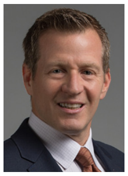
PRIVATE EQUITY PERFORMANCE IMPROVEMENT

Pivot to Savings: How IT Can Be An Agent of Change In Cost Control for Faster Recovery

KEY CONTACTS



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As Private Equity sponsored companies pivot to recovery coming out of the COVID-19 crisis, the chance to re-design business models and business processes are a hidden benefit. Information Technology (IT) will be an agent of change, playing a significant role in cost controls and process re-design. A key element of this re-design will be companies' ability to reduce fixed commodity-type process activity costs and replace them with automation in a variable, consumption-based model. With human capital identified as the largest expense for most companies, automation provides a mechanism to control this cost while not wrestling away value-added activities. What is different today versus prior situations is that benefits can be achieved with minimal upfront cash.

Before companies can take advantage of an automated variable consumption-based model, they need to get their house in order. At A&M, we see a stair-step approach for IT to lead and support the move to the "next normal" (born of the COVID-19 crisis) and encompass the three steps of remediation, data transparency, and "Hyperautomation". We have seen most IT organizations step up to the challenge during this period of crisis and focus on key activities, which include pumping the brakes on large IT expenditures and focusing on enabling the business to function remotely through web conferencing tools and improved security. The graphic below reflects how IT can lead by following these three steps.

Exhibit 1: A THREE-STEP APPROACH TO EMERGE FROM CRISIS

As described above, step one solely focuses on containing costs and creating a safe and effective environment for remote workers. Following this, the second step, data transparency, emphasizes real-time information visibility. As we have learned in the current crisis, monitoring liquidity in near real-time is a critical factor for survival. Organizations with good data and reporting systems appear to fare better than those constantly chasing for information. Additionally, companies with multiple, non-integrated systems will suffer more. Coming out of this situation, CEOs and CFOs will be leaning on their systems and internal IT teams to increase the velocity of data delivery.

The third step, Hyperautomation, requires building a scalable model that serves the needs of the business, yet eliminates the non-value-added fixed costs. This is what we refer to as an "Elastic Business Model." The automation of activities such as data collection, manipulation, entry and rule-based decision making, frees up human capacity for higher-value activities. In contrast to manual processes, automation capacity can be scaled to meet any demand at a marginal cost.

To execute the "Elastic Business Model," IT should consider embracing automation delivered as a service. This enables IT to lead the organization's automation journey without the need to train or hire in-house automation experts. To remain competitive, IT will need to deliver a number of automation technology capabilities, otherwise defined as "Hyperautomation." Hyperautomation will scale with the operations of the business and, in a consumption-based pricing model, move some of the costs from fixed to variable.

In addition to the basic automation delivered by Robot Process Automation (RPA), Hyperautomation is a case where the sum is truly more impactful than the parts. It combines additional technologies such as Image Recognition (OCR), Natural Language Processing (NLP), Machine Learning (ML) and Artificial Intelligence (AI) to deliver advanced automation solutions. The intelligent capabilities of Hyperautomation allow organizations to automate processes that were traditionally disqualified as too complex. As a result, portfolio companies may realize an even better value from Hyperautomation. The following questions and answers provide greater detail.

How can IT innovate and help the business reduce fixed costs?

IT can move from being perceived as a cost center to a thought leader by executing the organization's key strategies and spearheading its automation agenda in an innovative, cost-effective manner. When Hyperautomation is delivered as a service (Hyperautomation-as-a-Service or HAaaS) in a consumption-based model, it fundamentally changes the cost equation. We consider HAaaS as a vital tool to drive value, contain costs and promote innovation.

What is HAaaS?

HAaaS leverages cloud technologies to deliver automation solutions for customers. In this model, software bots run on the service providers' clouds while securely connecting to the companies' systems, both on the cloud and inside the firewall, to execute business processes. The development of these automation solutions is either fully or partially funded by the service provider, reducing one-time investments for development. Once live, the customer pays the service provider based on a subscription or consumption-based pricing model. The service provider then maintains and manages these software bots, eliminating the need for IT to do so.

What are some real examples and results?

Several companies have automated standard back-office functions such as cash application and invoice processing in Finance & Accounting, employee onboarding in Human Resources (HR), system maintenance in IT and lead / opportunity creation in Sales & Marketing. According to a 2019 Gartner Research report, the automation of these processes generally resulted in a 20 to 40 percent labor reduction in back office departments. Automating core operational processes such as inventory management, logistics and direct procurement in a manufacturing environment, claims adjudication in insurance and reservation chat-bots in the hospitality industry can improve quality, customer satisfaction and efficiency in addition to labor cost savings.

What are some common areas to explore?

Back-office processes are typically less complicated, less risky, and as such are an ideal automation journey starting point. Upon seeing the results and understanding the 'art of the possible,' companies can expand automation to the operational processes.

How to identify opportunities?

Processes that are definable, repetitive, and rule-based (with extractable data) are generally good candidates for automation. High volume and frequency are critical drivers of potential automation ROI. To assess the fit of the processes and the ROI, we recommend portfolio companies perform an automation suitability assessment using a decision framework like the one shown below. This assessment should provide a suitability score that takes many process characteristics under consideration. Following this exercise, the suitability score can feed into the economic case for automation.

