

Praise for *The Delta Model*

“The Delta Model is an invaluable tool that reinforces the importance of customer centrality as the critical lever for success in our high-speed globally linked world. It provides a powerful roadmap for the change process necessary to bring the results to the bottom line.”

Randy Zwirn, CEO and President, Energy Services Division
Siemens

“I have known Arnaldo Hax for many years, and have long admired him-as a friend and as an amazing professor of infinite intellectual generosity. His methodology to approach companies’ complex issues through his Delta Model is undeniable, comprehensive, effective, and allows you, with crystal clear arguments, to continuously review your business strategies.”

John Graell, CEO Molymet

“The Delta Model encompasses the next major evolutionary step in strategic planning... It embraces the networked reality of today’s relationships between the enterprise, its targeted customers and the complementors.”

Terry Bussear, Director, Market Strategy
Baker Hughes Inc.

“Once you fully understand the power of [the] Delta Model, it becomes a valuable tool to help analyze, understand and improve your organization.”

Jaime Sagarduy, Project Manager, Ikerbasque
Basque Foundation for Science (Spain)

“Disciplined strategy with heart and soul.”

Richard Naimark, Senior Vice President
American Arbitration Association

“For those in the public or not-for-profit sector who question the relevance of business strategy and the Delta Model to their organizations, think again.”

Chad Fleck, Innovation Counselor, Foreign Affairs and International Trade
Government of Canada

“An approach grounded in reality. It moves the focus from competition to your most important assets: your customer, supplier and partner base. Innovate, don’t imitate.”

John S. Lohse, Business Manager
Toyota of Killeen (Texas)

“The Delta Model is much more than theory. It is a framework with which to vision your preferred future state.”

Howard Slaff, Director, Marketing
Baker Petrolite Polymers

“If you are looking inward, you are not looking forward. Dr. Hax forces you to look at the world through customer’s eyes.”

Michael Hardman, President
The Hardman Group

“Excellent overview of a strategic planning model that can be applied in any business or industry.”

Lorenzo Salvaggio, Vice President and General Manager
Alcan Packaging

“Finally a model that puts the customer and his need as a starting point. At the end, the customer is our real boss. He decides if we live or die.”

Werner Bansbach, General Manager
Juan Bansbach Instrumentos Musicales S.A.

“A challenging and inspiring model to rethink the business strategy that provides a different view of how to transform a company to turn it into a world-class business.”

Sergio Arias, Senior Business Analyst and Consultant
SOFTEK

“Everyone understands the importance of having clearly defined strategies, but what is a good process to follow to develop strategy? The Delta Model provides a very helpful framework!”

Bob Iwig, Vice President, Strategic Marketing
Pioneer Hi-Bred International, Inc. (a DuPont subsidiary)

“Essential for a shift in the mindset in corporate strategy.”

Stefano Gori, Vice President
Pitney Bowes

“The revolutionary component of the Delta Model is that you don’t have to declare war on anyone to win in business today.”

Ed Jerger, President and Chief Executive Officer
Eagle Industries

“Keeping your business from becoming commoditized is the key to long-term success. The Delta model offers a clear road map for accomplishing this.”

Rick O. Lee, Corporate Vice President, Global Marketing
Dade Behring Inc.

“The Delta Model offers a unique perspective toward customers and overall business strategies. This model fits all business. You can improve immediately.”

Bruce Jurcevich, Director of Engineering
Lockheed Martin Space Systems

“The Delta Model is a strategic framework for both large and small organizations providing either products or services or both.”

Frank Armijo, Director and General Manager
Lockheed Martin

“Refreshing twist on traditional strategy as it really forces you to think about and lead with the customer in mind.”

