



WHAT DOES DIGITAL TRANSFORMATION LOOK LIKE?

Disrupting Customer-to-Cash in 2018

Bryan DeGraw

Associate Principal, Finance Advisory Services

The Hackett Group

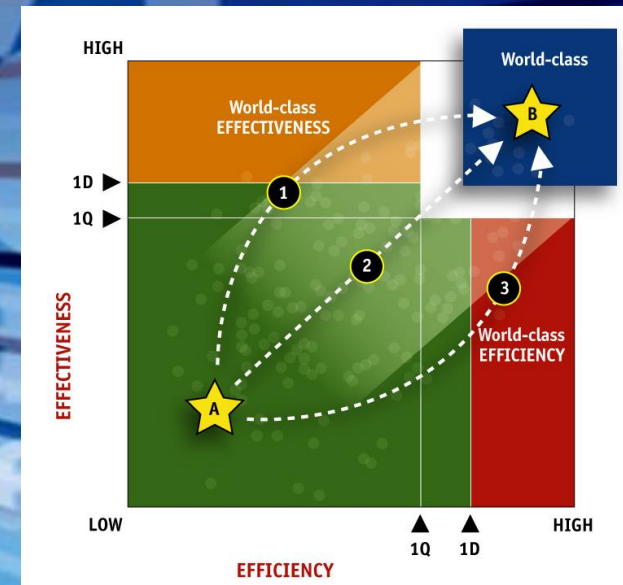
The Hackett Group

A global strategic business advisory and operations improvement firm

We help companies establish and implement sustainable business performance improvements

- SG&A benchmarking “gold standard” since 1992
- We start with “why not”, fact-based, research & intellectual capital
- Senior practitioner model, results focused
- Assist our clients in designing and implementing World-class Service Delivery execution capabilities
- Long term transformation journey assistance through executive advisory membership

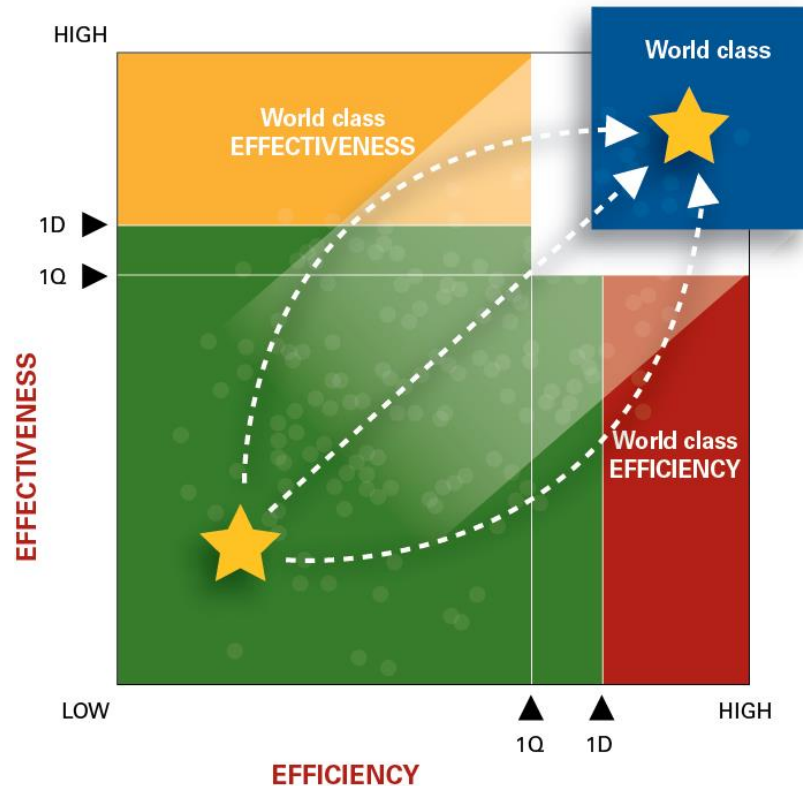
Hackett Value Grid™



HACKETT DEFINES AND
ENABLES WORLD-CLASS
PERFORMANCE

We assist our clients on the journey to World-class performance through our Best Practices Implementation knowledge and tools

Best Practices Intelligence Center™



20,000 Performance metrics

11,400 Benchmarking studies

1,700 Best practices

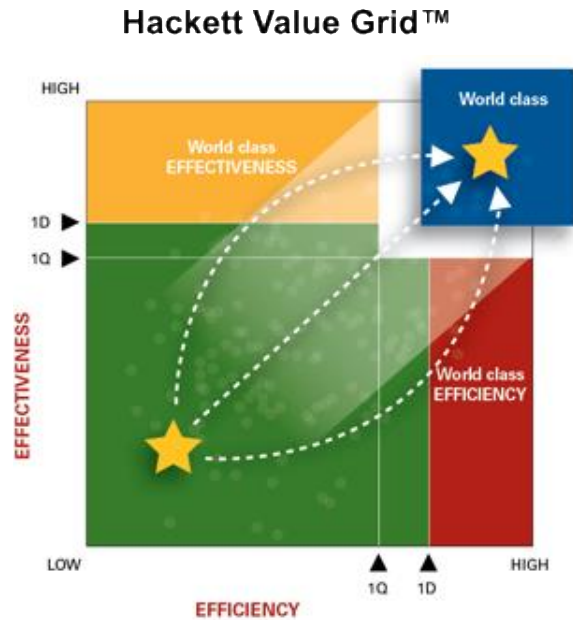
600 Process maps

300 Implementation and configuration guides

35 Best practices scorecards

How Hackett defines World Class Finance

Hackett has defined World Class Finance performance on an empirical level



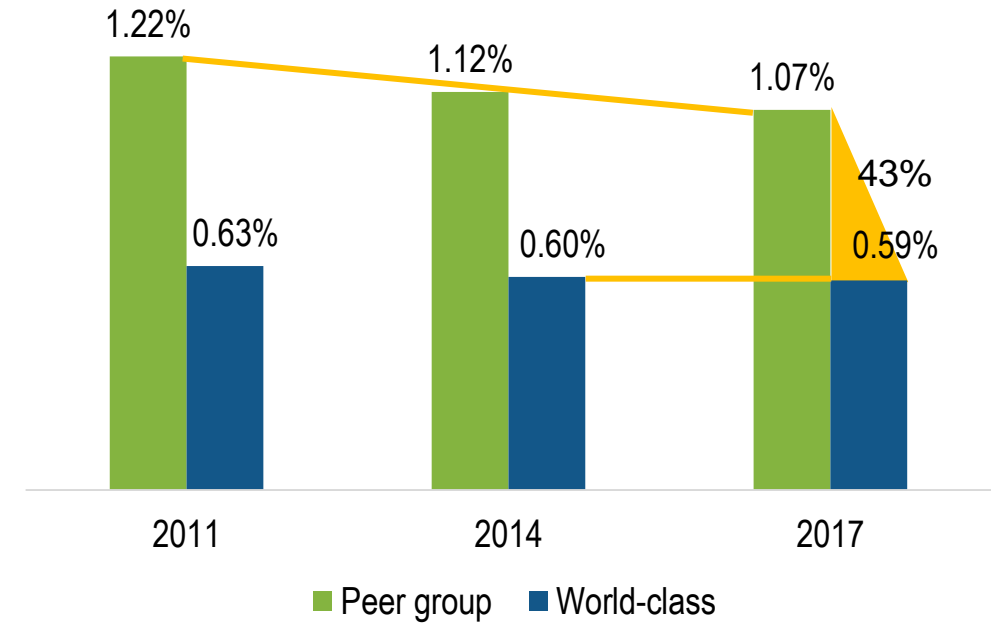
EFFECTIVENESS

- Effective decision support
- Better alignment to the business
- Optimized working capital

EFFICIENCY

- Lower total costs
- Faster cycle times
- Higher Productivity

World Class continue to drive out cost and build capability to support the business



