

Differentiation Advantage

LEARNING OBJECTIVES

Studying this chapter should provide you with the knowledge to:

1. Define product differentiation.
2. Describe the four major categories or sources of product or service differentiation.
3. Explain how to find sources of product differentiation.
4. Discuss how to build the resources and capabilities to differentiate.

The Rise of Facebook



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In 2004, it seemed that the social media niche had been filled. The two largest social networks were MySpace, with 86 million users, and Friendster, with fewer than 10 million users.¹ MySpace was open to anybody over the age of 13, while Friendster was open to those 18 years or older. MySpace, in particular, was growing rapidly and was designed to be easily customizable to the interests of its users. It followed the example of Friendster by having user profiles, blogs, and friendship connections, but it also made it easy to share music and videos and was particularly popular with emerging music performers. When Facebook first launched, it wasn't clear that it would be successful at competing with these two social media sites, and their already-large networks of users. However, it didn't take long before it became clear that Facebook was offering users things they could not get on MySpace or Friendster, and that those things could make it extraordinarily successful.

Facebook was launched by Mark Zuckerberg and his computer science roommates at Harvard, Eduardo Saverin, Dustin Moskowitz, and Dustin Hughes. Access to Facebook was initially limited to Harvard students. Although membership was later expanded to anyone with an .edu email address, Facebook's exclusivity created a sense of privacy, security, and elitism.² Like Friendster, Facebook was not necessarily intended to build new friendships online, but rather, to perpetuate real-world friendships through the Internet. It required its users to request friends and wait for a friendship confirmation. Only after a friendship had been established could a user view another person's information and photos.

MySpace, on the other hand, had a significantly more open interface, allowing greater access to information and photos of MySpace users. This increased the user's ability to create online friendships, but decreased security. Numerous news stories exposed sexual predators who sought out victims through MySpace, and many parents would not allow their children to use MySpace because of safety concerns.³

In addition to enhancing real-world friendships, Facebook was the first social media site to offer a "relationship status" option, allowing users to link their profiles to those of significant others. Although this feature was later easily replicated by other social media sites, Facebook was the first to offer it.

Facebook also had a different approach to customization. MySpace offered a high degree of customizability, allowing users to change the color and layout of their page. In contrast, Facebook had a simple, clean, and standard appearance. Interestingly, most users of social network sites reported that Facebook was much easier to navigate because it didn't allow the customizability of MySpace.⁴ The standard appearance made it easier to find the

information they were looking for. A final key difference between MySpace and Facebook was that MySpace had several advertisements on each page, which cluttered the website and increased the wait time for the page to load. Mark Zuckerberg insisted that Facebook have no advertisements, thereby adding to the minimalist appearance of the site. This approach made it quicker and easier for users to navigate the site.

These differences quickly propelled Facebook past both MySpace and Friendster. By 2017, Facebook had more than 1.8 billion total active users, and on any given day, 1.1 billion of them

used the site.⁵ MySpace, on the other hand, had only 50 million users, 15 million of whom used MySpace daily.⁶ Friendster trailed far behind at 8.2 million users. Facebook's unique features allowed it to change the face of the Internet and become the largest social networking site in the United States.

Facebook was launched at the same price as MySpace and Friendster: Free. Thus, it wasn't possible for Facebook to succeed through a low-cost strategy. Instead, Facebook needed to offer something different—a product differentiation strategy—to attract users.

Why did users flock to Facebook over other social networks? The primary reasons were that Facebook offered greater exclusivity, privacy, and simplicity, the ability to share relationship status, and zero advertising. These were features that simply weren't available on the other social networking sites. These features allowed Facebook to *offer unique value* in a way that the other sites did not.

Professor Clayton Christensen has argued that customers—people and companies—have “jobs” that arise regularly that need to get done. When customers become aware of a job that they need to get done in their lives, they look around for a product or service they can “hire” to get the job done. As well-known marketing professor Theodore Levitt once observed, “People don't want to buy a quarter-inch drill. They want a quarter-inch hole!”⁷ A drill is one way to do that job. Customers hire movies, concerts, or Cirque du Soleil tickets to provide an entertainment experience. They hire an iron and ironing board to help them iron the wrinkles out of clothing, but they could also purchase clothing with wrinkle-free fabric to do the same job. When customers go to purchase a product (or service—we will use “product” in this chapter to refer to both products and services) to get a job done, they tend to consider two factors:

1. The way a product is differentiated from other products to perform the job (or jobs) they want done
2. The price of the product

What Is Product Differentiation?

