

OPERATING MODEL CANVAS

Business model canvas 14

Transformation 20

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Tips 32

*How to deliver
great value to your
customers and
beneficiaries*

AN OPERATING MODEL IS ...

CH1

.. 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

Different authorities define operating model differently. There is no standard definition. This is our definition.

Other authorities include a mission, vision and values step before strategy. We include this as part of strategy.

HIGH-LEVEL OPERATING MODELS

CH1

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



Explained and illustrated
in Chapters 2 and 6

Ten page Operating Model



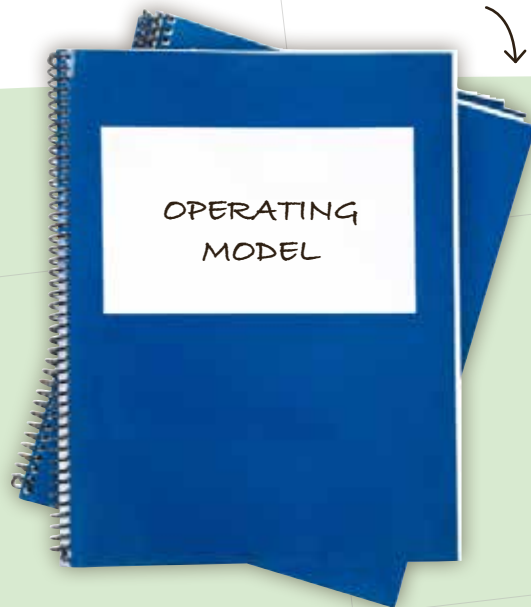
Explained and illustrated in
Chapters 3, 4 and 5

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.

CH1

One hundred page Operating Model



One thousand page Operating Mannual



Not covered in this book

WHEN DO YOU NEED TO WORK ON

CH1



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

YOUR OPERATING MODEL?

CH1



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

WHEN DO YOU NEED TO WORK ON YOUR OPERATING MODEL?

THIS BOOK WILL HELP YOU ...

Who are you?

CH1

- 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

Understand what an operating model is

Document your current operating model

Design improvements to your current operating model

Design a target operating model

Be more successful

Achieve your strategic objectives

Discover ways of improving your strategies

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

Improve the dialogue with those resisting or concerned about change

Yes, operating model work can result in better strategies: more practical, more connected with capability, more profitable

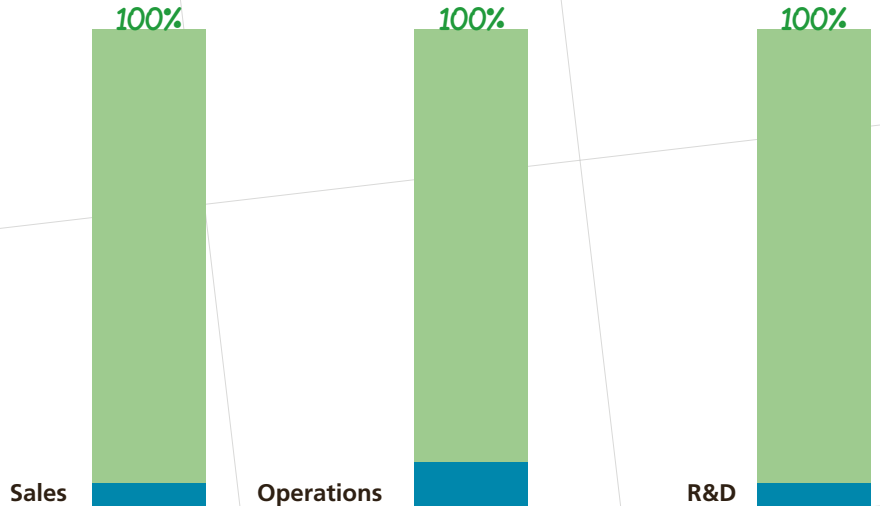


THIS BOOK WILL HELP YOU

STRATEGIES ENGAGE 5% ...

