

PwC's 2015 Global Operations Survey:
*Insights from over 1,200 operations leaders
across geographies and industries*

Reimagining Operations



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Our 2015 Global Operations Survey shows that leading companies are reimagining operations. They are aligning more effectively with business strategy and working across functional lines to build experiences for their customers that are hard to copy. These companies are more confident about their future prospects, too. It's an exciting time for operations leaders, who can drive their companies' destiny like never before.

Whether your industry has been relatively stable or has rapidly shifting trends, you've noticed that it's getting harder to carry out a strategy. Digital technology is changing the way we all perceive value. Customer priorities are moving faster than ever. Competitors are appearing with entirely new business models. The ground is shifting – and this is a challenge for everyone on the leadership team.

Operations, in its broadest definition¹ could be the secret ingredient in helping companies win in this environment – if operations itself was better aligned to business strategy and across functional domains. Too often a change in one place hurts performance in another. For example, think of what happens when a company takes steps to reduce inventory or customer service staffing. Too often, customers see empty shelves or they experience poor delivery reliability or frustratingly slow response times. Said another way: there are limits when each function improves its own performance without thinking of cross-functional trade-offs and customer impacts first.

We recently set out to learn more about how companies are using operations to drive competitive advantage today. Armed with our long history of operations thinking, we started with executives who make choices every single day on how to make the company strategy a reality. These leaders don't think of operations as mere utilities. Instead, they see new opportunities to drive their company's destiny like never before. They are cultivating a coordinated set of operational strengths based on what customers want and what fits with company strategy. We think this is the direction operations is headed, so we surveyed more than 1,200 COOs and operations executives² to capture this evolution in action.

Our survey finds that:

- **Knowing what customers value is a real and persistent challenge for operations executives.** And this makes it difficult to set priorities, manage costs in a strategic way, and choose the right trade-offs when necessary.
- **Companies plan to do more than just improve existing processes.** Instead they're looking for ways to transform their businesses without letting day-to-day performance slip.
- **Operations itself is being reimagined.** Leading companies realise they need a model that aligns operations with business strategy and helps them stay resilient in the face of significant change.
- **Strategically aligned companies are more confident and more likely to focus on a few differentiating capabilities.** When taking this path, there are two dimensions to consider: what customers value in your chosen markets and your company's existing operational strengths.

¹ When we talk about operations we mean both core and support. Core operations typically include: product, services and technology development, marketing and sales, customer services and support, sourcing/procurement, supply chain, manufacturing, and production. Support operations typically include: governance, human resources, information technology, legal, finance, and data analytics.

² Even the definition of operations leadership is changing, as discussed in "The Decline of the COO" by Gary R. Neilson, *strategy+business*, May 2015.

