

# 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

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

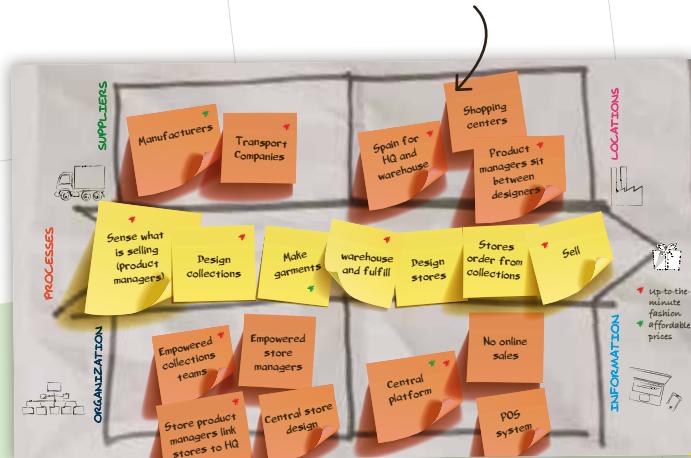
Other authorities include a mission, vision and values step before strategy. We include this as part of strategy.

# 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



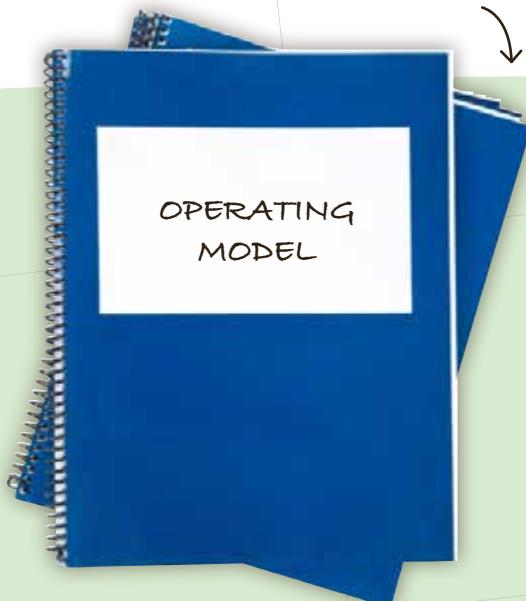
Explained and illustrated in Chapters 3, 4 and 5

# DETAILED OPERATING MODELS

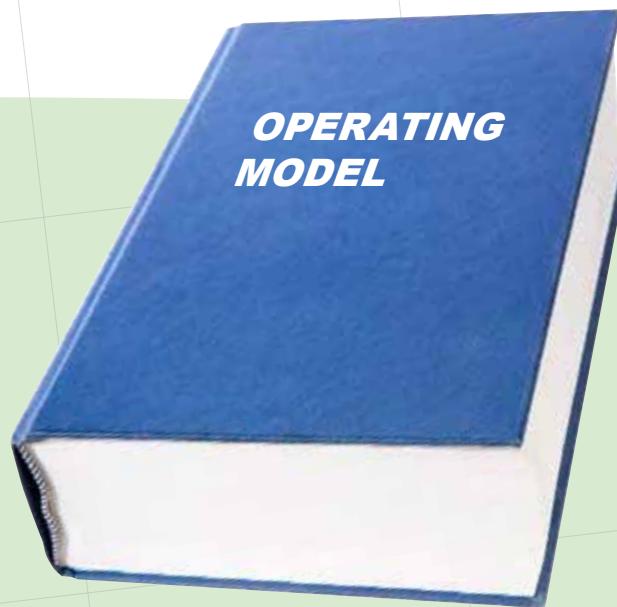
For an organization to function, many hundreds of design decisions need to be made. Our belief is that these decisions – the detailed operating model decisions – are better made if there is a high-level operating model guiding them.

CH1

One hundred page Operating Model



One thousand page Operating Manual



*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?



## 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

# THIS BOOK WILL HELP YOU ...

CH1

## Who are you?

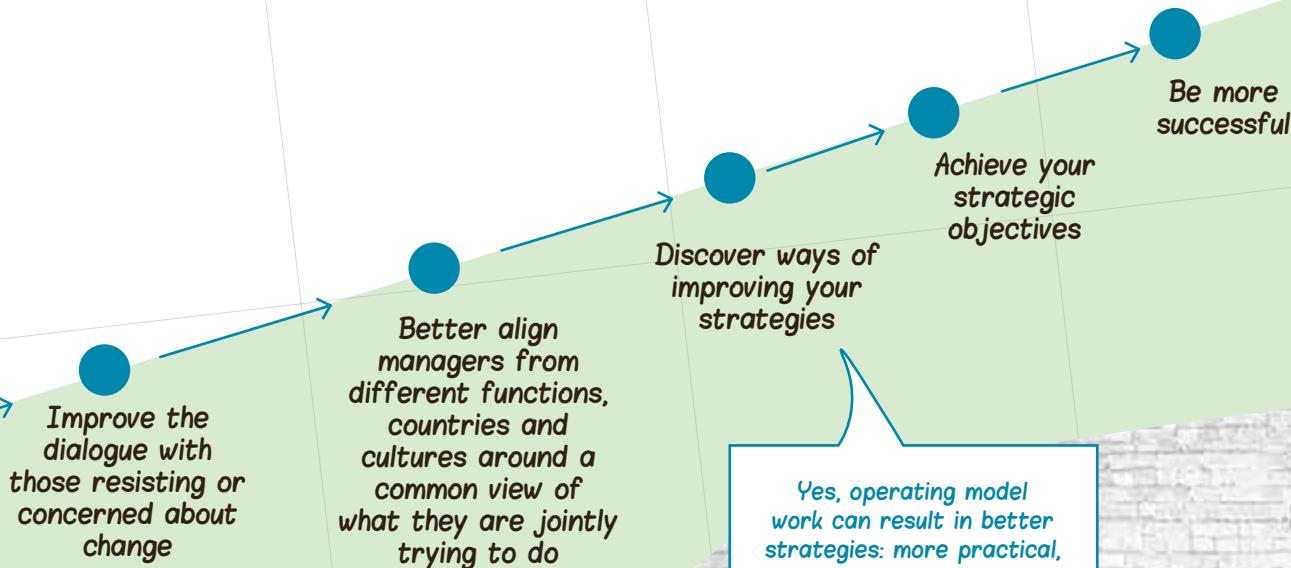
- A **manager in operations** or **in any function** who wants to design how the operation works
- A **CEO** or **COO** or **entrepreneur** who wants to review his or her organization and plans
- A **lean practitioner** or **process excellence manager** who wants to be more strategic
- A **manager in 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

