Differentiation:
Are Product, Brand and Service Still Enough?

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INTRODUCTION

Marketers are constantly searching for differentiation. Unless a company has a genuine scientific or technological advantage, preferably one that can be protected by a patent, competitors can more often than not match any incremental change in an ever-shortening time-scale. Taking cost out of an operation, maybe through new tools and techniques in operational management, relocating production to areas of lower labour cost, or a combination of both, likewise creates advantage that can be sustained only over a relatively short time. This is true of manufacturing and service industries alike. It is why so much manufacturing has migrated into China and so much software development and IT-based services have migrated into India.

These moves would have happened on cost grounds alone; however, there is another dimension. The general raising of educational standards and the speed with which knowledge is disseminated nowadays mean that socio-economic development is being accelerated and that certain industrialising economies are achieving rates of change that were unheard of even as recently as 20 years ago. The internet is just one tool for disseminating knowledge that is open to competing organisations worldwide. Where this tool is used to enhance an existing robust business, the effect on the established competitive structure can be very significant. This is a phenomenon that is becoming known as time compression. Companies are now in a race to bring a stream of incremental changes to product and service faster than before and this is becoming the real differentiator: the difference between the financial performance of first-in-class and third-in-class is widening and the famous bell-shaped curve applied to profitability distribution between players in a given market is becoming flatter. According to recent research across many sectors done by Stanford University, the number of companies and the percentage of sector revenue generating twice the average industry sector profit have been declining steadily over the past 20 years. The winner may not take all, but does take an increasing share of available value.

Twenty years ago one of the mainstream channels of thought in marketing strategy (indeed in business strategy more broadly) was the need to choose between price leadership and differentiation and to avoid being “stuck in the middle”. This particular distinction is now less valid. Given the wider and more even diffusion of technology and dissemination of knowledge, price is becoming much more of a differentiator. To take a simple example, the phrase “made in China” no longer signifies a lower standard of quality: the fact that well-educated and well-trained Chinese workers do not have minimum two televisions per home, do not think of a car as a necessity and do not regard two foreign holidays per year as a right means that they can use cost/price as a very effective differentiator. This argument does not (yet) apply to all products: the important issue here is that it is gradually and inexorably applying to an increasing number. It applies also in the service sector. Ryanair differentiates itself as “The Low-Fares Airline”, making **price** the biggest element in its marketing strategy. The success of Ryanair compared with British Airways, in parallel with its earlier counterparts in the USA and their established competitors, illustrates the power of price as a differentiator when no amount of promotional hype and advertiser’s candy-floss prose can disguise the fact that (a) economy class airline seats are not significantly differentiated and (b) everyone’s service standards have more-or-less converged.

Achieving and sustaining a competitive cost/price balance has always been required: the problem now is that it is more difficult to do, and the characteristics of the end product cannot be guaranteed to do it all for you.

"What Is Differentiation?" - The Question Revisited

This question looks fairly simple. Differentiation exists when consumers under conditions of competitive supply and faced with a range of choices (a) perceive that product offerings do not have the same value and (b) are prepared to dispose of unequal levels of resource (usually money) in acquiring as many of the available offerings as they wish. It is, however, a little more complicated; and it is the concept of value itself that complicates it.

What determines value?

There are two dimensions to this answer. The first is what can be termed "techno-economic logic", the second "emotional logic". What is clear, however, is that these two logics have one thing in common – they are defined by the customer, not by the supplier. Understanding the relative significance of each and communicating this to a consumer faced with increasingly wide choice are the essential requirements in achieving differentiation. Since this is getting more difficult to achieve in the first place and to sustain over time for the reasons I have set out, we need to understand two broader concepts of business. These emerging determinants of value, and the potential source of renewable differentiation, are twofold: (a) the supply chain and (b) the product experience. I believe that these two concepts are beginning to move our focus away from the three traditional elements of product, brand and service. Though I acknowledge that these three elements remain a part of marketing, my argument is that their significance has changed from being "order winners" to "order qualifiers".

Evidence

In a witty and painstakingly researched book the American marketing specialist Jack Trout points out the extent of product and brand proliferation that has taken place over the past 20 years. The following is an abridged version of a particularly revealing analysis (figures relate to the USA market).

The explosion of choice

	Item Early 1970s	Late 1990s
KFC menu items	7	14
S.U.V. styles	8	38
Breakfast cereals	160	340
Airports	11,261	18,202
New book titles	40,350	77,446
Levi's jeans styles	41	70
Running shoe styles	5	285
Contact lens types	1	36
TV channels in Houston Texas	5	185
Websites	0	4,757,894

Source: Trout (2000), page 6.

The point is that demand has not grown by anywhere near the rate of growth in choice. It is this clear trend to product/brand proliferation and increasing fragmentation of markets and market segments that poses the challenge in differentiation.

