Is a focus on cost reduction costing your business?

Three business domains where a new approach can unlock evergreen value.

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Traditionally, C-suite executives have viewed core operations through the lens of cost. Through that lens, effective operational strategies often boil down to getting the same or better results at a lower price. Largely that has been accomplished through new enterprise technology implementation, offshore labor arbitrage, and/or outsourcing. This approach has proven to be fruitful for many companies by widening margins and improving scalability of business and IT resources.

The trouble with this approach is that costs cut during one quarter become the new baseline next quarter. And then what? There are only so many places to cut costs and only so low you can go.

In their influential book *The Three Rules: How Exceptional Companies Think*, Deloitte’s Mumtaz Ahmed and Michael Raynor demonstrated how companies that focus on cost over value wind up sacrificing market share and growth. Based on their extensive research involving more than 25,000 companies over a 45-year period, they showed that the most successful US public companies adhered to three principles consistently—particularly when faced with difficult choices:

1. **Better before cheaper:** Don’t compete on price, compete on value.

2. **Revenue before cost:** Don’t drive profits by cutting costs; instead, find ways to earn higher prices or higher volume.

3. **There are no other rules:** View all your other choices through the lens of the first two rules.

Those rules, first published in 2013, have only become more critical to growth and differentiation as cloud computing, artificial intelligence, machine learning, and mass datafication spread across industries and disciplines in the past decade. The pace of change—and the need for self-disruption—have never been greater. As a result, it’s no longer enough to just aim for “the same results, but cheaper.” A singular focus on cost reduction results in other, more significant costs that can drag down your business: stagnant innovation, ever-growing complexity, poor agility, and missed potential for transformation.

In theory, today’s cloud-based digital platforms for managing and connecting business operations should make it possible to reduce costs and enhance business value. But for most companies, weak links in the systems, redundancies, and data issues persist for reasons ranging from cross-cultural language barriers to legacy technologies and processes that nobody can find the time to reimagine. AI and automation capabilities built into those systems often wind up underutilized (if they’re used at all) and rarely provide optimized solutions that fit every business. The varied demands of running a business in the complex regulatory and security environment of global markets slow innovation and consistent adoption. And when enterprise data is scattered across even just a few disconnected systems, end-to-end autonomous processes become essentially impossible.

A persistently challenging talent market, coupled with overstretched internal IT organizations, compounds the issue. Enterprises need workers who understand the business thoroughly in order to be effective. But ironically, they often struggle to retain their best and brightest employees—particularly when those employees feel underutilized due to inefficient processes and outdated technologies.

Companies have long sought to strengthen those weak links and offload repetitive tasks by outsourcing certain operations to low-cost vendors. In so doing, companies tend to “lock in” existing ways of doing business. An external vendor that is engaged based on full-time-equivalent rates and/or predetermined service-level agreements isn’t merely disincentivized to transform processes—that vendor also often has no flexibility to do so within contract terms. So much for enabling agility or sparking innovation.

What’s needed are ways of leveraging data and technology that help get the best out of your existing talent resources (both internal and external), while reducing or even eliminating the repetitive, low-value work that frustrates workers and leads to attrition.

In our work with many of the world’s biggest and most complex enterprises, we see three core operational domains where the strategic prioritization and smart cultivation of artificial intelligence and data can be particularly effective in driving evergreen value: supply chain, finance, and human resources operations.

In this paper, we will explore ways that you can apply what we’ve learned to help drive evergreen value from your own enterprise operations.

**Introduction**
The path to supply chain resilience
For global companies, supply chains and associated operations are incredibly complex and dynamic, while also made up of myriad repetitive activities and processes. Components, office supplies, and other direct and indirect materials run out at different times in different locations; the only certainty is that they will eventually need to be replenished. Demand for products and services shifts with the seasons and even with the weather in different regions you serve. Factory equipment needs maintenance to avoid costly shutdowns—but unnecessary maintenance can be expensive.

To address these dynamics efficiently, supply chain leaders have long preached a mantra of “just in time.” However, the risks and disruptions recently exposed by the COVID-19 pandemic led leaders to realize the importance of “just in case.” Never have operational agility and innovation been more important—yet, for companies with thousands of suppliers and millions of customers, the ability to pivot quickly when risk becomes reality can seem like an impossible fantasy.

