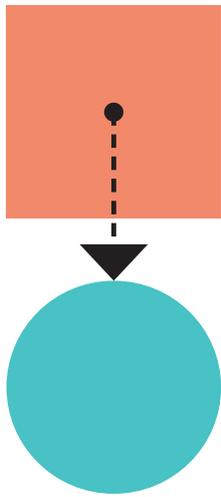


Unleashing Business Value in a Business 4.0 World



In an era we call Business 4.0, digital technologies offer enterprises huge opportunities to create superior customer experiences, leverage ecosystems and embrace risk. It's no surprise then that digital transformation projects have become top-of-mind for executives at large organizations.

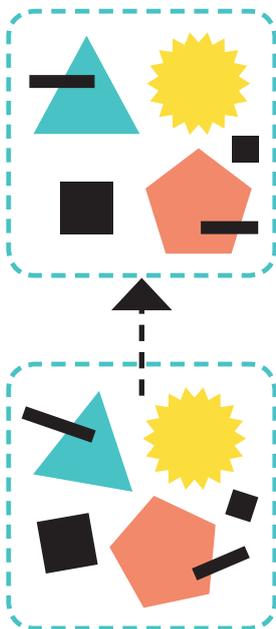
Yet there is a raft of smaller—but just as important—corporate improvement initiatives that have become stalled or are being ignored. Companies shouldn't ignore them, in part because they can free up investments for critical digital initiatives.

The problems that these improvement programs address most likely will sound familiar because most big companies have them: daily operational headaches that are degrading and slowing operations, costing customer goodwill and needlessly inflating internal spending. What's more, these bottlenecks can stand in the way of executing the strategies that C-level leaders and board members are prioritizing in the era of digital disruption.

Nearly every large company today can make operational improvements that will have a sizable impact strategically and on their top and bottom lines. These issues, affecting large and recurring costs, can be found

throughout most organizations in such areas as accounts receivable, procurement, order activation, product enhancement, the supply chain, and the IT function.

Surgical improvements in these relatively neglected areas can yield major benefits. Even better, when key leaders share the same goals and coordinate the resources required for these efforts, they can make these operational tweaks quickly thanks to new automation tools. In turn, that allows and encourages the organization to re-focus on the larger digital transformations it must make.



An Investment with Outsized Returns

No company decides to build operational inefficiencies into its business processes; they accumulate over time thanks to choices made about technologies, investments, market strategies, and business unit wants and needs. These choices—often made as urgent problems arise, rarely made holistically with a view to the future health of the entire organization—start to add up, ultimately resulting in increases in ongoing overhead. Worse, they tend to thwart the flow of data and intelligence throughout the enterprise, affecting not simply operational efficiencies but, ultimately, the quality of the customer experience delivered, upon which the health of the organization depends.

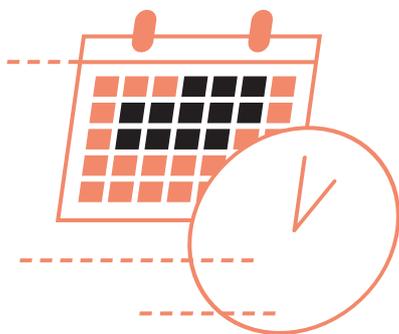
The areas in which these operational issues exist—say, accounts receivable—may generate great volumes of data that could have significant value for the enterprise but, due to a variety of factors—perhaps disconnected systems, or political struggles over data ownership issues—the data are often unavailable outside of departmental or functional silos, limiting their usefulness to the enterprise.

A few years ago, addressing such a disconnect and gaining access to siloed data would require implementing a new system at a great cost of time and money. Today, fortunately, there are new technologies that can solve the problem far more quickly and inexpensively. Enterprise leaders can take advantage of advanced analytics and artificial intelligence capabilities both to discover where operational inefficiencies exist and, also, to turn them around. In many cases, this does not require a huge overhaul

of business operations. Companies can often fine-tune their business processes and—thanks to automation—start seeing benefits in short order. These efforts may not have the cachet of digital transformation initiatives, but some companies have uncovered significant opportunities to generate more cash and sharply reduce costs on par with more disruptive transformation programs that require millions of dollars to launch and execute a much longer timeline for retrieving returns.

