



INNOVATING IN AN ERA OF CHANGE: TAKING OPERATIONAL EXCELLENCE TO THE NEXT LEVEL IN 2017 AND BEYOND

Annual Australian State of Industry Report 2017



Introduction

We are entering a time of rapid transformation where leveraging operational excellence (OpEX) effectively will be paramount for success.

Every organisation has processes, but why is driving and sustaining an operational excellence initiative such a complex mission? And more importantly, what areas are OpEX leaders currently focusing on to drive value through process excellence initiatives?

In this report we aim to answer these questions by taking a closer look at the current state of play for operational excellence in Australia and the skills, tools and technologies organisations will need in the future to truly drive business excellence.

For the 4th year running, we surveyed over 80 business improvement professionals from a cross-section of industries across Australia ahead of Operational Excellence Week 2017, to uncover the major challenges, trends and opportunities for productivity gains in Australian business improvement now and in the coming months.

This report explores three main drivers influencing the way Australian businesses are approaching OpEX, including:

THE CUSTOMER

TECHNOLOGY

INNOVATION

In 2015 and 2016 operational excellence was dominated by the customer. And while putting the customer at the heart of business improvement initiatives still rings true for many organisations today, it seems in **2017 operational excellence is all about innovation**.

Digital technology, digital disruption, Robotic Process Automation (RPA) and Artificial Intelligence (AI) are forcing organisations to transform operating models and processes to enable innovation, agility, flexibility, customer-centricity and the best ROI.

This new world that businesses are entering is exciting. But it will be the companies that see OpEX as more than just a way to reduce costs and drive efficiency and instead as a tool to transform strategic intent into reality, that will most effectively deliver value to their organisations - as well as their customers - now and in the years to come.

WE HOPE YOU ENJOY THE REPORT

Lauren Kelleher
Editor
OPEX Week Australia 2017



ABOUT THE RESEARCH

Every year the PEX Network undertakes a State of the Industry investigation ahead of Operational Excellence Week Australia (formerly known as PEX Week Australia) to uncover how Australian organisations are approaching process management and improvement.

This year's survey seeks to better understand current trends on how organisations are approaching operational excellence. What tools and methodologies are currently being used? What are the general trends, challenges, and practitioner predictions for 2017? What are the major pain-points facing organisations on their OpEX journeys and how are they overcoming them?

The research presented in this report is based on a survey of over 80 business improvement professionals across Australia conducted from April to May in 2017.

The breakdown of industries represented by survey respondents is incredibly varied, but the main representation consists of Financial Services, Government, Manufacturing, Utilities, Healthcare and Retail [Figure 1].

Where possible, they survey results have been benchmarked with similar surveys by PEX Network in 2015 and 2016, with a particular emphasis on the 2016 Australian PEX Week Benchmarking Survey, in order to grasp the changing priorities and focus of business improvement professionals over the past 12 months.

Similar to last year's results, the majority of respondents from this report are from large tier organisations, with over 80% of those surveyed from an organisation with 300 or more employees. [Figure 2].

The research also reveals that in comparison to global counterparts, Australia is in the early stages when it comes to operational excellence, with over 23% of respondents in the early stages of the business improvement journey and 68% somewhere in the middle. [Figure 3]

Fig 1 : What industry do you currently work in?