Understand what an operating model is

Document your current operating model

Design improvements to your current operating model

Design a target operating model



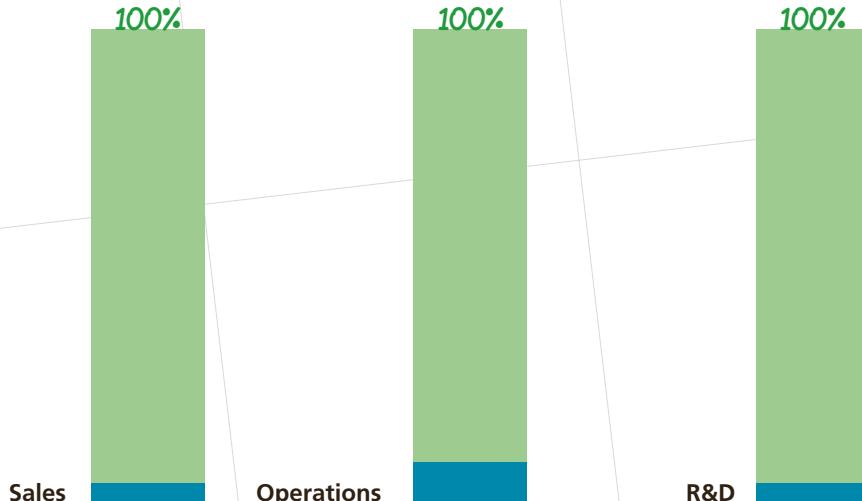
Yes, operating model work can result in better strategies: more practical, more connected with capability, more profitable



# STRATEGIES ENGAGE 5% ...

CH1

% of employees who think the strategy is their responsibility



Double international sales

Reduce cost of sales by 20%

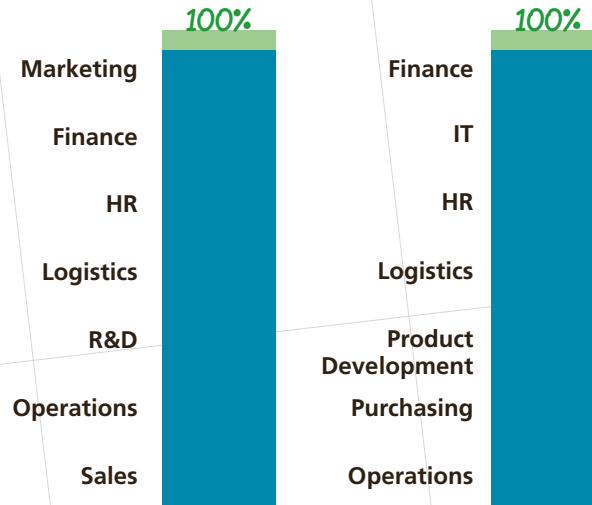
Develop new products



# ... 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



Double international sales

Reduce cost of sales by 20%

Develop new products

# 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!**

12 >

OPERATING MODEL CANVAS

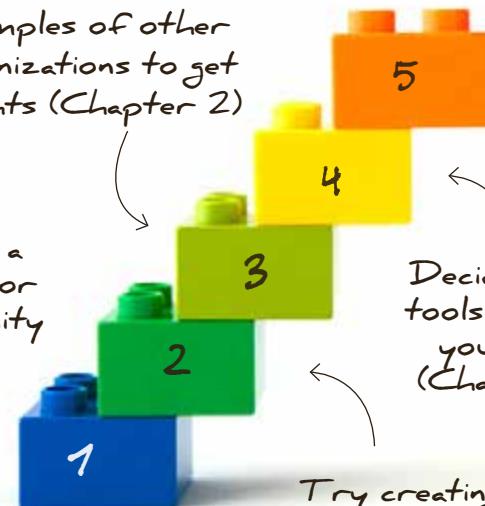
Design improvements referring to the case studies (chapters 4 and 5)

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)



