



# The Delta Model - a New Framework of Strategy

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**Abstract.** The Delta Model is a new strategy framework that places the customer at the center of management. It examines the primary options available to establish customer bonding and it prescribes how to link strategy with execution through the alignment of adaptive processes. The paper concludes with an attempt to integrate the Competitive Positioning (a framework proposed by Michael Porter), the Resource-Based View of the Firm, and the Delta Model.

**Keywords:** strategy, execution, adaptive process, Porter's framework, Resource-Based View of the Firm, Delta Model.

## 1. Introduction

In spite of the enormous proliferation of competing schemes in the business strategy literature, there are two fundamental paradigms that have emerged as the most influential in the last two decades. First, Competitive Positioning, as proposed by Michael Porter<sup>1</sup> from the Harvard Business School in the 1980's, and, second, the Resource-Based View<sup>2</sup> of the firm that evolved during the 1990's.

Porter's arguments are drawn from the work of organizational economists who place the industry as the central focus of strategic attention. According to Porter's framework, structural characteristics of a firm's industry best explain

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1. Michael E. Porter's primary work in Competitive Positioning are in his books, *Competitive Strategy* (New York: The Free Press, 1980) and *Competitive Advantage* (New York: The Free Press, 1985).
  2. The seeds for this view originated in the work by E. Penrose, *The Theory of the Growth of the Firm*, Basil Blackwell, 1959. This approach was substantially developed among others by B. Wernerfelt, "A Resource-Based View of the Firm", *Strategic Management Journal*, Vol. 5, pg. 171-180, 1984; J.B. Barney, "Firm Resources and Sustained Competitive Advantage", *Journal of Management*, Vol. 17. Pg. 99-120, 1991; M. Peteraf, "The Cornerstones of Competitive Advantage: A Resource-Based View", *Strategic Management Journal*, Vol. 14, No. 3, pg. 179-192, March 1993. C.K. Prahalad and Gary Hamel popularized the approach in their now classic paper, "The Core Competence of the Corporation", *Harvard Business Review*, May-June, 1990, pg. 71-91.

variations in firm performance. In other words, Porter sees good industries, such as pharmaceuticals, where most players enjoy high margins; he also sees bad industries, such as trucking, where most participants suffer from low profitability.

Using the language of economics, a successful firm is one that appropriates monopolistic rents. In other words, in the industry as a whole or in a segment of the industry, the firm establishes itself as the dominant (or sole) competitor.

Porter's logical conclusion from this perspective is that there are only two ways to compete: through Low Cost or Product Differentiation. Most managers in the 1980s became familiar with Porter's taxonomy. Cost leadership is achieved through the aggressive pursuit of economies of scale, product and process simplification, and significant product market share that allows companies to exploit experience and learning effects. Differentiation calls for creating a product that the customer perceives as highly valuable and unique. Approaches to Differentiation can take many forms: design of brand image, technology, features, customer service, and dealer networks.

The strategic positions of Low Cost and Differentiation are centered on product economics. The resulting mentality of this approach, which is widely apparent in the business world, has enormous implications that we will address later.

Instead of looking at the industry as the source of profitability, the Resource-Based View of the firm argues that the attention should turn to the firm. Instead of seeking profitability at the intersection of the products and markets, the Resource-Based View looks for value derived from resources, capabilities and competencies. Instead of relying on monopoly rents, premium returns depend upon what economists refer to as "Ricardian rents". What makes one firm different from another is its ability to appropriate resources that are valuable, rare, and difficult to substitute or imitate. The roots of this perspective go back to David Ricardo<sup>3</sup>, a British economist who lived in the early 1800's. Ricardo tried to explain variations in farm profitability by pointing to differences in the supply of fertile land. Proponents of the Resource-Based View had the insight to recognize that management skills, information capabilities, and administrative processes can also be regarded as scarce factors able to generate Ricardian rents.

Porter's framework and the Resource-Based View of the firm basically perceived the primary role of strategy as achieving a unique competitive advantage. We underline the word competitive because that seems to us to be the common principle. In this sense, the objective of strategy becomes beating your competitor either by excelling in the activities of your value chain that

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3. A. Hax and D. Wilde, *The Delta Project* (Palgrave, 2001).

allows you to establish a dominant position in your industry, or through the mobilization of unique resources and capabilities.

Although these frameworks have often been presented as conflicting views, we feel they can contribute greatly to the development of a strong business strategy. Since they emphasize different dimensions of strategy, they can richly complement each other. However they both can be enhanced by adding a missing perspective: the Customer. Surprisingly the customer does not emerge as the key player in either of these two frameworks. If you take Porter literally, the customer is represented by the “Buyer” – one of the Five Forces – whose bargaining power we should resist or diminish. In that respect, the customer constitutes an additional element of the rivalry that we need to overcome. In the Resource-Based View of the Firm, there is no explicit mention of the customer.

In contrast, we developed a new strategy framework that we called the Delta Model – Delta being the Greek letter that stands for transformation and change. We felt that the new technology surrounding the internet provides novel and effective ways to link to the customer and to the extended enterprise, opening up new sources of strategic positioning that should be properly evaluated.

It is our strong belief that the Delta Model has the ability to complement the perspectives of Porter’s frameworks and the Resource-Based View of the Firm and provide the integrative glue that may result in one unified strategy framework.

Since Porter’s work and the Resource-Based View of the Firm has been amply documented, we will only provide here a brief description of the Delta Model.<sup>4</sup>

## **2. The Delta Model: Customer Bonding is the Driving Force in Strategy**

We believe that a firm owes itself to its customers. They are the ultimate repository of all the firm’s activities. At the heart of management and, certainly, at the heart of strategy, resides the customer. We have to serve the customer in a distinctive way if we expect to enjoy superior performance. The name of the game is to attract, to satisfy, and to retain the customer.

