Adaptive Operations

Making change a part of your DNA

A strategic must-have in a "VUCA" world

WITH OUR NEW OPERA MODEL P. 11
Dear Readers,

Adaptive Operations are operations that are permanently adjusting at a fundamental level, whether in structure, with business models or via processes. It’s a mindset of constant adaptation to the rapidly changing trends and scenarios as they present themselves – and doing it without losing the company’s core values. In times of economic slowdown, we advise clients to focus on lean operations that are structured from the outset to be adaptive. Implemented correctly, Adaptive Operations can lead to significant savings through operational efficiency. Roland Berger has developed guiding principles for robust and future-proof operations and aggregated them into a model we call OPERA 2030. OPERA stands for: **O**pen up operations, **P**erfect your value chain, **E**-mbrace digital, **R**-orchestrate value generation, and **A**ccelerate the learning game.

Global Operations Team
Permanence and transformation can coexist

Today, the average age of S&P 500 companies is under 20 years, and that is one-third of what it was during the 1950s, according to research by Credit Suisse. The research says that disruption is nothing new in and of itself, but “the speed, complexity and global nature” of it is.

Indeed, companies face the challenges of a “VUCA” world – one that is “volatile,” “uncertain,” “complex” and “ambiguous.” In this world, the rules of engagement need an update.

Acceleration revolution

This becomes even truer as the pace of change quickens. The French philosopher Paul Virilio noted that the speed at which something happens may change its essential nature, and that which moves rapidly will quickly come to dominate that which is slower.

With digitalization, perceived and real experiences of speed are on the rise, leading us to the point where real-time may even begin to feel slow.

Within companies, ever-deeper digitalization and integration of value-added networks leads to faster cycles of knowledge transfer and innovation.

And consumers are adopting new technologies at record paces. Some might even argue that the experience of fast adoption has led people to more quickly disregard their previous beliefs and those elements of the culture that seemed certain, thereby impacting society at its core.

Consider how quickly fashion and style fads can come about. Then consider the businesses that enable that with a keen sense for trends and ecosystems: The young social media star Kylie Jenner built a cosmetics empire in only two years. She benefited not only from her family’s prominent name but also from the overwhelming power of media distribution on platforms such as Instagram and YouTube.

Be the fastest ever

This way of thinking also brought success to the Spanish fashion brand Zara. And others are following fast. Fashion Nova has more than 1,000 apparel manufacturers in its ecosystem and can receive samples within just 24 hours. Model shots are carried out directly in the office. New items, more than 600 a week, are

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dynamic is not an option. Companies must adopt structures, business models and processes that can quickly adapt to change. The average large firm reorganizes every two to three years, and the average reorganization takes more than 18 months to implement. In some cases, the time it takes to reorganize is longer than the entire lifespan of a tech startup.

Adaptive Operations and networks

Creating Adaptive Operations in a company means obtaining the right combination of speed, agility, and capabilities, with an understanding that this cannot be achieved with classical silos and linear functions.

The paradigm of the digital age is the network, and the network should be the central principle for an organization.

Networks not only allow cross-functional, cross-company innovation processes to be initiated, they also allow ideas that emerge and bubble in many different parts of the ecosystem to take "short cuts" and to bypass traditional gatekeepers, silos and hierarchies.

This makes it possible to change parts of an organization in a radical and open-ended way, without shaking the entire system. Another important trait of a fast and agile organization is the transfer of decision-making processes and decision-making powers to the front lines. That’s in sharp contrast to the standard, “safer” modus operandi of capturing data and sending it up the hierarchical chain for a decision to be made. The new approach requires an integrated platform that enables multiple strategies to be formulated and carried out in real time, as well as an organizational structure that is similar to modular building blocks. It requires being able to work on the basis of incomplete information – for example, using the Pareto principle, or the 80/20 rule, to speed up decision-making.
Drilling down on Adaptive Operations

In a VUCA world, the old playbook of “set a goal, make a plan, execute the approved plan” no longer works. Modern value chains need to be resilient, flexible and elastic to scale up during phases of economic boom and slim down during lean times.

