

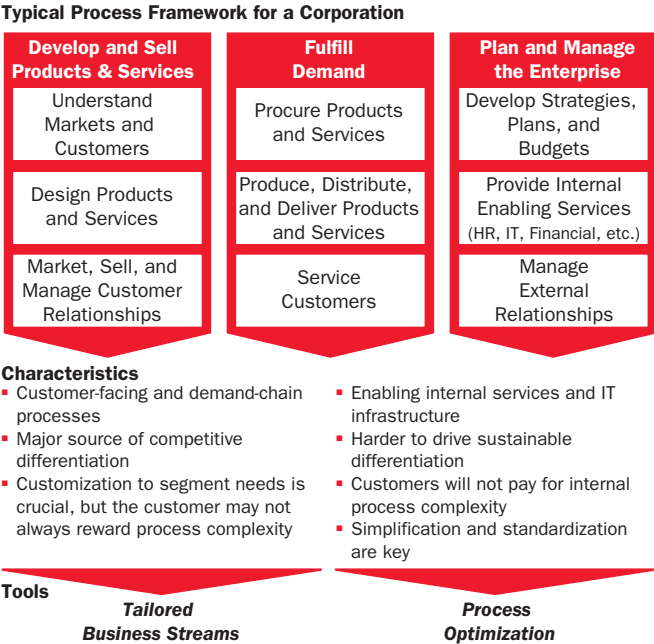
A New Take on Business Process Redesign

The Customer Perspective Prevails

As the economy shows signs of a turnaround, corporations are directing their focus to capturing growth in the upturn. Unlike the 1990s, however, growth in the near term is likely to be organic rather than acquisition-driven, prompting a number of companies to reconsider their operating model. Product-focused organizations are becoming more customer-centric and finding that their current processes cannot deliver on new market requirements. So, once again, companies are reevaluating and redesigning their business processes—both customer-facing and non-customer-facing (see Exhibit 1)—in search of increased customer value, as well as internal efficiency. This new round of business process redesign (BPR) can be distinguished from previous attempts by its three defining attributes: 1) It differentiates processes based on customer profitability and cost to serve; 2) It occurs within the context of an overall organizational change; and 3) Today’s BPR is built on sustainable behavior change.

The business process reengineering approach popular in the mid- to late-'90s may have delivered on the initial cost reduction front, but it is ill-equipped to evolve with new market requirements. Much of the BPR work implemented then rode on the crest of the ERP wave—in other words, “big bang” technology-led initiatives—and so was overly focused on standardization and one-size-fits all solutions. As a result, processes failed to evolve flexibly as customers’ needs became more differentiated and their expectations grew.

Exhibit 1
Today’s BPR Distinguishes Between Customer-Facing and Non-Customer-Facing Processes



Source: Booz Allen Hamilton

Moreover, the last round of BPR failed to take sufficient account of the organizational and people factors that lead to true behavioral change. While processes were reshaped, accountability was not institutionalized. There was plenty of talk about process owners and “cascading” change, but decision rights, coordination mechanisms, governance structures, and other organizational elements were not explicitly addressed until later, if at all. Process efficiency trumped organizational alignment. Consequently, the substantial savings realized often quickly dissipated.

The new approach to BPR addresses these shortcomings in three key ways:

1. Companies are **differentiating processes** and analyzing them in the context of customer profitability and cost to serve, as well as opportunities for greater standardization.
2. **Organizational change** efforts are being introduced very early in the transformation, and process redesign is often undertaken as a means to enable the new focus. For example, many companies are currently making an organizational shift from product to customer orientation and then redesigning processes accordingly.
3. Management is far more focused on the front end with creating a culture that enables and motivates **sustainable benefits**; they are proactively managing cost and complexity to prevent their creeping back after the changes are implemented.

Process Redesign: Tailored Business Streams

In partnership with our clients, Booz Allen Hamilton has developed a differentiated approach to business process redesign that not only captures the benefits of scale across the enterprise, but enables differentiation.

Our approach starts with the view that every organization has two distinct types of processes—customer-facing and non-customer-facing—with different characteristics (See Exhibit 1, Page 1). While many of the principles, tools, and lessons of BPR apply to both, the details of implementation will vary. The immediate priority for many companies in the current environment is redesigning their customer-facing processes. The first step is developing a superior understanding of the customer experience by identifying and quantifying cost-to-serve and complexity drivers.