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CH1

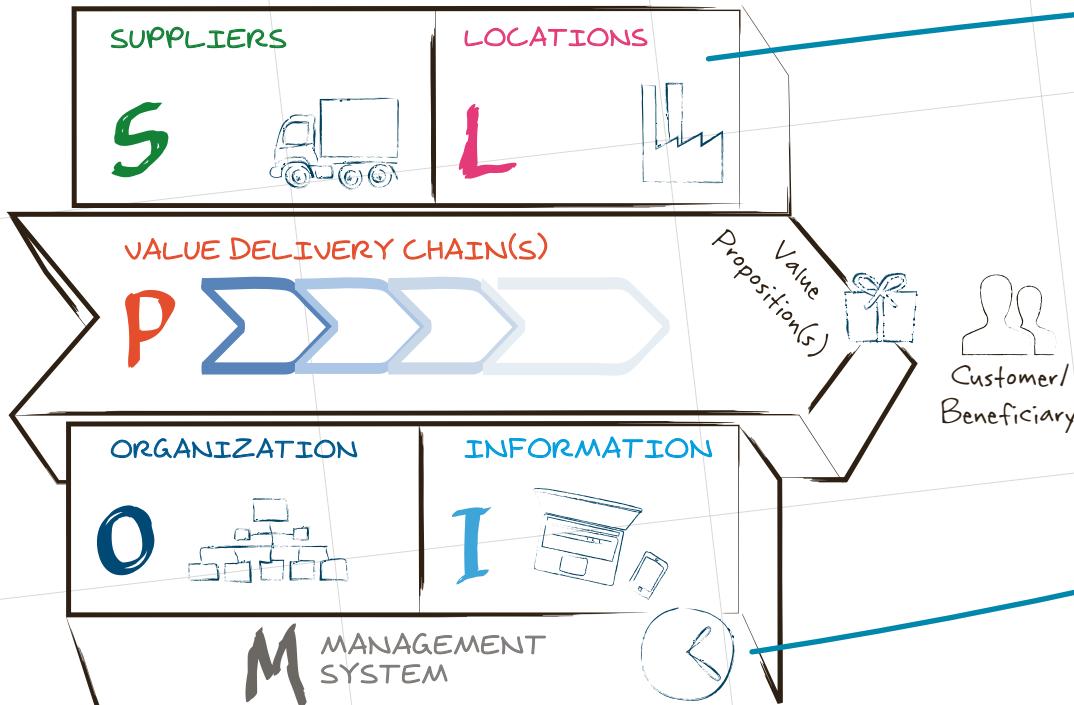
# THE OPERATING MODEL CANVAS IS A ONE PAGE OPERATING MODEL

CH1

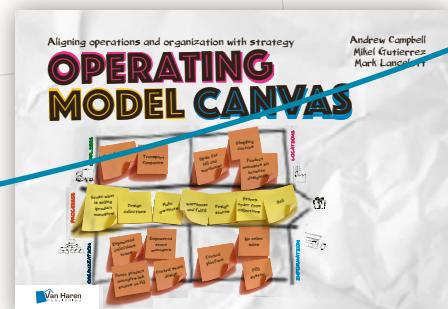
THE CANVAS IS FULLY EXPLAINED IN CHAPTER 2

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



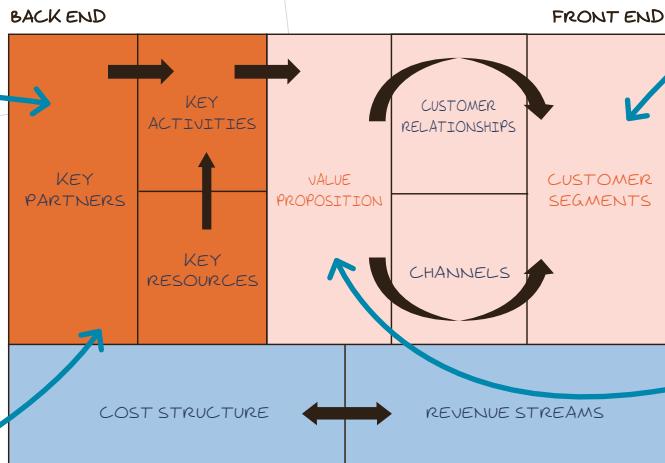
The link is roughly  
P = Key Activities  
S = Key Partners  
O + L + I + M = Key Resources



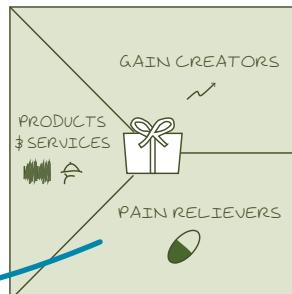
# IT COVERS THE BACK END OF THE BUSINESS MODEL CANVAS

CH1

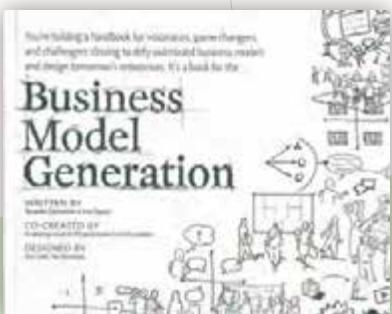
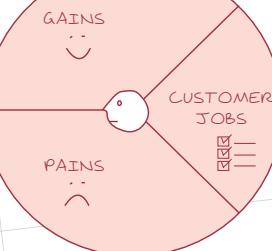
## BUSINESS MODEL



