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A VALUABLE FOUNDATION FOR GRAND VISIONS

the target operating model

How companies can really focus their attention on their customers

THE RETAIL PERFORMANCE COMPANY

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executive summary

Technological progress, which is being driven by digitalization, has been affecting the way that we as humans live, work, and shop for quite some time now. Whether it is important information about retirement planning or on-line shopping sprees, the expectations that people have of companies and brands are constantly changing. Regardless of the sector they are dealing with, customers expect real-time responses to their desires, orders, and inquiries, and want to be closely involved in the processes that affect them. This applies to taking out insurance or performing banking transactions as much as it does to purchasing fashion items or cars.

In light of the changed circumstances, it has become crucial for a company's success to quickly meet its customers' requests. Broad knowledge about customers and interlinked data are an essential prerequisite for this.

This change radically challenges companies' existing business models. Against the backdrop of this development, companies have to reposition themselves and get ready for the future with customer-centered business models.

While the establishment of omni-channel sales is an essential step toward customer orientation, it does demand a well thought out concept. A target operating model (TOM) provides an ideal framework for this. The model shows all the key indicators companies need to consider in order to achieve their strategic goal of customer orientation. The standards, structures, and plans that companies develop step by step using the TOM are beneficial to all involved parties in equal measure: the company, the employees, and the customers.

why a target operating model is crucial for a company's success

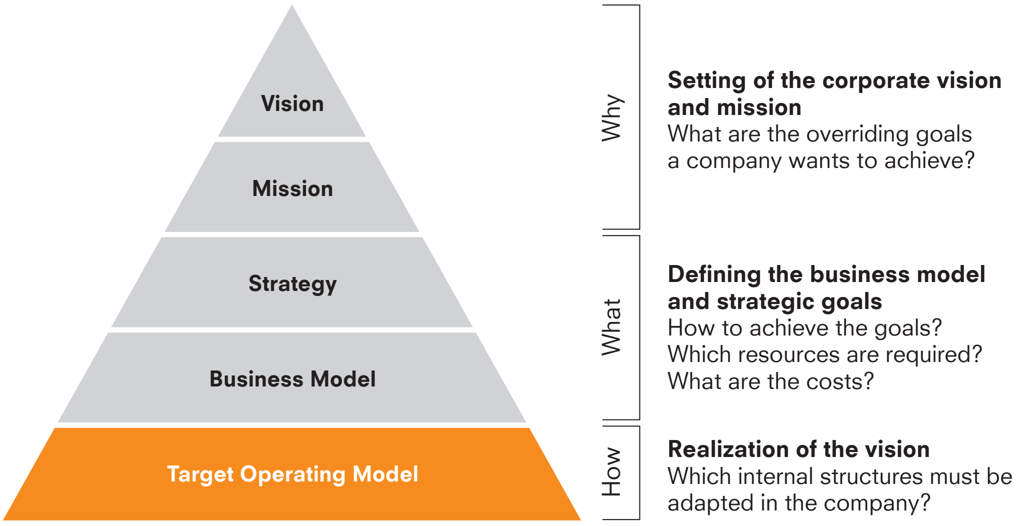
It sounds so simple: a company wants to expand its online and offline omni-channel sales and increase its turnover. For example, the company wants to meet the customers' expectations. For them, it has become a matter of course to find the right product or service quickly, conveniently, and at any time wherever they are looking – as easily as possible and without any obstacles. Being addressed by name and receiving personalized offers has also become part of the experience – the consequence of a structural transition, driven by digitalization, that has shaped and changed the traditional sales approaches.

The company therefore expands its sales channels and develops branded campaigns to improve the brand positioning within its competitive environment. But the desired success does not come.

Why is that?
There are various reasons. Our experience here at rpc – The Retail Performance Company is that companies do not implement all the required measures for such tasks. Above all, they would have to radically change and reorganize their internal processes in order to establish an integrated approach across all channels.

The key priority here is to develop the sales channels and interfaces with other divisions such as Production and Logistics. The people responsible in the IT department should define necessary applications, functionalities, and data flows that the company will need to achieve its goals. The roles and responsibilities of the departments must also be reassessed across all processes.

figure 1: implementing the corporate vision with the target operating model


Vision
Mission
Strategy
Business Model
Target Operating Model
Why
Setting of the corporate vision and mission
What are the overriding goals a company wants to achieve?
What
Defining the business model and strategic goals
How to achieve the goals?
Which resources are required?
What are the costs?
How
Realization of the vision
Which internal structures must be adapted in the company?

