Chapter 2
The Delta Model: Creating New Sources of Growth and Profitability in a Networked Economy

How to Achieve Customer Bonding: The Three Major Strategic Options in the Delta Model

Our fundamental premise is that the essence of strategy is to achieve customer bonding. At the core of bonding are the attraction, satisfaction, and retention of the customer. We have identified three very distinct strategic options for attaining this objective, as displayed in the triangle in Fig. 2.1. We have chosen the triangle to depict the different strategic options not simply because it is a visual icon that is easy to remember, but also because it represents the letter delta, which stands for transformation and change. The delta theme extends to the labeling of the business model in this book. We refer to the three strategic options for customer bonding as Best Product, Total Customer Solutions, and System Lock-In. Initially, we will introduce them as if they were completely different ways of positioning the business. Ultimately, you will see that a sophisticated strategy plays simultaneously in every corner of the triangle, depending on the way you choose to serve the heterogeneous diversity of your customers.

Best Product

Best Product positioning builds upon the classical form of competition. The customer is attracted by the inherent characteristics of the product itself – either through low cost, which provides a price advantage to the customer – or through differentiation, which introduces unique features that the customers value and for which they are willing to pay a premium. These are the two strategies proposed by Michael Porter many years ago. He claims that you have to select one or the other or you face the trap of being stuck in the middle (Fig. 2.2).

It is an inward-looking approach. Attention is centered on the product economics, the value chain, and the abilities to develop the capacities to deliver the best product. The major strategic driving forces are the development of an efficient supply chain, which guarantees a low-cost infrastructure; a proven internal capability for

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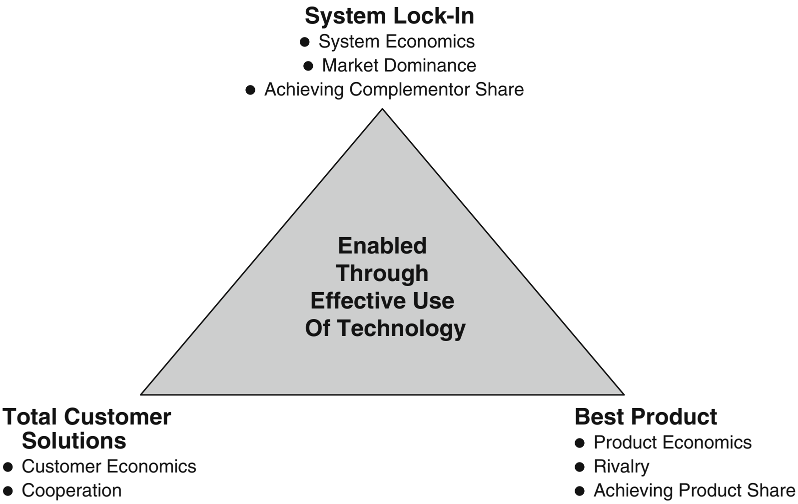

Fig. 2.1 The triangle: Opening the mindset to a new set of strategic options

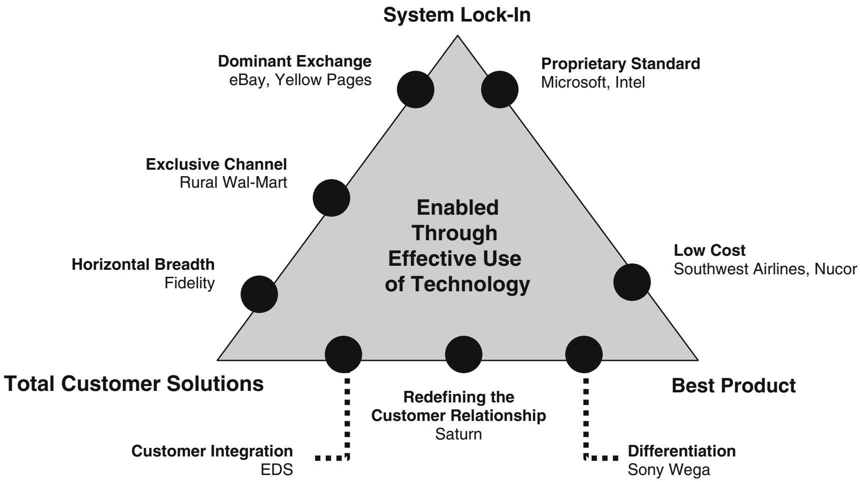

Fig. 2.2 Strategic positions associated with the three options

new product development, which assures the proper renewal of the existing product line; and the securing of distribution channels, which massively transfer the products to the targeted market segments. The measure of success is product share, which ultimately can fragment the business activities into a disconnected set of product offerings. It develops a product-centric mentality guided by competitors as benchmarks. Strategy is defined as rivalry.

