BUSINESS TRANSFORMATION DECODED:
WHAT IT MEANS AND WHY YOUR ORGANIZATION NEEDS IT

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In the post-pandemic corporate landscape, organizations are increasingly talking about business transformation to accelerate growth and bring about big changes in their performance. Over the last few years, unexpected events in the form of the COVID-19 pandemic and geopolitical tensions have disrupted global supply chains and operations. For instance, the number of micro, small and medium enterprise (MSME) closures in India more than doubled between FY22 and FY23 due to the pandemic. The geopolitical tensions have hampered critical logistics and trade route operations, leading to a surge in gas prices and freight costs.

Given the unpredictable supply chain interruptions and significant post-pandemic changes in consumer behavior, organizations have had to rethink their business and operating models to stay relevant and profitable. This leads us to the question: What will distinguish successful companies from those struggling for survival? The answer: An ability to think differently.

Companies that continue to be successful will be those that are willing to adapt and innovate in the fast-changing business world, or in other words **'To Transform'**

Alvarez & Marsal has been involved in numerous large and small business transformations and works with CXOs and partners across corporates and PE firms, which has helped us gather multi-dimensional views across the spectrum. In this thought paper, we aim to explain the concept of transformation and the key elements that enabled these companies to successfully manage large transformation journeys.

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What does transformation mean?

Transformation is a step change in the way an organization has operated so far. It could be pertaining to what product/services it sells or how it sells them. Transformation is not business-as-usual or doing the same thing incrementally better. Transformation affects employees across the organization and impacts culture in a way that aligns everyone with the overarching objective.

> In the post-COVID context, most transformations have a technology intervention that helps drive the change.

Transformation can mean different things to different organizations, depending upon the level of urgency and the level of change required. For an organization in distress, the need of the hour will be business continuity and solving its liquidity crisis. On the other hand, a healthy organization may focus on significantly improving performance over the medium to long term.
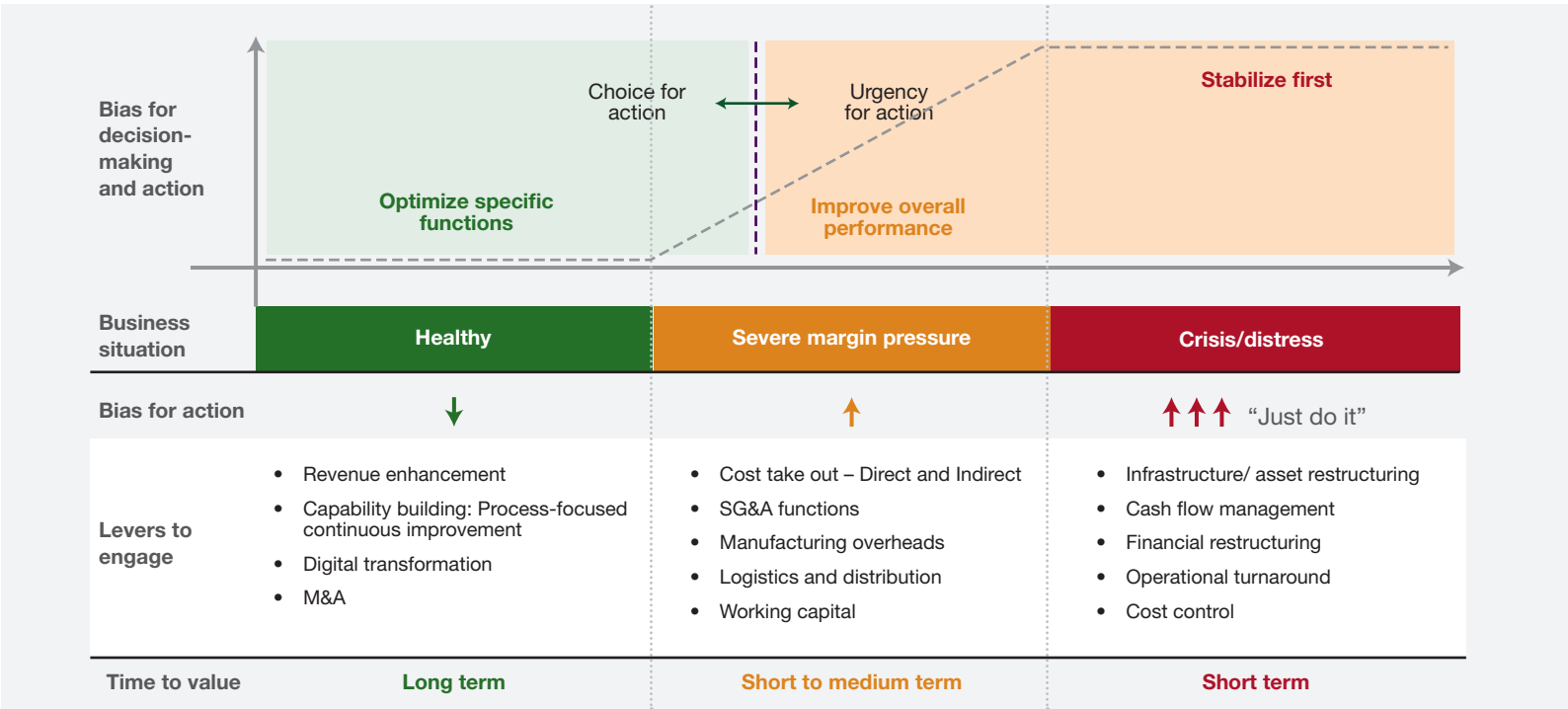
Bias for decision-making and action	Optimize specific functions	Choice for action ↔ Urgency for action / Improve overall performance	Stabilize first
Business situation	**Healthy**	**Severe margin pressure**	**Crisis/distress**
Bias for action	↓	↑	↑↑↑ "Just do it"
Levers to engage	• Revenue enhancement • Capability building: Process-focused continuous improvement • Digital transformation • M&A	• Cost take out – Direct and Indirect • SG&A functions • Manufacturing overheads • Logistics and distribution • Working capital	• Infrastructure/ asset restructuring • Cash flow management • Financial restructuring • Operational turnaround • Cost control
Time to value	**Long term**	**Short to medium term**	**Short term**

