Chapter 1: Operating Model Canvas

Business model canvas 14
Transformation 20
Design steps 24
Tips 32

How to deliver great value to your customers and beneficiaries
AN OPERATING MODEL IS ...

.. a VISUAL representation (i.e. a model)

.. in the form of a DIAGRAM OR MAP OR CHART or collection of diagrams, maps, tables and charts

.. that show the ELEMENTS OF THE ORGANIZATION, such as activities, people, decision processes, information systems, suppliers, locations, and assets,

.. that are important for delivering the organization's VALUE PROPOSITION(S)

.. and how these elements COMBINE to successfully deliver the value proposition(s)

THE JOURNEY TO SUCCESS HAS FOUR PARTS:

➤ THE STRATEGY PART: deciding what the organization will do
➤ THE OPERATING MODEL PART: designing the organization so that it is able to execute the strategy
➤ THE BUILD OR TRANSFORMATION PART: creating the target operations and organization
➤ THE DOING-THE-BUSINESS PART: running the organization so that the strategy is achieved

This book is about the operating model part: the design part. It is not about the strategy, transformation or doing-the-business parts.
HIGH-LEVEL OPERATING MODELS

This book is about high-level operating models. It focuses on the link between strategy and operations and between business models and operating models.

One page Operating Model

Ten page Operating Model

Explained and illustrated in Chapters 2 and 6

Explained and illustrated in Chapters 3, 4 and 5

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DETAILED OPERATING MODELS

For an organization to function, many hundreds of design decisions need to be made. Our belief is that these decisions – the detailed operating model decisions – are better made if there is a high-level operating model guiding them.

One hundred page Operating Model

One thousand page Operating Manual

Not covered in this book
When do you need to work on

When you are starting something new
- Helps test the practicality of what you want to do
- Helps you understand costs, resources and timing, and hence develop a better business case
- Helps you align your team and your stakeholders
- Helps ensure you focus on the important

When you are changing strategy
- Helps test the practicality of what you want to do. Often leads to better strategies
- Helps you understand costs, resources and timing, and hence develop a better business case
- Helps your people understand the new strategy
- Helps ensure your implementation plan is complete

When you have performance problems
- Helps you find the root causes
- Helps you see the connections between symptoms and causes
- Helps ensure your implementation plan is complete
- Helps your people see why all the changes are needed
WHEN YOUR TEAM IS NOT ALIGNED

➤ Helps those with different views explain their thinking
➤ Provides the senior team with a shared blueprint of what they are trying to build together
➤ Provides a line of sight between purpose and activity

WHEN YOU ARE FINDING IT HARD TO IMPLEMENT YOUR PLANS

➤ Enables you to check that your plans are practical
➤ Helps those who are dragging their feet explain their position
➤ Often results in re-sequencing the implementation plan

WHEN YOU ARE IMPLEMENTING MAJOR CHANGE

➤ Enables you to check that your project sequence is practical
➤ Helps explain the plan and the business case
➤ Helps those who are concerned about the plan to explain their position
➤ Helps align the leaders of different projects
Who are you?

- A manager in operations or in any function who wants to design how the operation works
- A CEO or COO or entrepreneur who wants to review his or her organization and plans
- A lean practitioner or process excellence manager who wants to be more strategic
- A manager in strategy or planning who wants to make the plans more practical
- A project manager or change specialist working on a transformation project
- A leader who wants to make sure her team members are all on the same page
- A business partner in HR, IT or Finance who wants to improve the business
- A business development manager who wants to design a new business
- A Business Architect, Enterprise Architect or Operations Strategist
- A manager tasked with cutting costs or improving service or quality
- A customer experience or user experience specialist
- A manager in charge of post merger integration
- A consultant helping organizations improve
- Anyone responsible for performance

This book will help you...

Understand what an operating model is

Document your current operating model

Design improvements to your current operating model

Design a target operating model
Improve the dialogue with those resisting or concerned about change

Better align managers from different functions, countries and cultures around a common view of what they are jointly trying to do

Discover ways of improving your strategies

Achieve your strategic objectives

Be more successful

Yes, operating model work can result in better strategies: more practical, more connected with capability, more profitable
STRATEGIES ENGAGE 5% ...

