A CEO Conversation: How Digital Transformation Created a Future-Proof Platform and Accelerated Growth

We recently had an opportunity to catch up with Gautam Thakkar, whom we have known for many years. Gautam has an interesting collection of experiences that provide insights on leveraging outsourcing to achieve differentiated value. He started his career as a consultant with Accenture before joining Infosys in 2000. Over almost 15 years, Gautam rose to lead the entire BPO business at Infosys, and along the way, advised clients on how to use outsourcing, including developing perspectives on how best to combine business process and IT outsourcing services. After joining SE2 as CEO in early 2015, Gautam embarked on a plan to outsource more of SE2’s work to create an integrated BPO-IT solution model. Further, SE2 itself is a service provider, providing third-party insurance administration services and a technology platform to life and annuity carriers throughout the United States. This wholistic view of outsourcing – as a customer, an advisor, and a service provider at an executive level – makes Gautam uniquely well-placed to give us the straight scoop on what works and what doesn’t.

MICHEL: Tell us a bit about SE2 – most people aren’t familiar with the firm.

GAUTAM: Sure, SE2 is a technology and services provider focused on the life and annuities market in North America. Its history is interesting and important to its differentiation in the market. Security Benefit is a 125-year old insurance firm based in Topeka, Kansas, focused primarily on the retirement market. Security Benefit invested in developing strong back office and technology capabilities and is steeped in the insurance domain, which eventually led to it becoming a separate entity, first taking on an external client in 2005.

Given this background, SE2 has always differentiated itself through its deep domain expertise. SE2 now administers more than 2 million policies and has more than US$100 billion of assets under administration.
MICHEL: Once you joined SE2, what did you find?

GAUTAM: Going in, there was an expectation that we would somehow transform the operating model. What I found after talking to customers, employees, and business partners was pretty interesting and provided the foundation for growth. First, our Net Promoter Scores were very strong – almost as strong as I have ever seen. Our clients really valued working with us, and they loved our people. Our deep domain expertise is our greatest strength and attraction for our clients.

Second, there was a backlog of work – projects to support the launch of new products for our customers, convert new books of existing business to the SE2 platform, and so on. We were actually constrained by a lack of capacity and the size of the local labor market – demand from customers for new work did not seem to be a constraint. There are approximately 350 million life and annuity policies in North America. The overall third-party administration service market for the life and annuity industry is less than 15% penetrated, so we knew that there was significant headroom for growth.

Third, our approach to managing accounts was more complicated for our clients than it needed to be. Too many people having to talk to too many people. Our clients were happy because they could access our expertise – if they knew the right person – and we did a good job delivering for them, but it was somewhat complicated and inconsistent.

MICHEL: That sounds like a nice position to work from. How did you go about orienting the future strategy?

GAUTAM: The biggest question we had to solve for was: how do we free-up capacity in order to capture the growth opportunities? We needed both more operating capacity, but also that capacity within the right capabilities in order to continue to provide the deep expertise required to serve our clients.

Based upon my previous experience in traditional BPO and what I saw at SE2, I also wanted to ensure that we delinked revenues from headcount growth. We had an opportunity to leverage the technology platform to enable efficient growth, and we needed to pursue that – which would require capital to invest in the platform. Coupled with this, we also needed to make the client’s interactions with SE2 easier and more predictable.

Beyond the existing projects that needed to be accelerated and would allow us to capture more demand, I wanted to find ways to give our clients the opportunity to accelerate new product roll-outs. Traditionally, a client using their own model may require up to 12-15 months to build the platform to roll out a new product. SE2 is often able to shorten this to four months or less, and I want eventually to reduce this to a few weeks or even days.
As we worked with the board of SE2 on plotting out this course, they were tremendously supportive of having a technology-led strategy and making the required investments to accelerate its implementation. We first discussed what we wanted to do, then how we wanted to do it, and then the costs to do it. We eventually decided that we wanted to invest in the systems not just to keep up, but to actually future proof our capabilities and stay ahead of the needs of our client base.

The belief behind all of this was that, given the relatively low market penetration of third-party administration services in the life and annuity space, there was tremendous growth potential if we could have more capacity and be faster. This realization led us to design the capacity of our approach to handle 10 times our existing business – creating a robust foundation for scalable growth has been a key pillar of our strategy.

MICHEL: A platform-based growth model does seem like a great strategy for that situation. Specifically, how did you plan the approach to implement the strategy?

