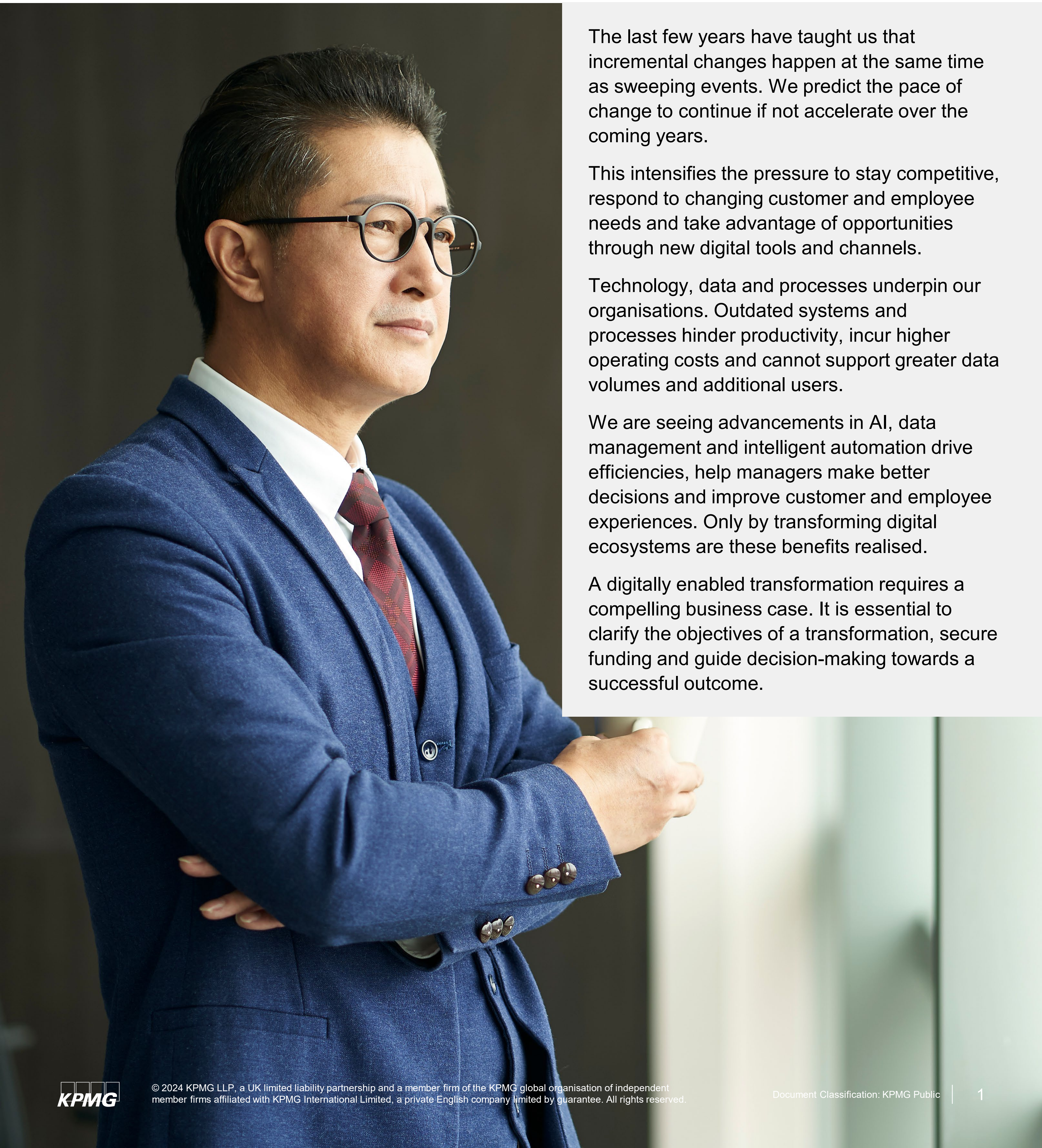
A digitally enabled transformation demands a compelling business case

October 2024

Change happens slowly and then suddenly ▸

Organisations must digitally transform. Those that don't will pay a high price. A compelling business case is the first step to a successful transformation.



The last few years have taught us that incremental changes happen at the same time as sweeping events. We predict the pace of change to continue if not accelerate over the coming years.

This intensifies the pressure to stay competitive, respond to changing customer and employee needs and take advantage of opportunities through new digital tools and channels.

