DEFINE YOUR OPERATING MODEL pdf

1: Target Operating Model | Deloitte Luxembourg | Strategy | Services

Definition. There are different ways of defining the elements that make up an operating model. People, process and technology is one commonly used definition, process, organization and technology is another, and Process, Organization, Location, Information, Suppliers, Management system yet another.

Definition[edit] There are different ways of defining the elements that make up an operating model. People, process and technology is one commonly used definition, [1] process, organization and technology is another, and [2] Process, Organization, Location, Information, Suppliers, Management system yet another. An operating model breaks this system into components, showing how it works. It can help different participants understand the whole. It can help leaders identify problems that are causing under performance. It can help those making changes check that they have thought through all elements and that the whole will still work. It can help those transforming an operation coordinate all the different changes that need to happen. An operating model is like the blueprint for a building. It is more dynamic than a building blueprint, with changes occurring regularly. Also, an operating model is not usually just one blueprint. There are likely to be blueprints for each element: An operating model can describe the way an organization does business today â€" the as is. It can also communicate the vision of how an operation will work in the future â€" the to be. In this context it is often referred to as the target operating model , which is a view of the operating at a future point in time. Most typically, an operating model is a living set of documents that are continually changing, like an organization chart. A business model describes how an organization creates, delivers and captures value and sustains itself in the process. An operating model focuses on the delivery element of the business model. There are plenty of disagreements about the use of the words business model and operating model. It can also be used at a much more micro level to describe how a department within a function works or how a factory is laid out. An operating model is one of the tools that leaders can use to help them formulate and execute strategy. Typically work on an operating model starts after some strategic plan has been proposed. It translates that plan into operating requirements and decisions and often also contributes to the plan by showing areas where the plan will be hard to implement. In this framework, the operating model describes how the organization will implement the strategies and tactics that have been defined in the mission model, business model and value model. Through work on the operating model, leaders can think about the capabilities the organization will need to successfully transform. It shows the different delivery chains and how they are linked together or need to be kept separate. The organization model shows how the different value chains are structured into an organization and includes the support functions, such as Finance, HR and IT. Additional maps and charts are often needed. For example, an operating model will typically include an IT blueprint, locations maps, a supplier matrix, people models, decision grids and other elements such as a performance management score sheet. The particular set of documents created will depend on what the operating model is being used for. There is no generally accepted set of charts or at least there is no agreement yet about what charts make up an operating model. The Operating Model Canvas is a tool that displays an operating model on one page [12] [13] As conditions and strategies change operating models need to change. Business architects, who typically help design the target operating model , ensure that change is managed in an orderly way. Technology, such as digitization, big data analytics and robotic process automation are causes of operating model change. Operating models are also changing to accommodate new ways of working, such as "agile". Scott who developed a model of the stages of corporate development. Following this work, Leonard Wrigley [17] and Richard Rumelt [18] developed ways of classifying company structures and comparing their strategies. They identified four different operating models: The nomenclature evolved, but the categories survive: Issues are formulated centrally and tailored for local needs to optimize the business. Success is measured by adding up the global numbers. Common interests are worked across businesses. Some support work may be shared across businesses. Customers may be shared. Common interest are worked across businesses. Capabilities that portable to other businesses are shared for leverage. The units are tied together only by ownership. Examples include Tyco International. Some implications of the choice:

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2: Designing Operating Models | Strategy and Execution | Hult

2. Define Your Operating Model. GENERAL H. NORMAN SCHWARZKOPF once observed, "Leadership is a potent combination of strategy and character. But if you must be without one, be without the strategy." 1 Few business executives would be comfortable leading without a strategy.

