Digital disruptors are masters of rapid adaptation. It is part of their genetic code. They align fit-for-purpose digital operating models to support changing business needs. Their speed and agility are paying off. Traditional enterprises lag digital high performers by nearly 25 percent for expected future growth.¹

With growth elusive across industries and digital disruptors biting at their heels, traditional players are developing disruptive business models to compete. Insurers are selling direct to consumers. Bricks-and-mortar retailers are launching curated subscription services. Banks are providing value beyond financial transactions. Consumer goods giants are exploring auto-replenishment via IoT.
Yet many struggle because they do not fully align their operating models with these new disruptive business models. The alignment of the operating model to the business model is critical to creating this adaptable approach (see Figure 1). Unlike the disruptors they emulate, incumbents frequently fail to achieve the flexibility to pivot fast with changing customer needs, markets and technologies. Without digital operating models that support agility at speed, companies risk losing 10 to 20 percent revenue growth.2

**Figure 1.** Strategy execution is driven by successful alignment of the business and operating models
OPERATING MODELS MUST CHANGE

High-performing companies frequently adapt multiple business models simultaneously to protect and grow their market position amid disruption. They defend and strengthen their core business to stake their claim as industry survivors while introducing new disruptive business models to leverage new value propositions and elevate customer interest.³

These new business models call for capabilities that radically change operating model requirements. Most leaders acknowledge that the business, IT and operations must work together in very different ways to support them. Eighty-one percent of executives expect to manage multiple operating models in parallel in the future, and 75 percent acknowledge that digital operating models must be flexible, dynamic and customer centered.⁴

A European retailer developed this kind of operating model in response to the “Amazonification” of the industry. The company redefined its business strategy from catalog focused to digitally-enabled, transforming the operating model to put muscle behind the new digital customer-led strategy. This meant integrating digital services, the supply chain and
store network to enhance the customer experience with greater speed, convenience, value and choice.\(^5\)

Such an operating model revolution is the exception rather than the rule for traditional enterprises facing massive disruption. Many can’t get out from under legacy debt—such as physical stores, cumbersome supply chains and aging technology systems—that disruptors do not have. Less than a quarter of incumbent executives think their operating model can respond to changing market conditions and drive value. Only 22 percent say it is aligned to growth initiatives.\(^6\)

\(57\%\) of executives say digital transformation will drive important changes in their business model.

\(62\%\) say digital will drive this same level of change in their operating model.
The European retailer referenced previously is also an outlier because of how leadership changed the operating model. The company created an agile, digital operating model organized around vertical “slices” of the enterprise that were laser focused on the desired customer experience in target departments like consumer electronics. These small, cross-functional and innately nimble teams make up what we call **domains**.

Domains are the new value driver for traditional enterprises. Think of them like independent lines of business. They design, deploy and support a given product, service or customer journey, drawing resources, assets and capabilities from across business, operations and technology (see Figure 2). Domains are of sufficient size to provide end-to-end delivery with full accountability without relying on other areas of the business.

To become more agile, traditional enterprises need digital operating models that integrate business, operations and technology into autonomous businesses-within-the-business called **domains**. These domains boost agility so companies can be truly disruptive in one area while also supporting traditional businesses. It is a fluid, living model that is essential for the digital age.
Figure 2. Domains bring together business, technology and operations, addressing the unique needs of different customers, channels, products and revenue models.

Our analysis shows that companies adopting digital operating models organized into domains can realize significant financial value. These digital operating models can improve incremental growth in revenue between 10 to 20 percent, average consumer spend by an average of 10 percent, and income by 15 percent, with slight variation due to industry dynamics.

