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For more than two decades, businesses around the world have engaged in a furious battle to woo customers by using digital technology to transform front-end operations. The result has been extraordinarily easy-to-use websites and mobile apps that let people bank, shop, and enjoy entertainment when and where they like. But the most successful organizations have also invested enormous resources in digitally transforming the back-end functions that support those customer-facing operations—supply chains, production and fulfillment operations, accounts payable and receivable, and more. They recognize that without equal capabilities, the back office has the potential to handicap and eventually torpedo all the hard work on the front end of the business. And they perform better financially. FIGURE 1

Put another way, companies that make it fast and easy for customers to shop—but don't make it fast and easy for customers to take delivery of what's been ordered or get service after the sale—risk alienating their customers and sabotaging their bottom line. And that requires making back-office functions as digitally sophisticated as those up front.

"Things like processing times and fulfillment are part and parcel of the customer experience," says Melissa Swift, senior client partner at management consulting firm Korn Ferry. "They're not separable from front-office operations. And I think customers are often shocked by how poorly those back-office functions perform, whether in terms of products being out of stock, deliveries being late, refunds taking too long to process, or customers having to identify themselves multiple times to multiple people on the same phone call."

In Swift's view, there's no longer any place in today's digital world for the back office to hide. "If anything, its failures are more visible because companies have invested so much in making their front-office operations better," she says.

To some degree, the problem may be that some businesses fail to appreciate just how much goes into the overall customer experience after a purchase has been made.
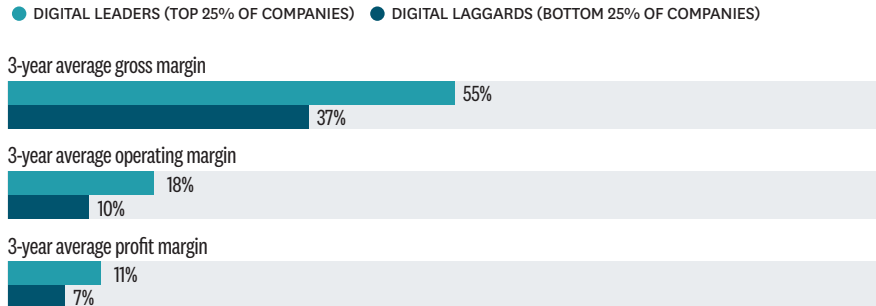
DIGITAL LEADERS OUTPERFORM LAGGARDS ON KEY FINANCIAL METRICS

Results based on 2012-2014 data from 344 companies listed on U.S. stock exchanges

● DIGITAL LEADERS (TOP 25% OF COMPANIES) ● DIGITAL LAGGARDS (BOTTOM 25% OF COMPANIES)

3-year average gross margin
55%
37%

3-year average operating margin
18%
10%

3-year average profit margin
11%
7%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JANUARY 2017

"The front end is the customer interface, not the customer experience," says Karen Cham, professor of digital transformation design at the University of Brighton in England. "As customers, we all know the customer experience travels across organizational silos and in and out of management tiers. We all know the experience of giving our identification information again and again at different stages of one call to one organization. This is a poor customer experience, and it reflects an absence of back-end integration."

Consequences for Failing to Act Can Be Enormous

Daniel Fürstenau, assistant professor of digital transformation and IT infrastructure at the Freie Universität in Berlin, Germany, says the ultimate price paid by an underperforming business can be monumental, as low levels of customer satisfaction lead consumers to take their business elsewhere, and bad word of mouth drives away potential new customers. Inevitably, he says, the problems manifest themselves not just in the form of lost revenue but also in the form of added costs. Inefficient back-office operations tend to be manually driven, labor-intensive places prone to human error, with employees constantly scrambling to put out the latest fire. The problems can even begin

to eat away at front-end efficiencies when employees, desperate to satisfy the customer, find themselves doing work that should have been handled by their back-office colleagues.

