



Target Operating Model

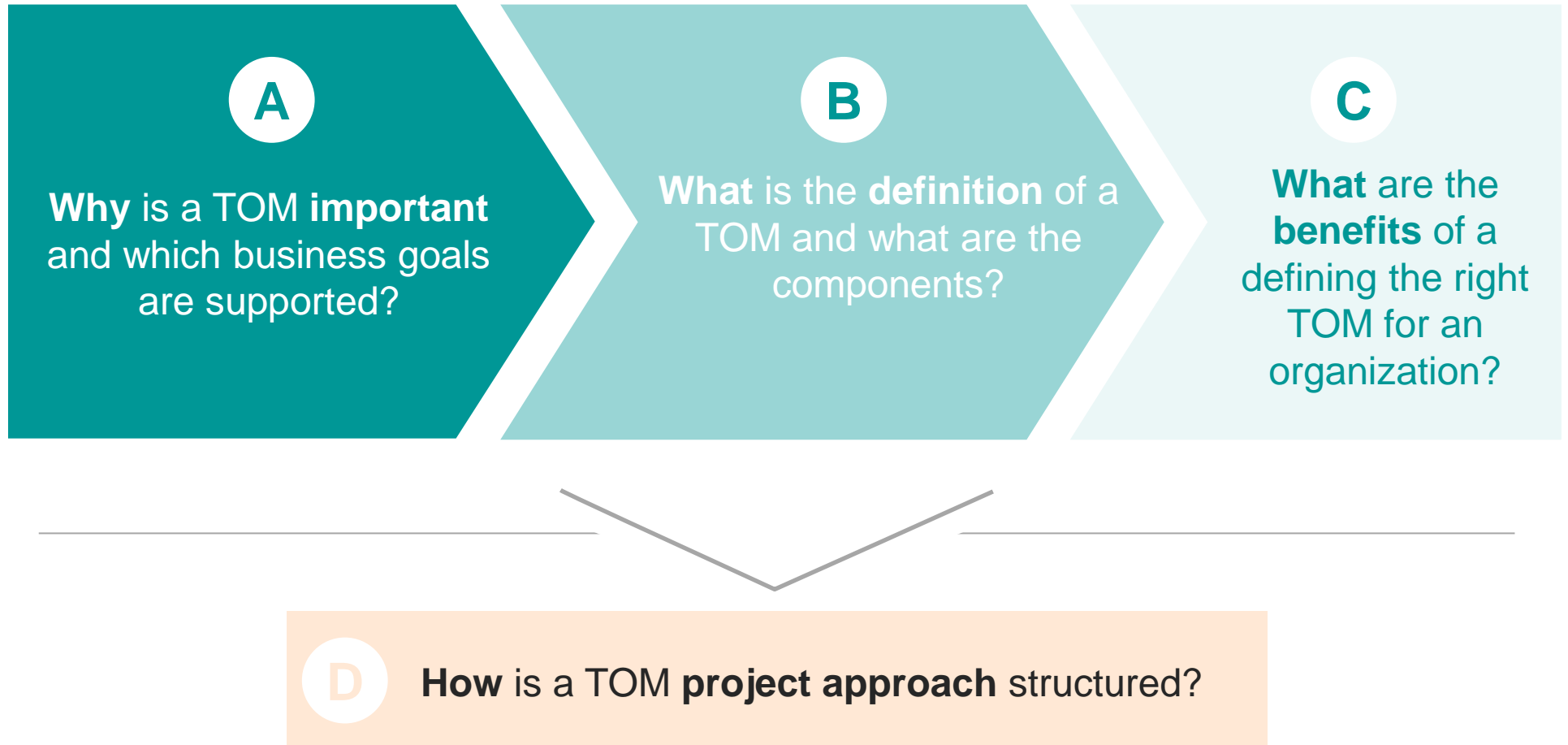


October 2024



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



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)
- **Events** with far-reaching implications on target operating models (TOM):
 - 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