42% fewer FTEs
45% lower cost

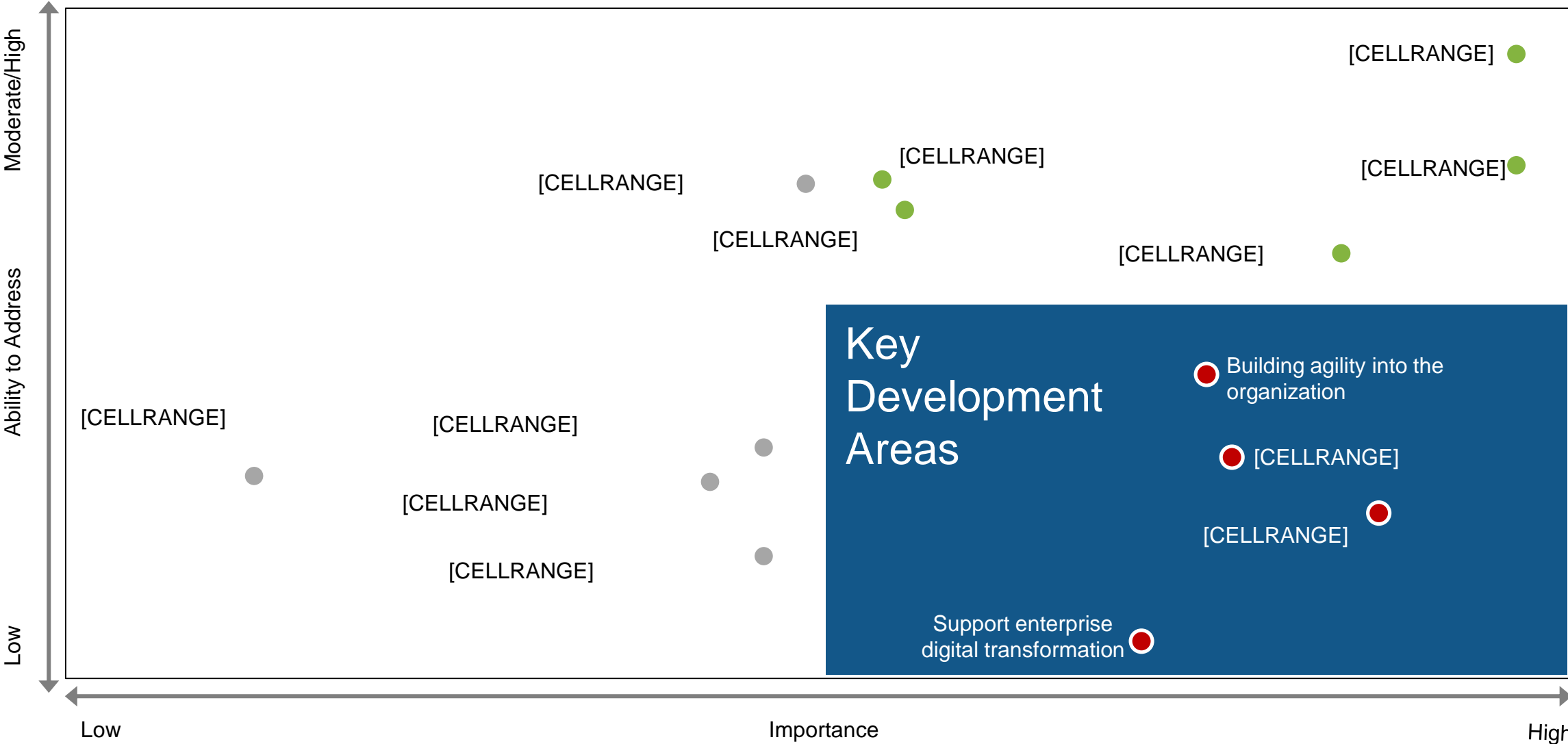


28% more time on analysis vs. gathering data



24% more customers view Finance as valued partner

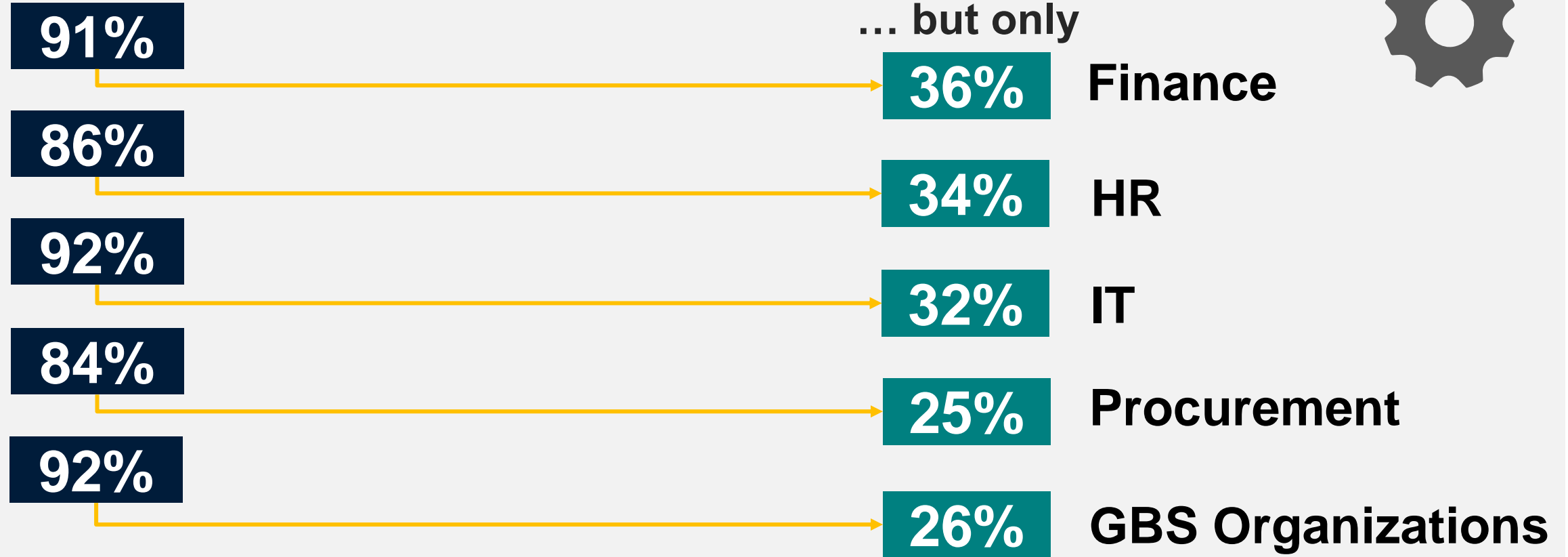
Agility, digital transformation, decision making and analytics are key development needs required to support enterprise goals



Digital Transformation impact and readiness

Functional executives believe it will have a profound impact, BUT the vast majority are not ready for it

Believe digital transformation will fundamentally change the way business services are delivered in their function over the next 3-5 years

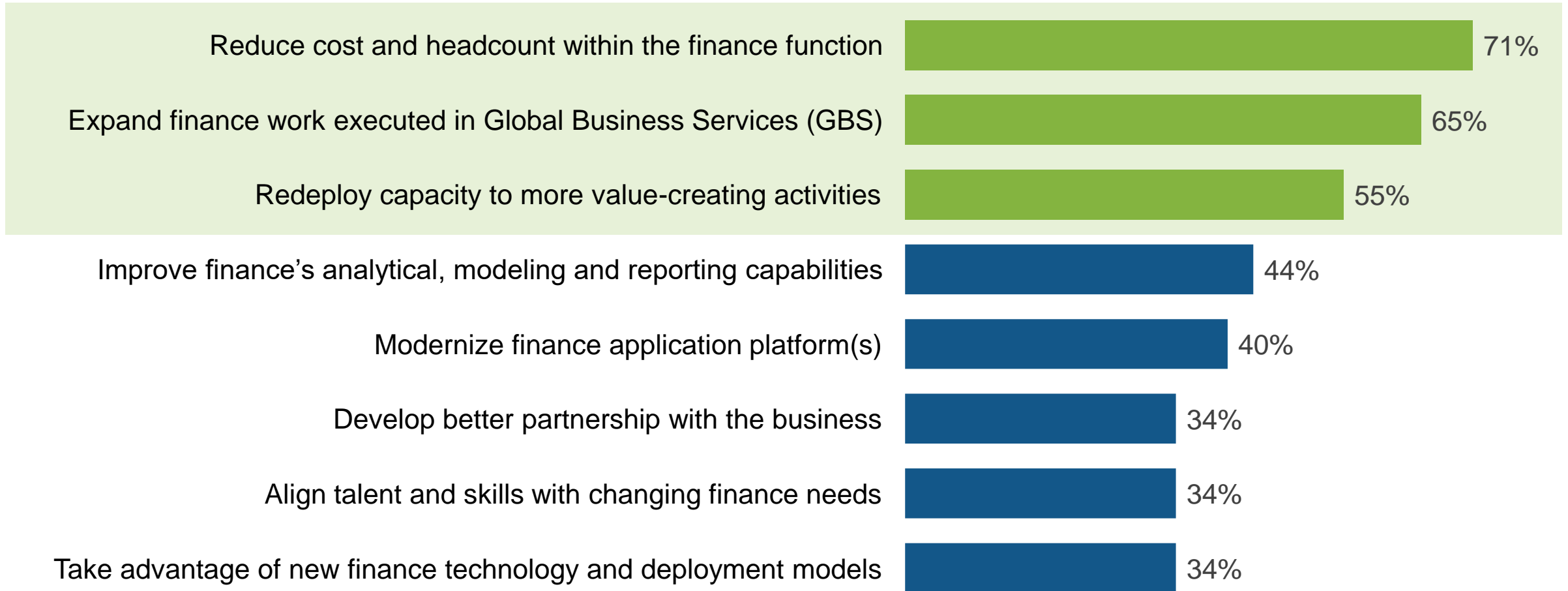


report having resources and competencies in place to execute a digital transformation strategy

Source: 2017 Key Issues Study, The Hackett Group

Most Finance organizations are still more focused on the basics

Percentage of companies with major improvement programs planned or in flight in 2017



Case in point: only 44% have a digital transformation strategy; and even fewer report having the right resources and competencies in place today

91%



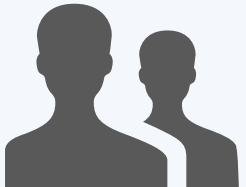
report that digital transformation will fundamentally change the way finance services are delivered over the next 3-5 years

... but only

44%

have actually developed a strategy for getting there.

86%



of respondents say that digital transformation will fundamentally change the talent and leadership needs of our business

... but only

35%

report having resources and competencies in place today

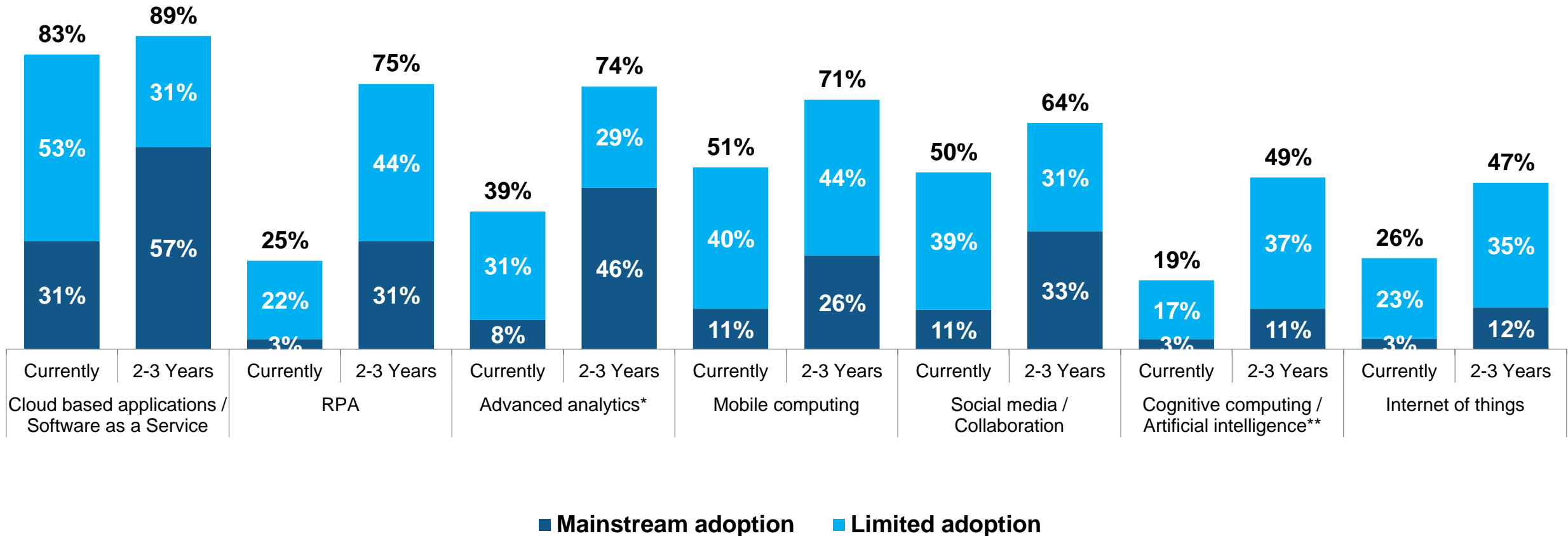
Digital Transformation Landscape

Forces and key components



Digital Transformation Adoption: Now and Within 3 Years

When it comes to **emerging technology**, cloud based applications and advanced analytics will lead in adoption over the next 2-3 years

