NODE4

MID-MARKET IT PRIORITIES REPORT 2022/2023

An investigation into how mid-market organisations, particularly in the healthcare, transport & logistics, insurance and online retail sectors, continue to adapt their IT priorities and refocus investment.

This year's report is set against the backdrop of rising fuel and energy costs and inflationary pressures — as well as a growing level of unsanctioned departmental-level IT spending that is causing a rapid rise in shadow IT.

We've also drawn on data from our 2021/2022 IT Priorities Report to benchmark year-on-year responses – meaning we can offer long-term forecasts and analysis of key trends that emerged from the research.

EXECUTIVE INTRODUCTION

Since publishing our Mid-Market IT Priorities 2021/2022 Report last year, the impact of COVID and Brexit continue to diminish for most businesses. Some challenges do, of course, remain on both fronts. But time doesn't stand still. In the space of a year, a new set of challenges has formed for the UK's mid-market sector, including rising fuel costs, spiralling energy costs and record inflation.

As we'll see later in the report, respondents expect these issues to impact IT priorities and alter IT budgets over the next 12 months. But there are some constants — the continued cyber security threat and the ever-present worry of ensuring adherence to increasingly complex compliance regulations are both still very much present.

On top of this, despite a renewed confidence that budgets will increase in the next 12 months, there exists a creeping sense of anxiety amongst IT decision-makers. The majority think they're losing influence over IT purchases and are frustrated about dealing with the consequences of the growth in shadow IT.

This report highlights several factors driving unsanctioned IT purchases and the biggest departmental culprits, whilst also exploring the impact of shadow IT on wider business operations and how our respondents intend to deal with the situation.

As well as reporting on current and future IT priorities and budget trends, we have included new analysis, commentary and comparisons utilising data from last year's report (the Mid-Market IT Priorities 2021/2022 Report). For the first time, this has allowed us to benchmark multi-year responses. This means we can begin to understand and explain longer-term IT priorities and budgets against an ever-changing business climate and continually-evolving IT solutions.

Central to introducing benchmarking within this year's report is our desire to establish an independent, authoritative methodology to chart and analyse the pace and maturity of the UK mid-market's cloud transformation journey. With that in mind, this report also assesses how hybrid cloud, public cloud, private cloud, colocation, managed services and on-premises usage have evolved since our 2021/2022 report.

THIS YEAR, WE CAN BEGIN TO UNDERSTAND AND EXPLAIN LONGER-TERM IT PRIORITIES AND BUDGETS AGAINST AN EVER-CHANGING BUSINESS CLIMATE AND CONTINUALLY EVOLVING IT SOLUTIONS

METHODOLOGY

The Mid-Market IT Priorities 2022/2023 Report is based on a survey conducted independently and exclusively for Node4 by Censuswide. It reveals the views of 459 IT decision-makers across the insurance, transport & logistics, healthcare and online retail sectors. The survey was conducted amongst Heads of IT, IT Directors, CIOs, CTOs and IT Managers in companies with 100-1,000 employees, with an equal split for each job title across each sector. All benchmarking data is based on the findings of the Mid-Market IT Priorities Report 2021/2022, which surveyed 300 IT decision-makers across the same levels of seniority and the same sectors.

KEY THEMES AND FINDINGS

Compared with last year, more IT decision-makers in mid-market organisations believe that their IT budgets meet the ambitions of their teams. But our research still indicates that, once again, the mid-market will experience a shortfall in IT spending over the next 12 months.

We tracked the progress of the UK's mid-market companies on their cloud transformation journeys and discovered a growing uptake in hybrid cloud infrastructure. We compared this against private and public cloud and on-premises environments to provide sector-by-sector analysis.

As in our 2021/2022 report, respondents told us this year that an increase in cyberattacks presents the most significant current and predicted threat to their business. That's why increasing and strengthening security remains their top objective over the next 12 months.

As worries about COVID and Brexit begin to recede, IT decision-makers in mid-market organisations are becoming more preoccupied with the threat of new market entrants. This may explain why business growth is the joint top IT objective over the next 12 months, and why productivity is one of the most important drivers for IT infrastructure investment.

No doubt this is also linked to concerns over rising energy costs, fuel costs and inflation — both now and in the future. Over half of respondents think rising energy costs are impacting their IT budget right now. Almost 90% said these factors would have a greater impact in the next 12 months.

In addition, close to nine out of ten respondents are worried about losing influence over IT purchases and the impact of shadow IT within their organisation. They voiced concern about the security implications of allowing data onto unvetted applications. They also told us that they were likely to incur increased costs from dealing with unauthorised IT purchases — a grave issue when considering the predicted budget shortfalls in 2023.

Respondents told us that, alongside strengthening and increasing security, their top IT objectives for the next 12 months include hiring new skills, meeting compliance challenges, improving customer experience and increasing hybrid cloud development. The main report will examine how these priorities have changed since our 2021/2022 research.

We can also reveal that compliance-related priorities have shifted considerably since last year's report. This year, respondents identified their top five compliance-related challenges: data loss prevention, outdated policies, data security, Bring Your Own Device (BYOD) and PCI DSS. We've included a full comparison with 2021/2022 compliance-related findings in the main body of the report.

INTRODUCING THE RESPONDENTS

IT BUDGET 2022/2023

£500,001 - £750,000	0.4%
£750,001 - £1,000,000	6%
£1,000,001 - £1,500,000	6%
£1,500,001 - £3,000,000	14%
£3,000,001 - £4,500,000	15%
£4,500,001 - £6,000,000	26%
£6,000,001 - £8,000,000	22%
£8,000,001 - £10,000,000	11%
More than £10,000,000	0.4%

COMPANY SIZE

100 - 249 employees	19%
250 - 499 employees	61%
500 -1000 employees	20%

ANNUAL TURNOVER

Under £100,000	0.2%
£100,000 - £999,999	0.4%
£1 Million - £9.99 Million	3%
£10 Million - £49.99 Million	20%
£50 Million - £99.99 Million	41%
£100 Million - £499.99 Million	30%
£500 Million or over	5%