Classic strategy frameworks emphasize a product orientation. They pit competitor against competitor in a rivalry where the outcome is determined by who has the best product. Consequently, most companies are typically consumed by a product-centric mindset. They tend to commoditize the customers by offering standardized products, through mass distribution channels, making limited attempts to recognize and satisfy individual

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4. MIT Tech Talk, April 29, 1998

customer needs. Frequently, the point of contact with the client organization is the client's purchasing department through a conventional salesforce (its own or another's) commissioned to sell products or services. This institutes an arm's length relationship that inhibits any deep knowledge to be nurtured and developed.

The physical nature of distribution channels presents barriers that block the firm from its final consumers. Michael Dell thought that he was simply reducing costs when he decided to skip the wholesale and retail channels and deal directly with the customers. However, he discovered that this new business model opened up a world of intelligence and information that could be put to use in offering customized solutions to key customers that could have not been generated under the old distribution scheme.

The intimacy and connectivity of a networked economy offer opportunities to create competitive positions based upon the structure of the customer relationship. A business can establish an unbreakable link, deep knowledge, and close relationship that we refer to as *customer bonding*. These bonds can be directly formed with the customer, or indirectly formed through the complementors that the customer wishes to access. Both are powerful sources of margin and sustainability. The bonds represent investments made by customers and complementors in and around the business' product. Competition based upon the product alone misses entirely a primary force driving profitability. Bonding emerges as a central force in shaping strategy.

We have observed that most companies, even those which are in consumer-oriented industries, lack the intimate customer knowledge needed to address this issue properly, or they are so absorbed in a product-centric mindset that it can be a challenge to relate to this kind of strategic thinking.

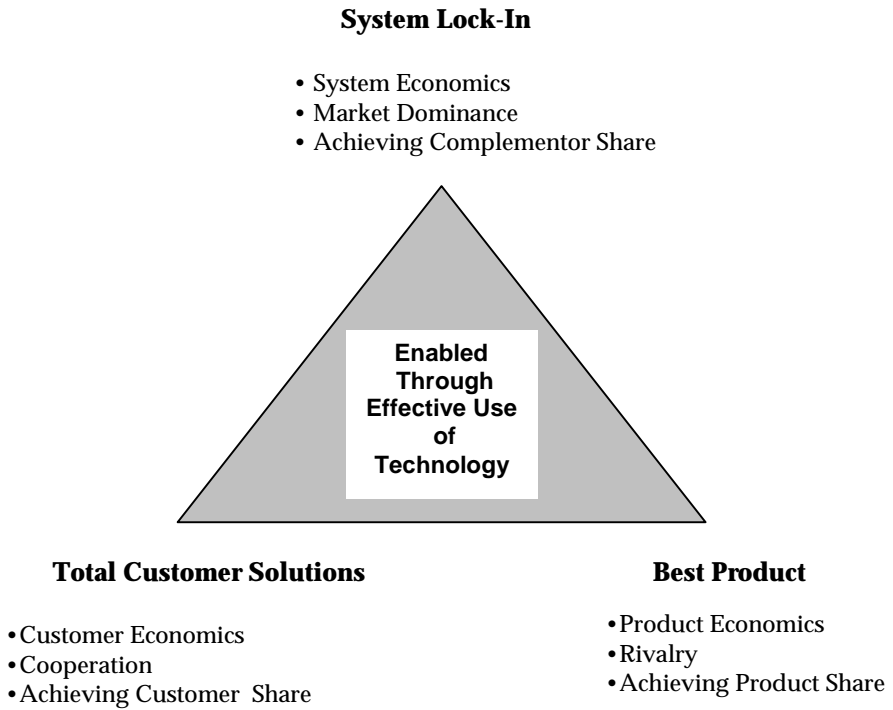
## 2.1. The Triangle: Opening the Mindset to a New Set of Strategic Options

The three options represented in the Triangle (Figure 1 opposite) are the starting point of the dialogue for the development of a strong vision. We have found very helpful to present to managers three alternative ways that can accomplish the desired customer bonding. Although in practice most organizations find themselves in a hybrid situation, it is useful to reflect upon these options as if they were mutually exclusive options, representing very different approaches to managing the business.

At the right-hand side of the triangle is the so-called Best Product positioning. The way to attract, satisfy, and retain the customer is through the inherent characteristics of the product itself. The position is rather inward and narrow, based upon the prevailing product economics. The major strategic driving forces are the development of an efficient supply chain – which

guarantees a low cost infrastructure; a proven internal capability for new product development – which assures the proper renewal of the existing product line; and the securing of distribution channels – which massively transfer the products to the targeted market segments. The yardsticks for this strategy are the relevant competitors that we are trying to equal or surpass. Frequently the products are standardized and the customers are faceless and generic. Commodization is a real threat and often an unavoidable outcome, as imitation becomes a preferred pattern of competition. The measure of success is product share, which ultimately can fragment the business activities in a disconnected set of product offerings.

