



Generating sustainable value
through organization design
Capitalizing on Technology,
Media, and Telecommunications
trends by transforming your
organization's structure



A global technology and entertainment company executive opened up her laptop in the living room to wrap up some work when she noticed something that gave her a wry smile—her mother’s DVDs on the bookshelf, her husband’s Netflix rentals below the TV, and her kids’ tablets full of their favorite shows and games. It was quite a collection of past, present, and future. Working on her laptop, the executive pored over industry research results about shifting customer purchases of physical media products to digital content through any of their devices. This information, paired with a cost-cutting mandate, was the trigger for her company’s urgent strategic business planning the next day. “How can we avoid our habit of recurring cost-cutting by restructuring the organization to sustain our ability to drive down legacy costs from our mature businesses and allow for investment in new revenue streams?” she thought to herself. “I need to push my peers to think differently about our business.” Revising her online search, she typed in “Generating Value through Organization Design” and began to prepare for the meeting.

Technology, Media, and Telecommunications Trends Are Challenging Today’s Business Models

Technology, Media, and Telecommunications (TMT) executives are racing to crack the code of how consumer shifts are signaling opportunities to adjust their organizations’ structures to generate value—in reaching their customers, optimizing their experiences, driving financial results, and sustaining performance. Solving the riddle of creating a competitive advantage starts with asking three questions to define your desired outcomes and transform your organizational capabilities:

- How can we make strategic organizational moves that result in cost-efficiencies and enable revenue growth opportunities?
- What are the organizational outcomes and measures we can define to sustain the strategic value of these moves and avoid repeated restructuring efforts?
- How can we translate these measures into everyday employee activities to achieve results?

Too often, the questions of how to capitalize on market opportunities through transforming an organization’s structure are not thoroughly explored or analyzed prior to action being taken. Subsequently, organizations make decisions under pressure, with minimal understanding of where business value will be generated or sustained, resulting in challenges such as:

- Recurring cost-cutting “initiatives”
- Continuous revisions to organizational charts via a “boxes and sticks” approach
- Repeated organization design initiatives that fail to deliver improved performance
- Unplanned turnover or inertia
- Lack of transparency between a company’s organizational changes and its target ROI

Improving your organization’s structure and performance starts with a defined future-state view of value

Creating sustainable value through redesigning your organization starts with a clear definition of your desired business outcomes (e.g., expanding revenue growth, increasing operating margin, driving asset efficiency, and improving execution effectiveness). Many companies get off to a good start with this approach, but they often struggle with identifying which capabilities within their organizations require the appropriate investment and attention to deliver the value to reach their outcomes.

TMT Predictions:

The converged living room: A plateau approaches

Global sales of smartphones, tablets, PCs, TV sets, and video game consoles will exceed \$750 billion in 2014. However, future sales are likely to be fairly steady, plateauing at roughly \$800 billion after a decade of double digit growth.

Bottom line: The living room’s digital completion is nearing completion; peak disruption may have passed with no clear winner, except for the consumer, whose need for entertainment and media is now better served than ever at the hardware level.

Doubling up on pay-TV

By the end of 2014, up to 50 million homes around the world will have two or more separate pay-television subscriptions, with the additional subscriptions generating \$5 billion in revenues. A further 10 million homes will receive premium programming as part of their subscription.

Bottom line: Content producers should consider how ever-improving broadband speeds open up new markets for them; they may no longer have to deal directly with platform owners to reach end-users. Content owners should however be cognizant of the implications of selling direct to the end-user, such as the need to provision local network storage and payment options. Further, cutting out a distributor may increase margin, but at the cost of an addressable market.

Phablets are not a phad

The 2014 shipments of phablets, smartphones with 5.0-6.9 inch screens will represent a quarter of smartphones sold, or 300 million units. That is double the 2013 volume, and 10 times 2012 sales.

Bottom line: Video already represents 40 percent of downstream primetime mobile data traffic in North America and 36 percent in Europe. Operators will need to consider the implications of growing phablet penetration on their networks, both at the radio access network level and the backhaul level.

Source: TMT Predictions, 2014.

Deloitte’s Organizational Value Generation (OVG) framework is a value-focused, analytics-driven guide for companies to uncover, define, and organize for business performance across five value dimensions:

	Product/Service Utility	Customer Exchange	Distribution Effectiveness	Financial Performance	Organizational Agility
Value Dimension Definitions	The value of the usefulness in an organization’s products or services—through the eyes of its customers (e.g., features, efficiency, performance, and benefits)	The value of the overall customer exchange (e.g., money, time, and/or energy) in obtaining an organization’s product or service	The value of an organization’s distribution access to, or network of, its customers and markets	The financial value of the organization’s performance, such as revenue, utilization, growth, cash, and stock price	The value of an organization’s ability to grow, adapt, and evolve to sustain performance over time
Key Questions	<ul style="list-style-type: none"> • Is the utility of your products or services superior to your competitors? • What is the differentiating utility of your product or service? 	<ul style="list-style-type: none"> • How easily are customers able to obtain your products or services? • Are all your customers receiving equal quality of service? Why? 	<ul style="list-style-type: none"> • Are distribution channels to your customers and markets streamlined? • Are the appropriate resources directed to the right customers and markets? 	<ul style="list-style-type: none"> • What is your revenue growth as a ratio to costs? • What is your organizational revenue factor (revenue-to-employee ratio)? 	<ul style="list-style-type: none"> • Are you making the right capability investments over time (i.e., talent innovation)? • Can you still be a competitive force in the marketplace in 5 to 10 years?
Examples of Value Generation	Theme parks developed new smartphone applications that allow customers to plan their visits before they arrive	Mobile device companies driving increased sales and customer praise for allowing ‘self-check out’ of off-the-shelf products	Retailers position themselves to meet their target markets via locations, steady inventory, and predictable service	Companies may show strong financial performance due to strong economic conditions, but SG&A cost opportunities remain	Many technology giants grew exponentially in the 2000’s, but lack of value in agility resulted in missed opportunities in today’s emerging markets
Organization Design Implications	Create a product-focused organization structure supported by shared service functions to reduce operational administration	Develop a governance model and evaluation framework to gather, analyze, and improve customer purchase interactions	Build a product or service distribution governance model to enable business segments and regions to make shared, appropriate inventory moves	Conduct a spans and layers analysis to identify which levels within your organization generate the greatest ROI (e.g., cost and revenue per employee)	Identify, invest, and scale the critical roles and capabilities that consistently deliver rapid success in identifying new markets or products

Five guiding principles should be taken into account when a company applies the OVG framework in organization design efforts to create a direct line of sight to each value dimension:

1. Identify and prioritize the most relevant value dimensions through analytics-based insights

Quantitative data helps organizations to visualize, assess, select, and define:

- Where will the future-state organization create and sustain differentiated value?
- Which value dimensions are most critical to your organization’s success?
- What metrics should be measured to guide your transition to the future state and to evaluate progress toward your desired long-term outcomes?

Quantitative data in spreadsheets can tell only a part of the story. Data visualization is a powerful medium for conducting organizational analysis because it provides a clear and illustrative view of the gaps between a company’s business strategy, the value it delivers, and its organization structure. These techniques and tools can bring data to life, allowing for real-time analysis to make faster organization design decisions—and answering a crucial question: “Which elements of my organization design have the highest likelihood to generate value and why?” Take an iterative approach and start with the data that is readily available to you from internal and external sources to create a baseline analysis for evaluating your organization. Many companies are often surprised at how much insight they can pull from a small pool of well-organized data.

2. Rally leadership around the identified value dimensions and strategic business outcomes that will drive the strategy of the organization's structure

While there may be shifts and iterations to the organization's structure throughout your initiative, creating leadership consensus on the value dimensions and the main business outcomes will serve as a foundation for all decisions to follow. Skipping over or rushing through this process can result in an unfinished organization structure that is unable to meet or sustain the business objectives set by leadership.

3. Select the appropriate combination of "organizational levers" to execute your business strategy

A company's governance model, organizational capabilities, and workforce are the primary levers that work together to sustain the organizational value to drive your business strategy. Selecting the appropriate combination and timing of these levers will enable you to drive your desired business outcomes—creating the core elements of your organization's structure that will foster an exponential impact on value.

4. Identify the roles and their relationships with the activities that impact your value objectives to shape your organization's future state

While most jobs in an organization contribute to its operational effectiveness, there are always influential roles that drive a disproportionate share of value. These roles make up an organization's critical workforce segments—driving significant organizational value with skills and capabilities that are not easily replaced. Identifying these roles as well as their relationships and interactions that impact your value objectives is imperative to shaping your organization's future state. Consider these questions:

- Which relationships have the most direct impact on organizational performance and value?
- How effective are those relationships across the organization?
- What are the most critical business events and interactions that involve those relationships?
- What roles and capabilities are required in those events and interactions?
- How can value and performance be maximized from those roles and capabilities?

Uncovering the most critical workforce segments that disproportionately drive value—whether measured by a product's utility, or a customer's recommendation, or the promise of a future revenue stream—will allow a company to dramatically elevate its performance and competitiveness.

5. Leverage job design to embed value-generating outcomes into everyday activities

Many organizations tend to focus on simply shifting functional responsibilities to execute their organization strategy without making similar efforts to align the job capabilities and duties required to achieve the desired value-generating outcomes. Sustaining organizational performance starts with clearly articulating job capabilities, performance objectives, and career paths to make sure individual roles are designed to support the future direction of the company—ingraining the business strategy into everyday actions.

