

# Going big amid rapid growth

## Digital strategies and opportunities for fast-growing Australian companies

How IT and business leaders can transform their  
organisations and increase innovation.



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# Foreword

## Mid-size enterprises have an advantage in the digital disruption stakes.



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Mid-size Australian businesses are feeling the most disrupted by digital technology today. Yet they have a clear advantage over large corporations because they are less likely to be burdened by legacy IT systems and typically have flatter organisational structures which can expedite business transformation.

DXC Technology commissioned local emerging technology analyst firm Telsyte to interview 276 business and technology decision-makers to gain better insight into how well-prepared Australia's mid-size enterprises are for digital disruption.

The research found some positive news for fast growing organisations in Australia. The study showed that mid-market leaders are more aware of the impending disruption than those of larger enterprises, and more have either started or are planning an IT transformation project than their larger counterparts.

Telsyte's research found mid-size enterprises are spending more on IT, but still need to invest in digital transformation where it is most strategic to fend off competition from digital-only multinationals and general market disruption.

This is why partnering with service providers that can deliver on a global scale is so important.

DXC understands the challenges of growing enterprise organisations to better position themselves to not just fend off competition but deliver transformational new services.

DXC and Telsyte believe an organisation-wide digital strategy driven by the CEO is best practice, and mid-market firms are at an advantage when it comes to moving quickly to this approach.

I hope this report helps you gain insight into how your organisation can leapfrog the competition and thrive despite the digital disruption.

## Big intentions, bigger budgets: Agile enterprises spending more on tech

Australia's mid-size enterprises (companies with 50 - 1999 employees) are well-placed for more digital-driven transformation and innovation.

Less encumbered than large enterprises, yet more capable than small businesses, mid-size enterprises can take advantage of their agility to improve operations and develop new products and services.

To achieve this, and fend off increasing competition, mid-size enterprises will

need to invest in technology to support a growing portfolio of digital applications and programs – from e-commerce to connected devices.

Telsyte research indicates Australian mid-size enterprises are looking to increase spending at a higher rate than other (larger and smaller) organisations. Mid-size enterprises will experience 6.1 per cent growth in digital spending in 2018 compared to 5.4 per cent for business of all sizes.

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### Q. How will your organisation's total annual IT budget change in 2018 compared to 2017 (% increase)



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Telsyte Australian Digital Workplace Study 2018

**Figure 1.** Australian mid-size organisations looking to spending more on IT

Motivations for more spending include the onset of digital-only competition for many 'bricks and mortar' companies and a desire to bring new products and services to market which are traditionally the domain of larger companies.

In retail we have seen the rise of mid-size digital companies taking on the industry giants, and in financial services mid-size banks and insurance companies are using digital to compete with the tier-1 brands.

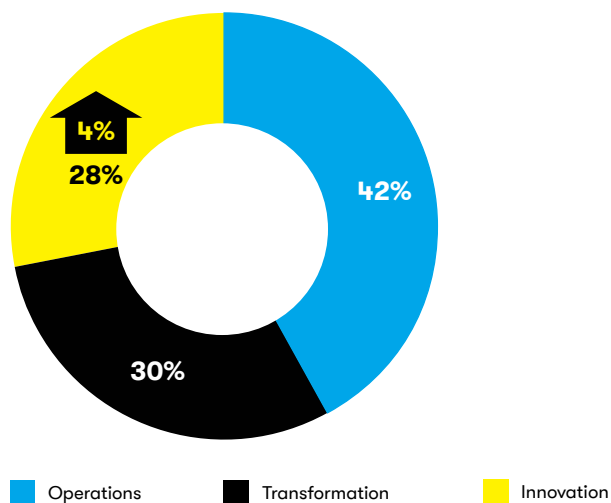
Traditional mid-size spending on servers, storage and office equipment is being augmented by new spending on mobile apps, online services and business applications.

Mid-size enterprises now have a strong focus on spending on integrated business applications and improving the customer experience in response to digital transformation. These investments are less about equipment upgrades than application upgrades.

In a positive sign, the percentage of total IT budget being spent on innovation (28%) within mid-size enterprises has increased 4 per cent during the past 12 months and, combined with transformation (30%), now makes up nearly 60 per cent of IT spending.

