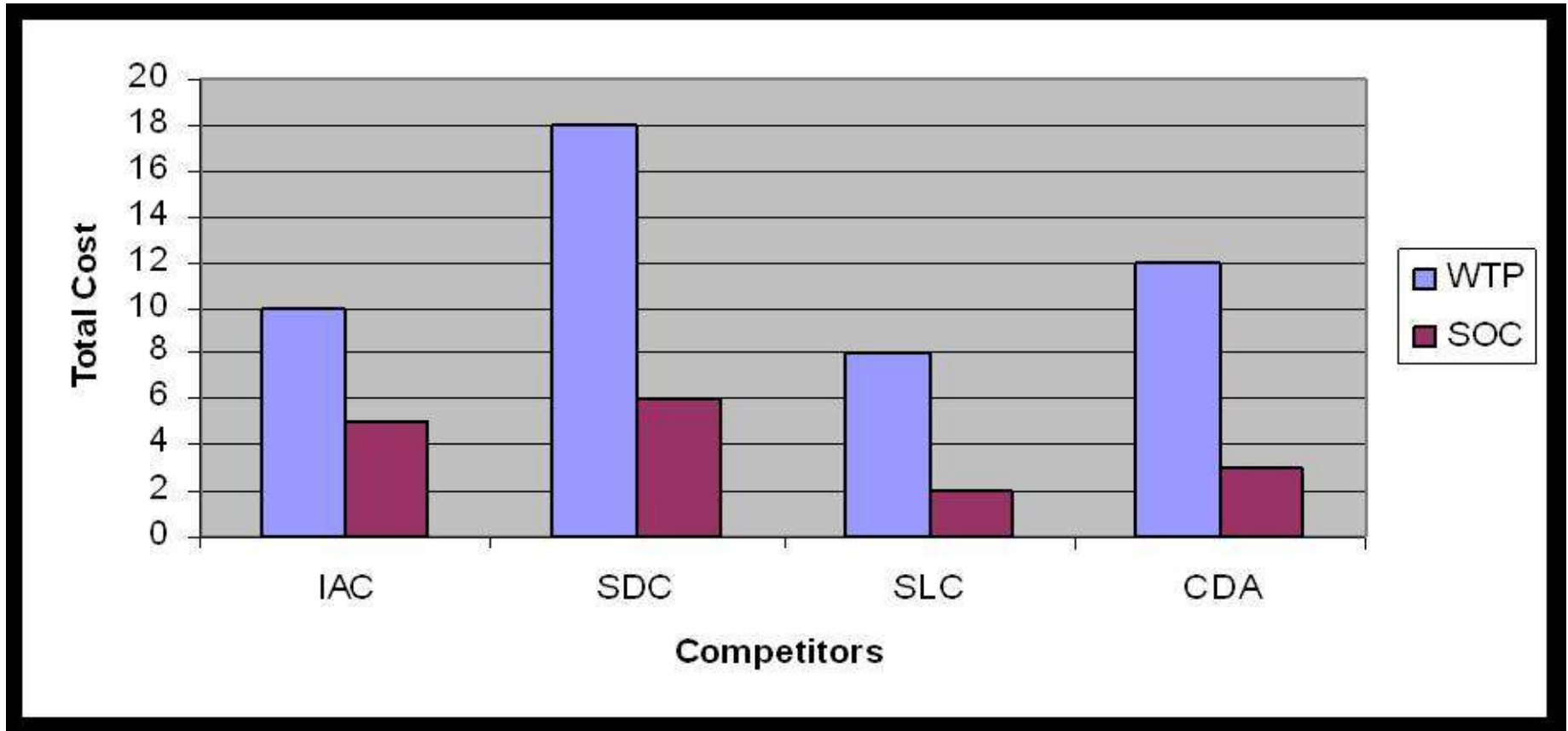


- The nature of differentiation
- Analyzing differentiation: the demand side
- Analyzing differentiation: the supply side
- Bringing it all together: value chain analysis

Types of Competitive Advantage



Generic Business-Level Strategy: Differentiation

- Create a product that customers perceive as different or distinct in an important way
- Advantages
 - Premium price
 - Increased revenues = superior profitability

The Nature of Differentiation

DEFINITION: “*Providing something unique that is valuable to the buyer beyond simply offering a low price.*” (M. Porter)

➔ **THE KEY IS TO CREATE VALUE FOR THE CUSTOMER**

TANGIBLE DIFFERENTIATION

Observable product characteristics:

- size, color, materials, etc.
- performance
- packaging
- complementary services

INTANGIBLE DIFFERENTIATION

Unobservable and subjective characteristics that appeal to customer’s image, status, identity, and desire for exclusivity

