



WHITE PAPER

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# Innovation's unsung hero in volatile times: industrialized business operations

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## Executive Summary

Extreme market volatility has prompted companies across industries to build more effective business operations<sup>1</sup>. Leading innovators such as Apple, Amazon, GE, HSBC, and PayPal<sup>2</sup> among others have addressed those challenges by harvesting the value of information – at scale - and harnessing the art of the possible in their business operations. This paper describes how product and business model innovation can be driven and enabled by smart business process operations, be they transaction or decision support. The evidence accumulated across hundreds of companies indicates that “industrialized operations” – thanks to scientific decoupling and consolidation of part of business processes run as an extended enterprise, utilizing data, metrics, as well as IT and HR practices in innovative ways - constitute a material yet relatively untapped lever.

We estimate that industrialization of operations can transform up to 80% of back and middle office work as well rule-based front office, 20-40% of judgment intensive work in marketing, front office and distribution, and even 5-10% of typically context driven functions such as R&D and general management. In service type industries, these account for 80%+ of the headcount, and even in others such as manufacturing and infrastructure, the service-type functions often account for 40% of the total, or more.

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ideas beyond the stage of invention, and become the foundation of material economic innovation. In doing so, they are becoming a cornerstone of today's enterprise operations strategy.

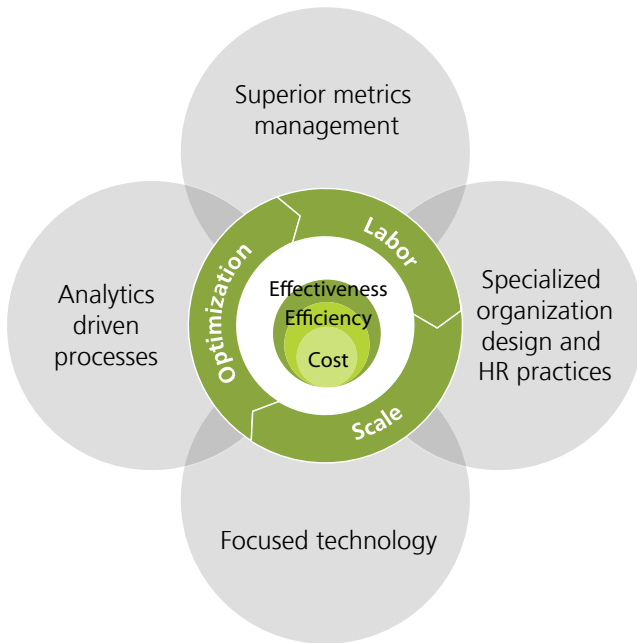
Examples range from the business model of a specialty insurer that enables its hyper-growth scalability by focusing on the front office; to the heavy-lifting of data behind the success of aircraft engines' advanced service contracts, or supporting the commercial operations of pharmaceutical companies; to the restructuring of support functions across regional centers of a large conglomerate determined to capture the opportunity of emerging markets; or the innovative collaboration practices – part technology, part human resources optimization - surfacing in

<sup>1</sup>Business operations consist of the back and middle office that support multiple functions - finance, human resources, marketing, sales, R&D. Even supply chain has a “white collar” support capacity embedded into it.

<sup>2</sup>The Most Innovative Companies 2012 - The State of the Art in Leading Industries, a report by the Boston Consulting Group

companies that run operations across geographically dispersed team. In a separate paper<sup>3</sup> we discuss these examples in more detail.

## Industrialized operations – specialized & advanced process, people and technology practices



Industrialized operations enable access to new growth opportunities, create resilience to hostile market or regulatory conditions, and facilitate product and business model innovation throughout the enterprise. They create the foundation to enable innovation to accelerate faster after every turn of the new, curvier circuit of volatile marketplaces. Ramping up a typical large operation by 20% or setting robust business infrastructure in a new country takes typically 12-24 months. Industrialized operations can often do it in half the time. But laying the foundation requires more executive focus on operations - areas where traditionally “no news is good news”.

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At the root of this epochal shift driven by innovative human resources and technology practices lies the unsung hero of innovation: innovative business processes. We hence believe it is time for innovation and business operations to appear more often in the same sentence for CEOs, and process innovation agenda to be elevated to where it is needed most - the boardroom. Strategically embracing the art of the possible is first and foremost a challenge for CEOs and their teams – not just for operations’ and middle management.