The products tend to be standardized and unbundled. The customer is generic, massive, and faceless and served through mass distribution channels, which contributes to the commoditization of the business. The central focus of attention is the competitor, which we are trying to equal or surpass. The drivers are the product economics and the internal supply chain, which provide the engine for efficient production. Innovation is centered on the internal product development process. In the best case, the firm has a common product platform that supports the rapid development of a stream of products enabling "first to market" positions and the establishment of the so-called dominant design.

The highest limitation of this approach is that it generates the minimum amount of customer bonding, hence making the incumbent firms most vulnerable to new entrants. Its obsessive concern with competitors often leads to imitation and price war, resulting in rivalry and convergence – the worst of all deals. In spite of the inherent limitations of this strategic position, it is by far the most widely adopted and the default position for those business firms that do not deliberately consider other strategic options.

Strategic Positions of the Best Product Option

Low Cost

The Low Cost position is based on attaining such an efficient cost infrastructure that it allows offering the most attractive price in the market. Everything being equal, the customer will choose the offer with the lowest price. The problem with this option is that it doesn't have any space. Obviously, there can be only one lowest cost producer in the industry. Therefore, this is a highly contested position that increases pressures for reduced margin. This is not to say that there are not great companies in this position, such as Southwest in the airline industry and Nucor in the steel industry. These exceptions, however, seem to justify the rule.

Differentiation

Differentiation, the other alternative, has also huge inherent limitations. It is an attempt to incorporate into the product some features or functionalities that make it different from the rest of the competitors' offerings and that the customer values enough to pay a premium for the resulting differentiated product. The problem becomes that as soon as the innovative product reaches the market, the competitors will recognize it and get ready to imitate it. Therefore, whatever advantages you generate will be short-lived, and you will be constantly chasing your tail.

For example, Sony Wega Television was a differentiated company (see Fig. 2.2) that combined distinctive features, initially unmatched by competitive products, by merging the technical prowess of Japanese Sony with the singular design of the

German Wega. This created the first flat television in the market, but as everybody knows, now every TV producer has a flat TV offering. Enough said for the long-term sustainability of differentiation.

Since it is only the product that attracts the customer, when a competitor emerges with a new and better product, which will no doubt be the case eventually, the customer should and will abandon you. To make things worse, many product-driven businesses are organized around products and reward their executives accordingly. This means that there will be strong internal barriers for a business to transform itself into a more customer-oriented entity.

In spite of the inherent limitations of this strategic option, it is by far the most widely adopted and it constitutes the default position for those business firms that do not deliberately consider other options.

Best Product: A Limited Option

Figure 2.3 provides brief definitions of Low Cost and Differentiation, the two strategic positions of the Best Product option, and gives a brief comment on the nature of the inherent limitations of those positions.

Strategic Position	Definition	Comments
Low Cost	Focus on being the lowest cost provider in an undifferentiated product category.	Since there is only one lowest cost producer, this strategy leaves very little space as a competitive position. It also tends to standardize the product offering, commoditize the customer, and intensify rivalry.
Differentiation	Focus on the development of features and functionalities that make the product unique and allow demanding a price premium from the customer.	As soon as the differentiated product emerges, competitors tend to imitate it. A competitive advantage is therefore non-sustainable.

Fig. 2.3 Strategic positions of the Best Product option

Business firms can certainly excel following a Best Product strategy. But it is a limited option. Although excellent companies can successfully overcome the challenges of playing in this arena, gains are inherently short-lived. We believe our aforementioned warnings are well founded and should not be ignored.

Towards a Stronger Bonding with the Customer

Having an efficient cost infrastructure and the ability to develop, make, and deliver a stream of innovative products – which are at the heart of the Best Product option – is central for a firm to achieve a significant competitive standing under any circumstance. In fact, these attributes are a solid foundation required from any company that aspires to succeed in the business world.

But customer bonding does not stop here. It starts here. Without abandoning the attributes based on a Best Product option, you need to embark on a transformation that will take you closer to the customer. If you attract, satisfy, and retain the customer based only on the product characteristics, your attention tends to stay focused on the product, not the potential future gain and long-term relationships that a customer bonding brings.

It is hard for us to imagine that a company will not benefit from understanding customers more deeply and seeking a closer relationship with them. Instead of providing an isolated product, a company can gain the mind and heart of their customers by presenting them an integrated solution with a unique value proposition composed of a coherent set of products and services exactly honed to answer their needs. This requires that you move along the triangle from the Best Product to the Total Customer Solution strategic option.

