EMBRACING DIGITAL TO STRENGTHEN OPERATIONAL EFFICIENCY

Part 3 of 4 – RSM digital transformation webcast series

October 2, 2018
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## Webcast series summary

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<td>August 7, 2018</td>
<td>1. Learn what digital capabilities are and how they enable leading organizations to transform their businesses</td>
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Part 3 - Digital transformation and operational efficiency overview

What is it

Digitizing operations

Organizational readiness

DIGITAL TRANSFORMATION WEBCAST SERIES
TUES., OCT. 2 | 2–3 P.M. EDT

rsmus.com
Learning objectives

1. Learn **what** digital capabilities are and how they enable leading organizations to transform their businesses

2. Learn **why** organizations embark on digital transformation e.g., the common drivers, focus areas, benefits

3. Learn **how** companies approach digital transformation planning and implementation (e.g. agile, iterative, proof of concepts, partnerships, tools, culture, process)
RSM’s 2018 Digital transformation survey

- Surveyed 200 chief financial officers (CFOs) from middle market companies
- The study sought to understand not only *What is the current state of digital transformation among middle market companies?* but also...
- What is the impact to the role of the CFO as a result of current trends in digital transformation at their company
WHAT IS IT

What is digital transformation and how are digital capabilities enabling leading organizations to transform their businesses
Evolution of digital

- 1950er: Development of Electronic Computer
- 1969: Arpanet
- 1971: Intel 4004: First microprocessor produced in series
- 1972: SAP
- 1975: Microsoft
- 1984: Apple
- 1984: Cisco
- 1985: Windows 1.0
- 1990: Commercial Internet
- 1994: Amazon
- 1999: Salesforce
- 1998: Google
- 2001: Expedia
- 2003: Skype
- 2004: Facebook
- 2006: Amazon Web Services
- 2007: Netflix (on Demand)
- 2008: Spotify
- 2008: Uber (est.)
- 2009: Uber (est.)
- 2010: Pinterest
- 2010: WhatsApp
- 2011: HelloFresh
- 2016: Uber (Cloud)
- 2016: Airbnb

Cloud impact

Source: arago GmbH, 2017
Web of disruptive technologies
Digital transformation definition
Option #1

Digital transformation is not only about doing things differently, but doing different things – from gathering and analyzing data for smarter decision-making to engaging clients, customers and suppliers in new ways.
Digital transformation is about finding ways to **digitize all aspects of your business** – from eliminating paper, to automating business processes, to leveraging massive data sets to personalize products and services.
An approach to prioritizing digital transformation

“\textit{The advance of technology is based on making it fit in so that you don’t really even notice it, so it’s part of everyday life,}”

- Bill Gates
High quality and resource optimization – Digital technologies drive utilization of business resources to their fullest potential, activating process cost-effectiveness, waste reduction, improved productivity and quality. Do less with more.

Adaptability – Digital transformation of both the supply and demand chain are essential for aligning company operations to customer demands. DT gives businesses the ability to adapt to future needs of both internal and external stakeholders.

System integrations – Integrations within a business’s IT environment provides greater data visibility, data integrity and value-added analytics. As a result, this leads to improved business decision making.

Risk management – Many organizations view risk management as a means of being in compliance or as a business requirement. However, the with close association of risk and reward, risk management should be viewed as an opportunity. Incorporating risk management within strategic planning, enables businesses to identify and focus on core competencies to achieve optimal operations.
DIGITIZING OPERATIONS

Middle market organizations are increasingly implementing digital transformation initiatives to strengthen operations in multiple key areas of their businesses.
Digitizing operations

1. Adopting technology for digital operations

   **Operations**
   - Processes are inconsistently defined with irregular adherence when executing major tasks

   **Technology**
   - Basic tools and technologies exist but lack ability to positively affect major changes

   **Status**: Undeveloped

2. Optimize operations while managing risk

   **Operations**
   - Defined and repeatable processes exist but are very re-active to changes

   **Technology**
   - Business applications utilize recent technology trends with varying levels of effectiveness to enable major business functions

   **Status**: Informal

3. Do more with less

   **Operations**
   - Major processes are automated with continuous improvement activities initiated

   **Technology**
   - Business applications effectively support all major organizational functions

   **Status**: Established

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“Robotic process automation (RPA) has become a key tool to help organizations drive business automation and increase operational efficiency. We’re seeing wide adoption of RPA applications for both finance & accounting and human resource functions.”