## Innovation vs. operational excellence: beyond old trade-offs

Innovation traditionally tops the “CEO’s priority list” in most business surveys. But the world has changed: extreme volatility makes demand and supply fluctuate and unpredictable, which – due to the relatively rigid cost structures and slow decision-making practices of many enterprises - introduces significant “noise” in enterprises’ earnings, and **destroys company value**. Industries like automotive, CPG, retail and air travel have seen many hundreds of basis points disappear at relatively short notice.

To counter these conditions, and beyond obvious cost and asset cuts, enterprises are now trying to build **agility** into their business model in an attempt to keep the innovation spark needed for differentiation and growth. In a previous paper<sup>4</sup>, we argued that adaptability cannot be achieved without next-generation operations excellence. A recent survey from The Conference Board confirms that while hard-nosed operational excellence is the #2 focus areas for CEOs in 2013, innovation slipped to #3 except in high-growth countries (human resources is #1).

Excelling at both operational excellence and innovation at the same time, when growth is slow, seems hard and part of the typical dilemma of “growth vs. margin” that many CXOs face. However, the two are inextricably linked. Successful adaptation to volatile conditions is nothing but innovation executed seamlessly in the middle of the storm, at scale. Scale separates innovation from invention and, together with the flexibility required in these times, can only be achieved with superior business process operations: from demand forecasting to sourcing analytics, from inventory optimization to production planning, from origination to underwriting support, from customer interaction to sales operations to support and maintenance, from financial reporting to forecasting. For all these functions - slow, inconsistent execution isn’t an option in the face of extreme volatility. Supporting innovative, not yet fully fledged endeavors is even more complicated, but nonetheless necessary.

### **Successful adaptation to volatile conditions is nothing but innovation executed seamlessly in the middle of the storm, at scale**

Consider the effect on the following activities – which can turn into an enabler, or a minefield for innovation. From supporting customer interaction to optimizing the supply chain or capital allocation, to reporting to stakeholders and shareholders, from the most mundane master data entry to the most insightful pricing algorithm, the best operations leaders harvest the value of information - at scale – by embedding analytics in their processes.

This is how operating leaders are redefining the concept of “end to end” process by orchestrating the flow of information, goods and money across their value chains – including their suppliers, partners, and even clients. They embed technology to support the work of humans. They design organizations that scale and

<sup>3</sup>Innovation and operational excellence - an industry-specific view by Gianni Giacomelli.

<sup>4</sup>The adaptive roadmap in uncertain times - a whitepaper by Arvinder “Monty” Singh, SVP Sales, Marketing & Re-engineering at Genpact.

perform, and implement specialized HR practices capable of leveraging global labor. Importantly, they typically understand very well the metrics determining key business outcomes – and manage the drivers that influence them.

## Industrialized operations in action: examples of innovation at scale

Industries are being reshaped by great operations enabling innovation amidst volatility: for instance, data-driven, innovative operations of online retailing have propelled its share to close to 10% in the US alone: 150 billion USD that weren't there at the turn of the century, and that have barely felt (perhaps even benefited from) the impact of the recent large recession.

Like the companies mentioned earlier in this paper, **those who harness operations to enable innovation become comparatively stronger as volatility persists**, like a racing car driver that keeps fine-tuning his car and driving skills after every curve in meandering mountain circuits, becomes increasingly faster than those who continue to drive a vehicle conceived for straight roads.

## Global innovators are already using operations to shape the customer experience and harness fragmented and global supply chains

This evidence is becoming increasingly visible. Internet giant **Amazon's** seamless integration between customer-facing analytics and supply chain intelligence has redefined retail and defeated the challenges of razor-thin margins. Apple's success relies on the perfect customer experience, which is driven not only by their products, but also by their services – from the Apple store to traditional retail outlets, **Apple's** flow of people, goods and money is so seamless that it becomes invisible and makes the interaction with the "Apple ecosystem" brilliantly differentiated.

But strong innovation through operations isn't only for a few über-creative firms. Long-time industrial giants such as **GE** are increasingly optimizing the functioning of their assets in the field with advanced analytics, churned out of industrialized data operations, and creating additional value for their clients in the process. The most sophisticated achievements include the creation of new business models where the asset can be sold on a "per-active-hour" basis as opposed to asset plus maintenance – thereby satisfying the limited risk appetite of some customers, while providing good margins to the manufacturer in exchange for an intelligent shift of the risk. All this happens while advanced operations are enabling the push in emerging geographies, through the creation of a sophisticated network of global shared services and operating centers.

Innovation is also about enabling creative organizational design that allows human resources to continue focusing on what drives an edge, instead of becoming overloaded by decision-support tasks in downturns when the company becomes leaner. Consider

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the case of Pfizer when the company created a "support factory" group in 2009 that centralized such tasks and used both internal and third party resources<sup>5</sup>.

