The Modified Delta Model

Articulating, igniting and implementing a revised strategy model for the extended enterprise based on the MIT Delta Model

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The Delta Model is a strategic framework developed by Prof. Arnoldo C. Hax of MIT Sloan School of Management and Dean L. Wilde II, Chairman of Dean & Company. This model aims at guiding managers and executives in the articulation and implementation of effective corporate and business strategies engaged in today's digital economy.

Essentially, this model integrates the Competitive Advantages and Value Chain Frameworks from Harvard Professor Michael Porter's 5 Forces as well as the Resource Based View on the Firm and complements those with a new extended enterprise perspective focusing on and driving at Total Customer Solutions.

COMPETITIVE ADVANTAGE, RESOURCE BASED VIEW, DELTA MODEL OVERVIEW

	PORTERS FRAMEWORK	RESOURCE BASED VIEW FRAMEWORK	DELTA MODEL FRAMEWORK
Focus on Strategic Attention	Industry/Business	Corporation	Extended Enterprise (The firm, the customer, the supplier)
Type of Competitive Advantage	Low Cost or Differentiation	Resources, Capabilities, Core Competencies	Best Product, Total Customer Solutions, System Lock In.
Basic Unit of Competitive Advantage	Activities	Core Products, Strategic Architecture.	Adaptive Processes: Operational Effectiveness, Customer Targeting, Innovation.
Strategy As	Rivalry	Real Estate	Customer Bonding

What sets the Delta Model apart from other strategic frameworks is its focus on today's dynamic global marketplace and the de-commoditization of goods and services. Just a quick glance at the comparison chart above clearly outlines the differences between current strategic thinking and the Delta Model, focusing on Total Customer Solutions, System Lock In, Best Product and Bonding. For more in depth information on the Delta Model, I highly recommend The Delta Project: Discovering New Sources of Profitability in a Networked Economy by Arnoldo C. Hax, and Dean L. Wilde. Published 2001 by Palgrave Publishing.

With the emergence of new technologies and digital economies, businesses have become empowered with tremendous potential for dynamic communication and interaction across all influences within an organization and, more importantly, with their customers. This is critical because it enables the feasibility of new business approaches and the refocusing of a strategic business model that emphasizes the objectives articulated in the Delta Model - Total Customer Solutions, System Lock In, Best Product and Bonding. However, where the Delta Model starts to fall short is in effectively dealing with the significant pressures being applied around commoditization even when applying the principles of the Delta Model or any other strategic model. This is particularly true when it is assumed that through bonding you can de-commoditize your business based on the level of Bonding and Total Customer Solutions you deliver.

This paper will propose modifications to the Delta Model, particularly around the bonding component, that a business can apply to help neutralize and successfully deal with competitive commoditization pressures that the Delta Model does not fully address. The ultimate objective of the proposed modifications is achieving a holistic Delta Model or a modified Delta that provides a more adaptive framework for today's global business strategies.

First, let's explore the four key elements of the Delta Model as they exist today.

THE 4 PRINCIPLE ELEMENTS OF THE DELTA MODEL

1: Strategic Delta: The Delta is used for defining strategic positions that reflect new sources of profitability. It focuses on three key strategic options: Best Product, Customer Solutions, and System Lock In.

2: Alignment: Align the three strategic options with a firm's activities and provide congruency between strategic direction and execution. Three fundamental processes are always present and are the repository of key strategic tasks: Operational Effectiveness, Customer Targeting, and Innovation.

3: Adaptive Process: The most important processes of the business must be aligned to the chosen strategy. In this way, progress can be made against the strategic agenda and an undesired generic outcome can be avoided. The Delta Model identifies the core processes of the business and provides a guide for how they need to function differently to achieve different strategic positions capable of continually responding to an uncertain environment.

4: KPI Metrics: Metrics providing a high level overview should be supplemented with granular Key Performance Indicators and Market metrics.