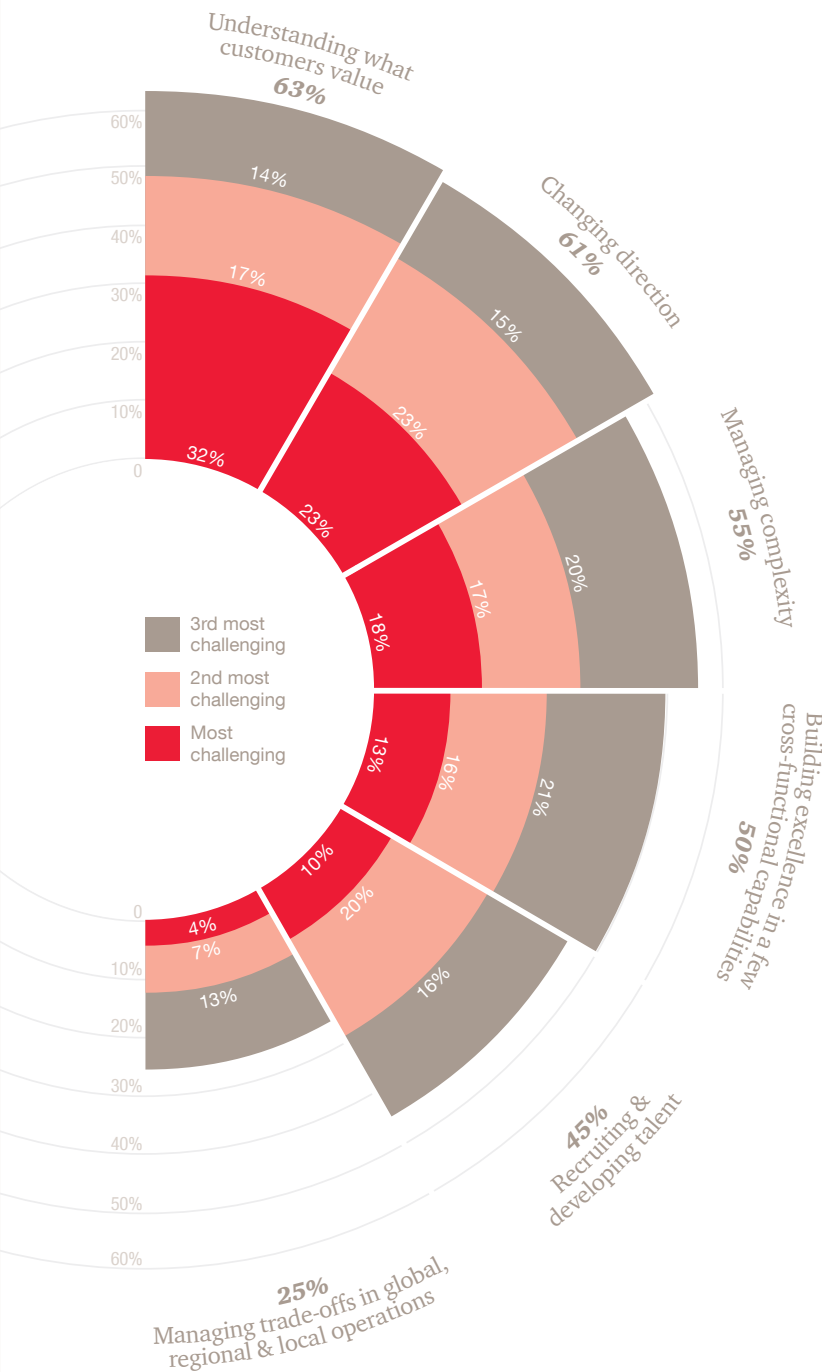


Key finding #1:

Knowing what customers value is a real and persistent challenge for operations executives

What are the operations challenges for your company?

Understanding customers, changing direction challenge operations leaders the most



When customer behaviours change, everyone in the organisation is affected. A striking three out of five operations leaders (61%) expect that changes in customer behaviours will become a disruptive factor for their industry in the next five years. Nearly the same number (63%) say that understanding what customers value is already a challenge for their own company operations. And few (25%) feel very confident that their operations are designed to give their customers value and a distinctive experience, now or even three years from now.

Q: Out of six statements, which are the most challenging?
Base: All respondents (1,262). N.B. First, second and third most challenges may not equal total challenging because of rounding.
Source: PwC's 2015 Global Operations Survey, October 2015.

It's easier when you design operations around your customers. That way, your operations teams can make appropriate trade-offs and more timely decisions when inevitable changes come.

At Schneider Electric, for example, a global specialist in energy management, the executive team has recognised five customer-dominant buying behaviours. These behaviours serve as the foundation for tailoring a supply chain of 45,000 suppliers and 90,000 staff who run the company's factories, distribution centres, and logistic networks on a daily basis.

The goal is to create an environment where keeping up with the customer doesn't become an overwhelming challenge. Without this type of leadership, we often see operations stretched too thin. When one team tries to innovate, they come in direct conflict with an operational assignment to cut costs – or they create some new complexity that's harder to manage. Negotiating trade-offs can slow everyone. In fact, two-thirds of our respondents (61%) say it's a challenge for operations to change direction when markets, customer needs, or enterprise strategies change.



expect that changes in customer behaviours will become a disruptive factor for their industry in the next five years.





Debbie Lentz
Senior Vice President &
Chief Supply Chain Officer
Toys“R”Us, Inc.

On working across functions to execute against customer expectations:

The holiday season is our time to shine in the toy business because that’s when customers’ expectations of us are the highest. From September through the end of December, we roll up our sleeves and we’re very hands-on and operational as we strive to ensure that customers can shop with us however, whenever and where they want. In some ways, the volume during the holiday season makes the operational challenges very different for us than for other retailers.

What we must deliver is a really smooth, integrated operation that allows us to compete on the dimensions our customers care about. Doing this requires planning and executing arm-in-arm across not only traditional operations functions, but also marketing and merchandising. And, the need for coordination only increases with greater channel diversification.



Amy Hay
Vice President of Business
Development
MD Anderson Cancer Center

On integration with partnering organisations:

Our distinctive edge at MD Anderson is that we have a sole focus. So, unlike many other providers, we have one very clear priority and that’s oncology. Specific to oncology there are five large value propositions that apply across the cancer care continuum ranging from business, clinical, research, infrastructure, and innovation. These value propositions are the basis for how we consider potential partners on a global scale. It’s not enough to have a loose alignment, MD Anderson must develop true integration of practices across its partner network.



