Rethinking customer journeys with the next-generation operating model

January 2018

This operating model offers business leaders the opportunity for wins in customer experience, cost reduction, and prospects for growth.

As digital becomes the way of life in industry after industry, company leaders are going to be required to reevaluate the customer journey from end to end. With the next-generation operating model, they have a new way of thinking through the necessary changes. In this episode of the *McKinsey Podcast,* senior partner Alex Singla and partner Elixabete Larrea Tamayo speak with McKinsey's Barr Seitz about the next-generation operating model and how it can help executives navigate the disruption of the digital age.

Podcast transcript

Barr Seitz: Hello and welcome to this episode of the *McKinsey Podcast.* I'm Barr Seitz, global publishing lead for McKinsey's Marketing & Sales and Digital Practices. I'm very pleased to be joined today by Alex Singla, a senior partner based in McKinsey's Chicago office, and Eli Larrea Tamayo, a partner in our Boston office. They both are deeply involved in McKinsey's work on digital services and are also the coauthors of "The next-generation operating model for the digital world"—by the way, among the most popular articles we've published in the last couple of years.

I'll be exploring with them what the next-generation operating model for the digital age is, what the management challenges are in running one well, and what it takes to make it work. So let's start the conversation. Eli, I'd like to start with you. What do you mean when you talk about the next-generation operating model? Can you bring it to life for me?

Elixabete Larrea Tamayo: Yes, of course, Barr. And hello to everyone. The way we think about the next-generation operating model, it's actually as a mechanism to help us address the challenges that most of the executives are facing in the digital age, as you were mentioning.

In almost every organization these days, there's some type of digital initiative that's under way. They have probably been experimenting with advanced analytics in the last few years, and are most likely figuring out what to do in terms of robotics, automation, and how to capture the most value out of that. All of this is happening at the same time and, very often, led by different people within the organization—quite honestly, with different agendas, aspirations, pace.

Implementing this next-generation operating model is a way to bring some order and discipline to that process while also making sure that it focuses on building value. When we think about an effective, next-generation operating model, we really think about two things. One is organizing the efforts around the end-to-end customer journeys, as well as some of the internal back-office processes. This means identifying the critical journeys and providing the perspective on the customer journey end to end and where the value is. The second element is moving away from individual technologies and operations capabilities in a piecemeal and siloed way to applying them to these journeys in combination and in the right sequence. So that's moving away from the silo thinking that we have had for years in the organization.

For example, in insurance, the first notice-of-loss process, which is right at the beginning of the claims end-to-end journey. This would mean, for example, combining advanced analytics, like adding some type of predictive modeling to flag claims and to rehash them to the right person with automation.

Barr Seitz: Great. I want to dig into this a little bit more, but, Alex, as we were preparing for this conversation, I remember I was really struck by the sense of urgency. You were mentioning why businesses need to really address dealing with the operating model. It's not an insignificant effort. But what about the urgency? Can you talk to why it's so imperative now to focus on such a large endeavor, like developing the next-generation operating model?

Alex Singla: I'll give you four specific examples or four specific reasons I think now is the right time. One, customer and agent behavior and expectations are fundamentally changing. They continue to go through the roof with regards to what your customers' expectations are on a day-to-day basis in terms of their ability to do self-service, speed of execution, responsiveness, and so forth. And interestingly, same with your agents. Depending on your distribution channel, your distribution partners are also looking for that level of service and experience so they can best sell and grow.

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Two is, even though interest rates have somewhat increased over time or more recently, they're still expected to stay low. For any business or company in which float matters and they're

making investments for the long term, with interest rates staying low, it means they have to recoup and make money in other ways.

Three, many technology start-ups—insuretechs, fintechs—are posing real serious threats to the current incumbents, and therefore, if companies don't quickly transform, there's a real risk that others will come in and, quite frankly, leapfrog them and take all the economic rents and share in the market in a pretty fast way. These customers will very quickly move to the next world. So the old adage around Blockbuster and Netflix, and how quickly Blockbuster went out of business given Netflix was truly transformative and a disruptor in the industry.

The fourth reason I think now is the time is because in industries like banking, regulatory and compliance costs are mounting while price transparency continues to increase. And even in insurance, the same price transparency is happening, which puts a tremendous level of extra pressure on cost and reducing cost.

Barr Seitz: These reasons are certainly compelling. Is it fair to say that most executives are already aware of them? And if that's the case, then what is keeping them from making this commitment to upgrading the operating model? Talk a little bit about why that is the decision they need to take now.