CH1

% of employees who think the strategy is their responsibility



Double
international
sales

Reduce cost of
sales by 20%

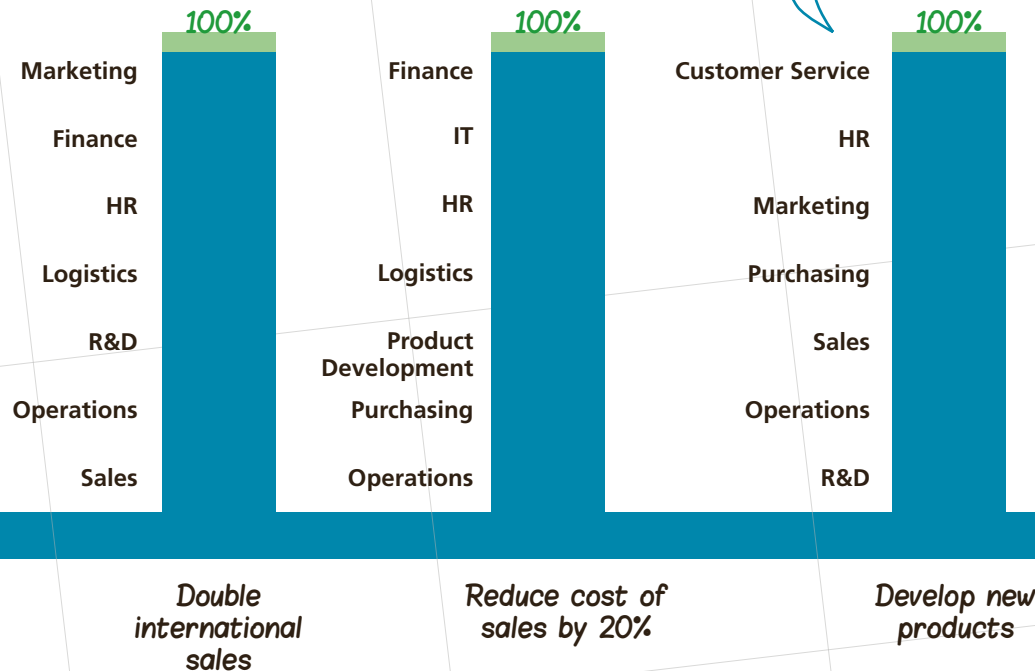
Develop new
products

... OPERATING MODELS ENGAGE 95%

CH1

% of employees who think the operating model is their responsibility

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



STRATEGIES ENGAGE 5% OPERATING MODELS ENGAGE 95%

HOW TO USE THIS BOOK

CH1



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!

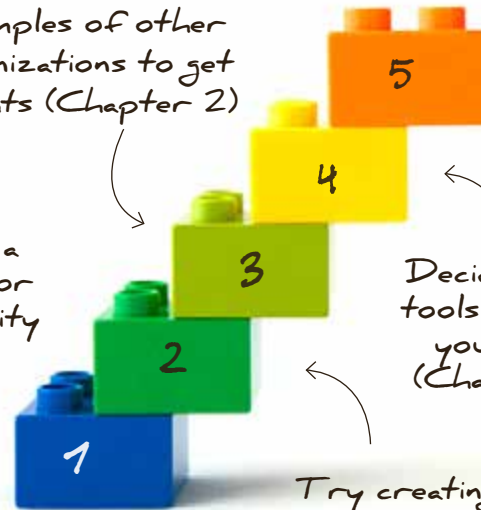
Design improvements referring to the case studies (chapters 4 and 5)

Look at the examples of other organizations to get insights (Chapter 2)

Identify a challenge or opportunity

Decide which tools will help you most (Chapter 3)

Try creating an Operating Model Canvas of your current situation (Chapter 2)



CHAPTERS

1 OPERATING MODEL CANVAS	2 OPERATING MODEL CANVAS EXAMPLES	3 TOOL BOX	4 CREATING A TARGET OPERATING MODEL FOR A BUSINESS	5 CREATING AN OPERATING MODEL FOR A FUNCTION	6 EXAMPLES OF OPERATING MODEL CHANGE
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CH1