These four elements in and of themselves are a solid foundation for any business strategy. particularly ones engaged in the digital economy. That much should be obvious. However, to highlight a key position in the Delta Model from Hax and Wilde around Bonding, they contend and I concur, that essentially a business owes itself to its customers. Without customers there is no business. However, in order to really drive value and differentiation, and more importantly to take your business out of a true commodity position whether put there by the customer or by your own doing, we have to serve the customer in a new and distinctive way if we expect to enjoy successful performance and ROC (Return on Customer).

The intimacy, immediacy, and connectivity of the networked digital economy offers us unique opportunities to create competitive and compelling value positions based upon the structure of the customer relationship and needs regardless if it is B2B, B2C, or B2B4B2C. More importantly, organizations that put a premium on this tend to be more successful as the ability or necessity to communicate remotely as opposed to face-to-face improve, the pressure to build that bonding across the distributed enterprise is even greater. With this type of engagement in mind, I would argue that the Delta Model is most effective and applicable if applied to B2B or B2B4B2C versus a B2C model.

We all know that the success of our business with engaged customers, business champions, and/or a strong tie between the business and customer are always more successful and profitable than those with tenuous or simple transactional based relationships. A business can, if done properly, establish an unbreakable link with its customers where it earns and develops client domain knowledge, trust, and establish an engaged closer relationship with its customers, which under the Delta Model is termed "Customer Bonding".

These bonds can be directly formed with the customer at multiple levels (i.e., "C" level, Manager, Marketing, IT, Finance, Purchasing, etc.). They can also be formed indirectly through any "complementors" the customer wishes to access. For example, a third-party supplier, OEM partner, consultant, etc.. Both are powerful sources of margin and sustainability and these bonds can represent investments made by customers and complementors in and around your business's products and services.

This is a solid Delta Model premise and if implemented alone, a business could reasonably expect positive results. But where this component of the Delta Model breaks down is in the fundamental reality that regardless of the bond between business and customer or complementor, there are inherent challenges that the Delta Model fails to address or address adequately. Primarily, what role purchasing or procurement plays in the bonding segment and how the interaction with purchasing or procurement effects the business' commoditization status, which is what the Delta Model is designed to help businesses accomplish. Avoid becoming a commodity. Essentially and at a very high level, the Delta Model asserts that if you build enough value and bonding for and with the client, you will ipso facto escape commoditization purgatory. Wrong!

The Hidden World of Purchasing

Let's go behind the curtain and explore some of the dynamics that purchasing and procurement deal with and look at how that affects the bonding process and premise under the Delta Model. Once we understand what those dynamics are, we can then explore how to fold them back into the Delta Model for optimum success and application.

I have spent a great deal of time working with procurement and purchasing executives from SMB to Fortune 100 companies. My experiences range from enlightening to extremely frustrating. Mostly frustrating until I understood their world and how to apply the Delta Model to this last stage gate within a customer relationship. While all purchasing and procurement groups may be different, there are some "universals" that are important to understand, especially when viewed from the Delta Model's bonding perspective. I recently spent time with a purchasing VP from one of the largest consumer packaged goods and food and beverage companies in the world who shared with me his perspective on how their group would live in the Delta Model.

So, if we agree that the essential high level bonding premise of the Delta Model is to build superior value and bond with the client, which would in turn drive enough mutual value in the relationship between both business entities and executives, it would or could prevent the customer from treating said business as a commoditized product or service. This much is true, at least at the business and executive level. However, and this is the real challenge with the Delta Model, NO level of bonding, value, or relationship can or will supplant the role and lens purchasing applies to all purchased goods and services for which they are responsible. No matter how you slice it, you will have to go through purchasing to get your deal done or your goods purchased, even if you are an established, approved, certified, and well liked vendor or partner.

This is the big issue with the Delta Model. It leaves out the critical issues that are immune to Bonding. Purchasing is primarily and simply focused on two fundamental objectives: Cost Avoidance and Cost Reduction. This is critical to understand in the broader picture. Their "purchasing filter" is immune to ROI, efficiencies, labor reductions, better quality, better service, etc.. That is not to say they are not concerned with their business receiving those qualities, but you should save that pitch for the CMO, CEO, CIO, CTO, and CFO. ROI, efficiencies, quality, etc., are "business benefits" not purchasing benefits. What purchasing solely looks at is how to avoid cost or reduce cost.

