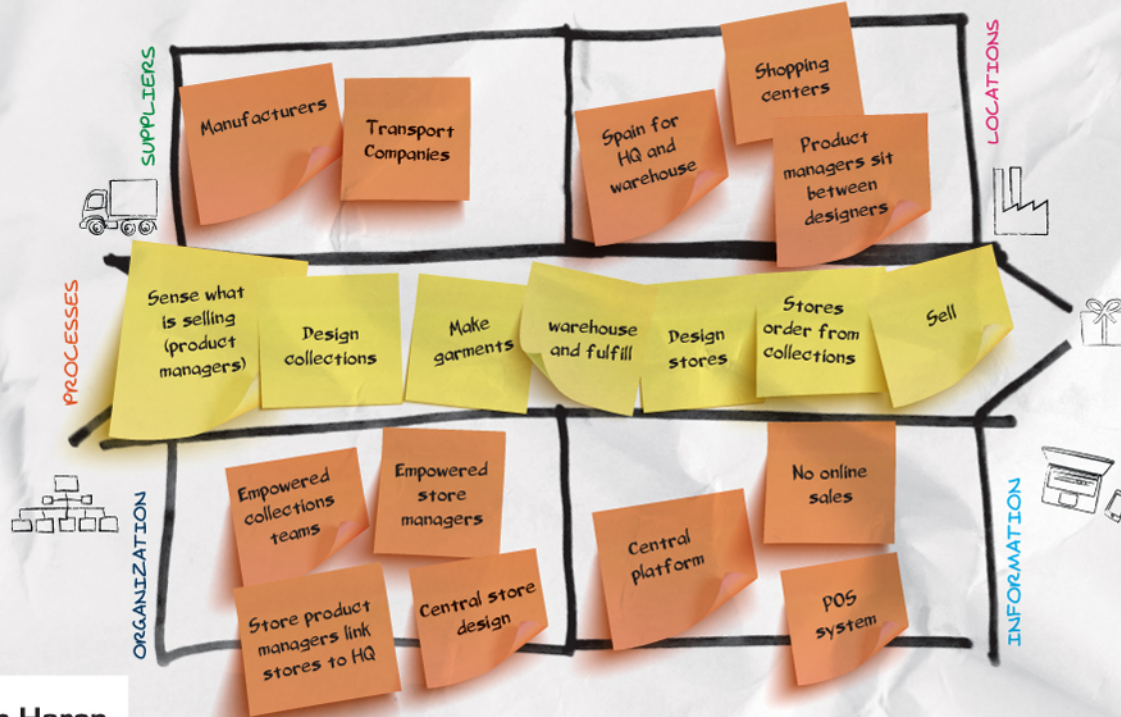


Aligning operations and organization with strategy

Andrew Campbell
Mikel Gutierrez
Mark Lancelott

OPERATING MODEL CANVAS



Operating Model Canvas

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Colophon



TITLE Operating Model Canvas

SUBTITLE Aligning operations and organization with strategy

AUTHORS Andrew Campbell, Mikel Gutierrez, Mark Lancelott

PUBLISHER Van Haren Publishing, Zaltbommel, www.vanharen.net

TEXT EDITOR Steve Newton (Galathea)

BOOK AND COVER DESIGNED BY Coco Bookmedia, Amersfoort - NL

NUR CODE 801, 982

ISBN HARD COPY 978 94 018 0071 6

ISBN EBOOK (PDF) 978 94 018 0072 3

EDITION First edition, first impression, March 2017

First edition, second impression, June 2017

First edition, third impression, with minor corrections, July 2017

First edition, fourth impression, with minor corrections, April 2018

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Foreword

NIGEL SLACK, Emeritus Professor of Operations Management and Strategy, Warwick University, and author of best selling text books *Operations Strategy* and *Operations Management*.

There is an enduring dilemma that follows anyone charged with making strategy have a real impact. ‘How do you think big while keeping your feet on the ground?’ ‘How do you translate the broad vision of where the enterprise wants to be into a set of practical and realistic plans and actions?’ This is where the idea of the operating model fits in. It is a concept that has been gathering momentum in the strategy field – and for good reason. Operating models have the potential to provide a high-level design for any type of organization that both defines its structure and style and enables it to meet its business objectives. Done well, an operating model should provide a clear, ‘big-picture’ description of what the organization does, across both business and technology domains. It should provide a way to examining the business in terms of its key relationships, especially those between the business functions, processes and structures that are required for the organization to fulfil its mission. It should fit alongside the organization’s business model in a way that helps convert strategy into a working model of how things need to be done in practice. A good operating model is a prerequisite for building effective change in the organization.

This is an important book for two reasons. First, it provides a first-class guide on how to put an effective operating model together. Andrew Campbell and his co-authors have taken the proven idea of a Business Model Canvas and created an Operating Model Canvas as a way of extending the number of operating elements that are considered from three (activities, resources, partners) to six (processes, organization, location, information, suppliers and management system). Of course there are many other ways of defining and presenting the idea of operating models. Every consultant has his or her own “model”. But *Operating Model Canvas* is the first attempt, as far as I am aware, to document and share both the concept, a complete set of tools and worked examples. Second, the book is exceptionally well illustrated, with easy-to-follow steps and a wealth of engaging and insightful examples from all types of enterprise. I commend it to anyone involved in turning strategy into operational designs and choices.

RICHARD KOCH, author of the bestselling titles *Simplify* and *The 80/20 Principle*

I have followed Andrew's Campbell's work with pleasure for many years. Every time he takes on a topic, he contributes valuable new insights. This book is no exception.

Andrew and his co-authors start from a firm's value proposition – its distinctive advantages for customers – and then use their 'Operating Model Canvas' as a simple and practical way to work out *HOW* to deliver the value proposition the best way.

I see three huge advantages of this approach. One is that it actually does find the best feasible way to deliver the value proposition consistently.

The second advantage is that it helps managers in different areas get aligned so that the whole organization and its suppliers are trying to do the same thing.

And third, it provides a bridge for managers from the strategy to a portfolio of transformation projects, all pointing in the same direction – forward! Too often managers push their pet projects and huge value is lost by the firm and its customers. That will not happen with this approach.