Total Customer Solution

Under Total Customer Solution, the focus of attention switches from the product to the customer. It represents a 180° change from the Best Product strategic option. The central concern is no longer product economics but customer economics, meaning that we strive to understand the drivers of customers' profitability and to develop new ways to help them improve their productivity and achievements. The relevant measure of performance is no longer product market share, but customer market share or share of wallet.

When addressing the customer, we reach beyond our own value chain toward the customer's value chain, expecting to find new ways to use our firm's competencies in order to enhance their performance. We also go further, pulling together the value chains of suppliers and complementors and acting as an Extended Enterprise. This is in fact the relevant domain to develop the best solutions for the customer.

The starting point in this strategic option is the proper segmentation of the customer base. We require a profound and intimate knowledge of the client's business and how it relates to our own business. Not all customers are alike nor do they have the same relative importance to our firm. Customers have different needs and priorities.

We have to discover the best way to leverage our resources and capabilities to help them. They also have to know us, learn from our history and background, and begin to respect and trust us to be able to advance into a mutually beneficial relationship. From the arms-length relationship of the Best Product strategy, we go all the way to a quite significant bonding with the customer.

The ultimate output of this strategy is an individual value proposition tailor-made for each customer and aimed at enhancing the customer's cost, revenue, or profit position. The resulting value added could be extremely high and the degree of bonding considerable.

When focusing on customers instead of the product, our relationship with them undergoes a profound transformation. If the Best Product strategic option prevails, we observe a *transaction* that typically results in a salesperson with a catalog of standardized products interacting with the purchasing person in the customer firm. The exchange is limited: I give you a product, and you give me money, and thank you very much.

If, on the contrary, the Total Customer Solutions strategy prevails, we aim at establishing a mutually beneficial *relationship*, an association that will lead to a long-term involvement that is hard to break; because it is unique, it has a high degree of value added, and both parties have made significant investments to support it. If things go right, this relationship ends up in a customer lock-in, the highest degree of bonding that can be attained. Total customer share is not only a relevant measure of performance for the firm, but a most telling indication of customer's satisfaction, whose needs we are attempting to satisfy in as comprehensive a way as possible.

A Total Customer Solution calls for three types of actions that have to be addressed simultaneously: Redefining the Customer Experience, Customer Integration, and Horizontal Breadth (Fig. 2.2).

Redefining the Customer Experience

This strategic position calls for captivating the customer from the point of acquisition through to the complete life cycle of ownership of the product. We have an opportunity to distinguish ourselves by departing from competitors' less-appreciated behaviors, thus altering the relationship with our customers in a way that embraces their full experience and fulfills their most cherished expectations.

This step is a true test for the creativity and uniqueness of the relationship we would like to create with the customer. In fact, the most successful strategy if we could ever achieve it, or if we could ever adopt it, is to produce such a novel value proposition that it breaks us away from the rest of the field. "Study your competitors not to imitate them."

When dealing with high-priority customers, we should abandon the practice of approaching them through the sales force. At the highest priority level, we want our CEO to interact with the CEO of the customer organization. In many cases, we need to bring a cross-functional team of executives, with backgrounds in finance, technology, manufacturing, and the like, to interact with their similar counterparts in the customer organization. The resulting dialog produces the kind of interaction that leads to customization and long-term bonding.

In other cases, it is simply the originality of the offer that might count. I was privileged to participate in defining the original strategy for Saturn. This was the first entry of an American-manufactured car into the small car segment. It is a crucial segment, because it usually involves the first car purchase decision an individual makes in his or her life. If you are young and just beginning to work, typically you cannot afford anything but a small car. If there is no American option offered in the market, American companies are liable to lose a customer for the rest of his or her life. The entry offers from foreign competitors such as the Toyota Corolla or the Honda Civic are extremely good. These two companies can take you from the first purchase to the end of your life cycle by offering you different models that match your needs and purchasing capabilities, as you grow older.

It is easy to see why GM decided to enter this car segment. What Saturn did was to break the mold, going as far from Detroit as possible, installing the plant in Spring Hill, Tennessee. It was hard, if not impossible, for Saturn to produce a better car than Toyota Corolla or Honda Civic. What it did instead was to produce as good a car as those two, but to bring in an extremely novel, constructive, and pleasant experience in the purchasing and owning of a car in America. This was exemplified by its commitment "Satisfaction guaranteed or your money back, no question asked." Saturn developed a kind of cult following among its car owners, because it demonstrated that it would deeply care. In this case, the product was not the one that makes the difference. The originality of the offer was the important factor.