Scott Tanguay
Head of Operations for the
Global Consumer Bank
Citi

On organising by how clients see the world:

Citi touches clients nearly ten billion times a year. And when we acquire new clients, those clients are acquired through our Operations team. My instinct is that there’s going to be a big pivot where operationally, we think about running our business by client journey and begin to organise ourselves against them. You can imagine that we may even align technology that way. So instead of having a technology infrastructure aligned to cards or the retail bank or the operational teams, we would have an organisation aligned to how clients see the world.

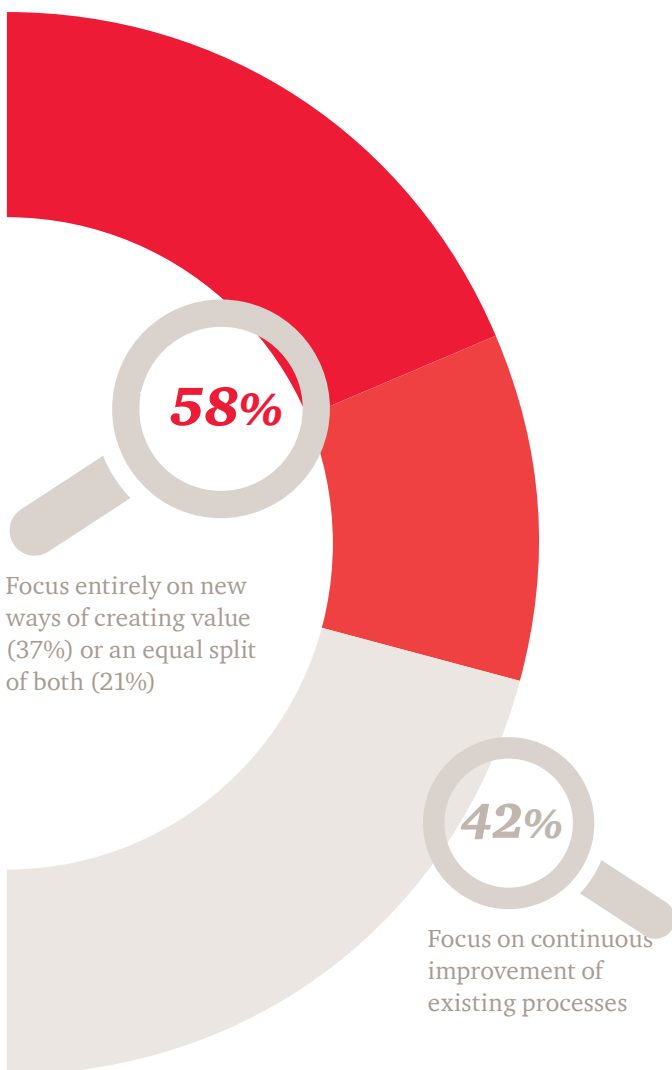


Key finding #2:

Companies plan to do more than just improve existing processes

What's the primary emphasis in operations?

Respondents say 'new ways of creating value'



Q: Which best represents your primary emphasis. If there is no clear emphasis on either option answer 'An equal split.'

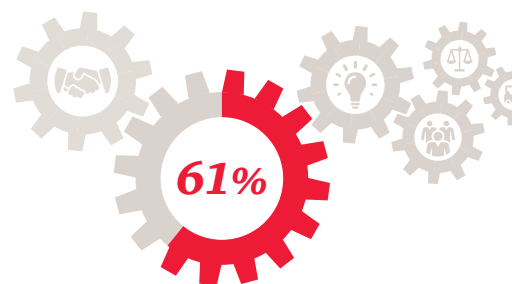
Base: All respondents (1,262).

Source: PwC's 2015 Global Operations Survey, October 2015.

Today, nearly every aspect of operational excellence can be copied, and it often becomes industry standard. A majority of global companies (58%) recognise this and say that continuous improvement of existing processes doesn't drive their companies' operations. Instead, they balance day-to-day process improvement goals with longer-term efforts to transform what operations is and what it delivers.

For years, company leaders have asked functional managers to find ways to do more with less and their teams have obliged. So marketing teams have enhanced product portfolios, customer teams have improved service levels, and sourcing teams have squeezed suppliers and so on. But tensions have grown as customer expectations have changed. In fact, our respondents agree that working in silos – even hyperefficiently – isn't the answer.

So what has the greatest potential for helping the company reach its strategic goals? Three out of five (61%) say the solution is collaborating more across functions, paired with faster decision-making.



of operations leaders believe cross-functional collaboration has the greatest potential for helping the company reach its strategic goals.

Unlocking the potential of operations

In fact, C-suites have been thinking of operations more broadly than the traditional view of sourcing, manufacturing, and supply chain, or, in the service world, front, middle, and back office. Across industries, 60% or more of companies we surveyed now manage these functions as part of operations too: customer insights, marketing, sales, service and support, and new product and service development.

