REOPENING THE MIDDLE MARKET, PART 2
COMPANIES CONTINUE LEVERAGING TECHNOLOGY TO ADAPT WHILE AWAITING WIDESPREAD VACCINATION
RSM US MIDDLE MARKET BUSINESS INDEX SPECIAL REPORT

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RSM
AS THE PANDEMIC passed the sixth–month mark in the United States, middle market companies were adapting to continued economic disruption by leveraging technology in new ways for both employees and customers and implementing or considering permanent remote work in some cases, proprietary research from RSM US LLP found.

Nearly half of middle market companies responded to the pandemic by implementing technology in ways they hadn’t before, according to the fourth–quarter RSM US Middle Market Business Index survey, which received responses from just over 400 senior executives between Oct. 5 and Oct. 23 on questions related to the pandemic and the economy. (The survey data informed this second part of RSM’s special report on reopening the middle market, the first part of which published in October 2020.) Forty–nine percent of respondents leveraged technology for remote work and collaboration in new ways and 46% leveraged customer–facing technology in new ways.

Which ways organization adapted strategies and/or responded as a result of COVID–19 pandemic

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<thead>
<tr>
<th></th>
<th>Total (n=403)</th>
<th>$10M–$50M annual revenue (n=194)</th>
<th>$50M–$1B annual revenue (n=201)</th>
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<tbody>
<tr>
<td>Leveraged technology for remote work and collaboration in new ways</td>
<td>49%</td>
<td>57%</td>
<td>42%</td>
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<tr>
<td>Leveraged customer–facing technology in new ways</td>
<td>46%</td>
<td>51%</td>
<td>41%</td>
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But there is a significant difference between smaller and larger middle market companies on this metric; 57% of organizations with annual revenues from $10 million to $50 million leveraged technology in new ways for remote work, compared to just 42% of companies with annual revenues between $50 million and $1 billion. It is possible that this gap is more about smaller firms playing catch–up than it is about larger firms having different priorities.

Sixty percent of respondents said they anticipated COVID–19–related concerns would prevent the full reopening of the economy for between six months and a year, and 9% anticipated such concerns would prevent a full reopening of the economy for a year or longer.

Unsurprisingly, 82% of businesses surveyed said they expect a full reopening of the U.S. economy will depend, to some extent or to a great extent, on the development of a COVID–19 vaccine, and 79% said such a reopening will depend, to some extent or to a great extent, on a significant percentage of the U.S. population being vaccinated. It is worth noting that current optimism for a full reopening within the next year may be higher than when RSM collected its survey data, given that major vaccine–related announcements from Pfizer, Moderna and AstraZeneca took place after the fieldwork for this report was completed Oct. 23.

“Distribution of an effective vaccine, and peoples’ willingness to get the vaccine, will be a major determinant of how quickly the U.S. economy will be able to accelerate into a recovery period,” said RSM US Chief Economist.
Joseph Brusuelas. “In the meantime, though, middle market companies must continue to adapt by making strategic decisions about investments and using technology in new ways to drive efficiencies.”

Until a significant amount of the population is vaccinated, widespread remote work is poised to remain a fixture. In their survey responses, 65% of middle market businesses said they currently have employees working remotely as a result of the pandemic who were not working remotely before the crisis began. There was a significant gap between the number of smaller companies answering that they had newly remote employees (57%) and the number of larger companies with newly remote employees (72%) since the onset of the pandemic.

Talking to employees about their perspectives on continuing remote work and/or returning to the office will be a key part of near-term planning efforts for businesses, said Justin Waller, chief marketing officer and senior vice president of operations at the U.S. Chamber of Commerce.

“While public health data points and the guidance of local officials should lead when crafting return-to-office policies, it’s also important to ask for feedback from your workforce,” said Waller. “As we start the new year, the business community plays a critical role in our national vaccination effort and will continue to lead in creating safe, productive work environments for employees.”

Virtual office space

“Significant levels of remote work are going to be around for the next one-and-a-half to two years, just based on the logistics of vaccine deployment, and before the pandemic, the trend was overwhelmingly moving toward remote work flexibility and flexible work options,” said Geoff Hopkins, RSM principal and lead of the firm’s Microsoft Office 365 practice. Longer-term remote work means companies will need to be aware of how the blur between work and home will continue to affect employees and to be highly vigilant about the security risks posed by a dispersed workforce, Hopkins said.

In response to RSM’s survey, 31% of businesses said they have enhanced their information technology security during the pandemic, and Hopkins has seen more companies embrace opportunities to outsource managed IT services, including security and event monitoring along with other functions in order to combat heightened security risks.

