

How operating model design affects growth

Transcript

SPEAKERS:

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WADE KRUSE: Hello. I'm Wade Kruse, National Managing Partner of Advisory Services here at Grant Thornton. Today we're getting into another of our Growth Series topics, and that is on operations and its role in growth. And today I have with me a couple of my colleagues, Jonathan Eaton and Scott McGurl. Welcome.

JONATHAN EATON: Thank you, Wade.

SCOTT MCGURL: Thanks for having us.

WADE KRUSE: Absolutely, thanks for being here. Great, well let's get into it. Let's talk a little bit about operating model design and the impact on growth, the impact on considerations when doing a deal. What should companies be thinking about at a high level there?

JONATHAN EATON: I think growth requires a well-functioning, high-functioning operating model. And to have a high-functioning operating model you have to make investment decisions on whether you're going to try to optimize certain functions or optimize the operating model holistically. So I think it's really essential to look at the growth strategy and work backward and evaluate, what is the maturity of the capabilities that exist within the organization, and to think about that operating model and what it needs to evolve to.

Not that any particular function or the operating model as a whole needs to be perfect, but for example, what's the investment that gets you to 80%, 85% of the maturity of what you need to be? Because typically that's 30% or 40% of what you would spend,

versus if you spent 100% of the dollars to truly optimize to make something perfect or as close to perfect as possible. So I think it's essential to think about how do you get it to the point that will contribute to growth? I think that's the first thing.

And then I believe scalability and sustainability are also essential. If you are going to achieve growth and maintain that growth into the future, you have to have an operating model that is scalable. So the decision to be made on an investment has to support scalability. And then I think sustainability is also a key as you go forward.

SCOTT MCGURL: Just to put a punctuation mark on that, Jonathan, what you said is so important. Your operating model structure must follow strategy. You need to have an organization that's designed to support the strategy, which informs the capabilities that you have to build out.

If you think about operating structure, it's not who does work. It's what work needs to be done as part of the organization. As you think through the overall organization you have and how you are going to bring together multiple assets into an integrated platform, you need to think about where work is going to be done. Who's going to be doing that work? Is it going to be automated? Is it going to be done manually? Is it going to be done by some system? All those decisions need to be made.

And if you think about this within a deal construct, an effective operating model can be a catalyst, an engine for growth. You know going into a deal exactly what's going to be moving. What's going to stay the same? Where do decisions need to be made? And what's going to be changed? What's going to be folded into that integrated operating model of the acquirer? That gives you so much more visibility on what the value is that you're going to have as part of that deal. It takes so much of the ambiguity out for the employee base to be able to get focused on the work that needs to be done for an integration and moving forward with your operations.

JONATHAN EATON: Scott, I couldn't agree more. I also think it's really important think about, within the context of the operating model, what's a core capability? What are the things that are core and critical to the business that you want to maintain internally versus those things that you could outsource or use a third party? So what are those core functions, those core aspects of the business that you really want to invest in, because that's what differentiates you and helps contribute to growth, versus the things that you could farm out.

