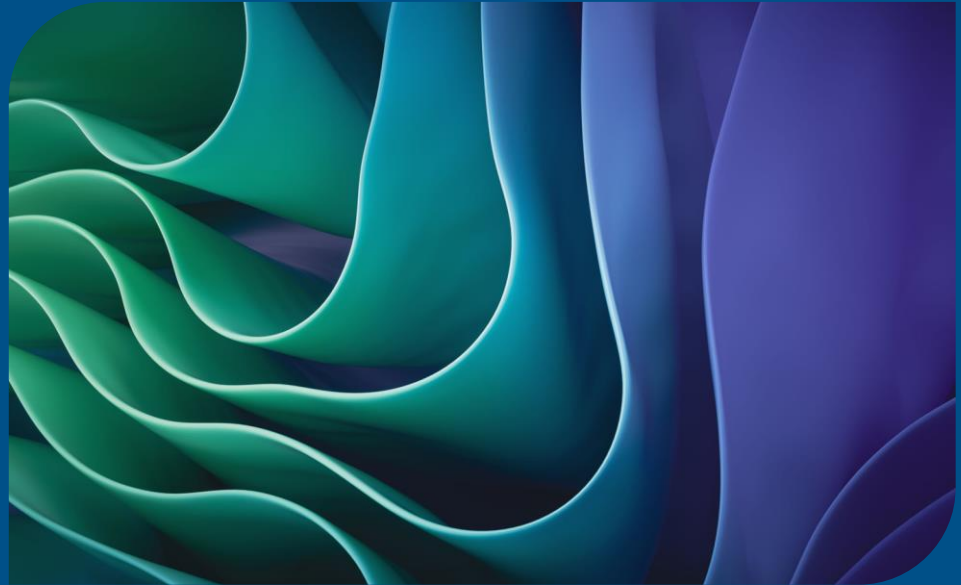


Economics of Design

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Purpose

1. To be able to see the ROI of the operating model and make financially optimal operating model choices
2. To build more sustainable systems
3. Deliver more on strategy

Trade-off Decisions

Chat box question

What trade-off decisions arise in organization design?

- Centralization vs. decentralization
- Outsourcing vs. in-house
- Flow of value (cost of new org vs. delivering customer value)
- Global vs. local operations
- Hierarchy vs. flat structure
- Speed vs. efficiency
- Social impact vs. profit
- Automation/AI
- M&A
- Cross-functional teams
- Best practices
- Return to office
- Decision-making
- ESG

Quantifying financial benefit through the lens of the operating model

1. Revenue-generating roles (ex. consultants)
2. Internal functions (ex. HR)
3. Products and processes (ex. tech implementation)

1. Revenue-generating roles (ex. consultants)

Incorporating Resource Management

Annual consultant salary: **\$100,000**

List rate (official hourly billing rate): \$250/hr

Billable rate (actual negotiated rate): \$200/hr

Utilization (time spent on billable work): 75% (1,500 billable hours)

Realization (how much revenue is actually collected): 90% (effective rate = \$180/hr)

Annual Revenue = Billable Hours x Effective Rate = 1,500 x \$180

Annual Revenue = **\$270,000**

2. Internal functions (ex. HR)

Chat box question

How do we quantify the work of internal functions?

Step	Question	Calculation
Calculate Time & Resources Required	How many total hours of work are needed?	Leadership program design: 300 hours Employee training sessions: 500 hours Ongoing program admin: 600 hours <i>Total HR hours needed: 1,400 hours per year</i>
Assess HR Employee Capacity	How many hours can one HR employee work per year?	1,750 hours per employee after accounting for meetings, admin tasks, and PTO
Estimate Staff Needed	How many employees are required to meet demand?	1.4 employees needed
Determine Overall Staff Need		2 new HR specialists required (round up to 2)
Align HR Cost w/ Strategy	What is the total payroll and benefits cost for new hires?	\$90,000 per employee -> \$180,000 total for 2 hires

Incorporating Workforce Planning

Goal: Design and implement leadership training program.

Current HR Budget: \$1.2M
Additional HR Hiring Cost: \$180K
New Total HR Budget: \$1.38M

Trade-off Framework

Incorporating Accounting...

Chat box question

Is it helpful to incorporate metrics from the beginning to serve as guidelines and guardrails?

Goal/Strategy	Proposed Op Model Change	Cost	Benefit	Net Financial Impact
✓ Deliver more consulting work in healthcare sector.	Hire 3 additional consultants	Annual salary: \$100,000/person Total cost: \$300,000/year	Annual Revenue: \$270,000/person Total Annual Revenue: \$810,000/year	-\$300,000 (upfront) +\$810,000 (after 1 year)
✓ Design and implement leadership training program.	Hire 2 additional HR specialists	Annual salary: \$90,000/person Total cost: \$180,000/year	Leadership training program	-\$180,000 (upfront)

Final Model

Goal/Strategies Accomplished	Total Cost/Benefit
Deliver more consulting work in healthcare sector.	Upfront cost: \$480,000 Revenue after 1 year: \$810,000
Design and implement leadership training program.	Net revenue after 1 year: \$330,000

3. Products and processes

	Goal/Strategy	Proposed Op Model Change	Cost	Benefit	Net Financial Impact
X	Deliver more consulting work in healthcare sector.	Hire 3 additional consultants	Annual salary: \$100,000/person Total cost: \$300,000/year	Annual Revenue: \$270,000/person Total Annual Revenue: \$810,000/year	-\$300,000 (upfront) +\$810,000 (after 1 year)
✓	Design and implement leadership training program.	Hire 2 additional HR specialists	Annual salary: \$90,000/person Total cost: \$180,000/year	Leadership training program	-\$180,000 (upfront)
✓	Improve research on current market trends.	Implement AI system across Research and BD teams	Full cost of system: \$5M	Better knowledge of market trends leads to more work won: Estimated \$1M/year (projection)	-\$5M (upfront, full cost) +1M (after 1 year)

Comparing Models

Chat box question

Is this process worth it?

Old
Final
Model

Goal/Strategies Accomplished	Total Cost/Benefit
Deliver more consulting work in healthcare sector. Design and implement leadership training program.	Upfront cost: \$480,000 Revenue after 1 year: \$810,000 Net revenue after 1 year: \$330,000 *Note: Cost & revenue recur annually

New
Final
Model

Goal/Strategies Accomplished	Total Cost/Benefit
Design and implement leadership training program. Improve research on current market trends	Upfront cost: \$5.18M Revenue after 1 year: \$1M Net revenue after 1 year: -\$4.18M *Notes: <ul style="list-style-type: none"> - After 1 year, annual recurring cost of \$180,000 - Recurring revenue of \$1M - Net revenue (year 2 onward): \$820,000

Methodology and Data

Chat box question

Should we only pull financial data that is in alignment to specific strategies/goals?

Organization Design: To structure the company's roles, processes, and governance to align with strategy.

Financial Restructuring: To adjust the financial structure of a company to improve stability, efficiency, or profitability.

Basic Framework

1. Strategy Development (Goals, strategies, metrics)
2. Operating Model & Cost Benefit Analysis
3. Trade-off Framework

Purpose

Chat box question

Could this provide a deeper value to clients and a stronger selling point to consultants?

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