# BOOSTING EFFICIENCY AND CUTTING COSTS BY MEANS OF AGILE TRANSFORMATION

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"How will we benefit from it?" This question is not only legitimate—it is also the one truly important question to ask before a company embarks on an agile transformation. However, the more challenging the economic environment, the more tempting it is to look at such an investment in the future viability of an organization solely from a cost perspective. This leads to people leaving everything as it is—a decision that can sometimes be disastrous.

From our perspective, it is more effective to adopt a balanced approach. Yes, the transformation generates short-term costs. However, it also results in quick wins and, more importantly: it paves the way for long-term success by keeping customers satisfied and ensuring the company's strong position in the market.

We would like to indicate which topics you might consider in your cost/benefit analysis. Two practical examples clearly demonstrate that investing in an agile transformation can pay off after a fairly short period of time.

# DOES AN AGILE TRANSFORMATION REALLY PAY OFF?

Agile methods evolved with the purpose of developing innovative products faster, better, and more efficiently.[1] This means that by investing in suitable basic conditions, employees' skills, and thus the organization's reaction speed, the foundation is laid for the company's long-term ability to survive in the market. An agile transformation therefore has two main impacts, which may seem contradictory at first glance:

1. **An agile transformation incurs costs.**
2. **An agile transformation cuts costs.**

One thing is clear: an agile transformation initially incurs high costs if it is pursued seriously and with a clear vision. Staff training and workshops, updating the technical infrastructure so that people can collaborate seamlessly and more efficiently, and modularizing the product architecture—all of this costs money. It is therefore logical for the company's management to think carefully about whether they want to make this investment. These considerations are always justified, but the topic of agility is currently encountering greater hesitation than ever before. Amidst record inflation, supply chain bottlenecks, and the exhausting search for competent employees, the decision to invest in an agile transformation is anything but straightforward.

However, we believe that this could lead to a crucial misconception, since it is well known that the following formula applies:

$$\text{sales} - \text{cost} = \text{profit margin}$$
$$\uparrow \qquad \downarrow \qquad \uparrow\downarrow$$

In the long run, an agile transformation will help to achieve higher revenues and reduce costs at the same time. It focuses on both sides of the equation and thus has the potential to significantly improve a company's profit margin.

The second effect, namely the reduction of costs, is the one that representatives of the agile community do not like to emphasize. It is often associated with layoffs and cost-cutting programs—i.e., instruments with rather negative connotations. However, this is not the primary goal of a transformation: the goal is to shape collaboration within and between teams in an organization in such a way that unnecessary "waste" can be eliminated. This step alone has an impact on costs. If, in addition, the focus is on what really matters and makes money—i.e., meeting the needs of the customers—this will also be apparent in sales.

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1  See Nonaka, Ikujiro; Takeuchi, Hirotaka: The New New Product Development Game. In: Harvard Business Review, 64/1, Jan-Feb 1986, pp. 137-146.

Thus, if a transformation is considered from the standpoint of what it enables, austerity packages may be less radical or may not be pursued at all. However, the further the decision to transform is delayed, the greater the likelihood that a company will be outpaced by the market and will have to resort to the tough measures that a transformation seeks to prevent.

Therefore, the following—highly legitimate—question is closely related to agile transformation: can the success of a transformation be measured, and if so, how?

**Using your judgement to measure**
We understand the desire to measure and set targets. However, we always point out that this should be done with a reasonable level of detail and a proportionate amount of effort. Business cases often include every last detail and are then fine-tuned until they somehow match the expectations of the stakeholders. Our recommendation: avoid this—in business, this level of nit-picking only results in losers.

Transformations are not just about figures, but predominantly about believing in doing what is right. An organization is a highly complex entity. In retrospect, it is difficult to determine whether an increase in profit is attributable to working in an agile manner, the successful hiring of new employees, or a keen sense for innovative products. Usually, the positive result of an indicator is a combination of several or an even greater number of good decisions. It is questionable whether attributing success to individual causes is feasible, meaningful, and necessary at all.

## CREATING A BUSINESS CASE FOR AN AGILE TRANSFORMATION

When we are asked for a business case, we usually request to engage with colleagues who have a good understanding of the context in which agility is to be deployed, as well as a good sense of the financial considerations. We discuss a series of questions that focus on both efficiency and effectiveness with these experts. These questions are deliberately simple: the goal is not to calculate amounts to the nearest cent, but to develop a feeling for the possible financial impact. For us, it is the discussions with these experts that are valuable; initial indications for a business case are the by-product.