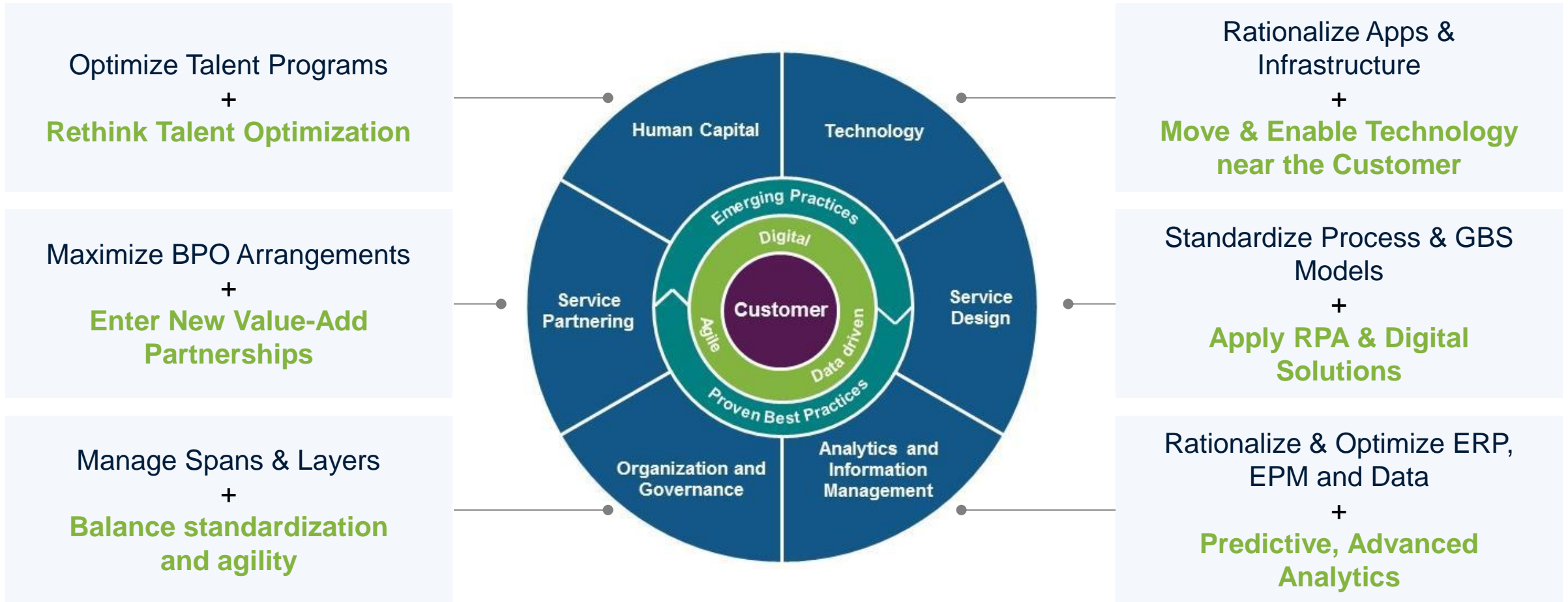


* Including predictive modelling, big data analytics, unstructured data analytics

** Including machine learning, natural language processing, speech recognition, expert systems, augmented reality

Source: 2017 Key Issues Study, The Hackett Group

Enterprise Optimization and **Digital** Transformation needs to take on Old and New Changes to Service Delivery Simultaneously



Companies are moving to drive out business complexity (and cost) while creating new capabilities, platforms (& complexity) to seize new opportunities.

Hackett Digital Service Delivery Model: Change capability cultural archetypes

Inerts	Disjointed Incrementalists	Bureaucratic Incrementalists	Holistic Transformers	Continuous Adapters
<ul style="list-style-type: none"> ▪ Failing to fully recognize need to change ▪ Deep internal resistance to change ▪ Endemic lack of employee engagement 	<ul style="list-style-type: none"> ▪ Lacking future-state vision and roadmap ▪ Disparate change initiatives ▪ Lacking effective leadership 	<ul style="list-style-type: none"> ▪ Rigidly defined future-state vision and roadmap ▪ Command-and-control leadership style ▪ Task-oriented talent pool 	<ul style="list-style-type: none"> ▪ Fluid vision of future state and flexible roadmap ▪ Strong leadership and delegated decision-making authority ▪ Outcome-oriented talent 	<ul style="list-style-type: none"> ▪ Multiple future-state scenarios and roadmaps ▪ Visionary leadership and decentralized decision-making ▪ Talent self-realization and motivation aligned with company values

Organizational **Digital** transformation adaptability 

Don't let Technology become an obsession... but be obsessed by the opportunities it offers

**“ People don't want
to buy
a quarter-inch drill.**

**They want a
quarter-inch hole.”**

Theodore Levitt –
former Harvard Business School
Professor of Marketing

What is Digital anyway? And what is different about Digital Transformation?

Hackett defines finance Digital Transformation as “improving customer experiences, operational efficiency, agility and business value contribution by fundamentally changing the way business services are delivered, using digital technologies as the enabler of holistic transformation



New Ways of Doing Things

- Move beyond just automating existing processes
- Define completely new ways of doing things
- Enable with emerging technologies (e.g., cloud, big data, RPA, social media)



A Customer Centric Approach

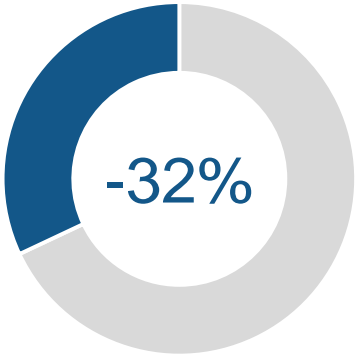
- Move beyond internally focused transformation
- Design from the “outside in”, starting with customer needs
- Design new ways to engage the customer (internal and external)



Velocity of Change

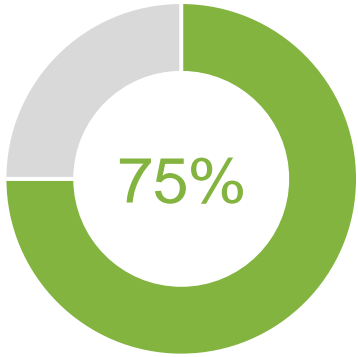
- Move beyond extended waterfall development cycles
- Execute pilots in targeted areas and scale up rapidly
- Shift focus from discrete projects to continuous transformation

Hackett conducted some analysis using our benchmarks, client experiences, and partners to try to understand the potential impact of Digital Finance



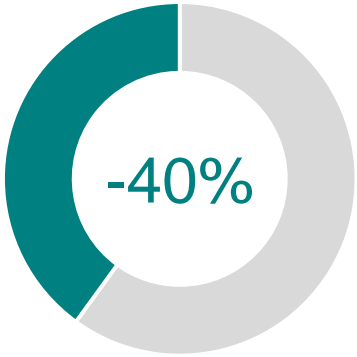
MORE COST EFFICIENT FINANCE

By leveraging today's opportunities digital technologies offer and a culture that focuses on outside-in improvements, companies will be able to reduce cost significantly



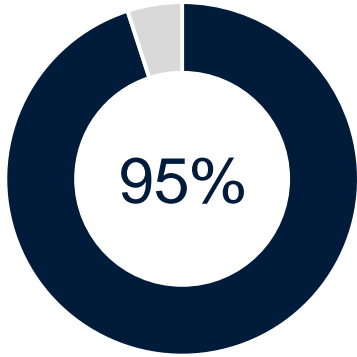
TIME SPENT ON ANALYTICS

Using digital tools, finance will see analysts spend 40% less time on collecting data, freeing up time for analytics.



CUSTOMER BILLING ERROR RATE

Digitization will reduce the rate of errors in customer billing by 40% from 1.67% using tools like RPA and artificial intelligence.



CREDIT SALES COLLECTED IN TERMS

Deploying predictive credit models and robotics will accelerate dispute resolution and improve receivables management by 10%.

**The digital opportunity is real and worthwhile ...
And will be the focus of today's presentation**

The Objectives of Smart Automation



- ✓ Drive out operating cost
- ✓ Accelerate time to value
- ✓ Eliminate work AND attract talent
- ✓ Reduce errors and rework
- ✓ Create data source for process mining
- ✓ Enhance compliance environment
- ✓ Recalibrate GBS / BPO placement decision

Digital Workforce



- ✓ Improves speed, effectiveness and efficiency of hire to retire process
- ✓ Enhances employee research and analytical capabilities
- ✓ Accesses best talent in the market using social media
- ✓ Empowers anytime anywhere collaboration within an evolving teaming environment
- ✓ Augments sharing and transfer of business knowledge
- ✓ Drives improved employee value proposition and increased engagement

