

Making Differentiation Make a Difference

by Patrick Barwise and Seán Meehan

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By paying attention to what consumers really want, companies can attract new customers and create a distinctive brand.

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It is a widely accepted and rarely challenged tenet of marketing that companies can sustain competitive advantage only through “new and improved” product differentiation based on unique features and benefits. What a mistake.

Many companies wrongly allocate millions of dollars to add a slight twist to their product — a new color, a new taste, a new chemical, or a new label — to distinguish it from the previous version. They put an equal amount of money into promoting their new-and-improved product through advertising and other marketing campaigns. Their return, over the long term, is usually marginal.

Marketers ardently care about those little features because they believe the features make their products and services stand out. That’s

why they try so hard to build their brand’s performance on tidbits like Mennen E (the deodorant with vitamin E), the cereal that proclaims it stays crispy in milk longer than the others, or the Web-enabled refrigerator. But customers hardly seem impressed. With all the brand tinkering that’s gone on in the past decade, the University of Michigan’s American Customer Satisfaction Index, which measures satisfaction for 200 companies in 40 industries, has never exceeded 75 out of a theoretical maximum of 100. Although scores in some industries have risen in the last few years, many industries rate lower today than they did in 1994.

Meaningful Differences

What’s wrong? When companies are so preoccupied with fiddling with

individual products and brands, they lose sight of the value they can create for themselves, and for consumers, by raising the bar for the entire category. If Crest, Exxon Mobil, Tide, Citibank, or Marriott disappeared tomorrow, most American consumers would at worst feel slightly inconvenienced by having to switch to an indistinguishable alternative (how different is Pepsodent, Shell, All, Chase, or Hyatt?). But how would they feel if an entire category — toothpaste, gasoline, detergent, consumer banks, or hotels — disappeared? That would have an effect on their lives they’d notice.

So how can a company be rewarded for getting consumers to notice their role in raising category quality? To start, companies need to know what customers really care

about. In 1993, Unilever launched Mentadent toothpaste, a combination of toothpaste, baking soda, and peroxide delivered through a clever pump. Within two years, Mentadent became a \$250 million brand with a 12 percent share of the U.S. toothpaste market, an impressive figure in this crowded category. Why? Because Unilever understood that dental hygiene is what's on people's minds when they buy toothpaste. So the company created a product that offered superior dental hygiene. Unlike a meaningless pink

pay and exit quickly. Additionally, they expected the pumps and bathrooms to be clean and working.

Some Shell executives were hesitant to accept that merely fixing these basics would revitalize their European gas station business. To convince them otherwise, Ms. O'Driscoll asked senior and middle managers to make regular, unannounced visits to gas stations. She even conducted business meetings at gas station sites, all in an effort to let executives test her conclusions on customers by gauging their response

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Despite companies' constant brand tinkering, many industries rate lower in customer satisfaction today than they did in 1994.

stripe down the middle of the toothpaste, this was differentiation that made a difference.

Because the product-extension mentality of "uniqueness without a difference" is so strong, however, executives who try to manage their brands by influencing category value frequently face an uphill struggle. That was Pat O'Driscoll's experience when she was asked in mid-1999 to lead an effort to improve Shell Oil Company's gasoline sales in its \$30 billion European retail operation. Ms. O'Driscoll, then vice president of European retail sales for the oil giant, conducted extensive customer surveys to determine what really mattered to customers of all gas stations — not just Shell's — and what generally dissatisfied them. Overwhelmingly, customers responded that they want to refuel at a reasonable cost; be sheltered from sun, wind, and rain; and

to Shell's possible new initiative. Finally convinced that customers would respond well, Shell committed to retrofitting its European gas stations to meet these customer requirements by early 2000. The following year, the company reported a double-digit increase in the European region's gasoline sales while its return on capital, which was zero prior to the initiative, reached double digits and exceeded targets.

Maintaining Innovation

This argument is not intended to advocate that companies take their eye off product innovation. In fast-moving industries, where the value added to products and services may quickly be commoditized, it's essential for companies focused on category expectations to be keenly aware of the product features that customers want, and to continue to deliver

them as they improve their offerings and the expectations for the category. If they do not do these things, companies risk losing market leadership.

Orange PLC, a U.K.-based wireless operator, learned this lesson well when it debuted its mobile service, at the same time as another new entrant, in a market that already had two large players. Prior to launching its service in 1994, Orange had learned through consumer satisfaction surveys that cell phone customers were highly critical of mobile phone service providers. They complained about all kinds of issues — how call charges were computed, the mind-numbing number of rate plans, the poor network reliability,

fill: two lines on one phone; ISDN access; conference calling and prepay services; and credits for calls disconnected by the network.

Equity markets appear to have rewarded Orange's strategy. Orange and One2One, another startup, received their licenses at the same time. Both were well capitalized, and they were equally regulated. Neither had a technological advantage over the other. But while One2One stuck with the practices that gave the mobile phone service category a bad reputation among consumers — many calling plans, confusing billing approaches, and quirky networks — Orange sought to change them. In 1999, both

Being a standard-bearer for the cell phone category helped Orange gain substantial competitive momentum.

So Orange promised to reduce disconnected calls and improve reception. It also offered simpler rate plans and free itemized billing, caller ID, and a money-back guarantee if service failed.

None of these ideas was earth-shattering or technically challenging. But in the still relatively new market, being a standard-bearer for the category helped Orange gain substantial competitive momentum.

In response to Orange's success, rivals tried reducing their prices aggressively, threatening Orange's growth and survival. But Orange didn't change its strategy; it continued to add useful differentiating features that satisfied the basic needs customers expected their mobile carriers to ful-

companies were sold: Orange to Mannesmann and One2One to Deutsche Telekom. Orange fetched £20 billion, a premium of £13.1 billion over One2One's price.

What these examples tell us, and what we have learned from our research, is that most companies succeed by consistently satisfying basic customer needs better than the competition, not by continuously pitching them a unique selling proposition. +

Resources

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