Preface

Often I am asked how the Delta Model was originated. What made us spend some time and effort in attempting to produce an alternative way to look at the formulation of strategies for a business firm when there were a considerable number of respectable and widely acclaimed models to accomplish this? The answer to that question is somehow embarrassing. It originated at a Convocation of Alumni that we conducted at MIT many years ago. It is a long tradition of the Sloan School to have yearly meetings with our former students, typically targeting those who have graduated multiples of 5 years ago, such as 5, 10, 15, and so forth. On one of those occasions I was the Deputy Dean of the School, which placed me as an important participant and host of the program. After 2 days of nice social and academic activities, crowned by what we believe to have been exciting seminars conducted by our faculty, it was time for me to close the meeting at a Saturday lunch with the proverbial warm send-off with the expectation of seeing again all those sweet old faces. However, when I was ready to depart and go home, two directors of Unilever who have come from London to attend the convocation and who were very close friends of mine said – “Arnoldo, don’t go away. We want to talk to you.” We proceeded to sit down and they started with this comment that I will never forget: “Arnoldo, this was not worth the ticket!” It was hard for me to accept such a reaction. After all we had convened with three Nobel Laureates – Paul Samuelson, Robert Solow, and Franco Modigliani. We have paraded our best and brightest faculty, old, young, and in-between. What else would they want?

Their reaction was something like this. “You are doing some very impressive things and no doubt you have a remarkably talented faculty. However, when we go back to work on Monday morning, nothing that we have heard will make us do things differently. You are not connecting with the realities of our lives and we don’t seem to get any help from any of the other respectable academic places as well. The existing frameworks don’t seem to work effectively for us.”

As you can well imagine this was quite a blow for me. The conversation continued for about 2 hours and I was feeling increasingly uncomfortable. However at the end we agreed that we were going to establish a group composed by a select set of distinguished alumni and we were going to identify an equally top set of senior faculty to engage in a dialog to understand these issues more clearly. We labeled this initiative “The Delta Project” – Delta being a word and a Greek letter
that stands for transformation and change. The original executive members of the Delta Project were Iain Anderson, the Chief Strategist of Unilever; Skip LeFauve, the CEO of Saturn; Judy Lewent, the CFO of Merck; Gerhard Schulmeyer, the CEO of Siemens, USA; and Bert Morris, the COO of National Westminster Bank. We listened to them attentively. After that, we developed the Delta Model to attempt to address the questions that emerged from these meetings.

It has been 10 years since we developed the first version of the Delta Model. I wrote a book, coauthored with my dear friend, Dean Wilde, titled The Delta Project: Discovering New Sources of Profitability in a Networked Economy (Palgrave, 2001), where we lay out the foundations of our new approach to strategy. I am now revisiting this subject in a new book since much has happened since the first book was published. In particular, I have been conducting an enormous amount of research with my students at MIT that has allowed us to test a wide variety of hypotheses and to apply the model in an extraordinary array of industrial settings. I have been also engaged in consulting activities literally around the world in companies of all sizes and business endeavors. The model has been enriched both conceptually and, most importantly, by the development of pragmatic tools that we have created to allow executives to implement successfully the Delta Model in their organizations. This book is intended to share these advances with you. But before we get started I want to put up in front what were the central questions that our Delta Project friends were longing for answers.

The Key Unanswered Questions

We were never told in the Delta Project discussions what were the specific issues that managers were missing from the existing strategic management frameworks. However, it was clear that there were three major concerns:

1. **How to change?**
   Often the status quo is not an acceptable course of action. The environment is changing around us and we need to make not just incremental improvements over what we are doing, but rather to rethink, reinvent, and reengineer what our strategies should be. The conventional frameworks start the process of reflection on our past, and that is often the wrong way to make you think of change. We want to create discontinuities not to reaffirm what we have done. By providing too much emphasis on competitor’s behavior, the conventional frameworks tend to anchor us in the existing industry practices.

   We have found that the obvious answer to initiate a process of change is to start with the customer. What can we do to help the customer improve its business? How can we look into its full life cycle and detect novel ways of providing something that is truly unique? By focusing on the customer, we find it is much easier to detect opportunities to be truly unique and promote change.
2. How to pursue profitable growth?

Profits are revenues minus expenses. It does not require much creativity to reduce costs; there are always ways to curtail our expenditures. What is more demanding is to find ways of increasing our revenues profitably. Are there a lot of potential revenues and economic growth which are left under the table because of our inability to detect those opportunities? How could we assess the potential for growth?

One practice that is commonly used is sales forecast. I find that completely unacceptable – first, because sales should not be a subject of forecast. We forecast events over which we have no control, such as the weather. On the contrary, sales are something that we truly can and should influence. Second, sales forecast means an exercise of extrapolation of the past into the future. Again, this is unacceptable if we want to challenge our previous performance and if we want to engage in new forms of management that, hopefully, can make our past irrelevant – for the better.

Where is the answer? Again this resides on the customer. If we were to look at each customer individually, we will detect what potential exists by treating them differently, meaning offering more creative value propositions. This will allow us to examine “white spaces” – untapped opportunities – from the bottom up to come up with a much more effective growth strategy than the one resulting from competitive analysis.

3. How to spark creativity?

What we are saying, in various ways, is that we need to find mechanisms that allow us to be more creative, the so-called thinking out of the box. When I was using the conventional frameworks, I rarely found them to be the source of inspiration conducive to creating an innovative strategic environment. It might be my limitation while using those frameworks, but I doubt it. The emphasis on creating “competitive advantage” was focusing on the competitors. That is not the best way to do it. Instead, attempting to understand the granular needs of the customer and to seek the best ways to satisfy them provides the answer.

As you now realize I support a customer-centric approach. This concept is not new, but what is new in the Delta Model is that we have been able to articulate extremely powerful concepts and tools to allow us to make this a reality. I hope that after reading the book you will agree.

Cambridge, MA

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The Delta Model
Reinventing Your Business Strategy
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2010, XX, 235 p., Hardcover
ISBN: 978-1-4419-1479-8