**The following questions focus on efficiency and thus also on cost:**

❯ What results can we achieve if colleagues in a particular business unit can focus and work in a team on one thing?
❯ What additional costs can be avoided if developments that have gone astray are steered back on track earlier (among other things, by means of regular contact with customers and users)?
❯ How much easier is it to complete tasks if cross-functionality is increased within the team to ensure fast and smooth exchange?
❯ To what extent is it possible to accelerate the process if current obstacles are systematically removed and thus eliminated?
❯ How much management time can be saved if communication is less akin to the "telephone game" and reporting efforts are drastically reduced or eradicated?
❯ How much time can the team save by making decisions themselves?

**By contrast, the following questions examine effectiveness and thus the company's potential turnover:**

❥ How much more revenue could the company generate if it was able to place its products and services on the market earlier?
❥ To what extent can customer satisfaction increase if products and services are more in tune with the expectations and needs of the customers and users?

There are, of course, a number of other questions that could be asked. We see it as an invitation to join the conversation and prefer to work with ballpark figures. For example: in discussion with the experts, we agree that the development team could save a good three percent of their time by drastically reducing their reporting efforts. Perfect—in the business case, we attribute three percent of staff costs to development. In discussions with the sales team, we understand that by reducing the time to market by a quarter of a year—depending on the product—they could achieve two to five percent additional sales. Great, we will take that on board.

In fairness, it must be said at this point that this business case must also be offset against additional costs. These are running costs, for example for additional colleagues (scrum masters and agile coaches). On this point, however, we repeatedly find that the cost of new roles is offset by the elimination of roles that are no longer needed (for example, project management as well as coordination and integration roles). On the other hand, there are start-up costs, such as training on agile ways of working or additional agile coaching.
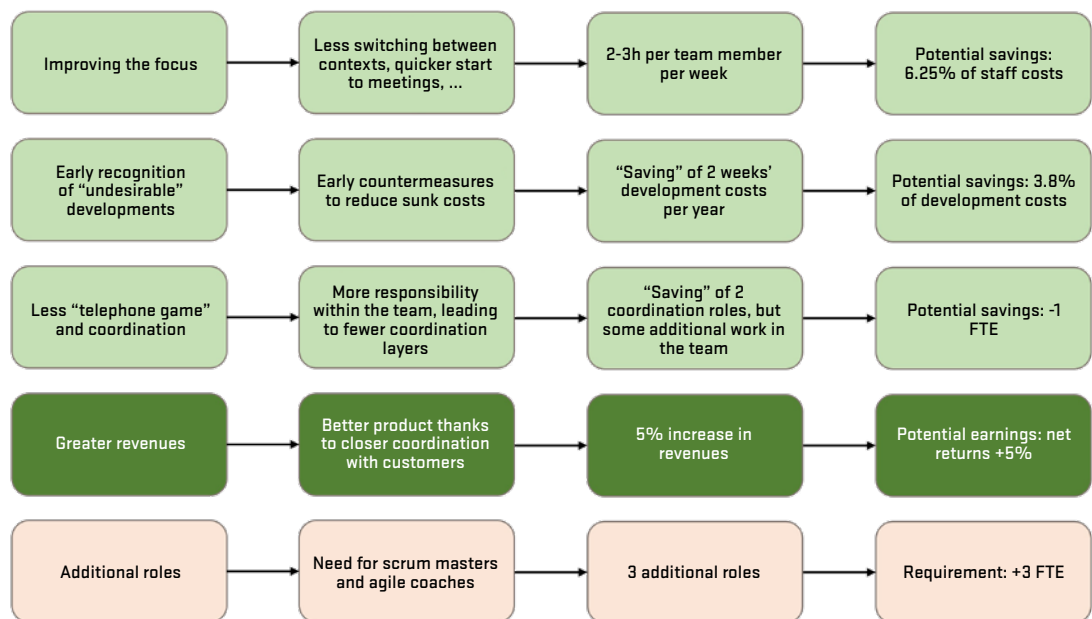
| Improving the focus | → | Less switching between contexts, quicker start to meetings, ... | → | 2-3h per team member per week | → | Potential savings: 6.25% of staff costs |
| Early recognition of "undesirable" developments | → | Early countermeasures to reduce sunk costs | → | "Saving" of 2 weeks' development costs per year | → | Potential savings: 3.8% of development costs |
| Less "telephone game" and coordination | → | More responsibility within the team, leading to fewer coordination layers | → | "Saving" of 2 coordination roles, but some additional work in the team | → | Potential savings: -1 FTE |
| Greater revenues | → | Better product thanks to closer coordination with customers | → | 5% increase in revenues | → | Potential earnings: net returns +5% |
| Additional roles | → | Need for scrum masters and agile coaches | → | 3 additional roles | → | Requirement: +3 FTE |