MARKET SECTOR

HEALTHCARE

24%

INSURANCE

24%

ONLINE RETAIL

27%

TRANSPORT LOGISTICS

25%

MID-MARKET IT PRIORITIES REPORT 2022/23: FULL REPORT

BENCHMARKING MID-MARKET IT BUDGETS

YEAR ON YEAR IT BUDGET TRENDS

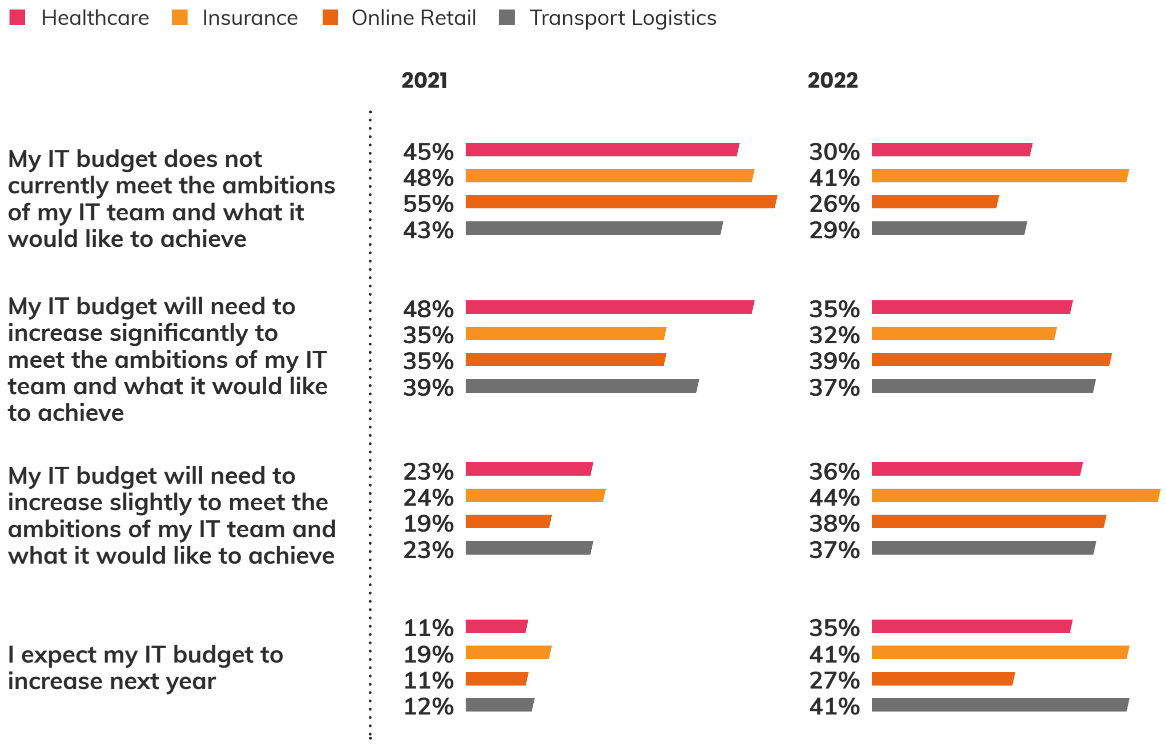
	2021	2022	
IT BUDGET DOES NOT CURRENTLY MEET THE AMBITIONS OF MY TEAM	48%	31%	∨
I'LL NEED A SIGNIFICANT BUDGET INCREASE	39%	36%	∨
I'LL NEED A SLIGHT BUDGET INCREASE	22%	39%	∧

While our research points to a shortfall in IT budgets over the last 12 months — a situation that respondents correctly anticipated as a challenge in last year's report — they seem more aligned with IT decision-maker requirements. Last year, close to half of respondents (48%) said their budgets did not meet IT team objectives and support plans for what they wanted to achieve — whereas this year, the figure has fallen to 31%.

It's encouraging that 39% of respondents think a slight increase in IT budgets will remedy this situation. This was not the case last year, as most respondents (39%) felt they would require a significant increase to make up the shortfall.

There's also much more optimism about increased IT budgets for 2023/2024, with nearly three times as many IT decision-makers (13% in 2021/2022 vs 36% in 2022/2023) expecting to see their budgets increase in the next year.

THINKING ABOUT YOUR IT BUDGET IN GENERAL, WHICH, IF ANY OF THE FOLLOWING STATEMENTS ARE TRUE TO YOU?



WINNERS AND LOSERS

Taking a sector-by-sector view, satisfaction levels with current IT budgets and optimism for next year have both significantly changed since last year's report.

Last year, the online retail sector had the fewest IT decision-makers satisfied with their IT budget (45%), but this time, it has the most (74%). This year, the insurance sector has the fewest IT decision-makers that are satisfied with their IT budget (59%), a much lower figure than the average (68%) across the entire survey.

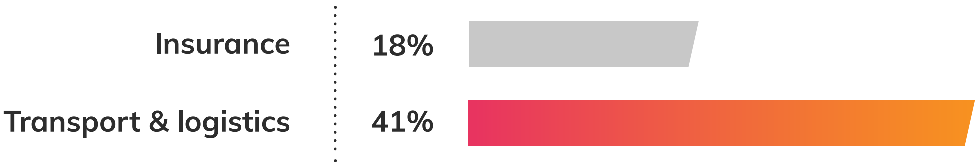
We'll see later in this section that over the next 12 months, despite (or perhaps because of) this concern, IT decision-makers at mid-market insurance companies plan to increase spending across almost all IT infrastructure at a higher rate than the other sectors in this report.

With all these findings in mind, it's interesting to note that, expressed as a percentage, IT budgets for 2022/2023 have actually fallen relative to annual turnover, compared with 2021/2022. Last year, the majority (26%) said their IT budget was 19%-20% of their turnover This year the majority (27%) said it was 15%-16%. Perhaps respondents feel that they have moved on from the rapid response — and accompanying strain on budgets — required to meet COVID-related work-from-home directives. As a result, managing to work within their current budget may be easier than it was during the pandemic.

HOW HAVE REACTIONS TO FUTURE IT BUDGET INCREASES CHANGED?

2021/2022 2022/2023

WHICH SECTOR IS MOST CONFIDENT ABOUT BUDGET INCREASES IN THE NEXT 12 MONTHS?



WHICH SECTOR IS MOST IN NEED OF A SIGNIFICANT BUDGET INCREASE?

WHICH SECTOR IS MOST LIKELY TO REQUIRE JUST A SLIGHT BUDGET INCREASE TO MEET IT TEAM AMBITIONS?

THERE'S MORE OPTIMISM ABOUT INCREASED IT BUDGETS FOR 2023/2024, WITH NEARLY THREE TIMES AS MANY IT DECISION-MAKERS EXPECTING TO SEE THEIR BUDGETS INCREASE

BENCHMARKING THE MID-MARKET'S CLOUD TRANSFORMATION JOURNEY

WHERE ARE YOU ON YOUR CLOUD TRANSFORMATION JOURNEY?

	2021	2022	
HYBRID CLOUD	32%	43%	^
PUBLIC CLOUD	25%	16%	v
PRIVATE CLOUD	21%	24%	^
ON-PREMISES	21%	16%	v

Last year, we identified a move by IT decision-makers towards a hybrid cloud environment, a trend that has gathered further momentum in the last 12 months. Indeed, hybrid cloud remains the predominant choice of hosting environment for decision-makers in mid-market companies — 11% more respondents have adopted a hybrid cloud model in the last 12 months.