> ONLY COMPANIES THAT FIND THE IDEAL BALANCE BETWEEN CUSTOMER DEMANDS AND CORPORATE FEASIBILITY CAN PREVAIL IN THE MARKET.

A **target operating model** (TOM) provides the foundation for this challenge. The TOM creates the necessary blueprint for how a company intends to shape its operations in the future and which steps are required in what order. It addresses all the relevant indicators that a company needs to consider in order to achieve its strategic goals. It also helps the employees to interpret their daily work routines. Simply put, a TOM is not an end in itself. It helps companies to identify which processes and skills they need in order to implement their vision in the long term (cf. Fig. 1).

There is one thing that companies should always keep in mind: only companies that find the ideal balance between customer demands and corporate feasibility can prevail in the market. Successful companies place the customer at the center of their sales model and increase not only their innovation performance, but also their turnover and profit. To do so, they make the customer journey as attractive and seamless as possible for potential customers, and realign their internal organizational structures accordingly.

In other words, they replace their product-oriented business model with a customer-oriented one. In times where purchase decisions are influenced not only by the product itself, but by a complex process that starts long before the purchase, this is a must.

goodbye, product orientation! why the focus must be on the customer

There are many different ways and many different options: the large spectrum of interlinked sales channels offers customers near unlimited possibilities of purchasing the product or service they are looking for via precisely the channel that optimally meets their requirements and needs. Nevertheless, many companies still concentrate heavily on their product, although a customer-oriented business model is far more promising.

The customer is king! All companies would surely agree with this motto – at least in theory. This was revealed in a recent survey conducted by United Internet. According to this survey, 81% of the companies have realized that their business strategy should focus more strongly on their customers' requirements and needs. In reality, however, only just under half of the companies surveyed actually do this. Time and again, we see companies basing their strategies on selling a number of units or assigning great importance to production. In other words, they invest a great deal of time and money in their innovative capabilities on the product side and on many details that are hardly perceptible to the customer.

For example, some automotive manufacturers offer their customers at least 100 different steering wheel variants – per vehicle, mind you! It is easy to conceive how complex the production processes for such a range of products must be. At the same time, the question arises as to whether the customers expect or even demand such a huge selection.

TOO MUCH ATTENTION TO DETAIL

However, it is precisely these details that many companies consider to be relevant, even though they are often not decisive and are even irrelevant for the purchase decision. And this kind of attitude shows that companies are not putting their customers at the center of their strategy. We recognize this drawback on the basis of different characteristics we have experienced as part of our projects (cf. info box).

WOULD-BE CUSTOMER ORIENTATION

Seven characteristics of a lack of customer orientation at companies

- They do not use the customer journey as a control mechanism to observe the customers' behavior or manage customer actions across multiple channels.
- They force their customers into product-oriented company processes that cannot react to customer requirements with flexibility.
- They address all their customers with the same product communication instead of addressing them individually. As a result, they do not provide individual offers or prices to target audiences that are interested only in specific product categories.
- They determine their turnover on the basis of macro-economic targets or shareholders' goals. They control the prices for their products or services based on a gut feeling or use centrally analyzed price corridors.
- They do not consider the maximum prices their customers would be willing to pay for their products. In other words, they lack an adequate analysis of their customers' willingness to pay.
- They commission the development of processes or measures that are based not on experiences at the customer interface, but on a very product-heavy company perspective.
- They structure and organize their service processes according to business divisions that are organized by individual product categories. As a result, customers often spend a long time searching for the right contact person because the company does not clearly define who is responsible for them.

There are many more examples that demonstrate this lack of customer orientation: when it comes to mobility, for example, customers now pay ever greater attention to functionality and less attention to the individual appearance. Fewer and fewer people consider the car to be a status symbol. This attitude affects vehicle unit sales and prices. Many customers are paying more attention to the cost-benefit ratio, while the brand of car is less important for the purchase decision.

Therefore it is no longer the product alone that drives the customer to make the purchase. Accordingly, companies have to base their strategies on what exactly potential buyers are demanding. However, this works only if they focus their development, production, and sales processes to the customer to such an extent that they make a positive impression on the customer right at the start of their customer journey. Consequentially, the processes or even roles in a company change in order to reflect this approach.