% of employees who think the strategy is their responsibility

Double international sales
Reduce cost of sales by 20%
Develop new products

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... OPERATING MODELS ENGAGE 95%

% of employees who think the operating model is their responsibility

<table>
<thead>
<tr>
<th>Function</th>
<th>% of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>100%</td>
</tr>
<tr>
<td>Finance</td>
<td>100%</td>
</tr>
<tr>
<td>HR</td>
<td>100%</td>
</tr>
<tr>
<td>Logistics</td>
<td></td>
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<tr>
<td>R&amp;D</td>
<td></td>
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<tr>
<td>Operations</td>
<td></td>
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<tr>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Customer Service</td>
<td>100%</td>
</tr>
<tr>
<td>HR</td>
<td></td>
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<tr>
<td>IT</td>
<td></td>
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<tr>
<td>Logistics</td>
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<tr>
<td>Product Development</td>
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<tr>
<td>Purchasing</td>
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<tr>
<td>Operations</td>
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<tr>
<td>R&amp;D</td>
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<tr>
<td>Sales</td>
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<td>Operations</td>
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<tr>
<td>R&amp;D</td>
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</tr>
</tbody>
</table>

All these functions are involved in the operating models needed to deliver these strategies.

- Double international sales
- Reduce cost of sales by 20%
- Develop new products

STRATEGIES ENGAGE 5% OPERATING MODELS ENGAGE 95%
The Operating Model Canvas is a tool that will help you think about and make changes to your operations.

It is a simple tool. You may be able to grasp the tool and start using it by reading this chapter and the first few pages of Chapter 2 - “The Operating Model Canvas - Examples”.

However, you will gain the most from this book if you first identify a challenge or opportunity you have in your current situation. As you read, try creating a Canvas for your organization. Write a few post-it notes that capture some of the things you think are important about your organization (i.e. important to delivering the value proposition) and stick them on the Canvas. Then look at the examples provided (Chapter 2). Then look at the tools (Chapter 3) and try using some to understand your challenge and develop ideas for resolving it. Then explore the two big case studies (Chapters 4 and 5).

Have fun!
CHAPTERS

1 OPERATING MODEL CANVAS
   - BUSINESS MODEL CANVAS EXAMPLES
     - POLISM 38
     - HOW TO USE 42
     - BUSINESS 48
     - UBER 50
     - ZARA 52
     - MCKINSEY 54
     - VAN HAREN 56
     - FUNCTIONAL 64
     - IT 66
     - HR 68
     - MULTI-BUSINESS 70
     - SHELL 72
     - ASHRIDGE 74
     - PUBLIC SECTOR 80
     - QUALIFICATIONS 82
     - BENEFITS 84
     - OTHER 86
     - DEF CON 88
     - CARDBOARD CITIZENS 90

2 OPERATING MODEL CANVAS EXAMPLES

3 TOOL BOX
   - FIVE CORE TOOLS 96
   - VALUE CHAIN MAP 98
   - ORGANIZATION MODEL 100
   - LOCATIONS FOOTPRINT 102
   - IT BLUEPRINT 104
   - SUPPLIER MATRIX 106
   - THIRTEEN ADDITIONAL TOOLS 108

4 CREATING A TARGET OPERATING MODEL FOR A BUSINESS
   - INDUSTRY AND CHALLENGES 136
   - STEPS IN DESIGN 146
   - PROCESSES 148
   - ORGANIZATION 154
   - LOCATION 158
   - INFORMATION 164
   - SUPPLIERS 168
   - SCORECARD 172

5 CREATING AN OPERATING MODEL FOR A FUNCTION
   - EEI’S IT FUNCTION 180
   - STEPS IN DESIGN 182
   - VALUE CHAIN 184
   - SUPPLIERS 186
   - LOCATIONS 188
   - ORGANIZATION 190
   - DECISION RIGHTS 191
   - SCORECARD 193
   - SUMMARY 196

6 EXAMPLES OF OPERATING MODEL CHANGE
   - CHANGE PROCESS 200
   - SALES FORCE 202
   - DESIGN TEAM 204
   - HR FUNCTION 206
   - UNEMPLOYMENT BENEFIT 208

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The Operating Model Canvas is a one page operating model.