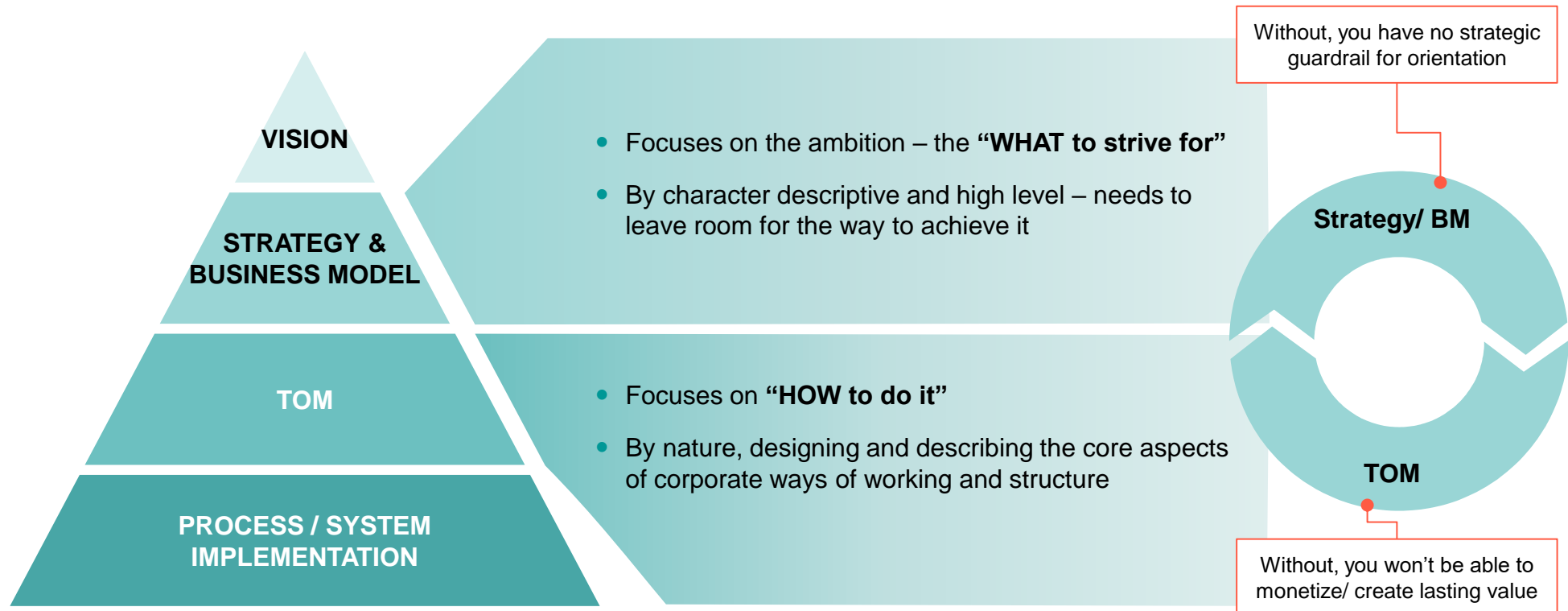
Increasing pressure drives a **need for change** within companies

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

Challenge:
How to design a best-in-class TOM?

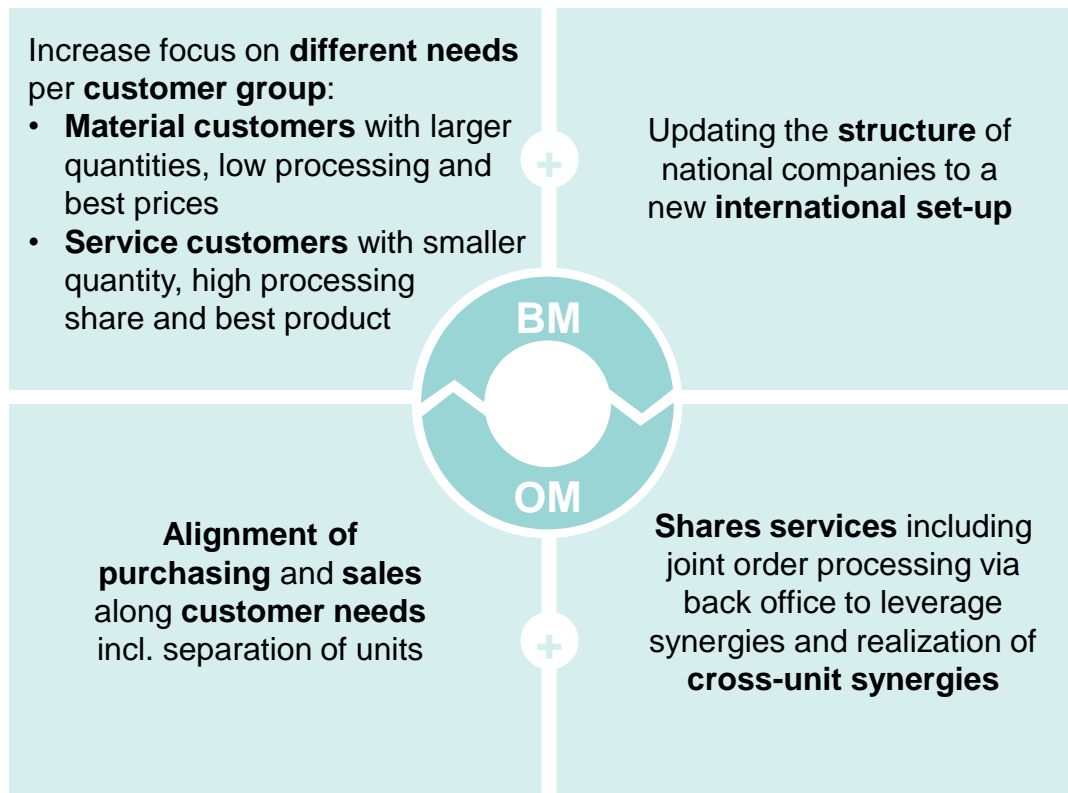
Without translating your business model into a robust Target Operating Model, you won't be able to monetize on your strategic goals

