The Digital Back Office
Are you *really* ready for digital?
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Digital platforms and products are fiercely expanding and evolving; pushing the boundaries of how we live, work and do business, while presenting significant opportunities to revolutionise the front office. However, your front office can only be as good as your back office and the ‘Digital Back Office’ is unique. Understanding the impact of digital throughout your organisation can make or break your digital strategy.
New frontiers: The rise of digital

The impact of digital products is hard to overstate
Digital has transformed the way we do business. We all know of the legend of Facebook – from dorm room to global domination in 5 years, with a company valuation that has quintupled in the last two and, perhaps, the most eagerly awaited IPO in recent times. Founded in February 2005 and bought by Google for $1.65bn in November 2006, YouTube traffic has surged so that now over two billion videos are watched every single day. Social media and digital content are key drivers for the huge growth in internet advertising spending, growing at 10% year-on-year.

New devices, taking content everywhere
But digital transformation isn’t just about these rising stars. It’s about the speed and breadth of digital platform change and the commercial opportunities this presents. In Q4 2010, smartphone sales outpaced PC sales for the first time. This surge in portable innovation is powering a shift in our view of content. Demand for mobile apps has led to an incredible 18 billion apps downloaded across the Apple iPhone and iPad platforms with the whole apps market enjoying 60% growth in 2011. And we want more – Harris Interactive found that 76% of the active apps users thought that all brands they interact with should have an app.

We don’t need our content in a box
Along with our shifting appetite for how we access content, come our shifting ideas about how we actually own it. Consumers are increasingly willing to reject the idea that a disc must be kept or a copy stored on a hard drive, instead consuming content and moving on in the next instant. Will we actually use huge personal hard drives in the future or will we rely on companies to deliver content wherever we are, whatever we’re doing?

Content as a business
New commercial models have been developed to cash in on this frenetic pace. A recent survey of the Apple App Store found that 34 of the top 100 grossing apps in the App Store were free to download, meaning that revenue was generated through in-app purchases – apps can be monetised. New subscription, pay-per-view and ad-supported models with differing levels of mobile and desktop access are beginning to dominate, and these have all been created in an attempt to turn the shift in consumer demand for digital content, into profit. It is working.

The complexity of the Digital Back Office
Unlike the technical innovation of the past there appears to be no de facto standard ecosystem in the digital world. The digital economy, with all its diversity, is ingraining complexity into an already complex environment. Also unlike the past, this complexity not only impacts products but also the business processes required to implement any long-term digital strategy. Ignore this and you’ll quickly find that your back office becomes a near impenetrable (and costly) web of strategic compromises, workarounds and inefficiencies. There is one common misconception: That any back office can cope with digital.

In Q4 2010, smartphone sales outpaced PC sales for the first time. This surge in portable innovation is powering a shift in our view of content.

1 ‘Interpublic sells half of its Facebook stake’, FT.com, 2011. See: http://www.ft.com/cms/s/0/3dc2fb0e-c74c-11e0-a9ef-00144feabdc0.html#axzz1aMdBdcWk
4 ‘Smartphones outsell PCs’, Telegraph, 2011. See: http://www.telegraph.co.uk/technology/mobile-phones/8316143/Smartphones-outsell-PCs.html
The digital journey is an exciting one. Just don’t leave your back office behind.
Out of sight, out of mind

With new business models seemingly born overnight it is easy to forget that these must be supported by your back office

Understandably, the immediate priority of any firm when implementing its strategy is with products, channels and markets. The breakneck pace of the digital world means that nearly all efforts are focused on breaking new ground or quickly expanding into space created by a new category.

An exceptional strategy must be supported by an exceptional back office and many firms do not realise that the Digital Back Office requires new expertise, processes and systems, and potentially a new operating model. Continuing to implement and ignore these facts quickly magnifies any pre-existing weaknesses and before long the digital strategy is jeopardised.

Digital demands:

- New types of relationships with content providers and a complex web of contracts.
- Faster end-to-end transaction processing times with significantly higher volumes and shorter product lifecycles.
- A view of product performance that is more varied and flexible than anything seen before.
- Increasing sophistication with analytics to drive customer group and market performance.
- A review of the adequacy of legacy systems to support digital business processes.
- A completely new type of supply chain requiring a robust transitional or multi-channel operations strategy.
- A bigger emphasis on Finance becoming partners in strategy formulation, feedback and adaptation than has ever been the case before.
- Effective controls to protect and secure your digital assets that do not inhibit growth.