I also love the messy look and feel of the book. The charts are drawn freehand by managers themselves, there are lots of post-it notes all over the place, the whole thing appears chaotic but is brilliantly cohesive. You can tell that the participants had a lot of fun – and you can too.

Endorsements

PATRICK VAN DER PIJL,
CEO Business Models Inc. and author
of *Design a Better Business*

Designing a business is a difficult task. Books like *Operating Model Canvas* help cut through the complexity. It helps you to go one step deeper beyond the Business Model Canvas and Value Proposition. This book could be considered as part of a family of books like *Business Model Generation*, *Value Proposition Design*, *Design a Better Business* as we need to have conversations around the How. All are landscape. All are easy to read. All are full of tools and case examples. They should all be on your book shelf or the side of your desk.

YVES PIGNEUR,

co-author *Business Model Generation* and
Value Proposition Design

Andrew Campbell and co-authors have focused on the left-hand side of the Business Model Canvas for creating an Operating Model Canvas. Their canvas consists of components such as locations, organization structure, people models, information systems and performance management systems. The book contains illustrations and worked examples, and has a nice landscape design. Let yourself be charmed by the thoughts, practical techniques and case studies proposed by the authors.

THOMAS H. DAVENPORT,

Distinguished Professor, Babson
College, and author of *Competing on
Analytics* and *Only Humans Need Apply*

If you liked Osterwalder et al.'s *Business Model Canvas* and *Value Proposition Design*, you'll also want to spend time with this one. All three books have a light and engaging tone and are co-created with practitioners. But *Operating Model Canvas* picks up where the earlier books leave off, taking the thinking about activities, resources, and partners to the next level. It's critical for making a business model work.

WILLIAM ULRICH,

President, Business
Architecture Guild

Operating models have been written about for many years. The Operating Model Canvas moves the needle forward in this discussion by further framing operating model concepts in a canvas. As with most tools, readers should consider the canvas and related concepts as they continue their journey of streamlining and improving their business.

JOHN WEBB, Vice President & Program Lead Mars Operating Model, Mars Incorporated

I have just led a review and redesign of the global operating model for Mars Incorporated. Andrew Campbell was a significant help to me in this, and I learned a lot from applying some of the tools and processes that are in this book. I can see that the thinking has developed even further since then and this book would have been hugely helpful as I worked through the operating model scope and critical analyses with the Executive Committee.

I will certainly use this approach next time I have similar work to do. It simplifies what can be a complex and intimidating task, helps to put the work in the right context and provides tools that ensure rigor and focus.

If you have an operating model project to do, you need this book.

JOE SPADAFORD, Chief Operations Strategy Officer, Computershare

I have led many change and transformation projects that supported an overall business strategy. These are always difficult projects both in the design and the execution. *Operating Model Canvas* is a useful and pragmatic aid to this work, full of tools and examples and helpful ways of simplifying complexity. It provides a framework to consider the change elements holistically, giving you the opportunity to create an implementation plan that will more likely be successful.

FRECK DUPPEN, Senior Manager, Operating Model Development, The LEGO Group

Many people are going to find the insights in this book really valuable. Whether you are new to the topic or a seasoned practitioner, the book offers plenty to help you on your operating model journey: a clear framework for thinking about operating models, a basket of tools, and copious examples ranging from Zara to Snapfish and from a government department to an IT function. There are alternative ways to approach the concept of operating models, but I can highly recommend the approach in this book. It is easy to read, practically relevant, and touches upon all the important aspects.

DR GRAHAM EDWARDS, retired CEO, AECI

At AECI we got a lot of use out of the Business Model Canvas. Every business or proposed new acquisition had to present its Canvas to the Exco, and managers were subjected to a fairly rigorous grilling to ensure they really did understand their business model. If we had had the Operating Model Canvas, those sessions would have been more penetrating on operating issues. This book is another important step forward in management thinking.

MARK SMALLEY, Ambassador, ASL Bisl Foundation

Andrew Campbell has produced a very useful book that can be used in its own right or in combination with the Business Model Canvas. I had the pleasure of reviewing the book and learnt a lot in the process. For most people, the term operating model is poorly defined and loosely used. *Operating Model Canvas* does a good job in pinning it down in simple but well-grounded language. The guidance is practical and attractively presented. I used the principles and structure in my work for The Open Group's IT4IT Forum to create an IT operating model and I am pleased with the results. I have no hesitation in recommending this book.

MICHEL BERTHUS, Group Vice President - Head of Quality Management, ABB

Operating Model Canvas is both simple and powerful. It provides a simple framework (the Canvas) and some powerful tools (value chain map, organization model, supplier matrix, etc.). I cannot imagine anyone involved in working on organization design or operating models or even process improvement that will not gain a great deal from this easy to read and engaging book.

STEPHEN BUNGAY, author of *The Art of Action*

My work and teaching on strategy execution is about how organizations make things happen in line with their intentions. It focuses on the 'software' – how to set direction and align people so as to create unity of effort. But every company has made commitments to doing things in a certain way that is reflected and constrained by their 'hardware'. *Operating Model Canvas* addresses the question of how to change that hardware and design an organization with the right operational capabilities. I find the simplicity of the canvas, the wealth of examples in Chapter 2 and the quality of the tools explained in Chapter 3 both practical and powerful. The authors' innovative and engaging approach turns the hard work involved into fun, and redefines what a 'how to' textbook should be. It is a great companion to *The Art of Action*.

JEROEN DE FLANDER, author of the bestsellers *Strategy Execution Heroes* and *The Execution Shortcut*
Operating Model Canvas helps you in a practical and fun way to design the best possible operating model for your strategy. Highly recommended!

PROFESSOR GUNTER MÜLLER-STEWENS, Institut für Betriebswirtschaft, Universität St.Gallen
Strategies often fail to get implemented. We already have ways to convert strategies into scorecards and KPIs, but we have fewer tools to help convert strategies into portfolios of transformation projects. *Operating Model Canvas* fills this gap. Andrew Campbell and his co-authors seem to understand both strategy and operations and have created an ideal companion to the Business Model Canvas. It is an easy and fun read. And it encourages and supports the reader in applying the ideas on real projects.

