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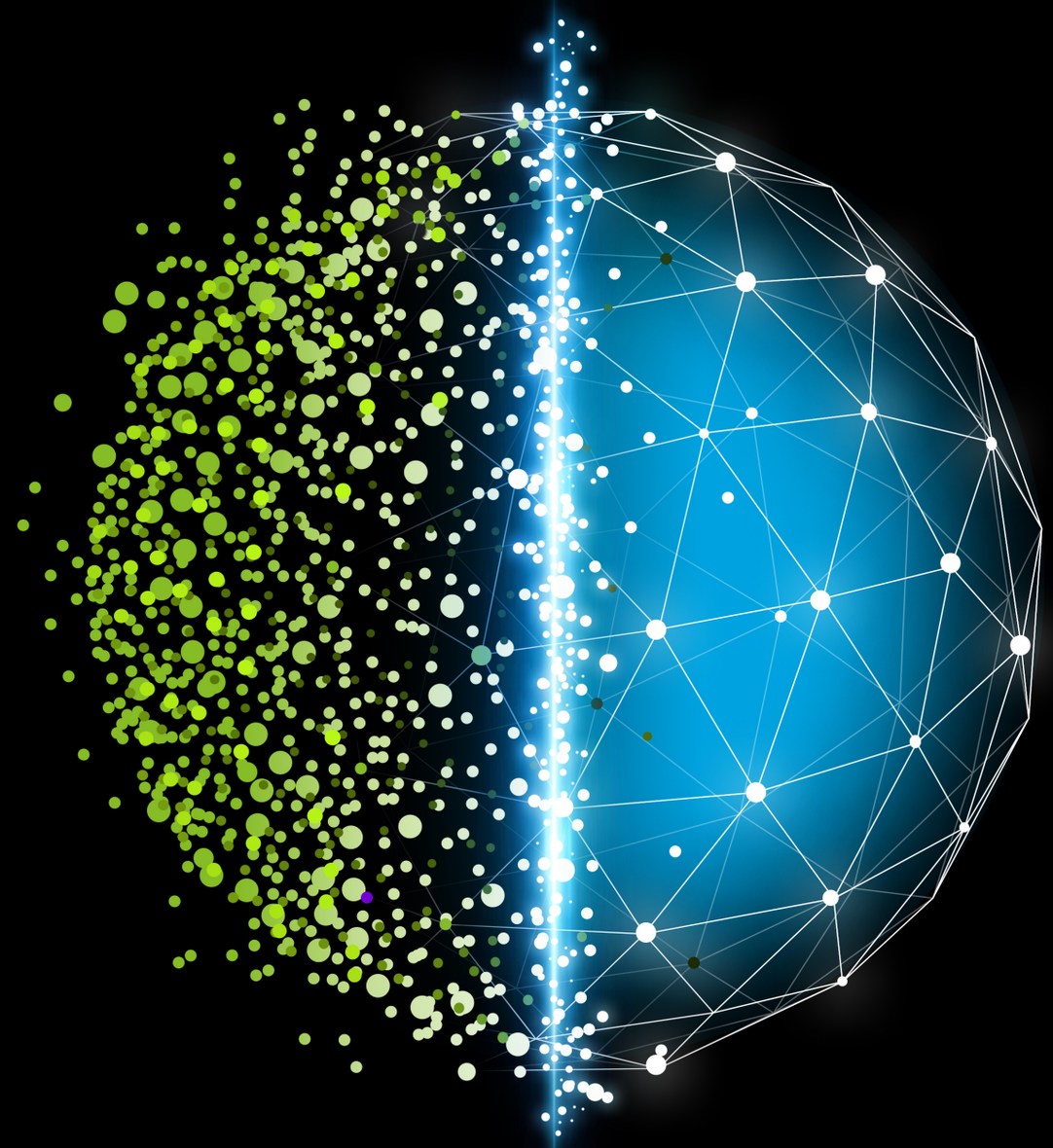

Everything-as-a-service operating models

What are the operating model considerations to support an everything-as-a-service business?