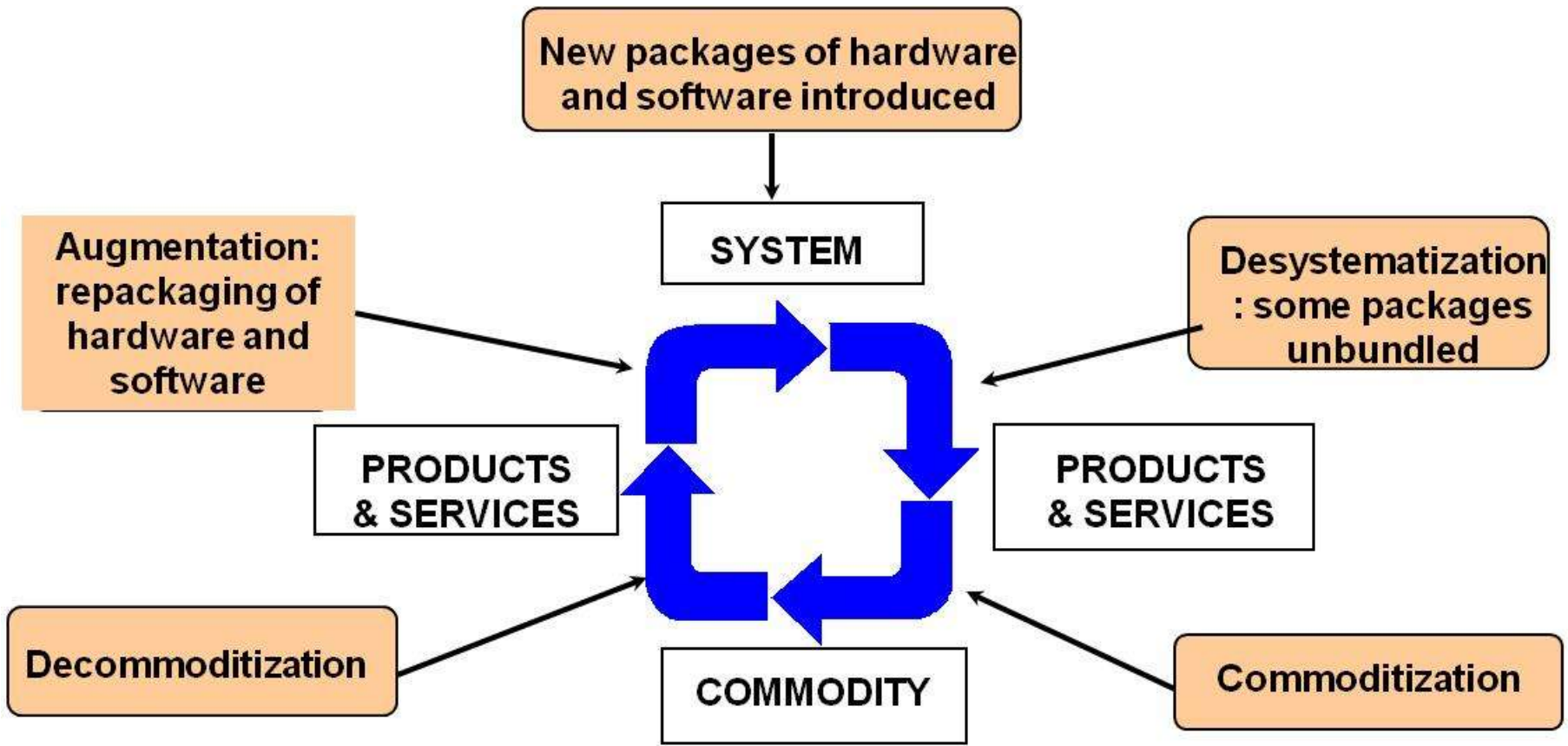
TOTAL CUSTOMER RESPONSIVENESS

Differentiation not just about the *product*, it embraces the whole *relationship* between the supplier and the customer.

Types of Differentiation Themes

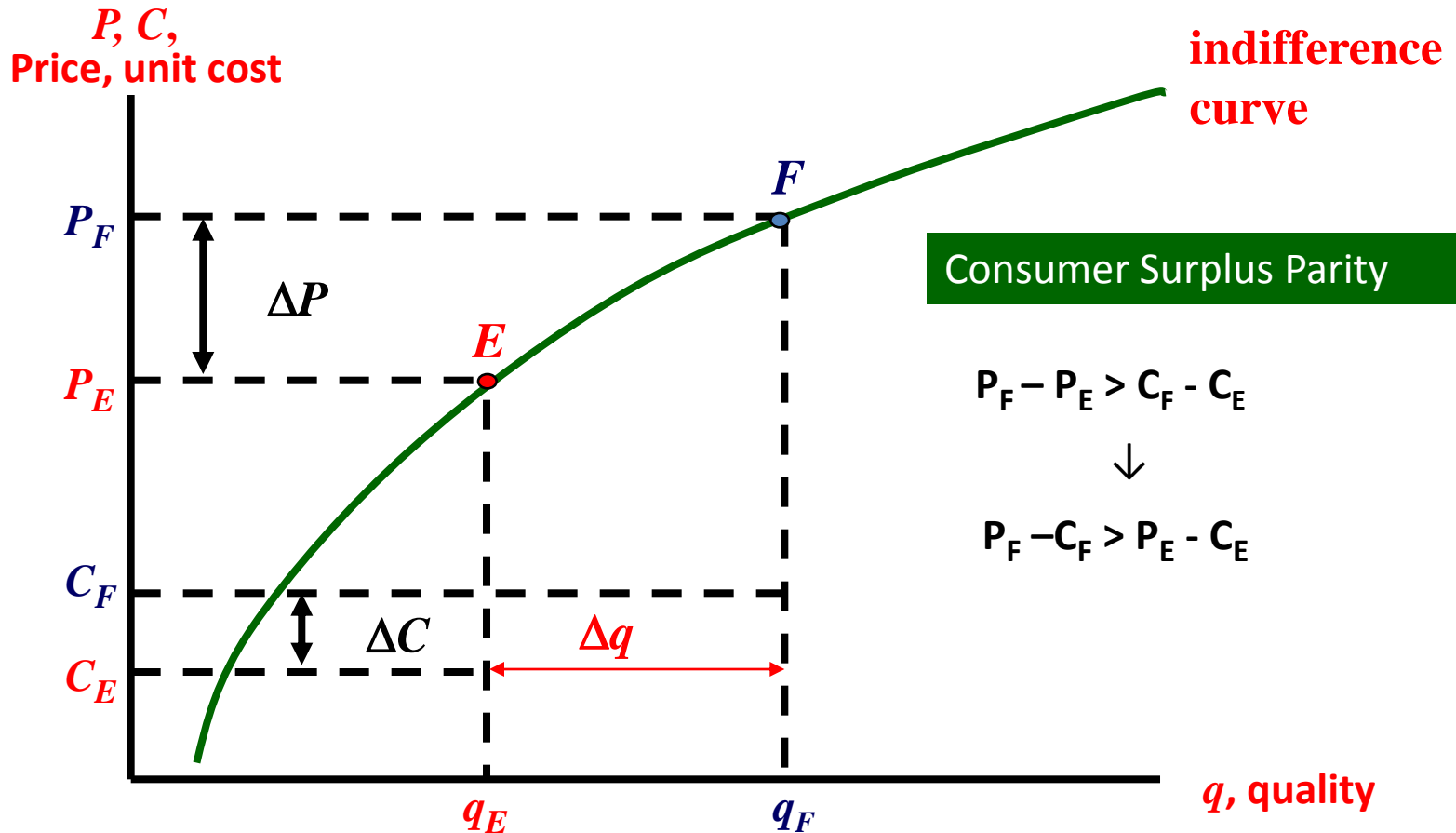
- *Unique taste* -- Dr. Pepper
- *Special features* -- America Online
- *Superior service* -- FedEx, Ritz-Carlton
- *Spare parts availability* -- Caterpillar
- *More for your money* -- McDonald's, Wal-Mart
- *Engineering design and performance* -- Mercedes
- *Prestige* -- Rolex
- *Quality manufacture* -- Honda , Toyota
- *Technological leadership* -- 3M Corporation, Intel
- *Top-of-the-line image* -- Ralph Lauren,

