



# Using Business Architecture to Realize your Operating Model

Steve DuPont, Associate Technical Fellow  
Enterprise Architecture  
March 25, 2014

# Global Boeing

- Customers and customer support in 150 countries
  - Total revenue in 2013: \$86.6 billion
  - 70 percent of commercial airplane revenue historically from customers outside the United States
- Manufacturing, service, and technology partnerships with companies around the world
  - Contracts with 21,800 suppliers and partners globally
- Research, design, and technology-development centers and programs in multiple countries
- More than 168,000 Boeing employees in more than 65 countries

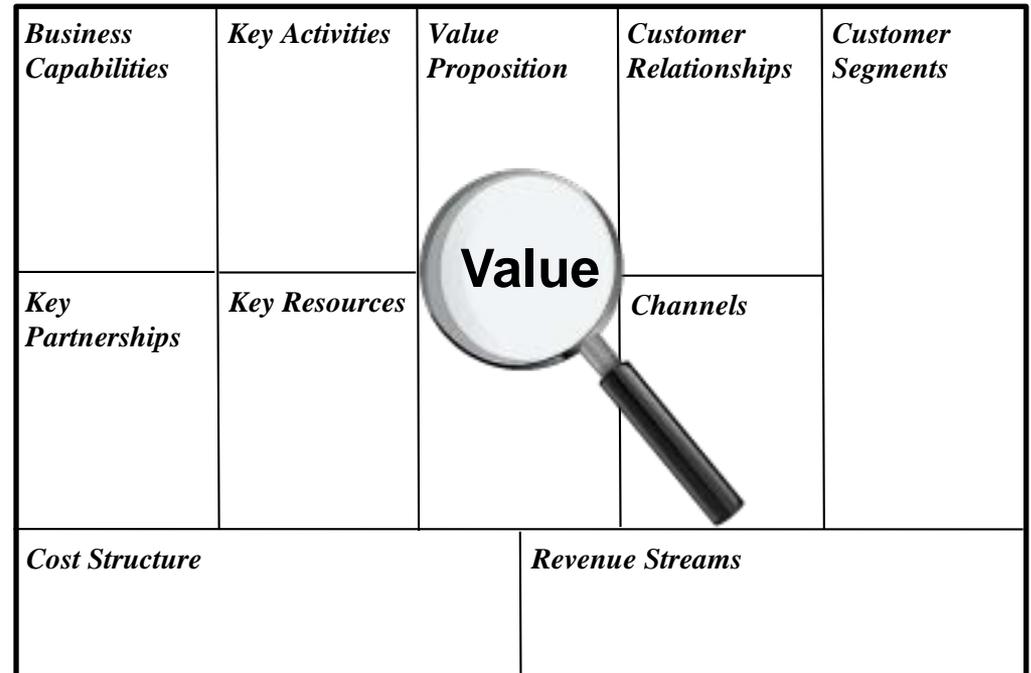


# Agenda

- Overview
- Key Concepts
- Target Operating Model Development
- Hypothetical Example
- Summary

# Business Model

“A business model describes the rationale of how an organization creates, delivers, and captures value”\*



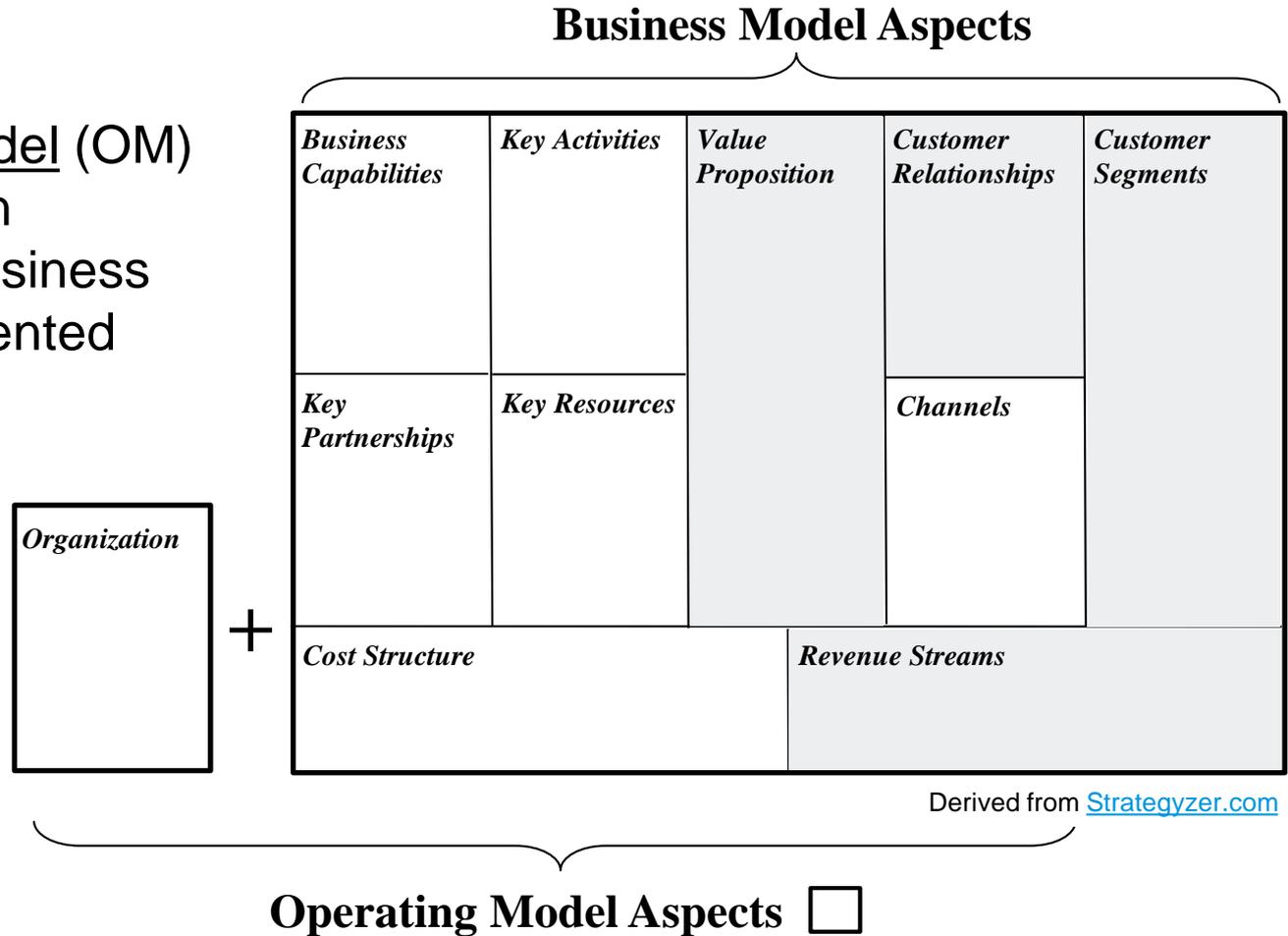
Derived from [Strategyzer.com](http://Strategyzer.com)

## Business Model Aspects

\* “Alexander Osterwalder and Yves Pigneur, “Business Model Generation,” 2012.

