2X BY 2020: DEVELOPING A GROWTH ORIENTATED MODEL

Answering the three questions that help you translate your growth plan into profits, not complexity. By **Stephen A Wilson** & **Andrei Perumal**

"We want to double our revenues by 2020." If that's the mantra at your organisation – as it is for many following a period of decline or tepid growth – you are likely to be already wrestling with the elephant in the room: Just how exactly to achieve this?

First, there is the *strategic* feasibility to consider: in order to achieve this target, what would that imply for your future market share? How will you compete and differentiate to achieve this? What is the basis of belief to support a new market entry?

Second, there is the *organisational* feasibility: In short, is your operating model fit for purpose? This is where many companies falter. (By operating model we mean something specific: how you are configuring your organisation, people, processes and technology to deliver on your strategy). Many are so consumed with answering the first set of questions that they overlook the second. They assume that the operating model that helped them grow this far will see them through their next wave of growth.

But that would be to underestimate the nature of growth that we have witnessed over the last decade and the complexity that companies face in executing their growth agendas.

Three critical sets of decisions

The good news is that the work to assess and, if necessary, re-invent your operating model, requires clarity around only three major sets of decisions:

- What is the scale-able customer offer? (strategic portfolio vs. organic portfolio)
- Where is work done and who makes decisions? (centralised vs. decentralised vs. hybrid)
- How is work done? (standardised vs. bespoke processes)

The right customer offer (strategic portfolio vs. organic portfolio)

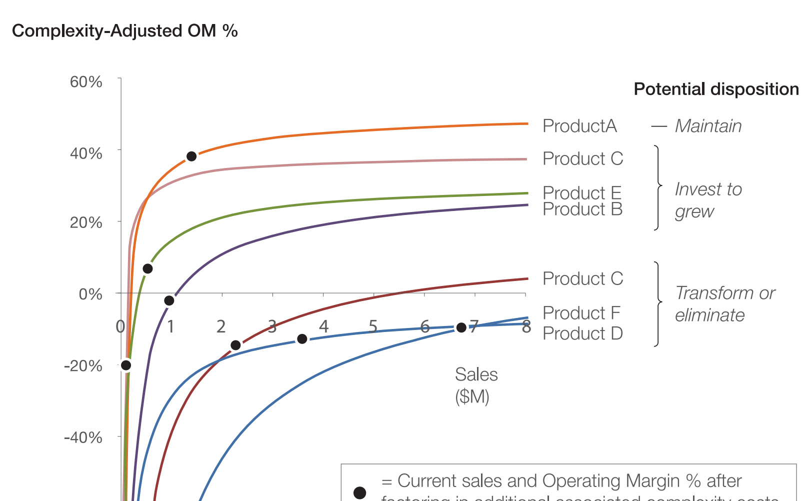
Your operating model is the bridge between your strategy, on one hand, and your organisation and processes on the other. The right customer offer, as articulated in your product and service portfolio, is the area that most frequently falls between the cracks. For example, between the strategic decision to "grow the medical devices business in China" and your supporting sales processes, there is a significant space which, left untended, can become overrun with a proliferation of products and services.

Hence the first set of questions to explore is: What is the right portfolio for scaling, that is supportable at customer-set service levels, and which represents a winning level of breadth and depth? Implicit here are two facts: 1) in most companies there area high levels of profit concentration (representing the opportunity for focus) and 2) in all companies, there are resource constraints.

Therefore, to achieve growth in new markets, with new products, with new ways of servicing customers, it requires a more deliberate and effective use of resources.

ASSESSING THE "SCALE-ABILITY" OF YOUR PORTFOLIO

In this example, this industrial company wanted to assess both the current operating margin of its product segments, after factoring in the associated costs of complexity, but also the pontential impact of scale on profitability. The findings were not atypical: some segments (A) were profitable today and got better with scale. Others were borderline today but improved with economies of scale (C,E,B). Finally, there were segments that even at significant higher volumes failed to become profitable, due to the inherent cost structure of these products or associated production/delivery complexity.



Where work is done (centralised vs. decentralised vs. hybrid)

The second set of questions, when assessing your operating model, relates to *where* work should be done, and related to this, *who* should be making decisions, in order to build scale with growth. This often retreats to a discussion of centralisation vs. decentralisation.

We argue that it's not only a false choice but a *dangerous* one, as it can lead companies to neglect customer needs and insights in the pursuit of scale economies, or conversely, become awash in complexity in the name of customer responsiveness. Both paths lead to poor outcomes. Instead, we suggest a different route: understand where scale truly matters in your business, create mechanisms for capturing and leveraging customer insight (without creating complexity), combining both to create a profitable business with good economics and competitive differentiation.