BENCHMARKING THE MID-MARKET CLOUD TRANSFORMATION JOURNEY BY SECTOR:

HYBRID CLOUD

Last year, our report revealed that the insurance sector had the largest amount of predominantly hybrid cloud infrastructure (39%) — and that online retail and healthcare had the lowest (29%). This year, nearly half (49%) of mid-market healthcare companies have a predominantly hybrid cloud infrastructure — the most relative to all the sectors explored in this report.

PUBLIC CLOUD

12 months ago, mid-market transport & logistics companies had the greatest uptake of public cloud for their IT infrastructure (31%). Public cloud adoption levels have remained constant across the insurance sector at 21%. But, as other sectors have reduced their public cloud consumption, the insurance sector has gone from the lowest consumer of public cloud to the highest.

PRIVATE CLOUD

Looking back, the insurance sector was the biggest consumer of private cloud infrastructure (24%), while this year, it's the transport & logistics sector (27%). This is an interesting reversal, as last year, mid-market transport & logistics companies consumed the least amount of private cloud infrastructure (19%). This growth in private cloud usage for transport & logistics companies may highlight that for certain sectors, private cloud is a good stepping stone on the journey to full cloud modernisation.

ON-PREMISES

In 2021/2022, a quarter of mid-market healthcare companies had predominantly on-premises infrastructure — more than any other sector we surveyed. This fell to just 9% in this year's report. This fits with the hybrid cloud statistics above and suggests healthcare companies are moving workloads from on-premises to a hybrid cloud model.

BENCHMARKING THE MID-MARKET CLOUD TRANSFORMATION JOURNEY BY COMPANY SIZE:

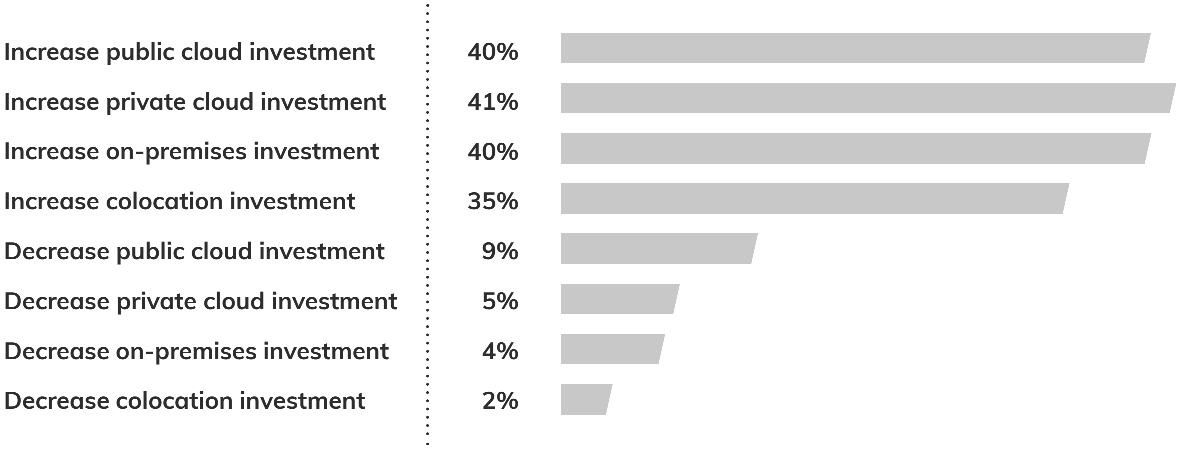
2021	100-249 EMPLOYEES	250-499 EMPLOYEES	500-1000 EMPLOYEES
Predominantly hybrid cloud	27%	34%	32%
Predominantly the private cloud	21%	29%	20%
Predominantly in public cloud	23%	18%	28%
Predominantly on-premises	29%	19%	20%

2022	100-249 EMPLOYEES	250-499 EMPLOYEES	500-1000 EMPLOYEES
Predominantly hybrid cloud	51%	44%	36%
Predominantly the private cloud	26%	24%	22%
Predominantly in public cloud	13%	15%	24%
Predominantly on-premises	10%	17%	18%

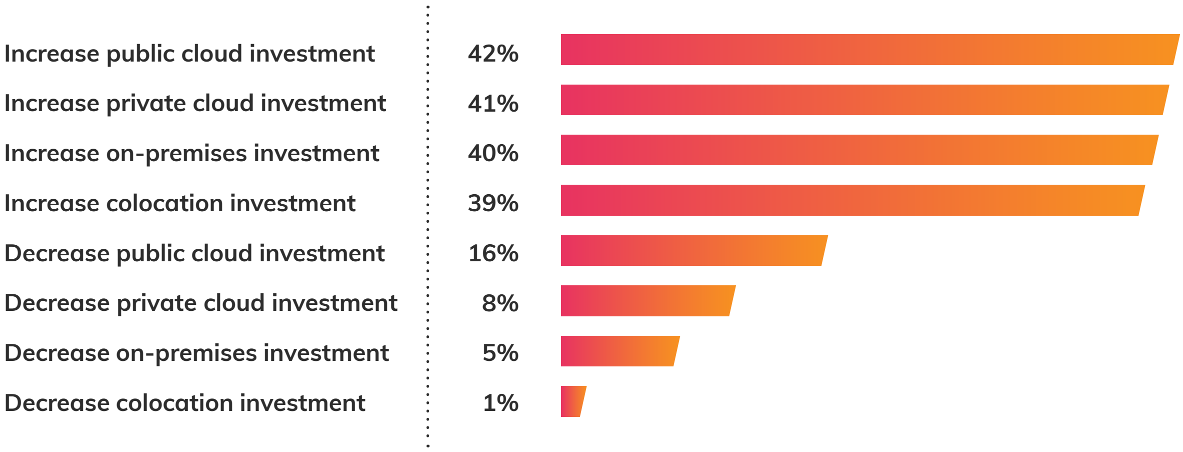
In our 2021/2022 report, mid-market companies with 100-249 employees were most likely to have predominantly hybrid or public cloud infrastructure. This year, those with 500-1,000 employees are most likely to do so.

TO GAIN AN INSIGHT INTO HOW THE MID-MARKET'S CLOUD TRANSFORMATION JOURNEY MIGHT DEVELOP IN THE FUTURE, WE ASKED RESPONDENTS TO TELL US ABOUT THEIR IT INFRASTRUCTURE INVESTMENT PLANS FOR THE NEXT 12 MONTHS. HERE'S WHAT THEY SAID:

2021



2022



Building on IT investment patterns that started during (and even before) the pandemic, this year, mid-market IT decision-makers plan to continue increasing spending in roughly equal measures across public cloud (42%), private cloud (41%), colocation (39%) and on-premises (40%). As you can see from the above chart, these rates are roughly the same as last year's findings. This across-the-board investment in different cloud and non-cloud hosting platforms suggests respondents believe hybrid cloud is now a viable long-term option.

