
UNIT 8 DIFFERENTIATION AND FOCUS

Objectives

After going through this unit, you should be able to:

- 1 understand the concept of differentiation;
- 1 distinguish between tangible and intangible differentiation;
- 1 explain the advantages and disadvantages of differentiation;
- 1 understand the concept of focus; and
- 1 acquaint yourself with variants of focus.

Structure

- 8.1 Introduction
- 8.2 Concept of Differentiation
- 8.3 Types of Differentiation
- 8.4 Sources of Differentiation
- 8.5 Cost of Differentiation
- 8.6 Advantages and Disadvantages of Differentiation
- 8.7 Focus: A Concept
- 8.8 Summary
- 8.9 Key Words
- 8.10 Self-Assessment Questions
- 8.11 References and Further Readings

8.1 INTRODUCTION

Strategy and competitive advantage exist to defend against competitive forces and securing the consumers. Competition in modern times have become a part and parcel of any activity. It has become the deciding factor of regarding the success and failure of any business organization. With competition, the performance of any firm's activities be it creativity, innovation, R & D, organization culture, etc. can be determined. Taking this into view the competitive strategy has been developed. Basically it aims at establishing a profitable and sustainable position against the forces that determine industry competition (Porter, 1985). Strategy and competitive advantage go hand in hand, hence competitive strategy is formulated. Porter has defined business level strategy as competitive strategy and classified it into three basic strategies, vis-a-vis overall cost leadership, differentiation and focus. We have already discussed the concept of cost and cost leadership in unit 7. In this unit, we will discuss differentiation and focus.

Cost leadership stresses on producing quality products at low cost for the consumers who are price sensitive. Differentiation is a strategy, which is directed at producing goods and services considered unique in its industry and directed at consumers who are relatively price-insensitive. Focus strategy concentrates on producing products and services that fulfill the needs of small groups of consumers (David, 1997) and is based on segmentation. To gain competitive advantage, it is essential for the firms to transfer skills and expertise among autonomous business units effectively. The competitive

advantages in cost leadership differentiation and focus can be achieved depending on factors like; type of industry, size of firm, and nature of competition.

Differentiation strategy is more of a positioning strategy whereby the firm tries to be unique in its industry by positioning itself along certain dimensions. The degree of differentiation varies with different strategies.

Differentiation is industry-wide whereas focus strategy is based on a segment or group of segments in the industry. There are two variants of focus strategy, which are cost focus and differentiation focus. This unit discusses all these aspects.

8.2 CONCEPT OF DIFFERENTIATION

Every individual customer is unique in itself so is his/her preferences regarding tastes, preferences, attitudes, etc. These needs of the customers are fulfilled by the firms by producing differentiated products. In our day-to-day life we see many such examples of differentiated products. Most of the fast moving consumer goods like; biscuits, soaps, toothpastes, oils, etc. come under the category of differentiated products. To satisfy the diverse needs of the customers, it becomes essential for the firms to adopt a differentiation strategy. To make this strategy successful, it is necessary for the firms to do extensive research to study the different needs of the customers. A firm is able to differentiate from its competitors if it is able to position itself uniquely at something that is valuable to buyers. Differentiation can lead to **Differential advantage** in which the firm gets the premium in the market, which is more than the cost of providing differentiation. The extent to which the differentiation occurs depends on the overall strategy of the firm. Previously differentiation was viewed narrowly by the firms, but in the present scenario it has become one of the essential components of the firm's strategy. Reliance Infocomm, offers varied products like; different facilities to its customers in the CDMA telephones. This is differentiation.

When we talk of differentiation, it can be said that virtually any product can be differentiated (Sadler, 2004). The greatest potential of differentiation lies in products, which are of complex nature but do not have to adhere to strict regulatory standards, but the success of a differentiation strategy depends on the firm's commitment towards customers and the understanding of customer needs as differentiation is all about perceiving on the part of the customer of something unique. Differentiation can be said to have more competitive advantage than the cost advantage as it is quite difficult to imitate the differentiated products. Even if the initiation is done in terms of concept, then also a particular product remains unique regarding its value, style, packaging, etc. Therefore, when we talk about differentiation, it is important to understand the demand of the customers and fulfilling this demand keeping in mind the differentiation advantage. In this case, one thing the firms should concentrate on its creativity and innovativeness than on market research. We have discussed about the concept of differentiation as a whole but we need to know the why aspect of differentiation, i.e., why do the firms need differentiation?