## 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**



# 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](http://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?

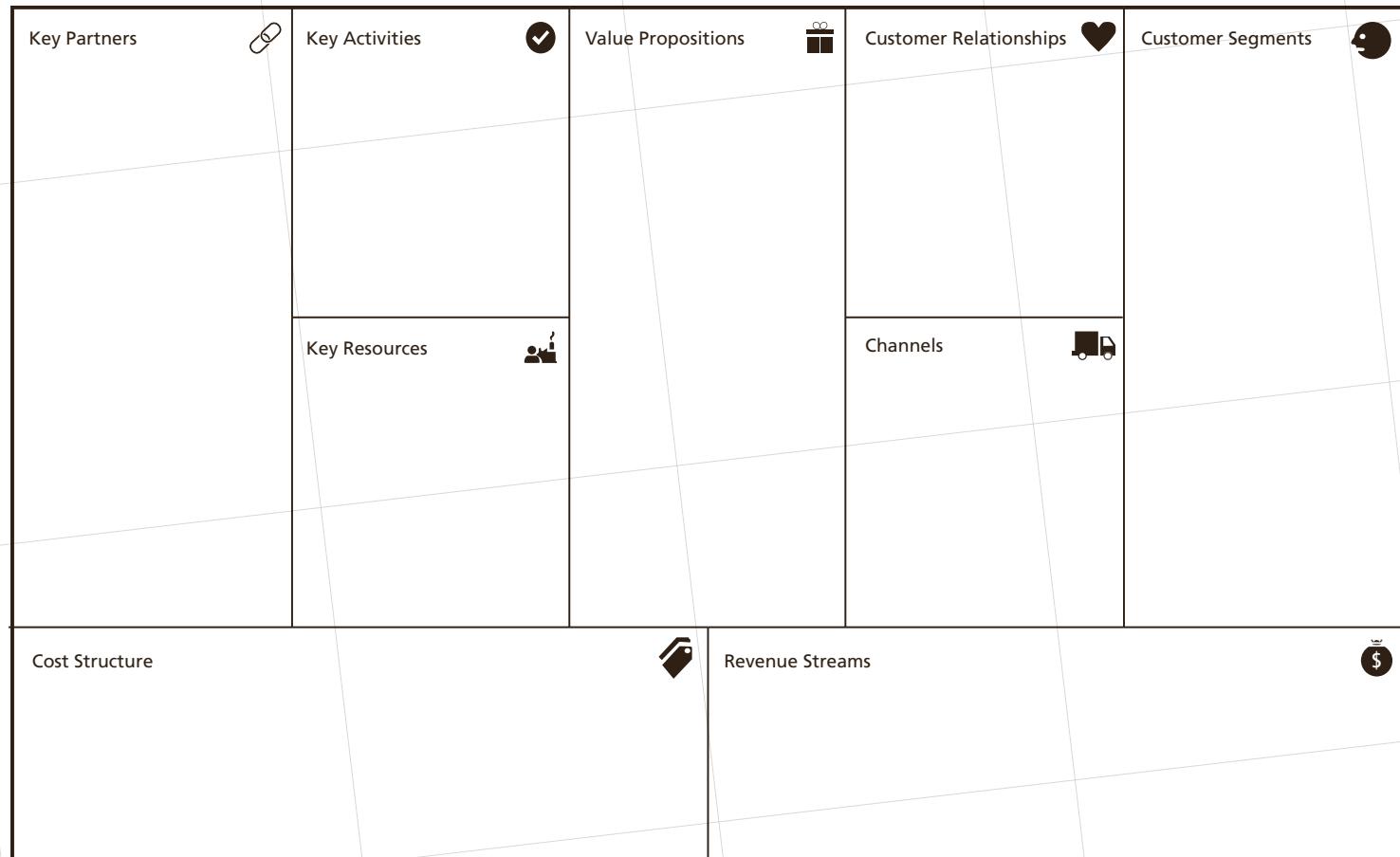
## The Business Model Canvas

Designed for:

Designed by:

Date:

Version:



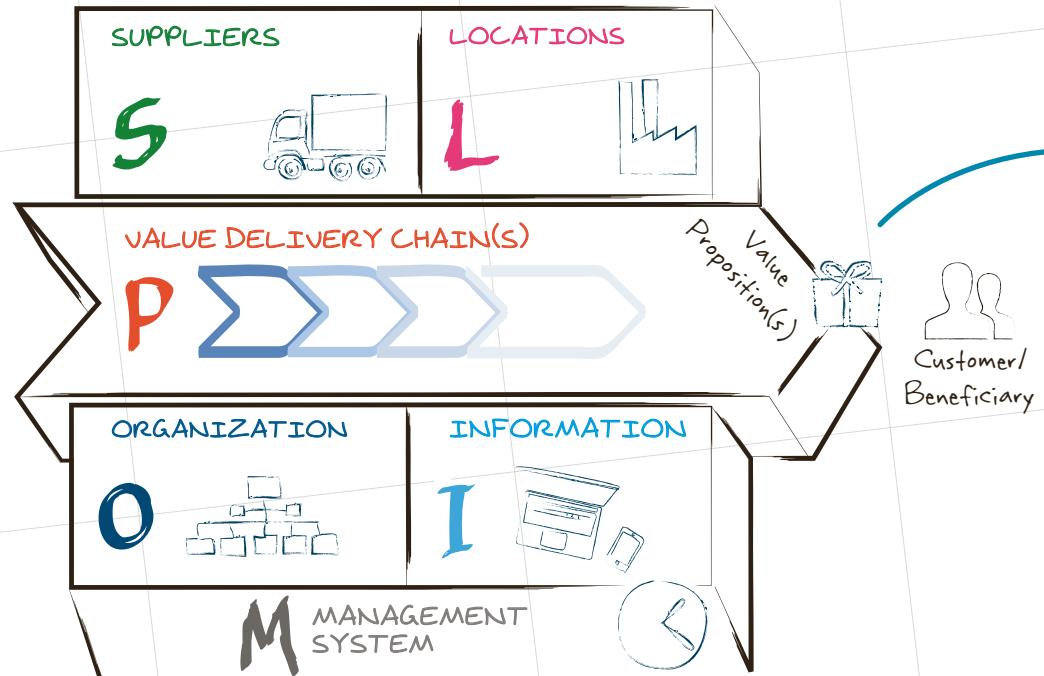
# HOW DOES THE OPERATING MODEL CANVAS LINK TO ...