For those companies, there is a growing belief that stepping away from traditional functional thinking will help unlock the potential of operations. And by doing this, they can free up talent to focus on enterprise-level opportunities.

But it takes more than a broader view of operations from the C-suite to sync up strategy across the company. And many companies admit they are not there. Only about a third (36%) of companies prioritise a few cross-functional capabilities at the company level and expect functional leaders to identify how they contribute to the mission. Most of the rest work in silos, with each function making its own decisions on which capabilities matter most (55%).

Companies are taking a broad view of operations

Percentage of companies saying these functions are part of operations



Q: Which of the following functions comprise company operations? N.B. Manufacturing and supply chain were only asked if applicable.

Base: All respondents (1,262).

Source: PwC's 2015 Global Operations Survey, October 2015.



William D. Muir Jr.
Chief Operating Officer
Jabil Circuit Inc.

On leveraging expertise across the company:

More and more we're not thinking about our organisation in discrete independent functional silos, but as a very, very connected ecosystem that leverages big data, leverages analytics, leverages unstructured data and pieces together information in ways that are more powerful for our customers and our employees. Leveraging expertise from different areas of the company has certainly become more and more important for us in terms of our continued migration to be a solution provider. If you think about the level of innovation that is taking place today, how much more quickly that innovation is taking place, I think it's true for the whole industry.



Robert Blackburn
President Information
Services & Supply Chain
Operations
BASF

On the value of a one company operating strategy:

In our view, the winners of the next decade are going to be value chain integrators, because they are going to be outstanding managers of complexity and innovation. With our one company operating strategy we use complexity to our advantage. We reduce complexity where it makes sense, but we actually increase complexity where we think our customers benefit.



Beat Hauenstein
Senior Vice President
Global Operations
Oettinger Davidoff AG

On the importance of an agile supply chain:

From an operations point of view, it is key to have an agile, very flexible supply chain that can adapt to changes very quickly. Next to OTIF,³ cost and risk management is very key for us but it is changing. For example, ten years ago the labour expenditure for finishing and packaging cigars was 80%, and 20% was for labelling including health warnings and taxes. But today those proportions are switched. As part of this, we've had to become very good at knowing when to time our tax payments and assuring compliance at all stages of the supply chain.

³On time in full



Key finding #3:

***Operations
itself is being
reimagined***

Leading companies realise they need a model that aligns operations with strategy and helps them stay resilient in the face of significant change. For many, this means focusing on a few closely linked capabilities – or what one company calls an ‘architecture for transformation’.

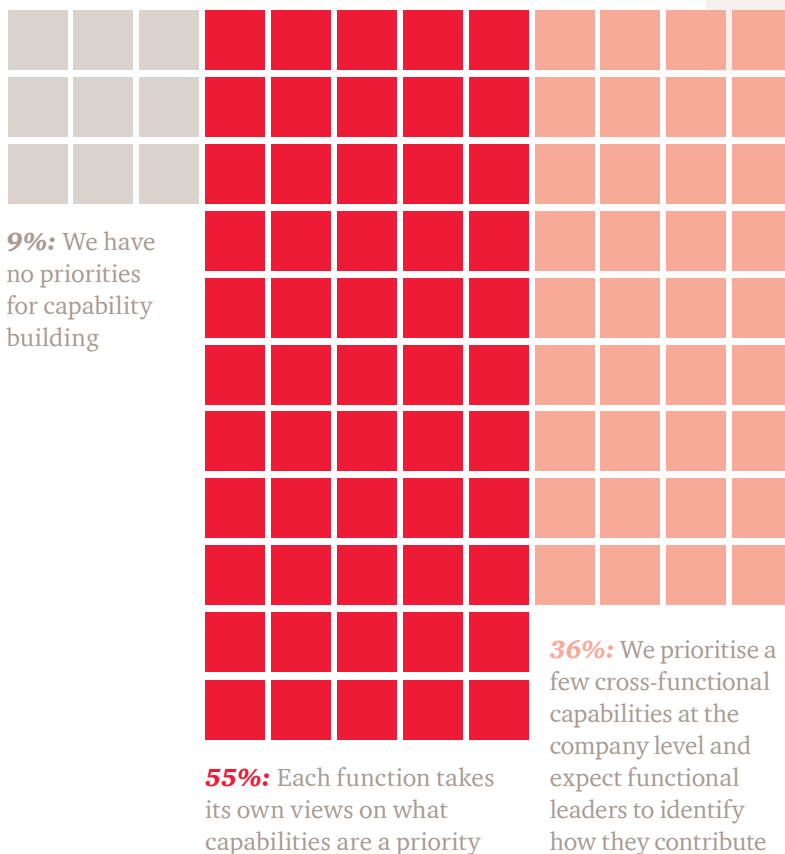
Jabil Circuit, one of the world’s largest manufacturing solutions providers, shows us what such a model might look like. This integrator adds value by connecting unconventional partners within the business ecosystem and guides customers through every step of the product development process.

