

Every brand wants to be different. But all too often the quest for differentiation means companies lose sight of their customers' real needs.

Time for a different approach?

The myth of differentiation

DEBATE

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Writing in his book *The Practice of Management* fifty years ago, Peter Drucker put the concept of customer focus on the management map. Nowadays, most executives accept - at some level or other - that putting customer value creation at the center of all activities is critical to success, and many companies are praised for how they do this.

Ritz Carlton, Pioneer Seed, BP Nutrition and Tesco are widely admired for their ability to capture, understand and leverage customer information.

Attentiveness to customer service was held up as a hallmark of companies such as Nordstrom, Scandinavian Airline Systems, and Lands' End. A customer-focused corporate culture, epitomized by the behavior of the CEO, is often a key factor in allowing companies to prioritize customers' interests in the face of competing pressures: Intuit, Southwest

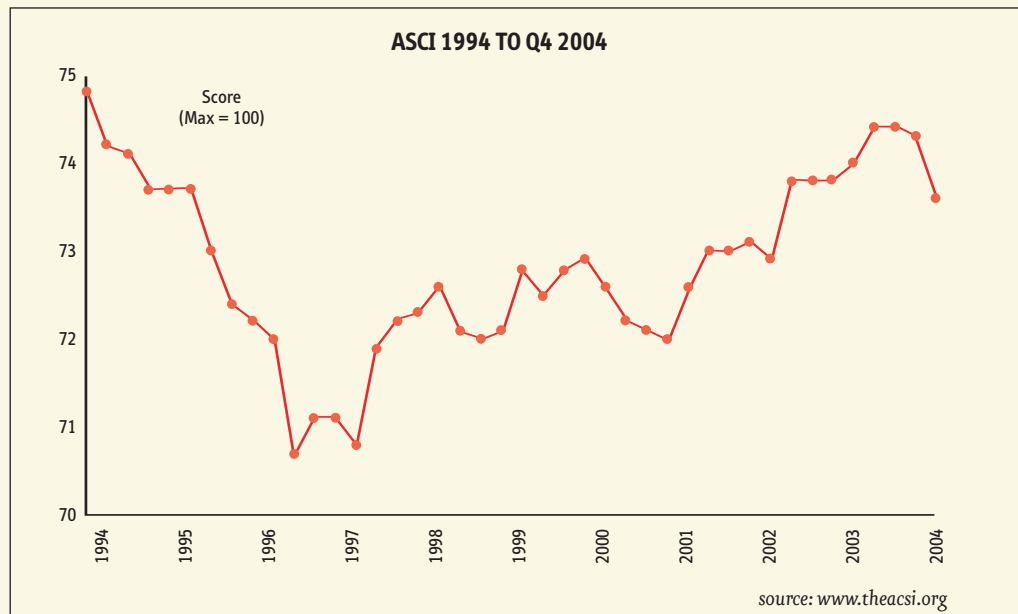
Airlines and Cisco are all well-known examples.

Yet, despite such widespread acceptance of the basic theory and so many laudable examples of it being put into practice, why do so many customers feel let down by companies? Why is it that, after a decade of change programs, market research and stirring statements from CEOs customer satisfaction levels are actually lower than they were ten years ago? (Exhibit 1)

The usual answer is 'rising expectations'. Rising expectations are something we cannot control, argue executives. Therefore we are not to blame. "It is someone else's fault."

It's not a viable defence. Agonizing over why the index fell from 75% to 70% and only partially recovered misses the point.

Exhibit 1:
The American Customer Satisfaction Index (ACSI) indicates no improvement



We need to focus on the bigger picture. We have presented this simple chart over fifty times and not once has the initial discussion pointed out what should have been blindingly obvious. These ACSI levels indicate a colossal opportunity for improvement.¹ Even high scorers such as Amazon.com with an index level of 88 run a risk of losing customers who are not fully satisfied. The cost of managing the fallout - refunds, returns and bad word-of-mouth, not to mention the cost of new customer acquisition - is enormous.² There is room for dramatic improvement in almost all industries.

The good news is that this presents a low-risk, high-return opportunity for most businesses.

Why? Because, despite all the talk of rising expectations, most customers are not unreasonable. Certainly, they expect the basics to be delivered. But still, many organizations don't deliver these basics well. Worse, they often actually believe that, to some degree or other, these basics don't matter.

