THE KEYSTONE GROUP

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AI in the Middle Market

Survey Summary

August 2025

Executive Summary

Keystone conducted interviews with over a dozen executives of middle market companies and private equity firms. The **companies spanned several industries, including industrial manufacturing, distribution, and consumer products**. The interviewees are leaders within their organizations, either C-suite or departmental heads, and have oversight into the development and execution of AI strategies.

Based on interviews with these senior business executives, generative AI adoption is beginning to enter a maturing phase characterized by **strategic discipline and cautious execution**. Some of the standout observations include:

- A striking **83% of executives expressed optimism or excitement about AI's business impact**, yet they're pursuing measured, governance-first implementation strategies that **prioritize proven value over broad experimentation.**
- **Personal productivity tools like Microsoft Copilot** achieve the broadest acceptance, followed by **finance/accounting automation** for measurable efficiency gains. **Customer service** represents the most advanced deployment area to date, with response times reduced from hours to minutes in several use cases, while **supply chain optimization and marketing content creation** show significant promise as well.
- **Security, privacy, and intellectual property protection** emerge as the dominant barriers, extending beyond typical IT concerns to fundamental questions about data ownership and retention.
- AI transformation will be **evolutionary rather than disruptive**, potentially accelerating long-term adoption through value-driven implementations that enhance rather than replace human capabilities.

Executives have learned from past technology cycles and are establishing AI policies, committees, and controlled pilots before scaling. They consistently compare the current moment to the "internet revolution" while remaining keenly aware of overspending risks, using analytical frameworks that evaluate labor costs, data processing capabilities, and proprietary data access.

All executives plan to **increase AI budgets over the next 12-18 months, with one-third expecting significant increases**. However, lack of trust issues in AI output require human oversight and verification processes, while organizational change management demands comprehensive training and cross-functional team leadership.

The research reveals that successful AI transformation requires careful planning, realistic expectations, and sustained investment in both technology and organizational change. Rather than rushing broad implementation, executives are systematically identifying high-value use cases and building sustainable AI capabilities.

Observations and Takeaways

The State of Generative AI Adoption

The interviews revealed a business landscape in the early stages of a significant transformation, with executives displaying a remarkably consistent blend of excitement and enthusiasm about generative AI. When prompted to characterize their views on the overall impact of generative AI tools on their respective organizations, the vast majority of respondents chose either "excited" or "optimistic." These overwhelmingly positive sentiments were often balanced with cautious optimism – interview participants were clearly excited about AI's potential while remaining wary of hype and overspending.

Notably, many executives have not yet implemented generative AI technologies outside of personal productivity tools such as Microsoft Copilot. Unlike previous technology adoption cycles, many leaders demonstrated a sophisticated and measured understanding of both AI's potential and its limitations, resulting in deliberate, strategic implementation approaches rather than rushed adoption.

Strategic Thinking and Philosophy

A clear pattern emerged across all interviews: executives are taking a governance-first, business-case-driven approach to generative AI adoption. Rather than jumping into implementations, they are establishing AI policies, committees, and controlled pilot programs. Comparisons by multiple participants to the "internet revolution" suggest these leaders understand they're witnessing a foundational shift, but they're also keenly aware of the risks of overspending and underdelivering on AI promises.

The most successful implementations focused on specific, measurable problems that AI in its current state can address rather than broad AI strategies. One executive in the private equity space described a three-part test to evaluate the amount of labor costs and unstructured data that exist in potential portfolio companies prior to investing – a robust framework that represents the analytical rigor some of these leaders are applying to AI opportunities. This methodical approach contrasts sharply with the "using AI for AI's sake" mentality that some of these executives warned against.

Organizational and Cultural Factors

The interviews revealed that successful AI adoption requires more than technology implementation—it demands organizational change management. Executives report varying levels of employee resistance and the need for comprehensive training programs. The most successful implementations appear to be those led by “early adopters” within organizations who can demonstrate value and train others. The role of cross-functional teams, rather than IT-only initiatives, appears critical for success. Executives emphasized the importance of end-user understanding and ownership of AI tools, suggesting that successful implementations require business function ownership rather than top-down IT deployment.

The Investment Landscape

An interesting finding across interviews is the realistic understanding of AI economics. Executives mentioned the "spend $50,000 to save $100,000" dynamic, acknowledging that AI implementations require significant upfront investment for future savings. This mature perspective suggests these leaders have moved beyond initial AI hype to practical implementation planning.

