

# PERFORMANCE

Providing insight and analysis for business professionals

## Design thinking

Becoming part of the movement

## Switching to software

From products to solutions

## Better with age

The silver opportunity

When should  
"tried and tested"  
become "try it  
and see"?

■ ■ ■  
The better the question.  
The better the answer.  
The better the world works.



Building a better  
working world

# Welcome

As this edition of *Performance* journal launches, The British & Irish Lions will shortly begin a 10-match rugby Tour of New Zealand. The parallels between sport and business are many and there is much that a business leader can learn from the sporting world (see, for example, “Six lessons business leaders could learn from rugby”).<sup>1</sup> But perhaps one area where sport differs is a willingness to take risks and try something new. This is, arguably, because the repercussions from things not going to plan have less of a financial and reputational impact (although sports fans may disagree!).

More recently, however, a changing world, particularly in terms of technology and digitization, is forcing businesses to move away from their traditional tried-and-tested approaches and explore new ideas and practices.

For example, “Demystifying design thinking: becoming part of the movement” explains how what was once a niche specialism is now on the agenda of large multinationals. Offering enormous potential for innovation and competitive advantage, our article examines how organizations can embrace design thinking and embed it into their operating models.

With the rise of digital technology, the software component in many products – ranging from washing machines to machine tools – has grown increasingly important. Our article provides practical advice to help manufacturers who are finding they need to switch from being product-based companies to solution sellers.

“Building tomorrow’s agile finance function enabled by SAP S/4HANA Finance” examines how CFOs can make the most of the revolutionary new technology now available to enable them to meet the increasing demands placed on them. Our article cautions that to do so requires a new way of thinking that goes far beyond implementing the latest tools.

We have two articles that explore very different aspects of health care. In one we explain the “silver opportunity” enabling governments, health care providers and pharmaceutical companies to innovate and collaborate. In the other, we examine how Finland is responding to the challenge of managing public health care costs by employing more innovative approaches with a focus on more preventative, personalized care.

In other articles, we examine how IT cost transparency can help deliver on the business case for IT outsourcing. We explain how net revenue management can offer consumer products companies a more sustainable route to growth. And we explore how EY helped the African business of a Fortune 500 manufacturer and retailer get back on track.

I hope the articles in this edition of *Performance* provide valuable insight and information to help your business grow, innovate and protect.

Enjoy reading this issue!



Markus 

**Markus Heinen**

Chief Patron, *Performance*

1. “Six lessons business leaders could learn from rugby,” <https://advisory.ey.com/strategy/learn-from-rugby>, accessed April 2017.

# Contents →



02

Demystifying design thinking:  
becoming part of the movement

10

Building tomorrow's agile  
finance function enabled by  
SAP S/4HANA Finance

18

How can wider collaboration  
help drive better health  
outcomes for patients?

26

Switching to software:  
how product companies  
can learn to sell solutions

36

Getting back on track: helping  
an African business regain a  
commercially sustainable future

46

Better with age:  
the silver opportunity

58

IT cost transparency:  
reducing external provider  
spend in IT outsourcing

70

Net revenue management:  
building foundations for  
sustainable, profitable growth



# Demystifying design thinking: becoming part of the movement

---

Design thinking has evolved from a niche specialism, appealing primarily to start-ups and entrepreneurs, and is now firmly on the agenda of large multinational companies, as well as the MBA curriculum. It offers enormous potential for innovation and competitive advantage – so how can organizations embrace design thinking and embed it into their operating model?

---



## Authors

### **Michael Kanazawa**

EY Americas Leader – Enterprise Innovation,  
Ernst & Young LLP

### **Jeb Wilson**

Senior Manager, Advisory Services – Performance  
Improvement, Ernst & Young LLP, US

### **Aparna Betigeri**

Manager, Advisory Services – Performance  
Improvement, Ernst & Young LLP, US

### **Linda Chen**

Assistant, Advisory Services – Performance  
Improvement, Ernst & Young LLP, US

**96%** of executives believe design thinking is critical to their company. Yet only **37%** have the relevant capabilities.

Source: EY survey conducted in collaboration with Forrester, 2016.

**O**n a cold evening in 2008, a pair of friends became frustrated while trying to hail a taxi on the busy streets of Paris. Thinking there has to be a better way to get a ride, they turned their attention to the development of an application that would transform the future of mobility. Their big idea, Uber, continues to challenge the status quo with a potent blend of design, business and technology.<sup>1</sup>

Start-ups and software companies were some of the first to embrace design thinking as a way to build an entire company. Today, PepsiCo, a US\$100b plus company that's been in business since the 1800s, has also made design thinking the central driver of its strategy and culture. "'Design' has a voice in nearly every important decision that the company makes," says Indra Nooyi, PepsiCo CEO.<sup>2</sup>

Design thinking has become one of the most important advances in innovation and leadership: the top 10 MBA programs now include design thinking in the curriculum, top VC firms have brought design teams in-house and many of the top management consultancies have acquired design firms as well, including EY's acquisition of Bedrock in 2014 and Seren in 2015. A recent survey conducted by EY, in collaboration with Forrester, found that for 96% of executives, design thinking is very or extremely important to their company. Yet, only 37% said they have strong or expert capabilities to do so. This indicates a significant gap between vision and execution.<sup>3</sup>

So, how can an organization bring a spark of new life and thinking to its team with design thinking and leverage it to drive innovation and growth?

### What do we mean by design thinking?

Design thinking is a philosophy and a mindset about truly putting customers first (internal or external). It's about collaborating across multiple disciplines and ways of thinking. It brings a deep sense of humanity back into the business processes of strategic planning, product development, marketing, customer service and employee engagement.

Early pioneers in design thinking brought the discipline to software development and then further into consumer product design. In market environments, where consumer tastes, competitive disruptors and technology advancements come quickly, design thinking is a way to stay bonded with consumers in what they want, to know the difference between a technology gimmick and a real advancement, and to stay ahead of new competitors.

Compared with the days when design thinking first came on the scene, the business environment has changed significantly. Virtually every market is moving at the same rate of change and disruption as software and consumer product companies. And design thinking itself is being reshaped by disruptors. The pace of innovation has been accelerated and simultaneously made more achievable

We would like to thank the following for their contributions to this article:

**Anna di Mattia**

Manager, Advisory Services – Performance Improvement, Ernst & Young GmbH, Germany

**Gabriela Meneghetti**

Senior Design Strategist, Advisory Services – Performance Improvement, Ernst & Young LLP, US

**Girish Nagasandraj**

Senior, Advisory Services – Performance Improvement, Ernst & Young LLP, US

**Jon Segarra**

Assistant, Advisory Services – Performance Improvement, Ernst & Young LLP, US

**Johan Tionda**

Senior, Advisory Services – Performance Improvement, Ernst & Young LLP, US

1. "Finding the way: creating possibilities for riders, drivers and cities," Uber website, <https://www.uber.com/en-GB/our-story/>, accessed 16 February 2017.  
2. "How Indra Nooyi Turned Design Thinking Into Strategy: An Interview with PepsiCo's CEO," *Harvard Business Review*, [hbr.org/2015/09/how-indra-nooyi-turned-design-thinking-into-strategy](http://hbr.org/2015/09/how-indra-nooyi-turned-design-thinking-into-strategy), accessed 16 February 2017.  
3. The survey was conducted during Forrester's Customer Experience Forum (CXSF 2016).



by factors such as crowdfunding, rapid prototyping by 3D printing, virtualization of R&D processes, and the increasing ability to see and experience real-time changes and needs.

Any current definition and vision for design thinking today should include:

- ▶ **Diverse thinking:** Integrated teams and diverse mindsets of design, business and technology
- ▶ **Future-back and outside-in:** Drive all business decisions with a clear perspective of the future art of the possible and an external stakeholder view
- ▶ **End-to-end experience:** Relentless focus on advancing the full set of existing and potential interactions between customers, partners and employees

---

“Design has a voice in nearly every important decision that the company makes.”

**Indra Nooyi,**  
PepsiCo CEO (*Harvard Business Review*)

---



- ▶ **Digital disruptors:** Integration of technology disruptors, such as IoT, robotics, consumer analytics and predictive modeling into all planning
- ▶ **Elastic teams:** An organization structure that centers on delivering value to customers and an ability to deploy and reorganize small cross-functional teams on demand to solve problems, launch new products, enter new markets or even innovate entirely new businesses
- ▶ **Agile innovation:** A complete business process and approach for rapid iterations of products, customer experiences or even the entire business

### **Seven essential steps toward creating a design thinking organization**

Developing new ways of thinking and working requires intentional changes to how a company or team is lead and run. Some organizations believe that if they build innovation labs with pool tables and beanbag chairs, and start hanging out with start-up companies, then, innovation and design thinking will spread across the organization. The reality is that there is much more required in order to drive real design thinking that will accelerate growth and innovation results.

We have identified seven key steps that organizations can take to start the journey of implementing design thinking.

#### **1. Set a purpose for the team that is all about serving others**

Design thinking requires empathy and an understanding of people as well as a clear sense of purpose. For example, a company might have as its purpose how its customers, employees or partners experience their interactions with the organization.

Before jumping in to execute the next project or strategic planning process, companies should pause and think about whether they have a clear purpose – and if not, take the time to conduct some future-back and outside-in thinking. This critical first step of design thinking will inspire new ideas and instill a sense of urgency within the team that will pay significant dividends in the speed of innovation.

#### **2. Establish a team with diverse mindsets**

It is important to take into account a wide spectrum of perspectives and experiences, and organizations that implement design thinking will typically create cross-functional, multidisciplinary teams that work collaboratively, from identifying a problem and determining actions to designing the solutions and executing on them.

As an example, Uber's design teams consist of "psychologists; ethnographers, researching cultures across the world; scientists,

**53%** of software and technology companies have design thinking capabilities. Business and financial services companies have just over **40%** and manufacturing, only **38%**.

Source: EY survey conducted in collaboration with Forrester, 2016.

working with data sets to derive insights that help inform user experience; entrepreneurs to set strategy; and craftspeople guiding the aesthetics and building beautiful and usable experiences.”<sup>4</sup>

### 3. Put yourself in the customer's shoes

A successful design thinking approach requires an understanding of how people live their lives and the holistic context in which they experience a product or service.

For example, Tesla realized that it was not enough just to launch a 100% electric vehicle – it would be critical to create an exceptional experience throughout the entire ownership life cycle. As a result, Tesla reinvented the whole process to include elements such as creating its own dealerships, having an online buying and “waiting” experience that surpassed any other luxury car maker, building rapid charging stations, and making “house calls” to customers’ homes to perform annual inspections, firmware upgrades and other services.<sup>5</sup>

### 4. Develop a discipline that explores the art of the possible

Design thinking companies commonly hold brainstorming sessions, where team members can ask the right questions. In this context, everyone’s idea is given a fair hearing, no matter what their level of seniority nor how practical it is.

For example, at Airbnb, the online community marketplace that connects people looking to rent their homes

with people who are looking for accommodations, considers ideation a key component of its solution development process. Ideation sessions are pre-planned meticulously by a brainstorming host, often in close coordination with a design researcher from the insights team, who use both research and the preparation of a number of different options to reframe the problem that needs to be resolved.<sup>6</sup>

Another example is Ideo, which worked with a traditional telecommunications company that had previously asked strategic questions such as, “How can we raise our customer’s average monthly bill by 10%?” and “How can we minimize our customer service call times?” The team reframed the questions in human-centered terms such as, “How can we help busy families to stay connected?” and “How can we reward our most loyal customers?” This inspired richer and more innovative value-added solutions.<sup>7</sup>

Brainstorming sessions can feel unstructured, lacking focus and practical value. By creating a discipline around holding art-of-the-possible sessions, they can become a major driver of breakthrough ideas and a very effective means of engaging and motivating employees.

### 5. Co-create solutions with customers

Both in business-to-business and consumer environments, it is possible to co-create solutions with customers. What better way to understand their needs and what they might value

“Design thinking is a way to realize innovation. It’s all about human centeredness, hands-on approach, and iteration and learning.”

University of St Gallen, Switzerland

4. “Design at Uber – From Pixels to People: How Uber designs for citizens in 450+ cities and on 6 continents,” *Medium*, [medium.com/uber-design/from-pixels-to-people-2a90dafac25d#dokeg98x5](https://medium.com/uber-design/from-pixels-to-people-2a90dafac25d#dokeg98x5), accessed 16 February 2017.
5. P. Tompkins, “The secrets behind Tesla’s awesome customer experience,” <http://crosschannelconnection.com/2016/03/21/secrets-behind-teslas-awesome-customer-experience/>, accessed March 2017; A. Dumitrache, “Tesla mobile service team makes house calls,” <https://www.autoevolution.com/news/tesla-mobile-service-team-makes-house-calls-11807.html>, accessed March 2017.
6. “The Link between Data Triangulation and Brainstorming Facilitation: Design Thinking at Airbnb,” *ThisisDesignThinking.net*, [thisisdesignthinking.net/2015/05/airbnb-design-thinking-culture/](https://thisisdesignthinking.net/2015/05/airbnb-design-thinking-culture/), accessed 16 February 2017.
7. “Why Human-Centered Design Matters,” *Wired*, [wired.com/insights/2013/12/human-centered-design-matters/](http://wired.com/insights/2013/12/human-centered-design-matters/), accessed 16 February 2017.

---

A successful design thinking approach requires an understanding of how people live their lives and the holistic context in which they experience a product or service.

---

as a new product, service or overall experience, than to generate the concepts together?

DHL has embraced this concept: for example, to tackle the challenge of improving supply chains and logistics, DHL has hosted more than 6,000 hands-on workshops with customers in Germany and Singapore. One of the many inventions that community members co-created and tested out is the Parcelcopter, a test drone delivery service project based in Germany that reduces delivery times from around 30 minutes to just eight minutes.<sup>8</sup>

#### 6. Adopt agile innovation and rapid prototyping capabilities

Successful design thinking organizations understand the term “fail fast,” meaning that it’s important to focus resources on the experiments and concepts that are achievable and will produce the greatest impact. As such, many have adopted the concepts of agile and DevOps software practices across many types of projects and strategic initiatives.

As an example, the San Francisco Opera (SFO) used design thinking concepts as it reimagined how to make opera more appealing to its audience and broaden its reach. SFO created various quick and inexpensive opera format prototypes and tested them out with customers to get their

feedback and reactions, using those insights to understand what worked and what didn’t. This new way of thinking ultimately resulted in a first for the SFO: customers queuing around the block for shows.<sup>9</sup>

When General Motors (GM) started to build the 2014 Chevrolet Malibu, engineers at the company used 3D printing to save time required in prototyping parts for the vehicle. They built the parts out of liquid resin, taking days to build prototypes that engineers could see, touch and test – a process that would otherwise have taken weeks or cost thousands of dollars. This powerful technique was key in helping GM accelerate the development and evaluation of the updates and improvements to the sedan, and drastically cut down time to market.<sup>10,11</sup>

#### 7. Establish fanatical support from executive leadership

When applied effectively across an entire organization, design thinking can have a profound impact on a company’s operating model. But such changes cannot be long-lasting or effective without unflinching and visible executive leadership commitment. There must be a top-down executive commitment for design thinking to take root in an organization and generate the full desired benefits.

### How do you get started?

Design thinking can be applied in stages. Creating a culture where inside-out business or technology development are blended with empathy, creativity and holistic thinking about total solutions will not happen overnight.

However, good design is often something that just needs to be experienced, not studied. Every person on the team should be exploring new innovative and digital experiences. Organizations could begin by taking a pressing business challenge and, with a full set of stakeholders, collectively reframe the problem purely from a customer’s viewpoint – even invite customers to the session to co-create.

Design thinking at its best can blend design, business and technology together to produce more innovation and faster development of new products, services and experiences. It can open up a new level of creativity, motivation, leadership, humanity and fun at work. ■

- 
8. S. Milbrath, “Co-creation: 5 examples of brands driving customer-driven innovation,” <https://www.visioncritical.com/5-examples-how-brands-are-using-co-creation/>, accessed March 2017.
  9. “Barely Opera: Comfortable with Feeling Uncomfortable: Innovation at the San Francisco Opera,” *ThisIsDesignThinking.net*, <http://thisdesignthinking.net/2016/12/design-thinking-at-san-francisco-opera/>, accessed 16 February 2017.
  10. “How GM Used 3D Printing To Refresh Interior, Exterior Of 2014 Chevy Malibu,” *gmauthority.com*, <http://gmauthority.com/blog/2013/06/how-gm-used-3d-printing-to-refresh-interior-exterior-of-2014-chevy-malibu/>, accessed 16 February 2017.
  11. “What Can 3D Printing Do? Here Are 6 Creative Examples,” *Forbes.com*, <http://www.forbes.com/sites/amitchowdhry/2013/10/08/what-can-3d-printing-do-here-are-6-creative-examples/#294c516661b0>, accessed 16 February 2017.



---

Design thinking at its best can blend design, business and technology together to produce more innovation and faster development of new products, services and experiences.

---

1. "Seven Tasks for innovation-focused executives," *The Globe and Mail*, [theglobeandmail.com/report-on-business/careers/leadership-lab/seven-tasks-for-innovation-focused-executives/article31147183/](http://theglobeandmail.com/report-on-business/careers/leadership-lab/seven-tasks-for-innovation-focused-executives/article31147183/), accessed 16 February 2017.
2. "What is Design Thinking?" *The Stanford Daily*, [stanforddaily.com/what-is-design-thinking/](http://stanforddaily.com/what-is-design-thinking/), accessed 16 February 2017.
3. J. Liedtka, A. King and K. Bennett, *Solving Problems with Design Thinking: 10 stories of what works* (Columbia Business School Publishing), 2013.
4. "Co-creation: 5 examples of brands driving customer-driven innovation," *VisionCritical*, [visioncritical.com/5-examples-how-brands-are-using-co-creation/](http://visioncritical.com/5-examples-how-brands-are-using-co-creation/), accessed 16 February 2017.
5. "The Power of the Elastic Product Team – Airbnb's First PM on How to Build Your Own", *First Round Review*, [firstround.com/review/the-power-of-the-elastic-product-team-airbnbs-first-pm-on-how-to-build-your-own/](http://firstround.com/review/the-power-of-the-elastic-product-team-airbnbs-first-pm-on-how-to-build-your-own/), accessed 16 February 2017.
6. "City of Sidney, Kings Cross: Designer Nights Out: Good Urban Planning Can Reduce Drunken Violence," *ThisisDesignThinking.net*, <http://thisisdesignthinking.net/2016/05/designing-out-crime/>, accessed 16 February 2017.
7. "GE Healthcare Adventure Series: Changing Experiences through Empathy," *ThisisDesignThinking.net*, <http://thisisdesignthinking.net/2014/12/changing-experiences-through-empathy-ge-healthcares-adventure-series/>, accessed 16 February 2017.



# Building tomorrow's agile finance function enabled by SAP S/4HANA Finance

---

To meet the growing demands placed on them, and to prepare their businesses for an increasingly volatile future, CFOs must make the most of the revolutionary new technology now available. But to do so requires a new way of thinking that goes far beyond implementing the latest tools.

---



## Author and contributors

### **Tony Klimas**

EY Global Performance Improvement Finance Leader, Advisory Services, Ernst & Young LLP, US

### **Tim Fuller**

EY Global SAP Go to Market Leader, Advisory Services, Ernst & Young LLP, US

### **Michael J. Yadgar**

EY Americas SAP Leader, Advisory Services, Ernst & Young LLP, US

### **Samir Jaipati**

Principal, Advisory Services – Performance Improvement, Ernst & Young LLP, US

### **Luke von Kotze**

Journalist, Ernst & Young LLP, UK

---



---

By helping the finance function to deliver insight more quickly on emerging risks, new technology enables businesses to react to them more effectively.

---

**F**aced with an increasingly volatile environment, businesses are calling on their CFOs to do far more than ever before – to serve as advisors and as providers of data-driven insight, and to act as a spokesperson to external stakeholders – all while keeping costs down and maintaining quality in core activities.



To meet these challenges, CFOs must make the most of new technologies. But this requires a transformation of the finance function that goes far beyond merely process and technology changes. It requires a transformation of the finance operating model including function's structures, processes and how it manages its people.

In order to help CFOs transform their functions in the multiple ways required,

EY has brought together professionals from across its global organization, from many different disciplines, to create a new offering – EY Agile Business Finance.

### **New technology creates new challenges**

The cloud, blockchain, in-memory computing, robotics, artificial intelligence: a transformation in enterprise technology is underway, changing the way businesses operate. And this is putting CFOs under growing pressure:

- ▶ Managing the **financial implications of technology change** is in itself a challenge. CFOs must guide their organizations to make the right investments and to make the best use of new technology. "CFOs are now having to become much more technology-savvy," says Michael Yadgar, Americas SAP Leader, Ernst & Young LLP (EY US). "They can no longer simply rely on their IT departments for this."
- ▶ Technology is also creating a **people and skills challenge** for CFOs. As many low-level finance positions are being sent offshore to captive centers, outsourced or automated, CFOs must manage entirely new career paths and succession planning to ensure the finance function maintains access to key skills.

New technology and broader trends also pose more fundamental questions for CFOs. As Samir Jaipati, EY US Agile

Finance Leader says, "The impact of new technology and globalization is driving a lot of business model changes. CFOs need to be asking: what will be our new business model and revenue streams? And how should I understand them and position my organization to succeed?"

### **A difficult time for CFOs**

However, it is not just within businesses that change is happening. The world has entered a period of increased social, political and economic volatility, leading to a wave of new regulatory challenges, changes to long-accepted norms within finance and increased scrutiny for businesses.

Faced with such volatility and uncertainty, businesses and their stakeholders are asking their CFOs to deliver **relevant and timely insights at a lower cost**.

**Greater complexity** is also the norm now for CFOs. Tony Klimas, EY Global Performance Improvement Finance Leader, suggests that the combination of external strategic and internal operational factors CFOs face, along with technology challenges, may be making the role too complex for one person. "It is very important that CFOs have the right people reporting to them," he says, "and that they surround themselves with the right people who have complementary skills." CFOs are now having to interact with a far **broader range of stakeholders**, including activist investors and community stakeholders, along with traditional investors and regulators. This has pushed CFOs into more

---

“CFOs need to be asking: what will be our new business model and revenue streams? And how should I understand them and position my organization to succeed?”

**Samir Jaipati,**

Principal, Advisory Services, EY US Agile Finance Leader

---

of a “diplomatic” role. “Many CFOs now feel they are becoming the secretary of state for the organization,” says Tony Klimas. “Instead of just worrying about financial numbers, financial performance and raising capital from the financial markets, they are spending time interacting with the media, politicians and other external stakeholders.”