Companies that know how their potential customers behave and what they expect can act successfully. This interface with customers, regardless of whether it is sales or marketing, enables companies to make their business model fit for the future and maximize their success.

At rpc, we believe that it is primarily the right balance for an optimally controlled customer journey that shapes a company’s success: The more a product is to comparable to a competitor’s product, the more companies have to adjust to their customers’ needs and focus on controlling the customer journey.

The reason? If there are a lot of products or services of equal value, it is difficult for customers to distinguish the actual value of the individual offering. Whether a company addresses B2C or B2B customers is immaterial here. Consequently, companies can only distinguish themselves from other competitors through the customer journey.

A DIFFICULT BALANCING ACT

Companies that want to convert their product-oriented business model into a customer-oriented one face the major challenge of finding the right balance between central value creation, organizational structures, their business base, and customer orientation. One crucial aspect in this endeavor is that they have to transfer the core competencies of their traditional business models, such as the brand or the sales network, to their new customer-oriented world as a key element.

A customer-oriented business model will prepare companies for the highly competitive environment and customer expectations. Due to the digital possibilities, the latter in particular is turning out to be a key driver. At the same time, the model can only be successful if companies implement the measures in a meaningful way and make sure the costs do not escalate. This is the only way the investments will pay for themselves and pay off in the long term.

> COMPANIES HAVE TO TRANSFER THE CORE COMPETENCIES OF THEIR TRADITIONAL BUSINESS MODELS, SUCH AS THE BRAND OR THE SALES NETWORK, TO THEIR NEW CUSTOMER-ORIENTED WORLD AS A KEY ELEMENT.

how to establish a target operating model

The transformation accompanying digitalization requires new approaches to be taken. However, it is not enough to just define strategic goals. Companies have to closely coordinate their internal structures and processes in order to meet their customers' desires and requirements. With the TOM providing a strong connection between the strategic goals and the organization, the transformation into a customer-oriented company is ensured.

ⓘ

AN OVERVIEW OF THE KEY STEPS TO ESTABLISHING A TOM

- Specification of goals
- Definition of framework parameters
- Collation of core requirements
- Structuring of the TOM
- Preparation of a schedule

Depending on the situation, the transition into a customer-oriented company takes place in multiple steps. It always starts with the customers' needs or the analysis thereof. For example, if a company wants to integrate an e-commerce platform as an additional channel to its traditional sales approach of a bricks-and-mortar business, this will have many impacts on existing process structures that must be taken into account.

SPECIFICATION OF GOALS

In this example, we are assuming that there are four goals that a company should pursue in order to increase their target margins in the long term by opening up a new channel (cf. Fig. 2).

1. Higher segment shares
2. Higher contribution margin
3. Decreasing warehouse costs
4. Decreasing sales costs

In detail:
An e-shop generates relevant customer data: Customers' search, click, and purchasing behavior says a lot about their desires, habits, and expectations. With this knowledge, companies can display the right products to their customers at the right time, online and offline, in the most promising channel.

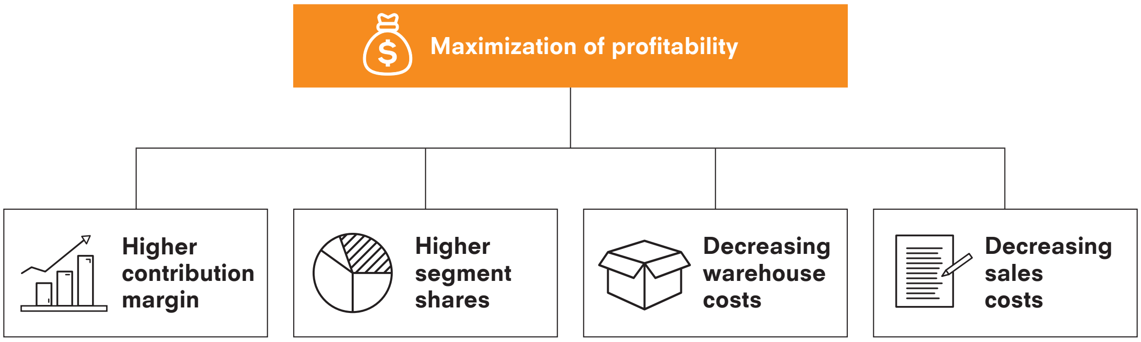
This personalized presentation increases customers' acceptance rates and, as a result, causes product unit sales to increase, which, in turn, increases the market share. Therefore, it does not just increase customer satisfaction, but also improves the brand's image and helps to substantiate the company's purchasing strategy at the same time.

