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CORPORATE FINANCE PRACTICE

Accelerating the digitization of business processes

Customers want a quick and seamless digital experience, and they want it now.

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Customers have been spoiled. Thanks to companies such as Amazon and Apple, they now expect every organization to deliver products and services swiftly, with a seamless user experience.

Customers want to log in to their online electricity account and see a real-time report of their consumption. They expect to buy a phone from their telecommunications provider and have it activated and set up immediately out of the box. They want bank loans to be preapproved or approved in minutes. They expect all service providers to have automated access to all the data they provided earlier and not to ask the same questions over and over again. They wonder why a bank needs their salary slips as proof of income when their money is being deposited directly into the bank every month by their employer.

Many traditional organizations can't meet these expectations. As a result, attackers born in the digital age can swoop in and disrupt the market through rapid delivery of digital products and

services combined with advanced algorithms and full access to information.

Customers wouldn't phrase it this way, but they are demanding from companies in many industries a radical overhaul of business processes. Intuitive interfaces, around-the-clock availability, real-time fulfillment, personalized treatment, global consistency, and zero errors—this is the world to which customers have become increasingly accustomed. It's more than a superior user experience, however; when companies get it right, they can also offer more competitive prices because of lower costs, better operational controls, and less risk.

Delighting the customer

To meet these high customer expectations, companies must accelerate the digitization of their business processes. But they should go beyond simply automating an existing process. They must reinvent the entire business process, including cutting the

Takeaways

Customers now expect all companies to deliver products and services quickly, with a seamless user experience comparable to Amazon or Apple. Many traditional organizations can't meet these expectations.

To compete, companies must accelerate the digitization of their business processes, going beyond automating existing systems to reinventing the entire process.

Digitizing end-to-end processes one by one can deliver improved performance in just three to five months. To implement, some firms are creating start-up-style, cross-functional units that bring together all colleagues involved in the process.

number of steps required, reducing the number of documents, developing automated decision making, and dealing with regulatory and fraud issues. Operating models, skills, organizational structures, and roles need to be redesigned to match the reinvented processes. Data models should be adjusted and rebuilt to enable better decision making, performance tracking, and customer insights. Digitization often requires that old wisdom be combined with new skills, for example, by training a merchandising manager to program a pricing algorithm. New roles, such as data scientist and user-experience designer, may be needed.

The benefits are huge: by digitizing information-intensive processes, costs can be cut by up to 90 percent and turnaround times improved by several orders of magnitude. Examples span multiple industries: one bank digitized its mortgage-application and decision process, cutting the cost per new mortgage by 70 percent and slashing time to preliminary approval from several days to just one minute. A telecommunications company created a self-serve, prepaid service where customers could order and activate phones without back-office involvement. A shoe retailer built a system to manage its in-store inventory that enabled it to know immediately whether a shoe and size was in stock—saving time for customers and sales staff. An insurance company built a digital process to automatically adjudicate a large share of its simple claims.

In addition, replacing paper and manual processes with software allows businesses to automatically collect data that can be mined to better understand process performance, cost drivers, and causes of risk. Real-time reports and dashboards on digital-process performance permit managers to address problems before they become critical. For example, supply-chain-quality issues can be identified and dealt with more rapidly by monitoring customer buying behavior and feedback in digital channels.

Leading organizations (see sidebar, “Scaling digitization processes at a European bank”) have come to recognize that the traditional large-scale projects to migrate all current processes to a digital world often take an extremely long time to deliver impact, and sometimes don't work at all. Instead, successful companies are reinventing processes, challenging everything related to an existing process and rebuilding it using cutting-edge digital technology. For example, rather than creating technology tools to help back-office employees type customer complaints into their systems, leading organizations create self-serve options for customers to type in their own complaints.

This kind of approach is usually done process by process in a series of short-term releases combining traditional process-reengineering methods like lean¹ with new agile² software-development methodologies.

Success factors

Companies in most industries can learn from the practices employed by firms that have done this successfully.

Start at the end state and work back

Digitization often enables a process to be fundamentally reconfigured; for example, combining automated decision making with self-service can eliminate manual processes. Successful digitization efforts start by designing the future state for each process without regard for current constraints—say, shortening a process turnaround time from days to minutes. Once a compelling future state has been described, constraints (for instance, legally required checks) can be reintroduced. Companies should not hesitate to challenge each constraint. Many are corporate myths that can be

¹Lean is an integrated system of principles, operating practices, and methods focused on getting the right things to the right place at the right time and in the right quantity while minimizing waste and being flexible and open to change.

