Insight Report

optsm
MAKE LIFE SMARTER

Removing the Cost of Productivity Lock

Tackling the impact of unnecessary manual processes and missed digital opportunities

Introduction

Contents

1 in 3 working hours are spent on tasks that can be readily automated today

Productivity Lock is the cost of doing nothing

Productivity Lock is a sub-optimal equilibrium state that is a significant cost to UK businesses. It creates a drag on cashflow and it stalls growth.

It's a combination of the cost of doing things manually that would be better done by software and the cost of unbuilt digital services and unimproved customer experience.

The cost of doing things manually that could be automated (Person-o-Matic processing) is around 8% of turnover in manpower cost alone for the typical UK business.

Productivity Lock is a state that exists because the perceived cost, time to deliver and risk of deploying the commercially available technology that releases it outweighs the perceived benefits.

Unlocking productivity and removing the cost of manual processing plus missed opportunity presents a huge opportunity to UK businesses. A Fresh Approach is making it accessible to all.

Productivity Lock: A Sub-Optimal Equilibrium

Productivity Lock is particularly prevalent in mid-size firms. Where systems have been in place for some time and processes are embedded.

Larger enterprises have the economies of scale, the investment budget and the time to allow benefits to be realised over 2 or more years.

They have the capacity and resources to absorb the effort required to break free. Smaller firms and start-ups don't have the legacy, change is less complex and new methods can be readily absorbed.

In mid-size firms there is the worst of both worlds. Making change to complex embedded processes and replacing, upgrading or extending the functionality of legacy systems is no less of a challenge than in large enterprise.But there aren't the economies of scale that go with it.

Mid-size firms, like smaller firms and start-ups, have a more immediate-term cash focus. Which makes any significant cost to get started a big consideration.

The UK Productivity Gap has been a source of much debate. In 2019, The Office for National Statistics (ONS) said the "productivity puzzle" had been a problem for years. It said labour productivity was lower over the past decade than at any time in the 20th Century. *"It has taken the UK a decade to deliver 2% growth, which historically was achieved in a single year,"* said ONS deputy chief economist Richard Heys.

Breaking free of the shackles, releasing people from tasks that would be better executed by readily available technology and delivering the products, services and customer experiences that today's digital consumer demands will be key to addressing the productivity gap.

Why Does Productivity Lock Exist?

Productivity Lock – the cost of doing nothing – owes its existence due to two factors.

- The IT Barrier
- Transformation Stalemate

The IT Barrier

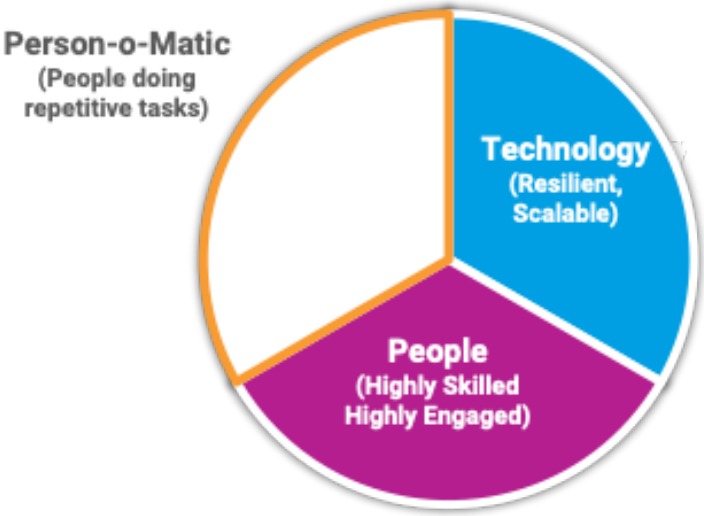
Firstly, the IT Barrier . Most organisations are still burdened by a patchwork of legacy applications that either hamper the running of basic business processes in some way or have a high cost to change. The IT function has to ensure that this 'platform' that supports the business is secure, stable and performant. The IT function is also called upon to change and extend the capability of the platform as the needs of the business evolve.

