The art of legacy transformations

BLOG BY STEPHEN C. DAFFRON

Stephen C. Daffron

Co-Founder &
Industry Partner

Transformations are complex, multifaceted, and nearly always messy.

The marketplace is full of firms promising to transform legacy systems and processes quickly and efficiently. There are dozens of consulting firms who will cite the speed and low risk nature of their transformation as reasons for your company to pay them tens of millions of dollars. Your inbox, like mine, is often flooded with advice, why your company needs to be *transformed today*! My advice: ignore the hype and face reality: transformations don't happen quickly, they are never cheap, and from beginning to end, the process is strewn with landmines of existential risk. Transformations are complex, multifaceted, and nearly always messy. Still, there is a queue around the block of companies that want and need them with boards and regulators issuing peremptory deadlines for completion. Why? Straight from Economics 101: Transformations are required when a firm's supply of products and services (the supply curve) has failed to keep pace with the requirements defined by their clients (the demand curve). Everyone can draw that

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picture. The further apart those curves drift, the more urgent and therefore time and resource-consuming the transformation will be.

This misalignment generally has three common sources – I refer to them as ruts – and understanding which rut or ruts you are stuck in is the best way to start thinking about a transformation:

- Obsolete data and technology architectures
- A static leadership and employee culture that are reflexively resistant to change
- A go-to-market framework that lacks the ability to recognize and anticipate client demand

Depending on the rut and the concomitant urgency of unmet client demand driving the pace of competitor inroads, legacy transformations come in two basic flavors: incremental (preferred) or big bang (to be avoided). Acknowledging the ruts, confronting them as early as possible with the company leadership, and committing to an ongoing process to keep up with the demand curve are the first steps to creating an effective transformation.

Industry-wide transformations

The most impactful transformations happen when entire industries, not just companies, recognize a shifting demand curve. In my experience, the most successful example of this was the financial industry recognizing the necessity for better understanding of market risk. In the 1990s, none of the major financial institutions had any real handle on how much risk they were taking across their products on a daily basis – much less in real time. The idea of having near real-time risk metrics was unheard of; speed limits are irrelevant if you don't know how fast you are going. As the derivative markets took hold, exposures skyrocketed, and the failures were epic. Headlines screamed for transformation. Congressional hearings ensued. Regulators set deadlines. Consequently, there was a ground swell of transformational technology that swept across the industry. The first and most famous output of that groundswell was the development of Securities Database by Goldman Sachs, known as SecDB, which put Goldman ahead of the curve on being able to understand, explain, and exploit market risk in near real time. SecDB created a huge competitive advantage for Goldman, enabling them to price trades and assess risk on millions of trading positions every day. Within months, every other bank on the Street and around the world started working the order to transform their risk systems – and to a greater or lesser degree they succeeded.

Smaller scale transformations also have the capacity to impact on an industry-wide level. In the last decade, demographic changes – the retirement of the baby boomers, the omnipresence of internet banking, and the increasing demands of younger consumers – have forced the wealth and asset management firms to transform their systems and service delivery from once-a-month paper statements and once-a-year tax forms to near real-time delivery of data balances, broad swaths of new products, and instantaneous answers to clients' questions. While the transformations are still underway, the leading institutions have made great strides in bringing their supply curves back into line with the still-morphing demands of the clients. The lagging institutions – those hobbled with obsolete technology and static leadership teams – are losing market share, being acquired by the more successful firms, or simply sinking under the red ink of the higher cost of old technology and manual processes.

The path to success: keeping your eye on the curve

As most industry veterans will acknowledge, industry wide transformations are easier because when they happen, everyone has to adapt, and the momentum of the market gives everyone some cover to clean up the messes along the way. But most transformations are done by individual firm efforts; firms that have fallen behind and need to clamber up to the new demand curve on their own without cover from the demands of their clients. And, while we can debate the statistics, two thirds of those transformational projects fail. Why? For the same reason they needed the transformation in the first place: the companies have lost sight of where the demand curve has moved to as opposed to where it was when their technology stack was conceived. If the Go-To-Market (GTM) process isn't dynamic, failed transformations skate to where the puck used to be. So even when there is appreciable progress the odds of long-term success are low.