CH1

THE OPERATING MODEL CANVAS HAS SIX ELEMENTS:

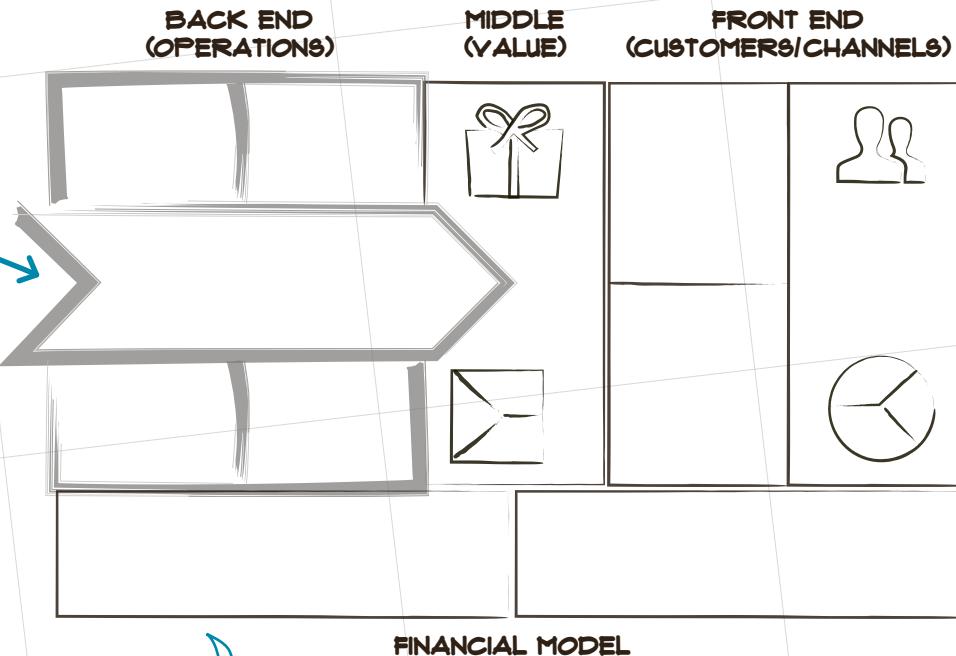
- the work that needs to be done to deliver the value proposition (**VALUE CHAIN**);
- the people who do the work and how they are organized (**ORGANIZATION**);
- where the people will be located and the assets they need to help them (**LOCATIONS**);
- what information systems the people need to help them (**INFORMATION**);
- the suppliers who support the work (**SUPPLIERS**); and
- the management system used to run the organization (**MANAGEMENT SYSTEM**).

## OPERATING MODEL CANVAS



# ... AN ENHANCED BUSINESS MODEL CANVAS

CH1



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.

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

## DEVELOP STRATEGY



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.

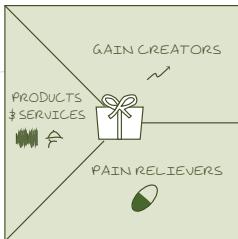


Strategies need to be converted into a business design. This is best done by working on the elements of the business model: value proposition design, operating model canvas and financial model. This work can result in adjustments to the strategy.