MARC LANKHORST, Managing Consultant & Chief Technology Evangelist, BiZZdesign, and developer of the ArchiMate® standard for enterprise architecture modeling
Our company BiZZdesign does many projects that involve designing the business architecture and operating activities of a business or organization. The design of business models has been very successfully addressed by Alex Osterwalder and Ives Pigneur in their famous book *Business Model Generation*. But to make your business model work, you also need an operating model, describing how the elements of your organization together deliver its value proposition. The Operating Model Canvas proposed by Andrew Campbell, Mikel Gutierrez and Mark Lancelott extends the thinking behind the Business Model Canvas to provide a practical tool for designing such operating models. This book will help anybody involved in business design, target operating models, business architecture and operational improvements.

KIRILL DEREVENSKI, Strategic Business Architect, ex-Sodexo
I have carried out a number of jobs transforming strategy into operational results in mid-sized and large companies. I wish I had had Operating Model Canvas by my side. It is comprehensive, straightforward and accessible. It is written by people who understand strategy and who know how to connect strategy with operations to drive measurable results. It contains tools and methods that are effective and easy to apply while using the language that senior managers talk. A ‘must have’ to get your project right from the start, and to get it to a successful finish. A perfect operational ‘nuts and bolts’ companion to Business Model Generation, when you need concrete guidance on operating model design.

GRAHAM DALTON, Independent Management Consultant
I have used Andrew’s OD tools over a hundred times, both at PwC and as an independent management consultant. They make sense to clients and give great insight and clarity. This new contribution brings similar clarity to the complex topic of operating models. Andrew’s book is very visual and easy to read; and the great client examples bring the topic to life. This book and its Operating Model Toolbox will be invaluable to consultants and executives alike, guiding them in how to align their organization and operations with their strategic aims. I was part of a team that developed PwC’s approach to operating model work and I wish I had had this book to help me.

AMY KATES, Kates Kesler Organization Consulting and author (with Jay Galbraith) of *Designing Your Organization*
As organization designers, we help leaders make smart decisions about ‘organization models’. A prerequisite to this work is a clear ‘operating model’. The operating model articulates the business framework and how the organization components will relate to one another. A clear operating model makes selecting among organization options much easier. Andrew Campbell brings a designer’s eye to demystifying the steps for creating an operating model. This book is filled with tools, examples, and a wide variety of case studies. It will be an essential guide for anyone working on organizations.

NAOMI STANFORD, Organization Design Practitioner, author, speaker
Andrew Campbell, more typically known for his strategy and organization work, has focused his attention on the task of turning strategy into operations. He and co-authors explain, through illustrations and examples, the six elements of the *Operating Model Canvas* - value delivery chains, organization, information systems, locations, suppliers and management systems - in a beautifully clear and fun way that takes the pain out of operating model development and implementation. It’s a substantial contribution designed in an engaging way showing the working steps as they actually progress and giving helpful tips, guidance and resources along the way. A great addition to any organization designer’s toolkit.

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Our course 'Designing Operating Models' at Ashridge Executive Education has been a huge learning experience for us. Here are some of the participants (about a third - random order).

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is a Director of Ashridge Strategic Management Centre, a research and education center focused on the strategic management of organizations. Andrew directs research projects, runs management programs and advises client companies. He is program director of Advanced Organization Design and Designing Operating Models. Andrew has authored 10 books on strategy and capability, including Designing Effective Organizations and Strategy for the Corporate Level, and has published numerous articles in the Harvard Business Review and other management publications. He blogs at ashridgeonoperatingmodels.com and tweets @operatingmodels. Before joining Ashridge, Andrew was a Fellow of the Centre for Business Strategy at London Business School. Before that, he spent six years with McKinsey & Co in Los Angeles and London.

MIKEL GUTIÉRREZ

is Industrial Projects Director of Gamesa, the worlds largest producer of turnkey wind farms. He is responsible for the delivery of all Gamesa wind farms worldwide, from signing the contract, until the energization of the park. Previously he was CEO of Asebal, a company producing galvanized steel for road and solar businesses. He steered Asebal from a domestic, almost bankrupt Spanish company to a strong business, selling in more than 20 countries. Before that, he was General Manager of Ormazabal Germany and Director of Business Process Improvement of the parent company Ormazabal Group, a producer of equipment for the power industry. His functional roles have included sales, business improvement, IT, strategy, organization design, product design and processes. He studied mechanical engineering and has worked in Spain, France, Germany, Denmark and the USA.

MARK LANCELOTT

is a Director of Business Design at PA Consulting. He specializes in business design, helping businesses design new operating models that integrate structure, people, process and systems. He also leads the implementation of change together with executives, managers and staff in client companies. He has worked in many sectors including the finance, industry, government and charity sectors. He is currently interested in how to simplify organizations by tackling unnecessary complexity. Mark worked at Barclays for 10 years. He is active in the Business Architecture Guild, and European Organization Design Forum (EODF), blogs regularly and tweets (@marklancelott) on operating models and organization issues.

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great value to your
customers and
beneficiaries

AN OPERATING MODEL IS ...

.. a **VISUAL** representation (i.e. a model)

.. in the form of a **DIAGRAM OR MAP OR CHART** or collection of diagrams, maps, tables and charts

.. that show the **ELEMENTS OF THE ORGANIZATION**, such as activities, people, decision processes, information systems, suppliers, locations, and assets,

.. that are important for delivering the organization's **VALUE PROPOSITION(S)**

.. and how these elements **COMBINE** to successfully deliver the value proposition(s)

THE JOURNEY TO SUCCESS HAS FOUR PARTS:

- ▶ **THE STRATEGY PART:** deciding what the organization will do
- ▶ **THE OPERATING MODEL PART:** designing the organization so that it is able to execute the strategy
- ▶ **THE BUILD OR TRANSFORMATION PART:** creating the target operations and organization
- ▶ **THE DOING-THE-BUSINESS PART:** running the organization so that the strategy is achieved

This book is about the operating model part: the design part. It is not about the strategy, transformation or doing-the-business parts

Different authorities define operating model differently. There is no standard definition. This is our definition.

