



# Deloitte.

Operating models that  
navigate business volatility

Moving from castles to ships

For decades, companies have thrived and survived by building mighty castles to protect their positions. To ward off competitor incursions, organizations identified competitive advantages, placed themselves behind barriers to entry, and built powerful organizations to realize the entity's aims. These nearly impenetrable walls were a potent approach when change was usually predictable and manageable.

A quick look around, however, is all it takes to realize that the world and business are evolving at a faster pace than ever before. Fueled by technological advancements, emerging markets, empowered consumers, and evolving regulations, the pace of change has left many castles struggling to protect themselves. The harsh reality is that stability is becoming increasingly rare in today's marketplaces and instability makes castle building a poor choice for sustainable advantage. The businesses that will prosper in tomorrow's world will build ships that are able to maneuver nimbly through ever-changing business environments. Ships and their crews are keenly aware of their surroundings and are able to adapt quickly. Building ships is a strategic imperative. Companies cannot dig moats deep enough to make them immune from the external forces that change markets and customer demands.

The essence of being a ship lies in the company's operating model—a flexible configuration of capabilities organized in business units, shared functions, and throughout the organization's ecosystem. The right operating model stems from a clear business strategy that defines a company's core customers and what the business will offer them. With a clear strategy, an organization can systematically evaluate its capabilities and determine what the company needs to do today and what investments it will need to make in the future.



## Becoming a shipbuilder

Building ships may seem like a daunting task from inside a castle. The culture and processes of large enterprises are often structured to protect revenue and profit from legacy products and services. To prepare for change, many companies try to keep their businesses growing by creating entrepreneurial ventures outside the core culture or acquiring entities with new capabilities. Although these approaches have their place, other large enterprises are changing from within through a systematic approach taken in measured steps.

HP is a prime example. Founded in 1939,<sup>1</sup> HP has embarked on three major operating model changes in the past 14 years anchored on capabilities required to address market changes. When Carly Fiorina took the helm in 1999, for example, the company's account representatives struggled to compete with an onslaught of specialized salespeople from PC manufacturers, printer specialists, and storage manufacturers. In response, Fiorina consolidated several business segments and created the customer solutions group to simplify sales processes, improve speed, and coordinate sales activities.<sup>2</sup>

In 2005, CEO Mark Hurd faced commoditization in core segments as well as steep competition from printing and personal computing businesses. To adjust the operating model and capabilities to the new reality, Hurd eliminated the customer solutions group and embedded marketing and sales within product divisions to improve sales force productivity and streamline decision making.<sup>3,4</sup> Meg Whitman faces many of the same challenges and has picked up the efficiency mantle by creating the Printing and Personal Systems Group to gain deeper customer focus, improve the customer experience, and eliminate organizational silos.<sup>5,6</sup>

GE is another example. The company is shifting from a diversified conglomerate to a business that is capitalizing on embedded intelligence. Coining the concept of the Industrial Internet, GE has amassed significant amounts of data and is using it to build competitive advantage. The company has put a formidable analytics team in place to evaluate data coming from their industrial products and to work with product teams to identify new opportunities such as improving the fuel efficiency of airplanes. Taleris, for example, is a new GE start up that helps airlines predict mechanical malfunctions to reduce flight cancellations.<sup>7</sup>



## Focus on capabilities

An operating model that functions as a ship must balance today's needs and prepare the organization for future uncertainty. New and emerging growth opportunities may need vastly different capabilities than what are in place today. Identifying those capabilities requires a holistic process that begins with a vision supported by a clearly articulated business model: "where to play" (e.g., customers, products, geographies) and "how to win" (e.g., value proposition, profit models, partnerships).

Business model planning must also account for uncertainty. Company leaders must take a hard look at the market assumptions they are making and identify alternative scenarios and the business model changes they imply. In addition, organizations should identify the key principles and anchoring decisions that are going to serve as the guardrails in the design. Business leaders should examine major trends and understand where the business may be going in the long term. Skipping this critical step can easily lead to unnecessary organizational churn, elongated timelines, and lack of alignment among key executives.