How could we possibly make such an assertion? It sounds too crazy to be true. But ask yourself this. How many times do you hear managers refer to things as being mere 'table stakes', 'hygiene factors', or 'order qualifiers' (as opposed to 'order winners')?

If something is a mere 'table stake' or 'hygiene factor', it's not a priority. And if it's not a priority, then something else is. That 'something else' comes in many guises, but its most common - and seductive - disguise is the quest for 'differentiation'. The theory goes something like this. 'In our category all the basics (say, a washing powder that cleans clothes effectively) have already been covered off by every competitor in the market, so consumers have no particular reason to prefer our brand over and above our rivals'. Therefore we have to 'differentiate': we have to add something extra that will make our brand stand out from the crowd and win customer preference.'

You will have heard this argument countless times before. It is very beguiling. But it is also dangerously misleading. It focuses executives' minds on the 'something extra', leaving 'the basics' to languish neglected; taken for granted; dismissed as mere hygiene factors. This is how companies end up lavishing vast resource and effort on things that customers don't really care about, while awarding second-class status to the things customers do really care about.

This is despite the fact that differences between companies' performance around the basics varies enough to dominate all

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Customers rarely buy a brand because it offers a unique benefit. They buy the brand that offers the best combination of category benefits.

other sources of differentiation. This is the secret of Toyota's rise to the top of the automotive industry - "excluding gimmicks and pursuing the essentials." It is the secret of Cemex's remarkable success in cement - usually seen as a textbook commodity business: above all else customers simply want the right kind of cement at the right time and place. Construction workers who want to be sure that they have an efficient reliable power drill call for 'a Hilti'. And in the grocery industry that is so open to 'fast following', Tesco emerged from the pack to become No.1 in Britain by offering a superior shopping trip to everyone. Ryanair, responding to the mass market's desire for really cheap air travel, became Europe's fastest growing, most profitable and highly valued airline by focusing exclusively on that goal - offering the lowest fares; that's all, no extras of any kind.³

Firms that focus primarily on providing the basics better than the competition, over time, through continuous improvement, redefine what is achievable and expected, and come to be seen as different by customers. Real differentiation doesn't come from treating basics as mere 'table stakes' and focusing extra effort on so-called differentiating factors. It comes from doing the basics better.

This is a simple observation. But it goes against the grain of much current conventional wisdom: it challenges many managers' most precious belief in 'the brand'. We put 'brand' in inverted commas to make a point. Brands are hugely important. Too important to be mismanaged. When managers focus so hard on what makes their *brand* special they can easily forget to focus on what their customers really want. Modern theories of differentiation actually hinder effective brand building by putting 'brands' ahead of customers. Brand equity is something that happens in customers' heads. It comes from their total experience of the brand, and the most important element of this experience is usually their experience of the company's products or service. Let's explore this a little further.

Customers buy categories not brands

Customers rarely buy a brand because it offers a unique feature or benefit. Rather, they buy the brand which they perceive as offering *the best overall combination of category benefits*. The category is a combination of product or service attributes that a common group of customers desire. The category defines what matters to customers. Any improvement or innovation that matters to customers will quickly become a core part of the category offering, because any company that fails

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to offer it will find it difficult to compete.

On the other hand, anything that doesn't really matter to customers won't be copied by competitors, and won't become a core part of the category offering. In this context, the quest for a unique, differentiating point can easily lure us ever further from the core to the margin - to things that aren't important to customers. When this happens the quest for differentiation becomes a distraction offering a benefit that's merely trivial or peripheral or relevant only to a small minority of customers.

This is a hard lesson. Executives care passionately about the unique features of their offer - "our fax machine has the smallest footprint in its class". But customers rarely share this passion. The painful truth is that the differences between competing fax machines are far more important to those who make them than to all but the most geekish customers. The same is true in almost every category. Videodisks and see-through refrigerator doors were thoroughly innovative, unique and differentiated. But they failed to become mass-market successes because most customers just did not care.

Seeing categories from the customer's perspective is different to seeing brands from the customer's perspective because

suppliers and buyers live in different worlds. For the supplier, the only thing that matters on a particular purchase occasion is whether the customer buys the supplier's brand, and at what price. This is a winner-take-all game - no prize for coming second. All the revenue goes to the brand the customer buys, none to any other brand. The difference between winning and not winning is everything.