John Modica, Lead Business Architect
MetLife

Arnoldo C. Hax

The Delta Model

Reinventing Your Business Strategy

 Springer

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*To my beloved wife, Neva, the center of my life
and my great source of bonding.*

Preface

Often I am asked how the Delta Model was originated. What made us spend some time and effort in attempting to produce an alternative way to look at the formulation of strategies for a business firm when there were a considerable number of respectable and widely acclaimed models to accomplish this? The answer to that question is somehow embarrassing. It originated at a Convocation of Alumni that we conducted at MIT many years ago. It is a long tradition of the Sloan School to have yearly meetings with our former students, typically targeting those who have graduated multiples of 5 years ago, such as 5, 10, 15, and so forth. On one of those occasions I was the Deputy Dean of the School, which placed me as an important participant and host of the program. After 2 days of nice social and academic activities, crowned by what we believe to have been exciting seminars conducted by our faculty, it was time for me to close the meeting at a Saturday lunch with the proverbial warm send-off with the expectation of seeing again all those sweet old faces. However, when I was ready to depart and go home, two directors of Unilever who have come from London to attend the convocation and who were very close friends of mine said – “Arnoldo, don’t go away. We want to talk to you.” We proceeded to sit down and they started with this comment that I will never forget: “Arnoldo, this was not worth the ticket!” It was hard for me to accept such a reaction. After all we had convened with three Nobel Laureates – Paul Samuelson, Robert Solow, and Franco Modigliani. We have paraded our best and brightest faculty, old, young, and in-between. What else would they want?

Their reaction was something like this. “You are doing some very impressive things and no doubt you have a remarkably talented faculty. However, when we go back to work on Monday morning, nothing that we have heard will make us do things differently. You are not connecting with the realities of our lives and we don’t seem to get any help from any of the other respectable academic places as well. The existing frameworks don’t seem to work effectively for us.”

As you can well imagine this was quite a blow for me. The conversation continued for about 2 hours and I was feeling increasingly uncomfortable. However at the end we agreed that we were going to establish a group composed by a select set of distinguished alumni and we were going to identify an equally top set of senior faculty to engage in a dialog to understand these issues more clearly. We labeled this initiative “The Delta Project” – Delta being a word and a Greek letter

that stands for transformation and change. The original executive members of the Delta Project were Iain Anderson, the Chief Strategist of Unilever; Skip LeFauve, the CEO of Saturn; Judy Lewent, the CFO of Merck; Gerhard Schulmeyer, the CEO of Siemens, USA; and Bert Morris, the COO of National Westminster Bank. We listened to them attentively. After that, we developed the Delta Model to attempt to address the questions that emerged from these meetings.

It has been 10 years since we developed the first version of the Delta Model. I wrote a book, coauthored with my dear friend, Dean Wilde, titled *The Delta Project: Discovering New Sources of Profitability in a Networked Economy* (Palgrave, 2001), where we lay out the foundations of our new approach to strategy. I am now revisiting this subject in a new book since much has happened since the first book was published. In particular, I have been conducting an enormous amount of research with my students at MIT that has allowed us to test a wide variety of hypotheses and to apply the model in an extraordinary array of industrial settings. I have been also engaged in consulting activities literally around the world in companies of all sizes and business endeavors. The model has been enriched both conceptually and, most importantly, by the development of pragmatic tools that we have created to allow executives to implement successfully the Delta Model in their organizations. This book is intended to share these advances with you. But before we get started I want to put up in front what were the central questions that our Delta Project friends were longing for answers.

The Key Unanswered Questions

We were never told in the Delta Project discussions what were the specific issues that managers were missing from the existing strategic management frameworks. However, it was clear that there were three major concerns:

1. How to change?

Often the status quo is not an acceptable course of action. The environment is changing around us and we need to make not just incremental improvements over what we are doing, but rather to rethink, reinvent, and reengineer what our strategies should be. The conventional frameworks start the process of reflection on our past, and that is often the wrong way to make you think of change. We want to create discontinuities not to reaffirm what we have done. By providing too much emphasis on competitor's behavior, the conventional frameworks tend to anchor us in the existing industry practices.