The next step is to identify and build needed capabilities. Capabilities are the building blocks of a sustainable operating model that underpins a new vision and business model. When evaluating capabilities, companies often focus on only these three dimensions:

- **Talent** – The competencies, skills, talent infrastructure, and workforce planning that provide the needed talent to perform the capability—for example, multilingual employees, and staff seeking flexible work arrangements.
- **Process** – An integrated and efficient set of processes and activities designed to achieve a desired outcome—for example, configurable design and a network of partners.
- **Technology** – The technologies (software and hardware) and tools required to enable the capability, such as cloud computing applications.

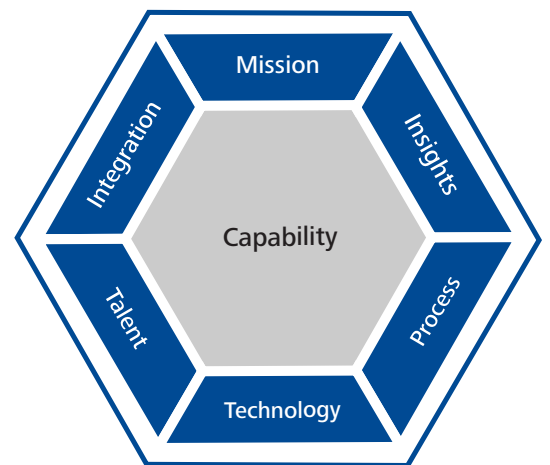
Although the above are critical, they are only part of the picture. The Deloitte Capability Hexagon™ provides a broader framework that can be used to confirm that capabilities are tightly in synch with organizational needs. To assess the fit, companies should also evaluate capabilities in the context of these foundational dimensions:

- **Mission** – The purpose of the organization, how it will operate, and what value it will deliver. The mission is derived directly from and supports the company's strategy and should include approaches to corporate responsibility and social impact.
- **Insights** – The decision flow, information, and analytics that drive timely and better-informed decision making, especially with big data and real-time analytics.
- **Integration** – Clear roles, decision rights, and policies that facilitate integration within and across other capabilities, functions, and partnerships, including matrix organizations and alliances.

Stormy seas require organizations to take a broad view of the capabilities they need to navigate business volatility. A capabilities-driven approach can help companies identify "where to play" and "how to win" and avoid pitfalls that hamper progress. Specifically, the approach is designed to help companies:

- **Prioritize the most important capabilities** – Based on their business model, companies can identify early on the capabilities they need to invest in, which can be performed by

Deloitte Capability Hexagon™



partners and, just as important, which capabilities are no longer essential.

- **Surface major decisions upfront** – Clearly defining the strategy and identifying the needed capabilities can help avoid misfires in the future since the organization is prepared to meet the challenges of its new business reality.
- **Keep discussions objective** – Changing the operating model can effect nearly everyone in the organization. As new capabilities come to the fore, discussing changes with leaders in operational areas can build buy-in and reduce resistance.

## Hallmarks of successful operating models

While no one operating model will work for every company, key operating model attributes reveal the hallmarks of what enterprises should consider in the near- and long-term.



### Global navigation

Since growth in developed markets has slowed, businesses need to fortify global expansion with specific strategies to reach the next billion customers. Globally integrated operations that can expand into different markets and easily shift outputs between them are hallmarks of future success. Companies built like ships can move swiftly to the harbors where the opportunities are most promising. This ability to navigate across the globe gives companies a distinct advantage in nascent markets.



### Scalable orientation

The rapid pace of change shortens windows of opportunity. The best operating models can respond to changing market conditions by quickly piloting new concepts and scaling operational efficiencies. In addition, companies with scalable operating models are quick to develop alliances that can add scale “on-demand” such as cloud computing.