**A new approach for a fast-changing world**

The growing rapidity of change means CFOs must prepare for an increasingly unpredictable future. For Samir Jaipati, this means they need to focus on building the capabilities their organizations will need in the future. “I tell my clients that it’s like being an athlete who doesn’t know whether in six months’ time they’ll be running 200m or a marathon,” he says. “And so, they must prepare themselves to be flexible, to be agile and to have enough stamina for whatever challenges the future presents.”

As an example of this, he suggests that CFOs should now consider zero-based budgeting – where budgets are based on the potential benefits of spending rather than on adjustments to historical spending – value-based capital allocation, and driver-based planning and forecasting.

**A transformation of more than just technology**

Among the key questions facing CFOs are:

- ▶ What are available and emerging technologies that are relevant for my industry and organization?

- ▶ How can I help my organization understand and evaluate threats and opportunities of these technologies?
- ▶ How can I help my business succeed with new operating models taking advantage of the latest technology?

These are not really just financial or technology questions – they affect the whole business. So to succeed with this challenge, CFOs need to embrace an overarching transformation. And that is





why EY has drawn on the skills and in-depth knowledge of its global organization to develop a broad new transformational package – EY Agile Business Finance.

### EY and SAP working together

EY is working closely with SAP on developing new approaches to help clients face real problems. While SAP is not the only provider of enterprise

solutions, SAP applications are already used by a majority of EY clients, and the implementation of SAP S/4HANA Finance is a key element of the EY Agile Finance Transformation program.

As Tony Klimas explains, SAP's latest applications have an intuitive user interface design that empowers finance users. "Earlier this year at a meeting at SAP's headquarters, a team sat us down in front of a PC and, with little coaching, we quickly built a very capable reporting application using SAP cloud analytics," he says.

"I'm a finance person, not a technology person. But it was easy, in a short time, to connect to the data sources, get the information how I wanted, and to quickly build visual representations of the relevant and useful data. As someone who is often jaded about the promise of new technology, it was really quite amazing."

### What EY Agile Business Finance can help finance functions achieve:

- ▶ Reduced pressure on resources through automation, elimination and better use of the business's global organization
- ▶ Relevant and timely insights and analytics to increase revenue and margin
- ▶ Greater focus on higher-value services – less time spent on data collection and cleaning, and more on providing the insights stakeholders need
- ▶ Reduced work required to maintain compliance

"Many CFOs now feel they are becoming the secretary of state for the organization ... they are spending time interacting with the media, politicians and other external stakeholders."

#### Tony Klimas,

EY Global Performance Improvement  
Finance Leader

- ▶ Greater agility, allowing the finance function – and the business as a whole – to respond faster, and in a more efficient way, to new challenges

### A transformation in data

To help CFOs get to grips with increasing complexity and growing demands, the EY Agile Business Finance streamlines and integrates the processes by which data is collected, processed, displayed and shared.

It used to be that data was gathered from a source system, which would then send it on to the Enterprise Resource Planning applications (ERP). The ERPs would then send the data to a data warehouse, and then to planning, consolidation and

reporting applications which would process the data, preparing it for display on the organization's dashboards. As companies grew, this process tended to become more complex, with various different systems becoming involved, often leading to a reduction in data quality.

Following the implementation of SAP S/4HANA Finance, the source of the data – such as a point of sale device – can send the data straight to the ERP, which now is the reporting layer. With access to detailed line items, the ERP can process data in real time and can provide dashboard and graphical tools to generate and share insights. The SAP S/4HANA Finance layer will also host processes for planning, consolidation, treasury, reporting and other finance processes.

Tony Klimas describes how important a shift this has been: "In 2006, I worked on a large project for a retail company that wanted analytics at the store level, in terms of items and inventory. But because it was such a big enterprise, this meant dealing with millions of lines of data, which the technology of the time simply wasn't capable of handling. Now, not only can that data be provided at store level, it can also be delivered through the cloud to mobile devices, via SAP's Fiori interface."

The ease of processing data saves CFOs time and enables them to generate new insights. But it also presents new difficulties. There is a risk that organizations will start to feel that they must analyze all the data they have, simply because they can. CFOs must help focus analytics on solving the specific business challenges.

## Transforming risk management and compliance

By helping the finance function to deliver insight more quickly on emerging risks, new technology enables businesses to react to them more effectively.

Traditional financial risk management was based on checking a sample of transactions. But how these risks are monitored and rectified is increasingly being automated. In the future, there will be no need to check a sample of purchase orders and invoices, because the system will check them all. And not relying on samples means the quality of risk management goes up, timelines improve and the cost of compliance goes down.

But as Michael Yadgar points out, greater use of data and technology presents its own risks, such as cyber risk. And compliance and best practice in these fast-changing fields can be something of a gray area. But thanks to its large global client base, EY can help organizations identify and implement best practice. "We are helping to 'paint the lines' more clearly, so that organizations don't need to define this for themselves," he says. "They just need to execute."

## Improving CFOs' relationships with external stakeholders

By reducing the time and resources required for routine operations, a transformed finance function can allow CFOs to dedicate more time and effort to building relationships with both internal and external stakeholders. CFOs will be able to get hold of the information stakeholders

want, more quickly. And the streamlining of systems and the automation of processes will mean that that information is of a higher quality and available near real time.

New technologies, such as **blockchain**, can transform the way finance functions disclose, validate and secure both internal and external data. This can provide new opportunities to engage external stakeholders, resulting in better relationships with investors, banks, regulatory bodies, suppliers and customers, and can also be applied to back office functions such as intercompany accounting.

On the **supplier side**, blockchain can enable a more integrated network, giving suppliers secure access to the information they need – e.g., regarding invoices, purchase orders and payments. And, for the customer-facing aspects, a single system can offer customers the information they need on products, and can bill them in a timely fashion. Improvement can also be made in managing quality issues quickly increasing customer satisfaction and reducing the burden on the finance function to provide these services.

## Solving the talent and people challenges

Robotics, artificial intelligence and automation tools are together disrupting traditional finance career paths, presenting CFOs with serious long-term challenges regarding people and talent. And technology is also disrupting the traditional outsourcing model. The cost advantages of outsourcing routine work are being undercut by automation, while, at the



same time, new technology is making it easier and more efficient to work across borders than ever before.

The ongoing technological revolution is reinventing the work people do: how they do it, where they do it and who does it. The CFO cannot take full advantage of new technologies without addressing the people issues these technologies help to create. So EY Agile Business Finance includes an Organizational Capability Excellence (OCX) offering – an approach that draws on the skills of EY People Advisory Services teams to help CFOs address current and future people and talent challenges, essentially the human capital agenda for Finance.

### Step by step, into the future

The new capabilities to be had by fully harnessing SAP technologies and EY insight have great potential. But every organization is different, and each finance function faces unique challenges. So EY Agile Business Finance has been designed to be flexible enough to address the specific requirements of each client.

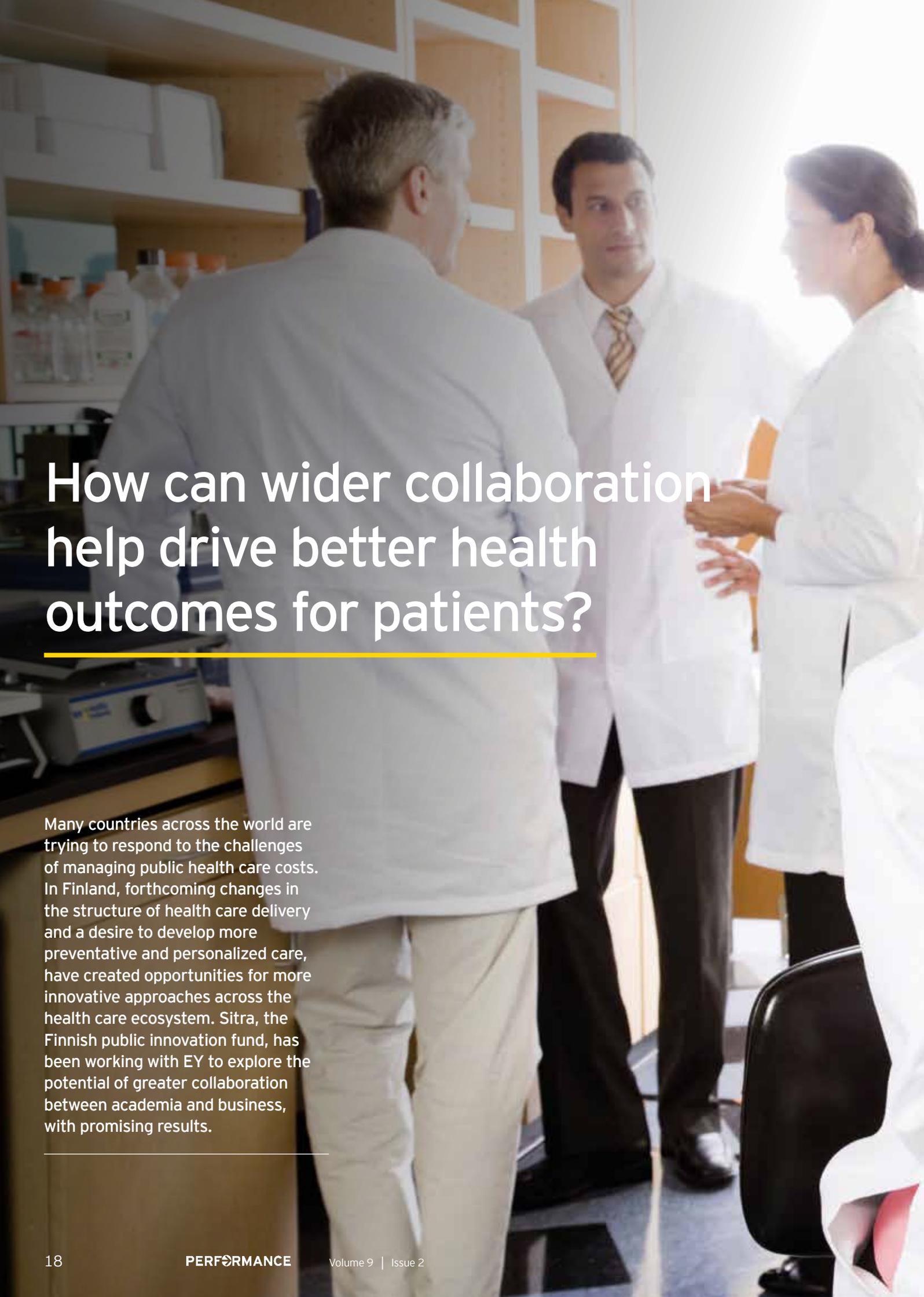
EY Agile Business Finance is focused on improving the investment an organization makes in its technology platform. And it is designed to offer value incrementally throughout the transformation process – unlike a “big-bang” approach, which only delivers value only on completion. But while it works at improving the value of the technology organizations have today, EY Agile Business Finance is also very much future-focused, designed to prepare organizations for the new technology and new challenges awaiting them tomorrow. ■

---

“CFOs are now having to become much more technology-savvy. They can no longer simply rely on their IT departments for this.”

**Michael Yadgar,**  
EY Americas SAP Leader

---

A photograph of three healthcare professionals in white lab coats standing in a laboratory or clinical setting. They are engaged in a conversation. The man on the left is seen from the back, the man in the middle is facing forward, and the woman on the right is in profile. The background shows laboratory equipment and shelves with bottles.

# How can wider collaboration help drive better health outcomes for patients?

---

Many countries across the world are trying to respond to the challenges of managing public health care costs. In Finland, forthcoming changes in the structure of health care delivery and a desire to develop more preventative and personalized care, have created opportunities for more innovative approaches across the health care ecosystem. Sitra, the Finnish public innovation fund, has been working with EY to explore the potential of greater collaboration between academia and business, with promising results.

---



## Authors

### **Ville Koiste**

Capacity for Renewal, Sitra

### **Sakari Helminen**

Partner LL.D., Transaction Law Services,  
Ernst & Young Oy (EY), Finland





**T**he Finnish innovation fund Sitra exists to explore and fund sustainable development initiatives in society. Sitra has been active in the health care field for several years, for example supporting digital self-care solutions, utilizing genome information and strengthening the Finnish health and life science ecosystem. This ecosystem approach has been identified as particularly important, and Sitra is encouraging greater collaboration between different stakeholders, especially academia and business, as historically these sectors have operated in silos.

With this in mind, Sitra asked EY to help produce a Medical Research Map report that would:

- ▶ Explore the key medical research areas and methods from the perspective of both the global pharmaceutical industry and Finnish universities
- ▶ Identify ways to strengthen public-private cooperation
- ▶ Discover the most attractive opportunities for Finnish medical research
- ▶ Recommend action to enhance the productivity of the Finnish medical research sector

In the report, the respondents represented all the university medical faculties and three-quarters of the pharmaceutical industry in Finland. It identified that in Finland, there has been a huge change in the last few years, which has led universities to seek additional funding from beyond

---

Sitra is encouraging greater collaboration between different stakeholders, especially academia and business, as historically these sectors have operated in silos.

---

public institutions, and faculty deans are more open to collaboration with companies big and small and new and established. Every stakeholder understands that without a network of high quality assets – whether facilities, software or know-how – they cannot do everything. Both academia and business need new partners so they can be agile in the changing landscape.

Sitra has already funded several collaborative pilot projects, including CardioCompass, which is a joint venture between Molecular Medicine Finland (FIMM), the Finnish Red Cross Blood Service and Sitra. CardioCompass is a web-based service that provides patients with an analysis of their risk of developing a cardiovascular disease. The results could be used to explain the hereditary risk of developing heart disease – both to the patient and to their physician. It was piloted by 176 people whose hereditary risk of developing atherosclerosis was assessed

Every stakeholder understands that without a network of high quality assets – whether facilities, software or know-how – they cannot do everything.

on the basis of some of the most significant genomic variants prone to cardiovascular disease. Participants could also key in other factors related to their health, such as blood cholesterol level, high blood pressure and smoking, to understand how they might impact upon their likelihood of contracting a cardiovascular disease.

### Exploring future potential: Project Way Forward

The positive outcomes of the Medical Research Map report encouraged Sitra and other public institutions to explore in more detail the potential for nurturing a collaborative ecosystem that would connect and benefit as broad a group of stakeholders as possible.

Working with its client, the public sector business support body Finpro, EY offered to support this wider conversation by facilitating a series of workshops and seminars involving multiple partners. The invitees represented a broad spectrum of health care stakeholders: pharmaceutical companies, medtech, start-ups in the wellness and health sphere, industry associations, national institutes, health care providers, insurance companies, mobile operators, and bio banks.

### Big changes in health care delivery

Collaborative research and activity is motivated in part by the large reforms to social and health care currently being introduced in Finland, in which management will shift from a municipality- to county-based system.

In brief, the reforms will:

- ▶ Bring health care and social services together at all levels in a more customer-orientated way
- ▶ Simplify the financing structure and give people more freedom of choice in their services
- ▶ Reduce inequities in wellbeing and health between people
- ▶ Manage costs

This opens up many potential opportunities for health providers, including the private sector, to deliver more innovative systems of care, particularly utilizing technology.





---

Both academia and business need new partners so they can be agile in the changing landscape.

---

The sessions solicited many different points of view from the more than 100 stakeholders, but four core themes emerged as both strengths and priorities:

► **Disease pathways**

Finland has globally recognized knowledge and researchers in certain disease mechanism areas, such as metabolic, neuroscience, oncology and cardiovascular, which is the primary source of new drug and diagnostics development – and hence offers considerable commercial potential for the ecosystem.

► **Technology and engineering**

The country has strong capabilities in many technological application areas, such as wearable devices and sensor technology, in vitro diagnostic (IVD), and monitoring and imaging, supported by information and wireless technology. A mature digital infrastructure, a lively start-up environment and established capabilities in medical technology and engineering provide a strong basis for the development of digital health solutions.

---

For the future of the life sciences ecosystem, willingness and openness is needed more and more.

---

► **Health data**

Finland is one of the first countries in the world to set up a national digital patient data repository covering both the public and private health care sectors – all 5.5 million citizens have online access to their health records and their e-prescription history.<sup>1</sup> Finland also has a unique ability to combine biological sample data into patient records, national registries and other phenotype data.

► **Accessible health care system**

A high-quality care system with its uniform standards and universal access offers a strong platform for product development, testing and clinical evidence gathering in real-life environments. There is a significant diversity of stakeholders suitable for collaboration and solutions developed will likely be applicable to a wide range of service providers worldwide.

Technology is arguably the core theme that unites opportunities in the health care ecosystem in Finland: there are many tech-savvy people who are very happy to use technology, such as smartphones and eHealth solutions. The ability to gather real-world data is also one of the hottest topics in health care, and Finland could help lead the way in preventing illness.

This view is already supported by some global players: according to IBM, Finland is among the leading countries for digitized health care, and the company has announced it will make several strategic investments in Finland to establish the Watson Health Centre of Excellence for developing artificial intelligence services for health care and wellbeing, as well as the first Imaging Centre of Excellence in its category outside the US.<sup>2</sup>

Project Way Forward helps activate an even larger pool of organizations and bring their contribution to the future of health care.

### **Collaborations across the ecosystem**

Sitra has been leading the way in collaborative projects for several years – but Project Way Forward is among the first major health care ecosystem-based initiative to exploit the willingness of stakeholders to discuss collaborating and actually translate it into action.

Focusing on new innovation and investments, Sitra is already supporting and accelerating national collaboration in certain areas, especially around health data. For example, EY helped Finpro make over 80 recommendations following Project Way Forward, and the organization has now received financing for the next steps, to action some of the key recommendations.

In the future, the Finnish Government will hopefully continue to explore funding for collaborative activity resulting from Project Way Forward, with further workshops to explore certain issues and identified gaps.

### **Conclusion**

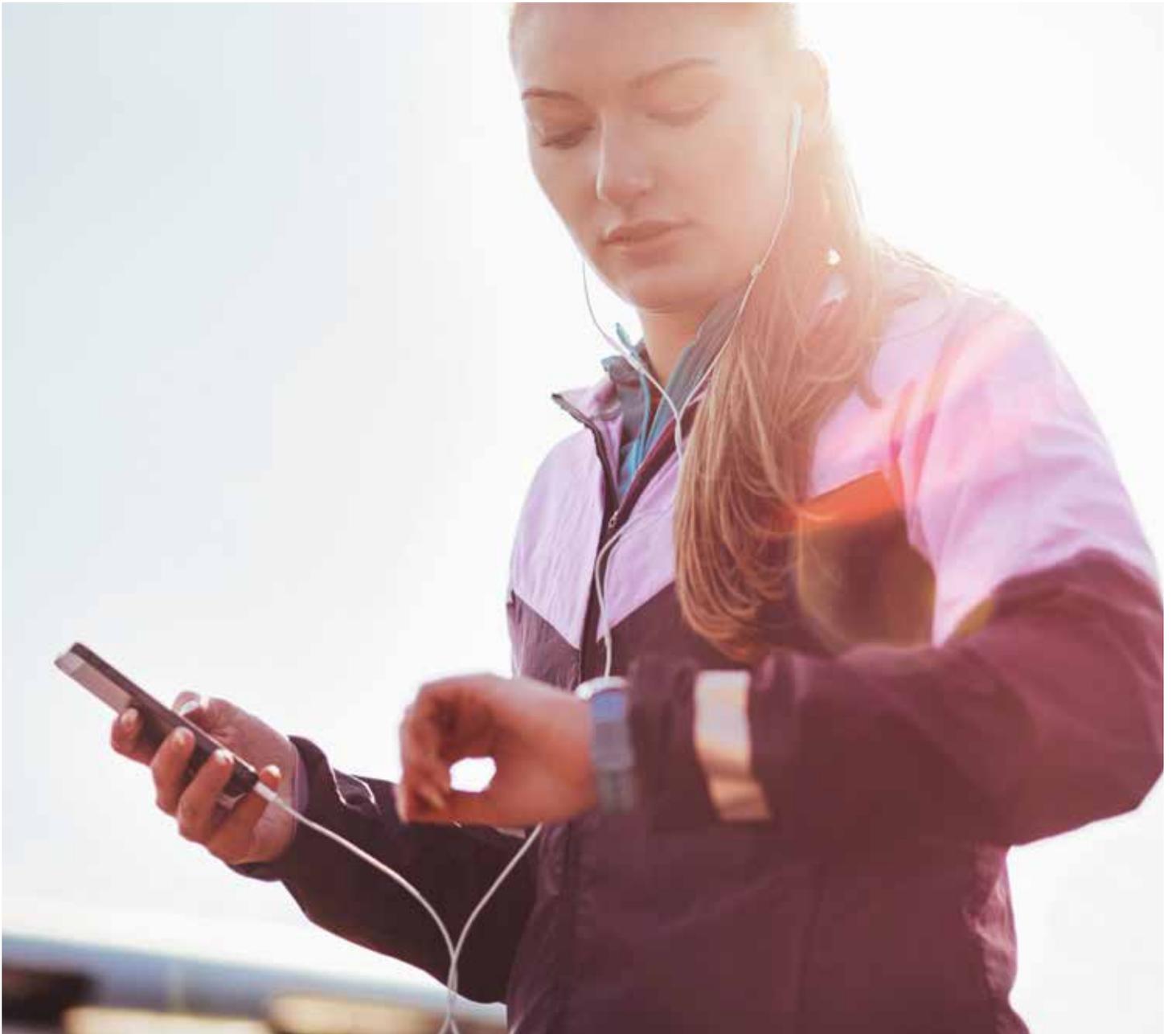
Overall, the legacy of Project Way Forward is to stimulate growth opportunities for Finnish companies and attract foreign direct investments in the field, making Finland one of the key hubs for health care innovation globally. This is a once-in-a-lifetime opportunity for Finland: without collaboration, the preventive health care system that so many stakeholders want to see is not going to happen. For the future of the life sciences ecosystem, willingness and openness is needed more and more. It's all about engagement.

Stage one of Project Way Forward is now finished, and stakeholders are closely involved in developing a second stage that will catalyze multiple initiatives to deliver on the expectations and potential suggested.

It is hoped that Project Way Forward will serve as an example for other countries to follow in their approach to innovative, proactive and economical health care solutions. ■

---

1. "World class digital health comes from Finland," *Finlandcare*, [www.finlandcare.fi/web/finlandcare-en/-/world-class-digital-health-comes-from-finland](http://www.finlandcare.fi/web/finlandcare-en/-/world-class-digital-health-comes-from-finland), accessed March 2017.  
2. "Why did IBM select Finland as the cradle for its artificial intelligence?" *Sitra*, [www.sitra.fi/en/blogs/why-did-ibm-select-finland-cradle-its-artificial-intelligence/](http://www.sitra.fi/en/blogs/why-did-ibm-select-finland-cradle-its-artificial-intelligence/), accessed March 2017.





# Switching to software: how product companies can learn to sell solutions

---

With the rise of digital technology, the software component in many products, ranging from washing machines to machine tools, has grown increasingly important. This has given the manufacturers an opportunity to become solution businesses – a switch that can deliver great business benefits.