Exhibit 1: Focus areas vary depending on the context of the transformation

When do you need a transformation?

Transformation is necessitated by a host of internal and external factors. These include:

• Consistent erosion/stagnation in growth and profitability

• Large technological shifts

• Merger integration

• An ambitious plan to scale

• A change in customer expectations or needs

1   **Distressed/Stressed companies**

At one end of the spectrum, we see distressed or stressed companies, that face the need to immediately address a liquidity crisis and overcome operating losses. For instance, at a distressed healthcare company, the transformation was triggered when the lenders took the company into insolvency due to successive defaults on payments. The immediate priorities for the transformation team were to ensure continuity of operations and stabilize the company. To achieve these, the focus was on:

- **Business Continuity:** a) Retaining key workforce through honest conversations and realistic commitments; b) Ensuring continuity of supplies through communication with critical vendors; c) Closely monitoring day-to-day performance and taking hard calls where required.

- **Bridging the liquidity gap:** Arranging bridge funding through lead banks that would be settled on priority as an insolvency process cost in the resolution plan.

- **Process and issue resolution mechanism:** Setting clear roles and responsibilities for Heads of Departments, defining a reporting structure and putting in place controls to ensure efficient day-to-day operations and financial discipline.

Once business continuity was restored, the transformation team took steps to improve financial and operational performance.

2   **Companies seeking to improve performance**

Then there are companies that are not distressed, but under pressure to improve performance, either due to an inability to meet targets or the necessity to keep up with the competition. Such companies will focus on a comprehensive set of performance enhancement levers focused on revenue, cost and working capital optimization. In one such example, an Indian auto component manufacturer faced severe margin pressure and was striving to improve earnings before interest, taxes, depreciation, and amortization (EBITDA) by INR 90-100 crore within the next financial year. A comprehensive transformation program was designed and implemented focusing on multiple levers including sales improvement, cost take out, organization restructuring, working capital improvement and plant migration. Key success factors included:

- **A comprehensive transformation approach:** The focus was on improving sales, driving cost efficiencies and increasing productivity across multiple functions such as planning, procurement, manufacturing and overheads. Over 200 initiatives were implemented to drive savings of more than INR 125 crore within nine months.