GAUTAM: We aren’t done yet, but we are two years into a fairly aggressive set of efforts. I tend to think of it as four different transformations that we chose to do simultaneously.

The first change was for our platform to become more digital and increase the value we add to our clients. Next, we chose to move to client teams with a greater portion of staff dedicated to delivery and more investment in managing the relationship. Third, we created extra capacity to accelerate existing projects and to take on latent demand that we knew existed but wasn’t being actively developed due to lack of bandwidth. And finally, we chose to transform our infrastructure and applications support model from an in-house model to an outsourced model.

The combination of all four of these changes was an important part of the design. The infrastructure and applications transformation helped fund the other investments – both from a cost savings perspective, but also from a talent capacity perspective. The resources freed up within the IT group provide valuable expertise that is now available to more directly serve clients. We also hired more than 300 resources in 2016 to support the additional client and capital work that needed to be fulfilled. This change resulted in a good career path for our internal resources and enabled others to take important leadership positions within our company.

During early autumn of 2015, we launched the last three initiatives I mentioned. We built upon a pre-existing relationship with a service provider and added further scope to our outsourcing relationship with them.

In parallel, we continued to refine our plans for the first transformation – digital transformation – and over a series of meetings with the board, in the spring of 2016, we agreed on a digital transformation roadmap.
ERIC: That seems like a lot of change for a company that was previously anchored only in Topeka and has a new management team as well. What was your approach to change management?

GAUTAM: Counter to what I would have traditionally advised clients, we did not spend much time on trying to build internal buy-in. We obviously discussed the changes and had some debates, but I knew that this was a lot of change and that some of the changes needed to be undertaken in parallel. Further, the leadership team we were assembling knew how to implement these changes, and our organization size was small enough that a formal change management program or a dedicated transformation office was not essential.

Instead, in our judgement, we relied on being able to impact the changes locally and quickly demonstrate the benefits of the changes to employees, knowing that essentially everyone would be intimately involved and be able to learn directly and form their own views. We had about six months of pain during which a lot was changing; by the middle of 2016, things began to smooth out.

We did spend a lot of time explaining the vision to our clients and tried to be as transparent as possible with them about what it would mean. As we progressed, there was the expected pain along the way, but they could see the benefits of the changes within a few quarters. It was evident because the topic of conversation changed over time. The kinds of issues we were talking about with our clients in 2016 were different than those in 2017. We started focusing on more forward-looking issues. But, I strongly believe that it is a journey and in our business we are never done. The service industry is tough – we are only as good as our most recent interaction. We constantly have to be on our toes. As an analogy, if I go to my favorite restaurant, it won’t matter to me how many good meals I have had in the past. It is the quality of food and service that I receive each time I visit that matters and determines my overall customer experience and perception of that establishment.

MICHEL: How important was cost savings?

GAUTAM: It was important but not the main focus. We focused on ensuring our capabilities were getting better, and we knew cost savings would come. We obviously had a business case to ensure that the investments and costs would make sense.

The cost savings helped start to fund the capital investments we began to make back into the platform in early 2016 – things like improving imaging, workflow, statements, and other enhancements, such as automation. As a result, our costs went north before they began to go south.
MICHEL: What have been the results?

GAUTAM: It has been a lot of hard work, but we are really pleased with the results. At the highest level, we have significantly accelerated revenue growth from roughly 10% to more than double that – this came through the increased capacity and our ability to get closer to the future needs of our clients. This change is obviously a huge win. Previously we were not able to anticipate client demands more than a few months out. Now we are able to have a good idea of 70% of the demand for the following year and can plan ahead.

Operationally, we have also achieved important improvements. The technical environment has been solidified, and things like system outages have been dramatically reduced. This achievement happened in the timeframe after the outsourcing transformation was completed and stabilized – clients saw this improvement by the middle of 2016, and the conversation shifted toward more forward-looking topics versus running the current model. Interestingly, the applications support transition was quite smooth, but the infrastructure transition was a bit more complicated. I had expected the opposite, but the technical help desk supported both internal users and our clients, and it takes time to deploy the new model, structure it, and re-educate everyone.

Value capture from effort

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ERIC: I know you anticipated using Robotic Process Automation (RPA) to aid in the operational transformation. How did that play out?