The uniquely Digital Back Office

The following diagram shows the back office challenges/opportunities that should be considered when implementing a robust digital strategy. Each area is discussed further on the subsequent pages:
Your front office is only as good as your back office. Renewed thinking is required.
Digital Back Office challenges
Rights and royalties

**Challenges**

**Inventory of intellectual property:** Digital rights can be a tangled web of intellectual property owners and interested parties. How can you remain agile and leverage content if it’s difficult to know what content you own and who contributed to it?

**Legal vs. Product Development vs. Finance:** Contract innovation can also cause back office headaches. This can be a stifling factor for commercial teams who are restricted by agreements that your back office can handle. Does your back office work in partnership with your Commercial and Legal teams during deal formation? If they don’t know what’s coming then there are no guarantees they can handle it.

**Calculating royalties:** Even when you have a clear understanding of what you should be paying or receiving, when it comes to actual transactions, manual intervention and miscalculation are all too easy. Miscalculation is not only a significant liability in itself; it leaves you open to audit by your intellectual property suppliers and leaves you unable to challenge amounts your rights customers state as owing to you. This is the heart of the digital supply chain and getting it wrong can have serious, material consequences as well as reputational and financial consequences when reporting incorrectly to the tax authorities.

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**The ghost of digital future***

**Scenario:** A growing digital-only games company develops games for sale across several digital download portals and app stores. Games contain royalty-bearing content including code by sub-contracted developers and music by recording artists. They use a regular database package to capture agreements and hundreds of spreadsheets managed by a large team to calculate and reconcile liabilities owed to content owners.

**Strategic question 1:** On a % of actual sales basis, how do they reliably implement contracts that take into account reductions based on promotions and price cuts? Most of the time they simply can’t, and end up paying more than they otherwise could if they had the systems and data to negotiate better agreements.

**Strategic question 2:** How can they be sure that their complex system of calculations is correct and agrees with contract terms issued by Legal and that Product Development has used the correct IP? They can’t and if products or terms are incorrectly implemented, litigation, 3rd party audit and reputational damage are likely consequences.

**How they cope:** They effectively overpay royalties and throw teams of temporary staff at the calculation and reconciliations of royalties. They rely on a few key managers not to make mistakes that could cause reputational damage.

**What they could do:** They could introduce a royalties and rights management system as an inventory of intellectual property and contracts across the firm. The system’s calculation engine could take automated feeds from an ERP system, supporting reduced contract terms, eliminating wasteful use of Finance resources and preventing serious reputational damage as a result of miscalculation.

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*Mis*calculated is not only a significant liability in itself; it leaves you open to audit by your intellectual property suppliers and leaves you unable to challenge amounts your rights customers state as owing to you.

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**Answers**

In this area, experience goes a long way and both managing rights and automating calculations need not be intimidating. Imagine a world where contracts are systemised according to commercial requirements, where a central repository of rights is stored and linked to your product catalogue, and where all calculations are automated while correctly accounting for discounts and reductions, withholding taxes and VAT. We’re the market leaders at doing this for publishing societies and media companies and if necessary we could perform an audit of your royalties payable/receivable while improvements are implemented. These answers are applicable to all who deal with intellectual property.
Customer finance

Challenges
A crisis of confidence: Serving millions of consumers in a global, digital and infinitely flexible market is a daunting front-office prospect requiring extreme confidence in subscription billing, micro-billing and collections. This confidence is very difficult to build, and if an organisation is moving away from B2B as is often the case with digital, it is even harder to come by.

Upscale or outsource: This chain of reasoning manifests itself in two ways: 1) Bloated Customer Finance functions, diseconomies of scale and a poor financial experience for customers; and/or 2) Transference of risk to billing platform providers and relinquished control over part of the customer experience.

These efficiency and customer experience problems are not the end of the story either, because with a broken customer finance platform or one that is under the control of a 3rd party that key strategic asset is being diminished again: Your information, in this case customer analytics and performance data that is either not sufficient, summarised or not under your control.