Customer Integration

This is the second action we should take to consolidate a Total Customer Solution option. At one extreme, we find complete outsourcing, which implies an extensive substitution or leverage of the activities currently performed by the customer. This is the case of EDS and other IT firms when they fully run the information systems for a customer.

But we also find more subtle forms of integration when we establish a complex web of connections with the customer, thus enhancing their ability to do business with us, and to use our products. A telling example is the integration achieved by Dell and its corporate customers.

We should not limit the view of our company to a mere engine able to develop, manufacture, and deliver products. We should convey to our customers that we could help them in many different ways, because we have the capabilities and experience to do so. We should envision ourselves as a bundle of competencies and accumulated knowledge that can be transferred effectively to the customer to achieve its objectives.

For that we need a careful segmentation and granular knowledge of the customer to effectively understand its needs. An opportunity arises when the customer is unable to satisfy its requirements with its internal capabilities, and we have the qualifications to do so. The many channels of integration with our customers are a source of opportunities to respond effectively to the knowledge transfer challenge and to enhance our standing with them.

Horizontal Breadth

This is the third and final action that we should consider in seeking a Total Customer Solution option. We should make every effort to provide a complete set of products and services to our customers, in order to fulfill their entire set of needs. Bonding with the customers is the result of having a single point of contact, a single invoice, learning from their requirements, and most importantly, from the potential to customize our offer to their specific usages. Fidelity, in the financial services industry, is a company that thrives on doing this.

Horizontal Breadth goes beyond pure bundling, which is simply putting together a bunch of products that often makes the customer demand price discounts because only more volume is added without additional benefits. Horizontal Breadth is much more than simply volume discounts. It is integrating and customizing a related set of products and services to assist the customer better than would be done if each component were to be purchased and used separately. It culminates in the proverbial "one-stop shopping."

And if we alone don't have all the capabilities, we reach toward complementors. It may well happen that the range of the customer needs is of such a magnitude that it surpasses the offer we can provide. If this is the case, we simply extend ourselves with the help of external parties that enhance and enrich what we can do alone. Our capabilities reside not only internally in the firm, but also in the entire web of associated firms. The network of companies is a key strategic asset in bonding with the customer. Similar types of bonding should be developed with suppliers and complementors that are key members of our Extended Enterprise.

Toward a Customer Lock-In

Figure 2.4 provides brief definitions of Redefining the Customer Experience, Customer Integration, and Horizontal Breadth, the three strategic positions of the Total Customer Solutions option, and gives a brief comment on the nature of the inherent limitations of those positions.

We can see that there is much value to be created, over and beyond the Best Product option, when adopting a Total Customer Solution approach. A higher level of knowledge transfer and a richer relationship with the customer will invariably result in deeper bonding and higher profitability. This extra value should be documented and made transparently clear to all parties involved to allow for a fair appropriation of the economic gains generated.

In an ideal case, the joint benefits are high and sustainable. We gain because we establish with the customer a solid and enduring relationship. The customers also gain because they get a service they sorely need and greatly benefit from them. They are not thinking of deserting us or looking for alternative providers. In this way we achieve an individual customer lock-in and gain a profitable customer base that has unbreakable relationships with us. And it is a long-lasting relationship, because mutual learning and joint investments support it: A clear "win–win" situation.

But this ideal state is not always attainable. Not every customer can be dealt with this way. Often, customers that are treated at arm's length coexist with customers that are vastly served and deeply integrated with our company. The first group will limit their relationship with us to a simple transaction involving a product offering,

Strategic Position	Definition	Comments
Redefining the Customer Experience	The focus is placed on considering the full experience of the customer from the point of acquisition through to the complete lifecycle of ownership of the product.	This positioning is based upon an intimate knowledge of the customer, leading towards effective customer segmentation and a differentiated customer value proposition for each tier.
Customer Integration	This strategy seeks to provide full support to customers' activities by transferring knowledge to improve their performance. It involves a high degree of outsourcing, which develops a complex web of connections with customers that enhance their ability to do business and to use our product.	The firm is regarded as a bundle of competencies that will be brought to the customer to boost the customer economics.
Horizontal Breadth	The customer is provided with a customized solution involving a complete set of products and services: "One-stop shopping for a unique solution."	We are seeking a dominant position in "Share of the wallet of the customer."

Fig. 2.4 Strategic positions of the Total Customer Solution option

while the second will be the recipients of a deep knowledge transfer, becoming truly a part of the Total Customer Solutions option.

