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Three steps to sustainable and scalable change

Part 1: Rethinking a company's business model

Updated April 2016

Due to ongoing demand, this report has been updated to reflect changes in the marketplace. The third update describes a "digital" dimension through which business models are being impacted and can be evaluated; it also includes updates to time-sensitive figures describing companies that have changed business models and the difference between SG&A cost averages for decentralized versus more integrated companies. A new sidebar, "The digital enterprise: disruption to traditional business models," describes the impact of technology on traditional business models, the disruption it's creating, and how leaders can respond.

About the series

Creating sustainable and scalable improvements to a company's cost structure is like building a skyscraper. The first step is choosing or clearly defining the right business model, which provides a blueprint for the effort. The second step is determining how decisions will be made. This serves as a strong foundation. The third and final step is mobilizing resources and putting the decisions into action, which is analogous to actually constructing the high rise. When improving their cost structure, many companies try to jump directly to the construction phase. However, the results are generally disappointing and, even if they are acceptable, they are usually hard to sustain.

Deloitte's three-part series, "Three steps to sustainable and scalable change," takes a detailed look at what is typically necessary to produce cost structure improvements that can withstand the test of time.

Part 1

"Rethinking a company's business model," provides fresh and practical views to help companies choose or confirm the right business model. This can serve as a blueprint to guide the overall effort.

Part 2

"Aligning operational governance with the business model," presents a framework for aligning and improving the way decisions are made and executed. This step can provide the foundation for lasting improvements; yet, in our experience, it is the one step companies are most likely to overlook.

Part 3

"Redefining functional service delivery to achieve organizational scalability and efficiency," explains how to construct an effective service delivery model. It identifies ways companies can deploy their resources to create a cost structure and generate performance improvements that are able to satisfy the specific needs of the business.

These three steps can help companies make sustainable and scalable improvements to its cost structure.

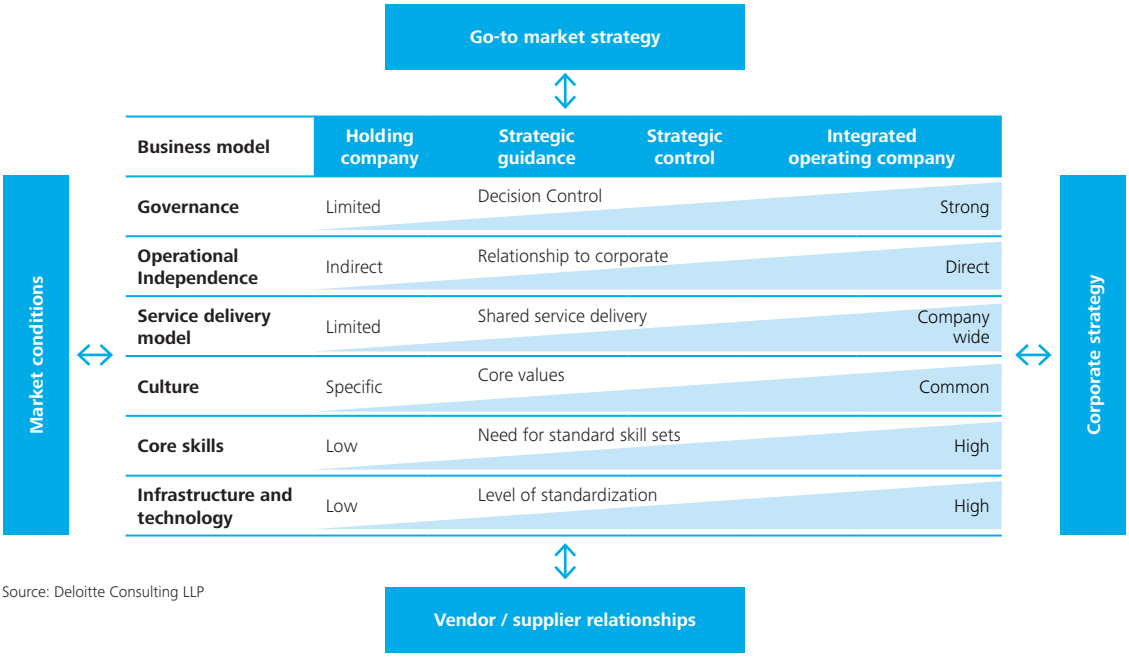
The first step in improving your cost structure is to verify you have a well-defined business model. Serving as the blueprint for all future business activities, your business model should support your efforts to realign operational governance or restructure your functional service delivery mechanisms. One upside of challenging global economic times and slow global economic recovery is the opportunity to either validate your current model or tear it down and build a new one. A key is to determine where to situate your company on the spectrum of business models – from decentralized holding company on one end to highly integrated operating company on the other. Where is your company most likely to thrive while serving its markets, operating most efficiently, and ultimately providing the greatest return to its shareholders?

