

Target operating models



Why is a target operating model important to your organisation? Kieran O'Brien explains.

To succeed in today's challenging marketplace, organisations must be capable of a continual process of transformation and renewal. To achieve this, an organisation must have an in-depth understanding of its existing business operating model and how this model can be changed to optimise operations with resulting increased returns on investments, better service delivery for customers, as well as new offerings.

Recent studies indicate that optimum business models are most often found in start-up entities. In more established entities, however, operating models are often no longer appropriate for the business and the challenges the unit is facing. Your organisation's business model may have served you well in the past, but there is no

guarantee that it will be successful for the future. Business models need to be continuously reviewed and refreshed to deliver on the organisation's goals.

Technology plays a vital role in supporting your business model. However, it is only one of the pillars supporting your business model alongside organisation/people, go-to-market approach, and process.

The reality is that many organisations do not fully understand the strengths and weaknesses of their existing business operating model and are often slow to conduct a deep-dive analysis and embrace an enhanced operating model. In this article, we look at how your organisation might review your current operating model to move to a target operating model that creates a platform for sustainable future growth.

Definition

Although the term is familiar, there are various definitions for the target operating model (TOM). We would characterise it as a representation of the structures needed for an organisation to create and deliver optimal value for its customers in a repeatable manner while delivering on the organisation's vision and growth strategy.

Organisation, market strategy, process, and technology are the key underlying components of a TOM and are critical to its success. Ultimately, the TOM should provide a visual overview of how a business can be ideally structured to implement the organisation's strategy by showing how each of the main business activities is represented.

Common issues

In our experience, TOMs can be ineffective due to several common factors. These include:

- The inflexible nature of historic business models, which fail to support a business that is evolving its operations (for example, a financing organisation that is moving from supporting large/complex transactions to a flow business operation);
- In financial services, the continuation of the historic segmentation between ‘front office’ and ‘back office’ when it is evident that both cannot continue to operate independently of each other effectively; and
- Having an operating model that is not aligned to a specific business operation, with the consequence that the organisation develops functional silos that result in process inefficiencies and poor communication.

Key elements

There can be several aspects to a TOM, but the critical interdependent elements we consider to be essential are:

1. Organisation/people;
2. Go-to-market;
3. Process; and
4. Technology.

We discuss each of these elements in turn below and outline scenarios or questions for consideration under each category.

ORGANISATION/PEOPLE

The objective of a TOM is the development of an organisation that will support the business strategy and has clear roles and responsibilities with measurable skills and capabilities. The organisation should have the right number of people with the appropriate remuneration, expertise and experience across all functions. Also, the structure should be transparent, easy to understand and adaptable to changes that will arise over time.

Before determining the appropriate organisational structure, consider the following elements:

- Define the existing organisational structure;
- Review current role profiles, reporting lines and the number of people in each role;
- Review the type of people in each position (full-time, temporary, outsourced etc.);
- Complete a competence, performance and experience audit;
- Analyse performance evaluation methods;
- Analyse remuneration and incentive schemes;
- Analyse decision-making and governance structures;
- Analyse the degree of headquarter control versus local/regional autonomy;
- In a banking/leasing entity scenario and where the entity is bank-owned, determine the level of bank control versus the lease organisation control for critical functions (e.g. credit, pricing, asset management etc.); and
- Determine whether the entity is a functional or a product organisation.

GO-TO-MARKET

The successful business model should have a go-to-market (GTM) strategy that delivers a range of products and/or services to its customers on a profitable and cost-effective basis. The various GTM channels should be clearly defined and operate effectively.

Let’s take the scenario of reviewing the GTM approach for a leasing/financial services provider with a supporting bank branch network. Areas that could be subject for review before deciding on the optimum GTM include an analysis of:

- The entity’s commercial approach;
- The revenue and profitability model by product and service;
- The sales/operations approach, with a focus on the direct and inside sales route;
- How the supporting bank branch network operates and is controlled;
- The distribution routes to market through brokers, partnerships and others, and how this operates and is controlled;
- The typical customer profile and segmentation;

- The product and service offerings;
- Regulated and non-regulated product offerings;
- ‘X as a service’ and pay-per-usage products and services;
- Value-added data and customer insights in the customer value proposition;
- Various product portfolios for cross-selling opportunities;
- The ancillary product offerings including insurance, maintenance and others;
- Ancillary product offerings provided by associations, partnerships and joint ventures; and
- The asset management, end-of-lease operations and systems capabilities.