Targeted, personalized campaigns also address customers directly and reduce the number of discounted campaigns needed to sell goods. In other words, companies no longer need to launch their products to the market without knowing how much customers are willing to pay. This increases the average contribution margin.

Warehouse costs are reduced thanks to optimized product selection due to better forecasts as to where a product is best offered to the customer. The synergy effects that come with e-commerce are another factor here.

And last but not least, targeted products with the right corresponding analysis decrease sales costs.

figure 2: potential goals of the target operating model


Maximization of profitability
Higher contribution margin
Higher segment shares
Decreasing warehouse costs
Decreasing sales costs

DEFINITION OF FRAMEWORK PARAMETERS

In the next step, companies define the framework parameters with which they intend to implement their visions and objectives. These parameters arise from the newly established business model and from the corporate structures. Depending on the organization, a company then makes its decision centrally or locally, or according to a top-down or bottom-up principle, for example (cf. Fig. 3). The defined framework parameters provide the framework of the TOM with clear structures.

In practice, the company in the example defines the following framework parameters:

- There is to be one central unit that performs customer analysis and combines all available data.
- Those involved are to use agile working methods to develop the IT systems necessary for the new business model.
- Headquarters are responsible for profit and loss.

COLLATION OF CORE REQUIREMENTS

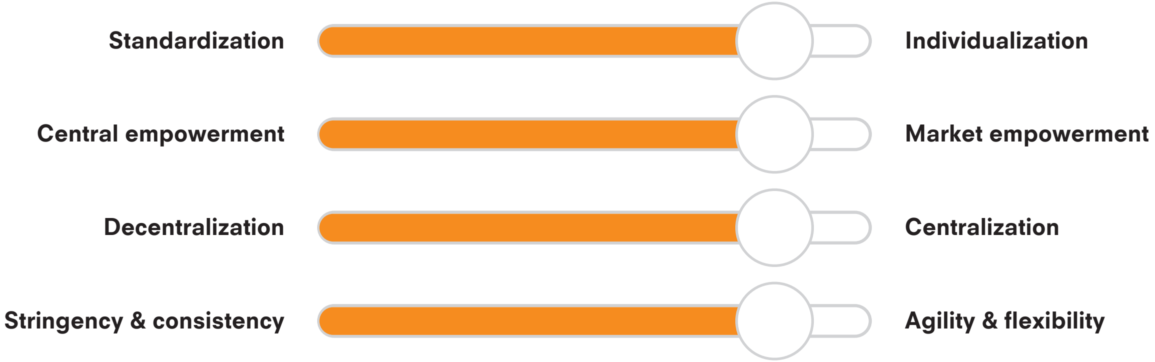
The core requirements of the business model specify which internal structures and competencies need to be established in order to allow customers to experience the points of contact and interactions.

For a company that wants to establish omnichannel sales, the following core requirements would be of central importance:

The company

- pursues a holistic approach for its campaigns: it tailors its campaigns to its customers in a synchronized and personalized way, across all product categories.
- operates a supply chain that it tailors entirely to match its customer data. This is how it optimizes warehousing.
- implements efficient customer access: one system combines information from all the channels and thus creates seamless customer interaction.
- introduces new franchise contracts to contractually include all bricks-and-mortar retailers in the new, multi-layered sales channel system.

figure 3: possible framework for the target operating model



STRUCTURING OF THE TOM

Once the objectives and core requirements of the customer-oriented business model have been defined, the company specifies the framework for the TOM in line with a structured vision.

The described company, who wants to establish an omni-channel landscape, should ideally manage its sales channels in a coordinated manner. This way, it can prevent one sales channel from being cannibalized, since the various channels will be in competition with each other at first. This competition could give rise to price wars, with each channel fighting to achieve its own sales goal. This would indeed boost sales, but not achieve sustainable sales structures.

The cannibalization effect comes into play especially when the online and offline channels are operated by two different owners, for example. The company in question may indeed improve its turnover, but it will also incur excessive sales costs. And these, in turn, diminish the company's long-term success. At the same time, customers perceive the brand as disparate, which does not lead to the desired success. This is not a way to increase sales in the long term. A well-thought-out control model can counteract these detrimental effects.