Even the best business models can eventually become obsolete. Yet we have found that companies are often reluctant to tinker with something so crucial to their business—particularly if it has served them well in the past. Instead, they pursue isolated improvements within a single area or function, only to find that the changes aren't sustainable because of their business model's inherent limitations. The usual result? Much lower operational efficiency and effectiveness than a company should have.

A well-designed business model defines how you go to market, interface with your stakeholders, and react to market conditions (figure 1).

To achieve sustainable and scalable cost improvements, you must carefully analyze your existing business model – and then adjust it to fit your company's current and future needs. This should provide a blueprint for effective structural change.

Figure 1: A company's business model defines how it goes to market, interfaces with stakeholders, and reacts to market conditions



Business model	Holding company	Strategic guidance	Strategic control	Integrated operating company
Governance	Limited	Decision Control		Strong
Operational Independence	Indirect	Relationship to corporate		Direct
Service delivery model	Limited	Shared service delivery		Company wide
Culture	Specific	Core values		Common
Core skills	Low	Need for standard skill sets		High
Infrastructure and technology	Low	Level of standardization		High

Source: Deloitte Consulting LLP

The path to structural change may not be simple, but it should be clear. Key factors include: how your company views itself, how it makes decisions, and how it deploys resources. These factors are all inextricably linked to your company's business model.

For example, you might decide to shift from a decentralized finance or marketing function that primarily resides within business units to a centralized function based at corporate headquarters. However, such a shift should not be made arbitrarily, but only if it is consistent with your business model.

Several signs may indicate that it is time for your company to rethink its business model. In general, your business model needs to be revisited if:

- It does not support your company's go-to-market strategy
- It does not allow your company to adjust to market changes, such as price deflation, competitive pressures, or cost pressures
- It does not allow for continuous improvement of vendor and supplier relationships
- It no longer supports your overall corporate strategy
- It becomes too expensive to maintain or support, or places your company at a competitive disadvantage
- Shared services do not yield expected savings
- It may not allow you to adequately gain efficiencies from technology

Your business model can have a major impact on your company's cost structure and operating complexity. It is used to determine how you deliver services and deploy resources. It can also affect your company's decision and ability to scale—or not—during economic downturns. Moreover, an outdated business model can drag down all aspects of your business. For example, it could prevent your company from adjusting to critical changes in the market such as key differentiators becoming commodities. Or it could undermine customer relationships by preventing your company from adapting its sales channels to fit the way today's customers prefer to buy.

Although modifying your business model might seem daunting, it is often a prerequisite for sustainable structural change. It also represents an excellent opportunity to transform your business and make your company more efficient and effective.

Bottom line: If your current business model is preventing your company from fully achieving the results it should, the business model needs to be revisited.

First things first

Achieving sustainable improvements to your company's cost structure is a three-step process similar to building a skyscraper. The first step is choosing or confirming the right business model. The second step is determining who will make decisions, and how—what we call operational governance. The third step is deploying resources and putting changes into action. These three steps can help companies make sustainable and scalable change.

Many companies make the mistake of leaping into action before going through the other two steps. They start to reorganize and deploy resources to improve their cost structure without taking time to rethink or confirm their business model or decide how decisions will be made.

That's like trying to construct a building without drafting blueprints or laying a foundation.

A well-designed business model provides the blueprint for improvement. In particular, it is used to determine how your company is structured internally, and how it interacts with key external stakeholders such as customers and suppliers.

Your business model also serves as a starting point for the next step in the process—operational governance—by providing a high-level framework for who makes decisions, how they are made, and who executes them. Lack of clarity over decision-making roles and responsibilities can cause a variety of debilitating problems, including confusion, inefficiency, and duplication of effort. Clear operational governance can help avoid these problems and provide a solid foundation for implementation, reorganization, or restructuring.

Once a blueprint and foundation are in place, it's time to build the high rise by deploying resources and restructuring or reorganizing your business to capitalize on cost improvement opportunities.

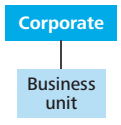
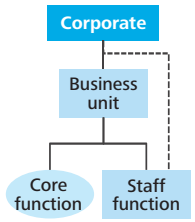
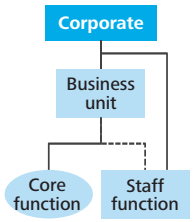
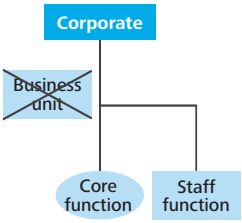
Choosing or confirming a business model: One size does not fit all

A company's business model serves a variety of purposes. In particular, it should:

- Help the company operate more efficiently and effectively
- Define the relationships between corporate, divisions, and business units
- Influence how the company reacts to internal and external stakeholders and market forces
- Define how certain functions, such as general and administrative (G&A), should operate
- Help divisions and business units understand what to expect from corporate, and vice versa
- Help define key elements and enablers of a company's culture
- Help support and align company values and core competencies
- Serve as a source of competitive advantage
- Allow you to adequately gain efficiencies from technology

Although there are an infinite number of business models to choose from, most can be grouped into one of four broad categories. These range from the highly decentralized holding company model to the centrally managed integrated operating company (IOC) model. The strategic guidance and strategic control models fall somewhere between the two extremes (figure 2).