All executives we spoke with plan to increase AI budgets over the next 12–18 months, with moderate to significant increases expected. Investment patterns favor add-on tools that enhance existing systems rather than replacement solutions, reflecting a preference for "AI as enhancement" over revolutionary change. This measured approach reduces risk while building on established workflows and user familiarity.

One executive felt that AI pricing was being artificially suppressed by venture capital funding, a dynamic that adds another layer of sophistication to investment decisions. Elsewhere, executives seem to be planning for eventual market-rate pricing while trying to establish value before costs increase, creating some urgency around proving AI ROI.

Implementation and Use Cases

Current Implementation Reality

The interviews revealed a clear hierarchy of AI adoption success. Personal productivity tools, particularly Microsoft Copilot and organization-wide ChatGPT alternatives, have achieved the broadest acceptance because they deliver immediate, tangible value with relatively minimal risk—assuming employees are trained properly on limitations and risk factors such as confidentiality and loss of IP.For those executives that have moved beyond personal productivity tools, finance and accounting functions emerge as the "sweet spot" for AI implementation, where repetitive, rule-based tasks can be automated with measurable efficiency gains. Additionally, marketing content creation has become commonplace, with email drafting and document summarization widely adopted across organizations.

Customer service represents the most advanced area of generative AI deployment, with several executives reporting dramatic improvements. This success stems from AI's ability to process unstructured customer data and provide consistent, immediate responses, addressing the exact conditions outlined in successful AI implementation frameworks.

Supply chain and inventory management applications show significant promise, particularly for companies managing multiple locations or complex product catalogs. The ability to process vast amounts of historical data to predict demand, optimize inventory levels, and reduce waste across multiple locations delivers clear financial benefits that executives can easily justify.

Measurable Success Stories

- **Customer Service**: Response times reduced from hours to minutes through automated systems that process unstructured customer data and provide immediate responses.
- **Content Creation**: Professional communication and documentation processes accelerated significantly, with teams completing tasks faster while maintaining quality.
- **Technical Problem-Solving**: Equipment repair guidance and troubleshooting support based on aggregate company data, enabling field teams to resolve issues more effectively.
- **Data Analysis**: Research and analytical tasks completed more quickly, with one executive noting that 25–30% of their white-collar workforce is experimenting with creating dashboards using AI assistance.
- **Operational Cost Savings**: Waste reduction and process optimization delivering measurable results through predictive analytics and demand forecasting.

Real-World Implementation Examples

- **Company 1**: Implemented AI/Power BI dashboards enabling self-service analytics, eliminating the steep learning curve of Power BI and allowing team members to explore data autonomously.
- **Company 2**: Deployed e-commerce content tools for seasonal product photo modifications and instruction manual translation, achieving modest success in early trials.
- **Company 3**: Leveraged AI startups to better understand customers while using brand guidelines tools to assess influencer partnerships for product alignment.
- **Company 4**: Implemented LLMs for field technicians to improve education and repair success rates, coupling insights with equipment usage data to predict future needs and reduce customer costs.
- **Company 5**: Utilized AI software to calculate pricing levels and protect margins, demonstrating practical financial applications.

Closing Thoughts on the Survey

These executive interviews reveal a mature, sophisticated approach to AI adoption that prioritizes business value over technological innovation. The consistent themes of governance, security, measurement, and integration suggest that successful AI transformation requires careful planning, realistic expectations, and sustained investment in both technology and organizational change. Rather than rushing to implement AI broadly, these executives are systematically identifying high-value use cases and establishing governance frameworks for AI.

Survey Methodology

This report was produced following a series of in-depth interviews with 14 senior-level business executives hailing from more than a dozen different organizations across various sectors. Each interviewee was selected due to their role overseeing generative AI strategy and/or implementation at their respective companies. Interview participants held a range of titles, including C-level titles overseeing corporate or digital strategy, finance, and IT, as well as Managing Director or Senior/Executive VP roles in marketing, sales, and product development.

POV on AI from Matt Seitz

Matt Seitz is an Executive Advisor to the Keystone Group and currently leads the University of Wisconsin's AI Hub for Business. Matt specializes in AI and E-commerce and as a follow up to this survey, we asked him to provide a perspective on AI in the middle market. Hopefully you find Matt's thoughts here valuable and insightful as well.

The Middle Market AI Advantage: Why Moving Smart Beats Moving Fast

Matt Seitz, Executive Advisor for AI and E-commerce

Every executive we interviewed plans to increase their AI budget over the next 12-18 months. While 83% expressed optimism about AI's business impact, the winners in our survey aren't moving fastest, they're moving smartest. As one explained: "We're spending $50,000 to save $100,000." That disciplined mindset, paired with governance-first implementation, is separating durable AI transformation from expensive experiments.

