DIFFERENTIATION STRATEGIES

BASIS OF DIFFERENTIATION

1. Superior performance
   - best in class: Pella, Sony

2. Superior design and styling
   - Braun: distinctive
   - Oakley sunglasses: fashionable, sports upscale image; upscale retailers only

3. A product for every purpose
   Nike: running; soccer, baseball, etc
   Nikon sunglasses: skiing, rock climbing, etc

4. “On the edge” product innovations
   - first in the market: Nike: “air-insoles” 80s

5. Luxury goods and services
   - Tag Heuer’s stainless steel sports watches
   - $300 Mont Blanc pens
   - $30K Jeep Cherokees
   Cachet: scarcity, elegance, status, snob,
   High quality, no discounting, margins
   - Gucci’s downfall: over-licensing/over exposure

6. Popular Mass-market brand names
   - Coke/Pepsi, Gatorade, Crest
   - heuristic tool – surrogate for quality
   - power of pop brands: Levi’s

7. Exceptional service
   - liberal return policy; courteous & knowledgeable staff; Nordstrom
   - high inventory; but strong margins
8. Greater reliability and durability
   - Maytag: lonely repairman
   - Honda: even when Q-gap narrowed
   - perceptions=higher price

9. Convenience
   - Ca’s Fresh International Corp:
     “fresh express” pre-packaged salad

10. Unique distribution channels
    - QVC, Avon, Domino’s

Consumers’ preference for variety

Consumers prefer variety
Consumers driven by different tastes
Consumers value unique products and personalized service

Real vs contrived differences

Critics:
sellers create and manipulate perceptions of difference;
non-price competition;
wasteful,
ads and superficial packaging

Defenders:
Consumers have diff wants and needs
Stages of life cycle: autos – sporty, mini-van, luxury
Dull if standardized on single model/style
WHAT TO DIFFERENTIATE

1. Core product features
   - change fundamental properties
   Benz: best-engineered car
   Sony: best-designed/engineered

2. Incidental product features
   - stereo systems: uninterpretable tech specs
   - power ratings, distortion stat
   ‡ resort to cosmetic prod features
   Apple’s Macs: fresh designs
   Purdue chickens: yellow meat
   Lawnmowers: loud
   Freeze-dried coffee: large flakes = Q
   Perfumes: packaging/bottles impt
   Banks: fortress ‡ warmth. Friendship
   Service: power dressing

3. Product intangibles
   - esp when prods physically identical
   Charles Schwarb: sells on price
   IBM: white shirts/dark pants = professionalism
REQUIREMENTS FOR SUCCESSFUL DIFFERENTIATION

1. **Support premium prices with sufficient marketing**
   - spend more on ads/promo to build brand and product awareness

2. **Keep the gouge gap reasonable**
   - avoid: 'not worth it' syndrome
   - “brand tax” – keep price premium as high as possible without exceeding limit that induces brand switching

3. **Embrace innovation**
   - compete against low-cost imitators
   - cost mgmt in innovation ± experience curve; drive down costs/prices

4. **Protect against “squeeze play”**
   - Squeezed between low-cost producers and higher-end differentiators:
   - Kmart
   - Levi’s: low end = Wrangle. Lee
   - High-end: Ralph Lauren, C Klein