Figure 2: A range of options in business models

Business model	Holding company	Strategic guidance	Strategic control	Integrated operating company
Operating structure				
Executive leadership strategic role	Sets and monitors financial targets and defines fundamental objectives	Coordinates business strategies, sets and monitors financial and business objectives	Participates in development of business strategies and their implementation	Develops plans, policies, and guidelines, and monitors operations
Executive leadership decision role	Delegates operating decisions	Provides input into some decisions	Participates in all major operating decisions	Makes major operating decisions
Operational model	Stand-alone business units	General management team	General management team	Operating units
SG&A model	Central services typically not provided	Some central services provided on as-needed basis	Significant portion of services provided centrally	Vast majority of services provided centrally

Cost reduction increases as the strategic integration of the company increases

Source: Deloitte Consulting LLP

Notes:
Staff function: Includes administrative or support functions (e.g., HR, Finance)
Core function: Includes non-SG&A functions and/or functions related to the main purpose of the enterprise

Major differences exist among the four models. For example, in a holding company, corporate sets and monitors financial targets and defines overall objectives, but the business units make their own operating decisions and corporate has little input on strategy. As a company moves toward the IOC model, corporate becomes more directive and the operating units become less autonomous. In an IOC, the company is controlled from the corporate center. Corporate executives develop plans, policies, and guidelines; monitor operations; and make major operating decisions. Strategy cascades down from the top, and every division is expected to execute the same strategy. When corporate issues a directive, it's the law.

Significant variations in processes, technology, and culture exist across the four business models (figure 3). In a holding company, business units operate autonomously and have responsibility both for staff and core functions (G&A and non-G&A functions). Typically, there is very little standardization and integration. In an IOC, corporate owns staff and core functions (G&A and non-G&A functions), and most—if not all—key processes reside at the corporate level. Standardization, integration, and consolidation are the norm. Common values and a common culture pervade the company, and there is a high degree of technology integration—perhaps even a single technology platform.

Looking at the middle of the spectrum, the strategic control model clearly "pulls to the right" toward the IOC model. Non-core functions are often centralized and consolidated; however, some core functions and activities may occur at the business unit level. This model features very strong corporate involvement in operations, with corporate executives developing and implementing business strategies and participating in major operating decisions.

In contrast, the strategic guidance model is more like a holding company, "pulling to the left." A few non-core functions such as accounts payable and payroll are likely to be consolidated. In this model, corporate executives do not exert heavy-handed control over operating units; they simply offer coordination and guidance on strategy, set and monitor financial and business objectives, and occasionally provide input on operating decisions.

Moving "toward the right" generally increases opportunities for consolidation (figure 4). In fact, companies often shift from strategic guidance to strategic control specifically to capture more cost synergies.

Case in point: a large independent global oil and gas producer decided to increase the level of corporate control because the company's existing strategic guidance model had trouble capturing economies of scale. The company had grown significantly over several years, mainly through acquisitions, and its G&A costs were among the highest in its peer group. Rationalizing its support structure for G&A—plus a few core areas—and shifting its business model toward strategic control helped bring the company's costs back in line, producing recurring annual savings of approximately $150 million.

Figure 3: Different business models have different types of processes, systems, and culture

Business model	Holding company	Strategic guidance	Strategic control	Integrated operating company
Processes	• Few or no key processes are generic	• Some key processes are generic	• Many key processes are generic	• Most of all the key processes are generic
Technology and infrastructure	• Not integrated	• Very little integration	• High degree of Integration	• Mostly integrated
Culture	• Different value systems • Different cultures	• Some common values • Different cultures, but fewer	• Many common values • One culture, broader interpretation	• Common values • One culture, common interpretation

Source: Deloitte Consulting LLP

Figure 4: Different business models determine the range of strategic, decision-making, and organizational dependencies

Business model	Holding company	Strategic guidance	Strategic control	Integrated operating company
Executive leadership strategic control	Low			High
Executive leadership decision control	Low			High
Business unit operational model	High			Low
SG&A synergies	Low		Highest synergies	High

Large specialty retailer cuts costs by more than $60 million a year

A large specialty retailer shifted from strategic guidance to strategic control and within the first year captured more than $60 million in annual savings for controllable expenses and staff. The impetus for the shift came after the company made two major acquisitions in two years and realized that its administrative structure could not support all three businesses effectively or efficiently. Decision making was a major problem. To address this issue, the company established a new operational governance model that clearly defined decision-making roles and responsibilities between corporate and the divisions, and improved communications and coordination.

