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**About ShopAbility**

ShopAbility helps improve manufacturer and retailer thinking and doing capabilities for increased sales in category and channel. Its offers span research and insight, strategy and planning, activation and implementation, and capability and training. It works with senior executives, sales departments, category/customer/trade marketing departments, insights people and brand marketers for an integrated 360-degree picture. Call ShopAbility on 1300 88 56 44 to discuss your needs.

# The business-operating model

What is it? Why should you be interested? In the latest in their series on business optimisation, Peter Huskins and Roger Perry discuss operating models (part one).

In our last article we discussed the importance of thinking about the design of a business. We encouraged you not just to rely on fast cost cutting, but also to think about what the real drivers of low value activity are and whether there were better ways to design your business.

Here, we go much further in discussing the design of a business and will define what is meant by a business-operating model. This is important, as there are several conflicting definitions. Then we will describe some examples of business model principles and their consequences on the model.

Finally, we will describe how people go about rapidly, but thoughtfully, considering the design of their organisations. Business-operating model design can be a complex business, so this article will serve as a mere introduction to the concepts.

**What is a business-operating model?**

A business-operating model is a combination of roles, skills, structures, processes, assets and technologies that allow an organisation to deliver on its service or product promises. It is, in effect, the way a business is set up to deliver.

For example, it can refer to the way an organisation is vertically or horizontally integrated. It can refer to the way an organisation thinks about its staff (eg, contract or permanent). It can refer to the way personnel work together and how responsibilities are divided up within the enterprise.

Let's imagine an extreme example that may make this clear. Imagine a retailer with the following characteristics:

1. It is a retailer of fashionable clothing and footwear
2. It has a catalogue and web-based model
3. Management, IT, product development and buying operate out of the Middle East where it

has been granted favourable tax status and has access to both Middle Eastern and European talent pools

4. Procurement operates out of Asia
5. All manufacturing is outsourced to Asian enterprises
6. The target markets are Australia and NZ (first), followed by Canada and the UK
7. The business is low cost in comparison to its physical shopfront competitors.

There are a number of factors to be considered in this operating model and we will step through some of them.

Firstly, we have to understand that the company is very clear about what it is trying to be. It is a catalogue and e-channel fashion company offering reasonably priced, good quality and conveniently available goods.

This enterprise has thought about the following dimensions of its business-operating model:

- Capabilities: These are essential elements of core competence – product development, buying, procurement, pricing and web retailing, but not manufacturing or physical retailing.
- Functions: Need to be together but those that can be separated in order to deliver on the essential capabilities (web skills and manufacturing) do not need to be co-located.
- Geography: Which areas are best placed to accommodate different functions (ie, Asia for procurement because the company intends to source most manufacturing from Asia).
- Role and process design: It is important to think of these together. Separating them is a fundamental design error that many companies make. It is essential to understand who is accountable for what, what the big roles are, and how the processes will work to string together a truly multinational operation.
- Structure: How are the roles

and processes integrated? For example, is the organisation structured along process lines such as design-to-order process, or order-to-cash process (each of which can have a separate GM), or is it along functional lines (eg, GM of web development), along geographic lines (country head of Australia) or some combination of these or more.

• Technology: What technologies are required? It is not just obvious tools such as web retailing and catalogue development technology, but also enabling technologies such as those that support effective communication and knowledge management in this very fast-paced fashion business.

The above is only an example, as there are a great many options for how this business could be designed. As you can see, if you break up the design of your organisation into dimensions, it is possible to make rational decisions based first on your strategy (including target markets) and, secondly, on available data.

Some of the dimensions need you to have more professional support to make a decision. For example, role and process design is a real skill that (if done poorly) will cost you a small fortune. It is helpful to ensure that you have professional design in detail. The same is true of technology choices. Hopefully, this provides you with some insight into just what a business-operating model is.

In the above example, the enterprise is relatively new and, in our imagination, had the advantage of some early advice. However, most of you will already be in the midst of a business-operating model which has evolved rather than been designed from a clean sheet of paper.

This design might never have been optimal and it may (at this point in time) be largely out of alignment with today's realities. So what can you do?

*“A business-operating model is a combination of roles, skills, structures, processes, assets and technologies that allow an organisation to deliver on its service or product promises.”*



**Roger Perry**  
CEO  
Bevington Group

### BEVINGTON GROUP

The Bevington Group is a productivity improvement service provider. The Group was established in 1993, and has refined its methods in more than 400 assignments. Bevington's core services are: Process Improvement and Restructuring; Continuous Improvement; and Change Management.

### Optimising a business model you're already in

Fortunately, there are structured approaches to dealing with this situation. Note that the following is an outline only. To design your business model, you'll need much more information than is contained here, but the following will give you a flavour.

Firstly, it is important to be able to integrate a number of factors into your design:

- A clear understanding of what you want to be as an organisation and how you intend to get there (let's call this 'strategy').
- A set of principles which will inform your design.
- A willingness to look outside the organisation and even outside the industry for different ways of doing things.
- A willingness to challenge the organisation's assumptions and sacred cows.
- An ability to capture role-and-process information in detail quickly (so you can plan how to get from where you are to where you want to be).
- A willingness to involve a broad representation of personnel and management in an intensive organisational design workshop (so the design is not just done at the desk of the CEO but in a way that will actually maximise buy-in).