Technology, data and processes underpin our organisations. Outdated systems and processes hinder productivity, incur higher operating costs and cannot support greater data volumes and additional users.

We are seeing advancements in AI, data management and intelligent automation drive efficiencies, help managers make better decisions and improve customer and employee experiences. Only by transforming digital ecosystems are these benefits realised.

A digitally enabled transformation requires a compelling business case. It is essential to clarify the objectives of a transformation, secure funding and guide decision-making towards a successful outcome.

Digital enablement

Making the decision to invest in a digitally enabled transformation is daunting. It requires a well thought out evaluation of the benefits and costs of committing large sums of money, time and effort into upgrading and/or replacing an ERP or technology platform(s).

At KPMG

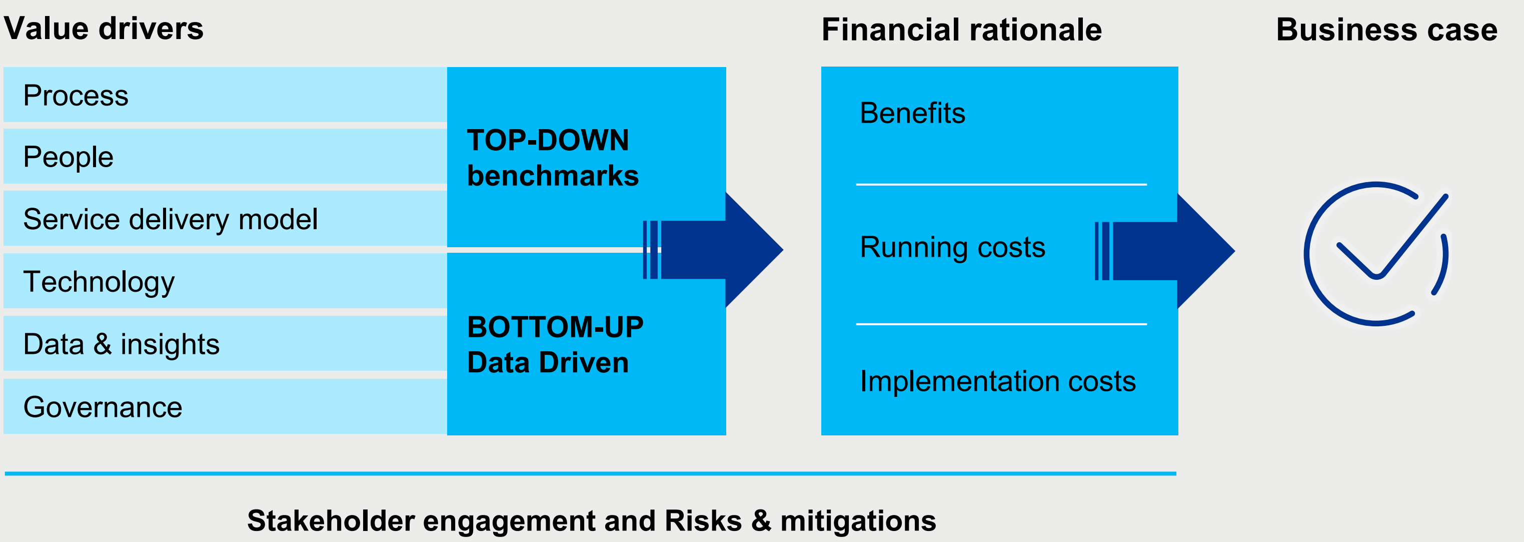
we believe that a change in technology is only one component of a digitally enabled transformation. Our experience has shown that significant value is realised when our clients combine a technology investment with a transformation of the other layers of an operating model*, such as processes, people, governance, data & insights and/or service delivery model.

Identifying and measuring this value is complex. Benefits need to be quantified, and value articulated simply but powerfully to get buy in from stakeholders. This means producing a business case that stands up to scrutiny.

*KPMG's Target Operating Model provides a framework to organise your thinking and answer three critical questions associated with change: Where are we now?; Where do we want to be?; How do we get there?

- Functional process
- People
- Service Delivery Model
- Technology
- Perf. insights & data
- Governance

Business case framework



This paper looks at five things needed to produce a robust business case for a digitally enabled transformation:

01 Value drivers aligned to Business strategy:

A clear articulation of the case for change and how the proposed digital and/or operating model changes contribute towards achieving the organisation's goals and value unlock. The value drivers should link to specific key performance indicators (KPIs) and metrics to effectively measure the change.

