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*Agency of
the future*

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**Next-generation
operating models
for marketing
agencies**



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Executive summary



A small number of global marketing agencies have come to dominate their industry after decades of acquiring smaller agencies in a range of specialty disciplines: creative and branding services, digital, media planning and buying, public relations, and market research. Although these subsidiaries are responsible to their parents *financially*, they otherwise operate independently — and often in direct competition with their sister agencies. That model is breaking. Driven by technological developments, evolving consumer habits, and cost pressures, clients are increasingly seeking unified, best-in-class teams that can work across disciplines and agencies.

The marketing giants have begun to integrate their operations in response to the pressures from clients and the external market. But they aren't evolving fast enough. They need to fundamentally rethink their organizational structures; become far more integrated across back-, middle-, and front-office capabilities; and play a more active role in day-to-day strategic operations. Here we detail the pros and cons of the four potential next-generation operating models, and offer guidance on determining the best-fit model. The necessary transformations will be disruptive, but each of the risks and challenges of the process contains the potential for opportunities and competitive advantages.

At the center of disruption

At the highest level, global marketing agencies have essentially evolved toward one common operating model.

A handful of giant holding companies dominate the industry, each having grown through a decades-long rollup strategy of acquiring smaller agencies. The four largest are WPP, Publicis, Omnicom Group, and IPG. Each groups its agencies into five categories by discipline: creative and branding services, digital, media planning and buying, public relations, and market research. And, historically, each has managed its agencies *financially* — but otherwise has largely left them alone to bring their services to market independently. The result is an operating structure of striking complexity. Some of the marketing giants manage dozens of subsidiary divisions and hundreds of branded agencies.

Despite that complexity, this operating model has served these companies — and their clients — very well.

But in this era of disruption, it is no longer sufficient for survival, let alone success. To put the parent agencies in a better strategic position, leaders cannot just regroup or rationalize functions. They must fundamentally rethink their organizational and operational structures so that they can serve clients better.

What is needed is the development of business operating models that are much more integrated than they are now. In these new models, the global marketing parent companies play a far more active and strategic role in managing all the functions of the agency: back-office, middle-office, and customer-facing activities.

The direction in which global marketing agencies must now move is a reflection of industry trends that are rendering their current model obsolete. A combination of pressures imposed by the structure of the external market and by the changing demands of advertisers is placing agencies at the center of disruption (*see Exhibit 1, next page*).

Exhibit 1
At the center of disruption

External market pressures

- Explosion of mobile
- Convergence of linear and digital
- Growth in data- and tech-enabled media buying
- Accelerating marketing funnel
- New creators emerging
- New platforms encroaching
- Increasing consolidation (Facebook, Google)
- Increased competition for talent
- Rising production costs
- Slow growth in developed markets



Advertiser pressures

- Providing and maximizing ROI
- Focus on working over non-working media
- Squeeze on cost from procurement
- Shaken trust in agency transparency
- “Mediapalooza” agency reviews
- Capability insourcing
- Going direct to creator
- Omnichannel marketing
- Focus on end-to end digital experiences
- Direct-to-consumer models

Source: Strategy& analysis

Perhaps most problematic is the simple fact that client needs and expectations are changing rapidly. The growing complexity of platforms and channels they must use to reach customers means senior brand executives are urgently looking for agency partners capable of designing integrated, end-to-end, omnichannel customer experiences.

At the same time, the agendas and responsibilities of C-suite executives are growing more integrated, so clients are looking for marketing partners that can apply best-in-class talent to a broader range of internal issues. And these executives are focused on a broader range of customer interactions, including enterprise branding, marketing, communications, and information and data strategy, management, and delivery.

Of course, senior marketing executives have also been driven to consolidate vendor relationships by the intense pressure to control costs and maximize return on their marketing investment. The ratio of “working” dollars (money spent on, say, ads in the marketplace) to “non-working” dollars (agency staffing costs) is increasingly being scrutinized. Rightly or wrongly, clients now see the current model, in which they are forced to engage multiple agencies to address multiple disciplines, as full of redundancies and an impediment to efficiency. As Procter & Gamble’s chief brand officer Marc Pritchard told an *Ad Age* conference in 2016, “Your complexity should not be our problem, so we want you to make that complexity invisible.” The current model can’t accomplish that effectively or efficiently.

