Strategic Management

John D. Macomber

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

Strategic Management

John D. Macomber