What is a capability?

It’s the ability to reliably and consistently deliver a specified outcome, relevant to your business. Each is ensured through the right combination of processes, tools, knowledge, skills, and organisation, all focused on meeting the desired result. The most important capabilities are distinctive: each of them represents an extraordinary competence that few others can master.

How do companies prioritise their capabilities?

A growing number prioritise capabilities at the company level



Q: How does your company view capability building as a means to deliver on strategic goals?
Base: All respondents (1,262).
Source: PwC’s 2015 Global Operations Survey, October 2015.

The company is building a focused system of mutually reinforcing capabilities. And it's the power of these capabilities, working in concert that is intended to make working with Jabil unique. Here's a look at those capabilities and the operational elements that support them.



A capabilities system: Jabil Circuit

What makes up the company's differentiating capabilities?

Jabil has been developing four interlocking capabilities that work together as a system.

First-time design: Jabil imagines innovative commercial uses for new technologies and cross-pollinates ideas that can be used in multiple sectors.

An extended enterprise: A high-degree of collaboration with both customers and suppliers ensures quality, consistency, and speed to market.

Highly predictive and responsive supply chain: Predicting opportunities and issues before they happen can save customers time and money.

Advanced IP protection and knowledge sharing: Built-in protections and assurances give customers peace of mind.

How is the company building and strengthening their capabilities?

When we look at the 'how' we notice that capabilities may require a cross-functional approach. Here are some examples of how this works in practice:

Elements of first-time design

- A state of the art concept-to-prototype centre, Jabil's Blue Sky Center, is a hub for the co-creation of new products and services
- Data and experience are combined to foresee the commercial applications of new technologies (e.g., flexible circuitry, smart fabrics, and optics miniaturisation)
- An in-house engineering team provides expertise for 13 different sectors
- Jabil has made advanced technologies, particularly those with multiple uses, a cornerstone of their acquisition/investment strategy

Elements of an extended enterprise

- The company shares risk and reward with OEMs and suppliers
- Design teams cross-pollinate uses for new technologies and connect unconventional partners
- Jabil commits to extensive B2B connectivity and relationship building
- It locates assets where customers gain an advantage in areas such as labour cost, talent, or regulatory compliance

Elements of a highly responsive and predictive supply chain

- Jabil runs an effective global command centre/control tower platform for real-time transparency 24x7x365
- It can flex the global supply chain up or down based on need
- It can anticipate supply and demand using advanced analytics and proactively address concerns before they become issues for customers

Elements of advanced IP protection and knowledge sharing

- Customers work with a dedicated 'workcell', a cross-functional team dedicated to them
- Jabil lives by a 'no headlines' policy, reducing risks of information leaks
- Customers receive supply assurance, helping them keep delivery on track

Of course, this isn't the only way to win as a manufacturing solutions provider. Other companies will choose and define what to emphasise according to their own strategies. Defining the capabilities you'll need to win, though, is essential.

Source: Jabil Circuit.



Annette Clayton
Chief Supply Chain
Officer and Executive Vice
President,
Global Supply Chain
Schneider Electric

On operations that make sense for the whole company:

Having the right architecture for business transformation means you know how to make choices and decide what your priorities are. Today we see five customer-dominant buying behaviours that make sense for the whole company. They serve as a foundation for how we plan to tailor our supply chain of 45,000 suppliers and the 90,000 who run our factories, distribution centres, and logistic networks. We plan to do even more for our customers by improving speed and responsiveness, employing the best digital tools, and enhancing our single integrated operating plan (SIOP), network optimisation, and global footprint.



Eric Javellaud
Vice President of Global
Supply Chain and
Rx Strategy
Essilor International SA

On operations capabilities:

To achieve our mission, several capabilities need to work together: how we drive innovation, how we select partners and acquisition targets, and how we deliver through our supply chain. Last year, we launched more than 200 new products around the world. Between research and development, engineering, supply chain, and production, we work to streamline our processes to launch products in quick cycles. The second part is our strategy for expansion. In 2014, we either acquired or increased the company's equity stake in a total of 12 companies on five continents, including Transitions which was the largest ever in the history of Essilor. So we're designing our network of labs, manufacturing facilities, and suppliers to ensure proximity to customers.



Our view

Strategic companies are more confident and more likely to focus on a few differentiating capabilities

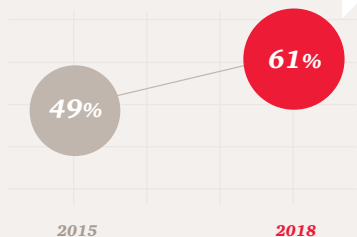
Now is the time to ask, can your team make operational decisions on a small, yet focused set of priorities for how you plan to play and win in your company's chosen markets?