Posted on June 12, by andrew campbell Over the years, I have become convinced that a value chain map is a more powerful and more easily accepted starting point, both in consulting and teaching , for operating model work compared, for example, to a capability map. This blog explains what a value chain map is. A Value Chain Map is a high-level process map or value stream map: I prefer the term value chain because it reminds me that we are trying to link operations to strategy. But any other term is acceptable so long as the tool does the same thing. Ashridge Business School provides tailored courses for executives, open courses, qualifications courses, research papers and books and even weddings using our beautiful building. An HR function might provide talent development, recruitment, remuneration and organisation development services. A factory might produce standard products and specials. Figuring out the best way of defining the value propositions is not a trivial task see separate blog. Should I think of Ashridge as offering courses, research papers and weddings, or should I think of Ashridge as offering open courses, tailored courses, qualifications courses, etc, or should I think of Ashridge as offering finance courses, marketing courses, leadership courses, etc, or should I think of Ashridge as offering 1 day courses, 2 day courses, 3 day courses, etc? The answer should come from the strategy: If the strategy is silent on this issue, it is probably better to work on strategy than on operating models. Armed with a way of defining the value propositions, lay out the high-level process steps needed to create each value proposition. The reason is that you need to be able to hold the whole Value Chain Map in your head at one time; and a matrix of 36 6 value propositions with 6 process steps each is about the maximum you can cope with. It is always possible to go into more detail later, as needed. When you have done high-level process steps for each value proposition, you can then create a Value Chain Map. Draw the process steps as chains of chevrons along the horizontal, placing different chains above or below each other. Then arrange individual process steps into columns of like capability. Exhibit 1 Once created, additional information can be added to the value chain map see exhibit 2. Identify in which chevrons the organization currently has difficulties or is under performing. For these problem chevrons, it is often helpful to go to the next level of detail: Exhibit 2 However, the main benefit of the Value Chain Map is that it provides a visual background for considering organization structure. The people doing the work in each chevron of the map could report in two ways: So, the people doing course design for open courses at Ashridge, could report to the head of open courses or to the head of course design for all types of courses. Fortunately, there is a rule of thumb to help you decide which way the people should report. The rule says that the default reporting line should be along the value chain the design people for open courses should report to the head of open courses , unless significant improvements can be made to the value proposition by reporting in a different way. In other words, report along the value chain unless reporting by capability significantly lowers cost or significantly improves the value delivered. The reason for this rule of thumb is that it is easier to create the value proposition and adjust it to match changing customer preferences, if all of the people doing the work for this value proposition report to one person and are focused only on delivering this value proposition to this customer type. The rule of thumb means that the onus is on those who want to organize by capability to create a convincing business case. If in doubt, report along the value chain. The wonder of the Value Chain Map is that it gives a visual representation on one page, of the core work that needs to be done to deliver the products or services; and it provides the platform for thinking about organization structure. With a picture of the core work of the organization and how this work should be structured, you are already half way to an operating model.

3: Eight Models of Business Models, & Why Theyâ€™re Important | Tim Kastelle

operating model may work for a complex organization, and a detailed operating model may work for a smaller organization. This would be driven mainly by the objectives and.

