

# Will Digitization help European Mid-Caps fare turbulent times?

European Mid-Caps have been impacted by a succession of recent unexpected events (e.g. Covid, Ukraine, with subsequent reflation, interest rate rise, and commodities / utilities price volatility). In France, Mid-Caps (i.e. companies with headcount from 250 to 5000 with turnover lower than 1,5 b€) have navigated a “V-shape” economic environment (- 6,1 % in '20 and + 7,8% in '21) with different realities across sectors (e.g. Agriculture and [physical] Retail Distribution being the most impacted). In such a volatile environment, **Mid-Caps are looking for strategic agility to accommodate uncertainty**, keeping profitable growth trajectories, sometimes turning around, or restructuring business and operating models to keep afloat.

We believe that digitization could help Mid-Caps fare much better, but one must admit that digital transformation has been marginally embraced by Mid-Caps for several reasons beyond the “data challenge”:

**Over-focus on “core business”/ “production” from Top Management** (e.g. 74% of French Mid-Caps declare that they have started their digital transformation but only 13% of CEOs support them). Our recent experiences have shown that CEOs that have often founded their companies out of in-depth expertise on the “core” but have minimal exposure to technology on “non-core” pieces of the value chain (e.g. distribution, support functions).

**Lack of knowledge and talents** being able to bridge the gap between latest technologies (e.g. Artificial Intelligence, Blockchain) and where it could be truly helpful within their value chains, sometimes being suspicious of these Technology hypes (cf. 2001 internet crisis and recent frauds on crypto-businesses).

Our research shows that digitization levers can a) boost financial performance, b) be a source of strategic agility.

Regarding financial performance, several [unfortunately not now well-known enough] use cases can help extract tangible gains:

**REVENUES:** For instance, with **AI-aided distribution** (e.g. Marketing/Sales/Client Services). Top use cases (i.e. hyper segmentation of client / prospect base, smart pricing, churn management, next best action proposals, dynamic FAQ with “bots”) can yield from **5 to 20% additional revenues**.

**COSTS:** For instance, with enhanced **AI and Robot aided Supply Chain Management** within the “Production” or “Support function value chain). Top use cases (e.g. Supply Chain : smart forecasting/advanced inventory management, automated acquisition tools; Support functions : Finance and Management accounting production and reconciliations, HR processes automation) can yield from **10 to 20% cost gains on the addressable cost bases**.

**RISKS:** More over latest technologies (e.g. coupling between 3D drone-based dataviz and process mining such as Drishti solutions) can also help reduce operational risks (e.g. securing human and robots co-living).

Regarding strategic agility, our experience during the COVID period, has taught us that a) surprising as it may seem, **several use cases do travel well across sectors providing agility** de facto on “non-core”, and the technology infrastructure that support these use cases can be redeployed onto new business models, b) **Restructuring funds have seen an opportunity in this “digital turnaround”**, increasing investments in companies they deem “digitize-able” to extract value.

To enhance profitability and navigate turbulent times ahead with meaningful and achievable digital initiatives we believe “Mid-Caps” should work on three “invariants”:

- 1. Investigate jointly meaningful use cases and data accessibility** to land “quick wins” and initiate digital transformation in a more structural fashion.
- 2. Screen continuously Tech start-ups** that are now recognized as a key accelerators of digital transformation.
- 3. Raise awareness and train/recruit talents** to support digital transformation from within.

Let's get in touch to start the adventure