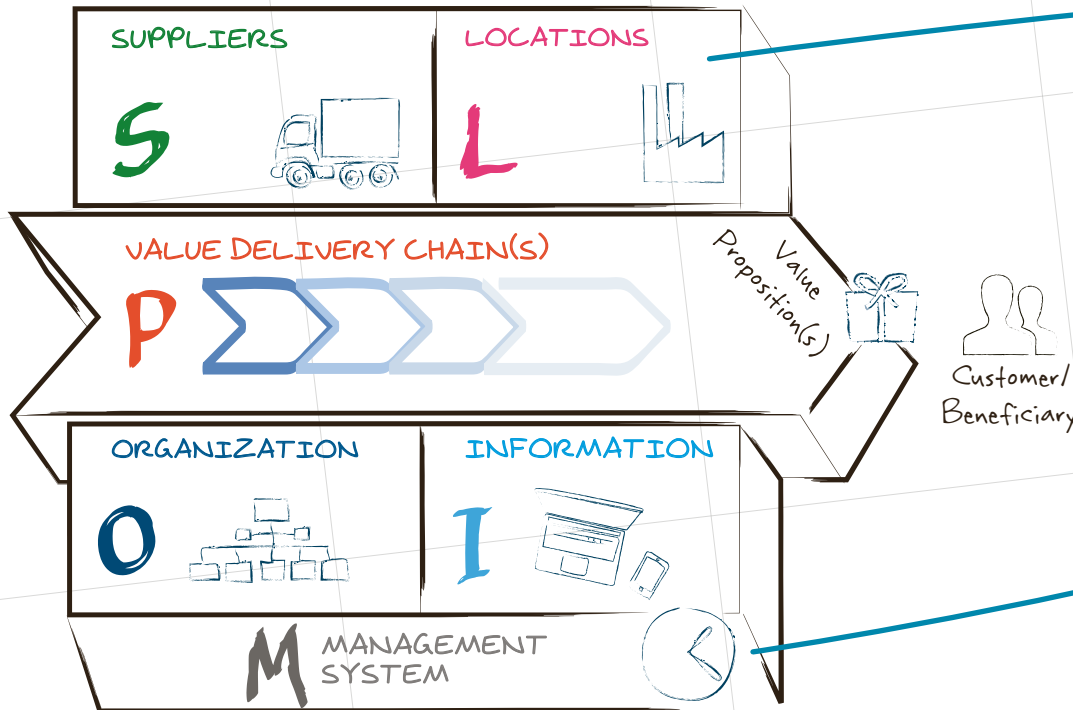
THE OPERATING MODEL CANVAS IS A ONE PAGE OPERATING MODEL

CH1

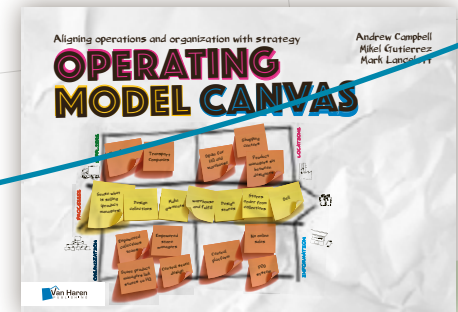
THE CANVAS IS FULLY EXPLAINED IN CHAPTER 2

The **OPERATING MODEL CANVAS** does not include the Financial Model. But, of course, the operating model does drive most of the organization's costs.

OPERATING MODEL CANVAS



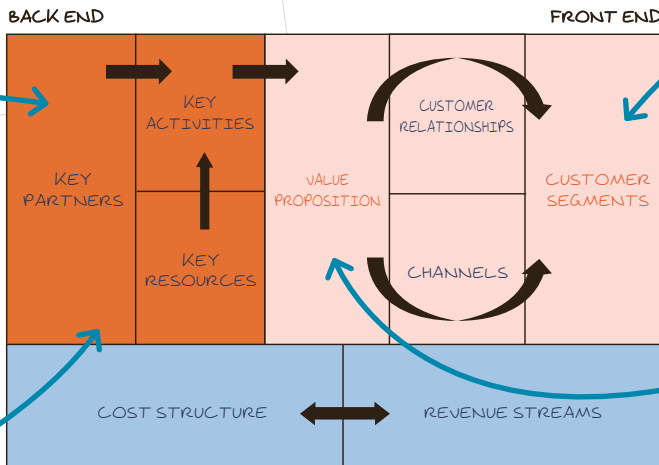
The link is roughly
 P = Key Activities
 S = Key Partners
 O + L + I + M = Key Resources



IT COVERS THE BACK END OF THE BUSINESS MODEL CANVAS

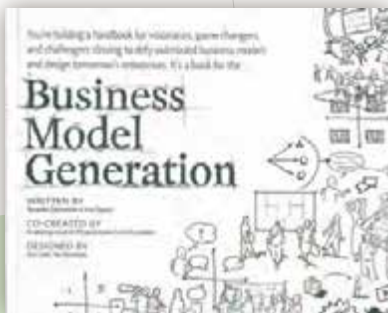
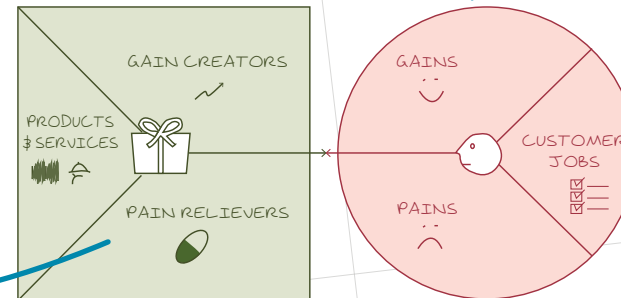
CH1

BUSINESS MODEL



VALUE PROPOSITION

TARGET CUSTOMER



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



THE OPERATING MODEL CANVAS IS A ONE PAGE OPERATING MODEL

WHAT IS THE ...