Elizabeth Sponsel, RSM Specialty Tax Leader

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**Status**: Managed

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**Status**: Optimized
Embracing digital to strengthen operational efficiency

Key Strategies

1. Focus first on doing the right things
2. Evaluate if you are doing things right
3. Understand digital ecosystem and related control environment
4. Take a holistic approach – people, process, technology
5. Build agility into business model that can adapt to rapidly changing market conditions

Impact and Results

- Enables businesses to recognize patterns and forecast future outcomes and foster best practices
- Increasing efficiency and visibility by connecting business groups and systems
- Analytics give users the ability to create “Fast failure” situations to help businesses to understand why a process failed and make necessary prospective adjustments
- Optimize operations while managing cybersecurity and risk
- Allows businesses to focus on building differentiating capabilities
Building differentiating capabilities is not limited to just products and services, it also involves differentiating the business as a whole through your people, processes, and technology.

Leveraging operational efficient digital technologies to build differentiating capabilities

**Operations and Inventory Management**
- Supply-Chain Tracking and Monitoring
- Blockchain
- Internet of Things

**Core Business Systems**
- Enterprise Resource Planning
- Customer Relationship Management
- Analytics

**Automation**
- Financial process automation
- Robotic process automation
Supply-chain tracking and monitoring are tools used for managing operational activities and controlling the supply chain.

Blockchain is a digital, distributed, public ledger that records transactions between two parties.

Internet of Things (IoT) is a network of technologies that connect the physical world to the digital world. (i.e. sensors)

**Current Usage**

<table>
<thead>
<tr>
<th>People</th>
<th>Process</th>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>19%</td>
<td>47%</td>
<td></td>
</tr>
<tr>
<td>9%</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>9%</td>
<td>35%</td>
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</tbody>
</table>

**Key Triggers**

1. Lack of visibility throughout operations and supply chain
2. Uncertainty of product-level or customer-level costs or profitability
3. Manual and paper-based processes
4. Limited insight into key metrics

**Key Benefits**

- Increased visibility and accessibility to data
- Improved communication between stakeholders
- Enhanced performance metrics
- Lower delay in processes and raised output
- Reduce manual and paper processes
- Save time and reduce costs
- Decisions driven by real-time data
- Improved transparency and auditability
- Secure access to end-to-end supply chain information
Adopting technology for digital operations (3 of 4)

**ERP, CRM, and Analytics**

**Enterprise resource planning (ERP)** is a software that integrates core functional areas of a business into a single system.

**Customer relationship management (CRM)** is a system that manages relationships and interactions with customers.

**Analytics** is a technology that can identify and analyze data into meaningful patterns / trends information.

<table>
<thead>
<tr>
<th>Current Usage</th>
<th>Over the next year</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>71%</td>
</tr>
<tr>
<td>58%</td>
<td>81%</td>
</tr>
<tr>
<td>48%</td>
<td>78%</td>
</tr>
</tbody>
</table>

**Key Triggers**

1. Disjointed IT environment; functionality gaps
2. Systems are not scalable for growth
3. Business decisions are not made in a strategic way; no strategic sourcing
4. Losing market share to competitors

**Key Benefits**

- **People**
  - Improved customer experience and relationships
  - Better decision making; powerful business insights
  - Increased collaboration amongst business functions

- **Process**
  - Easier regulatory compliance
  - Streamline business processes
  - Better resource utilization

- **Technology**
  - Improved visibility; enables single source of truth
  - Enhanced data security and user controls
  - Reduced cyberattacks through risk analysis
Adopting technology for digital operations (4 of 4)

Automation

Financial process automation is a tool used to streamline financial complex, manual, and repetitive accounting processes.

Robotic process automation (RPA) is a type of software that mimics process tasks completed through human interactions within an IT environment.