---



**Author**

**Dr. Adrian Reisch**  
Senior Manager, Advisory Services –  
Product Life Cycle Management, Ernst & Young  
GmbH, Germany

---

Over recent decades, with advances in digital technology, many companies have found that what they sell has ceased to be a product containing software, and has become the software itself contained within the company's hardware as an integrated customer solution.

This means that many product (or hardware) businesses are becoming solution (or software) businesses. Becoming a solution business offers great opportunities because it allows companies to increase sales rapidly without necessarily increasing costs – since, once the initial software development has taken place, the costs incurred for extra sales are often relatively trivial. But making the switch from being a product business to being a solution business

is far from straightforward. It requires a transformation in how the company markets, sells and supports its offerings.

### Our assignment

We recently carried out a project to help a large industrial products manufacturer get more from its solution portfolio. The business had a long and prestigious history in machine manufacturing. But it had, over time, become the provider of a range of solution offerings as a result both of acquisitions and internal developments.

The marketing department of the business recognized that it lacked experience in selling solutions and asked EY to help the company identify what changes it needed to make to better market and sell integrated software solutions.

Making the switch from being a product business to being a solution business is far from straightforward. It requires a transformation in how the company markets, sells and supports its offerings.

### Why selling solutions is different from – and more complicated than – selling products

When selling a product, what you are selling and its benefits tend to be very tangible. Pricing is also relatively straightforward, for example, customers are likely to understand why larger, more powerful motors – or smaller, more sophisticated ones – are more expensive.

When selling solutions, however, far more explanation must be given to the customer. The specific benefits of software functionalities are not straightforwardly tangible, so they

and any differences in pricing need to be explained.

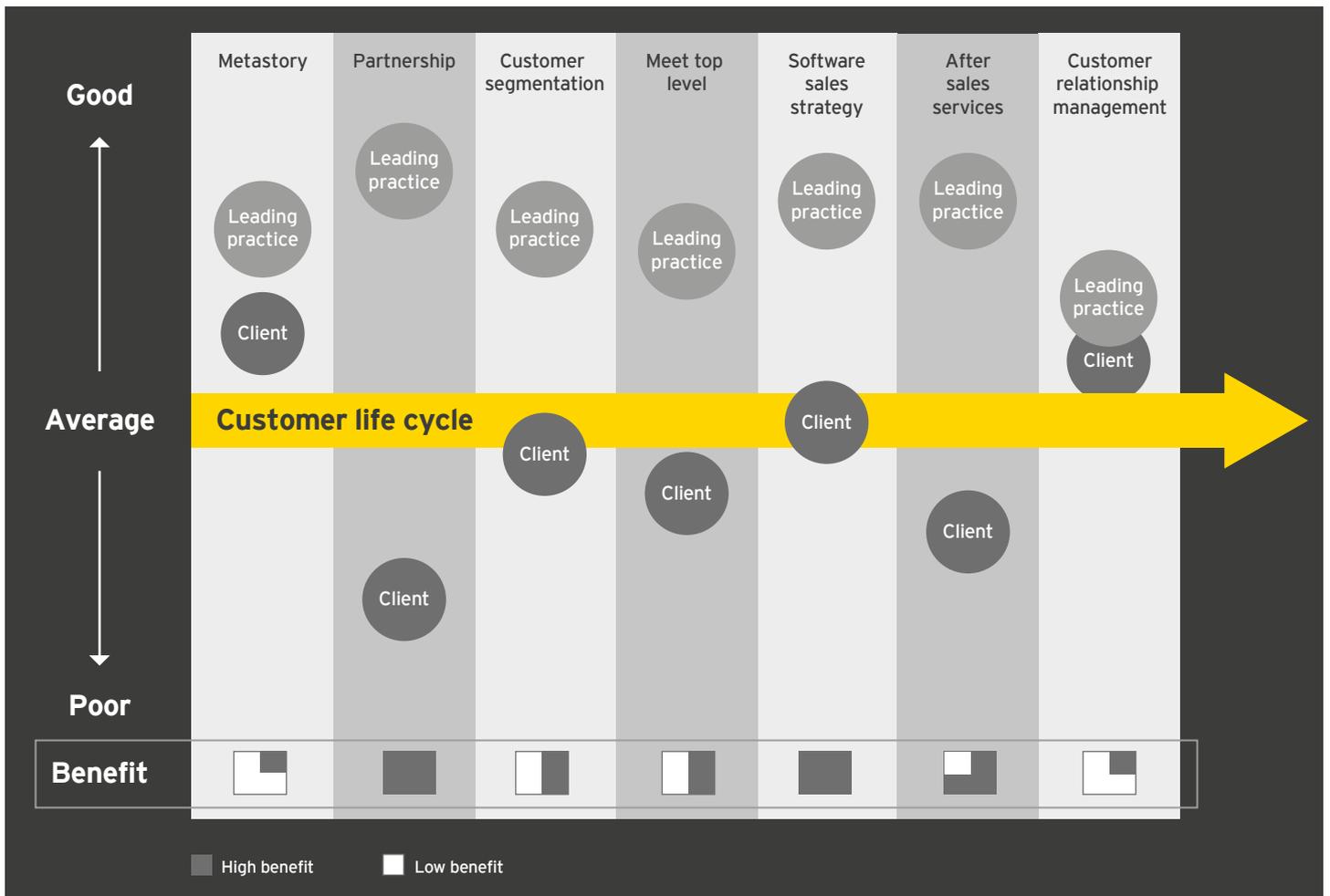
The idea of selling solutions rather than products is also relatively new, so a solution company needs to ensure it makes clear to customers exactly what it is they are buying. And when selling solutions, companies need to focus on solving specific client problems, so greater effort is needed to understand each individual customer.

### How we carried out the assignment

We compared the company with a selection of its main competitors on seven key stages of solution business:

- ▶ Establishing a metastory
- ▶ Developing partnerships and ecosystems
- ▶ Focusing on specific customer segments
- ▶ Engaging with the top level
- ▶ Building a solution sales strategy
- ▶ Promoting after-sales service
- ▶ Enhancing customer relationship management

Figure 1. Improvement opportunities for software marketing: comparison with competitors





### **Establishing a metastory**

Companies making the transition to selling solutions will need to establish a new metastory – an explanation of what the company does, who it can help and how it can help them. Having the right metastory is particularly important for solution companies because software tends to be updated and developed over time. This means clients need to have confidence that the company will develop the solution successfully and that the solution company itself will remain sound during the contract period.

**Our client for this assignment had a very strong metastory as a hardware company, but it needed to translate that into a strong metastory for its business. It also needed to work harder to explain the specific value of its solutions for different customer groups.**

---

## Developing partnerships and ecosystems

Product companies can often sell and, if necessary, install their products on their own. But for solution companies, the business model is more complicated, with revenues coming, in roughly equal proportions, from three main sources:

- ▶ Subscription fees
- ▶ Annual service fees
- ▶ Implementation and consulting fees

The wider range of revenue streams means that service companies need a wider range of skills and expertise. Because of this – and because serving customers in different industries requires specialist knowledge – solution companies tend to rely on other companies, known as “solution partners,” to carry out much of the work selling, implementing and supporting their solution.

As a general rule, solution companies should focus on managing large accounts and leave solution partners to cater to smaller customers. This allows the company to focus its efforts and to sell to a wide range of customers without excessively building up its organization.

To be successful, a solution company will need to carefully develop its partnership strategy, making sure it does not establish new partnerships in regions or sectors where it is already strong. And it will need to work proactively with partners, involving them in large projects, including them in marketing materials and directing suitable clients to them on the basis of the partner’s region and specific area of technical expertise.

**Although the client for this assignment had built up its partnership network, it needed to work more closely with its partners to develop new business, and it needed to promote its partners more in its marketing materials.**

## Focusing on specific customer segments

Solutions are less tangible than products and their benefits may be different for each customer. So it is vital for solution companies to tailor their marketing to a range of customer groups. This requires them to use reference cases – case studies showing how the solution has helped a specific client.

Reference cases help to show the specific benefits the solution may have for a potential client. But they need to be region- and industry-specific: a Chinese heavy machinery manufacturer, for example, is unlikely to want to know how a solution has been used by a US consumer products manufacturer.

Solution businesses often have to start by investing in building up a portfolio of reference cases in target regions and industries by offering solutions at a reduced price. This is because, before buying, customers will want to see the solution in operation – to see how well it works and to see in what situations it has been successful – and are unlikely to pay full price if the solution company cannot yet show this to them.

---

When selling solutions, companies need to focus on solving specific client problems, so greater effort is needed to understand each individual customer.

---

**Our client had already secured many reference cases. But it needed to gather them together into one system and make them more easily available, both internally and externally.**

## Engaging with the top level

Once adapted and implemented, new solutions tend to have a larger effect on the wider organization than products do and, if they fail to deliver as expected, are far harder to replace. This means that while decisions to buy products tend to be left to an organization’s technical professionals, the decision to buy new solutions is often the responsibility of the senior leadership team.

---

As a general rule, solution companies should focus on managing large accounts and leave solution partners to cater to smaller customers.

---

So, for companies moving into marketing solutions, there often needs to be a change in the media channels used. For example, while a motor manufacturer would be likely to promote its products in dedicated engineering journals, a company marketing an integrated solution should rather advertise in business journals of the kind read by senior business leaders.

Another important way to engage with senior executives is to hold business fairs featuring speakers from companies that have used the solution. These give potential customers a chance to meet with executives who have experience with the solution, and to exchange information about how the solution can help them with real business problems.

**Our analysis showed that our client needed to increase its presence in the media in order to raise its profile among executives. We also recommended that it should hold more industry-specific customer events.**

### **Building a solution sales strategy**

Central to establishing the right sales strategy is the creation of a portfolio management matrix. This involves plotting the company's solution offerings onto a graph with target client groups on one axis and, on the other, sales channels, e.g., regional sales teams, partners serving different sectors and the company's own sales force.

By looking at where different solution offerings occupy the same space on the matrix – i.e., they are targeted at the same customer group and served by the same sales channel – a solution company can identify synergies and opportunities to offer bundles (different solutions sold together as a package). A complete IoT business aims to bundle all four segments into one integrated solution.

**Our analysis showed that our client could improve how it targeted customer groups by focusing on offering the right product mix via the appropriate sales channel.**

## Promoting after-sales service

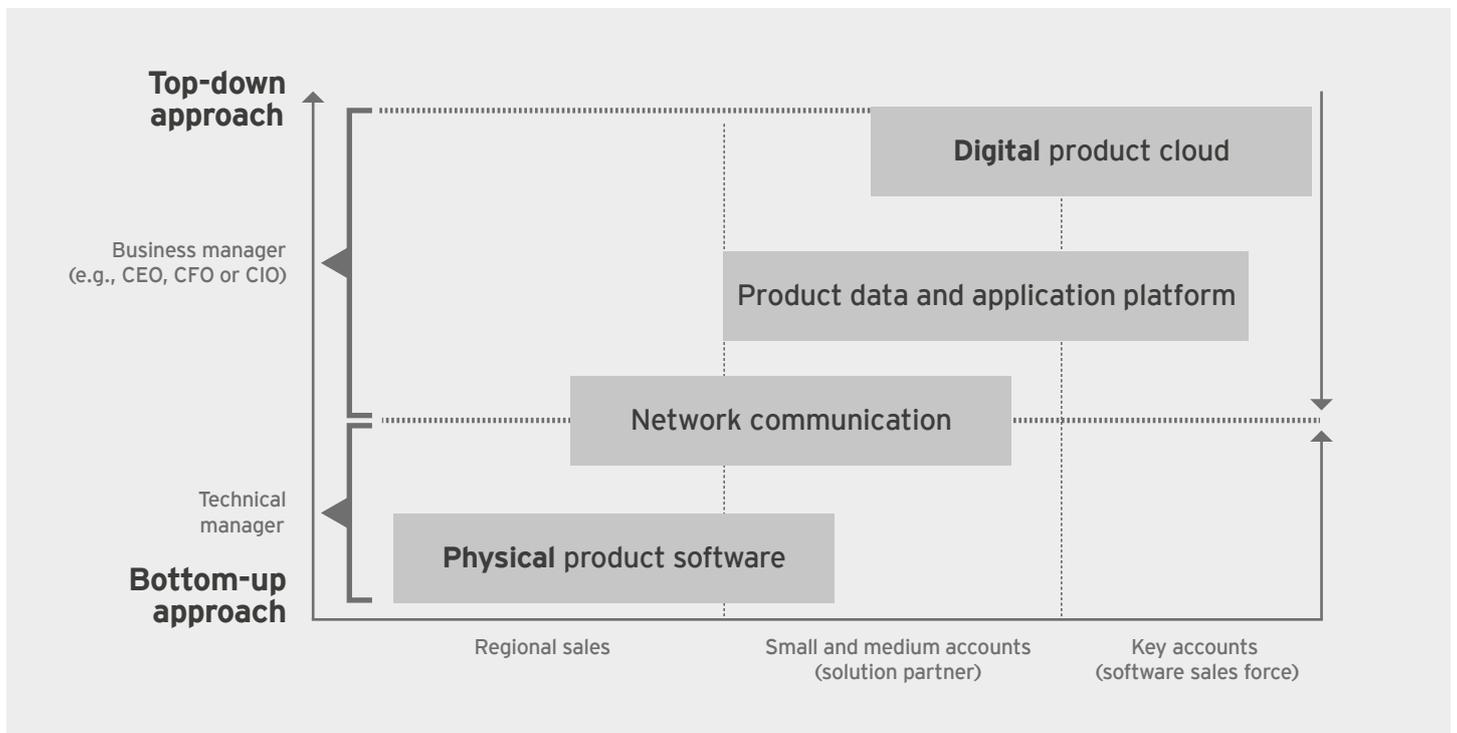
Putting a focus on after-sales care offers solution businesses big opportunities. Not least because clients will want to be sure that they get the latest updates and will want to know that any problems they have with the solution will be fixed for them because they are unlikely to be able to fix it themselves.

The fees for maintaining an installed solution can add up to the equivalent of another sold solution every five years. But to make a success of after-sales service, companies making the switch to solutions will need to:

- ▶ Improve their service organization to prepare it for increased demand

- ▶ Create differentiated maintenance contracts offering different response times and train service staff to strictly adhere to the terms of these
- ▶ Train and incentivize the sales force to promote and sell service contracts (rather than offering them as a free incentive to encourage sales)

Figure 2. Proposed sales and partner strategy for software solution business



While decisions to buy products tend to be left to an organization's technical professionals, the decision to buy new solutions is often the responsibility of the senior leadership team.

- ▶ Develop partnerships to allow the company to focus on serving larger clients, while smaller customers are served by a solution partner (preferably the one that implemented the solution for them in the first place)

**During the assignment, we found that our client needed to place greater emphasis on selling maintenance contracts. It also needed to explain more clearly to customers the benefits of service contracts.**

### Enhancing customer relationship management

Customer relationship management (CRM) is increasingly important for businesses of all types, but it is particularly important for solution companies. This is because, to make sales, a solution company needs to spend more time with customers than a product company does, if it is to understand customer problems and explain the benefits of the solution.

One essential idea that companies must keep in mind is that CRM is not just software that can be bought. It is a whole new mindset, requiring a significant change in how much of the organization operates. In particular, a mindset shift will be required among the sales team.

The work of the sales department in CRM is vital in enabling an organization to:

- ▶ Capture what the company learns about customers
- ▶ Secure reference cases
- ▶ Prioritize customers and assign the right resources or solution partners to them
- ▶ Identify cross-selling and bundling opportunities

Sales team members must be encouraged to overcome their reluctance to share contacts. This will require a careful program to explain why CRM is so crucial and to establish what is – and what is not – acceptable use of other team members' contacts.

**Because our client had built up much of its software business through acquisitions, it had inherited multiple CRM systems. The first step it needed to take was to integrate its CRM into a single system.**

### Making the transition

Our client for this assignment was in the machine industry, which has been at the forefront of the shift from products to solutions. However, the continuing digital revolution and the rise of the internet of things mean that many more companies, from all sectors, are likely to find software becoming a core part of their business. And, regardless of how they started, many more companies will find that their ability to create, sell and support solutions plays a crucial role in determining their future success. ■



# Getting back on track: helping an African business regain a commercially sustainable future

---

The African business of a Fortune 500 manufacturer and retail company had been experiencing stagnating revenues, brand erosion, declining market share, very high conversion costs, operational instability and low levels of employee engagement. After the African business was placed under management of a new CEO, EY co-developed a three-phased approach to turn the business around. This was done through a series of visually-facilitated workshop, using design thinking and accessing leading insights from around the world.

---



Author

**Wim Hoogedeure**

Partner, Advisory – Performance Improvement, Supply Chain & Operations, Ernst & Young Services (Pty) Ltd, Africa

---

With 22% customer churn, increasing customer retention was critical. EY developed and piloted a toolkit to support area and store managers reach their sales targets and improve their customers' experience.

**E**Y was engaged by the newly appointed CEO and his executive team to help deliver a step-change in performance, with the aim of:

- ▶ Returning profitability to acceptable levels
- ▶ Recovering market share across Africa
- ▶ Achieving benchmark manufacturing performance
- ▶ Increasing employee engagement

### 1. Diagnosing the present state

The first phase was to examine every aspect of the business, compare it with leading practices and identify the root causes of underperformance.

We asked hypothesis-based questions, such as:

- ▶ **External environment:** What is the impact of the broader macroeconomic environment? What is the market in which the business operates (i.e., size, share, growth)? What are customers' needs and purchasing behaviors? Who are the competitors? What does the policy and regulatory landscape look like? What are the labor trends?
- ▶ **Product portfolio and distribution:** What has been the historical sales and market share performance? What is the growth potential? How could that be captured? What is the route to market, cost to serve, brand positioning, pricing

and marketing strategy? What is the role of online channels?

- ▶ **Manufacturing excellence:** What is the production performance and capacity? What are the key loss areas and bottlenecks? What are the factory cost drivers? How are digital and other disruptive technologies, such as Industry 4.0, artificial intelligence, IoT and robotics being exploited?
- ▶ **Technology:** Is the operational and business technology fit for purpose? Does it enable the business to deliver on its strategic objectives?
- ▶ **Culture and leadership:** What is the capability, capacity and commitment for a broad-based business transformation? What leadership, mindsets and behaviors are necessary to drive and sustain the turnaround? What is the organizational culture?
- ▶ **Cost drivers:** What are the levers of profitability?

Following a series of intensive workshops, the diagnostic phase resulted in a three-horizon turnaround plan to help operate and grow the business in a sustainable way, better than the competition and ahead of the market:

1. Simplify the organization and relentlessly pursue the basics
2. Optimize the operating model and customer value proposition
3. Innovate and disrupt

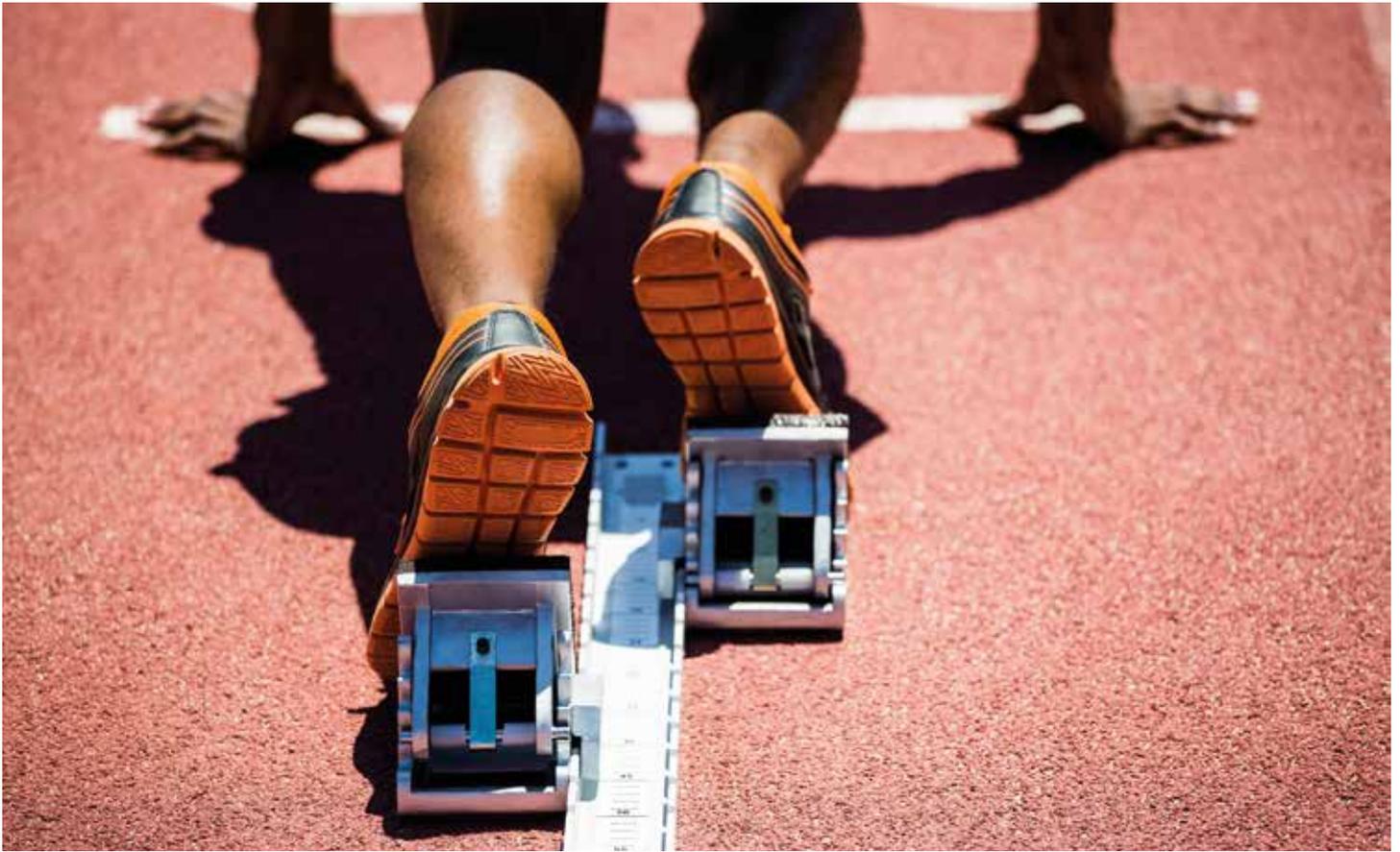
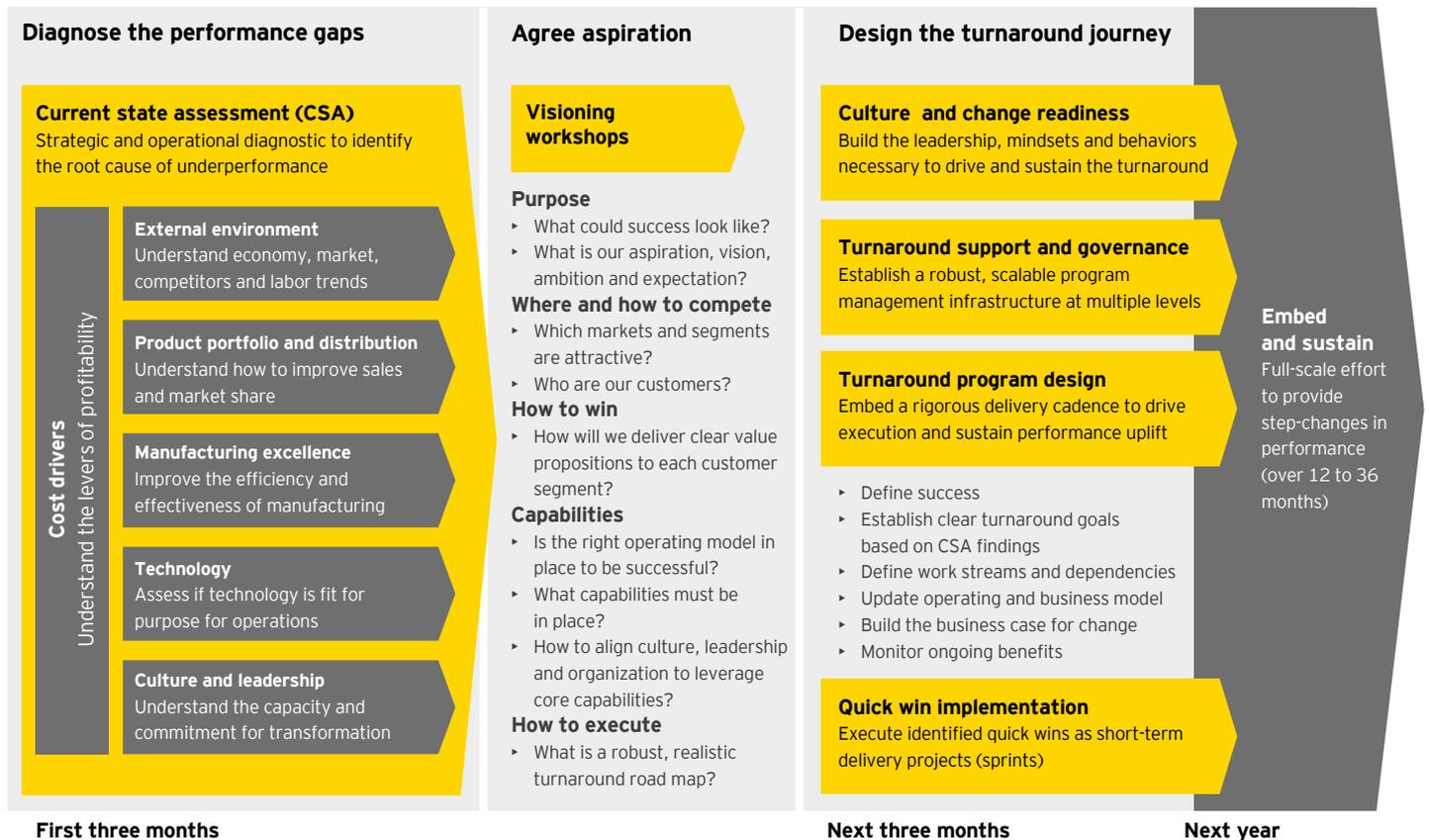