Paradoxically, large companies which are self-sufficient, and therefore don't need us except for access to our products, are going to be targeted as Best Products, while smaller, less self-sustained companies are candidates for a Total Customer Solutions strategic option.

There is, therefore, not only the coexistence of a variety of customers, but also the requirement for us to develop distinct sets of capabilities to respond to very different demands from customers.

System Lock-In

We used to think of the scope of strategy in rather narrow terms, most frequently using a definition of industry to frame the strategic thinking of the business. We expanded that in the previous section when indicating that the Extended Enterprise – the firm, the customers, the suppliers, and complementors – was a much more appropriate support mechanism for attracting and providing products and services to the customer. With System Lock-In, the strategic option with the widest scope, the full economic system gravitating around the firm goes beyond the Extended Enterprise. It includes the entire web of companies that are part of the firm's network.

To illustrate this distinction between Extended Enterprise and the entire system of companies, look again at the cases of Dell and Microsoft. Dell's strategic strength stems from an extraordinary close linkage between their suppliers and customers.

Dell is proud of what they refer to as a "virtual organization." But, there is nothing virtual about those relationships. Dell manages, and to a great degree controls, all of its connections. They are the force that makes Dell a most effective company, a true Dell Extended Enterprise.

A very different situation is present in the case of Microsoft, which is the epitome of a System Lock-In. It has over 90% market share in its industry, because to a great extent it commands 80% market share among complementors. They are not in any way managed by Microsoft, but they "have chosen" to work for it. And Microsoft reaps huge benefits from that decision, because consumers want to buy the computer with the largest number of applications, and those who write software applications or produce hardware support want to do it for the system with the largest installed base. We are witnessing the so-called network effects. It is not simply an Extended Enterprise. Nobody really manages the huge interactions that are taking place. They are simply dictated by the fact that Microsoft has achieved a System Lock-In.

There are three ways to get System Lock-In as illustrated in Fig. 2.2: Proprietary Standards, Dominant Exchange, and Restricted Access. Regardless of the option used, the result is always the same: market dominance. In any of these cases, the company has de facto monopolistic power which is characterized by a total market share of 70–75%.

Three Ways to Get System Lock-In

Proprietary Standards

Among the strategic positions you can strive for, Proprietary Standards is the epitome of the ultimate profit model. It brings the highest margins, the greatest market share, and the most enduring sustainability. Microsoft and Intel are the poster children for this position. In combination, they have what is commonly referred to as the Wintel standard. Customers are compelled to buy the Microsoft Windows operating system and the Intel microprocessor because they have the widest selection of available software applications. Over 100,000 applications are designed to work with the Wintel standard, whereas Apple's Macintosh Operating System has perhaps one quarter that number. If you want to use the latest or most esoteric software, you had better have Windows on your computer. Correspondingly, if you are a software company that wants to reach the most customers, you had better write your application to work first (or only) with Windows, because it is the operating system on the most computers. This creates a powerful positive self-reinforcing feedback loop – consumers choose Windows to gain access to the most applications, applications providers choose Windows to reach the most consumers. Once Wintel achieved a slight edge, it quickly became the overwhelming choice.

To achieve Proprietary Standard position, we certainly need as a first step to position our approach to the business as the natural choice and the crucial interface between all key participants in the overall system. Integrating disparate pieces in an open system requires adherence to a widely recognized standard. Our solution should become the natural selection to do so. This is by no means an easy task. But even this already difficult first step must be followed by an even harder second step if we want to reap the benefits of a Proprietary Standard. We need to achieve the full ownership of the standard to appropriate the major share of value created by its adoption. Not all standards are proprietary. Most, in fact, are non-proprietary and have no owner with the ability to appropriate system profits.

When the video recording industry emerged in the 1970s, Sony was first with the introduction of Betamax, followed by JVC, which introduced a competitive protocol, VHS. The battle had all the signs of competing standards. The companies couldn't do anything else. The complementors could. Their actions and decisions made the difference. JVC chose a strategy emphasizing alliances first in Japan, then in Europe, then finally in the United States – and concentrating on the video rental market. Sony chose to go it alone with an emphasis on the home recording market. Despite having a superior product and a first-to-market advantage, Sony lost the battle. But, it was a Pyrrhic victory for JVC. The standard they designed and fought for was not one JVC could appropriate. VHS is a non-proprietary standard that is used by all manufacturers today, including Sony, and it gives no special advantage to JVC.

Dominant Exchange

A business positioned as a Dominant Exchange provides an interface between buyers and sellers, or between parties that wish to exchange information or goods. Once this sort of business achieves a critical mass, it is very hard to displace.