Figure 1: The Triangle - Three Distinct Strategic Positions



In the left-hand side of the Triangle sits the option we call Total Customer Solutions, which represents a 180 degree departure from the Best Product positioning. Rather than selling standardized and isolated products to depersonalized customers, we are providing solutions consisting of a portfolio of customized products and services that represent a unique value proposition

to individualized customers. Instead of acting alone, we engage the relevant set of partners that constitute the extended enterprise. Instead of engaging in a war of attrition against our competitors, we seek cooperation that establishes the desired customer bonding. The relevant overall measure of performance becomes the total customer share, whose needs we are attempting to satisfy in as much a comprehensive way as possible. It is not our supply chain that is relevant, it is the combined chain that includes us, the customer, and our key suppliers. It is not our internal product development capabilities that exclusively carry our innovation initiatives, rather it is the joint development efforts particularly with our customers that are central to our success. What guides us is not exclusively our product economics, but it is the customer economics, since we are trying to help the customer in enhancing his or her financial performance.

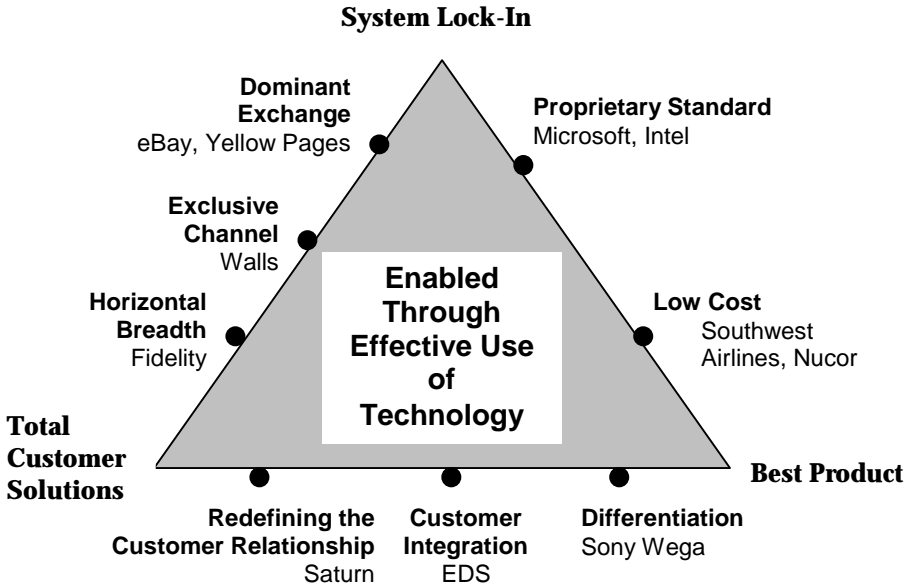
At the top of the Triangle stands the most demanding strategic option, which we call System Lock-In. In here we are addressing the full network as the relevant scope, the gaining of complementors' share as the ultimate objective, and the system economics as the driving force. Those who are successful in reaching this position gain a de facto dominance in the market which not only assures them a customer lock-in but also a competitor lock-out. The complementors play a key role because they are the basis for the consolidation of this power. Bill Gates is the richest man in the world not necessarily because he has developed the best product or excels at customer attention, but because he has an army of people working for him who are not on his payroll – all of the application software developers who are writing for the Windows compatible operating systems. Once you reach the lock-in it is hard to be taken away from you because of the so-called network effects, which creates the proverbial virtuous circle: customers want to buy the computer with access to the largest set of applications, and software developers want to write applications for the computers with the largest installed base.

We believe that not every organization has the capacity or the ability to reach a System Lock-In positioning. Nevertheless, the need to consider the full network as the relevant business stage and the pursuit of close linkages with complementors are of great relevance for the development of an effective strategy, no matter which your ultimate goal might be. Moreover, the transformation that a company should undertake to move away from a commoditized product-centric mentality into a Total Customer Solutions position is, in our opinion, a mandatory challenge for all executives. In our work with different firms we have found the Triangle to be an extremely effective tool to open the minds of executives to different strategic alternatives.

### 3. The Options for Each Strategic Positioning

Figure 2 below illustrates the basic options that are normally available to capture the desired strategic positioning.

Figure 2: The Triangle - Options for Strategic Positioning



The Best Product strategy rests on the classical form of competition that dictates that there are only two ways to win: either through low cost or differentiation. The problem is that differentiation is seldom a source of sustainable advantage since once the strategy is revealed and becomes publicly known technology often allows a quick imitation that neutralizes the sought competitive advantage. If that is the case, the only viable option available to the Best Product strategy is low cost, which explains why commoditization is such a prevailing outcome in this corner of the Triangle. The low cost position does not provide much room for success, after all how many players can enjoy simultaneously a low cost advantage? This gives rise to the undesirable effects that we have eluded to before, including excessive rivalry, imitators and the consequent adverse impact on margins and profitability for all the players. There are obviously successful companies in this corner of the Triangle. In

Figure 2 we show Sony Wega as offering a differentiated product in TV sets, although the durability of its differentiation is rather debatable. In the low cost position we show two very successful companies in rather mediocre industries: Southwest in the commercial airline industry, and Nucor in steel. The fact that these are rather exceptions to the rule serve to underscore the difficulties of achieving successful competition in this corner.

Given the adverse structural characteristics of the Best Product positioning in many situations, one has to wonder why so many companies fall into the trap of accepting this option as the only one available. The transformation toward a Total Customer Solutions position requires a very different way to capture the customer and a very different mindset. There are three options that you should pursue simultaneously. First, redefine the customer engagement process. This means that you should segment your customers carefully, arrange them into proper tiers that reflect distinct priorities, and provide a differentiated treatment to each one tier. That is what Saturn did when they completely redefined the experience of purchasing and owning a car in the U.S. Second, you should think hard about how to use your capabilities to perform some activities for the customers than previously they used to do themselves, because you can execute them much more effectively. This is what we call customer integration, and is the signature business of EDS, a company that redefined IT outsourcing in the U.S. Third, you could consider expanding as much as possible the breadth of products and services you are providing to the customer, what we call horizontal breadth. Paramount example of that positioning is Fidelity, a firm that provides a full coverage of financial services to their customers. These three options should be carried out simultaneously for a most impacting delivery of a Total Customer Solutions strategy.