CH1

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

KEY PARTNERS

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.

KEY ACTIVITIES

The most important work steps needed to deliver the value proposition. Equivalent to the processes arrow in the Operating Model Canvas.

KEY RESOURCES

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.

CUSTOMER SEGMENTS

The different groups of people the organization is trying to serve.

VALUE PROPOSITIONS

The offer to the customers or beneficiaries of the organization.

CHANNELS

How the organization communicates with and distributes to customers or beneficiaries.

CUSTOMER RELATIONSHIPS

How customers are acquired, engaged with and retained.

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.

... BUSINESS MODEL CANVAS?










The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

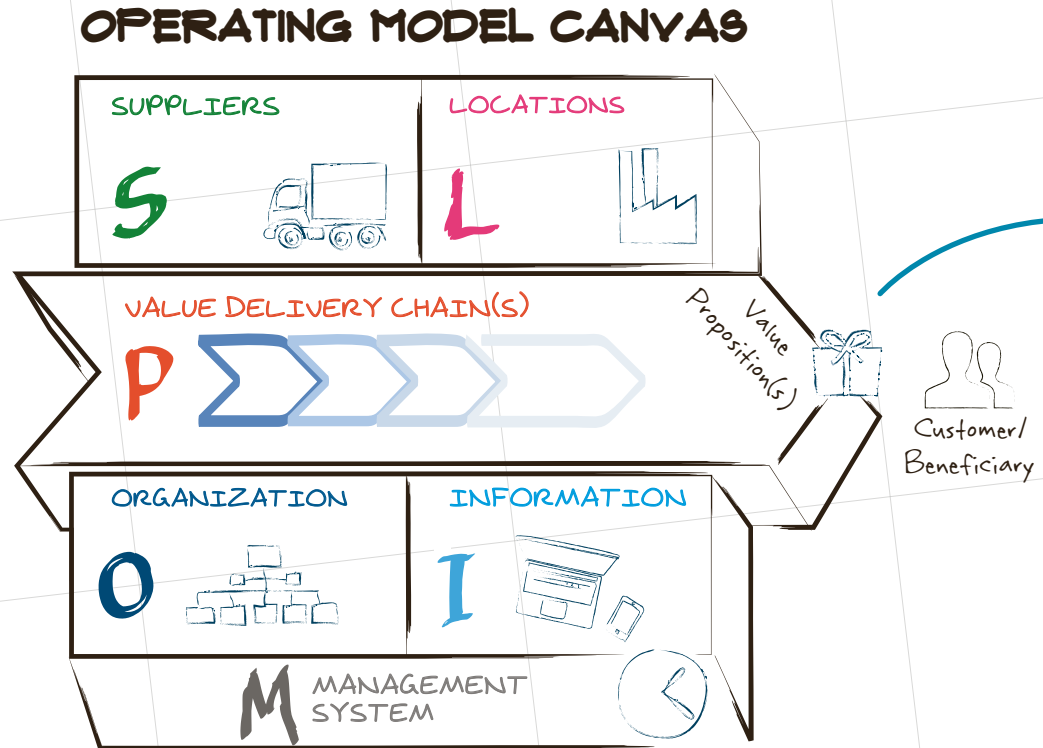
Key Partners 	Key Activities 	Value Propositions 	Customer Relationships 	Customer Segments 
	Key Resources 		Channels 	
Cost Structure 			Revenue Streams 	

CH1

HOW DOES THE OPERATING MODEL CANVAS LINK TO ...

