

Operating Model Design in Retail

How to design the Operating Model to support your business and get everyone lined up to deliver it

Retailers, even before the recession, had to adapt their business strategies and make extensive changes to how they run their operations. This will only intensify as the marketplace changes and becomes increasingly competitive.

Often the implications of these changes on the Operating Model (Process, People & Technology) are not fully understood and designed in. As such, the change itself becomes difficult to implement and the benefits are not fully understood and only partially delivered.

So, how do you come up with a target Operating Model that supports your new strategy? What else do you need to do to get the full benefits of your change programme?

PatelMiller has experience in developing new Operating Models that support the business strategy and helps direct major change programmes.

Our team has created such models for businesses including Dixons, John Lewis and Tesco.

The context:

At any given point, most retailers have multiple programmes or projects going on, be it implementing a new strategy or performance improvement; each with its own set of objectives and outputs.

It is imperative that these programmes are all moving towards the same goal and delivering changes that are aligned with each other and supports the ultimate business strategy.

This can be achieved by first defining an Operating Model that describes the future state of business processes, organisation and technology; and then ensure all the change programmes are aligned to create that target model.

PatelMiller has developed a proven method for designing the right Operating Model and transitioning to it whilst ensuring business continuity.

What exactly is an Operating Model:

At the highest level, an Operating Model describes how you want your business to run. It defines the major business capabilities required to execute your business strategy; and

how each capability is linked and further designed in terms of three components (Process, Technology, People) to drive efficiency and effectiveness.

Distinctive capabilities are the things that a retailer does better than anyone else in the market; creating compelling reasons for customers to choose to shop with it. For example, Amazon's Free One Day Delivery is not something that can be easily copied.

The Process component includes the overall process flows, inputs, outputs, who does what, where, how, what metrics and what levels of consistency.

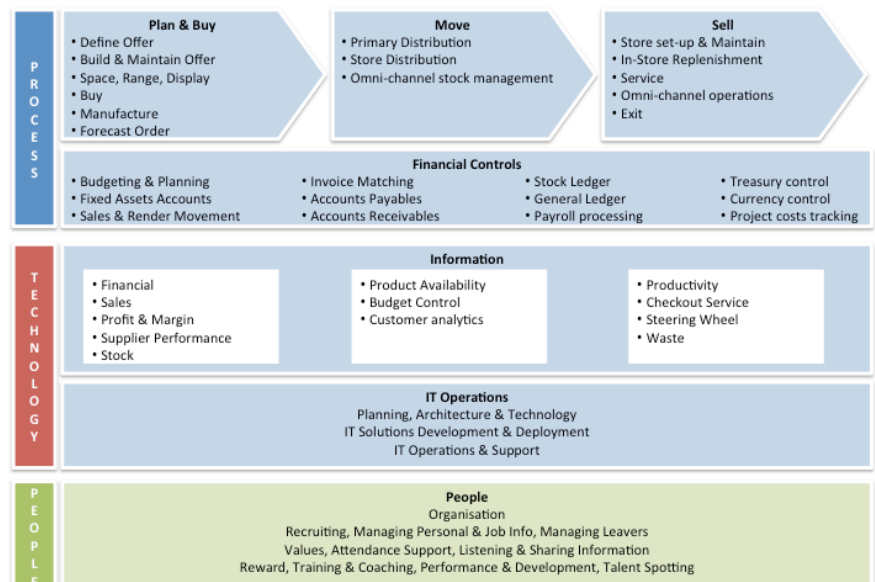
The Technology component includes architecture, applications, data, infrastructure and levels of standardisation required to deliver them.

The People component includes structure, organisation, skills, culture, governance, rewards, sourcing and locations.

Designing a winning Operating Model:

What makes our approach to creating Operating Models successful is that we

Example of a High Level Retail Operating Model



have a unique combined experience of strategic thinking and a detailed understanding of retail operations; as well as the pragmatism it takes to make change happen in Retail.

