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**Managing
Customization
Complexity in
Service Companies**

*...Through an
Enabling Organization*

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Managing Customization Complexity in Service Companies

...Through an Enabling Organization

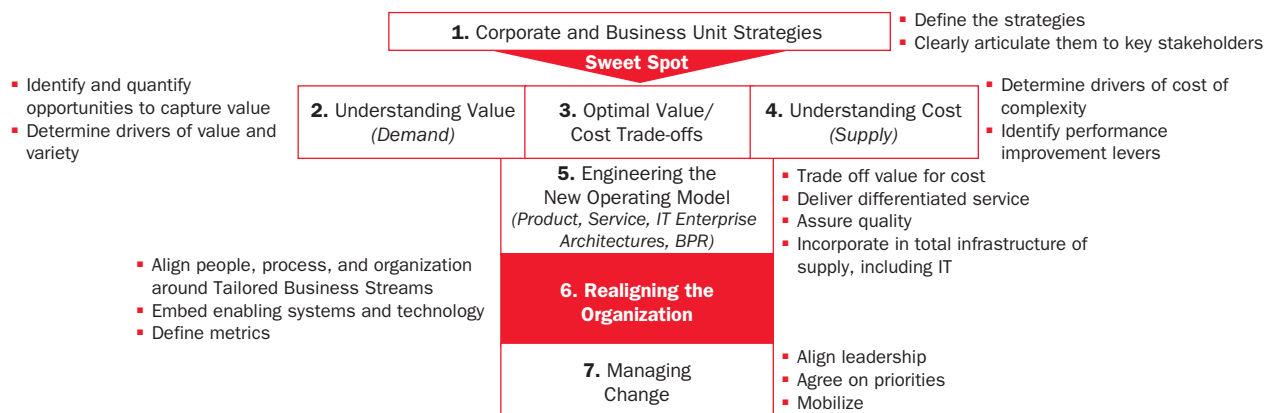
The conundrum of growth for today's service companies is that it comes at great cost, the cost of complexity. In fact, the cost of complexity often overwhelms the economies of greater scale. As companies become smarter about customizing their offerings (via increased customer intimacy, differentiated service bundles, and new channels and outlets), they necessarily incur associated complexity costs. The problem is, the cost of complexity often exceeds the value of variety, eroding profitability. Too many companies have embraced customization in the name of growth without adapting their operating model to balance the necessary cost tensions that result. In essence, companies have outgrown their operating model, thereby risking their business resilience. The solution lies in adapting the "DNA" of the organization to identify, isolate, and optimize complexity.

Complexity, like cholesterol, is not inherently bad; it is the natural by-product of organic growth in today's marketplace. All service companies contend with the same challenge of increasing sales volumes through customization while increasing profitability by ensuring the customization is affordable and customer-valued, i.e., "smart."¹ But most have failed to find the right trade-off because they have not approached the problem holistically—they either reengineer supply (e.g., lean practices, process automation) or they manage demand (e.g., promotions, service rationalization). If neither approach works, companies often try next to bury the complexity by outsourcing it.

At worst, these tactical "fixes" have merely transferred, temporarily displaced, or cemented complexity within the organization. At best, they have moved a company along a given cost/variety curve. The real opportunity, however, lies in shifting the curve itself, so companies can reap the value of greater variety without increasing the cost of complexity.

Exhibit 1

Approaching Complexity Management from both a Supply and Demand Perspective



Source: Booz Allen Hamilton

¹Correlation between volume/profit growth and smart customization has been established in a recent Booz Allen survey of "smart customization" best practices.

To achieve such a curve shift, however, service companies must address *both* supply and demand simultaneously. They must understand and measure both the value of variety (demand) and the cost to provide that variety (supply). Once those drivers and metrics are clearly understood, companies can make informed trade-offs in delivering customer-valued variety at a reasonable cost of complexity. What many companies fail to understand, however, is that these trade-offs cannot happen in a vacuum. The entire operating model needs to evolve to support these higher-order choices. This viewpoint addresses the organizational contribution to managing complexity (see Exhibit 1 on previous page) and complements previous Booz Allen viewpoints on IT and Operations solutions.²

Using a Tailored Business Streams (TBS) approach, service companies can identify and isolate the complexity in their operating models and then realign their organizations to support optimal value/cost trade-offs, thus expanding the “sweet spot” of profitable growth.

