Seizing the next digital opportunity

By Carmen Ene and Nick Gallop, 3 Step IT

**Digitisation is widespread**, the next step is digitalisation. It offers the opportunity to re-engineer business processes and create competitive advantage. But opportunity is not always realised: skills are in scarce supply and the expectations for a digitalisation project are not always realistic. What should we hope for? Where should we focus? How can we maximise the chances of success?

**Dramatic opportunity? Or the brink of disaster?** We have all done digital, the replacement of analogue with digital processes: modern enterprises cannot exist without it. Digitalisation is the next iteration. According to Gartner¹ it is ‘the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business.’

Why the definition? Partly because the ambitions for these projects frequently fail to be realised: 88% of Forbes 2000 Global organisations are on a digitalisation journey of some kind, with only 16% of these projects succeeding.²

And partly because these ambitions are hardly challenging: even now, 82% of IT development managers see digital transformation merely as ‘going paperless’,³ a perspective stuck in the last century that misses the chance to challenge tradition and change the landscape. A focus on tactical improvement rather than strategic transformation misses the chance to change an industry.

You can see the power of strategic transformation simply by comparing Blockbuster and Borders, both efficient retailers, with Netflix and Amazon.

The potential on offer is clearly of fundamental importance. Even if your traditional competitors are not on the digital transformation journey, new competitors, without the baggage of historical infrastructure, are built to be digital from day one. These new digital competitors may threaten your business model without warning. How can we improve on that miserable 16% success rate?

**Understand why.** While the next wave of digital projects guarantees an exciting ride, their outcomes are less predictable.

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**Table 1: Economic outcomes vary with the part of the business being digitalised**

<table>
<thead>
<tr>
<th>Digitisation of ecosystems</th>
<th>Digitisation of processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>0%</td>
</tr>
<tr>
<td>Digitisation</td>
<td>0.5%</td>
</tr>
<tr>
<td>Full</td>
<td>-1.1%</td>
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<tr>
<td>None</td>
<td>0%</td>
</tr>
<tr>
<td>Digitisation</td>
<td>1.2%</td>
</tr>
<tr>
<td>Full</td>
<td>-1.0%</td>
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</tbody>
</table>

Note: y axes scale to different values

Digitising an ecosystem helps to grow sales, at the same time it affects the way participants interact, and may reduce earnings. Digitising processes will reduce costs, with the result that while there may be less revenue, it will be more profitable revenue.

Source: Based on McKinsey. The case for digital reinvention, 2017
Some digital investments fail to return their cost of capital: maybe due to a poorly targeted investment, or perhaps well targeted, but over or under invested, or simply due to finding their digital advantage competed away.

Digitisation puts pressure on revenue and profit growth by reducing economic friction for the industry as a whole. That is an average result, so some companies, those who lead and also those who implement their plans most effectively, gain at the expense of laggards and those with poor execution.

So there is an imperative to act, but not with just any action. Whether digital or not, it is always important to pick winners. Given the novelty of the transformation, this is more difficult than usual, so it is critical to be clear about the risks, the reasons and the overall strategy for these initiatives.

Some areas ripe for digital transformation offer greater chances of success. This is partly because of their nature, and partly because there is a series opportunity, so the organisation can learn and improve as it repeats the transformation process.

Digitising ecosystems gives an organisation a chance to work more effectively with suppliers, especially when they are selling together. There will clearly be an enhanced risk, as failures will to some extent be public. Equally there will be an opportunity to manage this risk by replication: successive attempts can build on the experience gained to deliver ever improving outcomes.

Internal processes offer the opportunity to reduce costs, and in the case of failure, the initiatives generally remain a private matter, with the chance to try again on the same process or to choose another one. There are many processes with the potential to be automated so the organisation has an opportunity to learn and transform processes with more reliable outcomes as it gains experience.

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**Digitise processes, and repeat.** This is an incremental approach to digital transformation. A single digitised process is hardly a revolution; a systematic approach to automating a series of processes eventually produces an organisation that is more efficient and more responsive; a more attractive partner and a more formidable competitor. In the asset finance industry, it also delivers processes which are predictable, and offer regulatory compliance with clear audit trails.

Every organisation has core business processes, which define the business and provide its service: these are generally handled by bespoke IT systems. Next there are business support processes which require efficiency, but need not necessarily be distinctive. Purchasing is a good example: more efficient buying, with a more responsive service, can make a big difference to operating costs and margins, but not to the nature of the service the business offers. These processes are often handled by outsourcing in some way.

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**Table 2: Digital investments produce widely varying returns**

| Return on investment (ROI) for digital initiatives, % of responses (n=2, 135) |
|-----------------|-----------------|-----------------|
| ROI less than cost of capital | 0 to <10% | 10 to >25% |
| ROI greater than cost of capital | 25 to <50% | ≥50% |

<table>
<thead>
<tr>
<th>low</th>
<th>high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall average</td>
<td>Industry average</td>
</tr>
</tbody>
</table>

Source: Based on McKinsey. The case for digital reinvention, 2017

**Table 3: There is a long tail of business processes with automation potential**

Automation has happened where there were economies of scale. This leaves many processes, individually small, collectively huge, still the subject of manual, repetitive piece work. In many of these processes there are tasks which are boring and predictable with the potential for automation.
Then there are processes which, even though they have not been automated yet, have boring, repetitive elements. One way to improve the economics of these processes has been to offshore them to a cheaper part of the world, an approach that carries its own risks.

