

The Human Side of Change Management in System Upgrades

The Alta Group Podcast transcript of Jon Fales in discussion September 2017 with John Rizzi, leader of Alta's Digital Practice, and John Hurt, an Alta digital consultant. Jon is the producer and host of the consultancy's podcast series featuring current equipment leasing and finance industry topics. If you would like to propose a subject, please contact Jon at jfales@thealtagroup.com.

Jon Fales: Hi, and welcome to the Alta Group Podcast. I'm your host, Jon Fales, and today, we'll be talking about something that doesn't get a lot of attention. The people issues that arise when equipment financing companies do major software upgrades or conversions. I'll be speaking with John Rizzi, who manages Alta's Digital Practice, and John Hurt, who is an Alta Digital Consultant. So good morning, guys, how are you both?

John Rizzi: Very good, Jon, how are you?

Jon Fales: Doing well, thanks.

John Hurt: Good, Jon, thanks.

Jon Fales: See, there's an echo in here. We got three Johns on the call, that's what always happens. Oh, boy. Anyway, this morning, what we're gonna be talking about are systems issues above and beyond the bits and bytes and specifically, we've got a lot of people in our equipment financing industry that are considering system upgrades or systems replacements right now. In many cases, a lot of the planning that goes into that tends to be features oriented bits and bytes and so forth, but a very big consideration arguably even bigger than the features of the software are the people considerations. And, John, you've bumped into that a number of times over the years, haven't you?

John Rizzi: Yes. And so, you know, really what we wanted to cover today was just to talk about kind of the human side or the people side of upgrading systems. And as you mentioned, Jon, there's a good amount of upgrade activity going on within the commercial equipment space and the auto space relative to new systems. So we're gonna talk about that, both how it impacts the individuals within the organizations, end-user customers, and business partners, and also the individuals that are actually implementing these systems which would be your software providers, system providers, and integration partners.

Jon Fales: Okay, three distinct but related areas obviously. Which one would you like to cover first?

John Rizzi: Well, let's briefly talk about the actual users of the software and the users of system which is really the internal change management functions that occur at the operational level and it could be front office or back office. And, you know, the things that we see there, you know, is really pretty standard across the business but a lot of companies really struggle with change management. And what we see predominantly is the reluctance of the users of existing systems as complex as they maybe in the legacy environment but we see a lot of reluctance there to change. And while everybody embraces change, you know, they say we all want to change and we think change is good, at the end of the day is, you know, the bottom-line is they say, "Change is good as long as it doesn't affect me, and it doesn't affect me too much." And that really becomes an issue here.

Sometimes it's not just about the keystrokes and we have people that say, "Well, I've been doing, you know, Control 7 to do a particular function for 15 years." And that's all well and good but I think that some of the challenges at the people level really become from, they become so familiar with a system but they also become familiar with the business process. And they become familiar with how, who is responsible both upstream and downstream to perform a particular function that impacts their work and they feel like they may lose that control, lose that familiarity sometimes when they're implementing a new system and I think that that causes level for concern at the internal people level.

Jon Fales: Right. And obviously, not just the control aspect but also the possibility to get better productivity or streamlining by trying to do things the old way when the new system's capabilities might allow folks to do stuff a little bit different or quicker. And, John, I think you probably have experienced situations like that in your career too, haven't you?

John Hurt: Yeah, absolutely. I think one of the things that I observed from, you know, software vendors coming into particular clients, you know, working as either one of the internal people, or as a consultant they will come in and say, you know, "What do you want the system to do?" And my first response to that is typical, "Why don't you show him what it does and then we'll talk about anything that we may change," because these guys sitting here on the abstract were not gonna be able

to design a perfect system. They are, by default, are gonna revert that to what they know...excuse me...and frankly, you know, a lot of times they don't understand why you're trying to do a change. You know, what is so much better about this system than the old system? What is it that we're trying to accomplish through this change? And I'll tell you this is not a story from the leasing industry so I don't have to hide the names but when, you know, I was fresh out of engineering school, my first job as, you know, head of IT for an apartment rental company, I was tasked by my boss at that time, he said, "Come in, I'm gonna teach you how to rent apartments and then you're gonna teach us how to do it better." And so when I started talking technology, he said, "I don't care. Come out to these properties and let me show what we do."