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

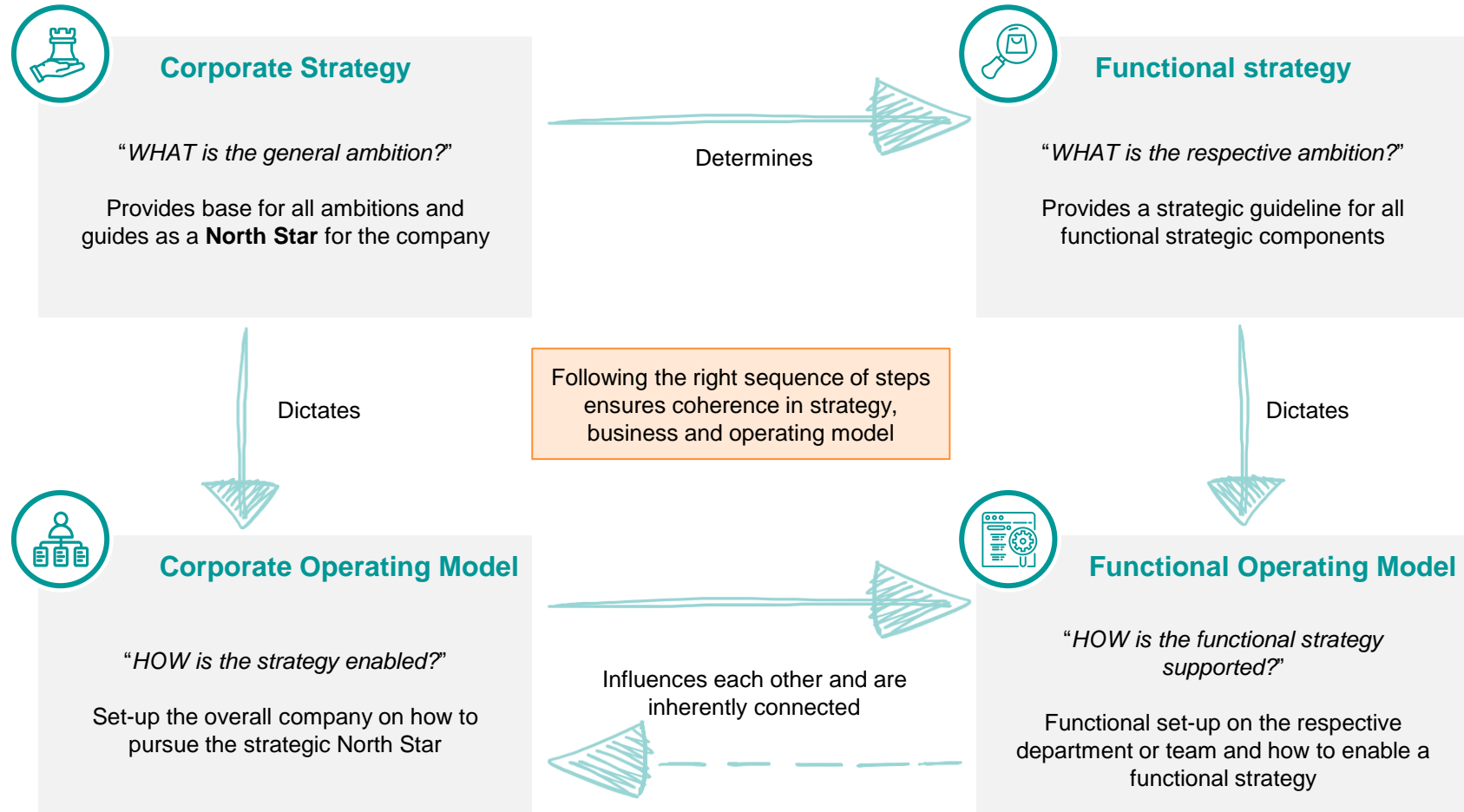


Impact

- **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

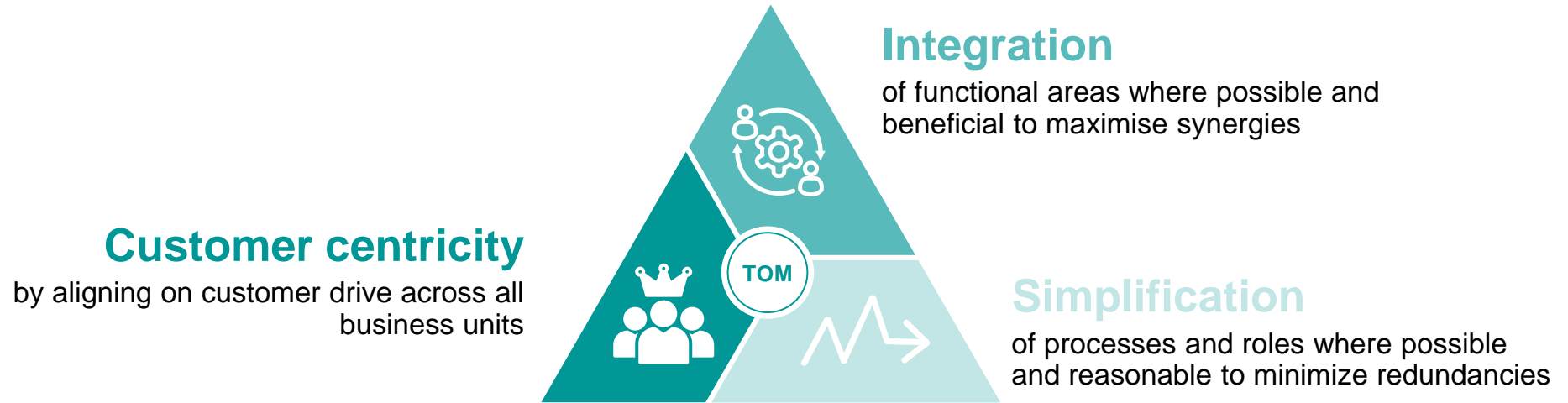
Backup: The strategy needs to be aligned between the corporate and functional strategy with underlying operating model

Interplay of corporate and functional strategy