1. Diagnostic

The construction of an Operating Model begins with a sound business strategy, which clearly specifies:

- Target customer segments
- Products and services to be offered
- Channels that will be used

Assess how well existing capabilities support or limit your business strategy and prioritise the ones which must be enhanced or developed to support your new strategy or change programme.

2. Options & selection

Based on a set of key design principles, construct options for the high level target Operating Model.

Select the option that best delivers the distinctive capabilities, is affordable and can be delivered within the given timeframe and manageable levels of risk. Quantify the benefits, both financials and operational, with clear 'before' and 'after' measures.

3. Detailed design

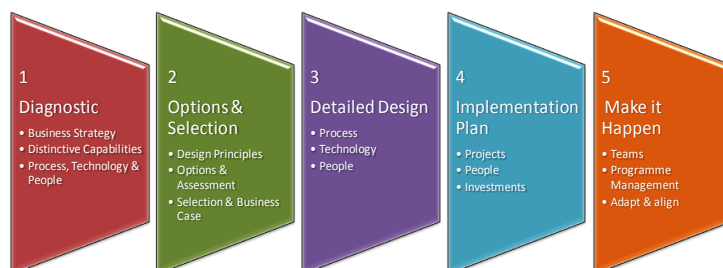
Describe important changes needed to

- People – structure, skills, culture, governance, rewards, locations, etc.
- Process – flows, interfaces, etc.
- Technology – systems, data, information, infrastructure, etc.

4. Implementation plan

Set out clear steps for how to get there, balancing speed, risks and investments; and spelling out any interim states where appropriate.

Construct the investment and benefits realisation schedule and set up appropriate mechanisms to measure them with Finance and Business Leaders.



5. Make it Happen

Mobilise teams and begin implementation. Create an effective

Programme Management capability to navigate the change journey.

Continually assess any changes in business direction and ensure the Operating Model and its implementation are adapted to maintain alignment.

What's important to remember?

- **Stay Strategic.** It is not about designing the perfect model in all areas, but the key elements that are needed to be better than the competition where it matters most.
- **Details where it's needed.** Don't waste time trying to cover every detail at the outset.
- **Leadership & Ownership.** Engage the Board, individually and collectively, to get their input and leadership. Start engaging people early on in the process, giving regular updates on the process, including content where appropriate. Don't wait till the end.

Summary:

A clear articulation and understanding of the Operating Model is crucial to ensure you have everything, including any changes you are (or will be) making, joined up to support and deliver your business strategies.

It is a complex topic to cover in just two pages, but hopefully we have given you a feel for what it is and how we go about doing it successfully in a pragmatic way.

Please get in touch using the details at the bottom right of this page if you want to find out more.

About PatelMiller:

PatelMiller is a business consultancy that works closely with its clients to develop their strategies and deliver the full benefit of them.

Our team have gained their skills from working for leading consulting firms as well as the world's best retailers – and we are now blending these skills together in our own unique way.

We combine the tools, methods and analytics of a strategy consultancy, with the pragmatism of a retailer, to make sure potential benefits become real benefits, quickly

The main things we do are:

- Create a **challenging vision**
- Develop **business plans**
- Design new **operating models**
- Improve **business processes** (including lean six sigma)
- Use **analytical tools** on your key business levers
- Run **programme management**
- Carry out **due diligence**

The businesses we have worked with include Asda-Walmart, Dixons Retail, John Lewis Partnership, Kingfisher and Tesco.

Our senior team:



Richard Hyman
President

Richard has been analysing and advising on retailing for the past 30+ years. He was the founder of Verdict

and continues to work with the UK's best retail businesses to share his expertise.



Anish Patel
Managing Partner

Anish has built up considerable retail consulting experience, both with top tier firms and as an independent advisor. Recently Anish held the leadership role of Retail Consulting Director for Deloitte UK.



Jonathan Miller
Managing Partner

Jonathan is an experienced advisor to retailers, having worked for Accenture as a strategy consultant, and then directly for Asda-Walmart, Tesco and Dixons in strategy and operations development roles.

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