to market for digital projects. In particular, there are three trends in digital development that help tilt the playing field in the mid-tier company's favour:*

## **1 GO AGILE**

Agile development breaks projects down into bite-sized initiatives that can be delivered at speed. The business signs off on components in the solution as soon as they are ready. The advantage of this approach is that it is faster, more cost efficient and more flexible than the traditional approach to developing IT solutions.

Figure 8 illustrates an example agile methodology showing how solutions can move from initial vision to completion in double-quick time. The process is led by a Product Owner, who is the person with vision and authority. Owners define the solution and communicate the vision and priorities for the development team. As the solution enters development, everything moves very fast.

For example, every day – at the same time and place – members of the development team spend a total of 15 minutes reporting to each other on any issues. Overall, time is divided into short work modules, at the end of each module, stakeholders and team members meet to review a demo of the solution and either plan next steps or release the product.

Whereas big IT projects can take years to deliver, mid-tier companies can use agile development to create a proof-of-concept in as little as 30 days, and deliver to market in just 90 days. The costs are much lower, which means that mid-tier companies can afford to experiment with a wider range of initiatives.

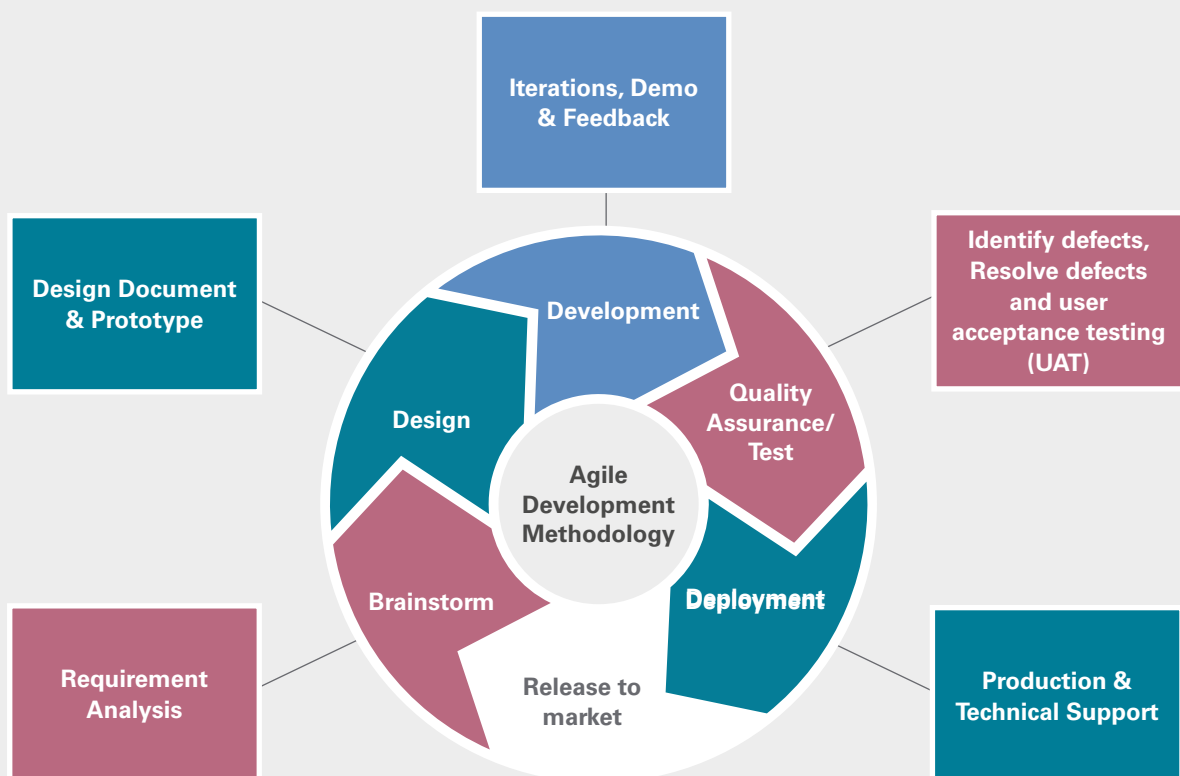
## **2 TAP YOUR DIGITAL TALENT**

The growing number of digital natives in the workforce can give a broader perspective. Generation Y – those born between 1982 and 1995 – can play a crucial role in shaping the right solution.

