IMPROVING PERFORMANCE

INTERVIEW: Steve Ferencie

IBM's Steve Ferencie examines the challenges facing midmarket companies trying to grow and the role IT plays in overcoming those challenges.

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STEVE FERENCIE

Midmarket Strategies: What growth trends are you seeing in the market?
Steve Ferencie: The growth we're seeing in the midmarket space is occurring on several levels. We're seeing pressure for revenue growth as well as profit growth. Our clients are forced to figure out how best to respond to both pressures. They're looking for ways to grow organically, whether by adding new products, entering new markets, expanding globally or something similar. And as is the trend with bigger companies, we're also seeing them look more and more for growth through inorganic means, such as a merger with another company in their industry, an acquisition of a company in their industry or an acquisition of a company in an adjacent industry that allows them to enter a new space or innovate their business model.

MMS: Are there specific impacts on midsize organizations?
SF: The opportunity for midmarket companies is the same as larger enterprises in terms of ability to enter a new market or buy a company, etc. I think the challenges, though, end up being greater. For example, entering a new market, there are challenges in understanding the best way to go about it: How do I find an alliance partner in another part of the world? How do I find target companies in another part of the world and get that facilitated? On the cost side, the challenges are mostly around access to resources. Midmarket companies don't have the same financial or personnel structures as larger enterprises, so they have to either look externally or do more with less. When it comes to growth, the challenges for midsize companies are greater than their large-company counterparts, but they are surmountable.

MMS: How does IT help meet those challenges?
SF: The opportunities created with IT come primarily from the efficiencies to be gained. Whether you're working at modernizing a paper-based environment, standardizing a multinational company on a globally integrated platform or consolidating a complex set of business and IT operations, the opportunities are created within IT. IT allows for speed of consolidation, seamless acquisition integration and allows companies to do more with less. You don't necessarily need to go out and hire more people, you can leverage technology and fill skill gaps through training and other means.

MMS: Much has been written on the disconnect between IT and overall business objectives. How do you view this gap?
SF: A lot of our consulting business focuses on IT strategy in the context of that gap. Three of the biggest challenges we see are, first, this idea of IT to business alignment – how well aligned is the IT organization and IT resource allocation with the business strategy? Second, what is IT doing to create a scalable environment, which goes back to the point I mentioned about how you manage growth of revenue and profit. What is IT doing to make sure the business can grow fast? And then the third challenge ends up being around simplification. As we grow and there's a proliferation of more and more, newer and newer technologies across the business, how do we maintain a fairly simple and efficient IT structure that, again, allows the business to operate more efficiently but also react with speed?

I would endorse the fact, based on the clients we talk to, that there is that large gap between what IT sees and does on a daily basis and what the business is really looking for.

MMS: How can that gap be narrowed?
SF: The first thing we look at when we talk to clients is how well-defined the business strategy is and how well it is communicated across the lines of business and to IT. The second thing we're seeing is some organizational change to force better alignment; for example, making the CIO role a true executive role with a spot in the executive decision-making process,

which breaks down some of the traditional communication barriers. What we're also seeing in small and medium businesses is a liaison between the traditional executive team and the CIO slot. This often manifests itself as an enterprise program management office overseeing all the strategic projects that IT has to support, which is matched to a CIO who ends up doing the enablement.

It's those, coupled with the obvious need for a clear, well-articulated IT strategy that aligns with the clear, articulated business strategy. So if the business says they're going to grow and optimize costs at a certain percent a year, what is IT doing very specifically to enable that? Maybe they're going to consolidate on a standard platform, or go out and purchase new technology that enables R&D and innovation.

MMS: Can you cite examples where you've seen IT acting as a more strategic influencer of the overall business?
SF: We're working with a billion-dollar company that manages its IT expenses probably more efficiently than any company I've ever seen. They've always positioned themselves as a company that might get bought. At the end of last year, they had some executive changes, and they made a very clear decision that they were no longer going to operate as if they were going to get bought. Instead they were going to turn the tables and look to grow. We came in and did an assessment of their IT environment, and we pointed out several key challenges they would encounter. Specifically, if you took a picture of their IT environment, you'd see they would be very challenged to process or absorb any acquisitions, which would inhibit their growth strategy. The business was blocked from doing what it needed to do to grow. The CIO, who was eventually replaced, was somewhat stymied about where to start, what to do. This change of direction for the business came very quickly, and there were countless ramifications, from infrastructure to culture. There were people who had been in the business in IT for 25 years; they have no idea what this is going to mean to them.

So there's an intersection of people, process, technology and culture that companies need to figure out how to solve.

MMS: That's a great example of a company trying to balance the IT challenges against the business strategy.
SF: Here's another one. We're working with a midsize client in the East, a very, very high-growth company. They are a traditional multinational firm, and they're looking to grow in different countries around the world. They are now looking to standardize on a global technology platform, which they think will make their supply chain more efficient, will give them better information for analytics and will help them redirect and refocus parts of their business in different ways. IT has always been a follower in this organization, but with global standardization on one central business system and business platform, they're going to have the chance to turn around and be drivers of the business. But as in the previous example, the CIO doesn't know where to start, doesn't quite know how to go about doing that or what he needs to look at.

Here we see a company that's had a clear strategy for three or four years, and it's now finally dawning on the CIO that they have to do something different. For the other company, it was a business decision that changed direction on a dime and they've got to react.

MMS: It sounds like it would be difficult for a company to effect these changes without bringing in a third party, such as IBM. Is that an accurate statement?
SF: My answer is probably not what you would expect. Going back to the Global CEO Study IBM did in 2006, we discovered that one of the biggest challenges SMB companies face is this access to resources, whether it's that they don't have people on staff or they don't know how to access low-cost labor or their companies aren't as attractive to the talent pool in their geography. One place that companies look to is consultants or outsourcing providers, but we're also seeing just as much in the way of collaboration. Midsize companies are quickly becoming sophisticated around collaboration for talent, new business ideas and financing. In the acquisition scenario as an example, if you go out and buy a company that has some extra technology resources that you can leverage, you buy capability. So there are a variety of ways to handle this challenge, and consulting is certainly an option, but it's not the only option.

MMS: Any final thoughts?
SF: We've seen more emphasis on profitable growth, and we're working with clients on both sides of that fence: how you handle the aggressive acquisition climate right now and how you balance that very quickly with the tight integration or tight optimization environment on the cost side. I think the trend you will see occur more and more in the midmarket in, say, the six- to 18-month time frame is this much greater emergence of the globally integrated enterprise. Our point of view at IBM is that companies will increasingly componentize or break up their business into logical parts and locate globally based on economics, expertise and open environments. So it's not just about outsourcing operations or IT to India, it's about planning well across your business – should business development be run out of Belgium, and finance out of Brazil and R&D out of Romania?

We will be looking at that more and more and we've already started some work with our clients on how best to optimize globally in a very dynamic fashion. ■

Steve Ferencie is a partner in IBM's Global Business Services organization and the Americas Leader for its Mid-Market Strategy & Change consulting business.