Of the companies we surveyed, 42% plan to take this path by 2018. If successful, they will significantly alter the competitive field and challenge even the most dominant market players.

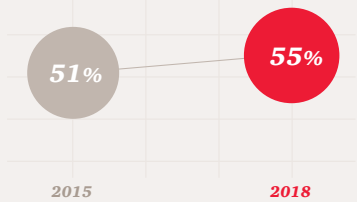
Operations is maturing along three dimensions

Respondents who stated 'always' today and 'will always' within the next few years

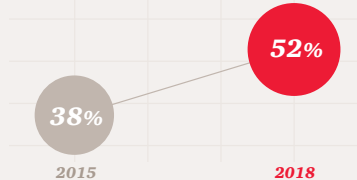
More strategically aligned Foundational



Involve operations leaders in strategic decisions about products or services



Measure and reward performance based on contributions to the overall business strategy



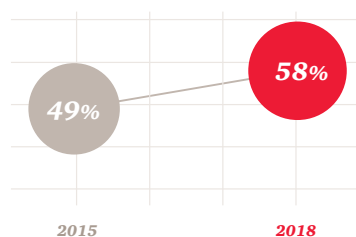
Fund operations projects based on strategic goals for the company

Q: Thinking about how your company's operations work in practice, how often do you think that the following activities happen today? Do they happen all of the time, some of the time, or never?

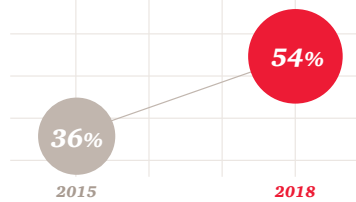
Base: All respondents (1,262).

Source: PwC's 2015 Global Operations Survey, October 2015.

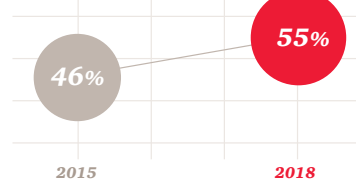
More cross-functional and global Competitive



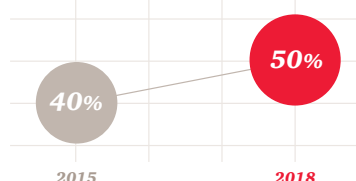
Conduct regular, cross-functional reviews of product and/or service portfolios



Develop future executives by asking them to lead projects involving multiple functions

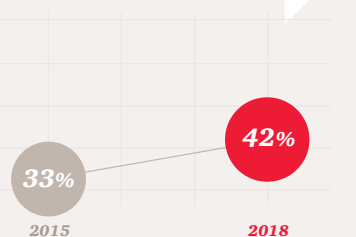


Deploy effective information/digital technologies



Manage operations globally, tailoring to local markets if needed

More capabilities driven Leading



Focus on a few differentiating capabilities that drive competitive advantage

We tested this idea by looking at the more strategically aligned companies in our survey, which is about 15% of our survey pool.⁴ A few things set them far apart from their peers. First, they're far more likely than everyone else to focus on building a few differentiating capabilities to drive a competitive advantage (51% vs. 29%). They're also more confident they'll achieve a broad set of performance objectives: achieving revenue and cost targets, driving strategy, providing a distinctive customer experience, and adapting to change.

Companies that align operations with business strategy are more confident on every scorecard measure

-   Achieving revenue and cost targets
-   Adapting to change
-   Driving strategy
-   Providing a distinctive customer experience

Q: How confident are you that your company operations are designed to meet these measures?

Base: More strategic companies (192) vs. everyone else (1070).

Source: PwC's 2015 Global Operations Survey, October 2015

⁴ We considered companies to be more strategic where they had high rates of basing the following actions on enterprise strategy: involving operations leaders in strategic product and service decisions, funding operations improvement projects based on enterprise strategy, and measuring and rewarding operations executives based on the strategic goals for the company.

Translate the strategic into the everyday

Every company requires a unique combination of capabilities to differentiate itself. When your operations teams have clarity on what these are, it's easier to blueprint, build, and scale them across the enterprise. You can more readily spot where disconnects occur or priorities are misaligned.

For a given company, there are only a few capabilities that make that company unique. Others have become industry norms but aren't differentiators. Some are basic and can be managed for efficiency (see table).

Four categories of capabilities

Every company relies on a different set of capabilities, based on its strategic intent or 'way to play'.

Differentiating capabilities or 'right to win'

These make a company what it is. An organisation's strategy depends on these capabilities. They work together to deliver operational excellence or the experience that customers value.