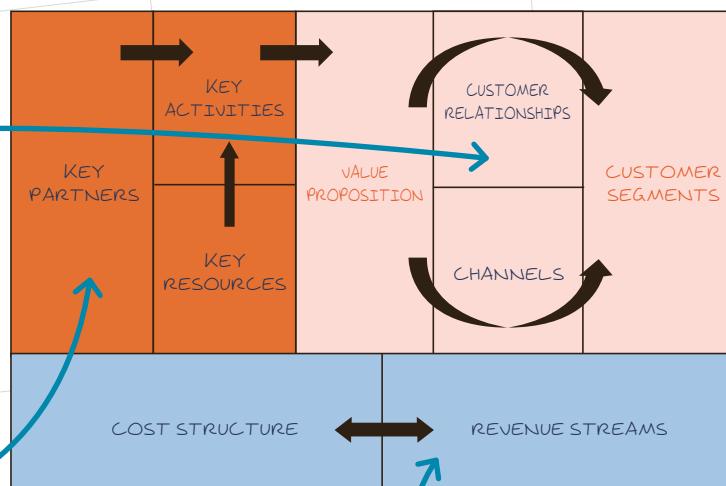
# ... TOWARDS TRANSFORMATION

CH1

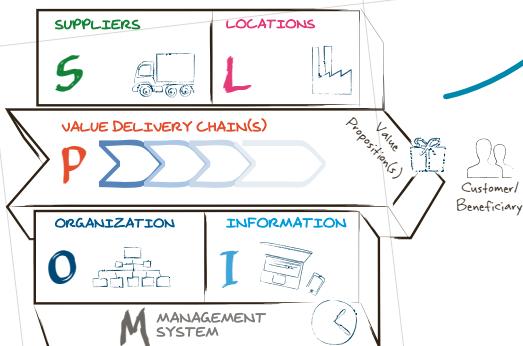
## DESIGN VALUE PROPOSITION



## SUMMARIZE AND TEST AS A BUSINESS MODEL



## DESIGN OPERATING MODEL



## SUMMARIZE FINANCIAL MODEL

DEVELOP DETAILED DESIGNS AND TRANSFORM



# 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.

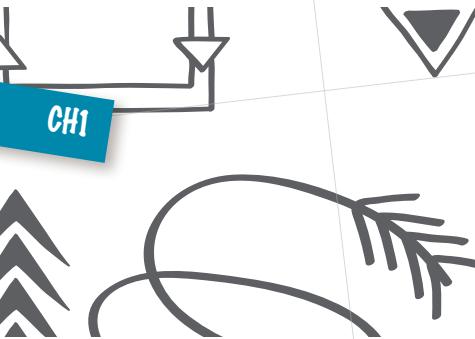
**START**  
**TRANSFORMING** from  
'as is' to 'to be'  
....  
while designing  
more details and  
running the 'as is'  
organization

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**

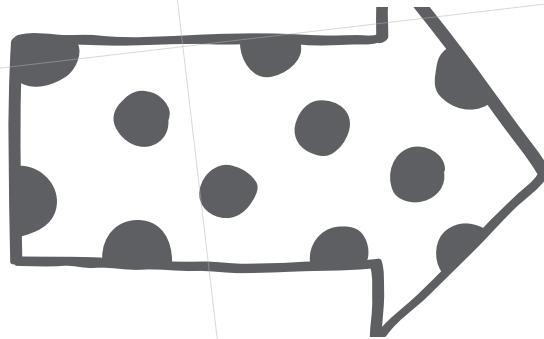
**IDENTIFY** another  
reason to  
change