Insurers Attack the Target-Operating-Model Opportunity This incremental approach might seem to work for a while, but it leaves managers at increasing risk of being left behind. Clients and products proliferate, new markets are entered, footprints extend globally, and acquisitions bring new technologies that are patched onto legacy systems. In the new new normal of regulatory overload, shifting investor preferences, and competitive digitization, such haphazard evolution can quickly morph into a cripplingly complex tangle of systems and processes. Most asset managers try to get by with such patchwork operating models. But they are light-years from achieving the enormous potential benefits of a strategically conceived target operating model that leading competitors have defined for themselves and are moving toward. Broadly defined, a target operating model is an overall operations and technology ecosystem that allows a company to chart a path for achieving its strategic vision on the basis of its priorities and starting point. Shorter time-to-market cycles due to greater agility in launching new businesses and trading new products Better ability to ramp up volume quickly at minimum marginal cost Increased client satisfaction due to a more transparent and compliant operating model Superior investment performance, from focusing investment management resources on priority growth areas and supporting them with tools, data, and insight Reduced risk from a more controlled and stable operating environment Greater long-term cost-effectiveness In contrast, managers who fail to act might lag behind as they deploy increasingly greater resources simply to manage the tangle. In many cases, inaction inhibits growth because of the exponential costs of adapting technology and processes to the flow of new regulations; the inability to trade in new asset classes, markets, and locations; and an increased operational risk profile. Many asset managers invest insufficient time in defining how they will translate their strategic vision into an operating model that takes into account their starting point, resources, and priorities. The path to achieving that goal begins by creating a target operating model. The answers to the following questions can help frame the process: What is your business strategyâ€”in broad brush and detail? What markets, products, and segments will you compete in? How do you implement your investment philosophy to win? What is your differentiated client value proposition? Once the company has agreed on its strategic vision, it will need to analyze its operating-model ecosystem in order to define how to achieve the vision. Ecosystems vary by company, location, and asset type. Our definition of operating model is based on three elements: These three elements translate into a series of far-reaching business questions and decisions for the front office including the level of sharing across trading platforms , middle- and back-office operations such as the appropriate degree of outsourcing and centralization , and the enterprise data group including governance and the level of real-time integration. However, agreement on these optimization goals must be explicit and shared at all levels of the organizationâ€”not just within the operations and technology silos. The relative weight to assign each of these design choices varies by manager and asset type. For example, a manager of passive products would focus on responsiveness, scale, and efficiency. An active asset manager would likely stress a flexible and adaptive model. An asset owner might emphasize the importance of having a single view of performance and risk across investments. Truly world-class operating models will deliver value across multiple elements, reconciling often opposing forces such as scalability and flexibility. To illustrate, we have selected four operating models that we find particularly interesting and innovative. Although these models must be consistent with the objectives of a particular company, their core characteristics have valuable lessons for other asset managers. Outsourcing core processes and technology has become standard, but in many cases, asset managers decide to keep some aspect of quality control and oversight in-house. The goals are to focus on core activities and improve risk management culture and practices through increased independence and better quality control. Shadow outsourcing also makes it easier to switch outsourcers. Now a small number of hedge funds have begun to outsource this shadow responsibility, using two providers simultaneously. This model merits consideration by traditional asset managers as well. It also responds to emerging regulatory requirements in Europe and the U. The outsourcer model is structured so that an execution partner and a shadow partner operate and control, respectively, the middle- and back-office operations. The execution partner is responsible for operating those functions and manages the official books and records. This model removes the requirement to maintain an internal oversight team and the associated technology and tools required to perform a controlling function for the most critical and risky activities. Variations of the model range from full shadow to light shadow. Both outsourcers operate the full scope of processing and accounting, although only the primary outsourcer interfaces with counterparties. The shadow outsourcer duplicates and verifies only the most critical functionsâ€”such as valuation and reconciliationâ€”which are typically replicated in-house. This model is less costly and simpler to implement, but it provides limited switchability. Cost is among the obvious questions about the dual-outsourcer model. The usual, though incorrect, expectation is that two outsourcers cost twice as much as one and, thus, that having two is financially prohibitive. This notion fails to account for the true costs of personnel, technology, maintenance, network hardware, and office space that come with internal shadowing. On the basis of service provider discussions and our modeling, we believe that the dual-provider model can deliver significant additional value of 5 to 25 percent more than the all-in cost of the single-outsourcer model with an in-house shadow operation. In the long run, the cost of maintaining an up-to-date internal shadow function will continue to grow. These rising costs, coupled with the increasing scale of the outsourcers, will likely drive the cost benefit even further. The value of the dual-outsourcer model is compelling because it provides the following benefits: Increased transparency