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Sprinting toward a new business model

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Sprinting toward a new business model

When organizing extensive transformations, companies increasingly rely on agile methods – and they're reaching the finish line faster.

By Raphael Buck, Patrick Guggenberger, Miriam Heyn, and Patrick Simon

Good sprinters are one thing above all: focused. They simply run as fast as they can. Never would they have the idea of changing anything fundamental during the race. But right afterwards, that can change. Together with their trainers, that's when they analyze stance at the starting blocks, breathing techniques, and how their arms are used. Ideally, they can use insights from this analysis in the next race – and consistently get faster.

Recently, companies have also more frequently been using such sprints to address the organizational component of a transformation that goes well beyond the required technological changes. In short time spans, they develop ideas for a new process, a different concept, or an innovative product. Directly after this, they implement the result – and observe precisely how it works. The insights they gain then serve as the basis for further optimizations in the next sprint.

Not that far back, this was inconceivable. When something needed improvement, companies traditionally chose a linear approach: first extensively analyzing the situation, then developing a concept, fleshing out the details, and finally implementing the overall program. But precisely that did not work as well as expected: a new survey reveals that only a quarter of transformations planned using this approach enabled companies to achieve their objectives; in almost half the cases, the programs were abandoned altogether. Beyond this, today's pace hardly leaves time for drawn-out linear processes – especially given the rapid changes in the business environment.

This is why more and more companies are relying on agile transformations. So what's new (beyond the sprints)? Concept development and implementation are interlinked and run in parallel at times. But how does an agile transformation work? Successful companies target transformation using a structured process: setting objectives and specifying the strategy, designing the new business model, developing and implementing solutions, communicating, steering processes, and tracking progress *(Exhibit 1, page 4)*.

