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# How Operating Models Must Evolve for the Future

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No question: Consumer products (CP) companies need to transform their operating models so that they become ready for the future and, simultaneously, more profitable today. EY commissioned MIT SMR Connections to conduct a survey of 370 business leaders from CP companies worldwide to explore how they're changing their operating models — and whether what they're doing now will be sufficient to succeed in the future. In this article, the last in a series on the survey findings, we discuss six key characteristics that we view as essential for all future operating models.

CP companies are trying to adapt to an increasingly unpredictable world. While incremental efficiency gains are always important, it takes systemic change to create the kind of business model agility and operating model flexibility that success now demands. That's one of the biggest challenges that industry leaders face today.

In our recent webinar with MIT SMR Connections, "Optimize Your Operations for Today — and Tomorrow," Parth Raval of PepsiCo Foods North America shared his company's perspective. "We've always operated with a sense of urgency, but we really needed to step-change our approach," said Raval, the company's senior vice president and chief growth officer. "Our growth ambition is accelerating, our priorities are growing more complex and nuanced than ever, and the capabilities we need to deliver this agenda are growing more demanding."

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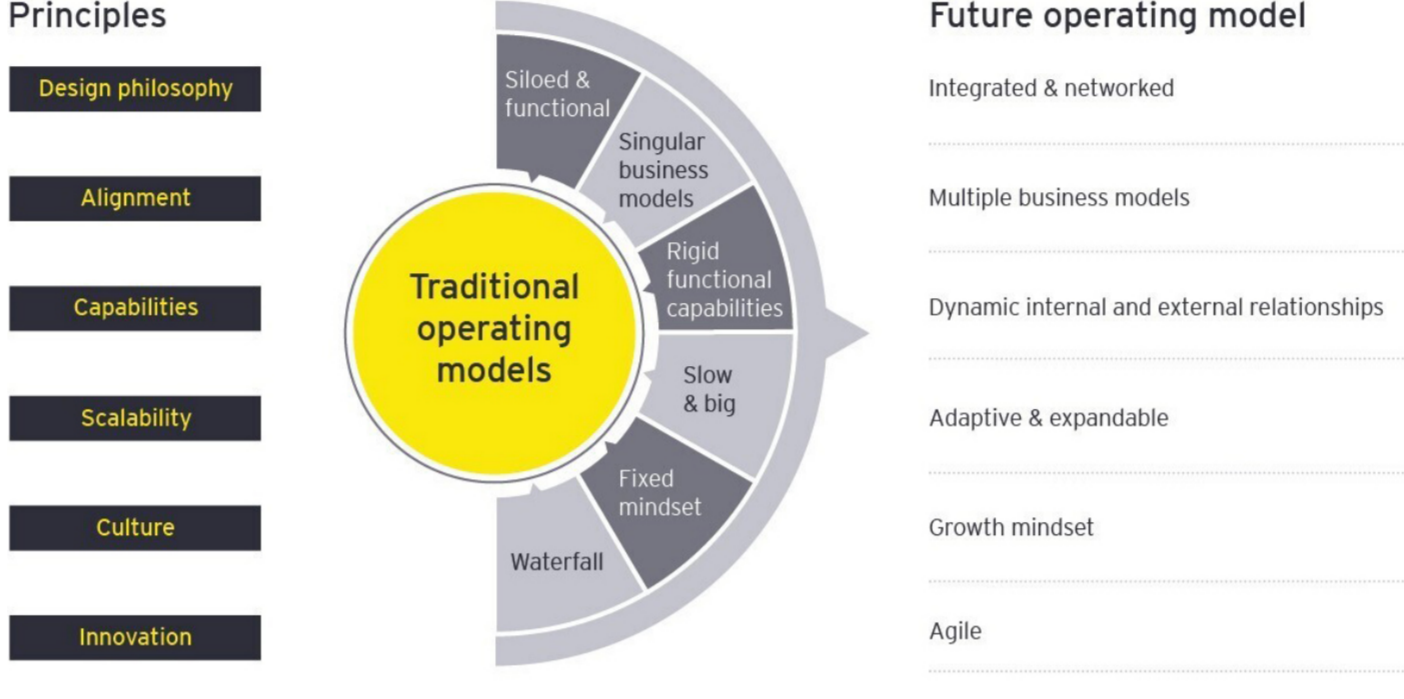
### Make Your Operating Model More Agile

Most large CP companies are efficiency machines, optimized to deliver on a core business model. They're built on an assumption of predictability and oriented for sustainable competitive advantage in terms of scope, scale, and efficiency. But that approach isn't the optimal way to create agility, which requires fundamentally different mindsets, ways of working, and measures of success.