- **A transformation office for timely execution:** An empowered transformation office was established to successfully track and implement the large number of initiatives across functions, which included a clear definition of roles and responsibilities, milestones and progress in terms of timelines and impact. The transformation office also enabled cross functional coordination and quick decision making and issue-resolution through effective escalation mechanisms.

- **Effective change management:** The program success was largely attributed to the alignment of stakeholders at all levels towards the single goal of achieving a 100+-crore EBITDA uplift within 12 months and making the change sustainable, through continuous trainings and well-documented standard operating procedures (SOPs).

3   Well-performing companies

There is a third set of companies which are well-performing companies, that undertake transformation to further enhance performance. In one such transformation, a global leader in the steel industry had acquired one of India's largest steel companies. After the initial phase of stabilization, the company was seeking a targeted EBITDA improvement program focused on procurement, manufacturing operations and logistics optimization. Key success factors included:

- **Focus on quick wins as well as long-term improvements:** Identifying and implementing quick wins generated confidence and excitement in the organization. In parallel, medium-to-long-term improvements were identified to ensure sustained benefits for the firm across strategic sourcing, manufacturing efficiency and conversion cost and logistics.

- **Key stakeholder alignment to program objectives:** This helped drive the program in an effective manner, with around 25 departments and more than 1,000 people covered in the program to ensure complete employee engagement and participation in idea generation and execution. The group chairman, CEO, and COO were committed to the program and participated in fortnightly steering committee meetings to drive key decisions.

- **Enablers for sustainable improvement:** SOPs and templates based on industry best practices were developed across functional areas. Capability building was also driven through targeted training programs, covering a range of performance improvement techniques including Six Sigma, Quality Circles, Lean CTR and RCA tools. Relevant technology interventions were made to minimize manual work, free-up executive bandwidth and ensure sustained performance.

The program delivered approximately INR 1,600 crore of annualized savings, leading to a four to five percentage point improvement in EBITDA.

The big shift to technology

In the post-Covid era, businesses have realized the importance of technology adoption and have used this as an enabler to improve both front-end customer experience and backend operations. Some examples include a shift to online and digital channels to continue customer servicing, enablers for remote working, digitization of internal operations and migration of assets to the cloud.

The advent of the Internet of Things, Industry 4.0 and Generative AI is forcing companies to rethink their operations in a bid to significantly improve their performance.

> The pandemic has opened our minds towards the power of technology. Many organizations are frantically trying to catch up. Organizations fear that this could lead to an existential crisis, with the degree of fear varying by industry. Leaders in denial continue to look at it as only an IT problem. Leaders who have realized what this can do are running this transformation themselves.
>
> **– Vivek Kamra, Managing Director, A&M India**

In our experience, almost all large transformations need a dedicated focus on technology to make the transformation sustainable.

> Upcoming technologies such as Generative AI find numerous applications across the supply chain to unlock efficiencies, improve reliability and reduce costs. While they have numerous business applications, organizations must take a nuanced, ROI driven view to identify the most appropriate applications for their specific business needs.
>
> **– Praveen Pajiar, Managing Director, A&M India**

Percolating the transformation goals across the organization

The first step towards a successful transformation involves the leadership challenging their boundaries when setting goals. This will, in turn, also inspire employees to work with dedication and a higher level of efficiency. While the end objective of transformation will act as the guiding force, it must be broken down into specific, individual goals for the key stakeholders. Care must be taken to ensure that the goals are thought through and have executive buy-in.

