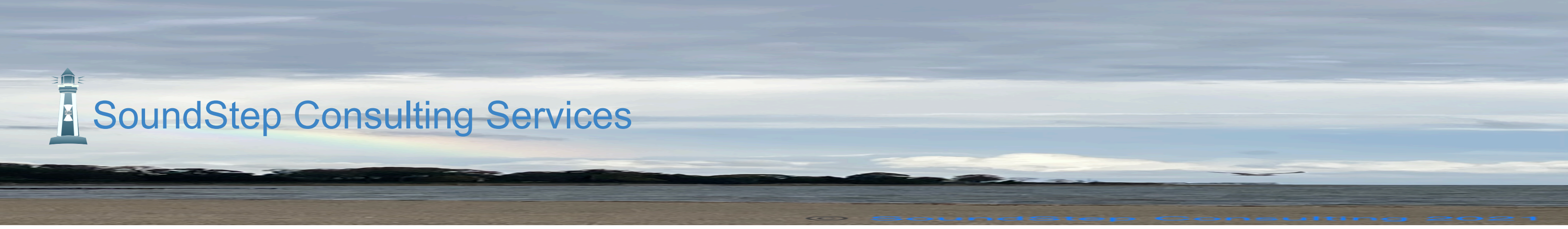


Connective Layer in Business - An Overview

Introduction

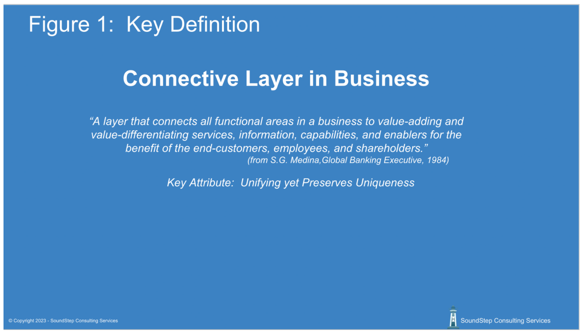
Practically all businesses grow into having multiple functional areas or departments once they pass the start-up phase. They expand into new markets and territories, and the number of functional areas required to deliver their products and services increases. The need to tailor products and services as well as create new, market-specific ones increases which then fuels the need to create in-market, local business units and service units. It doesn't take a long time before a company has to deal with the magnitude and complexity of running the day-to-day operation of dissimilar business and service units.

Even though every national and multinational company does its best to maintain a some level of commonality across its business and service units to gain economies of scale, it usually takes an enormous effort to get the business and service unit leaders to agree on what should be considered 'common and shared' versus what should be considered as 'unique and kept separate'.

The Connective Layer in Business concept and approach, as described in this document, was created by leader/strategist in the mid-1980s as a way of addressing the difficult task of getting a roomful of powerful business and service unit leaders, who were employed by the same multinational bank but working in 30 different countries, to agree on what should be considered 'common and shareable' and what could be considered 'unique and preserved'. Reaching an agreement was of strategic importance because of the size of the investments required, and the need for the leaders to work together and contribute toward achieving the requisite funding.

What is a Connective Layer in Business?

Figure 1 provides how the creator of the concept originally defined the term *Connective Layer in Business*.



For the aforementioned multinational bank where the concept was created and first utilized, the outcome was an agreement among the powerful banking leaders involved to define the connective layer across the company as follows:

- Standardized Operating Procedures for all branches
- Standardized job families and roles for back-office operations
- Common and shared services for managing foreign currencies and taxes
- Mini-computers for front-end processing and mainframes for batch processing of all deposit accounts
- Mapping of local financial books to a common chart of accounts

An agreement was also reached as to the initial funding of the connective layer and how the benefits and costs will be shared. This was quickly followed by an agreement with respect to how the connective layer can be sustained once it's in place, and how the ongoing capital and operating expenses will be socialized among the leaders.