Tailored Business Streams Isolate Complexity

The objective of the TBS approach is to identify and isolate complexity within a system. Originally applied to component parts, it has also been successfully applied to processes, first in the manufacturing sector and, more recently, in service industries such as financial services, telecommunications, and government agencies. Now, we see companies applying the principles of TBS to the organization itself with great success.

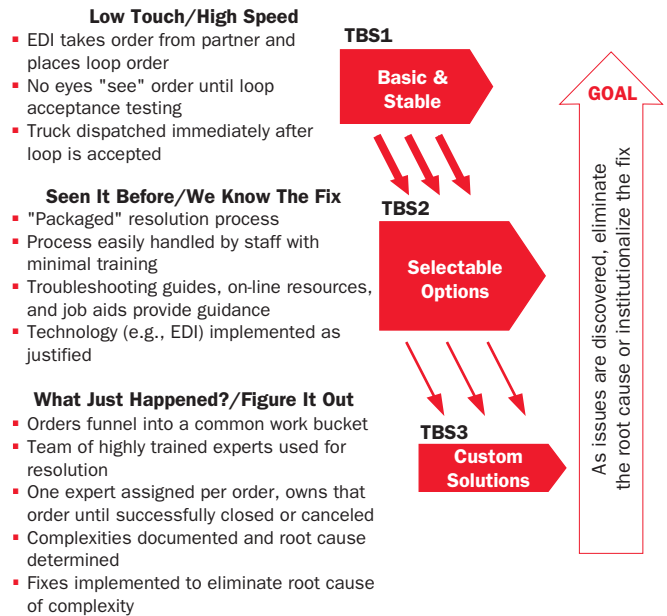
Using TBS, companies break down their operating model into a number of streams. A commonly used set of streams is: 1) basic and stable, 2) selectable options, and 3) custom solutions. The goal then becomes to direct as much of the work as possible through the basic and stable stream, while reserving custom solutions for one dedicated part of the operating model.

Using telecom service order fulfillment as an example, the TBS methodology and objectives become clear (see Exhibit 2). While today, 60% of the work is TBS2 (i.e., handled by selecting among a set of familiar options), the goal is to move more orders into TBS1, where they can be standardized and codified, lowering costs.

Examples abound of how service industries are applying the TBS methodology to manage the complexity of their business models. Retail financial services firms have steadily shifted lower-value customer support functions from the branch to centralized service agents and, ultimately, to Interactive Voice Response

Exhibit 2

Tailored Business Streams Isolate the Complexity of Telecom Order Fulfillment



Source: Booz Allen Hamilton

(IVR) and web-based applications, reducing cost at each step. They reserve personalized banking, investing, and insurance services for those customers who really value them. Airlines like Southwest have built their entire business model around a basic and stable stream (e.g., one type of plane, no assigned seats, standardized gate turnaround process).

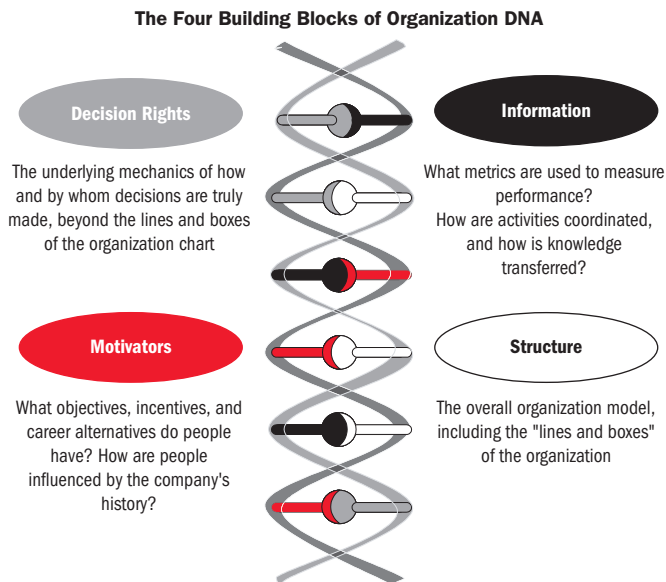
In applying this concept to the organizational model itself, it is tempting to redraw lines and boxes on an organization chart and declare victory. Certainly, these sorts of changes are arguably the easiest to make and communicate, but we find that modifying organization structure only delivers 20% to 40% of the total benefit. To identify, isolate, and optimize complexity in the operating model, senior management needs to look below the surface at the non-structural elements of organizational DNA: Information, motivators and, most importantly, decision rights (see Exhibit 3). That is where 60% to 80% of the change effort should be focused.