Some companies decide to offer customers low-priced products and thus pursue a low-cost strategy as described in Chapter 4. In effect, they don't try to do a different job from competing products; they just try to do the same job at a lower price. Other companies, such as Facebook, choose a product differentiation strategy. **Product differentiation** is a strategy whereby companies attempt to gain competitive advantage by offering value that is not available in other products or services or that other products don't do as well.⁸ This value may come in the form of different product features, product quality or reliability, convenience, or brand image.

It is important to remember that *product differentiation is always a matter of customer perception*.⁹ The actual products of two different companies may be similar in terms of technical features, but if one product is perceived as being different in a way that is valued by customers, then product differentiation exists. Not surprisingly, when the perceived value of the product increases in the mind of the customer, it also increases the customer's willingness to pay a higher price. Thus, companies that invest resources to create unique features in their products often charge a premium price. A higher price is typically necessary because attempts to differentiate products usually require companies to invest resources that increase the cost of their offering.

Apple virtually always charges higher prices for its products because it invests heavily in R&D and design in order to develop products that “wow” customers by offering unique features. However, even Apple must keep its cost structure under control so that it can offer its differentiated products at a competitive price. If the price of an iPhone or iPad were \$1,000,

product differentiation A strategy whereby companies attempt to gain competitive advantage by offering value that is not available in other products or services or that other products don't do as well.

far fewer customers would be willing to buy them. Thus, there is a clear trade-off companies must make between cost and differentiation. Greater differentiation typically requires greater costs (though not always, as we shall discuss at the end of the chapter.). So, in order to make a differentiation strategy successful, customers must typically be willing to pay for greater product differentiation.

Sources of Product Differentiation

Identifying the sources of product differentiation is challenging. It seems as though there are dozens of ways that products or services are differentiated from each other to offer unique value. However, we have found four major categories of differentiation. As shown in Figure 5.1, products typically offer unique value because they offer: (1) different product/service features, (2) superior quality or reliability, (3) convenience, or (4) brand image.¹⁰

Different Product/Service Features

Offering different product features is perhaps the most frequently used source of differentiation. We have found that it is useful to think about offering different product features in three ways:

1. The product does a “better job” of meeting a customer need on existing product features.
2. The product does “more jobs” for the customer than other products.
3. The product does a “unique job” that nothing else does.

Does a Better Job on Existing Features Some companies differentiate their products by focusing on one particular feature and doing a better *functional* job than other products of providing value on that particular feature. For example, Dyson vacuums have gained market share by claiming the Cyclone™ technology in their vacuums provides better “sucking” capability. Dyson’s tagline: “The strongest suction at the cleaner head.” It doesn’t necessarily claim that its vacuums are more reliable or lighter and easier to use—other features that customers might care about. The key differentiator is suction capability, which is supposed to do a better job of getting carpets clean.

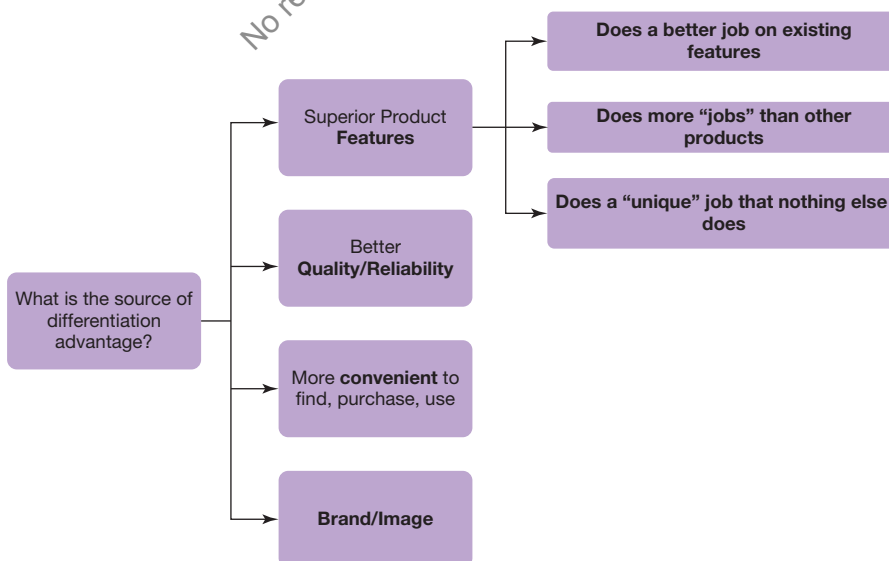


FIGURE 5.1 Sources of Differentiation Advantage