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# THE \$1 TRILLION OPPORTUNITY IN DIGITAL SUPPORT FUNCTIONS

By Fabrice Roghé, Sukand Ramachandran, Yann Letourneux, and Nicholas Clark

**M**OST EXECUTIVES UNDERSTAND THE power of digital technology to improve performance in support functions, and many companies have begun the process of implementing it. However, they are at widely different points in the journey, and most have far to go. A recent BCG study found that only one in five companies, across industries, is actively pursuing a digital agenda and putting the right foundation in place. (See “What to Do When Support Functions Aren’t Ready for Digital,” BCG article, July 2018.) Unfortunately, organizations that wait will have a hard time catching up.

Digital technology provides a number of benefits. It reduces costs and creates transparency, empowering leaders to make smarter decisions more quickly. It also boosts service levels, producing a better experience for internal customers and resulting in fewer errors. (This is particularly true as the digital experience continues to improve for consumers in their personal lives; they have equally high expectations of digital experiences from their employers.) Per-

haps most important, leveraging the power of digital allows support functions to help business units generate new revenue and improve access to working capital.

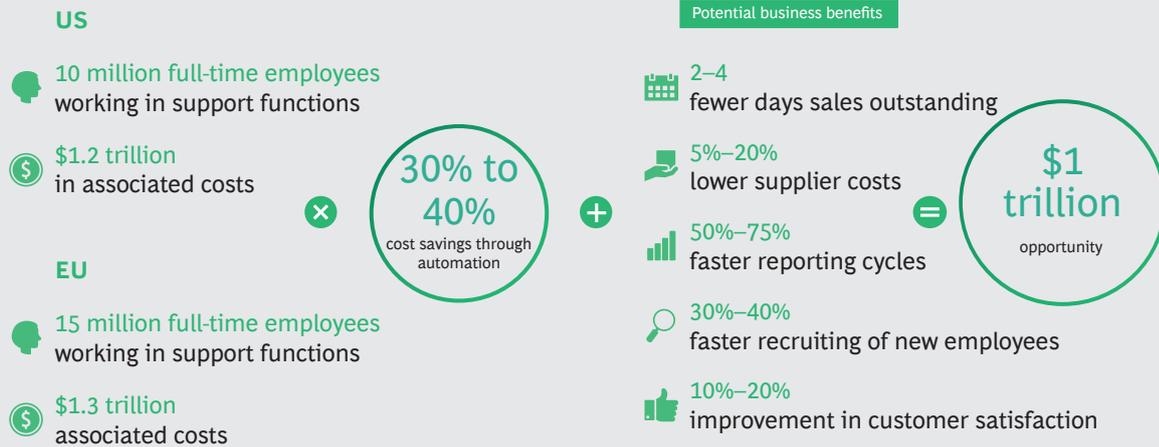
We believe that, overall, digital represents a \$1 trillion opportunity for companies in the US and European Union alone. (See Exhibit 1.) To seize this opportunity, support function leaders need to develop a bold vision and pursue it relentlessly through a three-part approach:

- Tailor the operating model and processes to harness the power of digital.
- Apply intelligent automation tools, such as computer vision, robotic process automation (RPA), and artificial intelligence (AI).
- Focus on creating business value beyond the recent push for cost reductions.

## Stopping the Squeeze

Increased competition has pressured com-

## EXHIBIT 1 | Digital Support Functions Are a \$1 Trillion Opportunity in the US and EU Alone



Source: BCG analysis.

panies to hit their financial targets, and support functions have often been squeezed as a result. Managers are asked—or ordered—to do more with less. In response, many support functions have adopted an overriding goal of efficiency and cost reductions. They have focused primarily on decreasing costs through brute-force standardization measures, putting in place self-service tools to push work back onto business units, reducing the catalog of services, bundling services, and outsourcing or offshoring activities.