To sustain productivity in this remote environment, it’s important for business leaders to maintain contact with their teams, said Jen Busse, national leader of RSM’s human capital practice.

“I have seen people move to daily standups; I have seen people do check-ins at morning, lunch and evenings just to continue progress and foster one-on-one time,” Busse said. “You have to be extremely intentional about those touch points.”
Hand-in-hand with the surge in remote work, 37% of organizations that currently have employees working remotely said they are rethinking the role of physical offices or other workspaces, and 31% were reducing their total volume of physical office space or workspace.

“My clients are considering dropping leases, dropping fixed costs,” said Hopkins. “While that’s not an infrastructure problem, you still deliver infrastructure to those locations and are likely to find organizations making decisions around shifting costs and enabling that remote workforce change in access and technology.”

The shift to virtual workforces for many middle market companies has not been seamless; 71% of organizations said challenges in managing or supervising remote workers have been an issue, to some extent, with variations between it being a minor or major issue. Sixty-eight percent said remote work has impeded employee training or development, to some extent, and the same amount of respondents said this landscape made it more difficult to maintain their organization’s culture. Mental health issues of remote workers were either a minor or major issue for 56% of respondents.

To be sure, companies have also found new opportunities alongside these challenges. One example: 38% of businesses said that when it comes to work that can be done remotely, they are sourcing talent from a broader geographical area than before COVID-19 hit.

Digital agility is key

Gavin Backos, RSM principal and national leader for CFO Advisory services, has found that the companies that have fared best during the pandemic are those that focused on innovation and digital transformation two to three years ago.

“Those are the ones that have the digital workers, have centralized, standardized functions and processes more than others,” he said. “Those are really the ones that had the foresight to innovate early, that have pushed through this pandemic a lot easier than others.”

Businesses that focused on digitally driven strategies years ago may have been able to reduce their workforces before 2020 with the use of technology, which would have better prepared them for the pandemic from a cost perspective, Backos said. Now, he’s seeing businesses work to contain costs, whether through reducing headcounts or by developing digital strategies that provide more continual cost reductions in the long term, helping to create better business continuity with less disruption. Data-driven analytics and a focus on cash flow analysis necessary to prioritize or reprioritize initiatives and investments are key, he said. And among the top six ways companies adapted to the pandemic, according to responses to RSM’s survey, four of those strategies were related to tech or IT.

TO BE SUCCESSFUL, MIDDLE MARKET ORGANIZATIONS NEED TO START THINKING ABOUT HOW TO FURTHER OPERATIONALIZE THEIR COLLABORATION.
As the pandemic continues, with cases surging to record highs around the United States in December 2020, it will be important that companies continually evaluate tech-driven opportunities to embrace collaboration in new ways to drive efficiency, said Hopkins.

“To be successful, middle market organizations need to start thinking about how to further operationalize their collaboration,” he said. That may also include harnessing productivity measures to help employees balance their work and their mental health needs more effectively.

Here are the top 10 ways in which organizations adapted strategies and/or responded as a result of the COVID-19 pandemic, based on respondent selections from a list of potential actions.

1. Leveraged technology for remote work and collaboration in new ways
2. Leveraged customer-facing technology in new ways
3. Identified new ways to retain employees
4. Identified new ways to attract employees
5. Leveraged technology in operations or manufacturing in new ways
6. Enhanced IT security
7. Focused on new/different customers or clients
8. Created new products or services
9. Made changes to supply chains in the United States
10. Expanded into new markets in the United States

Look for RSM’s next special MMBI report, which will focus on IT and data security, in the coming months.
To counter the pandemic’s impact, many middle market companies have turned to technology in order to address business challenges. A new or enhanced e-commerce strategy is one way companies are responding to ongoing disruption. Responses to special questions by executives polled in the fourth-quarter 2020 MMBI survey showed that nearly half of middle market companies are using customer-facing technology in new ways, such as e-commerce solutions.

“In the beginning of the pandemic, an e-commerce solution allowed businesses to stay connected with their customers and stay open,” said Oleg Glubochansky, an RSM consulting director leading the e-commerce practice. “Since then, businesses have collected a vast amount of client data on preferences and purchases. Companies are looking for ways to assess that data to meet future needs and create new business opportunities.”

For instance, Glubochansky said during the early days of the pandemic an apparel company might have shifted to offering face masks and other personal protective equipment, representing a new product for the business. Customers liked these more stylish masks for the variety and personal self-expression. As demand increased, this effort opened up the apparel company to new customers, and through the e-commerce solution, allowed the business to seamlessly transact and collect data from these new consumers. Now such a company, armed with valuable data, is looking for ways to build relationships and loyalty with these newfound customers.

