The Delta Model: The End of Conventional Wisdom

The Delta Model encompasses a set of frameworks and methodologies that we have developed in recent years to help managers articulate and implement effective corporate and business strategies. It grew from our conviction that the world of business has been experiencing transformations of such magnitude that the existing managerial frameworks have become either invalid or incomplete. A fundamental force in these transformations has been the emergence of the networked economy. The most obvious manifestation of this networking is the Internet. Networks have enabled a degree of bonding between customers, complementors, and suppliers that has changed the drivers of profitability and, consequently, the landscape of strategy.

Bonding: The Driving Force in Strategy

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, satisfy, and retain the customer. The conventional method for doing this is to offer a superior product – through some combination of cost, quality, features, and speed.

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, old economy companies are typically consumed by a product-centric mindset. There is often a product-silo mentality that permeates the organization. Companies in the old economy tend to commoditize the customers by offering standardized products, through mass distribution channels, making limited attempts to recognize and satisfy individual 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 being nurtured and developed.

The physical nature of distribution channels themselves present 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, we 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 itself, independent of the product. 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. The investments include things such as learning how to use the product, incorporating customer-specific data, customized interfaces to the product, among others. These are external to the product itself and are enabled by a networked economy. With this understanding comes a recognition that 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 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.

At the same time, we find companies so intoxicated by the new technology that they are lulled into a false sense that the technology is the strategy, rather than a powerful tool that can enhance bonding. The bright light of technology blinds them from the customer or complementor, and the value proposition is also product based.

Whether you are in the old or new economy, the customer and complementor should be at the center of your strategy. The Delta Model enables this positioning by providing a management framework that sets strategy which incorporates bonding.