And then we are left with the exciting but hard to get positioning on the top of the Triangle, the System Lock-In. One very powerful way to achieve it is through the development and ownership of the standards of the industry. This is what Microsoft and Intel – two magic complementors – have done with the Wintel operating system and chip business in the PC market. Another option to reach System Lock-In is to have the exclusivity of the channels of distribution that customers use to avail themselves of the product. Limited shelf space is a usual trick in this option, what has happened in Europe and Asia with the Walls ice cream that provides a refrigerated cabinet to small merchants that can only be used for that purpose. The final option is what we call dominant exchange, where you have a dominant position, such as eBay and Yellow Pages, in serving as a unique linkage between sellers and buyers.



### 3.1. The Need for Organizational Transformation – Start by Changing Your Mindset

The perception that emerges from the Triangle is quite straightforward. The competencies that are required for a successful positioning in the Best Product strategy are quite critical, namely, a strong product base, a solid supply chain infrastructure, and internal innovation capabilities to match. However often they are not enough to really excel in your business. You should make concerted and deliberate efforts to push the organization closer to a Total Customer Solutions and to seek and seize – whenever possible – opportunities for a System Lock-In. The rewards that can be obtained by pursuing these strategies could be very significant. The task ahead, however, is not trivial and there are many obstacles to avoid and overcome.

### 3.2. Rethink the Customer Engagement Process – the Case of Castrol

Castrol is one of the leading lubricant companies in the world. They realized that playing the Best Product strategy was not going anywhere, since the business was getting commoditized and differentiation through premium products was not generating sustainable competitive advantage. Selling lubricants by the gallon was not a very compelling proposition. At that time they were exposed to the Triangle, and decided to mobilize their efforts toward the pursuit of a Total Customer Solutions strategy.

First, they went through a careful process of customer segmentation. Often companies segment markets. Castrol certainly did that by identifying the major clusters of business applications: cement, sugar, pulp and paper, textile, food and beverage, wood, mining, and glass. But that was not enough. The brilliant next step for Castrol was to identify, within each market segment, which customers to target with varying degrees of priorities. They performed that task by recognizing the attitudes the customers have toward accepting a full Total Customer solutions approach. They considered three Tiers.

*Primary Target Segment* – Productivity Conscious Customers. These customers are eager to receive support that will enhance their productivity, reduce total costs, and promote higher sales.

*Secondary Target Segment* – Cost Conscious Customers. These customers are concerned about total costs but they believe new production does not necessarily yield higher sales or economies of scale.

*The Least Desirable Segment* – Price Conscious Customers. These customers are basically buying from the supplier that offers the lowest price.

This kind of customer segmentation is critical because you cannot and should not treat every customer equally. Not all the customers are equally receptive to an approach which requires stronger efforts on both parts, but

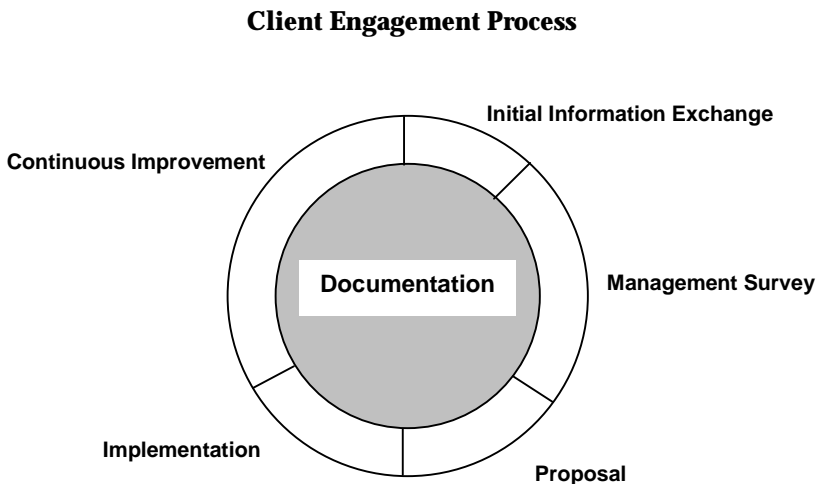
potentially generating much greater benefits. Castrol's value proposition for the primary targeted customers was as follows:

A customized lubrication solution involving products and services that results in documented cost reductions and productivity improvements.

We have underlined in that statement the words customized, solutions, and documented, because they truly capture the spirit of an offering that has nothing to do with a conventional commoditized lubrication. Castrol in fact is selling documented ROI (return on investment) improvements.

The delivery of this value proposition was supported by a completely different customer engagement process. Figure 3 below tries to capture the essence of the process. As we can see, at the heart of it is the documentation pre- and post-sales execution. By quantifying the expected results, they value proposition becomes objective and credible.

Figure 3: Rethink the Customer Engagement Process - the Case of Castrol



Source: Castrol

The process begins with a joint team of executives who exchange initial information and complete a management survey. A model of a generic plant is used as an initial platform from which to derive a customized version that will reflect the individual plant maintenance tasks to be completed. A proposal is drawn which results in a long-term contract which is properly implemented. Continuous improvement and learning produces the next stage of the cycle.

The lesson of Castrol is enormously impacting for a proper decommodification of a product offering: do not treat each customer equally, sell solutions not products, document your value proposition, bring in the executive team to develop long-term relations based on learning, trust, and mutual benefits.