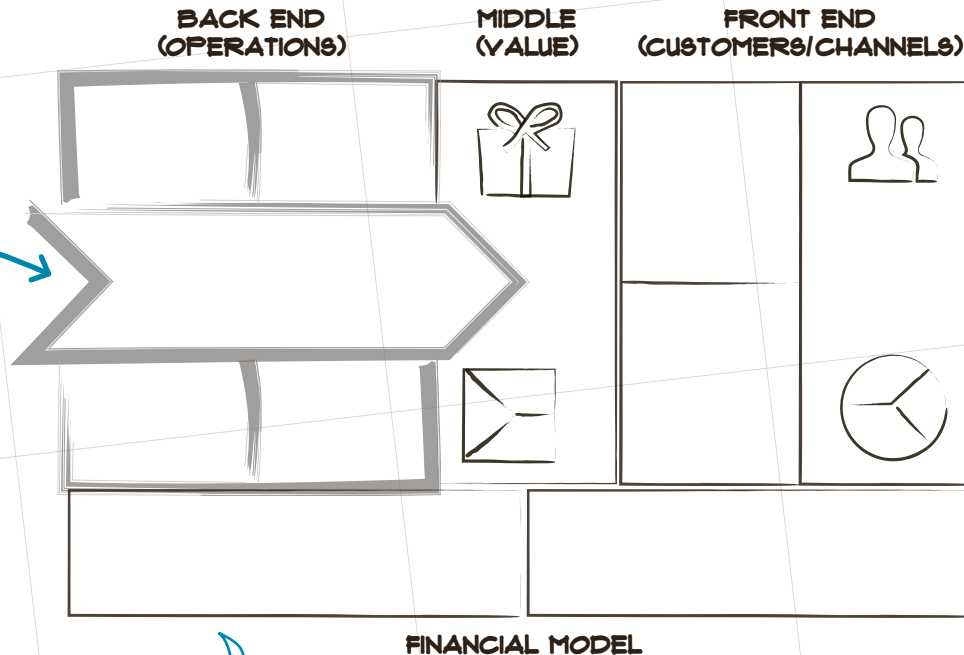
THE OPERATING MODEL CANVAS HAS SIX ELEMENTS:

- 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**).



... AN ENHANCED BUSINESS MODEL CANVAS

CH1



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.

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.

HOW DOES THE OPERATING MODEL CANVAS LINK TO AN ENHANCED BUSINESS MODEL CANVAS

FROM STRATEGY ...

CH1

UNDERSTAND ENVIRONMENT

Customer preferences
Market & economic trends
Competitor performance
Supplier capabilities
Technical, legal, environmental, and political factors

All good strategy is founded on a deep understanding of the environment, economic trends, consumer trends, technology possibilities, etc ...

DEVELOP STRATEGY



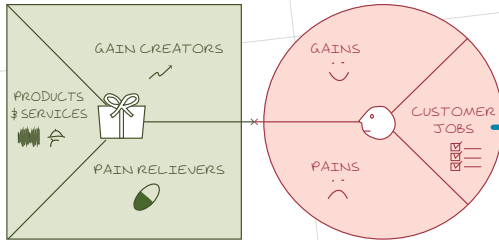
A strategic plan explains who the organization will serve, what will be "offered" and how the "value" will be created.

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.