and independence in client-sensitive areas of positions and valuations, whose importance was highlighted by the recent crisis Quality assurance that is the result of having two reputable independent outsourcers A healthy competitive tension between outsourcers, supporting ongoing service quality Evolution of internal roles from processing to higher-value and differentiated strategic-partner management Elimination or reduction of ongoing technology investments Ability to switch providers quickly if an outsourcer does not deliver the expected level of service or goes out of business The dual-outsourcer model is very new. However, we do believe that it has potential appeal for sophisticated managers and asset owners as well as large hedge funds. The Global Operating Model: Global Scale, Local Customization. This model aims to achieve twin objectives: The global model is also a powerful means of creating a template for future expansion to new regions. This model relies on a global infrastructure comprising core, fully integrated front-to-back systems, single repositories for reference and market data, and common operational processes. The industrialization of systems, repositories, and processes creates scale benefits while accommodating the customization required by individual investment-management teams and regions. Another benefit is the creation of shared services of critical functionsâ€”such as data management, technology, and recon-ciliationsâ€”in lower-cost locations as a way to build scale and reduce unit cost. However, location-dependent functionsâ€—such as trading and regulatory reportingâ€—and those needing proximity to portfolio managers or clients remain within local or regional hubs. The Utility Operating Model: After investing heavily, the manager created world-class middle- and back-office operations that would have value for others and looked for ways to pool future costs and investments and to generate additional revenues. The solution was to turn the multiyear investment into a service-providing business. Two functions that differentiated the companyâ€—front office and dataâ€—were of course kept off limits. Delivering on this goal requires a technology-heavy operating model and a real-time data capability feeding a modular technology and operations platform. This last model reinforces the strategic importance that data occupies in target-operating-model transformation. In many cases, transformations are enabled by data infrastructure. Mature data-management practices are formidable enablers that allow a high level of automation and near-real-time analytics. We classify data maturity into three levelsâ€—controlled chaos, managed, and optimized. See the exhibit below. This implies that most managers have not yet embarked on formal data-management programs or that they have done so only with single, localized initiatives. Nonetheless, managers overwhelmingly recognize the value of improving data management practices. The majority of our respondents were in the lower levels of maturity, but all planned to achieve high levels within three years. For most, this will mean a step change advance, requiring substantial attention and investment, from where they are today. Better data management has the potential to enable operating-model improvements in several ways. On the revenue side, data management can create flexibility in investment strategies and improve investment performanceâ€"for example, identifying trade opportunities by mining social-media preferences or integrating risk management analysis across locations and asset classes. It can improve customer acquisition through more targeted marketing while supporting a better customer experience through a customized and all-inclusive view of holdings. On the cost side, leaders in data management can improve efficiency by removing manual processes from data cleaning and consolidation. They can achieve flexibility and scale in navigating market changeâ€"including meeting new regulatory reporting requirements, introducing new asset classes, and delivering custom client reporting. For most organizations, the step change required to extract the most value from data can be achieved only by undertaking a data transformation. Companies embarking on a data transformation face the challenge of balancing investments in both foundational initiatives and improvements that support business needs. In weighing these trade-offs and to achieve success, companies must be sure that data transformations are clearly aligned with business strategy so that foundational initiatives can be traced to a business need. Successful organizations will capitalize on data improvements and derive significant business benefits. But the road to achieving a state in which data is a strategic asset can be difficult. Data improvement programs risk morphing into multiyear IT-investment projects that are costly but lack clear business benefits. Seizing the Moment Target-operating-model transformation is a multiyear journey, not a big-bang, do-it-all-now endeavor. Indeed, although transformation must be aggressive, it should entail a series of realistic and achievable steps. Each step should deliver clear and tangible benefits to clients, to the business, and to overall financial results. Several actions are crucial to the success of a target-operating-model transformation program: Lead from the top. It should be championed by the CEO and regularly discussed by the management team. Anchor to business priorities. Target-operating-model transformation is much more than an IT or an operations transformation. It is a critical enabler for the business, especially for front-office professionals. Their buy-in and engagement throughout the transformation is crucial. The transformation will need to deliver tangible results early and have a self-funding business case. Involve the A-team, both internal and external. A target-operating-model transformation is a large and complex project involving business, operations, IT, and corporate functions. It requires the best talents internally as well as deep partnerships with vendors, including outsourcers, IT vendors, integrators, and strategic advisors. Now is the time for asset managers to redefine their operating modelâ€"from top to bottom. Many have started the journey timidly, focusing only on the back office rather than committing to a complete transformation. In a rapidly evolving industry, asset managers that invest the resources to transform their operating model will differentiate themselves among clients, enable superior performance and growth, and capture market leadership.