#### Q. Percentage of IT budget spent on...

%	Operations	Transformation	Innovation
<b>Construction</b>	42	26	33
<b>Others</b>	34	35	31
<b>Professional, scientific and technical services</b>	42	28	30
<b>Wholesale trade</b>	38	33	29
<b>Information media and telecommunications</b>	41	31	29
<b>Education and training</b>	43	29	28
<b>Agriculture, forestry, fishing and hunting</b>	45	29	26
<b>Banking and finance</b>	40	34	26
<b>Public administration and safety (Government)</b>	45	30	25
<b>Health care and social assistance</b>	48	27	25
<b>Electricity, gas and water supply</b>	51	25	25
<b>Manufacturing</b>	51	25	24
<b>Transport and storage</b>	52	26	23
<b>Retail trade</b>	46	32	22



Combined innovation and transformation is **58%** for total, and **59%** for mid-size

Telsyte Australian Digital Workplace Study 2018; n=403

**Figure 2.** Innovation budgets on the up as digital spending accelerates. Most industries reducing their IT operating spending [total]

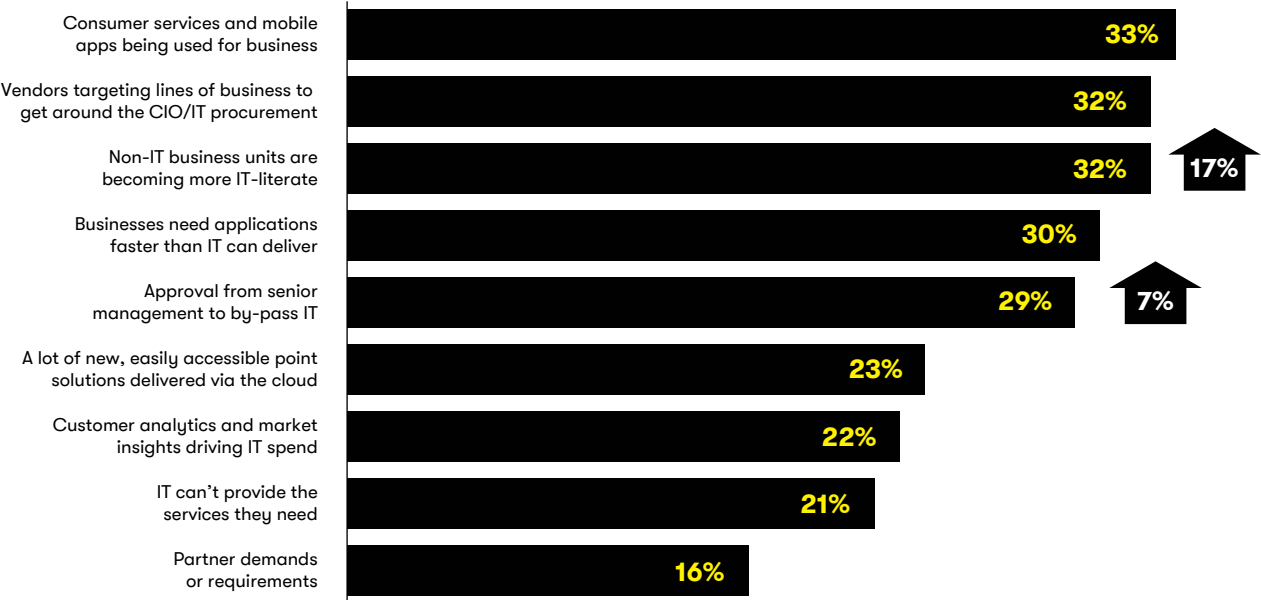
In an economy of increasing digitisation, mid-size enterprises must take advantage of new technology, business applications and services to deliver business transformation.

A solid indicator of the drive to adopt digital can be seen in the activities of business units. Telsyte's research found a high

75 per cent of mid-size enterprises have technology spending by non-IT business units.

Motivation from marketing and operations teams to digitise and transform their businesses unit is driving more spending on technology outside of the central IT function.

Q. What is driving IT spending by non-IT business units?



Telsyte Australian Digital Workplace Study 2018; n=403 (multiple choice)

Figure 3. Armed with on-demand tech, non-IT business units side stepping IT at higher levels [total]

This indicates mid-size enterprises are grasping the digital opportunity with both hands and spending to modernise and grow their businesses; however, some might be left behind by spending on areas which they need to start to control more, such as shadow IT.

A good first step towards transformation is digitisation, but no matter what size the organisation, a comprehensive, organisation-wide approach is often a better way for organisations to ‘leapfrog’ competitors and establish new business models to truly change.

On the supply side, costs of digital business applications (including SaaS apps) and services are coming down with increasing market volume, allowing the mid-size to procure the same technology as the top end of town, which historically has had access to prohibitively expensive infrastructure.

The enterprise application market is also changing. There is a trend away from huge ERP and customised business applications to workloads delivered in the cloud, which is also why spending is increasing across business units.