There are common patterns across industries – for instance, following the example of financial services, pharmaceutical companies' over-the-counter organizations' commercial operations increasingly take a cue from the world of retail and CPG. Across industries, front-end B2C operations support is being shaped by internet's data intensity and by "new consumers" – be they in emerging or developed economies. Social media operations now wade through noise and deliver key signals to marketing and sales, across consumer-facing industries. And customer contact operations across industries show an increasingly sophisticated use of the same net-promoter-score enhancement techniques that require a robust amount of data processing.

## Business operations learn innovation, innovators learn operations

While the theory and examples may be enticing, the execution of such a vision isn't easy. Business process operations don't have the reputation for being innovative. After all, an R&D or manufacturing process can make a company innovative, but can a sales and marketing support process do the same? Do operations leaders' résumés show the innovator's DNA? Additional evidence seems to come from a recent Forbes' analysis<sup>6</sup>- while business process operations are the lifeblood of service companies, almost no service company makes it to the top 100 innovators' list. Can we rely on the business operations organization to ensure operational solidity and at the same time feed the innovation machinery?

Operations' models have largely been designed in less-volatile times, and optimized for scale, not for agility. Since a 10X volume obtained by consolidation can often drive business operations' cost per unit down 50%, cost per transaction at scale has traditionally been the most important metric. However, the stable-volume and relatively stable geographic footprint are not realistic conditions anymore. Additionally, the type of information and communication technologies available in the past (mostly ERPs and workflows) may have created inflexible structures: for many CIOs, 50-70% of the budget goes into maintaining the current infrastructure and applications. Their very significant investment also leaves much outside of their scope and in a state of "informality" that requires expertise and is difficult to document, transfer to others, or move from under the current roof. These design principles have left many organizations with operations organizations that are often costly and not able to adapt to new conditions – let alone drive innovation.

**To unlock this stalemate, operations groups** need to embrace innovation practices inspired from and connected to product management. They need to design for faster, more granularly

<sup>5</sup>Scuttlings Scut Work in Fast Company, February1, 2008

<sup>6</sup>The world's Most Innovative Companies Forbes Magazine September 2012

## Product innovation groups can use business operations strategically to compete in a data-rich environment

executed reaction, at lower cost and asset intensity. These criteria drive business model innovation, product innovation, and obviously process innovation.

At the same time, **product innovation groups** can exploit such process design inflection and use business operations as a strategic weapon to compete in a data-rich environment – and drive scalability. Fast, well executed data-to-insight processing can inform products’ inherent service component and boost effectiveness from client interaction to supply chain decisions. However, this requires product managers to think more holistically of a product, by including the non-physical components related to service-type functions that influence directly or indirectly the customer’s delight such as after-market services.

## The three pillars of innovation-oriented operations

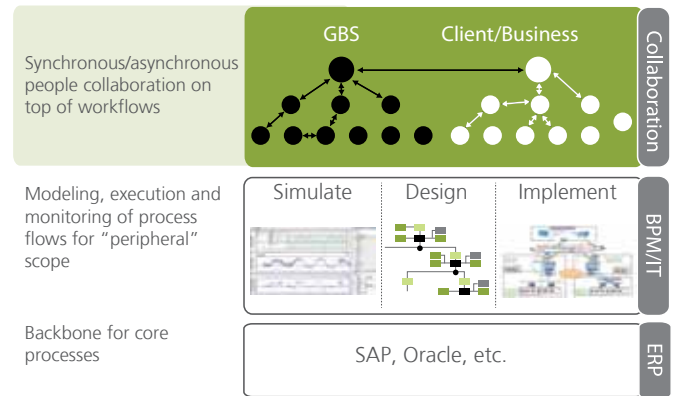
The journey for operations and innovation to become really synergistic requires a maturation of practices – specifically those around the areas of human resources, technology, and process.

These three factors continue to ruthlessly reshape operations and provide an opportunity to drive innovation by outmaneuvering competitors: talent imbalances, technology, and process advances are changing the art of the possible and making industrialized enterprise operations a future-ready alternative for a range of support processes.

**Talent imbalances** – the mismatch between the demand and supply of specific skills in particular locations - are already profoundly influencing the ability to run businesses cost-effectively: from accounting to parts of engineering design to analytics support, the availability of the right resources varies wildly. High skilled data scientists are in short supply (McKinsey’s Research Institute forecasts a shortage of 140,000 – 190,000 per annum, in the US alone) and the hunt for them knows no geographic boundary anymore. At the same time many transactional back office workers are in excess, and displaced by technology and the availability of global, cost effective labor pools. The redeployment of excess resources and the up skilling of new ones are stimulating innovative process reengineering and human resources programs.