This is the case of many companies. The most stellar case in the Internet economy is eBay. Sellers want to go to the site with the most buyers, and buyers want to go to the site with the most sellers. The Yellow Pages is also a prominent example. They are a venerable old institution that makes money the old fashion way – they print it, in a manner of speaking. In fact, they print books filled with advertisements paid for by local businesses and distribute them free to households. And for this public service they earn roughly a 50% margin on sales! After the deregulation of the telephone business in 1984, hoards of new competitors crowded the field aiming to show the regulation-bound, lethargic telcos a thing or two. In one case, the entire sales force of the incumbent Yellow Pages switched to a new competitor. This occurred because the Bell Operating Company had outsourced the sales function to another company, along with most other functions including the creative, printing, and distribution work. This company enviously eyed the margins of the Yellow Pages and thought they could easily replicate the product. Even if the margins fell in half, it would be a great business. So they hijacked the entire sales force. A vicious competition ensued. The analysts predicted a rapid loss of market share and declining margins. After the dust settled, the regional Bell Operating Companies held 85% of the market and retained their margins. Why? Because of System Lock-In.

In this case, local businesses want to advertise in the Yellow Pages book that gets used by the most consumers. Consumers, on the other hand, want to read the book with the most advertisements. As shown in Fig. 2.5, this constitutes a virtual

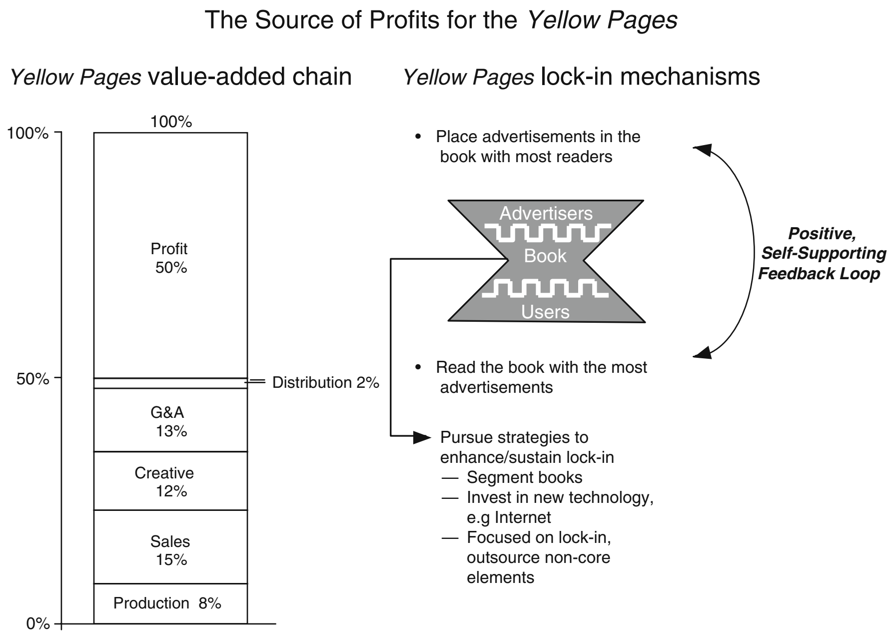

Fig. 2.5 The Yellow Pages have achieved unrivaled profitability by establishing a positive feedback loop between consumers and advertisers

feedback loop that is almost impossible for a competitor to break, whether with lower prices or with better features. When new companies entered the market, they could distribute books to every household, but they could not guarantee usage. Even with steep 50–70% discounts offered by new entrants, businesses could not afford to discontinue their advertisements in the incumbent book with proven usage. Despite the enhancements of color maps and coupons, the consumers found the new books with fewer and smaller advertisements to have more size than utility and threw them out. The virtual circle could not be broken, and the existing books sustained their market position.

Restricted Access

In the case of Restricted Access, the competitors are deprived of access to the customer because the channel has limited capacity to handle multiple vendors.

This is the situation of the Walls ice cream cabinets that Unilever has infiltrated throughout Europe, India, and the Middle East. Most small shops can store only one ice cream cabinet, and only a single company with high shop density can achieve economies of scale to deliver the product with the required frequency.

To achieve Restricted Access, we need to start with a full analysis of the overall delivery system to identify the most constrained points and bottlenecks and to position the business to dominate these points. If we accomplish this, we have a winning formula.