This is leading to a hybrid approach as discrete areas within the business move to the cloud while high-volume transaction functions are remaining on-premises. An example of this is a bank moving a customer-facing application to meet demand for social media engagement, while funds transfers are done in-house.

Taking advantage of cloud creates opportunities for business applications and there are many benefits of hosting business applications in the cloud including: cost savings via the move to subscription licensing models; the ability to support mid-size ambitions; and more modern business applications are moving away from monolithic, heavily customised systems to new, cloud-based applications which have automatic software updates, removing the need for large-scale upgrades.

# IT importance rising as mid-size enterprises report to the senior managers more regularly

Growth company business leaders are technology-savvy with the mission to transform and innovate with digital making its way into the boardroom.

CIOs and IT leaders in mid-size enterprises are now reporting more regularly to their boards compared with larger companies. Telsyte research shows a strong line of communication from IT to the board in 50 per cent of mid-size organisations – significantly higher than the 35 per cent in larger enterprises.

## Q. Who does the CIO report to? (% that report to senior managers or the board of directors)



Telsyte Australian Digital Workplace Study 2018

**Figure 4.** Digital top of strategy as more fast-growing companies communicate IT with the senior managers or board of directors



Furthermore, the pace of change in board reporting has increased markedly during the past four years.

Q. Who does the CIO of your organisation report to? (multiple choice)

%	2018	2016	2014
The Board of Directors	43	25	19
The CEO	59	64	60
The CFO	9	17	12
The COO	8	14	10
The CMO	3	11	5
Others	1	1	1

1 in 3 CIOs have multiple reporting lines, including operations, CEO and the Board of Directors

Telsyte Australian Digital Workplace Study 2018; n=403

Figure 5. More IT leaders reporting into boards as innovation imperative goes company-wide [total]

IT has become much more strategic for the mid-size and with the challenge and cost of digital transformation, today's IT literate boards are demanding regular updates.

To thrive in the mid-size, IT must be a vehicle for change and not just used for 'keeping the lights on', and board-level reporting is imperative for company-wide digital strategies. Without support from the board, IT transformation and innovation programs can fail to get approval and funding.





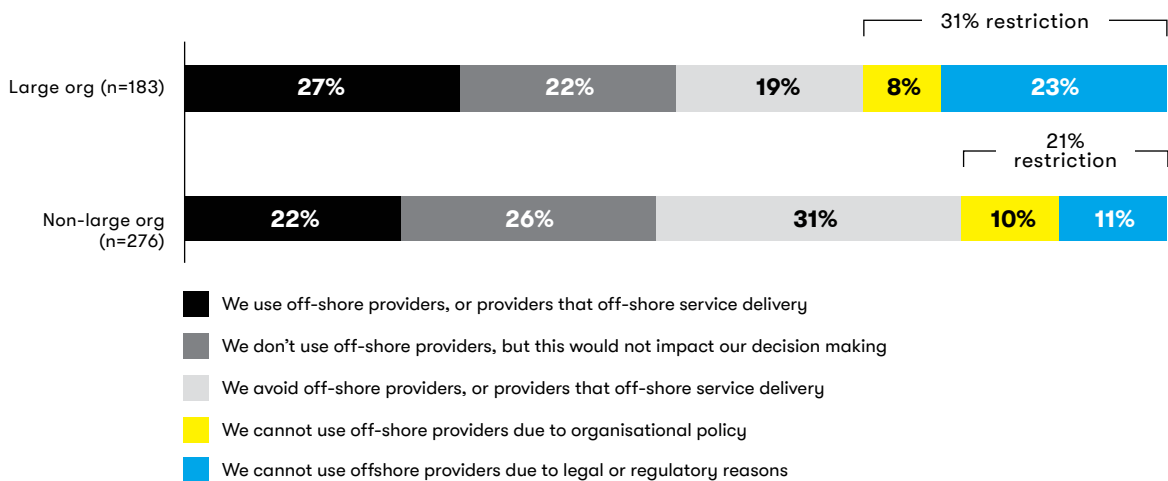
# Sourcing global IT capability a missed opportunity for Australian mid-size enterprises

Australia is a digitally-literate nation with access to world-leading technology applications and services. Most mid-size enterprises have the option to source IT capability from any geography in addition to local resources.

While corporate or statutory restrictions to off-shoring are few in mid-size enterprises compared to their larger counterparts

(21% versus 31%), more than half (57%) are yet to adopt off-shoring as an option. Furthermore, less than 1 in 4 fast-growing enterprises engage with an off-shore provider (or a company which off-shores some part of its service delivery), according to Telsyte's research.

