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MAXIMIZE YOUR RETURN ON DIGITAL TRANSFORMATION

Companies must look beyond customer facing touch points and address legacy operations to gain maximum benefits from their investment in automation.

Practical solutions that work.

Maximize Your Return on Digital Transformation

We find there are three approaches that companies are taking related to digital transformation. If you are in the first or second category you will benefit from reading this white paper. If you are in the third category you can stop reading.



Category 1 – Companies are frozen and unable to start down their digital transformation journey. This could be due a number of reasons, but often this is a result of the complexity of their internal operations which makes it difficult for them to determine where to start.



Category 2 – Companies who are well underway with digital transformation, but are only addressing part of the challenge. These companies are evaluating how to improve customer experiences using digital approaches, but they are focused only on customer touch points and are largely ignoring the legacy back office environment. This approach will result in sub-optimal outcomes.



Category 3 – Companies who have accomplished what Category 2 companies have while also establishing and executing against a roadmap to achieve a fully digital environment that includes modernizing their legacy back office within their specific strategic planning horizon.

It is hard to define Digital Transformation, many people write about it but few provide a clear definition of what it is. McKinsey defined “Digital Transformation not as a *thing*, but as a way of doing things.” Further, McKinsey defined this way of doing things to have the following three attributes:

- A. creating value at the new frontiers of the business world,
- B. creating value in the processes that execute a vision of the customer experiences or the customer journey, and
- C. building foundational capabilities that support the entire structure.

We believe this is the most comprehensible definition but find that most companies focus on attributes A and B and never reach the third attribute C. Many industries (banking, telcos, etc.) have been executing digital transformation efforts for some time. Why, outside of a few, are these companies not seeing the expected outcomes? Why aren’t big banks and telcos trouncing their smaller competition? We find these larger companies often adopt technologies to optimize around the edges (attributes A and B), but have left their core hairball of legacy systems largely untouched (attribute C). Optimizing around the edges does not make the hairball go away nor does it deliver the meaningful benefits you are looking for. The legacy systems hairball not only drives up complexity and cost leaving your company uncompetitive, but also impacts your ability to deliver truly outstanding experiences to your customers. A recent survey showed that four of the top five reasons customers consider switching to a competitor are due to customer experience issues that relate to the full experience not individual touch points alone.

Seamless Customer Experiences are Hindered by Legacy Systems Hairballs



While they may not be as headline grabbing as front end customer applications, the areas of finance, risk and compliance, and many HR functions are prime targets for this type of automation. Digitizing these legacy functions is an important pillar in every transformational journey. Without addressing these core functions, the gains at the extremes can often be lost through inefficiencies and wasted time due to the manual processes required to move information across disparate systems. These functions consist of many support functions that can be standardized and automated, like transact, account, control, comply, and report. With the advent of new robotic process automation (RPA) technologies, we believe that these back office functions will be able to achieve a much higher degree of automation; Our assessment is that 70%+ of the core back office processes can be automated. CFO's have read about the potential for automation for years and many have become desensitized to these articles. This is likely because few articles have highlighted the key areas holding CFOs back and fewer have given insights into how to get started. In the table on the following page we provide greater insights into some of the key challenges companies face while driving digital transformation across their business.

"A major financial institution recently found that it made economic sense to automate nearly 35 percent of the tasks in the finance function right now. The technology to automate another 35 percent of tasks was technologically feasible but not economically positive."

– McKinsey Quarterly

Biomechanical robots have become common place on the manufacturing floor and RPA is being more broadly adopted as a core part of the customer experience. When will we see these technologies become more commonplace in back office automation? Given that the digital transformation concepts like a frictionless environment and having a 360 degree view of the customer have been around for decades, it is interesting that more back office areas have not been more fully automated. Since the cost to automate human intensive processes has dropped dramatically over the past few years with RPA technologies, companies will need to focus on their total value chain to create lasting strategic differentiation.