Companies may need to evaluate and update their operating model for delivering everything-as-a-service (XaaS) offerings to customers

Many technology, media, and telecommunications (TMT) companies are shifting some or all of their products or services to ones that can be consumed and paid for based on usage. This change introduces additional complexity to operations, processes, and organizational structure, yet at the same time demands both agility and tremendous flexibility.

To make a successful transition, companies will need to not only evaluate their strategies, business model, and capabilities, but also take a hard look at their existing operating model. Chances are they will need to make some significant changes. For example, flexible consumption, or XaaS operating models are increasingly focused on a deep understanding of customer needs and delivering value to the customer at each stage in the customer lifecycle. This is very different from the product-first focus of many existing operating models. Complicating matters is the fact that some companies find they need to maintain their existing on-premise models even as they transition to flexible, cloud-based service offerings.

But what exactly do we mean when we say "operating model?" Our view is that an operating model is made up of two components: a set of business capabilities and a structure for organizing them to optimally deliver a company's offerings to the marketplace. For example, a shift to subscription, or pay-per-use offerings may require companies to acquire or change many capabilities, including offer management and pricing, customer success management, billing and revenue recognition, marketing and sales, contract compliance, and taxation. But that's only half the story. They also need to understand the optimal structure for organizing these capabilities—so that the right work is executed in the right way and in the right place.

Making the shift to everything-as-a-service

Every day brings new ideas and possibilities to the Technology, Media, and Telecommunications sectors. Everything-as-a-service (XaaS) model transformation allows customers the flexibility to consume and pay-per-use, but transitioning is complicated and challenging.

Key considerations

What category of capabilities are most important for delivering your new offerings?

Successful transformations rely on a company's ability to identify the capabilities that will differentiate its business and drive competitive advantage, while shoring up foundational capabilities to support the overall business strategy.

Where should key capabilities reside within the organization and how should they be deployed?

There are a range of ways to organize and allocate ownership of capabilities. A best-fit operating structure will optimize the level of control and alignment across the company, while accommodating the need for flexibility and customization.

What is your appetite for change as you move to a new operating model?

Some companies want to move quickly into XaaS offerings, while others may want to retain some of their legacy products.

What category of capabilities is most important for delivering your new offerings?

Each company's set of prioritized capabilities will vary based on its XaaS aspirations and its current state. Start with determining what capabilities will be necessary to support XaaS offerings in your desired future state. Then determine the current maturity of these capabilities compared with the how mature they will need to be in the desired future state.

We've seen most companies succeed when they leverage a 10/20/70 approach. Capabilities fall into three categories:

1. **Innovative:** Approximately 10 percent of capabilities should be innovative and leading edge. The goal for these capabilities is to be best in class so that you can carve out a unique and differentiated positioning in the marketplace.
2. **Competitive:** Approximately 20 percent of capabilities should be strategic. Optimizing these should drive competitive advantage.
3. **Foundational:** Approximately 70 percent of capabilities is necessary to run an XaaS business model efficiently. Identifying "must have" capabilities leads to greater efficiency and a consistent customer, partner, and employee experience. However, don't over-invest instead strive to streamline these capabilities.

Successful transformations focus on the capabilities that will differentiate the business and drive competitive advantage, while shoring up foundational capabilities to support the strategy. For example, if you are a customer-centric company, your foundational capabilities might be segmentation and customer enablement, but your true differentiator may be personalization (e.g., online experience, customer-specific pricing). Alternatively, if you are a platform-driven company, you will need strong collaboration and asset management functions, but partner enablement may be your true differentiator. If you are a data-enabled enterprise, capabilities for data capture, security, and reporting are required, but analytics might be what truly sets you apart.

Offerings will need to be configured and priced based on new service business models and monetized based on value delivered to the customer.

Where should key capabilities reside within the organization and how should they be deployed?

The next thing to agree on is where the work should be executed—in other words, which operating structure best supports these capabilities.