So, if purchasing's bench mark and objective is to avoid or reduce cost, how do they begin to determine where to place your business, services, or goods? Good question. First, they attempt to place your goods and services into known buckets for both speed and efficiencies. Remember, most purchasing groups have hundreds, if not thousands, of vendors and partners with millions of annual transactions to work through from toilet paper to multi-million dollar software purchases. Therefore, they look at and "bucket" your goods and services either as a commodity or a niche solution. This helps them to execute their objectives and tasks in a more efficient manner as well as determine what questions to ask before approving the purchase.

How do they determine if your goods and services fall into the commodity or niche bucket? Simple. They ask lots of questions. Questions like:

- Does the business purchase your goods and services regularly, (i.e., are you an existing vendor, do you do business with another business unit, etc.)?
- Are your goods and services readily available in the global market place, (i.e., is this a known product or service)?
- Are there many options available to the business, (other vendors, pricing, models, etc.)?
- Does the business have any historical data, pricing, agreements, etc. with your company - to explore what agreements, terms/conditions or precedents have been with the parent or other division that may have an impact on the purchasing decision?
- Is there accessible market data available that the business can use to determine what other business paid for your goods and services? *NOTE: this is an important question because it helps purchasing put you in a commoditization bucket. For example, if the client is looking to purchase CRM software and you're Oracle, IBM, SAP, etc., the purchasing client can easily see what other competitors paid for the same software. If you are that proliferated in the market where this data is available and the purchasing client can use it as leverage to negotiate a better rate or terms, you really are by default and in their eyes, a commodity.*

If there is little or no readily available data (purchasing, pricing, size of the deal, clients, etc.) on your goods and services or what others have paid for it, you are thought of as more of a niche product or service. *NOTE: this is good and bad. Bad because it puts the burden on you to effectively demonstrate the value and make purchasing comfortable with the terms and pricing where bonding does play a stronger role. If you have some bond with the purchasing folks, you will have a level of trust where they can believe your claims and value pitch a little easier. Good because its harder for purchasing to counter through market data, pier review, and industry reports your value, pricing and focuses them on pushing for better terms, etc. versus trying to validate pricing.* But make no mistake, they will still ask the questions but being in a niche, it puts more focus on the value of and ROC of the bonding segment of the Delta Model.

How is this important in regards to the Delta Model? Because bonding is one of the fundamental pillars of the Delta Model, but it is not a panacea to de-commoditization because commoditization can come from many places inside of the client. It is multi-dimensional. Let me explain. The business owner can initially perceive your goods and services as a commodity, but through effective bonding and value creation you can change their perception through your client relationship and sales skills which is where bonding is most effective. Purchasing, on the other hand and by default of process, will either put you in the commodity bucket or another. But bucketed you will be.

Remember, dealing holistically with all business decision makers is crucial and knowing how and when to deal with these touch points will begin to drive real bonding and mutual value. However, before we fully dive into the modified Delta, I have one last point on bonding and purchasing.

It should also be said that purchasing is not immune to the bonding process, its just that the key drivers of customer bonding under the Delta Model are best applied to the “business” owners and bonding with purchasing is all about comfort, trust, and risk avoidance. Purchasing people are not evil people designed to create road blocks to business or make sales and business development professionals’ lives miserable. They simply have a job to do and have tremendous responsibilities. Just like you and me.

But because they are human, they enjoy a business relationship and bond like anyone else, and in most cases are pleasant people. Your bonding efforts won’t stop purchasing from negotiating your price or terms or even from treating you like a commodity, but it will make them more comfortable in making decisions regarding your goods and services which will expedite the sales cycle. A good thing for all parties involved.

Finally, many people who have studied and applied the Delta Model sometimes assert that if you just properly bond with the business owners and they love you, trust you, lust after your product, they will just order purchasing to purchase your goods or services and that’s that. WRONG!