In a traditional software model, changing or extending the capability of the platform requires expert knowledge, skill and control. At worst it's like open-heart surgery – making changes to the code-base of existing applications or 'ripping and replacing' with new applications. At best it's like keyhole surgery – using APIs to integrate applications and extend functionality.

Maintaining stability, security and performance whilst making change requires governance. The availability of skilled resource and investment in technology requires budgetary control. The inevitable consequence of governance and budgetary control is an orderly queue of changes – known to many as the 'change stack'.

The 'change stack' is a waiting-room where only the most valuable changes are being worked on at any time. Always assuming that there's budget and resource available to make changes in the first place.

In an organisation where getting things done is a choice between people doing it and the IT platform doing it, if it needs doing now and the IT platform can't do it for 3, 6, 12 months then it gets done manually (Person-o-Matically).



This is the IT Barrier. A 2-part model where only one part (people) can change fast. A model where if it's not viable or economic for people to do it, it doesn't get done until the technology can.

Transformation Stalemate

The second contributory factor to Productivity Lock is Transformation Stalemate. It exists where perceived cost, risk and time to deliver outweigh the perceived benefit of the necessary change. It is a sub-optimal equilibrium.

Transformation Stalemate exists in part due to the IT Barrier – it is not possible to just click fingers and have the technology platform delivering the required function.

The other part of the transformation challenge in a fast-changing, increasingly digital world is bound up in the terminology. Technology can become the focus and a distracting factor.

Best practice in change and transformation has long preached that success is dependent on following a distinct order:

1. **Strategy** – why are we doing this?
    a. e.g. becoming more responsive to rapidly shifting customer needs, creating a step-change in productivity, ability to deliver new products and services
2. **People** – creating buy-in to the future vision and engagement in the transformation
    a. e.g. creating advocates and organisational momentum, engaging the organisational know-how in designing effective future states
3. **Process** – the operational 'how?', the operating model and functional design
4. **Technology** – creating the stable and performant platform / applications that enable delivery

Focusing on the technology loses sight of the 'why?' – the reason for the transformation. Lack of understanding of the technology also shrouds the future state in mystery – making the gamble to invest in transformation feel like a shot in the dark.

If the time to deliver change is long (the IT Barrier again), and the market conditions / customer behaviour is changing fast then it can feel like trying to hit a moving target.

70% of digital transformations fall short of their objectives, 1 in 4 initiatives create limited value and produce no sustainable change. Everybody has either been involved in (or knows someone who has) a technology transformation that has been painful and frought with difficulty.

These factors all add up to perceived cost and risk outweighing perceived benefits. Despite widespread knowledge that change is required, the equilibrium state becomes doing nothing.

Doing nothing is Productivity Lock. It creates stagnation and risk.

What is the Cost of Productivity Lock?

The cost of Productivity Lock is the cost of Person-o-Matic processes plus the cost of missed opportunities.

Person-o-Matic processes – where people do repetitive, rule-based tasks that would be better executed by technology – exist in pretty much every business. McKinsey analysis concludes that 1 in 3 working hours in a modern economy are spent carrying out Person-o-Matic processes.

In some business functions, the proportion of Person-o-Matic activity is much greater. EY's analysis was able to break down the amount of work that could / should be automated by business function.

Applicability of Automation by Business Function (%):

- Finance – 80%
- Administration – 79%
- Customer Service – 75%
- Facilities Management – 74%
- Sales – 74%
- Operations – 69%
- Human Resources – 29%
- IT – 27%
- Marketing – 24%

Source: EY

Our own OPTSM analysis used the McKinsey findings alongside Office for National Statistics and average salary data to derive the manpower cost to the typical business. **We calculated that the manpower cost of Person-o-Matic processing was 7.8% of annual turnover to the typical UK business.**

Manpower cost is not the only cost of getting things done Person-o-Matically. Additional costs exist due to:

- Lost time that people could spend on higher value activity (e.g. selling, service, relationship building, resolving payment disputes)
- Cost of poor quality
- Sub-optimal processes and Lead Time
- Service Unavailability and lower Customer Satisfaction
- Lack of Business Agility
- Business Continuity challenges and single points of failure

The man-power cost of 7.8% of annual turnover is a significant drag on cash / working capital.