To achieve its growth objectives, the company also needed a scalable administrative infrastructure that would reduce its overall selling, general, and administrative (SG&A) expenses and non-merchandising costs by eliminating redundant activities at the business unit level. The solution was a shared services center to capture G&A synergies.

The center's scalable footprint initially included human resources and finance, as well as site services such as non-merchandise procurement, e-procurement, corporate facility management, stores facility management, mailroom services, printing and production services, and document management. The footprint was later significantly expanded to include new areas such as real estate. Subsequent acquisitions have gone much more smoothly with the new operational governance model and shared services center in place.

The digital enterprise: disruption to traditional business models

Business is experiencing unprecedented change. Market catalysts are enabling companies to create alternative ways to serve customers and it's changing how companies, industries, and business ecosystems operate. These new approaches, the rate at which they evolve, and the impact they are having, are due in large part to technological advances.

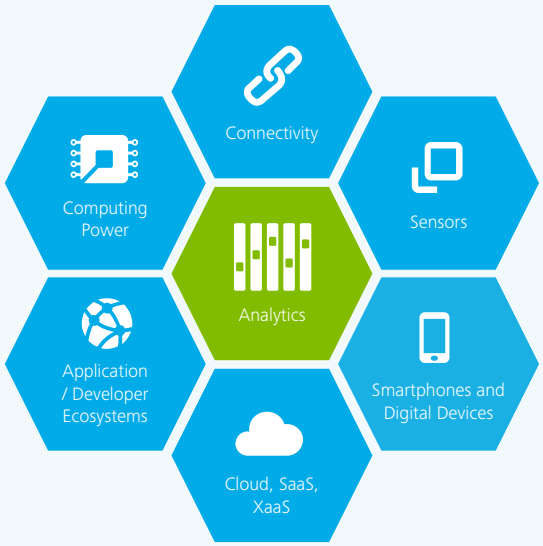
For more than a century, technology has driven monumental change in society and the economy. Today, technological change is happening at an accelerated rate and the convergence of these technologies is amplifying their potential to create value. In particular, there are seven technological advances that are enabling innovation (figure A).

- Connectivity – increasing number of digital devices linking to and communicating with one another, driving an exponential rate of collaboration
- Sensors – expanded use of components that allow intelligence to be embedded in almost any object; in 2014 there was an average of at least 10 sensors in every smartphone as opposed to 3 in 2007[1]
- Smartphones and Digital Devices – expanding array of personal equipment used to receive and send digital information; in 2012 the number of people who owned a mobile phone was greater than the number of people who owned a toothbrush[2]
- Cloud, SaaS (Software as a Service), XaaS (Anything as a Service) – expanding number of remote platforms to

store, manage, and process data has reduced the need for hardware ownership

- Applification / Developer Ecosystems – greater app utility and accessibility, driven by an agile, organized development community; the number of mobile app downloads is expected to grow from 111 billion in 2015 to more than 280 billion in 2020[3]
- Computing Power – exponential increases in computer processing ability and at lower cost; Moore's law still applies, that is, technologies whose performance relative to cost (and size) doubles every 12 to 18 months[4]
- Analytics – expanding number of data sources coupled with enhanced analytical capability is enabling people to deliver more valuable business insights

Figure A: Seven examples of technological advances that have enabled new business models



Source: Deloitte Consulting LLP

While these technologies enable new products and services, they are also giving rise to and enabling significant innovation around new business models. Using Doblin's *Ten Types of Innovation* framework developed by Deloitte Consulting's innovation practice, these innovations can be categorized into four types: profit model, network, structure, and process. Profit model innovations are changes in how the company makes money. For example, a media provider turning the video rental industry on its head by implementing a subscription model. Network innovation uses connections with others to create value, for example a discount retailer partnering with renowned external designers to differentiate itself. Companies who innovate their structure find new ways to align talent and assets. For example, a grocery chain building a robust feedback system for internal teams. Process innovation uses unique or superior methods for doing work, for example a clothing retailer minimizing time from design to distribution using a unique supply chain.