02 Financial benefits and rationale:

Financial analysis should demonstrate that the expected financial benefits deliver a suitable return on investment and recover the Total Cost of Ownership.

03 Total Cost of Ownership

Total Cost of Ownership includes the implementation costs (Capex and restructuring) and ongoing operational costs of running new systems, processes and data models.

04 Stakeholder engagement:

Stakeholder engagement and buy in is essential to the success of any significant change programme. Engage stakeholders early on, and throughout, as their support is critical to a successful implementation.

05 Risks and mitigations:

Consideration should be given to the potential risks and challenges to the business case with strategies developed to mitigate these risks.

Value drivers aligned to business strategy ▸

Value drivers are the differentiating capabilities that make the change worth it. Each organisation has its own values and strategies, and the value drivers must promote those goals. Be clear on what these are:

New capability that does not exist today; 01	**Enhancement of a capability that already exists; and/or** 02	**Acceleration of an initiative that is being implemented** 03

Opportunities present themselves because of an issue, challenge, or problem and a root cause analysis may be needed to determine the underlying cause. However, opportunities also exist because there is simply a better or more efficient way of doing things. The transformation programme should identify these opportunities and match them to the value drivers to determine the benefit.

Keep an open mind and take a holistic view of the enterprise-wide potential opportunities that arise from an operating model transformation.

The transformation team should work closely with the business to, amongst other things:

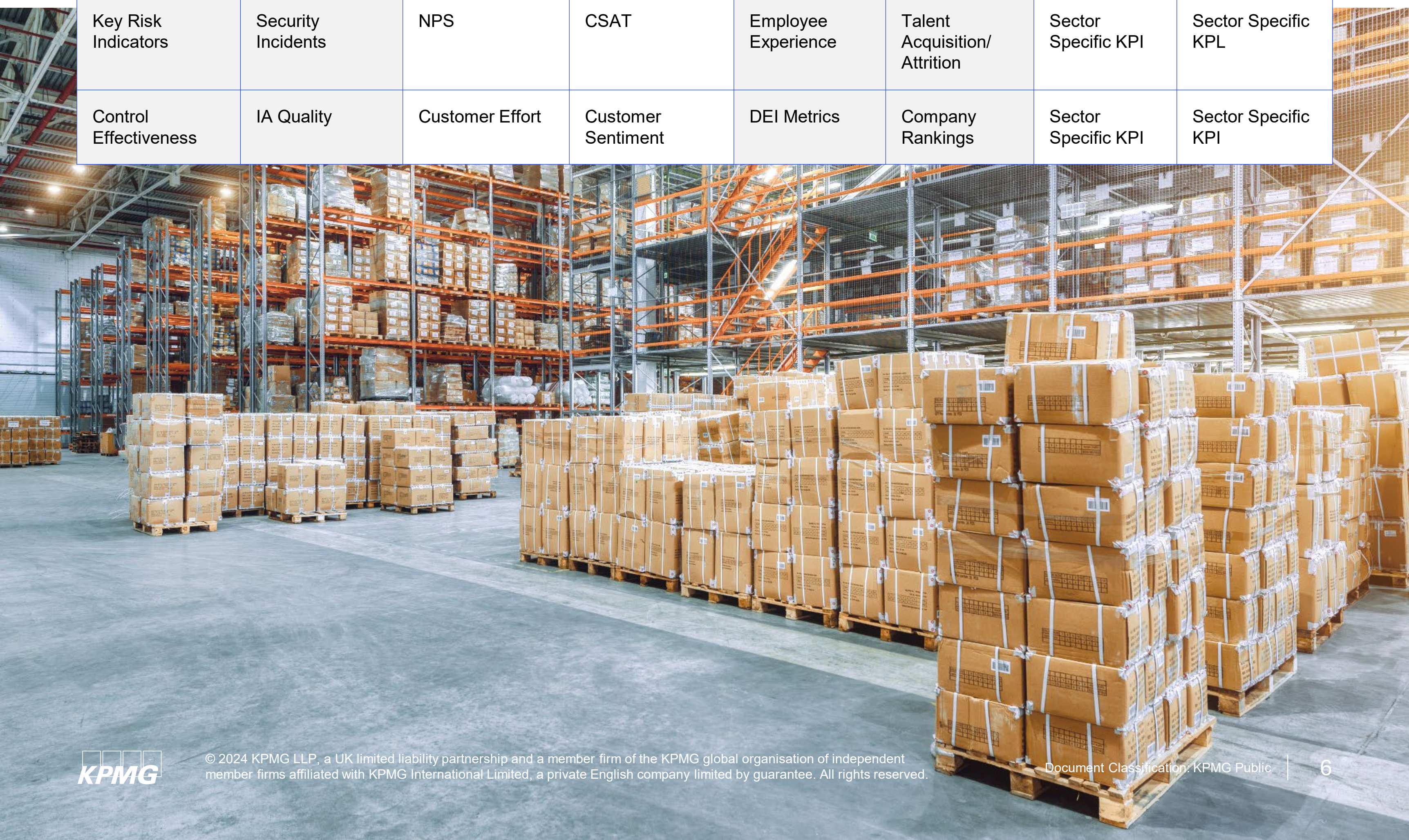
- Engage with functional & process stakeholders to identify and align on the opportunities and key value drivers based on the maturity and ambition of the organisation, linking these to specific KPIs and metrics.
- Differentiate benefit opportunities between recurrent, cost avoidance and one-off benefits.
- Educate how the digitally enabled transformation will drive productivity.
- Understand the current landscape of in-flight opportunities to build impactable baselines and adjust where necessary for the impact of ongoing/ in-flight projects.
- Determine a prudent assessment of the financial benefits for inclusion in a business case.