Alex Singla: As Eli had mentioned, there is a lot of activity going on in organizations across different initiatives. We go to any given company and people say they're doing advanced analytics, they're doing digital, they're doing elements of automation, robotics, they're pulling their procurement lever. But the reality is that there is to some degree very little impact that it has achieved. In fact, many companies are destroying value because they have a level of uncoordinated efforts.

The reason this is occurring is twofold. One is the activities they're doing are in small pockets. They're siloed, they're pilots, and their inability to scale them across the institution really holds them back from having dramatic impact. The second thing we find is those four or five levers I just articulated around digital, analytics, automation, procurement, and so forth are all independently driven events within an institution.

So different governing bodies, different executives who own those, and therefore they typically end up attacking the exact same value streams, the exact same customer or agent journeys and therefore are very, very hard to get prioritization and impact in that regard. The other reason we think they're not getting the impact is, quite frankly, the companies are just moving too slow. In an increasingly challenging environment where most companies are facing tremendous cost pressure, speed matters.

The next-generation operating model combines a bunch of technologies and operational levers in a tailored sequence and integrated way to get stacked wins for companies in terms of customer experience, significant reduction in cost, and better positioning for growth.

Barr Seitz: This point about integration and how you need to have multiple elements working in conjunction to really drive this next-generation operating model, and make it successful, and

have the impact that companies really aren't seeing yet with their digital initiatives—that sounds like a spin of a transformation program, a classical transformation program.

But it's about much more than implementing technology. It's a more fundamental change. Eli, can you talk a little bit about what needs to happen so these various parts of the organization can actually work together effectively to power this next-generation operating model?

Elixabete Larrea Tamayo: I'll mention a couple of things. The first one might seem a bit obvious, but it's really critical. This has to come from the top because it touches so many parts of the organization. Building a next-generation operating model isn't about working on some pilot to the side. This is core to the business, and it will touch IT, it will touch operations, marketing, supply chain, everything. For that reason, this needs to have active leadership from the CEO and the CxO [corporate executive] level in the organization. Point number two: we need to really understand what are the most important customer journeys and what are the most significant pain points that will add value and that we will need to prioritize against those.

Alex Singla: Eli, just building off that, one of the analogies I think about is a contractor remodeling a house, the contractor needs to know the electrician needs to come in, lay the electrical, put it behind the walls, do all the wiring before they bring in the drywaller to drywall the wall. And how you coordinate those things in a seamless way matters. If you think of that same analogy for some person in operations, the CEO, or the CEO who's driving a digital-services type of transformation, obviously, it's very hard politically to say all these leaders—who might own digital, analytics, robotics, automation, procurements—now will report to them.

What they need to be able to do is figure out how do you seamlessly work across those people as a contractor does, pulling in the right skills and capabilities at the right time and in the right order.

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Barr Seitz: Let me push you two a little bit on this model. Alex, what are some of the processes and enablers a company would need to put in place to really make sure that this vision of an integrated, working team happens on the ground?

Alex Singla: A couple of things I would say. First and foremost is having a very clear view and common vocabulary around what are the customer journeys or agency journeys when you look at a company. So how does a company look at you from end to end? Usually, that's going to cut across different silos within the institution. But get a common vocabulary and clarity around what are the customer journeys.

The second is either at the enterprise or a major business-unit level: what is the prioritization of customer journeys you're going to tackle? If you think of waves of tackling customer journeys over time, what's in the first wave, second wave, third wave? That's hugely important because different waves and different end-to-end value streams or customer journeys will dictate what assets, digital, analytics, or other capabilities are going to be required and when.

The third thing I would say is you need agree upon KPIs [key performance indicators] and metrics for accountability. So having metrics that look at end-to-end value versus siloed impact is hugely important. Because it gets everyone thinking in that end-to-end journey about what happens before them and after them, that they recognize they're just part of the process from a customer perspective. The next thing is role modeling from the top.

Eli referred to it. These programs are often CEO or very senior C-suite-level driven. I couldn't agree more. But that role modeling not just at the top of the house but at all layers then cascades into the organization. If you're doing this type of transformation within a specific business unit, that business-unit leader and the managers or direct reports of that business unit better walk the walk every single day on this concept of integration.

It also requires a new culture. It's a new way of working. This is much more agile way for the organization to adapt rapidly and be flexible to the market. It requires some elements of test and learn—and comfortability with being able to fail and fail and fix quickly. In other words, you need processes and reinforcement mechanics, incentives, KPIs, methodology, but also an ability to move people fluidly into various roles given what they're going to have to go do might change day to day as you go through some of this type of transformation.