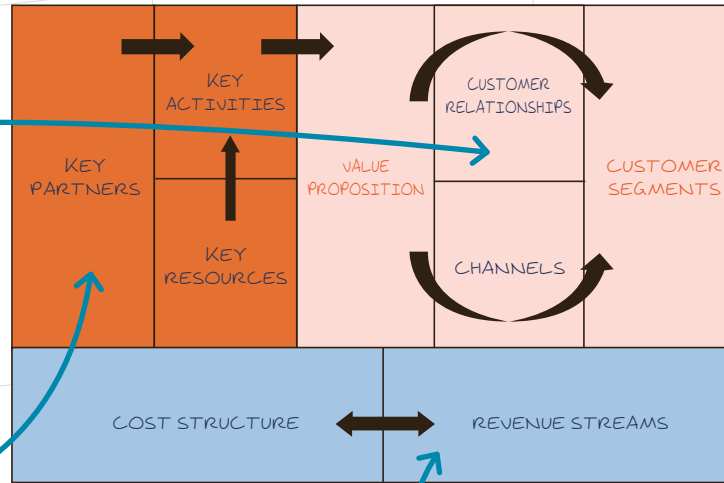
... TOWARDS TRANSFORMATION

CH1

DESIGN VALUE PROPOSITION



SUMMARIZE AND TEST AS A BUSINESS MODEL



DEVELOP DETAILED DESIGNS AND TRANSFORM

PROJECT

PROJECT

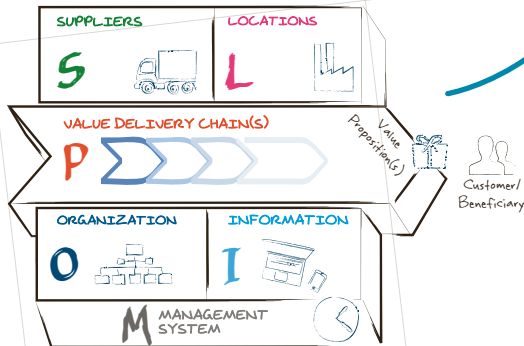
PROJECT

PROJECT

PROJECT

PROJECT

DESIGN OPERATING MODEL



SUMMARIZE FINANCIAL MODEL

DESIGNING THE OPERATING MODEL ...

CH1

This book is about how to design (at a high-level) the "to be" or "target" or "future" operations.

DESIGN the
high-level 'to be'
operating model

IDENTIFY a
reason to
change

Design the
TRANSFORMATION journey
and work on lower-level
operating model details

... NOT THE TRANSFORMATION JOURNEY

CH1

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

TYPICAL ACTIVITIES IN AN ...

CH1

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.

... OPERATING MODEL DESIGN PROJECT

CH1

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 ...

CH1

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

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

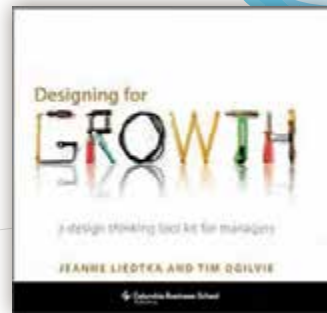
Identify and align the stakeholders

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

Plan the work and assemble the resources



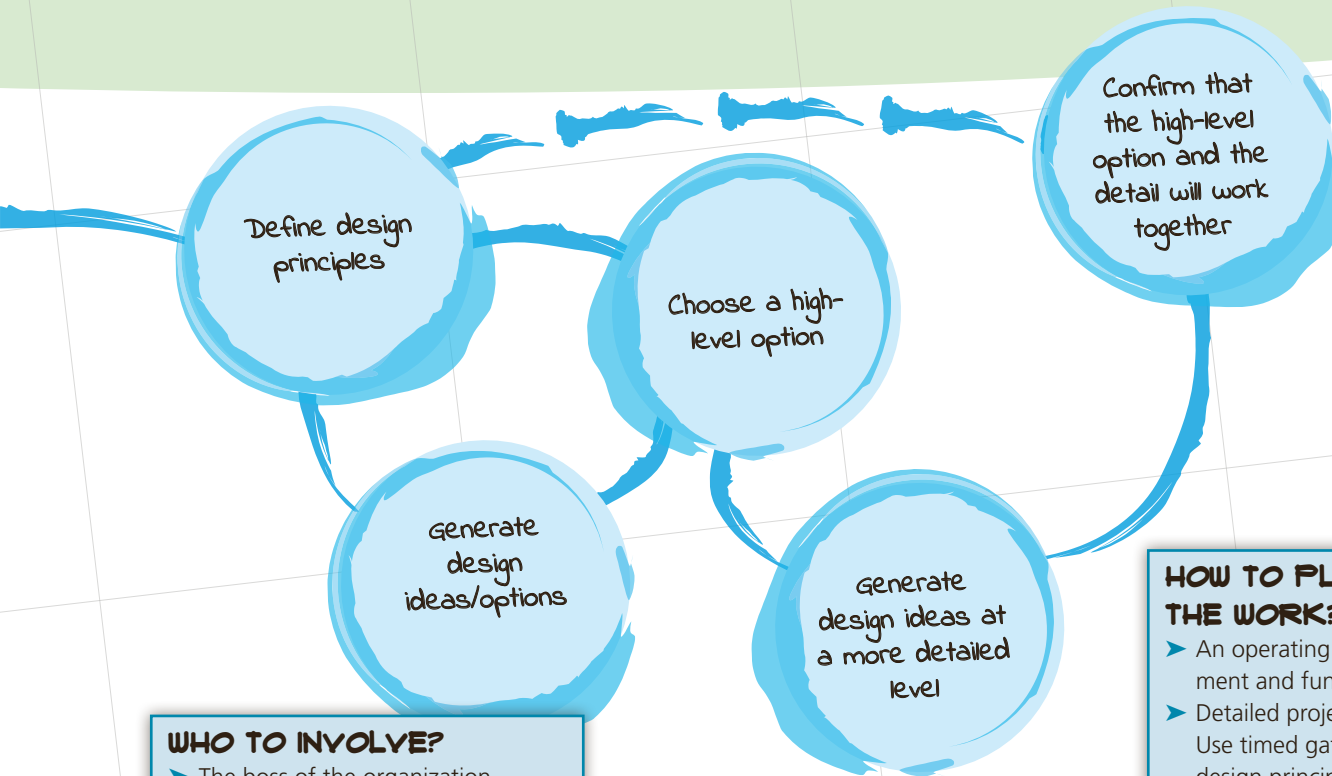
For more on the design journey



For help with design thinking

... RATHER THAN A SET SERIES OF STEPS

CH1



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.