Revenue assurance:
Inefficiencies and lack of control over your data are just one part of the problem. A lack of capability in billing and collections may result in the incomplete capture of revenue streams, leading to lost revenue and lost business. When customers, products, prices and contracts are propagated across several different front and back office systems, the risk of revenue leakage is particularly high.

Answers
It’s relieving to know that ERP vendors have made great strides in recent times, dealing with high volumes of transactions and customers taking digital subscriptions and on-demand usage products. Specialist billing platforms are also becoming easier to integrate using technology, and with clearly defined customer analytics data requirements and inbuilt flexibility, all options are able to support your strategy. We can also provide you with assurance that your revenue is being captured completely. We have experience with all of this and more.

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Serving millions of consumers in a global, digital and infinitely flexible market is a daunting front-office prospect requiring extreme confidence in subscription billing, micro-billing and collections.

*Hypothetical scenario for illustrative purposes only.*
Digital tax

Challenges

Tax position optimisation: Tax can deliver considerable savings to a digital business. The increasing shift from B2B to B2C has highlighted the gains when business models are optimised for tax, e.g. the flexibility to locate value added functions on a tax efficient basis. Also, have you optimised your tax position on intellectual property and maximised R&D tax credits? Both tax and digital environments change constantly. Ensuring the best fit is complex but rewarding.

Achieving compliance: As both the offering and the method of delivery changes quickly, a difficult environment is created for tax authorities to track liabilities and collect taxes. This results in highly complex tax issues that need to be addressed long before regulatory authorities scrutinise business models and transactions. How do you quickly ensure that compliance risks are addressed e.g. VAT liability of new products or withholding tax liabilities on cross border royalties? How well connected is your Tax function to the front office innovations taking place?

Cost of compliance: The cost of compliance can spiral sharply with a change in revenue model such as B2C with its high volume of low value transactions. How are corporate income tax, VAT and withholding tax activities executed in such an environment? Is your Tax function appropriately equipped to handle this? Significant penalty, resource and reputational costs are at stake if not.

Deloitte is at the forefront of ensuring that tax innovations are aligned to digital innovations by participating in consultations with governments, industry bodies and of course working closely with digital clients.

The ghost of digital future*

Scenario: A global games company develops and sells games across digital and non-digital channels. Its strategy is to focus primarily on B2C product and service delivery e.g. digital sales and subsequent downloadable expansion packs. Points/tokens will be used as virtual currency, which can be bought or earned online. This strategy is expected to be implemented in a relatively short timeframe.

Strategic question 1: How does this business define and put a value on the tax benefits that can be gained from this new business model and ensure that they are subsequently realised? Is the Tax function aware of all of the tax benefits that could be realised?

Strategic question 2: How does the business ensure that all tax risks of compliance are addressed appropriately in all of the relevant jurisdictions? Are the tax systems and processes in place to execute these business models while remaining compliant without significant manual effort and intervention?

How they cope: Not considering tax issues up front means that significant tax savings are lost, and compliance costs soar to prevent damaging tax audits and penalties.

What they could do: It is important that the business maximises tax benefits by considering appropriate IP locations, JV structures and favourable R&D regimes. They could therefore take appropriate advice about tax advantages that would be relevant to these and other digital business models. To prepare and reduce the cost of compliance they could enhance their tax systems and processes to provide accurate data and tax reporting.

Answers

As the digital environment changes, governments are supporting business growth with incentives such as R&D tax credits and beneficial tax income regimes. Deloitte is at the forefront of ensuring that tax innovations are aligned to digital innovations by participating in consultations with governments, industry bodies and of course working closely with digital clients. We assist digital businesses in optimising their tax positions for example with the location, ownership and use of Intellectual Property. We also help organisations align tax strategy with the business strategy by considering tax efficient VAT models and tax readiness for B2C. We have a wealth of experience in simplifying complex tax issues within digital.

*Hypothetical scenario for illustrative purposes only.
Performance reporting

With an expanding array of platforms and channels to market, are you capturing all of the information you need to assess which of your customers and products are more valuable and more profitable?