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

Business goals of TOM



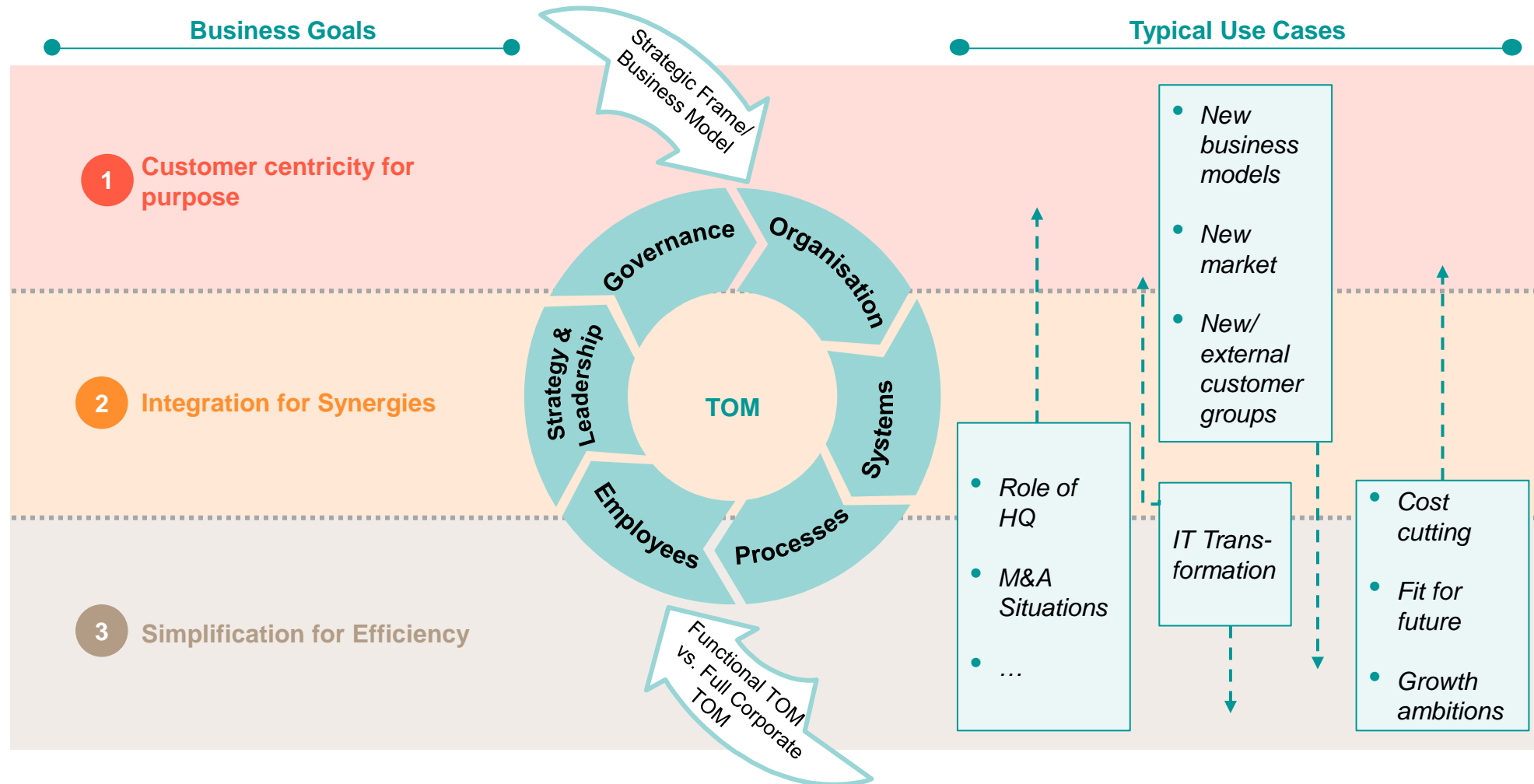
Customer centricity is a TOM goal as the TOM aligns departments behind the target to enable **optimal customer value**. The company value proposition is meaningless if it is not included in all processes. Towards the customer the company acts as **SINGLE point of contact** independent of the demand.