# Operating Model versus Business Model

An operating model (OM) describes how an organization's business model is implemented



**An operating model realizes an organization's business models**

# Definition

“An operating model is the necessary level of business process integration and standardization for delivering goods and services to customers”\*

<i>Business Capabilities</i>	<i>Key Activities</i>	<i>Organization</i>
<i>Key Partnerships</i>	<i>Key Resources</i>	<i>Channels</i>
<i>Cost Structure</i>		

Derived from [Strategyzer.com](http://Strategyzer.com)

## Operating Model Aspects

\* Jeanne W. Ross, Peter Weill, David C. Robertson, “Enterprise Architecture as Strategy, Harvard Business School Press, 2006.

**Key OM concerns: integration, standardization, and resource sharing**

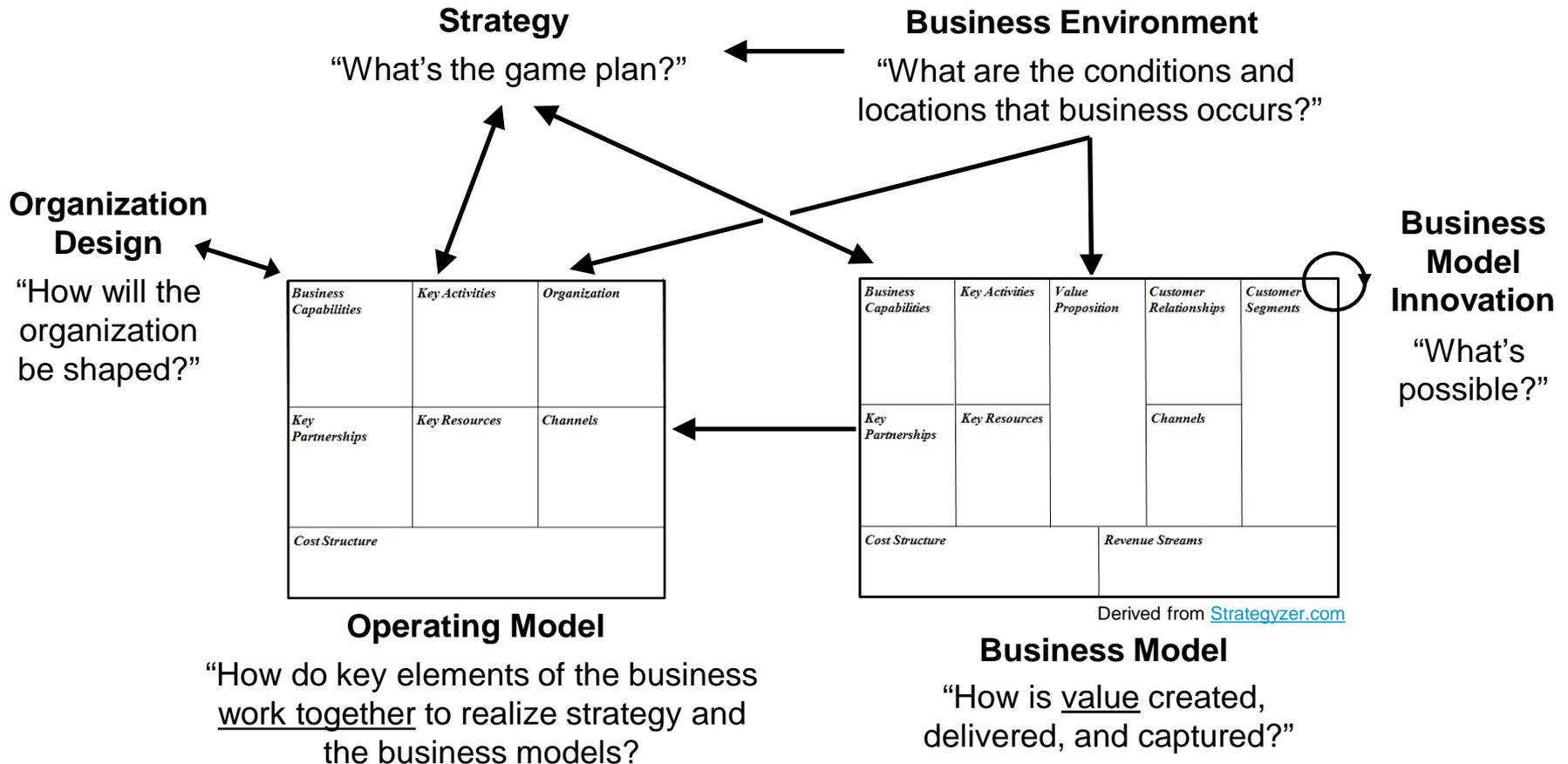
# Why the Attention on Operating Models?