**Q. What is your organisation's strategy regarding ICT service delivery by providers that are partially or fully not based in Australia?**



Telsyte Australian Digital Workplace Study 2018

**Figure 6.** Smaller enterprises can seek global services, but still choose to avoid it

This indicates a missed opportunity for the mid-size. Companies with the ability to change must investigate all options, regardless of location. As the IT service delivery market has opened up in recent years, using an off-shore provider – including off-shore clouds – is easier and carries less stigma.

Most large companies have proven using a mix of local and international sourcing options leads to better service delivery and more options for services and technology.

Using both local and international suppliers together cohesively will open more options for mid-size enterprises, which can work with partners that support both models.

IT off-shoring is no longer just the domain of large companies and engaging with a partner that can provide seamless on-shore and off-shore services will bring a new level of flexibility to the organisation.

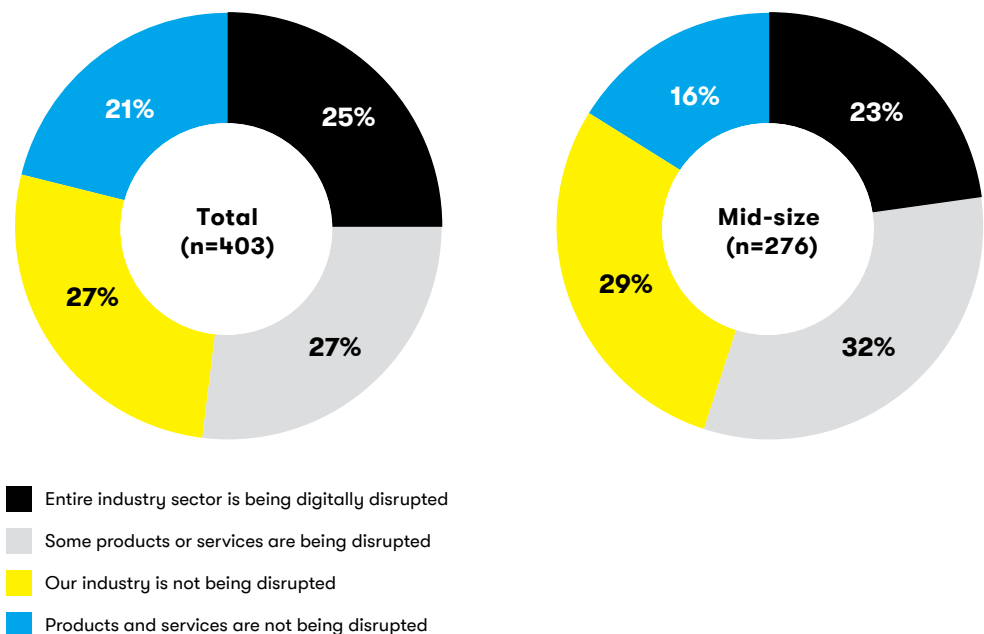
With more budget freed up from services that can be outsourced overseas, investment can be redirected to local resources providing better allocation of services.

# Opportunity knocks: Acceptance of digital disruption higher within fast-growth companies

Enterprise and mid-size business leaders understand the potential of digital, but acceptance of digital disruption remains low despite high-profile examples such as Uber and Airbnb entering the local market.

In a positive sign for mid-size enterprises, Telsyte's research found IT leaders are more aware their products or services are being disrupted than across total enterprises (21% versus 16%).

## Q. How is digital disruption impacting your organisation?



Telsyte Australian Digital Workplace Study 2018

**Figure 7.** Wake up call: Level of acceptance of digital disruption in mid-size is alarmingly low

In addition, more mid-size decision-makers (33% versus 27%) believe some of the company's products or services are being disrupted.

It is critical for mid-size enterprises to be wary of the potential threat of digital disruption and respond to it. Larger companies have larger research and development budgets and can scale a new product or service.

An increasingly popular option for smaller organisations to remain relevant in the digital era is to engage in partnerships and merge. Being prepared with a partnership

arrangement allows mid-size enterprises to scale and better compete when the barriers to entry fall due to market changes.

Despite our technology adoption maturity, general acceptance of digital disruption – for products and the wider business – remains low with Australian companies. While mid-size firms are more aware of disruption than other enterprises, they must better position themselves to fend off competition and deploy new services.