This is not primarily about finding specific technical skills, such as coding. It is about

ensuring that your digital customer experience meets the expectations of today's demanding, digitally-savvy consumer. Tapping into Generation Y perspectives can raise the "digital IQ" of mid-tier companies and smooth the implementation of technology delivery.

*Figure 8: Agile Development Methodology*



### ***3 REDUCE COSTS IN THE CLOUD***

Cloud solutions can help reduce the costs and time involved in developing digital solutions. Cloud-based solutions, such as software-as-a-service (SaaS) and platform-as-a-service (PaaS), can make responding to these sorts of requests faster and easier. In research from

Harvard Business Review, nearly three-quarters of respondents said that the cloud provides their business with a competitive advantage and has reduced complexity in their technology solutions.<sup>15</sup>

<sup>15</sup> Business Agility in the Cloud, Harvard Business Review analytics services, 3 July 2014.

## ***DELIVERY DRIVERS: COMMITTED LEADERSHIP***

Agile development and cloud based platforms can help accelerate your digital efforts. But these tools need to be deployed as part of a broader strategy for digital transformation. Advancing the digital agenda requires senior management time and attention. Some organisations are appointing chief digital officers (CDOs) to help ensure that digital issues are fully represented at board level.

Creating a c suite role for digital has its merits, but it is equally important that the senior management team is fully engaged with the digital agenda so that digital does not get hijacked by any other area of the business. CEOs need to set out a compelling digital

vision at the high level. It must send out a strong signal that the company is genuinely committed to ongoing transformation – digital is a journey not a destination. At the same time, the finance director's role is vital to ensure that digital projects are appropriately supported and resourced (see box). Marketing and commercial directors will also need to shape the company's offerings. Carefully orchestrated cross functional collaboration is essential.





## ***BANG FOR BUCK: HOW FINANCE DIRECTORS CAN HELP DELIVER THE DIGITAL VISION***

Mid tier companies expect the finance director to bring discipline and rigour to planning digital projects. But can finance go further and emerge as a true enabler of digital innovation?

A key challenge for mid tier companies is ensuring investment is well targeted and likely to deliver a return. Survey respondents see the finance director's top priority as developing the business case for digital investments and measuring ROI (see Figure 9).

Our research suggests that today's FDs need to go beyond their traditional role to become a strategic advisor on digital projects. Executives in the survey see the FD as partnering with

other senior colleagues to plan the overall digital strategy.

KPMG's Nathan Beaver argues that the FD has no choice but to become more engaged with digital. "You probably wouldn't ask the FD to be an expert in the supply chain or marketing. However, with digital, FDs have no choice: they must be champions," he explains. "Digital represents a fundamental transformation of the business model. It will change the way you invest your capital and measure ROI. If FDs do not embrace digital, then the organisation will be starved of the capital and funding it needs."

