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Next-generation operating models for the next normal

Changing stakeholder behavior may lead companies to reconsider how they operate

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Physical distancing, working remotely, travel barriers, and the psychological impact of isolation have changed the behaviors of stakeholders in every organization, creating unexpected challenges. While it is too early to predict the long-term outcomes and trends prompted by the COVID-19 pandemic, the most likely scenarios suggest organizations will be operating in a next normal environment for the foreseeable future.

Changes in internal and external stakeholder behaviors mean that companies may wish to reconsider how they operate and act now in order to emerge stronger after the pandemic. This may include starting to think about and plot their transition to a next-generation operating model best suited to the next normal.

Impact on three key stakeholder groups

These next normal changes will affect the behaviors of three key stakeholder groups—customers, employees, and vendors and partners—in different ways.

Customers could shift their purchasing preferences to avoid physical channels, adopt more digital services, and demand more from delivery services. Customers might also adapt their consumption patterns by consuming less, focusing on essentials, and delaying the upgrade of devices and services—not including those that now help consumers to maintain ties with the outside world, like computers and smart phones, as well as remote communication and entertainment packages. COVID-19 may also impact customer psychology in the form of growing anxiety and boredom. For example, customers could feel an increasing need to own items rather than renting for sanitary reasons.

We have also seen people making new and renewed commitments to values and goals (for example, balancing time spent at work and with family), and preparing to make meaningful trade-offs that will shape their life choices long after the current crisis passes. At the same time, people are weighing the values and risks in everyday decisions about who they spend time with, where they go, what they do, and what they buy. In an uncertain environment, people are asserting control in their lives wherever they can (for example, diet, spending, and environment) to feel safer, more comfortable, and to safeguard their futures.

The way employees work is changing, as they become more accustomed to remote working and virtual interactions. McKinsey research shows that employees with a stable, secure work experience working remotely report an increase in positive work effectiveness and well-being. However, employee experiences are varied, and families working from home and those without remote work options have additional considerations. Moreover, job cuts could make the labor market more competitive, which has wider implications for employers.

Vendors and partners might be considering scaling down activities and operations, focusing on the short term, delaying non-essential investments, and attempting to cut costs. They may pay greater attention to social responsibility, putting the containment of the human consequences of the pandemic before profit optimization. At the same time, vendors and partners could shift to digital channels, reducing the need to visit customers on-site.

In recent interactions with executives, we found the majority thought most customer demand for business origination, servicing, and renewal would be fulfilled online via digital, mobile, video, and chat, while only a minority expected future operations to be conducted virtually. Companies also face additional challenges regarding productivity: more than half those we engaged with believed that their organizations will face pressure to boost productivity by more than 10 percent year-on-year to compensate for the loss.

Customer, employee, vendor and partner shifts have implications across the value chain, impacting product, sales and channels, and services and support. They also affect workforce models, office operations, and vendors and partnerships.

This article uses examples from around the world to look at some of these behavioral shifts in more detail.

Sales and channels: Shift away from large POS

To adapt to changing customer buying behavior, companies can move from large points of sale (POS) to a reduced number of small, human-less POS, and promote digital channels. Many companies made this shift before the pandemic, others are only looking at it now. The logistics group DHL launched contactless delivery and payment through automated pickup points, while a well-known auction house now conducts virtual reality-enabled sales through digital channels. A leading automotive group from Europe uses pop-up stores to introduce new products in relevant locations at relevant times, leveraging artificial intelligence. A big telecommunications group optimized its marketing efforts by reallocating budget to digital channels.

Amazon offers another strong example of this trend, with its Amazon Go physical stores providing uniquely innovative customer experiences. Amazon Go customers scan a smartphone app when they enter the store—the only point at which a phone is required. Bluetooth beacons on the shelves automatically detect items collected by the customer, with products added or removed from their digital basket based on data from shelf weight sensors. When customers leave the store, they receive a price list of purchased products, with the amount shown later debited from their Amazon account. As well as offering convenience, this approach also addresses customer demands for minimizing human interactions when shopping.

In another example, a telecommunications company migrated the sales process of upgrading price packages to a mobile-first channel. This streamlined the workflow from 14 steps to a more personalized three-step process, resulting in significantly higher conversion rates.

