Insight overview

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Part 2 of 3 - For meaningful digital transformation, Building Societies must change the supply chain dynamic

In the rapidly evolving landscape of financial services, building societies find themselves at a digital transformation crossroads. In the second of this three-part series, we explore the intricacies of navigating legacy systems and fostering collaborative, forward-thinking supplier-client relationships to drive digital evolution.

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For meaningful digital transformation, Building Societies must change the supply chain dynamic

Customer demand for digital services makes transformation a commercial priority. But, in the risk-aware environment that typifies mutually incorporated organisations, where budgets are not unlimited, moving from incumbent legacy platforms to full digital innovation can feel like a chasmic leap. And the challenges are not simply technical. Building societies must be inquisitive enough to re-examine the supplier/client status quo and seek a new, iterative partnership model to drive the transformation roadmap. The organisation that gets on top of what is as much a cultural as an operational conundrum is the organisation that will win out, says Mason Advisory Managing Consultant, Catherine Randles.

This article is the second of our "Digital Transformation Tipping Points" series for financial services organisations.

You can read the rest of the series here:

Insight 1: [Building Societies face a digital transformation tipping point – but where do the challenges really lie?]

Insight 3: [Digital value creation in the Building Society marketplace: how do we marry technology with tradition?]

In the first of my insight series on the digital transformation tipping point for building societies, I tackled the strategic decisions that must be considered, understood, and overcome to deliver modern digital banking services while also controlling financial, commercial and regulatory risk. In the same article, I mentioned the complexities of a supply chain where legacy architecture may present a blocker to successful transformation.

I was struck by the response. Mason Advisory's clients confirmed that I had touched on a subject that resonates – and that they would appreciate a follow up piece exploring the supply chain ecosystem in more depth. So, this article looks at how building societies can get the best from their supply chain to support the digital evolution that their business and their customers need.

When it comes to transforming core banking platforms, where do the legacies lie?

As it stands today, most building societies and other mutual and cooperative businesses remain focused on their core banking offerings (savings, mortgages, insurance) and their core customer pledge (personal, trustworthy, often branch-based services). But financial services are evolving– and building societies are keenly aware that balancing evolving digital offerings with their existing USPs will be a crucial strategy to sustain success.

The reality, though, is that most building societies are still operating via legacy systems, typified by single platform architecture. Such platforms, in 2023, may well be thirty-odd years old. Plus, in many cases, they have always represented a pared down version of the available technology, even as it stood in the 1990s. A reliable workhorse, certainly…but not a solution that lends itself to digital innovation.

Why? Because the reality is that digital innovation demands architectural agility. Incumbent core platforms, dependable though they may be, do not have the capacity to underpin a smorgasbord of new, flexible solutions that can be rolled out as opportunities present themselves. Instead, front-end possibilities end up being dictated by the established back-end architecture – which cannot just be switched off at will. Yet, the alternative – a costly and complex total legacy replacement – is unpalatable from a time, cost, and risk perspective.

What's more, suppliers, in their eagerness to retain valued contracts built over decades, may be reticent about admitting their own internal legacy constraints. That's understandable. Longstanding service and long-term relationships bring obvious benefits that are to be embraced. Of course, suppliers are keen to maintain the value they have worked hard to build. But there is no escaping the fact that, if there is no transparency over the supplier's own limitations as well as the client's challenges, an intelligent conversation about what the future holds will be virtually impossible.

'Going Greenfield' in a legacy environment: evolution, not revolution

> *There is only one way to eat an elephant – a bite at a time.*
>
> **Desmond Tutu**

Of course, as the world experiences what many are calling the '[Fourth Industrial Revolution]', plenty of disruptors are emerging who offer the kind of agile, Greenfield innovations needed to respond to fast changing customer demand . The question is: to what extent do large legacy suppliers have the capability – or indeed, the appetite - to incorporate those new models and ways of working into their own supply ecosystem? From the supplier's perspective, doing so would require significant financial investment, time, and cultural as well as technical change – and they need motivation to make that commitment. From the client's perspective, moving from 'how can we adapt the core platform we've got?' to 'how can we plug in stackable, scalable technology that will deliver what our customers need?' is a difficult transition to tackle without significant technical expertise and support.

To overcome this dynamic – which can rapidly turn into a blocker to progress – we need to generate a new dialogue, rooted in courage, transparency and trust between supplier and client. Both must be willing to expose their own vulnerabilities and limitations (as well as strengths!) to initiate a meaningful debate around how they can evolve together. This is a change in itself and, like any change, it carries risk. But, as is so often the case, the risk also has the potential to generate significant rewards.

Changing the supply chain dynamic from the inside out

In my experience, it is far better to embark on a supplier/client partnership where defined goals are delivered on a regular basis, than it is to attempt an unrealistic end-to-end transformation that is likely to fall flat, causing considerable cost, delay, and demoralisation when it does. To avoid that scenario, we must move away from a legacy 'waterfall' approach and towards a roadmap where incremental changes are mutually agreed, tried, and tested. New sources of expertise will almost certainly need bringing into the mix to complement existing capabilities. This, in itself, can present a cultural challenge to an incumbent supplier, whose linear working model may not be geared up to accommodate smaller disruptors, with their scrums, sprints, and agile delivery. In a situation where the supplier/client relationship often relies on a precedent established over decades, simply jumping into these conversations can spell disaster if neither party really knows what they're aiming to achieve.

So, where do we start with all of this? First, building societies must take steps to truly understand what they really need across people, process and technology to generate the solutions that their customers want. Then, they must build the right strategy to guide them from their legacy state into that target model. The supplier (including critical tertiary suppliers) needs to be a part of that conversation from the start. And I do mean conversation - not contract. Because planning the journey as a mutually beneficial one, and honestly discussing what needs to change on both sides to deliver, are meaningful first steps to informing productive ways of working moving forwards. You will, of course, need to wrap a contract around what is agreed, but a contract informed by a healthy level of real-world debate is a contract that is far more likely to deliver its intended outcomes.

This whole process is fraught with cultural, technical, and practical pitfalls. The help of an independent advisor can bring invaluable real-world experience to the table, to guide negotiations moving forwards. Similarly, an advisor adds a neutral and authoritative voice, giving both parties confidence that, even if the debate is entering unchartered waters, the course towards digital evolution is being plotted with realistic expectations and everyone's benefit in mind.

Author

Catherine Randles
Managing Consultant - Financial Services
email: fsi@masonadvisory.com

About Mason Advisory

Mason Advisory has offices in Manchester and London and employs over 100 staff, with plans to continue its expansion. We enable organisations to deliver value through digital & technology transformation, solving complex business challenges, and helping clients set strategy through the intelligent use of IT resources including architecture, cyber, operating model and organisational design, service management, and sourcing. We operate in sectors such as financial services and insurance, legal and law, government, health and social care, emergency services, retail, FMCG, transport, and not-for-profit.

Contact us

To get in touch, please email fsi@masonadvisory.com or call +44 333 301 0093

www.masonadvisory.com

MANCHESTER
Landmark
St Peter's Square
1 Oxford Street
Manchester
M1 4PB

LONDON
Bush House
North West Wing
Aldwych
London
WC2B 4PJ