### 3.3. The Adaptive Processes – How to Genuinely Link Strategy and Execution

John S. Reed, the past Chairman of CitiGroup, once said<sup>5</sup>; “A CEO has just two jobs, decide what to do and making it happen. And, ninety percent of the job is making it happen. When you are running a company execution becomes everything.” To guide managers in the “what to do” question, the Triangle dramatically expands the sources of profitability to describe three distinct choices for strategic positioning: Best Product, Total Customer Solutions, and System Lock-In.

“How to make it happen” depends first and foremost on the proper alignment of the core activities of the business with the chosen strategy. Alignment is the operative term. Each strategic position of the Triangle generates a very different set of tasks and activities. Our research suggests that the primary obstacle in execution is not working harder, with less error, faster, or smarter, but is failing to align the activities of execution with the specific requirements inherent in the desired strategic position of the business.

To accomplish this goal, we identified the three business processes that capture the essential tasks of execution. The core activities of the firm are embodied in three processes:

1. *Operational Effectiveness (OE)* – This process is responsible for the delivery of products and services to the customer. In a traditional sense, this includes all the elements of the internal supply chain. Its primary focus is on producing the most effective cost and asset infrastructure to support the desired strategic position of the business. In a more comprehensive sense, operational effectiveness should expand its external scope to include suppliers, customer, and key complementors, thus establishing an extended supply chain. This process is the heart of a company’s productive engine as well as its source of capacity and efficiency.

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5. For a detailed coverage of the mission of the business, see Arnoldo Hax and Nicolas Majluf, *The Strategy Concept and Process: A Pragmatic approach*, 2<sup>nd</sup> edition (Englewood Cliffs, NJ, Prentice Hall, 1996)

2. *Customer Targeting (CT)* – This process addresses the business-to-customer interface. It encompasses the activities intended to attract, satisfy, and retain customers, and ensures that customer relationships are managed effectively. Its primary objectives are to identify and select attractive customers and to enhance their financial performance, either by helping to reduce their costs or increase their revenues. The ultimate goal of this process is to establish the best revenue infrastructure for the business.
  
3. *Innovation (I)* – This process ensures a continuous stream of new products and services to maintain the future viability of the business. It mobilizes all the creative resources of the firm – including its technical, production, and marketing capabilities – to develop an innovative infrastructure for the business. It should not limit itself to the pursuit of internal product development, but should extend the sources of Innovation to include suppliers, customers, and key complementors. The heart of this process is the renewal of the business in order to sustain its competitive advantage and its superior financial performance.

Collectively we call them Adaptive Processes, to emphasize the changing nature of the tasks. Figure 4 opposite provides a representation of the interactions that exist between the Triangle which is critical to define the changing role of each Adaptive Process and among the processes themselves, since each one strongly influences the another.

Strategy is not effective if kept at an abstract level. The Adaptive Processes spell out in detail their unique supportive role for each of the three strategic positions in the Triangle. Table 1 (page 14) summarizes these roles.

What we find particularly alarming is that most managers implicitly define each process according to a Best Product strategy. Namely, Operational Effectiveness seeks to establish an internally efficient cost infrastructure; Customer Targeting seeks maximum coverage through distribution channels; and Innovation seeks the speedy development of the firm's products aided by appropriate platforms and first-to-market expectations.

As recognized in Table 1, the situation is starkly different when the Adaptive Processes support the TCS and the SLI strategic options.

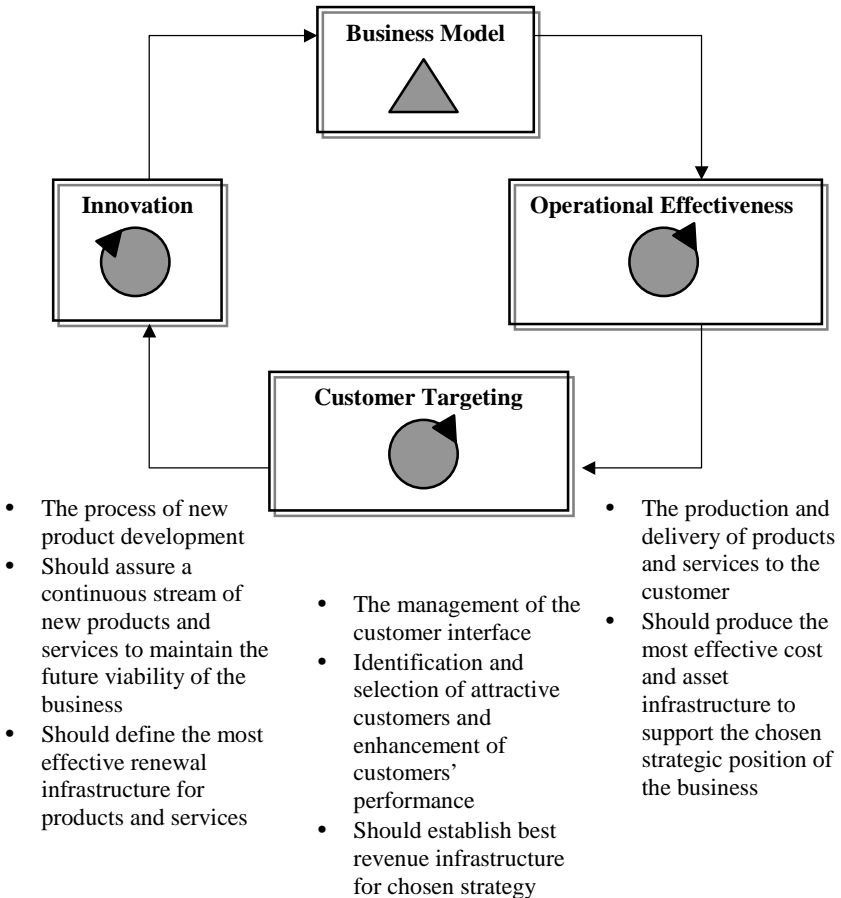
In the TCS strategy, the key objective of Operational Effectiveness is the maximization of the customer value, and this can only be achieved through consideration of the combined value chain of the firm and its customers. Customer Targeting is aimed at developing individual customer bonds, by structurally enhancing the interface with the customer and by creating assets in the customer's knowledge of your product or services. Innovation aims for the

development of a composition of customized products jointly with the customer.