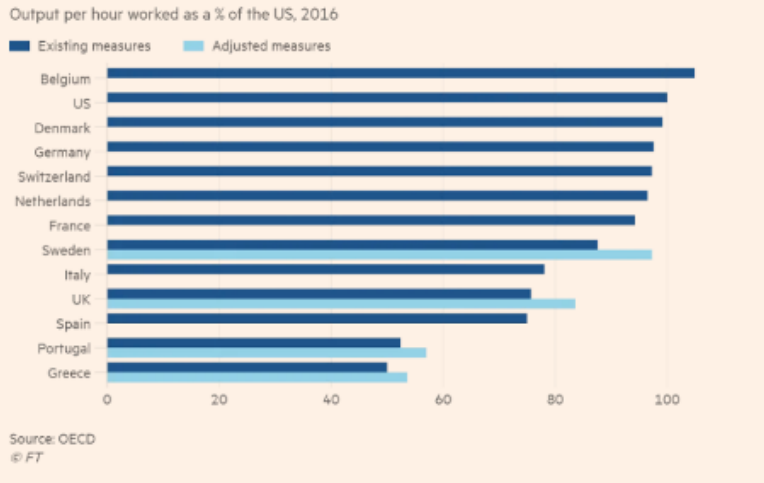
The cost of missed opportunity is harder to quantify, but BCG's analysis finds that businesses that are able to seize digital opportunities achieve earnings growth that is nearly twice that of those that don't – and more than double the growth in total enterprise value.

Today's Challenges

The 'UK Productivity Gap' has exercised analysts, business leaders and politicians alike for a number of years.

By whichever method is selected, the UK's output per hours worked lags behind that of it's global competitors.

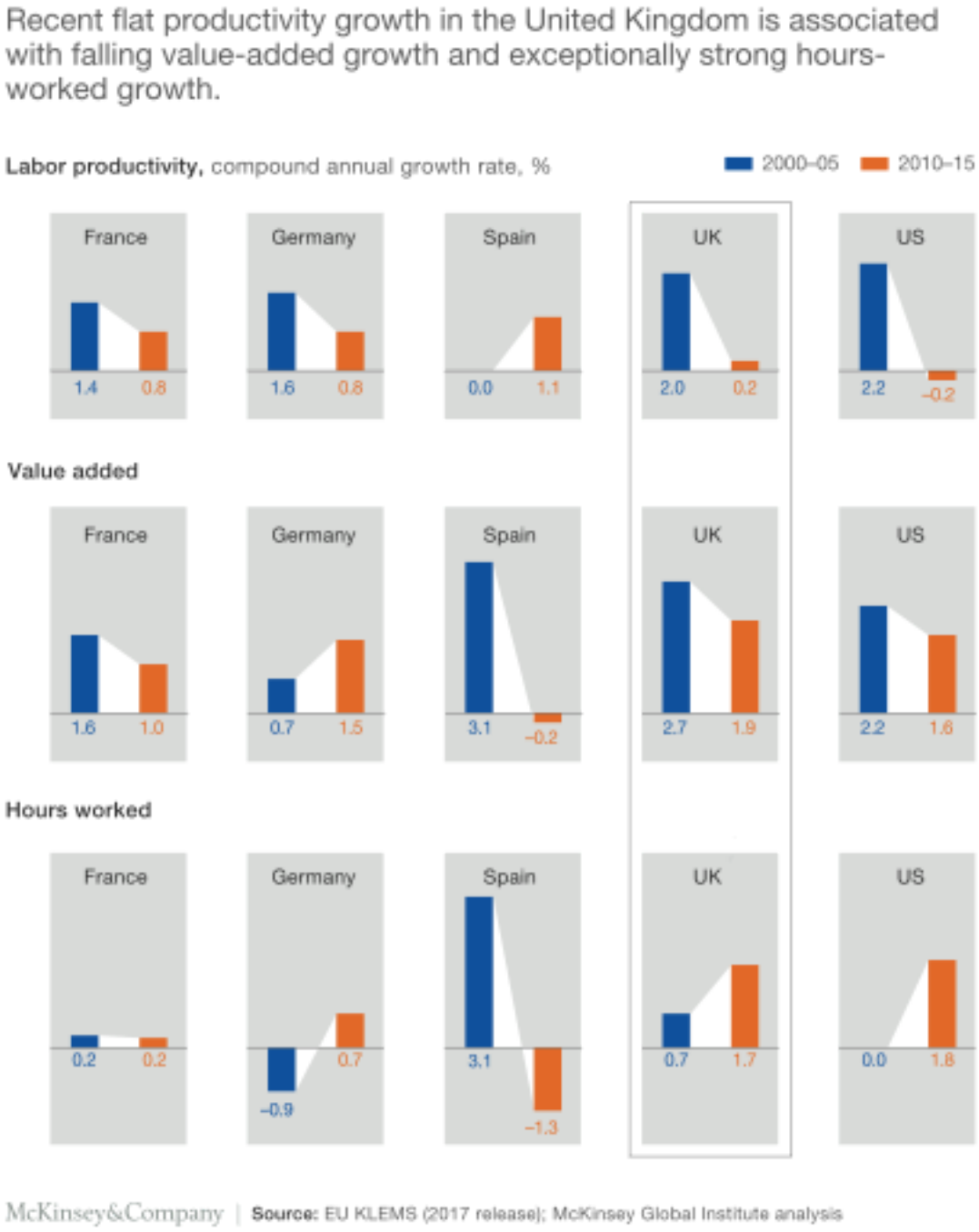
If the UK is to compete on the global stage it needs to raise its productivity. To do that will involve embracing and investing in digital transformation – which means breaking the IT Barrier and releasing Transformation Stalemate.



Source: FT.com

Tackling 'Person-o-Matic' work as a priority has benefits on two fronts:

1. Skilled human resources who are constrained by Person-o-Matic tasks can be released for higher value work
2. Creating a tangible, immediate focus for transformation generates momentum. Early success builds confidence, embeds learning and yields greater insights to inform further transformation efforts.



Source: McKinsey & Company

What Can Be Done About Productivity Lock?

Robotic Process Automation (RPA) is the fastest growing segment of the enterprise software market according to Gartner.

Spend on the technology increased by over 60% in both 2018 and 2019. That's a rate of growth of more than 5x that of the overall technology sector.

The excitement surrounding RPA is due to its ability to tackle challenges that exist in almost every organisation and deliver results fast.

It is technology that has been developed with the 'Person-o-matic' challenge in mind.

RPA works with existing software and applications in the same way as human users, just faster and without errors. It requires no change to existing software and can be rapidly deployed.

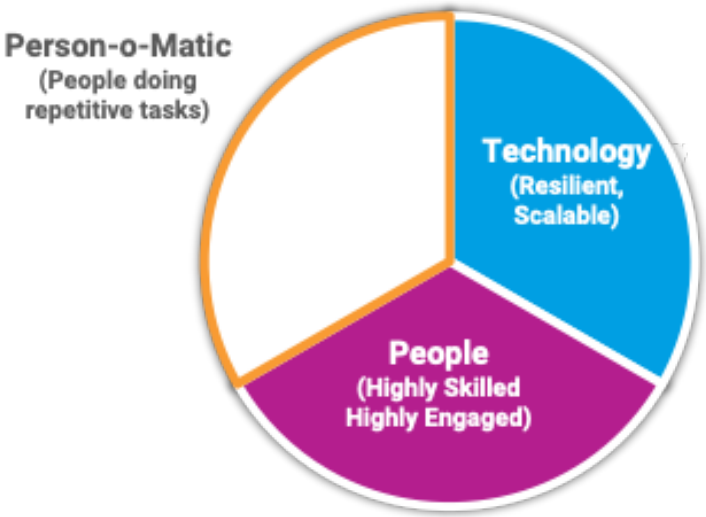
RPA is overcoming the IT Barrier and releasing firms from Transformation Stalemate. It is enabling firms to build better customer journeys and bridge gaps between applications without having to wait for expensive, skilled IT development resource to become available. It's accelerating change as firms are not only able to implement / improve processes faster – they're creating positive momentum and engaging people in devising new and better ways of working.

RPA provides firms with flexibility and agility. When so much changes so quickly, traditional approaches to IT change create a barrier – The IT Barrier.

Without RPA there are 2 options to get work done:

1. Use software - which has to be carefully managed to ensure stability, security and performance
2. Use People.

If the software can't do it - the only option is to create a manual workaround. Do it Person-o-Matically.



RPA creates a new possibility. A third part.

A State where technology is augmenting the humans (as opposed to humans augmenting the technology).

A flexible, scalable digital workforce working alongside people and existing applications creates an optimal mix.

With the 'Third Third', humans can focus on the work that requires their skills, judgement and innovation.

The IT team can focus on providing secure, stable and performant software platforms.

The Digital Workforce of software robots can pick up the repetitive, rule-based tasks.Software Robots can provide the links between applications that mean make it possible to create new digital journeys. They can be the interim step before a more permanent development to a software application.

RPA breaks the IT Barrier because it can be deployed quickly and is readily customised. It releases Transformation Stalemate because it creates rapid positive momentum by allowing for iterative small changes – perfect for involving front-line teams in making change happen.

The benefits of deploying RPA include increased capacity, cost-saving and enhanced customer experience.Potential exists across all business functions.

The traditional deployment approach to RPA has been to licence the software, build the technology infrastructure to host it on and assemble a team of developers, business analysts and project managers to roll out the capability.

Often referred to as the 'RPA Centre of Excellence', this requires significant up-front investment and consequently creates time-to-payback that is a barrier for all but the largest organisations.

How a Fresh Approach is tackling the problem

The excitement surrounding RPA is that it creates the "third third" – the flexible and scalable digital workforce alongside human resources and a stable and performant technology platform.

What if that flexible and scalable digital workforce could be deployed 'on demand'?

What if that deployment involved no up-front cost and could be accessed by organisations of any size?

The Fresh Approach to Robotic Process Automation provides exactly that capability. The ability to deploy automation with no up-front investment in a 'pay for the work the robot does' model.

The Fresh Approach makes RPA available 'As a Service'. With no up-front cost and a fixed monthly fee that includes maintenance, change and support.

The RPA-as-a-Service approach allows a firm to identify the opportunity, calculate the benefit of automation and deploy in days and weeks. With minimal disruption to users and existing processes, benefits can be realised immediately.

Creating a flexible and scalable digital workforce alongside existing human operations builds knowledge of capability and involves operational staff in identifying and realising opportunities. This creates its own change momentum.

The Fresh Approach makes it possible to tackle the cost of Person-o-Matic processes, break free of the IT Barrier and release Transformation Stalemate.

The robots aren't just coming. They are here. They came to release Productivity Lock.

About OPTSM

OPTSM is a 'real world' consultancy.

We understand that in the real world you don't just need smart solutions, you need results. In the real world you don't need advice or recommendations - you need action. Ideally today.

We help you tackle challenges around:

- Productivity - getting the job done faster, better and more efficiently
- Sales - attracting and engaging profitable clients more effectively
- Growth - making the right decisions about route-to-market, innovation and strategy

Our Fresh Approach to Robotic Process Automation enables you to tackle 'Person-o-Matic' processing and unlock flexibility, agility and productivity.

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