OVG Approach Potential Benefits

A Targeted View of Value:

Understanding how value is generated throughout the organization helps you determine which critical workforce segments will create the greatest business impacts—allowing your company to prioritize and sequence future-state organizational transformations in a way that limits business interruption.

Cross-functional Capability Identification:

The OVG framework also provides the ability to assess whether or not your operating model and workforce have sufficient sets of skills and capabilities needed for the desired future state, helping to identify cross-functional skills throughout the organization.

Organization Design Scenario Planning:

Whether companies are going through a merger or acquisition, a shared service initiative or a business/technology transformation, the OVG framework not only helps you forecast future-state governance, workforce, and organizational capability needs, but also provides a multidimensional view of the impacts on customers, products, and the business operating groups.

Integrated, Value-Driven Job Design:

Capturing the desired value from an organization's structure starts with tailored job descriptions that are linked to the needs of the business to support the overall strategy—creating value and driving growth over time.

From Issue to Impact: The Organization Value Generator Applied

Issue: A global media provider was looking to improve the speed and efficiency of its sales contracting process in support of rapid growth across various geographic regions. Using an executive-led approach focused on value generation to guide the initiative, the company applied the aforementioned guiding principles to transform its core processes and its organization structure to match the pace of its market's growth—creating a lasting impact in five different ways.

<p>Identify and prioritize the most relevant value dimensions through analytics-based insights</p>	<p>Impact #1: Identified three value dimensions that could be improved to provide significant impact to accelerate its market growth:</p> <ol style="list-style-type: none"> Distribution Effectiveness. Identifying opportunities to accelerate sales was recognized as a key component of making an impact on market growth. Timely execution of the right sales deal, in the right market, at the right time was an obvious differentiator and important performance indicator. Financial Performance. The company looked to capitalize on revenue streams through its ability to pinpoint where content rights were not monetized in in specific markets. Additionally, the company wanted to minimize contractual conflicts and risks in selling rights that were already sold to other parties. Organizational Agility. The sales organization needed to be nimble to anticipate growth in media markets without being hindered by delayed contractual approvals or conflicts with other media rights agreements.
<p>Rally leadership around the identified value dimensions and strategic business outcomes that will drive the strategy of the organization's structure</p>	<p>Impact #2: Defined its future-state performance measures, protecting against continuous operational cost-cutting, and identifying the specific capabilities and processes to create impactful business growth.</p>
<p>Select the appropriate combination of "organizational levers" to execute the business strategy</p>	<p>Impact #3: Identified three organizational levers that would create the most impact towards achieving their desired outcomes:</p> <ol style="list-style-type: none"> Implement new processes and a technology solution to improve its distribution effectiveness. Foster better organizational agility by revising the business unit's functional duties—shifting its contracting duties to the front-line to accelerate sales deals. Leadership redistributed its workforce to ensure the right resources were in the right place to support and meet their profitability and revenue recognition goals—leveraging the extra bandwidth created by the technology solution to create the opportunity to shift resources from administrative duties to support critical sales and contract rights activities.
<p>Identify the roles and their relationships with the activities that impact your value objectives to shape your organization's future state</p>	<p>Impact #4: Determined the impact of the new processes on the current organization structure and which workforce segments would require the most investment to directly impact their desired outcomes in the future-state.</p> <p>Solution: To align the workforce to optimize its sales capabilities, the company used data visualization to create interactive workforce activity workshops—evaluating organizational scenarios and identifying the appropriate activities, layers, and workforce segments that would drive the most direct value from its future-state processes.</p>
<p>Leverage job design to embed value-generating outcomes into everyday activities</p>	<p>Impact #5: Realigned its critical roles, duties, and responsibilities to execute on its identified distribution, finance, and agility goals. This enabled leadership to create a clear line of sight for the staff to understand their individual performance measures as well as the path towards achieving the company's strategic growth objectives.</p>

The next day, the executive walked out of the strategic business planning meeting feeling pleased with the result—an initial set of desired outcomes and a targeted view of value to inform the company’s organization design strategy. A number of her peers thanked her after the session for helping them to think differently about how a precise, value-driven organization design effort could help to break their repeated cost-cutting habits and keep a strategic focus on their customer needs. Walking back to her office, she reflected on how defining a sustainable view of value was a great first step towards designing their future-state organization and capitalizing on their marketplace opportunities.

Contacts

Robin Jones

Principal
Deloitte Consulting
robijones@deloitte.com

Don Miller

Senior Manager
Deloitte Consulting
domiller@deloitte.com

Contributors

Andrea Garry, Deloitte Consulting LLP
Neervi Patel, Deloitte Consulting LLP
Sara Schulman, Deloitte Consulting LLP
Christina Wolf, Deloitte Consulting LLP
Dr. Barclay Burns, Professor of Entrepreneurship and Strategy, University of Utah David Eccles School of Business

This publication contains general information only, and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.