One of the leading multinational retail corporations has been a front-runner in the adoption of artificial intelligence to improve customer experience and backend operational efficiencies. The company had built AI / ML models based on retail tech intelligence gathered over six decades of customer servicing, long before the Large Language Models wave hit tech. The deep learning AI technology recommends product substitutes in a stock-out situation for online grocery shoppers and recommends products for specific events, considering hundreds of variables – size, type, brand, price, aggregate shopper data, individual customer preference, current inventory etc. It also proactively seeks customer approval for the suggested items, which moves into the feedback loop for the learning algorithm to improve the accuracy of future recommendations.

The company has also implemented Generative AI systems for automated supplier negotiations, accelerating sourcing function performance and AI assistants to boost productivity of corporate employees. The success of Generative AI ventures is largely attributed to clear leadership vision, alignment of employees across levels and functions and proactive change management and training.

Ingredients for a successful transformation

A transformation is always driven by the top leadership. A successful transformation is when the entire organization buys into the vision that the leadership has set for the organization. Hence the leadership plays the most important role in making it a success. We believe in four key ingredients for a successful transformation.

The right team

As the first step, leadership must identify the right team to drive the transformation. It is critical to assess the capability gap in the existing team and either replace or bolster the team with the right personnel. If this is not addressed, the transformation will almost certainly fail or be sub-optimal.
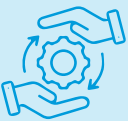
Organization alignment and change management

Leadership must set measurable goals and drive alignment by communicating a clear picture of the future. A leadership team which cascades KPIs across the organization is more effective in executing the transformation. Leadership must continuously communicate with the teams while the organization undergoes a series of changes and motivate the teams to maintain trust through tough times. The organization must feel a sense of urgency in achieving the objectives.

The transformation should be run as an inclusive program, where objectives and implementation are owned by all stakeholders from the CEO to the worker. Once clarity in KPIs exists at all levels, it is important to set up the right teams and empower them to deliver results in a timely manner with high accountability.

> "
> Transformations need relentless focus to identify issues, challenge set ways and importantly to carry the organization along with changes. One of the key ingredients of successful transformations is 'ownership' within the business and a sense of responsibility to see things through.
>
> **- Amith Karan, Managing Director, A&M India**
> "

Process and system capability building

Establishing the right processes and systems is critical to achieving sustainable outcomes. Any process improvement today leverages the power of technology. Companies undergoing transformation must also understand the power of information technology and deploy digital interventions to optimize performance, wherever possible.

Execution and endurance

Timely implementation of transformation initiatives is key and may be achieved by defining enablers and short-term controls, setting up a robust review rhythm, tracking milestones closely and setting up an issue resolution framework to resolve roadblocks.