**Technology** has provided numerous avenues for collaboration of increasingly large, increasingly dispersed individuals – within and outside of the enterprise. Less invasive than in the previous ERP wave, new technologies are being increasingly adopted at scale and will trigger operations’ rejuvenation. A process-oriented

### Adding the missing layer in enterprises’ flow of work



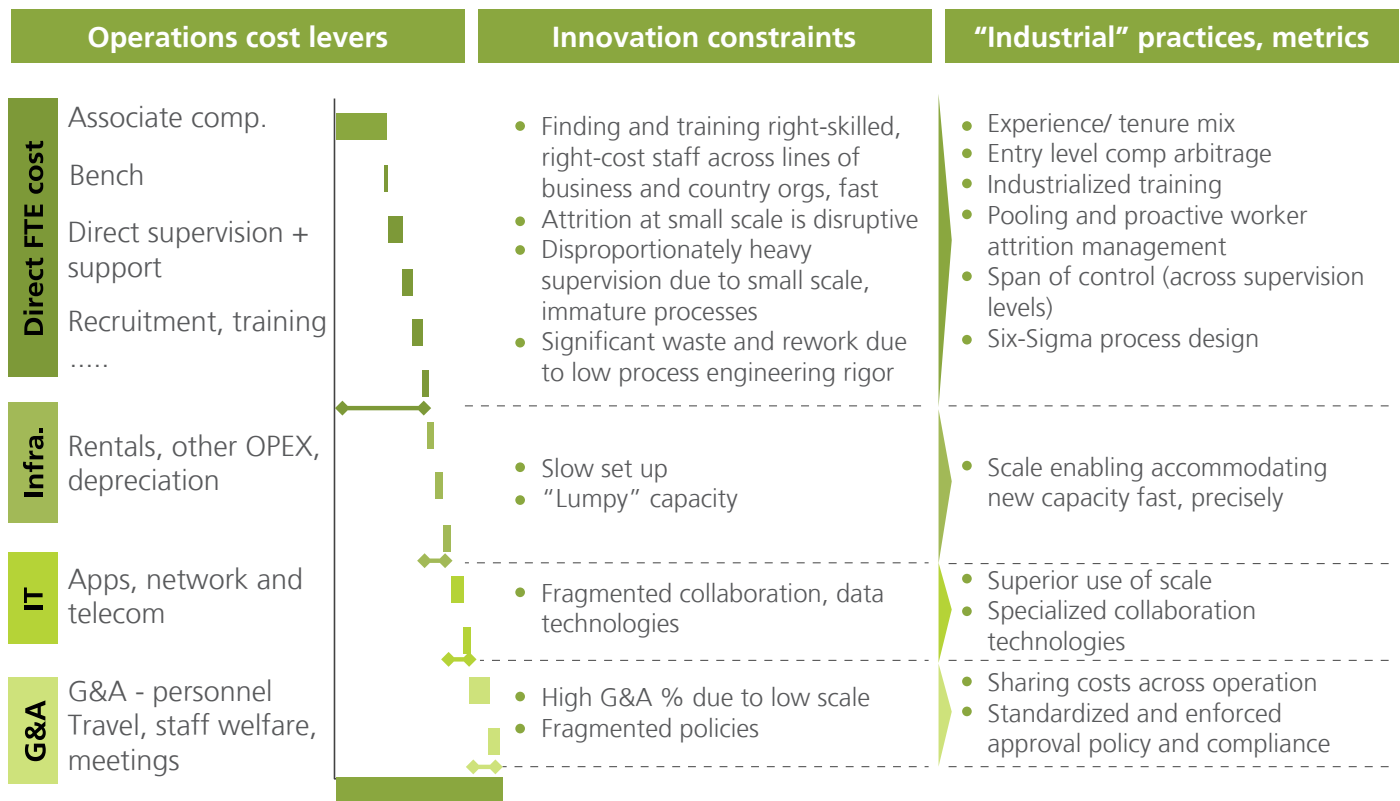
fusion of communication, social, mobile technology, often cloud-based, can become a power enabler of new ways of operating – triggering the emergence of so-called unified collaboration environments that will complement the existing, more rigid and prescriptive ERP and legacy workflows.