And so, you know, it was that full two weeks of deep insight into the apartment rental, you know, process. I'm watching the office people on a Friday afternoon with sacks of quarters that came out of the vending machines and they're sitting around the table counting them. And I said, "You know, you've got a scale, you know, for the postal system, why don't you weigh 10 pounds of quarters and then just weigh the quarters and take them to the bank? You'd be done in five seconds." And they stared at me and they continued counting the quarters.

And I came to realize that they weren't really looking for a solution to that because they enjoyed those couple of quiet hours on Friday afternoon where they kind of sit around and chat and gossip and do whatever they want to do and count quarters and nobody was bugging them. And so there I am, you know, as the new manager, the new executive trying to solve a problem that not one person in the organization wanted solved. So that was kind of an interesting insight, you know, early in my career that make sure that you understand the problem that there is a problem before you try to get people, you know, to solve it.

Jon Fales: Well, for those of our customers that still are collecting cash, then maybe there is an application there, I don't know. All right, so the impact on internal users is pretty straightforward and obvious I think. What about external users and customers, business partners, and so forth, John? How are they impacted and what should systems people be looking at?

John Rizzi: Yes. So if you look at the customer side, you know, just, I think one of the things that both John and I have seen a lot in the industry and what's going on right now is digitization and the ability of

digitizing a process or doing, creating mobile applications that our customer-facing. We're trying to make the customer experience, you know, more streamlined, better for them etc.

You know, and while a lot of those initiatives have been successful and have automated the lease origination process to a great degree, we've actually seen where companies make a pretty erroneous assumption as to whether a customer really wants to use a particular application or a new application or a mobile application device. And, you know, we've seen companies that have developed and spent a lot of time and energy and money developing mobile apps to create a better customer experience and then when they deploy them in and implement them into their environments, it's met with a pretty significant yawn. And their utilization has been actually low, much lower than they anticipated and, you know, they scratch their heads as to, "Wow, we thought everybody would really like to use this," but when they were doing their business case and their project plan, nobody took the opportunity to go out and survey their customers.

So, you know, we see that customer impact is really beauty in the eye of the beholder as opposed to beauty in the eye of the developer. And we think that that's a lesson that needs to be really considered when looking at digitization particularly at the customer experience level.

John Hurt: Yes, it's definitely, it varies by segment, right? And we always talk about the leasing industry but the leasing industry is 10,000 different unique companies. And so, you know, from my standpoint, when I looked at those types of things, I looked at the companies, kind of, in two segments. One, smaller entrepreneurial lessors who are, you know, running the business during the day and then looking for financing at night. And, you know, and I have clients that work in that segment where the deal sizes are \$50,000 to maybe a \$100,000 for, you know, tools or certain types of equipment where the guy who is running that company during the day is running his plumbing shop or running his machine shop or running his brake shop. And he doesn't have a finance staff that's going out, you know, working on this stuff. And so he has dinner and then he pops on the computer at 9:00 at night. And so to that customer, they've great adaption of those kind of, you know, web or other kinds of portal tools because that's when that guy can actually run his business. The rest of the time he's doing his business, as opposed to, you know, a mid-ticket or a large ticket or maybe some of the captives that are dealing with larger companies that..you know, there's a finance group that's in there from 9:00 to 5:00 every day whose job is to

find these financing things. And they're not gonna pick up and mess with a web portal, they're gonna get on the phone or you're gonna have a direct sales team in that organization going out and hitting those companies.

And so it really is important from a technology standpoint to not only understand the needs of the customer but, you know, the profile of the business. And, you know, and it gets back to that, taking the time from a business standpoint to educate your IT team, you know, the team that's doing that technology evaluation, to make sure that they understand the business and that they are thinking about the business in the right way so that when they're looking for technology solutions or proposing technology solutions, that there is good alignment, you know, with the organization and the customer, the end-user customer experience and what you're trying to achieve before you just say, "Oh, everybody has built a web portal, we got to go build a web portal." You know what I mean? Everybody is looking for ways to extend their office but it depends on, you know, it is critical to understand to whom you're extending it and why would they want to interact with you in that manner.

