The Firm as a Bundle of Competencies
## 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>
</tr>
</thead>
<tbody>
<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>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Differentiation</th>
<th>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</th>
</tr>
</thead>
<tbody>
<tr>
<td></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>
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</table>
## Delta Model Strategies

<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>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. 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>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.” We are seeking a dominant position in “share of the wallet of the customer.”</td>
</tr>
<tr>
<td>Customer Integration</td>
<td>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. The firm is regarded as a bundle of competencies that will be brought to the customer to enhance the customer economics.</td>
</tr>
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</table>
Focus on being the lowest cost provider in an undifferentiated product category to the customer to enhance the customer economics. This strategy seeks to effectively substitute for or leverage activities current.

While maintaining effective production economies focus on key differentiation in centered on product economies oriented to customer economics.

**Options**

<table>
<thead>
<tr>
<th>System Lock-In</th>
<th>Focuses on complementor economics</th>
</tr>
</thead>
<tbody>
<tr>
<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>
</tr>
<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 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>
Putting it all Together -

Task #2: Synthes Competencies
From the Customer Segmentation to Strategic Agenda

Value Proposition

<table>
<thead>
<tr>
<th>Source</th>
<th>Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Customers</td>
<td>- Experience WE provide</td>
</tr>
<tr>
<td>- Products</td>
<td>- Value delivery system needed</td>
</tr>
<tr>
<td>- Service</td>
<td>- Value gained by the customer, by us, by both</td>
</tr>
<tr>
<td>- Channels</td>
<td></td>
</tr>
<tr>
<td>- End Users</td>
<td></td>
</tr>
<tr>
<td>- Complementaries</td>
<td></td>
</tr>
<tr>
<td>- Unique Competencies</td>
<td></td>
</tr>
</tbody>
</table>

Bundle of Competencies

- System Lock-In
- Total Customer Solution
- Best Product

Mission Statement

Scope

“From”

“To”

Strategic Thrusts

- Best Customer Solutions
- Competitive Positioning
- Business Framework
- Strategy

Customer Classification

1 2 3 6 4

Customer Segment

- Tier 1: Exclusive Partner
- Tier 2: Strategic/Integrated Partner
- Tier 3: Project Solution Seekers
- Tier 4: Body Shoppers
Bundle of Competencies Trauma - Current

Dominant Exchange
- Role of IT in hospitals not strong / important enough

Proprietary Standards
- AO Foundation

Horizontal Breadth
- Coverage of all long bone trauma

Low Cost
- Manufacturing excellence

Total customer solutions

Best Product

Customer Engagement and Customer Integration
- Consultants are valuable
- Education as an important service
- Intimate relationship between consultant and surgeon – 24/7/365

Differentiation
- Continuous new product development
- Price premium
- Surgeon accommodation
Bundle of Competencies Trauma - Desired

Dominant Exchange
- Role of IT in hospitals strong
- Synthes providing unique solution - SIMS

High Switching Costs
- Training creates familiarity
- Complementary solutions increase switching costs

Horizontal Breadth
- Coverage of all long bone trauma
- Coverage of all schools of thought

System Lock-in

Proprietary Standards
- AO Foundation

Low Cost
- Manufacturing excellence

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Differentiation
- Continuous new product development
- Price premium
- Surgeon accommodation
- Market specific implants and solutions (and product development teams)
Why Spine Competencies are Different

- It’s a poorly defined disease not a fracture
- Spine still a frontier, lack of well established diagnostic tools, hence riskier surgeries, and no generally accepted standard treatment
- Current solutions usually fail to restore full function
- Surgeons are very entrepreneurial (by training, choice and necessity), get paid for IP, ideas and product development
- Spine surgery is done by two distinct (culturally) surgeon specialties (orthopedic and neuro surgeons; 55% and 45%)
- U.S. surgeons not as strong in their support of AO Spine and AO Foundation
Bundle of Competencies Spine - Current

**Dominant Exchange**
- Role of IT in hospitals not strong / important enough

**Proprietary Standards**
- AO Spine not existing

**Low Cost**
- Manufacturing excellence

**Horizontal Breadth**
- Gaps in product range

**Total customer solutions**

**Customer Engagement and Customer Integration**
- Consultants are valuable
- Education as an important service
- Intimate relationship between consultant and surgeon

**System Lock-in**

**Best Product**

**Differentiation**
- Continuous new product development
- Surgeon accommodation
- Not differentiated
Bundle of Competencies Spine - 2005

Dominant Exchange
- Role of IT in hospitals strong
- Synthes providing unique solution - SIMS