We have found that the obvious answer to initiate a process of change is to start with the customer. What can we do to help the customer improve its business? How can we look into its full life cycle and detect novel ways of providing something that is truly unique? By focusing on the customer, we find it is much easier to detect opportunities to be truly unique and promote change.

2. How to pursue profitable growth?

Profits are revenues minus expenses. It does not require much creativity to reduce costs; there are always ways to curtail our expenditures. What is more demanding is to find ways of increasing our revenues profitably. Are there a lot of potential revenues and economic growth which are left under the table because of our inability to detect those opportunities? How could we assess the potential for growth?

One practice that is commonly used is sales forecast. I find that completely unacceptable – first, because sales should not be a subject of forecast. We forecast events over which we have no control, such as the weather. On the contrary, sales are something that we truly can and should influence. Second, sales forecast means an exercise of extrapolation of the past into the future. Again, this is unacceptable if we want to challenge our previous performance and if we want to engage in new forms of management that, hopefully, can make our past irrelevant – for the better.

Where is the answer? Again this resides on the customer. If we were to look at each customer individually, we will detect what potential exists by treating them differently, meaning offering more creative value propositions. This will allow us to examine “white spaces” – untapped opportunities – from the bottom up to come up with a much more effective growth strategy than the one resulting from competitive analysis.

3. How to spark creativity?

What we are saying, in various ways, is that we need to find mechanisms that allow us to be more creative, the so-called thinking out of the box. When I was using the conventional frameworks, I rarely found them to be the source of inspiration conducive to creating an innovative strategic environment. It might be my limitation while using those frameworks, but I doubt it. The emphasis on creating “competitive advantage” was focusing on the competitors. That is not the best way to do it. Instead, attempting to understand the granular needs of the customer and to seek the best ways to satisfy them provides the answer.

As you now realize I support a customer-centric approach. This concept is not new, but what is new in the Delta Model is that we have been able to articulate extremely powerful concepts and tools to allow us to make this a reality. I hope that after reading the book you will agree.

Cambridge, MA

A.C. Hax

Acknowledgments

This book represents in many ways the culmination of my academic and professional work. The ideas expressed here were supported by a great number of people, whose association has enriched me deeply throughout my life, including my closest collaborators and friends, my academic colleagues, my business associates, my students, and especially my family. It is my duty and privilege to recognize the names of some of these people – all of whom I owe my deepest gratitude.

Let me start with the most critical ones who are my friends Dean Wilde and Nicolas Majluf. Dean was the coauthor with me of the first book on the Delta Model and I owe him a great intellectual debt. Nicolas Majluf has been my closest friend and partner and he provided the most critical assistance to get this book started by helping me to articulate the first draft.

I also would like to provide a singular recognition to my dear friend Iain Anderson, a former Director of Unilever who was in charge of strategy and technology in that institution. I worked with Iain more than a decade to apply my strategic management principles to the wonderful organization that is Unilever. He was a source of continuous inspiration and the driving force behind my attempt to influence the strategic thinking at Unilever. I literally worked with almost all of the regional and category managers there, including Roy Brown, Johannes Eenhoorn, Jeff Fraser, David Landers, Martin Nicholas, John Ripley, Russell Sherwood, Tom Stephens, Charlie Strauss, Vikram Tandon.

Unilever was the central recipient of my methodology in strategic planning – so much so that Hax became a verb. I heard often the expression “We’ve just been Haxed.” I leave up to your imagination to figure out the true meaning of that statement. Another Director of Unilever, T. Thomas, was the first to bring me to Unilever, which stated my remarkable association with this firm. Finally the Chairman, Niall FitzGerald, brought me into the Executive Council to do the corporate strategy of this colossal institution.