In the SLI strategic position the role of each process again changes. Now Operational Effectiveness is concerned with enhancing the overall system performance, often by consolidating strong partnerships with complementors. Customer Targeting attempts to consolidate a harmonized system architecture through a network of complementors and complementor interfaces. The ultimate goal of Innovation is to develop and appropriate an industry standard, facilitating a broad range of applications.

Once more, a primary objective is to raise the awareness of the product-centric mentality and to expand the alternatives open to managers. Rivalry and competition may not be the winning strategies.

Figure 4: The Adaptive Processes - Linking Strategy with Execution



- The process of new product development
- Should assure a continuous stream of new products and services to maintain the future viability of the business
- Should define the most effective renewal infrastructure for products and services

- The management of the customer interface
- Identification and selection of attractive customers and enhancement of customers' performance
- Should establish best revenue infrastructure for chosen strategy

- The production and delivery of products and services to the customer
- Should produce the most effective cost and asset infrastructure to support the chosen strategic position of the business

Table 1: The Role of the Adaptive Processes in Supporting the Strategic Options of the Triangle

		<b>Strategic Positioning</b>		
		<b>Best Product</b>	<b>Total Customer Solutions</b>	<b>System Lock-In</b>
<b>Adaptive Process</b>	<b>Operational Effectiveness</b>	<u>Best Product Cost</u> 2 Identify product cost drivers 2 Improve stand along product cost	<u>Best Customer Benefits</u> 2 Improve customer economics 2 Improve horizontal linkages in the components of total solutions	<u>Best System Performance</u> 2 Improve system performance drivers 2 Integrate complementors in improving system performance
	<b>Customer Targeting</b>	<u>Target Distribution Channels</u> 2 Maximize coverage through multiple channels 2 Obtain low cost distribution 2 Identify and enhance the profitability of each product by channel	<u>Target Customer Bundles</u> 2 Identify and exploit opportunities to add value to key customers by bundling solutions and customization 2 Increase customer value and possible alliances to bundle solutions 2 Select key vertical markets 2 Examine channel ownership options	<u>Target System Architecture</u> 2 Identify leading complementors in the system 2 Consolidate a lock-in position with complementors 2 Expand number and variety of complementors 2 Whenever possible create ownership of direct distribution channels
	<b>Innovation</b>	<u>Product Innovation</u> 2 Develop family of products based on common platform 2 First to market, or follow rapidly — stream of products	<u>Customer Service Innovation</u> 2 Identify and exploit joint development linked to the customer value chain 2 Expand your offer into the customer value chain to improve customer economics 2 Integrate and innovate customer care functions 2 Increase customer lock-in through customization and learning	<u>System Innovation</u> 2 Create customer and system lock-in, and competitive lock-out 2 Design proprietary standard within open architecture 2 Complex interfaces 2 Rapid evolution 2 Backward compatability

### 3.4. The Delta Model's Winning Formula

- Concentrate on the customer. Start with a careful segmentation of your customer base and develop as much knowledge as possible of the customer economics. Remember that the primary objective is to seek customer bonding.
- Select the most appropriate strategic positioning among the three key options – Best Product, Total Customer Solutions, and System Lock-In – that will result in a customer value proposition with the highest possible bonding.
- Define the strategic agenda that determines the action program to implement your desired strategic option. Assure the proper alignment with the three adaptive processes – Operational Effectiveness, Customer Targeting, and Innovation.
- Design the proper metrics and rewards to facilitate the strategy development.

## 4. The Delta Model: an Integrated Framework for Strategy

The Delta Model Framework is an integrative process for formulating and executing strategy. The elements of the process are described in Figure 5 (page 16).