Current Usage

<table>
<thead>
<tr>
<th></th>
<th>21%</th>
<th>6%</th>
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</table>

Over the next year

<table>
<thead>
<tr>
<th></th>
<th>66%</th>
<th>28%</th>
</tr>
</thead>
</table>

When to use Automation

1. Rule-based process (no human decision required)
2. Digital trigger initiated process supported by digital data
3. Functioning and stable process
4. High-volume process

Key Benefits

<table>
<thead>
<tr>
<th>People</th>
<th>Process</th>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enables departments to focus on value-added work</td>
<td>Decreased cycle times and improved throughput</td>
<td>Eliminates data silos; enables single source of truth</td>
</tr>
<tr>
<td>Improved employee morale; reduces mundane processes</td>
<td>Lowers operational risk</td>
<td>Improved internal data controls; clear audit trail</td>
</tr>
<tr>
<td>Improved accuracy; Reduces human error</td>
<td>Reduce costs and waste</td>
<td>Improved data security</td>
</tr>
</tbody>
</table>

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Optimize operations while managing risk (1 of 6)

Steps to embracing digital solutions needs to be part of your digital framework; looking at how data is managed through various technologies and how risk is mitigated in the process.

1. Proactively implement security and controls as you implement technology
2. Develop and deliver a data governance program
3. Evolve talent to keep pace with technology
4. Implement a corporate digital governance framework
5. Recognize the importance of managing third-party risk
Optimize operations while managing risk (2 of 6)

Proactively implement security and controls as you implement technology

• Security is of top concern for CIOs and CISOs related to the use of technology to manage data

• Organizations must perform security risk assessments, develop user policies, build device-based policies and provide continual education to help mitigate breaches

• Breaches will lead to reputational harm to the organization

In a recent RSM survey, executives disclosed that they are experiencing more data breaches. In fact, the number of middle market companies reporting breaches has more than doubled in the last three years, with 13% of businesses in 2018.
Optimize operations while managing cybersecurity and risk (3 of 6)

2 Develop and deliver a data governance program

• Increase in operational efficiency is a direct result of voluminous amounts of data produced as a result of investing in new technologies

• Data can...
  • Provide unique insights into risks and the effectiveness of controls
  • Dramatically improve the effectiveness of compliance
  • Be used to continuously monitor business and financial transactions
  • Highlight issues before they escalate into damaging problems

• Data governance is critical
Evolve talent to keep pace with technology

- Rapid changes of emerging technologies is reshaping talent acquisition
- It is critical to have the right tech professionals to use technology
- Skilled, experienced resources needed to achieve your risk, compliance and assurance objectives
Optimize operations while managing cybersecurity and risk (5 of 6)

4 Implement a corporate digital governance framework

- Vulnerabilities that companies face in a digital environment are complex and expanding
- Costs associated with navigating these risks are significant
- To effectively manage the rapid improvement in technological capabilities, organizations need to consider a corporate digital framework
Optimize operations while managing cybersecurity and risk (6 of 6)

5 Recognize the importance of managing third-party risk

- This area is often overlooked, but many third parties store, process, access and transmit potentially sensitive data. Therefore, companies need to make sure that this information is protected when using third parties, such as cloud providers.
Do more with less (1 of 6)

Company’s Implementation Plans for Tools and Technologies

<table>
<thead>
<tr>
<th></th>
<th>RPA</th>
<th>Financial Close</th>
<th>Planning and Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will never consider</td>
<td>2%</td>
<td>6%</td>
<td>22%</td>
</tr>
<tr>
<td>Will consider implementing in next 12 months</td>
<td>71%</td>
<td>45%</td>
<td>34%</td>
</tr>
<tr>
<td>Will consider implementing 13-24+ months</td>
<td>2%</td>
<td>21%</td>
<td>39%</td>
</tr>
<tr>
<td>Currently using</td>
<td>2%</td>
<td>21%</td>
<td>33%</td>
</tr>
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![Image showing percentage distribution of tools and technologies implementation plans.]