GAUTAM: Correct, we have been deploying RPA. It requires some planning to get the overall model in place, but it has been helpful in improving operations. For example, when viewing certain images in the system, it would sometimes freeze and require a reset. Originally, this was a about a 15-minute process to call for support and to wait for the system to be reset. With RPA, this is a 10-second process that is triggered simply by the person clicking a button. As a result, the demand for technical support for image disconnects has been eliminated, and call volumes to technical support have significantly decreased.

ERIC: What role do you see RPA playing more forward?

GAUTAM: It will continue to play a role, and we expect that role to increase. However, how we use it will continue to change – in many ways, RPA is an interim step. Since we have greater control over the admin platform and surrounding ancillary systems, we are able to effect the changes at the root itself. Unlike in some companies, where automation is a bolt-on because of the expense involved in modifying the core platform (or ERP platform) which is typically owned by a third party, we don’t have that problem since we control most of it. Many of the current automations will become unnecessary as we continue to transform the environment and platform to be more digital. Deploying the automations has helped us to understand the limitations of the current model through better understanding to the current processes and this, in turn, shapes the development of the new approaches. So, I continue to see a need for RPA, but it is an evolving role based on a changing system environment.

ERIC: Let’s go back to the point you made earlier about using a single service provider – across operations, infrastructure, and applications support. What was the logic behind that approach?

GAUTAM: Having been on the other side of outsourcing as a service provider, I had my own view of what mattered most to being successful. We ran a competitive process and eventually focused on two things. First, the relationship itself. We knew that SE2 would not be amongst the largest clients for any major service provider. By combining our scopes of work with one service provider, we felt that the chances of getting more attention from senior management would increase. Further, although SE2 may not be the largest client for a service provider, our aspiration is fairly bold and should be a nice challenge and success story. In other words, we felt that we had the potential to be a good relationship for a service provider.
Second, we felt that there were some practical scale advantages of working with a single provider. Contracting is easier, providing consistent context and understanding is easier, and a host of other things. In particular, we felt that coordination would be faster with fewer entities involved and help us to accelerate our transformation. We did, however, introduce another provider to the mix in the middle of last year to help with our capital projects, and we will continue to be judicious on how we use third-party providers.

MICHEL: What has been the reality?

GAUTAM: We are pleased with the approach we have taken, and it is working well. SE2 was already outsourcing some operational work to our provider, so there was a pre-existing foundation that we have built upon. To achieve some of the targeted benefits, we have worked with them to combine some governance and management functions. For example, although our largest partner organizes its own operations into three different group—operations, infrastructure, and applications—our quarterly business reviews are conducted as a single, joint conversation to ensure a combined view. This was a bit of an adjustment but is now working well.

ERIC: You mentioned that your service provider is organized to operate these groups separately. In this case, have they tried to pull these groups closer together through things like co-location? As you continue the journey toward being more digital do you expect any further refinements to the delivery model?

GAUTAM: The groups delivering the services are primarily based in India, but in three separate locations. Coordination is happening mainly through improved and synchronized communications, plus they now internally coordinate more than what I think would be typical because they know we expect integration in proactively resolving issues, etc. This degree of integration has worked well for us, although I suspect further adjustments may be triggered by the accelerated pace we expect to operate at as the model becomes increasing digital.

MICHEL: What advice do you have for others considering using outsourcing as a part of a transformation effort?

GAUTAM: A few things come to mind. Knowing what you are solving for becomes critical. In our case, any of our decisions had to support all three imperatives for SE2. Was the effort going to help scale the business, make it more predictable, and improve the overall customer experience? If the answer was yes, we went ahead with it. Having a clear view of the overarching business strategy is critical for initiatives to be aligned to that vision. This is fundamental and guides almost every decision.
I would also encourage others to ensure they get transitions of outsourced work right. Having an appropriately funded and timed transition is very important – I have previously seen what tends to happen when transitions are under-valued and would always encourage organizations not to squeeze on transitions.

Finally, for digital transformation, I think you have to be willing to take a leap of faith and begin funding important things before you know exactly how they will pay-off. If you are changing enough variables, the opportunity for big improvements will be there, but it is not possible to precisely anticipate how all the pieces will come together. A well-reasoned vision combined with a bold and well-executed transformation has been critical to our success, and I think others will find the same to be true for them.

MICHEL: Gautam, thanks for the time and for sharing your story. Good luck on the rest of the journey.
About Everest Group

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