Reorganizing for Growth
Capturing the Opportunity in Engineering Services
Executive Summary

• Engineering services (ES) companies have seen huge growth opportunity across the globe, but they are puzzled about how best to organize to capture it.

• Meanwhile, the recent economic downturn significantly slowed demand for ES, forcing many of these companies to contain costs for the first time, yet few have considered the impact of their organization structure on their costs. For most engineering companies, “organization” equals “We need a qualified individual to fill this vacancy.”

• Organization redesign and transformation are useful levers for maintaining costs while scaling up to take advantage of current and emerging growth opportunities.

• Engineering companies that successfully manage to shape their organizations today will be best poised to become the industry leaders of tomorrow.

• This Leading Research discusses best-fit organization structures for ES companies based on life-cycle stage and strategic focus, and the importance of ensuring that the transformation is supported by aligned processes and an entrepreneurial organization culture.

Source: Booz & Company analysis
Fast-growing engineering services (ES) companies encounter some common pain points as they strive to maintain momentum.

Overcoming These Pain Points May Require Reorganization

- **Growth Pain Points**
  - **Sales**
    - How do I acquire new customers?
    - What is my value proposition?
    - How do I get deeper into existing accounts?
  - **Delivery**
    - How do I become cost-efficient?
    - What capabilities should I build?
    - How do I build the right culture?
  - **Support**
    - How do I strike a balance between support efficiency and effectiveness?

*Each company must identify the optimal organization structure given its size, scale, and strategic focus. Those that successfully reorganize today will build competitive advantage.*

Source: Booz & Company analysis
ES companies can overcome these pain points, hence clarify their strategic focus, by applying five guiding principles.

### Growth Pain Points

<table>
<thead>
<tr>
<th>Sales</th>
<th>Delivery</th>
<th>Support</th>
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<tbody>
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### Five Guiding Principles

<table>
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<th>Complexity of services</th>
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<tbody>
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<td>▪ Decide proportion of project-based (high complexity) vs. annuity-based (low complexity) work the company will offer.</td>
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<td>▪ Build requisite capabilities to support each.</td>
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<th>Cost-efficiency</th>
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<td>▪ Implement an organization structure built on fungible resource pools (e.g., general consulting skills that can be applied to many different types of engineering projects or verticals) to optimize utilization and reduce staffing-related costs.</td>
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<th>Market focus</th>
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<td>▪ Maintain customer focus at all life-cycle stages. (What does the customer need rather than what can the company offer.)</td>
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<tr>
<td>▪ New companies should focus equally on all their target verticals. More mature companies, in an effort led directly by the CEO, need to separately incubate emerging verticals.</td>
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<th>Account mining</th>
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<td>▪ Identify the five to 10 highest-growth accounts and treat each as a distinct vertical, with the account manager reporting to the CEO, to ensure they receive sufficient attention while leaving remaining vertical heads focused on their own growth targets.</td>
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<th>Ownership</th>
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<td>▪ Build individual units, each with P&amp;L responsibility, to drive entrepreneurial market-focused culture.</td>
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Source: Booz & Company analysis
A company’s organization requirements will change as it moves from one life-cycle stage to the next.

The optimal organization structure will vary by company and will depend on its scale and strategic focus.

Source: Booz & Company analysis
**An emerging company with no parent support**

**Strategic Focus:** Concentrate on select industries to establish a credible value proposition (needed to compete against at-scale players)

- Focus sales efforts in a select geography (e.g., North America or Europe), while establishing a presence in other geographies (e.g., Asia/Pacific) where it is possible to leverage geographic synergies or capture opportunistic gains
- Sales sub-teams focus on the largest geographies and the rest of the world; the head of each reports to the CEO to provide higher visibility

- Develop industry-specific vertical teams (head of each reports to the CEO)
- Leverage a select number of industry/subject matter experts to serve as the “seed” for capability development and client interaction
- Horizontal teams shared among industry verticals provide simpler, specialized engineering skills (e.g., CAD/CAM, testing, prototyping, embedded services), thus enabling the company to maintain a low cost of operations and manage workload fluctuations
- Initially, horizontal teams will include a common pool of engineers from various disciplines (mechanical and electronics to start); over time, these teams may evolve to provide more specialized engineering services

Source: Booz & Company analysis
An emerging company within an IT parent

**Strategic Focus:** Quickly achieve scale by leveraging parent company’s scale and pursue volume business opportunities (to justify existence within the parent company)

**Organizing to capture the opportunity**

- Leverage IT parent company’s sales teams in various geographies for inroads with prospective clients
- Build delivery centers with industry-specific verticals
- Leverage from the IT parent vertical industry experts who have the industry-specific knowledge engineering customers will expect
- Supplement with focused horizontal teams that concentrate on simpler engineering services (e.g., CAD/CAM, testing, prototyping)
- All vertical and horizontal heads report to the CEO

**CEO oversees all functions with a strong focus on delivery**

- North America Parent Company Sales
- Europe Parent Company Sales
- Asia/Pacific Parent Company Sales

**Horizontals**

- Industry Vertical I
- Industry Vertical II
- Industry Vertical III

**Support**

- Leverage parent company’s support functions (finance, IT, HR, etc.) to minimize overhead
- Support heads for engineering services report to the CEO

Source: Booz & Company analysis
An emerging company within an engineering parent

**Strategic Focus:** Leverage engineering heritage and transferable skills to attract engineering customers in new industries where parent is not already present