Some processes may be 100% boring, repetitive and predictable, and it has simply been too difficult to automate them; or maybe the volume has been too low; or maybe the regulatory rules change, so it has been easier to train people to change the process rather than to automate it and then change the automation when the regulations change.

Now the ability to automate and use robotic processes is evolving fast. In the finance department, for example, it is forecast that, with a three-year horizon, ‘Machine-learning and robotic systems will ruthlessly automate many routine processes, freeing up your finance team to spend 75% of its time on decision support and predictive analysis, guided by artificial intelligence and input from statisticians, data scientists, behavioural economists, and even anthropologists’.4

Robotic Process Automation5 allows employees to define software “bots” to interact with applications and perform high volume, repetitive tasks. Given that they are using information from companies’ IT systems, data quality is assured. Data quality is also more certain than in some of the ‘swivel chair’ processes where data is transferred by an individual, from one system to another, or to a spreadsheet, with the potential for human error. Automating this process offers potential to go further: if the outcome from a decision proves faulty, machine learning can help to optimise processes, like credit decisions or fraud detection.

All organisations have some of these tasks, some have many, all ripe for automation. A systematic approach to automating them will reduce costs and free people to add value. Eventually, the incremental approach to automation if pursued consistently, has the potential to transform the organisation.

Digitising the ecosystem. Many asset financing companies see a limited future for providing pure financing. For all but the largest transactions, with nothing to distinguish one source of finance from another, pure financing offers a race to the bottom on rates.

The most obvious type of service to offer the user is associated with the product they are about to finance. There is an issue when the financier enters this territory because asset finance is provided to assist investment in an asset, effectively to support its sale, and the financier needs to work with, rather than compete with, the sales channel.

The financier needs a channel strategy to encourage cooperation or partnership, so the manufacturer or distributor of the product will choose to work with them. The issue is that just like the financier, the sales channel will also want to provide these product-related, margin-rich, value-added services. A recipe for channel conflict.

At 3 Step IT our channel strategy is clear: we provide services related to managing the asset through its life cycle; in particular asset management and end of life remarketing. We do not provide services that are usually supplied by the IT channel. There is a paradox to resolve because clients want all these services, life cycle related as well as product service and support, and to compound the problem, sometimes they want all of them in a single contract.

Digitising ecosystems gives an organisation a chance to work more effectively with suppliers, especially when they are selling together.
Today we offer a handcrafted approach: we negotiate with the user to supply our usual device life cycle services, and also IT services to install, support and maintain the devices. All the elements are in one contract, and the IT services are provided by the IT channel. There is a lot of negotiation with the client and with the IT channel partner, to produce the single contract the client wants.

The next step will be to automate the participation of IT channel partners in these contracts; a leap forward that Application Programming Interfaces (APIs) make possible. The API introduces a new way for companies to connect, share and manage data and applications, in this case information about a value-added service, to achieve a business outcome faster.

APIs already provide real business value. For example, eBay uses APIs to allow sellers to submit items for listing on eBay, display their eBay listing on other sites and receive bidder information for items being sold. This is clearly of mutual benefit: sellers advertise their sales more widely to make their sale at a higher price; in turn, eBay increases the commission it earns, and today generates 60% of its revenue through API-related sales.

The API supported contract of the near future will potentially allow our clients to specify the added services they want; it will be a broker for these services to the IT channel; and it could allow a reverse auction to provide the services. The client gets the single, comprehensive contract they want; the IT channel is involved in a complementary and collaborative way; and 3 Step IT wins more value-added finance sales.

This approach also offers the opportunity to iterate and improve. For example, we can test whether a reverse auction builds a better contract than a set price offer with the specific service clearly stated, maybe offering a bit more, or a bit less service than the client originally requested.

**The future starts now.** This short paper explores some of the potential that digital transformation offers. But it is not an offer for the far distant future. The technologies for these transformations are available now, even if the skills to support some of them are in short supply.6

Robotic Process Automation can happen now; API technology already exists today. While these initiatives can be started and repeated (which will help to close the skills gap), a piecemeal approach (even if energetically pursued) will not deliver optimal results. Being an early mover confers advantages, but only if the moves are in the right direction. Bold, integrated digital transformation strategies will differentiate the companies that win, and the biggest winners will be those whose strategy leads to digital disruption.

**Table 4: A single contract for a more complete service**

A single contract with 3 Step IT for many thousands of devices includes complementary IT channel partner services to meet the user requirement for a single supplier approach. The combined offer gives access to technology, spreads costs affordably, improves usability and reduces IT administration.

**Notes:**
1. The definition of digitalisation, according to Gartner: http://www.gartner.com/it-glossary/digitalization/.
5. The term Robotic Process Automation was coined by Blue Prism and now widely used, e.g. Agile Finance Revealed, Oracle, 2017.
6. For one example, see Digital skills crisis, UK Parliament Science & Technology Committee, 2016, which forecasts a 15% skills gap over the next eight years.