Other authorities include a mission, vision and values step before strategy. We include this as part of strategy.

HIGH-LEVEL OPERATING MODELS

This book is about high-level operating models. It focuses on the link between strategy and operations and between business models and operating models.

CH1

One page Operating Model



Explained and illustrated in Chapters 2 and 6

Ten page Operating Model



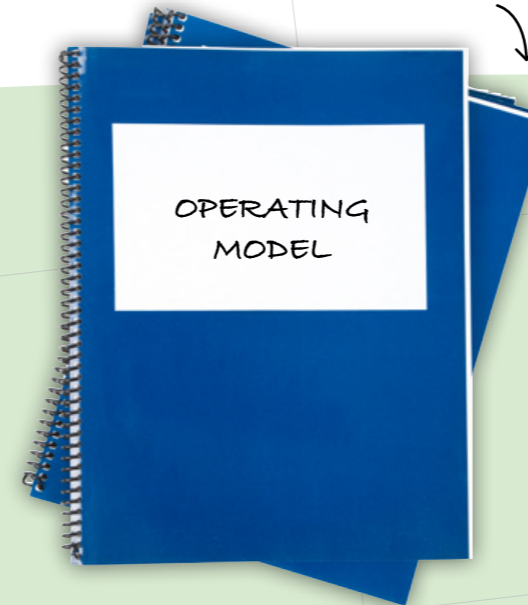
Explained and illustrated in Chapters 3, 4 and 5

DETAILED OPERATING MODELS

For an organization to function, many hundreds of design decisions need to be made. Our belief is that these decisions – the detailed operating model decisions – are better made if there is a high-level operating model guiding them.

CH1

One hundred page Operating Model



Not covered in this book

One thousand page Operating Manual



WHEN DO YOU NEED TO WORK ON

YOUR OPERATING MODEL?

CH1



WHEN YOU ARE STARTING SOMETHING NEW

- Helps test the practicality of what you want to do
- Helps you understand costs, resources and timing, and hence develop a better business case
- Helps you align your team and your stakeholders
- Helps ensure you focus on the important



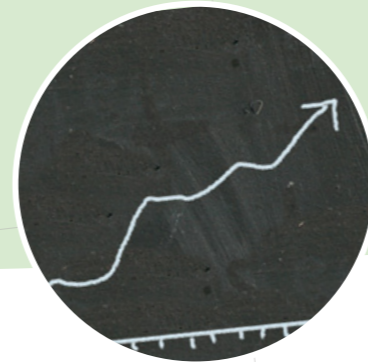
WHEN YOU ARE CHANGING STRATEGY

- Helps test the practicality of what you want to do. Often leads to better strategies.
- Helps you understand costs, resources and timing, and hence develop a better business case
- Helps your people understand the new strategy
- Helps ensure your implementation plan is complete



WHEN YOU HAVE PERFORMANCE PROBLEMS

- Helps you find the root causes
- Helps you see the connections between symptoms and causes
- Helps ensure your implementation plan is complete
- Helps your people see why all the changes are needed



WHEN YOUR TEAM IS NOT ALIGNED

- Helps those with different views explain their thinking
- Provides the senior team with a shared blueprint of what they are trying to build together
- Provides a line of sight between purpose and activity



WHEN YOU ARE FINDING IT HARD TO IMPLEMENT YOUR PLANS

- Enables you to check that your plans are practical
- Helps those who are dragging their feet explain their position
- Often results in re-sequencing the implementation plan



WHEN YOU ARE IMPLEMENTING MAJOR CHANGE

- Enables you to check that your project sequence is practical
- Helps explain the plan and the business case
- Helps those who are concerned about the plan to explain their position
- Helps align the leaders of different projects

CH1

THIS BOOK WILL HELP YOU ...

Who are you?

CH1

- ▶ A **manager in operations** or **in any function** who wants to design how the operation works
- ▶ A **CEO** or **COO** or **entrepreneur** who wants to review his or her organization and plans
- ▶ A **lean practitioner** or **process excellence manager** who wants to be more strategic
- ▶ A **manager in strategy** or **planning** who wants to make the plans more practical
- ▶ A **project manager** or **change specialist** working on a transformation project
- ▶ A **leader** who wants to make sure her team members are all on the same page
- ▶ A **business partner in HR, IT** or **Finance** who wants to improve the business
- ▶ A **business development manager** who wants to design a new business
- ▶ A **Business Architect, Enterprise Architect** or **Operations Strategist**
- ▶ A **manager** tasked with cutting costs or improving service or quality
- ▶ A **customer experience** or **user experience specialist**
- ▶ A **manager in charge** of post **merger** integration
- ▶ A **consultant** helping organizations improve
- ▶ **Anyone** responsible for performance

CH1

Understand what an operating model is

Document your current operating model

Design improvements to your current operating model

Design a target operating model

Improve the dialogue with those resisting or concerned about change

Better align managers from different functions, countries and cultures around a common view of what they are jointly trying to do

Discover ways of improving your strategies

Achieve your strategic objectives

Be more successful

Yes, operating model work can result in better strategies: more practical, more connected with capability, more profitable

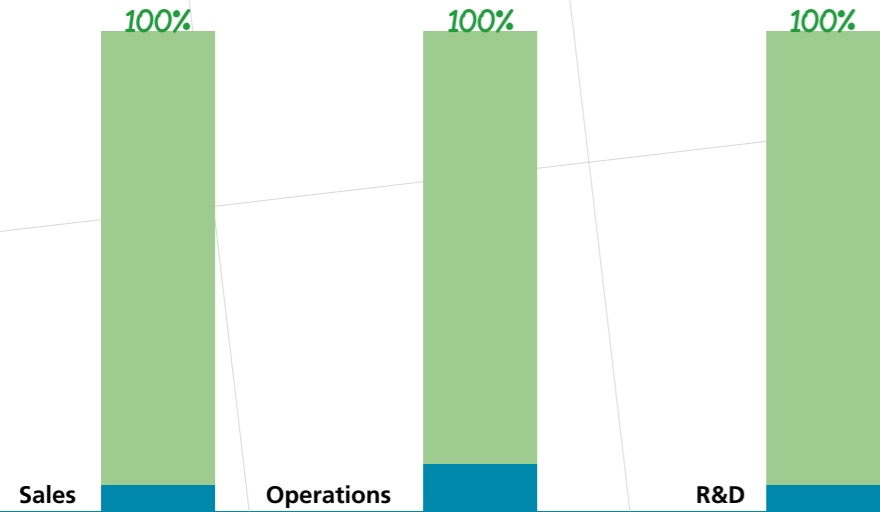
STRATEGIES ENGAGE 5% ...