Challenges

Applying tradition to digital: Traditional, cumbersome and inflexible Business Intelligence models will not work with digital because it requires more agile thinking and instant access to insight. With an expanding array of platforms and channels to market, are you capturing all of the information you need to assess which of your customers and products are more valuable and more profitable? Are you confident you are even using the correct KPIs for digital?

External integration: How integrated are you with your digital business partners too? For example, when you’re relying on someone else’s platform to sell your digital products then you should expect to receive a certain amount of analytical data on a frequent basis within your own reporting. If you don’t, how quickly and effectively will you respond to what the market demands?

Multiple reporting platforms: How integrated is digital reporting within your own business? Are you able to access one version of the truth across all product, brand and customer groupings, or are certain lines of business treated separately or even reported offline? Can you confidently compare the performance of physical business with digital? The lack of a central core performance model covering all aspects of digital product, customer and channel reporting will prevent you from assessing your digital strategy fully and effectively.

Answers

Performance reporting technology, model design, usability, integration and agility has developed massively in recent years. Luckily a modern reporting environment is perfectly equipped for the digital explosion and Deloitte has been at the forefront of helping businesses to prepare. We’ve built world-class reporting platforms for digital clients and provide the full range of strategic insight, business analysis and supporting technical implementation. We excel at integrating the front and back office within a single performance management model.

The ghost of digital future*

Scenario: A major music label is embarking on a full digital strategy, covering online download platforms, cloud subscription and ad-supported music suppliers and music in the form of interactive apps on app stores. Its digital strategy is moving fast with the competitive landscape although its performance reporting solution is based on older ERP technology and lacks any of the data useful in the analysis of digital sales.

Strategic question 1: Which digital medium is the most profitable for a given artist and what is the financial effect on all mediums of the launch of a complementary app? The lack of a coherent reporting solution across traditional and digital mediums, and with a dated data model lacking the nuances of digital sales, digital must be looked at in isolation outside of the core reporting solution, with arbitrary splicing rather than cross-channel analysis.

Strategic question 2: What is the makeup of their digital customer base and how do these customer groups compare with physical sales? This company has limited internal reporting capability using data from their online platform partners and they cannot access core information needed for analysis of the transition to digital.

How they cope: They relinquish control to online platform partners due to their inability to force the agenda with their own analyses, and digital is treated as a separate concern from the rest of the business.

What they could do: A refresh of their performance reporting solution and supporting data structures is needed to properly integrate and support digital as a primary segment of their business. They could implement the tools to automate the import of 3rd party platform data, translated and presented in a way that’s useful for strategic analysis.

*Hypothetical scenario for illustrative purposes only.
Revenue and performance accounting

**Challenges**

**Development and cost accounting:** Cost versus benefit analysis forms the basis of any strategic decision, but what is the true cost of a digital product? Digital selling costs can be relatively straightforward but what about the true cost of development and launch and what if products are propagated across multiple platforms and in multiple formats? Add speed of innovation and decision making into the mix and cost accounting can become very difficult indeed.

**Revenue recognition and performance analysis:** How many days does your Finance function spend accounting for revenue when they could be providing insight? Revenue recognition is not as simple as timing either. In a world with umbrella subscription and mixed subscription/usage models, how do you know which components of a subscription are driving consumer demand and profitability? What are the revenue recognition rules for different digital products in different geographies? These questions don’t stop at single products either. Digital opens a whole new world of bundling and cross-selling due to the flexibility of virtual marketing, which in-turn further complicates revenue recognition and performance analysis.

**Digital as a segment, channel or product:** Digital strategies can ask a lot of Finance e.g. to account for digital as a segment, channel and/or product, while maintaining the traditional view of the business. For a global business this can be especially difficult when management responsibility is viewed along geographical lines in addition to product or segment oriented ones. Without a serious rethink of your management accounting processes, the task is extremely difficult and can cause compromised reporting and an ever-expanding gap in your core finance system. How does your Finance function cope now and how will they cope if you achieve your targeted digital growth?

**Answers**

With so much energy focused on the shifting digital marketplace it’s unfair to expect your Finance function to deal with these critical questions without some focus on the back office. We’ve been helping digital businesses do just that, providing answers and tools to cope with digital performance and revenue accounting. For instance, we can help simplify the allocation of revenues between periods, products and bundles in a way that increases relevance to the business. Modern technology and techniques are on your side and the issues above have become challenges, not barriers. You may be surprised by the insight Finance can provide in digital business.

