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Explaining Differentiation Strategy

The aim of any business organisation is to find a market position for its products and services that is both profitable and defendable in its market of choice, and such a position can only be achieved through differentiated products or lower relative costs, that is, by either doing different things from competitors, or doing the same things in different ways.

How to Differentiate Your Products and Services

A differentiation strategy should translate into higher prices, higher demand or both. Lower costs, on the other hand, should translate into lower prices (which should lead to higher demand), higher margins or both.

The main goal of a company pursuing a differentiation strategy is to influence the perception of value about its brands in the minds of target consumers. Being *perceived* as being more valuable than other alternatives by those customers is what drives the company's ability to raise prices or sell more, and without that perception a differentiation strategy will not succeed.

In general, there are four levers that executives can use to influence such perception:

Differentiated Products: Offering products and services that are both unique and valuable to target customers. These products may be continually improved and augmented along dimensions that matter to customers, to reduce business erosion.

Differentiated Promotion: This means experimenting with different promotional tools and messaging campaigns or testing proven campaigns with new customer segments. Strong brands can play a big role in differentiating a company's offerings especially in crowded markets.

Differentiated Sales and Distribution Channels: Distribution channels and sale efforts bring prospective buyers and customers together. At the end, the real demand reachable by a product is not the number of people who would like to buy it, but how many of them the product can reach.

Pricing Differentiation: In most markets, price can be used to influence demand and adjust customers' expectations of value. Companies must intimately know their markets and use pricing strategically to target both consumers and non-consumers.

You may use these four levers to influence the perception of value in the minds of your target consumers, however, what really gives you an edge is not whether or not your products actually deliver more value, but the *perception* that they do.

As a business leader, you must continually monitor this perception and take proper action when necessary.

The teams out in the field must produce reliable information about these perceptions, to enable executives to make educated decisions. They must keep their ears on the ground, tracking changes and trends in the marketplace, and use their knowledge and expertise to produce information that can be acted upon.

There are many tools available, perception maps for example, that can help measure the positioning of a given brand in the minds of target consumers, relative to other product servings in the same market.

The goal of a differentiation strategy is not to compete with rivals and take them out of business, but to find a position that is both profitable and defendable, and in that position, you may co-exist with other companies within the same market.