Challenges	Way Forward
<p>Process Management Out of Date Many companies do not take the time to document the status of their current process environment with the goal of both identifying areas for improvement and driving further standardization. Due to continued evolution, companies often incorrectly feel that this is a waste of time. While processes do continue to evolve, if your organization does not have good documentation for its support processes, it will be difficult for you to determine where and when to apply new technologies.</p>	<p>Standardize and Document By starting with processes instead of technology, companies can prepare for the adoption of these modern digital transformation technologies. This is even more important for middle-market companies that may not feel they are ready to take on or afford these technologies. Middle-market companies can drive standardization, better understand their processes, and create the related use cases to support automation. This will allow these companies to gain the second mover advantage by incorporating the next generation of RPA technology .</p>
<p>Where to start? Since everyone is starting at a different point, there is no common roadmap that organizations can follow. To build an effective roadmap, the organization must avoid the mistakes of past decades of IT development, such as buying point solutions for RPA requirements by department.</p>	<p>Develop a Unified Plan to Manage RPA Deployment Few organizations have expanded their RPA capabilities to make a major impact on back office performance. Why is this? The primary reason we see is that there is typically not a platform approach to RPA initiatives. Thinking at a platform level to select an approach that applies to your whole business will improve standardization, drive out complexity, improve customer service, enhance RPA competence, and improve your cost to serve. Conversely, if the organization takes a piecemeal approach vs. a platform-based approach to RPA development, this approach will result in the lower adoption of automation across the back office functions. A platform based approach drives higher adoption as the economics of each use case are changed due to more efficient purchases of software and more cost effective deployment with internal staff. We recommend you develop a platform-based approach to RPA based upon the most fruitful use cases which then effectively lowers the hurdle rate or cost to serve for related back-office initiatives.</p>
<p>Systems Hairball Detangling the hairball that is the underlying legacy systems infrastructure has become difficult for most companies. This is because the systems infrastructure in most large companies has “evolved” over time vs. being planned out from the beginning. This evolution often results in redundant systems being deployed within single functional areas (e.g. order entry).</p>	<p>Systems Simplification This challenge is not new, it is just one that is hard for companies to commit to. The timeline to change out legacy infrastructure often requires a multi-year effort in order to affect the core systems. This is where many large companies (e.g. large banks) have been successful implementing RPA technology around these legacy applications so that the manual involvement can be eliminated. It is important to not stop once you have automated these formerly manual “swivel chair” processes. If the IT architecture for your company looks like a bowl of spaghetti or a hairball, you will need to commit to streamlining both the number of applications and the logical data model between the applications you chose to focus on.</p>
<p>Customer Touchpoints Focus There have been many studies focusing on the “levers of importance” for the customer, however the second and third order processes have largely gone unnoticed. While this may create new customer engagement models customer satisfaction will lag if support and fulfillment functions are not addressed.</p>	<p>Utilize a Platform-Based Approach Starting with the customer journey is the right approach, but you need to extend the customer analysis to include support functions like Finance to optimize not only the customer experience but also to reduce the cost of delivering that customer experience. Companies should apply the platform-based approach discussed above to the back office/support to improve overall levels of automation and efficiency. The platform approach will also enable more timely and effective automation of the true customer touchpoints.</p>
<p>Culture Resistance Many companies are not used to working in new ways and are resistant to change. We have even seen companies that successfully complete some of the change but eventually revert to the old way of working because the corporate culture is too strong to overcome.</p>	<p>Foster a Digital Mindset In order to become a truly digital company, you must embrace the digital mindset. This entails evaluation of talent and rethinking how the company portrays itself even down to office space layout and design. Employees have to develop and foster the mindset of digitizing everything. In order to adopt an automate-first mindset, a framework should be put in place that challenges employees to confirm why any manual process should not be automated vs. confirming processes should be automated. This does not mean that you should automate everything at once, prioritization and integration with other strategic initiatives should always be considered.</p>

Why Should You Care

No matter who you are, the competition is coming. In many industries the lines are blurring and competition is crossing traditional boundaries, given new technological advances and changing market demands. Here are a few examples of rapidly changing industries where new competitors are challenging the incumbents forcing companies to embrace the full digital transformation approach.



How Can Clarendon Partners Help?

If you are not well underway with defining your digital transformation journey or if you would like to improve the ROI from your existing investments in digital transformation please reach out to us so we can help guide your journey.

Clarendon Partners (CP) is a dynamic consulting services company focused on strategic and operations consulting. CP brings industry expertise in conjunction with our core operational discipline focus of helping clients transform their operating models to fully harness the power of digital

technology across their organization. CP works with leaders to both design their desired target state and execute against the work necessary to achieve the resulting benefits of that target state. We provide our clients with what we call “Digital Transformation Defined and Delivered.” We will work with you to improve how your customers are served and how your internal technological and organizational processes should be transformed to allow your company to be agile, fast and competitive.