The meteoric rise of Wal-Mart from a small discount store to the most powerful retailer on earth is usually credited to the lock-out of competitors in the small cities and towns that were its cradle. Wal-Mart opened stores that would satisfy all the retailing needs of a rural area within a 15- to 20-mile radius. Also, it had to build a complete logistic system to satisfy the needs of its rising stores. Sam Walton had to overcome the bottleneck in distribution to rural communities and fill it so completely with a large-scale, low-cost channel that existing competitors could not afford to compete. As an added bonus, potential new entrants were preempted. Wal-Mart created a de facto monopoly for each rural location through Restricted Access.

System Lock-In: A Highly Desirable Strategic Option

Figure 2.6 provides brief definitions of Proprietary Standards, Dominant Exchange, and Restricted Access, the three strategic positions of the System Lock-In option, and gives a brief comment on the nature of the inherent limitations of those positions.

Strategic Position	Definition	Comments
Proprietary Standard	The customer is drawn to your product because of the extensive network of third party complementors that are designed to work with your product.	This option isn't available in most industries. If it can be achieved the rewards are enormous.
Dominant Exchange	With this strategy the company provides an interface between buyers and sellers that is very hard to displace once it achieves critical mass.	This is the most accessible of all of the systems lock-in options. The first mover advantage is critical.
Restricted Access	Significant barriers are in place that makes it difficult for competitors to even compete for the acquisition of customers.	This is a difficult position to achieve and to sustain. Regulatory practices tend to be deployed to prevent it, has to be accomplished one customer at a time.

Fig. 2.6 Strategic positions of the System Lock-In option

System Lock-In is the most desirable strategic option. But often it is not available as a feasible way of developing a strategy: (1) Not very many industries allow for standards to be developed, and if they are, for those to be appropriated by a single player; (2) few industries permit the consolidation of a single Dominant Exchange in the hands of one player; and (3) Restricted Access is even more carefully guarded, because its consolidation raises regulatory concerns.

This does not mean that System Lock-In is an irrelevant option for the majority of businesses. It may well be in the large, but not in the small. We should look not at the system as a whole, but at either individual customers or groups of them forming a segment as the focus of the lock-in. We benefit by thinking of System Lock-In simply as a series of barriers: Barriers for the customer to exit from you, and barriers for your competitors to gain entry to your customer. Raising those barriers sometimes is quite feasible, particularly when they are based in unique and sustainable value propositions that provide mutual benefits so strong that is unthinkable the bonding will be broken by either party.

System Lock-In Carries an Ethical Responsibility

It should be noted that System Lock-In confers to those who achieve it a de facto monopoly or something very close to it. It is a most powerful strategic position. In the developed world, monopolies do not have a good image and are looked at with suspicion. The expectation is that they will abuse the power they have, thus affecting the consumer adversely. Today, we have in place laws and regulations designed to curtail significantly their operations, in order to avoid the consolidation in a single company of excessive market power.

Interestingly, a System Lock-In is not the subject of concerns from consumers or the general public. There are social benefits that are reaped by them all. For example, are we better off or worse off by having a single standard in the PC system? We could certainly argue that it is a good thing to be able to communicate with one another without being constrained by the brand of equipment we are using. And although Microsoft and Intel have been obtaining generous profits, we cannot assert that they have been gauging prices to affect the consumer adversely. Similar positive assessments can be made for eBay and Yellow Pages. Even Wal-Mart, a company that has received some critical attention as of late, has been attributed a significant role in the containment of inflation that prevailed in the United States during a long period of time, as a result of its push for "Everyday Low Prices."

Certainly one wonders that if customers are not affected adversely, then who complains? The answer is obvious: Competitors do. It is extremely tough to face a company holding a System Lock-In.

But it is not only competitors. Even those who benefit from the situation may feel the discomfort associated with losing the ability to choose freely among alternative options. Customers, suppliers, and complementors resist and dislike being locked-in, even under a reasonable benefactor. This places on companies holding a System Lock-In a most serious obligation: To dispense that power in a way that is ethical and caring, eliminating even the slightest claim of abusive behavior. And this is for their own good. We know that, in the long run, the best way of conducting the business is by adhering to the higher standards of ethical behavior. Failing that, sooner or later, we will pay the price.