4: Differentiation Begins With a Target Operating Model

The operating model concept requires that management put a stake in the ground and declare which business processes will distinguish the company from its competitors. It's a holistic.

One of the confusing things about the business model concept is that there are a wide variety of models of business models, and it seems as though everyone that talks about them makes up a new one. This can be frustrating if you are trying to figure out how to use the concept. At their core, all business models address this questions: In a special issue of the journal Long Range Planning , Charles Baden-Fuller and Mary Morgan say that business models can serve three different purposes. They can describe different kinds and types of businesses. This is critical if we are trying to study them analytically. They can be short-hand descriptions of how firms operate â€" the primary value here is that you can use the business model to ensure that you have strategic fit across activities. Or they can be role models â€" you can use them to describe how you want your organisation to function. More recently, Steve Blank has added another use â€" he says that business models are hypotheses about how your organisation might be able to create value for customers see my discussion of this here. Value Networks from Verna Allee: Verna was working with some of the basic concepts of business models in the 90s. One of the tools that she developed is Value Network Mapping: You need to clearly articulate how you create value, and for whom. You can also create and exchange intangible value. Here is what his business model looks like: This is where the idea of business model innovation really started to gain traction. They talk about the importance of having an integrated strategy, which looks like this: All of the elements need to be consistent with and support the others. Second, this model illustrates how closely linked strategy and business models are. His business model looks like this: Leadership Style, Relationship Style and Values. Think about that in relation to the point above about integration. Furthermore, this business model innovation could be a source of competitive advantage. This is a very powerful point. He developed a tool called the Business Model Canvas. He has subsequently published a book called Business Model Generation, which is all over the place now, along with a number of other analytical tools. Here is his version, as modified by Steve Blank: Osterwalder has done a great job of promoting the idea, and making it genuinely useful. This version of business models proves that it is a practical tool that you can use to figure out where your organisation should be heading. There is a new model of business models in the paper by David Teece, but it is more of a model to use in description if you are trying to study these academically. The second point in the special issue is this: It also raises the point that every organisation has a business model, whether you have consciously thought about it or not. Seizing the White Space: The website has a bunch of useful resources , and the book has some great stories about business model innovation. His model looks like this: The same core elements keep turning up. Personally, I like the Chesbrough version because of the emphasis on networks, which I think is critical. On the other hand, the Business Model Canvas is getting easier to use now because of the substantial amount of resources that are building up around it. So pick whichever one resonates the most with you to use. Business models are important. They are an important tool that can be used to augment product and service innovations, to link innovation to strategy, to co-ordinate activities within an organisation, and they can be a source of innovation as well. There are many models of business models out there. You can use whichever makes the most sense to you.

5: An operating model for company-wide agile development | McKinsey

The operating model will define, explain and fix every potential scenario, issue and complaint related to your services/product. 3. It enables the creation of one restoration point.