Financial driven opportunities

Growth		Gross margin		Cost		Capital efficiency	
Digital Commerce Transformation	Customer Strategy and Segmentation	Customer/ Product profitability management	R&D Productivity improvement	Overhead/ Benefits/SG&A Rationalisation	Operating Model Strategy Deployment	Inventory Optimisation	Strategic Acquisitions, and Divestitures
Innovation Strategy Deployment	Content Distribution/ Partnership Strategy	Cost of Goods Sold Improvement	Revenue Cycle/ Growth Management	Operating Structure Optimisation and Delayering	Indirect Procurement Effectiveness	Cash Management (AR/AP/ Inventory Tax) Optimisation	Balance Sheet Optimisation
Sales & Marketing Effectiveness	Data Driven Growth Strategies	Portfolio/ SKU Optimisation and rationalisation	Supplier strategy and operating model	Distribution and Logistics Efficiencies	3rd Party/ Vendor Spend Management	Customer Services/ Bad Debt/ Collections Effectiveness	Enterprise Asset Management
Pricing and Revenue Optimisation	Data Services Monetisation	Pricing and Promotion Optimisation	Expense Ratio Optimisation	Supply chain/Network Optimisation	Back Office Automation	Branch/ Location Effectiveness and Footprint	Working Capital Optimisation and Productivity
Product & Channel Optimisation	ESG Strategy Development	R&D Model optimisation	Manufacturing & Maintenance efficiency	Technology Cost Reduction	Shared Services Expansion	Capex Planning optimisation	Tax Efficiencies
M&A Partnerships and New Markets Expansion	Marketing Spend ROI	Inbound and Intra-site Freight Reduction	Direct Labour optimisation	Sustainable/ESG Financing	Managerial Optimisation	Legal Entity Optimisation	Partnership/ Alliance Models
KPIs and metrics							
Revenue & Bookings	EBITDA	Gross Margin	Inventory to sales ratio	Revenue/Cost per FTE	SG&A % of Revenue	FCF	Liquidity
CLV	Market Share	Product profitability	COGS% of Revenue	IT as % of revenue	3rd party Spend	Cash Conversion	ROIC