Need

There are a number of reasons depending on the nature of firm to adopt a differentiation strategy. It is not necessary that the firm should and must go for differentiation strategy if it does not require one. The requirement is need based and depends on the firm's position in the market. There are a number of factors which result in differentiation. Some of them are as follows:

- 1 to compete against the rivals;
- 1 to create entry barriers for newcomers by building a unique product;
- 1 to reduce the threats arising from the substitutes;
- 1 to develop a differentiation advantage.

Looking at these reasons, one can say that differentiation indeed helps the firms to get a competitive advantage over its rival firms.

Activity 1

Give the examples of any three major firms, which have achieved differentiation advantage by adopting differentiation strategy. Do name the differentiated products they are offering.

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- 2)
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- 3)
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8.3 TYPES OF DIFFERENTIATION

Differentiation can be classified into two basic types vis a vis.

- 1 Tangible differentiation
- 1 Intangible differentiation

As the name suggests, tangible means, something which is real and can be seen, touched, etc. whereas intangible means, something which is abstract in nature and cannot be touched, it can just be felt. We have already discussed the tangible aspect. Infact most of the time while discussing differentiation, we actually discuss the intangible differentiation. Table 8.1 shows some of the opportunities available for creating uniqueness within the firm. These opportunities in one way or the other measure the performance of the firm, but when these opportunities are related to the customer’s psychology, the **intangible** aspect to differentiation comes into the picture.

Table 8.1: Opportunity for Creating Uniqueness within the Firm

Activity	Differentiation opportunity
Purchasing	Quality of components and material acquired
Design	Aesthetic appeal Robustness of performance Ease of maintenance
Manufacturing	Minimization of defects
Delivery	Speed in fulfilling customer orders Reliability in meeting promised delivery items
Human Resource Management	Improved training and motivation increases customer service capability
Technology Management	Permits responsiveness to the needs of specific customers
Financial Management	Improves stability of the firm
Marketing	Building of product and company reputation through advertising
Customer Service	Providing pre-sales information to customers

Source: Adapted from Sadler, Philip (2004). *Strategic Management*.

Projecting an image about a particular product is one form of intangible differentiation. This can be done with the help of packaging, style, etc. This shows that tangible as well as intangible go hand in hand and either of them cannot exist independently. Exhibit 1 shows some tangible and intangible components, which result in differentiation of a particular product.

Exhibit 1: Tangible and Intangible Components of Differentiation

Tangible	Intangible
Design	Image
Packaging	Brand
Style	Company reputation
Quality	Customer preferences
Composition	

Intangible differentiation is more effective in those cases where the customer has once experienced the product, for example, chocolates. Every brand has a unique taste, different packaging style, etc. This is the case where quality can be judged only after using the product once but in case where the quality cannot be judged by experience, e.g., medical services, the intangible differentiation is not that effective. In short, it can be said that intangible differentiation is accompanied by tangible differentiation.

8.4 SOURCES OF DIFFERENTIATION

It's not only the low price at which different products are offered, which creates differentiation, instead the firm can differentiate from its competitors by providing something unique, which is valuable to the customers of that product. Differentiation occurs from the specific activities a firm performs and how they affect the buyer.

Value Chain: It shows that differentiation occurs out of the firm's value chain (Porter, 1985). The value activity determines the uniqueness of the product. The value chain consists of a set of value activities resulting in the production of a specified product. The value activities for each differentiated product differs depending on the nature of the product. The steps of value activity range from procurement of raw material to the sale of product. Each differentiated product has its own value activities. To understand this concept, let us take an illustration.

Illustration

Cadbury, a well-known company of dairy products, manufactures different brands of chocolates, i.e., it has a set of differentiated products regarding chocolates. In India, it offers brands like; Dairy Milk, Five Star, Perk, etc. Each product is manufactured through a different set of activities as the taste of each is different.