The TOM of the company in this example could accordingly specify that the sales structures of the channels must be consistent with each other. Standardized processes and business rules are helpful here.

A REAL-LIFE EXAMPLE

Despite all the differences, roughly 70% of a TOM for a customer-oriented sales approach are similar, in four particular points:

- Synchronization of internal processes across all channels
- Creation of modular integrated IT landscapes
- Breaking up the silo structures in the organization and delivering a structured integration of competencies, roles, and responsibilities
- A control model that permits setting of targets and budgeting across all structures

PREPARATION OF A SCHEDULE

At rpc, we develop the TOM by deriving the requirements for an ideal customer experience along the customer journey. This enables companies to implement customer orientation in a pragmatic and efficient manner.

The following example illustrates which steps we encounter along the way and what a company's ideal reaction would be (cf. Fig. 4).

A customer has reserved a product in a company's e-commerce shop. Before making the decision to buy the product, the customer wants to take a look at it in the physical store. For the process to match the customer expectations, the company must first link its online and offline processes and interfaces. It has to coordinate when the interaction transitions from online to offline. This ensures that the company can process the customer's expectations consistently.

This is where technology comes in: IT systems assist the company with such processes. The fact that customer desires and requirements change quickly affects the functionalities of technical infrastructures and platforms. If, for example, the availability of a product is displayed online so that a customer can collect the desired product at the store of their choice, corresponding interfaces must be created to ensure that the customer's order is placed at the correct shop and the product can be reserved.

If the data is stored and analyzed centrally, the information is transmitted to the store quickly and an employee can reserve the product. After all, the company wants to ensure that the customer can purchase the product. Should the desired product not be available at the store of the customer's choice because it was not reserved due to inadequate processes, the customer will form a negative opinion of the brand or company. In this case, it is irrelevant to the customer whether the online shop is particularly user friendly or the stores are nicely designed. In the worst case, the bad experience will cause the customer to stop shopping with this company.

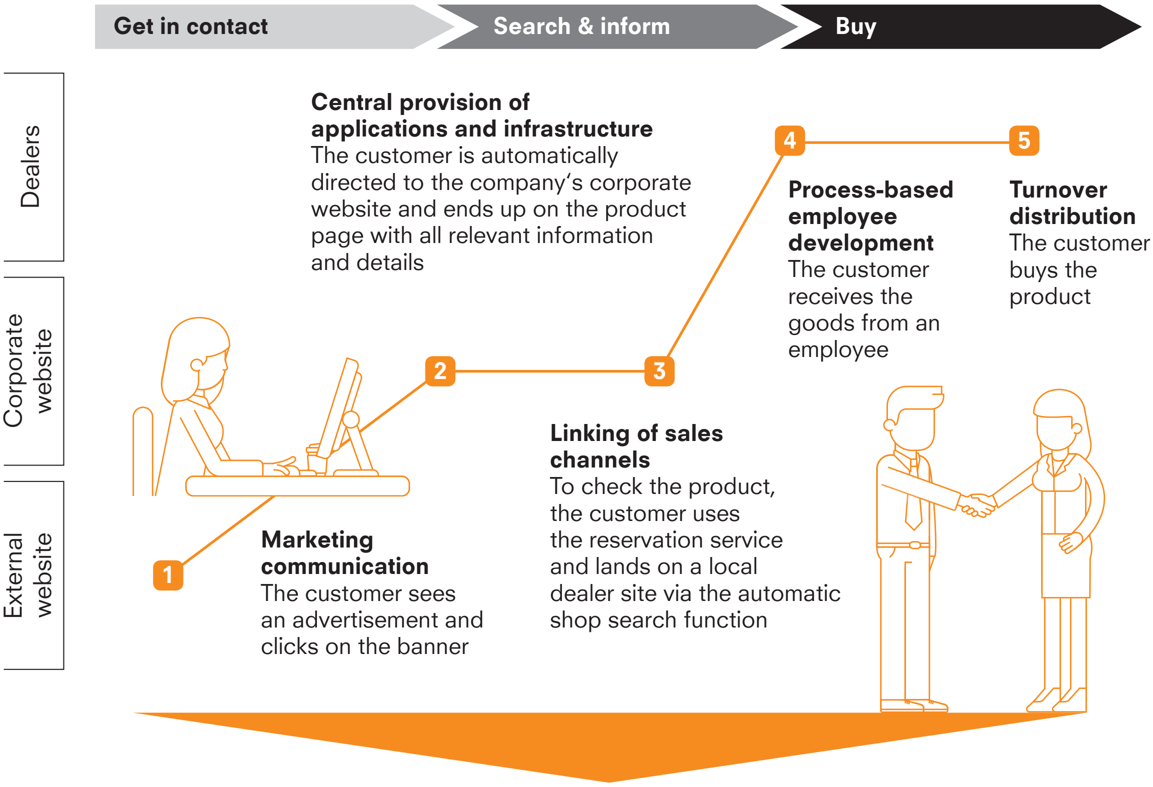
> THE MORE PRECISELY THE MOST IMPORTANT PROCESSES AND STRUCTURES BETWEEN THE INDIVIDUAL CHANNELS ARE DEFINED, THE FEWER MISTAKES AN HAPPEN LATER ON.