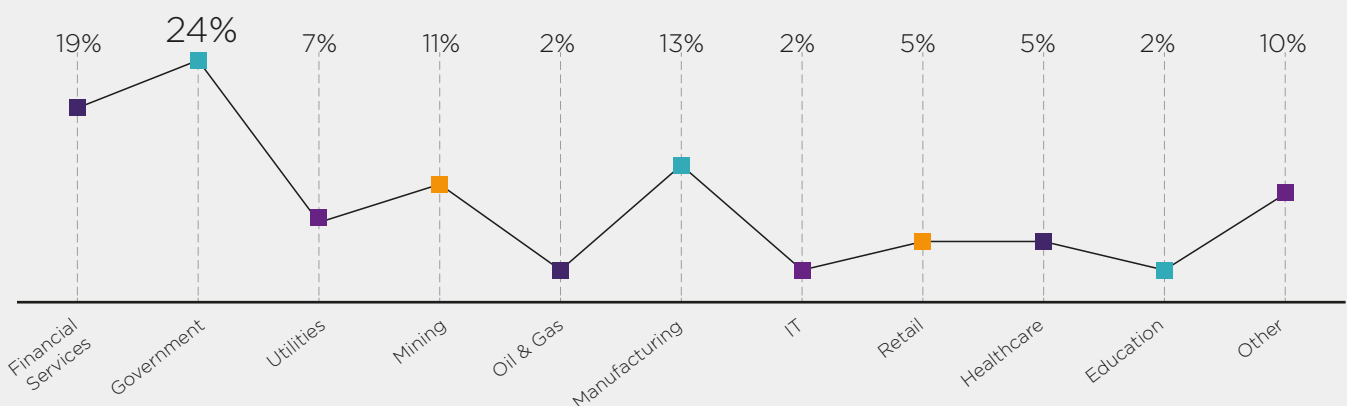


Fig 2 : How large is your organisation?

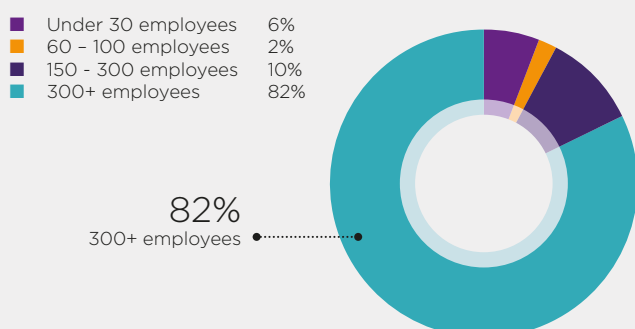
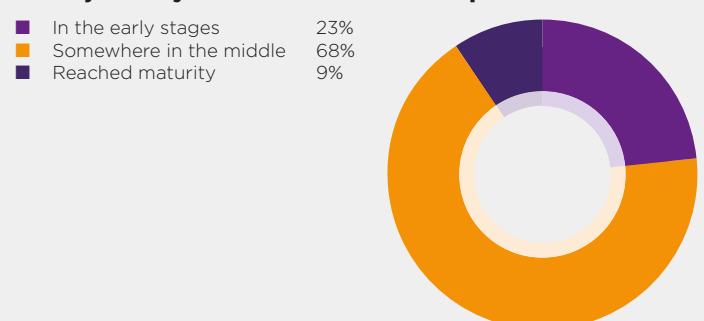


Fig 3 : How far along is your organisation in their journey towards business improvement?



RE-ENGINEERING OPERATIONS TO BECOME CUSTOMER-CENTRIC

In the wake of changing customer demands and expectations, putting the customer at the heart of process design and delivery has become a key priority for Australian OpEX professionals. As companies continue to focus on how to create real competitive advantage, the concept of 'value for customer' has become the centre of business improvement.

In 2016, many organisations were in the early stages of embedding a customer-centric focus into process design and only 38% were satisfied with their current approach. Fast-forward 12 months and it seems Australian businesses are making more progress in this area. Survey results this year reveal that nearly 48% are satisfied with their current strategy to embed a customer-lens in their OpEX strategy, an 10% increase from last year. [Figure 4].

Despite this trend, ensuring customer-centricity in operational excellence can only be achieved through effective leadership and culture change. Oscar Lira, Business Process Excellence Manager explains in a recent interview with the PEX Network:

"Process excellence must be a top strategic priority in every company aiming to create real competitive advantage where the concept of "value for the customer" is the centre of all improvement efforts. Deployment of this vision is only possible if supported holistically from every structural level.

The message and the way to communicate it is also crucial to create a culture of excellence. Always work towards clarifying the links between operational excellence and impacts for your customers. If people understand not just "how" but "why" are doing something in a specific way, they will not only pursue the final purpose more accurately but they will feel much more engaged with the outcome"