Some executives have been tempted to approach digital with this mindset as well, viewing it as simply a means to further reduce costs. To be clear, digital can dramatically increase efficiencies that have significant financial impact. Depending on where a company starts, implementing the technology can lead to reductions in headcount of 20% to 30% and cut costs by up to 40%. If one considers that companies in the US and EU spend some \$2.5 trillion on administrative expenses, a reduction of 40% represents a potential savings of \$1 trillion.

Yet digital can also lead to dramatically improved service quality. It allows customers to have 24-7 access, and companies can “mass customize” processes, rather than just standardize them, through smart technology. Data is more accurate and error rates drop significantly. Our experience

shows that improved process design can free up three days per month for managers in both support functions and business units, allowing them to focus on activities that add more value.

Through such shifts in resources, digital can unlock real value. More transparent data leads to better and faster decision making. Leaders in support functions and business units have better insights, with a clear view of how their decisions will translate to improvements in such critical business metrics as days sales outstanding, price realization, and procurement terms.

### Common Pitfalls

So, why aren’t companies pursuing digital more actively? In fact, many are trying, but they often struggle to realize value because, unfortunately, there are a lot of ways to get digital wrong.

For example, some organizations try to take small, measured steps. They focus on incremental improvements, rather than on achieving a bold transformational vision. Or they wall off one part of the business and try to transform just that function rather than the entire organization. This is a bit like trying to turn a restaurant into a three-star operation solely by replacing the kitchen equipment. The skill of the staff, the quality of the food, and other factors are

all important in improving the customer experience. The large potential gain from digital requires a correspondingly orchestrated change effort, and small pilot tests won't be enough.

Other organizations try to overlay digital on top of existing processes. Given that most support function processes were designed for an analog, manual, standardized mode of working—and are driven by the need for scale—digital won't truly transform them; it will simply accelerate some segments while leaving much of the complexity and legacy issues in place. For example, adding RPA to a flawed process with an error rate of 40% won't fundamentally fix the problem; it will just generate errors faster. Instead, companies need to use the digitization process as an opportunity to redesign processes from the ground up and from end to end, making sure to prioritize business objectives and the user experience.

Still other organizations get digitization wrong by focusing on customer-facing units and ignoring support functions. Support functions often perform tasks that are core to the business (such as collecting cash), and they should be recognized as the digital transformation engine that powers the whole organization. By improving internal processes—such as unlocking cash through more efficient billing processes or resolving internal queries faster—digital support functions can show what's possible and serve as a model for customer-facing units.

## A Three-Part Approach

To overcome these pitfalls, companies should follow an integrated, three-part approach. (See Exhibit 2.)

**Tailor the operating model and processes for digital.** Support functions need to put the right foundations in place by rethinking their operating model and processes.

Traditionally, support functions have been organized as a set of isolated departments with concentrated, internal expertise. What organizations need instead is an operating model built around customer journeys. Companies should identify the critical support functions that internal customers need and then determine how departments can best provide them.

This often entails inverting the traditional approach to process design by putting the customer first, streamlining bureaucracy, and fostering collaboration throughout the department. Critically, the new processes should capitalize on the advantages of digital from end to end, to improve data accuracy and enhance productivity. And they should be customizable wherever possible to accommodate market-specific factors, such as local regulations.

**Apply intelligent automation tools, such as computer vision, RPA, and AI.** Rather than an all-of-the-above approach to digital, support function leaders should understand the universe of digital solutions and how they can best be applied to specific objectives. For example, RPA programs use rule-based algorithms to automate and streamline straightforward tasks, such as pulling data from a form or populating cells in a spreadsheet. Similarly, computer-vision algorithms can extract data from nontext sources, such as images and videos. AI and machine learning, by contrast, are smart enough to make decisions independently, and because they use experience to improve their performance, they get better over time. These tools—which

### EXHIBIT 2 | A Three-Part Approach to Support Digital in Support Functions

#### Design a new operating model and revamp processes end to end

Establish customer journeys, single decision makers, and data consistency for improvements in quality and productivity

#### Apply intelligent automation tools

Replace employees, or assist them, to reduce costs and increase service satisfaction

#### Focus on creating business value, not just cutting costs

“Mass-customize” services to increase flexibility and adapt to the needs of the business

Source: BCG analysis.

can either replace employees or complement them—are enabled by cloud-storage solutions and big-data tools that increase the availability and accessibility of data, leading to lower costs and higher satisfaction levels.