The more precisely a company defines the most important processes and structures between the individual channels, i.e. the more accurately the collaboration model for the channels is specified, the fewer mistakes can happen later on. And as a result, there are fewer negative effects on turnover. If, on the other hand, all processes are properly coordinated and run smoothly, the customer will be satisfied and happy to return – in the best case, they will recommend the company or brand.

However, the question arises as to how the company will enter the turnover in the books – in favour of the online or the offline channel? In order to prevent competition, or possibly even cannibalization, between the two channels, the company must establish a suitable distribution method for the turnover; a bonus model can be useful here. As headquarters are responsible for the profit and loss statement in our example, a redistribution method must be established by headquarters. Every channel involved should benefit, not just the one that generated the turnover.

In summary, the collaboration model for the sales channels is the centerpiece of the TOM: It provides an overview of the organizational structure and indicates the most important processes and responsibilities. It also includes the control arrangements for the distribution of the budget, targets, or the decision-making processes. This way, the company can make sure that it has its operational structures and processes in place and actually implements its vision.

figure 4: the requirements of the model can be derived along the customer journey



Marketing communication
The customer sees an advertisement and clicks on the banner

Central provision of applications and infrastructure
The customer is automatically directed to the company's corporate website and ends up on the product page with all relevant information and details

Linking of sales channels
To check the product, the customer uses the reservation service and lands on a local dealer site via the automatic shop search function

Process-based employee development
The customer receives the goods from an employee

Turnover distribution
The customer buys the product

Components of the Target Operating Model

Processes

- Linking of sales channels
- Standardized marketing communication
- Consistent customer experience
- Systematic administration

Steering

- Centrally controlled distribution of sales
- Cross-divisional and cross-channel objectives and management
- Central decision making and budget control
- Control according to qualitative and quantitative KPIs

IT

- Central provision of applications and infrastructure
- Uniform and cross-channel data basis
- Intelligent central warehouse management

Organization & employees

- New roles and responsibilities
- Cross-functional organizational structures
- Process-based employee development

one vision – one team!
why you have to get your employees on-board for the transformation journey

As indispensable as the development of a TOM is for a company that wants to put customers at the center of its business strategy, it is just as crucial to get employees on-board for this journey. Shifting the focus away from the product is a serious process for employees: it changes traditional processes, breaks up established structures and silo-based thinking, and shifts responsibilities. However, clear and targeted communication and well-prepared solutions allow companies to get their employees on-board.

Changes, be they staff-related or structural, make many employees anxious: they fear that they will not be able to handle the tasks or meet the deadlines. They do not want to surrender responsibility or take on additional responsibility. They know that they have difficulty adapting to new situations. In the worst case, they are afraid of having to change job or even of losing their job. As the transition from a product-oriented company to a customer-oriented one is a huge change and breaks up silo structures, those responsible face a major challenge: they have to prepare their employees for this journey, communicate with them, and train them accordingly.

In the case of such a major change, it is up to the management or board of directors in particular to make the transition transparent to their employees. They must take the time to inform and convince their employees. With regard to the latter in particular, they should adopt a step-by-step approach to the task.

Based on our project experience, we recommend supporting such a project by implementing change measures that are oriented toward the respective target groups within the company. The first step is to identify the proponents, multipliers, and also the deniers among their employees and to involve them at suitable points in the design and transformation processes. This minimizes defensive attitudes and ensures a successful transformation. In the next step, solutions for the upcoming change are prepared in a small and intimate group. Ideally, this groups consists of employees who have a good understanding of the new strategic goal and are in favour of it, and an external trusted person who supports the upcoming changes from the point of view of top management and carries those views into the organization.