Elixabete Larrea Tamayo: One of the typical challenges that companies are going through right now in trying to implement these is it's a very good concept, but when it comes to execution, it becomes pretty complicated. When you're thinking about engaging into or starting your transformation and that end-to-end journey, I think also the pace at which this will happen will be completely different from the one that we are used to. We are no longer talking about months of development to get a new solution out there and testing in the market. We are talking about weeks.

Barr Seitz: As you talk about putting this model into place, the behaviors, the KPIs, I'd imagine there's this first phase where the company and people are trying it. But there needs to be an adjustment period where learnings are actually incorporated and built on—where adjustments are made to really get the most out of this next-generation operating model. Could you talk a little bit in very practical detail, what does that intervention look like? What do executives need to do to really make sure that this machine is functioning the way it should be?

Elixabete Larrea Tamayo: They will need to be much more present probably than they used to be. And let's make it very practical, Barr. And Alex, feel free to build on this.

If you envision a place like a lot of environments where you have different resources from the organization working together toward, in a few weeks, getting out there with something new

that will dramatically change some of the needs that our customers have—we really need those at the top and the leaders of those different teams to be there, present, where the change is happening.

This shouldn't be a surprise after a few weeks when everything is down, when we are going to pilot. It should be something that they are saying almost every week. And we should create that culture where it's totally fine that top-level executives in the organization will walk by, try to understand what the progress is, try to get a conversation going about some of the challenges that are happening in terms of the development or whatever solution we are working on.

"The only way these types of transformations are successful and sustainable in the long term is with frontline adoption and ownership."

Alex Singla: Eli mentioned one thing that I want to build off of, which is the only way these types of transformations are successful and sustainable in the long term is with frontline adoption and ownership. Because there's a lot of things we can do with digital, analytics, automation, procurement, and some other levers that really can transform the business.

But at the end, there are still people who are going to have to work day in and day out running the business at the front line, interacting with your customers every single day. And those people need to go through their own little cultural transformation, so they know how to work in the new world. In addition to metrics that guide them to the right areas and role modeling from their managers or their bosses, there is also an element of: are we training those people the right way? Are we upskilling them to work in a new way? Are we teaching them new processes that they're going to work in? And then, how are we capturing the hearts and minds of those people so they feel ownership of that new end-to-end process and are willing to work in that new way, recognizing oftentimes, it does incorporate some element of new skills, new capabilities, with new technologies that they're going to have to learn to work with?

Barr Seitz: I want to shift the conversation a little bit now to this point around the multiplier effect of these capabilities. We've talked about analytics and robotics and AI [artificial intelligence]. These are all tools that can really enable the next-generation operating model. This idea of the multiplier effect is that digitizing processes creates more data, which is crunched by advanced analytics to create better and faster insights.

Clearly, it's cyclical. There's a journey. But could you talk a little bit about some of the design guidelines, Eli, that companies need to get in place so that these capabilities can really come together and work in this multiplier effect, rather than just doing individual tasks?

Elixabete Larrea Tamayo: It comes down to three things, Barr. The first one is getting the most out of each of these capabilities. If you think about advanced analytics, robotics, and digital, pushing the boundaries to get to the highest level of sophistication. We said earlier that

almost every organization is testing or experimenting with these capabilities, but very few times we actually find organizations and companies that are pushing them to the highest level of sophistication that you can get out of those.

The second one would be getting the sequencing right. This is not about just having a bunch of different initiatives and throwing in there into a customer journey with the hope that everything will work together and will get this multiplier effect. It does really matter, and a lot, the sequence at which we actually choose to implement them.

In some cases, the right formula or the right recipe should be, we will start with automating some of the more manual tasks. And once that is done, we will just bring some digital capabilities on top of that and think about, for example, adding some advanced analytics, predictive modeling. Some other times, depending on the customer journey, it will be a different sequence.

The third thing that I'd mention is you also need to step up from a journey-to-journey perspective or view to a company-wide view. We talked about a concept that we call "the heat map," but it's a visual articulation of all your customer journeys.

You want to see also how they are scoring or how mature they are across these capabilities that we have been mentioning—digital, robotics, et cetera.

Barr Seitz: I'm surprised that you mentioned this point about needing to get a greater degree of sophistication from existing capabilities. I would've thought that companies would be doing that anyway. Why is that not happening?

Alex Singla: If I look across kind of the companies I interact with, there isn't a company that I spend time with that isn't saying they're doing some elements of analytics, they're not doing some elements of automation, they're not doing some elements of digitization, and so forth, and procurement. Of course they all are. You know, if you're working in 2017, most companies are doing something along the dimensions.