System Lock-in

Proprietary Standards
- AO Spine

High Switching Costs
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Horizontal Breadth
- Coverage of all spine diseases

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Bundle of Competencies Spine - Desired

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System Lock-in
- Proprietary Standards
  - AO Spine

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Horizontal Breadth
- Coverage of all spine diseases
- Coverage of all schools of thought

Customer Engagement and Customer Integration
- Consultants are valuable
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Total customer solutions

Differentiation
- Continuous new product development
- Surgeon accommodation
- Market specific implants and solutions (and product development teams)
- Innovative, differentiated implants
- Price premium
Lessons from Competencies

- Competencies vary across businesses due to:
  - Life cycle of the business (Spine vs. Trauma)
  - Customer segmentation
  - Business characteristics
- Competencies vary across regions
- Improving an organization’s competencies is a continuous and incremental process
- Changes in the competitive landscape lead to new requirements
DMK: Outsourcing Information Technology from China

Workshop #2: Firm as a Bundle of Competencies
Bundle of competencies analysis (current)

Dominant Exchange
1. No specific competence that creates strong brokerage position

Systems Lock-In
1. No specific competence that creates industry standards

Exclusive Channel
1. One of few firms with low cost mainframe expertise (customer’s low entry barriers)
2. High switching costs for fully integrated clients (customer’s high exit barriers)

Customer Integration
1. Dedicated teams
2. Experience in outsourcing
3. IBM JV

Horizontal Breadth
1. Mainframe & newer languages expertise
2. Multiple industry verticals
3. System development, testing and maintenance

Redefining Experience
1. Processes and expertise at end-to-end projects

Low Cost
1. Wage differential w. Japan, US, EU and India
2. Large pool of skill in area
3. Experience leveraging work loads and resources profitably

Differentiation
1. Japanese speaking personnel
2. Compatibility with customer’s culture
3. IBM Mainframe expertise
4. Six-Sigma, CMM5
Bundle of competencies analysis (desired)

Dominant Exchange
1. Opportunity to create dominant exchange for Tier 1 customers

Exclusive Channel

Customer Integration
1. Recruit teams that can easily integrate with customers across countries

Horizontal Breadth
1. System design and Architecture expertise
2. Consulting expertise

Redefining Experience
1. Integration with US, EU IS providers

Differentiation
1. English, western forms

Low Cost

Systems Lock-In
Bundle of competencies analysis

Low Cost (location specific)

- Chinese wages are not only below those of developed countries where DMK’s clients reside but also below India.
- Over 100,000 technology and computer sciences graduates per year in Dalian make this region a contender for the long term. Also capacity for rapid operation upscaling

Low Cost (firm specific)

- Expertise in managing sudden changes in demand and supply profitably

Differentiation (location specific)

- Large population (old immigrants from Japan) that can speak and are familiar with the social and business manners of that country

Differentiation (firm specific)

- IBM mainframe expertise that comes from core team acquired when a Chinese bank was dismantled.
- Six sigma certification and first company in China to get CMM5 certification
Bundle of competencies analysis

Horizontal Breath

• DMK’s strength in mainframes is complemented with expertise in newer programming platforms

• DMK is particularly strong at the development, testing and maintenance end of projects; developing design, architecture and consulting expertise is one of its challenges

• DMK business strengths lie in the financial and insurance sectors although it is slowly developing expertise in other verticals

Customer Integration

• Due to its expertise in Mainframe systems DMK has been able to integrate some of their customers’ key operations with its own

• Outsourcing from mainframe clients has also allowed DMK develop customer integration expertise that are transferable to other industries, functions and newer technologies

Redefining Customer Experience

• DMK has developed quite a remarkable level of expertise at carrying out end-to-end projects with smooth transition at end of project and tight cost management
Bundle of competencies analysis

Systems Lock In
• DMK has not developed any industry standard that allows for a systems lock-in position

Dominant Exchange
• DMK should pursue a dominant exchange position with selected Tier 1 customers
• One such position might be achieved if DMK developed strong coordination expertise between subcontractors or specialists in China and IS firms or final customers in more developed markets

Exclusive Channel
• DMK has been capable to develop some high barriers of entry for its competitors due to the limited amount of expertise available in mainframe systems at relatively low costs
• As DMK has integrated with its “main partners”, it has also created high barriers of entry for its competitors due to the high costs its clients would incur if they switched IS suppliers. These costs stem, mainly, from the highly tacit knowledge about the clients operations acquired through continuous interaction
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.
Some Additional Examples
Competencies of Sony VC Business