True organizational alignment and, by extension, behavior change only occurs when people have clear decision rights, the right information, and strong motivation to act in the best interests of the firm (i.e., make the right growth/complexity trade-offs). Employees both in the management ranks and on the front lines need to know who decides what, what they need to know, and what's in it for them. While that may

²Booz Allen Hamilton, *Getting IT Right and The Next Frontier in Service Delivery*, Sept 2003.

Exhibit 3

Organization DNA Encompasses a Lot More than Structure



Source: Booz Allen Hamilton

sound self-evident, it is a far cry from the way many companies are organized and managed today. Hence, it is little surprise that complexity proliferates unabated. In our experience, very little of the low-hanging fruit in complexity management can be captured through structural change alone. Companies need to revamp the non-structural elements that hold that structure together and make it work.

The Time Is Right

Complexity management has become the starting point for many business transformations and understandably so. As service companies strive to achieve growth through customization, they are courting complexity, which can impede performance if left unfettered.

To manage complexity effectively, companies need to limit service variety to that which generates incremental value. Variety that does not cover its complexity costs must be eliminated, standardized, modularized, or managed through tools like TBS.

Companies intent on leveraging the best of complexity need to adopt a holistic, interactive, and iterative view. They need to quantify both the value of variety and the cost of complexity, and then determine ways to enhance *both*, not one at the expense of the other. Key to effective complexity management is developing a way to translate what changes in demand mean for supply, and vice versa. The objective, as always, is to offer

Case Study— Government Service Organization

The organizational challenges of managing complexity became clear during the recent business transformation of a government service agency. Engaged in building a single new operating model nationwide for up to 30,000 users, this agency nearly had to shut down the initiative as the costs of complexity in customer-facing operations escalated. The challenge was to automate simple customer interactions and improve service levels from an unsatisfactory 50% to a more commercially viable level of 80% to 90%...at an affordable cost.

The first step in reshaping and redirecting the operating model was to identify and understand key supply and demand drivers. A joint Booz Allen/client team confirmed the decision rights held by each party in the process—the customer, front line clerks, and their managers in the organization.

The solution to managing the complexity was built on Tailored Business Streams. For simple customer interactions, the agency incorporated customer decision rights into web-based scripts, enabling streamlined, convenient, low-cost execution. For more complex work, they retrained clerks to handle customer requests based on a clearly articulated set of decision rights. In the process, the agency designed a new, more segmented structure for clerk workgroups. Instead of operating interchangeably, workgroups now took on more focused roles either as specialists handling particular issues, or as generalists. Clerks were armed with the right information and motivated with appropriate incentives.

The result was a set of streamlined workstreams that led to an effective overall business transformation and greatly enhanced customer service levels. Moreover, this approach to smart customization was institutionalized, leading to enhanced and enduring business resilience.

meaningful variety to external customers at the lowest cost to serve, and, in so doing, increase the company's inherent resilience.

Complexity optimization is not about improved housekeeping; rather, it is engineered into the organization both structurally and non-structurally. It requires a thorough understanding of business priorities and underlying economics, which in turn drives

thoughtful and structured trade-off decisions between value and cost levers.

Full value is achieved when business and functional players jointly address the challenge—on an enterprise-wide basis—from inception to implementation. The time is right. Business pressures and advances in

information technology provide the foundation. While each company will apply the levers differently to suit its own unique organizational context, all companies should apply the same litmus test: Embrace complexity where it adds real value and isolate it within the operating model to where it is essential.

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