Why You're Better Positioned Than You Think

Middle market companies have distinct advantages in AI adoption. While enterprises spend months navigating bureaucracy, you can launch controlled pilots in weeks. Your operational constraints actually drive better outcomes: you can't afford vanity AI projects, so you focus on measurable impact. You can't build everything custom, so you master tool selection and integration.

Our survey companies demonstrate this advantage in action. One implemented AI-enhanced Power BI dashboards that eliminated the platform's steep learning curve, and another deployed AI to help field technicians improve repair success rates.

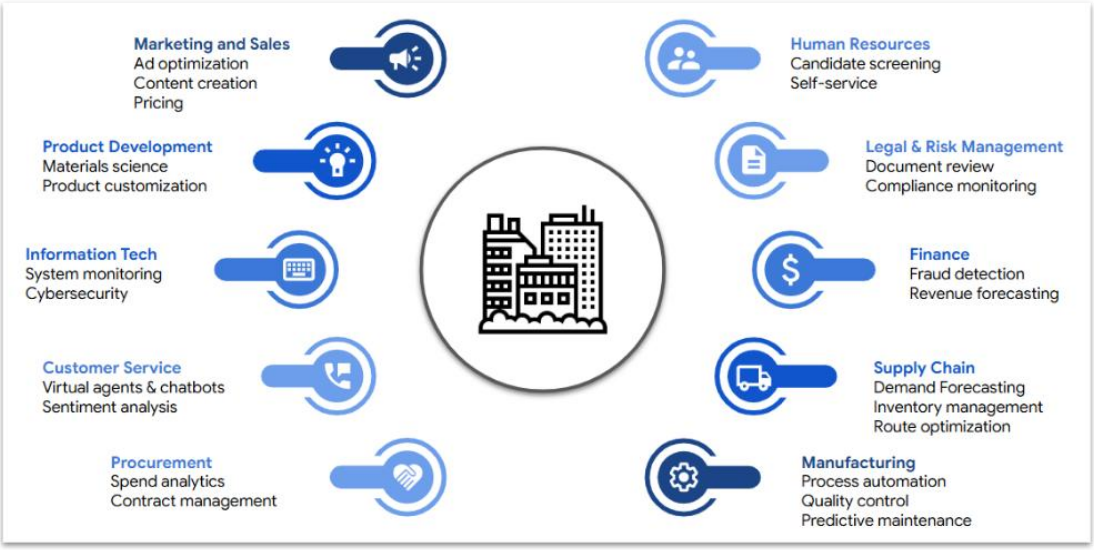
Most successful companies adopt AI across four levels, starting with productivity and building to strategic advantage.

Level 1: Personal Productivity with Governance. Start with enterprise AI tools like Microsoft Copilot, Gemini or ChatGPT where employees see immediate value in their daily work. A Harvard + BCG study found that AI users completed 12% more tasks 25% faster when working with AI.

Implementation Essentials: Establish AI policies before deployment and train employees on limitations, confidentiality, and IP protection. Identify internal champions who can demonstrate value and coach others.

Level 2: Functional Excellence. Every department has AI use cases but finance, accounting, marketing emerged most frequently in our survey. Advanced deployments were often in customer service, where Walmart's agents reduced resolution times by up to 40%.

Making wise choices: The AI landscape is rapidly evolving, creating new opportunities to solve old problems. Establish a quarterly review process to evaluate emerging capabilities against your priority use cases. Go beyond vendor demos to proof-of-concept pilots with hard metrics and clear exit criteria.