Where the Improvements Lie

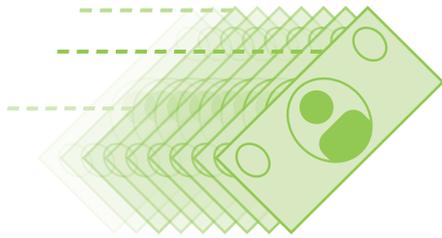
Some examples of organizations retrieving a large return on investment via incremental operational improvements include:



- A telecom was able to dramatically reduce the time it took to get its new customers up and running, transforming not only the speed and cost of order fulfillment but thereby its customer's experience. In 2015, the company had a Net Promoter Score of minus 44—not surprising given its largely manual order fulfillment processes at the time. In 2017, the situation quickly went from bad to worse when the local government mandated high-speed Internet access to every home and business by 2020. The deluge of service requests quickly became unmanageable with the average time to activate service stretching to an unforgivable 44 days from moment of customer inquiry.

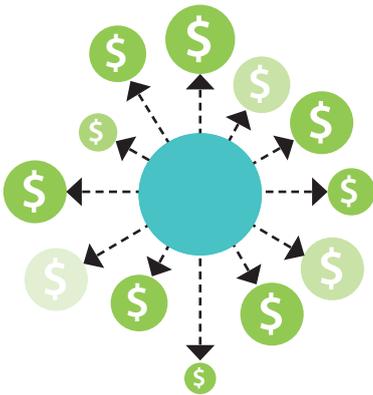
After analyzing the order fulfillment process, the company found that reasons for the huge order fulfillment lag times were disintegrated systems and siloed operations. In response, it redesigned its order-to-activate-service process to create one case manager for each order. The case manager operated as a single point of customer contact, with sole accountability for the order. At the same time, the company consolidated ten different applications that were required to onboard a new customer into a single order intelligence platform. By 2018, cycle

time for order activation had been cut in half. The cost to activate a new service dropped 60% and the company's Net Promoter Score more than doubled to a positive 20. All told, the company estimates that the effort will cut costs by approximately \$70 million over three years.



- Taking a closer look at accounts receivable processes can also improve cash flow for many organizations. One \$1.5 billion steel manufacturer, for example, was facing declining demand. Many of its 6,000 customers were delaying payment. Meanwhile, the company was struggling to correctly register the payments of those customers whose accounts were current, leading to disputes and increased overhead. To accelerate cash flow, the company developed an automated cash forecasting system, which could analyze data from finance, accounting, and other departments. The new system reduced disputes and increased collections by 28%.

Similarly, a utility company improved cash flow by \$100 million and bad debt by \$4 million by implementing an algorithm that identified unbilled accounts, which the company was able to cut in half.



- In procurement, identifying internal purchases that are non-compliant with corporate purchasing agreements can turn up overlooked savings possibilities or uncover fraud. Inefficient purchasing often arises in global manufacturers when multiple factories purchasing products from the same suppliers fail to communicate to pool their purchases to take advantage of volume discounts. Today, an increasing number of these companies are using software with artificial intelligence to scan purchase requests across multiple plants and vendors to better understand the behavior that drives purchasing price variances across plants. By doing so, they can see how much prices vary, receive notifications of exceptions to purchasing agreements, and flag purchase orders that look abnormal or indicate potential fraudulent activity.

One major oil company used such a system to flag 98,000 transactions in six months, achieving \$3.2 million in annual expense reductions. Another firm, a global aluminum manufacturer, discovered \$650,000 in potential savings after reviewing 100,000 purchasing transactions with its suppliers.

Similarly, a major airline identified \$8 million a year in non-compliant travel and expense purchases, accounting for six percent of the airline's total T&E spend.

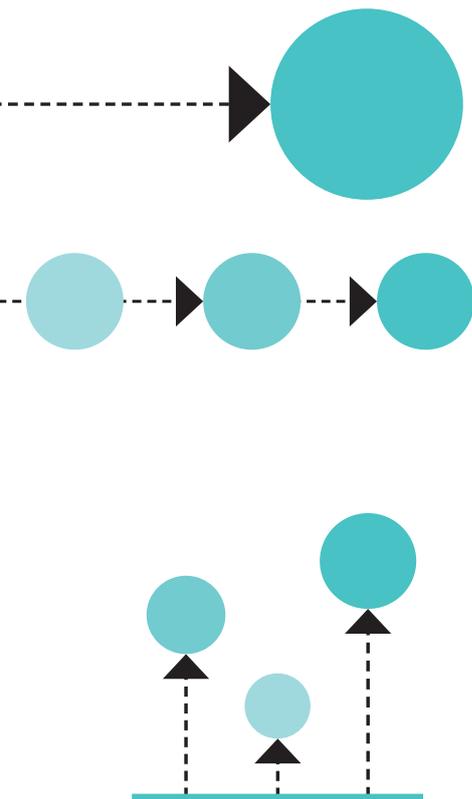
The same principle of incremental improvement applies to other operational areas. For example, by better tracking assets, companies can uncover and prevent inventory shrinkage from lost and stolen goods. The IT organization also can benefit from operational improvements. One pharmaceutical firm used artificial intelligence to make its data center operations more efficient. A banking investment firm employed AI software to reduce the time it took to resolve technology incidents by 90%.