The team uses interviews to analyze the current status of the individual elements of the TOM together, from current organizational structures, processes, and IT systems, all the way through to control functions. Criteria for the corporate goal can be defined this way. To flesh out the solution, internal experts on each topic are involved in the group.

In order to be able to distance themselves from the familiar structures and thinking patterns of the organization, employees have to be willing to accept external viewpoints. Companies have to handle this process with great care. In the case of major change processes in particular, employees and managers alike take a defensive stance because they want to avoid the unknown. Creative ideas help to build new incentives and leave traditional patterns behind.

Clear and targeted communication is also important when it comes to preparing employees for change. It is important to avoid presenting solutions that have not yet been finalized. They tend to cause concern and anxiety among employees. It is crucial to pick the right time to communicate the change, so as to avoid turmoil.

> THE TRANSITION FROM
> A PRODUCT-ORIENTED COMPANY
> TO A CUSTOMER-ORIENTED
> ONE IS A HUGE CHANGE,
> AND THE PEOPLE RESPONSIBLE
> FACE A MAJOR CHALLENGE.

Once senior management has decided on a solution, there is nothing to stop it from communicating it clearly to the employees. One thing is clear: leaving employees in the dark about the future of the company for too long also gives rise to negative emotions. And in times of new beginnings and changes, emotions such as curiosity, openness, and anticipation should prevail.

At rpc, we have observed that the upcoming changes often evolve from within the ranks of employees, as the multipliers provide natural incentives for the intended change. In contrast, companies that attempt to implement major changes by means of traditional hierarchical directives often find that their employees are dissatisfied and do not back the change. Companies who get their employees on-board for the transformation journey from within will overcome the first challenges without any problems.

If the company then trains its employees in a targeted fashion and teaches them the necessary tools of the trade, this will allow employees to perform their work in line with the new company vision. From our project experience, we know that digital technologies in particular, such as e-learning and virtual or augmented reality, are suitable for delivering the complex contents of upcoming changes. They prepare employees for change in an unconventional and playful way and make it easier for them to understand it.

If companies want to ensure that the new company processes are successful in the long term, they can use coaching measures to review their employees' performance level and optimize it if necessary.

However, in some cases, management does not need to initiate such measures: in companies that have a transparent and collaborative culture, motivated employees will volunteer feedback with regard to what kind of assistance they still need for the transformation journey or the company vision.

outlook

Today and in the future in particular, a customer-oriented business strategy with an omni-channel sales approach constitutes the ideal basis for successful companies. The TOM indicates all necessary requirements and framework conditions, from intelligent contact between the different channels and the qualification of employees involved all the way through to the roles of management and their communications.

Such clear structures ensure that companies have a chance to achieve economic success in the phase of constant societal change. The proliferating of digitalization will continue to increasingly penetrate all areas of our lives with information and communication technologies in the future; at this time, we are still at the beginning of a long-term change on nearly all levels of society. Even in just a few years' time, people's living and working environments will differ vastly from those we know today.

New entrepreneurial actions and strategies are therefore becoming extremely important. Companies need to prepare for the upcoming challenges and be open to change. They should not leave anything to chance, but trust in instruments that indicate promising paths in detail.

Developing models such as the TOM takes a lot of time and demands a great deal of commitment from all parties involved. Even if companies possibly find themselves facing new risks and responsibilities by developing a customer-oriented business model, new times offer new opportunities. Companies that involve their employees, business partners, customers, and potential new customers in the conception, production, and distribution processes for their products and services using clear structures today, are preparing for a future that, given progressing digitalization, leaves no room for alternatives.

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INSPIRING
CUSTOMER-CENTRIC
TRANSFORMATION

ABOUT US

rpc – The Retail Performance Company is a consultancy that supports companies in sales issues. With the service areas Consulting, Coaching, Training, HR Services, Retail Design and Data Analytics we offer our customers integrated solutions to accompany them on their way to a customer-oriented transformation. Our focus is on creating inspiring customer experiences for a sustainable and value-adding relationship between brands and end customers. rpc was founded in 2013 as a joint venture between the BMW Group and h&z Unternehmensberatung AG and is represented in nine countries. For further information: **http://www.rpc-partners.com**. Follow us on **LinkedIn** and **XING**.

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