That said, all these developments on the client side are mirrored by *internal* challenges at the global marketing companies, further speeding the decline of their existing model. The proliferation and fragmentation of marketing platforms and channels, for example, demands best-in-class teams capable of creating integrated customer experiences. Talent can no longer be separated into specialized branded groups operating without regard to the goals of their sister agencies.

These siloed agencies, meanwhile, are competing against their own siblings for client engagements. They respond to the same RFPs, duplicate capabilities, and underbid one another to “win” business at any cost. And clients have taken advantage of this situation by imposing a “cost-plus” pricing model, resulting in margin pressure, particularly on creative services businesses with a high labor component.

The growing need to develop new capabilities is yet another internal driver of business model change. Executing on strategies like the systematic use of big data, or leveraging innovative technologies like virtual reality, requires investment at a scale that is possible to achieve across agencies — but not at the individual agency level.

Clients see the current model, in which they are forced to engage multiple agencies to address multiple disciplines, as an impediment to efficiency.

And, as with virtually all businesses in the current environment, these developments are hastened by intense pressure from investors, who expect steady and robust earnings expansion. Interagency competition was once thought to bring out the best creative ideas. But with competition now coming from adjacent industries — including technology platforms such as Facebook and Adobe and publishers' in-house content studios — energy spent fending off sister agencies is clearly not energy well spent in the relentless drive to both control costs and grow revenues.

The ongoing evolution

To be sure, all of the global marketing agencies have to some extent begun to evolve their operating models in response to these challenges. Having emphasized a different mix of front-, middle-, and back-office initiatives, however, each is at a different stage of transformation.

In general, back-office functions are the low-hanging fruit of this process and therefore furthest along across the board. To the extent that some of these capabilities have already been centralized in shared-services centers, IT and finance have generally led the way, followed in some cases by functions such as treasury, tax, legal, and real estate. Human resources has generally lagged because creative talent is seen as such an important point of differentiation between agencies.

This component of the transformation will accelerate, as centralized back-office capabilities will soon be “table stakes” for the global marketing companies — relatively simple ways to save costs and demonstrate efficiency to clients.

Nascent efforts are also under way throughout the industry to centralize so-called middle-office functions: production, acquisition, partnerships, data management, and analytics. But they are generally not as far along in the process. The most headway has been made in production departments, as agencies have been tasked with cooperating in support of integrated pitches and unified “storytelling.” Omnicom, for example, announced in September 2015 the combination of studio production departments into a single entity called EG+ Worldwide, using a hub-and-spoke approach to service otherwise independent creative agencies.

Initiatives that bring together front-office and go-to-market capabilities, on the other hand, have been more tentative, bespoke, or experimental. Although agencies may unify some services, in general, marquee practices such as creative services and account planning are not shared across agencies except for the highest-tier accounts. In those cases, multidisciplinary global account structures have been built by hand at the parent-company level to support collaboration and coordination among “horizontal” cross-agency teams. For example,

Publicis has set up chief client officers to supervise cross-agency deployments for top clients.

And yet, despite some steps toward greater alignment, collaboration, and parent-company-level management, stubborn problems are preventing the transformation from happening quickly or aggressively enough.

Perhaps the most fundamental of these impediments is that the fierce competition between agencies still remains firmly at odds with the new drive for more interagency collaboration. What's more, incentive systems and corporate structures still reinforce rather than circumvent that conflict. Individual agencies continue to manage, and answer for, their own P&Ls; all staff members continue to report to the local office of their individual agency; and collaboration is not systematically rewarded. Even where cross-agency chief client officers are partially compensated on their client's success, they still report to an individual agency, at least via dotted line. (Compare that with the operating and compensation structures in other consolidating industries and you begin to see the depth of the problem. At PwC, for example, the top 100 global account managers are reviewed by a small group of partners.)

In most cases where integration is happening at the parent-company level, the new model is overlaid atop the existing agency model. As a result, the structure is not as effective as it should be, and managers of the consolidated business units are not adequately empowered.

It is clear that the industry giants are not adapting aggressively or quickly enough to their new environment. They haven't dislodged their cultural tendency to protect underlying agency brands, or conquered the lingering insecurity around collapsing agencies into discipline-driven business units. As a result, the landscape continues to be crowded with sub-brands that may share back- and middle-office functions but still go to market in a way that confuses their clients.