- Linkage to business performance
- Corporate focus on earnings growth through cost cutting
- Dramatically shrinking business model lifecycles
- Recent major strategy and restructuring announcements by Fortune 500 companies
- Developments in methods

# Common Issues

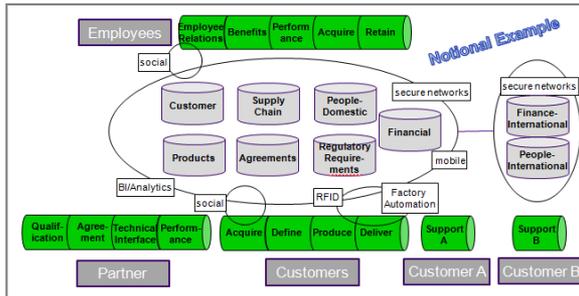
- Siloed strategy and operating model development
- Lack of a focused discipline around the OM
- Lack of common understanding (coherent blueprint)
- OM is not kept in alignment with the business model
- OM governance

# Context



# Summary versus Detail Views

## Summary Views



Business Capabilities	Key Activities	Organization
Key Partnerships	Key Resources	Channels
Cost Structure		

Business Capabilities	Key Activities	Value Proposition	Customer Relationships	Customer Segments
Key Partnerships	Key Resources	Channels		
Cost Structure		Revenue Streams		

Derived from [Strategyzer.com](http://Strategyzer.com)

e.g., Core Diagram, Operating Model, Business Model Canvas

## Detail Architecture Blueprints \*

\*Source: Business Architecture Guild, "A Guide to the Business Architecture Body of Knowledge (BIZBOK™)."

Organization Models

Value Chain Models

Process / Value Stream Aggregation & Decomposition

Supply Chain Models

Capability Map

Business / Domain Mappings

Dashboards

Balanced Scorecard

Value Streams

Information Map

**Summary views provide context and guidance for detail architecture**

# Operating Model Classification

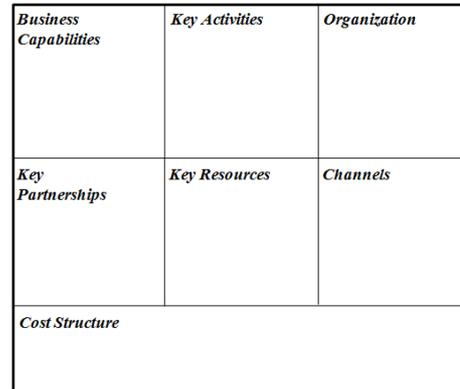
Classification schemes have evolved over time based on strategy / diversification studies

- Richard Lynch, Leonard Wrigley, Richard P. Rumelt and others

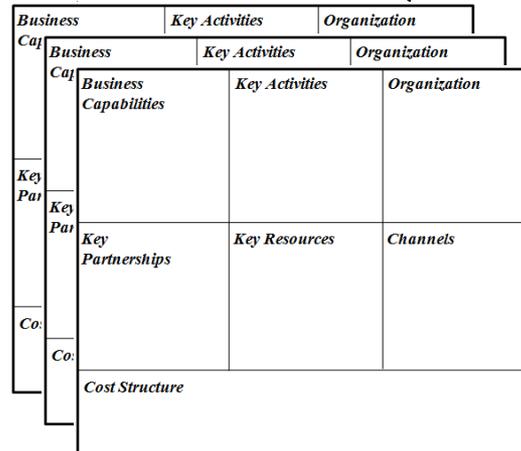


- MIT Center for Information Systems Research (CISR)
  - Unification - high standardization, high integration
  - Replication - high standardization, low integration
  - Coordination - low standardization, high integration
  - Diversification - low standardization, low integration

## Enterprise Operating Model



## Business Unit/Segment Operating Models



Derived from [Strategyzer.com](http://Strategyzer.com)

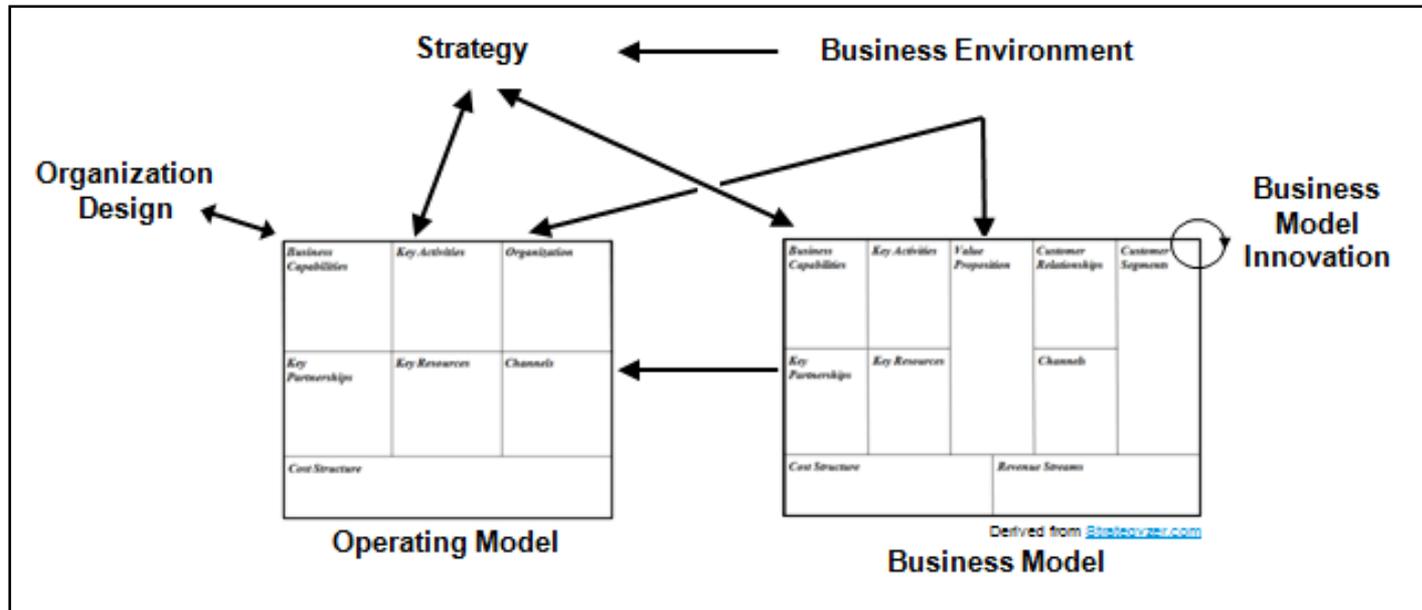
**Operating models may be multi-tiered**

# Key Points

- OM development and management is a distinct and focused concern
- The OM “drives the foundation for execution”\* (automation decisions for core capabilities)
- Once established, OM’s can be difficult to change
- OM’s can be depicted in summary views and detail architecture blueprints