If we compare the products at the global level, then also they are differentiated. For example, dairy milk in India is eggless whereas in other parts of the globe, it has egg as one of its ingredient. This shows that the product can be differentiated keeping in mind a set of value activities comprising of both tangible and intangible components of differentiation. These activities include all kinds of activities like; marketing activities, financial activities, HR activities, production activities. If these activities are performed properly, then only a differentiated product can satisfy the customers and get premium over the cost of the product.

Location: This is one of the important factors for the firms to have uniqueness. For example, a bank may have its branch which is accessible to the customers, then the bank will gain an edge towards other banks.

Interrelationships: A better service can be offered to the customers by sharing certain activities, e.g., sales force with the firm's sister concerns.

Learning: To perform better and better, continuous improvement is necessary and this comes through continuous learning.

Integration: The firm can be termed as unique, if its level of integration is high. The integration level means the coordination level of value activities.

Scale: Larger the scale, more will be the uniqueness. If small volumes of products are produced, then the uniqueness of the product will be lost over a longer period of time. A very good example can be home-delivery services. The type of scale leading to differentiation varies depending on the individual firm's activities.

Institutional factors: This factor sometimes play a role in making a firm unique, like relationship of management with employees.

Looking at these factors one can say that differentiation is governed by value activities in a value chain and these activities in turn are governed by certain driving factors, which makes the firm unique.

8.5 COST OF DIFFERENTIATION

Differentiation is normally costly. The differentiation adds costs as it involves added features to cater to the needs of the customers. Usually the cost is incurred in the following cases:

- 1 Increased expenditure on training;
- 1 Increased advertising spend to promote the product;
- 1 Cost of hiring highly skilled salesforce;
- 1 Use of more expensive material to improve the quality of the product, etc.

There can be many more cost drivers depending on the nature of the firm's activity. It is not necessary that differentiation is always costly. Some differentiation are surely costly but if the value activities are coordinated properly, the cost can be minimized. The cost of maximizing profits by minimizing costs can surely be achieved. It is believed that differentiation in having more product features can be more costly than having different but more desired features. Similarly, for bigger products, differentiation is likely to be less costly than for the small products like soaps. The cost of differentiation more or less depends on the cost drivers. The cost drivers determine the uniqueness of the differentiation activity for a particular firm. The different forms of differentiation have different effect of cost drivers. But the crux of the whole concept is that the cost be minimized to achieve an appropriate differentiation strategy, which gives a premium price for the product. Though it is very difficult to develop a trade-off between differentiation and cost efficiency but not impossible. This practice is very popular in case of automobile industry where different firms have many variants but the difference is basically related to the features of the product.

With the world becoming smaller due to high technological innovations, differentiation strategies adopted by many firms is accompanied by computer aided work culture. Though application of modern technology increases the cost but on the other hand, the labour cost is reduced to a large extent and technical efficiency achieved is very high. The economies of scale can be exploited to a large extent with the help of a trade-off between cost and differentiation.

8.6 ADVANTAGES AND DISADVANTAGES OF DIFFERENTIATION

Everything is accompanied by advantages and disadvantages and so is differentiation. Let us first discuss the advantages of differentiation followed by disadvantages.

Advantages

- 1 Premium price for the firm;
- 1 Increase in number of units sold;
- 1 Increase in brand loyalty by the customers;
- 1 Sustaining competitive advantage.

Premium price for the firm: When the firm is able to exploit all sources of differentiation that are less costly or are not costly, then the firm can differentiate from its rival firms. There can be many examples like changing the mix of product features than adding more features, which are less costly but differentiate the product giving a competitive advantage, i.e., the price premium to the firm.

Increase in number of units sold: If the product is unique then the demand for it increases, henceforth increasing the number of units sold. A very good example is of Maggie noodles, which has competition from big companies like Top Ramen, but is still considered to be different from its rivals. Here, the number of customers are won by smart differentiating strategy, thereby increasing the number of units sold.

Increase in brand loyalty by the customers: A well-positioned and differentiated product gains the brand loyalty of the customers. For example, Nescafe. It has developed a brand loyalty amongst coffee lovers. First, it came in powdered form, but it differentiated itself by coming in granular form, maintaining the quality. Once experienced, the brand loyalty or customer loyalty for a particular brand is developed.

Sustaining competitive advantage: Last, but not the least, this is the crux of the differentiation. This can be achieved by optimizing cost and increasing profits. It is more often known as low-cost differentiation strategy. It is the combination of all three advantages discussed above.

Looking at these advantages, one can say that encashing the buyer/customer value is the must. The firms must concentrate on those activities which affect the customer value than the ones which do not.

Disadvantages

It is not necessary that everytime the firm goes for differentiation strategy, it is successful. At times there are disadvantages associated with it. Some of the most common disadvantages are:

- 1 Uniqueness of the product not valued by buyers;
- 1 Excess amount of differentiation;
- 1 Loss due to differentiation.

Uniqueness of the product not valued by buyers: There are a number of cases where the differentiated product has not gained importance by the customers, hence failed to position itself in the market. Uniqueness necessarily does not lead to differentiation. More important is the perception of buyers regarding a particular product.

Excess amount of differentiation: Too much of anything is bad. Same is the case with differentiation. If the firm is unable to understand the customer needs and preferences but goes on differentiating the product, then the firm loses its market value. Unnecessary differentiation results in failure.

Loss due to differentiation: In certain cases the firm while differentiating does not realize the importance of coordinated activities in the value chain, which results in high costs. Considering the fact that differentiation always leads to profitability is absolute nonsense. This results in loss to the firms.

The disadvantages associated with differentiation should be looked upon with utmost care by the firms going in for differentiation.

8.7 FOCUS: A CONCEPT

The third business level strategy is focus. Focus is different from other business strategies as it is segment based and has narrow competitive scope. This strategy involves the selection of a market segment, or group of segments, in the industry and meeting the needs of that preferred segment (or niche) better than the other market competitors (Bolter & Mcmanus, 1999). This is also known as a **niche** strategy. In focus strategy, the competitive advantage can be achieved by optimizing strategy for the target segments.

Focus strategy has two variants. They are:

- 1 Cost Focus; and
- 1 Differentiation Focus

Cost focus is where a firm seeks a cost advantage in the target segment; and

Differentiation focus where a firm seeks differentiation in the target segment (Cherumilan, 2004). We shall discuss these variants later.

When we talk about focus strategy as a niche strategy, it means that a market niche is chosen where customers have distinct preferences or requirements. According to Thompson and Strickland the term 'niche' is defined as "geographic uniqueness, by specialised requirements in using the product or by special product attributes that appeal only to niche members" (Rao, 2004).

The success of the focus strategy depends on the difference of the target segment from other segments. To explain this concept, let us take example of soft drink market. Coca Cola and Pepsi are the major players in the Indian market and are rivals but each has developed a competitive advantage by serving different segments offering flavoured drinks as well. Coca Cola has different brands like; Thums Up, Limca and Pepsi has brands like Lehar Pepsi and Sprite catering different market segments. The focuser can also have an above average level of performance by having an appropriate cost-focus and differentiation focus strategies.

Focus strategy can be effective in certain situations only. According to Rao (2004), following can be the situations where a focus strategy is efficient:

- 1 Market segment large enough to be profitable;
- 1 Market segment has good growth potential;
- 1 Market segment is not significant to the success of major competitors;
- 1 Focuser has efficient resources;
- 1 focuser is able to defend against challenges;
- 1 High costs are difficult to the competitors to meet the specialised needs of the niche;
- 1 Focuser is able to choose from different segments.

There can be more situations depending on the need of the focuser.

Focus/niche strategy has certain advantages as well as disadvantages or risks associated with it.

Advantages

Focus strategy, if implemented properly, has following advantages:

- 1) Focuser can defend against Porters competitive forces;
- 1) Focuser can reduce competition from new firms by creating a niche of its own;
- 1) Threat from producers producing substitute products is reduced;
- 1) The bargaining power of the powerful customers is reduced;
- 1) Focus strategy, if combined with low-cost and differentiation strategy, would increase market share and profitability.

Risks

The risks associated with focus strategy can be:

- 1) Market segment may not be large enough to generate profits;
- 1) Segment's need may become less distinct from the main market;
- 1) Competition may take over the target-segment.

We can very well say that the main objective of the focus/niche strategy is to perform a better job of serving buyers in the target market niche than rivals.

Activity 3

List one example each of automobile sector, technology sector, and airlines where the companies of respective sectors have adopted focus strategy.

- 1) Automobile

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- 2) Technology

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- 3) Airlines

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Let us now discuss the two variants of focus.

Cost Focus

This is basically a niche-low cost strategy whereby a cost advantage is achieved in focusers' target segment. According to Porter, cost focus exploits differences in cost behaviour in some segments. In this the focuser concentrates on a narrow buyer segment and out-competes rivals on the basis of lower cost (www.csuchio.edu).

Differentiation Focus

In this, the firm offers niche buyers something different from rivals. Here, the firm seeks differentiation in its target segment. Differentiation focus exploits the special needs of buyers in specified segments. A very good example of differentiation focus is the newly launched MayBach luxury car. This car is targetted to a certain segment where the customers can afford to pay a sum as large as Rs. 6 crore. This is just one example, there can be many more examples where the cost of the product may not be so high.

After understanding all these business/generic strategies, we can say that if all the three are combined and the cost is optimized, then the market share and profitability can be increased. Figure 8.1 explains this concept.

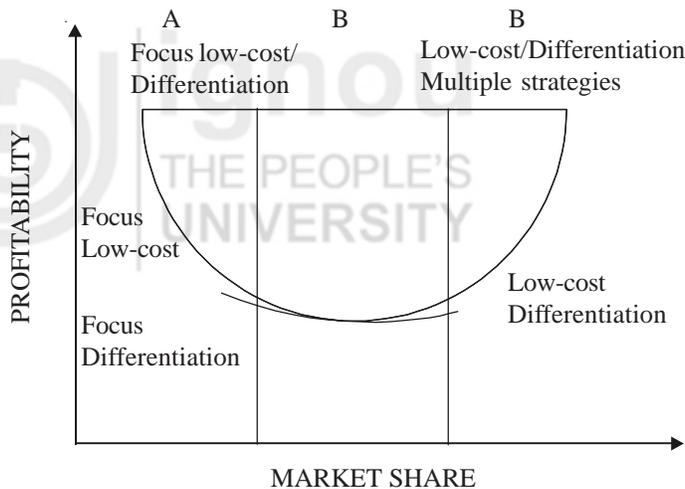


Figure 8.1

Source: Adapted from Rao, P. Subba (2004). *Business Policy and Strategic Management*.

Focus strategy can be a tool to help the management team define and rebuild their business strategy, in turn helping them gain an edge over their competitors.

8.8 SUMMARY

The three business/generic strategies, viz. an overall cost leadership, differentiation and focus, play an important role in the success of a business. All the three strategies can be used individually or in combination to create a sustainable competitive advantage. Porter has specifically suggested that these strategies can be used to defend against the competitive forces.

In unit 7, the concept of cost was discussed. In this unit, the effort has been made to develop an understanding of differentiation and focus and how the two can be brought into practice. In differentiation, the firm tries to be unique in the industry whereas in focus, the firm tries to concentrate on a specific segment or a niche market. Overall, the unit tries to develop a practical approach towards understanding the business strategies.

8.9 KEY WORDS

Competitive advantage: It is about how a firm puts the business strategies into practice.

Differentiation: A strategy where a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers.

Focus: A strategy which involves the selection of a market segment, or group of segments, in the industry and meeting the needs of that preferred segment (or niche) better than the other rivals.

8.10 SELF-ASSESSMENT QUESTIONS

- 1) Explain the concept of differentiation strategy. Illustrate your answer with suitable examples.
- 2) Suppose you are the business strategist of your company, which is into manufacturing FMCGs. What would be your differentiation strategy looking at the present trends? Discuss.
- 3) Is focus strategy relevant in the present context? Discuss.

8.11 REFERENCES AND FURTHER READINGS

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