

The background of the slide is a teal color with a subtle pattern of various currency symbols (Euro, Dollar, Pound, Yen) and a world map. On the right side, there is a dark, semi-transparent image of a laptop computer.

Cost transformation for the digital era

Funding growth and reinvention from the inside out

A twist on time-honored wisdom

The adage is thousands of years old: You need to spend money to make money. Roman playwright Plautus shared this wisdom more than two thousand years ago and his philosophy still rings true today.

The sustained reduction of cost has been high on company agendas for decades. In the new digital era, the classical dichotomy of grow and invest, or reduce costs has changed and it's no longer an either/or choice. Organizations have new opportunities to identify cost take-out, rethink operational efficiency and fund growth from the inside out.

Cost reduction and transformation

Those in operations and other corporate functions need to reinvent how work gets done. Digital Reinvention™ brings in a whole new way of looking at sustained cost reduction in the form of cost transformation. It supports a futuristic, digital operating model by focusing on the internal customer experience, responsive operations and usable insights.

Sustained cost transformation starts by institutionalizing everyday tasks into more efficient ones. Making the shift to robotics and automation for example. Or, they can switch to a cognitive analytics insight engine sourced from a constant stream of data, in concert with artificial intelligence (AI), to profoundly redefine and reconceive operational capabilities and functions. And blockchain technologies present opportunities for disruptive innovation by enabling global business transactions with less friction and more trust.

It's a win-win-win: organizations that leverage new technologies and digital capabilities to offer better customer experiences can grow more quickly.

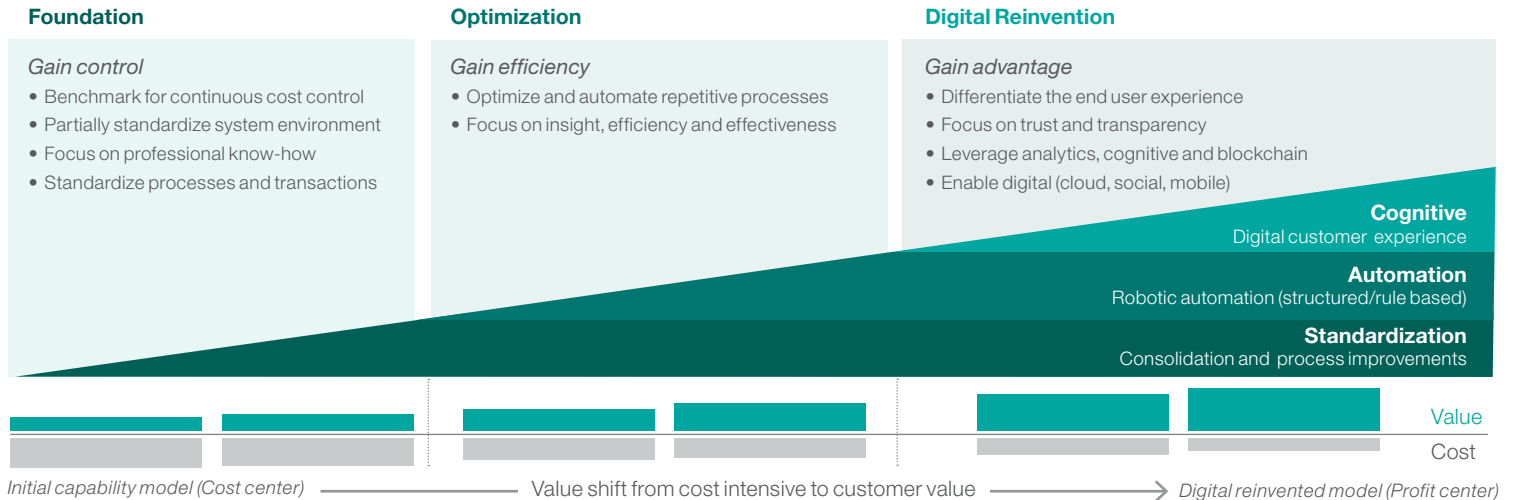
The tangible benefit of efficient business processes is sustained lower costs, leaving more cash flow to funnel toward growth, transformation and reinvention. Beyond greater efficiency, freed-up capital can help both to fund and sustain growth, and lead to reinvention through business model innovation.

According to a new IDC spending report, global revenues from cognitive systems and AI will climb from USD 8 billion in 2016 to more than USD 47 billion in 2020.¹ Cognitive initiatives can create better business outcomes, from enhanced customer relationships to greater efficiency and growth (see Figure 1).

There are many drivers for cost transformation through Digital Reinvention. Examples include:

- Creating differentiating experiences for customers, employees and partners to improve the way organizations work.
- Monetizing new business models and accelerating the shift to digital products and design.
- Using customer and product insights for service enhancement and analytics-based segmentation.
- Automating products, services and processes to redefine the customer experience.
- Embedding situational awareness and feedback throughout the value chain for data driven decision making.
- Employing predictive, prescriptive, advanced and cognitive analytics to create deep competitive differentiation.