... OPERATING MODELS ENGAGE 95%

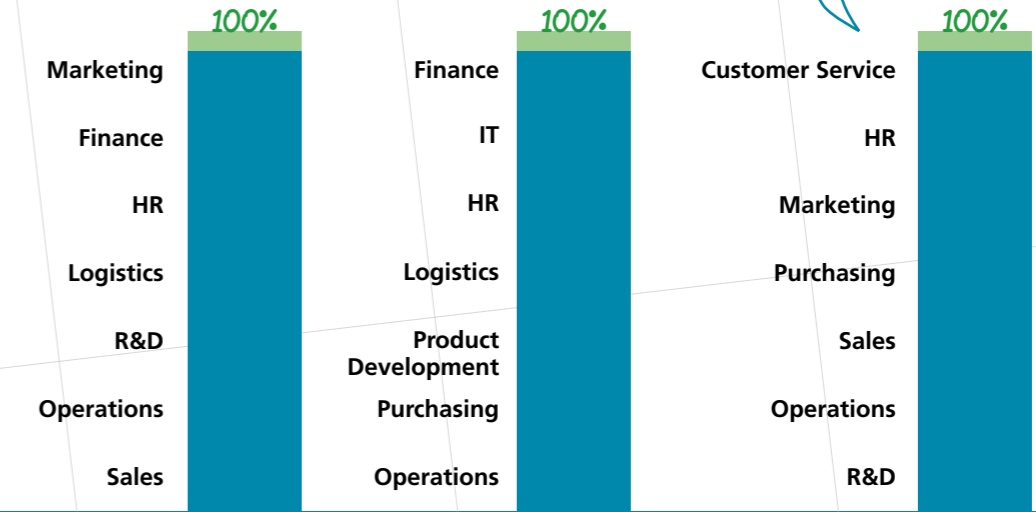
CH1

CH1

% of employees who think the strategy is their responsibility



% of employees who think the operating model is their responsibility



All these functions are involved in the operating models needed to deliver these strategies

Double international sales

Reduce cost of sales by 20%

Develop new products

Double international sales

Reduce cost of sales by 20%

Develop new products

HOW TO USE THIS BOOK

CH1

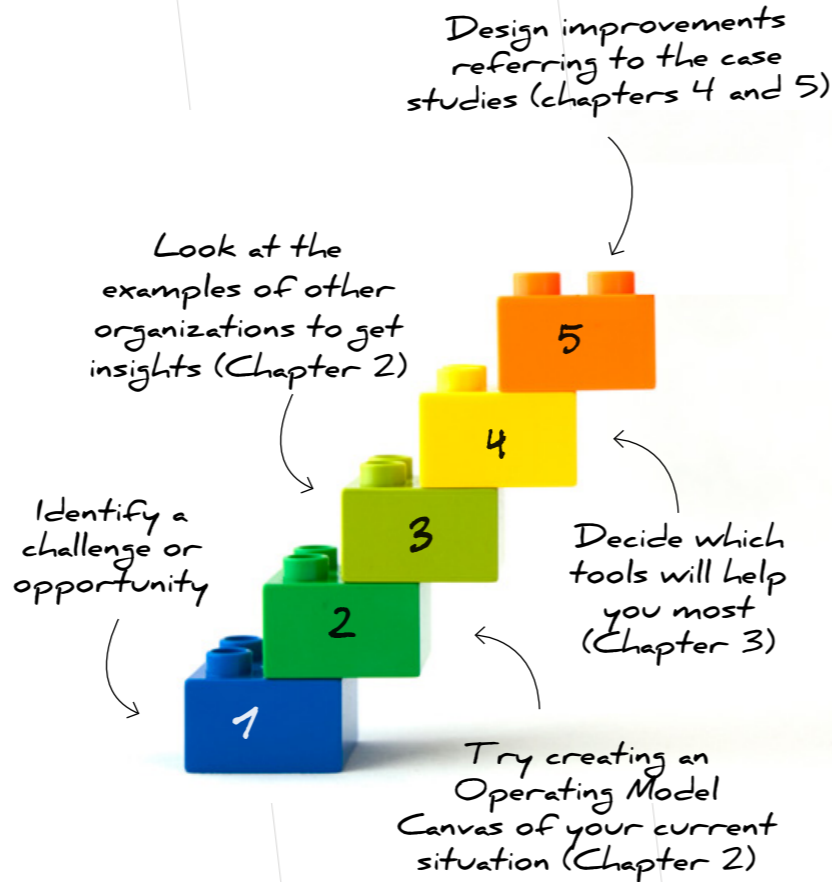


The Operating Model Canvas is a tool that will help you think about and make changes to your operations.

It is a simple tool. You may be able to grasp the tool and start using it by reading this chapter and the first few pages of Chapter 2 - "The Operating Model Canvas - Examples".

However, you will gain the most from this book if you first identify a challenge or opportunity you have in your current situation. As you read, try creating a Canvas for your organization. Write a few post-it notes that capture some of the things you think are important about your organization (i.e. important to delivering the value proposition) and stick them on the Canvas. Then look at the examples provided (Chapter 2). Then look at the tools (Chapter 3) and try using some to understand your challenge and develop ideas for resolving it. Then explore the two big case studies (Chapters 4 and 5).

Have fun!



