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The strategic operating model

**Transforming
into the right
organisation
to execute
your strategy**

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Authors: Paarth Mahendra and Hieu Vuong

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Executive summary

In a rapidly changing world, 40% of CEOs believe their current business models will not be viable 10 years from now. And writing the perfect strategy is not enough of a solution to this.

That is because today's demanding economic environment poses challenges to the typical organisation's sprawl of legacy business units and functions. As leaders, you can drive your organisation to become more future-ready, resilient and poised for success by refreshing your operating model from a strategic, top-down perspective. That is what we call a 'strategic operating model'.

Adopting a strategic operating model is an opportunity to drive significant, successful change across your business and realise long-term value. Such a model aligns better with your company's culture and ambitions. It also delivers benefits during transformation journeys, mergers or acquisitions; and, can create cost efficiencies. Businesses with strategic operating models make the most of their differentiating capabilities, become closer to their customers if that is their goal, foster growth and boost their position in the market.

Getting a strategic operating model right requires an ongoing process rather than a one-time effort. This means that business leaders need to start with a strategic top-down design, create the necessary operating structures, and think carefully about critical behaviours, new ways of working, and the enabling systems architecture, etc. For this approach to succeed, businesses need to involve C-suite executives early on and review their models as soon as possible during transformation journeys and deals cycles – and ideally, before embarking on such journeys. A well-designed and well-executed strategic operating model can typically serve an organisation optimally for two to three years – so the proactive review cycle must endure to keep the business competitive and, most importantly, relevant.



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Introduction

Multiple megatrends are disrupting industries today: accelerating technological advances, climate change, political polarisation, social instability and changing demographics – to name but a few. So it is no wonder that 40% of CEOs (and as many as 72% in certain markets) believe their current business model will not be viable within a decade, as PwC's 26th Annual Global CEO Survey found.

Although the idea of conducting an operating model review is not new, today's volatile business environment demands an updated approach: assessing the operating model holistically from a strategic, top-down perspective, rather than tackling one business unit or function at a time.

This kind of review is executive-led and capabilities-driven. And in the context of kickstarting an organisation's transformation journey or deal cycle, it is best done as early as possible.

This is an approach that helps to develop a more agile and fit-for-purpose operating model – one that is better able to drive your organisation into the future.

Reasons to transform your operating model

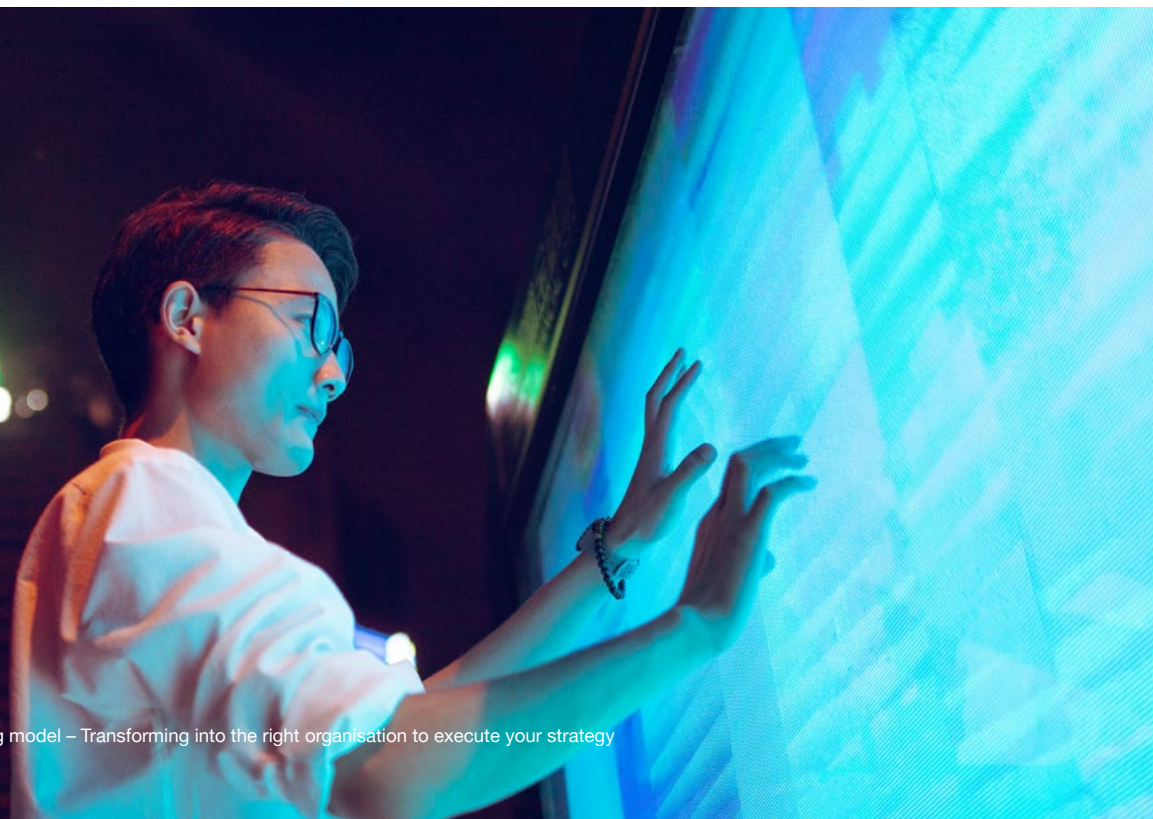
Why should businesses consider the strategic operating model? Because global trends are creating the need for new skills and capabilities, as well as ways of working.