# TYPICAL ACTIVITIES IN AN ...



## 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

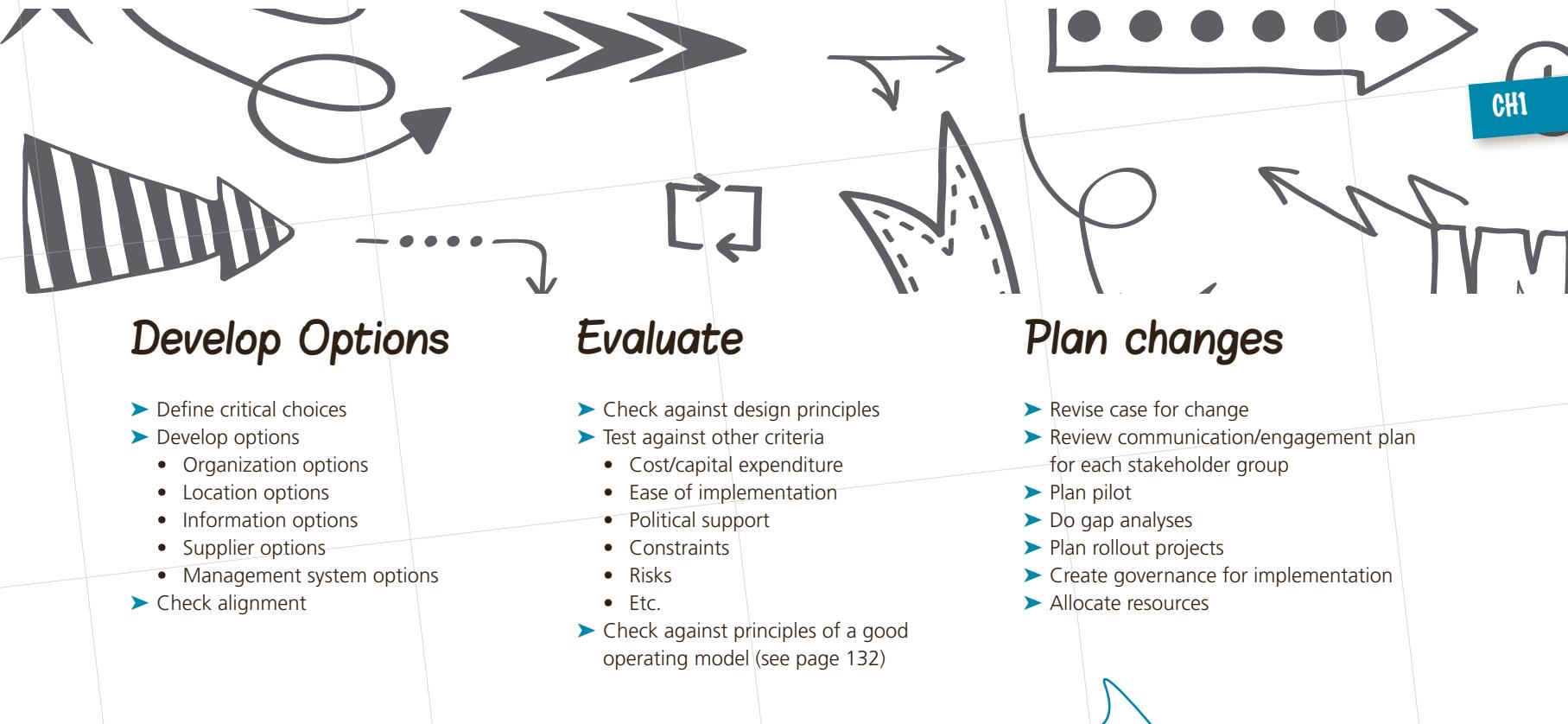


## Design Principles

- 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.*

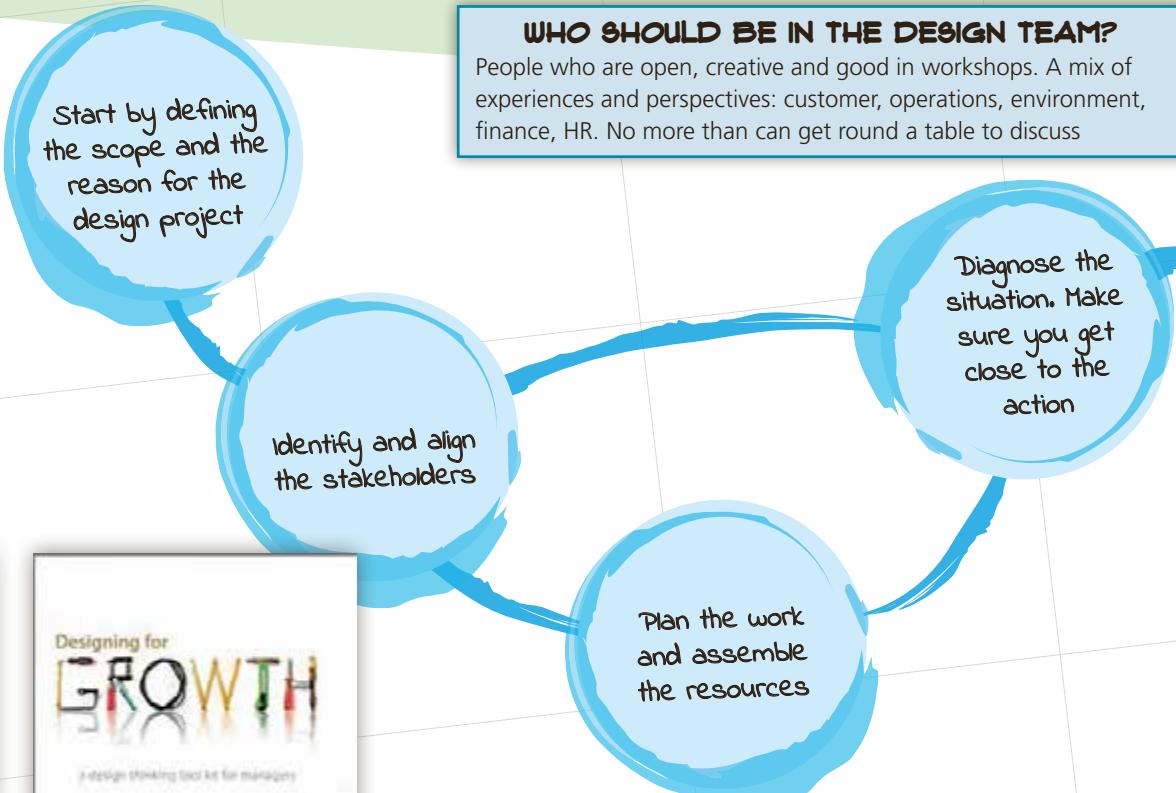
# ... OPERATING MODEL DESIGN PROJECT



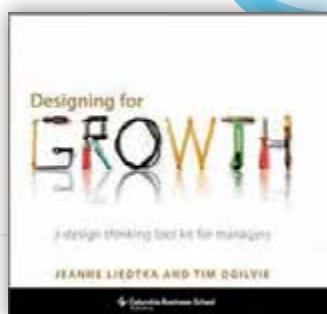
*Don't be put off doing operating model work or assume that it is so much work that it has to be done by a consultant. You do not have to go through all of these steps to do useful work. High-level design options can be created in 6 hours or 6 days or 6 weeks. Designs that are detailed enough to get 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