# Mid-size enterprises well positioned to be first-movers with holistic digital programs

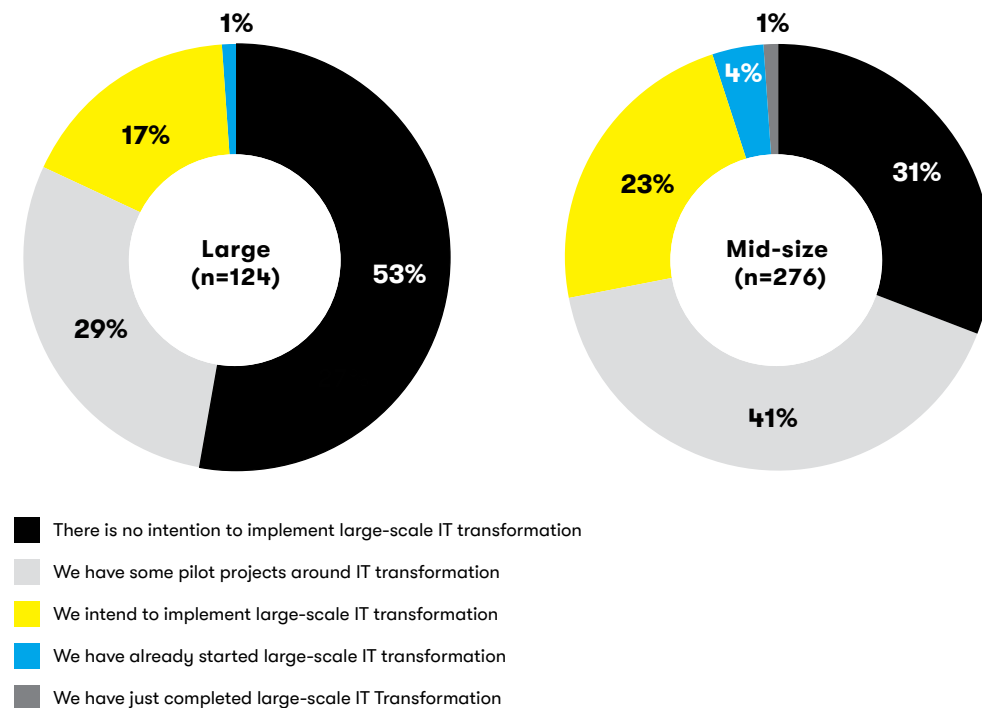
Despite the ongoing challenges of scale and funding, mid-size organisations have a big advantage over their enterprise counterparts when it comes to digital innovation.

Mid-size enterprises can learn from first movers and potentially leapfrog competitors by being faster to market. They can also move to organisation-wide strategies rather than a business unit led approach quicker than larger enterprises, which tend to be more siloed.

Interestingly, more mid-size enterprises (68% versus 47%) have either started or are planning an IT transformation project, indicating intentions are high.

Telsyte research shows mid-size enterprises are earlier on the journey to large-scale IT transformation (1% versus 5%, 'started or completed') than large organisations.

**Q. In 2018, how likely are you to implement a large-scale IT transformation program looking at improving and integrating systems supporting your business processes?**



Telsyte Australian Digital Workplace Study 2018

**Figure 8.** Mid-size can learn from first movers and move to organisation-wide digital strategies



## From business unit to organisation-wide

In Australia, digital strategies are common, but the approach to digital varies significantly. When looking at the distribution of digital strategy, many Australian organisations are in early stages of developing them.

Telsyte investigated the approach Australian companies are taking to digital and found companies with an organisation-wide approach are best placed to fend off competitive threats and innovate in the digital era.

The 25 per cent of businesses investigating a digital strategy are focused on creating efficiencies by transforming their own organisation, rather than disrupting others. These companies are more research and development focused than others and are more likely to partner with organisations that can help them leapfrog competitors.

The two main approaches to digital strategy are business unit led (34%) and organisation-wide (32%). The first segment spend the most amount of their IT budget on innovation and have a mobile app centric approach to innovation. They do not have as strong digital leadership and are generally less concerned about disruption.

The challenge these organisations face is a failure to see the bigger picture and miss the opportunity to discuss a general move of business applications, such as ERP and CRM to the cloud, in addition to specialist applications like business intelligence, field service management and social media marketing.

Organisation-wide strategies are more likely to better prepare the business for disruption. Successful digital strategies require cultural change, which is best driven by CEOs and boards.

Businesses with an organisation-wide approach to implementing a digital strategy are more likely to have the levers to control the future of their business and be disrupting their own products and other industries — future-proofing them for any uncertainty.

Mid-size enterprise IT and business leaders must use their company size and agility to their advantage.