Figure 1. Diagnosing the present state

A rapid, iterative workshop-based approach to refine insights from rigorous analyses and develop a robust turnaround plan



---

A new sales and operations planning process linked the company's strategy to tactical planning and operational execution.

---

## 2. Building the future

The second phase saw EY and the client working in small teams to progress five workstreams.

### a. Developing a compelling vision for the future

Establishing a clear purpose laid the foundation for the company's future vision and strategy. Through a series of rapid design workshops with the organization's top 50 employees, we helped develop a compelling future state vision and business strategy. The team connected with subject matter experts globally, used visual facilitation techniques, storytelling, design thinking and digital simulation to explore the implications of decisions.

This next level of leaders explored questions such as:

- ▶ What is our purpose?
- ▶ What could success look like?
- ▶ What is our aspiration, vision, ambition and expectation?
- ▶ Where and how should we compete?
- ▶ Which markets and segments are attractive?
- ▶ Who are our customers?
- ▶ How can we win?
- ▶ How will we deliver clear value propositions to each customer segment?
- ▶ Is the right operating model in place to be successful?
- ▶ What capabilities must be in place?

- ▶ How should we align culture, leadership and organization to leverage our core capabilities?
- ▶ What is a robust, realistic turnaround road map?

The insights from these conversations laid the foundation for a pragmatic redesign of the operating model. This, in turn, led to a simpler organization and a more tax-effective and lower-cost structure, with clear accountabilities across functions.

It also supported the alignment of the business's mid-term planning and budgeting process. It was now based on solid business fundamentals and aligned with the organization's purpose and vision.

The resulting workstreams, called "sprints and marathons," were executed by cross-functional teams, each led by an executive committee member. They were (and still are) supported by rigorous governance, a robust delivery cadence and regular, inspired communication so that targeted benefits are delivered as planned. This agile approach sees measurable turnaround results achieved in weeks rather than months.

### b. Increasing revenue

A customer value proposition (CVP) was defined for each customer segment. This was based on the mystery shopper experiences in owned and competitor stores, and the insights from street intercepts on brand awareness and purchasing behavior. We quantified the incremental revenue that could be captured



through a new product and service proposition, which required refinements to the organization's go-to-market approach, pricing strategy, channels, brand positioning and marketing communications.

With 22% customer churn, increasing customer retention was critical. EY developed and piloted a toolkit to support area and store managers, in each of their 250 stores, reach their target sell out percentage (SOP) and improve their customers' experience.

We helped upskill the sales force and embed rigor into prospecting, lead generation and follow-up. This improved productivity, increased sales conversion and provided a higher share of wallet growth through cross- and up-selling.

Capturing this significant revenue uplift required refining the franchise agreement, optimizing the network footprint and addressing several external market factors.

**Figure 2. Customer value proposition principles**





---

The leadership development program focused on all organizational layers, from the executive committee to supervisors, in a quick cascade.

---

### **c. Synchronizing the supply chain**

Getting the right product available at each sales outlet required a different level of supply chain synchronization. A new sales and operations planning (S&OP) process linked the company's strategy to tactical planning and operational execution. This new form of collaboration, decision-making and performance monitoring was initially piloted on a limited number of stock keeping units (SKUs). We quickly demonstrated the value of outcome-based decision-making, and extended the S&OP process to the full product range. We also trained and coached the factory floor personnel on the use of the master production schedule and how to sustain their improved planning performance.

A further part of the synchronization efforts was to have inventory available in the right location at all times. We helped define the required customer-service levels and identify the supply chain strategies for each customer, channel, product and geography through a series of focused workshops. In those, we coached the client teams on how to determine supply chain variability and other constraints (e.g., lead time and required service levels) for finished goods and raw materials, and helped integrate distribution requirements planning and allocation (DRP) processes with forecasting and inventory planning.

The final initiative was to rationalize the product portfolio on the basis of financial criteria, strategic fit and complexity. Simplifying the range has also assisted in improving master data management governance.

---

#### **d. Increasing manufacturing productivity, improving quality and reducing conversion costs**

Through two eight-week, run-to-target proof of concepts on bottleneck equipment, we demonstrated that rapid performance improvement was possible. A critical element was to create data registration capabilities on the equipment, and to agree baseline performance and targets for throughput and waste. Cell structures were selected and all stakeholders (i.e., operators, supervisors, shop stewards and management) onboarded. Through training and on-the-job coaching on standards (e.g., centerlines, clean-inspect-lubricate, defect handling, breakdown elimination and change-over) and tools (e.g., loss trees, daily-direction setting and problem solving), equipment performance rapidly improved from week five.

Building capability on the shop floor was key to sustaining and further improving results. Lean Six Sigma belt certification provided the means and confidence to continue on the improvement journey to benchmark performance. This was done through a “see one, do one, run one” approach to knowledge transfer, applying what was learned immediately on reducing energy consumption, optimizing maintenance, and minimizing scrap and waste.

These initiatives laid the foundation for the organization to proceed with its broad-reaching manufacturing excellence journey.

#### **e. Embedding servant leadership culture**

A critical enabler to the turnaround was gaining commitment from leadership that they needed to demonstrate a collective responsibility for turning the business around and to become role models for the required behaviors.

To help shift the leadership style from command and control to servant leadership, EY used a personality profiling tool to design the servant leadership development program: a combination of cross-functional workshops and 12-months executive coaching.

The leadership development program focused on all organizational layers, from the executive committee to supervisors, in a quick cascade. The workshops were made up of a series of experiential modules focused on leading self, others and the organization. It drove a deep shift in mindset. People management became more effective. In addition, the shift in leadership style deepened trust and quickly improved employee engagement and morale.

An important element is that the new leadership style is sustained by building it into the formal performance management system.

Arguably the most exciting activity was socializing and embedding the desired culture and behaviors. This was done through:

- ▶ Introducing a monthly recognition and incentive scheme

- ▶ Communicating organization wide, on a regular basis, through townhalls, videos and other creative channels
- ▶ Implementing a change champion network to promote effective two-way communication and provide a channel for employees to be heard
- ▶ Launching an Olympic-themed behavior change game to foster collaboration and innovation using a reward-driven mechanism

---

The journey continues with rapid execution of the various turnaround initiatives, by cross-functional teams in agile sprints and longer-term marathons, governed by a strong, practical program management office.

---

### 3. Providing bottom-line results

Nine months in, tremendous progress has been made across many dimensions: financially, in market share, customer satisfaction, manufacturing performance, organizational renewal and capability uplift.

Importantly, the African business is now much more connected. Connected with its customers, its employees, the communities in which it operates, with its business partners and with its global organization.

The journey continues with rapid execution of the various turnaround

initiatives, by cross-functional teams in agile sprints and longer-term marathons. These are governed by a strong, practical program management office. This robust delivery cadence is characterized by managed delivery of targeted benefits, reinforced through regular, inspired communication of the strategic vision and progress with the turnaround.

The next phase, disruptive innovation, will focus on exploiting digitization and other technological advances to profitably grow in an environment where industry sectors are blurring and combining. ■

We would like to thank the following for their contributions to this article:

**Grant Brewer**

Partner, Advisory – Performance Improvement, Strategy & Innovation, Ernst & Young Services (Pty) Ltd (EY), Africa

**Pilar de Miguel**

Partner, Advisory – Performance Improvement, Customer, EY, Africa

**Claire Hock**

Associate Director, People Advisory Services, EY, Africa

**Bettina Mxadana**

Senior Manager, Advisory – Performance Improvement, Manufacturing Excellence, EY, Africa

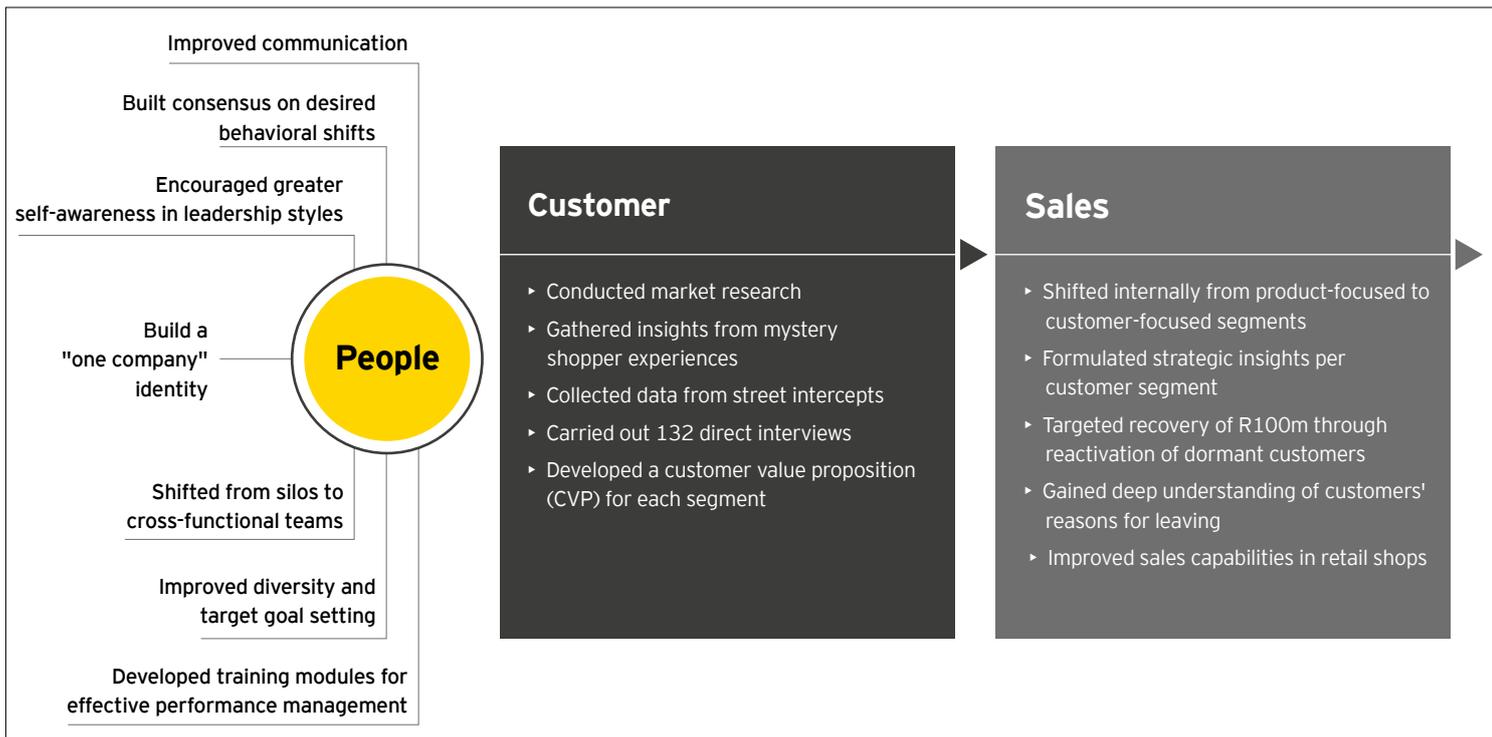
**Kate Skinstad**

Senior Manager, People Advisory Services, EY, Africa

**Elmien Sambandan**

Manager, Advisory – Performance Improvement, Sales & Operations Planning, EY, Africa

Figure 3. Turnaround process and progress





## S&OP

- ▶ Designed, documented and piloted S&OP processes
- ▶ Implemented KPIs to measure effectiveness
- ▶ Improved product availability:
  - ▶ Forecasting accuracy
  - ▶ Production plan adherence
- ▶ Reduced supply chain costs
- ▶ Improved collaboration and communication

## Manufacturing

- ▶ Changing culture and developing capabilities
- ▶ Improved performance, allowing volume growth:
  - ▶ Twenty-two percent increase in attainment
  - ▶ Thirty-two percent reduction in waste
  - ▶ Targeting 10% reduction in maintenance costs, 25% in energy costs
- ▶ Introduced new production incentives

## Strategy

- ▶ Designed customer-driven business model and simplified the organization
- ▶ Implemented integrated view of demand and supply scenarios
- ▶ Optimized the product portfolio
- ▶ Developed a digital strategy for specific customer segments
- ▶ Pursuing organic and inorganic growth initiatives



# Better with age: the silver opportunity

---

As human life expectancy steadily increases, governments are faced with the responsibility of providing health and social care to a population that has a greater proportion of elderly people than ever before. This presents new opportunities for parties including governments, health care providers and pharmaceutical companies to innovate and collaborate – and there is significant potential to improve the quality of life for elderly people, and drive cost-efficiency for governments and reimbursement for providers.

---



## Authors

### **Patrick Flochel**

Partner, Advisory Services – Life Sciences,  
Ernst & Young Advisory Co. Ltd, Japan

### **Frank Kumli, PhD**

Executive Director, Advisory Services –  
Life Sciences, Ernst & Young AG, Switzerland

### **Stephan Ohnmacht, PhD**

Manager, Advisory Services – Life Sciences,  
Ernst & Young AG, Switzerland

### **Christoph Wellinger**

Partner, Advisory Services – Life Sciences,  
Ernst & Young AG, Switzerland

**A**cross the world, life expectancy is steadily increasing. Currently Japan has the highest life expectancy, with people born today expected to reach 83.7 years,<sup>1</sup> closely followed by Switzerland, Singapore and Australia. This presents governments with an array of challenges to minimize the burden of aging on social and health care systems.

A decrease in birth rates in many developed countries<sup>2</sup> and the rise in life expectancy will further increase the percentage of people aged over 65 living in our societies. For example, in 2014, people aged over 65 made up 26% of Japan's population, a number expected to rise to 31.6% in 2030 and 39.9% in 2060.<sup>3</sup>

Health care budgets around the world are under enormous pressure and an aging society is one of the main drivers of rising costs. This pressure has resulted in cost containment initiatives by governments, targeting all business stakeholders, including the pharmaceutical industry.

Governments are giving particular attention to the cost of chronic diseases such as dementia, cancer and diabetes, as well as cardio, respiratory and cerebrovascular pathologies. These morbidities or co-morbidities require frequent prescriptions, regular interaction with medical staff and, in many cases, hospitalization and care center support, often resulting in palliative care.

Over the last 50 years, vast improvements have been made in extending life expectancy, but now the ability to decrease the number of years individuals live with disease has become of prime importance.

Japanese men, for example, in the last approximately nine years of their lives, live with at least one disease, and for women, this is true for around the last 12 years of their lives. These numbers have not changed considerably over the last decade. Achieving even a small decrease of 6 to 10 months across the population would have a profound impact on social and health care budgets.



1. World Health Organization.  
2. For example, in Japan, the average annual number of births per year per 1,000 people is 8, World Bank.  
3. <http://data.worldbank.org>.

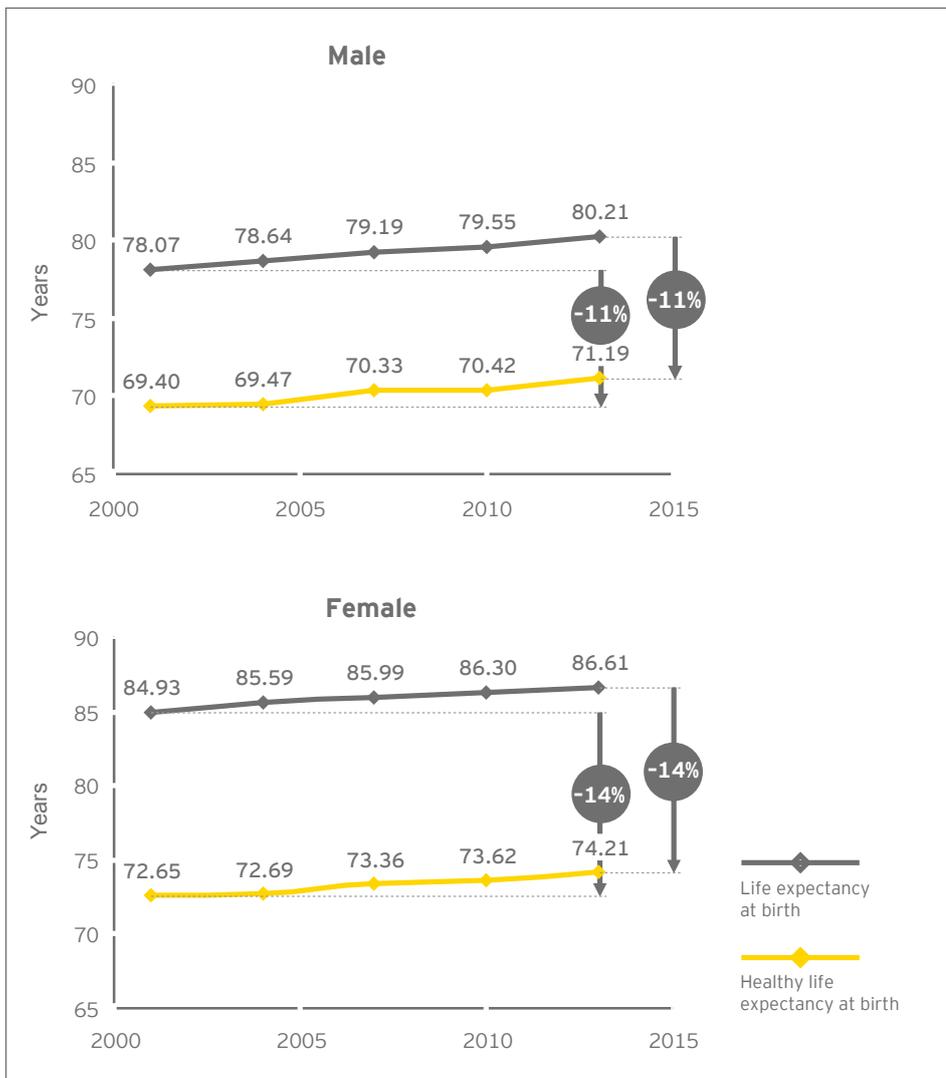
---

Health care budgets around the world are under enormous pressure and an aging society is one of the main drivers of rising costs.

---



**Figure 1. Life expectancy at birth compared with healthy life expectancy at birth (Japan, 2001 to 2013)**



Source: For life expectancy at birth: "Abridged life table," Ministry of Health, Labour and Welfare, Japan (MHLW), for 2001, 2004, 2007 and 2013; "Complete life table," MHLW, for 2010.

For healthy life expectancy at birth: "Projection of the healthy life expectancy and the study on the cost-effectiveness of the measures against lifestyle diseases," Health and Labour Sciences Research Grant, for 2001, 2004, 2007 and 2010; estimates derived from "Comprehensive survey of Living Conditions," MHLW, for 2013.

**Potential opportunities for pharmaceutical companies to innovate and partner**

We see the aging society as an opportunity for the pharmaceutical industry. There are particular areas where innovative new products might have a lasting impact, while helping to reduce the cost burden:

1. **Innovation targeting aging and age-related diseases on a molecular level**
  - ▶ Therapeutic area-specific molecular innovation
  - ▶ Preventive solutions
  - ▶ Aging biology innovation
2. **Innovation targeting aging and age-related diseases with added services**
  - ▶ Feedback loops
  - ▶ Other innovative approaches
3. **Exploring new territories**
  - ▶ Case example: Homecare

To capture these business opportunities, pharmaceutical companies will need to recognize which innovations and new products are likely to have the biggest impact on reducing the burden of the aging society, but also how they will be reimbursed for their efforts.