**Proprietary Standard**
- Patents
- Communication protocol so that other all competitors should adapt

**Low Cost**
- Powerful Sony procurement system
- Economies of scale with other Sony consumer products
- Efficient supply chain system
- High yield manufacturing technology
- Experienced electronics technology to reduce components
- High development capability to reduce product development time
- Experienced quality assurance system

**Differentiation**
- Strong brand power
- Totally well-balanced product line-up
- Advanced Audio and Video technology
- Sophisticated product design
- Connectivity with other Sony products (e.g., memory stick)
- Sophisticated CCD Video camera
  (All competitors purchase it from Sony)
- Time to market
- Launch product for 80 countries
- Quality (Video, audio, and product itself)
- Collaboration with huge potential customers
- High R&D spending
- Outstanding experiences for VC and Audio conference as communication company
- Long history dedicating VC business
- Sophisticated functions for customer satisfaction
- Great connectivity to other products

**Horizontal Breadth**
- Multiple channels (direct, resellers, distributors, system integrators)
- A complete set of product and service offerings with Sony VC, other Sony products, system software and system integration
- Complementor development
- Very detailed sales manual book for multiple channels
- Detailed comparison chart to compete with Sony and Tandberg
- Attractive cash back system
- Company policy “customer’s satisfaction first”
- Annual big event to motivate horizontal players

**Customer Engagement**
- Collaborative product development with potential customers
- Event to hear customer needs through periodical promotion events
- Sales campaign to sales channels over the world
- Special sales promotion to potential large customers
- A lot of innovative programs to make good relationship with distribution channels
- Company policy “good relationship with customers”

**Dominant Exchange**
- Patents and dominant manufacturing CCD camera for all competitors’ products
- Lead to fix next generation’s communication protocol

**Customer Integration**
- Joint forecasting and planning with suppliers, distributors and resellers
- Collaboration with distributors and resellers
- Collaboration with System software integrators
- Periodical introduction and seminars for customers
- Continuous customer support by dedicated web page for customers
- Hundreds employees for sales and customer services
- Not product business but “solution business”

**Total Customer Solutions**

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**Competencies of Polycom VC Business**

IBM Software Group Strategic Positions in Delta Model

Samsung Electronics Competitive Competencies

Source: Seong Yong Hwang, “Samsung Electronics - My Home Company”, 15.902 Independent Research Project, Fall 2005
Biolab’s Core Competencies

- **Customer engagement**: Offering different services for specific customer needs, strategic partnerships and in two countries, customer-specific reports and services.
- **Horizontal breadth**: Provided the largest range of scientific products in Australasia, offered expanded service contracts and products in new market areas such as medical.
- **Exclusive Channel**: Selected premium brands only available through Biolab, providing exclusive supply chain management.
- **Dominant exchange**: Biolab Direct with capability for integration with customers' ERP.
- **Low cost**: Lowest total cost of transaction, supply chain management.
- **Differentiation**: Supply chain and customization, manufacturer of plastic products, provided virtual warehouse and customer, proactively bringing in new solutions for customers (new technology, E-Commerce system).
- **Customer integration**: The organizational capabilities, changed corporate culture to meet new market demands; to be proactive rather than reactive, more cost efficiency, customer-centric, delivers added value to market while remaining profitable.

General Dynamics Wireless Services Corporate Strategy

Source: Mirela Marku “General Dynamics, Wireless Services”, 15.902 Independent Research Project, Fall 2005
Bose Corp (Automotive Division) Competencies

Exclusive channel
• By its leading brand name, Bose established mutual loyalty with a few automotive OEM Customers. Ex: Cadillac
• End customers associate Bose with certain brands - Cadillac, Audi, Porsche

Customer integration
• Offers fully customized solutions to customers. Each car is fit with fully custom-designed audio products.
• The audio is designed from the ground up with the OEM’s and other supplier engineers.

Horizontal breadth
• Leading audio product producer in the world
• Global presence
• Wide variety of audio products

Dominant exchange
Not a dominant exchange from any aspect

Differentiation
• High investments in R&D
• High R&D Costs/Sales ratio in the industry
• Highest engineers to sales ratio in the industry
• Highly recognized as premium (brand name) audio products
• Consistently J.D.Power rated Bose Audio as the leading brand in car audio.
• Bose logo is displayed inside the automotive. A major exception in the automotive industry
• High quality products
• Custom designed and tuned to suit each vehicle’s interior
• Privately held company. Invests 100% of the profits back into the company.

Redefining customer experience
• Premium audio systems for the cars
• Customers are emotionally attached to the listening experience of Bose home and automotive audio systems

Low cost
Base is a premium brand and is not a low cost provider

Proprietary standard
No proprietary practices or patents