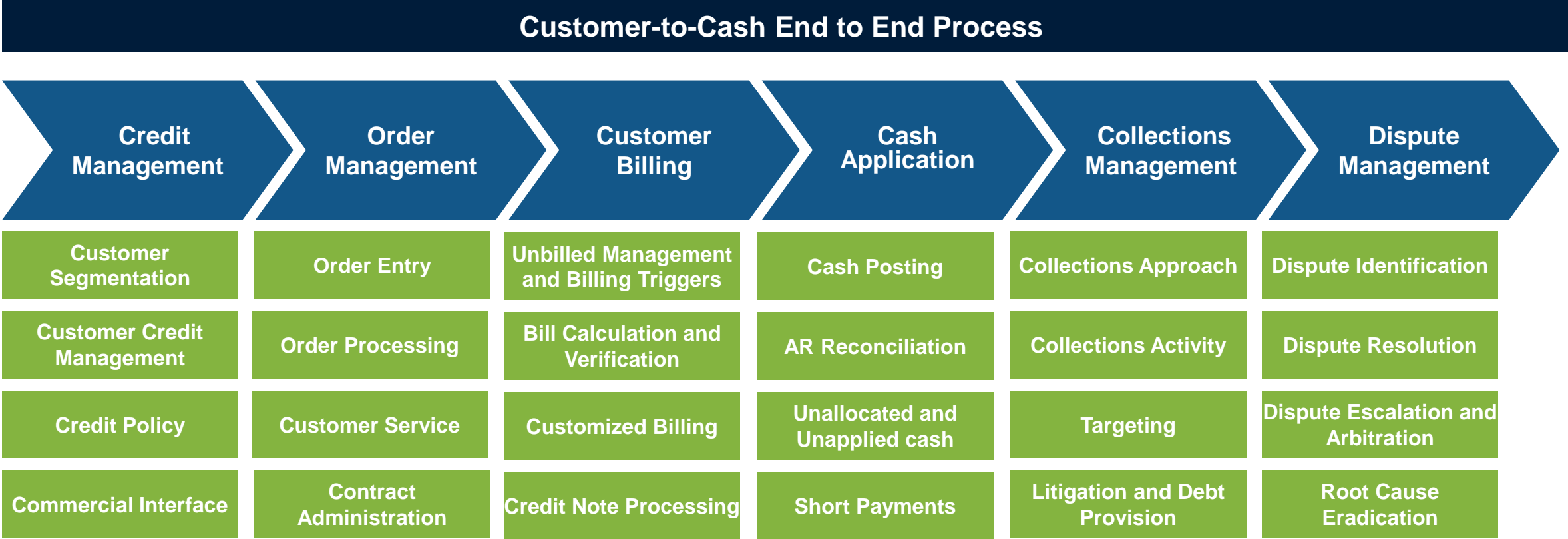
Wait for the highway to come?



Or fill the potholes to get moving?



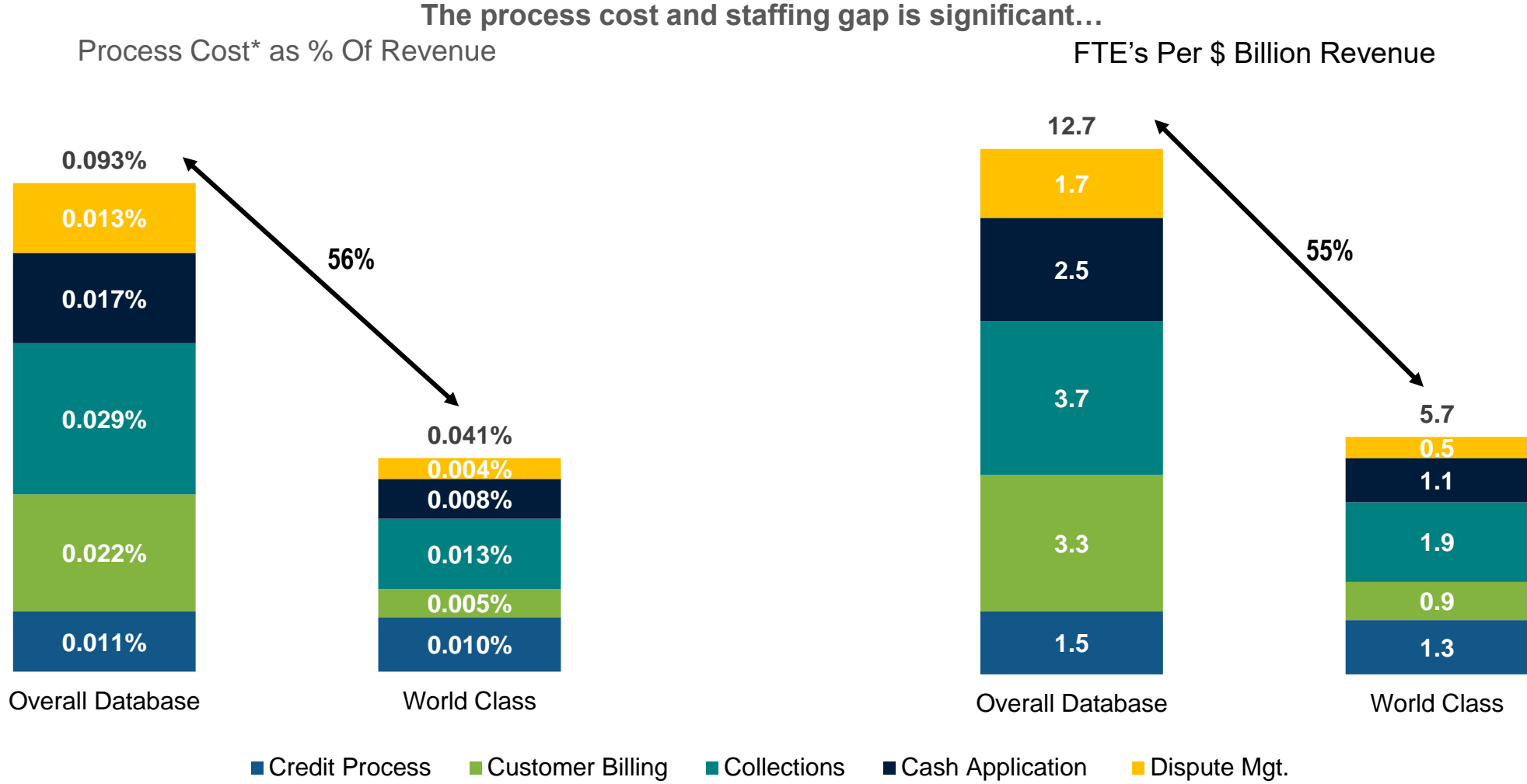
Customer-to-Cash covers all processes and activities from credit risk assessment through to collections and cash application



**... across the building blocks of effective change:
Strategy, People, Process, Technology and Information**

**Relationships
Metrics and Governance
Customer-to-Cash Policy
Organization and Systems**

Taking an end-to-end view World-class organizations have a significant staffing and process cost advantage

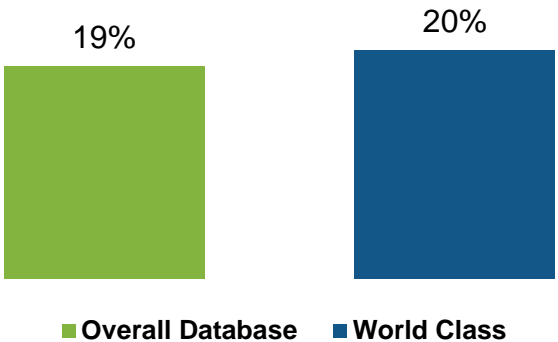


Source: 2017 Hackett Finance Benchmark

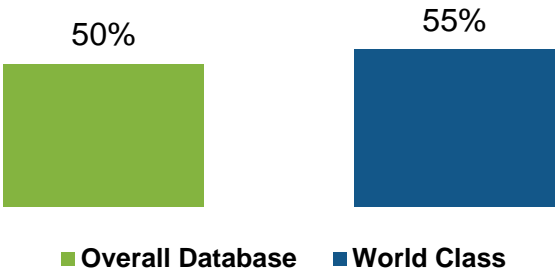
Note: Process cost = Labor costs + Outsourcing costs

World-Class organizations leverage technology and automation to create process efficiencies and an exceptional customer experience

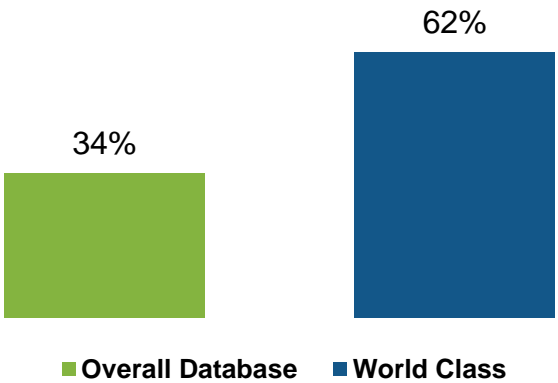
Percent of customer orders received electronically



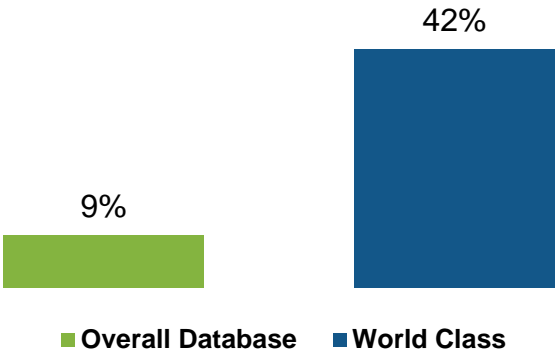
Percent of "Handsfree" Customer Invoices (Invoices generated and distributed electronically)



Automatic remittance posting match rate



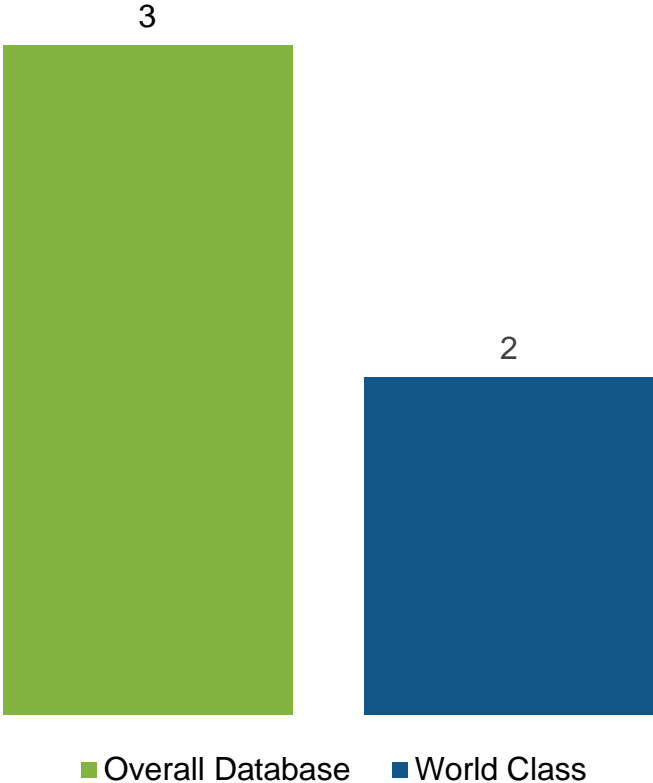
Percent of customers that can access account information via web-based applications