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The revolution at hand

The path forward is clear: the rapid development of much more integrated business operating models in which global marketing agencies are not mere holding companies but play a far more active and strategic role — the role, that is, of a true parent company.

There are, of course, a range of ways in which that broad aim might be accomplished. The optimal choices depend on the current status of the parent company's evolution, its broader strategy, the composition of its client base, and its appetite for change.

We'll break down the potential choices by where they fall along the spectrum of back- to front-office activities.

Back office

We can address back-office functions quickly because the changes involved tend to be tactical, not strategic, in nature, and because, as discussed above, they amount to table stakes for long-term viability. We recognize that the global marketing companies are already going down this path, but we believe that there is more to be done to drive economies of scale and that the integration needs to be achieved faster.

Transactional back-office activities are the lowest-hanging fruit and should mostly be moved into global shared-services organizations if they have not been already. These include finance functions like accounts payable and accounts receivable; payroll and other transactional HR services; procurement; and nonstrategic IT services. We recommend maintaining a regional or country footprint to serve agencies in each market, but also leveraging offshoring opportunities where possible to create efficiencies.

A range of *non-transactional* back-office activities and functions are somewhat more strategic in nature but should also be elevated to and managed at the parent level. In this category, talent management is perhaps most critically in need of a company-wide approach. The lack

of integrated talent management and succession planning across different agencies means existing agency executives don't have access to the same opportunities and sponsorship as they would for other massive global corporations. Given the extent to which agencies are suffering from high turnover and losing key talent to tech companies elbowing their way up the advertising food chain, remedying this by taking a top-level approach to talent is paramount. Other functions in this category include the strategic capabilities around treasury, tax, legal, and governance.

Middle office

The next stage of this transformation involves non-client-facing capabilities that nonetheless directly support front-office functions and tend to be strategic in nature. These capabilities should be either elevated to the parent-company level or housed in a single agency or business unit that would serve as a center of excellence (COE) for the other agencies.

Production services may be the most urgent focus in this category because they sit at a collision point between so many different market dynamics — in particular, the need for more content across more media and platforms, often without additional budgets. As a result, clients are increasingly asking for cost transparency, visibility into production supply chains and vendor relationships, and demonstration of the careful stewardship of client budgets. All this argues for the consolidation of agency production services to generate demonstrable production efficiencies through best practices like price normalization, project bundling, talent resource management, volume discounts for commodities such as travel and equipment, and consistent client reporting and analysis.

Other important middle-office functions that should become shared capabilities include data management and privacy, both critical capabilities for data-driven marketing.

Front office, go-to-market capabilities, and fundamental business unit structures

If there is any lingering doubt that client-facing services (and not just back- and middle-office functions) need to undergo a similar movement toward centralization, let the following anecdote dispel it.

For an important recent presentation to a major global consumer-products manufacturing client, one of the global marketing companies assembled a multidisciplinary team of all-stars from across its agency

network. It was a clear effort to both dazzle the client with the assembled talent and demonstrate that it could marshal an integrated best-in-class, cross-agency team on the client's behalf.

The move backfired, however, when the client noticed that members of the cross-agency team were introducing themselves to one another before the meeting, and in some cases couldn't distinguish between the client executives and their sister-agency counterparts. The next day, the client engagement was formally terminated.

The lesson: Superficial change, characterized by ad hoc task forces being grafted atop the existing operating model, isn't going to work. On the other hand, meaningful change that will better position the marketing giants strategically is a matter of not just regrouping functions but fundamentally rethinking organizational and operational structure to better serve clients. Existing agency brands can't emerge from this process untouched, and new business units will need to be formed.

Next-generation operating models

The optimal choice will depend on several factors and circumstances, and we'll address how to sort through the options below. But we'll start by laying out the range of potential paradigms for this transformation, starting with something close to the status quo and moving toward increasing levels of integration and structural change (*see Exhibit 2, next page*).

1. Status quo (individual brands)

We recognize that in some cases agency brand consolidation isn't realistic in the short term. Nor should it be required in every case, given the extent to which brand equity has been built up over the course of decades and in some cases still commands client loyalty and healthy margins. One potential operating model, then, maintains the agency structure for client-facing activities but fully transforms back- and middle-office functions, as described in the prior section.