## ***PRIORITIES FOR THE FD: SMART INVESTMENTS IN THE TECHNOLOGY PORTFOLIO***

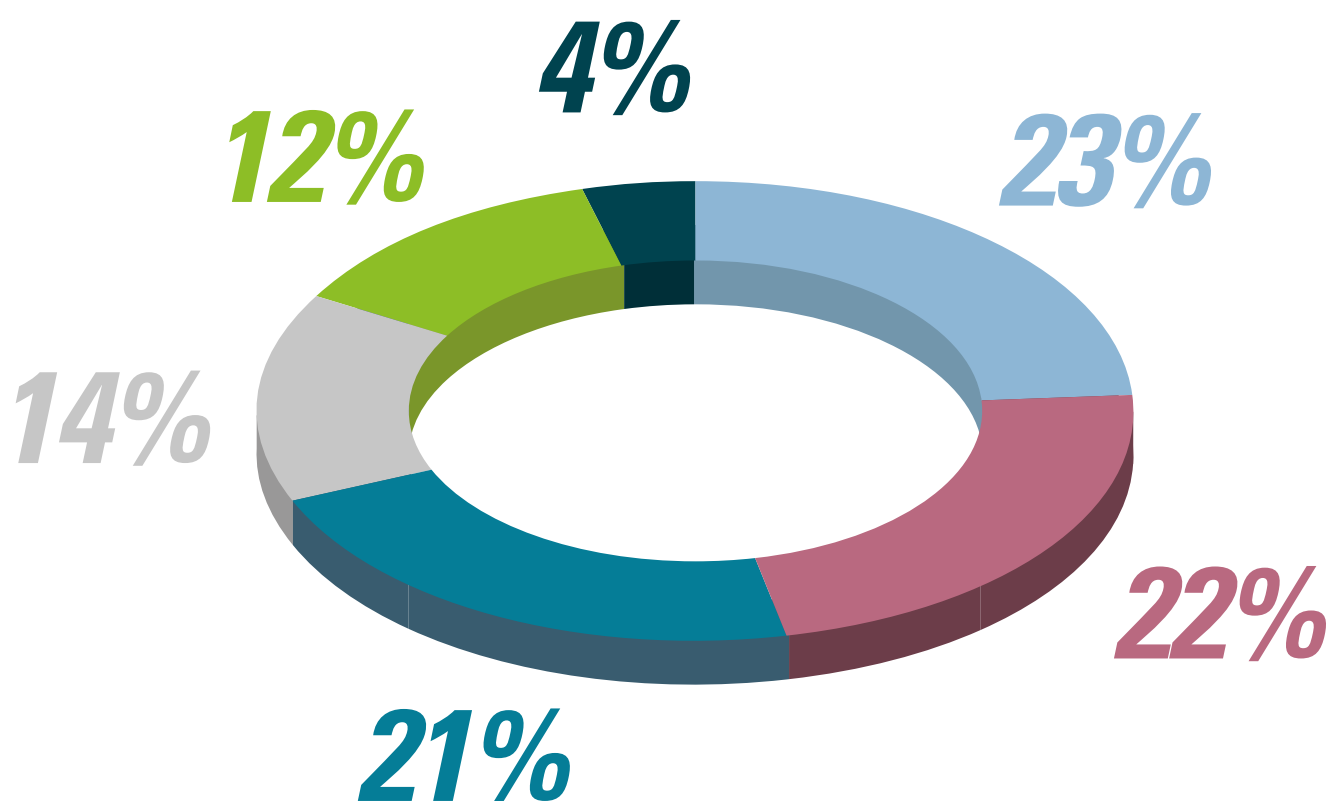
As part of their engagement with digital, FDs need to make technology investment a major priority. The right strategic IT investments will be critical to drive innovation and the business's growth. Fruitful collaboration between the FD and IT Director will therefore be critical. For the FD, this means taking a portfolio approach to investments.

New technology development models have reduced the cost and risk associated with rolling out and introducing digital projects. Companies can afford to experiment with a broader mix of initiatives. It is no longer enough to review and sign the cheque

on the firm's big IT projects. Today's FDs must play a more active role in channelling the organisation's resources around digital innovation.

FDs therefore have to strike a new balance. In a world where innovation is essential, they need to be willing to tolerate a degree of risk, and even a certain level of failure. But they can also encourage smarter, faster and more cost effective approaches to digital implementations. Find the right approach, and the FD can ensure their company gets much more bang for their digital investment buck.

Figure 9: The Finance Director's Role in Digital <sup>16</sup>



Evaluating the business case for digital investments

Partnering with relevant colleagues (e.g. CIO) to plan the overall digital strategy

Measuring Return On Investment from digital technologies

Managing new risks associated with digital technologies

Leveraging the "big data" opportunities of digital technologies to improve decision-making

Not applicable - I don't think Financial Directors should play any role in shaping digital strategy at my business

<sup>16</sup> Note: Respondents were asked to select all areas that applied. In all, 2,109 selections were made by 1,211 respondents. "Other" and "Don't know" responses have not been included in this chart.



## CONCLUSION: **PLAYING TO WIN IN DIGITAL**

*Digital is dramatically reshaping the business landscape. No organisation, no industry, no region in the UK economy will remain untouched by the digital transformation that is gathering pace around us.*

Mid-tier companies understand the need to embrace digital. The majority of organisations in our survey are investing in this area, although

their strategies are often cautious. Our snapshot of mid-tiers in the digital economy leads to three major conclusions:

### **UK MID-TIERS NEED TO PICK UP THE PACE**

Digital disruptors are encroaching on the territory of traditional companies. Incumbents need to innovate or risk being left behind. Our research indicates that too many mid-tier companies are content to let others take the

lead. In particular, the UK's manufacturing sector lags other sectors in its adoption of digital strategies. This creates the danger that a large segment of the UK economy could be left behind by the digital revolution.