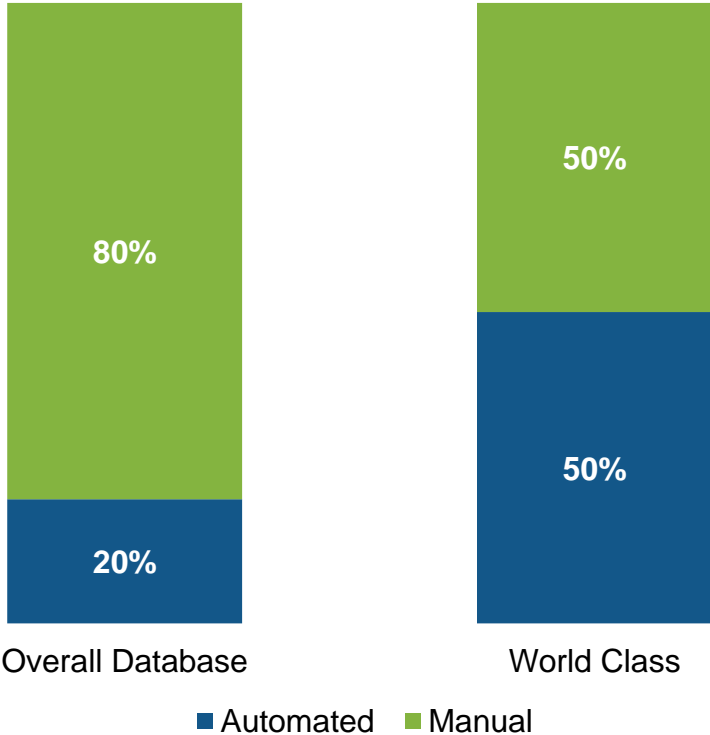
Source: 2017 Hackett Finance Benchmark

World-Class organizations are leveraging sophisticated, automated, and dynamic credit modelling tools to deliver fast, prudent results

Average time that it takes to complete new credit reviews (business days from receipt of credit application to final decision)

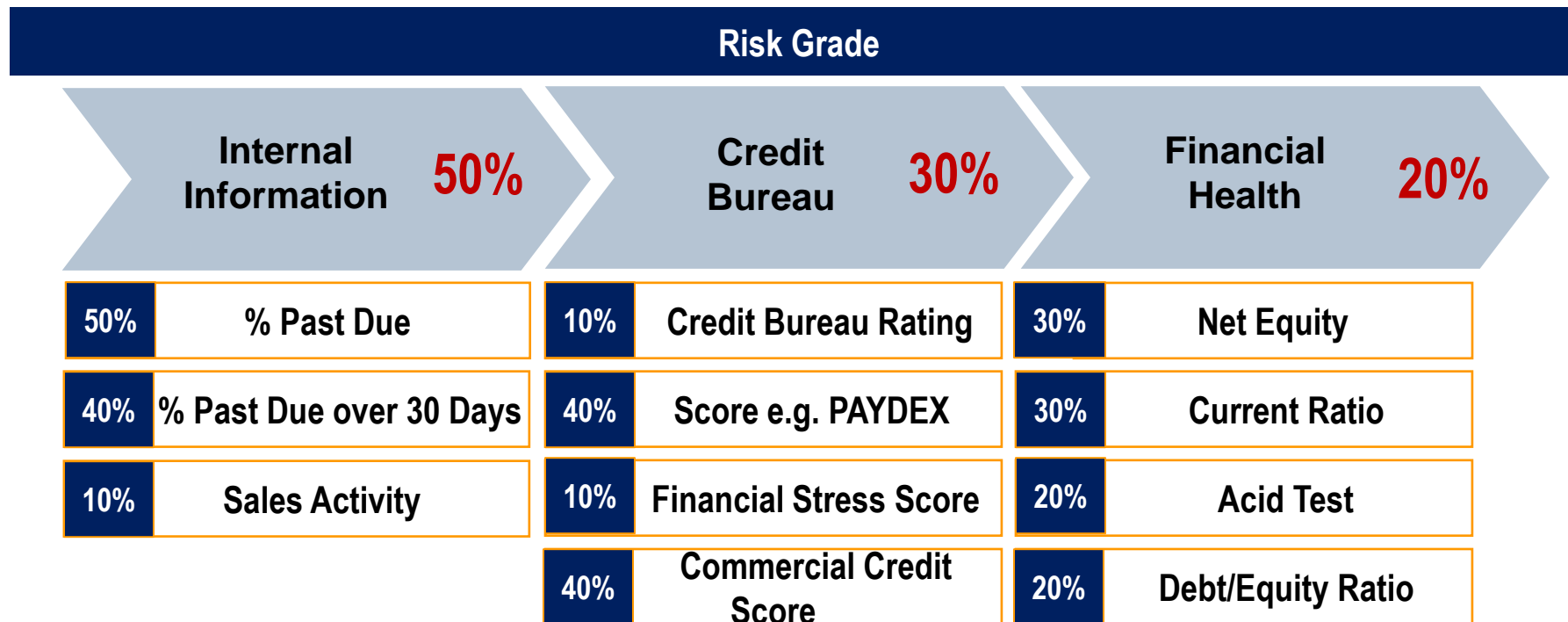


Automated Versus Manual Credit Modeling and Scoring



Source: 2017 Hackett Finance Benchmark

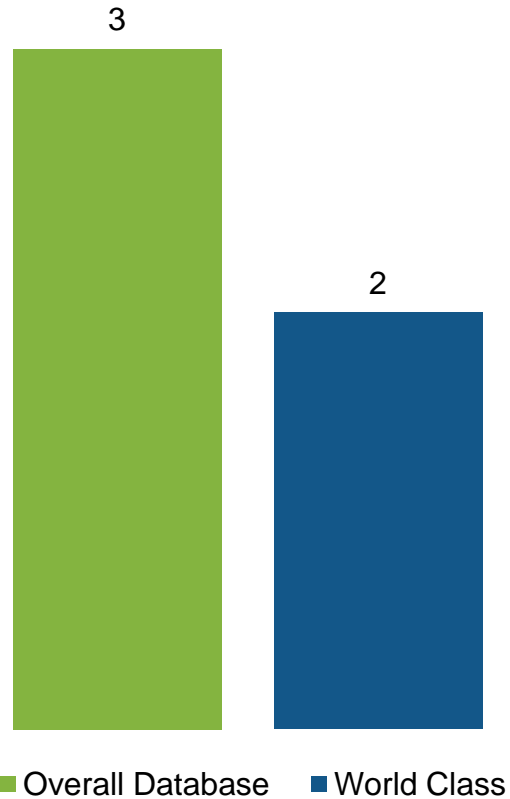
A World Class Credit/Risk model contains criteria weighted according to importance and combined to calculate risk grades by customer



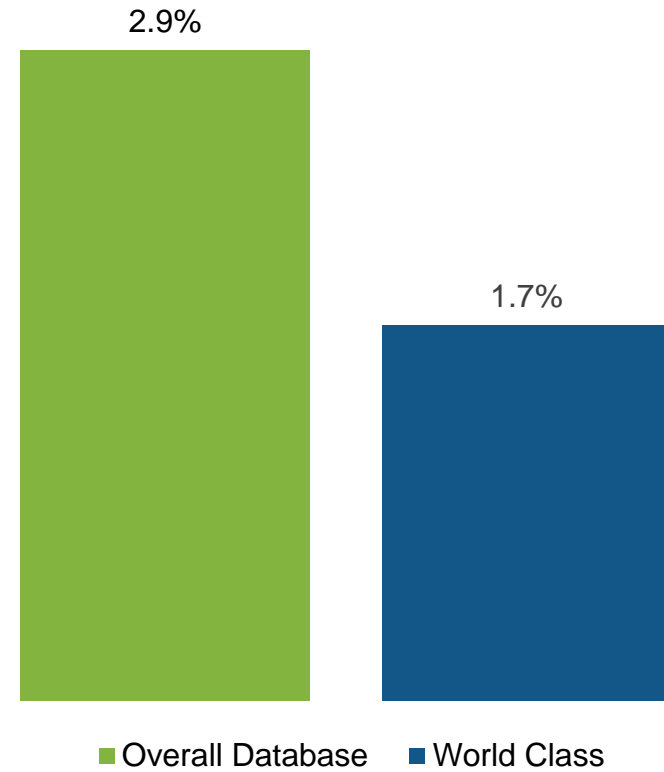
The assigned weights adjust dynamically if certain information is not available
 For example, if a customer has a D&B PAYDEX score but not a Rating, the model redistributes the weights

World-Class customer billing organizations are more effective and efficient, by having less errors and delivering timely invoices

Average Time it Takes to Bill (i.e., days from order fulfillment to bill being sent)?



Percent of Customer Invoices Corrected for Billing Errors



Source: 2017 Hackett Finance Benchmark

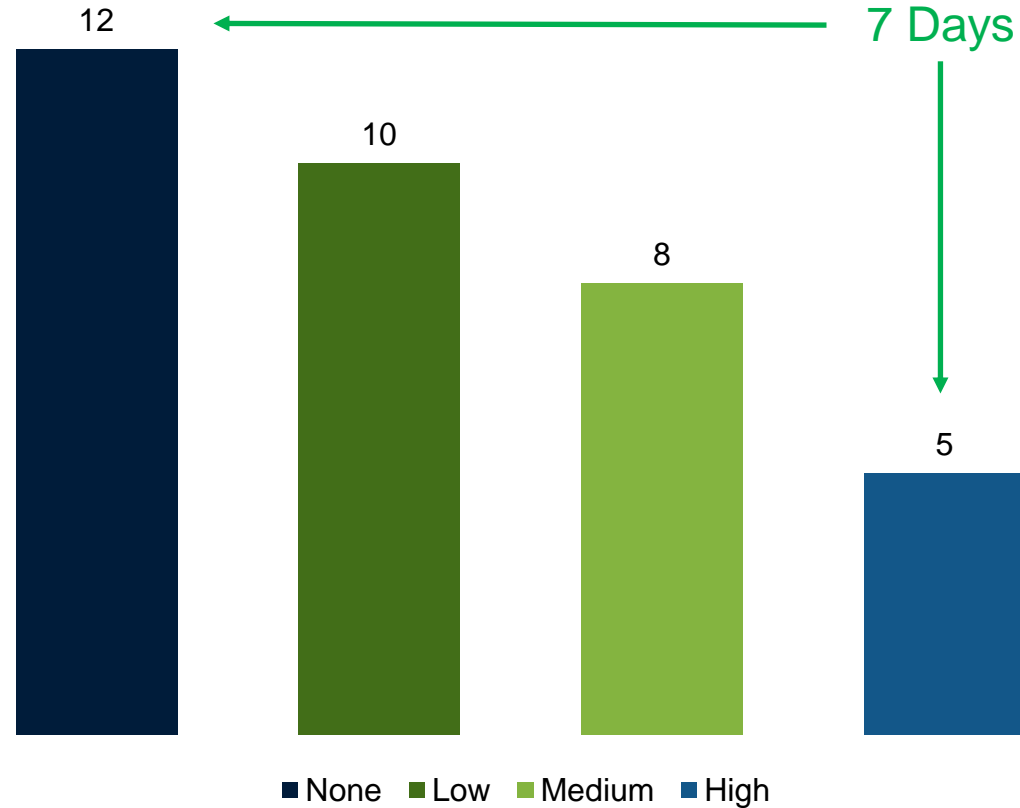
Note: Process cost = Labor costs + Outsourcing costs