The Various Dimensions of the Triangle: A Summary

Figure 2.7 presents a profile of the three strategic options of the triangle. Many companies implicitly follow the practices of the Best Product option. In fact, these actions are often praised as "Best Practices" that should be applied by all

Descriptive Dimensions	Best Product	Total Customer Solutions	System Lock-In
Strategic Focus	Product The business, its industry and its competitors	The Extended Enterprise The firm, its customers, its suppliers, and complementors	The Network of Firms The interconnected web of companies that are part of the network
Driving Force	Competitors	Customers	Complementors
The Customer Value Proposition	Product focus Product economics	Customer focus Customer economics	System focus System economics
Product Offerings	Standardized products	Customized bundle of products and services	Portfolio of products and services extended by complementors
Relevant Supply Chain	Internal supply chain	Integrated supply chain: The firm, the suppliers, the customers, and complementors	System supply chain: The interlocking network of companies
Relevant Channels	Generic channels of mass distribution	Targeted direct channel	Massive direct channel
Impact on Brands	Product orientation Brand explosion	Brands harmonized around the customer Coherent portfolio of brands centered on the customer	Brands harmonized around the System Coherent portfolio of brands centered on the system
Innovation Focus	Internal product development	Joint product innovation with customer	Open architecture, complementors as key innovators
IT Role	Internal support e.g., SAP	Customer, supplier, and complementor support; e.g. e-business and e-commerce	Total network support e.g., e-system
Degree of Customer Bonding	Very small Depends exclusively on the product characteristics	Potentially high Reinforced by customization and mutual learning	Potentially the highest Reinforced by competitor lock-out and complementor lock-in

Fig. 2.7 Profiling the three strategic options of the triangle

companies. These include Total Quality Management, Business Re-engineering, Time-Based Competition, and Benchmarking. Best Practices are a by-product of a product-centric mentality.

We are not suggesting that a Best Product strategy cannot be the most appropriate one. In fact, there are excellent companies that are truly extraordinary in every conceivable dimension of performance which are in that vertex of the Triangle. What we want to warn against is the passive adoption of this strategy without considering other alternatives.

The danger of "functional silos" is well known. The fact of the matter is that functions rarely act as silos. By their very nature, they are obliged to exercise a high degree of synergy in an organization. If, in a functionally structured company, you are in charge of R&D, you are supposed to care for all of the innovation issues across all the products in your company, and it is hard to do otherwise-likewise if you are in charge of finance, human resources, manufacturing, and so forth. Product-centric business units are the prevalent silos in today's organizations. These often represent parochial territories that prevent a firm from intelligently using all of its capabilities to creatively serve the customer as effectively as it could.

If you look at Fig. 2.7 under the "Best Product" column, you can immediately visualize the narrow cascade of responses that are associated with this option. The strategic focus is the single product; the driving force is the competitors; the customer value proposition is dictated by the internal product economics; the product offering is standardized; the relevant supply chain is internal; the channels are generic and mass-driven; the product orientation leads to an explosion of disconnected brands; the innovation process is self-centered; the IT role, which is so critical for management today, deals with internal information. As a result, this brings only a feeble degree of customer bonding and a rather conventional view of the business, which might limit creativity. It is a fundamentally inwardly oriented strategy, with its outside view centered on competitors. With this perspective in mind, you can see how this is totally divorced from a network-based economy.

Contrast the Best Product option with the Total Customer Solutions option. You can envision the significant enrichment in scope and content that takes place. The strategic scope now looks across the Extended Enterprise, not just a single product or business; the driving force is the customer, not the competitors; the customer value proposition is dictated by the customer's economics, not just the product's internal economics; this value proposition is customized, rather than standardized; the relevant supply chain includes the customer, as well as the suppliers and complementors; the channels are targeted and direct, not wholesaled through mass channels; the customer solution orientation leads to a harmonization of brands; the innovation process emphasizes joint development with the customer, not just the typical stand-alone R&D center; the role of IT is to use the broadly available Internet infrastructure to inextricably link the customer to the firm, rather than to use proprietary internally oriented software. In the end, these actions create strong bonds with existing customers and generate assets and skills for the customer and the firm that are unique to that relationship. The firm benefits from the innovation by the customer as well as from their efforts. This is an outwardly oriented strategy, centered on the customer. In contrast with the Best Product option, this position is enabled by, if not dependent on, the network-based economy.

When we adopt the System Lock-In strategic option, we have to span even further. The strategic scope now covers the entire system, including the full web of firms that accompany, augment, and enhance our product, even though they might not be in the same "product" industry; the relevant benchmarks necessarily targets the complementors; the customer value proposition is focused on the system, not just what the product does on its own; the product offering entails the portfolio of applications extended by complementors; the relevant supply chain includes the overall system of companies; the channels to customers and complementors are massive, direct and indirect, because our share will dominate the system; the brand is harmonized around the system, a la “Intel inside” or “Microsoft compatibility”; the innovation process harnesses the creative juices of a multitude of complementors; the role of IT is to support the integration, efficiency, and compatibility of the complementors, and the entire system benefits from a common network interface. In the end, the system is bonded to the product. It attracts new customers to the product as well as adheres to existing customers. This strategy is centered on the system, particularly the complementors.