### Workforce mobility

Businesses and consumers have gone mobile. The best talent is spread across the globe and a flexible working model can leverage it. Effective operating models use mobile to find the best talent in the world, provide geographic and work style flexibility, and foster collaboration.



### Digital enablement

Digital technologies are disrupting business models every day. But they also provide unique opportunities. Operating models need to capitalize on the benefits of digital technologies (e.g., analytics, mobility, social outlets, cloud computing). The most effective operating models have a unified enterprise-wide digital strategy. Rather than simply “bolting on” digital technologies to their operations, successful businesses strongly consider digital enablement when designing their operating models. Operating models should be created for an “omni-channel” world and embed analytics and other digitally enabled capabilities into the fabric of the organization.



### Configurable design

Even a leading company will be hard-pressed to “go it alone” or have a singular model in today’s business environment. Forming alliances, joint ventures, and strategic partnerships will be central to market success. Leading-edge operating models have a governance structure that balances decentralized decision making with sufficient oversight to allow for macro-level adjustments. Like a fleet of ships changing their formation, operating models should be configurable to address new threats and opportunities.



### Regulatory strategy

As regulators change their expectations in many countries and industries, compliance strategies should be a core element of operations. Companies with the most effective operating models understand the regulatory landscape. They define a strategy and implement a proactive approach for meeting regulatory demands. They also adapt their capabilities, such as technology platforms, to accommodate regulatory changes.

## Operating models on the horizon

Based on current marketplace trends, we have seen a number of operating models emerge that are likely to thrive in tomorrow's business environment. These operating models are being spearheaded by ships that are challenging incumbent castles.



**Niche operators** are small independent businesses, such as those trading on e-commerce websites like Etsy. Etsy has embraced small niche businesses that cater to specialties such as wedding products (e.g., cake toppers, stationary) and connects them with consumers through an online platform. Niche technologies have fueled the ability of small product/service businesses to thrive in the market today.<sup>8</sup>



**Infrastructure providers** are high-volume, routine process and service delivery companies that have made heavy capital investments. The companies tend to have world-class data storage infrastructures that allow them to scale quickly and add more customers to their network.



**Aggregation platforms** are companies that connect either multiple marketplace participants or those participants to consumers. This business model is not new and is part of many peer-to-peer companies. Two well-known examples are Amazon and Ebay.



**Agent businesses** are organizations that connect consumers and talent. Examples include Pandora and LinkedIn. Pandora connects personal music consumers to artists. LinkedIn helps business professionals stay connected within their own communities and at a global level, and now has more than 380 million members in over 200 countries.<sup>9</sup>



**Mobilizers** are companies that unite participants who have a common goal with a set of standards and governance. The company Social Finance, Inc. (SoFi) is one example. An alternative to traditional lenders, SoFi unites early stage professionals with individual investors for student loan refinancing, personal loans, and mortgages. SoFi has connected these parties to integrate a social mission within the lending process.<sup>10</sup>

## The bottom line

Tomorrow's leading companies will have flexible operating models that can support ever-changing market demands. To build operating models that are prepared for the future, companies need a clear business strategy that defines core customers and what offerings the company will bring to market. Organizations should consider a broad set of capabilities through a structured, holistic approach that focuses on the future as much as on the present. Businesses should examine their organizations to understand how they can become ships. To begin this transformation, business leaders should consider the following:

- First, companies must confirm that their business model and strategy have been thoroughly pressure tested. In many cases, businesses don't fully define key strategic aspects of the business model prior to starting down the path of building the operating model. Focusing on "where to play" and "how to win" can help crystalize these priorities.
- Second, organizations should identify the key principles and anchoring decisions that are going to serve as the guardrails to guide the design. Business leaders should examine major trends and understand where the business may be going in the long term. If they don't, they may find themselves confronted with unnecessary organizational churn, long timelines, and lack of support among key executives.
- Finally, organizations should take a deep look at capabilities, not just organizational structure. Firms that successfully create new operating models evaluate the capabilities they need to win in the marketplace and surface tensions around how those capabilities can be delivered. They then make deliberate and informed decisions. Those decisions optimize critical capabilities by confirming that the right approach to decision rights, expectations, and operating structures are in place.