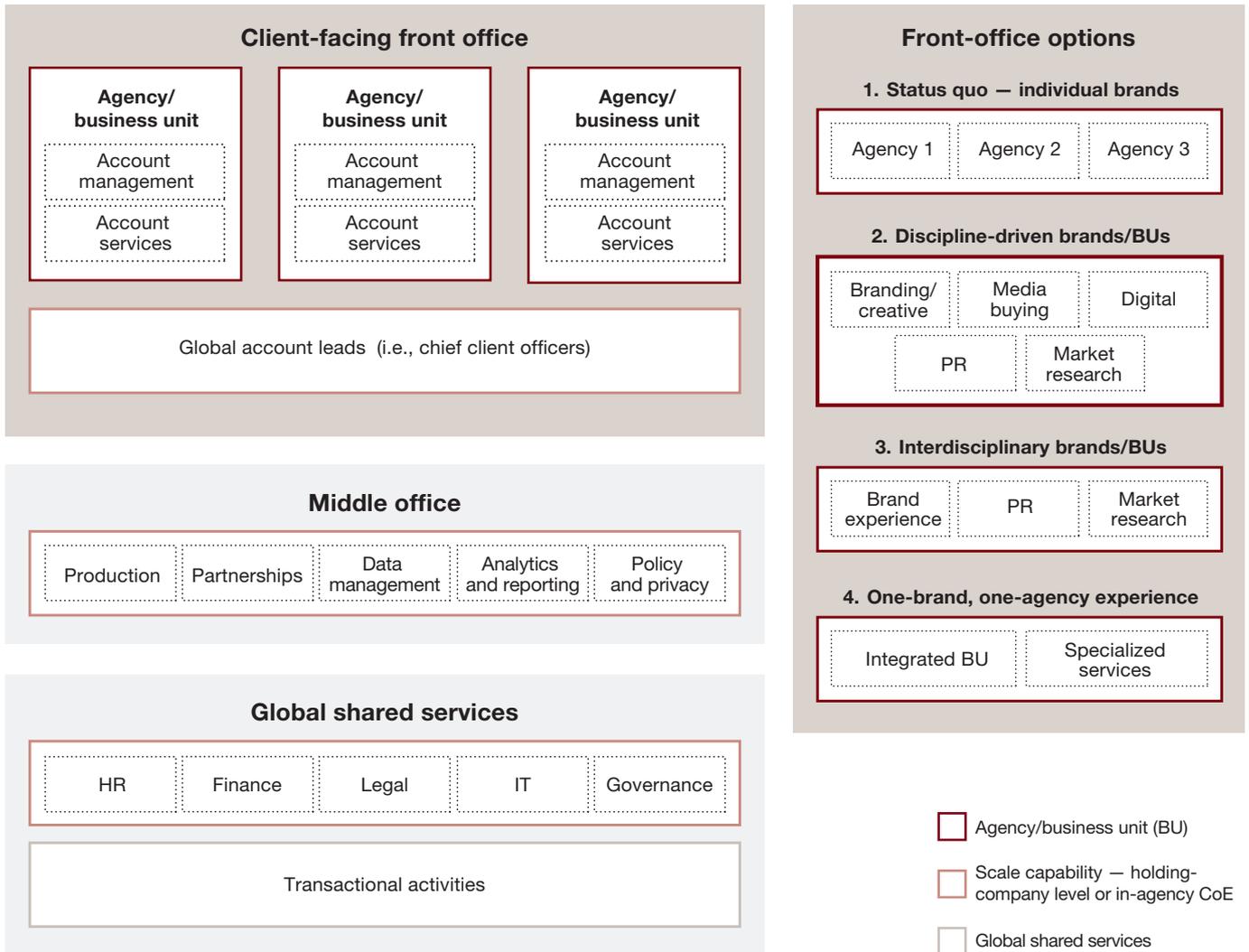
2. Discipline-driven business units

This model involves moving from a brand-based structure to one aligned according to discipline-based categories, or "archetypes." The five natural archetypes are branding and creative services, media buying, digital, public relations, and market research. For example, several branding/creative agencies within a network, each of which is essentially a mini holding company in itself, would be reorganized into a branding/creative business unit and given a new über-brand name — one that builds off either the parent company brand or the agency brand that is perceived to be the strongest and most valuable. A rebranding along these lines would, of course, require a well-planned transition process, which we'll address below.