“It’s essential that companies look for ways to stay relevant with new customers, and e-commerce’s solution sets can help middle market companies assess and forecast,” said Glubochansky. “It’s a vital need in this highly accelerated and competitive marketplace.”

The retail, fashion and apparel sectors are not the only industries using e-commerce to uncover new opportunities during the pandemic. Direct-to-consumer e-commerce solutions are growing in the manufacturing, automotive, gaming, e-learning, grocery and food delivery industries, too.

There’s much to gain for many middle market companies, but as in any business strategy, Glubochansky said e-commerce efforts must be grounded in keen choices, including selection of the right online platform (Shopify and Salesforce Commerce Cloud are just a couple options); alignment with broader digital strategies and overall business growth goals; assessment of target customer and fulfillment needs and existing technology functionality; curbside pickup capabilities; and alignment with brand identity.

While the pandemic has been the catalyst of digital acceleration in business, Glubochansky stressed that in this fast-paced marketplace, a smart e-commerce strategy can help some middle market companies stay in the race, and when used correctly, win.
Best practices for maintaining a successful remote work strategy

During the COVID–19 pandemic, a significant number of middle market businesses have undergone a shift to remote work. Without much time for planning in advance, companies have implemented a number of strategies and adjusted them along the way, with varying levels of success.

Sixty–five percent of respondents to the 2020 fourth–quarter RSM MMBI survey said they currently have employees working remotely as a result of the pandemic who were not working remotely before. It may be months before the majority of workers come back to a traditional office setting, and for some, long–term remote work may be the best option moving forward. With a fluctuating amount of virus cases causing uncertainty about when a large–scale return to the office may be possible, companies must focus on refining remote strategies for an unknown road ahead.

Middle market leaders generally have several concerns about the potential side effects of remote work, which is understandable after such a rapid and drastic change in operations. In the MMBI data, middle market executives expressed the most concern about challenges in supervising employees, continued training and development, maintaining culture, workers feeling isolated and reduced collaboration.

However, companies can make subtle process adjustments that can alleviate many of these issues. In fact, some of these leadership concerns are closely related, and often making a single change can address multiple potential problems.

- **Employee engagement**: Many employees are experiencing feelings of unease and uncertainty in their work as the pandemic continues, as well as a diminished work–life balance. In addition, many people are working alone for the first time, which may exacerbate feelings of detachment and inhibit motivation. Here are ways your company’s leadership team can engage employees to help deal with this sense of disconnection:
  - Overcommunicate and hold touch points throughout the day to continuously update each other on the status of tasks and timelines.
  - Managers should regularly share updates with staff and be clear on expectations and boundaries while setting hard deadlines to drive employee supervision without micromanaging.
  - Set virtual open office hours where your video conferencing platform—Teams, Zoom, WebEx, etc.—is open and available for other employees to check in. This replaces the water cooler talk or cubicle chats that would normally take place in a traditional office setting.

- **Workforce development**: Despite the distance, remote work can bring new opportunities to sharpen skills through high–quality learning and education. For example, due to the nature of remote working and the accessibility of technology, employees have the ability to observe and sit in on other projects, potentially expanding their exposure to new processes or areas of the business. Business leaders may want to focus on the following:
  - Increase communication about learning and development opportunities, external training and certifications.
  - Consolidate relevant guidelines, education and human resources information into a single location on the company intranet, so it is easily accessible for development opportunities.

- **Responsive, not reactive**: The transition from a face–to–face working experience to working from home has prompted a variety of emotional responses and concerns from employees. Modern technology enables employees to work from virtually anywhere through the internet and mobile devices, but it also blurs the lines between work and home boundaries. Employers and managers should be proactive and responsive—not reactive—in offering work–life options tailored to employees in any work–from–home environment. Here are some potential considerations:
  - Help employees prioritize what tasks are important, what’s urgent and what can wait.
  - Encourage employees to have a dedicated workplace different from their living space, where they can separate themselves and “leave” at the end of the day.
  - Empower employees to take breaks for lunch, walks, exercise, etc.
  - Consider pivoting your communication style or rewards strategies to stay connected and be thoughtful. Perhaps send handwritten notes to employees or increase rewards or recognition frequency with gift cards or other giveaways.

In addition to these tips, several external resources can provide guidance to help shape your remote work strategy. For example, LinkedIn Learning has uploaded seminars—many of which are an hour or less—on planning effectively and managing personalities.

As the pandemic continues, you likely will need to adjust remote processes to limit employee fatigue and maintain productivity. You need to be proactive and accountable because if you are not intentional with changes when defining a new framework, it will not receive widespread adoption. Working from home will likely continue for some employees post–pandemic, so many of the lessons learned from the current environment can be applied toward success moving forward.