PROCESS

Organisations must analyse and define the optimal business processes that support their business objectives. This involves the development of processes that are scalable, repeatable and the performance of which is measurable. An end-to-end ‘as is’ process review is recommended to map out the process suppliers, inputs, outputs and customers, and detail all critical dependencies. An essential element of this analysis is the identification of the core and non-core processes of the business to determine where value is added.

Areas that could be subject for review before deciding on the optimal processes include:

- A review of the existing operational model, and determining whether it is centralised or decentralised;
- A review of the organisation’s governance and control procedures;
- Analysis of the processes and services that are supported in-house versus outsourced along with their interfaces and management;
- Analysis of the level of outsourcing, including the types of outsourcing and whether outsourcing is single-vendor or multi-vendor;
- Analysis of any shared service centre(s) supporting the organisation;
- In a bank-owned leasing entity scenario, an analysis of any processes and services supported centrally by the bank;

- A review of any flow business processes, mass customised processes, and any bespoke solution processes; and
- A review of the customer interfaces and aspects of online/offline elements of the customer journey and their interfaces.

Technology

The chosen business model must have the necessary technology infrastructure to support both people and processes. There is a requirement to identify and implement the technological and digital systems required for the optimum delivery of products and services to customers. Areas for consideration include digitalisation, data analytics and services automation.

Taking the scenario of a bank-owned leasing organisation, areas for review before deciding on the optimal technology platforms include:

- A review of the core supporting systems/platforms covering front-end, back-end, CRM (customer relationship management) and reporting;
- A review of the level of integration, if any, of lease entity systems with bank systems;
- Analysis of the level of end-customer and intermediary systems linkage and automation;

- Analysis of the systems for quotation, credit approval and asset management;
- Analysis of technology capabilities and the technological ecosystem to support new products, especially in the areas of 'X as a service', and pay-per-usage models; and
- A review of the extent and quality of both internal and external data sources and the analytical techniques used to support better decision-making, as well as unlocking economic value and generating customer insights.

The 'Triple S' approach

The design of an effective TOM that supports your business should incorporate the essential elements described above. At the outset, we recommend that you consider what we call the 'Triple S' approach.

- **STRATEGY:** what is the overall business strategy, and what are the key underlying elements supporting the strategy? These elements should include the offer (products, solutions and services); go-to-market (the segment/category of clients to whom the offer is addressed; and channel (the route through which the customer will be serviced);
- **STRUCTURE:** what organisational and operational structure is required to support the strategy? This is the framework of the operating model; and

- **SYSTEMS:** what operational procedures and IT systems required to make the structure work effectively? This is the detailed design and implementation of the TOM.

Considering that the TOM is the combination of structure and systems, this approach should ensure that the TOM is aligned to a specific business model. However, variations of the model may be required within an organisation to support individual business lines.

The benefits

An optimised TOM enables your business to implement its vision and business strategy effectively. Working towards the right TOM for your business will identify deficiencies and gaps in your organisation that require remediation, such as redundant roles and role duplication. It provides an opportunity to optimise your business operations and reduce your operating cost by looking at various insourcing/outourcing alternatives. It also provides a significant level of internal transparency to your staff, giving clarity around roles and decision-making and often accelerating customer outcomes.

Before embarking on a significant TOM review, it is worth completing an independent evaluation of the TOMs employed by your peer entities. This can provide invaluable insights into your competitors' operations and allow you to focus on the 'best in class' elements for adoption in your organisation. But beware – making changes to your organisation's TOM can result in major transformational projects, which requires a robust governance structure.

In summary, designing a new TOM provides an opportunity to optimise the size, structure and shape of your business and ultimately, deliver on your organisation's strategies.

Figure 1: The target operating model value chain