The Delta Model was tested repeatedly while helping organizations to develop a forceful strategy. There were many important executives that helped me to advance my strategic planning concepts and methodologies while I was attempting to help them in improving the strategic thinking in their organizations. Those who play the most critical roles through many years of interaction have been Maria Silvia Bastos, President of CSN and Icatu Hartford; the late Hernán Briones, CEO of Investa;

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I have also worked during 3 years at the Harvard Business School, an exemplary place that has contributed greatly to my professional upbringing. In particular, I would like to acknowledge the great impact that I have received from Michael Porter, arguably the most influential academic in management in our generation, Jim Austin, Joe Bower, Pankaj Ghemawat, Bob Hayes, Bob Kaplan, Cynthia Montgomery, Steve Wheelwright, David Yoffie, and most special for me, my dear friend Steve Bradley who brought me to Harvard.

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Finally, my last words go to my family. My daughter, Nevita, and my grandson, Quin, as well as my son, Andrés his wife Verónica and my other grandson León, are at the core of my life, giving me continuous affection and support. From my wife, Neva, I have learned the true meaning of the word love, which as you will see, plays a very important role in the Delta Model. It has been my privilege to share my life with such a wonderful partner.

Cambridge, MA

A.C. Hax

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Chapter 1

The Need for Reinventing Strategy

This book is about an innovative, new approach to business strategy that better reflects the realities of the global marketplace in a network economy. It was developed at MIT to help managers formulate, articulate, and implement more effective ways to achieve superior and sustainable financial performance and long-term profitability, providing a completely different perspective from the conventional strategic approaches used by most managers.

As you will see, our Delta Model (after the Greek letter delta, standing for transformation and change) encompasses a unique set of frameworks and methodologies that grew from our conviction that changes being experienced in the world of business were of such magnitude that existing managerial frameworks had become either invalid or incomplete. Moreover, the emergence of the Internet, with its previously unimagined potential for communication, and the incredible technologies surrounding e-business and e-commerce are enabling completely different business approaches than had ever been possible before.

The Dangers of the Conventional Definition of Strategy – Strategy as Rivalry

Until now, the prevailing view – shared by most practicing managers and academics – has been to define the goal of strategy as achieving sustainable competitive advantage. Most, if not all, of the most respected and popular frameworks that guide the strategy development process are anchored in this concept. This is a mindset likely to cause severe problems moving forward.

First, it puts our competitors at the center of our management process. Competitors become our driving force, our relevant benchmark. We look at strategy, and consequently at management, as rivalry. In order for us to succeed, we have to beat someone. Strategy is destructive; strategy is war. As recent history has confirmed, again, wars do not have victors. Wars only produce devastation and loss. Lord Wellington observed after defeating Napoleon at Waterloo, where tens of thousands of soldiers lay dead on the battlefield, “I can only imagine one thing worse

than winning a war and that is losing it.” Not a very encouraging comment! Not a very promising strategy.

Second, and equally troublesome, using our competitors as a way to define our course of action basically anchors us in the past. On reflection, this is an approach that seems counterproductive in a time of revolutionary change, when we want to create discontinuities, not reaffirm old practices. Is this what we should be aiming at in today’s turbulent environment, when change is virtually mandatory? We must challenge our previous state of business. We must have the ability to be creative and separate ourselves from the herd, to find a new and unique way of conducting business.

Often, companies seem obsessed with their competition, studying and watching it intensely to detect anything that could signal a way to operate more effectively. This might not be a very smart way to manage. I tell my students, “Study your competition deeply, but do not imitate them.” I believe that strongly. It is a meaningful challenge. To separate ourselves from our competitors, we must offer our customers something that is truly unique and distinctive. How do we do that?

Third, the excessive concern about competitors can lead us, consciously or otherwise, into imitating their behavior. Our products begin to take on similar characteristics of those of the leaders. The development of our new products adheres to the prevailing standard of the industry, the channels of distribution that access our customer base are indistinguishable – in other words, the industry begins to converge into a well-established set of norms and standards. The result of this congruency leads toward the commoditization of our business, which is the worst possible outcome for all players.