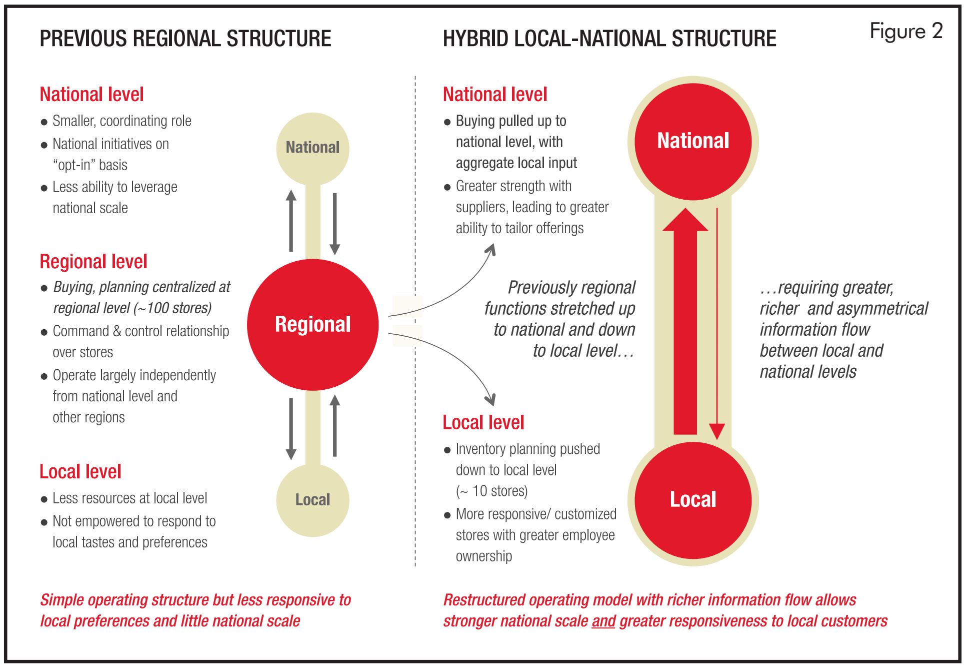


Figure 2

As simple as that sounds, it is hard to do. That is why the *My Macy's* initiative, launched in 2008 by retailer Macy's, is so notable. Before the restructuring, Macy's was both "complicated and cumbersome" according to Jim Sluzewski, Senior Vice President. As a result, buying decisions were fragmented and the company missed scale opportunities. At the same time, decision-making was slow. This all changed in 2008, when Macy's consolidated its seven semi-autonomous regional divisions into four, and in 2009, combined the four into one truly national organisation. The company unified core functions such as finance, human resources, marketing and buying in New York and Cincinnati. In total, the restructuring eliminated about $500m in annual operating expenses.

The company preserved a team of 1,600 former buyers who were redeployed to 69 local markets, where they now work in teams of two to manage merchandising and planning decisions for clusters of 10-12 stores. Previously, the buyers were responsible for as many as 100 stores. The new structure allows Macy's to better identify local variations in taste and customer behaviour through the merchandisers and planners, and also better respond to that information by co-ordinating across their national network and pooling buying power at the national level. (*See Figure 2*)

How work is done (Standardised vs. bespoke processes)

The third set of decisions focuses on how work is done: how robust and scale-able are your processes? What can be standardised and what needs to be bespoke? Driving growth on a platform of bespoke processes will inflate costs and/or lead to customer service issues.

For global retailer Tesco, its decision to move to an operating model was as much about seizing a global growth opportunity as it was about driving out waste and cost. They have standardised a single way of working for a large number of defined processes, such as listing products and suppliers, setting prices, ordering, distribution, keeping track of finances, and payroll.

This means that upon entering a new market, Tesco can focus "bespoke" efforts around market-specific understanding, while leveraging the scale of the larger organisation.

What brings it together: Coherence

For many companies, achieving a big audacious goal like 2x by 2020 will require significantly higher levels of coherence than have existed in the past.

There are two types of coherence here that matter: 1) Between your strategy and your Operating Model. The reason why Operating Models are often slack or poorly designed is due to an unclear enunciation of your strategy and the basis of completion. How will you win? What does your Operating Model need to deliver in order to help you win? And 2) Coherence among the various elements of your Operating Model, as they are all integral parts of one system.

So, where will be you be by 2020? Focus on these three sets of questions to start your assessment and ensure that you have the right model in place to help you capture growth. ■

Further information

To find out more please visit: www.wilsonperumal.com

ABOUT THE AUTHORS

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