Product: Keep it simple to drive digital sales

One way of meeting customers' changing demands is to simplify products to spur digital and remote sales. For example, Zain Saudi has rapidly developed digital products catered to changing needs of its customers. Zain launched end-to-end digital operator Yaqoot in Saudi Arabia, as an example of "sophisticated simplicity," combining fully digital connectivity experience with digital gifting services.

The next-generation operating model is mainly driven by providing simplicity, speed, and convenience to customers, employees, vendors, and partners, predominantly using digital channels.

The userbase has grown quickly during the pandemic. Contactless customer experience (with e-SIM) is an example of new era service while physical distancing is part of everyday life. The operation is part of a Kuwait-based telecom group. Simplified products are more suitable for sales over digital channels, making them a much better fit for the next normal.

In addition to the simplification of their products, many companies are looking at developing pricing models that encourage consumer loyalty, rather than short-term promotions, which tend to drive them away at the end of the promotion.

Service and support: Move to a remote digital service

Organizations can change their service and support to meet the new behaviors of their customers and employees. The Singapore-based bank DBS, for example, serves customers through digital virtual teller machines and kiosks instead of physical branches.

The digital-native Russian bank Tinkoff set up cloud-based call centers with freelance employees. The bank, focused entirely on remote servicing, launched the cloud contact center in 2012 and now has 14,000 call center operators with 6,000 of them making 500,000 customer calls a day from their homes. Most operators are non-bank employees located in cities where salaries are lower than in Moscow and have flexible work schedules.

Tinkoff's costs of selecting, managing, and training telephone operators are offset by savings in the rental of offices and equipment for workplaces. Reducing costs also allows the bank to pay higher salaries: Tinkoff operators working remotely earn 30 percent more than regional operators working from the office. From 2012 to 2017, the bank more than doubled its credit card portfolio.

In telecommunications, companies are being launched with digital-only offerings that have redefined customer experiences and are gaining considerable traction. The digital-only value proposition is based on consumers signing themselves up, resulting in 100 percent of customer interactions conducted through digital channels, with over 80 percent of all customer-care activities completely fulfilled online. In this model, online referral programs become a major source of customer acquisition, accounting for up to 15 percent of total sales.

Workforce: Shift from stable to flexible workforce models

Companies can adapt to the changing needs of employees by shifting from a stable workforce model to a more flexible one. For example, one online food delivery company has established a fully variable and performance-based remuneration system.

One British subprime lender offers doorstep lending—credit cards, home-collected credit, online loans, and consumer car finance—conducted by a self-employed workforce. Agents called customer experience managers go door-to-door to market small, unsecured loans and make collections, using handheld technology to control credit issuance, follow up on customer leads, and log complaints.

In the case of this lender, the managers visit customers weekly to check in and collect payments, following a flexible work model and receiving commissions based on sales and collections. Providers suggest that the face-to-face model has led to lower default rates as lenders build closer relationships with their more than 800,000 customers.

Office: Shift to digital remote office operations

Organizations have already shifted to digital remote office operations and have begun conducting large-scale meetings and events remotely as a default modus operandi. Many digitalization projects have been prioritized as organizations seek to minimize disruption and create value in real time while also creating a solid foundation for the future.

One leading insurer introduced automation for routine tasks, deploying 13 software bots that perform repetitive administrative tasks, like filing customer correspondence in the claims department. The bots extract information from customer correspondence and match it with their account details, successfully completing the task in 42 seconds rather than the four minutes it takes an employee. This frees up employees to perform higher-level tasks and focus on more complex claims that require experienced professionals. Robots now assist the customer with property claims, commercial property, and the liability units teams. This automated solution saved 18,000 hours of human labor, which equates to roughly $173,400 in productivity gains.

Meanwhile, agile ways of working, which typically involve physical proximity of team members, have proved effective in a remote working environment. Many in-person agile practices including meetings and quarterly business reviews are being conducted online without disruption.

Companies have also established new working norms and models. For example, one telecom company established flexible working hours (two-hour shifts) that also allow employees to work from preferred locations, while other companies use lean office approaches, including hot desking.

Vendors and partnerships: Shift to collaborative lean partnerships

Organizations can adapt to the changing preferences of vendors and partners by shifting to more collaborative and flexible partnerships, which can take different forms. For example, a leading IT consultancy firm works with vendors remotely rather than on-site to decrease vendor travel and office costs. In another example, a cosmetics firm works with their customers as a partner in product design, production, sales, and delivery. Other organizations provide agreements with certain vendors to build relationships and long-term opportunities; for example, Alibaba Group supports small and medium-sized enterprise suppliers with extended lines of credit.