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 proves 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
- Map **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

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

- 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

Unlocking new revenue potential of €300m

Unlocking new revenue potential of €25b

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-to-end, 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?
-

Employees and Talent

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

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?
-



Governance

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

Organisational Structure

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

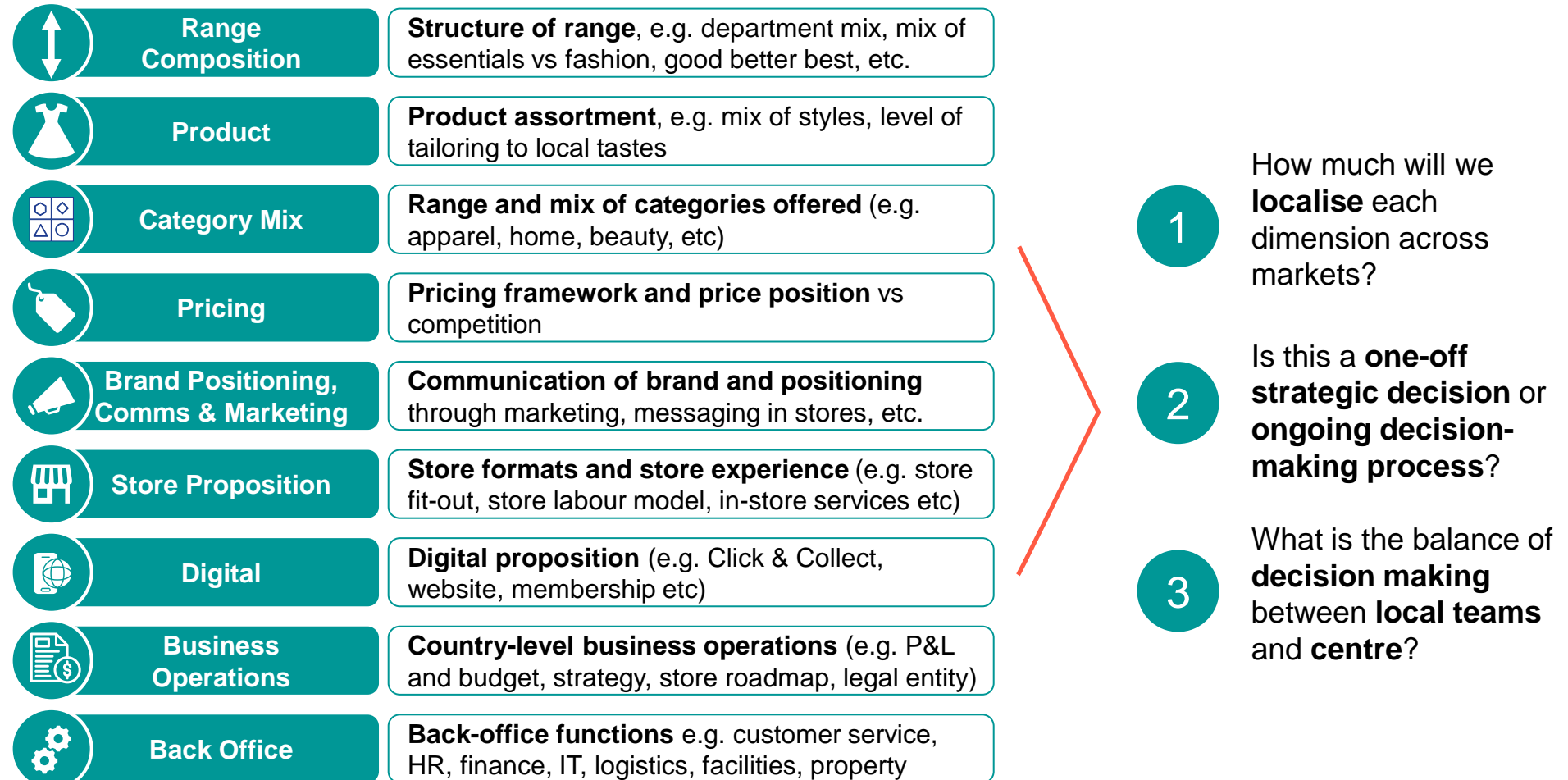
Enabler: Systems and Technology

- Which capabilities and features are necessary?
-

Not all dimensions have to be adjusted in every TOM project – the assessment can justify keeping the status-quo

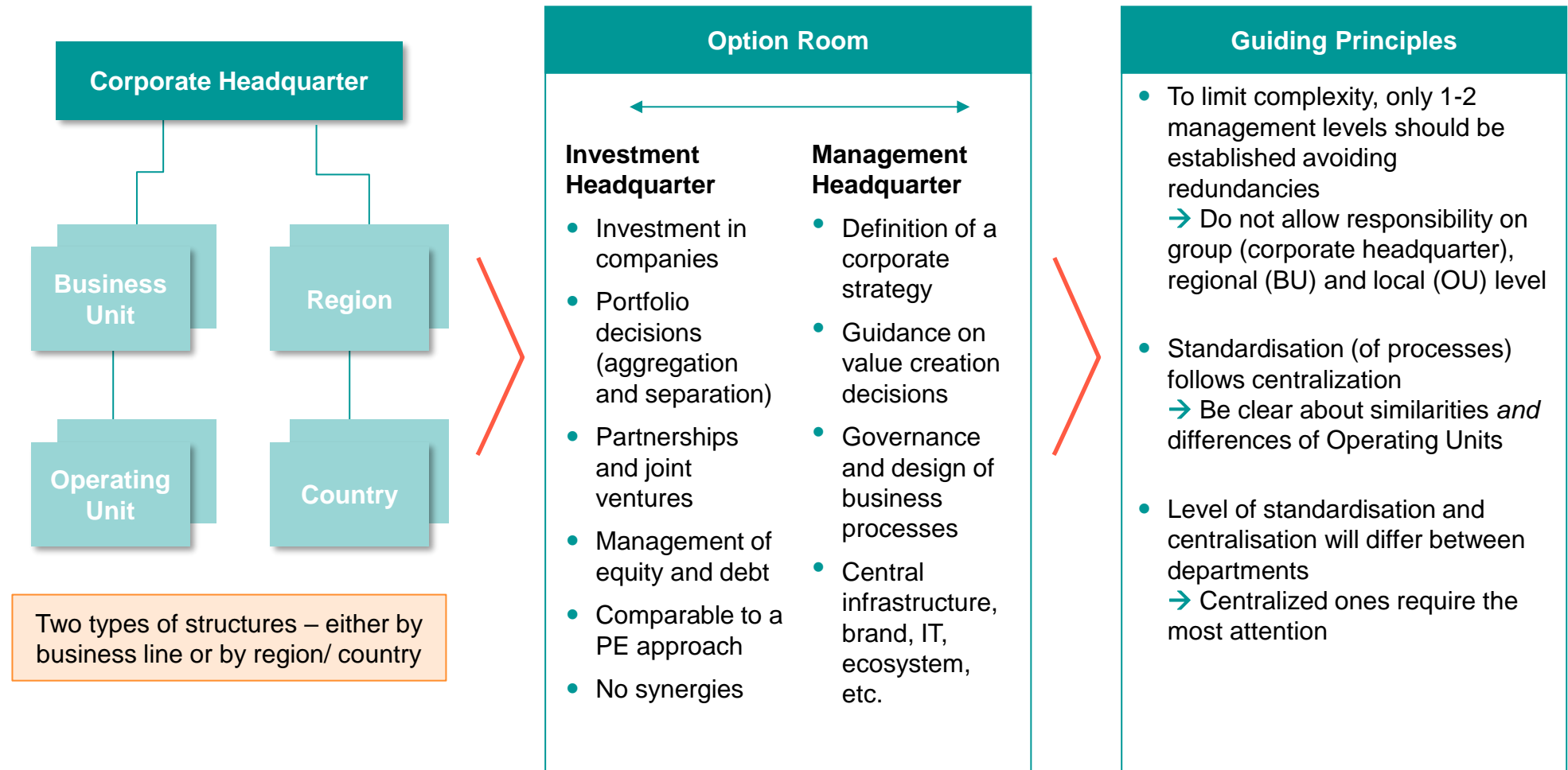
Excursus Retail player: The degree of the right degree of localisation is a critical dimension to consider in designing a Target Operating Model