To the customer, the world looks different. Usually, the purchase is triggered by a simple need, such as the need for a small bag of cement for a house extension or a business hotel for two nights in Chicago. The customer meets the need by making a category purchase. What the customer actually buys is a brand, but what he or she wants or needs is the category. If gasoline disappeared, America would grind to a halt. If Exxon gasoline disappeared, who would lose out? Exxon employees, dealers, and shareholders. An extreme case? Perhaps. But the contrast between the importance to customers of the category and the relative unimportance of even the strongest brand is not so very different in other categories such as cars, PCs, fast-food restaurants, strategy consultants, credit cards, and satellite TV. Overstating things a bit, to the supplier, the only thing that matters is the brand (how many sales, at what price?) while to the customer the

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only thing that matters is the category (does it meet my need, is it available, at what price?)

While this view runs counter to much conventional wisdom about competitive positioning and differentiation, it is certainly not a counsel of despair. It forces us to be realistic about what is feasible and it requires top management to rethink how to compete. Innovation is still crucial, but it needs to be directed more at improving the delivery of the generic category benefits and less at trying to develop unique brand benefits.

The segmentation trap

Segmentation is closely tied to the myth of differentiation. To re-engage with customers, executives must think explicitly about categories not just segments - for it is within categories that competition is manifest. You have found the real category benefits sought by customers when you are clear about the boundaries of the category. These boundaries define the upper limit of customers' 'consideration set' - the set of competing brands they actively consider when making a category purchase. For example, in the UK in the mid 1990s, consumers wanting mobile telephony might consider the offers of up to four wireless networks.

In other cases, the category definition

is less clearcut. Consider cereal bars. These are simply bars where the principal ingredient is cereal and which, through their form, offer convenient consumption. Although different brands identify the bars as being primarily positioned as providing energy, diet, health, or snack-related benefits, they are often lumped together by analysts and merchandisers as a single category. But that isn't so helpful. According to Luc Imbert, marketing manager at Cereal Partners Worldwide (the joint venture between General Mills and Nestlé), recognizing children's basic need for great taste and parents' basic need for 'nutritional reassurance' led to kids' breakfast cereal bars containing recognizable 'bits' you normally find in boxes of breakfast cereals. CPW introduced Chocapic bars, Golden Graham bars, and Nesquik bars with great success. In this case the category is kids' 'on-the-go' breakfast. The direct competitive set is clear, although there is also competition from other products, e.g. some other packaged snacks and fresh fruit such as bananas.

Category definitions, then, are not always clearcut, nor are they set in concrete for all time, nor do all customers have the same needs or the same willingness or ability to pay. But providing the main current category benefits better than the competition is a

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sound starting-point for most businesses.

Consider Hilti, which creates and sells drilling, demolition and fastening solutions for construction and building maintenance. Hilti does not serve a single segment: its market is 'all professionals in construction and in building maintenance'. To quip "customers don't buy a drill, they buy a hole" does not help. The basic category benefit sought is to enhance effectiveness and productivity - this is true of all construction professionals. Hilti competes on this basis. This does not mean that there are not segments nor that segmentation cannot be helpful. As with many business-to-business ('B2B') markets, Hilti's customers vary enormously. Hilti segments the market based on dimensions such as the size of the business the professional works for. There are many differences in needs and buying behavior between a self-employed artisan and one working for a big construction company. However, it is the basic category needs, constant between segments, that dominate Hilti's strategic thinking, product development and delivery systems.

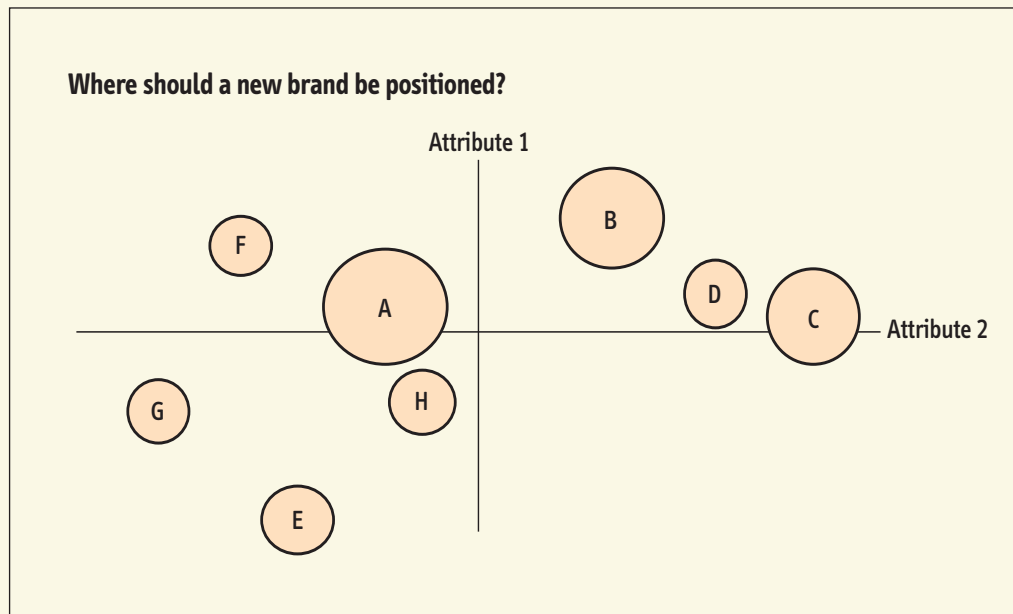
Likewise with Tesco. Over a period of ten years, Tesco came from second place to dominate the UK grocery industry and it did so by being better rather than being different - and by positioning itself as a

