

October 2024





To fully understand the importance of Target Operating Models, the need for change as well as the scope of TOM are critical

Understanding the Target Operating Model



Why is a TOM important and which business goals are supported?

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What is the definition of a TOM and what are the components?

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What are the benefits of a defining the right TOM for an organization?



How is a TOM **project approach** structured?

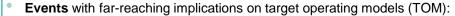
Business and Operating models are heavily under pressure since market environment remains challenging and strategic considerations call for action

Target Operating Model Considerations

Various factors exert pressure on companies across industries

External Market

- General market dynamics for companies remain challenging
 - Low disposable income / high inflation / high interest rates
 - Rising costs (wages, raw materials, energy)
- High level of consumer spending insecurity to external events (see below)



- Pandemic (Covid 19)
- Geopolitical insecurities and conflicts (Ukraine, Taiwan, Middle East)
- Supply chain disruptions (eg Suez channel crisis, chip shortages, etc.)

Strategic Considerations

- Competition is fierce and even though selective bankruptcies might favour "survivors" in the short term, the mid to long term game requires a fit for purpose operating model – existing inefficiencies or the need to improve / adapt cannot be ignored
- Strategic considerations on group level must be taken into account to enable a holistic and tailored approach, e.g.,
 - Portfolio/ assortment strategies
 - Capabilities e.g., time-to-market requirements
 - Service level / quality e.g., customer / target group fit
 - Risk e.g., resilience perspective

need for change within companies

To evolve, a **future-proof strategy** enabled by an **operating model** are
critical

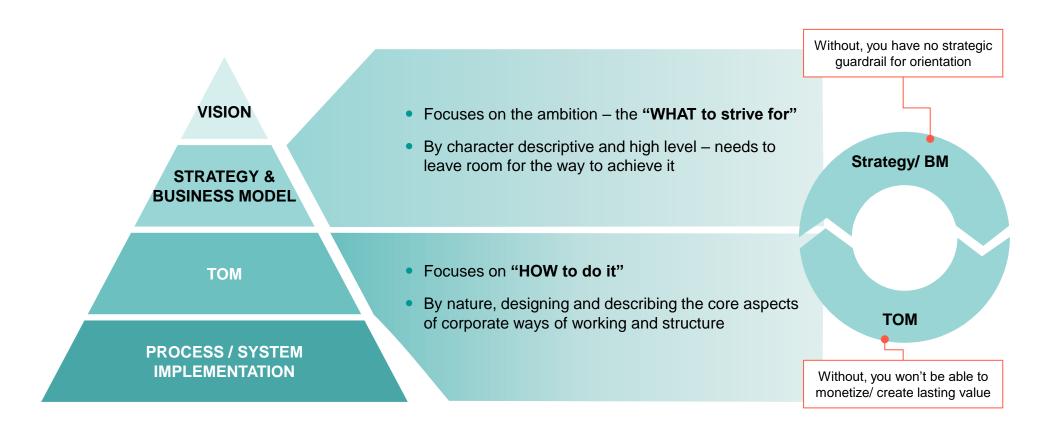
Challenge:

How to design a best-in-class TOM?



Without translating your business model into a robust Target Operating Model, you won't be able to monetize on your strategic goals

From Business Model to TOM



Case study: Updating the business and operating model for global manufacturing conglomerate

Exemplary case study: Aligning business and operating model

OM

Increase focus on different needs per customer group:

- Material customers with larger quantities, low processing and best prices
- Service customers with smaller quantity, high processing share and best product

Alignment of purchasing and sales along customer needs incl. separation of units

Updating the **structure** of national companies to a new **international set-up**

Shares services including joint order processing via back office to leverage synergies and realization of cross-unit synergies

Impact

- Customer centricity: Improved customer orientation (services and material customers) with growth focus on high-margin businesses
- Integration: Strengthened international connection between units
- Simplification: Significant organisational update in developing a lean organization by reducing a central overhead, decentral and international sales team



Backup: The strategy needs to be aligned between the corporate and functional strategy with underlying operating model

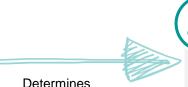
Interplay of corporate and functional strategy



Corporate Strategy

"WHAT is the general ambition?"

Provides base for all ambitions and guides as a **North Star** for the company



Functional strategy

"WHAT is the respective ambition?"