Selecting and structuring domains well is critical to realize this value. Companies must consider the combinations of customers, channels, products and services, and revenue models in the enterprise. These combinations produce different requirements for speed, agility, security, skills, technology and cost that must be addressed. Domains are ideal for initiatives that cut new ground.
When an entertainment company wanted to improve the guest experience with new technology, leadership decided not to build the solution on legacy systems. Instead, the company stood up a separate digital business consisting of a set of domains that worked solely on this program. Vertical teams consisted of a cross section of operations, business and technology personnel and assets. Each domain was organized around a specific product or customer experience. For this new digital business, the company met its three-year performance goal for consumer adoption in less than six months. It gained more than $200 million in additional revenue and about $64 million in additional EBIT in the first year thanks to a pivot to this digital operating model.8

A global technology conglomerate also wanted to reorient the business around the customer—to become a customer-driven, product-aligned health technology company. Recognizing that the existing operating model could not support this transition, the company organized into domains to move at speed. Domains were created with a business-led, technology-enabled mindset. Domains were defined as independent P&L entities with business, technology and operational expertise to drive outcomes fast and drive end-to-end accountability. This operating model transformation was a critical part of the company’s success in changing its customer value proposition in a short time.9

Analysis indicates that digital operating models can improve incremental revenue growth revenue by 10-20%, average consumer spend by 10% and income by 15%.
Think back to that European retailer that transformed the operating model to take on Amazon. This digital transformation was a matter of life or death in a David meets Goliath battle. The company’s ability to scale the domain structure literally helped it to survive in a rapidly-changing industry landscape. In fact, the approach contributed to the company delivering its strongest sales performance in nearly ten quarters, with the new mobile commerce business model and operating model domain contributing 30 percent of total sales, according to the Financial Times. A remarkable achievement over a relatively short period of time.

Domains make traditional players more agile and competitive in markets dominated by disruption. But only if companies go beyond organizing and implementing domains in select pockets of the business. To realize lasting benefits—and to become wholly agile—companies must scale domains within the business.

In large, functionally siloed organizations, structure, hierarchical operating models and culture impede agility at scale. Most traditional companies implement agile operating models in less than five percent of their operations or business, limiting success in new markets, customer engagements and
channels. Some resist investing to scale because leadership and shareholders lack the patience to wait for results and organic change. This is why the ready-made scale that comes from acquisitions is often so attractive.

Our client experience suggests that traditional enterprises should scale domains to at least 25 percent of business units, products and services, or customers to achieve the full benefits of digital transformation and avoid stalling at the pilot stage. They can do this by decoupling architectures and using data insight to fuel customer-first design. Senior leaders’ involvement in planning the elements of the domains and determining the minimum viable experience that must be delivered is key.

Domains make traditional players more agile and competitive in markets dominated by disruption.
A digital operating model with domains brings companies the adaptability digital disruptors are known for. To move from old to new, companies must make changes in governance, process, culture and workforce, along with organization.

**DEFINE DOMAINS WITH PRECISION.**
Guided by the business strategy, business model and customer expectations, companies must have a comprehensive view of how to bring together capabilities, assets and authority from across a disconnected enterprise. This is not merely changing the organizational structure. It is changing the entire operating model.

**BE DELIBERATE ABOUT LEADERSHIP.**
Companies should appoint a new role, a domain owner, who is responsible for the end-to-end functioning of the domain. This leader understands the intersection of business, operational and technology interests, and oversees new financial and investment models related to the domain as well as having P&L accountability.
To survive, traditional enterprises must act as living businesses with the flexibility at speed and scale to remain relevant no matter what disruptions await. Lasting success depends on the right agile and adaptable operating model.

**DIFFUSE CULTURE SHOCK.**
Domains bring different groups together for the first time. Culture shock can occur without actions to unlock entrenched thinking and support open dialogues and difficult conversations, new forms of collaboration, and agile ways of working with small, nimble teams empowered to make decisions.

**BUILD THE WORKFORCE OF THE FUTURE.**
The interplay between business, technology and operations across domains calls for new digital skills. These will require upskilling of current employees as well as gathering new talent via today’s workforce. This will allow organizations to access individuals with blended skills and harder-to-find digital technology expertise, often for specific projects, in a labor-on-demand model.
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