Differentiation and the Product Life Cycle



- A differentiation leader firm can create superior values by offering
 - cost parity
 - Same C but higher B
 - cost proximity
 - C that's not too high and higher B
 - substantially higher benefit and higher cost

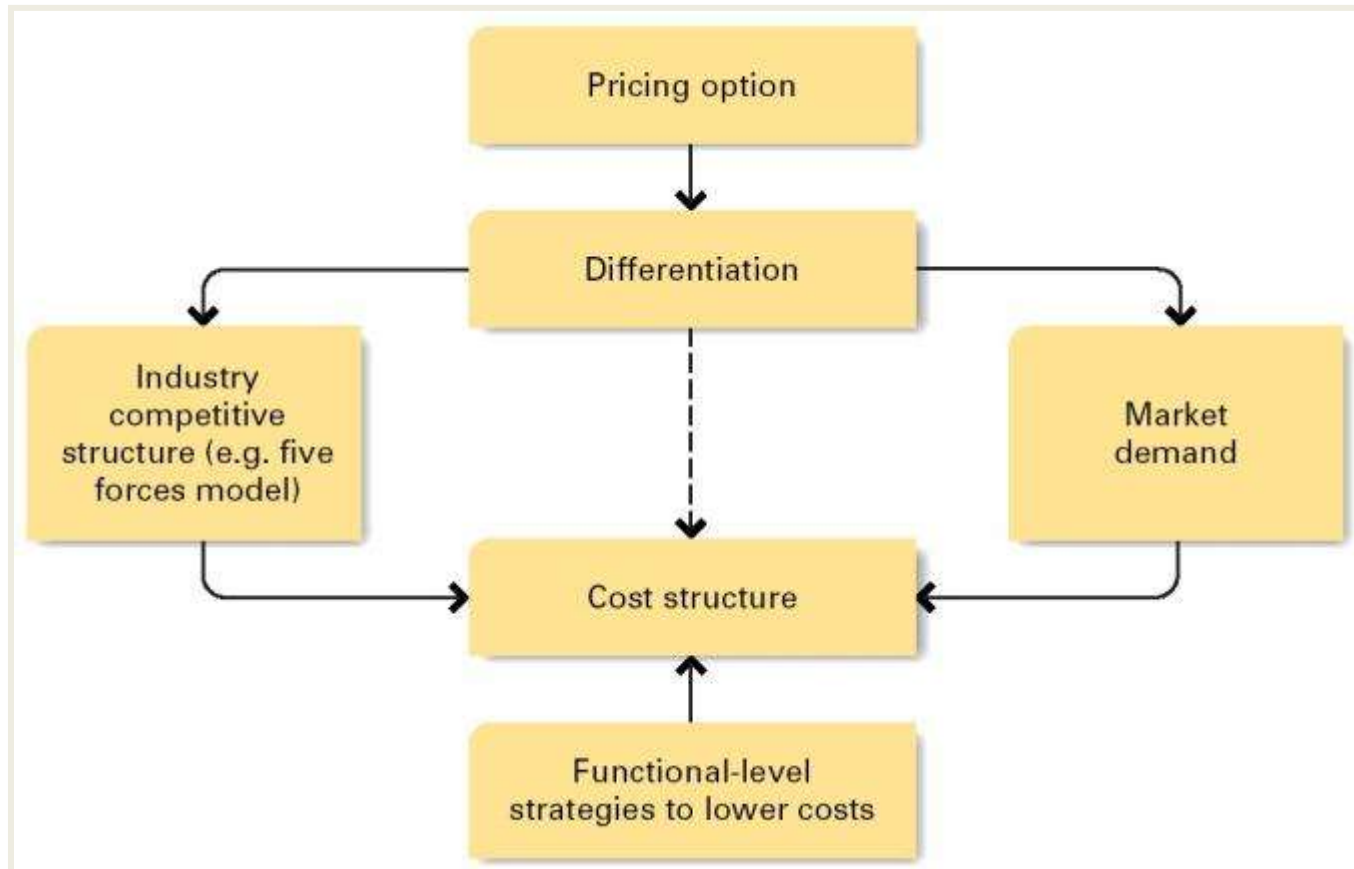
The Strategic Logic of Differentiation Leadership