Research has shown that leading innovators routinely use multiple types of innovation. This produces more sophisticated and impactful results—and does so in ways competitors can't easily spot or copy. In recent years, the technological advances we highlighted above have been a key driver of this kind of innovation. For example, a consumer products company we spoke to recently used two types of business model innovation: structure and process. The company innovated its structure by outsourcing production to more than 50 different subcontractors, creating a nimble and flexible manufacturing process. The company innovated its process by tracking the environmental impact of making its products in order to improve the water, energy, and material efficiency of its manufacturing process. By leveraging the technological advances described in this paper, companies can more easily combine and leverage multiple types of innovation to build a more differentiated and valuable business model that generates better returns and sustainable success[5].

The impact of new business models

In our research, we found two common themes among new business models: smaller companies are better equipped to use technology to create new business models, and new business models typically require less work to perform its objective.

Large companies carry several advantages over smaller companies, including market share and scale, however they are often less effective innovators. This is because large companies often don't include innovation as part of their vision, and choose not to develop the capabilities required to be successful innovators. Many see innovation as a risk, as the development of new approaches may cannibalize revenues or render current technology obsolete.

Additionally, work is eliminated as technology takes on a greater role in the business model. Through automation, technology has replaced roles previously performed by people. For example, bank tellers have been replaced by ATMs and call center workers by interactive voice

response systems. However, in the near-term it's more likely parts of jobs will be automated by technology. As technology improves and machines take on more cognitive tasks, the number of roles impacted will increase. For this reason, it is crucial for leaders to take a closer look at the coming impact of technology on work, workers, and organizations[6].

Leaders must respond to disruption

While industries like real estate and media have already been disrupted, others have not. Industries ripe for disruption are those which are inefficient, contain information asymmetry, or are subject to automation. Examples include financial services, professional services, and telecommunications, among others.

Whether or not your industry has been disrupted, it's essential for leaders to respond. For companies whose industries have been disrupted, the next step is to determine how to configure your business model to compete. Technology can be used to help recalibrate cost structures, replenish revenue streams, and reshape corporate strategies[7]. Companies whose industries have not been disrupted should understand the potential threat and consider how technology can maximize their current business model's potential.

While incorporating new technology into existing business models or better enabling digital capabilities within business models may be difficult for any organization, companies with more integrated models, with typically more robust shared services models, more commonality in culture, and with greater standardization across IT, may be better positioned to use technology to innovate across one or more of the business model innovation types. With fewer actions required to make changes across the organization, more integrated companies may be able to develop and deploy new capabilities more quickly and more easily, better equipping them to compete in a changing marketplace.

However, there are exceptions. Decentralized companies can often possess a business unit intended to be unique and different from the rest of the company. These units may result from an acquisition or an effort by the company to incubate an alternative concept. By not having to conform to the same processes, technology, and culture as the other business units, these units have fewer restrictions on what technology they can use and how they can use it, making it easier to innovate across one or more of the business model innovation types. Organizations in the insurance and retail industries have done this as a way to test new ideas or alternative business models in the marketplace.

Business model innovation can be vital to all organizations, large and small. In the end, the ones that are able to harness new technology and enable a "digital enterprise" (i.e., either a business model significantly enabled by technology, or an altogether new business model arising from digital and technological disruption) may be the ones who survive. With this, we can add a seventh dimension, digital enterprise enablement, to our list of variables used to examine business models, as shown in figure 5.

Analyze the model along seven dimensions

To determine where your company falls on the business model spectrum, consider analyzing your current business model along seven dimensions:

- Governance – How much decision-making control does corporate have? How much do the business units have? In a holding company, corporate has little decision-making control. In an IOC, it has a lot.
- Operational independence – What is corporate's relationship to the operating units? Does corporate direct the operating units, or are they independent? In a holding company, the business units are autonomous and have an indirect relationship with corporate. In an IOC, divisions are directly linked to corporate.
- Service delivery – Are support services embedded in the business units or provided centrally? Holding companies typically localize services, while IOCs tend to centralize them.
- Culture – Are the culture and core values unique to each business unit, or are they common throughout the company?
- Core skills – Are standardized skill sets applied across the company, or do the business units have special needs? Holding companies generally don't standardize; IOCs generally do.
- Infrastructure and technology – Is the level of technology standardization high or low? Holding companies typically do not integrate infrastructure and technology. IOCs tend to have a high level of technology integration and, in some cases, may even operate on a single enterprise-wide platform.
- Digital enterprise enablement – Is the speed at which the company gains efficiency from technology fast or slow? IOCs can generally gain efficiencies more quickly than holding companies can.

It should be noted that the last variable, digital enterprise enablement, is a new dimension being added as a result of the exponential changes in this area, as described in more detail in the text on pages 8-10.

After analyzing your business model, company executives might decide to preserve the status quo because a different model would not offer improvements. That's fine, as long as it's a conscious decision. For example, a large food company with multiple brands thought about shifting from a holding company model to strategic guidance, but with so many different brands – including some that competed side-by-side on grocery store shelves – it decided to keep its divisions operating independently. Although the company might have generated synergies by shifting to a new model, it felt that keeping the operating units competing and separate was more important. Instead of changing its business model, the company focused its attention on improving market penetration.