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CH1

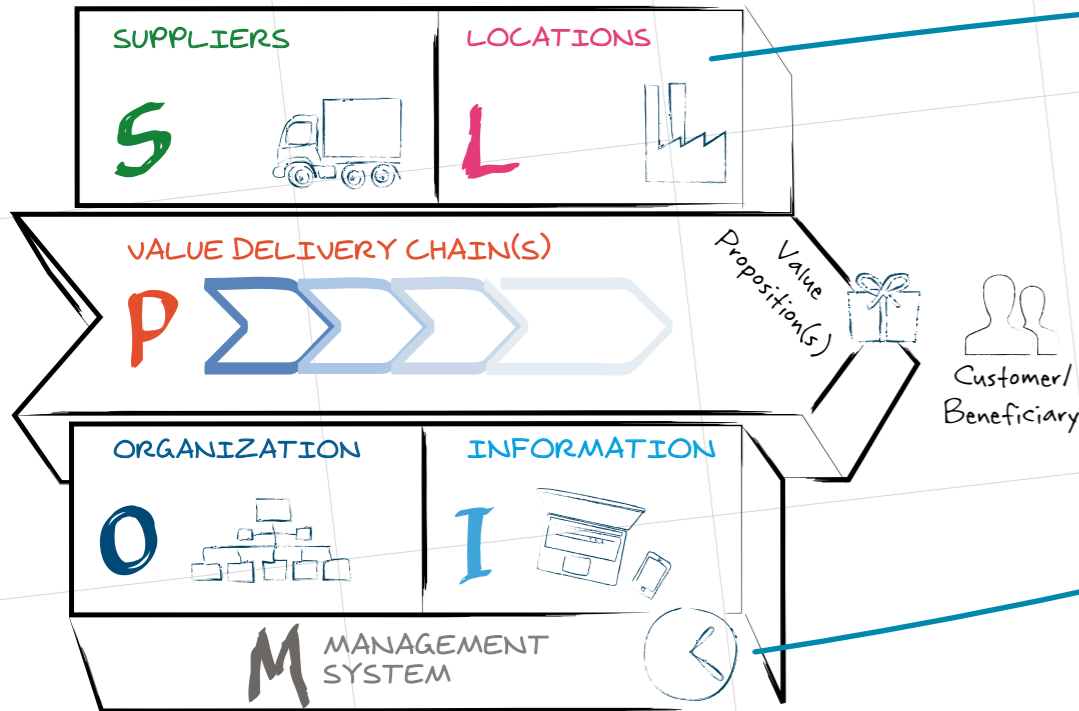
THE OPERATING MODEL CANVAS IS A ONE PAGE OPERATING MODEL

CH1

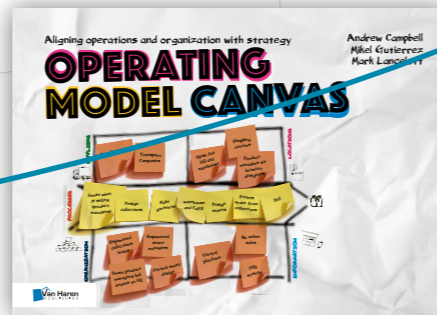
THE CANVAS IS FULLY EXPLAINED IN CHAPTER 2

The **OPERATING MODEL CANVAS** does not include the Financial Model. But, of course, the operating model does drive most of the organization's costs.

OPERATING MODEL CANVAS



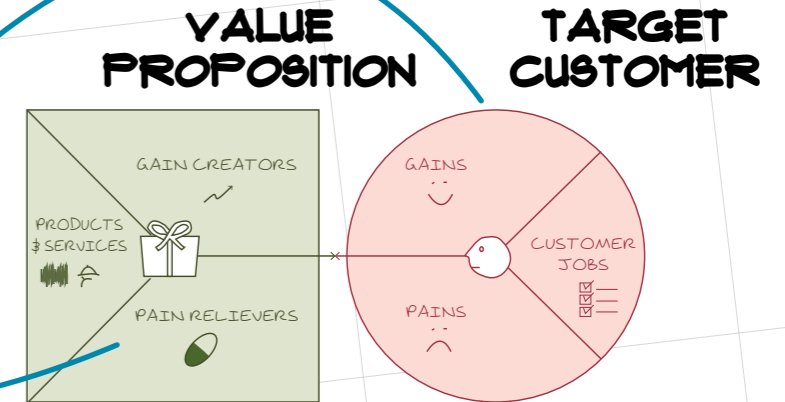
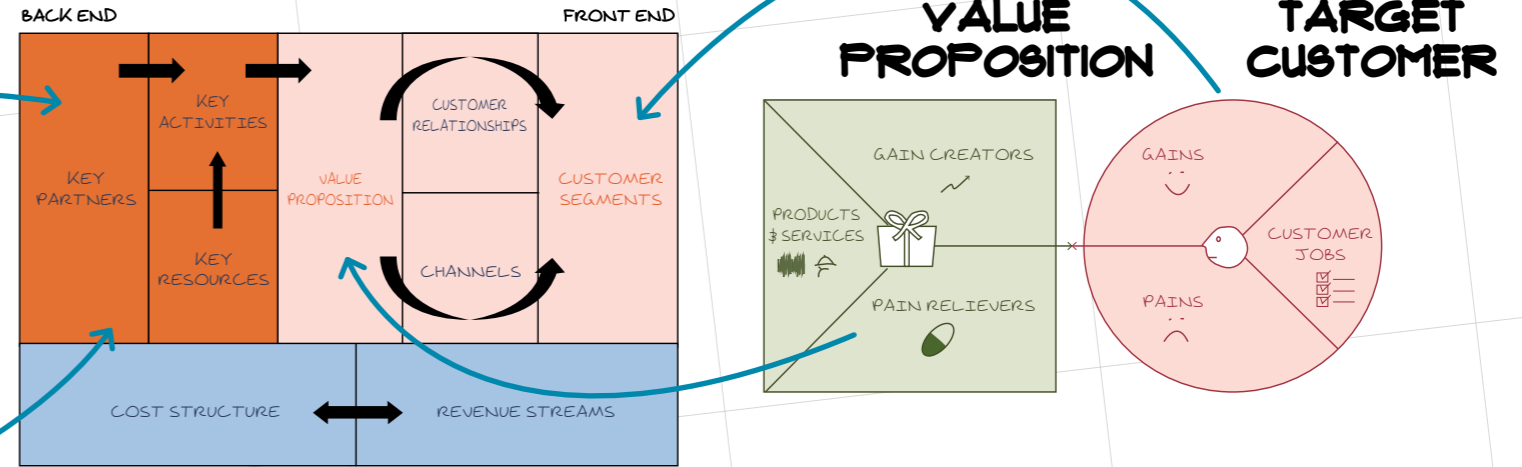
The link is roughly
 P = Key Activities
 S = Key Partners
 O + L + I + M = Key Resources