Many companies realize that they need to navigate like ships and have more nimble operating models. By taking a fresh look at strategic choices, competitive threats, and needed capabilities, companies can design, plan, and develop operations that can drive sustained competitive advantage.

For more information, please contact the authors:

**Dave Kuder**

Deloitte Consulting LLP  
+1 404 631 2300  
dkuder@deloitte.com

**Mic Locker**

Enterprise Model Design Offering Lead  
Deloitte Consulting LLP  
+1 212 618 4973  
miclocker@deloitte.com

**Matt Schreibeis**

Deloitte Consulting LLP  
+1 214 840 1099  
mschreibeis@deloitte.com

**Alex Wittenberg**

Deloitte Consulting LLP  
+1 216 589 5189  
awittenberg@deloitte.com

**Acknowledgments**

Special thanks to **David Michelson**, Deloitte Consulting LLP and **Bruce Chew**, Deloitte Consulting LLP, whose insights helped bring this article to life.



## Endnotes

- <sup>1</sup> HP Garage Timeline, HP Website, <http://www8.hp.com/us/en/hp-information/about-hp/history/hp-garage/hp-garage-timeline.html>, accessed October 14, 2015.
- <sup>2</sup> HP Annual Reports and Earning Calls, 2002 – 2012.
- <sup>3</sup> Pui-Wing Tam, "Hurd's challenge at H-P: Overhauling corporate sales", Pittsburgh Post-Gazette, April 4, 2006, <http://www.post-gazette.com/technology/2006/04/04/Hurd-s-challenge-at-H-P-Overhauling-corporate-sales/stories/200604040135>, accessed August 17, 2015.
- <sup>4</sup> Martin Reynolds and Andrew Butler, "New HP CEO Will Likely Cut Costs and Emphasize Growth" Gartner, March 30, 2005, [http://www.gartner.com/resources/127000/127043/new\\_hp\\_ceo\\_will\\_likely\\_cut\\_c\\_127043.pdf](http://www.gartner.com/resources/127000/127043/new_hp_ceo_will_likely_cut_c_127043.pdf), accessed December 16, 2014.
- <sup>5</sup> Kevin McLaughlin, "HP Names Channel Execs For Combined PCs And Printers Group", CRN, <http://www.crn.com/news/channel-programs/232901063/hp-names-channel-execs-for-combined-pcs-and-printers-group.htm>, accessed December 16, 2014.
- <sup>6</sup> Andris Zoltners, PK Sinha and Sally Lorimer, "Organizing a Sales Force by Product or Customer, and other Dilemmas", Harvard Business Review, <https://hbr.org/2012/05/the-double-edged-sword-of-sale>, accessed December 16, 2014.
- <sup>7</sup> Jon Gertner, "Most Innovative Companies 2014: 27. GE" FastCompany, February 10, 2014, <http://www.fastcompany.com/most-innovative-companies/2014/ge>, accessed December 13, 2014.
- <sup>8</sup> John Hagel, John Seely Brown, Tamara Samoylova, and Duleesha Kulasooriya, The Hero's Journey through the landscape of the future, p. 20, Deloitte University Press, accessed December 16, 2014.
- <sup>9</sup> LinkedIn Newsroom, "About LinkedIn", <https://press.linkedin.com/about-linkedin>, accessed August 31, 2015.
- <sup>10</sup> Pui-Wing Tam, "Student-Loan online start-up gets financing," The Wall Street Journal, September 11, 2012, <http://www.wsj.com/articles/SB10000872396390443696604577645803639439284>, accessed December 2, 2014.

## About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.