Managing the impacts of climate change, for example, will require end-to-end, cross-functional skill sets and collaboration. And integrating ground-breaking innovations – such as generative artificial intelligence (AI) or sensor-enabled, frictionless retail – into business operations will change consumer demands and expectations, furthering the need for a more adaptive operating model.

Likewise, trends such as growing nationalism, or regionalisation, and social instability might create the need for new location strategies or real-time data management to instil customer confidence, while demographic shifts could amplify labour market pressures and increase skills gaps.



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Despite the disruption they bring, such market changes open opportunities for businesses to evolve and achieve long-term sustainability. Adopting a strategic operating model approach can also unlock value earlier in deals cycles or transformation journeys. This is why 60% of CEOs in 2022 started planning their long-term operating model in the deal screening or post-letter-of-intent stages, compared to 25% in 2019, as PwC's 2023 M&A Integration Survey found.

What is more, although strategic operating model work should not be initiated to cut costs, a transformed model can create cost efficiencies. That is because a strategic operating model is one that is more coherent and aligned with an organisation's culture, strategic ambitions and aspiring capabilities. Based on our experience of our clients' transformation efforts over a 10-year period, we have seen that companies that focus on strategic operating model reviews in transformations – such as investment in aspiring capabilities, roles and responsibilities alignment, or streamlining key processes – can see up to a 20% improvement in their financial performance.

What strategic operating model transformation looks like

Time and again, we have seen how organisations that embrace the strategic operating model approach benefit from a greater ability to weather any storm and thrive as reinvented businesses. At the same time, we have also observed how companies that do not take this approach struggle in their transformation journeys.

Consider some of these real-life examples:

1. **Global professional services company**

Hit hard by the economic impacts of the COVID-19 pandemic, one professional services company recognised that it had two options: redefine its strategic operating model to drive innovation across its portfolio of brands, or risk losing customers and market share to more forward-thinking competitors. It chose the first option.

The organisation developed a view of its end-to-end capabilities. To enable market growth and collaboration among its brands, it then worked through key strategic design decisions and defined target markets and business models – this included delayering 250 roles to bring them closer to the customer and bringing together 100 roles in a single customer delivery centre. Having laid this foundation, it designed a strategic business model to drive innovation, new ways of working and improved efficiency.

As a result, the company achieved greater coherence between its corporate strategy and its operating model. Its new model also enabled enhanced cost efficiency and higher levels of adaptability to market conditions.