Let me briefly explain again. Purchasing focuses on what? Cost Reduction and Cost Avoidance. They also know that business decision makers may not think of or ask all the right questions before committing millions of dollars. So let’s assume you have made a great series of sales presentations, ROI studies, and after months or weeks of hard work you finally discuss pricing and the CXO nods his or her head in the affirmative, you have even discussed implementation dates, you have had great dinners, lots of smiles and hand shakes and the CXO is ready to go, he or she will ultimately and inevitably turn it over to purchasing and legal to work out the final details and sign off. Let’s even assume the CXO tells purchasing that he or she has made the decision that this is the solution they want and they even have budget. What do you think purchasing is going to do? Say, “OK chief, I will sign off this instant”? Or...do you think they will do something else? Of course they will do something else. They will ask the hard questions.

Purchasing, now being fully instructed that the CXO must have your new software, will start asking questions like: Have we ever done business with this firm? Is this the best price we can get? What if we negotiated better terms, volume? What if we go to RFP, RFI, RFQ to see what else is out there? What is the TCO? When will our company get financial ROI on this product compared to other similar products we have purchased? Is it extensible? Will other business want to use this solution? Have all parties signed off? Who’s budget is it coming from? Is the company reputable or stable? Start up or Established? Do we get discounts if we purchase their other services? Many of these questions are never asked by the business owners and open up huge risk for the purchasing client, which is a big no-no. Remember, cost reduction or cost avoidance. This is why they ask the questions. In this scenario, it is a given that the client wants your product and that has been communicated to purchasing. So, purchasing is not the decision maker in this case. But they will raise potentially catastrophic questions for you and your sales cycle and start to build their protection for their company. You must be prepared for this. Bonding won’t prepare you for this phase.

You may also be surprised to learn that just because the CXO nodded his or her head, loves you and your product, it doesn't necessarily mean complete acceptance to the pricing or terms. How many times have you gotten their verbal or “nod” only to find procurement beat you up on price and terms? Remember, the CXO may not be comfortable telling you that your pricing is too high. So the CXO asks purchasing to either see if they can get the price 10% lower to fit the budget or simply to see if they can get another 15% off. Note that none of this is effected by the “bond” you have established. Yes, you could argue if you truly bonded, the CXO would have no problem being open or not being uncomfortable discussing certain topics with you. This is a dangerous assumption. Remember, in the real world, things are not always what they seem, business is business and human nature is what it is. We are all trying to get the best deal we can. You can’t count on just bonding. One thing you can count on is that you will deal with purchasing., regardless of the bond you have established with the business owners. Sure, bonding is essential to mitigating these issues, but it will not erase them.

Let’s explore the Modified Delta Model and how the Bonding segment is modified to take these critical commoditization and bonding issues across the distributed enterprise into consideration and provide a more effective and holistic framework.

THE MODIFIED DELTA AND HOW TO APPLY IT

The modified Delta injects a 5th principle element to the Delta Model I call the Adaptive Bonding Strategy. As articulated in the Delta Model and in this paper, bonds can be directly formed with the customer, or indirectly formed through the complementors that the customer wishes to access. These bonds represent investments made by customers and complementors in and around the business’ product or services. The Adaptive Bonding Strategy in the modified Delta takes the basic premise of Bonding under the Delta Model deeper by injecting the following bond targets:

Lead Business Owner - This is a person, business group, business lead or CXO that you engage with to present and sell your proposition. This person is in charge of the budget, business need, and delivering the end result of the purchase. This is who traditional bonding has been target to.

Effected Party - This is the party who may be directly or indirectly impacted by the business owner’s decision, (i.e., the business owner wants a new PLM software for their business; the effected party may be IT who has to install, provide head count to support, and deploy the new PLM software, none of which they may have planned for).

Purchasing Owner - The purchasing person responsible for effectuating the actual purchase, terms and conditions associated with the purchase. They will filter the purchase by Cost Avoidance or Cost Reduction and ask all of the tough questions.

Complementor - The third party that may have either a negative or positive impact on your relationship with the client. Beware, complementors can easily become competitors or at minimum cause channel conflict between you and the client.

Need Imperative - This is a need by the client that you have formed through your bond between the business and the client in which it is imperative for the client to have your product or service. For example, you make the only product in the world that your client needs to sell their services. Without it, they are out of business or the business becomes cost prohibitive.