When we say resilient, we mean that value chains should be able to cope with sudden changes without failing to deliver on their promise. For example, production should not cease due to a supply crisis or a lack of delivery. This may mean increasing stock levels beyond the optimal point if the supply chain is vulnerable or the company is risk averse.

Flexibility is dealing with fluctuations by taking certain actions, for instance adapting production to economic cycles. In some cases, this might mean having 20 percent temporary workers who could be laid off in case of a severe downturn or shifting resources along the value chain – make and buy instead of make or buy.

Finally, value chains should be elastic, meaning they are able to bounce back quickly after taking a hit. When a downturn comes, companies need to find ways to retain the skills they will need to revamp production once the market bounces back. For instance, companies can begin using methods to calculate an employee’s working hours spread out across days, weeks or years. With this method of calculation, employees can accumulate substantial hours in an economic downturn without being laid off.

At the same time, companies need to focus on strategy, leadership and the development of cognitive skills. This includes creating a robust, client-centric strategy that enables context-driven tactical decisions to be made more often and more quickly. It’s an agile paradigm, and it may be confusing for many stakeholders. Therefore, leaders must share their vision and motivate others to become adaptive. Routine tasks will be highly automated and decisions will be empowered by advanced analytics. For making decisions about value-adding tasks and matters with high business impact, companies will need cross-functional collaboration among stakeholders. The name of the game will be making multiple decisions at the forefront of the business based on the new mindset and the facts at hand.
Tools and capabilities for scaling up in boom times and scaling down in lean times

Past

Customer demand
Economic boom

Customer demand
Economic downturn

Volatility
Uncertainty
Complexity
Ambiguity

Today

Customer demand
Economic boom

Customer demand
Economic downturn

Opportunity losses
Potential overcapacity

Standard capacity

FLEXIBLE

RESILIENT

ELASTIC

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Finding funds for an organizational transformation

Done right, an implemented vision of Adaptive Operations can lead to significant savings through operational efficiency. These savings will surely be welcome to buffer the cost of digital and technology transformation that all companies are going through, as well as transformations specific to certain industries. In the automotive industry, for example, the investment in electric vehicles is now in full swing. Until the transition to electric engines is complete, companies still have to keep producing combustion engines, and this is a double burden. To lighten that load, we have calculated that they need a 20% to 30% increase in operations efficiency in the next five years.

Stay yourself, keep changing

As we encourage companies to constantly move to the quick beat of change, even as that beat gets faster, we also advise them to retain the cultural core. Doing so is the only way to avoid the whiplash that can come with constant change.

When the cultural core of a company is honored and respected, people will feel more grounded and more secure in the face of constant changes that can become disconcerting. Adapting to change will feel more like a game than a threat.

The more open and networked companies become, the more fluid and changeable their structures and teams are, and the more important it is to have a solid cultural foundation.

Purpose and values are just as important as building and nurturing social connections that span a network. This helps in every change and ensures that the company’s identity is maintained. Without identity, purpose and a clear positioning in the societal landscape, a company cannot become a center of power that keeps people motivated and loyal and inspires them to creativity. The trick is to conceive change as part of a company’s DNA and thus to ensure the coexistence of permanence and transformation.

Of course, megatrends drive changes. They include demographics, sustainability, security, digitalization and the scarcity of resources. But it is crucial to foresee the industry trends and to understand how they may impact the individual strategy of each function. For instance, in a study conducted by Roland Berger, 70 percent of respondents said functions need to reposition themselves. The background: For some corporate functions, an exclusive focus on efficiency is causing considerable risk because digitalization is being viewed as the same thing as automation. Especially logistics, as well as controlling and finance, see an opportunity to use new technologies to reposition the function.

During more than 500 transformation projects in recent years, we have identified ways to make operations more adaptive: This is a portfolio of options and tools to choose from that can be applied across the various areas of operations. The best fit will depend on your company’s particular situation, industry trends and specific company goals.