Figure 5: The business model can be examined in more detail by looking at the following variables

Business model	Holding company	Strategic guidance	Strategic control	Integrated operating company
Governance	Limited	Decision control		Strong
Operational independence	Indirect	Relationship to corporate		Direct
Service delivery model	Limited	Shared service delivery		Company-wide
Culture	Specific	Core values		Common
Core skills	Low	Need for standard skill sets		High
Infrastructure and technology	Low	Level of standardization		High
Digital enterprise enablement	Slower	Speed to gain efficiency		Faster

Source: Deloitte Consulting LLP

Pros and cons: Every business model has advantages and disadvantages, and requires certain trade-offs (figure 6). For holding companies, the main trade-off is business unit independence instead of cost synergies. Duplicate activities and staff give business units greater autonomy, but at the same time increase a company's overall costs. In addition, holding companies have a harder time taking advantage of their buying power when negotiating prices on resources and supplies. For instance, one U.S. company with multiple factories was paying 20 different prices for the same supply item from the same vendor. Why? Because the company was so decentralized that it could not compare prices among factories to determine what each was being charged.

At the other end of the spectrum, the IOC model helps create cost synergies because G&A resides at the corporate level and services are provided centrally. However, the trade-off is a lack of independence for the operating units, which may reduce their entrepreneurial spirit. (Of course, for some companies, entrepreneurial spirit is not a high priority.) The IOC model also helps foster positive vendor and supplier relationships and synergies. For example, corporate can dictate that all employees use a certain type of credit card or hotel chain, enabling the company to negotiate better deals.

Figure 6: Each business model offers various advantages and disadvantages

	Holding company ⟷	Integrated operating company
Pros	• Increase operational flexibility • Improve value in fast-growing environment • Foster entrepreneurial spirit and initiatives • Allow for easier company acquisition/integration in the short run	• Promote stronger market influence • Improve synergies and efficiencies across all business or operating units and divisions • Improve value in saturated or deflationary markets • Improve adherence to and execution of corporate strategy • Allow for easier acquisition or divestiture in the long run • May allow you to enable digital enterprise capabilities more rapidly
Cons	• Require high cost structure • Promote fragmentation, leading to weaker market presence • Hinder technology and infrastructure standardization • Reduce value in stagnating or deflationary market • May take longer to enable digital enterprise capabilities	• Limit company's flexibility in a fast-growing environment • Increase risk of "bureaucracy" • Increase risk of rejection on corporate cultures and values if not properly balanced