The Canvas is fully explained in Chapter 2.

The Operating Model Canvas does not include the Financial Model. But, of course, the operating model does drive most of the organization’s costs.

The link is roughly

P = Key Activities
S = Key Partners
O + L + I + M = Key Resources

The journey from strategy to operating success depends on creating an organization that can deliver the chosen strategy. This book, explaining the Operating Model Canvas, shows you how to do this. It teaches you how to define the main work processes, choose an organization structure, develop a high-level blueprint of the IT systems, decide where to locate and how to lay out floor plans, set up relationships with suppliers and design a management system and scorecard with which to run the new organization. The Operating Model Canvas helps you to create a target operating model aligned to your strategy.

The book contains more than 20 examples ranging from large multi-nationals to government departments to small charities and from an operating model for a business to an operating model for a department of five people. The book describes more than 15 tools, including new tools such as the value chain map, the organization model and the high-level IT blueprint. Most importantly, the book contains two fully worked examples showing how the tools can be used to develop a new operating model.

This book should be on the desk of every consultant, every strategist, every leader of transformation, every functional business partner, every business or enterprise architect, every Lean expert or business improvement champion, in fact everyone who wants to help their organization be successful.
IT COVERS THE BACK END OF THE BUSINESS MODEL CANVAS

Are CHANNELS and CUSTOMER RELATIONSHIPS part of an operating model? Yes in so far as they involve KEY ACTIVITIES or KEY PARTNERS.

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The Business Model Canvas is a framework developed by Alex Osterwalder, Yves Pigneur and co-authors to describe the main elements of a business. It describes how an organization creates, delivers and captures value, what value is being delivered and to whom.

You do not need to be familiar with the Business Model Canvas to understand and work with the Operating Model Canvas, but you will find it useful.

The book Business Model Generation, published in 2010, provides more information and there are on-line resources at strategyzer.com/bmg

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>External organizations who provide important inputs to the organization. They may be suppliers of raw materials or distribution services or IT support. Equivalent to the suppliers box in the Operating Model Canvas.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key Activities</td>
<td>The most important work steps needed to deliver the value proposition. Equivalent to the processes arrow in the Operating Model Canvas.</td>
</tr>
<tr>
<td>Key Resources</td>
<td>The most important assets, such as people, technology, machinery, brand, buildings and locations. Equivalent to the locations box (which includes assets), the organization box (which includes people) and the information box (which includes data assets) in the Operating Model Canvas.</td>
</tr>
<tr>
<td>Customer Segments</td>
<td>The different groups of people the organization is trying to serve.</td>
</tr>
<tr>
<td>Value Propositions</td>
<td>The offer to the customers or beneficiaries of the organization.</td>
</tr>
<tr>
<td>Channels</td>
<td>How the organization communicates with and distributes to customers or beneficiaries.</td>
</tr>
<tr>
<td>Customer Relationships</td>
<td>How customers are acquired, engaged with and retained.</td>
</tr>
</tbody>
</table>

The four items in this column are about market strategy – what to offer to whom through which channels. They have implications for the Operating Model Canvas.
**The Business Model Canvas**

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Propositions</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
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<table>
<thead>
<tr>
<th>Key Resources</th>
<th>Channels</th>
<th>Revenue Streams</th>
</tr>
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</table>

**Cost Structure**

*Designed for:*

*Designed by:*

*Date:*

*Version:*

---

The Business Model Canvas is a framework that helps entrepreneurs to understand and design their businesses. It’s divided into nine elements: Key Partners, Key Activities, Value Propositions, Customer Relationships, Customer Segments, Key Resources, Channels, Cost Structure, and Revenue Streams.Each element is designed to help you think through your business model from different perspectives. By filling out each section, you can gain insights into how your business creates value for its customers and the resources needed to support this value creation. This framework is a powerful tool for strategizing and communicating your business model to others.
The Operating Model Canvas has six elements:

- the work that needs to be done to deliver the value proposition (value chain);
- the people who do the work and how they are organized (organization);
- where the people will be located and the assets they need to help them (locations);
- what information systems the people need to help them (information);
- the suppliers who support the work (suppliers); and
- the management system used to run the organization (management system).