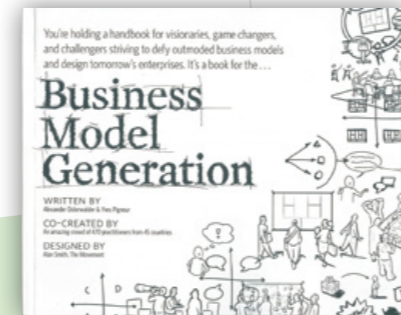
IT COVERS THE BACK END OF THE BUSINESS MODEL CANVAS

CH1

BUSINESS MODEL



Are **CHANNELS** and **CUSTOMER RELATIONSHIPS** part of an operating model?
 Yes in so far as they involve **KEY ACTIVITIES** or **KEY PARTNERS**



THE OPERATING MODEL CANVAS IS A ONE PAGE OPERATING MODEL

WHAT IS THE ...

CH1

The Business Model Canvas is a framework developed by Alex Osterwalder, Yves Pigneur and co-authors to describe the main elements of a business. It describes how an organization creates, delivers and captures value, what value is being delivered and to whom.

You do not need to be familiar with the Business Model Canvas to understand and work with the Operating Model Canvas, but you will find it useful.

The book Business Model Generation, published in 2010, provides more information and there are on-line resources at strategyzer.com/bmg

KEY PARTNERS

External organizations who provide important inputs to the organization. They may be suppliers of raw materials or distribution services or IT support. Equivalent to the suppliers box in the Operating Model Canvas.

KEY ACTIVITIES

The most important work steps needed to deliver the value proposition. Equivalent to the processes arrow in the Operating Model Canvas.

KEY RESOURCES

The most important assets, such as people, technology, machinery, brand, buildings and locations. Equivalent to the locations box (which includes assets), the organization box (which includes people) and the information box (which includes data assets) in the Operating Model Canvas.

CUSTOMER SEGMENTS

The different groups of people the organization is trying to serve.

VALUE PROPOSITIONS

The offer to the customers or beneficiaries of the organization.

CHANNELS

How the organization communicates with and distributes to customers or beneficiaries.

CUSTOMER RELATIONSHIPS

How customers are acquired, engaged with and retained.

The four items in this column are about market strategy - what to offer to whom through which channels. They have implications for the Operating Model Canvas.

... BUSINESS MODEL CANVAS?

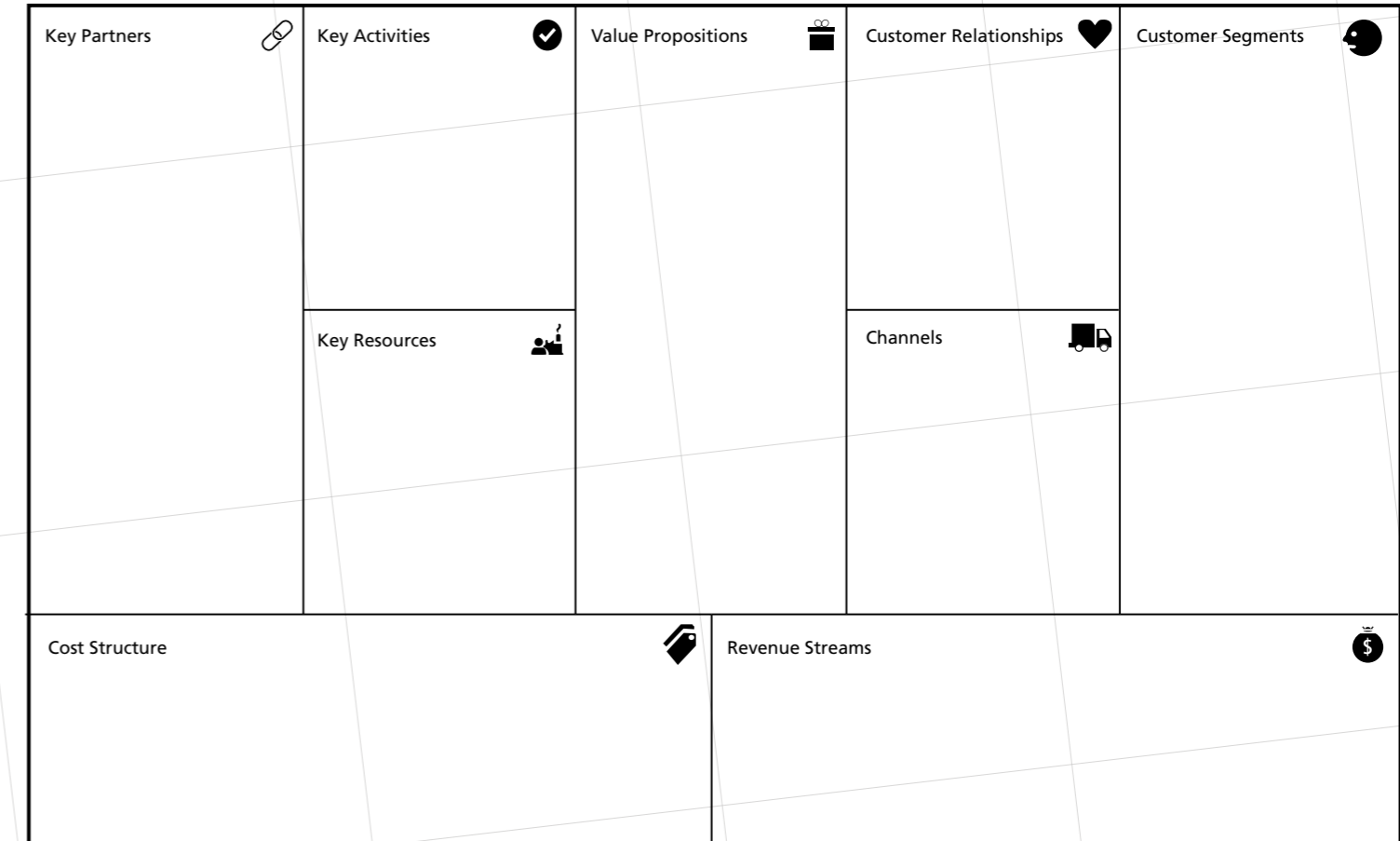
The Business Model Canvas

Designed for:

Designed by:

Date:

Version:



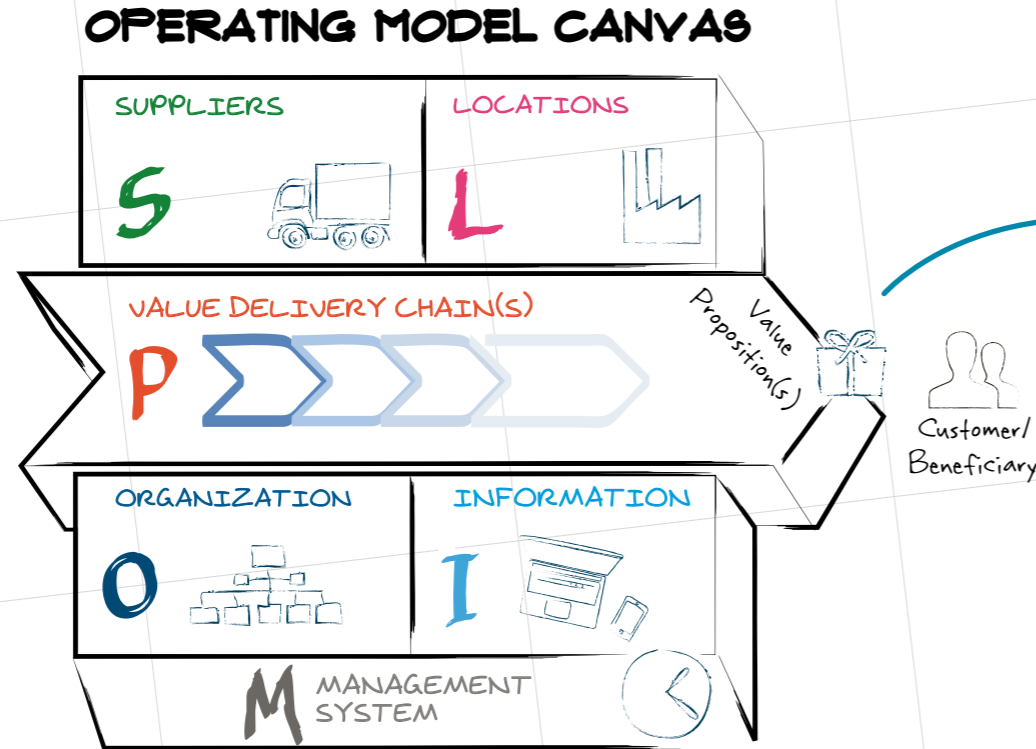
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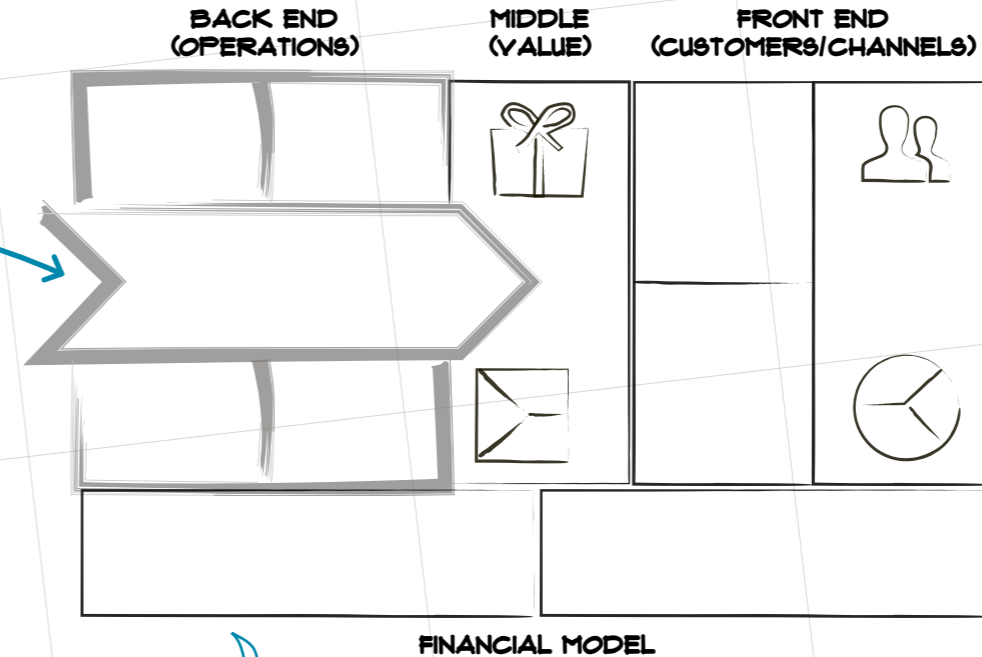
HOW DOES THE OPERATING MODEL CANVAS LINK TO ...

THE OPERATING MODEL CANVAS HAS SIX ELEMENTS:

- ▶ the work that needs to be done to deliver the value proposition (**VALUE CHAIN**);
- ▶ the people who do the work and how they are organized (**ORGANIZATION**);
- ▶ where the people will be located and the assets they need to help them (**LOCATIONS**);
- ▶ what information systems the people need to help them (**INFORMATION**);
- ▶ the suppliers who support the work (**SUPPLIERS**); and
- ▶ the management system used to run the organization (**MANAGEMENT SYSTEM**).



... AN ENHANCED BUSINESS MODEL CANVAS



The Operating Model Canvas has icons for value proposition and customer. These are treated as inputs to the operating model design rather than as part of the design challenge. The book "Value Proposition Design" shows how to design these inputs.

The Operating Model Canvas with SIX elements is a more powerful "back-end" than the three elements - Key Activities, Key Resources and Key Partners - of the Business Model Canvas.