Reputationally driven opportunities

Risk reduction		Customer & brand		People & Culture		Public impact	
Board Governance and Risk Reporting	Compliance Optimisation	Experience Personalisation	Digital Experience Improvement	DE&I (Diversity, Equity and Inclusion)	Workforce Shaping	Community Wellbeing	Environmental Impact
Data Driven Risk Quantification	Regulatory Change/ Transformation	Customer Experience Operating Model	Loyalty Program Optimisation	Strategic Organisation Design	Workplace Flexibility	Social Equity	Prosperity
Enterprise Risk Register Refresh	GRC Transformation	Site Branding/Brand Selection Strategy	Voice of Customer Strategy, design, Implementation	People Experience Design	Employee Health & Safety Improvement	Health Outcomes	Wellbeing Outcomes
ERM Strategy & Operating Model	Cyber Security operating model	Customer Experience Spend ROI Optimisation	Intelligent Self-Service Automation	Organisation Change capacity & Effectiveness	Workforce Productivity	Justice Outcomes	Education Outcomes
Operational & 3rd Party Risk Op Model	Technology Risk/Debt Reduction	Contact centre/Omni-channel integration	Contactless/ Virtual field services	Strategic Talent & Skills Management	Employee value Proposition (inc. ESG)	Public Sentiment	Reginal Equity
Climate (Physical, Transition) Risk Assessment	Contract Compliance Automation	Sustainability Practices	Brand & ESG Integration	Change Leadership Effectiveness	Values-based Culture	Equality outcomes	Sustainability Outcomes
KPIs and metrics							
Key Risk Indicators	Security Incidents	NPS	CSAT	Employee Experience	Talent Acquisition/ Attrition	Sector Specific KPI	Sector Specific KPL
Control Effectiveness	IA Quality	Customer Effort	Customer Sentiment	DEI Metrics	Company Rankings	Sector Specific KPI	Sector Specific KPI



Financial rationale and benefits ▸

The financial rationale in a business case involves assessing the financial viability of the programme.
This considers factors such as payback period, net present value (NPV), and/or internal rate of return (IRR).

To determine any of these metrics requires a good understanding of the financial benefits and Total Cost of Ownership

Financial benefits

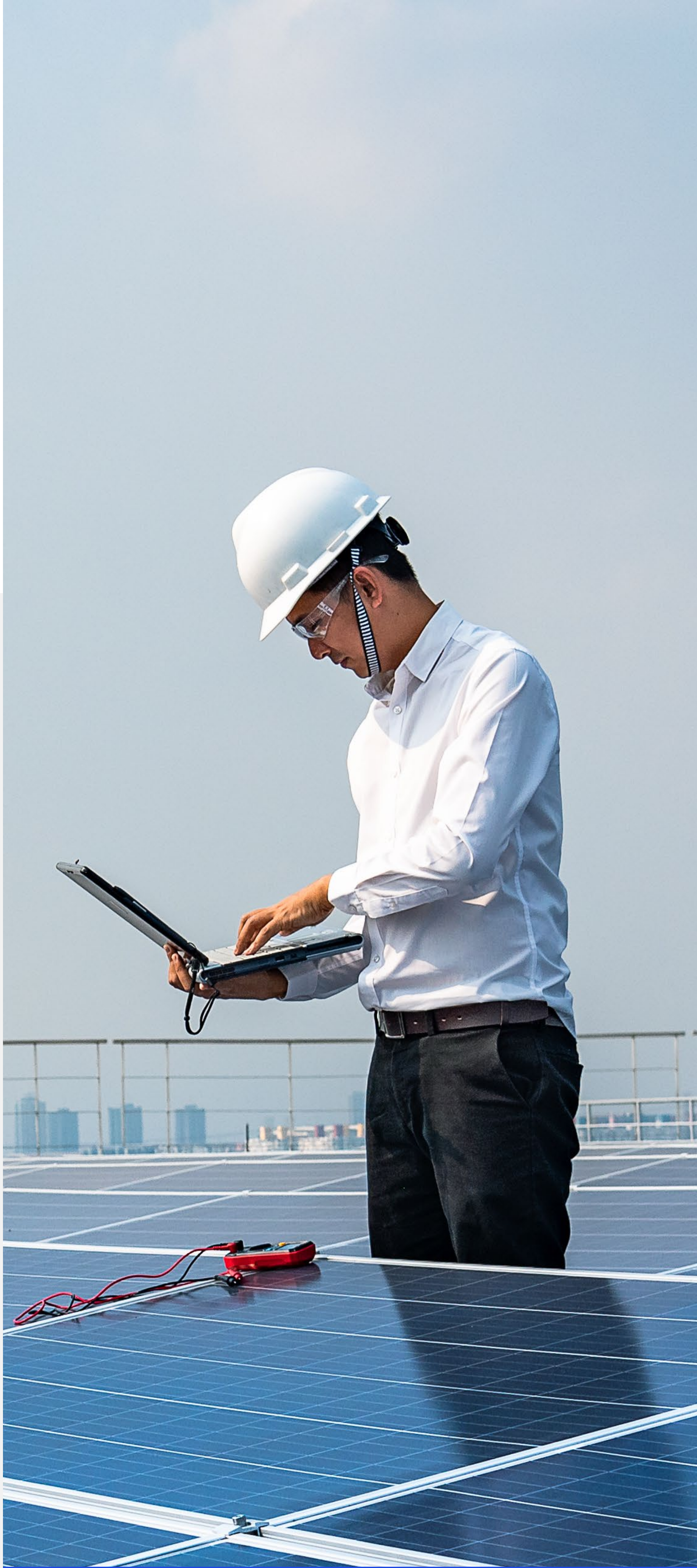
Financial benefits are the tangible benefits that derive from a reduction in internal costs and/or external spend or an increase in revenue etc. These could also include improvements to working capital, but these are normally treated as a one-off benefit.