good-value retailer for all shoppers. As Tesco chief executive Sir Terry Leahy explained, "we should aim to be positively classless, the best value, the best shopping trip ... to be the natural choice of the middle market by being relevant to their current needs and serving them better, i.e. customer-focused."

To underline the dangers of ill-conceived segmentation consider the following hypothetical (and oversimplified) scenario. You plan to enter a market. The issue is how to develop and position your offer. Exhibit 2 shows customers' perceptions of the eight established brands against the two main attributes for the category (the number of attributes does not affect our argument). The size of each circle represents the size of that brand. Where should you position your offer?

If your primary concern is unique brand-specific differentiation, you will look for a gap in the market, most likely bottom-right on the chart (low on Attribute 1, high on Attribute 2). Here customers are likely to perceive your brand as highly differentiated. Your 'unique selling proposition' (USP) is: "low on 1, high on 2." The disadvantage is that, assuming the positioning map is based on sound research, the gap your competitors seem to have missed is so obvious. Either

Exhibit 2:



your competitors are all being stupid, or positioning here and achieving a profitable margin is not feasible.

Alternatively, there may be no demand for the particular unique combination - or perhaps customers find it hard to believe, like a food product that tastes great and is low-calorie and easy to prepare, or a high-performance car that is also safe and economical. Positioning in the gap may be both feasible and profitable, but there are often good reasons why the gap exists. In Figure 2 this suspicion is reinforced by the fact that E and G, the two most differentiated brands in the chart, are also two of the smallest.

If instead you ask, “where is the ideal point for most customers?” (this is a researchable question, at least for the current market), the answer is most likely somewhere in the space that includes A and B, the top two brands. Or the market may be segmented, with one segment dominated by A and the other by B, D and C. Either way, the likelihood is that by positioning in this region you will face the competition head-on, and seek to trump them. This goes right against most conventional wisdom in strategy and marketing, but might be the right strategy, based on the right kind of differentiation. We encourage you at least to consider this because, in the words

attributed to bank robber Willie Sutton, when asked why he robbed banks, “That’s where the money is.”

Of course, successfully capturing the high ground of the market is not easy (nor, we imagine, is successfully robbing banks). It requires insight into customers’ perceptions, motivations, and behavior; the ability to identify opportunities based on current and potential category benefits; and outstanding execution - innovation, customer focus and communications. In other words, this is a real test of the organization’s commitment and capabilities.

Unique selling propositions (USPs)

So what about unique selling propositions? Are they a complete waste of time and effort? Surely Crest with its anti-cavity protection and Volvo with its leading-edge safety features are examples of USPs that work?

Many companies do provide unique brand-specific customer benefits, but few have led to a large, sustainable competitive advantage. Even with the benefit of legal protection, many good ideas are easily copied. For instance, air miles, bonus points and other gifts which were introduced to incentivize loyalty were quickly copied by competitors and became an expected (and for the companies, very expensive) component of any airline and car hire offer. Most outlets that offer film-

Is your approach to differentiation customer-focused?

1. What are the main benefits you deliver for your most important customers?

These are generic category benefits. If you cannot name a small number with complete certainty, you are not customer-focused.

2. Do you deliver these for all your customers?

You should be delivering the generic category benefits to all - perhaps to varying degrees, depending mainly on customer value. Some customers are much more valuable than others - some others may even be costing you money - but your starting-point should be that they are all looking for much the same category benefits.