You cannot deliver efficiency and predictability standardisation or link the efforts of all the different parties involved in operating the platform integration without some clear top-down decision-making. In its purest sense, a strategy contains three elements: You need these things defined to provide direction and impetus for action, and to guide the broader Operating Model. Roadmap A good roadmap should give a clear sign of where the platform is heading. This is for both capabilities delivered, incumbent systems replaced, and major changes required in the organisation to support the new technology. It should also give an indication when you will deliver these things so that you can mobilise resources. I like to define a roadmap at two levels: Secondly, I like to define a more SharePoint-centric roadmap which details the exact capabilities that will be delivered for the platform, and the phasing of this delivery. High-Level Roadmap The diagram below shows an example high-level roadmap: This is quite a technology centred view of things, so you might want to include more on the business change side of it too. I break the platform down into its core workloads, and also detail components that make up these workloads. You should tailor these workloads and components for your particular organisation. Web Content Management â€" small groups of editors providing carefully curated web content to the masses. AKA, your typical publishing intranet scenario. This may also include extranet content, and even a publically accessible web site. In particular, when you might go down the search integration, federation, custom connectors, or hybrid search route, it can get big and complicated. Social â€" maybe Yammer, maybe SP social. This covers the community forums, microblogging, following, and commenting functionality all good SharePoint platforms should provide. Collaboration â€" Team sites and project sites. Plus, maybe some other components like wikis and bid sites. Collaboration sites act like a virtual office space and allow people to create, update and access the information they need on a day-to-day basis. A more formal type of information management than the Collaboration workload. If your organisation is focusing heavily on one of these extra areas, you might want to call it out as its own workload. The most common phasing that I see is shown in the diagram above. Or maybe it was originally purchased with a view to automating business processes? Each implementation is unique, and you will need to phase your rollout accordingly to deliver the business benefits and investment objectives. If you are in the cloud, you will also need to regularly review your roadmaps in light of the wider Microsoft O roadmap. Microsoft are continually releasing new features and enhancements for SharePoint Online and the broader O suite. Funding Model The next high-level decision you should get agreement on as part of your Operating Model is how you will fund SharePoint beyond the end of the implementation project. A funding model is â€" at its core â€" who is going to pay for what parts of the system. Generally, you see organisations break this down one of three ways: Each of the models has a divide between operating cost and capital expenditure on new functionality and enhancements. This is the expense needed to drive the platform forwards from an adoption perspective, as well as the expense of smaller projects that do not need to be charged back to the business. You need CapEx to provide extra functionality and enhancements for the system. Smaller projects can be charged back to the requesting business, while bigger programmes that benefit the whole platform and its total user base can be funded from a centralised pot. Capability-based Funding Model In this model, some of the costs are split between different parts of the business depending on the SharePoint capability they are servicing. This model relies on clear definition of what parts of the organisation assume responsibility for which SharePoint workloads. In my opinion, there is too much overlap between SharePoint capabilities to assign the expense to just one area. Plus, this model can create political strain between areas of the business when it comes to prioritising new work. Organisation-based Funding Model This model is my personal favourite. The proportion is based on percentage of the total user base for a particular division. Ownership In some situations it is necessary to assign overall ownership to some elements of the solution and the Operating Model. This is particularly true when there are multiple third party suppliers involved in the running of SharePoint.

Functional Ownership Assigning ownership at the functional level can be done either simply or in a more complex manner. This is something you should most definitely do if you have a Managed Services agreement with a third party supplier. Secondly, you can assign ownership by SharePoint workload or capability. As I touched on previously, assigning responsibility in this manner can sometimes get complicated and political. But occasionally, it is necessary. Maybe some sort of compliance function assumes ownership for Records Management, while a client-facing part of the business takes responsibility for the Extranet. But defining this ownership is important to ensure the relevant people have a voice at the table. Operational Ownership Similar to assigning ownership at the functional level, you might also want to assign it across the Operational Pillars outlined in the first post in this series. Different parts of the business are going to have different levels of input across the Operating Model. It is worth defining this as part of your Op Model strategy to help with buy-in. This becomes particularly important when doling out responsibilities for creating detailed documentation to support the Operating Model. I could write another massive series on how to capture and document objectives and benefits, but I will pay lip service to it here. Dependency Networks The purpose of defining investment objectives and benefits is to answer the following questions: Why is the investment being made? What types of benefits is the organisation expecting to achieve? How can a combination of business changes and technology SharePoint deliver these benefits? The benefits are particularly important in that they also provide a mechanism to track against realisation targets. This allows the company to define success for the implementation. Plus, it gives an early indicator if the expected benefits are not being realised allowing for corrective action to be taken. My personal preference is to capture objectives and benefits in Dependency Networks such as the below: Benefits Profiles A key element of the objectives and benefits work is to profile the benefits you are hoping to realise with SharePoint. This involves capturing things like the owner, target benefit, how you are going to measure the benefit, and measurement cadence. This ensures that the benefit will not be forgotten post-implementation. Bringing It All Together So there you have it, these are the high-level decisions you need to have in place in order for your Operating Model to be effective. To be honest, in an ideal world you would actually define some of these before the project even starts. Without these agreements, you will struggle to define the Operating Model originally, let alone actually enact it. Without strategy, there is no direction or impetus for action for your Operating Model. And without an Operating Model, you will be unable to realise the full potential of SharePoint within your organisation.