To get to the nirvana of end-to-end supply chain connection, touchless transactions, just-in-time efficiency, and just-in-case forecasting, companies need to look beyond business as usual across every function of supply chain operations.

Synchronized planning
Matching supply and demand involves not only careful data cultivation and management but also end-to-end connectivity across every node of the supply chain. Artificial intelligence and machine learning is key to identifying and analyzing dynamically varying demand signals and synchronously adapting decisions and activities in ways that help meet customer expectations.

Intelligent supply
Continuously cultivated data and machine learning are critical to accurately sensing changes and requirements at every node of the supply chain. When those capabilities are applied to intelligent contract management and autonomous sourcing, businesses can significantly reduce risk and enhance performance across sourcing operations.

Smart operations
The so-called smart factory has been talked about for years, but it’s now possible by connecting autonomous demand sensing and production scheduling with manufacturing lines that can dynamically adapt to any change in conditions or requirements. More holistically, manufacturers can start by focusing on breaking down organizational silos and removing the large pockets of waste at the handoffs between their functions. In a model-based enterprise (MBE), organizations integrate their functions under a common set of digital models. Here again, AI and data have an important role to play by revealing patterns and automating processes that help increase efficiency, reduce downtimes, and optimize handling of material.

Dynamic fulfillment
For many enterprises, fulfillment is still a highly manual and error-prone node of the supply chain. Sometimes figuring
Achieving evergreen supply chain value

**Agility**
Say your regular supplier in India is out of a key component you need. The only other suppliers that can meet your scale and quality control requirements are in China, but you don’t have systems and people in place to work with Chinese-language suppliers. AI today can untether your company from language restrictions thanks to sophisticated translation engines, chatbots, and other capabilities. As a result, you can tap the resources you need and shift suppliers on the fly, no matter where in the world they (or you) are—without having to engage offshore vendors to help bridge language gaps.

**Digital development**
In early 2020, 58% of global consumers surveyed by Deloitte were able to name a brand that pivoted its offerings quickly in response to the pandemic. Eighty-two percent of those respondents said that the new, more relevant offerings had increased their desire to do more business with the brand. The ability to quickly adapt, refine, and even personalize products is only growing more important as customer expectations and marketplace competition increase. AI and analytics are essential in order to streamline and accelerate activities across the product development value stream.

**Innovation**
In supply chain operations, nearly any breakdown—of factory machinery, of software and networks, of delivery fleets—can create a logjam of issues both upstream and downstream. Companies typically follow regular maintenance schedules; yet faults still occur. Many of those faults can be foreseen by using IoT data and machine learning to spot patterns over time. As a result, problems can be predicted and addressed before they happen. This kind of predictive maintenance can have a profound effect on uptime, worker safety, customer satisfaction and more. That’s just one example of how AI and data can help innovate the way you work across the supply chain, creating new efficiencies and resiliency while preventing costly downtime.

**Sustainability**
Environmental, social, and governance (ESG) criteria have emerged as critical factors in business sustainability and brand health. Research conducted by Bank of America Merrill Lynch found that S&P companies with an ESG rating in the bottom (worst) quartile experience five times greater volatility in earnings per share compared to companies in the top quartile. Most companies struggle to monitor and measure ESG performance, especially when it comes to the supply chain—where addressing issues like supplier diversity and carbon footprint requires a tight connection and consistent data shared between your business and suppliers. In a 2021 study, 70% of CFOs said they were concerned that ESG talent shortages will impede their ability to meet goals. Given these challenges, companies increasingly need the power of AI and machine learning to make the connections that will automate ESG data collection, hygiene, and analysis.

**Reduced complexity and faster speed to execution**
Even when suppliers are connected directly to your systems via supply chain management platforms and integrations, processes such as requisition approvals often involve a lot of human touch. Each request has to be checked for the right quantities, the right locations, the right approval levels, and a range of other factors. When smartly applied, AI can have a fast and significant impact in making those processes autonomous, reducing the need for human interventions by 90% or more. The result? Requisitions that previously took days can be reduced to mere moments, errors are reduced, and employees are freed up to focus on more complex tasks and exceptions.
The path to finance confidence
In finance operations, confidence is key. You need confidence in your business data and processes. You need to be able to trust that transactions are being managed accurately and at just the right moment. You need to be able to tap into financial data at any moment and forecast multiple scenarios in ways that reduce risk and identify opportunities.