**The ghost of digital future***

**Scenario:** A media company markets news apps across all major mobile app platforms and with content accessible online. The same news is available online and via mobile apps in a “linked” form and different levels of subscription allow tiered access to online vs. mobile content. Mappings between linked products across channels are managed outside of the core finance system because innovation has moved too quickly for them to catch up.

**Strategic question 1:** What is the true cost of content for a single one of those app platforms and therefore how profitable is it? Without a single product and brand hierarchy within the finance system, and without capturing costs at appropriate levels in the hierarchy, real lifetime profitability is not within their grasp.

**Strategic question 2:** How do they recognise revenue against a range of products serving different channels that have been sold within the same subscription? They focus on meeting the minimum statutory requirements and meaningful financial analysis of the components of a subscription is out of their reach.

**How they cope:** With a significant number of Finance professionals buried in spreadsheets, adding little value to the business except with regulatory compliance. Their professional training is not being utilised.

**What they could do:** They could introduce an appropriate brand and product hierarchy within their existing ERP system with processes for recording and distributing costs to different platforms in a systematic way. They could automatically apply revenue recognition rules based on real customer events and subscription plans. An analytical reporting model could then combine recognised revenue with usage data for strategic analysis of what drives subscription take-up and profitability.

*Hypothetical scenario for illustrative purposes only.

Digital strategies can ask a lot of Finance e.g. to account for digital as a segment, channel and/or product, while maintaining the traditional view of the business.
Digital supply chain

Challenges

Multi-channel and the transition to digital: Moving to digital is not an overnight event—it requires a strategy that may include shared services, outsourcing or restructuring of your operations. In a true multi-channel business, ‘transition’ is not the correct phrase either and strategic decisions about the most efficient and effective operating model are just as relevant for a cohesive physical/digital business. Does your business have such a post-digital supply chain strategy and do you have a clear plan, with enablers to implement it?

Digital forecasting: Forecasting processes and tools are just as relevant to digital although nuances require a modified approach. In a mixed physical/digital business, does it make sense to have different paths through demand planning or should you be working holistically, paying attention to the effects of digital demand on physical? In a digital-only environment do the traditional, complex demand and replenishment tools still make sense?

Digital promotions and pricing: Are you able to bundle digital products on their own or with physical, while correctly tracking individual and combined performance across the whole of your business? Are your pricing models based upon solid digital forecasting techniques? Do you have appropriate promotions management and pricing processes in place to manage the flexibility of digital?

Are you able to bundle digital products on their own or with physical, while correctly tracking individual and combined performance across the whole of your business?

Answers

Operational strategies of mixed physical/digital companies have to be flexible to account for new channels, changing volumes, variable Opex costs and supporting physical via different business models to maximise revenues. Deloitte can support you from development of your operational strategy through to implementation of structural supply chain changes, underpinned by the innovative incorporation of digital transactions into your ERP system or best of breed digital platforms. From maximising the effectiveness of your existing assets, to rationalising your manufacturing and distribution network, and to using digital sales analytics to better forecast physical sales we have solutions to help you bridge the digital divide.

The ghost of digital future*

Scenario: A major movie studio is embarking on a strategy they call ‘First in Digital’. They understand that their long-term future is digital, but also wish to maintain supply chain excellence within their physical business. They are introducing the concept of a ‘Digital Box Set’ and also bundle digital copies of movies with physical discs. They have begun focusing on digital without serious consideration for the effect on their physical supply chain and without preparing their sales and promotions systems and data for these different categories of bundling.

Strategic question 1: How efficient and effective will their existing physical supply chain be once the true effects of their ‘First in Digital’ strategy materialise? Without proper consideration they risk losing their ability to deliver supply chain excellence and can only react to operational inefficiencies after they have occurred.

Strategic question 2: How can they recognise the sales performance of individual products within ‘Digital Box Sets’ and how can they bundle digital copies with physical discs, analysing the performance and impacts of both? They haven’t prepared their systems and data because digital is isolated in sales organisation responsibility.