Customer Billing automation is also correlated with improved receivables management metrics

Average Days Delinquent correlated with percent of automated customer invoicing

Invoice Automation Scale:

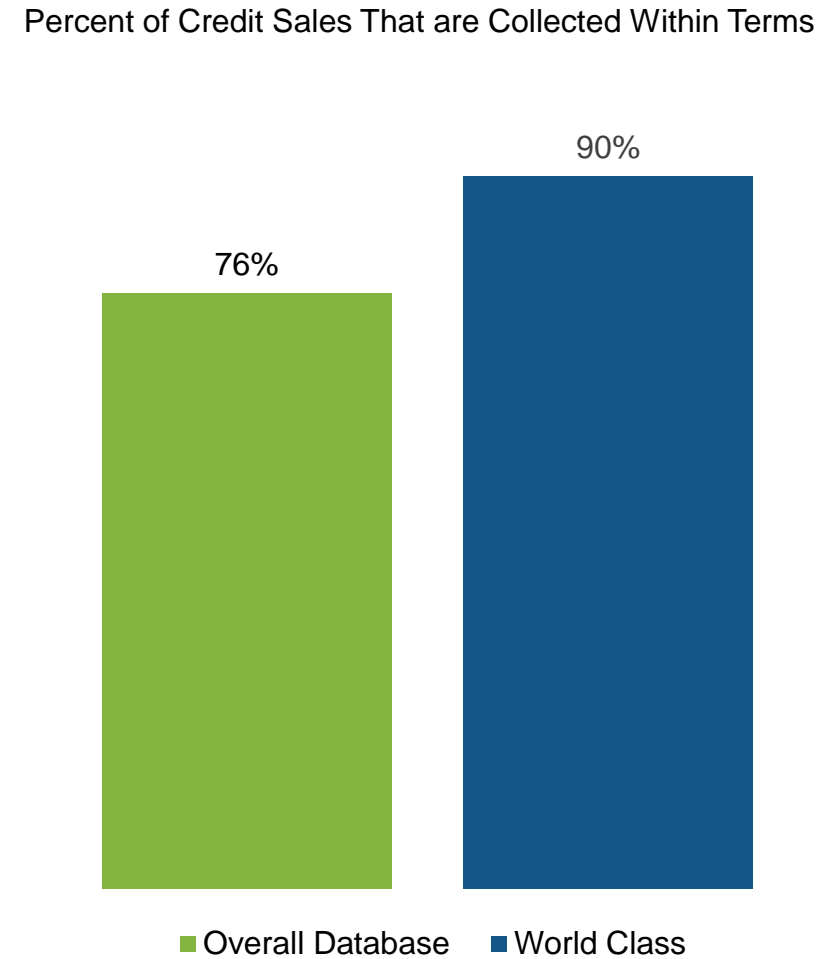
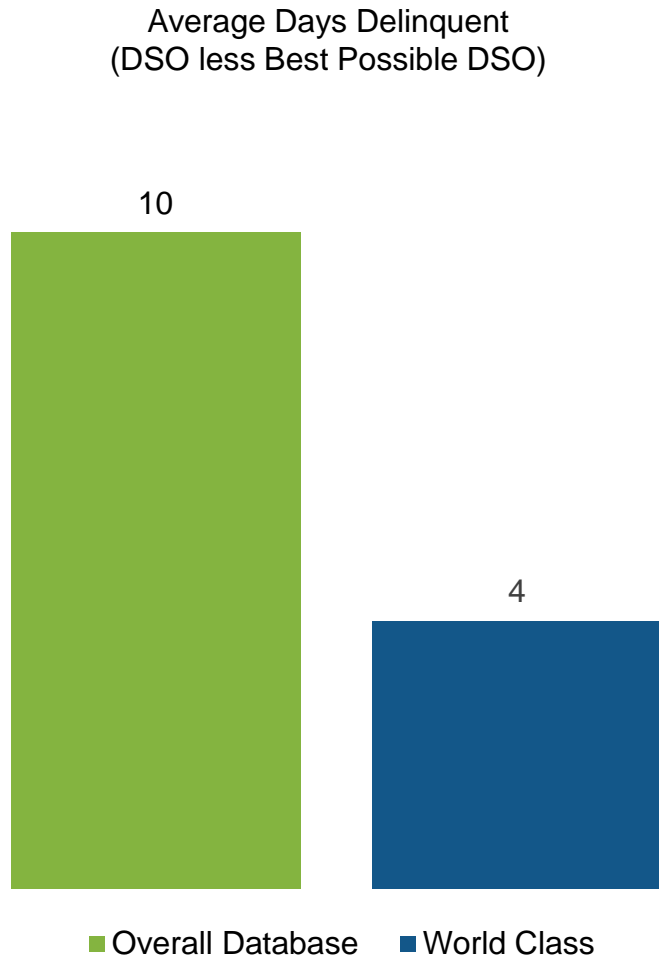
None = 0%
Low = 1-25%
Medium = 26-75%
High = >75%



Source: 2017 Hackett Finance Benchmark

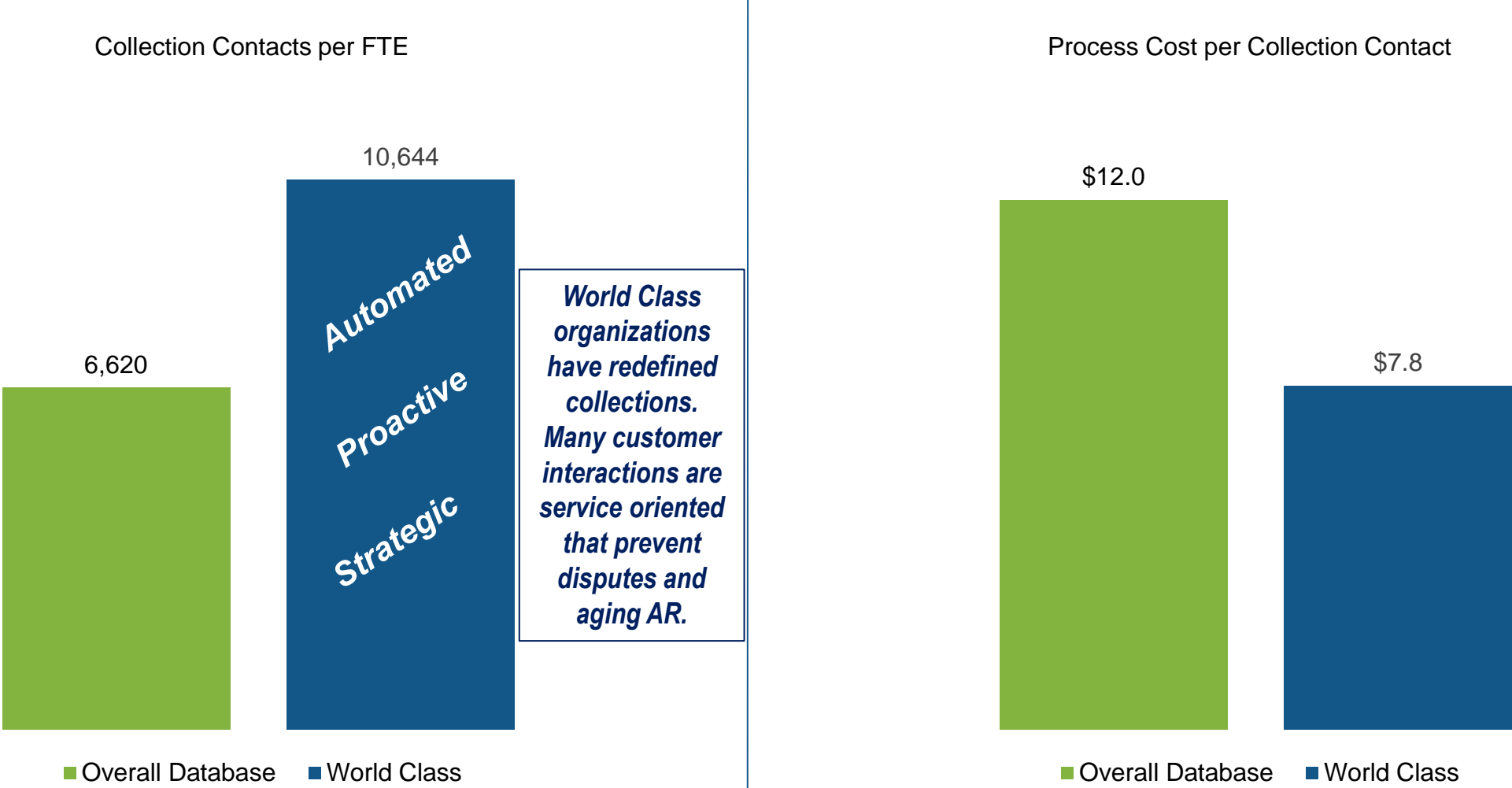


World-Class organizations deliver more effective receivables portfolio management



Source: 2017 Hackett Finance Benchmark

World Class collections management team achieve higher productivity rates and lower costs per contact



Source: 2017 Hackett Finance Benchmark

Customer segmentation should be defined to enable a 'Fit for purpose' approach to collections management rather than a one size fit all