It's important, however, to see these investment figures in a wider context. Notably, almost twice as many IT decision-makers plan to decrease their public and private cloud investments. Last year, 9% said they would reduce public cloud investment, but this rose to 16% this year. Similarly, 5% said they would decrease private cloud spending, but this rose to 8% this year.

Reduced spend in both these areas could be seen as a move by IT decision-makers to a fixed cost base, due to the impact of inflation, rising fuel and energy prices and general economic uncertainty. In just one example, public cloud costs rose more than 10% in the last quarter of 2022, due to the relative values of Sterling against the US Dollar. This is far from ideal at a time when many IT decision-makers already feel their budgets are being squeezed in other areas.

This is one of many reasons why respondents could feel the time is right for more predictable, stable costs, as well as a wider choice of cost models — all of which can be harder (although not impossible) to secure in the public cloud.

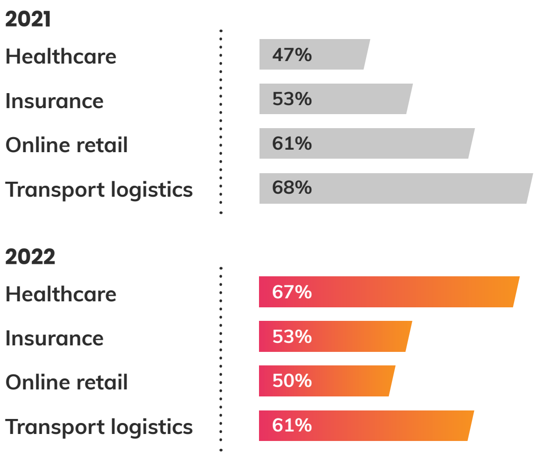
IS THERE A LINK BETWEEN FUTURE IT INFRASTRUCTURE SPEND AND ENERGY PRICE INCREASES?

Looking at wider IT spending patterns, it's worth considering at this stage how much future IT infrastructure spending is actually earmarked to offset the rising energy prices and higher costs of running, maintaining or cooling servers. This could either be direct costs of on-premises infrastructure or higher cloud-related operating costs. In a dedicated chapter, we'll explore the impact of rising energy and fuel costs in more detail. But we feel it's important to make the first observation about this significant budget and spend determinator here to set the tone.

RELIANCE ON MANAGED SERVICES AS A MEASURE OF MID-MARKET CLOUD ADOPTION

Both our reports show sustained growth in hybrid cloud adoption across the UK's mid-market sector. As such, many companies continue to seek support from managed services to deal with labour shortages, potentially challenging infrastructure complexities and integration issues. Our findings support this view, with three-quarters of respondents telling us that they expect to rely more on managed services in the next 12 months.

HERE'S HOW THAT RELIANCE LOOKS AT A SECTOR-SPECIFIC LEVEL:



But regardless of which sector we talked to, it's also worth noting that when selecting a managed services provider, respondents consistently told us that it's important to choose a UK-based (and owned) company (84% in 2021/2022 and 71% in 2022/2023). No doubt, this relates to data privacy, security and compliance concerns — issues that we'll explore in more detail elsewhere in the report.


FUTURE OF HYBRID CLOUD REPORT
Discover more about hybrid cloud adoption trends and barriers in our exclusive independent report, with unique insight gathered from speaking to 300+ IT leaders across a variety of sectors.
DOWNLOAD

BENCHMARKING IT INVESTMENT DRIVERS AND BARRIERS

WHAT'S DRIVING CURRENT IT INVESTMENT ACROSS THE MID-MARKET?

THE PREVIOUS SECTION OF THIS REPORT EXPLORED HOW IT DECISION-MAKERS ARE CURRENTLY INVESTING ACROSS CLOUD AND NON-CLOUD PLATFORMS. BUT WHAT FACTORS ARE BEHIND THESE DECISIONS?

TO FIND OUT, WE ASKED RESPONDENTS TO IDENTIFY THEIR TOP INVESTMENT DRIVERS AND BARRIERS TO INVESTMENT FOR THE LAST 12 MONTHS — AND COMPARED THEM WITH OUR 2021/2022 REPORT FINDINGS.

A MORE SIGNIFICANT FOCUS ON PRODUCTIVITY, BUT NOT AT THE EXPENSE OF SECURITY

Access to additional tools/ services was the top investment driver last year (23%), compared with just 17% this year. By contrast, when questioned for our 2022/2023 report, most respondents told us that their IT investments are currently driven in equal measure by security (25%) and productivity (25%).

To give further context, 29% of IT decision-makers told us that an increase in cyberattacks had the most significant impact on their organisation over the last 12 months — more so than COVID (26%), new market entrants (24%) or Brexit (21%). They also predicted this would continue to be the case over the next 12 months.

These findings illustrate how much the focus amongst mid-market IT decision-makers has shifted away from COVID to battling inflation, an increasingly competitive market and the rising cost of doing business.

It might also indicate that respondents are trying to drive productivity improvements through the additional tools/services they supplied last year when enabling remote working during the pandemic. With hybrid working a reality for many mid-market organisations, does this push on productivity reflect that mid-market companies are mobilising efforts to ensure remote access tools and systems are being used to maximum efficiency, and that hybrid working doesn't hamper long-term growth targets or shorter-term productivity?

A MORE SIGNIFICANT FOCUS ON PRODUCTIVITY, BUT NOT AT THE EXPENSE OF SECURITY

Looking at data from both reports, respondents consistently placed the same importance on reduced operational cost (22% in both reports), data mobility (20% vs 21%), modernisation (19% vs 20%), compliance (19% in both reports) and agility (19% in both reports). This highlights that striking the right balance on these points was essential during the pandemic and remains critical for the next 12 months.