In short, as companies change continuously and embrace this as a way of working, they create Adaptive Operations that can lead to significant savings. These savings can, in turn, be used for further innovation and transformation.
Options and tools to make operations more adaptable

- Using Accelerated Zero Based Budgeting (AZBB) to create significant budget cuts to finance a transformation
- Creating a predictive end-to-end paradigm for your value chain with the help of advanced analytics and artificial intelligence
- Developing a future-proof product/service portfolio by examining existing and/or new products, adjusting products/markets/prices/volumes, and considering vertical growth/consolidation
- Systematically developing the skills of the future (see p. 10)
- Making efficiency improvements in production (continuous improvement, Kaizen, Six Sigma, etc.)
- Integrating value chain management (demand planning, order and inventory management, supplier management, service level differentiation, etc.)
- Improving supplier management (risk management, involvement in processes, etc.)
- Improving sales and marketing effectiveness (pricing policy, customer management, channel management, etc.)
- Applying a comprehensive set of ways to improve procurement (e.g. price comparisons for materials and costs, bundling, etc.)
- Applying digital technologies to automate and to analyze – consistently and boldly
- Optimizing R&D networks and management (market proximity, costs, key performance indicators, etc.)
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- Learning to think on the go while you still focus on the long-term strategy
- Optimizing costs across functions in the R&D process (early involvement of procurement, use of available cost reduction levers, etc.)
- Accelerating working capital optimization
- Learning to think on the go while you still focus on the long-term strategy
21st century skills

Skills needed to deal with high complexity and collaboration in a digital world

- Some tasks like "creating and approving a category strategy" or "reviewing and negotiating contracts" require a high degree of collaboration and are complex tasks to solve.
- Mapping procurement tasks along these two axes helps to understand which tasks can be automated soon and easily - those that require low level of collaboration and are straightforward.

Source: Roland Berger
Orchestrating operations

Which areas of operations to orchestrate, and to which degree, will depend on the industry and unique situation of a company. Technological change, demographic change, climate change. Take your pick on the type of change. There will always be more to come. The point is this: When the world around you is changing, you need to change with it.

But what are the guiding principles to develop robust and future-proof operations? Roland Berger has conducted more than 120 workshops on the future of operations, and our experts have extracted five common, core beliefs about the future of operations. These core beliefs haven been aggregated in a model which we call OPERA 2030. Based on the OPERA 2030 model, companies need to:

O-pen up operations
It’s time to open up your operations. Integration platforms and bidding platforms offer new ways of working together. Value chains are being deconstructed and production franchised. Shared operations are the name of the game. You partner even with your competitor – “co-opetition.”

P-erfect your value chain
Perfect your value chains, cutting out dead wood and thinning overgrown areas. Aim for simplicity and maximize resilience. Shorten your value chains to localize production. Make your value chains broader, for shared operations and for better load balancing across ecosystems.

E-mbrace digital
We are entering an age of “mirror worlds” – representations of the real world in digital form. Virtual Reality 4.0 has arrived. You can now not only test products virtually, you can even simulate their future fields of application. Everything is mirrored by digital twins, both your end-to-end value chain and the entire life cycle of a product are managed virtually.

R-eorchestrate value generation
Globalization was yesterday; it’s time to make supply local again. Resources are scarce and you must adapt your use of them to their availability. Consumers have increasingly local requirements. Protectionism is back in fashion, driven by market and regulatory change.

A-ccelerate the learning game
Speed up your learning game. It’s all about data: data-driven learning is replacing expert know-how, and data is forming the basis of your decisions. Your partnerships are data driven – and your strategy is too.

Improving operations has never been easy, but those companies that orchestrate their operations based on OPERA’s guiding principles will lead the pack. The concrete changes needed in R&D, procurement, production and supply chain management will be based on industry-specific trends.

Roland Berger will address these changes needed in further articles on the future of operations with a focus on specific industries and operational functions.
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