One needn't look far to find stories about companies that are struggling as a result of their decisions on back-office investment. A recent *Wall Street Journal* article looks at how outdated technology created problems for a multinational financial services firm. Citing more than a dozen current and former employees of the firm, the newspaper reported that "antiquated systems have made it difficult for the bank to meet the demands of regulators" monitoring the firm, and said the bank has "struggled with tasks like monitoring employee pay and building a new platform for financial advisers, hampering key businesses."[1]

Similarly, there are any number of companies that once dominated the retail landscape that have slipped into irrelevancy, if they've survived at all, by not keeping up with trends in e-commerce. A counterexample, says Fürstenau, is Hamburg, Germany-based retailer Otto Group, which successfully transitioned from selling via mail-order catalogs to selling over the internet. Today it is one of the largest online retailers in Europe, and second only to Amazon in online sales in its home country.[2] But Otto Group also has invested in behind-the-scenes technologies that make the customer experience more contemporary, and convenient, in its physical locations.[3]

The challenges and risks associated with underperforming back-office functions apply to companies of all sizes and in virtually all industries. Korn Ferry's Swift recalls the day she walked into her local coffee shop and found that it had installed self-service kiosks that customers could use to place orders—while other customers continued to order at the counter as usual. Unfortunately, the shop hadn't made any adjustments behind the counter, where employees were racing to keep up with the heavy order flow. "The lady I used to chat with as she made my bagel was running around sweating," Swift says. "When you make

changes, you should consider how it will affect your employees and your customers. In this case, the impact wasn't good for anybody."

Operating in a much larger environment, consumer credit-reporting agency Equifax knew it had to make further investments in back-office operations when the convenient customer experience it offered online wasn't matched by other areas of the business. "Let's say someone called in to us but couldn't answer a question we were using to authenticate who they were," says Anthony Weeks, Equifax's senior vice president for U.S. consumer care. "That person would have to mail us documents, which then went through a very cumbersome manual process of data entry, scanning, printing, and storage. It was really unproductive at our end, and it limited how quickly we were able to respond to consumers."

For some companies, Fürstenau says, problems in the back office may reflect a failure to guard against inertia. "Some companies get themselves into a trap where they are dependent on vendors or technologies that are outdated, but are so important that the companies feel they can't decommission them," he says. One way to avoid that going forward, he says, is for businesses to continuously monitor their IT landscape for opportunities to improve. They also can try to work with digitally agile vendors and partners, and search out cloud-based IT solutions, for which constant updating is the norm.

How Companies Can Pivot to Back-Office Brilliance

In the meantime, the more immediate imperative is to apply to the back office many of the same technologies now deployed in sophisticated front-end operations. Using tools like robotic process automation, artificial intelligence, and sophisticated data analytics, companies can automate processes, identify problems with products or services before they become widespread, and map the customer journey to identify opportunities for improvement. In doing so, they can boost their
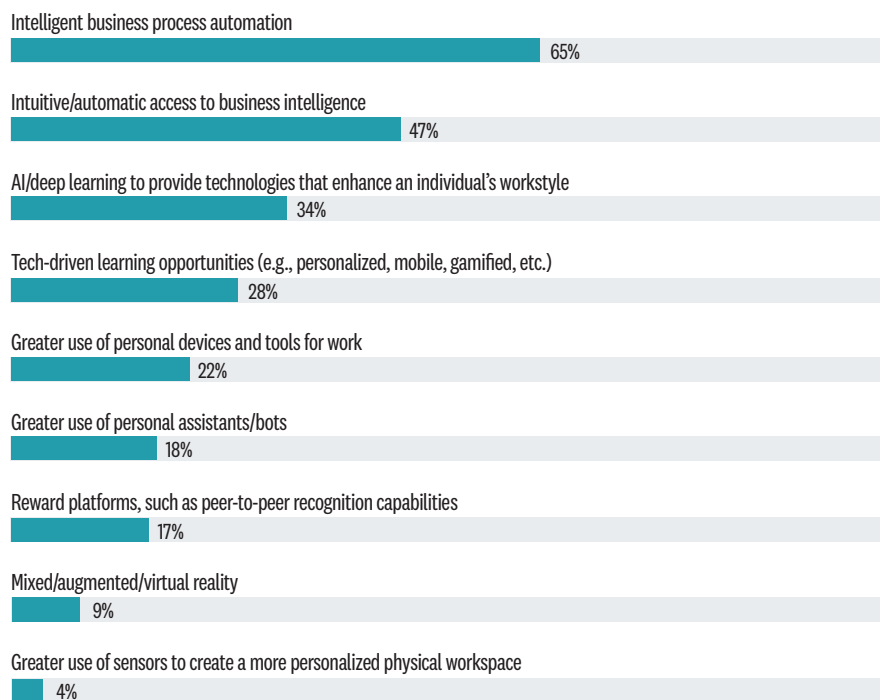
efficiency and deliver the types of experiences customers increasingly want and expect. Indeed, executives in one recent survey identified intelligent business process automation as the technology most likely to drive productivity gains in their industry over the next three years. FIGURE 2