CURRENT SECTOR-SPECIFIC IT INVESTMENT DRIVERS WITHIN THE MID-MARKET

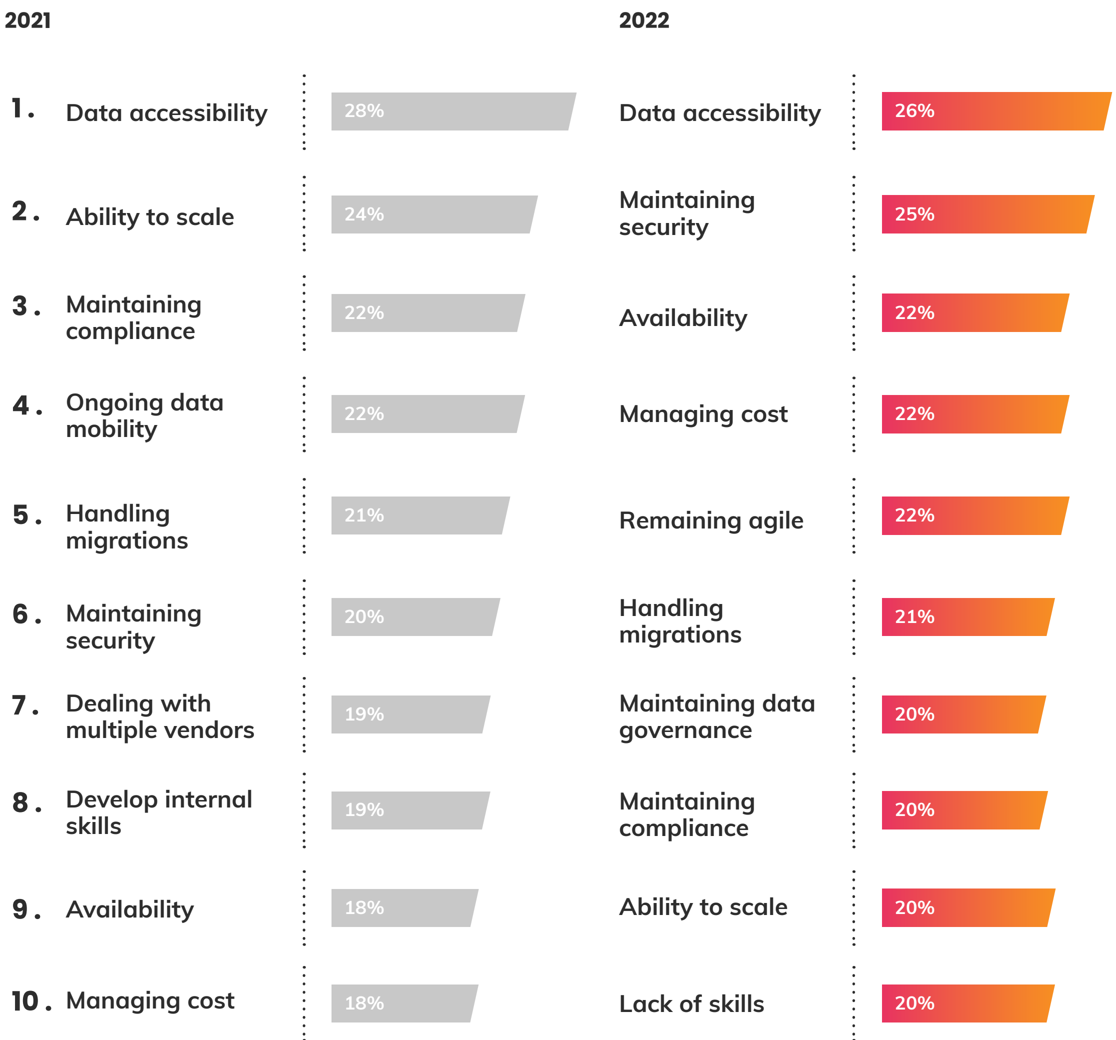
As in the main sample, productivity is the number one investment driver in the mid-market insurance sector (27%). However, other sectors have different priorities — security is top in healthcare (34%) and online retail (28%), while data governance is top in transport & logistics (24%).

It's also interesting to note that, this year, IT decision-makers in the insurance sector rate security (16%) as a much less significant driver than reduced capital investment (25%), agility (25%), reduced operational costs (25%), data governance (24%), modernisation (22%) and data mobility (21%).

IDENTIFYING BARRIERS TO IT INVESTMENT

These findings show that IT decision-makers in mid-sized companies clearly appreciate the factors that have driven investment in previous years. They also understand the trends that will continue to influence future spending. But the reality is that there are always some barriers and external factors that make investing in some IT infrastructure more challenging. This section of the report looks at those barriers in more detail.

LOOKING AT YOUR IT INFRASTRUCTURE INVESTMENT PLANS, WHICH OF THE FOLLOWING WOULD YOU CONSIDER TO BE A LIMITATION?



DATA ACCESSIBILITY STILL CREATES THE MOST SIGNIFICANT BARRIER TO INVESTMENT IN IT INFRASTRUCTURE

Responses from both reports confirm that respondents think data accessibility is most likely to present a barrier or limitation to their IT investment plans (28% vs 26%). Improved data accessibility is one of the key drivers for cloud adoption. This could mean files and documents or data used for reporting, analytics or data science. Regardless, ensuring data is clean, secure and relevant requires significant up-front work, which may be why it's seen as a barrier to future IT investment plans.

The growth of hybrid working and a larger remote workforce may also have had an impact here. When businesses have a significant proportion of employees operating outside a traditional office environment, it's inefficient to have systems and data located off-net in a traditional network behind a firewall. In this context, moving to the cloud offers significant accessibility advantages. Cloud-based infrastructure is an easier, more efficient, more secure and more reliable way to unlock hybrid and remote working for widely distributed organisations and their employees.

CONSISTENT WORRIES OVER HANDLING MIGRATION AND DEALING WITH MULTIPLE VENDORS

With continued hybrid cloud adoption and concerns over increasingly complex IT environments, it's interesting to observe that respondents consistently identified handling migrations (20% vs 21%) and dealing with multiple vendors (19% vs 17%) as barriers to IT investment. These issues are particularly common when dealing with hybrid cloud adoption, especially among mid-sector companies that may have migrated the first portion (and often the least complex) of their systems and applications, and are now facing more challenging migrations.

GROWING CONCERN THAT A LACK OF SKILLS IS HAMPERING INVESTMENT

It's of note that, this year, respondents cited a lack of skills as one of their top ten barriers to IT investment — rising year-on-year from 16% to 20%. Mid-market CIOs are the most worried, with 23% confirming this was a significant concern. By comparison, just 16% of IT managers raised this issue.

We will continue to observe how this trend develops over the next 12 months and provide additional commentary in our 2023/2024 report. It will be interesting to see if a prolonged skills shortage brings about a faster pace of IT outsourcing and cloud adoption — or makes the process more difficult for IT decision-makers to navigate.

AN EVOLVING TO-DO LIST FOR MID-MARKET IT DECISION-MAKERS

In any given year, IT decision-makers in mid-market companies have a comprehensive to-do list. But our last two reports analysed their priorities and objectives throughout a global pandemic and as energy costs and inflation began to rise. The results — both as stand-alone findings and through comparative analysis — provide a unique insight into IT spending priorities during unprecedented times.

TOP TEN MOST IMPORTANT IT OBJECTIVES FOR THE NEXT 12 MONTHS

	2021 (GLOBAL PANDEMIC)		2022 (RISING ENERGY COSTS & INFLATION)	
1.	Increase & strengthen security	32%	Increase & strengthen security	31%
2.	Improve customer experience	16%	Business growth	18%
3.	Meet compliance challenges	16%	Hire new skills	18%
4.	Deploy new collaboration solutions	15%	Meet compliance challenges	15%
5.	Optimise remote working	15%	Manage cost	15%
6.	Strengthen current collaboration solutions	15%	Improve customer experience	14%
7.	Increase hybrid cloud development	14%	Progress DevOps implementation	14%
8.	Develop internal skills	13%	Deploy SD-WAN	14%
9.	Business growth	13%	Deploy modern desktop	13%
10.	Deploy new enterprise applications growth	13%	Increase hybrid cloud development	13%

Looking at the top five items on the 2021/2022 to-do list, it's apparent that IT decision-makers faced incredible pressure to adapt their businesses in the face of COVID and work-from-home legislation — all while ensuring their IT infrastructure delivered an improved customer service experience.