Source: Deloitte Consulting LLP

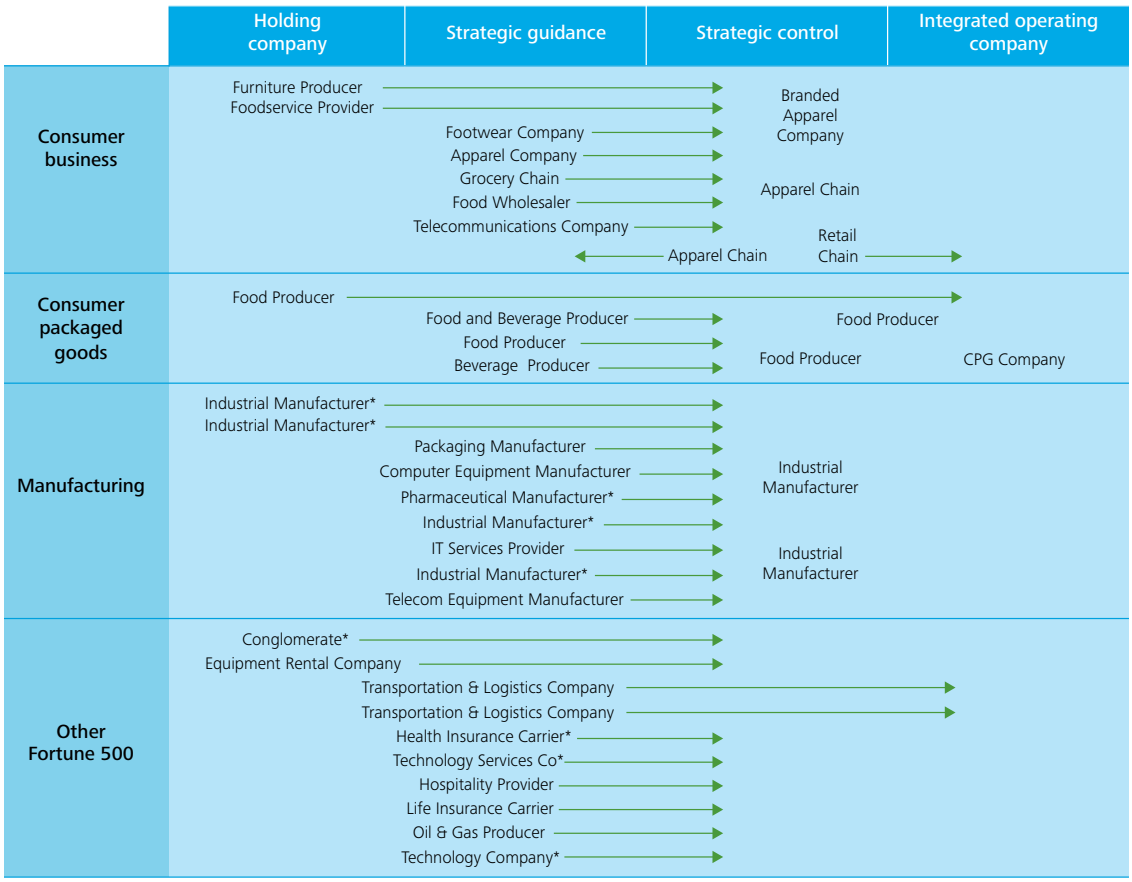
High-growth vs. mature markets

The value of moving to a different business model often hinges on whether a company is in a high- or low-growth market. For companies in low-growth markets, shifting to a synergy-friendly business model may be the only practical way to improve earnings and overall performance. Moreover, such markets generally don't require a strong focus on entrepreneurship or independence, thereby neutralizing the disadvantage of central control.

Most companies in mature markets and industries follow the same general pattern. For example, Figure 7 shows the results of our research regarding business model changes for a sample of Fortune 500 companies[8]. Since the vast majority of Fortune 500 companies are in mature industries, many have moved—or are moving—to a strategic control or IOC model where potential synergies from centralization are greater.

While the figure shows a number of movements across business models, we also identified movements within the same business model. In these cases, companies made minor to moderate adjustments to operations, but not enough to identify the business model as a different type. During our analysis, we found these smaller movements took place most often within the strategic control model and are typically driven by strategic changes and influences of major market forces such as digitalization, globalization, or innovation.

Figure 7: To gain more synergies, many Fortune 500 companies have moved or are moving to more integrated business models



*G&A functions only
Source: Deloitte Consulting LLP

The strategic control and IOC models are both synergy-friendly; however, some important differences exist (figure 8).

Many companies find that the strategic control model strikes an excellent balance, enabling them to reduce costs through consolidation while still giving business units enough autonomy to foster creativity and an entrepreneurial spirit.

Companies with strategic control or IOC business models also tend to have lower SG&A costs (see Figure 9). We have found this to be consistent both across industries and over time. Across industry sectors, SG&A costs are, on average, seven percent lower in companies operating under integrated business models compared to companies with more decentralized models (see Figure 9). This is significant considering that one percent alone is equivalent to $250 million for the average Fortune 500 company[9]. We repeated the analysis for data in 2015 vs. 2008, and found that the results also remained relatively consistent over time between companies with integrated models versus companies with more decentralized models. This consistency reinforces our view that the integrated approach offers savings opportunities.

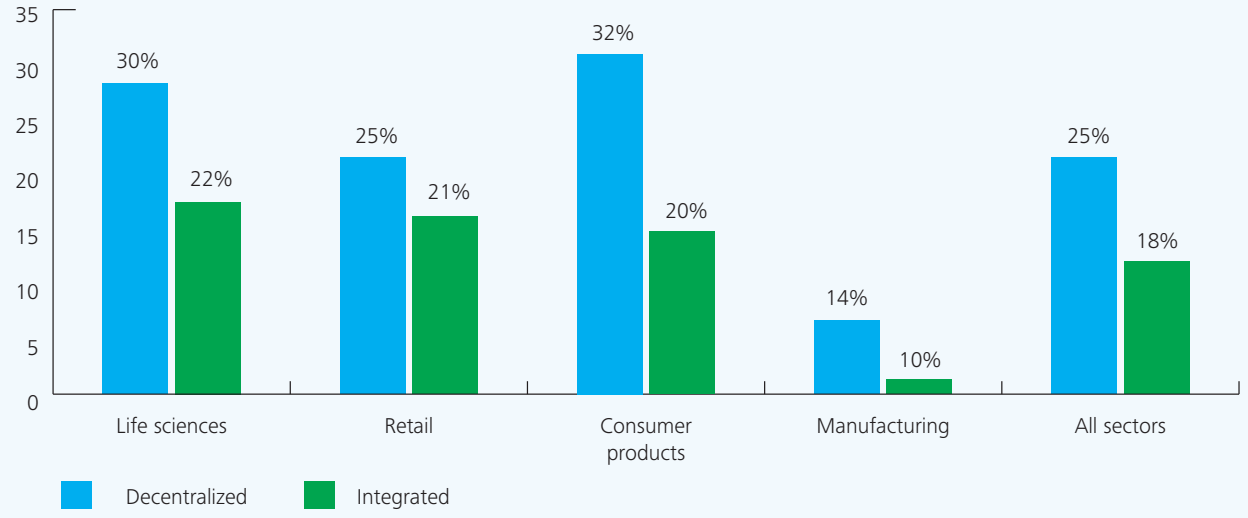
That said, an integrated business model is not right for everyone. Some companies that shift to a strategic control or IOC model may learn the hard way that their financial results were inextricably linked to a more decentralized model. In particular, faster-growth and higher-growth companies—as well as companies comprised of diverse businesses—may find that it is worth sacrificing a certain amount of efficiency in exchange for increased agility and entrepreneurial spirit. For these kinds of companies, a holding company or strategic guidance model might be the most appropriate choice.