Provides a strategic guideline for all functional strategic components



Dictates

Corporate Operating Model

"HOW is the strategy enabled?"

Set-up the overall company on how to pursue the strategic North Star

Following the right sequence of steps ensures coherence in strategy, business and operating model



Dictates

Functional Operating Model

"HOW is the functional strategy supported?"

Functional set-up on the respective department or team and how to enable a functional strategy

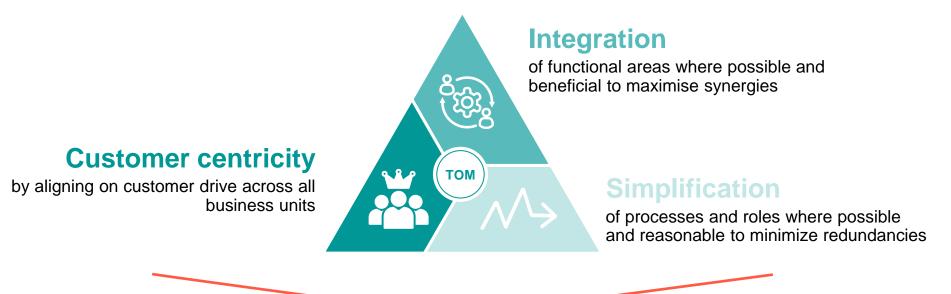


Influences each other and are inherently connected



Target Operating Model design is the key pillar in reaching 3 fundamental business goals

Business goals of TOM



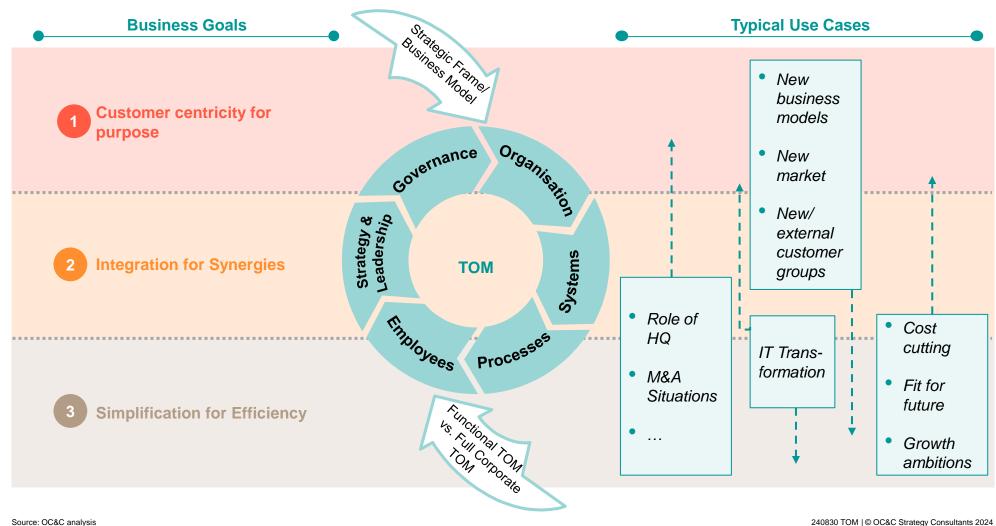
Customer centricity is a TOM goal as the TOM aligns departments behind the target to enable **optimal customer value**. The company value proposition is meaningless if it is not included in all processes. Towards the customer the company acts as **SINGLE point of contact** independent of the demand.

Integration is a TOM goal as **complex processes** involve different departments and centres of expertise along the fulfilment cycle. **Integrated end-to-end processes** with clear responsibilities for steering and execution are core.

Simplification is a TOM goal as the TOM seeks to **eliminate redundancies**. A process can only be in the responsibility of a **SINGLE entity** or **department**. In international organizations, there needs to be a clear cut between headquarter and local responsibility. On top a TOM needs to ensure a lean organization.

Thus, there emerge typical use cases in which a TOM exercise proofs helpful

TOM Use Cases



TOM projects are not only a theoretical exercise, but they also deliver value for our clients and he

Practical examples for our clients

New/ external customer groups "Group logistics provider"

New market / M&A situation "Global discount grocer" Role of HQ "Global renewable energy company"

What triggered the TOM discussion and project?