For companies that sprawl across multiple countries and businesses, reaching that level of confidence has traditionally meant adding more and more people to every process. Each invoice paid and sent needs checks and balances. Every transaction needs to be tracked through systems. Reports need the eyes and inputs of data teams, visualization teams, and a host of finance domain specialists.

For most enterprises, those processes are now managed through digital enterprise resource planning (ERP) systems—yet after those systems are implemented, old processes that result in manual data entry and “paper pushing” remain vexingly common, shortchanging the originally anticipated value and potential for transformation. Invoices arriving by email need to be transferred into invoice management systems. Reports coming out of separate analytics and ERP systems oftentimes wind up being printed out for validation, comparison, and analysis. The list goes on.

Leaders imagine an era of “lights-out finance”—yet many processes seem to be stuck in the dark ages.

Meantime, even for companies that have implemented a single ERP system to run the entire finance operation, data problems are all too common. Indeed, unless you started your company five years ago on a single instance of a cloud ERP platform and work in a single area of business, chances are high that your financial data is inconsistent, scattered across various systems, and simply overwhelming in its volume and complexity.

Companies often work to address these challenges through piecemeal initiatives—engaging a digital consultancy to help clean up data issues, outsourcing payroll processing to an offshore provider, and hiring another firm to provide flexible resources for month-close reporting. Here, as in so many areas, cost-cutting can often be achieved in the short term through such initiatives. Yet value drivers such as end-to-end connections, touchless processes, agility, and resilience seem to remain only a distant vision on the horizon. Even top finance executives find themselves too busy with day-to-day operational issues to map out a new path forward.

In order to achieve the confidence, speed, efficiency, and transformation that’s needed, autonomous processes based on trustworthy, available, fresh data should be woven throughout every part of finance operations.
Achieving evergreen finance value

Agility

Few industries had a greater need for agility during the pandemic than airlines. Virus hot spots effectively shut down international travel for long periods of time. Flying went from a first choice to a last resort for business travelers across sectors. Optimistic vacationers scheduled trips—and then often canceled at the last minute. In that environment, a handful of scenario plans wasn’t enough to ensure smart financial decision-making, dozens, if not hundreds, were preferable in order to understand the moves needed for operational agility. Such complex and varied planning is all but impossible without the right data in the right place and put to the right uses through artificial intelligence.

Innovation

CFOs tend to get nervous when “innovation” and “finance” show up in the same sentence. Few assets are more important to keep secure and actionable than financial data. Leaks can kill careers, bring down market value, and cause long-term brand damage. But innovation in finance is essential in order to support other innovations across the enterprise—such as rapidly developing accurate profitability projections and pricing strategy for a new product, or identifying the most profitable customer segments for marketers to engage. Within finance operations, data and AI can help revolutionize speed to outcomes, increase accuracy, and build confidence while unleashing the potential of your people to be more creative, proactive, and inquisitive.

Reduced complexity and faster speed to execution

Imagine having 4,000 support tickets coming through your ERP system every month. Maybe you don’t have to imagine this scenario; we’ve seen it more than once with clients in various industries. For most companies, it’s not possible for people to resolve all those tickets and root out the cause. The result? Four thousand more tickets next month. And 4,000 the next. Problem management, AI, machine learning, and analytics together can help address such challenges by identifying problem hot spots as they emerge, aligning priorities for human intervention, and helping to rapidly automate and scale solutions in ways that reduce the inflow of tickets going forward.

P&L and cash forecasting

As companies continue to recover from the impacts of the COVID-19 pandemic, the importance of cash has never been greater, and predictive forecasting and dynamic scenario planning have become essential. Most companies are still stuck in a paradigm of reporting based on historical results and then relying on little more than gut instinct about the future. By leveraging company and external data sources and applying artificial intelligence and machine learning, it’s now possible to bring science into that process and develop what-if scenarios and forecasting models that inspire greater confidence.