### 4.1. The Triangle: Capturing the Business Vision

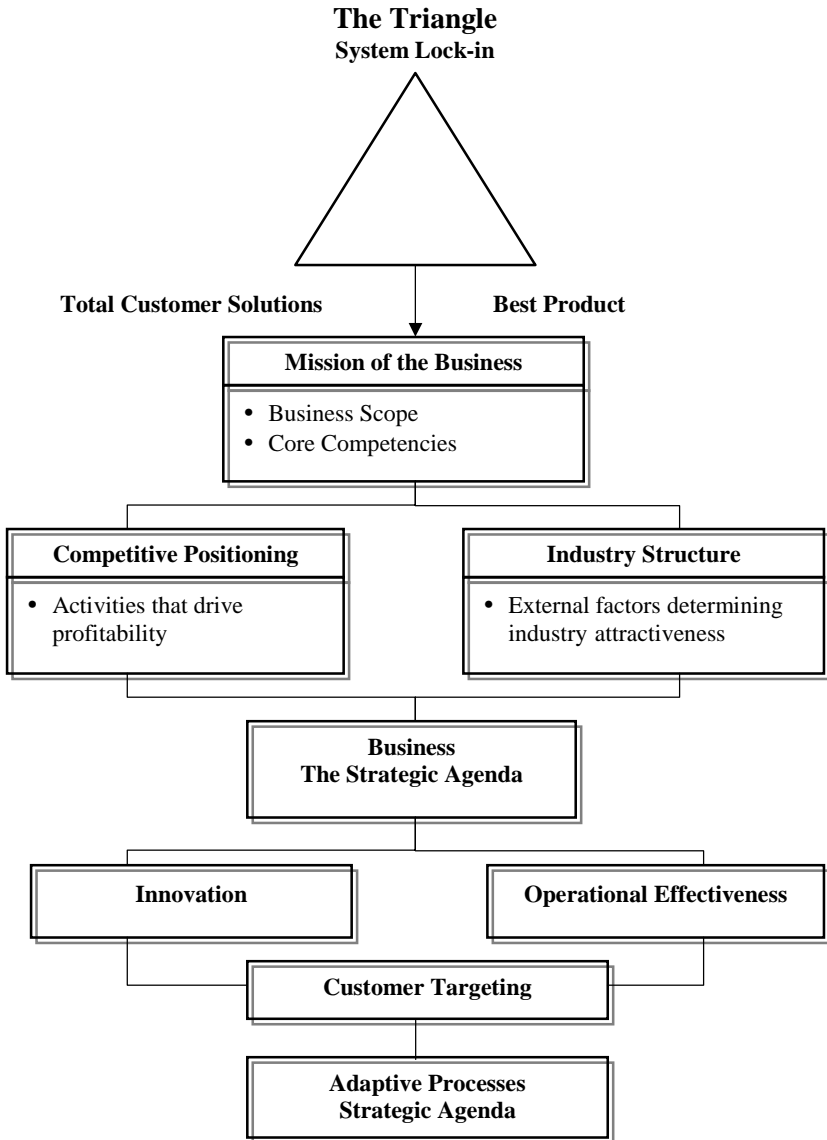
The first and most critical task for any business is to capture the essence of its strategic position, in other words, the development of a business vision.

The Triangle is an effective tool for describing a meaningful strategic position. Its power resides mainly in its simplicity while capturing the full range of strategic possibilities. It is a crucial first step because it defines the central purpose of the business that will guide the whole process of strategy formulation and implementation. The three distinct strategic alternatives offered by the Triangle – Best Product, Total Customer Solutions, and System Lock-In – present managers with a contrasting set of options through which to reflect on their business strategy.

The selection of a strategic position is based on the accumulated experience of management without the benefit of the detailed analysis that follows. Some object to this, arguing that one should collect the data first and then select a strategic option. But, if so, what data should they collect? This is a chicken and egg problem and managers need a starting point. As the process evolves and new information is generated, it is important for managers

to reexamine their assumptions and modify or recalibrate their starting point. The Delta Model process makes explicit a practice that many companies carry out implicitly.

Figure 5: The Delta Model - an Integrative Strategic Framework





## 4.2. The Mission: Defining the Business Scope and Competencies

The mission of the business should make concrete the strategic option that managers have identified using the Triangle. The mission includes two key decisions: defining the business scope, which determines where to compete; and developing the core competencies of the business, which determines the resources and capabilities needed to succeed.

Consequently, there are two sets of information in a well-defined and well-articulated mission of the business. First, the business scope must include a view of the competitive domain of the business, both for today and the future, as described by its overall portfolio of products, market coverage, customer focus, complementor focus, and geographic presence. The business scope is informative not only for what it includes, but for what it leaves out. Second, the core competencies should include the tangible and intangible resources necessary for reaching the desired competitive position.

The selection of the strategic option using the Triangle has a profound impact on the mission. Adopting the Best Product option, for example, makes the product the most critical dimension of business scope; the core competencies are those required to achieve cost leadership or a highly differentiated product offering. The Total Customer Solutions option makes the customer the most critical dimension and requires competencies that focus on customer bonding. The System Lock-In position introduces complementors as a new dimension of business scope and requires the competencies needed to develop the proper architecture and complementor lock-in.

The mission should highlight the *changes* that the business is seeking to realize. If there are no changes in the mission, there is little chance that the business will succeed in a dynamic world. Strategy is fundamentally about dealing with change, which is why the mission must deal with the contrast between the business' existing scope and its future scope. These changes ripple through the subsequent process steps and the Strategic Agenda that allows the business to move forward.<sup>6</sup>

## 4.3. The Industry Structure: Understanding and Negotiating External Forces

Sound analysis of industry structure captures the principal external forces, their future trends, and their impact on a business. Porter's five forces model helps managers to understand the strategic implications of industry structure. The Delta Model gives rise to a number of critical modifications to the five force framework. First, the question of rivalry and the focus on the "winner

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6. See Arnaldo Hax and Dean Wilde, *The Delta Model*, Palgrave, 2001 for illustrations on how to develop a proper strategic agenda.

take all” mentality. With two of the Delta Model’s three strategic options (Total Customer Solutions and System Lock-In), rivalry is replaced by bonding as the critical lens through which to observe industry structure, bonding of customers in one instance and of complementors in the other.

Second, is the question of what industry structure managers should analyze. In the conventional Porter model, they are meant to look at the industry in which their business resides. Obviously, that industry always remains relevant to the business; however, managers using the Delta Model do not stop with their own industry. They extend the analysis to include the industries of their key customers and complementors and seek insights to achieve the desired bonding. As a result, the nature of the industry analysis is greatly affected by the selection of the strategic option.