But fast-forward to this year, and the pressures from rising energy costs and inflation have pushed the need for IT to underpin business growth and manage costs to the fore. We've already noted the impact of IT skill shortages in this section as a barrier to IT investment. It's clear here, too, that respondents are all-to-aware of this issue, and it's reassuring to see they are taking immediate steps to deal with it.

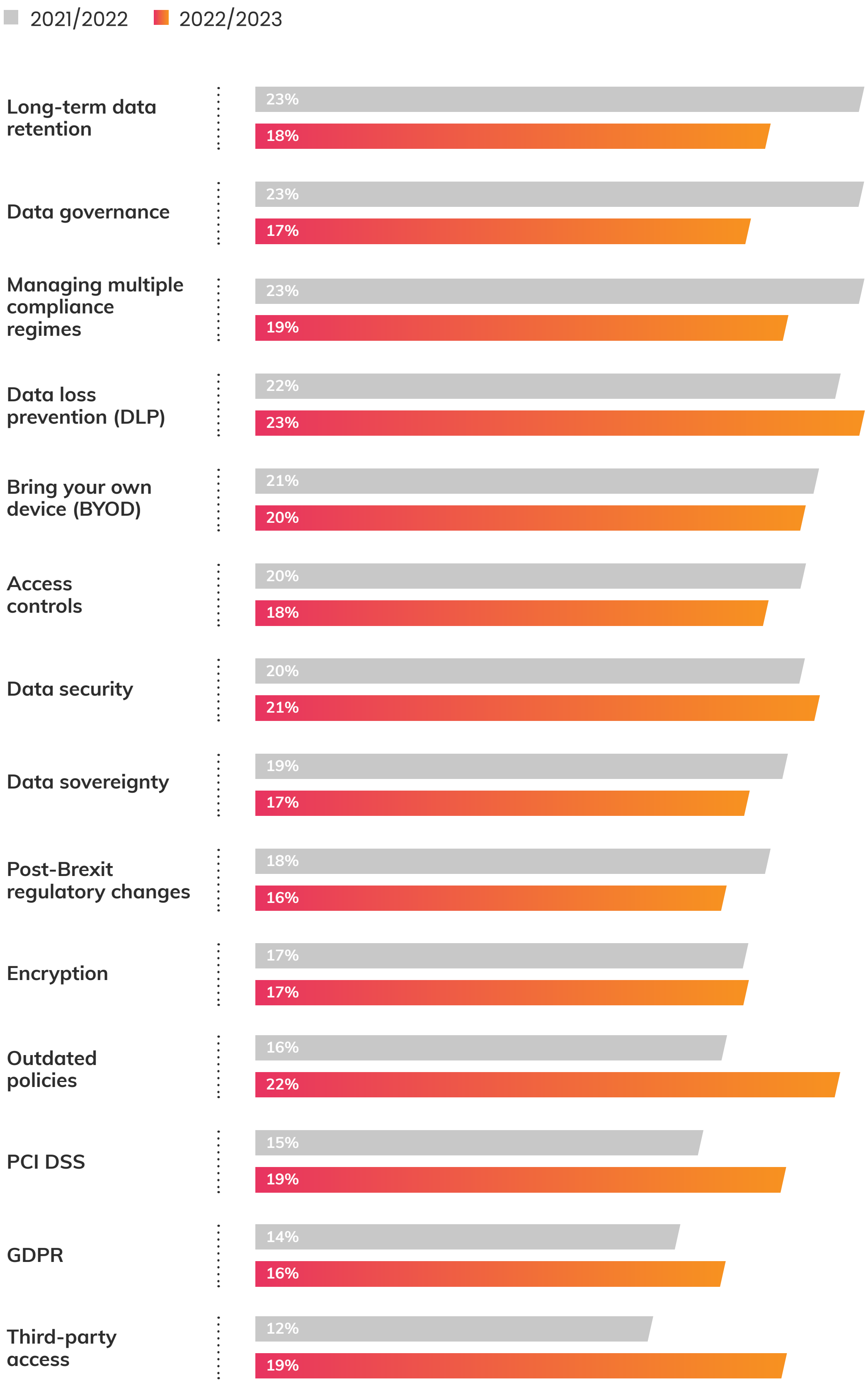
If IT decision-makers want to create the climate for business growth that they're aiming for within their organisation, they'll also need to deal with compliance challenges. An increasing number of businesses insist their mid-market suppliers demonstrate adherence to compliance standards such as CSE+ and ISO27001 as a precursor to contract negotiations or tender submissions. Businesses that are unable to attain these accreditations will find they are severely limited in their ability to sell solutions or services and consequently, generate growth.

MID-MARKET COMPLIANCE CHALLENGES

Respondents repeatedly placed the ability to meet compliance challenges in their top five objectives for the year ahead. Furthermore, they consistently identified issues surrounding compliance and data governance as barriers to future IT investment plans.

It's worth noting that the previously-discussed emphasis placed on CSE+ and ISO27001 compliance may be driving an urgent review and overhaul of outdated policies amongst IT decision-makers — and, therefore, increase the relative year-on-year importance of this compliance challenge.

WHAT, IF ANYTHING, ARE YOUR PRIMARY COMPLIANCE CHALLENGES OVER THE NEXT 12 MONTHS?



ENERGY COSTS, INFLATION AND THE MID-MARKET

WHICH OF THE FOLLOWING CURRENTLY IMPACTS YOUR COMPANY'S IT BUDGET AND WIDER OPERATIONS?

Like COVID, inflation, energy and fuel price rises have the potential to cause significant shifts in the corporate landscape over several years — so this is a crucial area for us to monitor and benchmark.

Our research reveals that over half of mid-sector IT budgets are currently impacted by rising energy costs (56%), inflation (55%) and increasing fuel costs (54%).

Healthcare and online retail companies are most worried about energy costs (66% and 51%, respectively), while insurance and transport & logistics companies expressed the most concern regarding inflation (66% and 54%, respectively).

DO YOU EXPECT THE IMPACT OF THESE FACTORS TO INCREASE OR DECREASE IN THE NEXT 12 MONTHS?

RISING FUEL COSTS

ENERGY COSTS

INFLATION

Around nine out of ten mid-market companies expect rising energy costs (89%), rising fuel costs (92%) and inflation (89%) to have more impact on their IT budgets in the next 12 months. With budgets already under pressure and cost-saving measures in place for next year, it will be an extraordinarily challenging and unsettling time for the UK's mid-sector.