3. Do your competitors also offer these benefits?

If they do not, then these are not generic category benefits - try Question 1 again.

4. How regularly are you monitoring your performance on these benefits?

You should do so obsessively - providing these benefits well is why customers keep coming back.

5. Are you proud of being 'Simply Better'?

You should be. Get over wanting to be unique - it may be exciting but it probably does not drive business success.

developing services to traditionalists now also offer one-hour film processing. Thanks to competition, high-speed development is today seen as a basic service even though it was a unique customer benefit when first introduced.

In a competitive market, category benefits are by definition not unique. Every business aspiring to compete in a given segment must provide them to an acceptable degree. All viable hotel chains provide safe shelter, warmth, a clean bed, and bathroom facilities. Automobile brands provide reliable transportation. Major food retailers provide a reasonable variety of food that is fit for everyday consumption. The same is true in B2B markets. Architects and specifiers, although they recognize and appreciate speed and high-tech gizmos, have a duty to ensure that the elevator they specify and install in a new building is safe and will work reliably round the clock. They also need to know that precisely the model ordered will arrive on-site on schedule and in good condition, that the invoice will be right first time, and that after-sale services such as planned maintenance and breakdown repairs will be efficient and reliable.

Dominating a perpetual niche can be a rewarding strategy - ask Velux, the world's leading manufacturer of roof windows and skylights, Tetra, world leader in

tropical fish food, Hauni, which makes most of the world's cigarette manufacturing equipment, or Gerriets, which holds a virtual monopoly on color-neutral lighting cloths for theater stages.⁴ These companies know that their continuing success depends on their ability to deliver the category benefits.

Such examples are rare and limited in scale, however. The general pattern is that a business can achieve long-term growth only by competing in a large and/or growing market and reliably delivering the generic category benefits better than a range of strong, competent, well-resourced competitors. Being 'simply better' is the challenge for businesses in this situation.

What about innovation?

One of the most common arguments for innovation is that it helps brands differentiate. This is absolutely true. But there is a big difference between innovation that focuses on and extends the category core, and innovation that's designed to 'differentiate' a brand. Genuine innovators address real customer needs: they focus their innovation efforts on identifying and providing category benefits better than the competition.

Take Tesco. To gain pole position, Tesco innovated relentlessly. It innovated in its own label offerings to appeal to higher and lower socioeconomic groups at the same time. It extended its range from food

Every company should aim at being best at what matters to customers. Differentiation comes from doing this better, not from being different.

to health and beauty, to clothing, and so on. It created new service initiatives such as its 'one in front' policy - to open up a new checkout as soon as a queue started forming. It introduced new formats for smaller and midsize city centre stores, Tesco Metro and Tesco Express respectively. It was the first to launch home delivery and Internet home shopping on a significant scale.

None of these initiatives was ever likely to remain unique to Tesco. None of them alone could ever be expected to ensure shopper loyalty. But the fact that Tesco was forever improving the way it delivered core category benefits, on many fronts, continually has helped Tesco stand out in the marketplace. Unlike many of its competitors, Tesco did not try to differentiate itself by segmenting the market and focusing on only one segment. It skillfully managed to combine the generic category benefits of price, quality, range and service that are attractive to a broad base of customers. The significance of innovations such as Internet home shopping is not that they create a new 'USP' but that they extend and improve performance of generic category benefits: Tesco saw Tesco.com as just another way to provide these category benefits to its customers.

Summary

The details of how to compete always depend on the context. But the starting-point for every business should be to identify and deliver the generic category benefits better than the competition. Every company serious about customer focus should aim to be the best at the things that matter most to customers. Differentiation comes from doing this better than anyone else, not from trying to be different.

Further Reading

This article is an edited and revised extract from Simply Better: Winning and Keeping Customers by Delivering What Matters Most, Harvard Business School Press, 2004. For more information, see www.simply-better.biz.

- 1 The ACSI is a composite index, not a simple percentage. See Fornell et al "The American Customer Satisfaction Index: Nature, Purpose, and Findings," *Journal of Marketing*, 1996, for interpretation issues.
- 2 Frederick F. Reichheld and Thomas A. Teal, *The Loyalty Effect: the Hidden Force Behind Growth, Profits, and Lasting Value* (Boston: HBS Press, 2001).
- 3 There are exceptions such as perfumes where imagery is a part of the product's value.
- 4 See Hermann Simon, *Hidden Champions: Lessons from 500 of the World's Best Unknown Companies*, Harvard Business School Press, 1996.

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