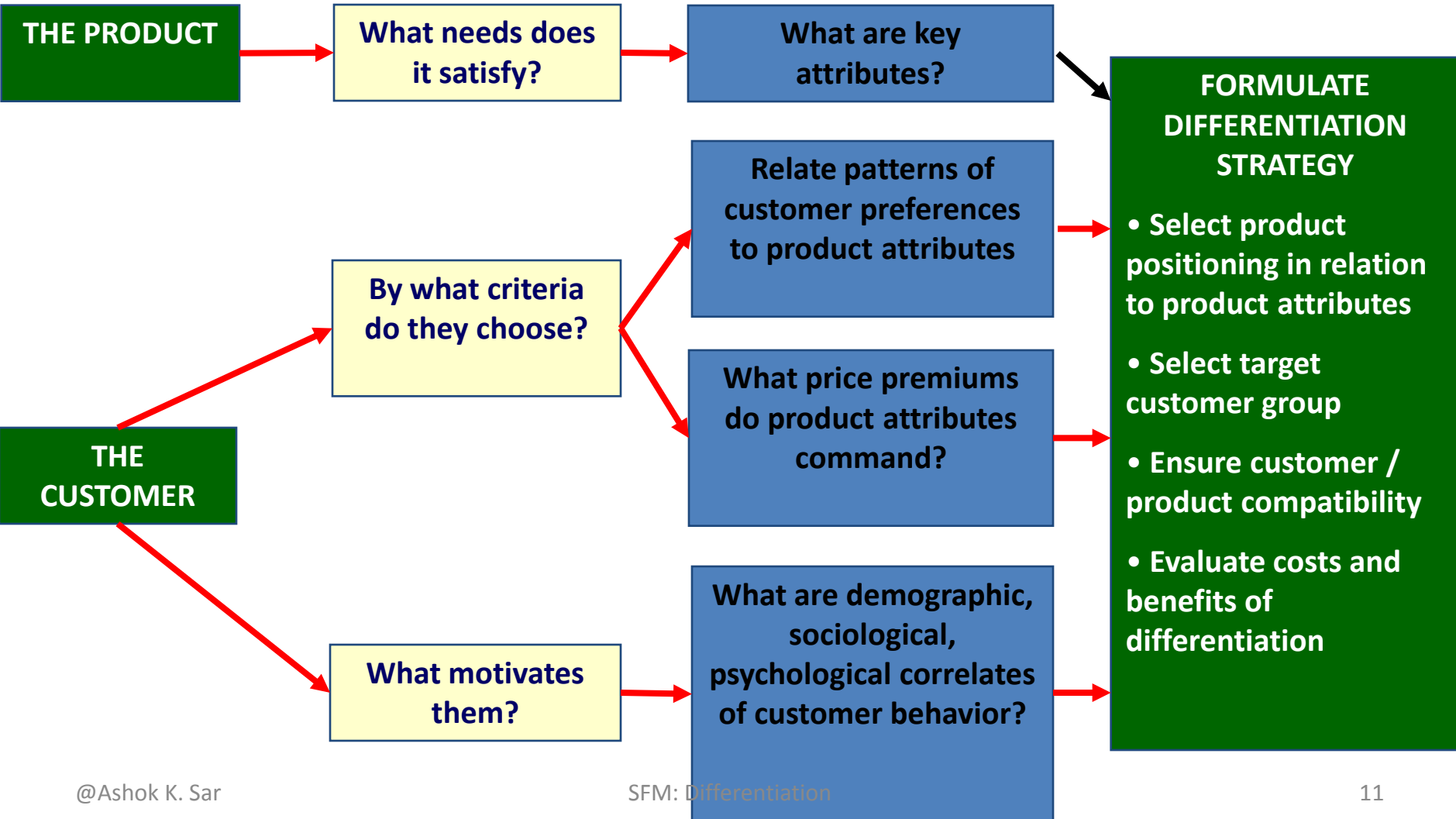
Steps in Differentiation

1. Identify Potential for differentiation
 - The demand side
 - The supply side
2. Identify the buyer's value chain and the firm's impact on it
3. Determine the ranked buyer purchasing criteria
4. Access the existing & potential sources of uniqueness in a firm's value chain
5. Identify the cost of existing & potential sources of differentiation
6. Choose the configuration of value activities that creates the most valuable differentiation relative to cost of differentiation
7. Test the chosen differentiation strategy for sustainability
8. Reduce cost in activities that do not affect the chosen form of differentiation.