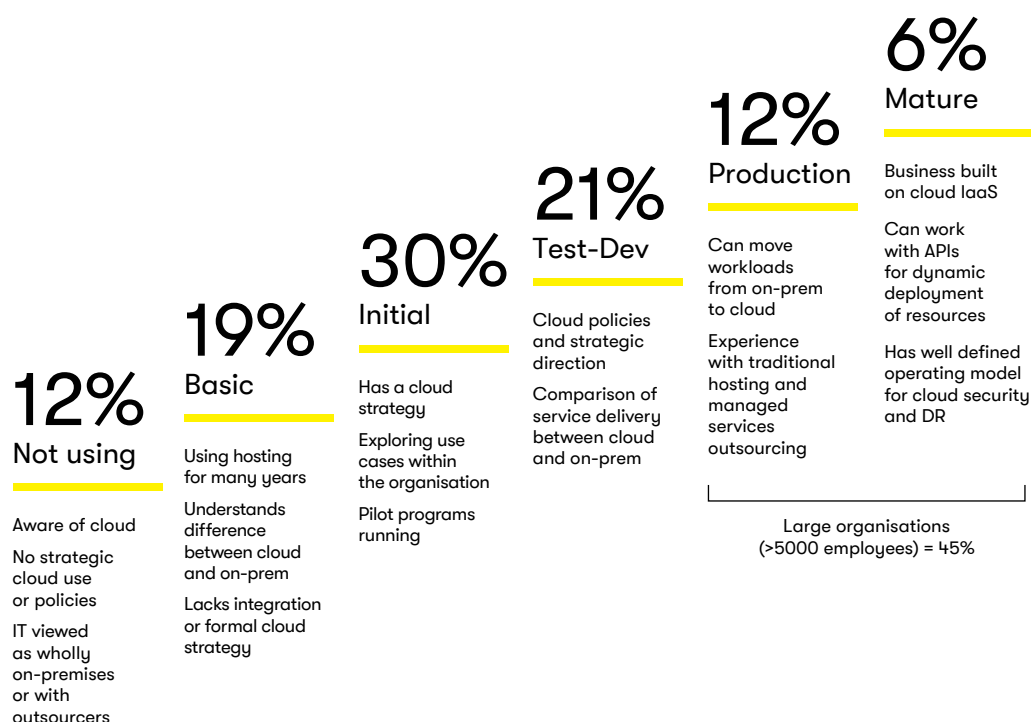
# Cloud drives transformation: Climb the maturity ladder for better business

Smaller enterprises need to transform but, without massive resources, must investigate faster routes to application and IT delivery – and the cloud offers enterprise-scale functionality and business processes without the licensing and capital investment.

Cloud can be used to drive transformation, and the more mature the cloud adoption, the more chance of a successful transformation program.

Telsyte research shows cloud maturity is on the rise among smaller enterprises and is a strategic enabler for competing with larger firms; however, less than one in five (18%) of Australian mid-size enterprises are at the 'production' or 'mature' phase of cloud adoption.

