Meeting the Digital Transformation Needs of Small and Medium-Sized Businesses
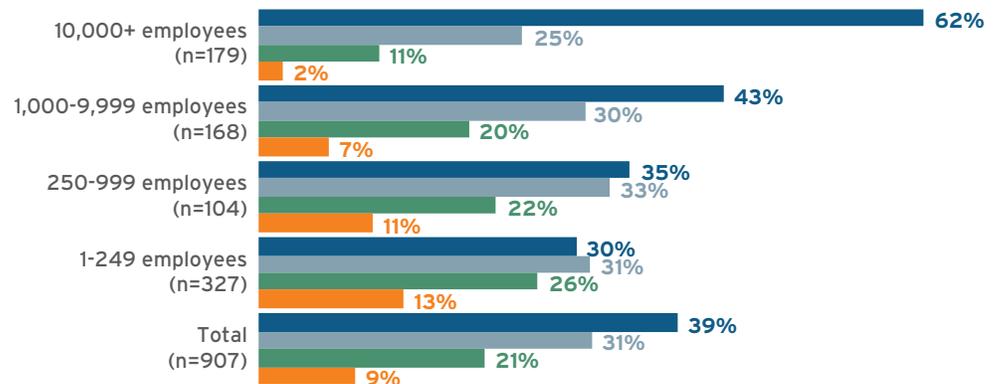
The 451 Take

'Digital transformation' is not simply a catchphrase of the moment; it has meaning for businesses that see it as a set of priorities and actions that support a modern enterprise structure. Above all, it requires an information architecture that incorporates cloud computing technology not only to reduce infrastructure costs, but also to increase organizational flexibility – providing the ability to respond quickly to change.

Enterprises of all types expect that expenditures on cloud architecture – the very infrastructure underpinning digital transformation – will generate returns on investment and are spending money accordingly. According to a survey conducted by 451 Research, the largest percentage of enterprise respondents – a full 25% – report that the spending area with the largest increase in their 2018 IT budgets is off-premises hosted and managed services, outpacing traditional outlays such as security, human resources and enterprise software.

It is no surprise, then, that digital transformation is a priority for almost all enterprises. As the chart below demonstrates, only 9% of respondents had no digital transformation strategy. However, not every organization is at the same step in the process: 39%, 31% and 21% of respondents, respectively, said they were considering, evaluating or executing their digital transformation strategies.

These results vary by enterprise size, with small and medium-sized businesses (SMBs, which 451 defines as those with fewer than 1,000 employees) more likely than average to be in the process of considering or evaluating their digital transformation roadmap or to lack a strategy altogether. This gap is not entirely surprising: the digital transformation process is a daunting challenge, especially for organizations with less expertise and fewer resources. This situation presents an obvious opportunity for companies with less-formulated digital transformation strategies to partner with cloud providers that can help develop, plan, execute and manage this process with them.

Enterprises Are at Various Stages of the Digital Transformation Process

10,000+ employees (n=179): 62%, 25%, 11%, 2%
1,000-9,999 employees (n=168): 43%, 30%, 20%, 7%
250-999 employees (n=104): 35%, 33%, 22%, 11%
1-249 employees (n=327): 30%, 31%, 26%, 13%
Total (n=907): 39%, 31%, 21%, 9%

- ■ Execution. We have a formal strategy and are actively digitizing our business processes and/or assets
- ■ Evaluation. We are planning and researching to develop a digital transformation strategy
- ■ Consideration. We are considering it, but have no formal plans
- ■ No strategy. We currently have no digital transformation strategy

Source: 451 Research, Voice of the Enterprise: Digital Pulse, Budgets and Outlook 2017

Business Impact

CLOUD PROVIDERS WILL BE THE ENABLERS OF DIGITAL TRANSFOR-MATION. Digital transformation is an important – but by no means simple – process. For companies with limited resources and know-how, it can be almost impossible. That is why service providers will serve as the ushers of digital transformation. Cloud providers will lead customers through a portfolio of offerings that both meet their unique needs and scale quickly.

SOFTWARE AS A SERVICE (SAAS) ALONE IS NOT ENOUGH. Digital transformation will be fueled by the need for integrating internal and external data across business processes. Isolating this crucial resource in different externally provided SaaS applications will limit the efficacy of cloud deployments. Unlocking the potential of data will require at least some off-premises resources and access to platform-as-a-service capabilities.

SERVICES SHOULD 'JUST WORK.' The shift to off-premises IT ecosystems introduces a new paradigm in which services are both abstracted and available. Customers expect a seamless experience in which the nitty-gritty of infrastructure management can be handled by external providers. At the same time, customers will want insight into resource utilization and require guidance from their service providers.

LAYERS OF MANAGED SERVICES WILL BE NECESSARY. As the cloud model proliferates, cloud complexity will become a major inhibitor to adoption for enterprises. The best vendors will simplify the process through value-added services offered on top of the infrastructure. Vendors with a good security and data-governance offering that works in concert with their custom software will allow customers to get the most out of the digital transformation process with reduced risk.

Looking Ahead

All indicators suggest that the trend toward digital transformation will continue unabated. Cloud consumption will replace cloud building as the primary driver of IT spending. Hybrid IT architectures will become the norm, with the divergence of workload types into different execution venues. Managed services will become an integral part of digital transformation in order to simplify the complex process.

Because digital transformation is a complicated journey, enterprises should begin the process on a timetable that works for them. Companies planning this journey should evaluate processes that can be digitized, particularly customer-facing applications that would benefit from the frictionless nature of a cloud deployment. They should also look to cloud providers with managed service offerings that can provide value at the planning, implementation and management stages.

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