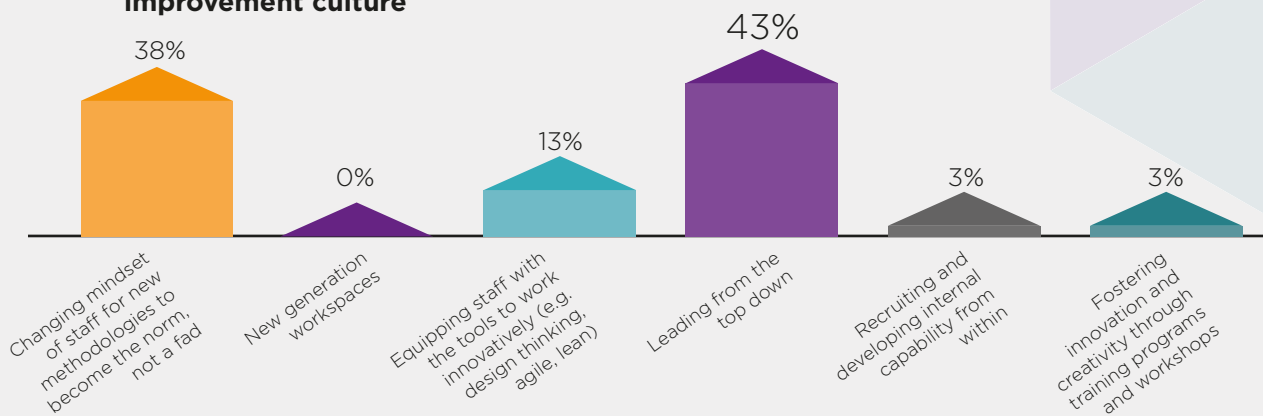
With leadership and culture key to driving customer-centric outcomes, it's no surprise that over 43% of respondents listed leading from the top down as the most effective strategy to develop customer centric processes. [Figure 5].

So while customer centricity remains a core focus for business improvement professionals in Australia in 2017, many organisations are realising process excellence also needs to be considered as a mindset and culture of an organisation where staff feel empowered to make changes and improvements to their work.

Fig 4 : How satisfied are you with your organisation's current approach to adopting a customer centric approach within process excellence?



Fig 5 : Which of the following options is the most effective in developing a continuous improvement culture



LEVERAGING NEW TECHNOLOGIES TO DRIVE EFFICIENCY

Technology has been an integral part of improving efficiency and effectiveness in business operations for decades. For example, innovations in the conveyer belt system allowed Ford to roll-out thousands of his black vehicle faster than competitors. In the 1990s, ERP systems emerged and allowed companies to automate and better control core processes such as inventory management.

In 2017, its technologies like Process Automation, AI, data analytics and robotics that are at the forefront of shaping business process excellence globally.

In Australia, it appears OpEX leaders believe that data and analytics is set to have the biggest impact on OpEX programs in the coming years, followed closely by automation and AI [Figure 6].

What's more, leveraging new technologies also appears to be the number one focus for organisations right now when it comes to driving process improvements [Figure 7].

But despite the hype, it will take some time for organisations to work out which technologies to implement for what purpose and in which ways.

"Anything you're going to do in an automation, robotics or improvement perspective, you have to understand what you do first. You have to understand what you are improving. You still need to have complete understanding of the process," observed Brent Harder of BNY Mellon in a recent PEX Network interview.

While Australia is only on the cusp of realising the full potential new technologies can provide, it seems Australian businesses have been quick to start rolling-out automation, data analytics and robotics to drive innovation.

Survey results reveal data as the technology of choice of Australian businesses when it comes to improving process efficiency, followed very closely by automation and digital. [Figure 8].

Out of these technologies, businesses have seen direct bottom-line improvements since adopting data and analytics, automation and digital channels. Interestingly, majority of those using AI are yet to see direct improvements, showing the full potential of AI has yet to reach Australian shores [Figure 9].

It's clear that technology is making great strides towards greater simplicity, ease of use and lower cost of implementation. And as organisations mature in their control and understanding of these technologies, platforms like AI, robotics and process automation are set to play an even greater role in running efficient and customer-oriented business operations in the future.

Fig 6 : Which of the following technologies do you think is going to have the biggest impact on operational excellence in the coming years?