- The group logistics provider decided to offer logistics services to external, non-group companies
- Current TOM set-up not capable of delivering state of the art services
- The company declared international expansion as a major strategic pillar to further drive growth
- Adding new regions via M&A required an integration into the existing business as well as setting up and connecting the M&A team
- Company **grew globally** by acquiring multiple project office
- After reaching global coverage, difference in service quality and centralization of back-office functions became apparent

Which major steps were part of the project

- Assess the current market to determine a winning strategic proposition and derive requirements for the TOM
- Determine the **team set-up**, role profile and governance including decision making approach and core work processes
- Design **client responsibility** within the organisation
- Determine **strategic option space** within the M&A pillar
- Mapp stakeholders and existing governance structures
- Assess need for change and potential business case
- **Document** the **status-quo** as well as needs globally regarding back-office services (Finance, HR, Legal, IT)
- Assess the **desired level of control** form the HQ and parent company

What are results of the project?

- Clear responsibilities and efficient governance defined
- Pragmatic team set-up was able to win over the first customers
- Road map for further detailing of concept and integration is currently in the works

Unlocking new revenue potential of €300m

- M&A team including required profiles setup
- Strategic priorities and global governance of the M&A-team established
- First deal in company history currently in integration phase

Unlocking new revenue potential of €25b

- Recommendation of centralising a significant part of back-office functions was pursued (Finance, IT, partly Legal), while local services remained within the respective country
- **Cost reductions** due to synergies allow for a healthier growth trajectory

Realizing cost saving potential of 3%pts. EBITDA improvement

Excursus: Why do most (IT) transformation projects fail?

TOM and IT standard templates

Why strategic transformations fail?

- Most strategic transformations do not lack good ideas or intention, but they fail because of poor implementation
- The reason is that most strategic transformations are complex and involve multiple departments of an organization while lacking end-to-end processes, clear responsibilities and an aligned TOM
- If a transformation is being executed either based on a poor operating model or without adjusting the existing operating model this will fail – this is not referring to responsibilities in a temporary project organization
- While TOM design can be seen as an enabler, it is rather a core capability of successful organizations to keep processes simple, end-toend, customer-centric and sustainable

>60% of large
transformation
projects fail or do
not deliver the
desired results
due to poor TOM
principles

Why e.g. IT transformations fail?

- Especially IT transformations or the introduction of a new ERP system resemble an example for complex transformation
- Before the IT department is involved all business processes must be documented in detail (by the business)
- Companies that have followed a very decentralized, individual or complex governance approach are faced with strong challenges
- Using a complex IT project as a pilot for a harmonized TOM and process design causes the IT project to explode in terms of costs and fail
- Marrying these two topics is dangerous and usually only leads to mutual blame between business and IT – and often ultimately to a decentralized IT solution
- It is therefore necessary to establish principles for the correct TOM on the business side upfront



There are six key dimensions in designing the right TOM for your organisation

Dimensions of TOM

Strategy and Leadership

 What are the guiding principles based on business model and strategy?

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Employees and Talent

- Which profiles are required and how are they developed?
- How can a performance culture be established and maintained?

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Process- and Service Delivery

- How does intra-org. collaboration work?
- Who does what and when?
- Which responsibilities exist inside and outside the individual org. cluster?

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Source: OC&C analysis



Governance

- What defines leadership and by whom is that exercised?
- Who owns which (decision) rights and how does that influence crossorganizational collaboration?

Organisational Structure

- What is the optimal setup for the organisation (eg # of departments, # of employees, role allocation,...)?
- What is the right org. sizing?
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Enabler: Systems and Technology

- Which capabilities and features are necessary?
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Not all dimensions have to adjusted in every TOM project – the assessment can justify keeping the status-quo

240830 TOM | © OC&C Strategy Consultants 2024

Excursus Retail player: The degree of the right degree of localisation is a critical dimension to consider in designing a Target Operating Model

Global vs Local – Elements of Proposition that influence TOM



Structure of range, e.g. department mix, mix of essentials vs fashion, good better best, etc.



Product

Product assortment, e.g. mix of styles, level of tailoring to local tastes



Category Mix

Range and mix of categories offered (e.g. apparel, home, beauty, etc)



Pricing

Pricing framework and price position vs competition



Brand Positioning, Comms & Marketing

Communication of brand and positioning through marketing, messaging in stores, etc.