Finally, partially driven by the two previous trends, sophisticated **process** operations practices have emerged in Global Business Services (GBS) – large, global shared organization typically servicing multiple functions’ support needs. The scope of their intervention supporting innovation needs to be carefully optimized: typically, they will start by taking over self-contained, repeatable and high-volume tasks such as data transformation or basic client support. Once these design choices are implemented, these modern operations also turn the rampant talent gaps into an opportunity to harness talent globally, hence achieving access to more cost-effective resources. As described in the chart, they also use scale, process optimization practices based on Six-Sigma and Lean, and metrics more rigorously than normal operations, hence providing a cost-effective foundation to new product launches, data-heavy analysis of micro-niches, or geographic extension.

Crucially, the decoupling of these process’ subcomponents and the creation of industrialized operations manned by a highly educated, global workforce doesn’t have to result in functional silos, as end-to-end process management is an increasingly mature practice and allows the best GBS to operate like an “extended enterprise”.

GBS’ adoption is rapidly spreading from traditional finance and accounting transactional processing to more sophisticated financial modeling support; from indirect procurement assistance to supply chain analytics support; from contact center to data-driven, multi-channel support; from client application processing to Know-Your-Customer and Anti Money Laundering operations. This is the foundation for innovation at scale through those functions.

## Industrialized operations enable innovation



### Conclusion: the missing ingredient for volatility-proof innovation is your business operations' management team

In this paper, we have articulated why senior executives must look at operations' process excellence as an engine for significant product and business model innovation in times of volatility. Global business process operations will be asked to play an increasingly important role in the future of enterprises' competitiveness. They will not solely be a cost effective foundation: they will need to support the quest for new opportunities, be they emerging or local, as well as adjust to an ever-changing market and constantly evolving regulatory conditions. The transformation will require operations to pay close attention to talent, technology, and process management. Innovative operations can be a powerful foundation for making each step of the process chain nimble and effective. Hundreds of basis points can be recaptured, and speed to scale often halved, by intelligently leveraging them. Organizations that are ready to embrace change within global operations can boost their agility and cost effectiveness. As a result, the role of such COO and head of service delivery – or in many cases the CFO, as the pioneer in using shared services operations - will become increasingly strategic.

To succeed will however also require cross functional and innovation skills, as industrialized operations aren't old-style "no-news-is-good-news" G&A. They are scaled-up business process engines that drive heavy-lifting analysis of sales, marketing, and supply chain data; embed it granularly and effectively into sales execution, customer interaction, inventory, production and sourcing transactions; all the while ensuring that exploiting new markets or introducing new products don't generate undue compliance or earnings risks. The result could be enterprises' value chains ability to capture demand cost-effectively wherever it is, whether in profitable micro-segments of developed economies or in large-scale emerging markets. At the same time, such enterprises can also respond to top line fluctuations by reducing the cost of goods sold, SG&A, and asset intensity.

These are the characteristics of companies able to prosper in the new normal of volatility and will define, we believe, a new archetype for innovative, intelligent enterprises.

## About Genpact

Genpact Limited (NYSE: G), a global leader in business process management and technology services, leverages the power of smarter processes, smarter analytics and smarter technology to help its clients drive intelligence across the enterprise. Genpact's Smart Enterprise Processes (SEP<sup>SM</sup>) framework, its unique science of process combined with deep domain expertise in multiple industry verticals, leads to superior business outcomes. Genpact's Smart Decision Services deliver valuable business insights to its clients through targeted analytics, reengineering expertise, and advanced risk management. Making technology more intelligent by embedding it with process and data insights, Genpact also offers a wide variety of technology solutions for better business outcomes.

For more information, visit [www.genpact.com](http://www.genpact.com). Follow Genpact on Twitter, Facebook and LinkedIn.

## About the Author

Gianni Giacomelli is senior vice president and product innovation leader at Genpact. He is responsible for a global product development framework and product roadmap which integrates Genpact's capabilities in process management and transformation, IT, analytics, and industry expertise to solve clients' business challenges. His career spans more than 20 years across strategy, marketing, and transformation consulting.

Gianni joined Genpact in 2010 from SAP, where he served in a number of global management roles. He led strategy and organizational development for an innovative portfolio of SAP's sustainability solutions and also served as head of strategy and marketing within SAP's Outsourcing and On-Demand group. Prior to SAP, Gianni held management consulting roles with Everest Group and Boston Consulting Group (BCG). He started his career in marketing analytics with the Danone Group.

Based in New York, Gianni has a post graduate degree in organizational and social behavior from the London School of Economics and a business administration degree from the EME Strasbourg Business School and the University of Florence.

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