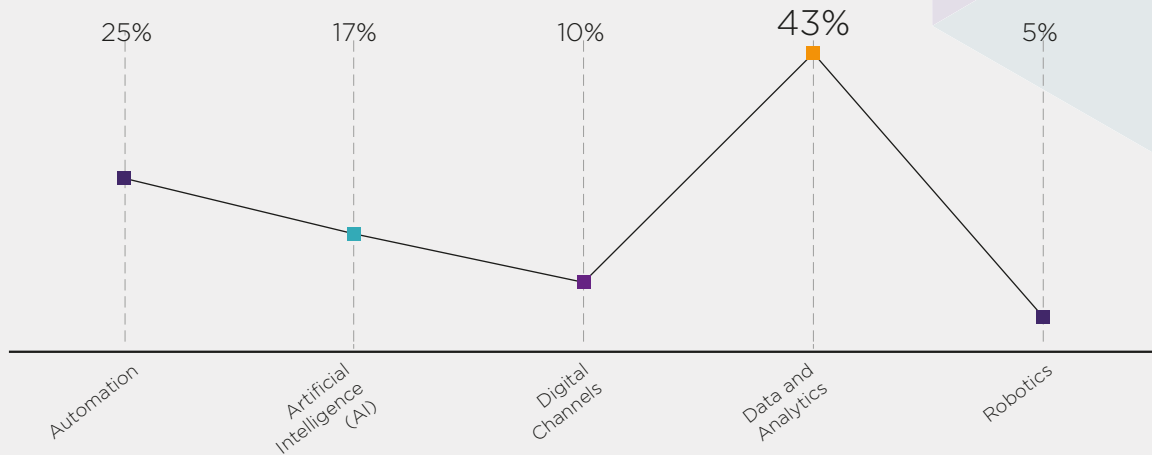


Fig 7 : Which of the following options are you focusing on right now to drive operational excellence?

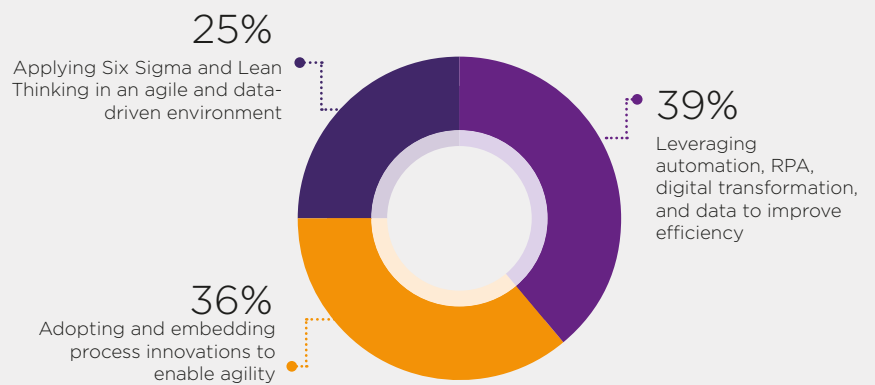


Fig 8 : Are you using any of the following technologies to improve process efficiency?