- Streamline and automate; increase productivity, efficiency and standardization
- RPA can bring more efficiency to almost any business process, with greater accuracy and extensive analytics capabilities
- Employees can be more engaged in their value-added activities which leads to increased job satisfaction and reduced employee turnover

24/7

ROI
30 – 200%

Costs
25 – 50%

Reduced Employee Turnover
Do more with less (2 of 6)

**Process Automation**
- Travel & Expense
  - CONCUR
  - certify
  - Tallie
- AP Automation
  - avidxchange
  - Bill.com
  - mineraltree

**Financial Close**
- Blackline
  - Automated journal matching
  - Account reconciliation
  - Workflows & alerts

**Planning and Reporting**
- Adaptive Insights
- host analytics
- Prophix
- BI360
Do more with less – robotic process automation overview (3 of 6)

- **RPA Benefits**
  - Increased Productivity & Efficiency – Focus employees on higher value activities
  - Scalability and Flexibility - replicate robotic tools across geographies/business units
  - Accuracy - Robot’s don’t make mistakes or judgement calls, and they don’t get tired
  - Cost Savings – automation quickly reduces administrative and back office costs for fast ROI
RPA technologies are more effective when leveraged alongside structured, repeatable tasks. According to a 2017 survey from Gartner Research:

- Workers surveyed categorize 35-41% of their daily work as routine
- 32-37% of work is a mix of routine and non-routine

Manual aspects of non-routine processes can be also be automated to reduce the number of touchpoints required to complete.

Do more with less – automation use case (5 of 6)

**Before RPA**

**Standard Invoice Processing**

**Finance Manager**
- Receive Invoice
- Download & Read Invoice
- Invoice Exception?
  - No
  - Yes: Update Excel
- Straight Through Processing?
  - Yes: Invoice Approval
  - No: Check Accounting System for Bill
- Bill Received?
  - Yes: Invoice Matched to Bill
  - No: Process Payment

**Accounts Payable**
- Receive Invoice
- Download & Read Invoice
- Check Accounting System for Bill
- Invoice Matched to Bill?
  - Yes: Create Bill
  - No: Invoice Matched to Bill?
- Mark Bill for Payment
- Review / Approve Bill
- Matching Issue?
  - Yes: Review / Approve Bill
  - No: Process Payment

**Key Pain Points**
- Many manual tasks, mostly repetitive and mundane
- Shadow IT
- Longer cycle times
- Service level agreement (SLA) violations
Do more with less – automation use case (6 of 6)

After RPA

Automated Invoice Processing

Key Benefits
- Improved accuracy
- Flexibility and scalability
- Decreased cycle times and improved throughput
- Enables departments to refocus on value-add activities
- Detailed data capture
ORGANIZATIONAL READINESS

How companies approach digital transformation planning and implementation (e.g. agile, iterative, proof of concepts, partnerships, tools, culture, process)
A recent RSM survey states that over the next three years 86% of companies expect the amount of investment in operational efficiency technology to increase.

What does the level of investment in your organization look like?

- Increase: 86%
- Decrease / Unchanged: 14%

How do your digital operations measure up to your competition?

- Leading: 40%
- At Parity: 50%
- Lagging: 10%

A recent RSM survey states only 40% feel they are leading in the area of operational efficiency with 50% at parity with their competitors.
36% Recent RSM survey states that 36% of CFOs expect their role to expand as a result of current trends in digital transformation at their company.

**Anticipated role change**
- More governance of large marketing investments
- More involvement in data analysis design
- More attention to “change management” capabilities
- More consensus building, educating stakeholders of required digital investments

**Anticipated responsibility change**
- More oversight of human-centered designers
- Greater data analysis responsibilities
- Bigger driver of new ideas, business planning and/or new thinking within the organization (culture of innovation)
**Key Operational Efficiency Takeaways**

Companies over the next 3 years are **increasing** spending operational efficiency technologies.

**Educating** employees about DT stance and strategies can help your organization maintain a consistent and secure digital framework.

Alignment of people, process, and technology with corporate strategy can ultimately translate into **big impacts**.

Taking steps toward digital transformation **does not** always carry a **huge expense**, going digital may mean being thinking about doing different things.

Understand **potential solutions** and how they can align with your organizational goals, as well as the **potential challenges** that can come with change.
What’s next

• Remember you are not alone – most firms give themselves a C+ for their digitization efforts*
• Define what “digital” means to your organization
• Start with small incremental steps to fund larger initiatives
• Focus on: leadership, ideas, velocity

“Five key technology trends for 2018
1. Having digital capable leaders
2. Taking the reins on data and analytics
3. Growing confidence in the cloud
4. Continuing the quest for automation
5. Execute on your digital strategy”

Drew Faries, RSM Technology & Digital Leader

*“How Digital are You?”, A Report from the National Center for the Middle Market and Magento
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