- Proactive approach
- Customer visits to focus on relationship

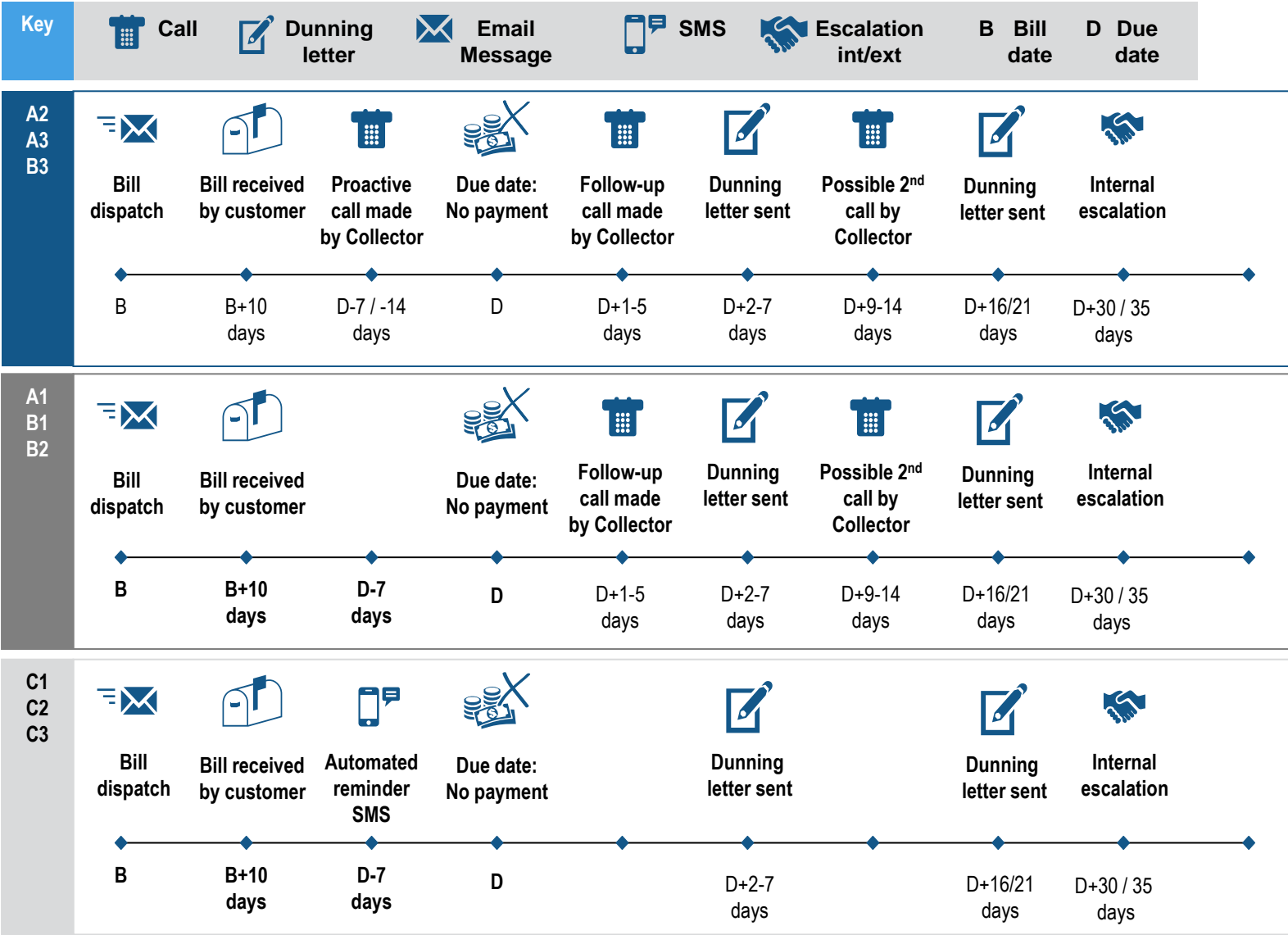
- Dunning candidates
- Customer profitability assessment (potential growth candidates)

Revenue	High	A1 High Sales Good Payer	A2 High Sales Average Payer	A3 High Sales Slow Payer
	Low	B1 Average Sales Good Payer	B2 Average Sales Average Payer	B3 Average Sales Slow Payer
		Good Payer	Payment Behaviour	Poor Payer

- Past due recovery
- Frequent & early contacts
- Total account coverage
- Involve sales / escalate

- Sell via other channel
- Credit card / direct debit for identified candidates (i.e., small / poor payer accts)




Collections strategies can then be developed and customized based on the defined customer segmentation



What is a Dispute?

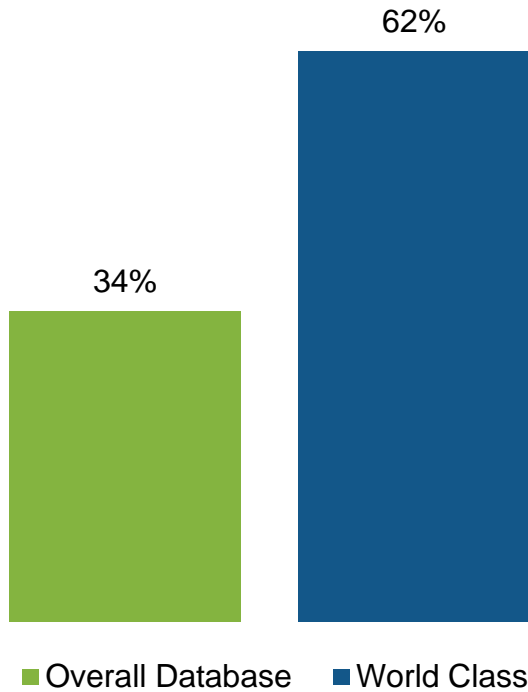
“Any unmet customer expectation, real or perceived, that results in short or non-payment of a bill.”

- Dispute Management focuses on disputes related to bills
- Disputes have a value tagged to them and therefore impact payment
- Dispute Management does not tend to focus on the wider field of CRM

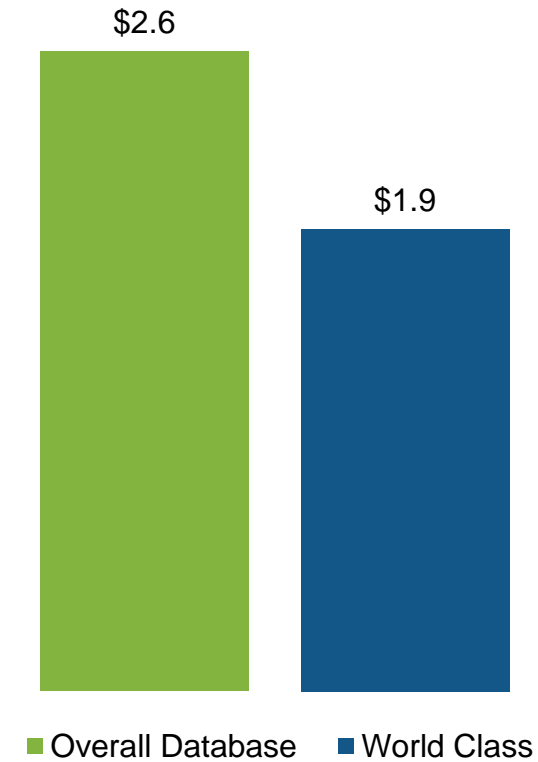
Dispute	Complaint	Enquiry
<ul style="list-style-type: none">> Specific problem that will prevent payment of all or part of a bill> Problem relates to quality of the product, delivery or documentation 	<ul style="list-style-type: none">> Serious issues which are the result of particularly poor service or treatment> Usually addressed to senior management (i.e. Chairman etc..) for resolution 	<ul style="list-style-type: none">> Can relate to almost any function in an organisation> Does not usually indicate that the customer is in any way dissatisfied 

Twice the percentage of “hands-free” Cash Application transactions provides a significant World Class advantage

Automatic remittance posting match rate



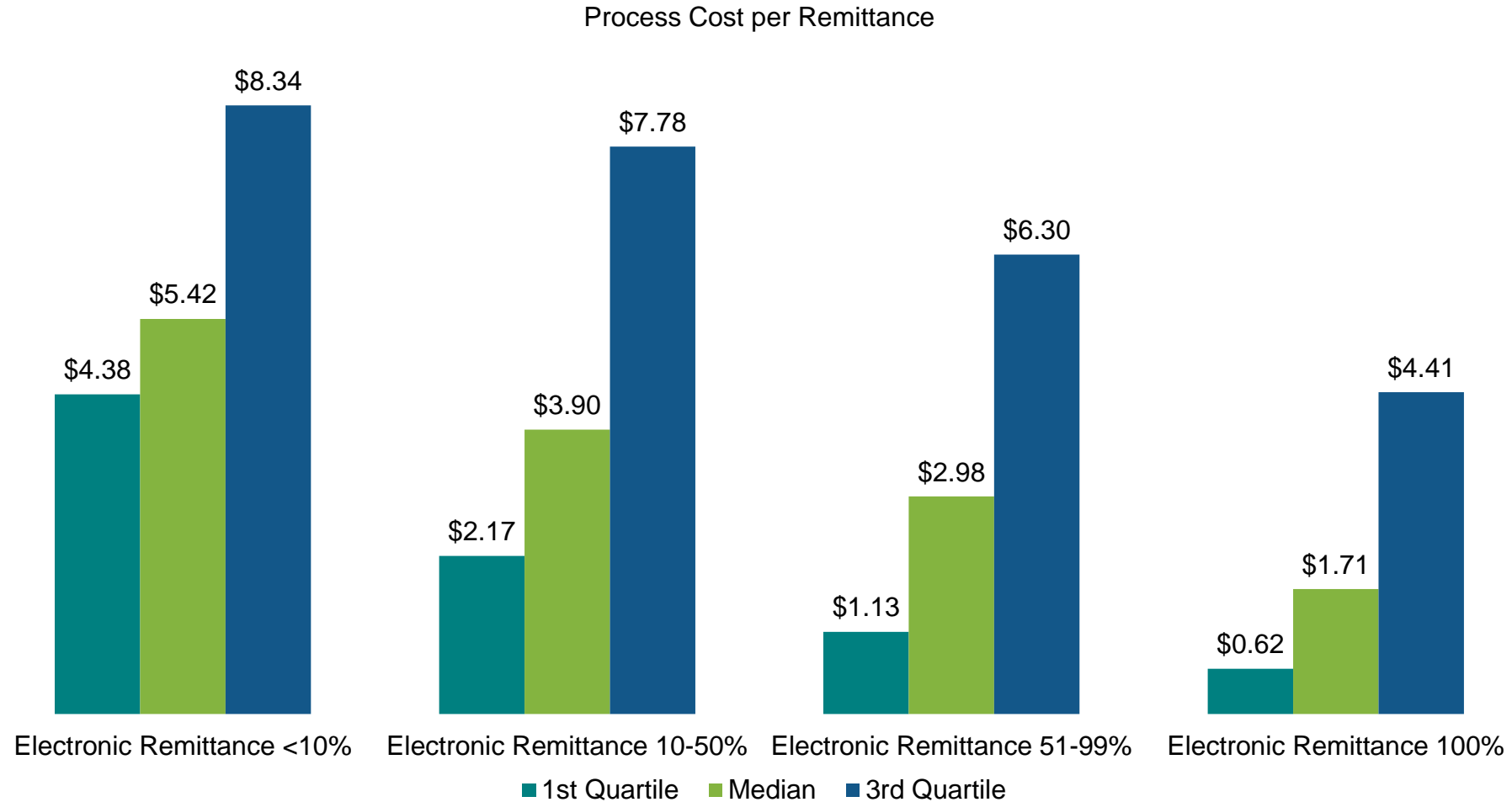
Process Cost* per Customer Remittance



Source: 2017 Hackett Finance Benchmark

Note: Process cost = Labor costs + Outsourcing costs

The Cash Application process challenge is not just payment automation but also electronic receipt of remittance advice (coupled with payment is ideal)



Source: 2017 Hackett Finance Benchmark



What is Dispute Management?