6: StrategicCoffee: How to design a Target Operating Model (TOM)

Target Operating Model at a glance The primary purpose of a Target Operating Model is to enable the application of a corporate strategy or vision to a business or operation. It is a high level representation of how a company can be best organised to more efficiently and effectively deliver and execute on the organisation's strategy.

The business model for a restaurant is significantly different from the business model for an online business for instance. To put together a good business model, you need to know the value proposition for the business. A value proposition is a straightforward statement of what a company offers in the form of goods or services that is of value to potential customers or clients, ideally in a way that differentiates the company from its competitors. A business model should also include projected startup costs and sources of financing, the target customer base for the business, marketing strategy, competition, and projections of revenues and expenses. One of the most common mistakes leading to the failure of business startups is a failure to project the necessary expenses to fund the business to the point of profitability, i. If possible, a business model should include any possible plans for partnering with other existing businesses. An example of this would be an advertising business that aims to establish an arrangement for referrals to and from a printing company. Types of Business Models There are many different types of business models. Direct sales, franchising , advertising-based and brick-and-mortar are all traditional business models. Brought about by the internet, there is also a click-and-mortar business model, which combines a physical presence with an online presence. Even if two businesses operate within the same industry, they likely have different competitive advantages and disadvantages and, therefore, need different business models. Think about the shaving industry. Gillette is happy to sell its Mach3 razor handle at cost, or even lower, because the company can go on to sell you the profitable razor refills over and over. The business model rests on giving away the handle and making profits from a steady stream of high-margin razor blade sales. This type of business model is actually called the razor-razorblade model , but it can apply to companies in any business that sell one good at a discount while the second dependent good is sold at a considerably higher price. Companies that sell electric shavers have a different business model. Remington, for example, makes most of its money up front on the sale of the razor rather than from a stream of blade refill sales. Comparing Business Models Successful businesses have developed business models that enable them to fulfill client needs at a competitive price and sustainable cost. Over time, circumstances change, and many businesses revise their business models frequently to reflect changing business environments and market demands. Analysts use the metric gross profit as a way to compare the efficiency and effectiveness of business models. During the dotcom boom, analysts went in search of net income. They knew the internet was a disruptive technology with the ability to revolutionize certain industries, but where was the cash flow? Instead of looking at net income , calculated as gross profit minus operating expenses , analysts concentrated on gross profit alone. If the gross profit was high enough, analysts theorized, the cash flow would come. A company can raise prices and it can find inventory at reduced costs. Both actions increase gross profit. Gross profit is often considered the first line of profitability because it only considers costs, not expenses. It focuses strictly on the way in which a company does business, not the efficiency of management. Investors that focus on business models are leaving room for an ineffective management team and believe the best business models can run themselves. As an example, assume there are two companies and both companies rent and sell movies. After the advent of the internet, company B decides to offer movies online instead of renting or selling a physical copy. This change disrupts the business model in a positive way. The licensing fees do not change, but the cost of holding inventory is down considerably. Assessing the Business Model So, how do you know whether a business model is any good? Because it includes companies that have suffered heavy losses in the past and even bankruptcy , the airline industry is a good place to find a business model that stopped making sense. For years, major carriers like American Airlines, Delta and Continental built their businesses around a "hub-and-spoke" structure , in which all flights routed through a handful of major airports. By ensuring that seats were filled, the business model produced big profits for airlines. But the business model that was once a source of strength for the major carriers became a burden. It turned out that competitive carriers like Southwest and JetBlue could shuttle planes between smaller centers at a lower costâ€" in part because of lower labor costs, but also because they avoided some of the operational inefficiencies that occur in the hub-and-spoke model. As competitors drew away more customers, the old carriers were left to support their large, extended networks with fewer passengersâ€" a condition made even worse when traffic began to fall in To fill seats, the airlines had to offer more and deeper discounts. No longer able to produce profits, the hub-and-spoke model no longer made sense. For an example of a business model that failed the numbers test, we can look at U. In , to compete against foreign manufacturers, Ford, Chrysler and General Motors offered customers such deep discounts and interest-free financing that they effectively sold vehicles for less than it cost to make them. To remain viable, the big automakers had to revamp their business models. When evaluating a company as a possible investment, learn exactly how it makes its money. Then think about how attractive and profitable that business model is.