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To manage these challenges, the business needed an updated operating model that could protect its profit margins.”

2. Large UK housebuilder

This organisation had built a decentralised network of regional business units and an operating structure that had served it well over many years. But it now faced an evolving market environment with growing land scarcity, increasingly limited buyer affordability, and strict sustainability targets. To manage these challenges, the business needed an updated operating model that could protect its profit margins. The company also wanted to improve its data capabilities with the use of AI to optimise pricing and land purchasing decisions. In addition, it was facing pressure from its board and shareholders to: respond to market volatility, build new capabilities in energy efficiency, and lead the market on its core value driver of acquiring the best land at the best price.

By revising its strategic operating model to align it with its capabilities and the surrounding market conditions, the organisation set a clear path for transformation with a focus on what it does best and what it aspires to do best going forward. This has given it a foundation for a ‘right to win’ in the face of new market challenges and disruptive technology trends.

3. Global consumer healthcare company

Created through a business spin-out, this organisation needed to build a standalone strategic operating model that supported its key objective to become a world-leading consumer healthcare company focused on delivering better everyday healthcare.

Rather than adopting a one-size-fits-all approach, the organisation developed a new operating model built around locally empowered business units that represented different market clusters. Each business unit was given its own decision rights, with autonomy for making resourcing and innovation investments, and accountability for business unit performance.

By deploying this decentralised model, the company was able to achieve its goal of delivering market-leading healthcare services at pace while taking into account varying regional needs.



4. Global commercial insurance company

After years of favourable market conditions and steady growth, this organisation realised that it needed to renew its focus on financial management and profitable performance and give fresh consideration to the shape of its business. Shareholders and business owners launched a transformation effort with both organic and inorganic growth in mind.

By designing a strategic operating model that targeted those needs, the company achieved two goals. Firstly, it established a clear north star that could ensure coherence and direct work across various business functions – for example, aligning the underwriting team’s efforts on a new workbench platform with their pricing and actuarial functions.

Secondly, the insurer ensured that, before day one of its acquisition journey, it had a clear operating model to share with its soon-to-be-acquired teams.

The new strategic operating model proved to be even more resilient than expected, and served the organisation well for more than three years. What is more, the model’s simplicity made it easy to communicate with new and existing employees, helping transformation efforts to successfully gain traction across the business. As a result, profitability increased significantly and, within two years, the insurer jumped in performance, rising to become a top quartile performer.



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Strategic operating model approach