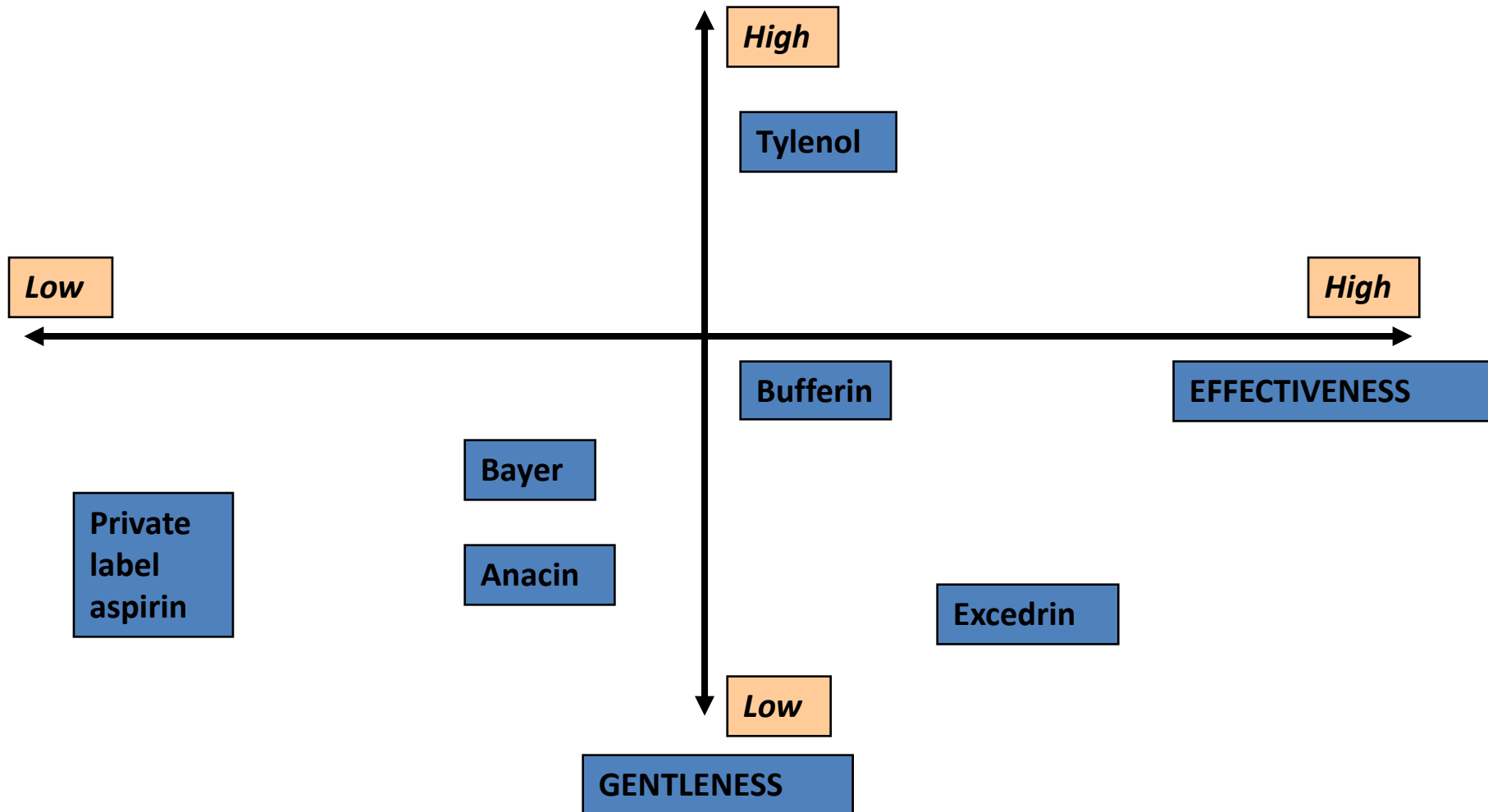
Competitive Positioning at the Business Level



1. Identifying Differentiation Potential: The Demand Side



1. Product Attributes & Positioning: Differentiation in Pain Relievers: Multidimensional Scaling of Competing Products in the U.S.



1. Conjoint Analysis

- Estimates the relative benefits of different product attributes
- Primary value is in estimating these benefits for hypothetical combinations of attributes
- Process
 - Consumers are asked to rank many different bundles
 - Researchers then use analysis to estimate the market value of different features

1. Hedonic Price Analysis

- Use data about actual consumer purchases to determine the value of a particular attribute
- Find out how much consumers are willing to pay for each individual attribute
- Requires multiple regression analysis to estimate the impact of product attributes on price
- The result → implicit hedonic prices for individual product attributes
- Helps in evaluating the economic tradeoffs involved in enhancing a product

1. Value Added Analysis

- Understand where economic value is created in the firm's value chain
- Position of competitors offerings

1. Supply Side: Sources of Differentiation Drivers of Uniqueness

1. Product features and product performance.
2. Complementary services (e.g., credit, delivery, repair).
3. Intensity of marketing activities (e.g., rate of advertising spending).
4. Technology embodied in design and manufacture.
5. The quality of purchased inputs.
6. Procedures influencing the conduct of each activities (e.g., rigor of quality control, service procedures, frequency of sales visits to a customer).
7. The skill and experience of employees.
8. Location (e.g., with retail stores).
9. The degree of vertical integration