## Telsyte Australian Cloud Maturity Model 2018

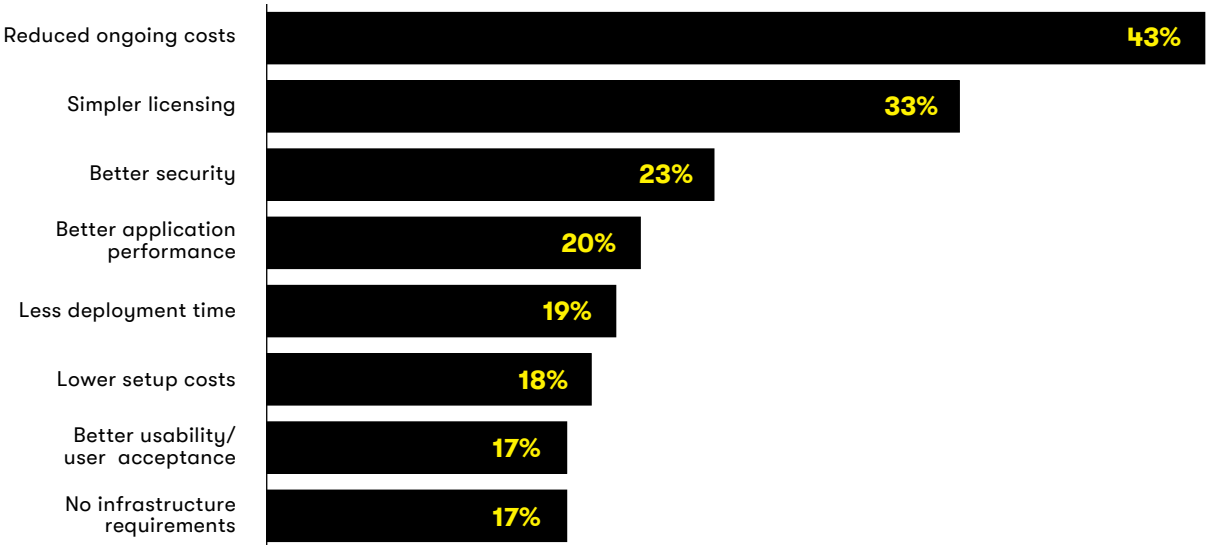


Telsyte Australian Digital Workplace Study 2018, n=403

**Figure 9.** Cloud maturity levels increasing slowly as complex workloads move off-premises [mid-size]

- Half (51%) of the mid-size are still in the ‘initial’ and ‘test and development’ phases of cloud maturity. In addition to cost reduction and more flexibility, significant benefits of cloud for mid-sized enterprises include:
- **Scalability.** Subscription licensing scales up and down to meet mid-size changes in demand as well as digital disruption.
  - **Risk reduction.** More agility and lower risk are associated with cloud implementations as projects tend to be shorter and deliver a faster time to value with lower risk.
  - **BU benefits.** The rise in the business unit approach of moving ‘workloads’ to the cloud – business functions that make sense rather than the entire business – provides proof points for the business in the move from hybrid to a full cloud model.
  - **Deliver on digital.** Cloud helps deliver on digital strategy and this is being led by the opportunity to move to a more customer-facing model, including mobile apps and self-service.

**Q. What are your organisation’s top 3 reasons for adopting SaaS over on-premises for software?**



Source: Telsyte Enterprise Applications and Software Study 2017, n=269

**Figure 10.** Reasons why Australian enterprises are choosing cloud-based applications

## Hybrid cloud and MSPs increase capability

To increase maturity and therefore transformation capability, mid-size enterprises have numerous options.

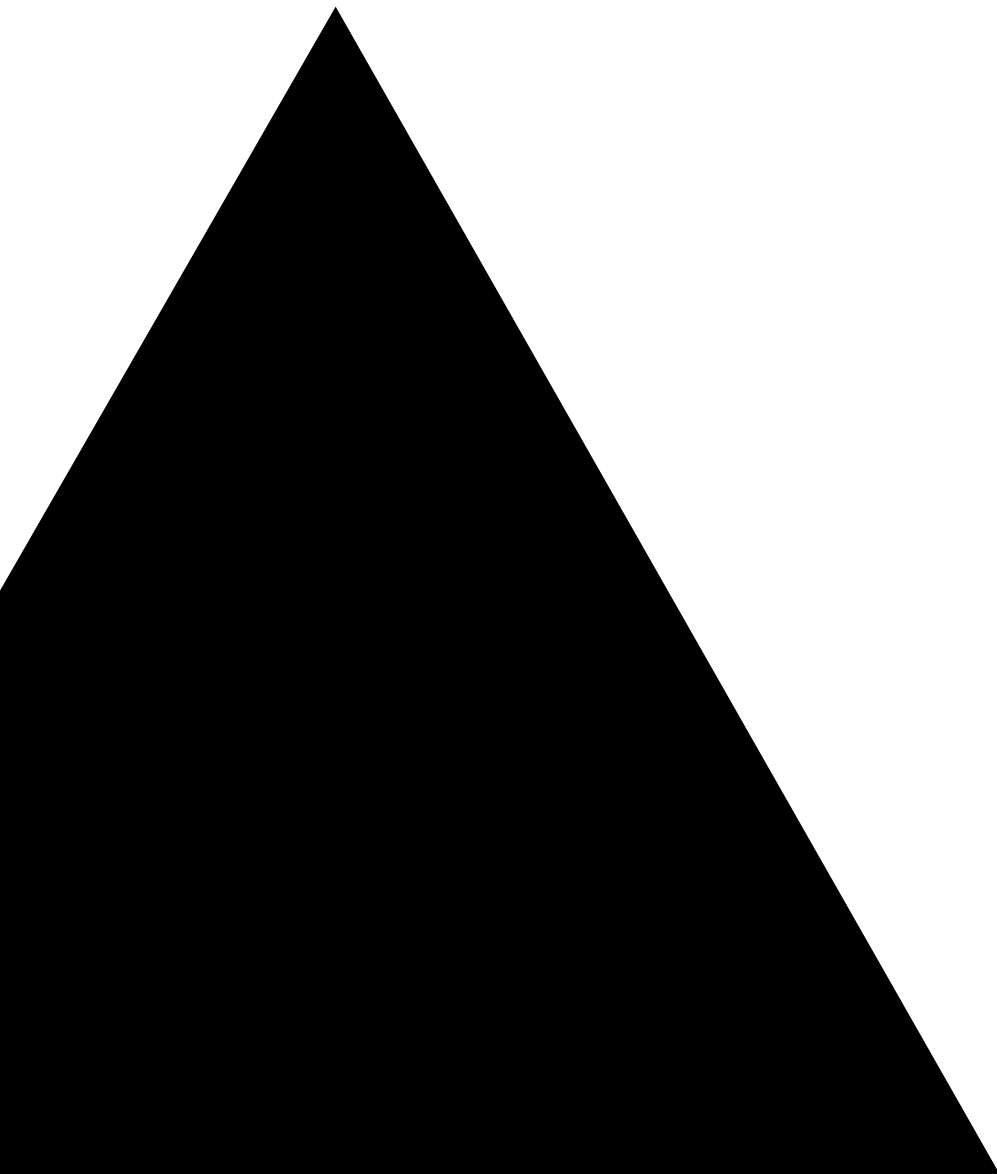
Taking a hybrid cloud approach, where some business applications and services are delivered via the cloud in conjunction with those on-premises and with service providers, can allow an organisation to transform and innovate in parallel with existing operational requirements.