We typically use two broad methods to determine the financial values that feed into a business case, and in many cases a combination of both:

01 **Top-down benchmarking:** Benchmarking key metrics and performance indicators provides a useful provocation and can be an effective way to estimate a range of financial benefits.
For example, by understanding an organisation's current baseline metrics and comparing those with top quartile peers, we can range the potential benefit that could be delivered through a transformation.

02 **Data driven 'Bottom-up' assessment:** For a more thorough assessment, a detailed analysis and evaluation of the expected changes to key metrics and performance indicators that arise from changing the operating model can also be applied. This normally requires more data and analysis but could give a more accurate outcome.

The range of benefit values included is typically the most controversial component of the business case and the most likely to be scrutinised and challenged by stakeholders. It is critical to engage with those stakeholders to get their buy in into the methods applied and ensure they agree on the baseline metrics used in the evaluation.



PRO TIP

There may be one or more in-flight business initiatives already designed to target the same opportunities. To quantify the benefits attributable to the programme, look to build impactable baselines and adjust where necessary for the impact of ongoing/ in-flight projects.

Total Cost of Ownership

Implementation costs

Implementation costs include 3rd party implementation partner costs, internal development, and support costs associated with Design, Build, Test and Deployment.

Provision should be made for restructuring costs where organisational changes are expected.

Annual running costs

Annual running costs are based on estimates of the costs associated with systems in scope such ERP systems, or other supporting systems. These typically include license & subscription and maintenance (both internal and 3rd party).

Implementation costs

01 Capex

Technology enablement is a significant part of the capex investment as it delivers the high-quality systems engineering which business benefits can be directly or indirectly derived.

While it may be understandable to look back on how ERP implementations have been done in the past, there is one profound difference in the way these are enacted today. In the past, these programmes began with significant effort to describe functional requirements, which led to significant development time and investment until a working system could be presented to the business.

Using a reference model, like KPMG Powered, to define target processes enables the use of off-the-shelf industry accelerators (pre-configured systems). This shifts the focus and effort to defining those areas where the target processes deviate from industry standard (differentiating capabilities) thus significantly reducing the cost of implementation.

Careful consideration is required to determine whether expenditure is recognised as an asset or expensed in the P&L. Accounting for implementation costs incurred in a cloud computing arrangement largely depends on whether the entity receives a software intangible asset or enters into a service contract. For example, SaaS arrangements are often accounted for as service contracts with the expenditure accounted for over the contract term (P&L).

02 Restructuring costs

Pivoting on the re-engineered processes and the revamped technological landscape, means re-organising how people are structured for efficiency and effectiveness. Provision should be made for any associated restructuring, re-training and outplacement costs.