\* *Jeanne W. Ross, Peter Weill, David C. Robertson, “Enterprise Architecture as Strategy,” Harvard Business School Press, 2006.*

# Target Operating Model Development



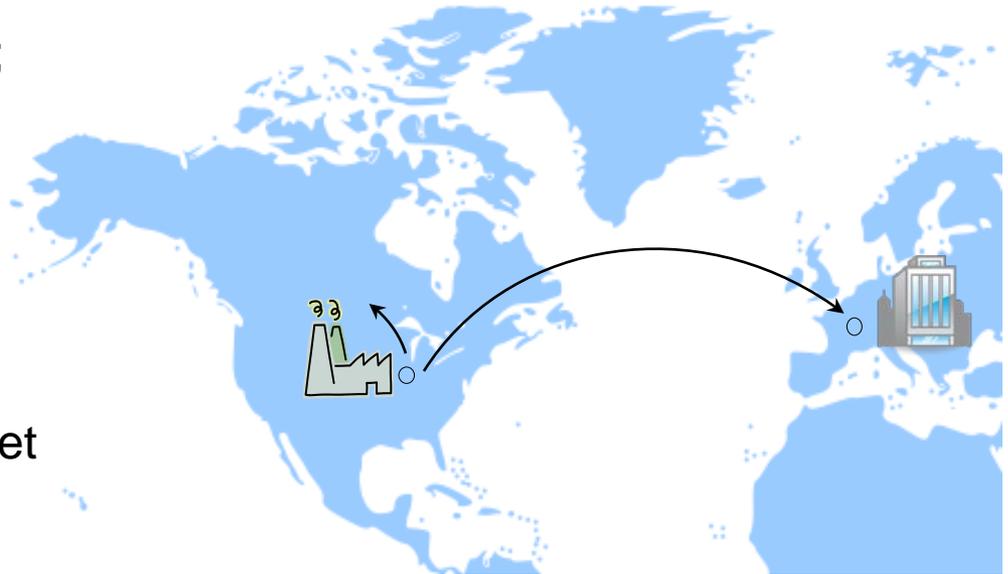
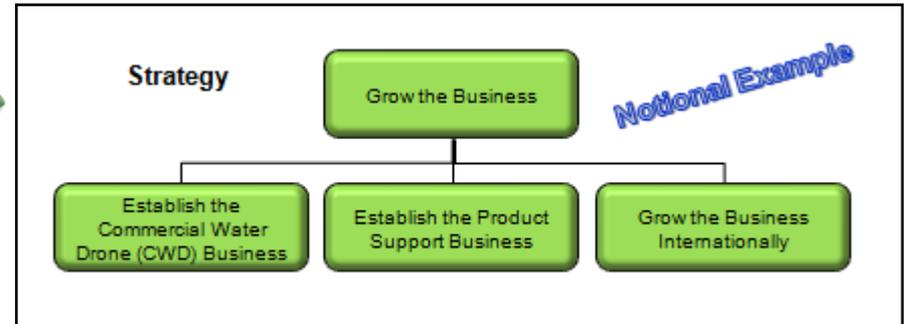
## Key Activities:

- Analyze business strategy and target business models
- Assess current operating model
- Design target operating model
- Plan for implementation

Note: Actual sequence of activities depends on each company's strategy-to-execution processes

# Hypothetical Example – Notional Inc

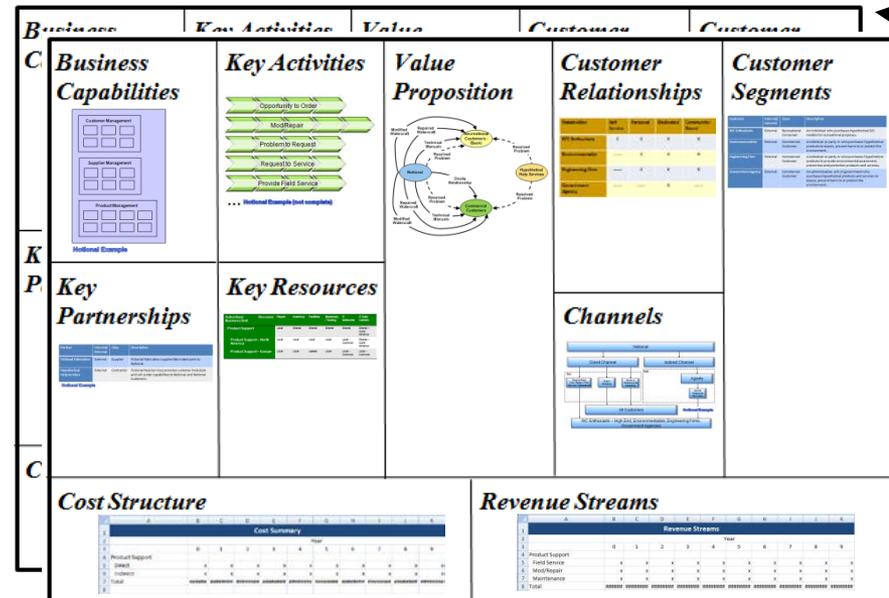
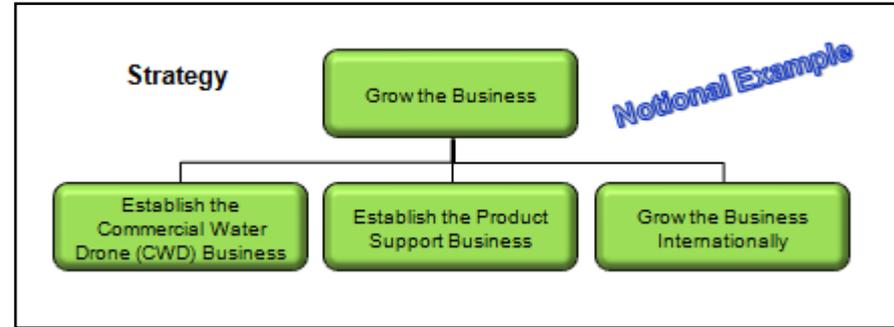
- **Notional Inc.** is a company that manufactures radio-controlled (R/C) watercraft for high-end R/C enthusiasts in North America
- Products are sold in over 1,000 retail outlets and online
- Product support: limited help desk; light maintenance is outsourced
- Growth objective: double revenues in five years
- Growth strategy:
  - Enter into the rapidly growing commercial water drone market
  - Grow the support business
  - Expand into European markets