Figure 8: More on the strategic control vs. the integrated operating company models

	Strategic control	Integrated operating company
Pros	• More balanced roles and responsibilities between corporate and business units • Easier application to companies with multiple business portfolios • Stronger market focus • Higher level of flexibility at business unit level • May provide more flexibility in deploying digital enterprise capabilities	• Higher level of synergy • Lower SG&A costs • Easier to attract and retain corporate executives • Faster decision-making process • Cost to deploy digital enterprise capabilities may be lower
Cons	• Lower level of synergy • Higher SG&A costs	• More difficult applications to companies with different business portfolios • Higher risks of bureaucracy • Difficult to retain business unit executives

Source: Deloitte Consulting LLP

Figure 9: 2015 SG&A averages of decentralized vs. more integrated companies by industry



Note: SG&A as a percentage of revenue
Source: Deloitte Consulting LLP, data for Fortune 500 comprised of 18 life sciences, 28 retail, 33 consumer products, and 25 manufacturing companies

Mix and match

While each of the four business models offers a distinct blend of efficiency and effectiveness, you may want to mix and match elements from various business models to create a customized model that fits your unique requirements.

For example, highly decentralized companies may decide to centralize support activities but leave the rest of the business the way it is. In fact, many companies do just that—usually by centralizing G&A services and processes, which are typically generic. Other companies have found centralizing non-core competency areas to be effective. For instance, some have created wholly owned procurement companies that use the entire organization's combined buying power to get the lowest price on raw materials and supplies. Others have reduced their costs by establishing separate companies or operating units for administration and/or shared services. Matrix organizations have also found this analysis useful for refining or confirming their business model.

These are just a few examples. In reality, you can choose from an infinite number of models. The right choice ultimately depends on your company's specific needs and circumstances.

The next level

Companies often want to realign and restructure their business. But our experience suggests that before tangible changes can occur, companies must have the right business model—either by systematically validating their current model, or designing and building something new. This is the first step toward improving a company's cost structure.

A redesigned or confirmed business model can be used as the starting point for effective operational governance—i.e., how key decisions are made, and who makes them (which we examine in the second article in our three-part series)—laying a solid foundation for sustainable and scalable change.

Evaluating your business model

Is it time to change your business model? Consider the following questions as you decide.

Does your current business model:

- Support your company's business strategy?
- Support your go-to-market strategies?
- Enable timely adjustments or changes in response to market shifts such as competition and cost pressure?
- Serve a key element of your company's competitive strategy?
- Provide for continuous improvement in vendor and supplier relationships?
- Help interact with customers effectively and efficiently?
- Support the most efficient and effective cost structure?
- Support the company's desired culture?
- Take into account alternative service delivery models such as shared services, outsourcing, and offshoring?
- Help leverage processes and organizations globally or internationally?
- Support clear, effective, and efficient decision making at different levels of the company?
- Support your company's ability to gain efficiencies from technology?

If you answered "no" to many of these questions, it could be time to take a hard look at your business model.

Endnotes

1 Inside the Internet of Things (Deloitte Development, 2015)

2 Deloitte Digital Infographic, 2012

3 App Annie Mobile App Forecast: The Path to $100 Billion

4 Tech Trends 2015 (Deloitte Development, 2015)

5 *Ten Types of Innovation: The Discipline of Building Breakthroughs* (Deloitte Development, 2013)

6 Redesigning Work in an Era of Cognitive Technologies (Deloitte Touche Tohmatsu Limited, 2015)

7 Digital disruption: Short fuse, big bang? (Deloitte Touche Tohmatsu, 2012)

8 Deloitte Consulting LLP. Changes took place between 2005 and 2015

9 Analysis by Deloitte Consulting LLP

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