Strategic Management

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Lecture Notes:

KONE: The Monospace Launch in Germany (9-501-070)

Differentiation
Differentiation Strategy
(Competitive Advantage Ch. 4)

- A firm differentiates itself if it can be unique at something that is valuable to buyers.
- Real life caveat #1: Is it truly unique?
- Real life caveat #2: Is it truly valuable?
- If the customers don't a) buy more of it or b) pay a premium for it, it's not successful differentiation.
Buyer Value and Differentiation

• The starting point for understanding what is valuable to the buyer is the buyer's value chain.

• A firm creates value for a buyer that justifies a premium price (or preference at an equal price) through two mechanisms:
  1. By lowering buyer cost
  2. By raising buyer performance

• that's all.
The Value Chain and Buyer Value

A firm lowers buyer cost or raises buyer performance through the impact of its value chain on the buyer's value chain.

Lowering Buyer Cost

- Lower delivery, installation, or financing cost
- Lower the required rate of usage of the product
- Lower the direct cost of using the product
- Lower the indirect cost of using the product
- Lower the buyer cost in other activities unconnected with the physical product
- Lower the risk of product failure and thus the buyer's expected cost of failure.
Buyer Perception of Value

**BUYERS WILL NOT PAY FOR VALUE THAT THEY DO NOT PERCEIVE,**

– no matter how real it may be.

• Thus, the price premium a firm commands will reflect both the value actually delivered to the buyer, **AND**

• the extent to which the buyer perceives this value.
Signaling Criteria (of Value)

- reputation or image
- cumulative advertising
- outward appearance of the product
- packaging and labels
- appearance and size of facilities
- time in business
- installed base
- customer list
- market share
- price (where price connotes quality)
Sustainability

• A firm differentiates itself if it can be unique at something that is valuable to buyers.

• Differentiation will not lead to a premium price in the long run unless its sources remain valuable to the buyer and cannot be imitated by competitors.
Pitfalls in Differentiation

• Uniqueness that is not valuable
• Too big a price premium
• Ignoring the need to signal value
• Focus on the product instead of the whole value chain
• Failure to recognize buyer segments
• Not knowing the cost of differentiation