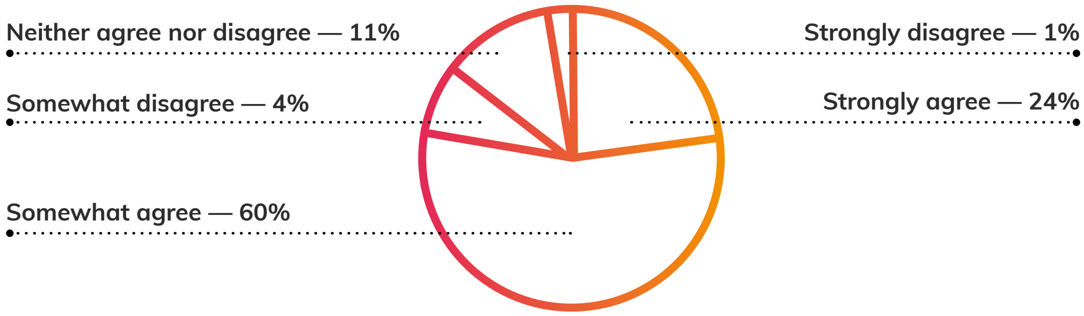
THE IMPACT OF SHADOW IT — ARE MID-MARKET IT DEPARTMENTS STILL IN CONTROL?

The proliferation of Software as a Service (SaaS) offerings has made it easier for IT departments to operate business software and applications without on-premises infrastructure, large teams or specialist knowledge — which, in turn, has brought cost and efficiency savings.

But, in some instances, SaaS adoption has also enabled departments including HR, sales & marketing and customer service to side-step IT decision-makers and purchase their own solutions — often without consultation or advice and without making IT teams aware. The uptake of remote working during the pandemic and, later, the long-term adoption of hybrid working have not helped matters. It seems decentralisation of people has, in many cases, led to decentralised IT purchases.

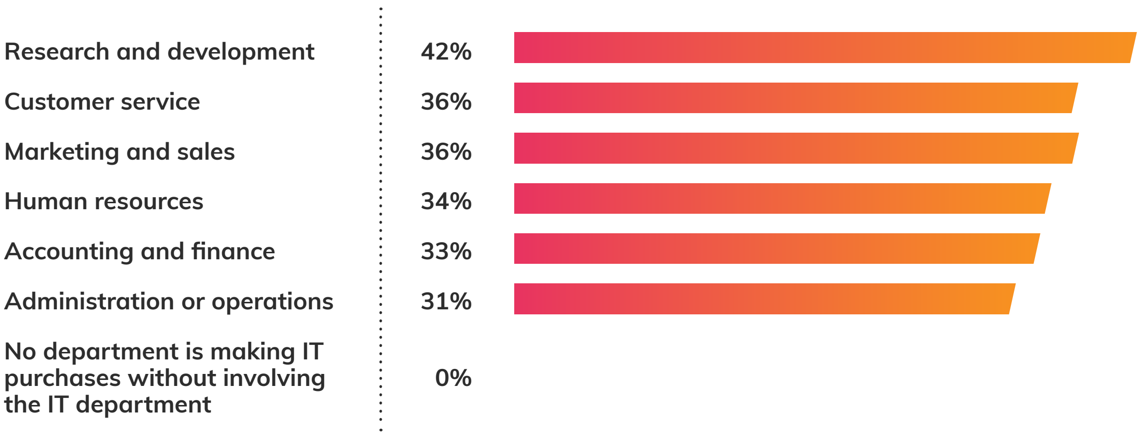
This has added to the already contentious issue of shadow IT within mid-market organisations, and a growing feeling across IT departments that their centralised control and management of technology is being eroded. We asked respondents to share their views on this area of concern, and their responses make for thought-provoking reading.

TO WHAT EXTENT DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENT? MY IT TEAM'S INFLUENCE OVER IT PURCHASES HAS DIMINISHED OVER THE LAST 12 MONTHS:

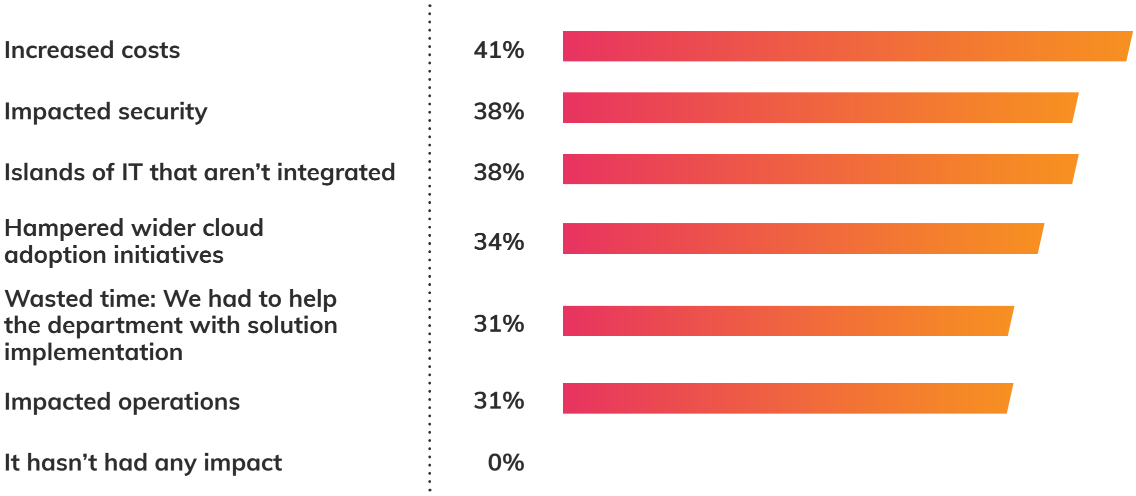


An incredible 84% of IT decision-makers within mid-market companies think their influence over IT purchases has diminished over the last 12 months. Just 5% disagree.

WHICH DEPARTMENTS ARE PURCHASING BUSINESS SYSTEMS WITHOUT INVOLVING THE IT DEPARTMENT?



HOW HAS THIS IMPACTED YOUR DEPARTMENT?