It's not, of course, simply a matter of buying the latest software or hardware. To realize maximum value from the undertaking, experts say, companies should approach digital transformation not as a series of initiatives undertaken in functional silos, but as a coordinated and holistic overhaul of their operations. "It's about understanding where the value is in your business and where you can harness technology to boost efficiency, improve the customer experience, and enhance value," says the University of Brighton's Cham.

FIGURE 2

PROCESS AUTOMATION IS KEY TO PRODUCTIVITY IMPROVEMENTS

Process automation could lead to performance gains that benefit businesses and their customers.

Intelligent business process automation
65%

Intuitive/automatic access to business intelligence
47%

AI/deep learning to provide technologies that enhance an individual's workstyle
34%

Tech-driven learning opportunities (e.g., personalized, mobile, gamified, etc.)
28%

Greater use of personal devices and tools for work
22%

Greater use of personal assistants/bots
18%

Reward platforms, such as peer-to-peer recognition capabilities
17%

Mixed/augmented/virtual reality
9%

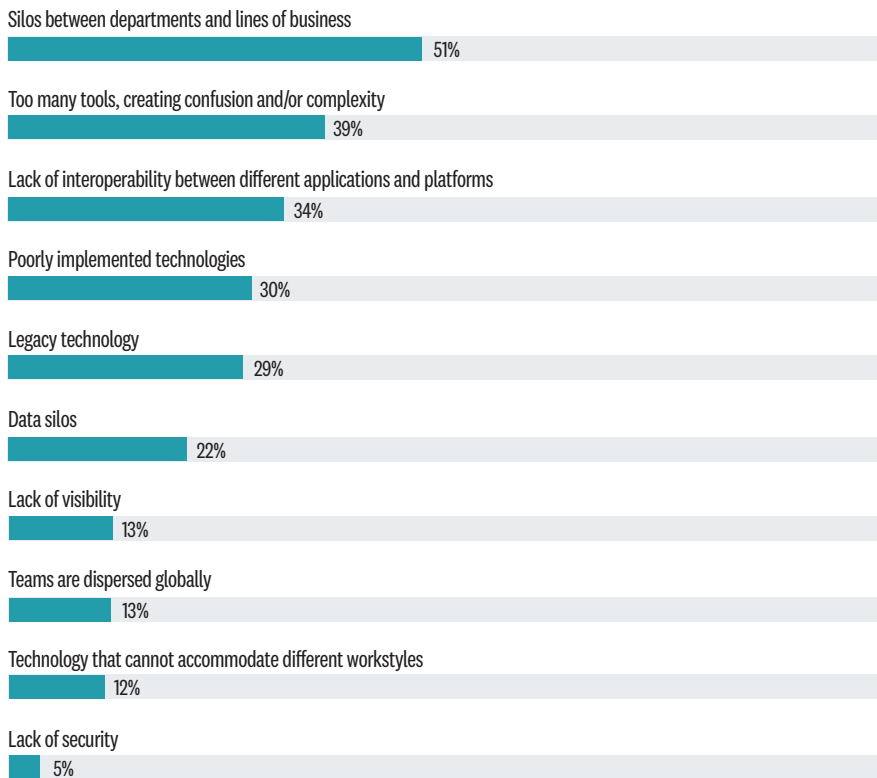Greater use of sensors to create a more personalized physical workspace
4%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JANUARY 2020

FIGURE 3

SILOS ARE THE TOP HURDLE TO IMPROVING COLLABORATION AND WORKFLOWS

Piecemeal or siloed attempts at digital transformation could compromise results.

What are the biggest impediments to improving collaboration and workflows at your organization?

Silos between departments and lines of business
51%

Too many tools, creating confusion and/or complexity
39%

Lack of interoperability between different applications and platforms
34%

Poorly implemented technologies
30%

Legacy technology
29%

Data silos
22%

Lack of visibility
13%

Teams are dispersed globally
13%

Technology that cannot accommodate different workstyles
12%

Lack of security
5%

SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JANUARY 2020

In the same survey cited earlier, executives identified silos between departments and lines of business as the biggest impediment to improving collaboration and workflows—which is critical to delivering for customers— at their organizations. Legacy and poorly implemented technologies, as well as systems that don't talk to each other, also ranked high on their list of impediments to better performance. FIGURE 3

Undertakings of this order of magnitude also require buy-in from employees, who may have to adapt to new processes and job responsibilities. Gaining enterprise-wide support requires a strong endorsement and example from the C-suite, and

alignment among the entire leadership team on digital transformation and its goals. "Someone at the top of the chain has to understand what the undertaking means and lead on this digital-first transformation of the value chain," Cham says.

At companies that don't have the insight, experience, or bandwidth to take that on, it can make sense to partner with a third party that specializes in digital transformation and can lead the initiative, whether that involves helping the company transform internally or providing digitally enabled back-office services on an outsourced basis, or some combination of both. That's what privately held medical equipment manufacturer DJO Global has done as it has sought to revamp its operations for the digital world. Prior to undertaking a transformation, it had been wrestling with non-standardized processes that led to duplication of effort, unnecessary mistakes, and a lack of consistency in work output, all leading to excess costs and, in some cases, irritated customers.

"Our core competency is manufacturing and selling durable medical equipment and surgical implants that help patients improve their health," says Gordon Briscoe, chief financial officer for Dallas, Texas-based DJO Global. "We're not in the business of redesigning call center protocols or creating automated ways to run accounts payable—even though those things are extremely important to us and have to operate efficiently."

To improve its back-office operations, then—without making a significant internal investment in what it considered noncore activities—the company in late 2016 engaged a third party that had expertise in those areas. "Had we tried to do it all ourselves, I don't think we would have gotten halfway to where we are now," Briscoe says.

Just in the finance function, Briscoe reports, DJO has now standardized, documented, and automated many of its processes and learned to communicate better with vendors

and customers. Among other things, that's resulted in improved working capital metrics such as days sales outstanding and reduced invoice discrepancies. Automating processes also has allowed DJO to create robust dashboards that let executives manage the business more effectively on a day-to-day basis and to reduce the time it takes to close the books each month to five days or less, down from seven. And the company continues working to make further improvements.

Equifax also partnered with a third-party provider to jump-start the digital transformation of its back-office operations. In addition to outsourcing some functions, it has been streamlining and automating internal processes. Rather than manually entering information about fraud referrals from other credit reporting agencies, for example, it now uses robotic process automation and optical character recognition to handle that work electronically. Rather than forcing consumers to mail in documents to authenticate their identity, and then processing that paperwork manually, the company is letting customers authenticate their identity by digitally uploading photos of themselves and their driver's licenses via smartphone. Document processing that once took two to three minutes per document, Equifax's Weeks says, now takes just a couple of seconds. And signing up consumers eligible for free credit-monitoring products now takes two minutes rather than 15. The overarching goal has been not only to create efficiencies and save money, but also to deliver an improved customer experience.

Overcoming Implementation Challenges

Executives who've already embarked on the digital transformation of back-office operations offer several tips for making the process as smooth and effective as possible.

Know what you're trying to achieve, and make sure leadership is aligned. If you're not clear on the desired end state, Swift points out, you're unlikely to reach it. Nor are you likely to succeed

> "It's about understanding where the value is in your business and where you can **harness technology to boost efficiency, improve the customer experience, and enhance value**," says Karen Cham, professor at the University of Brighton.

if all the members of your leadership team are not knowledgeable about, and supportive of, the undertaking. The Freie Universität Berlin's Fürstenau also recommends that companies guard against centralizing the entire digital transformation initiative within the IT department, and instead make sure that business units where new technology will be used play an integral role not only in its selection and implementation, but also its ongoing supervision.

Understand and map your manual processes first. Trying to automate manual processes that aren't documented and haven't been optimized jeopardizes the exercise. Experts suggest companies write down their manual processes in rigorous detail, including all data inputs, and develop step-by-step process "maps" to guide the effort and build in the capability to respond to all possible variables. As Weeks points out, most organizations have lots of manual processes, often handled for years by individuals with intimate knowledge of the nuances of their work—capabilities that aren't easily replicated by a software bot. "In our case," he says, "we sat and watched agents for hours to see what kinds of challenges they came up against and think about how a bot would handle them."

By way of example, Weeks explains that optical character recognition may work fine for converting a typed paper document into digital form, but could grind to a halt when someone sends in a handwritten correspondence.

AT EQUIFAX, SIGNING UP CONSUMERS ELIGIBLE FOR FREE CREDIT-MONITORING PRODUCTS NOW TAKES TWO MINUTES RATHER THAN 15.

How easyJet Eliminated a Back-Office Liability

By the time John Leighton joined European airline easyJet as head of customer service in 2016, the company's innovative mobile app for booking and boarding flights had already been winning awards. Not so for some of its back-office operations, which were costing the company money and goodwill. Of immediate concern for Leighton were the company's manual processes for handling customer claims relating to delayed flights. Under European law, passengers whose flights are delayed more than three hours—absent bad weather or other extraordinary circumstances—are entitled to compensation ranging from €200 to €600. At easyJet, it was taking an average of 88 days for those customers to be paid, often after making multiple calls to the company to find out what had happened to their money. Customer satisfaction ratings for customer service stood at about 39%.

To address the problem, Leighton worked with a third-party service provider to automate many of the processes in the claims journey. Today, its new digitally enabled processes deliver refunds in an average of 2.7 days. Customer satisfaction ratings for the customer service function have nearly doubled, taking them from the lowest for any part of the company to the highest. Customer claims for delayed flights are down, too, in part because easyJet has employed digital technologies to improve other back-end operations and minimize aircraft downtime. EasyJet is using drones to conduct visual inspections of planes and report on issues that need to be addressed, for example. It is using 3D augmented reality technology to let remote engineering teams equipped with virtual reality glasses see exactly what a pilot or engineer sees in real time. This lets easyJet resolve issues faster. The airline also has entered into a predictive maintenance program with a third-party provider that allows easyJet to replace airplane components before a fault occurs, minimizing service disruptions.

"The easy part of digital transformation is always doing the front end," Leighton says. "But if you can't actually deliver what you've promised the customer, those front-end improvements won't deliver full value."

In a real-world example, he adds, a large bank recently changed one of the codes used on forms it sends to Equifax without advising Equifax of the change. Because the bot performing the task didn't recognize the new code, it stopped processing the forms.

Have backup plans. As the examples above illustrate, some problems will inevitably crop up in a digitally enabled back office despite the most thorough planning efforts, throwing a wrench into automated processes. At Equifax, Weeks and other executives trained in Six Sigma process-improvement techniques try to identify in advance every way a process could fail, determine what would be the root causes of those potential failures, and implement procedures for avoiding them—and then plan for how the business would react if they happened anyway. By

knowing in advance how they will respond to failures, companies can minimize downtime and the impact on the customer experience.

Plan for how new technologies will impact your workforce. When manual work is shifted to machines, there is always the potential for job losses—a sensitive topic that can bear on public perception and employee satisfaction, even among workers who aren't displaced. Digital transformation veterans suggest that companies know in advance whether they want changes to be headcount neutral, which may impact which technologies and techniques they apply to their operations. Whatever the intent, they add, companies should try to anticipate how their workforce will be affected by changes, which will inform not only their operational plans but also communications with their employees. That applies for employees who may be displaced as well as for those who remain, since morale among the latter group also may be compromised. Some organizations may find it prudent to engage in reskilling portions of their workforce.

Going hand in hand with planning for workforce impact is preparing to manage the pushback likely to come from some employees resistant to change. Companies that haven't already created a culture of innovation may have to work particularly hard to get support. "I work with large organizations where I see people trying to hold on to manual administrative processes because they want to hold on to their jobs, not realizing they run the risk of sinking the whole organization," observes Cham.

Consider upskilling challenges for both frontline workers and managers. When employees stay on the job following a digital transformation but then find themselves working in concert with software bots or other new technologies, they may be obliged to operate with a higher level of business sophistication and insight. And that can require training. Similarly, business leaders accustomed to overseeing a workforce engaged in highly manual activities may need

Only a partner that's done it themselves **can truly appreciate the challenges and opportunities** another organization may be facing, and have the capabilities needed to help that organization meet its objectives.

to upscale their own leadership capabilities once they're overseeing employees who are performing more complex and higher-value tasks.

To help train workers in some of its new processes, DJO Global recorded every step in the workflow—every keystroke and every click of the computer mouse—using an automated tool from its third-party partner. The tool then transformed that record into a training video for employees. "It's a massively important and beneficial teaching aid," says DJO's Briscoe. "I throw that into the digital transformation bucket because you're utilizing digital tools to achieve something that typically would only be done by two people sitting at a desk with one training the other."

Choose the right external partner.
Few companies have the resources or expertise to undertake significant digital transformation initiatives entirely on their own. When looking for a third-party expert, whether to assume the responsibility entirely through an outsourcing arrangement, assist in a consultative capacity, or provide some combination of both, be sure to choose one that's already digitized its own back-office operations and intimately understands both the opportunities and the pitfalls. Only a partner that's done it themselves can truly appreciate the challenges and opportunities another organization may be facing, and have the capabilities needed to help that organization meet its objectives.

"It's incredibly important, because customers don't distinguish between you and your partners in the same way they don't distinguish between your front office and your back office," says Swift. "Let's say your customer has ordered something that needs to be physically shipped to them and doesn't arrive. You are the party they're interacting with, not some vendor you've selected to help with your fulfillment obligations. The customer doesn't care about that. You are who they bought the item from, and if your partner fails them, the customer will consider that you have failed them."

"We're definitely strategic when selecting partners," agrees Weeks. "If they haven't done it themselves, we won't partner with them. It's critical that they have that experience and expertise internally, because otherwise they can't really appreciate what we need."

Briscoe, too, considers it important to vet the experience of external partners before signing on to work with them. "When you have a similar perspective and point of view on how valuable digital transformation can be, you have the ability to go and explore a lot more opportunities in whatever areas you're addressing than you would have if one party was just not that interested in it, or hadn't embarked on it themselves," he says.

Conclusion
After years of effort aimed at digitally transforming customer-facing operations, businesses need to devote similar resources to transforming back-office operations if they're going to keep pace with growing consumer expectations.

Swift concurs. "Consumers already have high expectations about front-office performance, and, for the most part, companies are meeting those expectations," she says. "Now, a lot of the consumer's anxiety and anticipation revolves around how well the back-office pieces work behind that. And that's where companies need to devote more of their attention."

The benefits will be twofold. In addition to improving the customer experience, companies can streamline manual operations, improve the accuracy of their operations, and reduce their costs. "It can be very liberating," says Briscoe. "It can transform a company in many different and positive ways."

At the end of the day, the core promise of seller to buyer is this: We will deliver what we promised. Companies that ignore the back office in a digitally enabled world will find it increasingly difficult to honor that pledge.

Endnotes

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