²In agile application development, each subproject can be handled by a team of six to ten people. Teams work in bursts of two to three weeks to define requirements on the go and deliver updated code in each burst.

quickly resolved through discussions with customers or regulators.

Tackle the end-to-end customer experience

Digitizing select stages of the customer experience may increase efficiency in specific areas of the process and address some burning customer issues, but it will never deliver a truly seamless experience, and as a result may leave significant potential on the table. To tackle an end-to-end process such as customer onboarding, process-digitization teams need support from every function involved in the customer experience. The end customer should be heavily involved too, not least to challenge

conventional wisdom. To do this, some firms are creating start-up-style, cross-functional units that bring together all colleagues—including IT developers—involved in the end-to-end customer experience. The cross-functional unit has the mandate to challenge the status quo. Members are often collocated to improve lines of communication and ensure a true team effort.

Build capabilities

Digitization skills are in short supply, so successful programs emphasize building in-house capabilities. The goal is to create a center of excellence with skilled staff that can be called upon to digitize

Scaling digitization processes at a European bank

A European bank is midway through an ambitious program to digitize its top 20 processes. The bank, in a challenging situation after the financial crisis, aspired to achieve improvements for its customers while significantly reducing costs. The bank set a stretch target of being ten times better in efficiency and turnaround times in each of its top processes.

The bank started with its account-opening and mortgage applications. For each process, the development team used the first two weeks to define a digital vision for each product and a road map to get there. Then came rapid development of a digital prototype while redesigning the underlying business process, combining lean methodologies and agile software approaches. Within six weeks, a version of the user interface was ready. The team tested the process with customers, iterating and improving it, and gradually picking

up the volume of mortgages and new accounts processed by the new digital process. After four months, the digital process was in production. The team scaled it through a website launch, followed by a rollout to the branch network.

Then the bank moved to digitize processes such as personal lending and deposits. A new process allows customers to create an account in less than 10 minutes, replacing one that required 30 to 60 minutes of talking to branch staff and then up to a few days before the account was opened. The new digital mortgage-application process uses an online calculator that is connected to the bank's credit-scoring models and gives customers a preliminary offer in less than a minute. Once an offer is received, customers can log in to an online portal that allows them to submit their application and documents. This approach has cut costs significantly while improving customer satisfaction.

processes quickly. Still, many times companies must search for talent externally to address the need for new skill sets and roles, such as data scientists or user-experience designers. Given its importance, the first managers selected to lead the transformation should be carefully chosen, well trusted in the organization, and ready to commit for a long period of time. It is also important that the team has the skills needed to build the required technology components in a modular way so that they can be reused across processes, maximizing economies of scale.

Move quickly

Traditional IT-intensive programs deliver a return only at the end of the project, sometimes years after the project's kickoff. Digitizing end-to-end processes one by one, however, can deliver improved performance in just three to five months. Complex IT challenges such as legacy-systems integration can be harder to move along quickly, but there are ways to mitigate the risks of delay. For example, one industrial company pursuing an IT legacy-systems integration used low-cost offshore resources to rekey data among systems, allowing a new digital customer process to be brought online for use with pilot customers while a robust IT interface was built in parallel. This approach reduced the risk involved with the integration effort and accelerated payback.

Moving quickly isn't always easy. More often than not, it's business decision making that's causing the bottleneck rather than IT development. That's why digitization programs need strong board-level support to align all the stakeholders, while all other decisions should be delegated to the project team.

Roll in, not out

In traditional deployment, a new solution is rolled out progressively across sites to existing user teams. However, a different approach may be needed when organizations undertake digitization, because of radical changes to processes and the supporting organization. For example, telecommunications salespeople may prefer customers to apply for services through the existing store system instead of self-serve kiosks. Bank-credit underwriters may not trust automated algorithms and may choose to review automatically approved applications. In these cases, it might be easier to roll in a new organizational unit to handle the new digital process, and then bring employees into this unit while increasing the volumes handled by it in parallel. This ensures a much easier transition to the digital process by not expending extensive energy on changing old habits and behaviors. By the time all process volume has migrated to the new digital process, the new organizational unit will have "swallowed" all the required employees from the legacy units.



Companies that digitize processes can improve their bottom lines and delight customers. The value at stake depends on the business model and starting point but can be estimated by allocating costs to end-to-end processes and benchmarking against peers. To kick-start the approach and build capabilities and momentum, organizations can undertake one or two pilots and then scale rapidly. ○