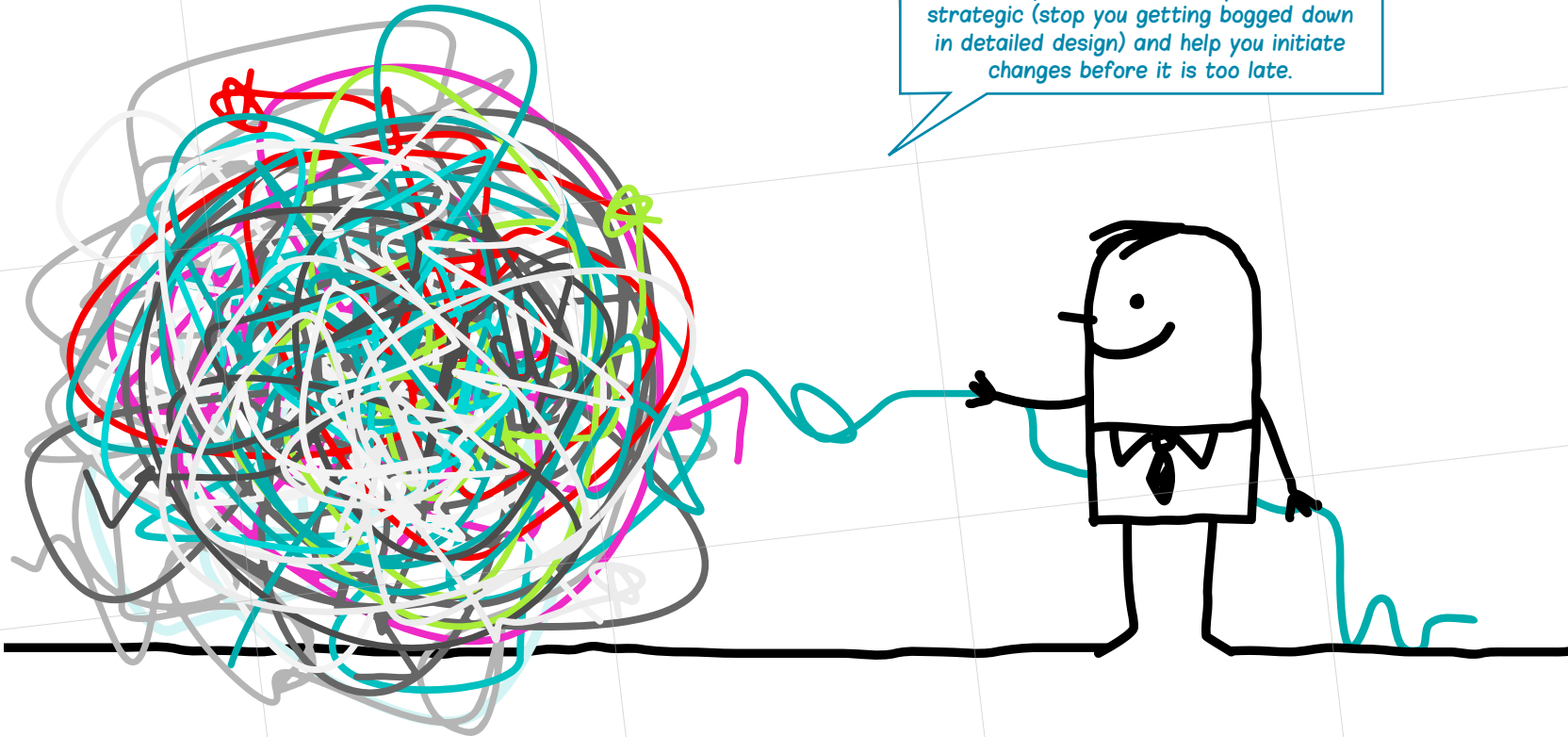
BUT DESIGN WORK IS A JOURNEY RATHER THAN A SET SERIES OF STEPS

DESIGN IS A MESSY PROCESS UNTIL ...