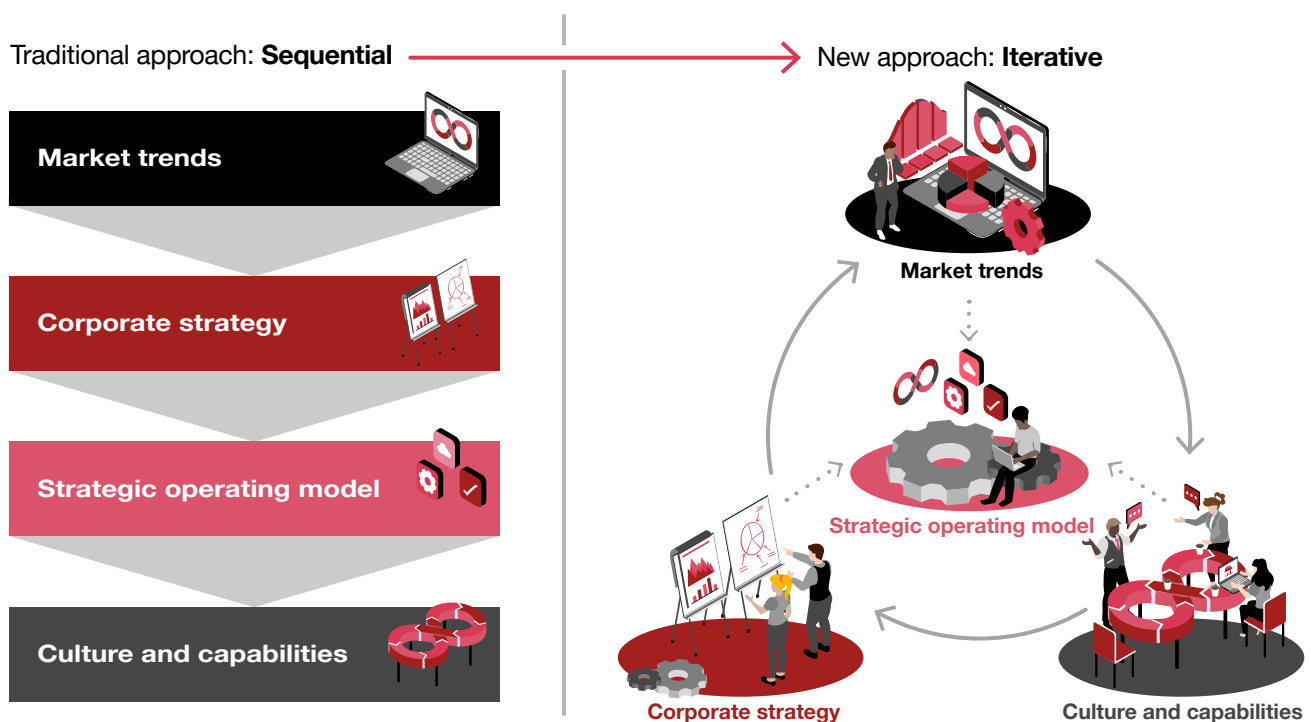
Business success requires several factors – for example, a market-backed strategy, an organisation design, a company culture, capabilities – to work in sync. A strategic operating model enables this by taking into account key requirements from all these areas, and by considering these factors in an iterative way.

This contrasts with the traditional approach which addresses strategic operating model design in a sequential way – starting first with market trends, then moving on to corporate strategy and, finally, to company culture and capabilities. The iterative approach enables organisations to better respond to black-swan events or future market disruptions (e.g. new technologies), with the potential for exponential growth (see Figure 1).



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Figure 1: Evolution of Strategic Operating Model design approaches