THE 5 PRINCIPLE ELEMENTS OF THE MODIFIED DELTA MODEL

1: Strategic Delta: The Delta is used for defining strategic positions that reflect new sources of profitability. It focuses on three key strategic options: Best Product, Customer Solutions, and System Lock In.

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3: Adaptive Process: The most important processes of the business must be aligned to the chosen strategy. In this way, progress can be made against the strategic agenda and an undesired generic outcome can be avoided. The Delta Model identifies the core processes of the business and provides a guide for how they need to function differently to achieve different strategic positions capable of continually responding to an uncertain environment.

4: KPI Metrics: Metrics providing a high level overview should be supplemented with granular Key Performance Indicators and Market metrics.

5: Adaptive Bonding Strategy: A dynamic, holistic bonding approach with all stake holders to achieve total value and risk mitigation across the entire distributed enterprise.

Let's look at how the Modified Delta stacks up against the other models we explored earlier in this paper.

COMPETITIVE ADVANTAGE, RESOURCE BASED VIEW, DELTA MODEL AND MODIFIED DELTA OVERVIEW

	PORTERS FRAMEWORK	RESOURCE BASED VIEW FRAMEWORK	DELTA MODEL FRAMEWORK	MODIFIED DELTA MODEL FRAMEWORK
Focus on Strategic Attention	Industry/Business	Corporation	Extended Enterprise (The firm, the customer, the supplier)	**Extended Enterprise (The firm, the customer, the supplier)**
Type of Competitive Advantage	Low Cost or Differentiation	Resources, Capabilities, Core Competencies	Best Product, Total Customer Solutions, System Lock In.	**Best Product, Total Customer Solutions, System Lock In.**
Basic Unit of Competitive Advantage	Activities	Core Products, Strategic Architecture.	Adaptive Processes: Operational Effectiveness, Customer Targeting, Innovation.	**Adaptive Processes: Operational Effectiveness, Customer Targeting, Innovation.**
Strategy As	Rivalry	Real Estate	Customer Bonding	**Adaptive Bonding**

CONCLUSION

It is the author's belief that the Delta Model is by far the most responsive and effective strategic framework for today's businesses and business leaders driving strategic business initiatives. However, by going further and implementing the Modified Delta, your business strategy is far more holistic and effective in engaging your clients across the full enterprise spectrum as partners with mutual value and ROI for all parties concerned. Business is always more successful, profitable and mutually valuable when all parties win.

About the Author

In addition to being the founder and executive leader of Innovation Management Group, Frederick Is a seasoned senior executive with over 25 years experience in the global technology, executive management, consulting, VC & Private Equity funding, marketing, branding, innovation, media and interactive business industries. He is a recognized leader on the convergence of interactive media, interactive marketing and branding, adver-gaming, and content development and has been a key speaker on numerous industry round tables. He is also a recognized author on such topics as innovation, content development and management, marketing and business process.

In addition to his executive background, Frederick currently serves as Adjunct Professor, Advanced Executive MBA Program for Norwich University, sits on the Piedmont Community College Interactive Gaming Program Advisory Board, is a member of and contributor to the IGDA (International Game Developers Association) Intellectual Property Rights Committee and their released IPR White Paper, a member G-SAM (Global Society of Asset Management), as well as a member of the Council of Communications Advisors – Media and Entertainment. Frederick earned a BS in International Business and an MBA from Weston Reserve University and holds certificates in Sttrategic Technology Negotiation from Harvard Law School, Strategic Technology Marketing, Reinventing Your Business Strategy, Developing and Managing Strategic Technology, and Building, Leading & Sustaining the Innovative Organization as well as an Executive Certificate in Strategy and Innovation from the MIT Sloan School of Management (Massachusetts Institute of Technology).

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Sources & Notes:

Author - David Frederick

Arnoldo Hax and Dean Wilde Lecture at MIT Sloan School of Management.

The Delta Project: Discovering New Sources of Profitability in a Networked Economy by Arnoldo C. Hax, and Dean L. Wilde. Published 2001 by Palgrave Publishing. - http://www.amazon.com/gp/reader/0312240465/ref=sib_dp_pt#reader-link