Notional is a fictional company and is not intended to represent any real company past or present

# Analyze Business Strategy and Target Business Models

- Analyze:
  - Business types and business models
  - Competitive strategy
- Across business models, look for:
  - Potential synergies
  - Commonality across value items, customers, channels, resources...
  - Opportunities for integration and standardization
  - Opportunities for resource sharing



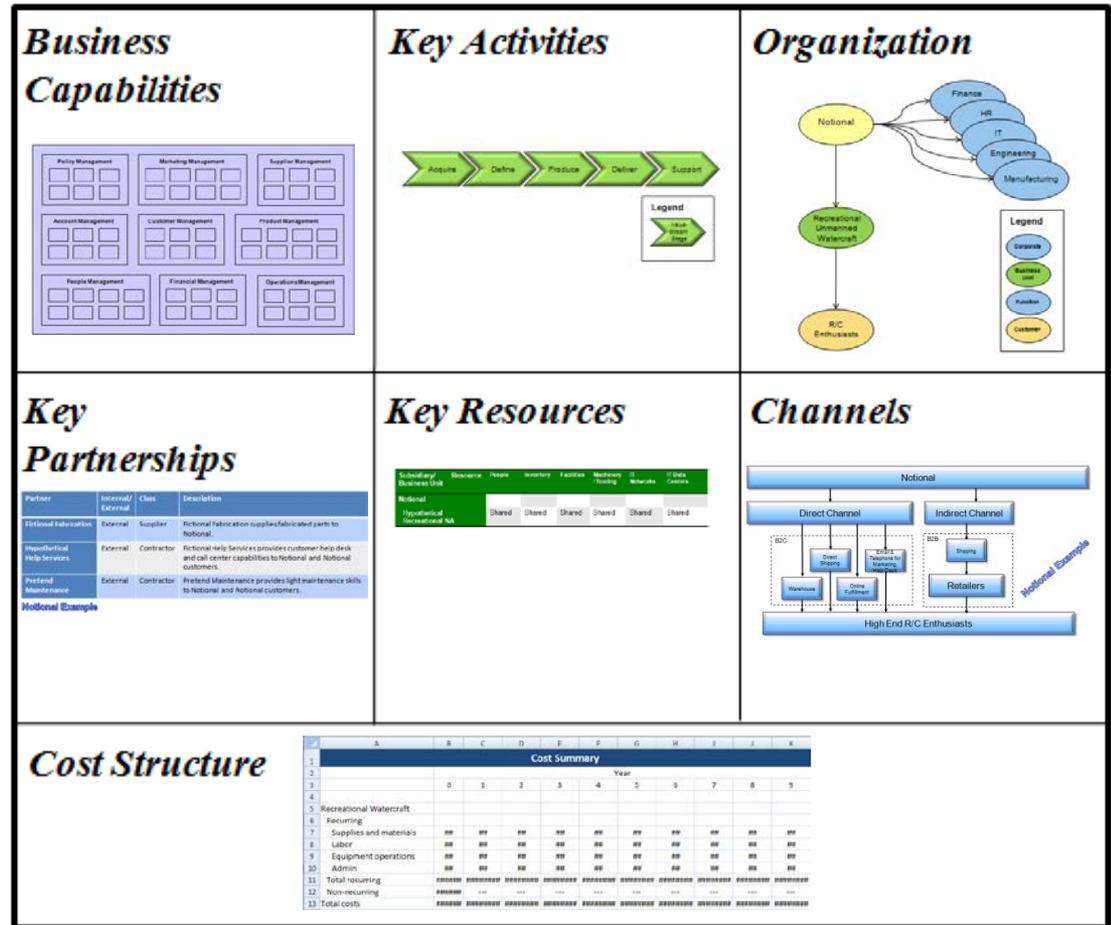
**Business Model**

Derived from [Strategyzer.com](http://Strategyzer.com)

**Operating model design begins with business strategy analysis**

# Assess Current Operating Model

- How well does your current OM support your business strategy?
- Is the OM flexible and adaptable to business model changes given the market conditions?
- What level of integration and coordination is required across value streams?
- Do business capabilities support the business models and competitive position?
- Where are there opportunities for resource and information sharing?

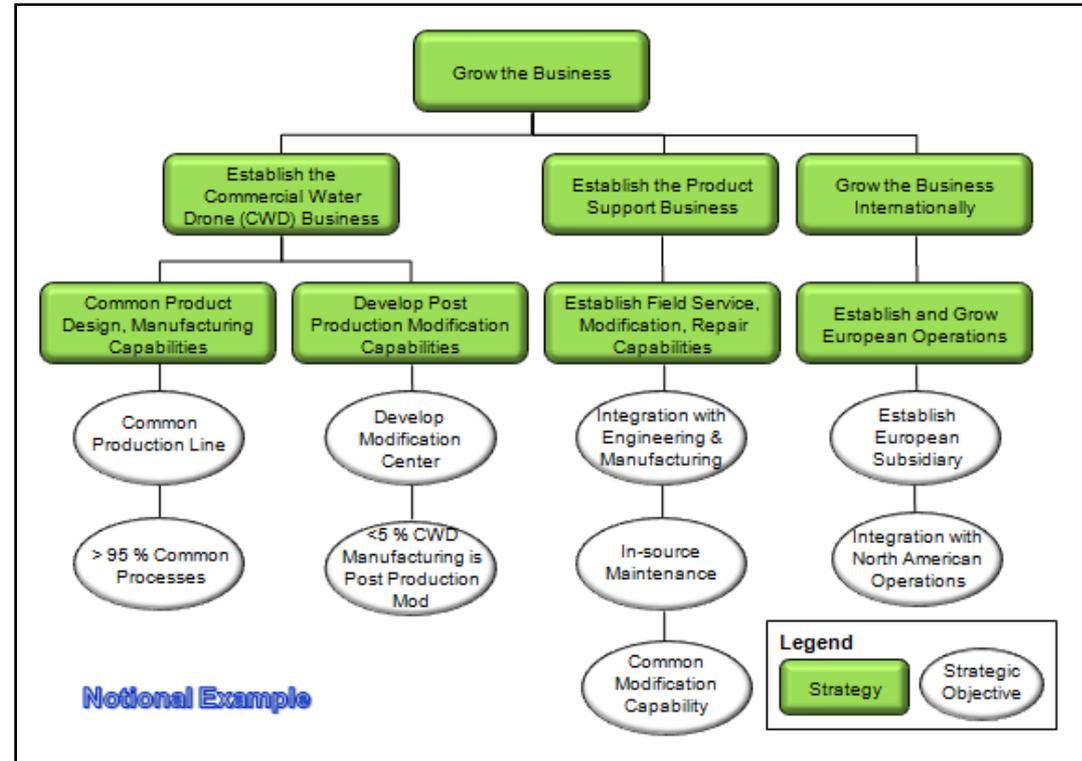


Derived from [Strategyzer.com](http://Strategyzer.com)

