Arnoldo C. Hax

The Delta Model

Reinventing Your Business Strategy

Springer
Contents

1 The Need for Reinventing Strategy ........................................ 1
   The Dangers of the Conventional Definition of Strategy –
   Strategy as Rivalry .......................................................... 1
   Reject Commoditization – The Essence of Strategy Is to
   Achieve Customer Bonding .................................................. 2
   Managing in the Large and in the Small – The Extended
   Enterprise and the Individualized Customer ............................ 3
   The Selection of a Strategy and the Identification of the
   Required Competencies – A Preview of the Delta Model .............. 4
   The Strategic Tasks of the Delta Model .................................. 5
       Task 1 Customer Segmentation and Customer Value
       Proposition (Chapter 3) ................................................... 8
       Task 2 The Existing and Desired Competencies of the Firm
       (Chapter 4) ..................................................................... 9
       Task 3 The Mission of the Business (Chapter 5) ...................... 9
       Task 4 The Strategic Agenda (Chapter 6) .............................. 9
       Task 5 Monitoring the Strategy Execution (Chapter 7) ............. 10
   The Haxioms ........................................................................ 10

2 The Delta Model: Creating New Sources
   of Growth and Profitability in a Networked
   Economy ............................................................................ 15
   How to Achieve Customer Bonding: The Three Major
   Strategic Options in the Delta Model ...................................... 15
   Best Product ........................................................................ 15
       Strategic Positions of the Best Product Option ....................... 17
   Total Customer Solution ....................................................... 19
       Redefining the Customer Experience .................................. 20
   System Lock-In .................................................................... 23
       Three Ways to Get System Lock-In .................................... 24
   The Various Dimensions of the Triangle: A Summary ................ 28
3 Customer Segmentation and Customer Value Proposition:
The First Critical Task of Strategy .................................................. 33
Behind the Customer Segmentation Process ................................. 33
   Who Is the Customer? .............................................................. 34
   Why Are Customers Different? .................................................. 34
The Generic Dimensions of Segmentation .................................... 35
Segmentation According to Attitudes and the Willingness to Do Business with Us .................................................. 35
   The Case of Castrol ............................................................... 35
   Reflections on Segmentation Based on Customer Attitudes .......... 38
Segmentation According to Different Degrees of Value Added ......... 39
   The Case of the Waste Management Company ......................... 39
   Reflections on Segmentation Based on Different Degrees of Value Added .................................................. 42
Segmentation According to Customer Life Cycle ......................... 44
   The Case of the Investment Retail Company (IRC) .................. 44
   Reflection on the Segmentation Based on Customer Life Cycle .... 47
Segmentation According to Varying Buying Patterns .................... 49
   The Case of Singapore Airlines .............................................. 49
   Reflections on Segmentation Based on Varying Buying Patterns ... 51
Segmentation According to Alignment with the Distribution Channel 53
   The Case of Unilever Food Services ........................................ 53
   Reflections on Segmentation According to Alignment with Distribution Channel .................................................. 58
Some Pitfalls from Conventional Customer Segmentation ............... 60
   The Mobile Phone Business – The Case of Singapore Telecommunications (SingTel) .................................................. 60
   The Mobile Phone Business – The Case of Telefónica Móviles de Colombia .................................................. 62
   Corporate Banking – The Case of Bank of Tokyo-Mitsubishi ....... 64
   The Steel Business – The Case of Termium ................................ 65
The Test of the Quality of the Customer Value Proposition ............. 67
   Who Is the Most Attractive Customer? ...................................... 70
   The Need for a Customer Database .......................................... 70
Notes ......................................................................................... 73

4 The Firm as a Bundle of Competencies:
Understanding the Depth and the Breadth of Our Capabilities ........ 75
Identifying the Bundle of Competencies in Practice ....................... 77
Investment Retail Company as a Bundle of Competencies ............... 77
   Singapore Airlines as a Bundle of Competencies ......................... 79
Delta Model and Competitiveness: A New Approach to Competitor Analysis .................................................. 82
5 The Mission of the Business: Capturing the Strategic Transformation

6 The Development of the Strategic Agenda: A Call to Action
The Strategic Agenda as the Integrator of Strategy, Structure, Process, Performance — The Case of Chemical Coatings Company

Identifying the Priorities of the Strategic Thrusts
Test for the Quality of the Strategic Agenda
The Case of Singapore Airlines
Strategic Challenges and Opportunities
Conclusion

7 Monitoring the Strategy Execution

The Intelligent Budget — A Requirement for Proper Strategic Execution
The Balanced Scorecard
Strategy at the Center of the Balanced Scorecard
The Delta Model and the Balanced Scorecard
The Delta Model and the Adaptive Process
The Adaptive Processes and Aggregate Metrics
The Balanced Scorecard of the Chemical Coatings Company
Value Creation by Each Strategic Option: Empirical Evidence
Notes

8 Putting It All Together: How to Integrate the Critical Tasks of Strategy — An Illustration

The Case of DMK International
Customer Segmentation and Customer Value Proposition of DMK
The Firm as a Bundle of Competencies
The Challenges from the Existing and Desired Bundle of Competencies
The Mission of DMK
Challenges from Changes in the Mission of DMK
The Strategic Agenda
The Intelligent Budget and the Balanced Scorecards
Notes