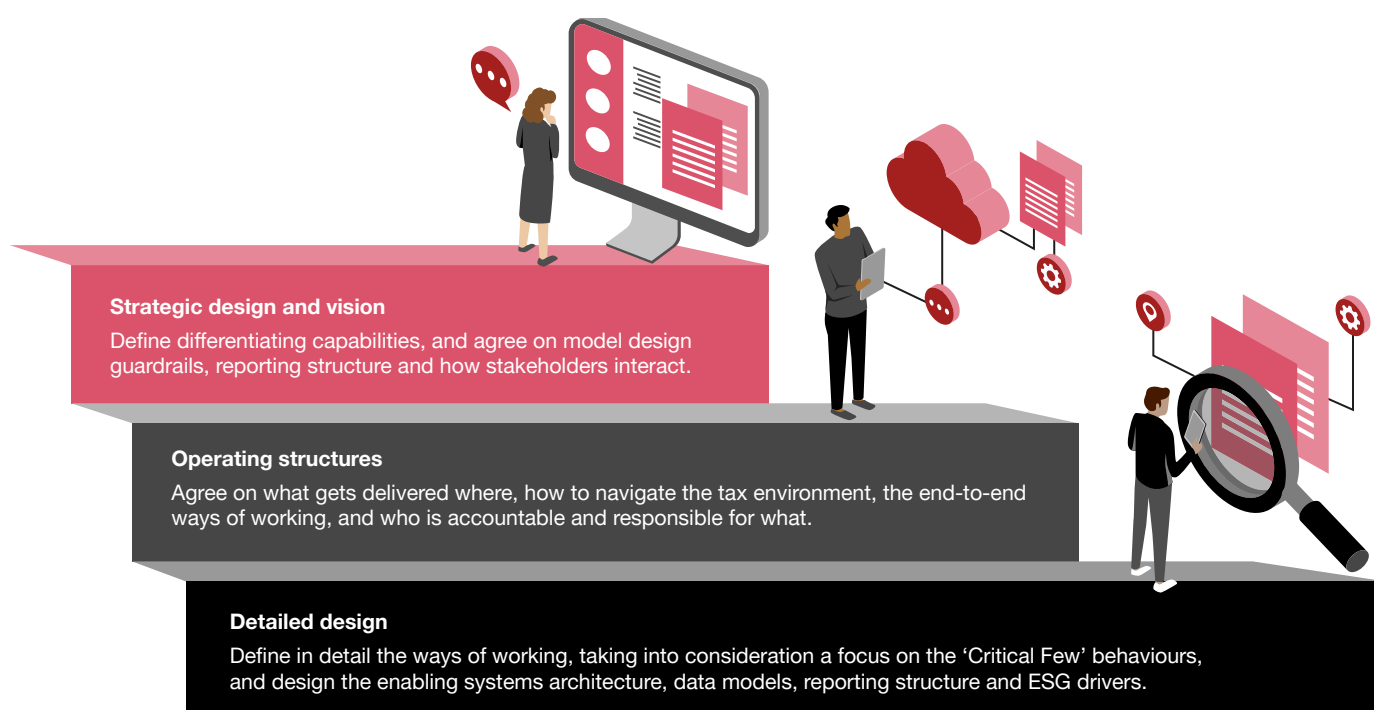


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It is conceivable that organisations will not return to operating models that were developed before the COVID-19 pandemic. Furthermore, the arrival on the market of the latest generative AI tools may have an even bigger impact on operating models. Indeed, technologies like AI will likely represent a strategic shift in how businesses operate, requiring extensive shifts in management practice, skill sets and capabilities to enable transformation across functions and geographies.

A well-designed strategic operating model can typically serve an organisation optimally for two to three years. To remain fit for purpose and resilient to market changes, businesses must maintain proactive review cycles to regularly reassess and iterate their strategic operating models, from considering updates to their strategic design through to detailed design changes where it matters (see Figure 2).

Figure 2: Strategic Operating Model components



Key steps for strategic operating model transformation success

Businesses today can improve their prospects for resilience and success despite market volatility, sustainability challenges and disruptive new technologies, by reviewing their operating models from a strategic perspective, and revising it where it matters.

To optimise this approach, organisations need to:

- 1 Lead from the top** – this entails bringing the strategic operating model higher up on the executive agenda and nominating executives to champion the journey, starting from design all the way through to execution;
- 2 Be consistent with the company's strategic ambition and its aspired-to capabilities** – to do this, companies should assess their operating model through the lens of their chosen market position and enhance what they do best, and take inputs from their corporate strategy and company culture;
- 3 Design sooner rather than later** – This means starting discussions on the strategic operating model early in the context of a transformation journey or deal cycle. The sooner a company can clarify how it will operate going forward, the greater the value it can expect to gain from transformation;
- 4 Keep the operating model sufficiently flexible and agile** – developing a strategic operating model is not a one-off exercise. Rather, it is an approach that must be iterative to keep a business fit for purpose in a changing world. Companies need to make sure their operating models can be adapted as they are put to the test by changing consumer demands, evolving regulations, unprecedented acceleration in innovation, and disruptions from new technologies.

If you are looking to reassess your organisation's operating model for business resilience and growth, we are here to help you.



If you are looking to reassess your organisation's current operating model for business resilience and growth, we are able to help you.”

Contacts



Paarth Mahendra
Senior Manager, Strategy &
PwC UK
paarth.mahendra@pwc.com



Hieu Vuong
Manager, Strategy &
PwC UK
hieu.vuong@pwc.com



Izy Bailey
Partner, Strategy &
PwC UK
izy.bailey@pwc.com



Christine Korwin-Szymanowska
Partner, Strategy &
PwC UK
christine.korwin-szymanowska@pwc.com

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