2. Identify the Buyer's Value Chain & the Firm's Impact on it: Industrial Goods

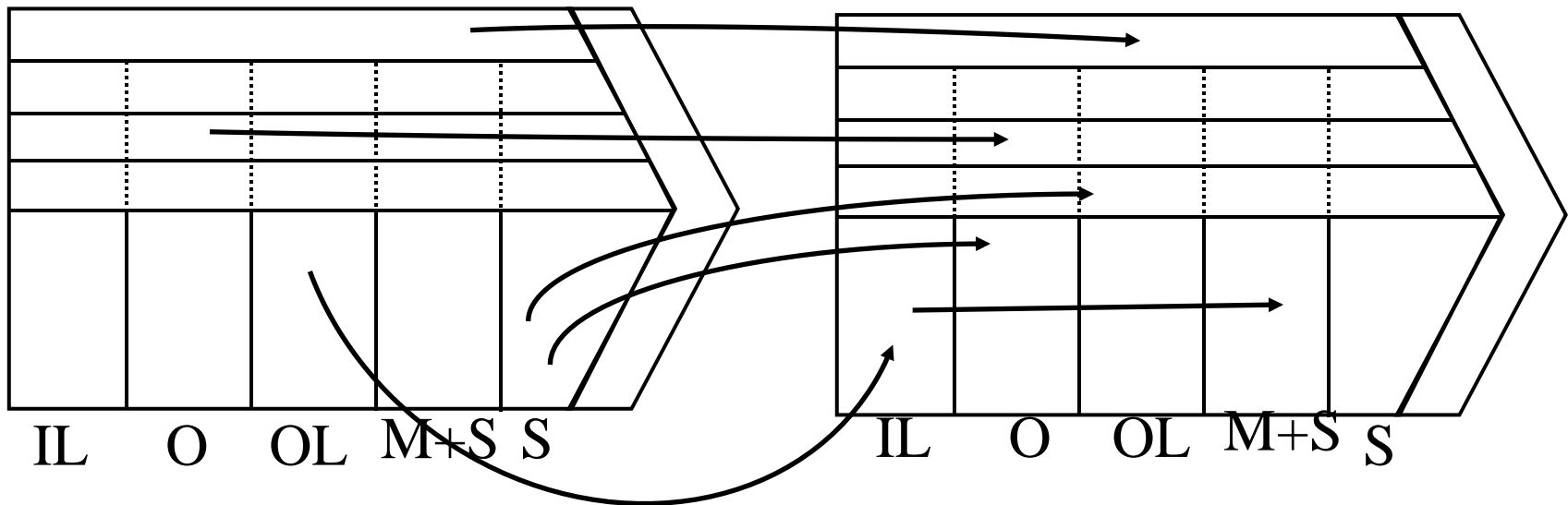
- **Lowering buyer's cost**
 - Delivery, installation or financing costs
 - Required rate of usage of the product
 - Direct cost of using the product such as labor, fuel, maintenance, required space
 - Indirect cost of using the product
 - In other value activities unconnected with the physical products.
 - Lower the risk of product failure and thus the buyer's expected cost of failure.
- **Improving buyer's performance**

- Identify the chain of associated activities
 - Consumer durables
 - Search, purchase, finance, acquiring accessories, operations, service & repair and eventual disposal
 - Consumer non-durables
 - Search, purchase, ease of use, etc.
- Observe customers' behaviour, use such information to design and market

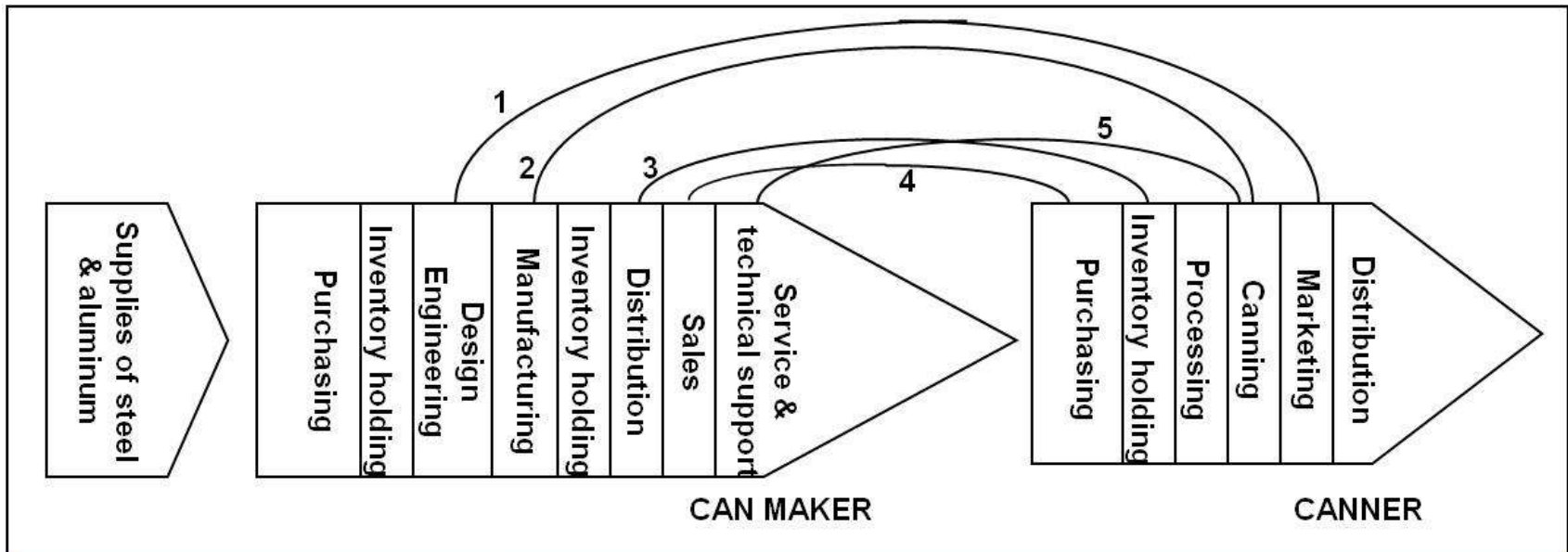
Identify the buyer's value chain and the firm's impact on it