Global vs Local – Elements of Proposition that influence TOM



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

Role of Corporate Headquarter



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				
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	x	~	✓
	Focus on Easy Countries	x	~	✓
	Lean	x	~	✓
	Speed of Decision Making	✓	~	x
	Incorporation of Local Requirements	✓	✓	x

Only voluntary

Holds risk, that small countries demands are ignored)

1. For some departments low, for others high

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
- ...



Integration

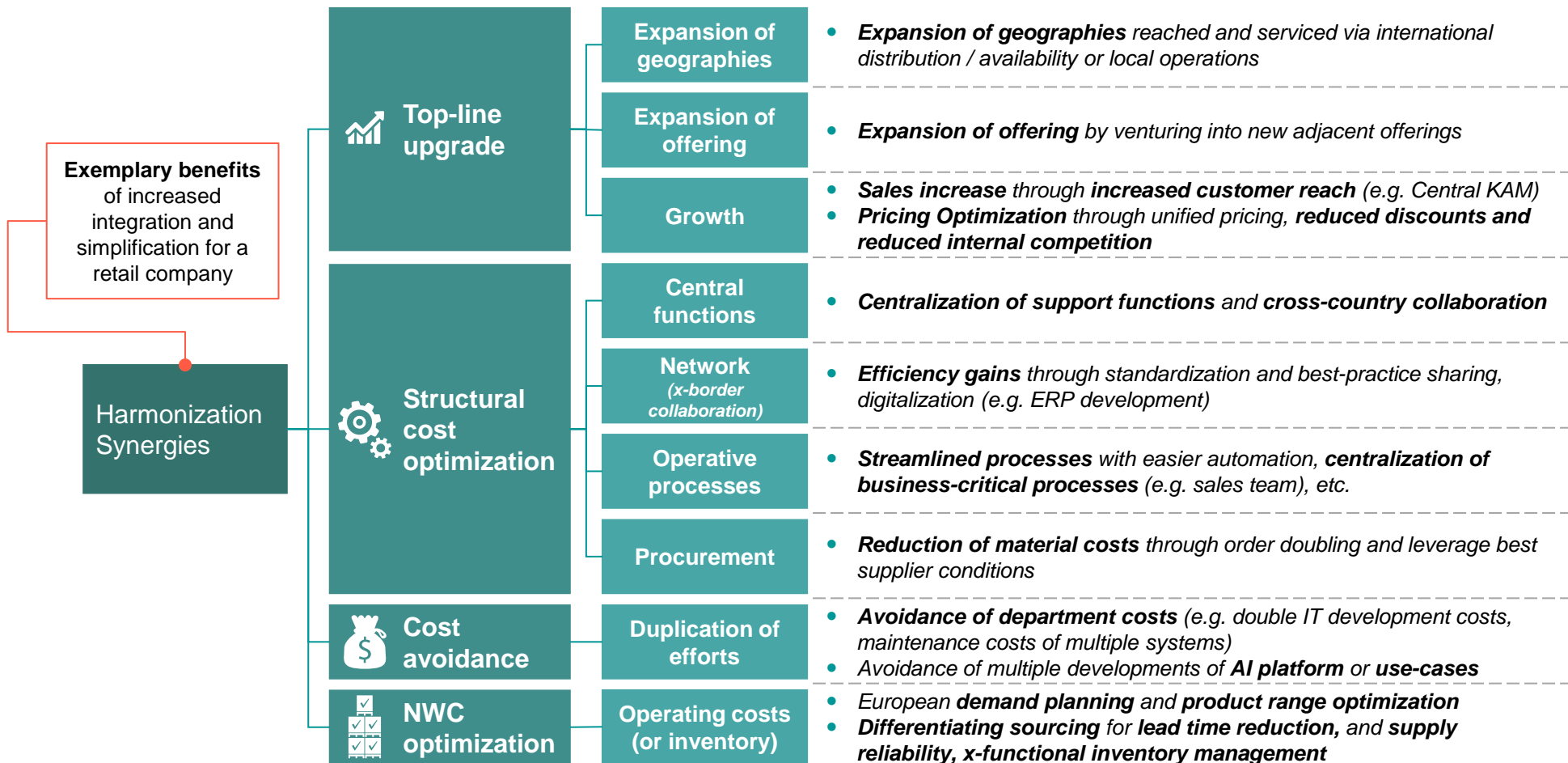
- Reduce cost by increasing the harmonization in end-to-end processes
- Realize synergy potential across units by eliminating redundancies
- ...

