

# The Delta Model — Discovering New Sources of Profitability in a Networked Economy

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The Delta Model presents a new approach and a new discipline to strategic management. There are four unique contributions: The Triangle (a new set of strategic options); The Adaptive Processes (linking strategy and expectation); The Metrics (aligning Aggregate and Granular Metrics to strategy); Experimentation and Feedback (experimenting in business transformation and monitoring performance). Finally, Michael Porter's Five Forces Model is re-interpreted through the Delta Model. © 2001 Published by Elsevier Science Ltd.

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## Introduction

The Delta Model encompasses a set of frameworks and methodologies that we have developed through the years to help managers in the articulation and implementation of effective corporate and business strategies. It grew from our conviction that the world of business had been experiencing transformations of such magnitude that made the existing managerial frameworks either invalid or incomplete. Moreover, the emergence of the internet, with the previously unimagined potentials for communication, and the technologies surrounding e-business and e-commerce, made available some new powerful tools that allow completely different business approaches to become feasible.

## The Three Tenets of Strategy

Before we engage in a description of the key contributions of the Delta Model to strategic thinking, it seems appropriate to pose two questions: What is the central purpose of strategy? and What are the basic means to achieve it? In our view, brief answers to these questions reside in the three tenets of strategy (see Figure 1), the first one defining strategic purpose and the remaining two pointing to the ways to reach it.

### Tenet 1: The Creation of Economic Value — The Central Purpose of Strategy.

It has been long accepted that the firm as a whole, and the individual businesses of the firm, have as a fundamental objective the *achievement of superior and sustainable financial performance, measured in long-term profitability*.

Implicit in this statement there are three major challenges. First, the financial performance has to be superior, meaning that you have to command a significant leadership position. Thus, the firm has to develop a sense of creativity, originality and uniqueness deserving of specially attractive rewards. This will never be acquired by simply imitating or following the competitors steps — 'sameness will never lead to greatness'.

Second, this superior financial performance has to be sustainable, meaning that not only should it be supported by a solid leadership position, but that this

<p><u>First: The Creation of Economic Value</u> To achieve superior and sustainable financial performance, measured in long-term profitability</p> <p><u>Second: Customer Bonding Supported by the Unique Customer Value Proposition</u> To attract, to satisfy, and to retain the customer</p> <p><u>Third: The Creation of the “Spirit of Success”</u> Net flow of talent: To attract, to satisfy and to retain superior employees</p>
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**Figure 1 The Three Tenets of Strategy**

position should be long-lasting, unassailable, and endure the inevitable changes that the environment will generate. This calls for flexible adaptation to new circumstances, and a 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 embraces rather than rejects change.

And, third, this superior and sustainable financial performance should be measured in terms of *long-run* profitability, meaning that there is a critical trade-off between short- and long-term results. This is another fundamental principle that is easier said than done. The future offers uncertainty and risk. There is so much pressure for short-term results that it is hard to maintain a solid commitment towards a future full of surprises. Yet this is what is expected from managers today.

Economic Value Creation is the central purpose of strategy, but this is just the result, the output of a job well done. How do we achieve it? The key answer is found in our next two tenets:

### **Tenet 2: The Creation of the Unique Customer Value Proposition — Customer Bonding as the Foundation of Economic Value Creation**

A firm owes itself to its customers. They are the depository 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, and to establish an unbreakable link and close relationship which we refer to as *customer bonding*. Bonding implies another key challenge because it can only be established if we acquire a deep knowledge and understanding of each of the customers we are serving (or at least the most important ones), and we offer them a superior and unique economic value proposition.

This sounds rather trivial and highly conventional, yet we have observed again and again that most companies, even those which are in consumer oriented industries, lack the intimate customer knowledge

that will allow addressing this issue properly, or they are so absorbed in a product-centric mindset that they do not seem to relate to this kind of strategic thinking.

Many reasons contribute to this lack of intense customer focus. A very important one is the barrier that distribution channels often pose, that tend to block the firm from its final consumers. Michael Dell thought that he was reducing costs when he decided to skip the wholesale and retail channels and deal directly with the customers. However, what we found out is that this new business model opened a world of intelligence and information that he would put to use in offering customized solutions to key customers that could have not been generated under the old distribution scheme.

Another reason for the lack of customer focus, is the product-silo mentality that often permeates many business organizations. Companies tend to commoditize the customers by offering standardized products, through mass distribution channels, making no attempt to understand and satisfy individual customer needs. Typically the point of contact with the client organization is the client’s purchasing department through a conventional salesforce. This leads to an arm’s length relationship that prevents any deep knowledge to be nurtured and developed.

Finally, a unique value proposition to the client should encompass all of the firm’s portfolio of businesses and functional capabilities. In other words, this proposition calls for a full corporate strategy as opposed to an isolated business strategy based upon individual products.

The customer at the center of the Delta Model and its primary output is a differentiated value proposition.

### **Tenet 3: The Creation of the ‘Spirit of Success’ — The Net Flow of Talent as a Key Strategic Performance Indicator**

The final tenet has to do with our capacity to attract, to satisfy and to retain talent. This is more valid today than ever before. In part this is due to the fact that the booming American economy has created job

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