## 1. Innovation targeting aging and age-related diseases on a molecular level

Continued R&D efforts to discover novel molecular treatments for age-related pathologies, such as Alzheimer's, cancer, chronic obstructive pulmonary disease, cardiovascular and cerebrovascular pathologies, as well as diabetes, will be the industry's backbone and key to scientific, clinical and business success. Beyond traditional R&D approaches, further dedicated efforts in disease prevention and regenerative medicine, which includes gene therapy and tissue engineering, show great promise.

### ► Therapeutic area-specific molecular innovation

Roche has been active in recruiting participants of 70 years of age and over for selected geriatric clinical trials, such as the Avastin™ trial aimed at treating ovarian cancer.<sup>4</sup> In addition, Roche's Venetoclax™, Mabthera™ and Tarceva™ have all been tested specifically in individuals above the age of 60. Alzheimer's disease is another area of great interest. Takeda and Zinfandel Pharmaceuticals recently completed recruitment for their TOMMORROW Ph3 trial. This trial is an excellent example highlighting how therapies aimed at one chronic morbidity (diabetes) can be "repurposed" to address yet another chronic disease, Alzheimer's.<sup>5</sup>

---

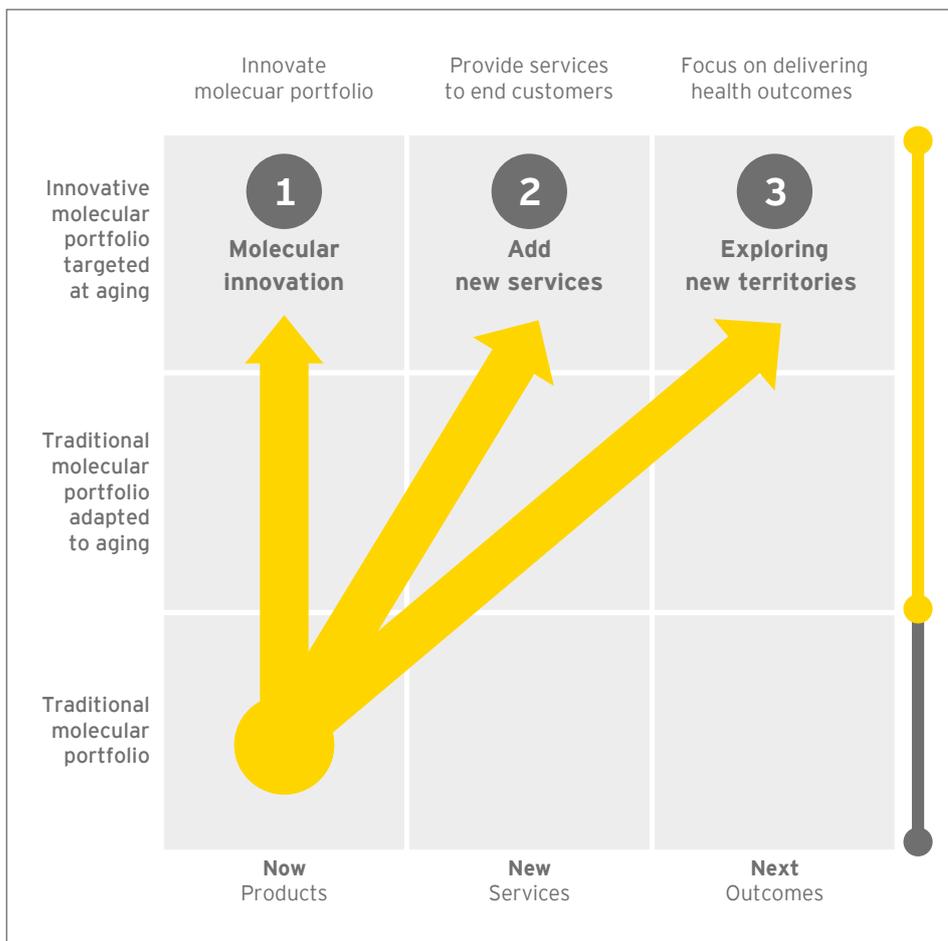
Over the last 50 years, vast improvements have been made in extending life expectancy, but now the ability to decrease the number of years that individuals live with disease has become of prime importance.

---

4. <https://clinicaltrials.gov>, search under reference number NCT02393898.

5. "Takeda and Zinfandel Pharmaceuticals Complete Enrollment in TOMMORROW Trial," [takeda.com](https://www.takeda.com/news/2016/20160210_7298.html), [https://www.takeda.com/news/2016/20160210\\_7298.html](https://www.takeda.com/news/2016/20160210_7298.html), accessed 17 February 2017.

Figure 2. Clustering of new business opportunities and models



► **Preventative solutions**

Johnson & Johnson (J&J) has created the Janssen Prevention Center<sup>6</sup> to identify markers that direct J&J's search for preventative solutions, such as vaccines, oral drugs and interventions influencing the human microbiome. Measuring, maintaining and extending healthy lives is the aim of J&J's visionary program. DO-HEALTH,<sup>7</sup> a clinical trial on prevention, sponsored by the University of Zurich (with support from the pharmaceutical and nutrition industry) aims to establish whether vitamin D, omega-3 fatty acids and home exercise prevent disease at an older age.

Further, Takeda<sup>8</sup> and Daiichi-Sankyo,<sup>9</sup> together with the Chemo-Sero Therapeutic Research Institute have initiated an expanded distribution network of seasonal flu shots for elderly people.

► **Aging biology innovation**

In the regenerative medicine area, Astellas recently formed a research unit<sup>10</sup> with the goal of delivering cell therapy and transplant innovations aimed at recovering and restoring lost organ and tissue function due to aging, among other factors. Astellas also sees its research in urology as crucial, given that treatments for overactive bladders will be in increased demand.

---

There are particular areas where innovative new products might have a lasting impact, while helping to reduce the cost burden.

---

Novartis, a leading innovator in the field of aging, boasts a range of programs focusing on the biology of aging. Examples include its Afinitor™ anti-aging work and its progress toward addressing geriatric medical challenges, such as hearing and vision loss. Additionally, Novartis researches osteoporosis as well as muscle wasting – both key factors in the loss of independence among elderly patients.

In the US, Calico also focuses strongly on research into the biology of aging. Partnering is key to Calico's strategy: for example, Calico's collaboration with QB3<sup>11</sup> recently made headlines when studies highlighted that adjusting certain protein levels in mice allowed them to live significantly longer.

Ascentage Pharma and Unity Biotechnology have teamed up to develop new and innovative senolytic drugs.<sup>12</sup> Further, Daiichi-Sankyo recently established a dedicated research unit named Venture Science Laboratories, focusing and collaborating on research targets related to aging.



6. <http://www.janssen.com/janssen-prevention-center>, accessed 17 February 2017.
7. <http://do-health.eu/wordpress/>, accessed 17 February 2017.
8. "Takeda Announces Seasonal Influenza Vaccine Sales Agreement with Kaketsuken in Japan," [takeda.com](https://www.takeda.com/news/2015/20150519_6993.html), [https://www.takeda.com/news/2015/20150519\\_6993.html](https://www.takeda.com/news/2015/20150519_6993.html), accessed 17 February 2017.
9. "Daiichi Sankyo Announces Cooperative Sales Agreement for the Influenza HA Vaccine 'Kaketsuken'," [daiichisankyo.com](http://www.daiichisankyo.com/media_investors/media_relations/press_releases/detail/006296.html), [http://www.daiichisankyo.com/media\\_investors/media\\_relations/press\\_releases/detail/006296.html](http://www.daiichisankyo.com/media_investors/media_relations/press_releases/detail/006296.html), accessed 17 February 2017.
10. "Astellas: Establishment of Regenerative Medicine Unit," [astellas.com](https://www.astellas.com/en/corporate/news/detail/astellas-establishment-of-rege.html), <https://www.astellas.com/en/corporate/news/detail/astellas-establishment-of-rege.html>, accessed 17 February 2017.
11. "Calico and QB3 announce partnership to conduct research into the biology of aging and to identify potential therapeutics for age-related diseases," [calicolabs.com](https://www.calicolabs.com/news/2015/03/24/), <https://www.calicolabs.com/news/2015/03/24/>, accessed 17 February 2017.
12. "Ascentage Pharma and UNITY Biotechnology Announce Collaboration for the Development of Senolytic Healthspan Therapies," [prnewswire.com](http://www.prnewswire.com/news-releases/ascentage-pharma-and-unity-biotechnology-announce-collaboration-for-the-development-of-senolytic-healthspan-therapies-300256473.html), <http://www.prnewswire.com/news-releases/ascentage-pharma-and-unity-biotechnology-announce-collaboration-for-the-development-of-senolytic-healthspan-therapies-300256473.html>, accessed 17 February 2017.

## 2. Innovation targeting aging and age-related diseases with added services

While continued advances in molecular therapies are of paramount importance, recent examples of inventive strategies have opened up alternative pathways to innovation. In many cases these paths include, or are based on creating, feedback loops through data collection and analysis, which is arguably the single most critical requirement for health outcomes monitoring and reimbursement in the decades to come. Other innovative approaches include gamification, bioelectronics or artificial intelligence (AI).

### ► Feedback loops

Arivale's business model highlights how preventive medicine and wellness can be taken directly to individuals who are not yet, or might never become, a patient. Arivale offers customers four health paths. Genetic, blood, saliva, gut microbiome and lifestyle data are collected, analyzed and evaluated, helping individuals make lifestyle and health decisions.<sup>13</sup>

Counsyl,<sup>14</sup> a start-up, helps individuals make decisions about their own and their children's future via pre- or post-conception genetic testing, potentially enabling a healthier future by identifying risks for disease. Skinvision<sup>15</sup> and Neurotrack<sup>16</sup> are two businesses focusing on early disease detection for melanoma and Alzheimer's, respectively.



---

Business models will need to (be allowed to) evolve to include alternative paths to prevention or anticipation of disease.

---



Lastly, Health Nucleus, a venture by Human Longevity,<sup>17</sup> aims to provide both self-paying individuals as well as up to 200 million South African and UK residents insured by Discovery, with whole exome, whole genome and cancer genome sequencing. The company intends to create the world's most comprehensive database of whole genome, phenotype and clinical data.

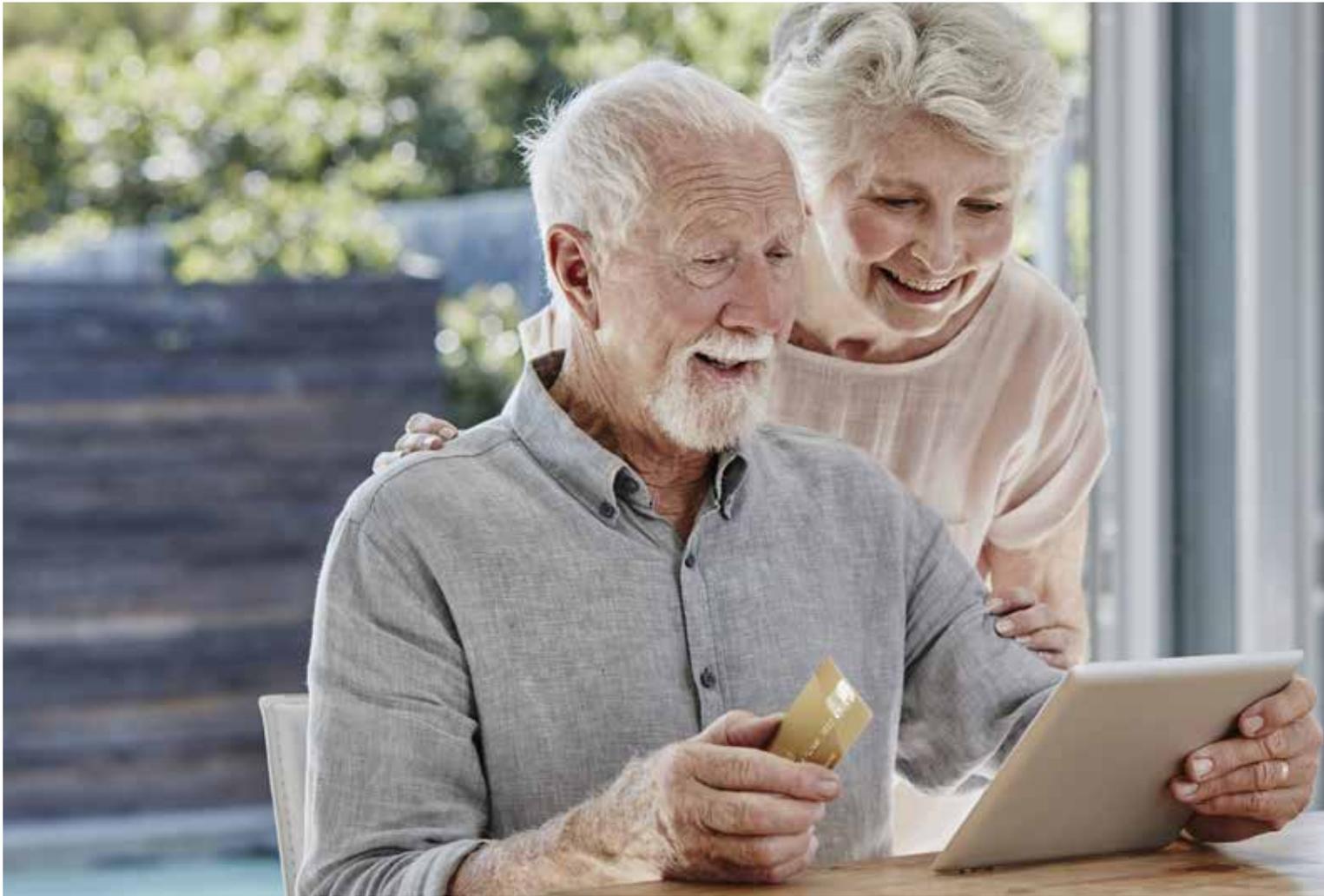
In Japan, Daiichi-Sankyo<sup>18</sup> announced it is looking to obtain real-world data to gain insights into non-valvular atrial fibrillation in elderly Japanese. Its ANAFIE study collects data, investigating the status of the use of anticoagulants and their impact on outcomes, and thus aims to identify issues that are barriers to ideal treatment in this population. It further aims to define risk factors for thrombotic and bleeding events, and thus determine the population for which direct oral anticoagulants may provide benefits.

► **Other innovative approaches**

Bayer<sup>19</sup> has initiated digital activities in the Asia-Pacific area, aimed at the elderly, with its Grants4Apps® Singapore project, looking for solutions to improve medication adherence in elderly people with chronic conditions.

Other innovative approaches to treat disease include the field of bioelectronic therapies, where Verily Life Sciences partnered with the pharmaceutical industry to codevelop products for chronic diseases such as arthritis, asthma and diabetes. In addition to bioelectronics, AI and deep learning have been linked to pharmaceuticals and utilized by businesses, including Life Extension™, which recently signed a collaboration with Insilico Medicine,<sup>20</sup> aiming to develop anti-aging technologies.

- 
13. <https://www.arivale.com/your-journey/>, accessed 17 February 2017.
  14. <https://www.counsyl.com/>, accessed 17 February 2017.
  15. <https://skinvision.com/>, accessed 17 February 2017.
  16. [https://neurotrack.com/#/?\\_k=434zj4](https://neurotrack.com/#/?_k=434zj4), accessed 17 February 2017.
  17. "Human Longevity, Inc. Launches the Health Nucleus, a Comprehensive and Personalized Health Platform for Individuals," [humanlongevity.com/human-longevity-inc-launches-the-health-nucleus-a-comprehensive-and-personalized-health-platform-for-individuals/](http://www.humanlongevity.com/human-longevity-inc-launches-the-health-nucleus-a-comprehensive-and-personalized-health-platform-for-individuals/), accessed 17 February 2017.
  18. "Daiichi Sankyo Announces Large-Scale Registry of Nonvalvular Atrial Fibrillation in the Elderly," [daiichisankyo.com, http://www.daiichisankyo.com/media\\_investors/media\\_relations/press\\_releases/detail/006520.html](http://www.daiichisankyo.com/media_investors/media_relations/press_releases/detail/006520.html), accessed 17 February 2017.
  19. <https://www.grants4apps.com/singapore/>, accessed 17 February 2017.
  20. "Life Extension™ joins with Insilico Medicine to develop advanced anti-aging technologies utilizing artificial intelligence," [prnewswire.com, http://www.prnewswire.com/news-releases/life-extension-joins-with-insilico-medicine-to-develop-advanced-anti-aging-technologies-utilizing-artificial-intelligence-300280735.html](http://www.prnewswire.com/news-releases/life-extension-joins-with-insilico-medicine-to-develop-advanced-anti-aging-technologies-utilizing-artificial-intelligence-300280735.html), accessed 17 February 2017.



### 3. Exploring new territories

In addition to novel molecular treatments, the repurposing of drugs, identification of biomarkers and geroprotectors, further improvements in the area of medical devices, in vitro diagnostics and telehealth technologies – with a special focus on homecare – will likely have a pronounced impact on aging societies.

#### ► Case example: Homecare

Governments have identified homecare as a key area with immediate need for improvement. Research conducted in Japan illustrates that many elderly people can maintain independent lifestyles with only minimal support.

IBM, Apple and Japan Post (JP)<sup>21</sup> have begun an initiative that connects elderly people and their families directly with the health care services community. The aim is to

improve patient quality of life by bringing app-based services such as reminders, alerts, exercise and diet updates as well as community activity opportunities to over five million households by 2020. Eisai<sup>22</sup> has identified similar opportunities and partnered with Nippon Telegraph and Telephone (NTT) to roll out a program for medical treatment and care, allowing elderly people to continue to live in their communities. The collaboration, named Hikari One Team SP, aims to use the expertise of all parties to deliver a comprehensive solution, and give peace of mind and safety to elderly people and their families at home.

Remote monitoring and telehealth provide further opportunities for pharmaceutical businesses to collaborate, and be closer to customers. Japan, a global leader in robotics

and AI, has seen a vast increase in investments into robotics aimed at the homecare and care home market. Numerous robots exist, many of which will become part of a US\$6m real-world study by Japan's Agency for Medical Research and Development, investigating their therapeutic effects in nursing homes.

These examples show that opportunities for innovation may come from radical and new collaborations that initially seem unlikely. Collaborations with robotics manufacturers could become critical as they may provide much-needed data that may be required for the reimbursement of therapies. Further, the value lies not only in outcomes data, but also in the understanding of customers' routines, daily struggles and challenges.



## Business models

These examples show that the life sciences industry has already embraced some of the challenges and opportunities that an aging society brings. Businesses currently attempt to identify opportunities within the reach of their present therapeutic areas and strategies, but in many cases do not go beyond that. While proven business models are indispensable, partnering with digital, IT and technology firms experienced in data collection and interpretation will become essential. Access to data still remains the biggest challenge for companies attempting to gather outcomes information. Business models will need to (be allowed to) evolve to include alternative paths to

prevention or anticipation of disease. This can only be done via a collective push and comprehensive alignment between all stakeholders.

There is clearly no single solution to managing the changing landscape of aging societies. Pharmaceutical professionals will need to address many questions to remain competitive. The impact of the aging society will need to be evaluated regularly with dedicated teams and closely aligned with regulators, governments, academics, payers and potentially disruptive players.

To rise to the challenge and make appropriate strategic decisions, we will need to answer questions such as:

1. What are the current needs of the elderly and what will they be in 10 to 15 years?
2. How can these needs be addressed through molecular innovation, services or new approaches?
3. How can new solutions be delivered best, and with which partners?
4. How should we make the case for the value these solutions will provide, and to whom? How will they be reimbursed and paid for?
5. What data can and needs to be collected, and how?
6. What is the optimal portfolio of molecular innovation, services and new approaches to capture the current opportunity, while getting ready for the future?
7. What are the innovative technologies or potential partners that are emerging and how can they be utilized to deliver disruptive services?

In this patient-centric world, likely one of the best places to start is by asking the affected population itself: what are elderly people worried about, what are their struggles and what is it they need? ■

---

21. "Japan Post Group, IBM and Apple Deliver iPads and Custom Apps to Connect Elderly in Japan to Services, Family and Community," apple.com, <https://www.apple.com/pr/library/2015/04/30Japan-Post-Group-IBM-and-Apple-Deliver-iPads-and-Custom-Apps-to-Connect-Elderly-in-Japan-to-Services-Family-and-Community.html>, accessed 17 February 2017.

22. "NTT IT, NTT East and Eisai Rollout Interprofessional Collaboration Business for Medical Treatment and Care," eisai.com, <http://www.eisai.com/news/news201649.html>, accessed 17 February 2017.

A hand in a dark suit jacket points upwards with the index finger. The background is a light gray wall with a world map composed of small, dark dots. The map is centered and covers most of the background. The hand is in the lower right foreground, pointing towards the top right of the frame.

# IT cost transparency: reducing external provider spend in IT outsourcing

---

IT outsourcing decisions are primarily driven by the desire to control and reduce operational costs. But for many companies, outsourcing may actually turn out to cost the same or even more than captive IT services – and with greater pressure than ever on the IT function to deliver innovation, failed attempts at cost savings can mean less funding available for value- and profit-growing activities. But looking in depth at IT cost transparency can help deliver on the IT outsourcing business case.