Jon Fales: Let me ask you both a question, you know, it's fairly intuitive that if you've got end-users or business partners that are gonna rely on your systems that you'd wanna sit down and talk with them during the design phase. But there's also an element of, "you don't know what you don't know". In other words, they may not know the capabilities that a new system is gonna bring and you may not know what business needs they have that a system's solution could address. How do you find those "you don't know what you don't know" types of things when you're interacting with business partners and customers?

John Rizzi: Well, I'll start with that, Jon. You know, the fact is is that when you're talking to various companies that are business partners, lets' say you're in a dealer environment or you're originating your transactions through a dealer network or reseller network, invariably each one of those dealers or resellers have their own way of doing business. And so, you know, sometimes the idea of canvassing your customers and trying to match their business process so that they would tend to use your origination capability more so than a competitor's origination capability. You know, the reality is is that you can't build a system that is all things to all people. So it is difficult sometimes for developers that are trying to do a mobile app or some other kind of, you know, new innovative origination platform to really listen to their

customer's so specifically because they just, you can't develop a system that again, everybody really wants to use and will automatically jump on.

So a lot of it has to be training at the dealer level, at the reseller level, at the reseller salesperson level, and then showing them what their investment in that training and then utilization of that system would bring them as far as new sales, more profitability, and greater convenience. And I think that that becomes a pretty significant challenge at the customer level when you're looking at new applications of technology.

John Hurt: Yeah. And just to kind of add on to that, and this is something that I've, you know... Again, between the apartment rental company and getting into leasing, you know, I did a startup in the mortgage space. And one of the fundamental differences that I've quickly identified, you know, once I got in and started trying to understand the leasing industry there was the relative lack of regulation within the leasing industry and how that impacts systems design. And by that, I mean, you know, we were doing loans in all 50 states, right? We were doing first and seconds and investment properties and all kinds of stuff, and yet, even then, the documents for each of those states were defined. And so as a system developer, you would basically, you know, you take those docs, you know what the calculations are, you know what the docs have to produce, you know what data fields you need to do it. And so you have a pretty complete framework of what you have to do to accomplish the production of that document which is the ultimate goal of the system.

In the leasing space, there isn't that framework. You know, there are some accounting regulations and some things like that but there's not the processing regulations or there's not the documentation regulations, you know, this isn't typically commercial lending. And so you don't have the kind of structure that you have when you have a heavily regulated industry like merges. And so what we find, you know, when John, and I looking at these systems and when we're talking to, you know, end users or people who are gonna acquire these systems, there's what we call a pedigree. And some of these systems, you know, and a pedigree is really developed by...so the systems are driven by the early adopters of the systems. And all of these systems have some type of a pedigree. So as the early adapter were auto, you see excellent functional richness and a fixed inventory type of environment where you know all the features and you know all the inventory.

If their early adapters were bank general type of lessors, you see a lot of

flexibility and asset entry and, you know, and structural things. You know, if they're captives, you see lots of automation where you can get, you know, tons of information on the manufacturing. And so, you know, evaluating the...and then the challenges, there's very few companies that are only one thing. You know, so you'll have a captive but it also has kind of a general, you know, leasing wing, and so they need a little bit of both. And so where we end up working a lot is really understanding what are the key drivers in the organization aligning that with some of the, you know, the better players in that and then looking where the gaps are and figuring out, "Okay, what are the gaps that are hard to mitigate, that are easy to mitigate, how does that lineup with functional richness of the platform?" And that's something that, you know, in a lot of other industries, you don't really have that because you have a much more defined industry-wide process which just doesn't exist in the leasing space.

Jon Fales: Very good points, so it's kind of a wild west, I guess when you get a chance to look at what the opportunities are then. And let me...along that vein, let's talk about process development and process changes when you're considering new systems. John, I remember you were telling me sometime back that you've been working on a project and there was a person that wasn't quite up to date with what a relational database was and therefore some of the opportunities that you had for system and application design versus what they had been used to over the years. When you're working with companies, how do you get people to understand the use of new technology with respect to how it can impact processes in ways that customers are actually using those applications?