9 Managing Small- and Medium-Sized Enterprises (SMEs) — Lessons from the Delta Model

The Importance of SMEs
The Challenges of Managing SMEs
The Best Product Strategy
The Low-Cost Positioning
The Differentiation Strategy
The Total Customer Solutions Strategy
Redefining the Customer Experience
Customer Integration
Horizontal Breadth
The System Lock-In Strategy
Restricted Access
<table>
<thead>
<tr>
<th>Contents</th>
<th>xix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominant Exchange</td>
<td>178</td>
</tr>
<tr>
<td>Proprietary Standard</td>
<td>179</td>
</tr>
<tr>
<td>Final Comments</td>
<td>179</td>
</tr>
<tr>
<td>10 The Challenges of Managing Not-for-Profit Organizations</td>
<td>183</td>
</tr>
<tr>
<td>Who Is the Customer?</td>
<td>183</td>
</tr>
<tr>
<td>Which are the Competencies?</td>
<td>184</td>
</tr>
<tr>
<td>Reflecting on the Strategic Challenges of the Not-for-Profit Organization</td>
<td>186</td>
</tr>
<tr>
<td>Best Product Strategy</td>
<td>186</td>
</tr>
<tr>
<td>Administrative Efficiency</td>
<td>187</td>
</tr>
<tr>
<td>Differentiation</td>
<td>187</td>
</tr>
<tr>
<td>The Total Customer Solutions Strategy</td>
<td>188</td>
</tr>
<tr>
<td>Attraction and Development of the Customer</td>
<td>188</td>
</tr>
<tr>
<td>Knowledge Transfer</td>
<td>189</td>
</tr>
<tr>
<td>Total Breadth of the Offering</td>
<td>189</td>
</tr>
<tr>
<td>System Lock-In Strategy</td>
<td>190</td>
</tr>
<tr>
<td>Channels of Delivery</td>
<td>191</td>
</tr>
<tr>
<td>System Support</td>
<td>191</td>
</tr>
<tr>
<td>Intellectual Value</td>
<td>192</td>
</tr>
<tr>
<td>The Unconventional Dynamics of Evolution of the Not-for-Profit Organizations</td>
<td>193</td>
</tr>
<tr>
<td>The Case of Singapore Economic Development Board – An</td>
<td>195</td>
</tr>
<tr>
<td>Application of the Delta Model to a Not-for-Profit Organization</td>
<td>196</td>
</tr>
<tr>
<td>Customer Segmentation</td>
<td>196</td>
</tr>
<tr>
<td>EDB’s Existing and Desired Competencies</td>
<td>198</td>
</tr>
<tr>
<td>EDB’s Mission</td>
<td>200</td>
</tr>
<tr>
<td>EDB’s Strategic Agenda</td>
<td>201</td>
</tr>
<tr>
<td>Monitoring the Strategy Execution</td>
<td>203</td>
</tr>
<tr>
<td>The EDB Culture</td>
<td>203</td>
</tr>
<tr>
<td>Conclusion</td>
<td>204</td>
</tr>
<tr>
<td>Notes</td>
<td>205</td>
</tr>
<tr>
<td>11 A Comparison Among the Three Strategic Frameworks:</td>
<td>207</td>
</tr>
<tr>
<td>Porter, the Resource-Based View of the Firm, and the Delta Model</td>
<td>208</td>
</tr>
<tr>
<td>Porter’s Competitive Positioning Framework</td>
<td>212</td>
</tr>
<tr>
<td>Low Cost or Differentiation – Michael Porter’s Only Two</td>
<td>215</td>
</tr>
<tr>
<td>Strategic Options</td>
<td>216</td>
</tr>
<tr>
<td>Porter’s Winning Formula</td>
<td>216</td>
</tr>
<tr>
<td>The Resource-Based View of the Firm</td>
<td>217</td>
</tr>
<tr>
<td>Unique Competencies</td>
<td>217</td>
</tr>
<tr>
<td>Sustainability</td>
<td>217</td>
</tr>
<tr>
<td>Appropriability</td>
<td>217</td>
</tr>
<tr>
<td>Opportunism and Timing</td>
<td>218</td>
</tr>
<tr>
<td>Core Competencies and the Resource-Based View of the Firm</td>
<td>218</td>
</tr>
<tr>
<td>The Resource-Based View of the Firm’s Winning Formula</td>
<td>218</td>
</tr>
</tbody>
</table>
A Practical Framework of the Application of the Resource-Based View of the Firm .................................................. 219
Some Caveats to the Resource-Based View of the Firm .................................................. 219
Comparisons Among Porter, the Resource-Based View of the Firm, and the Delta Model Frameworks .................................................. 220
Reinterpreting Porter's Five-Forces Model Through the Delta Model: Thinking Out of the Box .................................................. 222
  Search for the 10X Force ........................................................................ 223
  Generate Barriers Around Your Customers ............................................. 224
  Your Competitors Are Not the Relevant Benchmarks .............................. 224
  Develop and Nurture the Intrated Value Chain ....................................... 224
  Add a New Player; the Complementors .................................................. 225
  Fragmented Industries Offer Big Opportunities ........................................ 225
Notes ........................................................................................................ 226
About the Author ...................................................................................... 227
Index ......................................................................................................... 229