Store Proposition

Store formats and store experience (e.g. store fit-out, store labour model, in-store services etc)



Digital

Digital proposition (e.g. Click & Collect, website, membership etc)



BusinessOperations

Country-level business operations (e.g. P&L and budget, strategy, store roadmap, legal entity)



Back Office

Back-office functions e.g. customer service, HR, finance, IT, logistics, facilities, property



How much will we **localise** each dimension across markets?



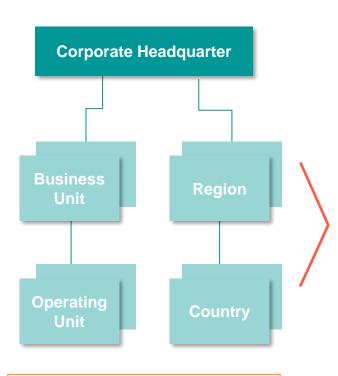
Is this a one-off strategic decision or ongoing decisionmaking process?



What is the balance of decision making between local teams and centre?

In the localisation discussion, one of the most important questions in TOM design is the role of the corporate headquarter

Role of Corporate Headquarter



Two types of structures – either by business line or by region/ country

Option Room

Investment Headquarter

- Investment in companies
- Portfolio decisions (aggregation and separation)
- Partnerships and joint ventures
- Management of equity and debt
- Comparable to a PE approach
- No synergies

Management Headquarter

- Definition of a corporate strategy
- Guidance on value creation decisions
- Governance and design of business processes
- Central infrastructure, brand, IT, ecosystem, etc.

Guiding Principles

- To limit complexity, only 1-2 management levels should be established avoiding redundancies
 - → Do not allow responsibility on group (corporate headquarter), regional (BU) and local (OU) level
- Standardisation (of processes) follows centralization
 - → Be clear about similarities and differences of Operating Units
- Level of standardisation and centralisation will differ between departments
 - → Centralized ones require the most attention



Backup: While a Management HQ offers a stronger strategy alignment and synergy potential, an Investment HQ is defined by faster decision making

Role of Corporate Headquarter and Degree of Centralization

		Investment HQ (with local responsibility)	Partly Integration	Management HQ (with central responsibility)
Level of Centralization		Low High	Low High	Low High
Organizational Design		Independently operating units with local value creation	Mix of decentral/ central on department level	One organization with central responsibility for countries
Evaluation	Strategic Alignment	X •	✓	✓
	Synergy Potential	Only voluntary	~	✓
	Focus on Easy Countries	*		ds risk, that
	Lean	*	der	Il countries nands are gnored)
	Speed of Decision Making	✓	~	×
	Incorporation of Local Requirements	✓	✓	×

^{1.} For some departments low, for others high Source: OC&C analysis

Identifying and implementing the right TOM allows a company to increase revenues, drive down cost or reduce complexity based on approach

Benefits of TOM

Customer centricity

- Increase growth potential by addressing the right target customer/consumer in the right way
- Realize higher customer retention
- Better operating performance by aligning or providing the right incentive schemes
- Capitalize on strategy ambitions with regards to channels, customers, markets

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Integration

- Reduce cost by increasing the harmonization in end-to-end processes
- Realize synergy potential across units by eliminating redundancies