For each capability ask, "Where is this capability best delivered?" Here you will need to consider the level of customization required, the degree of proximity the capability has to the customer or business partners, and the costs associated with executing the capabilities. Complex capabilities which require customer input tend to be more effective when executed in close proximity to the customer in a decentralized manner (e.g., configuration of offerings into a solution, customizing deal structure for specific customer needs). On the other hand, standard capabilities that are highly transactional tend to be more efficient when executed in a centralized manner (e.g., transaction processing, sales commission calculation) and are candidates to be centralized. Once you have configured capabilities, choose which capabilities will reside in which functions, geographies, and business units.

For example, software developers focused on an industry-agnostic platform product may be centralized in order to pool platform expertise and enhance collaboration. Meanwhile, the developers tasked with building the software applications that run on the platform might be decentralized to align with industry verticals. This way they have better access to deep knowledge about customer needs and can build more relevant software solutions.

The customer success function also offers another example of how companies take different approaches to organizing and deploying XaaS capabilities. Companies need to decide how to organize traditional account management, renewal, and customer support activities, along with new capabilities that focus on cross selling and upselling. As companies consider how to best support this critical capability, some place it on sales, others in renewals, still others set up an entirely new separate function.

With recurring revenue models, the focus shifts from reactive service and support to proactive customer success management. Metrics and analytics will be central to understanding customer health, and companies will need to enhance post-sales capabilities to drive adoption, retention, and maximize cross-sell or upsell opportunities.

Where should key capabilities reside within the organization and how should they be deployed?

As you consider changes to your operating model, configuration decisions combined across capabilities typically lead to one of the following four archetypes:

- **Tactical:** This is where organizations generally start or end up defaulting to. In this model, capabilities reside within business units that are experimenting with an XaaS model. However, organizational changes and investments required for XaaS models are made in isolation, with limited coordination across the organization.

- **Federated:** In a federated operating model, a consumption-based strategy is communicated across the company, and related capabilities are in place across business units with additional support from IT. There is a common set of tools, but no overall governance. This model requires multiple strong leaders who can set the vision for an XaaS model in each of their business units independently.

- **Centralized:** In a centralized model, skills and initiatives are consolidated into a central unit, increasing efficiency and prioritizing an XaaS model across the organization. While the benefit is greater coordination and alignment, implementation can be challenging, as this requires aligning all business units with the future state of the XaaS model. In this model, a single individual is calling the shots and orchestrating flexible consumption efforts across all business units.

- **Business as usual:** While business as usual (BAU) may be the desired end state for companies undergoing an XaaS business model transformation, in reality very few companies (if any) are currently here. In this model, culture, processes, business models, and technology related to flexible consumption are fully embedded in daily life across the organization. BAU relies on strong governance and alignment of vision. This model is typically seen in startup companies that began with XaaS business models. It is much harder for more-established businesses to achieve without a complete overhaul of their operating model.

What is your appetite for change as you move to a new operating model?

Not every company can jump feet first into an XaaS model—commercial intensity does not equate to product readiness. For example, sales and management may want to sell flexible offerings, but the company itself may not have all of its capabilities configured in a way that enables it to do so. If your capabilities are not at the level required to accommodate your chosen business model, your roadmap will need to account for this with a phased approach. For example, an important question for companies as they plan their transition roadmap is whether—and how long—they deliver XaaS offerings using their legacy operating model. This will help determine how quickly they should undertake an operating model transformation.

There is no one size fits all—operating models vary widely depending on an organization's strategy, capabilities, and future vision. Nevertheless, by designing a robust operating model, you will be better equipped to make downstream implementation decisions, including those impacting organizational design, rules of engagement, and technology platforms.

Sales force and partners will require a different set of incentives that accommodate smaller upfront revenue streams and increase focus on growing customer consumption of offerings.

Let's talk

When transitioning to an XaaS model, you need to identify your highest-priority capabilities and decide how to organize them. None of this is easy: Putting a new operating model in place can create considerable organizational upheaval.

We get it because we've been there. Deloitte has guided numerous companies through the transformation required by the shift to XaaS, and we understand both the complexity of the challenge and the associated risks. Let's talk about what the change will mean for you.

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XaaS Models: Our Offerings

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