The Firm as a Bundle of Competencies
The Triangle:
Options for Strategic Positioning

- System Lock-In
- Proprietary Standard
  - Microsoft, Intel
- Dominant Exchange
  - eBay, Yellow Pages
- Exclusive Channel
  - rural Wal-Mart
- Horizontal Breadth
  - Fidelity
- Total Customer Solutions
- Redefining the Customer Relationship
  - Saturn
- Customer Integration
  - EDS
- Low Cost
  - Southwest Airlines, Nucor
- Best Product
- Differentiation
  - Sony Wega

The Triangle: Options for Strategic Positioning
### Delta Model Strategies

**Best Product**

<table>
<thead>
<tr>
<th>Low cost</th>
<th>Focus on being the lowest cost provider in an undifferentiated product category</th>
<th>Since there is only one lowest cost producer, this strategy leaves very little space as a competitive position. It also tends to standardize the product offering, commoditize the customer, and intensify rivalry.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation</td>
<td>While maintaining effective production economies focus on key differentiation in the product features and functionalities such that the products are unique desired and command price premiums</td>
<td>The problem with this strategic position is that as soon as the differentiated product emerges, competitors tend to imitate them. An competitive advantage is therefore non-sustainable.</td>
</tr>
</tbody>
</table>
## Total Customer Solutions

<table>
<thead>
<tr>
<th>Total Customer Solutions</th>
<th>Oriented to customer economics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redefining the customer experience</td>
<td><strong>A focus is places on considering the full experience of the customer from the point of acquisition through to the complete lifecycle of ownership of the product</strong>  This positioning is based upon an intimate knowledge of the customer base leading toward an effective customer segmentation and a differentiated treatment of the customer tiers.</td>
</tr>
<tr>
<td>Horizontal Breadth</td>
<td><strong>A complete set of product and service offerings that fulfill the entire customer needs are customized and provided. “One-stop shopping for a unique solution.”</strong>  We are seeking a dominant position in “share of the wallet of the customer.”</td>
</tr>
<tr>
<td>Customer Integration</td>
<td><strong>This strategy seeks to effectively substitute for or leverages activities currently performed by the customer. It is outsourcing in its extreme form and at least represents a complex web of connections with the customer that enhance their ability to do business and to use your product.</strong>  The firm is regarded as a bundle of competencies that will be brought to the customer to enhance the customer economics.</td>
</tr>
</tbody>
</table>
# Delta Model Strategies

## System Lock-In

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Focuses on complementor economics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Restricted Access</strong></td>
<td>Significant barriers are in place that make it difficult for competitors to even compete for the acquisition of customers.</td>
</tr>
<tr>
<td></td>
<td>This is a difficult position to achieve and to sustain. Regulatory practices tend to be deployed to prevent it.</td>
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<tr>
<td><strong>Dominant Exchange</strong></td>
<td>With this strategy the company provides an interface between buyers and sellers that is very hard to displace once it achieves critical mass.</td>
</tr>
<tr>
<td></td>
<td>This is the most accessible of all the systems lock-in options. The first mover advantage is critical.</td>
</tr>
<tr>
<td><strong>Proprietary Standard</strong></td>
<td>The customer is drawn to your product because of the extensive network of third party complementors that are designed to work with your product.</td>
</tr>
<tr>
<td></td>
<td>This option isn’t available in most industries. If it can be achieved the rewards are enormous.</td>
</tr>
</tbody>
</table>
McKinsey Organizational Structure

**FUNCTIONAL CAPABILITY GROUPS**
- Business Technology Office
- Corporate Finance
- Marketing & Operations
- Organization
- Strategy

**GLOBAL OFFICES**
- Amsterdam
- Antwerp
- Athens
- Atlanta
- Auckland
- Bangkok
- Barcelona
- Beijing
- Berlin
- Bogotá
- Boston
- Brussels
- Budapest
- Detroit
- Dublin
- Du
- Düsseldorf
- Frankfurt
- Geneva
- Gothenburg
- Hamburg
- Helsinki
- Hong Kong
- Houston
- Istanbul

**CLIENTELE INDUSTRY SECTORS**
- Automotive & Assembly
- Banking & Securities
- Chemicals
- Consumer Packaged Goods
- Electric Power & Natural Gas
- High Tech
- Insurance
- Media & Entertainment
- Metals & Mining
- Nonprofit
- Payer/Provider
- Petroleum
- Pharmaceuticals & Medical Products
- Private Equity
- Pulp & Paper/Forest Products
- Retail
- Telecommunications
- Travel & Logistics