---



#### Authors

**Jens Körner**

Partner, Advisory Services, Ernst & Young GmbH,  
Germany

**Ersin Üstün**

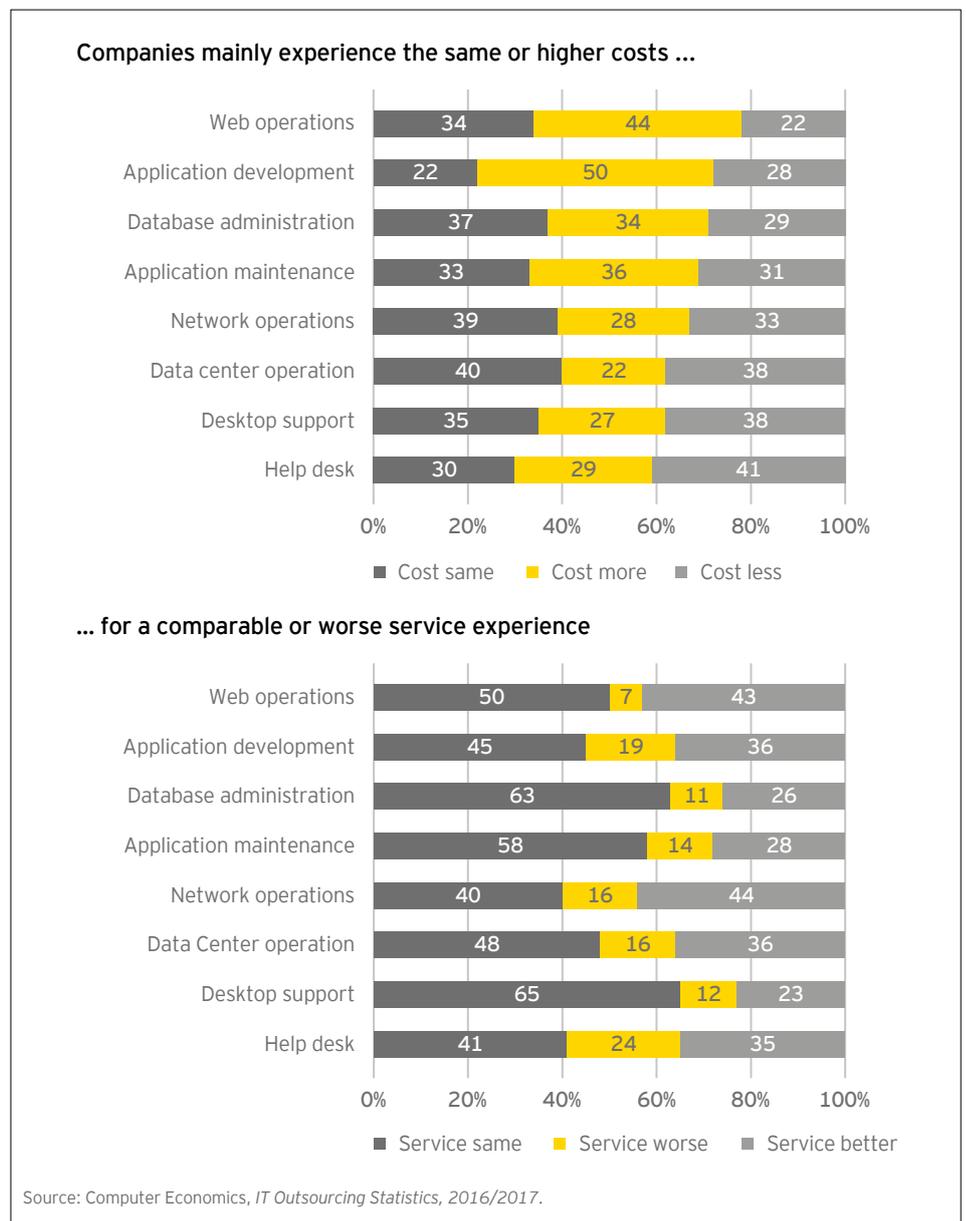
Senior Manager, Advisory Services, Ernst & Young  
GmbH, Germany

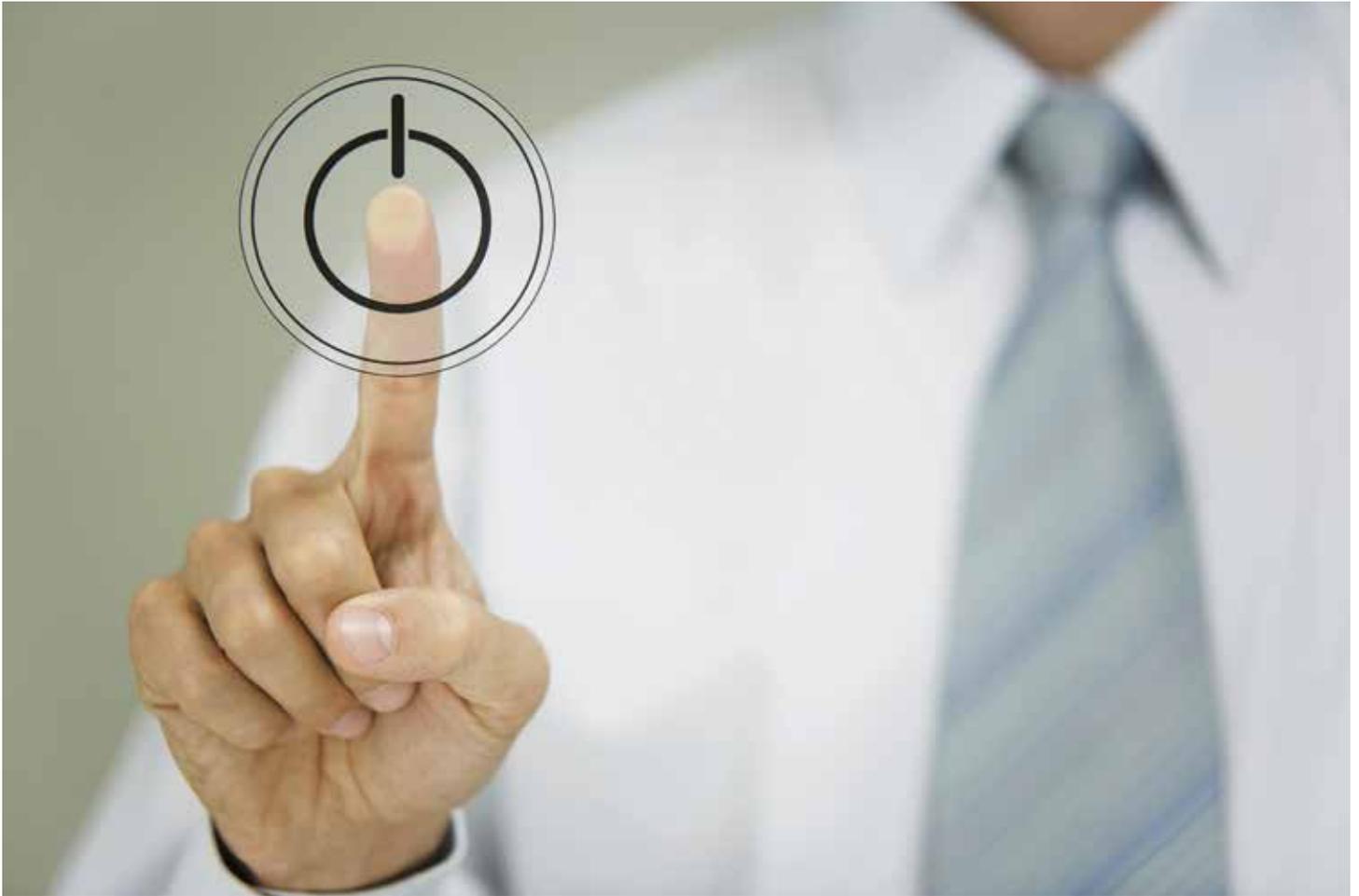
New digital technologies and trends are transforming companies across all sectors. This puts more pressure on IT functions to transform: according to an EY study, transitioning the IT function to a digital world is a key focus for CFOs worldwide – yet only 58% of them make it a high or very high priority.<sup>1</sup> As a result, companies start IT transformation programs such as organizational redesign. They embrace cloud, software as a service (SaaS) and other flexible IT models, and aim to shift to a more agile infrastructure. In this context, many companies outsource IT and need to evaluate, select and manage external service providers more extensively.

The primary drivers for outsourcing IT services include operational cost reduction and control.<sup>2</sup> But recent studies show that, for the majority of companies, operational costs remain the same or even increase after outsourcing IT services.<sup>3</sup> The same is true of service quality and, coupled with reduced control over IT services, the value of outsourcing is becoming more difficult to demonstrate – and this can damage the credibility and reputation of the IT function.

1. EY, *Partnering for performance, Part 3: the CFO and CIO*, 2015, <http://www.ey.com/gl/en/issues/managing-finance/ey-cfo-program-partnering-for-performance-the-cfo-and-cio-a-growing-collaboration>, accessed March 2017.  
 2. EY, *Outsourcing in Europe*, 2013, <http://www.ey.com/gl/en/services/advisory/factors-governing-outsourcing-in-europe-2013>, accessed March 2017.  
 3. Computer Economics, *IT Outsourcing Statistics, 2016/2017*.

Figure 1. IT outsourcing – cost experience





This means that IT services outsourcing, by no means, guarantees the realization of cost reductions or service improvements – instead, consistent and systematic management is needed both before and after signing an IT outsourcing contract.

### Cost cutting to enable future growth and profitability

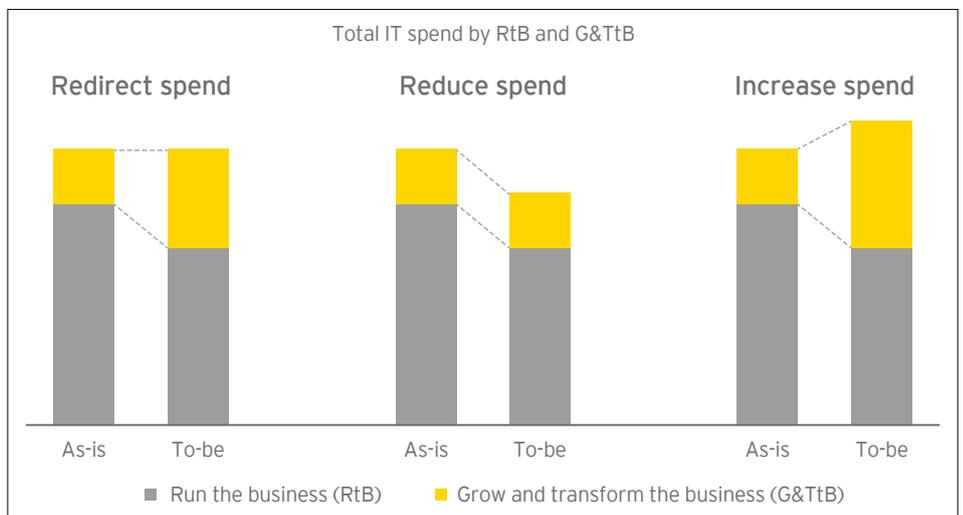
Business expects to fund value-adding projects with realized cost reductions to enable future growth and profitability.

The ability to make fact-based IT outsourcing decisions, manage providers' costs and track the benefits is increasingly translating into competitive advantage.

The split of total IT spend by "run the business" (RtB) and "grow and transform the business" (G&TtB) provides an indication of how IT contributes to business outcomes and performance. IT spend for RtB includes nondiscretionary spend and demonstrates low value for future business growth and profitability, whereas G&TtB includes discretionary spend and demonstrates high business value.

The value of outsourcing is becoming more difficult to demonstrate – and this can damage the credibility and reputation of the IT function.

Figure 2. Overview of IT cost optimization options





From a cost and value point of view, IT outsourcing can help achieve three potential outcomes:

1. **Redirect** RtB spend to value-adding IT projects to G&TtB, so that total IT spend remains flat. An increased share of G&TtB spend will enable future growth and profitability through digital innovation. The IT function's contribution is to increase future top-line and decrease future bottom-line (not only sales, general and administrative expenses (SG&A) but also cost of good sold (COGS).
2. **Reduce** spend to RtB but maintain G&TtB spend so that the total IT spend decreases. IT contributes to reducing bottom line, such as SG&A costs, in the short term.
3. **Increase** IT spend to G&TtB and additionally redirect and reduce RtB IT spend. This will enable future growth and profitability through digital innovation. IT contributes significantly to increasing future top line and decreasing future bottom line (not only SG&A but also COGS).

### **Empower CIO and CFO to manage IT like a business**

Because of the increasing strategic importance of IT, there is a growing relationship between CFOs and CIOs to drive digital innovation. An EY study shows that 71% of CFOs have already increased their involvement in the IT agenda.<sup>4</sup> Although the relationship has grown closer, there are two threats. First, CFOs continue to struggle with balancing their responsibility to maintain cost discipline with more strategic ambitions. Second, effective communication and



understanding between these two C-suite peers is an all-too-common problem.<sup>5</sup> The challenge, therefore, is how to empower both the CFO and the CIO, enabling them to manage IT like a business, sharing common terminology and understanding.

As illustrated in Figure 3, there are strong interdependencies between the IT value proposition and supply and demand that need to be understood, managed and steered by CIOs. The value provided by IT needs to be demonstrated and communicated to CFOs and business leaders in a common business terminology.

Large IT outsourcing deals typically have a direct impact on RtB – but because this is a nondiscretionary spend, and the total budget is limited, it also has an indirect impact on discretionary spend to G&TtB. As a consequence, failing to derive the expected benefits from an IT outsourcing deal will impact organizations' bottom line in the short term and the top line in the long term. It is crucial, therefore, to prepare fully for an IT outsourcing deal and manage the vendor throughout the contract period – and it is the joint responsibility of the CFO and CIO to provide end-to-end IT cost transparency and management capabilities to support fact-based decisions.

---

The ability to make fact-based IT outsourcing decisions, manage providers' costs and track the benefits is increasingly translating into competitive advantage.

---

4. EY, *Partnering for performance, Part 3: the CFO and CIO*, 2015, <http://www.ey.com/gl/en/issues/managing-finance/ey-cfo-program-partnering-for-performance-the-cfo-and-cio-a-growing-collaboration>, accessed March 2017.
5. EY, *Partnering for performance, Part 3: the CFO and CIO*, 2015, <http://www.ey.com/gl/en/issues/managing-finance/ey-cfo-program-partnering-for-performance-the-cfo-and-cio-a-growing-collaboration>, accessed March 2017.

Figure 3. Managing IT as a business – end-to-end IT cost transparency as a basis for demonstrating business value

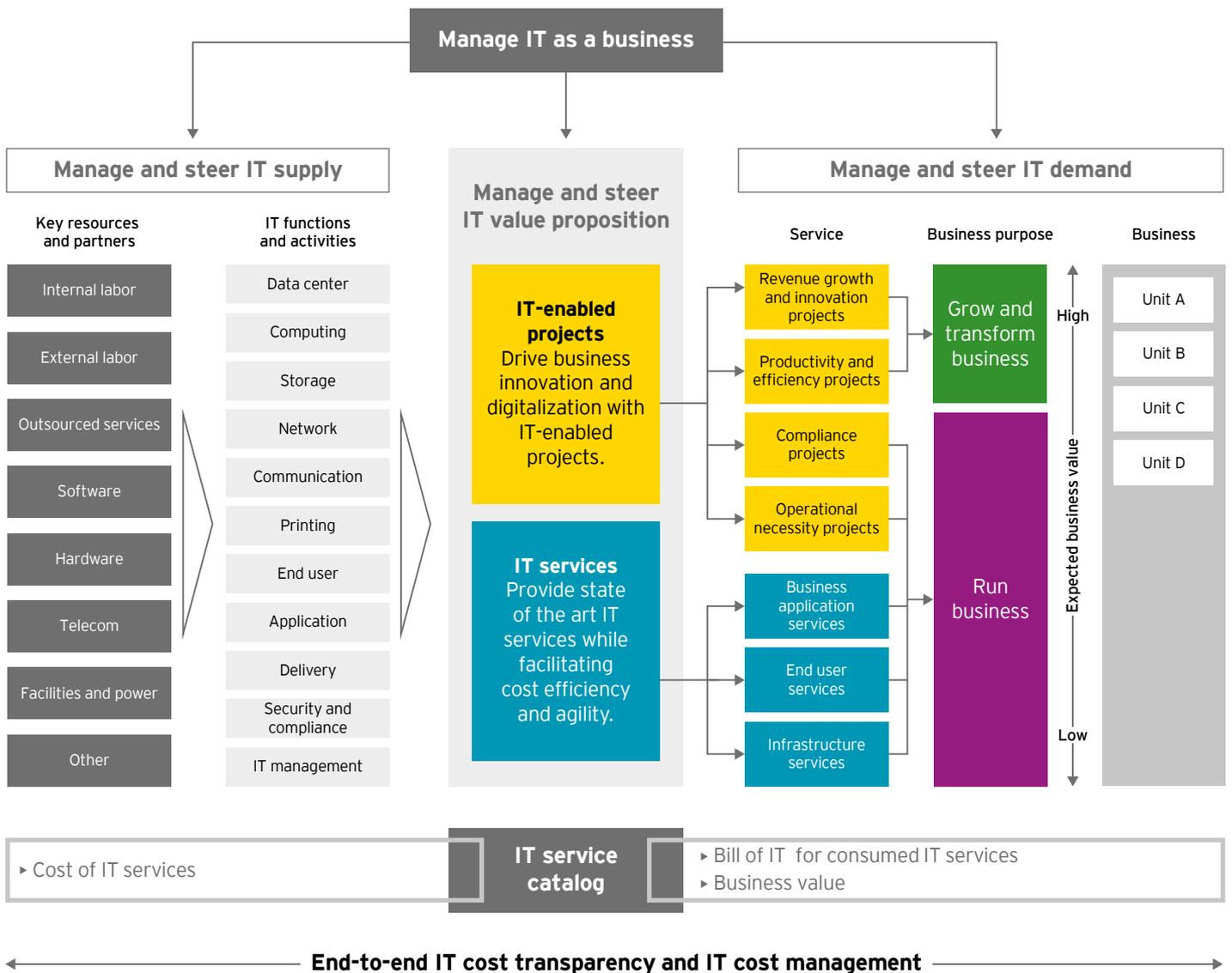
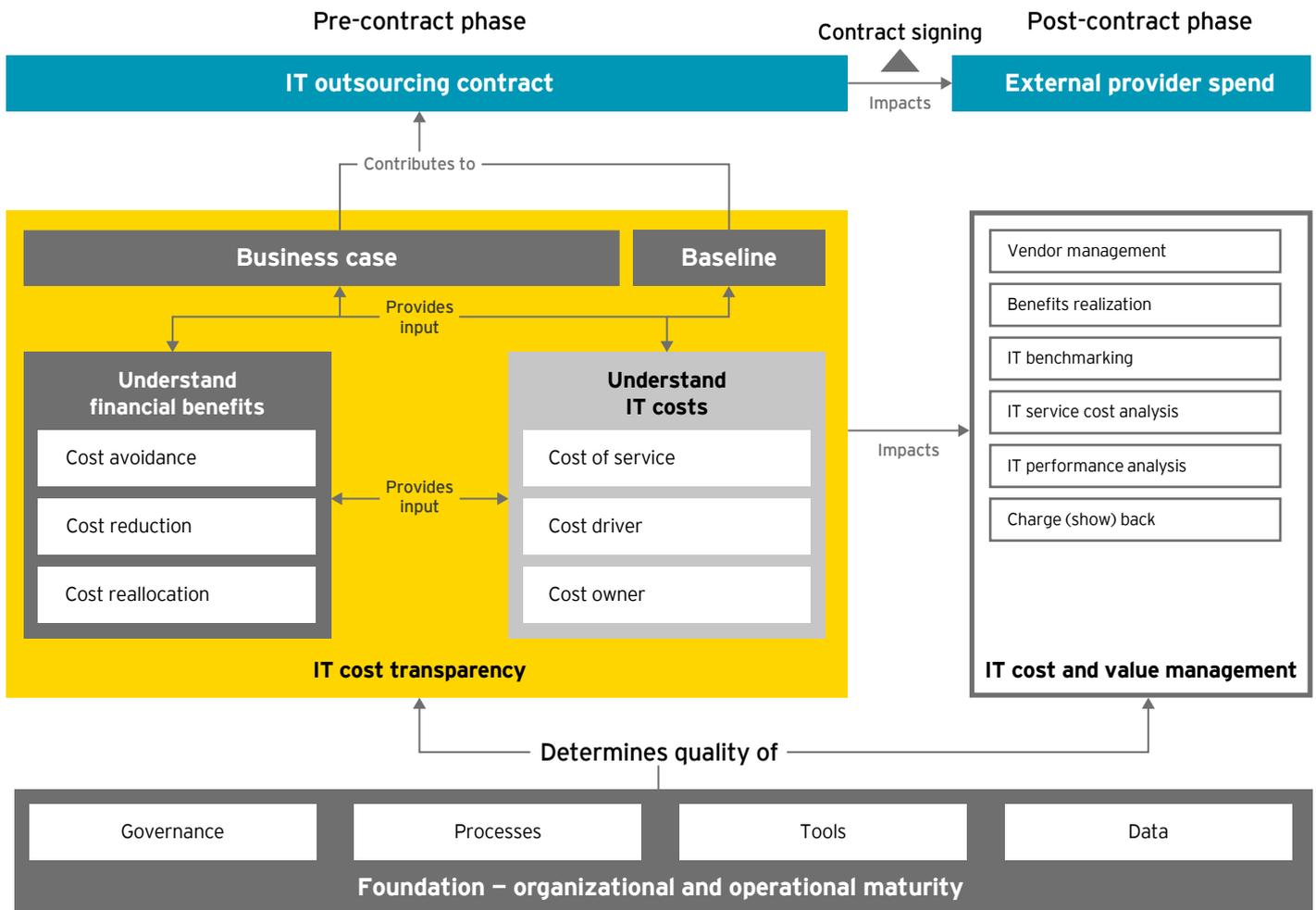


Figure 4. Illustration of IT cost transparency and related interdependencies



### IT cost transparency as the foundation for IT outsourcing contracts

As already mentioned, IT outsourcing decisions are often the result of strategic IT transformation programs. A strategic shift from “make” to “source and manage” will eventually lead to an increased number of IT outsourcing contracts, and they will be more comprehensive.

Transparency on related costs and cost drivers is critical, not only to identifying but also utilizing the full potential of IT outsourcing – and gaining real business value from the IT transformation strategy. In this context, we use the term “IT cost

transparency” – this covers IT costs, related cost drivers, the cost owner and value for money. This is necessary to have a reliable understanding of IT costs.

As illustrated in Figure 4, IT cost transparency also includes an understanding of the financial benefits because in order to quantify these, the IT costs must be known. This is why both an appreciation of the IT costs and the expected financial benefits flowing from an IT outsourcing contract will feed into the business case and baseline, which will typically be directly or indirectly part of the IT outsourcing contract. And the contract itself will impact the future spend for the external service provider.

After signing a contract, the challenge is to manage the vendor and to help facilitate realization of the expected benefits. This will also depend on the level of IT cost transparency: the lower the transparency the more limited the capabilities to manage provider costs and value. Finally, the quality of IT cost transparency depends on the organizational and operational maturity, which includes governance, processes, tools and data. Low maturity will lead to low transparency and, consequently, to an increasing risk of not realizing expected benefits from IT outsourcing.



---

Cumulating this annual saving over the remaining six years of the contract could result in a saving of €186m.

---

## Case study: How IT cost transparency improved the realization of benefits from IT outsourcing

### **The situation: rising risk of not delivering expected benefits from IT outsourcing**

A multinational organization had decided to outsource its entire IT infrastructure to an external service provider. Prior to this, these services were supplied through a captive IT organization to all group divisions and companies. The objective of IT outsourcing was to help realize a significant cost reduction in the IT infrastructure costs, particularly in the area of RtB.

Once the scope of the IT outsourcing contract was defined, the client identified associated costs. Although the business units were charged back per IT service, a total cost per service (cost to produce or supply the service) was not available. Business units were charged back with different prices for the same or similar services. As this did not reflect the true cost base but internal credits (revenue), the cost baseline for the business case was by cost type (such as personnel, outsourcing, hardware and software).