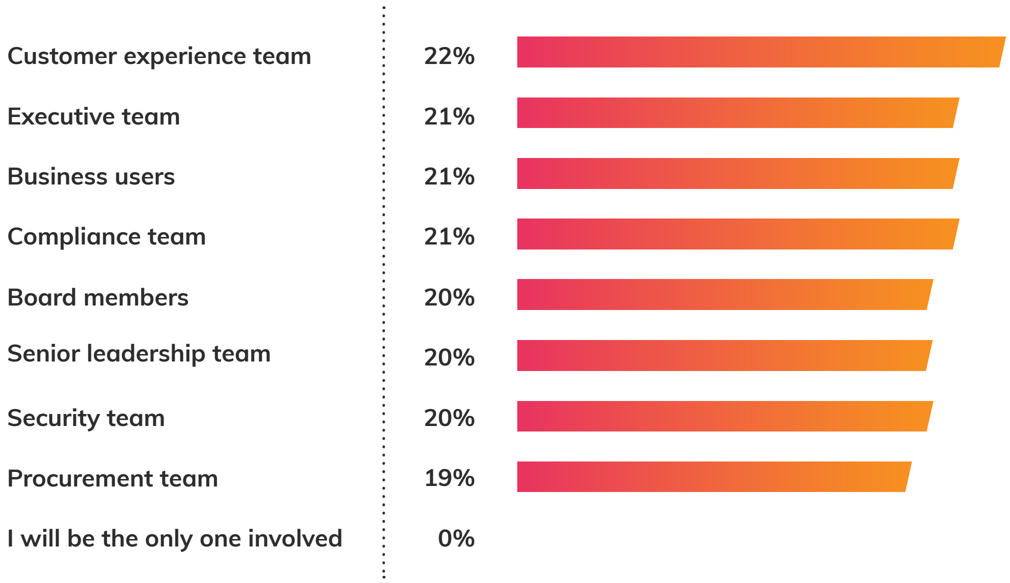
Respondents told us that reducing operational costs is a core aim of their IT investment plan. They also revealed that concerns over future costs can create a barrier to further IT spending. Taking these two findings together, the fact that 41% said that increased costs have arisen because of unauthorised IT purchases is troubling.

Yet, with nearly one-third of respondents stating they have insufficient IT budget and aren't expecting a funding increase next year, heads of business units and senior management with available funds might query why they can't simply buy the solutions they need for their department themselves.

No doubt, it's a frustrating situation for all parties. But looking at the impact of such purchases on already stretched IT teams — and given the pressure they're feeling because of rising inflation, spiralling energy costs and compliance-related worries — one can understand why IT teams are so vehemently opposed to relinquishing control.

That said, our research reveals that respondents do not take decisions on IT infrastructure investment in isolation, and there is a much more committee-led approach in many instances

LOOKING AT YOUR IT INFRASTRUCTURE INVESTMENT PLANS OVER THE NEXT 12 MONTHS, WHO WILL BE INVOLVED IN THE DECISION-MAKING/SELECTION PROCESS?



It will be interesting to see if, in the future, an even greater interdepartmental or collegiate approach might develop out of this situation, to the benefit of all department heads, and the business as a whole.

SHADOW IT AND SECURITY

As we've seen, IT security weighs heavily on the minds of IT decision-makers within mid-market companies. That could be security as a key driver for current IT investment or, conversely, a potential barrier to future spending. In the context of shadow IT, respondents cite security as the second biggest impact on their departments, after cost. Clearly, it's a serious issue that must be dealt with.

Both our reports identified Bring Your Own Device (BYOD) as a significant issue. Indeed, this year and last year, around one in five respondents said BYOD presents a serious compliance-related challenge. This year, it was also the fourth most likely barrier to compliance adherence.

But looking beyond BYOD, uncovered in this report is the departmental-level purchase of entire IT systems — such as those purchased by accounting, marketing and sales teams — without IT department involvement. The security risks are exponentially increased compared with instances of BYOD. Particularly if isolated from central security compliance standards, which would usually insist on centralised authentication, data regulation adherence such as GDPR, encryption, backup/recovery and any requirements around data sovereignty. These IT systems end up operating as islands of unintegrated IT, as respondents discuss.

84% OF IT DECISION-MAKERS THINK THEIR INFLUENCE OVER IT PURCHASES HAS DIMINISHED OVER THE LAST 12 MONTHS

CONCLUSIONS

Last year's report was compiled and published during the pandemic, a time when financial resources, IT policies and infrastructure were pushed to their limits, as businesses were forced to provide employees with the capacity to work from home. Conducting our baseline research 12 months ago, we were speaking with respondents at a time when almost all the necessary IT infrastructure was in place.

In many instances, organisations appear to now be assessing the last few areas that still need attention to facilitate secure, efficient and cost-effective remote or hybrid working. Which is why they may have been so concerned about how stretched both current and future financial resources are, and will be.

But benchmarking these results against this year's findings enables us to clearly and accurately tell the story of shifting IT budget drivers and spending priorities. In particular, one set of benchmarking statistics stands out in this regard and are worth reiterating as part of our concluding remarks. Last year, access to additional tools and services was the biggest investment driver (23%) — more so than security, which was in second place (22%). This year, security is the top driver (25%) and access to additional tools and services is way down in tenth place (17%), showing that developing the secure and productive use of these tools is now key.

Investment in public, private and hybrid cloud — as well as managed and colocation services — was central to facilitating last year's pivot to remote and hybrid working. And those companies that were further along their cloud transformation journeys when COVID hit, coped better. The same is true this year — those with more mature cloud transformation strategies, such as those who have led the way with hybrid cloud consumption models, may also be better placed to cope with the uncertainties surrounding the rising costs of fuel, energy, goods and services.

This year, we're starting to see growing concern around the long-term lack of skilled IT professionals. This is impacting how IT budgets are spent now, alongside the way in which they will be allocated in the future. An ongoing skills shortage is likely to push mid-market sector companies to rely further on trusted IT partners to meet the demands for managing more complex environments. Chosen well, however, these partnerships can also ensure IT systems operate with maximum efficiency, reliability and with no unplanned or unwelcome budgetary surprises.

We're also witnessing the impact that rapidly-expanding shadow IT infrastructure — in the form of easy-to-install and run SaaS solutions — is having on security, pace of cloud adoption and IT department efficiency. It's clear that departments are using shadow IT in an attempt to increase growth and ease financial and resource pressures on over-stretched IT teams. However, unsanctioned IT purchases may actually be having the reverse effect.

Now, more than ever, IT decision-makers need to keep a clear head. They must work out their budget priorities and assess how tougher compliance requirements, fewer skilled IT professionals, the rising costs of doing business and the constant risk of cyberattacks can all be managed. And they have to do this while still providing an IT infrastructure and environment that's conducive to delivering sustainable growth and operational expansion.

IT'S GOING TO BE AN INTERESTING TWELVE MONTHS.

WE'LL BE BACK IN TOUCH WITH OUR RESPONDENTS IN THE INTERVENING TIME TO GATHER FURTHER DATA ON HOW THESE ISSUES ARE IMPACTING THEM — AND WE'LL SHARE THOSE FINDINGS IN OUR 2023/2024 REPORT.


GET A FREE PRINTED COPY
OF OUR MID-MARKET REPORT
For a free, physical copy of this report,
sent directly to your business,
please click this link.
REGISTER HERE

Node4 Ltd Registered in England No. 04759927 VAT: 192 2491 01
Registered Address: Millennium Way, Pride Park, Derby DE24 8HZ
T: 0345 123 2222 E: info@node4.co.uk
www.node4.co.uk