- Focus attention and staff here
- Invest to reach best-in-class levels
- Aim for quality, innovation, productivity

Competitive necessities or 'right to compete'

These are required in a given sector. Industry members generally share these capabilities. In banking, for example, cybersecurity is a standard expectation. On some level, all players must do this.

- Increase efficiency and reduce costs
- Maintain 'good enough' quality

Basic business capabilities or 'right to play'

These just 'keep the lights on'. These capabilities are often utilities. In most firms, for example, tax reporting or facilities maintenance are required, but not valued or noticed by most customers.

- Aim to spend less than competitors do
- Increase efficiencies
- Outsource where possible

All other activity

These may no longer contribute value. These capabilities may not be relevant to current strategy. They might be linked to outdated offerings, or regulatory compliance that no longer applies.

- Challenge all and eliminate many
- Be frugal with service levels for the rest

Source: Adapted from 'Is Your Company Fit for Growth?' by Deniz Caglar, Jaya Pandrangi, and John Plansky, *strategy+business*, May 2012.



*The new
operations:
value for the
long term*

When creating your own company blueprint, you'll start with a clear-eyed assessment of the business opportunities, starting from the customer and working backward. And you'll need the same review of your true operational strengths.⁵ It all leads to one question: how do we intend to play and win in our chosen market(s)? Then, it's time to think about choices that will define how your company operates.

Next steps, next questions

What makes your company different?

Which capabilities will define your company in the eyes of your customers? Asking this question helps you align operations with the company strategy and make clear choices about what will set you apart.

Are you offering the right things?

Are your existing products and services still coherent with your strategic plan? Are you getting distracted by legacy offerings that no longer fit? Incoherence is a signal that your operations may be stretched beyond what your company can do well.

Are you doing the right things?

What operational choices do you need to make to enhance existing capabilities and build new ones? Specifically, what are the processes, policies, tools, metrics, and ways of working required to fully establish the capability system? And sometimes hardest of all: what will you stop doing to support investment in what really matters?

From there, you may want to do even more. In our work, we've seen this type of assessment enable companies to do things such as:

- Make cross-functional development of high potential leaders a much higher priority.
- Refine the capital allocation process to reflect priorities that are company-wide, and not merely functional.
- Work more closely with select value chain partners. This may include tighter IT and system connections, to enable faster decisions and work together more effectively.
- Simplify operations through ongoing, ruthless reviews of requirements.
- Review, prioritise and rationalise the existing portfolio of operations improvement efforts. Doing everything a little better is less valuable than doing the most important things a lot better.
- Update the operating model to leverage global scale or emphasise a local presence, depending on whether standards or customisation matter more.

⁵ You can get a step-by-step guide on how to design a capabilities-driven strategy here: Leinwand, Paul, and Cesare R. Mainardi. *The Essential Advantage: How to Win with a Capabilities-Driven Strategy*. Boston: Harvard Business Review Press, 2010.

How do you intend to play and win in your chosen markets?



Today, a majority of operations executives are focused on transformative change and new ways of creating value. It's a truly exciting time to be in operations. But without the proper framework for setting operational priorities that align with the corporate strategy – and without collaboration across the company to do the work – some companies may find that they won't be able to take advantage of all the opportunities in front of them.

Whether you're a CEO or the operational executive in charge of a geographic P&L, you need your teams to focus on what matters most.

This means framing your operational choices to continually strengthen and reinforce what makes your company unique. When you do this, it will be hard for anyone else to copy your customers' experience. This is hard work: it requires real honesty about strengths, and a willingness to come together, even if this means doing very different things, and doing them very differently.

The good news? More companies are gaining experience with a capabilities-driven strategy, and it's possible to fast-track your operational decisions. For operations leaders, it's a chance to drive their companies' destiny like never before. And for companies, it's the path to sustainable advantages, especially in the face of change.

More companies are gaining experience with a capabilities-driven strategy, and it's helping them to fast-track operational decisions.

Methodology

We asked 1,262 operations decision-makers across geographies and industries for their views on how they lead their operations functions today. The research firm Meridian West conducted telephone interviews in April and May 2015. We included:

- Executives with full authority to make decisions about operations or are in key operational decision-making roles in their organisation
- Leaders with responsibility for operations at a group level, or those in charge of operations for a particular business unit or geographic region
- Companies across a range of geographies and sectors. Half (52%) of respondents are from companies with \$US 1 billion+ revenue; 13% are from companies of \$US 10 billion+ revenue.