3. Interdisciplinary business units

This model would also align along disciplines or archetypes rather than agency brands, but would further integrate disciplines by combining

Exhibit 2
Next-generation agency operating models



Source: Strategy& analysis

branding/creative, media buying, and digital into a single business unit called, perhaps, “brand experience.” Public relations and research would remain as separate archetype units.

The rationale behind this model is twofold. First, digital media is increasingly integral to every marketing campaign, so it makes little sense for digital and branding units to operate independently. And the integrated customer-experience design capabilities for which marketers are clamoring are typically strongest in the digital agencies, which naturally think in terms of user experience and user interface. By contrast, the legacy branding agencies too often still think in terms of the 30-second ad spot.

The second broad rationale behind the interdisciplinary business units model is that media-buying agencies have, in recent years, driven the lion’s share of profits for the global marketing companies because they’ve participated in the overall advertising spending growth even as that spending has shifted from TV to online. Legacy branding/creative agencies have often been left out of that growth because their business isn’t classified as working media and because their business model is limited by cost-plus pricing. As a result, brand agencies are increasingly going after media agency clients (and offering media management capabilities in the process). The reverse is happening as well, with media agencies adding their own creative offerings to their pitches. That kind of competition between sister agencies argues for an inevitable convergence between the two disciplines, which solves the problem proactively.

Public relations agencies are part of an integrated marketing offering, but tend to focus on crisis PR management, which is a distinct capability set. Research firms, meanwhile, benefit from being seen as “neutral” entities capable of providing unbiased customer research without the suspicion of any conflict of interest. So there are solid reasons to leave those disciplines as stand-alone units.

4. One-brand, one-agency experience

The notion of a single, monolithic business unit that merges branding/creative, digital, media buying, PR, and research agencies into a single “experience” agency may seem extreme compared with the status quo. But it offers clear advantages: It’s an ideal structure for providing a truly integrated marketing experience, it facilitates horizontal storytelling in the sales process, and it enables that storytelling to take shape earlier and more organically than is possible in the current environment. (It should be noted that this unified model could accommodate a small number of highly specialized agencies like Omnicom’s Diversified Agency Services.)

It makes little sense for digital and branding units to operate independently.

Choosing a model

So which of the four operating models is the best fit for which global marketing companies?

There's no easy way to answer that question, and no "right" answer. But the process of deciding should start with considering the parent company's overall business and growth strategy. If, for example, acquisitions are essential to future growth, there's a strong case for a model with fewer business units. The reason? Acquisition integration will be crucial, and establishing a playbook for that process will be easier with fewer business units to integrate. Is your company or agency set on developing capabilities in customer experience consulting? This would be an argument for greater integration between the disciplines, rather than less.

A second crucial variable in choosing an operating model is the company's client base. In the push to centralize capabilities, agencies can't get too far ahead of their clients, any more than they can fall behind their clients' desire for change. They need to ask themselves, Are we more or less integrated than our client counterparts? Some agencies, in fact, may need to maintain a certain amount of flexibility during a transition period — if, for example, clients request more high-level integration of agency services but aren't equipped to handle that approach at the lower or local levels, where personnel and capabilities may still be siloed.

Finally, it's also important to be pragmatic when it comes to imposing new operating structures on an existing culture. Gauge your organization's openness to change, and tailor your approach accordingly. We've repeatedly heard from agency clients, for example, that an "old guard" of senior executives is resistant to structural change and that a next generation of leaders is ready to embrace it. Aggressive change is needed across the industry, as we've discussed. But in some cases the path of least resistance — the fastest path, that is — may involve shifting operating models *in conjunction with* succession planning.

Start with considering the parent company's overall business and growth strategy.

Turning risks into competitive advantages

None of these transformations is without risks, of course. And there will be no shortage of naysayers using those risks as excuses to put off change or avoid it altogether. But if undertaken strategically, many of the potential pitfalls can be turned into opportunities and marketplace advantages. What follows is a list of potential challenges, many of them legitimate concerns, and how to reframe them to advance your long-term goals.