7: Operating Model â€“ Nathan Wells

Enterprise architecture is the organizing logic for business process and IT infrastructure reflecting the integration and standardization requirements of the company's operating model.

These 10 facts about space will blow your mind An operating model is an integration of all the human and machine-driven processes and business strategies used to create, produce, and sell products. It implements production activities within a business structure formed to make a profit. This is also referred to as enterprise architecture. The operating model looks at the big picture, not the details. It is viewed as a purposed, logical plan that takes into account all the factors involved in production and operations. Operating models typically integrate all business units, processes, and operations into the architecture of the business. Managers can then reference that data in order to pinpoint areas that are not interacting as well as they should. Enterprise architecture is comprised of all the activities the business engages in to make money. The means of production, the methods and technology used to produce goods, and the way in which the production activity is organized make up these activities. In contrast, a business model details how the business structures and processes interact with production activities. The operating model is not concerned with business processes. Instead, it looks at the overall strategy used to implement the scheme of production. The details contained within the enterprise architecture model answer the essential questions for the productive activities of the business. In terms of organizational structure , the business model drives the process. A change in enterprise architecture may occur in two ways. Ad One occurs as a result of changes in the marketplace. Management may come under pressure to restructure in order to maintain profitability. Changes in operating models are often implemented following a macro change in the economic or competitive environment. For example, a technological breakthrough in computer-aided design may place the business at a competitive disadvantage if it does not adopt the new technology when its competitors do. This is also referred to as event-driven restructuring. The potential pitfall in implementing event-driven restructuring lies within the time pressure factor. This may allow insufficient time to strategically plan for the restructuring. It is also important that all processes and strategies be accounted for in order to ensure integration is adequate. Sometimes a company elects to change its operating model, with a goal of achieving greater profitability. Any change in an operating model typically will be viewed in a holistic fashion. Managers will likely take into account all the aspects of current operations. Sometimes a conceptual business model is considered. This model forecasts how an optimal operating model would look, if the plans for it were implemented. A forecast helps managers understand the human infrastructure that currently drives the business model, and what changes would need to be made.

8: Rethinking Your Operating Model: Defining The Enablers

An operating model is the operational design that makes it possible to deliver the business strategy. Operational design follows strategy, but the relationship also works the other way around, which means that ideas for operating model improvements can lead to changes in business strategy.

9: The next-generation operating model for the digital world | McKinsey

A well-designed operating model is the bridge that allows a company to turn its strategy into results. Bain Operating Model helps you clarify where and how critical work gets done in the organization in service of your overall strategy.

DEFINE YOUR OPERATING MODEL pdf

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