View all the survey data at www.pwc.com/reimagineops

1,262

senior-level executive respondents

24%

are COOs or Heads of Operations

52%

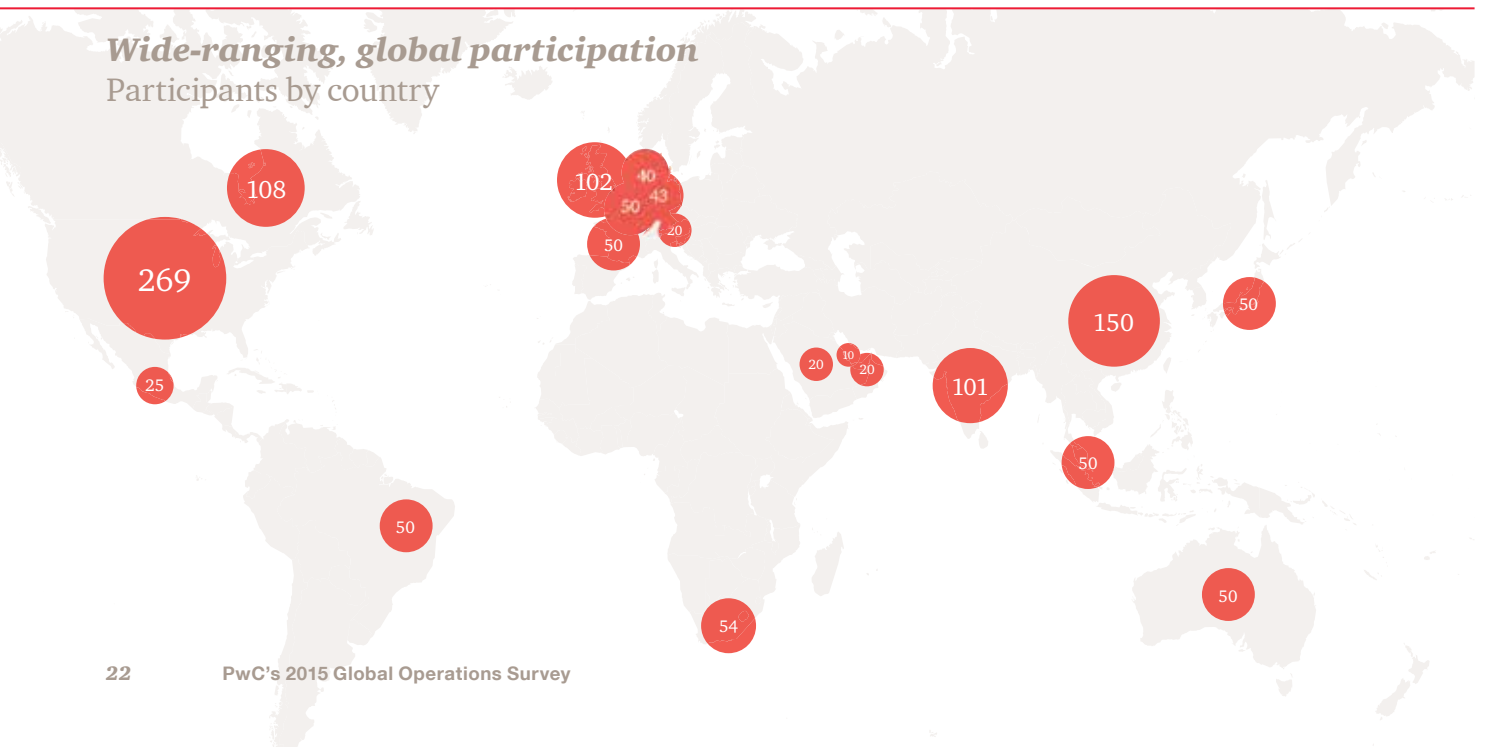
are from companies with \$US 1 billion+ revenue

13%

are from companies of \$US 10 billion+ revenue

Wide-ranging, global participation

Participants by country



Conversations with operations leaders

The following company executives generously contributed their time and insights to this global operations review. We're grateful to them for their willingness to share their experiences with us and our readers.

Robert Blackburn
President Information
Services & Supply Chain
Operations
BASF

Annette Clayton
Chief Supply Chain
Officer and Executive
Vice President,
Global Supply Chain
Schneider Electric

Chris Gaffney
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Coca-Cola North America

Don Gogan
Vice President, Operations
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Harley-Davidson, Inc.

Beat Hauenstein
Senior Vice President
Global Operations
Oettinger Davidoff AG

Amy Hay
Vice President of Business
Development
MD Anderson Cancer Center

Eric Javellaud
Vice President of Global
Supply Chain and Rx
Strategy
Essilor International SA

Debbie Lentz
Senior Vice President &
Chief Supply Chain Officer
Toys“R”Us, Inc.

Vincent Megglé
Senior Vice President,
Global Supply Chain
Transformation
Schneider Electric

William D. Muir Jr.
Chief Operating Officer
Jabil Circuit Inc.

Scott Tanguay
Head of Operations for the
Global Consumer Bank
Citi

How PwC and Strategy& can help

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