John Hurt: Yeah. You know, it's a challenge and I think, you know, coming from our side, we, you know, we're used to be dealing with new functional, you know, elements and new capabilities all the time. And, you know, there's a lot of legacy systems, you know. I go back into the early '90s with this stuff and there were basically three applications, you know. Yeah, the one that you saw the small ticket lessors, you had one that had black screen, you had one that has blue screen. You know, and that was what's out there, and now there's a lot more. And so I think the key...one of the things that I try to do if the customer doesn't have good processed documentation of, you know, what they do, why they do it, and who is doing what and when, that's a great place to start because anytime, especially something as simple as this Swimlane Diagram, and they seemed dorky when you do them, and yet everywhere you're passing control of the deal across one of the swimlanes, you've got an

opportunity when to drop the ball, but you've always got an opportunity to apply systemic controls that help that process.

And so once you're doing that, you get a real good sense of the people who have been, you know, doing one functional operation forever. You can look at the new system that they are talking about and try to figure out how that's done in that new system and then you just got to hold their hand and walk them to the new process until they understand the benefits of doing it. And, you know, in that case, there was, you know, they were entering asset locations, you know, at each schedule. And the new system was relational so you could enter the asset location in a central database and then you have to assign it. And I just couldn't quite get the concept of, "Hey, you know, but I put it here." "Well, no, you put it here and you just assign it and then you can reuse it as many times as you want."

And that was just gonna be some education and, you know, you're gonna have to hold their hand while they get to the point where they understand and then they can accept that that's actually a reasonable alternative.

Jon Fales: John, how about you? I know that you've lived through an awful lot of system implementations and conversions and so forth in your career. What kinds of things have you seen along these lines?

John Rizzi: Well, you know, I'll give you an example of one and I think that John brings out something that is really relevant today. You know, legacy systems, we all know that they exist in the marketplace. We all know that many companies, out of necessity, had to build custom applications, build integrated systems to perform their business, to enhance their business, to create opportunities for them to create new customer-facing applications, so it created this web of complexity.

Well, today's modern systems really accommodate the leasing business more than they had in the past. And what we see sometimes in new implementations is the desire for the clients to try to maintain their existing way of doing business and their existing way of working with new applications. And they're forcing...we're trying to force software providers to customize this as opposed to allowing the software providers to simply configure. So we always say that it's better to configure than to customize

. And an example is, in years gone by, there was a large application that was being developed for a European market, for a lessor, and they first

try to do it and they listen to each one of the countries and each one of the businesses and the business people, and then they said, "Well, we have to do business this way in this particular country."

And as they went throughout their European expansion, they realized that their customizations were quite extensive. It took them multiple years and multiple millions of dollars to implement something across that platform and it ultimately did not provide the level of efficiency or the benefits that they ultimately realized. They wound up scrapping the project. And then what they did in the second iteration of a new system, they went and they developed something that they said that they would not customize at all and that if a particular country or an operation wanted to customize something, they had to have an actual business plan and a justification for it, and they have to provide a cost justification as to why that they wanted a particular customization to be done.

Well, invariably what winds up happening is that the businesses don't produce the documentation, don't produce the return on investment validation. And the company winds up installing a Pan-European system with less than 20% of the customizations that they had in the first go around, and the implementation goes well, and everybody is actually using the system 80% the way that was built out of the box. And it becomes a much more efficient operating system forum. It gives them the ability to do post-implementation, maintenance, and services better without customizations.

So, again, it was management-driven but it put the owners on the business to actually validate or to justify the customization. And when they were asked to do so, they actually acquiesce, and they allow the software to run the way that it was intended to run.

Jon Fales: Yeah, I mean you...that's a really important point that basically you can overdo it the other way instead of not thinking about opportunities. You can build too much opportunity in there which gonna end up sinking the ship, right?

John Rizzi: Yeah, and it becomes not only costly and time-consuming but, as I said, it also becomes very difficult to manage the software and manage the environments in the post-implementation are. And it creates support challenges on an ongoing basis that are extremely difficult when the vendor that originally wrote the code wants to put an upgrade or a patch or a fix. And sometimes those patch or fixes don't work in a highly

customized implementation. So it creates post-implementation issues and cost that sometimes people just don't look at and consider.

Jon Fales: Yeah.