Vendor spend and contract performance

Large enterprises often struggle to get a clear and actionable understanding of vendor relationships. At the transactional level, duplicate and misapplied payments are a risk when multiple teams engage with the same vendor. At the strategic level, a fractured view of an individual vendor undermines negotiation leverage that your business could otherwise employ to help reduce costs. Solving these challenges historically has involved heavy manual effort. The application of machine learning and analytics can help rapidly bring vendor relationships into clear and comprehensive focus, and help ensure that you’re getting the best pricing and performance from vendors.

Financial reporting and accounting

Time is of the essence in financial reporting. Where companies once considered monthly financial reports sufficient, now anything short of real-time reporting can mean the difference between a successful course-correction and a sudden stumble. Meantime, the ways that financial data can be sliced and diced for analysis seem to expand with every new data set. The work necessary to program systems to automatically produce those reports accurately can be a huge challenge—and integrating core and non-core systems can seem almost impossibly complex. What’s needed instead is the ability for systems to autonomously learn and improve on their own, to spot patterns in data too complex for humans to analyze, and to cross-reference data across systems to ensure accurate accounting of enterprise financial data.

Accounts receivable management

Chasing payments can be time-consuming and unpleasant work, especially since much of that work tends to be reactive and difficult to predict. Collections teams typically must comb through mountains of data to find the most important “hot spots” of delinquent payments. Autonomous processes can help reduce that effort and speed the flow of cash into your business by building in appropriate checks and actions across the receivables cycle and identifying patterns in payment behavior.
The path to human resources innovation
Making work better for humans—and humans better at work

The human resources (HR) function is responsible for attracting, recruiting, onboarding, developing, retaining, and engaging the talent that is critical to the success of your business. It is also responsible for driving an end-to-end, consumer-grade employee experience that reflects and supports your culture and helps define your employer brand. In today’s supply-constrained talent marketplace, these activities demand unprecedented creativity and aligned, proactive strategies.

At the same time, the business of HR itself is being fundamentally disrupted. For many organizations, the COVID-19 pandemic resulted in a new virtual working environment, virtually overnight. That meant new benefits programs and ways of support were needed for remote, hybrid, and frontline workers, as well as new approaches to managing performance. The subsequent push by many organizations for employees to return to the office has brought more challenges.

Even in “normal” business times, HR must constantly sense and address changes in the internal and external environments. For example, new employment laws and employee data management regulations at the local, state, and national levels must be accounted for—with different requirements in different jurisdictions creating layers of complexity. Sales quotas, territories, and commissions adjust frequently—and seemingly grow in complexity with every shift. And new enterprise technologies and processes necessitate training and change management in order to achieve the adoption that drives return on investment.

Many organizations are hamstrung in their efforts to solve for new requirements by the sheer amount of work it takes to keep existing operations running. The HR function is responsible for many repetitive administrative and tactical activities that happen on a regularly defined schedule, from biweekly payroll to annual open enrollment. Throw in the challenges that come with mergers, acquisitions, and divestitures—or any number of other strategic projects and initiatives—and it’s clear that the humans in HR need automated systems and processes that can handle many of the day-to-day requirements of today so they can apply their skills toward reimagining the business of tomorrow.

Human capital management software platforms have streamlined many of these efforts over the years, with new features and functionality being added frequently. But transforming that potential into real improvements within the enterprise is often a haphazard and stubbornly slow process—requiring additional layers of change management and new talent in order to apply those capabilities to real-world business challenges. And while these systems have reduced manual work, they’ve hardly eliminated it. Indeed, many of the underlying processes and day-to-day activities of HR have changed little over the past quarter century. The most repetitive activities can take an army of workers to complete when paper and digital systems collide or when new technologies fail to deliver on their promises out of the box.

Even when tasks are successfully automated, the underlying systems will still require specialized application management, operations, and development skills and expertise to run and evolve successfully.
Not only does the HR function need to do all this for the rest of business—it also needs to do it for HR itself. In an environment in which many businesses struggle to identify and attract HR talent, the boredom and perceived lack of impact and meaning of repetitive work can foment attrition. Ironically, the organization responsible for employee engagement can feel like a hub of dissatisfaction within the enterprise when humans are not appropriately augmented by or collaborating with technology.