Firm Value Chain

Buyer Value Chain



2. Identifying Differentiation Opportunities through Linking the Value Chains of the Firm and its Customers: Can Manufacture



1. Distinctive can design can assist canners' marketing activities.
2. High manufacturing tolerances can avoid breakdowns in customer's canning lines.
3. Frequent, reliable delivery can permit canner to adopt JIT can supply.
4. Efficient order processing system can reduce customers' ordering costs.
5. Competent technical support can increase canner's efficiency of plant utilization.

3. Determine Ranked Buyer Purchasing Criteria

- **Use criteria**
 - Stem from the way in which a supplier affects actual buyer value through
 - Lowering buyer cost
 - Rising buyer performance
 - E.g., Product quality, features, delivery time, applications engineering support
- **Signalling criteria**
 - Stem from signals of value, or means used by the buyer to infer or judge what a supplier actual value is
 - E.g., Advertising, attractiveness of facilities, reputation

4. Access the existing & potential sources of uniqueness in a firm's value chain

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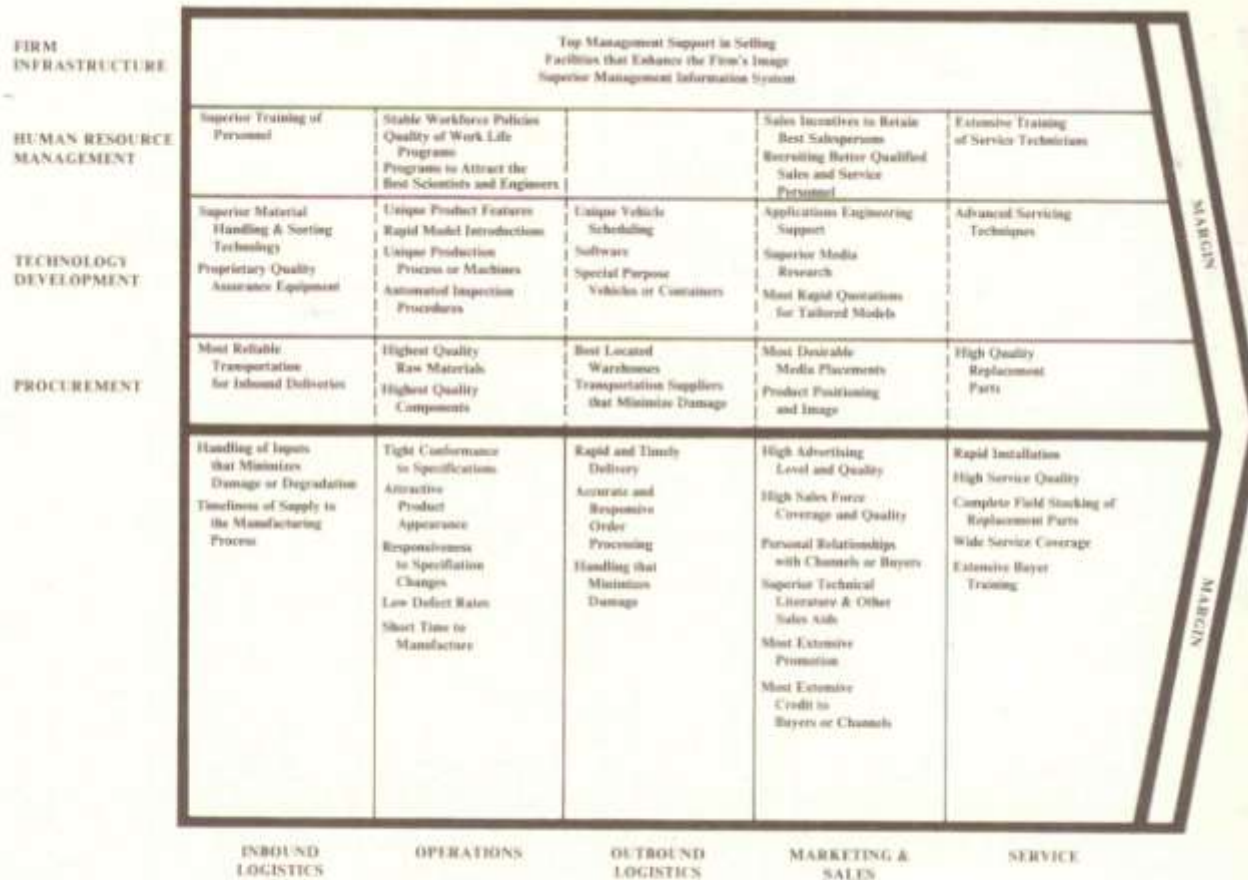
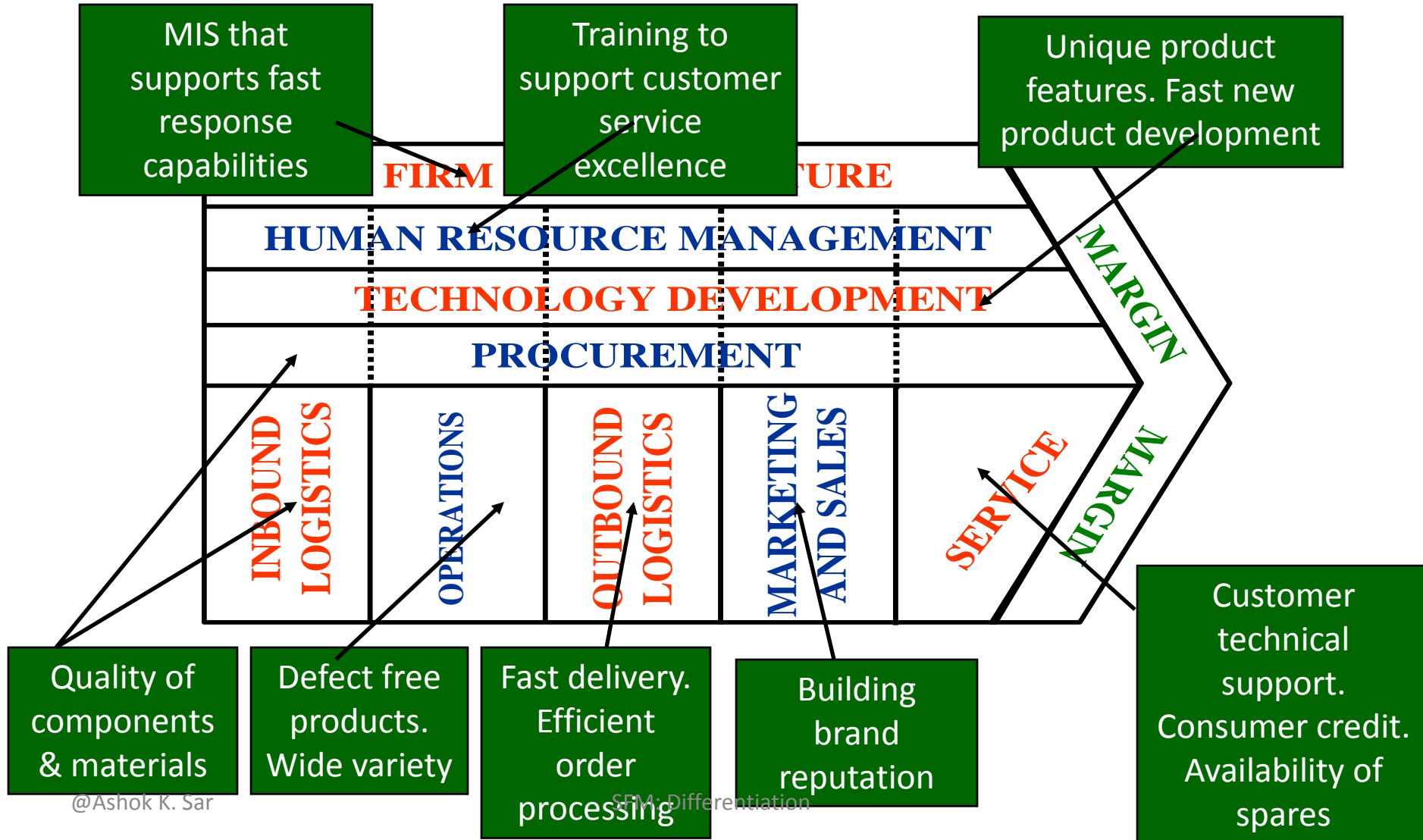