Reject Commoditization – The Essence of Strategy Is to Achieve Customer Bonding

It is alarming to see how many firms are in a situation where a large percentage of their business has become commoditized.

The fundamental objective of any firm as a whole, as well as the individual businesses of the firm, is to achieve superior and sustainable financial performance as measured by long-term profitability. In order to achieve this outcome, we need to differentiate ourselves through leadership and a sense that our business is distinctive, which is exactly the opposite of a commodity. Commodities, by their nature, are ordinary and undifferentiated. It is not realistic to expect that a lackluster, commoditized business could generate any superior performance, let alone sustain it. The commoditization of an industry tends to erode everyone’s profitability because it exacerbates the rivalry among competitors primarily by driving down prices for standardized products.

For superior financial performance to be sustainable, not only should the business aim at achieving a solid leadership position, but this position should be long-lasting, unassailable, and able to endure the inevitable changes that the environment will

generate. This calls for flexible adaptation to new circumstances and the will and ability to transform the organization continuously. We should look forward, not backward. We should never be complacent. We should experiment and engage in a continuous learning process that propels us into uncharted territory. This will never happen if we are simply imitating or following in our competitors' footsteps. Using competitors as a benchmark leads to sameness, and sameness will never lead us to greatness.

The dangers of commoditization are real, and if you fall into it, the consequences are devastating. We believe that this is one of the greatest challenges companies face. The way to fight it is to abandon the mindset that accepts product standardization and industry convergence as an unavoidable reality. Instead, you must recognize that it is the customer who really matters, and that the customers are always different. It is a fatal mistake to commoditize them.

It is critical that you try to understand your customers' needs, to segment them so that you can recognize their differences, and to assess your competencies as a firm so that you can offer not just products, but also creative and unique solutions to each customer's pressing needs. Your own view of the enterprise must shift from that of an engine just developing, making, and distributing standardized goods or services to one possessing a bundle of competencies that can be packaged into a well-integrated portfolio of products and services that represent a unique value proposition to each customer.

This paradigm shift constitutes a big transformation that can produce a constructive, long-term relationship with the customer and culminate in *customer bonding*, a mutually beneficial engagement based upon unbreakable trust and transparency. Under this fundamentally different way of approaching the customer relationship, the essence of strategy becomes *not* to achieve sustainable competitive advantage with competitors as the benchmark – but to achieve customer bonding, with the customer as the driving force.

Managing in the Large and in the Small – The Extended Enterprise and the Individualized Customer

We come to what seems to be an inherent paradox: a desire to build an extended enterprise with individualized customers. In order to achieve this outcome, we need to simultaneously manage with the largest possible scope – to be able to offer up all of the capacities of all of the relevant players in our network – and to target each individual customer in the most granular way. This is only possible to a great extent due to the remarkable technological capabilities of the Internet. Let us be explicit.

Managing in the large means you cannot play the game alone. Regardless of how many resources you control, you will always need external support if you want to conduct your business intelligently. This calls for recognizing what we refer to as the *Extended Enterprise*, which includes you, your customers, your suppliers, and your complementors – meaning those organizations that provide products

and services that complement and enhance your offers. Many great companies have understood this lesson well and have made it the cornerstone of their strategy. Think of Wal-Mart and Dell, two excellent companies that have adopted the concept of the extended enterprise as an extraordinary way of delivering remarkable value to their customers. Both of these companies have developed “virtual organizations” by linking themselves electronically to their customers and suppliers, obtaining a web of interactions that produces remarkable value. Wal-Mart knows, in real time, every transaction that takes place in every single one of its stores, communicating that information to all the relevant suppliers so that they know how to replenish their inventories optimally. Dell manufactures every computer according to customer specifications and delivers it by simultaneously executing the orders with all the relevant suppliers.