Identify

- Everyone throughout the organisation can identify a dispute
- The other functions are pre-determined depending on the nature of the dispute

Resolve

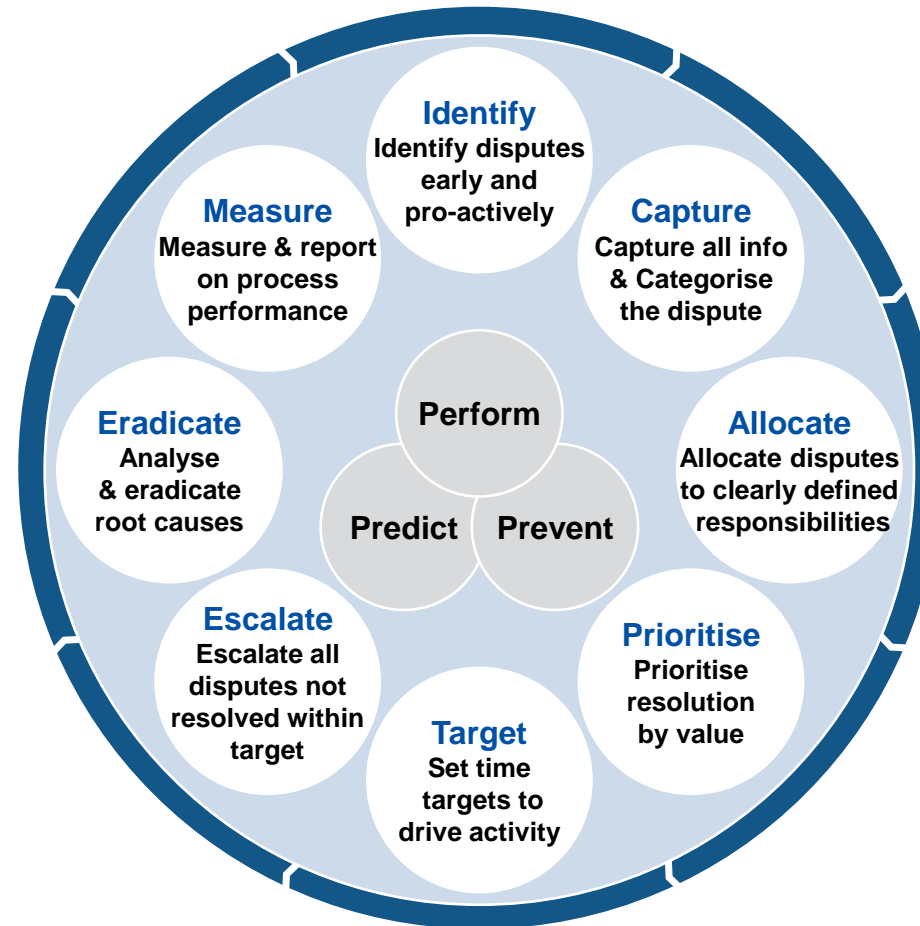
- The person or function who is most appropriate to solve the issue will be responsible for resolving the dispute

Analyse

- Tracking and measuring disputes is the only way to monitor the size, duration and nature of the problems

Prevent

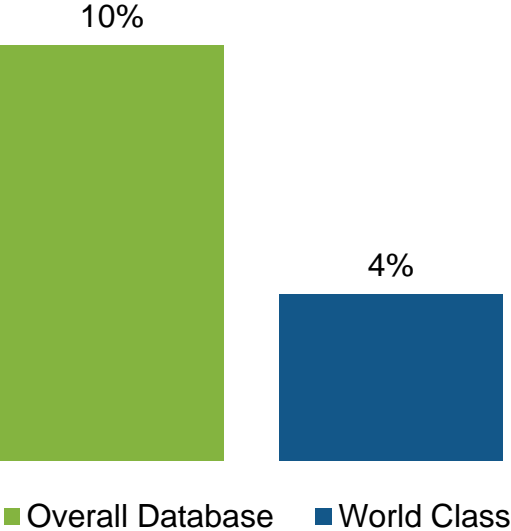
- The whole objective is to stop the same problems from happening over and over again



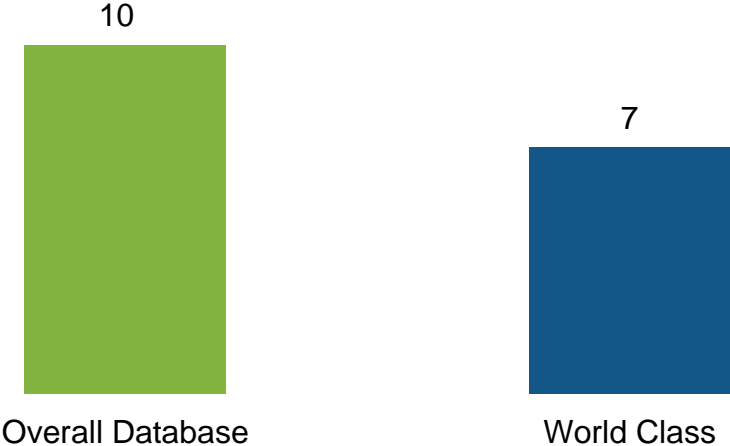
An effective dispute management process will increase levels of customer satisfaction whilst also reducing overdue debt

Top Performers have established a dispute resolution process that requires less escalation and speeds time to dispute closure

Percent of disputes are not resolved by the initial Resolver and need to be escalated within the management team



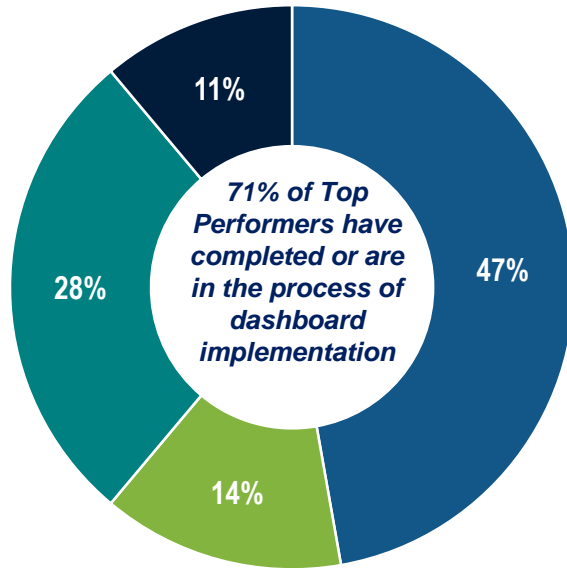
Average cycle time (in days): Resolution date to close date



Source: 2017 Hackett Finance Benchmark

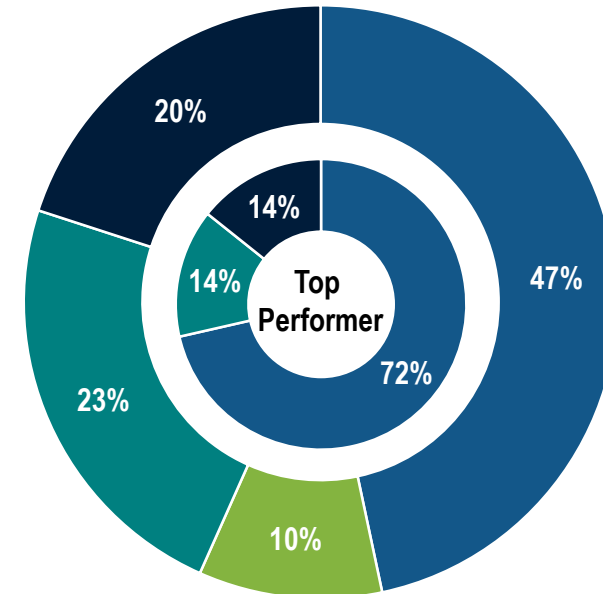
Performance dashboards identify the influence of disputes on receivables performance. Workflow tools expedite investigations and resolutions

Performance Dashboard For Monitoring All Disputes



- Completed and implemented (Yes)
- In process of implementation
- Currently evaluating this issue
- No plans to address this issue

Technology Enabled Workflow for Dispute Resolution



- Peer (outside circle)**
- Completed and implemented (Yes)
 - In process of implementation
 - Currently evaluating this issue
 - No plans to address this issue



Closing Thoughts – Digital Transformation

- ✓ Don't think that Digital Transformation is all about Technology – it's about Customer Centricity, enabled by new Technologies
- ✓ Digital Transformation doesn't come for free. Double down on enabling initiatives like expanding shared services, working capital optimization and most importantly keep driving out complexity and variations from processes and systems
- ✓ Adapt an agile improvement mentality. Experiment, fail fast and start over. But to minimize TCO in the long term, orchestrate pilots and manage your portfolio of digital initiatives
- ✓ To get the most out of Digital Transformation keep focusing on building the foundations (standard processes/policies, master data, integrated architecture, etc.)
- ✓ Invest in people early on!