What I would say is, if you look at the variability between those companies that are really attacking those opportunities holistically, the level of investment they're making in terms of dollar outlay, people, capabilities, and expertise is vastly different. For example, I'll see one company that will say, "We're going to attack the digital problem."

They'll put $10 million and a bunch of C-players against it. And I'm making up the numbers just to make the point. Then you see other institutions who the CEO comes and says, "We're going to be a digital-first company," and they put half a billion dollars, their top A-players against it; they tell their shareholders and Wall Street, "This is what we're going to go do," and they're all in.

And while everyone will say on the surface they're doing digital, or operations, or analytics, or bringing the whole thing together, as we talk about in next-generation operating model, the degree at which they're doing it is completely different. When we talk to our clients, we really try

to get them focused on the latter not the former, making big investments, thinking about long-term, big impact, and not incremental impact.

Barr Seitz: What does that mean in terms of that multiplier effect that Eli was just talking about in terms of these capabilities working together? Are there some examples you could highlight about how that would work in practice?

Elixabete Larrea Tamayo: I've been able to work with some organizations on thinking about what would be the art of the possible for some of their key customer journeys. And quite honestly, I don't think that urgency or that thinking was there one year or two years ago. I think there is a recognition now that we need to start to think and exercise the muscle to think about how to combine these levers together.

That capability doesn't exist in organizations nowadays. One thing that I have been involved with in the last few months is walking some of our executive teams through an exercise of pushing them to think about the art of the possible in the organization and thinking about it from a completely different set of solutions, or out of the box, from the way they were used to problem solving.

For example, one of the challenges I will throw there is imagine that you are working in an insurance company or a bank. You take one of the more traditional end-to-end customer journeys. And I tell them, "Look, you now have the license for the next couple of hours to forget that you are one executive in your bank or in your insurance company," whatever that is.

Imagine that you are for a few minutes one of the executives at Amazon or at Google. Or imagine—just to go even crazier—that you are Elon Musk and you are trying to solve the problem that you have at hand with a completely different way of thinking. Almost like expanding the solution set to a place that normally those organizations wouldn't be feeling comfortable to actually go. And that has been very eye-opening for me, at least personally.

Organizations and those leadership teams have come to the realization that by releasing some of the barriers that come from thinking in a certain traditional way, you can come up to a better solution set that will help you combine some of these technologies or capabilities in a way that you were not thinking to combine before.

Alex Singla: When it comes to the next-generation operating model, conceptually people find it easy to digest, to at least understand. Why it's really hard is because you have all these different levers in which you're trying to bring them together. And people's careers are based on the fact that there's someone who leads analytics in the institution. There's someone who leads digital. There's someone who leads automation. Getting those folks to interact and coordinate is just not easy. They all have their own road maps, pipelines, prioritization schedules, and how you get those things to coordinate does require senior leadership to help coordinate.

When you see the top team doing that across what are such critical capabilities for companies these days, at least in my observation, you start to see the front line understand that if those

functions can start to work together, we as different frontline operators across different parts of a silo need to start to work together.

It's another way for companies to leverage role-modeling behavior and communicate that down in terms of how they're going to start operating for the front line. Usually the front line is thrilled because historically they've been bombarded by analytic initiatives, digital initiatives, automation initiatives, something to do with procurement or outsourcing or offshoring. Now they understand that this is coming together in a holistic way, which makes it much, much more tangible for them and enjoyable to work in.

Elixabete Larrea Tamayo: The one other thing I'd add to what Alex said is, many times we find that one of the common things we hear when we challenge that status quo or institutional way of thinking is that would be great to do, but we don't have the systems. We don't have the IT architecture. When you go into the root cause on why we believe some of those things that we are reimagining are not possible, it starts with the IT answer or regulation or compliance, but it often ends up being a mind-set shift.

Barr Seitz: That was a great set of answers. I'm afraid we're out of time now. Thank you, Alex and Eli, for joining me for this conversation.

Elixabete Larrea Tamayo: It was a pleasure, Barr.

Alex Singla: Thank you, Barr, for the time.

Barr Seitz: You can learn more about the next-generation operating models by visiting Digital McKinsey on McKinsey.com. And you can keep up with the latest from McKinsey on digital topics by following us @DigitalMcKinsey on Twitter. Thank you for joining us today. ☐

Alex Singla is a senior partner in McKinsey's Chicago office, and **Elixabete Larrea Tamayo** is a partner in the Boston office. This interview was conducted by Barr Seitz of Digital McKinsey and McKinsey's Marketing & Sales Practice.