**ENGAGEMENT TEAM**
- Practice Leader
- Industry Expert
- Team Leader
- Office Manager
- Client Impact Team

**CUSTOMER**
The Delta Model: Description of McKinsey’s Competence

- **Total Customer Solutions**
  - **Dominant Exchange**: Create few industry standards for private and public sectors
  - **Exclusive Channel**: Decentralized (local) presence; Alumni Network
  - **Horizontal Breadth**: Clientele industry sectors; Functional groups; Strong global presence; Integrated consulting services (one-stop shop)
  - **Redefining Customer Relationship**: Long-term vision; Highest standards of professional conduct; Customer as a business partner; Customized/personalized services
  - **Customer Integration**: Target individual market; Customer interests come first; Client Impact & Service Team (CST)
  - **System Lock-In**: 1920s-1960s
  - **Proprietary Channel**: Failed to lock-out competitors and lock-in complementors
  - **1970s-2000s**
  - **1920s-1960s**
  - **Differentiation**: High-Caliber People; Collaborative Process; Brand & Reputation; High-Level Customer Relationship; Knowledge & Expertise; Management Team; Global Presence; Privately-owned; Market Share; Dynamic Culture; Quality

**Key Concepts**
- **Best Product**
- **Client Impact & Service**
The Delta Model: Description of Biogen’s Full Array of Strategic Positions

The Delta Model: Biogen moving towards TCS

Exclusive Channel
- Medicare approval for Avonex
- Advantage with regulators and speed to market due to clinical trial rep, Co-defendant in lawsuit
- Clinical trial sites best in business - attract complementors and recruitment
- Suppliers on-site reps (strong bonding!), scale economy, Extended to travel, and IT needs

Horizontal Breadth
- Autoimmune
- Complementor development
- R&D & pipeline - for patients & firms

Customer Integration
- Bonding through dynamic investment in personalized web page

Proprietary Standard
- Patient protected products

Differentiation
- Indications for specific disease states
- Specific Interferon science (alliances)

Redefining customer experience
- Information Exchange point
- Participation in patient advocacy
- Medical Resource for patients
- Informational resource for physicians

Rahul K. Kdanda, “From Biogen to Idec: Strategy evolution from commoditized customers to the Delta Model”, 15.902 Student Report
Investors can easily access many interfaces for advice and trading. But if Schwab was able to develop a comprehensive and integrated network, it may be able to function as a dominant exchange.

The trading and investing standards are not proprietary to Schwab.

Schwab may be able to achieve first-mover advantage with an expanded business scope.

Schwab’s prices are low, but they are not the lowest cost producer. However, price is not the primary concern for Validators and Delegators, and they should sub-segment the Self-Directed segment and focus on those who are more interested in service.

No firm has figured out how to profitably service the middle market, therefore the market usually has access to a limited range of services and minimal hand-holding and advice. Schwab, with its history of innovation, strong technology capability and culture of leveling the playing field for the smaller investor, could be the first – maybe only – firm to develop this capability.

The middle market investor, especially the Validator, usually cannot access the quality or level of advice she is seeking – Schwab could develop a truly differentiating capability that would redefine the customer experience.

Schwab has the opportunity to leverage its technology to gather and use customer information to sub-segment the Self-Directed segment and focus on those who are more interested in service.

Schwab has a robust product offering for this group, is adding banking services, and can offer a broader product line than the discount brokers because of its affiliation with U.S. Trust. Enhancing its capabilities with technology will further differentiate Schwab.

A deep relationship and comprehensive integration – or entanglement – of the customer’s financial life would discourage switching.

Schwab may be able to achieve a deep relationship and comprehensive integration –– first-mover advantage with an of the customer’s financial life expanded business scope

Low cost

Differentiation

Customer Integration

Restricted Access

Horizontal Breadth

Redefining Customer Experience

Total Customer Solutions

System Lock-In

Best Product

Proprietary Channel

Synthes

Dominant Exchange
• Role of IT in hospitals

Proprietary Standards
• AO Foundation

Horizontal Breadth
• Coverage of all therapeutic areas

Low Cost
• Manufacturing excellence

Customer Engagement and Customer Integration
• Role of Consultants
  • Education
  • Intimacy

Differentiation
• Continuous New Product Development
**Capital One’s Competencies**

**Restricted access**
Increasing barriers to entry from competitors and exit from customers.

**Horizontal breadth**
The widest coverage of the industry “Shut-off the credit filters”

**Customer engagement**
- Actuarial calculation of customer’s lifetime NPV in real time
- Testing for customer acquisition, card utilization and attrition
- Horizontal accounting (entry and listing of cohort)
- Detecting “adverse selection”

**Customer integration**
The Power of IBS

**Differentiation**
95% product in 2 years
- Stream of new products
- Short half-life cycle
- Customized offers

**The organizational capabilities**
- Entrepreneurial structure and culture
- Information Technology know-how (largest Oracle data base - 40 pages per every American)
- Customer service (30 million inquiries per year). Identify the caller after 1 ring with 70% accuracy. The right call routed to the right associate.
- Recruiting talent (behavioral interviews, case interviews, standardized test)
Insights from the Delta Model

1. Think of your firm as a bundle of competencies - Not merely as an engine for developing, making and distributing products.

2. Understand deeply your customer needs - Segment the customer base to differentiate meaningful value propositions to each customer tier.

3. The key to exploit opportunities for growth and profitability is to match your competencies with your customer needs. Try to be creative, bold and fast.