**Create business value beyond cost reductions.** Support functions should think of digital as an opportunity to move beyond cost-cutting toward a mindset of creating value. This shift typically follows an evolution from standardized and centralized transactions (where many companies are today) to processes that use intelligent automation (further reducing costs) to completely redesigned processes that increase service levels and free up employees and managers for more value-added tasks (the ultimate goal).

## Getting Started

In the past, support function expertise was primarily focused in technical areas, such as HR and finance. Today, those skills are still required but are concentrated among a smaller number of employees, and companies have a growing need for digital talent that can apply the principles of data-driven solutions across various support functions. Most support function organizations, therefore, will need to begin their digital journey by establishing skills in other areas, such as data science and data engineering. They can do so by either developing those skills in current employees or hiring new talent. This is a marked shift from the traditional paradigm. Some organizations have even created a focused center of excellence for data science and engineering, with the specific mandate of empowering staff to create value in support functions.

What's more, rather than plotting a traditional, sequential, "waterfall" transformation (with a long period of strategizing and implementation), many companies benefit from implementing an agile approach. They choose a few lighthouse projects that can deliver value quickly and prove the concept, then begin to build capabilities

and generate momentum for more ambitious measures. Because digital technology is advancing so quickly, choosing to wait is a bad idea. Companies need to jump in, learn through experience, and correct their course when appropriate.

One company, for example, was struggling with outmoded manual steps and high volumes—compounded by a complex pricing mechanism and little transparency—in its order-to-cash process. Each year, as the company processed about 200,000 deductions (for such things as large-order discounts), some were mistakenly accepted, others were mistakenly rejected, and customers were often frustrated by the discrepancy in their bills. The company began digitizing the process by looking at it from the customer's perspective, identifying the ideal experience, and then working backward to create it. As a result, the company was able to redesign the process using tools that could anticipate deductions for standard situations, dramatically reducing the error rate and improving the customer experience. The entire effort, from starting point to a working prototype, took just 12 weeks.

In another example, a leading global bank launched a broader transformation with correspondingly larger benefits. By digitizing its entire shared-services center, the company was able to reduce the number of full-time employees from 40,000 to 25,000 and—more impressive—to create value of \$600 million to \$900 million.

**I**N SUM, DIGITIZING support functions represents a tremendous opportunity to not only reduce costs and increase efficiency but also unlock new value. Most organizations are closer to the beginning of this journey than the end. By following the three-part approach discussed here—designing a new operating model and processes, putting the right technologies in place, and relentlessly focusing on value—companies can give themselves a boost and a clear edge over the competition.

## About the Authors

**Fabrice Roghé** is a senior partner and managing director in the Düsseldorf office of The Boston Consulting Group and the leader of the firm's People & Organization practice in Europe and the Middle East. You may contact him by email at [roghe.fabrice@bcg.com](mailto:roghe.fabrice@bcg.com).

**Sukand Ramachandran** is a partner and managing director in the firm's London office. He is a coleader of AI@BCG and is an active member of the Technology Advantage practice in Western Europe. You may contact him by email at [ramachandran.sukand@bcg.com](mailto:ramachandran.sukand@bcg.com).

**Yann Letourneux** is a director in BCG's Paris office and a core member of the Operations, Technology Advantage, and Financial Institutions practices. You may contact him by email at [letourneux.yann@bcg.com](mailto:letourneux.yann@bcg.com).

**Nicholas Clark** is a principal in the firm's London office. You may contact him by email at [clark.nicholas@bcg.com](mailto:clark.nicholas@bcg.com).

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