Figure 4-1. Representative Sources of Differentiation in the Value Chain

4. Access the existing & potential sources of uniqueness in a firm's value chain



5. Identify the cost of existing & potential sources of differentiation

- Cost of differentiation – a function of cost drivers of the associated activities
- What makes an activity unique?
 - Uniqueness drivers can impact cost drivers
- The cost drivers can affect the cost of being unique

6. Choose the configuration of value activities that creates the most valuable differentiation relative to cost of differentiation

- **The three important considerations**
 - Greater potential for differentiation or differentiate at lower cost – looking at resources & capabilities
 - Identify linkages among activities
 - Ease with which different types of uniqueness can be sustained

6. Choose the configuration of value activities that creates the most valuable differentiation for the buyer relative to cost of differentiating

		Inbound Logistics	Operations	Outbound Logistics	Marketing & sales	Service	Procurement	Technology development	HRM	Firm Infrastructure
USE CRITERIA	Conformance to specification		X	X		X	X	X	X	
	Delivery time		X	X	X	X		X		
	Product features		X					X		
	Sales force				X				X	
SIGNALLING CRITERIA	Sales aids				X			X		
	Attractiveness of facilities		X							X

7. Test the Chosen differentiation strategy for Sustainability

- The 2 reasons
 - Continued perceived value to buyers
 - Lack of imitation by competitors
- Differentiation based on sources where there are mobility barriers to competitors replicating them:-
 - The firms sources of uniqueness involve barriers
 - The firm has a cost advantage in differentiating
 - The sources of differentiation are multiple
 - The firm creates switching costs at the same time it differentiates

The Competitive Strengths of a Differentiation Strategy

- Buyers develop loyalty to brand they like best-- can beat **RIVAL COMPETITORS** in the marketplace
- Mitigates bargaining power of large **BUYERS** since other products are less attractive
- Differentiation puts a seller in better position to withstand efforts of **SUPPLIERS** to raise prices
- Buyer loyalty acts as a barrier to **POTENTIAL ENTRANTS**
- Differentiation puts a seller in better position to fend off threats of **SUBSTITUTES** not having comparable features