

Differentiation

Idea In Short

Differentiation is a core competitive strategy focused on making a product or service distinct and more appealing than alternatives. Rather than competing on price alone, firms invest in unique features, branding, and quality to attract and retain customers.

Cost is an important consideration when attracting customers. However, the Differentiation method looks to develop product uniqueness and attractiveness to engage customers. Once again, there are a number of concepts involved in this approach, and each one is all about playing to customers' perceptions¹. That might include promoting a product's durability and general utility, which appeals to a customer's sense of value. It could also involve touting the support system for a service or product, which creates a certain air of accountability. Finally, there is also the notion of brand image, creating meaningful connections with customers to ensure long-term loyalty. Companies that differentiate want to meet customers' unique needs, and are rewarded with premium prices². To properly implement the Differentiation strategy, a company needs the following:

- **Marketing and promotions teams.** These individuals are on the frontlines of defining a brand and emphasizing its uniqueness
- **Delivering high-quality products.** Customers won't stay loyal if the reality doesn't meet the company's promises
- **Ongoing research and innovation.** Only by pushing technological boundaries can a company hope to maintain relevancy

One of the more successful examples of the Differentiation approach is McDonald's. Over the years, the fast food giant has used technology and research to gain consistently loyal customers, including efforts to reduce wait times and marketing directly to children. Value Chain Analysis is done differently when a firm competes on differentiation rather than costs. This is because the source of differentiation advantage comes from creating superior products, adding more features and satisfying varying customer needs, which results in higher cost structure³.

1. **Identify the customers' value-creating activities.** After identifying all value chain activities, managers have to focus on those activities that contribute the most to creating customer value. For example, Apple products' success mainly comes not from great product features (other companies have high-quality offerings too) but from successful marketing activities
2. **Evaluate the differentiation strategies for improving customer value.** Managers can use the following strategies to increase product differentiation and customer value:
 1. Add more product features
 2. Focus on customer service and responsiveness
 3. Increase customization
 4. Offer complementary products
3. **Identify the best sustainable differentiation.** Usually, superior differentiation and customer value will be the result of many interrelated activities and strategies used. The best combination of them should be used to pursue sustainable differentiation advantage.

Summary

Sustainable differentiation requires ongoing innovation, consistent quality, and strong marketing. Companies must continually reassess customer needs and competitive offerings to maintain their advantage over time.