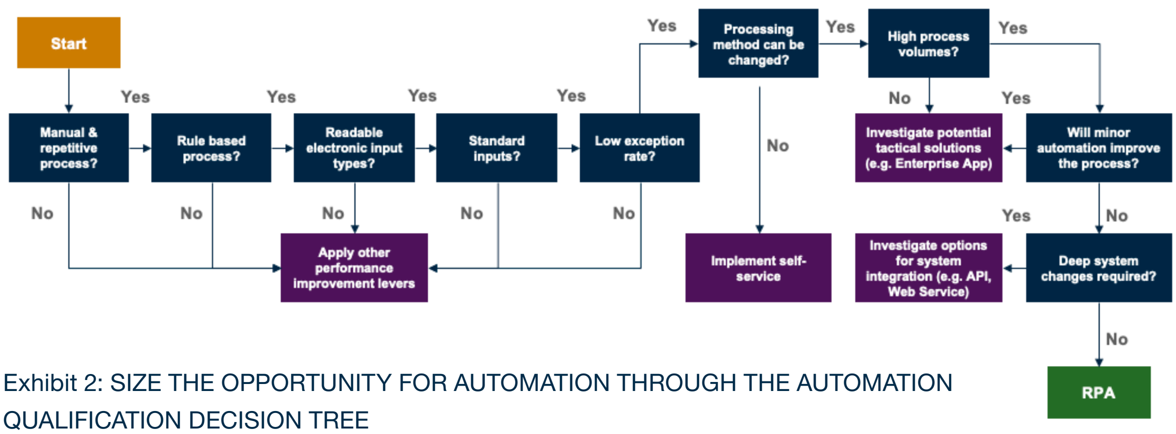

Exhibit 2: SIZE THE OPPORTUNITY FOR AUTOMATION THROUGH THE AUTOMATION QUALIFICATION DECISION TREE

What does automation technology look like?

HAaaS utilizes industry-leading RPA platforms, workflow engines and required intelligent services such as OCR, NLP, ML and AI. Depending on the use case, one or multiple technology components may be used to enable the delivery of automation. The HAaaS platform connects to customer applications such as enterprise resource planning (ERP), customer relationship management (CRM) and custom applications, both on-premise and cloud, via secure connections. Performance and usage dashboards provide real-time metrics about process performance, volume, utilization, consumption and cost.

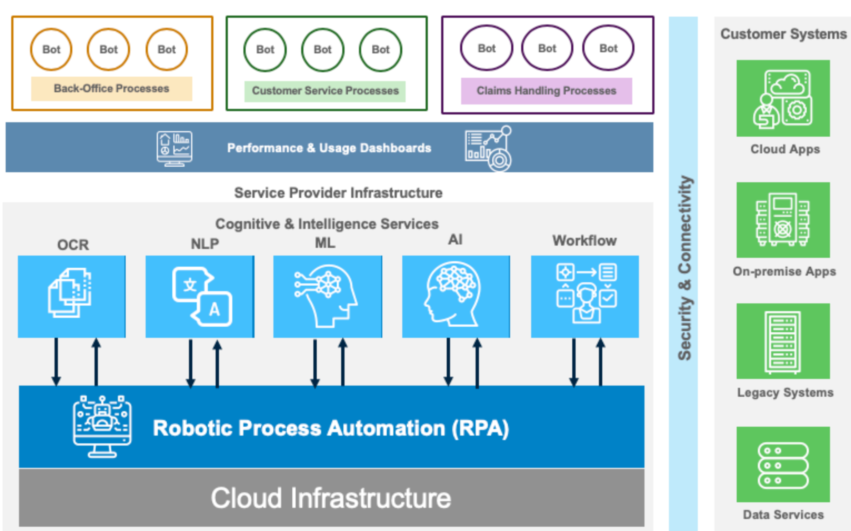

Exhibit 3: HAaaS DELIVERS ENTERPRISE AUTOMATION SECURELY AS A SERVICE

With the continued pressure on managing costs in an unpredictable environment, an "Elastic Business Model" meets the needs of the hour. The model transfers significant portions of fixed costs to variable costs. Automation-as-a-Service, with a consumption-based cost model, creates a cost structure with real flexibility. Additionally, HAaaS brings substantial innovation to portfolio companies without the typical technology risk and significant initial investments.

At this time, portfolio companies can take the following steps to prepare for this automation journey.

- Identify functions / processes where there may be an opportunity for automation
- Assess labor and non-labor costs to understand the function / process cost structure
- Examine process characteristics to determine the percent of value-added versus non-value-added activities
- Determine automation suitability and the high-level economic case
- Engage thought leaders and service providers to understand the automation landscape, challenges, ROI and delivery models
- Create a preliminary high-level roadmap and engage with various stakeholders to drive the automation agenda

Want to learn more about how to start your automation journey or learn more about our automation experience? Please reach out to **Jeff Shaffer** and **Raj Thangavelsamy** for further discussion on how your IT function can drive cost control and support process redesign.

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