How they cope: Their supply chain will continue to ignore the true effects of digital on their physical supply chain organisation. They will follow the lead of others in terms of digital bundling and digital/physical cross-selling because they will not have the appropriate processes, data and reporting to analyse their own performance.

What they could do: They could supplement their strategy with an appropriate, flexible supply chain strategy to quickly respond to changes, and introduce processes, data and reporting for cross-firm promotions management.

*Hypothetical scenario for illustrative purposes only.
Digital systems landscape

Challenges

**Fragmented systems landscape:** Digital business moves quickly and it’s surprising how often this manifests itself within the back office systems landscape. This is often in the form of fragmented billing, finance and reporting systems, which is caused by many things. For example, digital business is innovative; leading to a tendency for mergers and acquisitions, but fragmentation also occurs because a multitude of digital front-office platforms can create a mirrored effect in the back office.

**Cost of ownership:** A large collection of technology platforms costs a significant amount of money to license and maintain, plus a huge IT support infrastructure to support inefficient business processes. The monetary costs alone often justify change but non-monetary costs can be very significant as well.

**Access to information and control:** How do you put a value on the non-monetary cost of ownership? When a company has several ERP and reporting systems their users relinquish effectiveness in being able to maintain the quality of data, control the business, respond to customer needs and to provide and respond to useful management information. These are the basic strategic requirements of a back office technology landscape and ignoring those means stagnation or failure.

Answers

The digital back office has moved on from the days when fragmentation was a necessity. We’ve helped organisations with the very latest and often surprisingly simple advances in ERP platforms in areas such as digital billing. We’ve also helped organisations reduce their ERP footprint with a global digital strategy in mind and where this isn’t possible we’ve shown how value can still be driven using integrated reporting and consolidation layers. We also understand how to integrate specialist outsourced and 3rd party platforms into an optimised Business Intelligence environment, where you are in control of your information. In addition we’ve helped businesses design appropriate ERP controls across their entire landscape. The options are varied but the objective is simple: Remove waste, leverage assets, gain access to invaluable insight and take control.

How do you put a value on the non-monetary cost of ownership? When a company has several ERP and reporting systems their users relinquish effectiveness in being able to maintain the quality of data, control the business, respond to customer needs and to provide and respond to useful management information.

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**The ghost of digital future***

**Scenario:** A telecoms company is continuing with its global expansion via the acquisition of strategic targets in important geographies. In addition, it has become a digital content provider and has entered into joint ventures and made further acquisitions within digital media. It has been slow to migrate these organisations onto its core global ERP and billing systems.

**Strategic question 1:** What is the cost of ownership of this multitude of legacy systems and processes? In a fragmented environment it is often difficult to get to the real monetary cost of ownership alone, but of course large-scale inefficiencies and difficulty controlling the business make the problem much worse.

**Strategic question 2:** What is the cross-firm picture of a digital brand and what is its potential for exploitation across different geographies, divisions and subsidiaries? Since inelegant reporting systems understood by a select few are the only means of cross-firm reporting, agility and confidence in such strategic opportunities is not possible.

**How they cope:** They allow different parts of the business to operate in their own particular way, with ever-increasing divergence and a spider’s web of reporting layers, until the realisation hits home that it isn’t working.

**What they could do:** ERP rationalisation can be a daunting concept but not as daunting as losing control of a diverse business. Often the impetus of such projects cannot be just efficiency and control, but as part of a wider Digital Back Office transformation, consolidation opportunities may be seen in a different light. Rationalisation is not correct in every case and so digital process, data and reporting standardisation could also help regain control.

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*Hypothetical scenario for illustrative purposes only.*
Digital data

Challenges
Data quality, speed and volumes: Data quality and completeness underpin valuable performance analysis, and digital markets can lead to an explosion in available information. Knowing what’s of strategic use at the outset is paramount, but the front-office moves quickly and this is more difficult than many tend to imagine. Additionally, the volumes to contend with can be mountainous, making it even more important to be on the right path from day one.

A single, consistent view of your business: Of course, just looking at particular digital platforms or products in isolation is not going to support your strategy in any meaningful way. If you lack single, consistent definitions of products and customers across all business functions and systems, that progressive digital strategy will be ever more difficult to assess, challenge and enhance, and invaluable customer and product analytics opportunities will be forgone. Data really is the foundation of cohesive strategic analysis.