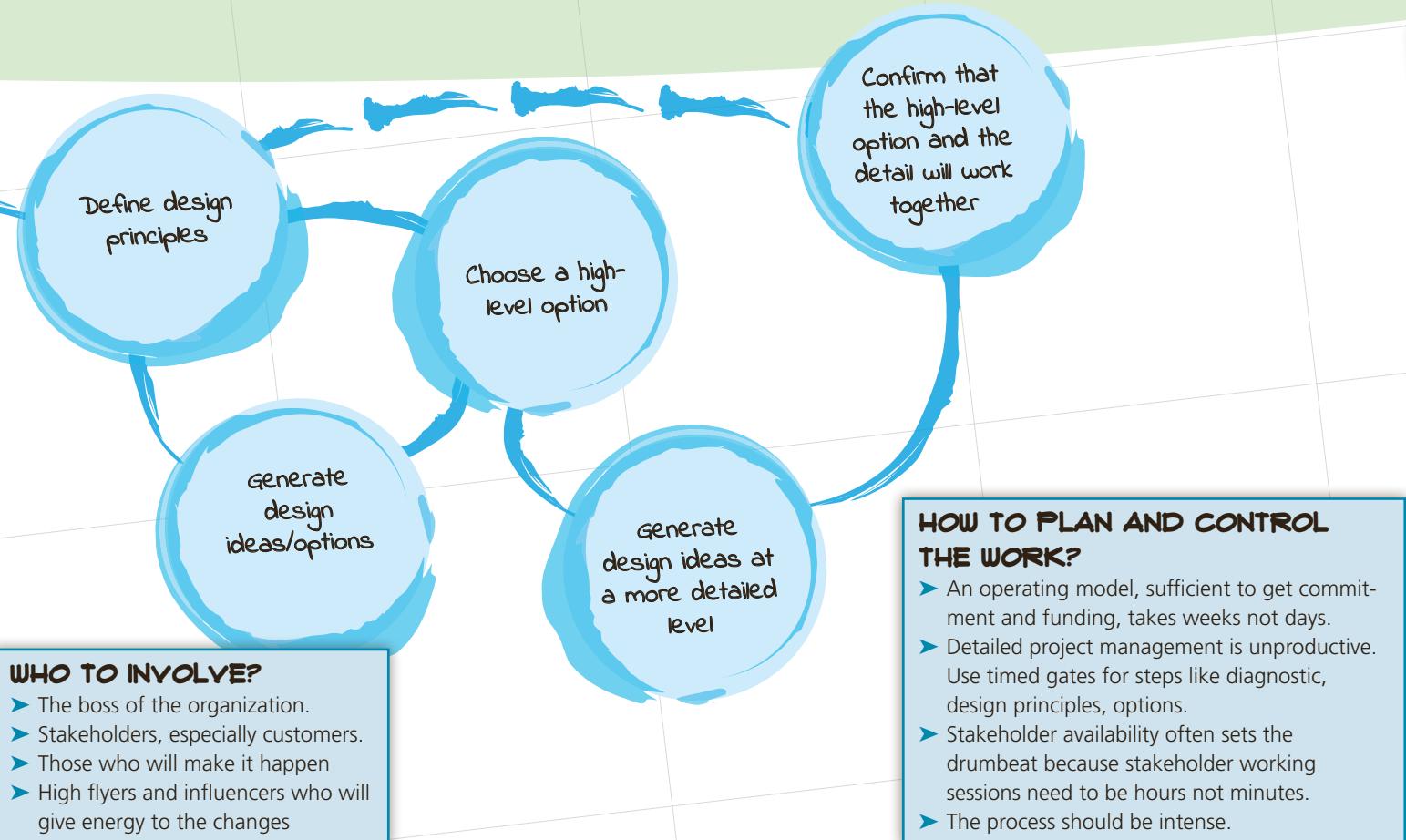
For more on the design journey



For help with design thinking

# ... RATHER THAN A SET SERIES OF STEPS

CH1



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

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.



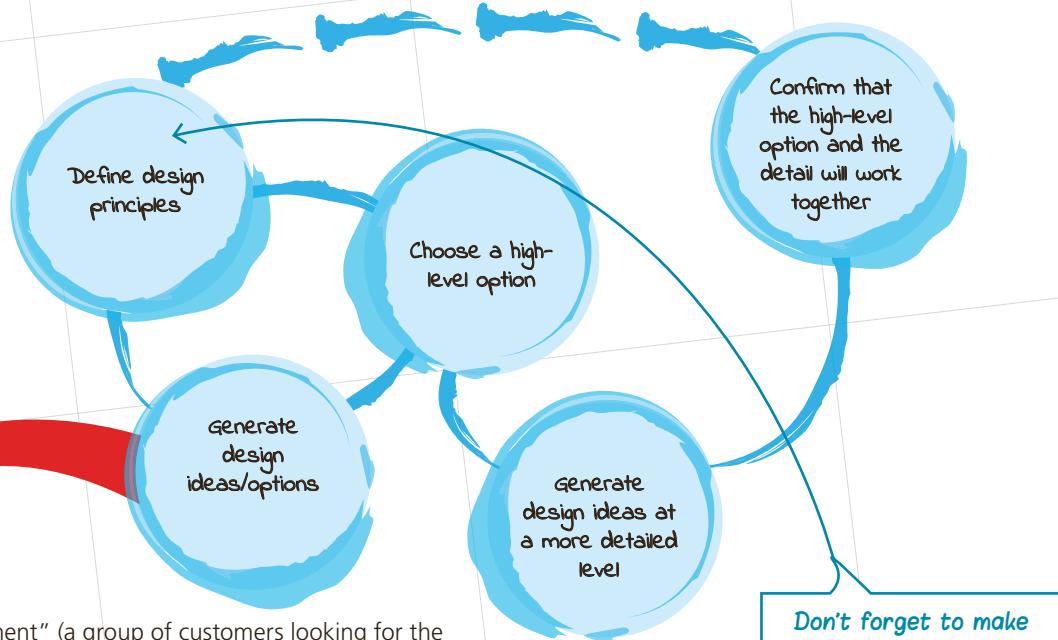
*Design work is not just an intellectual problem solving activity. It is a critical part of the change process. It drives new and better ways of operating. It must build, with stakeholders, a compelling case for change that creates understanding, acceptance, adoption and ultimately commitment to new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

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

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.

13 POSSIBLE WORK STEPS FOR GENERATING A DESIGN OPTION

◀ 31

## USE A GUIDING FRAMEWORK

The Operating Model Canvas is a good one!

## 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?

## MAKE SURE YOU HAVE A SPONSOR

Design needs clear leadership to set direction, deal with politics and make decisions.

## BE CLEAR ON THE CASE FOR CHANGE

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



# DESIGN

# 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.

CH1

## 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.