THE DELTA MODEL:

Discovering New Sources of Growth and Profitability in a Networked Economy

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The Delta Model –

Three Distinct Strategic Options

**System Lock-In**
- System Economics
- Market Dominance
- Achieving Complementor Share

**Total Customer Solutions**
- Customer Economics
- Cooperation
- Achieving Customer Share

**Best Product**
- Product Economics
- Rivalry
- Achieving Product Share

Enabled Through Effective Use of Technology
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
## Delta Model Strategies

<table>
<thead>
<tr>
<th>Best Product</th>
<th>Centered on product economies</th>
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<tbody>
<tr>
<td>Low cost</td>
<td>Focus on being the lowest cost provider in an undifferentiated product category</td>
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<tr>
<td></td>
<td>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.</td>
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<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>
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<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>
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## Delta Model Strategies

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<tr>
<th>Total Customer Solutions</th>
<th>Oriented to customer economics</th>
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<tr>
<td><strong>Redefining the customer experience</strong></td>
<td>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>
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<tr>
<td><strong>Horizontal Breadth</strong></td>
<td>We are seeking a dominant position in “share of the wallet of the customer.”</td>
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<tr>
<td><strong>Customer Integration</strong></td>
<td>The firm is regarded as a bundle of competencies that will be brought to the customer to enhance the customer economics.</td>
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**Total Customer Solutions**

- **Redefining the customer experience**
  - A focus is placed on considering the full experience of the customer from the point of acquisition through to the complete lifecycle of ownership of the product.

- **Horizontal Breadth**
  - 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.”

- **Customer Integration**
  - 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.
Delta Model Strategies

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<th>System Lock-In</th>
<th>Focuses on complementor economics</th>
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<td>Restricted Access</td>
<td>Significant barriers are in place that make it difficult for competitors to even compete for the acquisition of customers. 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>Dominant Exchange</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. This is the most accessible of all of the systems lock-in options. The first mover advantage is critical.</td>
</tr>
<tr>
<td>Proprietary Standard</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. This option isn’t available in most industries. If it can be achieved the rewards are enormous.</td>
</tr>
</tbody>
</table>
The Challenge to Decommoditization:

Transforming the organization from best product to total customer solutions, while seeking opportunities for System Lock-In.
Central Lessons

If the heart of strategy is the customer, an appropriate customer segmentation and a creative value proposition is often the most important critical step in strategic thinking. Be creative, be bold, be fast.

The winning formula is to have the overall network as your primary scope. Don’t play the game alone. It is not just you serving the customer. It is you, your critical suppliers and the key complementors. In a large, diversified corporation often the most important complementors are in your own firm.
From the Customer Segmentation to Strategic Agenda

- **Customer Segment**
  - Tier 1: Exclusive Partner
  - Tier 2: Strategic/Integrated Partner
  - Tier 3: Project Solution Seekers
  - Tier 4: Body Shoppers
- **Strategic Positioning**
- **Value Proposition**
- **Bundle of Competencies**
- **Mission Statement**
  - Scope
    - "From"
    - "To"
- **Strategic Thrusts**