PepsiCo, for example, has adopted what it calls Three Horizon Logic. "We've employed a very deliberate approach to thinking about both today and tomorrow," Raval told the webinar audience. "We try to organize our time, our financial investments, and our resourcing across the short term, the medium term, and the long term. That manifests in how we set all our objectives. The expectation is, you'll be making progress against both the here-and-now and against what we need for tomorrow."

It's impossible to overemphasize the importance of thinking, planning, and delivering for today and the future in an integrated way. You can work on many changes now to create a future-ready operating model that both supports an evolving array of business models and delivers immediate value. In the research report on the MIT SMR Connections/EY global survey of CP leaders, we identified five critical design elements that will form the foundation of future operating models: dynamic ecosystems, digital DNA, talent flexibility, innovation platforms, and enduring purpose. These elements, along with supporting principles, will help shape the key characteristics that we believe all future operating models should reflect (see graphic).

A flexible operating model is key to overcoming seismic changes and driving growth in a portfolio of both existing and evolving business models.



### Six Key Characteristics

In our view, the following characteristics are essential to the success of future operating models:

- 1. Integrated networks rather than functional silos.** A piecemeal transformation that makes incremental changes to discrete parts of the organization will be too slow and too narrow to deliver on what's needed. Future operating models should be built around integrated, collaborative interactions within companies and their external partners, rather than in functional silos. That represents a systemic shift.
- 2. Multiple business models rather than a single business model.** It's no longer enough to create and support just one winning business model. Instead, future-oriented operating models should enable organizations to explore, test, and scale a range of different business models simultaneously. That capability solves what we call the "plurality dilemma": the challenge organizations face in rapidly adapting to a future that will keep changing at unprecedented rates while optimizing how they operate today.
- 3. Dynamic internal and external relationships rather than rigid functional capabilities.** This element involves reframing the capabilities you'll need and how you manage them. The future operating model provides the right mix of deep expertise and cross-functional generalists. Depending upon where a company's future value proposition lies, it may be better to outsource some skills that traditionally have been handled in-house.
- 4. Adaptive and expandable scale rather than slow and big.** To succeed in the future, CP companies must be able to experiment, pilot, test, and scale new products, services, and experiences much faster than they do today. The future operating model *cedes some control*, meaning you can move at the speed of the market. That approach — which is vastly different than the traditional model — involves managing product life cycles from rapidly developing and launching new offerings tailored for specific markets all the way to the end of those products' lives. In many ways, CP companies need to think and act more like software companies.
- 5. A growth mindset rather than a fixed mindset.** In today's challenging and very fluid environment, the mounting pressures to avoid mistakes can create a culture of "safe" incrementalism at best, and toxic risk-aversion at worst. A growth mindset, as described by Stanford University psychology professor Carol Dweck, is nurtured by creating a supportive environment where employees are encouraged to take thoughtful risks, make mistakes, and learn from them. Such an environment is necessary to shift a company's culture from a fixed "what-is" to a "what's-possible" mindset. Don't let your company's culture inhibit employees from developing growth mindsets; after all, a truly agile organization is made up of individuals who are adept at thinking and behaving in agile ways.
- 6. Agile innovation rather than waterfall innovation.** Genuine innovation involves more than just product R&D; it also involves innovating business models, processes, ecosystem partnerships, and more. The future operating model allows the whole organism of the business to change — and to keep changing — so it can continually innovate at speed and scale.

### Conclusion

It's the cumulative effect of these characteristics that really makes a difference. A systemic transformation will address them all together. When your operating model enables you to do business in a way outlined in the right-hand column of the graphic included above, your organization will become more resilient and more agile. You'll leap beyond incremental change and profoundly improve how your organization performs today and tomorrow.

This article is the last in a three-part series examining operational transformation in CP companies, based on a survey undertaken with MIT SMR Connections. The first article, "Is Your Operating Model Trail-Blazing — or Trail-Gazing," features three recommendations for developing an agile operating model. The second article, "3 Priorities for Accelerating Your Operating Model Transformation," describes how leaders can establish and execute on visions for transformation. The research report, "Becoming Future Fit: Challenges and Opportunities for Today's Consumer Products Companies," explores the survey findings in more depth.

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