The Smart Recovery

IT and Business Process Services Priorities for Thriving in Uncertain Times

By Cecilia Edwards

Executive summary

COVID-19 has sparked the worst global economic crisis since the Great Depression. Governments are now reopening their economies, but a full return to normalcy may not come any time soon.

Faced with great uncertainty, companies need to focus on measures that make them more agile and resilient

To thrive in this environment, businesses should set three priorities:

- **Smart savings**—to absorb some of the impact from lockdowns, fund the transformation required during recovery, and emerge with a cost-competitive position;
- **Smart agility**—to respond to changes in customer behavior, demand, and based on competitor activity;
- **Smart resiliency**—to operate effectively at scale in the face of future shutdowns and other disruptions.

Read on to learn more about these three priorities and see our five-step recovery roadmap to achieving them.

Uncertainty is the only certainty

As of June 1, confirmed cases of COVID-19 exceeded 6 million worldwide, while deaths from the disease surpassed 375,000. Months of lockdown have slowed the virus' spread at a great cost to workers, businesses globally.

In the US, 40 million workers have lost their jobs since mid-March. India's unemployment rate has risen from 8% to 24%.

As the economic damage soars, governments face mounting pressure to accelerate the lift lockdowns and allow life to resume. Wall Street, for its part, believes that businesses will soon find their footing—from March 23 to May 19, the S&P 500 rose by 32%.

Still, there are reasons to doubt that the global economy will soon be restored to full capacity. One-third of Americans, for example, say they'd be uncomfortable shopping at a mall without access to a vaccine. The increase in cases as lockdowns are partially lifted lead to the question of whether economies will be shuttered again? In the Chinese province of Jilin, home to 100 million people, this is already happening. How long will high unemployment last? If America were to resume annual growth of 2.3%, its average over the past decade, unemployment wouldn't return to its pre-COVID-19 level until 2040.

Life after lockdown, in other words, will be filled with tremendous uncertainty. To prosper now and in the future, companies need to embrace three familiar goals faster—and more intelligently—than ever before.

Smart savings

The pandemic has severely strained household finances. A Pew Research survey found that 43% of American families have an adult who has either lost a job or taken a pay cut since lockdowns started.

Corporate balance sheets are equally troubled. The big names that have already filed for bankruptcy cut across industries, from clothing (J. Crew) to fitness (Gold's Gym) to car rental (Hertz). Silicon Valley hasn't been spared pain. Advertising revenue has fallen at Facebook and Google, even as users spend more time on their services.

If there were ever a moment to conserve cash, it is now. The key challenge for companies is to find savings in intelligent ways.

Indiscriminate budget cuts inflict grave damage—hurting employee morale, alienating customers, and weakening long-run growth prospects. The S&P 500 firms that enacted the fastest and deepest budget cuts during the US recessions of 1981–82, 1990–91, and 2001, for instance, were also least likely to thrive in the ensuing recoveries, according to a study by researchers at the Harvard Business School.

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Smart savings, on the other hand, are inherently non-destructive. They give companies a buffer to absorb today's weak demand. They create leaner, more competitive organizations for tomorrow. And they help fund the business-critical investments, especially digital transformation, needed to thrive in both the present and future.

Smart savings can be found in various ways. For example, in early February, lockdowns forced Anta, a Chinese sportswear giant, to close stores and factories. They reassigned underemployed staff to become "brand ambassadors" on social media. The strategy saved money, connected with customers, and yielded better business results than other brands, like Adidas who deployed a strategy to spend heavily on professional marketing campaigns to prop up demand. Anta's sales in China fell by only 20% during the country's lockdown, compared with a 58% decline for Adidas.

Smart savings also require a willingness to reverse course as conditions change. On May 20, for example, Harley-Davidson announced that it was scrapping much-hyped plans to expand its motorcycle offerings. Fewer models and simpler factories, the company explained, are more cost-competitive in conditions of uncertainty.

Service-provider portfolios are a particularly ripe area for smart savings. Companies should begin by diving deeply into the details of their IT services and business process service (BPS) contracts. Many businesses have contracted for services, licenses, or infrastructure capacity they do not regularly use. Is there room for more (less costly) self-service options for support? Do IT services and BPS contracts adjust quickly to fluctuations in customers' demand? Is the ratio of onshore to offshore service provision optimized? Are competitors paying similar amounts for their own IT services and BPS contracts—or much less?

Today's uncertainty is forcing companies to become more cost-conscious. Firms that prioritize smart savings will be several steps ahead of their competitors.

Smart agility

Agile companies respond faster to changing market conditions.

Yet the push to apply "agile" principles—e.g., favoring flexibility and individual initiative over rigid processes; results over documentation; and close engagement with customers—has often been restricted to software-development teams or to narrow project-management initiatives.

Smart agility results in being able to quickly and (reasonably) seamlessly shift a firm's work to operate in new models at scale. There are two key components to this shift. First is the ability to shift work across geographies. While the COVID-19 pandemic affected locations around the globe, many mass disruptions are more localized, so having contingency plans to shift work across geographies is necessary for agility. The second component vital to shifting work quickly and seamlessly is having the technology, processes, and corporate policies in place to almost instantly enable work from "non-traditional" locations, such as homes.