The problem	The symptoms	The fix
Loss of brand equity	Storied agencies, with decades of name recognition, suddenly lose their identity in the marketplace.	Agency brands need to be transitioned carefully and new “über-brands” promoted in a way that demonstrates that the whole is greater than the sum of the parts. To avoid marketplace confusion, existing brands may need a transition period as sub-brands, followed by a phase-out process.
Talent attrition	Key staffers, especially millennials and creatives, may leave if they feel that the quirky, entrepreneurial digital agencies they joined have become giant, “faceless” corporations.	Part of the solution is to respect the distinctive cultures that are being brought under one roof. At the same time, make clear that the new configurations open creative and career opportunities. (And prove it by putting young people into leadership roles during the transition.)
Loss of nimbleness	Individual agencies can get impatient and resist change if they have to wait for a “corporate solution” for a new capability.	Have one agency build a capability as a pilot and open it to other agencies over time. Plus, having fewer business units means faster consensus building and thus faster launches.
Conflict of interest	Global marketing companies historically use separate agencies to serve competing clients. With an integrated structure, that’s not possible.	That approach to managing perceived conflicts by organizational structure rather than process and procedure appears overdue for a change. (PwC has long maintained information barriers between teams serving competing clients.) Client concerns should be assuaged by a clear confidentiality framework and insulation procedures.
Eat-what-you-kill mentality persists	Agencies have been competing in a zero-sum game for decades, and that culture won’t disappear overnight.	The P&L structure needs to be simplified and revamped to incentivize integrated work approaches. Efficiencies gained by centralization must be reflected on P&Ls via givebacks. And P&Ls should be simplified from brand level to business unit level, with a transition period during which dual metrics are in place.

In addition to these risks, there is another elephant in the room — holding companies' financial incentive structure. Specifically, each agency is 100 percent accountable for its own P&L, which can mean that doing the right thing for each individual firm can get in the way of doing the right thing for the group — and the ultimate client. Integrating agencies into business units, as we have laid out, and aligning P&L responsibility accordingly will address this fundamental issue. In the interim, how can agencies drive greater integration across back- and middle-office functions when their individual parts are often not encouraged to do so?

Every group-wide initiative, be it building new capabilities or streamlining costs, needs to generate higher economic returns than agencies continuing to do things individually. What's more, the achieved financial benefits need to flow through to the agency P&Ls; they cannot be held back at the holding company level, which is too often the case today. Mechanisms must be designed to compensate agencies that participate in group-wide initiatives but find themselves worse off while other agencies benefit. (An example would be an agency operating in a very low-cost market whose back office is now serviced from a centralized, higher-cost location.) Lastly, where payback is clear but will take longer than the relevant performance period, the holding company needs to provide a kind of P&L relief to ensure investment in medium-term growth while carefully managing overall group performance from the center. These are significant changes to how holding companies manage their business today, but they are a critical prerequisite to finally achieving greater integration.

Getting started

To make it work, a phased transition road map needs to be planned meticulously. The plan should start by communicating the vision and roll-out process at an increasing level of detail. The iterative approach described below should minimize business disruption and help ensure stakeholder alignment (*see Exhibit 3, next page*).

Companies need to conduct a top-down assessment across the portfolio of businesses and develop a long-term operating model strategy for the company. Doing so is the key first step to develop the longer term vision and identify waves of execution that can minimize business disruption.

We see three potential waves of execution.

Wave 1: Integrate highly transactional back-office capabilities, including finance, payroll, and other HR transactions; IT; and procurement.

Wave 2: Tackle non-transactional, expertise-based back- and middle-office activities, including talent management, data management, and privacy and policy.