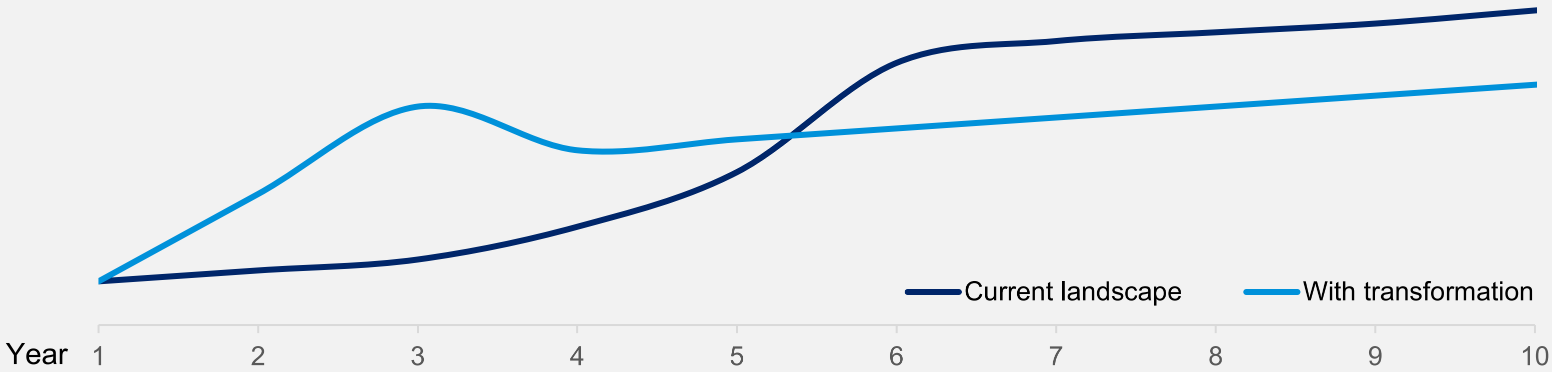
Annual running costs

A digitally enabled transformation will change the business operating model for the better, often reducing complexity and cost through business process standardisation and optimisation.

However, some operating costs, like license & subscription costs, maintenance, both internal and 3rd party, may increase with new and upgraded systems and vendors.

There is usually a period when the cost of new license, subscription and maintenance costs will overlap with the old, meaning additional costs in the short term. However, as vendors like SAP end their support for legacy systems, the cost of maintaining these outdated practices will start increasing over time. This makes a transformation more cost attractive than it initially appears.

Illustrative operating cost profile with and without transformation



Stakeholder engagement ▶

A business case should not be written by specialists in isolation. Intensive stakeholder engagement is vital to gain trust and buy-in and should form part of a wider Change Management Strategy to increase awareness and acceptance of change.

Advantages of integrating stakeholder engagement into the development of the business case:

Advocacy

Leaders who are not only prepared to sign off on the benefits but also advocate for the business case to peers. These will be powerful allies who will help to motivate the case for the transformation across the organisation.

Accountability

Maintaining a traceable, evidence-based record of consultation and sign off keeps the process transparent. This demonstrates that consultation has been robust.

Collaboration

Engaging a diverse group of stakeholders such as business leaders, end-users, and subject matter experts brings a diversity of perspectives which leads to better decisions and outcomes.

Mitigate resistance to change

Those stakeholders without a role in the project may, and often do, have strong feelings about the project. Giving them an opportunity to voice concerns or potential barriers provides forewarning to iterate the Change Management Strategy.

Separate the antagonists from the supporters

Understanding who is in opposition means better predicting the feasibility of the programme. Too many powerful leaders in opposition can make a transformation programme unviable.

Risks and Mitigations ▸

When it comes to developing a business case for a large digitally enabled transformation programme, there are a wide array of risks and opportunities to consider. Below are some key risks to consider in the development of a business case. These will need to be effectively managed and mitigated with proactive risk assessment and ongoing monitoring.