- **Sales**
  - North America Integrated Sales
  - Europe Integrated Sales
  - Asia/Pacific Integrated Sales

- **Delivery**
  - Mechanical Vertical
  - Electronics Vertical
  - Process Vertical
  - Common Pool

- **Support**
  - Support

**CEO**

CEO oversees all functions with a strong focus on sales; delivery can be managed by professionals from parent organization

- Build teams for new engineering services as an extension of the parent's sales organization in various geographies to leverage existing client relationships
- Build engineering domain-specific delivery teams (e.g., mechanical, electronics, process) to target industries where the parent does not currently have a presence
- Within functional delivery teams, develop core teams of vertical industry experts, all of which may share a common pool of engineers who provide expertise in that function
- Leverage parent company's support functions (finance, IT, HR, etc.) to minimize overhead
- Support heads for engineering services report to the CEO

Source: Booz & Company analysis
Fast-growing companies

Organizing to capture the opportunity

Strategic Focus: CEO focuses on sales, to ensure strong growth trajectory, while CDO focuses on delivery and operations

CEO needs to have strong visibility into sales in a fast-growing engineering services company; thus, all regional sales units report directly to CEO

- Build geographic sales teams with select vertical sub-teams in largest geographic markets
- Develop a strong business development (BD) team (with members who understand delivery and client relationships) to mine opportunities
- Form a distinct, centralized pre-sales team to support sales efforts across the board

- Build industry-specific vertical teams, each with individual P&L to instill ownership and ensure accountability
- Form teams focused exclusively on emerging verticals; these may fall under the CDO initially and be carved out as separate verticals as they achieve scale
- Supplement delivery teams with horizontal teams (e.g., mechanical, electronic) and a common pool of engineering consulting staff for cost-efficiency
- Establish support functions dedicated to engineering services business (with dual reporting to business and function)
- Head of each centralized support team reports to the CEO

Source: Booz & Company analysis
Mature companies

Organizing to capture the opportunity

**Strategic Focus:** Mining deeper into large customers while ramping up emerging verticals to scale to ensure growth and differentiation

- Vertical-based sales structure leverages opportunities with large, global clients
- Geographic and pre-sales support in each vertical provides depth of focus and alignment with delivery capability
- Managed by global sales head, who reports to the CEO; emerging verticals, key sources of future growth, report directly to the CEO

- Build industry-specific vertical teams, each with an individual P&L; build dedicated delivery teams for top customer accounts
- Supplement delivery teams with horizontal teams (e.g., mechanical, electronic) and a common pool of engineering consulting staff for cost-efficiency
- Form teams focused on emerging verticals; these may fall under the CDO initially and be carved out as separate verticals as they achieve scale

- Centralized support is managed by chief administrative officer to minimize direct reports to the CEO
- Deploy support staff at each vertical level to effectively manage stand-alone P&L
- Establish support functions dedicated to engineering services business (with dual reporting to business and function)

Source: Booz & Company analysis
Process and culture complete the transformation

More than 50% of companies stop at providing direction ... ... and realize just 30% of the potential benefit

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<tr>
<th>Dimension</th>
<th>Key Questions and Considerations</th>
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| **Process** | • Which processes are critical to clarify and drive the organization in a common direction?  
  – Critical processes include market intelligence, business planning, proposal generation, account planning, transition management, delivery (including quality assurance), and resourcing.  
  • How can we clarify the role of each individual to align with the overall future objectives?  
  – Apply RACI* matrix to clarify inter-functional accountabilities, and prepare functional statements to define and clarify roles. |
| **Culture** | • How do we leverage performance reviews to drive the right behaviors?  
  – Use performance measurement mechanism with the right performance metrics and performance appraisal process.  
  • What kind of organizational DNA (culture) do we need to achieve the vision?  
  – Apply a leadership competency framework. Conduct cross-geographic and vertical-specific forums to improve coordination and share best practices. |

* RACI matrix is a powerful tool to define decision rights; acronym stands for responsible, accountable, consulted (pre-decision), and informed (post-decision).  
Source: Booz & Company analysis
Avoiding common change management pitfalls

### Getting Process and Culture Change Right

**Process Framework**
- Identify the **processes** that are critical to driving the organization in a new, common direction.
- Create detailed **process profiles** and **process maps**.
- Ensure that new processes are clearly defined, documented, and followed.

**Role Clarity**
- Define inter-accountabilities and responsibilities corresponding to each process through a **RACI matrix**.
- Conduct **stress tests** to identify and eliminate potential conflicts among stakeholders.
- Identify **decision rights**, particularly among sales, industry verticals, and horizontals, for each process using the RACI format.
- Ensure role clarity through **functional statements** that clearly describe roles and responsibilities for each position in the new management hierarchy.

**Performance Management**
- Build the right performance management system. Define appropriate key operational and individual performance indicators and **balanced scorecards**.
- Ensure timely, periodic rollup and reporting of **KPIs** and scorecards.
- Ensure fairness in **individual performance appraisal** processes.

**Organizational DNA**
- Build a **culture** that allows free flow of information across organizational boundaries and promotes innovation, entrepreneurship, and meritocracy.
- Develop an appropriate **leadership competency framework** that describes the attitudes and behaviors that enable successful performance in the leadership and managerial aspects of people’s roles.

Source: Booz & Company analysis
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