Managing in the small, on the other hand, means that, ideally, we should be treating each customer individually and providing a specific and singular solution to satisfy each customer need. Think of Amazon and iTunes. Whenever I log into their system, I am treated as a unique individual. The system knows my pattern of previous purchases and is able to recommend new purchases that are tailor-made to satisfy my demonstrated interests or needs.

Operating this way allows for customer bonding to become a reality, because you support the value proposition you offer to your customer based on the individualized knowledge that you acquire and through the support and assistance that you get from the full network of the extended enterprise.

This is a model that circumvents rivalry and competition as a basis for strategy and substitutes cooperation, close association, and customer intimacy instead.

The Selection of a Strategy and the Identification of the Required Competencies – A Preview of the Delta Model

One of the most distinctive aspects of the Delta Model is that it provides you with guidance on how to select the strategic positioning of your business and gives you the analytical tools to achieve it. This is a feature that is not available in any other business model, as far as we know.

How do you begin to develop a strategy based on a granular understanding of individual customer needs? As we have already asserted, the fundamental strategic objective is to obtain customer bonding – that is to attract, satisfy, and retain the customer. The Delta Model offers you three distinct options to reach that objective which can be applied, if you wish, one customer at a time. The three strategic options are presented in the triangle in Fig. 1.1.

In the **Best Product** option, the customer comes to you because of the superiority of your price offering – due to your low-cost infrastructure – or for some aspect related to the product functionality, brand, or appearance that differentiates itself from the competitive offers. In the **Total Customer Solutions** option, the customer is attracted because you are offering something beyond the product itself,

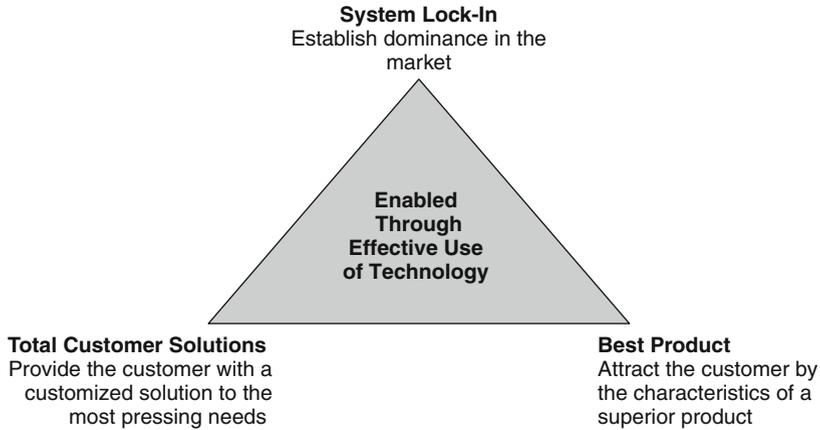


Fig. 1.1 The triangle – the three strategic options of the Delta Model

which implies transferring knowledge and services that address pressing needs the customer has. In the **System Lock-In** option, you have achieved such a strong dominance in the marketplace that the customer does not have options better than yours.

Figure 1.2 offers a highly summarized description of the characteristics of each of the three primary strategic options of the Delta Model and the necessary competencies that are required for their support. The resulting eight competencies that are part of the Delta Model framework are summarized in Fig. 1.3.

We will elaborate in later chapters the step-by-step process you must undertake in order to develop a customer bonding strategy tailored to your own organization. Our objective here is to introduce you to the idea that there are options other than the simple offering of a product – which is the dominant mindset of most executives – on which to base a successful business strategy. Moreover, the Delta Model framework assists you in examining the state of your existing competencies and – most importantly – in identifying the competencies you need to acquire to develop a truly winning strategy. We believe these two perspectives – strategic options and competencies – make the Delta Model an exceedingly useful device to guide your strategic thinking.