According to Telsyte, around one third (32%) of mid-size enterprises have a hybrid cloud architecture, which trails the 45 per cent of large enterprises (>5000 employees) using hybrid. More mid-size enterprises can adopt hybrid to help them transform at a faster pace.

Another avenue to cloud adoption is through managed service providers (MSPs) and business application support partners. These companies specialise in helping drive value from cloud adoption.

Cloud can reduce operating costs, streamline service delivery and establish a platform for new business applications and business models.

Mid-size business opportunities will be enabled with more adoption of service provider partners and cloud services, which accelerate digital transformation.



# Conclusion and recommendations

## **Australia's fast-growing enterprises are poised to innovate and deliver a new era of modern, scalable digital products and services.**

To improve the chance of business success amid an increasingly global market, Telsyte's research found the general awareness of digital disruption among leaders of mid-size enterprises must improve.

- Most enterprises are undertaking digital transformation programs; however, smaller or mid-size enterprises must take advantage of their agility to increase innovation or face disruption from both large enterprises and new market entrants.
- Leaders of mid-size firms must better position the organisation to improve the ability to deploy new services.
- Take advantage of the trend of more mid-size enterprises having either started, or are planning to start, an IT transformation project – provision for more digital services for customers and partners.
- Intention for change is high within fast-growing enterprises and leaders should look to partner for a strong focus on outcomes, from cloud to AI, to help realise innovation goals.
- Cloud services should be adopted to enable mid-size enterprises to flex their agility with enterprise-grade business applications and services.
- Engage with a cloud broker or managed service providers (MSPs) to drive value from cloud adoption, including assessing new licensing models to reduce costs.
- More investments in digital transformation are needed where it is most strategic. This can be achieved by partnering with service providers which can deliver at a global scale.

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# Methodology used in this study

In preparation for this study, Telsyte conducted an online survey of 276 business and technology decision makers across Australian organisations with 50 to 1999 employees in November 2017.

The respondent was required to have a strong understanding of their organisation's business strategy, IT & technology purchasing decisions, and was not limited to the CIO or IT department. Definitions were provided

to respondents to ensure harmonisation of responses. The survey took around 30 minutes to complete.

The sample is representative of around 28,000 operating businesses in Australia in the mid-size segment. The survey had a confidence interval of +/-5.87 at a confidence level of 95 per cent. Interviews were conducted via an online survey completed by respondents on computers, tablets and smartphones.

	Respondents	Percentage
<b>Number of employees in Australia</b>	<b>276</b>	<b>100%</b>
50 to 99	84	30
100 to 199	68	25
200 to 499	52	19
500 to 999	39	14
1000 to 1999	33	12
<b>Head office location</b>	<b>276</b>	<b>100%</b>
NSW	105	38
VIC	99	36
QLD	32	12
SA	14	5
WA	17	6
Other	9	3
<b>Current IT role</b>	<b>276</b>	<b>100%</b>
CEO/MD/Company Director	69	25
IT manager	66	24
CIO	50	18
General/senior manager	36	13
Other IT leadership role	55	20
<b>Organisation's industry</b>	<b>276</b>	<b>100%</b>
Professional, scientific and technical services	49	18
Information media and telecommunications	39	14
Manufacturing	22	8
Health care and social assistance	21	8
Construction	20	7
Retail trade	19	7
Education and training	18	7
Banking and finance	15	5
Transport and storage	12	4
Wholesale trade	8	3
Agriculture, forestry, fishing and hunting	7	3
Electricity, gas and water supply	7	3
Public administration and safety (Government)	7	3
Others	32	12

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