There is simply not enough product differentiation to go around. Product packages/extensions used to work: they no longer always do (at least not for very long) because they can more often be copied and improved by competitors at an increasing speed. Let us take an example of a service product with which we are all familiar – air travel.

Frequent flyer miles constitute a vivid example of just how short an innovative idea can be effective. In the mid-1980s American Airlines introduced AAdvantage. This differentiating concept was a great success for a while, until most other competitors realised that they could do likewise. Along with this many of American's customers eventually amassed so many flyer miles that they could not redeem them within the period of time-to-expiry. American was engulfed in a sea of complaints from their prime segment (the frequent flyer). Goodwill was destroyed: badwill was created. Fortunately for American this problem quickly hit all competitors and thus was to some extent neutralised fairly quickly. American's remedy was simple, namely to abolish the time-to-expiry feature of the product. The point is this: as a differentiator the effective life-cycle of frequent flyer miles/points and their differentiating power were much shorter than the airlines originally anticipated. Not surprisingly, like exchangeable currencies this "quasi-currency" has gradually been subject to inflation and value reduction.

From the early 1990s onwards the world's major airlines joined together to form marketing alliances to offer "seamless" travel worldwide. Just about every major airline now belongs to an alliance: this mechanism was open to being copied and improved in a relatively short time, and therefore any marketing advantage was short-lived. Does this matter? Not critically, since the true benefit is found in cost-reduction. The airlines have been able to reduce their facilities worldwide and share each other's, thereby gaining greater asset utilisation and containing investment and overhead costs. The problem now is that the benefits from this have all been realised and the airlines remain under financial pressure.

In an industry that has been protected by regulation for almost the whole of its existence (and to a great extent still is), the shake-out as markets have become freer has been severe. The profit problems of the industry have not been entirely due to the recent volume effect following 9/11 and the period of international insecurity: the airline industry was already facing declining profitability over many years despite a rising market, because a small number of truly differentiated players took advantage of several factors to enter and develop the business on the basis of a new approach. They were differentiated: their differentiation was based on the following:

a) A superior understanding of the potential of the industry's supply chain

b) A superior understanding of the changing motivations, value concepts and decision-frames of a variety of existing and potential customers

To consider the supply chain dimension, let us return to Ryanair. This airline bucks the trend in the business. It makes price the big differentiator and this compensates for the openly-acknowledged fact that it flies from secondary airports to secondary airports that may be slightly further from main centres than the scheduled airlines and major airports. It supports its price differential by leasing rather than owning its whole fleet; by having a standard fleet of Boeing 737 aircraft; by outsourcing many operational services; and by being 100% upfront as to what the customer gets and does not get for (not much) money spent. It is a fundamentally different approach to this business and it makes money at a time when just about every other airline is reporting losses. It illustrates the significance of understanding the supply chain and the potential that can be unlocked by looking at the supply chain in a different way.

Let's stick with Ryanair to illustrate the changing decision-frames of the customer. Consumers realise that there is now virtually no differentiation between airlines in terms of product, even in the upper travel classes. The product is becoming commoditised and there is little opportunity for sustainable differentiation (for example, the much-publicised "flat bed" in British Airways' business class was copied in a matter of months). Ryanair, modelling itself on the American carrier Southwest, understood that there is a point at which travellers will trade off benefits for price. For example, it required simple but effective marketing to point out that the customer was paying a very high price for an assigned seat and "free" meals. Given Ryanair's seat price, the lack of an assigned seat became a non-issue for the customer and the availability of reasonably-priced food and beverages dealt with that aspect of customer expectations. On my most recent Ryanair flight, about one-third of the flyers were obviously business people like myself. Ryanair's supply chain is both **focused** (cost) and also **differentiated** (outsource-versus-own).

Think about others in various businesses that were first to re-define the supply chain in ways that customers value – Dell with Dell Direct (late industry entrant but displaced large established competitors); Amazon.com (ultimate range of choice, fast supply); E-bay (ease of access, rapid transaction).

FOOD FOR THOUGHT

There are two key tasks that are now emerging in the quest for differentiation.

1. Configuring the supply chain
2. Building the customer's experience

Concerning differentiation of the supply chain, I find that the following perspective (Wilding 2002) sums up the emerging issues and the changing marketing potential.

"In order to compete, the effective management of the (total) supply chain is critical…..the management of upstream and downstream relationships with suppliers, distributors and customers to achieve greater customer value-added at less total cost."

At a time when most companies, whether in manufacturing or services, are experiencing price deflation, the need to concentrate on customer-determined value is rising. When there is clearly less differentiation at the level of final output, the route to final output becomes the focus of this effort. What I mean by this is simply that the switching costs for customers in most product and service categories (especially in consumer goods/services, but increasingly in business-to-business transactions) are declining. The familiar phrase "..only a click away" may be something of a cliché, but it has a basis of truth in it.