## Current Operating Model

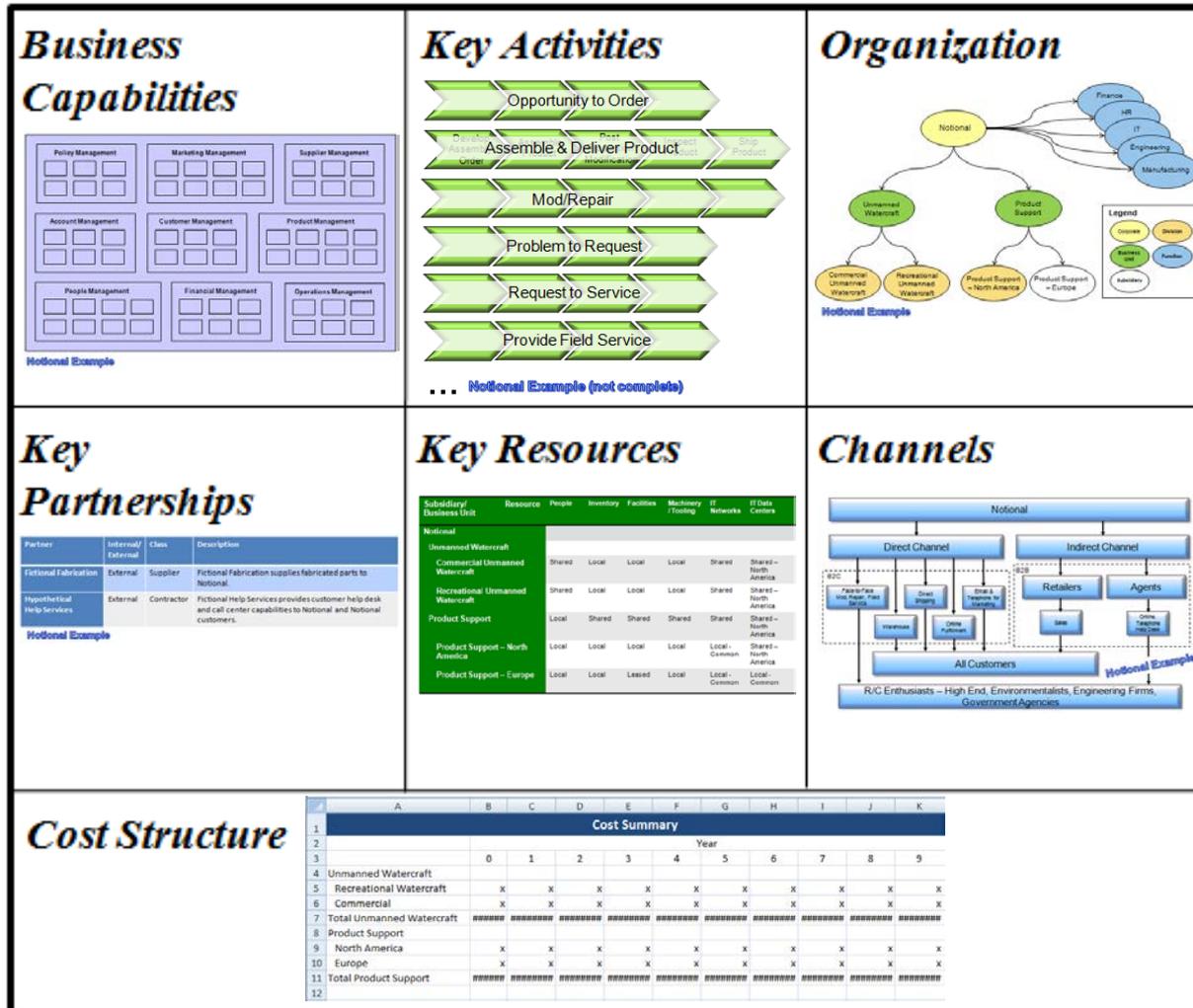
# Design Target OM - Operations Strategy

- What changes are required in current corporate & operations strategy to support the new business models?
- Corporate strategy
  - Core businesses and inter-relationships
  - Initial concepts of organization structure, responsibility (RACI), integration, and collaboration
- Operations strategy
  - New/revised capabilities and objectives required to realize the business models and gain competitive advantage
  - Key decisions on: production trade-offs, integration, standardization, and resource sharing