Data security and governance: Where the front office meets the back, recent data security scandals have shown how customer data leakage can damage the reputation of a digital business significantly. Protecting these integration points appropriately is fundamental when dealing with sensitive data about your customers and sharing your data with third parties. Concerning data governance, do you have the necessary people and processes in place to create and maintain master data across all of the systems that digital touches, from front to back, and from Finance to Operations? Data is one thing that can make a digital strategy unravel when it actually comes down to doing business and strong governance and security are key factors in maintaining control over this strategic asset.

Answers
With a robust digital strategy, investment in data needn’t be a hard sell to your board and at Deloitte we pride ourselves on understanding, protecting and leveraging this vital asset. Data enhancement programmes can be conducted in their own right or as part of a wider transformation programme and it’s not all about systems: Governance and ongoing controls are an important consideration so that improvement is continuous. Quality reporting comes from quality data and in our experience, partnering data with performance reporting enhancement allows your digital back office to really begin to shine. Finally, data security needs no further introduction and our Security and Privacy group helps businesses comply with regulation and prevent significant reputational damage.

The ghost of digital future*

Scenario: Consider a company selling digital video via multiple channels and pay models and across multiple geographies. Different divisions and product teams have been left to come up with the back office systems necessary to support their parts of the business. Additionally, this company has been growing fiercely and has acquired several other smaller firms, adding sub-divisions and segments.

Strategic question 1: How many customers does this company have and what are the characteristics of their most profitable customer group? It’s almost impossible to say because their customer data now resides across dozens of back office systems, each with a slightly different idea of what a customer looks like.

Strategic question 2: Where are the opportunities to create and exploit global brands across multiple digital products and channels? Since there is no consistent brand to product hierarchy across the groups and a host of different product attributes that mean different things to different managers, their company’s own data cannot be leveraged to tell them.

How they cope: Using instinct and summarised, run of the mill analyses, strategic decisions lack foundation and often fail.

What they could do: This company could introduce single customer and product datasets containing global attributes that are driven by the strategic performance reporting requirements of the firm’s executive. They would then be able to make decisions based on robust and agile analytics while maintaining a single version of the truth globally.

*Hypothetical scenario for illustrative purposes only.

Of course, just looking at particular digital platforms or products in isolation is not going to support your strategy in any meaningful way.
Deloitte Digital: From front to back

Accessing our insight
We would be delighted to come and explore your individual challenges in an insight meeting with your management team. No two businesses are the same but the themes and issues related to digital are common. We are confident that we could quickly identify areas of improvement for digital challenges you may be facing.

Some of your challenges may be obvious having read the material in this paper and we would be happy to come and discuss them with your management team. You may have additional digital challenges due to the unique nature of your particular business and in this instance we would welcome the opportunity to explore them further, using relevant expertise from across our offerings.

If you have in-flight back office projects covering any the processes in this document they may need a quick review to confirm alignment with your digital strategy. Some of the challenges discussed manifest themselves as traditional, function-based projects, missing the fact that the root cause is a shift in strategy towards digital.

Leading in digital is key to our strategy and we constantly strive to be the best in terms of our knowledge. We are determined to maintain our position as the partner of choice in supporting businesses in the implementation of successful digital strategies. You may be surprised at how quickly we can provide insight and we would be delighted to assist you on your journey.

Experience and expertise across the whole spectrum of digital
Our ‘Digital Transformation’ proposition has helped organisations globally in digital strategy formulation and execution, providing deep industry insight and thought leadership, enabling them to prepare for their digital futures. Our ‘Digital Back Office’ proposition further extends our Digital Transformation offering and stems from our experience supporting global organisations to prepare the back office for their digital strategy across Finance and Operations.

All of our client teams comprise of or have access to Consulting, Tax, Audit and Corporate Finance advisers. We operate as one Deloitte and one team, providing the following services:
Deloitte understands digital from front to back. One firm, one team, helping to deliver your strategy.
Homework for the back office team

We’ve included some questions for discussion within your team to help identify areas you may wish to explore with us.