Some automotive players are using a design-to-value (DtV) approach to radically optimize cost while maintaining a win-win relationship with suppliers.

When redesigning wiring architecture, one automaker used discussions with current customers and product teams as well as competitive analysis to inform their approach. With a more rigorous and structured focus on value to the end user and a collaborative partnership with suppliers that included cost-reduction workshops, the automaker was able to achieve substantial savings.

Another leading European car producer held over 50 follow-up meetings after each supplier workshop to prioritize ideas and plan implementation. Additionally, it held DtV workshops to compare high-value parts to those used by core competitors. The company generated and quantified in monetary terms more than 80 ideas per day and established cross-functional teams from original equipment manufacturers and suppliers.

We have also seen a trend where partnerships are formed based on a complementary understanding of customer needs, where both partners can combine knowledge to create value. Recently, a partnership between India-based Jio Platforms and Facebook's WhatsApp redefined the way the telecommunication company could create value with the social platform—JioMart, the Jio Platforms' small business initiative, and WhatsApp now allow customers to connect directly with businesses and purchase products through a seamless mobile experience on WhatsApp. This idea will be further expanded to connect other businesses, shops, and purchased products through WhatsApp.

Management systems of a new model

Faced with the uncertainty of the new reality, companies have started looking at accelerated ways of adapting to virtual management models. A key component of such an adaptation includes a need for a clear distinction between processes that will remain physical versus those that will move fully or partially into the virtual space. Organizations can design remotely implemented productivity controls that perform a regular and thorough walk-through of digital sites.

In addition, leaders can maintain management systems and side-by-side coaching with agile methods combined with collaboration software.

IT enablement of journeys including cybersecurity and operational risk mitigation

To effectively respond to the fast-changing environment, companies may consider using automation, advanced analytics tools, and digitized processes to enhance customer journeys and respond quickly to customer demand fluctuations. New capabilities will be built based on expanded human-technology interactions, and these interactions will also help organizations collect data and insights for an IT-led productivity increase.

New operating models will inevitably introduce new risks that must be addressed. By embedding the appropriate controls in the design of the model versus after implementation, companies can take a more proactive posture to mitigate risk. In next-generation operating models, risk management should be incorporated into all processes across operations functions, with specific practices for on-site, remote, and digital activities.

To adapt to changing customer buying behavior, many companies have started promoting contactless ways of delivering their goods and services, even in physical outlets. Some have made this shift before the pandemic, others are only looking at it now.

How to approach post-COVID-19 operating model change

Even as COVID-19-related restrictions begin to ease, organizations will face a new reality. Those that adapt quickly will gain first-mover advantages and may capture untapped market niches.

Our research on operating model changes suggests that it is critical to set a clear aspiration for the operating model linked to strategic priorities and future needs. Certain changes, such as physical distancing, increased digital adoption, or demand changes due to lower purchasing power, are obvious and many are responding with solutions. But take a step further to understand how observed customer behavior and that of employees and contractors has changed. Survey new customers' fears and unmet needs and reflect whether each operating model component aligns with new expectations or whether a specific change is required.

Get inspired by best practices. Learn how companies change their operating model and try recognizing common patterns. Certain changes could be followed as emerging best practices: digitize sales and service channels, ensure proper physical distance between customers and employees, work together with partners to save on cost, and try keeping remote working and collaboration. There is also room for brand new ideas. A very pragmatic approach might be to look for examples in other industries and try those in your company operating model.

Setting up for the postpandemic world

Although the outlook for COVID-19 and the shape of the new normal is difficult to predict, organizations have a variety of options to adapt to changing stakeholder behaviors (see our recent article: "Ready, set, go: Reinventing the organization for speed in the post-COVID-19 era"). Many trends linked to physical distancing and remote working will continue after the crisis is over and organizations can prepare now for these emerging long-term trends. The changes will affect customers, employees, and vendors or partners in a number of ways and organizations are already shifting to meet these trends, from moving to radically-simplified digital products to establishing remote office operations. Companies may need to come up with a robust approach to help them transform their operating model to meet the demands of the next normal across all stakeholders—a process that can give any organization the edge in the post-COVID-19 world.

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