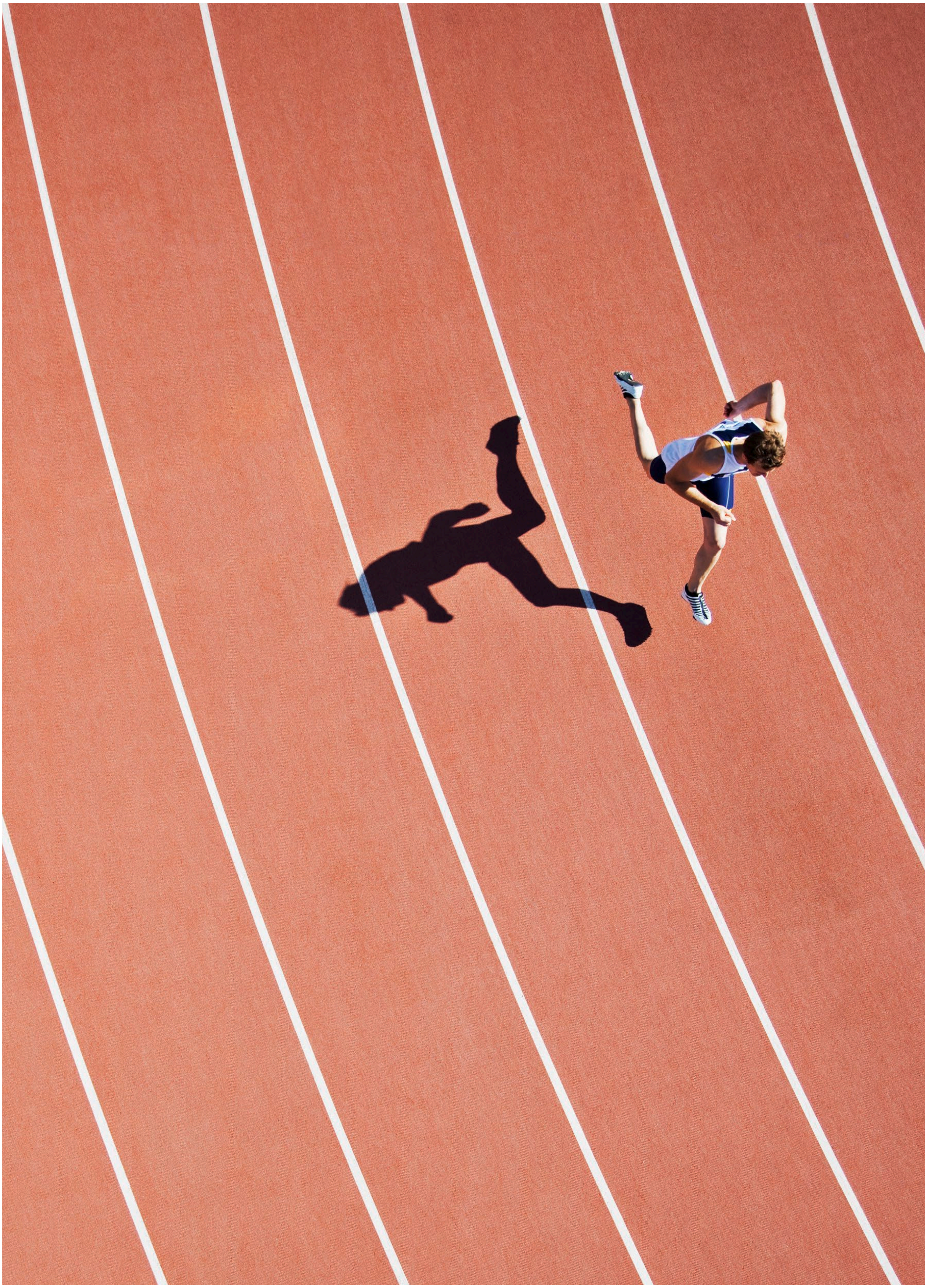
Specify target state and strategy

At the outset, the company develops a target state for the future business model and sets the strategic direction for the entire company or the specific business area. This initial step in agile transformations frequently only requires one to two weeks – much less time than would be needed if using a conventional linear approach. Still, everyone should be included in this phase who is involved in or affected by the upcoming changes.

One global sporting goods manufacturer kicked off a reorganization effort by conducting extensive interviews with managers in the divisions and markets affected. A clear picture resulted in terms of what requirements the future organization would need to fulfill – as well as the factors that need to be taken into account during drafting. This forms the basis for two workshops at the management level that serve to sketch out the target state for the new structure.

Develop concept

At the highest level, the new business model is then defined. What is important here is already taking the underlying processes into consideration when fleshing out the concept and setting up a time frame that includes key milestones. After this, the overall process and the overarching strategic objectives are broken down into functional subprocesses with associated objectives.