While the agreements could have been ultimately reached through other approaches, the *Connective Layer* concept turned the usual painful process of planning and haggling over investments and budgets into a joint strategy and design session - where the leaders became co-creators and co-owners of the outcome. The connective layer concept created a forum for finding ways to pool resources to develop capabilities the leaders and their organizations could also share even if their businesses were very different.

Note well that by default, the most common connective layer in companies consists of management reporting and review meetings, internal and external financial reporting, HR processes, and audit & compliance processes. This might have been acceptable for some companies in the brick and mortar era, but it's certainly not in the digital era.

Attributes of a Connective Layer in Business

Figure 2 summarizes the main attributes of a Connective Layer in Business as it was originally formulated <u>and</u> as it has been refined over time.

Figure 2: Attributes of a Connective Layer

- Unifying
- Provides Linkages Yet Preserves Uniqueness and Independence
- Community-driven
- High Level of Re-use
- Ease in Adoption
- Flexible
- Adaptable
- Expandable
- Connects Internal and External Ecosystems
- Promotes Ecosystem Expansion/ Reach to Third Parties
- Supports continuous innovation
- Enable Value Proposition Ranking
- Promotes Buy Once, Re-use Many Times Behavior
- Promotes Community-approach to Investments and Benefits/Costs sharing

SoundStep Consulting Services

In the mid-90s, the Connective Layer approach was utilized by a global consumer electronics company to raise the quality of all its products and services across all the countries it operated in so as to deliver a consistent experience to its customers. The overarching goal was to increase sales by convincing prospects and customers that its brand represents high quality products delivered with quality services.

The connective layer consisted of the following:

- Common customer service system with local language customizations
- Common sales and order entry system
- Access to a shared ERP system
- Uniform desktop computers in all locations with options for local customizations

- Shared quality control system and shared pool of quality control specialists internally and with third parties
- Shared inventory control system internally and with third parties
- Regional collections and billing services
- Regional financial and accounting systems and personnel

In the early 2000s the Connective Layer concept and approach was utilized by small investment company and the connective layer the leaders agreed to create included:

- A single CRM system
- Access to a single shared trading platform and external market research data
- A single, shared knowledge management system
- A single email system and shared mailroom services

In mid-2000 it was leveraged by a global risk management company to identify value adding services and capabilities that can be created and serve organizations that are in dissimilar businesses. The businesses included property and casualty insurance, life and health insurance, asset liability management, reinsurance, and a specialized underwriting agency. The services and capabilities the leaders included in the connective layer they defined were risk assessments, modeling and rating, proposal generation, reserving, and data analytics.

Around the same time, an acquisitive insurance brokerage utilized the concept for their M&A activities - specifically to identify target companies they could acquire and quickly integrate via their connective layer.

Figure 3: The SoundStep Consulting Services' Business Assets Model (BAM - 04)

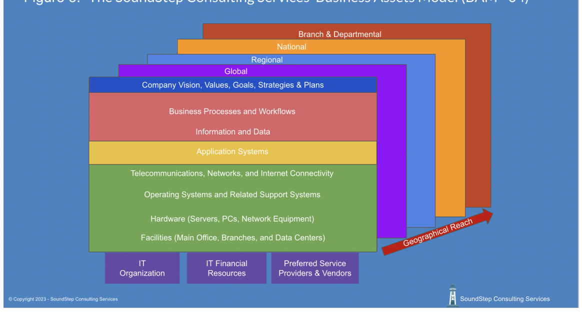


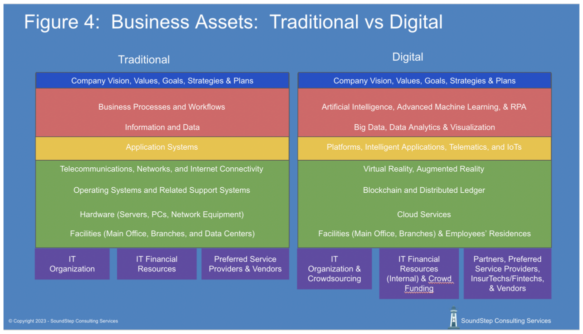
Figure 3 above shows the business assets of a typical multinational company in the mid 90s to the arrival of the digital era. The diagram was often used in strategy planning sessions to help leaders visualize the layers they could consider including as they define their connective layer. Most of the companies in that era chose to leverage applications systems and the supporting infrastructure (layers depicted in green) as their connective layer across business and service units, and across geographical locations.