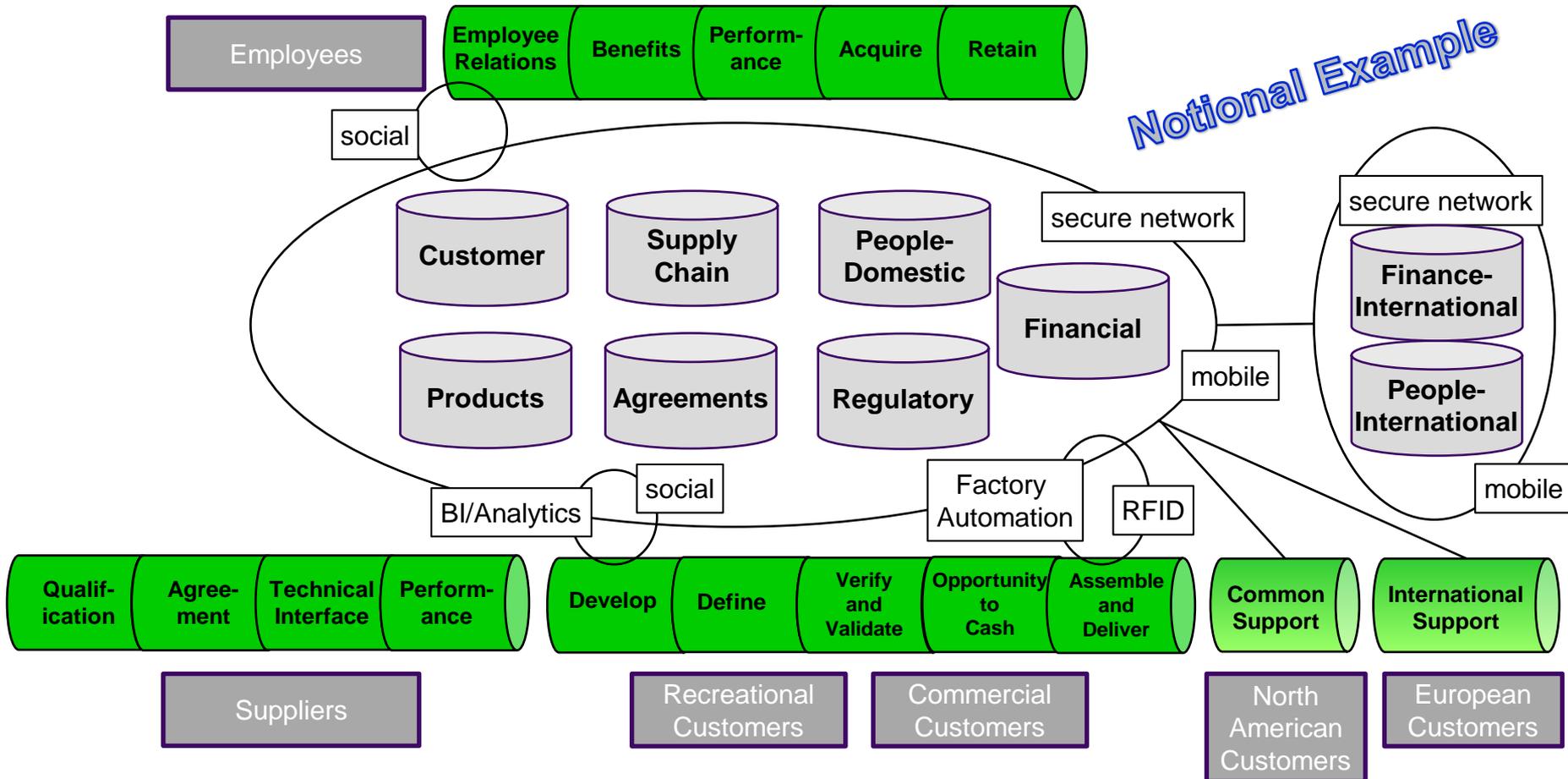
Strategy Map

# Design Target Operating Model



Derived from [Strategyzer.com](http://Strategyzer.com)

# Enterprise Architecture Sketch - Core Diagram\*

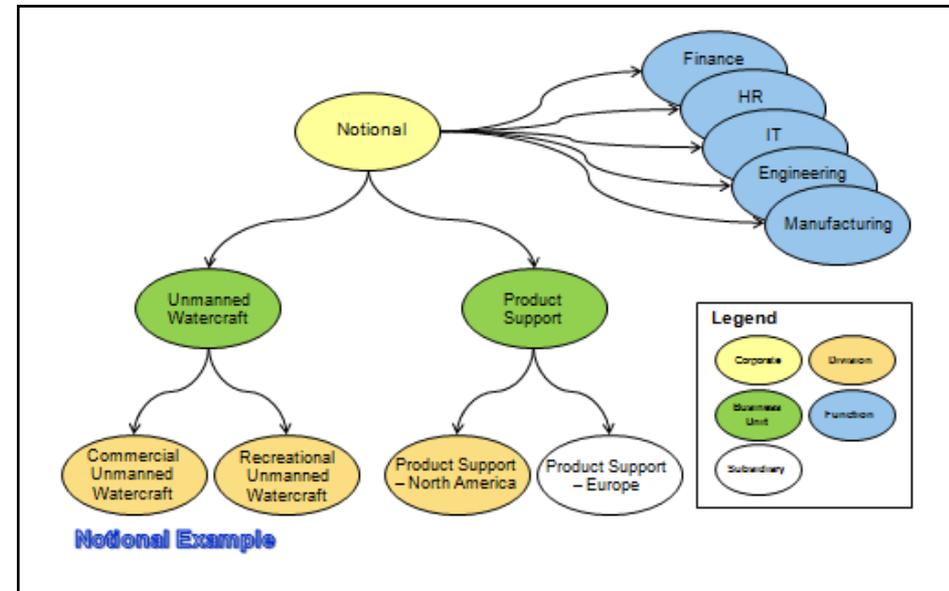


\* Jeanne W. Ross, Peter Weill, David C. Robertson, "Enterprise Architecture as Strategy," Harvard Business School Press, 2006.