Figure 1
Scope of Digital Reinvention impact



A better digital customer experience is vital

Fifty-four percent of global executives said that customer buying behavior is shifting from products and services to experiences.² And 81 percent of global CEOs want to use technology to develop stronger customer relationships.³ Digital technologies that redefine the customer and employee experience – for example, a better and more intuitive self-service portal – can reduce costs in domain operations areas like human resources, procurement, information technology (IT) and finance (see Figure 2).

Figure 2
Reduce costs in domain operations

Corporate functions	Traditional	Digital Reinvention
Finance	Pure cost reduction focused on savings and efficiency	Cost transformation to drive "value beyond efficiency"
Procurement	Negative (internal) customer experience	(Internal) customer experience led
Human resources	Cost reductions not sustained	Focus on sustained cost reductions
Business operations	Invest for growth	Fund and sustain for growth
Information technology	Focus on incremental improvement	Bias toward experimentation
	Operating model is primarily internal and owned	Operating model spans the ecosystem
	Risk management focuses on cost	Risk optimization focuses on opportunities and threats

Examples abound, including:

- Finance and procurement processes benefit from end-to-end orchestration through automation and robotics for processes like intercompany reconciliations and non-purchase order invoice processing.
- Cognitive systems can fully transform and help augment procurement, recruitment and IT processes like optimization of payment terms and collections, spend analysis, helping recruiters find high-quality new hire matches, help desk analysis and payroll compliance.

- Effective data visualization and cognitive design provide improved visibility of operations to help with problem solving and perhaps lead to new discoveries.
- Intelligent process optimization infuses insight into business operations to better understand and anticipate client needs, and enable action at the right time and in the right way.
- Prescriptive and innovative supply chain insight using cognitive capabilities illuminates risks and opportunities to help seek out and diminish disruptions, and drive collaboration.
- Cognitive counter-fraud management can help predict and prevent fraud, or quickly mitigate the impact should fraud occur.

“If I gave my customers what they wanted, I’d have given them faster horses.”

Henry Ford, American industrialist and founder of the Ford Motor Company

More organizations are using digital capabilities and racing to either augment or replace in-person, manual interactions and activities with digital ones. Today, client and internal audiences expect smooth experiences and swift access to information, products and services. They want to be engaged as individuals on their own terms – anytime and anywhere – while being somewhat diaphanous to the companies they interact with.

Introducing new experiences leads to reinvention, and history offers many lessons for companies wanting to be a disruptor, rather than disrupted by change. More than a century ago, one of the greatest problem-solvers in history followed the same premise. In October 1908, Henry Ford’s “Tin Lizzie” was just starting to roll off what the world would soon know as an “assembly line,” reinventing the decades-old automotive manufacturing business. Ford decided to pursue efficient fabrication and production methods, and the Model T became the first automobile affordable to and embraced by the middle class.

Doing completely new and possibly unexpected things

Even industrial titans can transform by radically cutting costs and culling resources. A large and globally diversified technology and financial services company has steadily improved its operating margins to fund reinvention from the cash flow gained in cost transformation. The company did so by reducing selling, general and administrative (SG&A) expenses and direct costs like material and labor. And a leading building materials business is aggressively pursuing Digital Reinvention philosophies and the activities, services and experiences that have become commonplace in the business to consumer arena.

A new source of value beyond efficiency

Cost transformation through Digital Reinvention seeks out digital efficiencies to create transactional savings and pursue new business models. Key strategies on how to move from thought into action include:

Tap cost take-out opportunities. Envision ground-up business strategies and operations and reimagine employee journeys that can create cost reduction.

Digital Reinvention. Consider digital technologies like cognitive, automation and blockchain that enable deeper and more compelling customer experiences.

Pilot through prototype iteration and launch. Investigate and implement tangible cost reduction as part of a larger transformation and growth portfolio.

Fund for growth. Deploy surplus cash flow to finance future growth, and get to a new and surprising way of doing things that creates value for the business.

Finally, and perhaps most importantly, give your customers what they don't yet know they want. Like Henry Ford, look beyond faster horses to imagine radical reinvention.

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Notes and sources

- 1 "Worldwide cognitive systems and artificial intelligence revenues forecast to surge past \$47 billion in 2020, according to new IDC spending guide." IDC press release, October 2016. <http://www.idc.com/getdoc.jsp?containerId=prUS41878616>
- 2 Berman, Saul J., Peter J. Korsten and Anthony Marshall. "Digital Reinvention in action: What to do and how to make it happen." IBM Institute for Business Value. May 2016. <https://www-935.ibm.com/services/us/gbs/thoughtleadership/draction/>
- 3 Ibid.

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