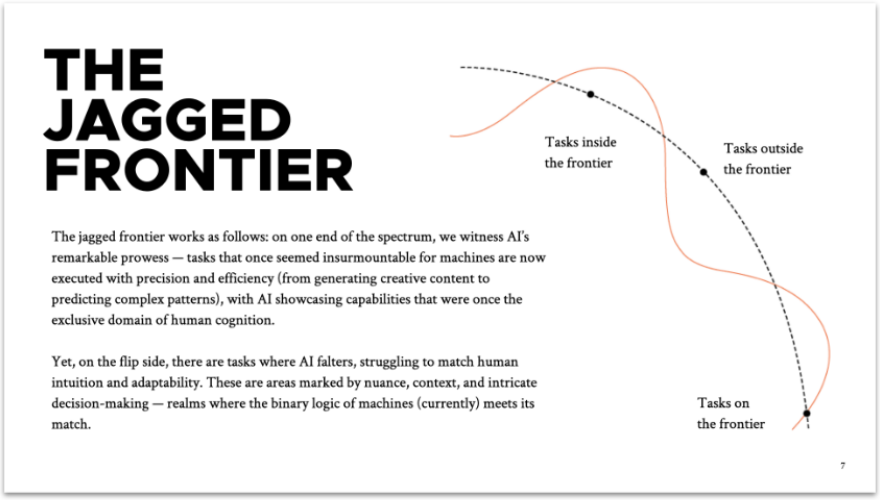
AI use cases **span the enterprise**

Level 3: Accelerated Development. Many companies are going beyond AI tools to building with them. Teams are using AI-enabled platforms like Copilot, Claude Code and Cursor to generate code, automate workflows, and build lightweight internal apps. An MIT study found that developers using Copilot increased their output by 26%.

Building with confidence: Provide access to tools and sandbox environments and guide with security and IP policies. Identify "citizen developers" in operations or analytics who can bridge business needs with technical execution.

Level 4: Strategic Differentiation. How can AI advance your company's core value proposition? We found companies leveraging AI to optimize pricing, predict maintenance needs and better understand customers. A well-known example is John Deere's Precision Agriculture strategy, where they used AI to evolve from product to platform and redefine their role in the farming ecosystem.

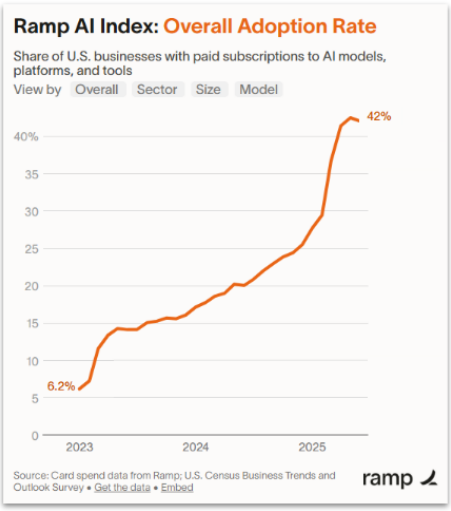
Winning with AI: Start with your top three competitive advantages, and ask "How could AI amplify each or make it obsolete?" Assign someone to track industry AI developments, top competitors' deployments and startups targeting your pain points.

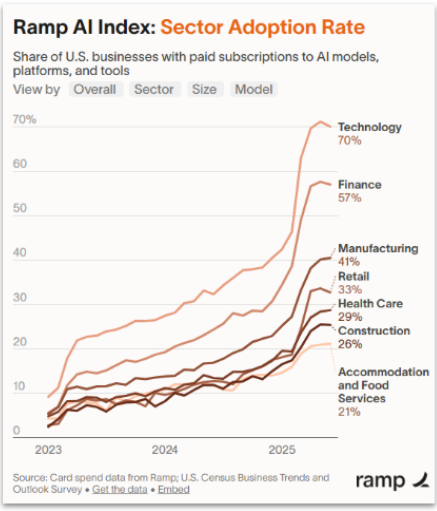


AI implementation must account for **the "Jagged Frontier"**

The Implementation Reality

AI doesn't follow traditional software playbooks. It operates on a "jagged frontier" of capabilities: excelling in some while struggling in others. This demands strong governance including security, privacy and IP protection. The economics differ too: plan for significant upfront investments to yield long-term savings, and plan for consumption-based pricing and model evolution. Finally, change management is critical to help employees who are often anxious about AI understand and embrace the new technology.





US business adoption is broad-based **and accelerating**

The Cost of Waiting

AI adoption in business is accelerating. Since November, the number of companies with paid model subscriptions has jumped 17%, and AI compute usage has grown by 42x in the past year. The window for first-mover advantage is narrowing, but it it hasn't closed yet.

Middle market companies hold a unique strategic position: agile enough to move faster than larger firms, but still vulnerable to disruption from AI-native startups. Waiting carries real risks. A competitor that automates workflows before you might eliminate your cost advantage. A new entrant could use AI to offer faster service, lower prices, or more personalized experiences to steal customers before you can respond.

Yes, taking action involves risk. Some pilots will fail. Employees will need retraining. Today's solutions might be leapfrogged tomorrow. But the bigger risk is inaction: ceding market share and momentum to those who move faster and smarter.

Moving now with focus, discipline, and governance can help you establish a lasting advantage while others are still figuring out their strategy.