Figure: Example of the inclusion and evaluation of impacts in a business case

# SETTING OBJECTIVES FOR DIMENSIONS & KPIS

A common desire is to become faster in the market by using agile ways of working. Expressed as a KPI, this would be the average time to market from idea to launch. A second frequently expressed desire is to increase the quality of deliveries. The number of complaints and reported errors could serve as a suitable KPI for this. KPIs can also arise from the business case: if shortening the time to market by three months was expected to boost sales, it is worth checking whether this hypothesis has become a reality.

**Our recommendation:** focus on a maximum of four dimensions, each with a maximum of two KPIs. Time and again, we have noticed an immense appetite for measurement within organizations, but this is associated with considerable effort. It makes more sense to stay focused and survey the chosen indicators on a regular basis.

This brings us to the question of assessment. If KPIs cannot be easily calculated or automatically evaluated, we usually make use of surveys. For example, the colleagues concerned might be asked how much effort reporting, including preparation and follow-up, currently takes. This enables you to establish a baseline prior to the transformation, which you will need for future comparisons.

The challenge is to develop a good sense for having a small number of "right" KPIs, even before the transformation begins. Adjustments can, of course, be made later, but the history is lost—especially the all-important baseline.

We will use two examples to illustrate the results that can be achieved in a short period of time using agile approaches, and how organizations can permanently reorganize themselves as a result.

## DEUTSCHE BAHN: EFFICIENTLY OBTAINING FUNDING FOR THE EXPANSION OF THE RHINE-RUHR EXPRESS (RRX)

**Baseline situation**

The Rhine-Ruhr Express (RRX) is one of Deutsche Bahn's most significant rail infrastructure projects. Additional track capacity will be created on the Cologne-Düsseldorf-Duisburg-Dortmund line. This required the improved connection of six "outer branch lines"—those lines which serve as feeders to the main line—by the end of 2019. DB Station&Service AG's western regional division had to apply for funding to convert 52 stations. DB Station&Service AG is wholly owned by the state. It is imperative to use the taxpayers' money responsibly, therefore clear processes must be followed in order to receive the award decisions. There are numerous interfaces to be overcome, both in-house and with external partners. Additionally, the process can become even more complex if it becomes apparent during ongoing conversion work that planned measures need to be changed on an ad-hoc basis. Such changes need to be reported to the funding agency and the original applications must be revised. The process begins all over again until there is an updated award decision—unless there are queries, which once again require the involvement of several departments. Such project situations are predestined for inefficiency if they are neither visualized nor properly coordinated.

**Solution**

To keep track of all 52 component projects and speed up the process, the responsible team visualized the application process on a four-by-two-meter project board, clustered according to the six outer branch lines. This enabled them to identify what was needed from whom and by when in order to be able to take the next steps in each project. Even if there were queries, visibility on the board meant that internal coordination was now much quicker and more efficient. Each workday in the morning, the team focused on the status of all projects for 15 minutes. In the case of issues that required the cooperation of several experts, the transformation of meetings into cross-functional workshops—known as "pope meetings"—has proven to be successful. White smoke must emerge at the end of these meetings, i.e., there must be an outcome. This means that all those individuals who are needed for a topic to be dealt with work together in one room until all issues have been resolved. If any issues remain unresolved, the parties involved commit to another meeting there and then. Representatives of the funding agency were also involved, which helped to gain a better understanding of their processes. This resulted in the creation of lists for open tasks and the prioritization of projects as a tool to support transparency, both within the company and with external partners.