During the contract preparation, both the client and the service provider conducted a joint due diligence to evaluate

the current consumption (demand-driven cost driver) and the existing IT infrastructure (supply-driven cost driver). Because of the low level of organizational and operational maturity, the quality of transparency was low.

### **The challenge: bring external provider spend back on track to help realize benefits**

While the baseline and business case for the IT outsourcing contract relied on limited transparency regarding costs and cost drivers, this was the only available level of information.

The external service provider calculated and proposed future service fees based on these data. But within the IT outsourcing contract, it was also agreed that the service provider had to charge all services on the basis of actual consumption after service transition. Prior to the IT outsourcing, the captive IT organization had a mix of consumption-based and fixed-price services. For most of the fixed-priced services, the real consumption was not measured – there were no processes and tools in place to do this. But with the transition of

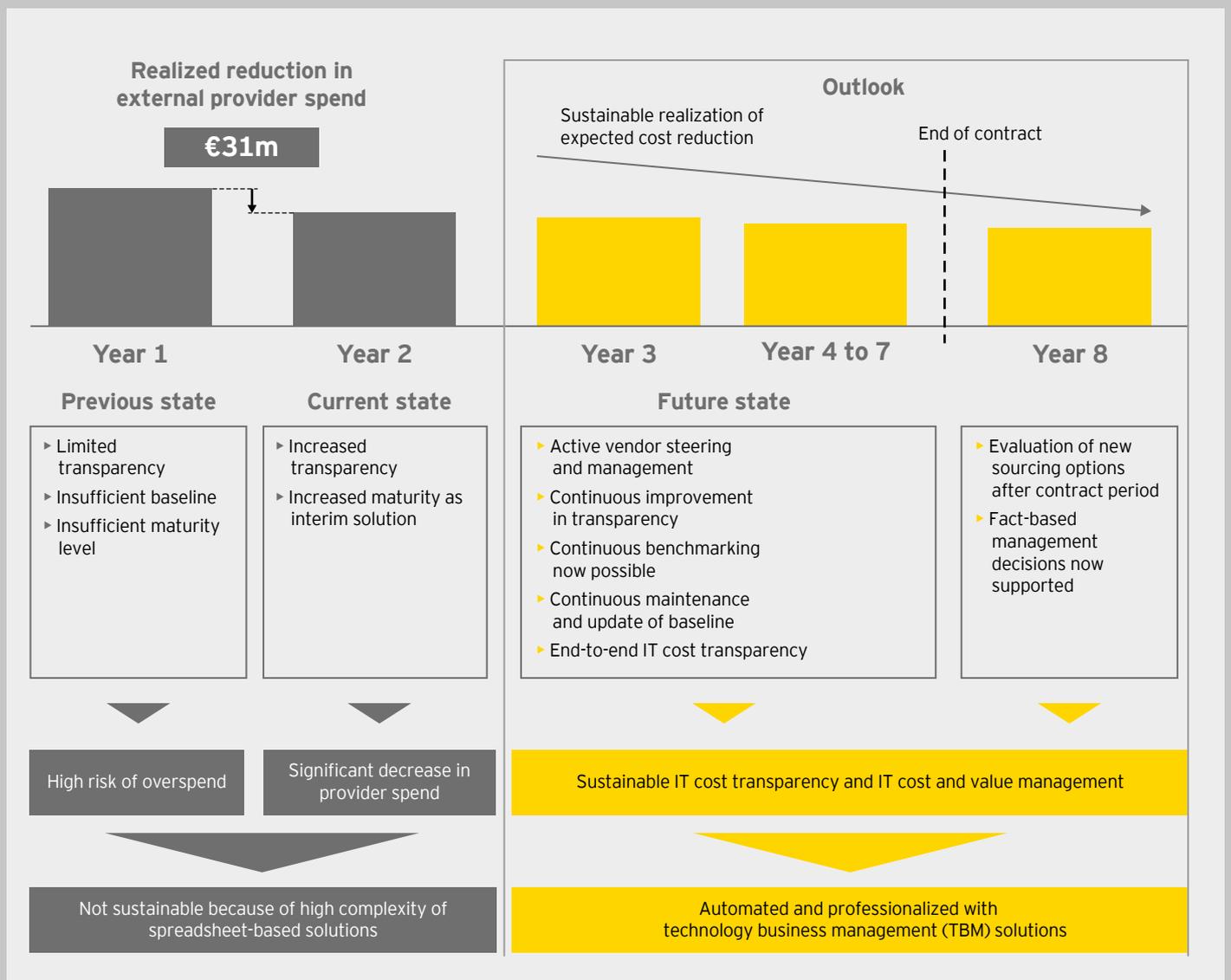
those services to the external service provider, these services were required to be measured and billed on the basis of actual consumption.

The contractually agreed level of granularity to order, measure and bill IT services was higher than it had been prior to the IT outsourcing – yet the required level of data was not available to build the bridge from services before transition to after. In addition, immediately after the service transition, it was not possible to measure actual consumption volumes consistently. As a result, it was not possible to determine an annual charging fee that was fair, transparent, compliant with the contract and aligned across all stakeholders (i.e., group IT, business units and service provider).

As a result, there was a high risk of significant deviations between planned and actual spend for the external service provider. Increased spend on the external service provider would represent a failure to meet the business case that was approved and expected by the supervisory board. The challenge was to bring down service provider spend based on transparent data and fact-based management decisions.

IT cost transparency can help save money. The benefits are not limited to IT outsourcing initiatives, but can help to manage IT like a business in itself.

Figure 5. Overview of client benefit and outlook





### **The response: increase transparency and enable fact-based management decisions**

The response was to increase transparency by building a bridge from the previous level of service billing to a future level of service billing, and enrich missing data, such as consumption volumes. This was achieved in four steps:

1. **Analyze** existing data to identify most significant services, related cost drivers and data gaps
2. **Define** conversion of services in current billing structure to services in future billing structure
3. **Align** service conversion and consumption values across all stakeholders
4. **Execute** corrections to provider billing

### **Client benefit: €31m reduction in annual service provider spend – and business case is back on track**

For the first contract year, the parties negotiated and agreed on a total annual charging amount based on the available information, even though it lacked the required granularity and accuracy. Continuing this mode of operation for the following years would have led to a failure of the business case. During year two, however, the client saved €31m compared with the previous year. Cumulating this annual saving over the remaining six years of the contract could result in a saving of €186m.

This serves as an example of how IT cost transparency can help save money. The benefits are not limited to IT outsourcing initiatives, but can help to manage IT like a business in itself.

### **Outlook: technology business management (TBM) can help provide sustainability**

TBM is a practical discipline for increasing value by enabling technology leaders and their business partners to collaborate on business-aligned decisions. Relying on transparency, TBM empowers fact-based decision-making to improve RtB spending (cost-for-quality), improve change-the-business investments (innovation) and execute in line with business priorities (agility).<sup>6</sup> ■

6. TBM Council, 2017.

A miniature figure of a person in a purple suit pushing a shopping cart filled with red items, standing on a computer keyboard. The background is a blurred computer keyboard with keys like 'Enter' and 'Shift' visible.

# Net revenue management: building foundations for sustainable, profitable growth

---

Consumer products companies are struggling to drive sustainable, profitable growth. Many companies have become preoccupied with short-term results as investors push for aggressive cost reduction and increased profit contribution from top-line revenues. Yet, they risk being trapped in a race to the bottom with price and promotion tactics that neither build sustainable brand businesses nor bring shopper-relevant innovation. But more companies are realizing that net revenue management is a critical capability that offers a more sustainable route to growth.

---



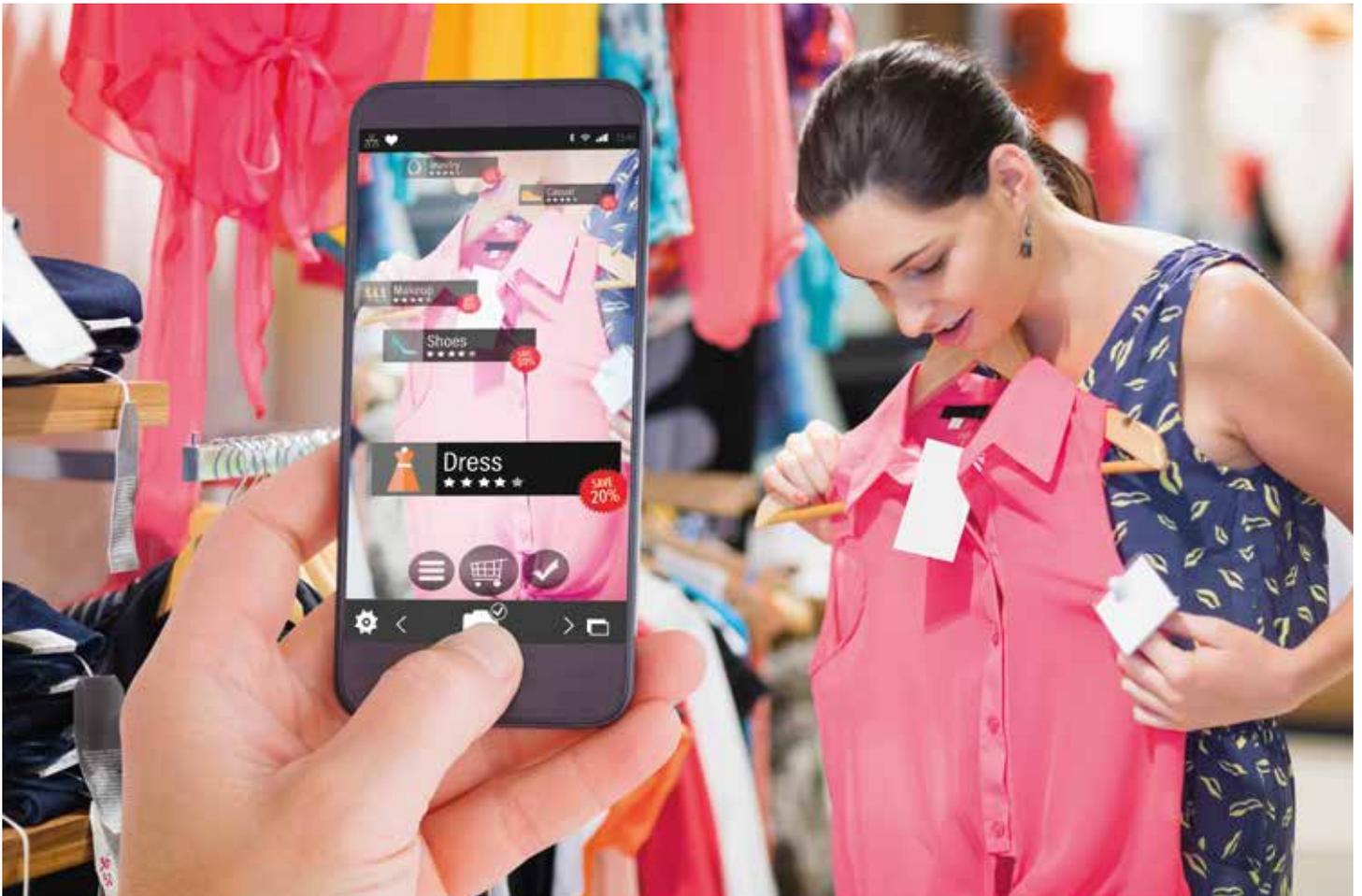
## Authors

### **Joe Abbott**

Director, Advisory – Performance Improvement, Consumer Products & Retail, Ernst & Young LLP, UK

### **Ken Dickman**

Partner, Advisory – Performance Improvement, Consumer Products & Retail, Ernst & Young LLP, US



Consumer products (CP) companies are under unprecedented pressure to meet investors' expectations for profitable growth in a challenging environment: many categories lack real innovation and differentiation; around 85% of innovation in CP fails within three years.<sup>1</sup> Complicating this scenario, some of the more significant growth opportunities lie beyond mainstream grocery and mature markets, and require a new approach to unlock.

Other challenges include:

- ▶ There are limited white space or new markets to enter. It is imperative to increase opportunities for sustainable in-market growth.
- ▶ Digital is transforming the way consumers, shoppers and retailers interact with brands. Few have the capabilities to effectively exploit the opportunity digital presents.

- ▶ Growth is coming from outside mature markets and formats. Different capabilities are required to identify and rapidly adapt propositions to exploit these opportunities.
- ▶ The scale and complexity of global CP organizations has created a disconnect between strategy and execution.
- ▶ Consumers are increasingly health conscious and growing concerns over public health are driving governments to pursue more stringent regulation of many CP categories.

Anxious to hit targets and meet investors' expectations, 55% of CP executives feel they have become too focused on quarterly performance.<sup>2</sup>

These short-term pressures have driven an excessively narrow focus on tactical marketing and sales activation, often in a race to the bottom with price and promotion tactics that do not build sustainable brand businesses nor bring

shopper-relevant innovation. Trade spend is now one of the biggest and fastest-growing lines on CP companies' P&L. It is often the least well understood.

As a result, net revenue management (NRM) is a hot topic, and increasing numbers of CP companies are on a journey to build this capability.

However, many of those organizations that embrace NRM are finding it hard to implement effectively: it requires a more granular, data-driven approach, more collaborative ways of working across the sales and marketing organization, and a greater focus on executing strategy and long-term value creation. These are big changes for CP organizations and implementing NRM is not straightforward. But done properly, NRM will reward the effort and investment.

1. "Why do 85% of new CPG products fail within two years?" *Food Navigator-USA.com*, <http://www.foodnavigator-usa.com/Markets/Why-do-85-of-new-CPG-products-fail-within-two-years>, May 2017.

2. *In search of balance: which Retail companies can sustain profitable growth and ongoing disruption?*, EY survey, 2016, [cdn.ey.com/echannel/gl/en/industries/consumer-products/balance/pdf/Balance\\_infographic\\_Retail.pdf](http://cdn.ey.com/echannel/gl/en/industries/consumer-products/balance/pdf/Balance_infographic_Retail.pdf), accessed April 2017.

## What is NRM and what does it do?

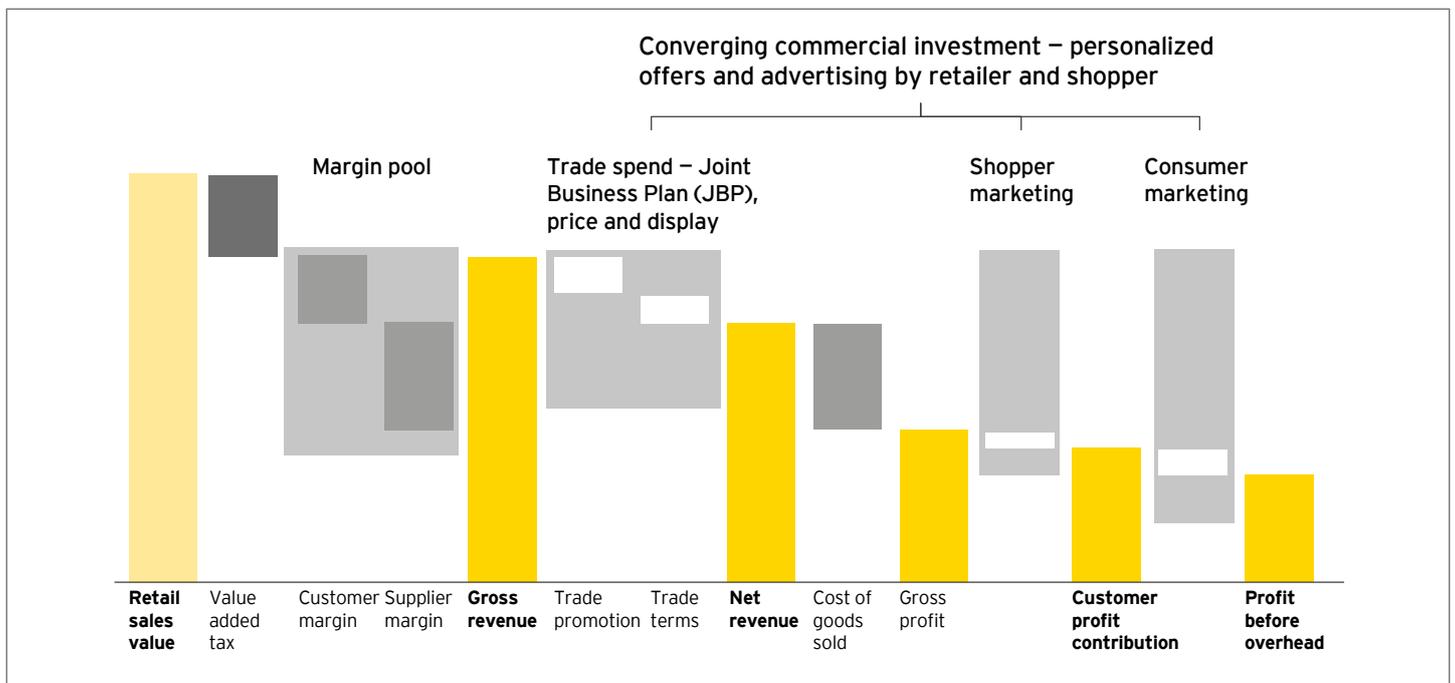
NRM is both a capability and a function. NRM is also called different things in different organizations (e.g., revenue management, revenue growth management, price and promotion planning). Sometimes it is embedded in a team that addresses channel and customer planning or market strategy and planning.

At its core, NRM aims to optimize pricing and promotions, governs trade spend, and coordinates delivery of net revenue and gross profit targets across brands and customers. NRM improves profitable growth from the existing portfolio and adapts value propositions to exploit new growth opportunities.

Optimizing promotions and related trade spend requires detailed understanding of what worked in the past and what is most

Organizations have become preoccupied with short-term results – 55% of CP executives feel they have become too focused on quarterly performance.

Figure 1. Illustrative example of CP price chain and P&L waterfall



likely to work in the future – by product, customer and even outlet. Too often promotional evaluation falls between the gaps in stretched sales and marketing organizations, and key account managers often roll over last year’s plan and activities to “lap” the prior year’s volume and revenue targets.

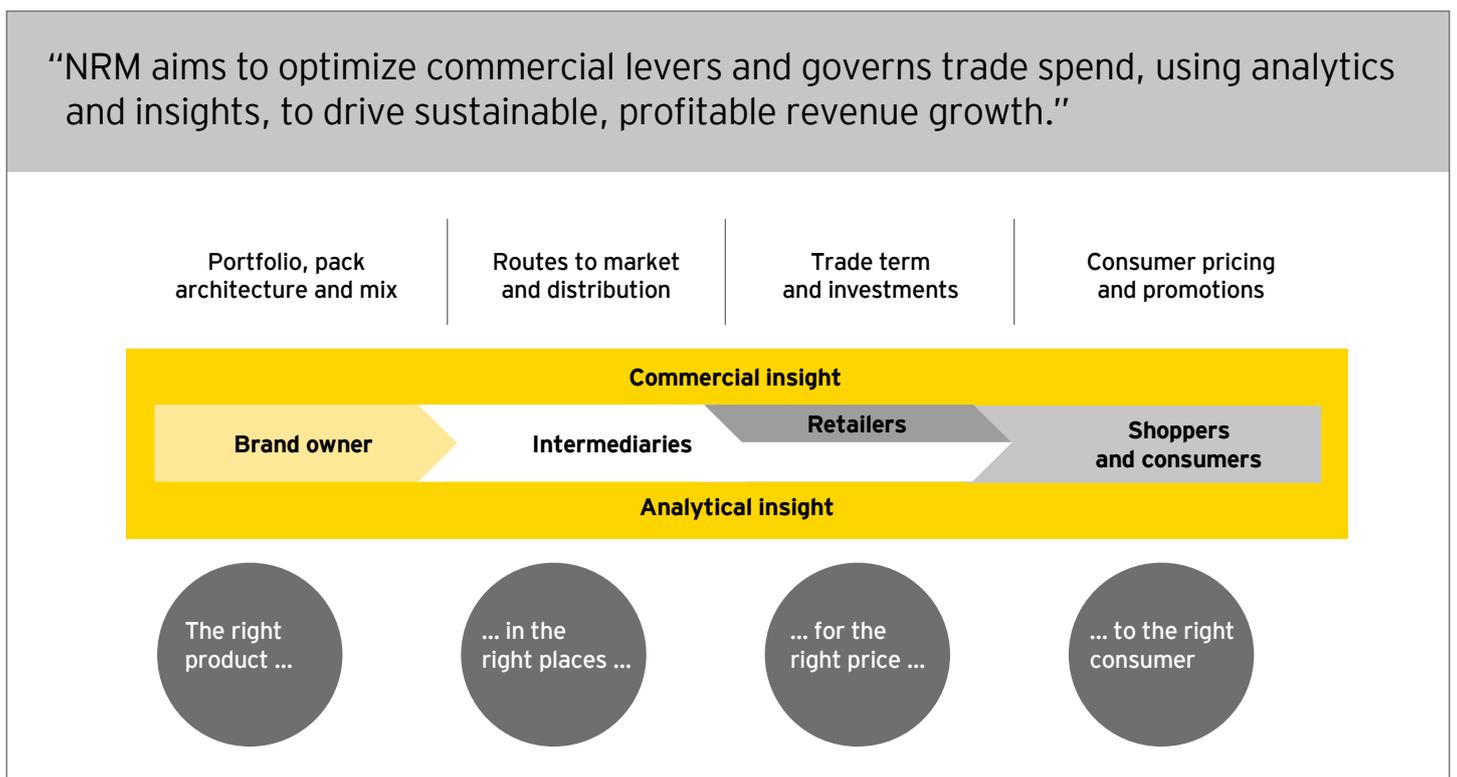
But many CP companies have run out of promotional runway. The decline of loyalty, price matching, discounters and online have created new levels of price transparency. Shoppers and retailers are conditioned

to only buy on deal or best price. Deal effectiveness diminishes over time and promoted price becomes the new “base” price, inducing a race to the bottom that erodes margins.

NRM does not cure this promotional addiction nor reverse its trajectory – but implemented properly, it can significantly improve trade spend ROI and margins, and buy some breathing space to reorient their organizations to focus on winning with the consumer and creating long-term value.

The over-reliance on promotions has come at the expense of other commercial levers. This reflects both changing priorities of shoppers, with expanded repertoire of brands and retailers, and failure to translate and transmit brand value externally – to consumers, shoppers and trade – and internally to local sales organizations. Brand strategy has become disconnected from local execution.

Figure 2. What is NRM?





NRM unites these disparate groups through collaboration between marketing, sales and finance to coordinate commercial planning and translate brand strategy into executable customer plans to deliver net revenue and gross profit targets.