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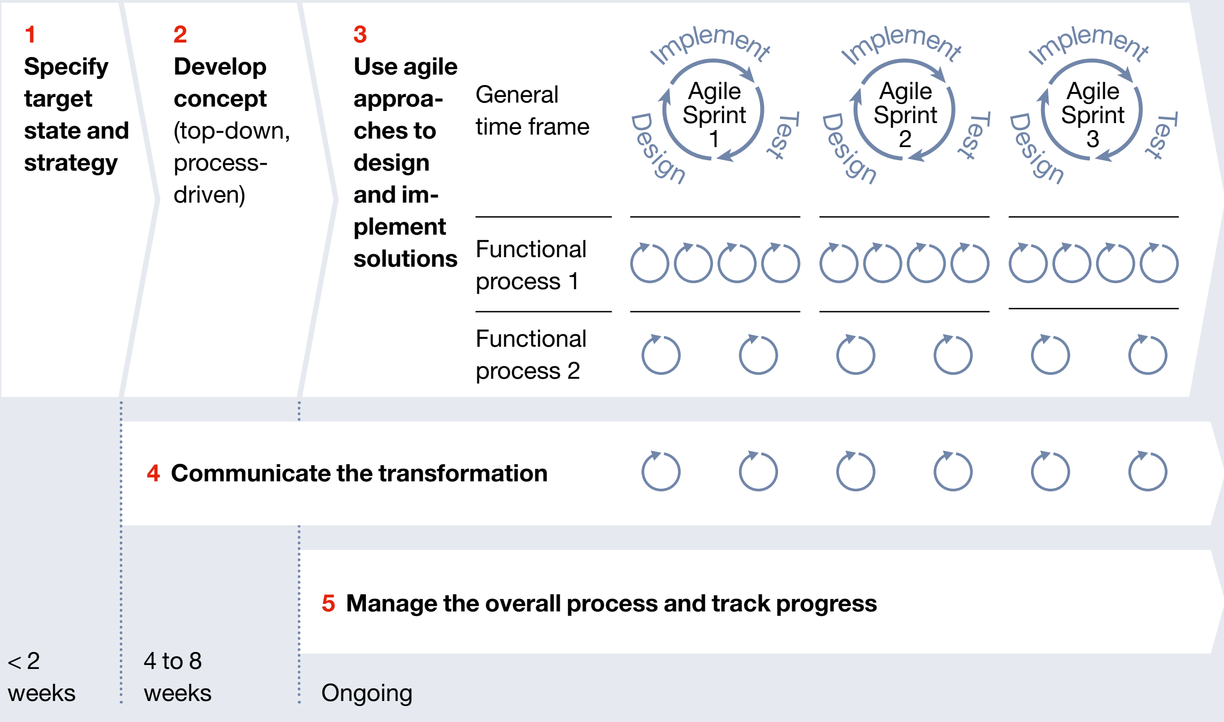
Fully focused in the sprint: using agile methods, companies can also accelerate their transformation.

1. In agile business model transformations, development and implementation phases frequently run in parallel



Source: McKinsey

One dedicated team is responsible for each subprocess. These teams develop a detailed concept for the initial milestones, then begin implementation immediately.

One leading European online retailer chose this approach in redesigning performance management. They first specified the overall concept and key milestones for the initial assessment cycle. Then, individual teams addressed the various subprocesses: data compilation, calibration meetings, personnel discussions, data management, and provision of IT systems. Within a few days, each team presented their initial draft for the future design of "their" process step. The data compilation team, for instance, already had a functioning prototype only two weeks into the project and began identifying sources of error and collecting further requirements. In total, the concept phase in agile transformations lasts no longer than four to eight weeks.

Flesh out and implement solutions

The solution phase begins with fleshing out subprocesses, which are then tested on key stakeholders (stress testing). If the concept withstands testing – possibly after the appropriate alignments – it is put on freeze for the first sprint. Changes are no longer possible. Following implementation go-ahead (release), the team compiles insights and immediately integrates them into the concept for the next sprint. Depending on the type of the process to be redesigned, numerous sprints in close coordination might be required to continuously refine the approach.

This is how a globally active fashion company checked and rechecked each milestone for their fashion line schedule to detect improvement levers that were then integrated into the upcoming sprint prior to release. The first sprint, for example, revealed that planning

Foto: iStock

Communication is a key factor in transformation: at town hall meetings, managers field questions from employees.

for the fashion line required input from the markets much earlier to avoid later alignments. As a result, the project team established a point of interaction for divisions and markets to exchange information, reducing the risk of overdeveloping the fashion line. Beyond this, they aligned the concepts relating to assortment planning more diligently to local market specifics than ever before – with great success. The transformation also met with such high stakeholder acceptance because the program was consistently tailored to the needs of the business side.

Clearly communicate change

The entire transformation journey requires a clearly and consistently implemented communication strategy. Only then will it be possible to keep key stakeholders in the company informed, motivated, and actively involved in the transformation effort.

One German consumer goods manufacturer used an entire range of formats for transformation communication. Not only did board members send out tailored e-mails to all employees, they appeared at individual locations at town hall meetings, which were also broadcast online. This gave employees the opportunity to pose questions directly – and prompted the management team to explain the transformation in detail along with its implications for individuals. Having each board member share his or her personal change story and vision led to a high degree of acceptance among employees on all levels.