At Booz Allen, we use an approach called Tailored Business Streams, which helps companies identify and isolate the sources of complexity in their business model. Once identified, complexity can be optimized such that scale is leveraged where it's cost-effective and customer solutions are tailored where profitable. The Tailored Business Streams approach comprises three fundamental steps:

Segment Customers: Develop a deep and actionable understanding of target customer segment needs. What is high priority versus low priority? What is necessary versus differentiating? What can the segment afford? Direct customer feedback is essential in

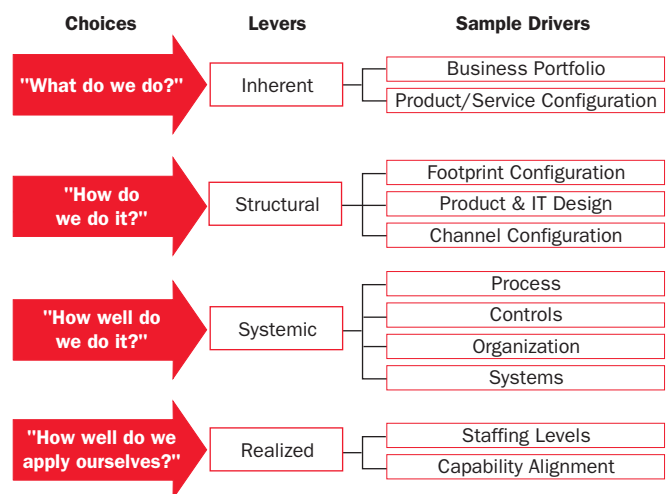
developing the necessary customer insight: Too many companies fall into the trap of assuming they know better than the customer. This exercise enables companies to distinguish common versus unique demand and build customized processes accordingly.

Understand Cost to Serve: Determine the supply-side cost to serve by looking at cost *drivers* rather than cost pools (see Exhibit 2). Historically, process redesign efforts have focused almost exclusively on realized and systemic drivers of cost, which resulted in an emphasis on improving efficiency and/or reducing spans and layers in the organization. However, most of these cost reduction opportunities are now exhausted; few organizations can “lean” their way to profitability by exercising realized and systemic levers alone. Organizations must now begin to focus on structural and inherent cost drivers, such as product and channel configuration, that offer the biggest benefit but also require the most difficult choices.

Develop Customer Solutions: Develop proposed value propositions for target customer segments and future-state designs that strike the right balance between customer-valued variety and cost to serve. Building dedicated front-to-back customer processes for each segment is most likely uneconomical. However, by standardizing shared and simple processes across segments, and tailoring a few critical, complex ones, it is possible to deliver a differentiated customer solution and, at the same time, drive down costs. In fact, companies who have pursued this type of “smart customization” have delivered 2% to 7% more in organic growth over three years based on our research.