CH1

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.



... A PREFERRED OPTION EMERGES

CH1

Design work is not just an intellectual problem solving activity. It is a critical part of the change process. It drives new and better ways of operating. It must build, with stakeholders, a compelling case for change that creates understanding, acceptance, adoption and ultimately commitment to new ways of working.

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.

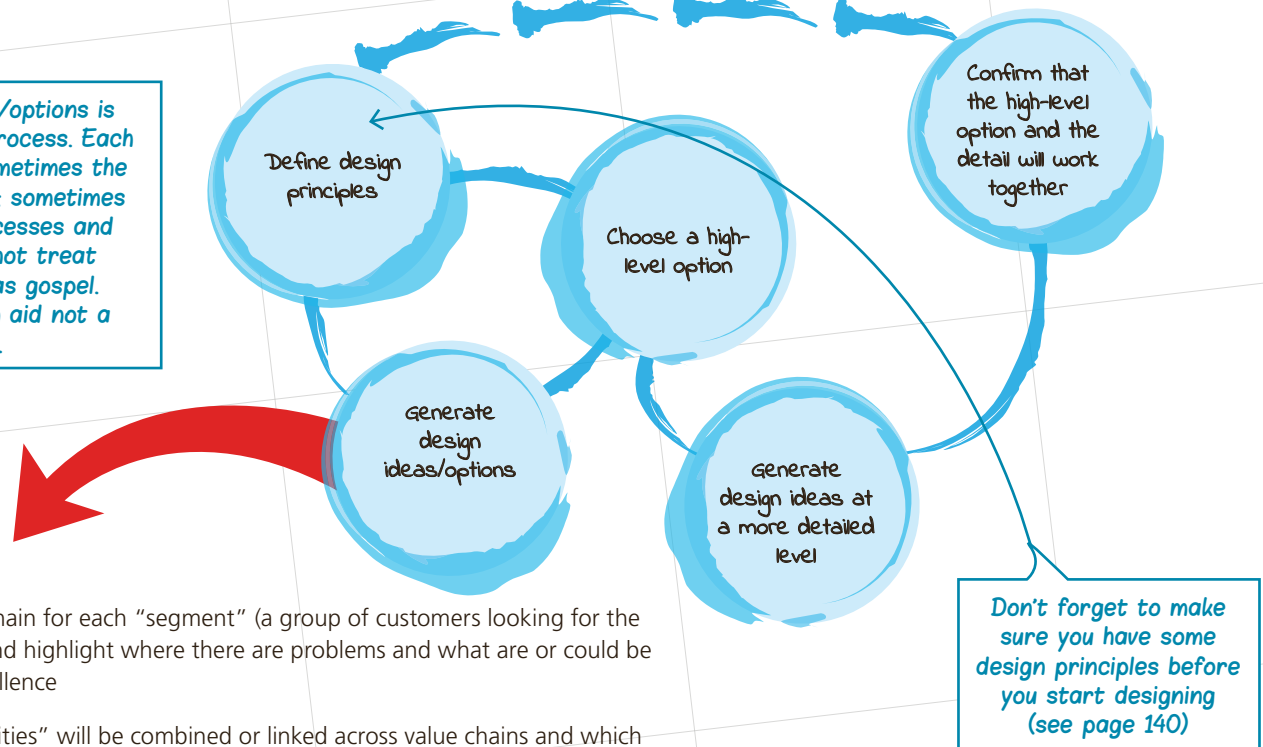


DESIGN IS A MESSY PROCESS UNTIL A PREFERRED OPTION EMERGES

13 POSSIBLE WORK STEPS FOR ..

CH1

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.

... GENERATING A DESIGN OPTION

CH1

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.

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

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

13 POSSIBLE WORK STEPS FOR GENERATING A DESIGN OPTION

< 31

**USE A GUIDING
FRAMEWORK**

The operating Model
Canvas is a good one!

**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.

**DECIDE HOW
DESIGN DECISIONS
WILL BE MADE**

By whom, where,
and when? Are
options required,
and what
criteria will
be used?

**BE CLEAR ON THE
CASE FOR CHANGE**

Link to changes in
strategy or problems
that can't be solved
through continuous
improvement.

DESIGN



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.

Note: Mark does not agree with this tip!

**EMBRACE
OPTIONS**

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

TIPS