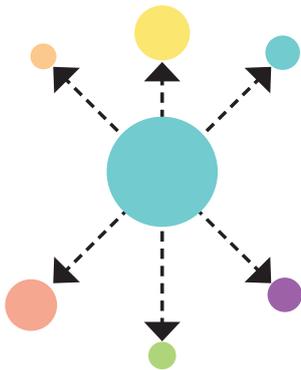
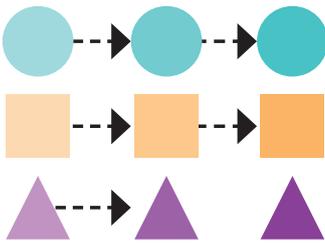
Tweaks in marketing and sales processes can boost product innovation and generate new sources of revenue. A large software company performed advanced analytics on its customer data to identify which customers were most likely to buy its products. As a result, the company dramatically improved the targeting of its marketing campaigns. It also analyzed data on how customers were using its products and determined which features were critical and which were not. That analysis guided its product development teams in designing new features and new products.

Where to Begin

Identifying and implementing incremental improvements requires careful planning. By taking the following four steps, an organization can execute projects that optimize its return on investment.

1. **Find the important value chain(s)** with high impacts on operating costs, especially those that affect the customer experience. Important value chains vary by industry. For a telecom company, the customer acquisition process is foremost. For a gas or electrical utility, the most important value chain could be the “meter to cash” process, which includes billing and accounts receivable.
2. **Identify key success metrics** that (when achieved) will dramatically improve the organization’s performance. The metrics may be about the bottom line or customer satisfaction. For utilities, important metrics to track include the cost to serve each customer and the percentage of consumers using self-service portals. When analyzing metrics results, companies must benchmark them against peers in the industry or organizations recognized as best-in-class across industries.





3. **Identify which business processes impact the key measures** and map out how they work end to end. Using a tool like Value Stream Mapping (VSM), a lean management technique that documents the entire value chain end to end, reveals both strengths and weaknesses in a given process. The VSM exercise clearly shows the “hidden factories” in a business process—i.e., process steps where inefficiencies have accumulated over years. It also shows how relevant data flows through the process, and identifies bottlenecks that result in customer dissatisfaction.
4. **Establish a cross-functional team** whose members can evaluate where and how to improve key business processes that will enhance customer experience and/or improve operational efficiencies. This involves mapping the transactional data generated by a business process. This data will be vital to analyzing the performance of that process.

Consider a telecom company that collects demographic data on customers in the sign-up process. The company can use that data to sharpen its customer profiling and better target its marketing campaigns to cross-sell and upsell customers for new services. It can also track customer profiles over time, collecting and analyzing data to predict churn.

The team also must assess which technology solutions to implement. Because there is a plethora of relatively low-cost, commercial off-the-shelf software available, the team must carefully evaluate them on their expected benefits, how long they will take to implement and their cost.

For example, Robotic Process Automation (RPA) is a cost-effective solution to automate repetitive manual tasks in the back offices (such reading data from a PDF file and entering it into a system) and freeing up human talent to do more value-added activities. While these solutions do deliver efficiencies, make transactions error-free and can be easy to configure, they are not suitable in companies that process many transactions and make frequent process changes. The team’s members, including both stakeholders and subject matter experts, are crucial to selecting the right set of technologies (whether RPA, analytics or AI) that can provide sustainable results for the best ROI.

Successful companies typically constitute a Center of Excellence (CoE) function headed by a senior leader (often a C-level executive) responsible for approving these operational improvement projects and monitoring their execution. The CoE provides resources, removes bottlenecks, helps coordinate organizational silos to ensure that the projects meet the deadline and delivers promised benefits.

A Near-Term Imperative

Companies that want to leverage these opportunities must create alignment and consensus among C-level leaders about operational improvement priorities and resource allocation. They also need to have executive buy-in for increased data sharing and operational automation, and identify and prepare key data required for process improvement and automation. What's more, they must carefully evaluate robotic process automation tools and AI capabilities that can automate manual processes and improve efficiency, cut costs, and reduce errors. Finally, they should use big data and analytics software to identify areas of rising costs or decreasing efficiencies.

Sweeping digital transformation may remain the top priority for most large organizations over the long term. However, surgical operational improvements can deliver significant savings and revenue opportunities in the near term.

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