Leaders need to see beyond “business as usual” HR operations—although that’s part of it. Data, analytics, and automated processes are key to solving business challenges and making better decisions, with HR know-how applied seamlessly alongside technology.

People analytics
No matter the company or industry, there’s typically considerable strategic value yet to be unlocked across the workforce. HR can leverage data to identify opportunities to streamline operations across the business, from recruiting and creating a more robust talent pipeline to understanding where skills live in the organization and how they may need development to meet future demand. When retention issues arise, analytics are critical to recognizing patterns in the employee life cycle—across the whole enterprise, as well as within specific segments of the workforce.

Organizational transformation
Every operational change requires management in order to ensure adoption and effectiveness. In today’s environment, change isn’t just a one-time event; it is the nature of doing business. Taking a data- and insights-driven approach can inform better ways of working and collaborating, accelerate adoption, and help pinpoint pain points or hot spots where added interventions are needed. Such an approach can elevate routine change management into a strategic differentiator.

Workforce transformation
It is clear that the talent shortages that emerged during the COVID-19 pandemic across a range of mission-critical disciplines won’t be going away anytime soon. At the same time, the changing needs of the enterprise demand new mindsets and skill sets—along with the insights to enable tough decisions about what is core to the business and what isn’t. Data- and AI-powered approaches to work, workforce, and workplace are critical in order to identify, attract, retain, empower, and nurture talent; offload low-value or repetitive tasks via automation; and enhance physical and virtual environments in ways that help foster better collaboration, facilitate meaningful innovation, and improve the safety, lives, job fulfillment, and productivity of workers.

HR transformation
It can take considerable time and focus to implement fundamental changes such as shifting to an agile operating model in which capabilities can be accessed on demand. But in the nearer term, many enterprises can still identify low-hanging fruit for AI-driven automation within the HR organization, such as payroll processing. Even a fractional reduction of errors or other gains in efficiency in payroll processing or other large-scale, repetitive activities can free up HR talent to focus on more strategic opportunities. The result? Happier, more challenged, and more engaged HR teams, with increased flexibility to adapt to changing business conditions, help reduce costs, and drive longer-term, larger-value transformations.

Achieving evergreen HR value

Agility
With the right AI and data processes working with your HR platform, HR can become a more accurate, effective, and even predictive business partner—enabling faster change and more impactful teams. Making HR more agile and responsive is one side of the equation; HR empowering workers across the business to be more agile and responsive themselves—by enabling self-service, democratizing data, and providing meaningful insights—is another. AI and data can help get both sides acting as a force multiplier for agility.

Innovation
HR functions are ripe for innovation. While many processes and ways of working have remained unchanged for decades, a mindset shift around the role, capabilities, remit, and capacity of the HR function can have significant innovation benefits. Is there a different recruiting model? Alternative AI-informed development and career paths? What talent can we now access on demand, shutting off the tap when it’s not needed? How can workforce management be more flexible and fluid—going beyond self-service and moving into intelligent automation that frees time for employees and the HR function itself?

Reduced complexity and faster speed to execution
The HR organization is required to deal with large numbers of individual transactions and needs for every employee—payroll, paid time off, benefits, rewards, development, recognition, well-being, and much more—typically engaging with every employee numerous times per month. AI and data can help automate much of this; predict through analytics when and where peaks and valleys of demand may appear or when issues may arise; and, when human intervention is required, provide more accurate and timely resolution options that reduce the time spent by the HR team and improve the worker experience at the same time.
The path to evergreen value
As we’ve discussed in the previous sections, evergreen value can rapidly accrue and be sustained for businesses that weave autonomous processes and well-cultivated, well-maintained business data into core enterprise operations. Yet many line-of-business leaders still turn to traditional models of resource outsourcing and/or offshoring for operational support in these areas. When process or technology transformation is needed, they turn to different providers. When data problems become overwhelming, yet another set of providers is often engaged.

Those providers may help you save money in pockets, but that’s no longer enough. You need the domains within your company to spark agility, use data, and innovate—whether that’s about transforming an entire factory, a customer experience, or just a few processes. In those situations, the lens of cost tends to distort rather than sharpen focus on long-term business value. Each operational support provider has a fractured view of your challenges and little if any incentive to help you transform. Coordinating them on the path toward a common goal becomes its own complex challenge—one that’s exacerbated by fixed contract terms and service-level agreements, disorganized data and legacy tech debt, and teams, processes, and technologies that are often working worlds apart from each other.