Steer and track progress

To track a transformation's progress, companies should specify a series of key performance indicators (KPIs) and monitor measurement results regularly. One high-tech manufacturer decided, for example, to continuously maintain transparency in supply chain performance along with the number of orders and customer complaints. The electronic measurement system that was then installed warns the team immediately if certain parameters are slipping off track.

In general, transformation success depends on how professionally the transformation is managed. Establishing a steering committee can help remove obstacles early on in the process, or revive the process should delays occur.

The case studies described here make it clear: The key advantages of agile transformations lie in speed – thanks to rapid implementation – and in ongoing

Agile transformations: How they differ from conventional approaches

Agile sprints
Roughly draft concept and directly begin with implementation (in short design, test, apply cycles) instead of developing the concept in detail and then implementing it

Adaptability
React to requirements that emerge over the course of the transformation rather than having a prespecified plan

End product focus
Invest all energy in launching a true end product instead of producing endless prototypes

Flexible provision of resources
Provide employees, technologies, and budgeting as needed instead of specifying required resources at the outset

Concrete objectives
Specify smaller but concrete and tangible objectives along the way toward the target state rather than being limited to strategic directives

Ad hoc support
Offer additional support in design questions that spontaneously emerge in individual projects instead of counting solely on central steering

Proactive top management
Keep top management engaged all the way into implementation rather than steering their focus exclusively toward conceptual design

Acceptance in the organization
Collect input from everyone involved and affected early on instead of developing the new organizational setup in one isolated team

opportunities to correct course. These are key differentiators from classic, linear approaches (see text box). Top management can concentrate on what is most important: the basics of the future business model and setting the key milestones. Individual project teams then handle the details – and this in parallel, which accelerates the change process. Beyond this, the transformation continually undergoes a reality check thanks to ongoing implementation efforts. This helps to concentrate resources on those areas that contribute the most value. Just how well this can work is demonstrated by one European retailer. This company had already invested a great deal of time and resources in implementing a consistent assortment strategy for both brick-and-mortar and online business. Still, the retailer was not able to transfer the store-based assortment to the online channel in a satisfactory scope. The primary obstacles included a widespread silo mentality within the organization along with a strong traditional focus on store-based business.

To find a way to still make the transformation effort successful, management opted for an agile approach with two-week sprints for its primary product categories. After gaining an overview of the overall process, the first sprint concentrated on intensifying negotiating with brand manufacturers, setting up data interfaces, and specifying online budgeting to prepare orders for the new season. The insights from the initial sprint flowed directly into designing the subsequent ones. This made it possible to improve the process step by step. Regular cross-functional meetings for all stakeholders also proved useful to generate a shared perspective of the detailed status quo. This also made it possible to consistently break down large problems into “easily digestible portions.”

Success did not take long to materialize. The retailer was able to increase the online assortment from 30 to 70 percent within only a few weeks and has been continuously expanding it further since then. Meanwhile, the new agile approach is also being used for other topics; its rapid results and proximity to practice convinced the entire organization.

Agile approaches generally always pay off when a company faces a large-scale transformation. The freeze and release rationale is particularly effective for repetitive processes, such as six-month performance reviews or fashion lines launched every four months.

Just how much transformation duration can be shortened based on the agile approach greatly depends on the type and scope of the changes planned. In any case, it is worth generating a clear concept as the foundation for transformation journey success. But less is more here too: plans that are too fragmented can tie up resources for months or years in tasks that do not add value, ultimately delaying implementation. One recipe for success in agile transformations targets precisely this danger in that concrete planning only takes place at the point when it needs to happen.

Do you have questions or comments?
The authors would be happy to hear from you.
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Key messages

1. Today, companies must continually reinvent themselves. A linear approach – with analysis, concept design, planning, and implementation – only rarely leads to success.

2. Agile transformations, in contrast, serve to draft a rough target state, break down the tasks into manageable subprocesses, and rapidly move to implementation, while integrating experience gained into each new sprint.

3. By forgoing long concept design phases, agile transformations achieve objectives more rapidly – and increase the chances for success.

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