We do not have room to consider

all of the above factors, so we will look at two of them.

1. Principles to inform your organisational design.
2. The personnel and management workshop to define your organisational design options.

By design principles we mean a short list of bullet points that guides the way you design your organisation. Let's consider the online retail business example and think about what its design principles might have been.

- Functions will be placed where there is access to appropriate high-quality skills and resources at a globally competitive price.
- Processes will have clear ownership at an executive level, and clear accountabilities (leaving no staff member in doubt) will be designed into the roles, processes and structures.
- The organisation will be structured, first of all, along process lines (eg, design to procure), then along functional lines (eg, buying), then lastly along geographic lines (meaning that leadership is global).
- The business processes will be designed for speed (as we are in the fast fashion business) and ease of use for our customers (as convenience is a key customer value proposition).
- We will not endeavour to deliver on all our capabilities in-house. We will outsource to the most appropriate

provider where the function is not core to our competitive success.

- Functional co-location will be considered based on the level of intense interaction required between functions: if it is not necessary to co-locate, then we will place the function where it has the best advantage.
- There will be a full investment in the required technologies to ensure a ready interaction between all functional units in a value stream.

We have just made up the principles above but, hopefully, you get the idea. There is no doubt that this organisation will go where it needs to go to geographically, will source externally as required, will design processes which ensure clear accountabilities (because without clear processes and accountabilities you cannot have speed) and will invest to make this technically possible in a globally dispersed enterprise.

Such principles are essential because they limit the possible design options. Without a clear set of design principles, then, you will end up with either too many options to consider, or you will apply a subconscious set of principles (which is probably worse because you should rationally test principles).

Don't miss part two of this column, on developing your organisational design, in the next edition of *Retail World*, September 12 issue. ■

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What is it? Why should you be interested? In the latest in their series on business optimisation, Peter Huskins and Roger Perry discuss operating models (part two).

In our last article we discussed the conscious design of a business. We defined what a business-operating model means, then offered some examples of business model principles and their consequences on the model.

Here, we describe how organisations go about rapidly, but thoughtfully, considering the design of their organisation. Business-operating model design can be a complex business, so this article will serve as a mere introduction to the concepts.

## Developing your organisational design

Naturally, having a set of principles is not enough. How do you go about developing the organisational design? Well, you could just get the top three executives together and nut it out, or hire a globally recognised consultancy to give you a report.

However, these options are probably a poor way to proceed. You really need a design that can be implemented, not one that just sits on a bookshelf as a report.

What this means is that you need to engage the people who know about the realities at the front line, and who are influential enough to help you buy in to the changes you need. If you are going to get resistance every step of the way, then you may not ever finish implementation.

In practice, the way forward is a design workshop with the following characteristics.

- It brings together personnel who know the problems of the business today, are influential on the ground (they can be change champions) and are hungry for change.
- It integrates the deliberations of the above people in sessions with executive management to agree on the problems to be resolved, the design principles and the design options.
- It must produce a series of design options, with executive management making the final decisions.



- It must be carefully organised and facilitated (preferably by experts who have done this before and have seen this through to implementation).
- It must incorporate different thinking and practices, which are likely to be sourced from other markets and possibly from other industries.

Typically, these design forums last from three to five days. They are a major commitment, so they do require a great deal of preparation. You need to have thought about the dimensions of your design and also about external options.

Some of the workshop will involve education on different possible models, and you need to think about the best way to get this through.

These workshops work so well because they force timely decision making. At preset stages in the workshop's progress, executive management need to enter and approve (or otherwise) of the progress to date. This can save many months of deliberations, condensing it to just a few days.

At the end of such a design event the executive leadership should have no more than three options from which to choose, with a description of the options along each dimension.

These workshops are also powerful because they consciously engage the potential influencers. These influencers may not simply be the managers, but personnel generally who are willing to change and who have earned broad respect.

These people will have felt part of the decision-making process and will therefore be more willing to back the solutions. This leads to a more readily implementable program.

OK. So you have a high level design. What next? This will be the subject of our next article.

To give you an indication of the next steps, they must encompass the following.

- A clear understanding of the current state of affairs so that you can develop a pathway from the 'as is' state to the 'to be' state. We use a methodology known as XeP3.
  - A way to split the implementation into phases. We call this wave-based implementation design.
  - A way to manage the change with agility so that solutions can be tested, monitored and promptly responded to. We use a method call 'momentum management'.
- In conclusion, the business-operating model, which you are currently living with, may have been consciously designed in a different era for a different set of conditions, or it may have evolved over time.

Fortunately, you are not stuck with this model and it is eminently possible to design your way out of trouble, as long as you can also robustly implement.

Such design must consider a broad range of dimensions such as functions, processes, geography, roles, technology, etc. A conscious and informed decision will produce a better result, one that engages critical change champions will produce an even better result.

This sort of redesign activity will unquestionably become more common as the pace of global change accelerates.

Part one of this article was published in the August 29 edition of *Retail World*. ■