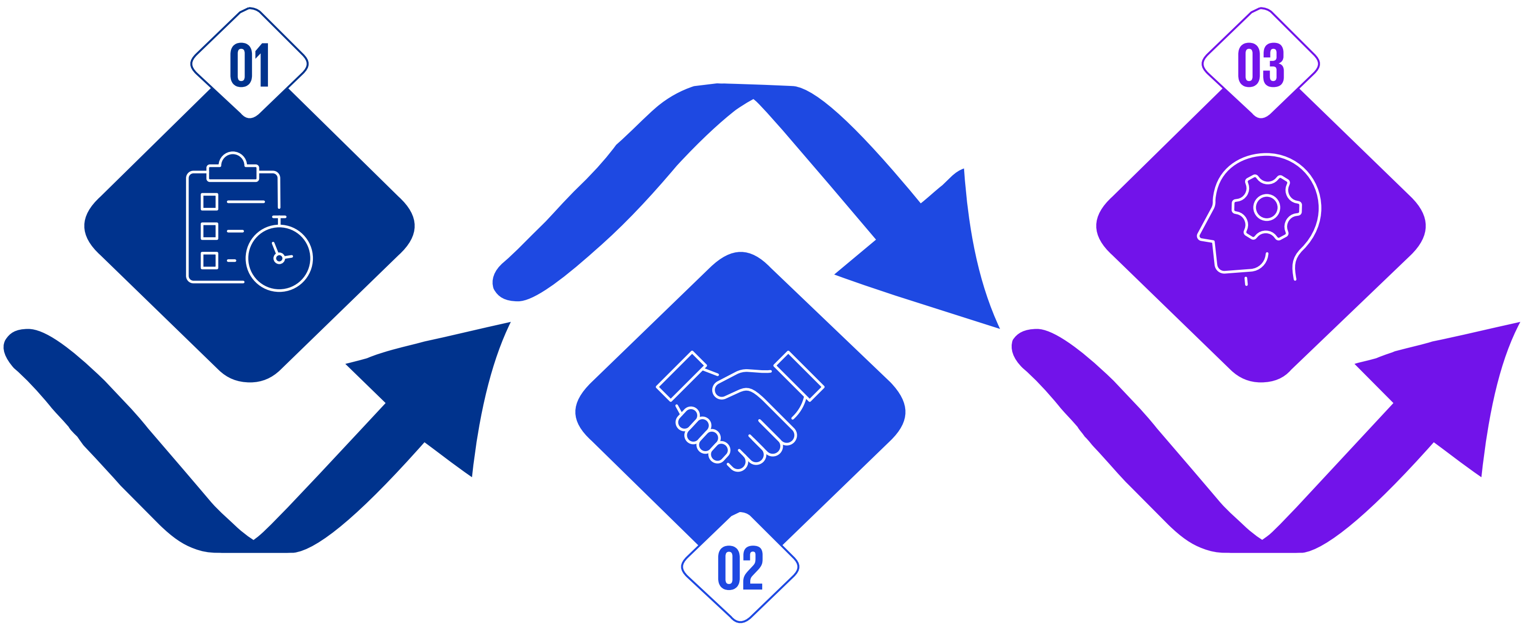
Estimation uncertainty

Inherent uncertainty exists in using a top-down benefit estimate approach. Not only is the realisation of benefits uncertain but large scale digitally enabled transformations normally take several years to realise the end state. In that time, baselines change and ascribing the realisation of benefits back to individual value drivers will be difficult.

A robust process for benefit tracking should be established.

Skills & resources

Many of the skills required to deliver a multi-year programme are highly sought after in the marketplace. While general inflation will impact both the benefits and implementation costs, potential skill shortages (supply and demand) may require attention throughout the duration of the programme.



Lack of stakeholder support & resistance to change

Without buy-in from key stakeholders (such as senior leaders, managers, and employees), the transformation may face challenges in approval & implementation. Stakeholders may resist the proposed changes due to fear of the unknown, concerns about job security, or attachment to existing processes.

Overcoming resistance requires effective communication and change management processes. Engaging stakeholders early and addressing their concerns is crucial.

A well thought out, effective business case will unlock the value of a digitally enabled transformation ▶

A business case is a key management tool that helps decision makers evaluate the opportunities and associated benefits against the risks in the context of the investment required. This is often based on a combination of necessity and choice, balancing strategic advantages and ambition, against cost and the impact of change. Its importance should not be underestimated.

- Keep an open mind and take a holistic view of the enterprise-wide potential opportunities that arise from an operating model transformation.
- Top-down benchmarking and bottom-up analysis are two methods typically used to determine the financial values that feed into a business case. Both have their merits and limitations.
- The cost of maintaining outdated systems and processes will increase over time. This makes a transformation more cost attractive than it initially appears.
- The cost of implementation and risk associated with transformation can be significantly reduced by using a reference model, like KPMG Powered.
- Stakeholder engagement is vital to gain trust and buy-in.
- Proactive risk assessment and ongoing monitoring is essential to mitigate the risks associated with a digitally enabled transformation.

A well thought out, effective business case will, undoubtedly, increase the likelihood of success in making the correct decision whether to invest in a digitally enabled transformation.

KPMG Powered Finance brings a collection of advanced tools, platforms and accelerators that help finance organisations to manage change, implement digital-first and keep improving. KPMG Powered Finance and the KPMG Target Operating Model for finance are designed to reflect that finance transformation should be a continuous process of evolution, while intercepting technologies that can be revolutionary.

For more information on how KPMG can support your digital transformation Business case, contact:

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CREATE: CRT155293B | October 2024