**Identify key areas of integration and standardization**

# Target Organization Model

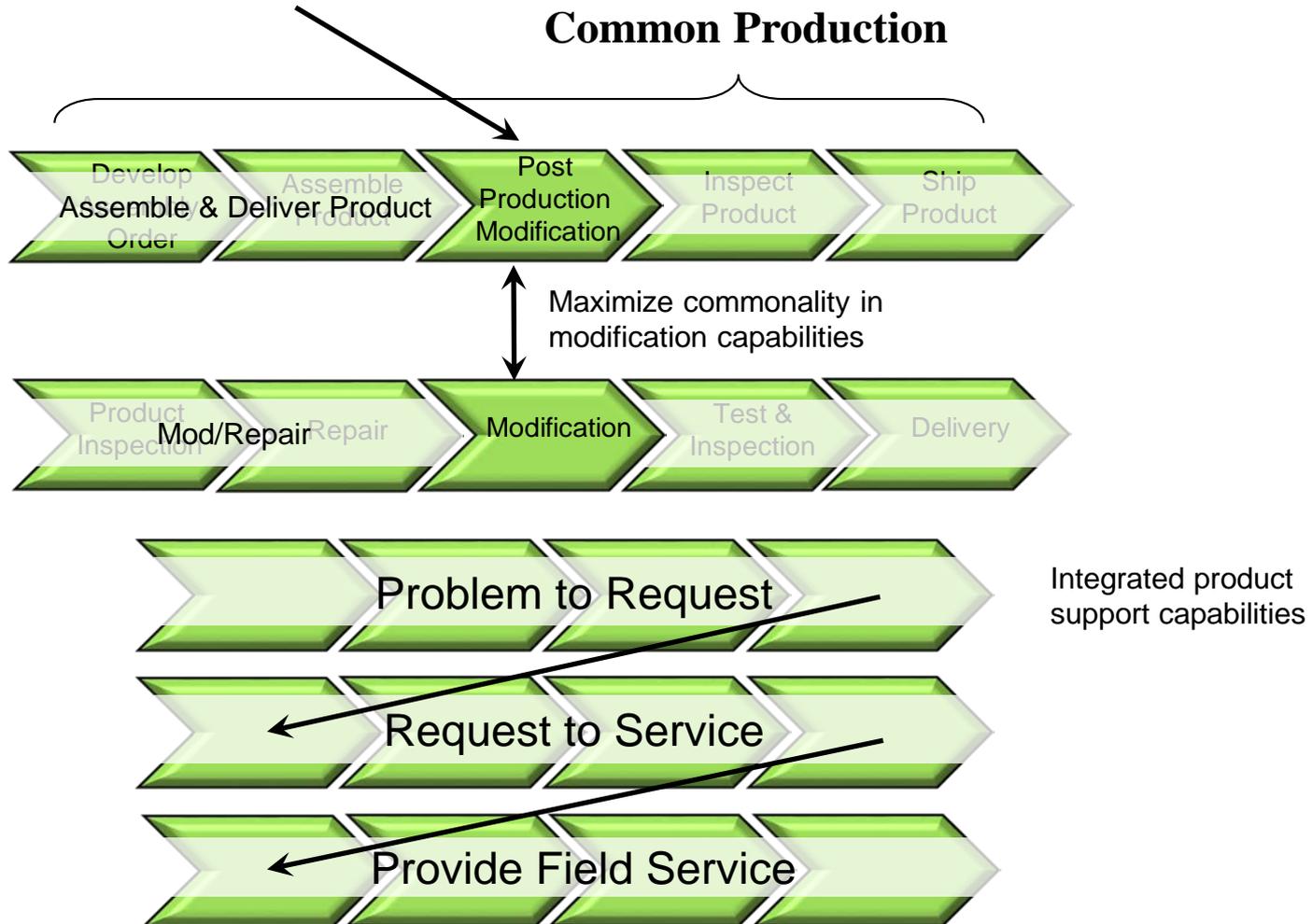
- Ensure the organization is designed to maximize effectiveness and efficiency
- Organizational differentiation and integration tuned to strategic direction and business environment
- Key aspects
  - Structure: business units, groups, members, roles and interrelationships
  - Business entities, e.g., subsidiaries, joint ventures
  - Responsibilities, policies, business rules
- Key cross-mappings
  - Business unit – Capability
  - Business unit – Location
  - Business unit – Third Party
  - Business unit – Resources



Target Organization Model

# Target Value Streams

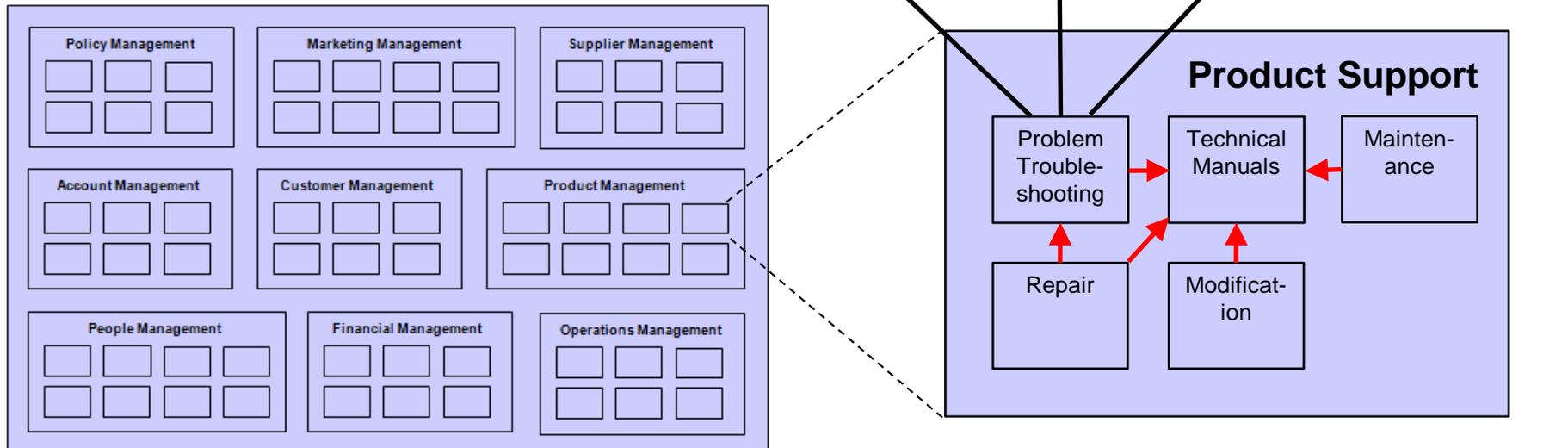
Commercial water drone production implemented as post production modification of high end recreational watercraft



# Target Business Capabilities

Identify:

- capability dependencies →
- variability in capability manifestations due to unique business model requirements →



*Identify key areas of integration and standardization*

# Plan for Implementation

- Develop an integrated master plan
- Coordinate and align business unit planning with capability-based planning
- Capability-based planning
  - Ensures solutions are optimized for the enterprise
  - Maximizes integration, commonality, and resource sharing intended by the strategies and described by the operating model

# Summary

- Every organization has an operating model
- Organizations with an explicit and managed operating model report higher customer satisfaction, operating efficiency, and advantage in new product development\*
- Business architecture is an effective way to describe an organization's operating model

\* *Jeanne W. Ross, Peter Weill, David C. Robertson, "Enterprise Architecture as Strategy," Harvard Business School Press, 2006.*

# Discussion