<table>
<thead>
<tr>
<th>1. Rights and Royalties</th>
<th>2. Customer Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a. Are you confident that you would survive a detailed on-site audit by IP holders/lawyers without significant penalties and reputational damage?</td>
<td>2a. Do you have the capability to bill and collect millions of small sales transaction line items for a large B2C customer base?</td>
</tr>
<tr>
<td>1b. Are you able to accurately reduce payment liabilities based on sales discounts and promotions or do you essentially have to overpay?</td>
<td>2b. Is your billing function actually collecting 100% of entitled digital revenue and if so, how are they able to prove they are?</td>
</tr>
<tr>
<td>1c. Do you have a central inventory of IP rights and contracts across the firm, and if not, how do you understand what rights you have access to?</td>
<td>2c. Are your digital billing platforms ready for all of the future pay models that you are considering as part of your future strategy?</td>
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<tr>
<th>3. Digital Tax</th>
<th>4. Performance Reporting</th>
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<tbody>
<tr>
<td>3a. What work has been done within Tax to optimise the organisation’s tax position on intellectual property and R&amp;D?</td>
<td>4a. Do you have a single strategic reporting platform with digital featuring prominently alongside the rest of the business and if not, how is your reporting function addressing your digital strategy?</td>
</tr>
<tr>
<td>3b. What is the level of confidence within Tax that the organisation will be compliant as B2C models expand and new types of products and delivery emerge? Do they know the cost of non-compliance?</td>
<td>4b. How much additional manipulation and offline analytical effort is required to produce useful management reports for digital and how much does this compromise accuracy and detail?</td>
</tr>
<tr>
<td>3c. What involvement does Tax have in strategic decision making for digital e.g. intellectual property ownership, location and pricing?</td>
<td>4c. Are you integrating outsourced 3rd party digital sales platform feeds into your core reporting platform and do you receive detail you would expect within your own business?</td>
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<tr>
<th>5. Revenue and Performance Accounting</th>
<th>6. Digital Supply Chain</th>
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<tbody>
<tr>
<td>5a. How much time is spent by Finance performing revenue accounting, how much of this is done offline in spreadsheets without significant control, and if applicable do you accurately attribute subscription revenues to the products that actually drive subscription take-up?</td>
<td>6a. Does your Operations team have a clear, implementable strategy for either the transitional or multi-channel future?</td>
</tr>
<tr>
<td>5b. How does Finance determine the true cost of a digital product and what effort is required to perform product cost accounting?</td>
<td>6b. Do you have a single strategic demand forecasting platform, with digital forecasts used to analyse impacts across the entire supply chain?</td>
</tr>
<tr>
<td>5c. How does Finance account for digital by geography, segment, channel and product; is all of this accounting performed in the core finance system, and what degree of confidence do you have in the accuracy of this information for strategic decision-making?</td>
<td>6c. How much effort is required to track digital and digital/physical bundling throughout finance and sales reporting processes and is the information accurate?</td>
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<tr>
<th>7. Digital Systems Landscape</th>
<th>8. Digital Data</th>
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<tr>
<td>7a. How many ERP instances do you use across your firm including those supporting digital and what is the cost of licensing and maintaining them?</td>
<td>8a. Do you have one single definition of a product and brand hierarchy across all of your business with the necessary reporting attributes for digital and flexibility in line with innovation?</td>
</tr>
<tr>
<td>7b. What effort is required to synchronise master data across all ERP systems and to propagate new types of digital products, customers and prices to all relevant platforms?</td>
<td>8b. Do all of your master data, order management, billing and collections platforms supply data to a single strategic sales and profitability reporting platform including digital?</td>
</tr>
<tr>
<td>7c. How uniform are global processes across all of your ERP platforms including digital, and how much control is maintained centrally over the strategic activities individual divisions/geographies?</td>
<td>8c. Do you have robust governance processes in place to maintain the ongoing quality of data and what have you done to ensure customer data is secure within every back office system that stores it?</td>
</tr>
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</table>
The Digital Back Office team

Please meet our cross-firm team

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We would be delighted to discuss any of the challenges described in this document and how these issues may be resolved within your organisation.
Related Deloitte publications

Deloitte insight from across the digital space