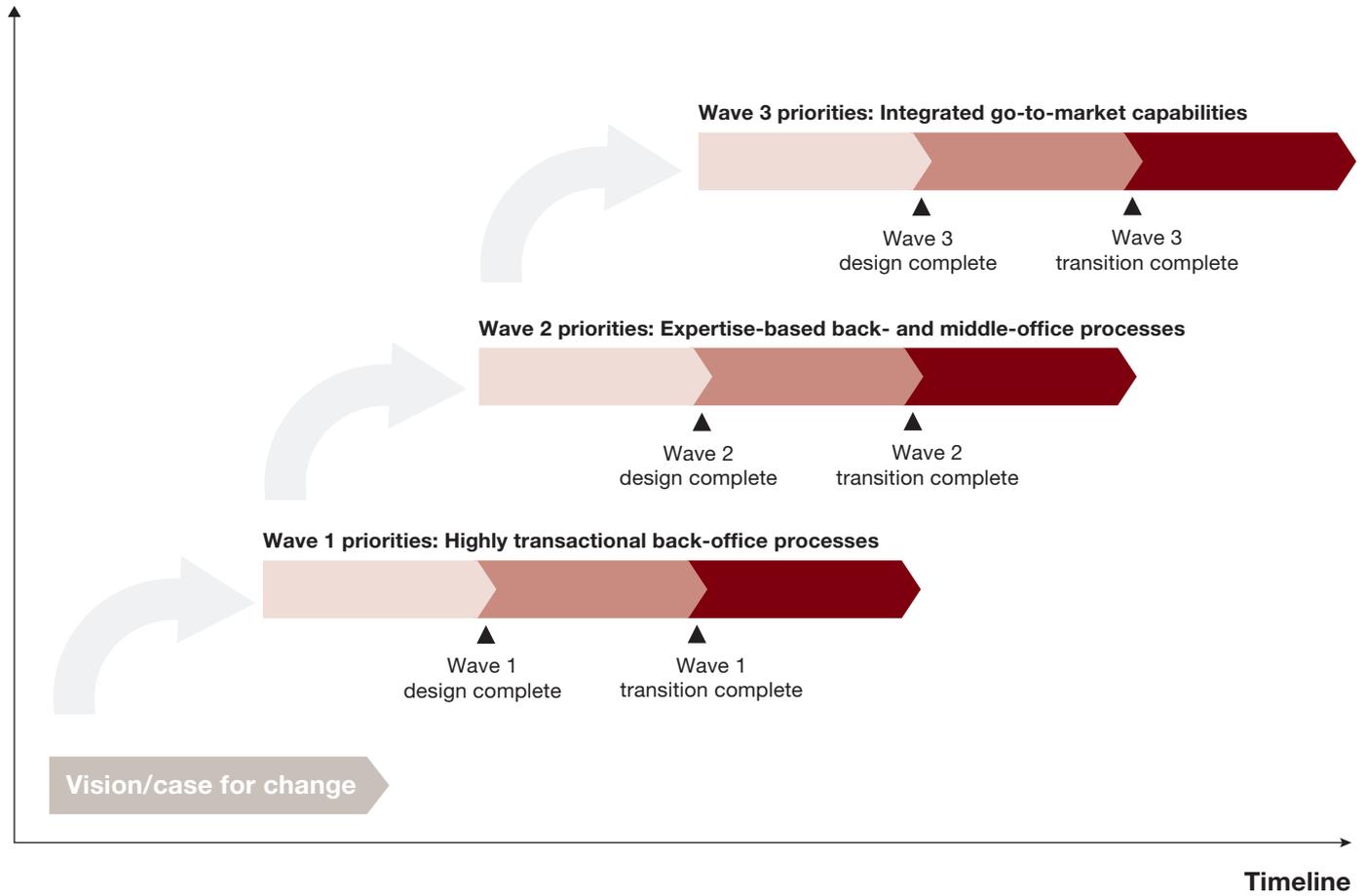
Wave 3: Begin the integration of brands into business units, by local hub or by country or by agency.

None of these transformations will be easy. Global marketing companies, after all, have been paying lip service to many of these ideas for years — but for a variety of reasons are not yet “walking the talk” in terms of unifying agencies across similar disciplines. And, with a few isolated exceptions, they have barely scratched the surface on the concept of collapsing agencies from different disciplines into a single multidisciplinary business unit.

To be sure, the risks of these changes are high, but the potential benefits are also high. Integration provides more growth potential for talent and better retention for the company. It generates efficiencies of scale. It makes the company better able to integrate future acquisitions. It reduces complexity, increases speed-to-market, and cleans up incentives. And, perhaps most important, it creates opportunities for better pricing models, heftier margins, and substantial earnings expansion.

Exhibit 3
Approach to operating model transformation

Shared-services capabilities



- Detailed design
- Build and transition
- Operate and optimize

Source: Strategy& analysis

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