**Result**

The resulting transparency accelerated the application process. The number of decisions obtained increased from three in 2017 to 35 in 2018. Personal conversations have replaced the multitude of e-mails, making it possible to clarify matters more quickly and with fewer misunderstandings. The overview of all projects also made it easier to redeploy capacities. Job satisfaction has increased significantly, as the allocation of tasks has become clearer, and it is possible to monitor progress on the board. Employees recognize that they can help shape the company and contribute their own ideas, and this attracts many young applicants. Working in an agile manner was also extended to other programs, such as to the final application evidence for the funding agency. The impetus to work in an agile manner, by the way, came from Gitta Raulin—Head of Finance & Controlling at DB Station&Service AG's western regional division.

**Baseline situation**

The original equipment manufacturer Webasto has been successfully producing solutions for the automobile industry for decades. Due to increasing dynamism and new trends in the automobile market, the group started its customized agile transformation. The aim was to switch from project organization to customer-oriented product organization. Several teams have been successfully using agile methods since 2016. Webasto had already recognized the benefits. The new goal was to identify an effective collaboration model for the development sites in order to mobilize Webasto's internal expertise to a greater extent and thus respond more quickly to market dynamics. The focus was to have product developers work in fixed teams of no more than ten members. Previously, these people had always been involved in multiple projects, but efficiency had suffered as a result. A pilot project had demonstrated that members of dedicated teams were committed to a common goal, developed a strong sense of community, and were able to react much more quickly than other teams as a result of few interdependencies beyond their teams' boundaries.

**Solution**

An "agile transformation team" (ATT) was tasked with defining a framework for scaling: this would provide sufficient guidance for the product managers to establish appropriate teams on the one hand, while also providing the product teams with the greatest possible creative freedom to be able to work efficiently on the other. It was meant to be a framework that could be adapted for individual fields of development but would fundamentally be a fit for the organization as a whole, and it was supposed to be continuously adaptable based on lessons learned. The ATT and the management team identified four objectives which were important for Webasto in the course of the agile transformation and formed the basis for the framework: the framework was designed to direct the **focus** of all activities toward value creation, underpin the organization's **responsiveness**, enable autonomous and empowered **collaboration** on an equal footing, and prioritize **solutions** rather than processes. Four to six design principles, which form the actual framework for the working model, were formulated for each of these objectives, for example: "For a certain period of time, people are assigned to one team only" (focus), "We experiment in order to generate new knowledge" (responsiveness), "Team structures are based on value chains and not on functional characteristics" (solution orientation). The design principles provided teams with guidelines as to how they should organize their work, but they also represented an agreement with management: all stakeholders could refer to these principles, require that they were adhered to, and base their decisions upon them. These considerations led to the development of the customized "AHEAD Frameworks" in collaboration with borisgloger consulting. This provided guidance on team structure, the roles within teams, and the structure of meetings.

**Result**

The framework was tested by pilot teams, and their experiences shaped ongoing improvements. In particular, the interface between the teams and the rest of the organization, as well as with Webasto's OEMs and suppliers, was adapted. Within the company, teams no longer report on the status of development in status meetings; instead, they invite management to a review in the team rooms.

The team members' collaboration revealed the first signs of success: the new team structure enables them to work in a more focused manner and contribute more effectively. Being able to maintain focus also means cutting transaction costs, because team members no longer need to constantly switch between different contexts. Reporting requires less preparation time, and there are hardly any obstacles to integration because compatibility issues are resolved at an early development stage. Overall, cross-functional collaboration has significantly reduced waiting times since questions can be clarified more quickly and tasks can thus be advanced more rapidly.

# HOW BORISGLOGER CONSULTING CAN SUPPORT YOU IN YOUR TRANSFORMATION

Have you identified the need for change at your company and are you looking for the right approach to enable you to take the first steps towards transformation? Or are you already in the thick of it and in need of new impetus? We can support your organization in planning and implementation at all levels. Until your organization is ready to continue on its own path, we pitch in with everything: from advising top management and developing transformation strategies to working operationally with agile teams. Even if your organization's transformation has hit a rough patch: we are experienced in getting ongoing change projects back on track.

We believe that trust is imperative for successful transformation. We would be happy to meet you for a non-binding initial consultation to explain who we are, how we work, and what we can do for you. As part of this, we can think through an initial **business case** together with minimal effort.

**Please get in touch!**

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