A few years ago, when I was a visiting academic in a leading UK university, two of my doctoral students authored a book on rapid product development. (Gregory and Rawling 1997) What they perhaps did not realise at the time is that in addition to their specialist analysis of logistics management they had contributed something very significant to marketing in its wider sense.

Part of the essence of "Profit from Time" is that implementing an idea first can be the difference between making money and merely earning around or below the average profitability by imitating a prior model whose successful operators have already worked out how to move forward. The focus here is on efficiency in operational management. However, the implications of time-based competition are far-reaching and reach straight into marketing, possibly leading us to a re-think or extension of the concept itself.

The contributors to the customer's assessment of what constitutes value can be derived from any of several component activities in the supply chain. Therefore the effective 21st-century marketer competes increasingly on the basis of supply chain versus supply chain. It adds another dimension to marketing, namely that, even if the product has become commoditised, there may be something of value somewhere in the supply chain that can be leveraged to constitute valued differentiation in the view of the customer. Take the time dimension. Faster delivery to a customer with near 100% predictability reduces a customer's inventory and hence a customer's costs. This is often more effective than a price cut, because it is much more difficult for a competitor to emulate quickly whereas anyone can cut prices to maintain volume. Also, because this takes cost out of a supplier's operation as well as a customer's, there is a double gain and therefore it may be worth significant investment to (a) establish this position and (b) make retaliation more difficult for competition. **Time becomes the differentiator,** and it can be the part-basis of a powerful marketing platform.

Other elements of supply chain management can have a significant differentiating impact. For example, one can leverage the technique of **vendor-managed inventory** – where the supplier takes responsibility for maintaining the operating stock at a customer's operation. This is not only an approach to reducing inventory cost and locking-in a customer, but also an emerging marketing competence that constitutes a potentially powerful differentiator.

Further recent work on supply chain management points to the increased potential for differentiation based on more than the traditional 4Ps of marketing in the following way. "The advent of a new set of capabilities (my emphasis), based on the convergence of computing and communications technologies, is forcing companies to fundamentally review their business practices. Companies are devising new ways of doing business, deploying different business models". (Hewitt 2002)

But a focus on the supply chain structure may not be enough – and it can sometimes be difficult to market this as a customer benefit, especially in consumer goods and services where the supply chain can be almost invisible to the customer in contrast to business-to-business (especially industrial) marketing, where the supply chain gets more significant as it becomes more interactive. The extra marketing element is communicating the **experience** of the offering.

Concerning differentiation of the customer's experience, let us consider how to differentiate a simple commodity – coffee (see Pine and Gilmore 1999, pp 1-2). The price of a standard-sized cup of regular coffee can be as follows:

Run-of-the-mill diner	US$ 0.50 - 1.00
Starbucks	US$ 4.00 - 7.00
Café Florian, Piazza San Marco, Venice	US$ 15.00

The customer's experience accounts for the cost/price/revenue difference. Back in the 1960s and 1970s we were required to intone the mantra "we sell benefits not product". The customer now knows all about this. The requirement is for a differentiated experience that is valued. Hence we see a fifteen-fold price difference in the coffee mentioned above. The requirement is not for coffee; neither is it for benefits in the literal sense. It is for a valued experience. It is suggested (Pine and Gilmore 1999, p.76) that "customers do not always want choice; they want exactly what they want". This occurs even when there are so many coffee types in final specification.

It is not enough to know that you are, in aggregate, above average in terms of customer satisfaction. Customer commitment depends on satisfaction not with the product or service but with the complete experience of dealing with the supplying organisation. Therefore it follows conceptually that there is a "satisfaction supply chain" that commences with first contact and proceeds right through to the post-sale consequences of consuming the product or service. Niketown and Legoland are examples of experience-based marketing that take the customer beyond the realm of purchasing footwear or construction sets. The level of customer retention and commitment is exceptionally high and this has easily overcome any possible negative connotations of shifting production of the actual products into low-labour cost countries. Indeed, it is doubtful if many customers have even realised that production relocation has taken place. In these cases the product quality levels and logistic systems are such that profit has been enhanced consistently over time.

The power of "experience marketing" is that it addresses the problem of retaining satisfaction and converting it into commitment. The book retailer Waterstones introduced a programme entitled "Browsers Welcome". Waterstones made it easy and comfortable for customers to enter their stores, take a look at books on offer and sit on a couch to sample them. Initially it produced little in the way of identifiable additional sales, but after a relatively short time, very few browsers left the store without having made a purchase. The experience was valued as highly as the product, point-of-sale service and range of choice.