#### 4.4. Competitive Positioning: Building the Activities to Drive Profitability

Having analyzed the external forces that are part of the industry structure, and reached a clear understanding of the opportunities and threats presented by the business environment, we need to establish a strong competitive position that responds to this environment. Again, Porter’s value chain is a useful starting point. The value chain allows us to identify the activities that are most important to achieve competitive advantage, and to develop action programs to enhance the desired capabilities. However, the Delta Model necessitates a significant expansion to the conventional analysis. Rather than concentrating exclusively on the internal value chain of our own business, we need to include the value chain of all of the external relevant parties.

In the Total Customer Solutions option we look for the proper integration of our value chain with the key suppliers and customers, searching for complementary assets that substantiate and enrich the relationships.

In the System Lock-In option, we look beyond our immediate industry to the system as a whole with all of its relevant complementors. Microsoft needs to look beyond the operating system industry to the industries of the application providers. Coca-Cola needs to look at the industry of the fountains and grocery stores. The challenge is to create mechanisms where the linkages across those value chains originate the ultimate bond. Once more, the strategic focus is away from rivalry and competition and toward cooperation and bonding.

As we can see the steps in the Delta Model process involving the industry structure and the competitive positioning map directly to Porter’s framework, but make it more relevant and complete to a wider array of strategic options. The fundamental methodology proposed by Porter – the five forces and the value chain – are greatly expanded in scope to include the customer and complementor dimensions, and enriched by bonding as an economic force.

#### 4.5. The Strategic Agenda: Specifying the Key Business Tasks

The previous steps of the Delta Model – the selection of the preferred strategic options, the mission of the business, the industry structure analysis, and the competitive positioning – provide the relevant background for the development of a comprehensive Strategic Agenda. These should include pragmatic, action-driven tasks that in totality will accomplish the strategic objectives of the business.<sup>7</sup> The agenda should define each task with sufficient clarity to communicate it across the organization. It makes explicit the role to be played by every manager involved in its execution, including the nature of the Adaptive Process it might generate. It also should identify the necessary indicators and targets associated with each task in order to monitor the business. We have two additional observations. First, the agenda is dynamic, which means that it is the subject of continuous revisions.

Second, it must be communicated throughout the organization. We have encountered endless situations where management is hesitant to share the strategy broadly because it either raises competitively confidential issues, or it can contain bad news for some business segments. Both are usually bogus concerns. The competitively sensitive information is typically in the tactical elements of execution and the bad news for individuals is better addressed head-on. Communications is essential to energize the organization and to assure the congruence between the business purpose and the individual actions of all the participants.

#### 4.6. The Adaptive Processes: Aligning Strategy with Execution

The strategic agenda integrates all the necessary tasks that are required to set the overall direction of the business. The Adaptive Processes go further. They go deeper into the organization and into the details of execution. This guarantees the alignment of strategy and execution in an explicit and direct way.

Every Adaptive Process in turn produces its own Strategic Agenda that has the same format characteristics as the business agenda but more localized and detailed. With these steps finished, the strategy formulation is complete.

The Resource-Based View of the firm calls for the nurturing and appropriation of key resources and capabilities as the source of competitive advantage. We complained that the vagueness of this statement impairs the usefulness of this framework in the pragmatic world of management. There are, however, two steps within the Delta Model where the Resource-Based View concepts are a natural fit.

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7. D. Ricardo, *Principles of Political Economy and Taxation*. (London, J. Murray. 1817)

In the mission statement we call for the specification of the required core competencies that the business needs to achieve its desired strategic positioning. These core competencies might not be exclusive to a given business unit within the overall corporation. Indeed, the most desirable situation exists when the competencies reside at the corporate level - as the Resource-Based View insists - and are also distributed throughout the entire business portfolio. In this manner the corporation creates additional value through the businesses, which legitimizes the corporate structure as an added-value entity. In that sense, core competencies are the critical focus of the corporate strategy.

The definition of the Strategic Agenda of the Adaptive Processes is the second step in the Delta Model where issues of capabilities are confronted. Now we go from the broad statement of core competencies that are part of the business mission to the skills that are needed in the Operational Effectiveness, Customer Targeting, and Innovation processes.

This sharper focus of requirements breaks the ambiguity inherent in the abstract Resource-Based View. From this perspective core competencies support the development of the strategic positioning of the business; and resources and capabilities are the skills required in the Adaptive Process that are needed in the implementation.

The intersection of the Resource-Based View and the Delta Model occur in the mission and now in the Adaptive Processes. The Adaptive Processes link strategy with execution and link the broad competencies at the corporate level with the specific activities required at the business level.

A schematic of the full Delta Model process is shown in Table 2 opposite.

Table 2: The Delta Model and the Three Strategic Options

The Elements of the Delta Model	The Three Strategic Options		
<b>The Triangle: the Sources of Strategic Options</b>	Best Product	Total Customer Solutions	System Lock-In
<b>Business Mission:</b> Product Scope Market Scope (customer, consumer channel) Complementor Scope Geographic Scope Core Competencies	Driver	Driver	Driver
<b>Industry Structure:</b> Relevant Industry Focus	Business Industry	<i>plus</i> Customer Industry	<i>plus</i> Complementor Industry
<b>Competitive Positioning:</b> Relevant Value Chain Focus	Internal Value Chain: Business	Integrated Value Chain: Business and Customer	Systems Value Chain: Business Complementor and Customer
<b>Business Strategic Agenda</b>	Align with Strategic Options		
<b>Adaptive Process Priorities:</b> Operational Effectiveness Customer Targeting Innovation	1st 3rd 2nd	2nd 1st 3rd	3rd 2nd 1st