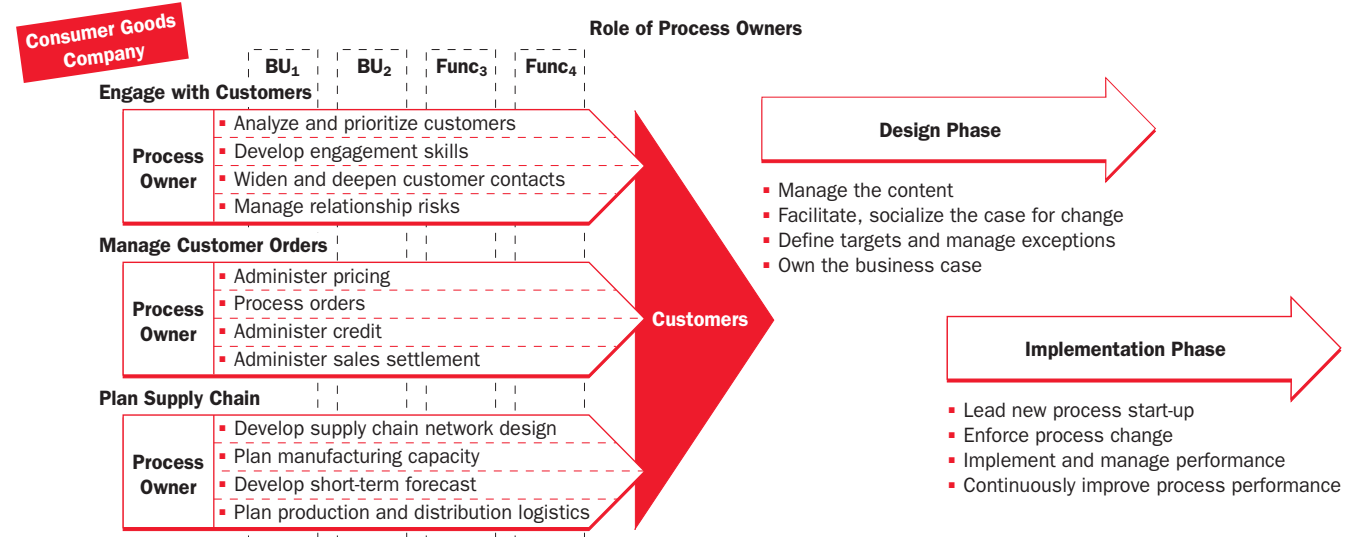
Exhibit 2

Disaggregating and Optimizing Cost-to-Serve Drivers



Source: Booz Allen Hamilton

Exhibit 3
Process Owners Ensure the Sustainability of Business Process Redesign



Source: Booz Allen Hamilton

For non-customer-facing processes, the fundamental challenge of differentiating capabilities while lowering cost to serve is similar. Here, however, the emphasis on process standardization and simplification is arguably more pronounced. Internal service providers need to define their core processes from the internal customer back and redesign them using measurable business value as the metric (i.e., the traceable impact on business profitability). It is imperative that the provider understand the value drivers of process performance and bring all options to the table, making cost-value trade-offs for internal business unit customers as transparent as possible. Here, too, Tailored Business Streams is a useful tool as are other lessons and methods, although the tolerance for costly customization is arguably lower. Companies are becoming more ruthless about eradicating complexity in support areas that customers don't value or won't pay for.

The Organizational Context: Sustainability

While Tailored Business Streams can help a company differentiate processes and isolate and optimize the complexity in them, it can't ensure the sustainability of process redesign benefits. Perhaps the key distinction between '90s BPR and today's is the current emphasis on the organizational and people changes needed to overcome initial resistance and denial and institutionalize positive change. Today's BPR does not occur in a vacuum; it takes place within an overall organizational change program that encompasses the following steps:

Align the Organization: In the old-school BPR, project managers were assigned to various processes

and their progress assessed based on hitting certain milestones. When the program wound down, so did their level of investment and enthusiasm. Today, BPR is woven into the redesign of the overall organizational model and process owners are business unit or functional managers who will have to "live" with the results of their efforts on an ongoing basis (see Exhibit 3). They are fully accountable and vested in the ongoing success of their process and the organization through measures and incentives. Organizational remodeling is about more than just lines and boxes; in fact, it's the nonstructural organizational elements that drive how processes are performed and how efficient they can be: governance, decision rights, measures, and incentives.

Manage the Change: As with any major initiative, begin the change process on Day 1, blending an analytic approach with a healthy dose of behavioral psychology. Symbols, war stories, and values can be every bit as motivating as hard data. Managing change on this scale is all about inclusion—early and often. It's about understanding what makes people change (e.g., soliciting their input rather than issuing edicts). Rather than cascading down changes made at the top, companies need to orchestrate them from the customer-facing operations on up. Process owners need to bring all options to the table and make cost/value trade-offs as transparent as possible. Line management can be involved to ensure that reengineering is grounded in measurable improvements to business profitability. In this way, the new wave of BPR lays the foundation for sustainability and continuous improvement.

Conclusion

Rather than being technology-led and stand-alone, the new generation of BPR is customer-led and integrated into the overall fabric of a new operating model. IT serves as a catalyst and key enabler, but is not a big bang transformation agent. In fact, just the opposite;

new BPR programs often precede and drive more focused IT renewals. The result is a wave of process redesign that can unfold more flexibly and rapidly to meet the ever-changing requirements of an increasingly diverse customer base.

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