Finally, leadership must exhibit patience in driving the transformation. While there will be quick wins, there will also be some setbacks. It is important that the teams are patient and do not get demotivated midway through the transformation.
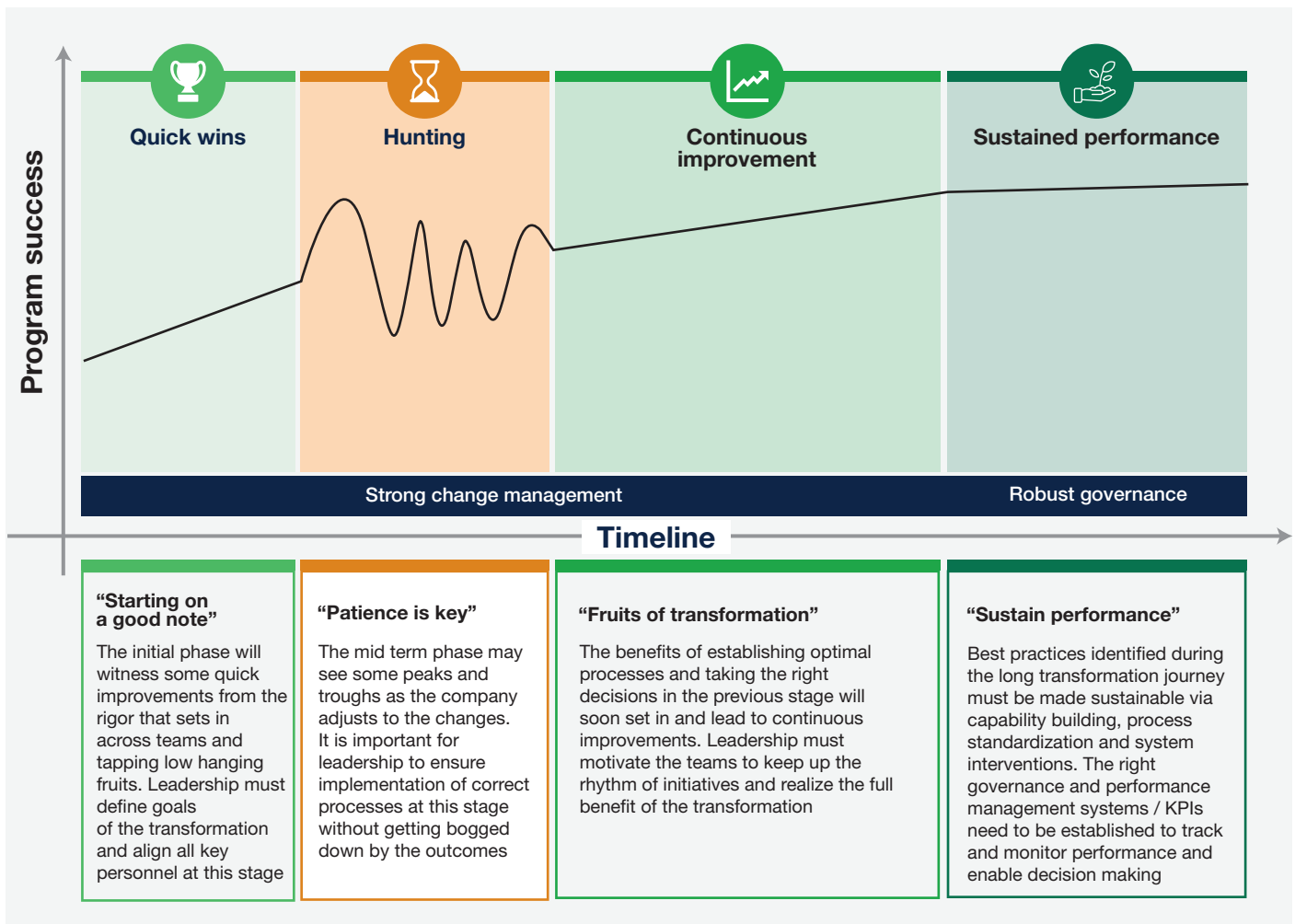
Quick wins	**Hunting**	**Continuous improvement**	**Sustained performance**

Program success

Strong change management | Robust governance

Timeline

"Starting on a good note"	**"Patience is key"**	**"Fruits of transformation"**	**"Sustain performance"**
The initial phase will witness some quick improvements from the rigor that sets in across teams and tapping low hanging fruits. Leadership must define goals of the transformation and align all key personnel at this stage	The mid term phase may see some peaks and troughs as the company adjusts to the changes. It is important for leadership to ensure implementation of correct processes at this stage without getting bogged down by the outcomes	The benefits of establishing optimal processes and taking the right decisions in the previous stage will soon set in and lead to continuous improvements. Leadership must motivate the teams to keep up the rhythm of initiatives and realize the full benefit of the transformation	Best practices identified during the long transformation journey must be made sustainable via capability building, process standardization and system interventions. The right governance and performance management systems / KPIs need to be established to track and monitor performance and enable decision making

Exhibit 4: Business transformation is a marathon

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It is a marathon, not a sprint

Transformation requires a long term commitment and focus to drive the desired results. One has to remember no transformation will reach a conclusion with a smooth journey throughout. There will be periods when performance parameters may suffer. Leadership needs to be prepared to face temporary setbacks. However, as long as the right process is being pursued, eventually the transformation will deliver results.

Quite often, the most important lessons are learnt during failure and only through these learnings, can organizations transform themselves into something greater than what they already are. Strong leadership vision, organization alignment, focus on sustainable improvements and relentless execution are pivotal to drive success in any transformation.

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ABOUT ALVAREZ & MARSAL

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With over 9,000 people providing services across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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