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Simplification

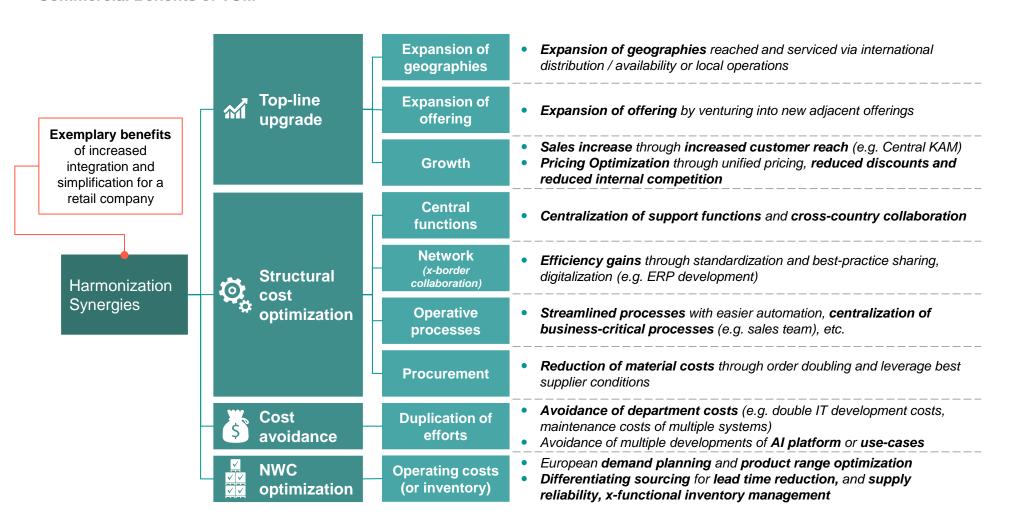
- Improve operating cost by reducing organizational complexity and streamlining eq # of departments
- Improve cost by rightsizing of eg # employees, # of roles, # of profiles
- Increase decision making speed and faster time-to-market

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Excursus exemplary benefits: The benefits of TOM design can be measured along business dimensions

Commercial Benefits of TOM



Slice the elephant: We do not have to change all at once – TOM redesign in 4 phases limits organisational stress and increases success rates

Typical Stages for TOM Improvements

Phase 1 Strategic guiderails and status quo Phase 2 TOM Design & business case Phase 4 Road mapping

1a **Define most important TOM**

 Develop strategic guiderails based on strategy, options, nogo's, prioritisation - this includes performing a market scan

inputs

 Identify business model elements and their influences on a best-in class operating model

Define key elements

2a

2b

- Design key processes. organizational elements. responsibilities, capabilities, etc.
- Benchmark for best model

Phase 3

Detailing

Detailing if

necessary /

individual

level

process and

responsibility

wished for on an

Challenge for "most bang for the buck"

Business Case

- Evaluate value drivers, saving potentials and business case
- Determine timings of effects

Designing roadmap for implementation

A first high-level roadmap including milestones should be developed after phase 2, while the more indepth planning can only be completed once phase 3 has ended

- Set time horizon / milestones
- Slice and dice actions do not do all at once
- Define responsibilities and stakeholders
- Plan capability build-up
- Align prioritization ("most bang for the buck")
- Focus on quick wins early

Understand status quo along all **TOM dimensions**

- Understand (if available)/ describe existing ways of working/pain points
- Challenge set-up for "fit for purpose"/ "best in class"

The **set-up** of a detailing phase commonly **varies** over time with decreasing external support due increasingly enabled internal resources - TOM projects can only comprise phases 1, 2 and 4

Source: OC&C analysis

Our experienced senior team in Target Operating Model projects

Team CVs



Dr. Andreas EndersPartner

Curriculum Vitae

- >21 years of strategy consulting experience (OC&C; EY-Parthenon Leader Europe West)
- Deep experience in business model transformation and target operating model design across industries

Exemplary Project Experience

- >50 business model transformation and value creation programs
- Target operating Model designs in various industries (retail, B2B, steel, life sciences etc.)
- Development of functional target operating models along the entire value chain from R&D, procurement / catman to sales / mkt
- Realization of commercial impact trough new target models (integration / simplification etc.)



Dr. Jörg Schäfer Partner

Curriculum Vitae

- >16 years of strategy consulting experience (OC&C; EY-Parthenon)
- Comprehensive experience in the interface of retail strategies and operational / supply chain implications along the value chain

Exemplary Project Experience

- Large scale strategic transformations and TOM projects in fashion and retail
- Development of TOM for large E-Com fulfilment service provider
- Development of functional TOM in eg import logistic for large global grocery discounter
- Development of new logistics footprint and network strategies for large E-Com Player across many processing types
- Business model, investment case and make or buy decisions for transport logistics player



Lukas Kruse Manager

Curriculum Vitae

- With OC&C since 2024, 6 years prior experience with EY-Parthenon
- Focus on strategy development and transactions in the retail industry

Exemplary Project Experience

- Group logistics provider: Design the new Target Operating model for the new business division focused on external customers
- €70b food discounter: Led a team in supporting the international M&A strategy including target identification, business case calculation and synergy identification
- €3b global energy project company: Defined a new target operating model for the globally operating project offices including both frontand back-office functions



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