To optimize pricing and promotions, suppliers need their products in the right places, targeting the right shopper missions and consumption occasions. In leading practice companies, NRM collaborates with marketing, finance and supply chain to determine optimal assortments at channel and key customer levels to improve profit contribution relative to shopper potential

and supply chain cost-to-serve. At a deeper level, price-pack architecture, promotions, shopper marketing, “perfect store” and trade-terms programs must be coordinated to deliver category and brand strategies at channel and customer levels. This all demands collaboration across finance, sales and marketing.

### **What are the foundational enablers of NRM?**

Companies must build a much deeper understanding of how retailer and shopper behaviors differ across channels, and how both channels and customers are evolving.

---

NRM requires a more granular, data-driven approach, more collaborative ways of working across the sales and marketing organization and a greater focus on executing strategy and long-term value creation.

---



Without that depth of insight, it's difficult to invest in a channel or market in a way that balances short-term demands with long-term value. And it's impossible to make business decisions that take into account the opportunities for cost-efficiencies and profitable growth all the way from factory to shelf.

NRM can offer a solution to this, but it has to be enabled by:

► **Taking a more granular, data-driven approach**

Visibility underpins agility – yet many leading global CP companies still cannot see the net, net prices they charge their customers or return on the billions of promotional investment they give to the trade.

Rigorous and actionable promotional evaluation, trade terms governance and price-pack architecture, translating into price guidelines and thresholds to manage cross-channel conflict, demands data by product, ideally stock keeping unit (SKU), by customer and by outlet if available.

Identifying and exploiting new growth opportunities requires the ability to adapt commercial levers to different shopper segments, retail environments and channels, and supply chain challenges. In leading CP companies, NRM or equivalent functions play this role. They stitch together external shopper data (such as electronic point of sale or consumption data) with internal P&L and operational data, forming a single database to measure margin pools, promotion ROI and cost-

to-serve. This enables companies to make informed choices to balance share and margin, and manage cross-channel and cross-retailer conflict

► **Reconnect strategy and execution by joining up sales and marketing organization:**

Different stakeholders have different priorities. Global CP companies are complex entities. They have built deep functional specialties, but in functional silos, with their own cultures and languages. These silos can cause duplication of tasks and shared, or blurred, responsibilities. In theory, commercial levers or marketing "P's" (i.e., product, place, price promotions and in-store positioning) reside with marketing departments. In practice, responsibility is shared across the sales

Companies must build a much deeper understanding of how retailer and shopper behaviors differ across channels, and how both channels and customers are evolving.

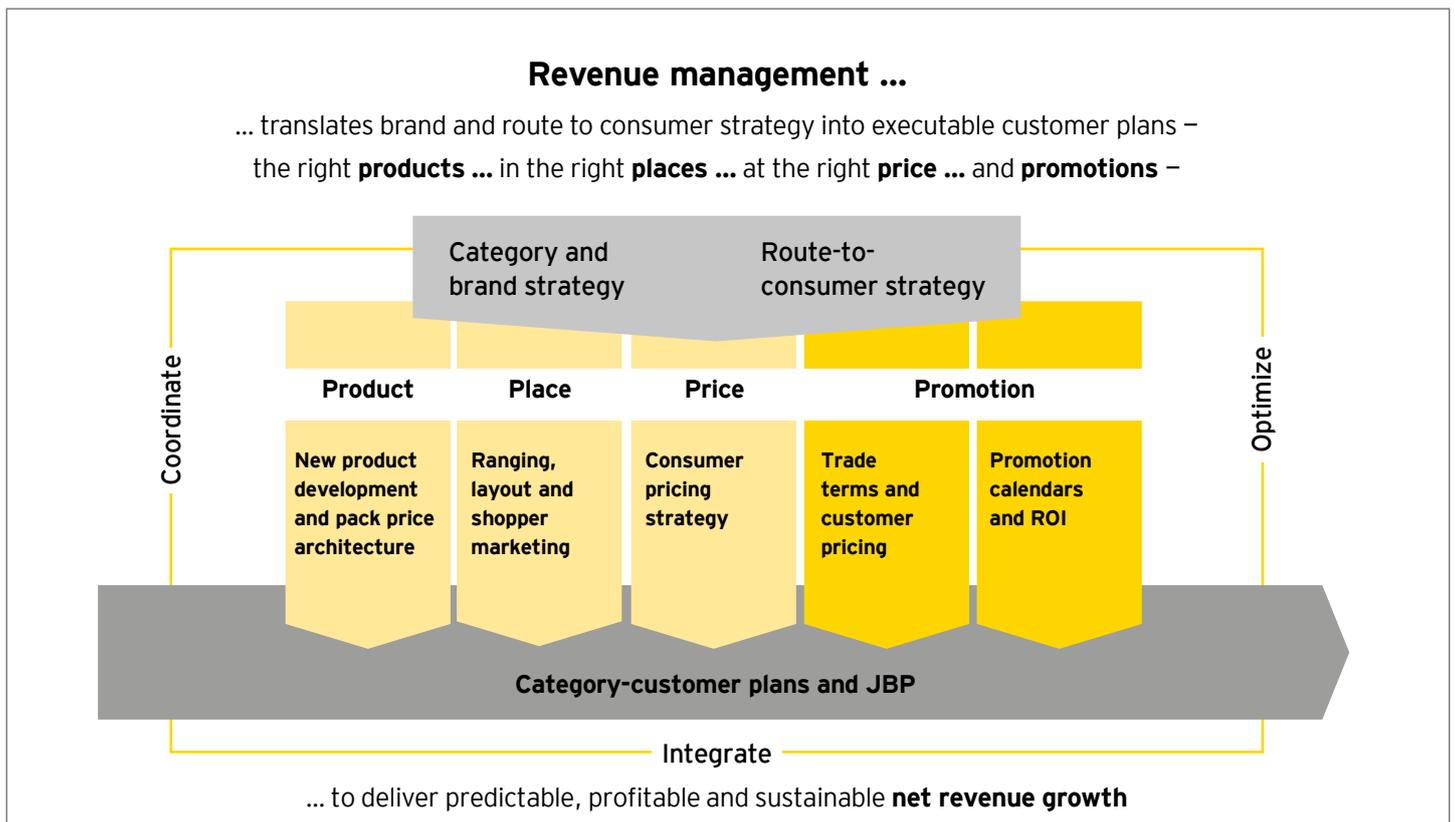
and marketing organization. Global or regional brand and category teams are now often physically separated from market-based sales teams dealing with unique local market pressures. This can disconnect strategy and execution as markets and local sales trade their way to hitting targets in any way they can – usually by pulling the promotions lever.

This is a symptom of a breakdown in

the sales and marketing organizational structure. Currently, too much is expected of sales teams: besides selling, developing joint business plans and negotiating with buyers, it can seem that they are now expected to be brand ambassadors, category champions, econometricians and P&L managers.

NRM provides an interface between sales and brand, category, and finance teams, enabling sales to do what they should do: sell. NRM can help reconnect sales and marketing teams to “pull” commercial levers in joined-up ways but ultimately NRM needs to be coupled with supply chain and plugged into business-as-usual processes and governance.

Figure 3. Pillars of NRM: how do we think about NRM and what is it?



---

Deal effectiveness diminishes over time and promoted price becomes the new “base” price, inducing a race to the bottom that erodes margins.

---

### **Plugging NRM into integrated business planning**

An NRM capability is only as good as the portfolio and category strategies, and associated growth targets it is expected to deliver. The days of setting “macho” sales targets are over. Internal P&L targets need to be grounded in the external realities of category growth, share position, brand role and growth intent, price elasticity, and headroom for growing penetration and distribution.

NRM should play a critical role in reconciling top-down targets with bottom-up plans, cascading P&L targets and investment across brand customer portfolios. In leading CP companies, NRM defines the “shape of plan” for key account managers that reflects P&L input and output measures – for example, budgeted trade spend against net revenue targets. NRM also provides targets that balance share, net revenue and gross profit ambitions; promotional guidelines to deliver targets and improve ROI; and the trade terms framework to govern trade spend in line with brand, category and supply chain objectives.

For NRM to fulfil this role effectively, it needs to be plugged into business-as-usual processes and governance. Integrated business planning (IBP) is another hot topic as it aims to synchronize demand and supply sides to create a more agile and responsive organization, reorientated toward winning the shopper, and creating value across channels and key customers.

### **How can organizations build NRM capability?**

In a world where cost and heads are aggressively being taken out, investing in building new capability may feel counterintuitive. Country organizations are being asked to do more with less and “decision-support” has been culled in many leading global CP companies. To efficiently build effective NRM capability requires a transformational approach and mindset.

▶ **Establish analytics centers of excellence (CoE)**

Local sales insight, relationships and field presence remain core commercial assets. But data-driven activities, such as pricing, promotional analytics and point-of-sale (POS) segmentation, can now often be better undertaken by dedicated analytics teams with real economies of scope and scale – the analytics CoE. On- or near-shore NRM resources translate price, promotional, POS and shopper analytics outputs into practical direction and guidance that sales can execute. When consumable insights are plugged into local decision makers at the right times, above-market analytics can be both effective and efficient.

▶ **Define the end state and codify collaborative working**

Rerouting and streamlining processes through analytics CoEs require a reset of roles and responsibilities across the

sales and marketing organization, and end-to-end processes spanning on-, near- and off-shore locations.

Given the complexity and scale of implementing NRM, a clear end state and compelling case for change are needed to galvanize stakeholders. That can be daunting enough for the sales and marketing organization, but NRM needs to be synchronized with supply chain to fulfil demand effectively and efficiently. Given the level of change associated with implementing NRM, some leading companies are building NRM capability as part of a wider IBP program.

IBP, as NRM, can mean different things in different organizations. For some, it is sales and operational planning by another name. But leading companies are now viewing IBP more strategically, as a means to break down functional silos and reconnect strategy with execution. In effect, IBP integrates planning processes and governance across functions, geographies and time horizons to efficiently execute strategy and deliver targets. In this way, IBP synchronizes demand and supply to create more agile, responsive and efficient organizations, reorientated toward winning with the consumer and long-term value creation.

### **Where to start**

This can seem an overwhelming challenge, which is why a compelling case for change is needed.

---

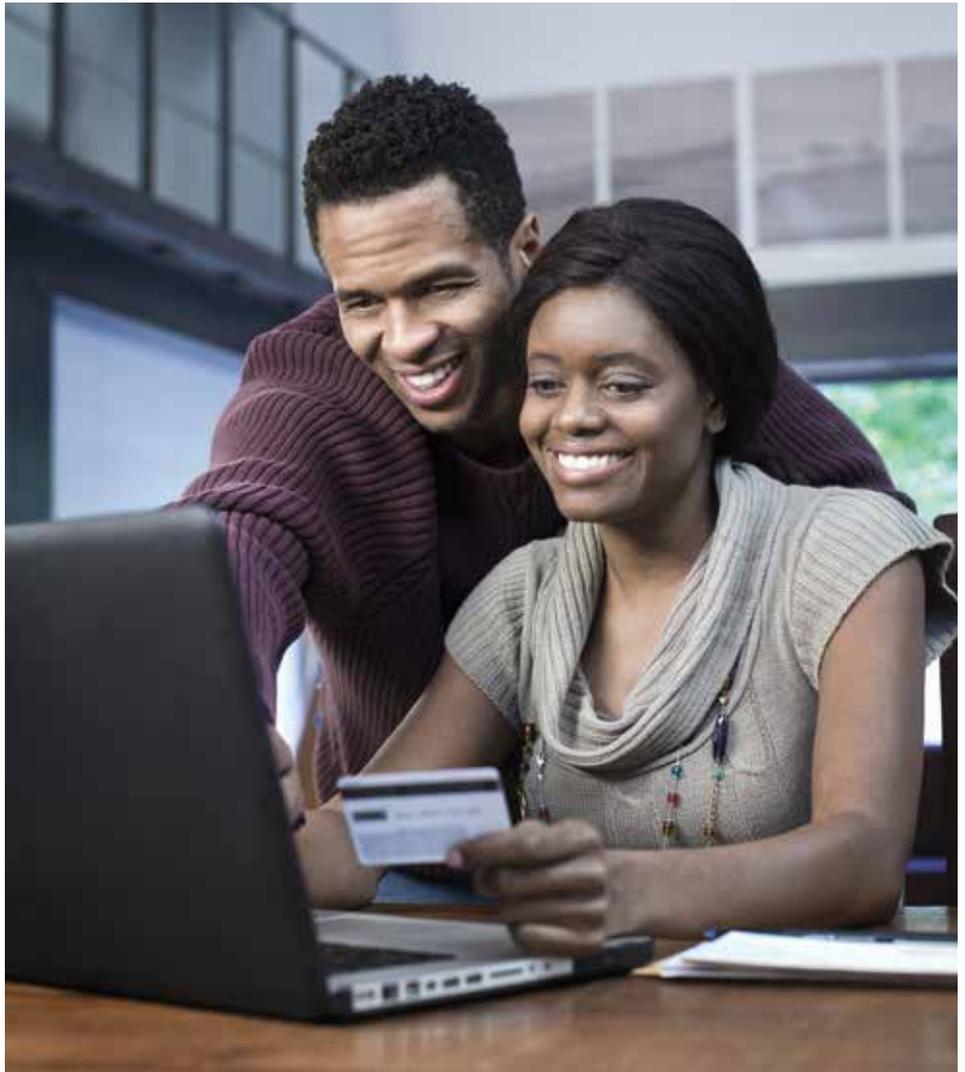
► **Size the global trade spend opportunity**

Given the complexity and scale of implementing IBP and NRM, a clear end state and compelling case for change are needed to galvanize stakeholders. The good, or bad, thing for NRM advocates or practitioners is that trade spend is in the billions of dollars for global CP companies. Minor improvement in ROI can drive material differences to net revenue and profit. In our experience, the case for change is compelling. But few can currently see the size of the prize – or the risk.

A quick but credible global scan can reveal levels of opportunity and risk, identifying drill-sites by country, brand, channel, product and customer (depending on data granularity).

► **Conduct rapid NRM capability assessment and identify pain points**

Many of the pain points in organizations have common root causes. For example, “data isn’t reliable, systems and tools need too much manual entry, process timings don’t work for me or my team, too much time spent on planning and re-planning.” Rapid cross-functional interviews or surveys, desk assessments and headcount or role analysis identifies duplicated, redundant activities and creates buy-in to tackle inefficiencies and their root causes. These will span people, process and technology, and require a cross-functional response.



Widening the scope of profitable growth challenge can create complexity but also creates synergies and scale to drive transformational change.

This will help codify a better business-as-usual that tackles pain points and that respects the dependencies across functions. This will require behavioral and cultural change.

In the short term, however, it is advisable to focus on a region or strategic market(s) to get the details right and reflect reality on the ground. This is critical to get stakeholder buy-in. A “narrow-front” approach concentrates the organization’s global resources and effort on making capability breakthroughs in a few, priority markets or a region to prove the concept, build the benefits case and learn lessons for subsequent roll-outs.

## **Conclusion**

NRM can help CP organizations reconnect strategy with execution and drive sustainable, profitable growth.

Today, digitalization is transforming the way brands interact with consumers, shoppers and suppliers. The fragmentation of routes to consumer, retail environments and personalization of brand messages, propositions and services will increase the need for an intermediary, hybrid capability such as NRM. It is here to stay.

While it will demand transformational change, this is the next frontier of shareholder value creation – and survival will depend on it. ■

# Contacts

If you wish to contribute to *Performance* or comment on the articles published, please contact us via one of the following emails:

- ▶ [performance@de.ey.com](mailto:performance@de.ey.com)
- ▶ [anna.di.mattia@de.ey.com](mailto:anna.di.mattia@de.ey.com)

## **Chief Patron**

Markus Heinen

## **Chief Editor and Coordinator of EY's Think Tank for Business Performance & Innovation**

Anna di Mattia

## **Editor**

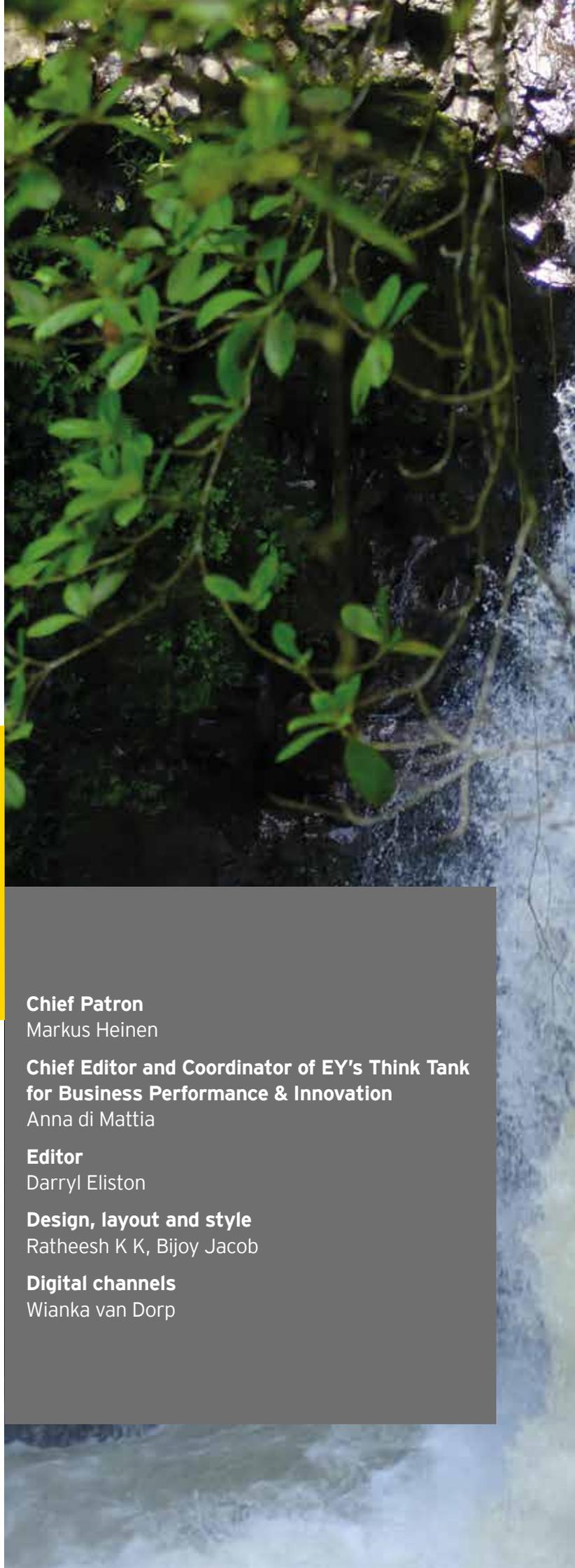
Darryl Eliston

## **Design, layout and style**

Ratheesh K K, Bijoy Jacob

## **Digital channels**

Wianka van Dorp



**Argentina**

Roberto Osvaldo Fraga  
roberto.fraga@ar.ey.com

**Baltics**

Nauris Klava  
nauris.klava@lv.ey.com

**Belgium**

Jan Bailly  
jan.bailly@be.ey.com

**Brazil**

Cristiane Amaral  
cristiane.amaral@br.ey.com

**Canada**

Julie Bourgault  
julie.bourgault@ca.ey.com

**China (mainland)**

Arthur Bi  
arthur.bi@cn.ey.com

**Commonwealth of Independent States (CIS)**

Sergey Zaborov  
sergey.zaborov@ru.ey.com

**Colombia**

Martin Soubelet  
martin.soubelet@co.ey.com

**Ecuador**

Diego Ramiro Leon  
diego.leon@ec.ey.com

**Greece**

Constantine Moros  
konstantinos.moros@gr.ey.com

**Hong Kong, China**

Alex Viale  
alex.viale@hk.ey.com

**India**

Ashish Nanda  
ashish.nanda@in.ey.com

**Italy**

Andrea Bassanino  
andrea.bassanino@it.ey.com

**Japan**

Junji Suzuki  
junji.suzuki@jp.ey.com

**Mexico and Central America**

Gilberto Lozano  
gilberto.lozano@mx.ey.com

**Middle East**

Ahmad Ahmad  
ahmad.ahmad@sa.ey.com

Ahmed Taher  
ahmed.taher@sa.ey.com

**Netherlands**

Fenna Wegman  
fenna.wegman@nl.ey.com

**Norway**

Bård Høyland Karlsen  
bard.karlsen@no.ey.com

**Peru**

Paulo Cesar Pantigoso  
paulo.pantigoso@pe.ey.com

**Poland**

Robert Dziejdzic  
robert.dziejdzic@pl.ey.com

**Republic of Serbia**

Natasa Vuksic  
natasa.vuksic@rs.ey.com

**Slovak Republic**

Vladimír Kaštier  
vladimir.kastier@sk.ey.com

**South Africa**

Andrea Le Roy  
andrea.leroy@za.ey.com

**Sweden**

Per Skallefell  
per.skallefell@se.ey.com

**Switzerland**

Heiko Schikor  
heiko.schikor@ch.ey.com

**Turkey**

Bulent Ozan  
bulent.ozan@tr.ey.com

**United States of America**

Sven Krause  
sven.krause@us.ey.com

Carlos Bremer  
carlos.bremer@br.ey.com

**Venezuela**

Ligia B. Parra Barráes  
ligia.parra@ve.ey.com

# The right resources to help you grow your business

If you would like to subscribe to *Performance* or read any of the content online, please visit [ey.com/performance](http://ey.com/performance).

**Read** more articles on the web portal about the subjects discussed in current and past issues of *Performance*

**Order** *Performance* and subscribe to our newsletter

**Download** the *Performance* app

**Search** for articles by business enabler, industry or language

You can now read *Performance* on your **mobile devices**, which means, of course, you get additional insights from authors and commentators.



The *Performance* app allows us to bring you an interactive element to the articles and case studies in *Performance* journal.

For example:

**Listen**

to authors give additional insight into their thinking behind some of the innovative ideas they discuss

**Watch**

authors and experts give their opinions on the topics discussed

**Hear**

additional perspectives from some of those we've interviewed

Follow *Performance* on Twitter  
**@EY\_Performance**

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

**About EY's Advisory Services**

In a world of unprecedented change, EY Advisory believes a better working world means helping clients solve big, complex industry issues and capitalize on opportunities to grow, optimize and protect their businesses.

From C-suite and functional leaders of Fortune 100 multinationals to disruptive innovators and emerging market small and medium-sized enterprises, EY Advisory teams with clients – from strategy through execution – to help them design better outcomes and deliver long-lasting results.

A global mindset, diversity and collaborative culture inspires EY consultants to ask better questions. They work with their clients, as well as an ecosystem of internal and external experts, to create innovative answers. Together, EY helps clients' businesses work better.

The better the question. The better the answer. The better the world works.

© 2017 EYGM Limited.  
All Rights Reserved.

EYG no. 03136-172Gbl

*Performance* 9.2 May 2017  
Artwork by BMC Agency 1004782  
ED 0817



In line with EY's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

The views of third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were expressed.

[ey.com/performance](http://ey.com/performance)