The Strategic Tasks of the Delta Model

The Delta Model, as we have argued in this introductory chapter, provides innovative new concepts and ideas that will make you see your business strategy from a fresh perspective, not anchored in the transitions of the past. It also provides you with a set of pragmatic tools to help you to carry on a rigorous, systematic, and

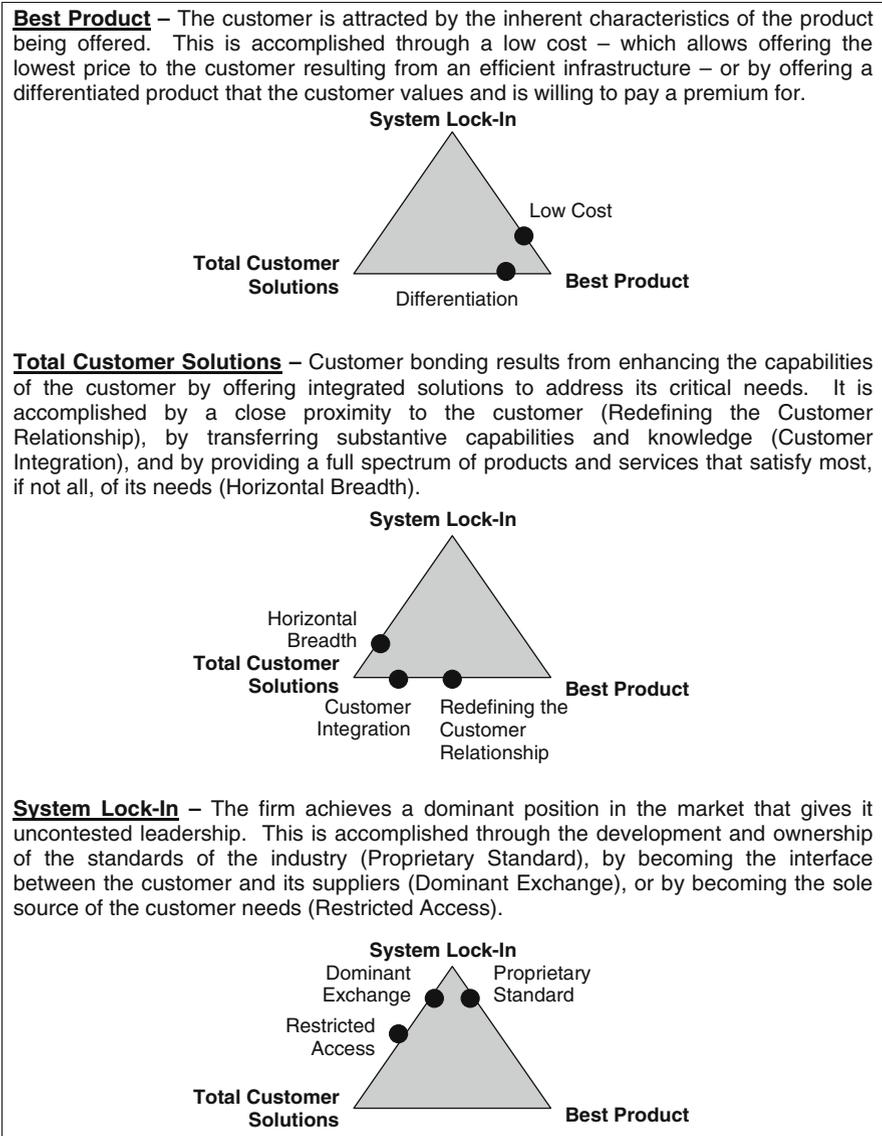


Fig. 1.2 The Delta Model – the three strategic options

thoughtful process of diagnosis and formulation of your own successful business strategy. Most of this book addresses that need.