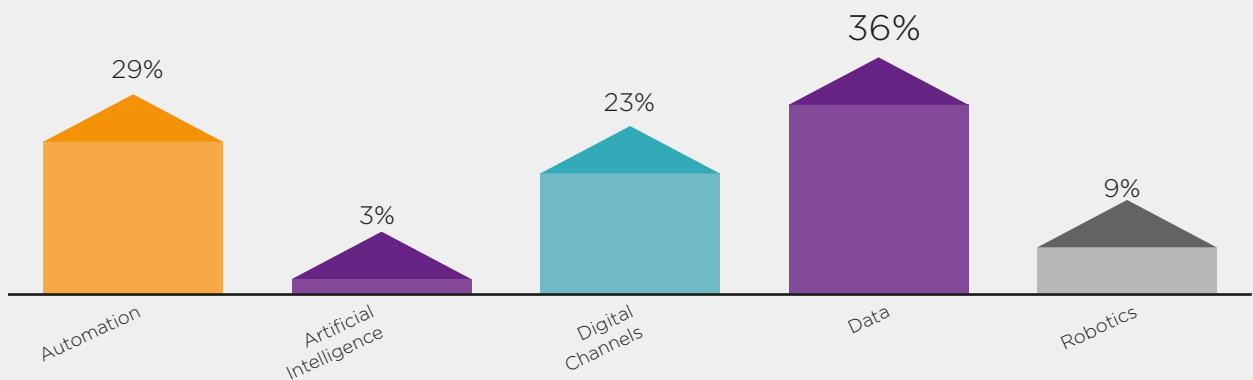
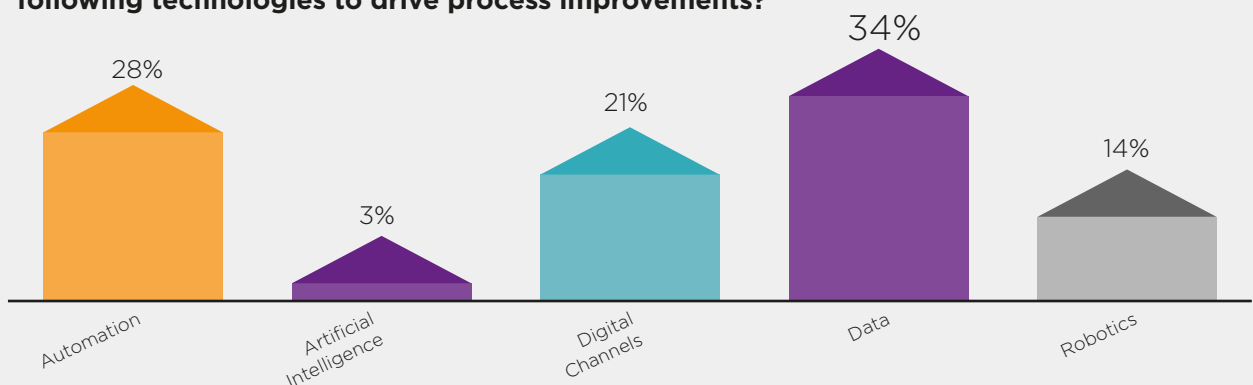


Fig 9 : Have you seen a direct impact on the bottom line since rolling-out any of the following technologies to drive process improvements?



USING INNOVATIVE METHODOLOGIES TO DRIVE PROCESS IMPROVEMENTS

Looking at process from an end-to-end perspective is critical for businesses to compete in tomorrow's hyper competitive and fast paced markets.

While the fundamental methodologies of process excellence will remain critical in the future, as businesses transform to keep up with the pace of change, so too should their approach to continuous improvement.

In recent times, some practitioners have argued that continuous improvement needs to go beyond Lean Thinking and Six Sigma to discovering new avenues for growth and innovation.

While this may be true, research for this report suggests that Australian OpEX professionals believe Lean Six Sigma remains a powerful methodology to drive process improvements, with over 85% respondents saying it is still relevant in today's agile and data-driven environment. *[Figure 10]*.

Lean Six Sigma also remains the most popular methodology Australian organisations are using to enable agility and customer centricity through process design *[Figure 11]*.

When respondents were asked why it was their top methodology of choice, top responses included:

It is a comprehensive data driven business process improvement methodology.

Lean Six Sigma helps identify performance trends and gives you visibility of what/how to prioritise in terms of biggest impacts for effort.

A proven, standardised (yet flexible) methodology is valuable in identifying underlying issues in a process or business.

All the Lean six sigma principles have just evolved into the new concepts, so in essence the fundamentals are still relevant.

Data allows us to draw on more information. Six sigma fundamentals still help with data analysis and can highlight area to focus on.

Still has a place in driving cultural change and a greater focus on continuous improvement within the workplace.

Operational efficiency will remain very important and Lean Six Sigma is a very effective tool in improving operational efficiency.

While Lean Six Sigma remains as relevant and applicable than ever, many practitioners are also realising that process excellence needs to evolve to meet changing market demands. As outlined in *[Figure 11]* many Australian organisations are also looking to Agile and Design Thinking as new ways to improve operational excellence.

What's more, Australian organisations are already seeing improvements in ROI and efficiency since rolling out Agile and Design Thinking methodologies in their OpEX programs. *[Figure 12]*.

It appears that while the fundamentals of business improvement are still important for organisations looking to drive value, new methodologies such as Agile and Design Thinking are set to play a more important role in process excellence in the future, especially when it comes to standing out in a competitive and dynamic marketplace.

Fig 10 : Do you think the concept of 'lean six-sigma' is still relevant in today's agile and data driven environment?



Fig 11 : Are you using any of the following methodologies to enable agility and customer centricity through process design?

