HOW TO SUSTAIN TRANSFORMATION THROUGH A DOWNTURN — A STRATEGIC APPROACH TO VALUE CREATION AND DELIVERY

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Introduction: A New Approach to Navigating a Downturn

A downturn is expected in the UK economy during 2023, with high energy prices and higher interest rates for both businesses and consumers. Businesses will need to look carefully at their spending to protect their margins and demonstrate strong financial stewardship to investors.

All industries will face the same pressures, but financial services firms will need to tackle them at a time when many are fundamentally transforming in response to changing customer needs and the threat from new entrants. It's essential that financial services firms continue to transform during the predicted downturn or they will bear the high costs of operating legacy systems for longer. They also risk losing ground to challengers with lower technical debt and a culture of rapid technical innovation. They need to avoid counterproductive cost cutting, where short-term cost reductions or efficiencies lead to higher total costs in the long run.

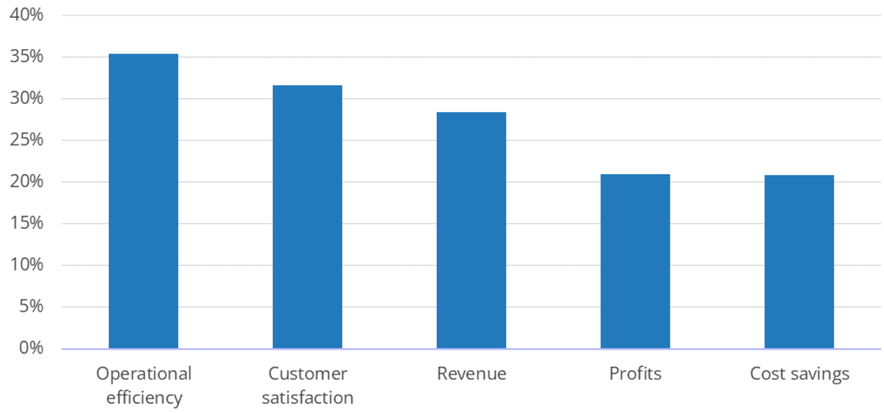
During the pandemic the business world learnt that technology and talent are key to successfully navigating a crisis. The right technology and the right people helped organisations adapt to customers' changing needs. In the insurance sector, as customers used their cars less, some firms quickly adapted their insurance offers to better suit sporadic use. Non-traditional insurers such as Inshur and Zego adapted and offered pay-as-you-drive products, breaking away from annual premiums. Traditional insurers have been playing catch-up with similar offerings ever since, and have managed to respond quickly enough.

In 2023 customers' needs and expectations will change more quickly than ever, so it's critical that financial pressures don't force organisations to pause their modernisation programmes and hand an opportunity to faster-moving competitors. Financial services firms must recognise that technology offers potential solutions to changing customer needs and economic uncertainty.

Financial services leaders are primarily focused on driving operational efficiency and improving customer satisfaction. IDC research shows that absolute cost savings were only the fifth-highest priority going in to 2023 (see Figure 1). This shows that achieving long-term efficiency is more important than reducing costs in 2023. Improved operational efficiency delivers a lasting cost advantage.

FIGURE 1

What Are Your Top 3 Business Priorities?



Source: *IDC EMEA, FERS Survey Europe, Wave 11* (December 2022); financial services n = 24

A Strategic Approach to Cost Management

In a downturn, every area of the business has a responsibility to manage costs carefully. In the past this has meant across-the-board cost reduction mandates, scaling back expenditure across the business. During a period of industrial transformation, this approach doesn't make much sense — budget adjustments should account for transformation pressures and reflect the future profile of the business. In financial services in 2023 this means protecting the technology investments that are critical to the future of the business, while seeking efficiencies elsewhere. These efficiencies may themselves be driven by technology investments, provided their payback period is very short. Over the past decade many change projects in financial services have fallen short of their objectives and have been a wasted investment, with some projects continuing to spend good money after bad.

A strategic approach to cost management is needed — an approach that prioritises spending based on the outcomes it will deliver. Investment must be quickly moved away from projects that are struggling to deliver value to those that are succeeding. It's natural for some projects to struggle while others thrive when working with uncertainty and driving innovation, and this is not a reflection on the teams involved.

A rigorous approach is required to prioritise spending according to the associated benefits, be they related to improving customer experience, reducing cost through improved efficiency or reducing the cost burden of legacy systems. This is no easy task in a complex organisation, but new tools and techniques are now being applied in financial services organisations to help managers make the right decisions:

- **Process mining:** Operating complex processes is costly for financial services firms. Investments targeting improvements in process efficiency often fall short of expectations as they fail to address underlying problems. Process mining tools can help identify the underlying causes of process inefficiency, enabling organisations to launch smaller, faster projects while targeting a clearly defined outcome. Mortgage applications are an example of a process where the interactions between the customer, staff, valuers and technology are complex — making it hard to identify the most impactful improvements. Process mining can identify process variations and sources of delay by examining system logs. Many financial services firms will find there are far more variations to their mortgage application process than they had realised and that some interactions between people and technology are responsible for many of the delays.