After many years of working with numerous organizations around the world, we have learned that it is very important to keep the planning process as simple as possible, while retaining the ability to perform a careful, highly practical examination

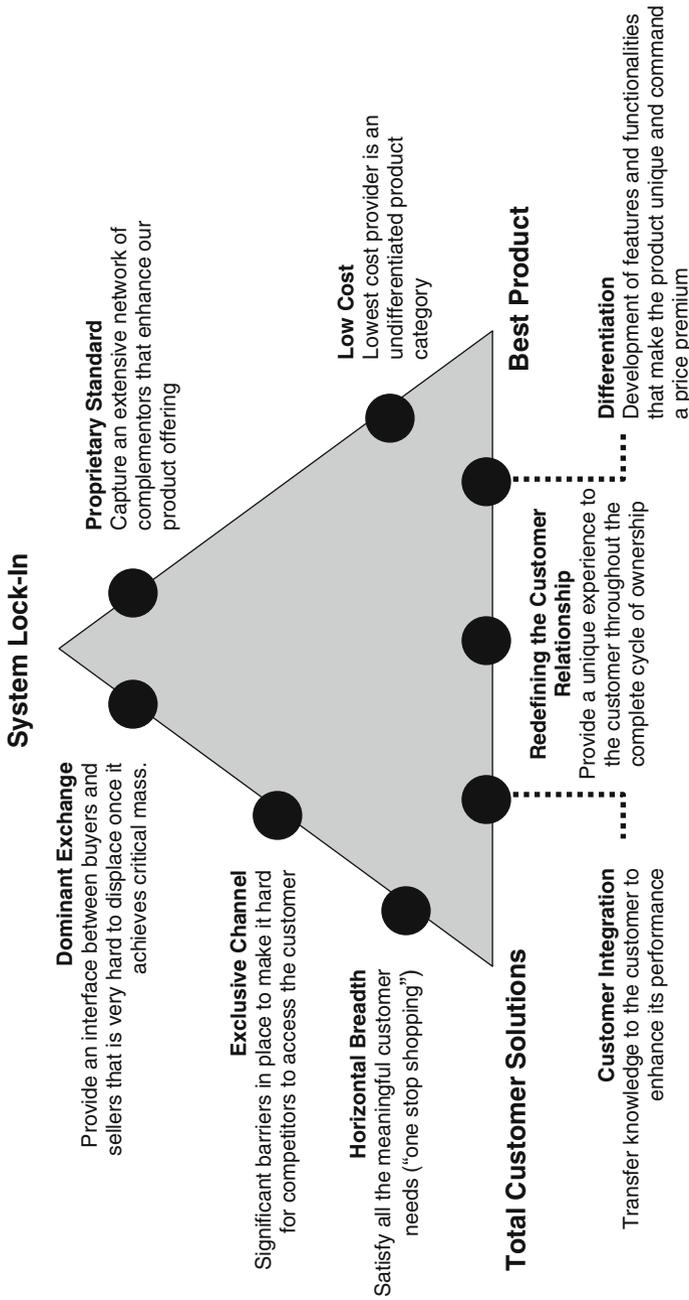


Fig. 1.3 Identifying the competencies of the business – the eight strategic positions as a guiding framework

of the complex environments and circumstances that surround your business. It is an enormously challenging and exciting task: to give purpose and direction to an organization and end up with an agenda that assures the proper implementation of a well-designed strategy. To that end, we have identified five broad tasks that will help you do this work, illustrated in Fig. 1.4. Throughout the book we will explain these tasks with considerable detail and provide real-life applications to illustrate how we have used them – and you can use them – in practice.



Fig. 1.4 The strategic tasks of the Delta Model

Task 1 Customer Segmentation and Customer Value Proposition (Chapter 3)

The first task we must undertake addresses the customer. We need to abandon our preconceptions and try to be as creative as possible in finding original ways to serve the customer. We begin by segmenting the customer base so that we can identify subsets of customers sharing similar needs, to which we will be providing distinct value propositions. We cannot overemphasize the importance of this task. It is the true foundation of a well laid out strategy. The Delta Model provides unique mechanisms to guide you through this process. The resulting customer value propositions should satisfy the following requirements: