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DIFFERENTIATION

Differentiation: Differentiation is the process of distinguishing a product or business from competitors in the market or industry.

Product differentiation: Product differentiation is the marketing process that showcases the differences between products. Differentiation looks to make a product more attractive by contrasting its unique qualities with other competing products. Successful product differentiation creates a competitive advantage for the seller, as customers view these products as unique or superior.

The process of establishing a differentiated product in the minds of consumers will see the firm focus on different elements of the marketing mix:

- **Product:** The design, quality, functions, branding and performance are all features of a product that can differentiate it from other competitive rivals.
- **Price:** There are a wide range of pricing strategies that a business may consider (see Topic 4.5). Businesses can be the price leader in a product category or it could use a premium pricing strategy to match the perceived high quality of the product or brand.
- **Place:** A wider range of customers can be reached through differentiated marketing through retailers, wholesalers and distributors. The internet may prove a good distribution channel for young, busy families, whereas retail shops would suit youth and older market segments better.
- **Promotion:** Promotion is often associated with informing potential customers that a particular product is different in a better way from the competition, and persuading customers to purchase (take action) on this basis. A successful promotional strategy will create a positive perception around the product, often in relation to its **unique selling point**.

Unique selling point/proposition (USP): Differentiating factor that makes a company's product unique, designed to motivate customers to buy.

ADVANTAGES AND DISADVANTAGES OF DIFFERENTIATION

Advantages	Disadvantages
<p>Brand recognition and loyalty</p> <p>Having a successful brand that is instantly recognisable and has customer loyalty can be a major source of competitive advantage for a firm in a particular market. It is why firms invest heavily in their branding.</p> <p>A positively differentiated brand will increase sales and enable the company more pricing power when it comes to setting a product's price. Increases profit margins.</p>	<p>Economies of scale</p> <p>Cost savings cannot be fully exploited if mass production is not being engaged in. The lower average cost associated with producing large numbers of a single product will be much lower than the costs associated with producing smaller numbers of a differentiated product, including the marketing costs.</p> <p>Economies of scale can be exploited to provide a lower cost product than that of a firm's competitors. Again, a source of differentiation!</p>
<p>Price advantages</p> <p>Undifferentiated or homogenous products enable very limited ability to set and control prices. A stand product that is similar to that of the competition will be assessed by the consumer on its price.</p> <p>With positive differentiation comes an increased ability to set prices on terms more favourable to the firm, as the product is often perceived as having more inherent value.</p>	<p>Differentiation</p> <p>Differentiation can be expensive and lead to higher costs; special promotions and investment into product research and innovation increase costs.</p> <p>Large companies are better suited to differentiate their products because they have the financial wherewithal to do so.</p>
<p>Distribution advantages</p> <p>Retail is ruthless. Store and shelf space is limited. The best-selling brands are often the ones that are preferentially stocked and provided with prime store placement.</p> <p>The best-selling brands are those that have successful product differentiation.</p>	<p>Excessive differentiation</p> <p>If too many products are differentiated customers can end up confused. Not only does it strain a company's resources to successfully differentiate itself and its products, consumers can be turned off by too much choice and not make a purchase altogether.</p> <p>See Barry Schwartz: The Paradox of Choice, embedded here.</p>