The diagram is still utilized today by SoundStep Consulting Services whose clients include companies that still have legacy systems and business assets.

Digital Transformations

Today, the connective layer concept and approach is being utilized to help leaders define the scope of their digital transformations across their business value chain. It's also being used to help leaders agree on how they will measure and compare the potential benefits and cost of each item, decide what funding mechanisms to use, and create an investment and program implementation timeline.

Figure 4 below shows how the digital era has transformed the business assets of a typical company.



Note the digital technologies that are now being utilized by companies to transform their business. These technologies can be leveraged to create truly transformative and powerful connectivity layers within and outside a company.

The diagram and the connective layer concept and approach was recently used by a global P&C insurer to redefine the customer engagement touchpoints and support processes across their business value chain. By design, the scope of the activity was narrow and limited to the personal lines insurance products and services.

The connective layer they developed included cloud services, telematics, a single policy administration platform, robotics process automation to support their underwriting and operations, and data analytics aimed specifically at customer demographics, lifestyle and buying preferences and patterns.

Extending a Company's Reach

Digital technologies have lowered the barrier to entry for practically all types of businesses and in any industry. They have also led to the capability for businesses to add strategic partners and allies in order to enter new markets and in some cases expand into adjacent industries. By default, digital technologies, more specifically cloud services and application programming interfaces (API) are being defined by companies as their connective layer to third parties. Unfortunately, this narrow view is leading to significant problems - often for all parties involved.

Traditional banks and insurance companies are leveraging the Cloud and APIs to extend their reach to new markets and new customers via third parties. Unfortunately, the traditional brick and mortar bank or insurance company has decades of data - most of which are uncleansed and not reduced to the most important items that truly make a difference to end customers. More often than not the bank and the new partner are bog down with data cleansing and preparation efforts.

A connective layer must not be defined solely by the technologies that will be required to connect the parties involved. To use a metaphor, simply connecting railroad tracks and having freight trains to transport cargo does not ensure that the cargo or payload will be of value to the end customers. Therefore, defining a connective layer that involves third parties starts with having a shared vision of who the end customers are, and how each party will bring the best of their capabilities toward meeting the end customers' wants, needs, and expectations. This is a challenging task in today's digital world and economy.

For most businesses that are in the financial sector who will be leveraging third parties to pursue embedded finance or embedded insurance opportunities, the items that must be included in a connective layer are a) insights, information, and data about the end customers and the markets they are in, b) analytical capabilities that can be carried out in real-time, c) the capability to quickly customize/personalize products and services, d) intelligent decisions systems and real-time processing services, and e) AI-enabled and supported customer service.

Business Value Chain

In the next five years the digital era will turn into the artificial intelligence, Web 3.0, and virtual reality/mixed reality era. Businesses who are struggling to complete their digital transformation programs need to double down on their investments and efforts.

While the new era will bring new opportunities (e.g. access to more markets and larger customer base from adjacent industries) they can only be seized by companies who can a) transform their value chain to ensure that everything starts and ends with customers, and b) create a connective layer that connects all their internal business and service units and those of their strategic partners, to a set of value-adding and value-differentiating services, information, capabilities, and enablers.

Examples of Connective Layers

This concludes the overview of the Connective Layer in Business concept and approach. To keep this overview document brief, examples of how connective layers are being defined by companies today were excluded. However, they are included in other SoundStep Consulting Services articles and documents.