It doesn’t help that your own people—even top leaders—typically spend all their time focused on day-to-day operational issues. Almost no company has the spare capacity, existing intellectual property, and necessary internal talent to design, test, run, and improve all of the autonomous processes that tomorrow’s enterprise demands. Yesterday’s well-organized business data keeps becoming today’s mess.

That’s why evergreen value is most effectively achieved and sustained when AI and data strategy and implementation are connected to operational support through a single partner—a partner that can help sustain and improve the ways that you operate by working side by side with you to achieve a continuous, self-sustaining cycle of transformation, innovation, and value realization.

That means, first and foremost, structuring operate relationships in ways that demand and reward outcomes such as innovation, agility, reduced complexity, and speed to execution. Done right, cost reduction becomes a natural byproduct of those outcomes. And as the cycle of innovation continues, costs go even lower.

This isn’t just pie-in-the-sky possibility. For example, by creating and maintaining a fully autonomous invoice processing function through investment in data and AI, we’ve seen that companies can reduce error rates tenfold while eliminating an enormous amount of previously manual work. And we’ve seen companies reduce time associated with certain types of inventory management—for example, product allocation processing—by 90%, allowing them to increase order fulfillment rates significantly.

These benefits often ripple out into other areas of operations—compounding the value. When repetitive, tedious bookkeeping work is automated, the pressure to find, hire, and retain talent is reduced for your HR organization. Customer care teams receive fewer complaints about inaccuracies. The list goes on.

A key to ongoing success is to ensure that the benefits of continuous improvements also support the success of your external partners. By shifting outsourcing relationships from a focus on capacity (e.g., full-time equivalent resources or number of tickets resolved) to outcomes (e.g., speed to resolution), your partners become not only accountable for transformation, but incentivized to achieve it. So when a process that once took support from 100 people now takes 10, you get more streamlined and effective operations—and you and your partner share the benefit of lower costs.

Refocusing your partner ecosystem to reimagine your operations

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Refocusing your partner ecosystem to reimagine your operations
Stop running to stand still

In chapter two of Lewis Carroll’s children’s book *Through the Looking Glass*, young Alice encounters the Red Queen, who takes the child’s hand and begins to run. Alice runs as fast as she can, yet discovers she is staying in the same place. The queen responds matter of factly to Alice’s bemusement:

“Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!”

Most business leaders today are all too familiar with the “Red Queen effect”—even if they don’t know it by name. In *The Three Rules*, Ahmed and Raynor discussed the paradox as it relates to competitive business dynamics and the dangers of competing on price rather than value:

“A successful cost-cutting initiative will reduce your costs compared with what they were,” they wrote. “That says nothing, however, about how your costs will compare with those of your competitors. If they are pursuing the same initiative equally successfully, and so reducing their costs at the same rate you are, you might improve compared with yourself but end up exactly where you started compared with them. It is this phenomenon that gives rise to the Red Queen effect ... of having to run just to stand still.”

Today, as technologies continue to transform what’s possible across industries, your business can no longer depend simply on running fast. You need to run faster than the competition—indeed, faster than human legs can carry you.

In order to achieve and sustain that pace, autonomous processes, analytics, and machine learning should be embedded at the core of your operations in ways that lengthen every stride, strengthen every muscle, and sharpen every insight of the people who power your enterprise. Likewise, wherever and whenever you need an extra dose of speed along the path, your vendors and partners should be ready, capable, and incentivized to provide smart solutions, scalable capacity, and best-in-class capabilities that propel you forward.

To start accelerating your supply chain, finance, and human resources operations on the path to evergreen value, here are some questions to ask yourself:

- In what ways is your business suffering the “Red Queen effect”?
- How are you asking and enabling your managed services providers to innovate with you?
- When transitioning from successful deployment to scalable operations, are you challenging the status quo of “keeping the lights on”? In what ways can you continue to generate value?
- Where is your organization going to embed agility into operations to drive evergreen value?
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