Smart agility allows companies to cut through organizational bureaucracy to make rapid decisions in times of uncertainty, allowing for a high degree of responsiveness to shifting demand—both for product and service mixes and volumes. In late March, for example, L'Oréal swiftly pivoted from producing cosmetics to hand sanitizers; GM transitioned from cars to ventilators. The benefits of smart agility also include nimble supply chains. Lululemon, for instance, had the capacity to turn its shuttered retail stores into efficient e-commerce distribution centers.

Smart agility also means leveraging technology to nimbly shift as circumstances require, such as the need to protect employees and customers while maintaining customer experience. Walmart, for example, took in-store safety to a higher level with its touchless sales system that enables shoppers to avoid using card readers and keypads at registers by scanning a QR code with their phone after items are rung up and paying with a card on file within the Walmart app. This process limits contact with items and between people. Further, Walmart's curbside pickup option for groceries, which required both technology, operational, and personnel shift to implement, has enabled shoppers to continue to socially distance while restocking.

Smart resiliency

COVID-19 is unlikely to be the last mass disruption that firms face; others–related to climate change, geopolitical strife, and/or other pandemics–are on the horizon.

To operate effectively at scale during future economy-wide disturbances, companies should act now to make themselves more resilient.

Perhaps the smartest way to greater resiliency is investing in digital transformation. The pandemic has exposed the risks of not having a high-performing digital operating model to allow employees to work from home at scale, to keep

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supply chains moving, and to respond to shifts in customer demand and the need for socially-distanced engagement.

Digital transformation can also create significant long-term savings for companies' cloud and data centers, as well as for their workplaces, business applications, and security systems. For example, In Everest Group's experience, companies that correctly implement DevOps—a set of practices that encourages collaboration between IT and software development personnel—see savings of 10%–25%.

Digital transformation is difficult to pull off; it requires businesses to fundamentally rethink how they mix their people, processes, and technology to maximize performance. An Everest Group survey of 188 global companies with revenues of at least $1 billion, conducted before the crisis, found that 82% were dissatisfied with the value realized—cost optimization and operational efficiencies—from their digital transformations, despite investing heavily in them.

Failure to get the technical details right—and execute them—is partly to blame. Just as important, though, is the absence of leadership alignment, i.e., having a firm's C-suite fully engaged and committed. When a firm's leaders are aligned, dramatic improvements in organizational resilience that would take six months to appear, if at all, can instead emerge in just six weeks.

The pandemic is accelerating leadership alignment on digital transformation. "We have seen two years' worth of digital transformation in two months," noted Satya Nadella, CEO of Microsoft, on April 29. By rapidly transforming its own capabilities, such as by scaling its Teams communications platform, Microsoft is also helping clients speed up their own digital transformations. Released just three years ago, Teams is now used by 75 million people every day.

Digital transformation leaders have emerged in unlikely places, such as primary education. The 18,000 students at Success Academy (SA)—which operates 45 charter schools in New York City—now receive full days of online teaching, homework, and exams. Average daily attendance is 97%. (More than two months into lockdowns, only 44% of US school districts offer live online instruction, measure students' progress, and monitor attendance.)

Digital transformation should lead firms' smart-resiliency efforts. But other actions, such as strengthening business continuity plans, are also needed. Stress tests are critical. Is IT infrastructure adequately protected? Can current operating procedures withstand upheaval? What about service-provider partnerships? Are analytic systems equipped to monitor events in real-time? Has C-suite leadership been trained on the do's and don'ts of crisis communication? Smart resilience requires identifying and correcting organizational weak links before disaster strikes.

A roadmap for smart recovery

Faced with significant uncertainty, companies should prioritize intelligent measures that make them more cost competitive, agile, and resilient. However, they'll need a roadmap to get there, such as this five-step plan:

1 Set strategic priorities

- [ ] Personnel safety
- [ ] Business continuity planning gaps
- [ ] Supply chain adjustments
- [ ] Market demand shifts
- [ ] Digital engagement expectations
- [ ] Financial health

2 Establish a recovery journey management team

- [ ] Leader to coordinate and collaborate across the organization
- [ ] Process to track performance metrics
- [ ] Organizational communication plan
- [ ] Project identification and vetting
- [ ] Funding recommendations
- [ ] Strategic alignment process

3 Set contractual terms for IT and BPS providers

- [ ] Update term and conditions
- [ ] Benchmark pricing
- [ ] Eliminate waste
- [ ] Adjust for demand fluctuations

4 Reevaluate service-sourcing strategy

- [ ] In-house vs. outsourced scope
- [ ] Structure of provider portfolio
- [ ] Location strategy

5 Provide resources to execute transformation initiatives

- [ ] Dedicated internal IT and business subject matter expertise
- [ ] Flexible IT and business process server provider relationships
- [ ] Flexible funding approach

Is your company on the path to a smart recovery?

Take our five-minute Recovery Readiness Assessment for customized feedback.

Cecilia Edwards

Cecilia Edwards is a partner at Everest Group and leads its consulting practice's IT &Digital Transformation efforts. Previously, she served as chief strategy officer at Telligent, as CEO of the Foundation for Community Empowerment, as a principal with the Boston Consulting Group, and as a captain in the US Air Force. Edwards holds a B.A. in mathematics from Smith College and an MBA from the University of California, Berkeley.

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For more information about Everest Group, please contact:

+1-214-451-3000

info@everestgrp.com