Simplification

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

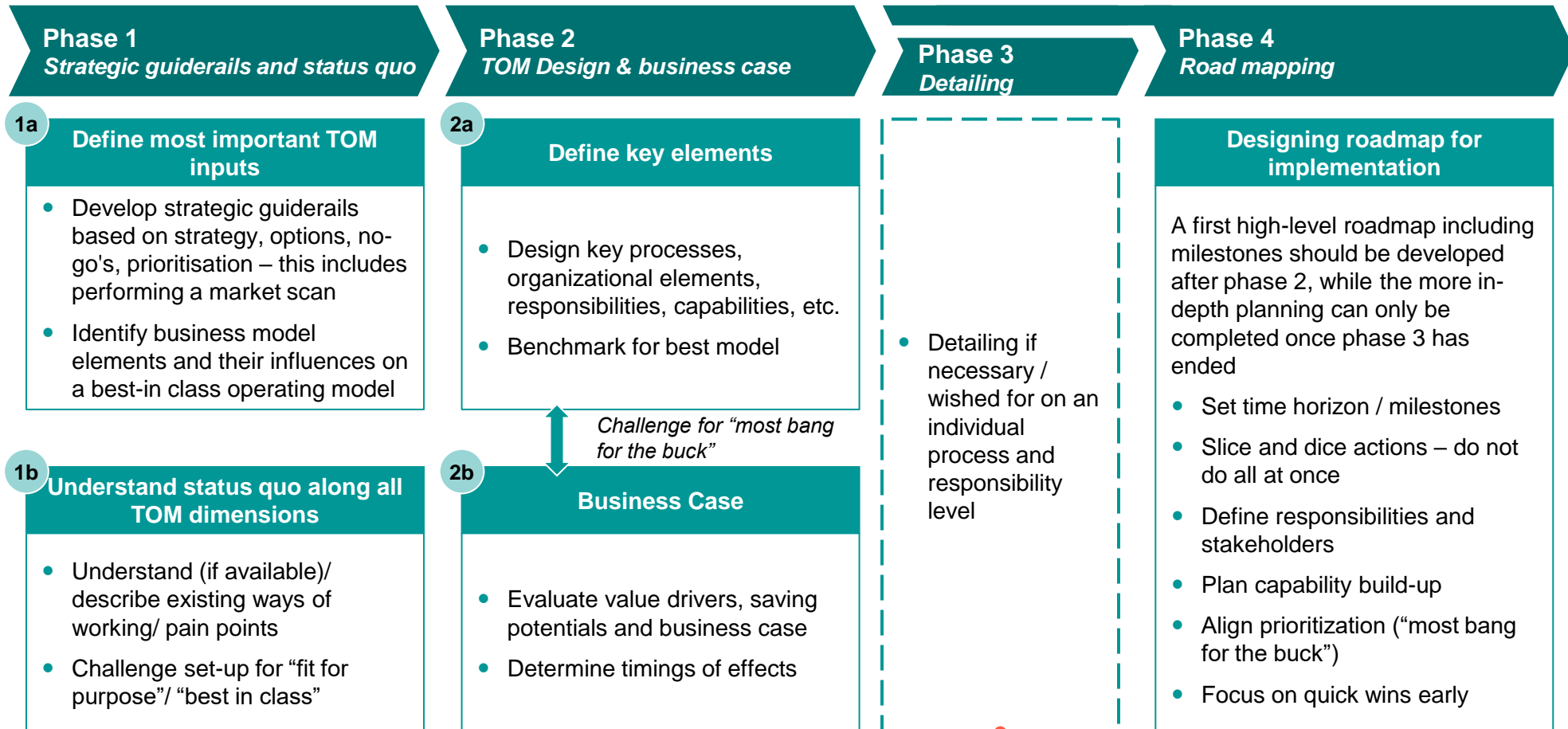
Excursus exemplary benefits: The benefits of TOM design can be measured along business dimensions

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



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

Our experienced senior team in Target Operating Model projects

Team CVs



Dr. Andreas Enders
Partner

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 through 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 front- and back-office functions

OFFICES

Belo Horizonte
Boston
Dusseldorf
Hong Kong
London
Melbourne
Milan
Munich
New York
Paris
Rotterdam
São Paulo
Shanghai
Sydney
Warsaw

Key contacts

Dr. Andreas Enders, Partner
+49 173 5664586
Andreas.enders@occstrategy.com

Dr. Jörg Schäfer, Partner
+49 173 5664758
Joerg.schaefer@occstrategy.com

Lukas Kruse, Manager
+49 173 5660407
Lukas.kruse@occstrategy.com



occstrategy.com
uncommon sense™