The Delta Model: 
Putting customers before products

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For many years the ultimate goal of strategy has been to achieve a competitive advantage. Organizations have operated more or less as if they are at war with one another, vying only to offer the superior product. But with the interconnection made possible by the Internet and other new technologies, it is clear that this approach needs to be adjusted. It is a way of thinking that often leads to the commoditization of the product offering, imitation, and, ironically, in the end, reduced quality.
Technology now is allowing us to treat our customers in a singularly individualized way. If we choose to do so, we can seek a greater proximity to the customer and deliver a value proposition that is driven to satisfy the customer’s specific needs. This means that the customer is placed at the very center of strategy and the primary objective is what we refer to as “customer bonding”: establishing a constructive and enduring relationship based on mutual trust, collaboration, and joint benefits.

In The Delta Model, Dean Wilde, SM ’80, and I developed a management framework system with just such relationships in mind. Constructed around the three distinct strategic positions of “The Triangle,” or delta, the model creates a starting point for the development of a strong organizational vision. At the right-hand side is the so-called Best Product positioning. This is because the primary 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 prevailing product economics. Consider Southwest Airlines. In the rocky commercial airline industry, where companies like Pan Am were going bankrupt and others were losing huge amounts of money, Southwest thrived by doing everything right internally. They used a single type of plane, cut out seat assignments and connections, and avoided operating in congested airports. All of this enabled them to offer a great product at a low price, a product that was impossible for other airlines to mimic because they had a completely different philosophy than Southwest.

The left-hand side of the Triangle is the crucial position we called 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. This way, the relevant overall measure of performance becomes the total customer wallet share. It is not our supply chain that is relevant; it is the combined chain that includes the organization, the customer, and our key suppliers. As for companies like Fidelity, what guides them is not exclusively their product economics, but also the customer economics, since Fidelity is trying to help the customer in enhancing his or her financial performance in as comprehensive a way as possible.

At the top of the Triangle stands the most demanding strategic option, which we call System Lock-In. Here we are addressing the full network as the relevant scope, the gaining of complementor 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 operating systems. Once you reach the Lock-In it is hard to have it taken away from you because of the so-called network effects, which create the proverbial
Some reflections from Arnoldo C. Hax

Commodities exist only in the minds of the inept. Even products that cannot be differentiated in terms of their internal properties, which could therefore, by nature, be defined as commodities, need to be considered carefully. Take copper, for example, a product that everybody would consider the ultimate commodity. However, the copper business is far from resembling a commodity: Carrier, the world’s leader in air conditioner manufacturing, uses copper in a completely different way than General Motors uses it. If you do not reflect those differences in your product offering, you are commoditizing and short changing your potentials.

Select your customer; do not let the customer select you. Many companies let the customer come to them without any careful targeting or screening. It is not surprising, then, that they often end up with customers left over by their competitors, customers who might not necessarily be on the preferred list. A common pitfall is to think that the bigger the customer, the better it is for you. This is often not the case. For instance, Walmart, the greatest retailer in the world, is so self-sufficient that all it expects from you is to provide the lowest price with the fastest delivery. This might not be the most exciting value proposition for you. A case in point is the strategy that we developed for Unilever de México. Without neglecting Walmart as an important customer, we decided to target local Mexican retail chains and fragmented individual retailers as higher priority customers since we could provide them with transfer of knowledge and support that they would badly need and create increasing revenue opportunities for us.

The customer is not always right. The proper interaction with customers goes beyond just listening to their needs, it is developing jointly a mutually acceptable proposition where you uncover how your capabilities, complemented with external parties, can generate products, services, and solutions that were not apparent to start with. One example that comes to mind is the case of Castrol, a premier lubricant manufacturer in the world. The initial belief was that all that the customer needed was commodity lubricants at the lowest possible price. A fundamental change took place when Castrol realized that it had a wealth of plant maintenance knowledge that could be constructively passed on to customers willing to engage in a completely different relationship. Instead of selling commodity lubricants, Castrol was able to change its value proposition toward selling customized solutions based on customized products and services that enhance the productivity and hence the return on investment of the customer plants.

The customer does not have power over you. My belief is that the relationship with the customer should be based on mutual trust, fairness, and win-win opportunities. This is the most intelligent and the only reasonable way to perform business. Because of the ample access to information that particularly the Internet has provided to final consumers, there is now the sentiment that the customer can exercise power over you to your own detriment. This is a dangerous trap to fall into because it ignores the mutual benefits that can be established through a closer relationship. Take the case of National Starch, a world leader in the adhesive business. Together with Boeing, it was able to revolutionize the ways in which wings adhere to the body of the aircraft. Instead of welding or riveting them, wings are now stuck to the body with adhesive products. This joint innovation produced enormous benefits for National Starch and Boeing. Neither one would have come up with this solution independent of the other.

Technology is too important to be left to the technical staff. Often companies limit the use of their technological know-how to their products and processes. But this technical knowledge should be a key component of the customer value proposition, and should be used throughout the business to create totally unique situations that are exceedingly difficult to replicate. Amazon.com is great at this. It uses technology to figure out preferences one customer at a time, and based on that, offers varied products and services specific to each customer’s taste. Amazon’s technology is crucial to its business model.

virtuous circle. In Microsoft’s case, 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.

I 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 comple-mentors are of great relevance for the development of an effective strategy, no matter what 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 my opinion, a mandatory challenge for all executives. In my work with different firms I have found the Triangle to be an extremely effective tool in opening the minds of executives to different strategic alternatives and the benefits and tradeoffs inherent in each.