How does the Operating Model Canvas link to...
... AN ENHANCED BUSINESS MODEL CANVAS

The Operating Model Canvas with SIX elements is a more powerful “back-end” than the three elements - Key Activities, Key Resources and Key Partners - of the Business Model Canvas.

The Operating Model Canvas has icons for value proposition and customer. These are treated as inputs to the operating model design rather than as part of the design challenge. The book “Value Proposition Design” shows how to design these inputs.
All good strategy is founded on a deep understanding of the environment, economic trends, consumer trends, technology possibilities, etc ...

A strategic plan explains who the organization will serve, what will be “offered” and how the “value” will be created.

Strategies need to be converted into a business design. This is best done by working on the elements of the business model: value proposition design, operating model canvas and financial model. This work can result in adjustments to the strategy.
This book is about how to design (at a high-level) the “to be” or “target” or “future” operations.

**IDENTIFY a reason to change**

**DESIGN the high-level ‘to be’ operating model**

**Design the TRANSFORMATION journey and work on lower-level operating model details**
... NOT THE TRANSFORMATION JOURNEY

But the Operating Model Canvas can also be used as a guide during transformation; as a way of communicating both the ‘as is’ and ‘to be’; and to help stakeholders build engagement around changes at any level of detail.

START
TRANSFORMING from ‘as is’ to ‘to be’
....
while designing more details and running the ‘as is’ organization

Transform from ‘as is’ to ‘to be’
....
while running a mix of ‘as is’ and ‘to be’

Run the ‘to be’ organization
....
while improving it

IDENTIFY another reason to change
**Initiate**
- Clarify issues
- Clarify stakeholders
- Clarify scope
- Define team
- Define governance
- Plan project
- Agree plan

**Diagnose**
- Understand strategic objectives
- Understand front end of business model
  - Target segments/geographies
  - Channels/relationships
  - Product/service value propositions
- Understand current operating model
- Understand sources of advantage/excellence
- Understand problems/issues/challenges
- Develop case for change

**Design Principles**
- Clarify strategic objectives
- Define design principles
- Test and get agreement

These are the typical steps that you might see in any proposal for operating model work.
**Typical Activities in an Operating Model Design Project**

---

**Develop Options**
- Define critical choices
- Develop options
  - Organization options
  - Location options
  - Information options
  - Supplier options
  - Management system options
- Check alignment

---

**Evaluate**
- Check against design principles
- Test against other criteria
  - Cost/capital expenditure
  - Ease of implementation
  - Political support
  - Constraints
  - Risks
  - Etc.
- Check against principles of a good operating model (see page 132)

---

**Plan changes**
- Revise case for change
- Review communication/engagement plan for each stakeholder group
- Plan pilot
- Do gap analyses
- Plan rollout projects
- Create governance for implementation
- Allocate resources

---

*Don’t be put off doing operating model work or assume that it is so much work that it has to be done by a consultant. You do not have to go through all of these steps to do useful work. High-level design options can be created in 6 hours or 6 days or 6 weeks. Designs that are detailed enough to get commitment may take weeks. If it takes 6 months, you are doing detailed operating model work – not high-level work.*
But design work is a journey ...

Start by defining the scope and the reason for the design project

Identify and align the stakeholders

Plan the work and assemble the resources

Diagnose the situation. Make sure you get close to the action

Who should be in the design team?
People who are open, creative and good in workshops. A mix of experiences and perspectives: customer, operations, environment, finance, HR. No more than can get round a table to discuss
BUT DESIGN WORK IS A JOURNEY RATHER THAN A SET SERIES OF STEPS

Define design principles

Choose a high-level option

Generate design ideas/options

Generate design ideas at a more detailed level

Confirm that the high-level option and the detail will work together

WHO TO INVOLVE?
- The boss of the organization.
- Stakeholders, especially customers.
- Those who will make it happen
- High flyers and influencers who will give energy to the changes