John Hurt: Yeah. A lot of times that's driven, you know...a lot of those processes were developed in response either to a lack of functionality in the old system and so we had to build XYZ, excel sheet, to handle this portion of the portfolio. And so those are the kind of things that you need to just pick off one at a time, you know, when you're implementing the new systems or when you're evaluating or looking at process change. Because, you know, there's no necessarily, you know, regulatory reason why you're doing it or any kind of other type of, you know, enforced reason other than it's how we always did it, it's how we're comfortable doing it, it's how we understand how to do it, and we can't conceptualized a different way of doing it when we have additional functionality that's provided by a new platform.

And so, naturally, you know, it's hard to do that in a mass project. You know, I think it lends itself to what John describe where you, you know, you pile it on, you know, one area, one division, one country, one region, you implement it and then you roll it out in the next region, and that's functional configuration. Then you say, "Effectively, prove to me it will work. And if you can prove to me that it will do something that you absolutely have to do then we'll talk about changing it." And, you know, and that's a reason why to do it."

Jon Fales: Yeah. I've lived through some of those myself. I've worked with IBM many years ago and I remember going through some country by country systems design issues which was just like pulling teeth, it was very painful. Well, look, we've been talking now for coming up on half an hour. We talked about the three basic people areas of systems design and implementation considerations. We talked about internal end-user considerations. We talked about external users like customers and business partners. And we talked about application and process design and what the impact, the people impact can be of putting new systems and some considerations there. John, do you have any closing thoughts before we end the call?

John Rizzi: Well, you know, the only thing that I would say, Jon, is that, I think, you know, what we're seeing in the marketplace are more bespoke systems that are really well designed and allow for a lot of diversity in configuration and business process and flow and business

rules. So we see that, that the newer technologies allow companies to just maintain their individuality and maintain their unique value propositions without having to customize the software or customize their infrastructure and their IT environments the way that legacy systems forced them to do that.

And so we would just recommend that people keep their eyes open when they're looking at new systems and look for ways to adapt their business process to the new software capabilities because the software capabilities are rich. And we think that many companies can really reduce their complexity, reduce their cost, reduce their time to implementation, and certainly reduce their post-implementation cost and maintenance expense the more they adapt to the software capabilities as opposed to trying to get the software providers to customize it for them.

Jon Fales: Yup, exactly. John how about you, any closing thoughts?

John Hurt: The biggest thing I would say is that, spend the time upfront to, one, document your current process, you know, establish that the "as is" process and the "to be" process, you know. And I know that buzz words and everybody thinks, "Yeah, yeah, yeah." But frankly, you know, the other way to look at it is, you know, there's never time to do it right but there's always time to do it over. And, you know, with systems like this, the disruption of doing one of these systems, the functional richness and the functional capability of these systems vary tremendously. And, you know, and again, it goes back to the pedigree. And I don't think you can spend too much time doing your, you know, your RFP structuring, doing your, you know, pre-demo evaluations, making sure, you know, the types of demo scenarios that you're making these vendors run through are as well thought out as you can make them.

And, you know, the concept of an extended discovery period with these systems is not out of the question. I mean, they are complex systems, they are big money, they have big disruption, and there's a lot of functional richness to them that you're not gonna get in a couple of eight-hour demos, you know, with somebody also running the show. So I think the more time you can spend upfront to make sure you're comfortable with not only the application capability but the service providers capability to understand your business, to articulate what your business needs are, to show you how their system aligns with your business needs, you know, and getting some help from people who

have seen a lot of these systems, I think is really, you know, beneficial to making sure that you have a comfort level that you are driving the right change into your organization and giving you the opportunity to identify all the areas of change that you could potentially take advantage of. And I think that doing that, you know, that pre-implementation work really pays huge dividends once, you know, the rubber hits the road and, you know, the team from the service providers shows up and you're actually starting to work on the project.

Jon Fales: Yeah. Sometimes set of new eyes on issues can bring up some good solutions that you might miss one you have been "forced for the trees" kind of a situation working for a company for a long time. John and John, thank you both very much. I appreciate your time and I hope we'll get a chance to do this again soon.

John Rizzi: Thanks, John.

John Hurt: Thank you, sir.

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