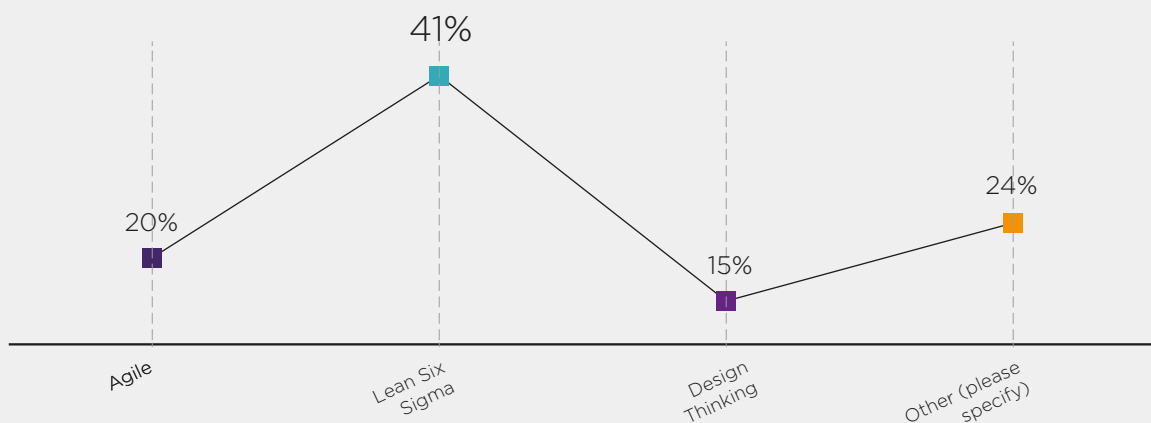
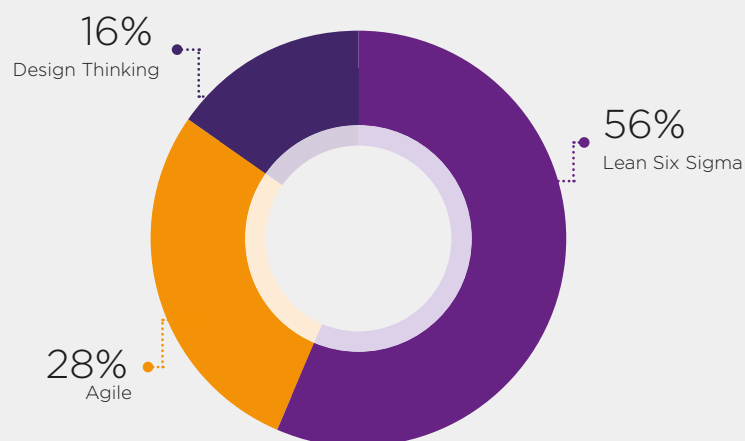


Fig 12 : Have you seen a direct impact on the bottom line since rolling-out any of the following methodologies to drive process improvements?



CONCLUSION

Clearly it is impossible to predict the future. But as the forces of business continue to evolve and exert pressure on organisations to transform the way they operate, OpEX professionals will need to rise to the challenge and come up with new ways of delivering value and improvements through processes.

In Australia, organisations have already begun to respond by harnessing the power of technologies such as data analytics and automation. And while the full potential of new digital technologies such as AI and robotics has yet to be explored in Australia, they are set to enable businesses to design and roll-out processes faster and simpler in the future.

There is also no doubt that technology will also make processes even more important in the future. However the fundamentals of process excellence – like Lean Six Sigma – will still remain key. And while the future will of course be different for OpEX and what it means to businesses, customer centricity will remain the dominant objective as businesses continue to transform how to best utilise the tools and technologies needed to support and deliver on changing customer expectations.

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KEY THEMES:

- ▲ Using **PEX** to Cut Waste, Cost and Become More Efficient
- ▲ Becoming **Agile** to Adapt to Changing Technology and Customer Landscape
- ▲ **Culture & Change** Management to Promote Innovation
- ▲ **Lean Six Sigma** in an Agile and Data Driven Environment
- ▲ Leveraging **Partnerships** to Foster Innovation and Collaboration
- ▲ Top-Level **Leadership** to Boost Productivity and Creativity
- ▲ Using **Technology & Digital** to Improve Customer Service
- ▲ **RPA/Automation** to Reduce Mistakes and Drive Growth/Productivity

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