One can list many further instances of successful "experience marketing" comparable to the above. The big theme coming out of these is that quality no longer needs to be "assured": it is "assumed". Consistently high quality products and services are essential order qualifiers – they do not win any business, but without them you do not even get on to the field of play. The **differentiated experience** of engaging with the supplier company is the decisive factor securing customer preference.

Implications For Marketers And Marketing

Jingoistic assertion no longer works. "Persil Washes Whiter" is a guaranteed turn-off when it is believed to be no longer objectively demonstrable. The Western world is becoming over-communicated and the outcome is that customers select a lot of it out. It is unlikely in the future that financially- and logistically-inefficient supply chains can be outweighed by sales promotion.

Does brand still matter? Yes, but in a different way compared with the past. It provides a comfortable antidote to the tyranny of choice under conditions of market fragmentation and product proliferation. It provides reassurance. Purported differentiation is based on and supported by truly **differentiated experiences** for the consumer in engaging with the company offering the brand. Compare and contrast the late-1980s perspective of Peter Doyle (cited in Baker 2000) with that of Naomi Klein (Klein 2000).

- Doyle: "A successful brand is a name, symbol, design or some combination, which identifies the 'product' of a particular organisation as having a sustainable differential advantage"

- Klein: "The ostensible product has become a mere filler for the brand…..the sneaker pimps have designed ever more intricate and pseudo-scientific air pockets and driven up prices by signing star athletes to colossal sponsorship deals……..Absolut Vodka has developed a marketing strategy in which its product disappeared and its brand was nothing but a bottle-shaped space that could be filled with whatever experience content a particular audience wanted from its brands."

The activity that we term "marketing" is undergoing change. Much of the "intellectual capital" of marketing dates from the 1950s-1960s. At this time we were faced with conditions of year-on-year demand growth in markets that were still subject to considerable governmental and inter-governmental regulation and to the effect of tariffs and quotas.

Priorities were sales growth, market share, brand preference, exporting. The Kotler 4Ps of marketing (product, price, promotion, place) constituted a complete framework. These remain valid.

However, seven major factors for change are bringing about a need for an overhaul in our thinking about the nature of marketing. These factors have proven to be increasingly significant from the beginning of the 1990s to the present and have been influenced to some degree by disciplines and management approaches originating outside the classically defined sphere of "marketing". We see this most in business-to-business marketing, where there is an increased focus on "real" rather than "brand" value, but it also evident in business-to-consumer marketing with the emergence of "experience value" rather than "image value" as the basis of branding.

1. Globalisation and the increased authority of GATT/WTO
2. Structural shift in the world economy and greater mobility of resources
3. Lower overall growth rates and major regional differences in growth performance
4. Internet
5. Computer-based systems design
6. More fluid organisational structures
7. Better-informed and hence more critical customers

These are, in summary, the points that influence the two additional and increasingly dominant driving forces in marketing in the early 21st century – designing the (national and/or international) supply chain structure, and engineering the experience that customers value. These are the spheres in which ideas for differentiation can be found and where the basis of a process of permanent revolution can be created.

Final Thoughts

Product, brand and service remain significant and the marketing concept is here to stay, but its content is changing. The focus for performance improvement in the 1980s was on quality/reliability/consistency (the Total Quality Management – TQM – revolution) and in the 1990s on integrated cross-functional business processes (the Business Process Re-Engineering – BPR – revolution). There are economic and technological limits to the effectiveness of techniques such as TQM and BPR, and their diffusion has been rapid and widespread – hence the law of diminishing returns from their application was experienced fairly quickly. Also in applying these tools and techniques there was little challenge to the product-brand-service basis of differentiation. The logistics dimension was considered internally, but not externally and holistically. There has, however, been a more profound shift starting in the mid-1990s and it has been brought about by the information revolution and the processes of globalisation. We are moving gradually to a framework of competitiveness – and hence potential differentiation – that is based on supply chain management and product/brand experience. This move will be longer-lasting than TQM and BPR and will have a deeper impact on the way in which business is done.

In the 21st century we are facing more intense competition in virtually all businesses, influenced to a great extent by an increasingly global market-place, and this is inevitably leading to new concepts and techniques of differentiation. These are, however, additional not substitutional: the former order winners have simply become order qualifiers. Moreover the new differentiators increasingly challenge our assumptions about the nature, content, balance and potential impact of the activities we collectively term “marketing”.

In this we differentiate ourselves and our product/brand/service offerings on the basis of a **new competence** – the competence to define and rapidly re-define for customers a cost-effective offering of an **experience** within which the product/brand/service is the final link in a **chain**, all of whose links need to be equally strong. Quite simply, we are moving towards differentiation based on a complete “business architecture”. This will be a stimulating transition for all professional marketers.

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