## ***DIGITAL MUST BE HARNESSSED TO DELIVER MORE CUSTOMER VALUE***

Companies are determined to use digital to transform the customer experience. To do this, they need deep insights into what drives customer desires and behaviour in the new environment. New channels and technologies offer rich customer information for those who can gather and analyse it. For example, social

media and other customer channels allow organisations to collect insights that can be turned into innovative products, services and business ideas. By harnessing digital platforms to their advantage, mid-tier companies can anticipate new growth markets and identify untapped sources of customer demand.

## ***MID-TIERS SHOULD ADOPT AN AGILE DIGITAL STRATEGY***

Everything moves faster in a digital world. Twelve-month product releases and lengthy implementations are a thing of the past. The new “fail fast, win big” development model enables even firms with very limited resources

to trial digital initiatives very quickly and with minimal risk. If several of your pilot projects fail, the consequences are minor – and every experiment should take the firm closer to the right digital product or strategy.

# *PLAYING **TO WIN:** FIVE FOCUS AREAS*

## *ONE: COLLABORATE AND CO-CREATE FOR INNOVATION*

By forming partnerships and alliances with digital companies – and even providing funding for start-ups – mid-tier companies can build relationships with this thriving part of the UK's digital economy. For example, KPMG's High Growth Technology Group, in collaboration with UKTI, has been working with a range of smart mobile start-ups. These companies are driving innovation in a range of sectors including healthcare, financial services, marketing, software, and education. They include Babylon, a "virtual health service in your pocket"; and Moni, a person-to-person mobile money transfer platform.

## *TWO: USE THE POWER OF CROWDSOURCING*

Crowdsourcing can transform innovation and R&D capability. For example, automotive disruptor Local Motors lets customers be part of the car-building process. Even though there was no cash prize, its first crowdsourcing competition received 44,000 designs and 3,600 innovators shared their insights.<sup>17</sup>

## *THREE: TAP INTO GENERATION Y'S KNOWLEDGE AND SKILLS*

Digital natives grew up in a connected world. They understand the platforms and how customers interact with organisations. You need to tap into that knowledge. Mid-tier companies should leverage their own Generation Y workforce.

<sup>17</sup> "How crowd-sourcing can redesign the car business", The Guardian, 21 May 2013.

## *MID-TIER COMPANIES MUST MAKE A STRONG COMMITMENT TO TRANSFORMING THEMSELVES FOR A DIGITAL AGE. HERE ARE FIVE FOCUS AREAS THAT SUCCESSFUL COMPANIES CAN USE.*

### *FOUR: BUILD A TECH-SAVVY LEADERSHIP TEAM*

Mid-tier companies should assess how to deliver the right leadership to their digital strategy. They should consider the allocation of, or the appointment of, a digital leader whose role should be to ask hard questions of the company, challenging them to use digital technology in the innovative ways that the disruptors are.

### *FIVE: CHALLENGE THE STATUS QUO BY SETTING ASPIRATIONAL TARGETS*

Company leaders need to set high aspirations with digital. Pointing back to historical success or traditional ways of working will not create the momentum for change. Companies need to question all elements of their value proposition and operating model. Leaders should then set and communicate ambitious digital targets, from market share growth to efficiency savings.

The UK's mid-tier companies have the potential to be world-beaters in the digital arena. Many of them have specialised products or services that can be brought to global markets thanks to the power and reach of today's customer channels. By putting digital at the core of their strategies, mid-tier companies can target new growth opportunities and get closer to their customers.

The mid-tier is at the core of the UK economy, and it is vital that these organisations embrace the possibilities created by digital. UK mid-tiers can play to win if they are bold and committed enough to put digital at the heart of their business strategies.





**Talk to one of our experts**  
or visit [www.kpmg.com/uk/digitaltransformation](http://www.kpmg.com/uk/digitaltransformation)

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