

## Competitive Differentiation

AN ISSUE of critical importance is that of competitive differentiation, and the result that it achieves in a company's offering as providing distinctive value in the customer's judgement – and indeed value better and preferable to any alternatives.

Michael Porter, of Harvard Business School, tells us that there are two sources of competitive advantage: low cost and differentiation. He also tells us that a company can compete on a narrow or broad scope but either as a low price leader or as a differentiator. He reminds us that a company can only outperform competitors if it can sustain greater value to customers or create comparable value at lower cost over the longer term.

This line of reasoning raises important questions when building a business strategy, for example: what differences can be created and exploited? In what ways would these represent superior value for customers? And can these differences be defended in the face of competition?

Superficial differentiation of products or services, that are effectively identical, is not sustainable. Direct Line introduced telephone based insurance sales some twenty years ago. And as we know they changed the way insurance was sold in the UK. Direct Line drastically reduced policy prices but virtually every competitor can imitate telephone selling - and this is what they did.

The issue is to find real differences that matter to customers – which can be sustained. Thus if business strategy is about being different, then the essence is positioning the business by choosing to perform activities differently, or to perform different activities to those of competitors. Thus IKEA is differentiated from conventional furniture stores by substituting self-service for

personal service and having customers do their own collection and delivery.

The logic is that competition can be seen as the process of perceiving new positions that attract customers from established positions or draw new customers into the market. In this sense unique strategic positions are suggested to come from three separate sources;

1. **Product based;** where companies produce a specialist product within the industry. Kwik Fit specialises in exhaust replacement offering faster services and lower costs than broader repair shops. Thus customers subdivide their purchases; buying exhausts from the focused competitor and go to rivals for other services
2. **Needs based;** where companies produce to fulfil all or most of the needs of a group of customers (IKEA produces to fulfil all the home furnishing needs of its customers not just a subset)
3. **Access based;** where customers differ in the best way to reach them. For example; Tesco's operate big city and small town stores. Out of the way customers can be served by smaller, standardised formats rather than large stores but still capitalise on purchasing power, lower rental costs and pay.

In broad terms this asks us to choose between product specialist or a customer specialist. The questions that should then follow concern the means to achieve better results and include decisions concerning whether or not to

- Sell more of the existing product/service to existing customers
- Take the existing product/service to new customer categories
- Adding new products/services to what is sold to existing customers

Approaching sustainable competitive differentiation and positioning in this way is dependent on two conditions. First competitors

cannot imitate or equal a company's positioning and second that the activities needed to support the position actually fit to each other and the company's capabilities.

This means that in attempting to imitate a company's strategic position, any rival will be forced to replicate not only the company's key activities, but also the way it carries them out. In

other words, the activity system itself!

It is much harder for a rival to replicate an array of interlocking and reinforcing systems than it is to copy a product and match a process technology. For example, the essence of easyJet's strategic positioning, as a short-haul, 'no frills', low-cost service for business travellers, tourists and students in Europe, rests on an interlocking system of the activities it performs to support its low-cost convenience positioning. These include fast gate turnarounds, frequent departures with few aircraft, automated ticketing, self seat selection, meals at cost, and low maintenance and fuel costs.

In contrast, a full-service airline performs activities to support a high-cost, full-service programme. It will provide customers with services to reach any number of destinations, with a larger range of aircraft, provide comfort, offer in-flight meals, and arrange connecting flights, as well as check and transfer baggage.

Both types of airline operate valuable and unique strategic positions that are built on tailored systems of interlocking activities rather than on individual activities.

In short this says for strategy to be effective, it needs to reflect what a company is best at doing – its core capabilities – not what competitors can do just as well

If you would like to know more about how to create a superior strategy you might like read my

book *"How to Create Breakthrough Strategies for Your Business."* For a dynamic approach to formulating business strategies please contact me at [andrew@uniquebusinessstrategies.co.uk](mailto:andrew@uniquebusinessstrategies.co.uk) for details.

To read more about strategies to grow your business [click here](#)

Best wishes,



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