So how do the ones that do succeed actually manage it? How do companies who recognize they need transformation catch up to the demand curve? Here are five signals I have learned to look for that identify successful transformation efforts.

First, they're smart about ignoring sunk costs. This is something that many management teams just aren't willing to do. It doesn't matter how much money was spent on old solutions. If the supply being offered doesn't match the client's demand it has to be discarded. The solution can't be derived from something that doesn't work just because management has already spent too much on it. But you'd be surprised at how many times I have heard just that rationale: 'we just have to keep this (non-performing) tech stack, we have spent years developing and implementing it'. The fact that any tech stack in today's market takes years to develop and deploy is a clear indication that a transformation is likely needed.

Second, follow the client data from the bottom up. Collect and study, at the most granular level everything the clients are saying and, more importantly, everything they are doing. It's only by the underlying data at this level that it's possible to understand how the curve has shifted and where it's headed next. It helps to make this process a regular part of running the business.

Most successful transformations move forward incrementally

Transformations that don't have built-in GTM will likely need to be repeated in five years or less.

Third, make the results visible to everyone. When transformation dictates a new data architecture and a new tech stack implement them front to back – enforce a constant visualization of their effect on the business as they happen. Transformations are expensive, messy and time consuming. If they are to be perceived by leaders, boards, and especially clients as worthwhile, they cannot be behind the scenes. As they roll-out they need to provide a top-down view that shows the clients that the business heard their demands.

Fourth, successful transformations are like eating an elephant: only possible one bite at a time. In thirty plus years of doing this I have never seen a successful big bang transformation. Most successful transformations move forward incrementally. The leadership develops a complete vision of where the transformation is going, implements a remedial GTM function that allows them to adjust the sight picture as the market changes. The entire process will take longer than anyone thinks so keep everyone working the order every day even if progress isn't immediately visible. That doesn't mean planning isn't important: it is. Create a detailed plan, understand the critical path, then be prepared to tear it up and rework it every six months. The plan needs to be realistic. No one should be allowed to dictate top-down deadlines. If transformations are done too quickly, they are unlikely to be effective and the cure can wind up being worse than the disease. If a transformation that should take six months is rushed through in six weeks, you risk destroying more value as you create.

Fifth, keep the train running while you prepare to fix it. Many companies undergoing transformations think recruiting new talent and new management is the key. You're transforming your business, catching up to new client demands and implementing emerging technologies. So, you hire a load of new people and a new management team to do that, right? In my experience, that is not the case. Talent should always be top of mind, but injecting lots of new talent at the beginning of a transformation can be debilitating and erode the likelihood of success. At the beginning of a transformation, as you analyze the ruts and assess the possibilities, it is important to stabilize the company, share the vision, get the buy-in of the people you need to keep the train running while you're transforming it. When your retention plans are in place, that's when you start thinking about new talent. Start with your planning and GTM talent; hire the planners, architects, marketers, HR specialists and software prototyping talent you need to create and project a detailed vision. There will be time then to bring on the execution talent to come in and implement those hard choices with precision.

The key to creating long-term, sustainable value in a transformation is paying attention to the cause of the transformation in the first place

Creating long-term value means constantly chasing the curve

The key to creating long-term, sustainable value in a transformation is paying attention to the cause of the transformation in the first place – letting the supply of goods and services come unstuck from client demand.

Long-term value comes from keeping up with the demand curve and where it's going. And that equilibrium between supply and demand isn't just a single point; it is a band in constant flux that has to be adjusted and continuously monitored. That means that companies can't just transform once and stand still. They need to be constantly transforming and evolving. It's the only way to keep up with where clients are going, how technology is changing, and what it costs to achieve change and optimize value for their business.

Sun Tzu's, Art of War, offers insights that are useful when thinking about embarking on a transformation journey. The most important: think carefully about when to give battle, when to hold back, and how to seize the moment of maximum opportunity. And an insight that I have always found encouraging as I tackle a transformation: maximum opportunity lies in the midst of chaos.

This could not be truer than for legacy transformations. **When those supply and demand curves become misaligned, when companies can no longer deliver for their clients, that's when chaos ensues, and in that chaos is where you find the value of transformation**.