HOW TO PLAN AND CONTROL THE WORK?
- An operating model, sufficient to get commitment and funding, takes weeks not days.
- Detailed project management is unproductive. Use timed gates for steps like diagnostic, design principles, options.
- Stakeholder availability often sets the drumbeat because stakeholder working sessions need to be hours not minutes.
- The process should be intense.
Design work is always messy at the start, whether it is 6 hours, 6 days or 6 weeks. Shorter processes ensure you remain strategic (stop you getting bogged down in detailed design) and help you initiate changes before it is too late.
Early on in a design project, the focus is on clarifying the problem, the scope and the design principles. Often it feels like work is being done without any progress being made towards a solution. But, messiness is good. It ensures that we look at the problem from different angles.

Clarity arrives slowly as the problem becomes clear and ideas start to emerge that might form part of the solution. Messiness helps to get unusual ideas onto the table.

At some point a preferred option becomes clear. Now the design work can go forward with confidence.

There is still a lot of work to do on the design details and on change plans. But now every bit of work is improving the design and moving you closer to being able to start implementing.
13 POSSIBLE WORK STEPS FOR ..

Generating design ideas/options is not a paint-by-numbers process. Each project will be unique. Sometimes the focus will be organization; sometimes location; sometimes processes and decision rights. So do not treat the following 13 steps as gospel. They are provided as an aid not a straightjacket.

1. DRAW a value delivery chain for each “segment” (a group of customers looking for the same value proposition) and highlight where there are problems and what are or could be sources of advantage/excellence.

2. CONSIDER what “activities” will be combined or linked across value chains and which will be kept separate or outsourced.

3. CONVERT the resulting value chain map into an organization model.

4. ADD support functions (HR, IT, etc) to the model and highlight “challenges” (issues, constraints, difficult links and sources of advantage). Use the challenges to give focus to the rest of the design work.

Confirm that the high-level option and the detail will work together.

Don't forget to make sure you have some design principles before you start designing (see page 140).

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... GENERATING A DESIGN OPTION

5. **Develop** a decision grid for the big decisions
6. **Develop** people models for important skill groups
7. **Think** about where people and important assets will be located
8. **Identify** owners of key cross organization or cross location processes
9. **Develop** a high-level IT blueprint: what core applications and who owns them
10. **Identify** those suppliers that need a collaborative relationship with the organization
11. **Review** the “challenges” and “design principles” to make sure all have been addressed
12. **Define** a scorecard including projects and KPIs
13. **Design** the management calendar of planning and performance review meetings

Think of yourself as a carpenter with a bag of tools. Each job you do is different requiring you to use different tools and in a different order. Chapter 3 describes the tools.

Don’t worry if some of these steps are not clear. They will become clear as you work through the book.
**Design Tips**

- Be clear on the case for change
- Link to changes in strategy or problems that can’t be solved through continuous improvement.
- Decide how design decisions will be made:
  - By whom, where, and when?
  - Are options required, and what criteria will be used?
- Make sure you have a sponsor:
  - Design needs clear leadership to set direction, deal with politics, and make decisions.
- Be clear on the level of detail:
  - Avoid committing to too much detail.
  - Good design is often about confronting a few critical high-level issues.
- Use a guiding framework:
  - The Operating Model Canvas is a good one!
TIPS

GET THE RIGHT TEAM
Look for insight, experience, influence, open minds, comfort with ambiguity, analytical smarts and people who simplify.

MANAGE TO GATES NOT PLANS
Design work cannot be planned. But it can be late. So manage with timed gates.

NO RIGHT ANSWER
Don't search for perfection. Look for a practical solution that will work.

DON'T OPEN THE MELON UNLESS YOU ARE READY TO EAT IT
If you say you are thinking of changing the organization, everyone stops working and starts worrying about their positions.

DON'T HAVE THE DECISION MAKER AT THE MEETINGS
If the decision maker is at the meeting, it will reduce openness and creativity.

EMBRACE OPTIONS
Options are healthy. Look for extremes. Get opinions from a wide range. Don't limit your thinking.

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