- **Product management:** Product management techniques learnt from modern technology organisations are being employed to clearly define and prioritise the developments that customers will value. Product managers must be able to put a value to the business on their requirements, helping leaders separate the true value-creating projects from the nice-to-haves.
- **FinOps:** As financial organisations move to the cloud they must learn a new financial discipline, in place of the financial management of datacentre hardware assets. Cloud costs need active management to realise the economic power of the cloud. The right applications must be running on the right cloud infrastructure, in the right configuration and at the right scale. This new discipline of financial management is known as FinOps, and organisations will need the skills and tools to fully optimise it. In the early days of cloud adoption, developers were empowered by access to an array of tools they could quickly provision and utilise, but they didn't always have visibility of or accountability for the associated costs. As cloud use grows, so has the need for developers to use the platforms in the most cost-effective way.

These tools bring objectivity to decision making around spending and identify wasted resources and inefficiencies that might otherwise go undetected, resulting in cuts to more valuable activities.

Core Focus

Organisations taking a strategic approach to cost management will identify activities they don't consider to be core to their business that could be more cost effectively delivered by a third party. While 2023 is unlikely to be a year of large-scale outsourcing of technology, many organisations will increasingly meet their needs using as-a-service delivery models from vendors.

Handing over non-core activities to vendors and focusing the business' resources and investments on developing core capabilities will be key to tackling a downturn. The adoption of cloud technology is itself an example of this, as financial services firms don't see infrastructure management as a core part of their mission or something they can remain current and competitive within. They know that when used correctly, cloud platforms can provide an economic advantage and be a platform for innovation.

Financial services firms must seek other activities where technology vendors can offer better value than can be achieved in-house. While these decisions can be difficult in that they can have an impact on the workforce, they can also reduce costs and improve the organisation's focus on its core activities.

Delivering Self-Sustaining Change

To deliver change with the same (or even lower) budget, processes must be economically self-sustaining with each initiative having a demonstrable business case and ROI that will ultimately help fund subsequent projects. To achieve this, the right projects must be selected in the first place, but they must also be carefully managed once live, as one cost overrun could jeopardise multiple projects when funds are strictly limited. To maintain a self-sustaining programme of change, the following principles must be applied:

- The value delivered by projects must be constantly measured, and projects executed in such a way that value begins to be delivered as early as possible.
- Projects that do not meet the expected outcomes must be terminated quickly. As with many leading technology businesses, these projects should be treated as a lesson learnt rather than a failure. The failure would have been to let the project continue at the expense of others that might have succeeded.
- For team empowerment, the environment and culture must encourage teams outside of IT and IT projects to drive improvement.

Leading technology firms such as Google sustain their investments in innovation by continuously retiring products and halting initiatives that are consuming resources that could be applied to higher-priority projects. These products or initiatives weren't necessarily failing or losing money, but came with an opportunity cost, in that the resources they consumed could be better used elsewhere. It is the strong focus on customer requirements that gives Google the confidence to direct its resources in such a calculated way.

Conclusion

The financial services industry is going through rapid transformation as consumer attitudes change and new competitors emerge. Transformation can't stop during the downturn expected this year, as consumers will be forced to again think about how they need and want to interact with financial institutions as they respond to their own economic pressures. For larger financial institutions with complex legacy systems, slowing down means losing transformation time they won't be able to make up. As time passes, transformation becomes more difficult, more costly and riskier.

Leading financial services firms don't want to slash costs — they want do drive efficiency and boost customer satisfaction, in turn boosting margins and driving growth. To do this, IT leaders need to find ways to do more with less. There are opportunities to do this, through better technology products combined with the right skills. IT leaders must use the tools and data available to them to select the right projects to deliver the outcomes for the business. Projects that aren't going to deliver on time must be shut down to fund the next best project.

MESSAGE FROM THE SPONSOR

Airwalk Reply is a leading transformation consultancy, with a significant background in delivering complex change in the financial services sector. We combine strong technology expertise with robust delivery capabilities to help our customers build and integrate cutting-edge cloud technologies and adopt the associated modern ways of working. To help our customers leverage technology and accelerate their digital transformation journey, we provide expert guidance and support so they can navigate, and succeed, in highly regulated environments where security, compliance and effective governance are critical.

Airwalk Reply is the AWS Systems Integration and Security Partner of the year, and one of few consultancies in Europe to have attained the AWS Financial Services competency. We are also a leading Microsoft Solutions Partner, and we can help you tackle any transformational challenges you might be facing when trying to leverage these technologies.

About the Analyst

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Tom Seal is a senior research director in IDC's European enterprise applications team. He has over 20 years' experience as an analyst, consultant and technology procurement manager. He focuses on the ERP market and the future of the finance and procurement functions. Current research includes investigating the business case for ERP modernisation and the economics of cloud technology. He is also part of IDC's Intelligent Business Operations and Augmented Humanity practices.

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