IB Business Management
4.2 Differentiation – Summary Notes

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DIFFERENTIATION

Differentiation: Differentiation is the process of distinguishing a product or business from competitors in the market or industry.

Product differentiation: Product differentiation is the marketing process that showcases the differences between products. Differentiation looks to make a product more attractive by contrasting its unique qualities with other competing products. Successful product differentiation creates a competitive advantage for the seller, as customers view these products as unique or superior.

The process of establishing a differentiated product in the minds of consumers will see the firm focus on different elements of the marketing mix:

- **Product**: The design, quality, functions, branding and performance are all features of a product that can differentiate it from other competitive rivals.
- **Price**: There are a wide range of pricing strategies that a business may consider (see Topic 4.5). Businesses can be the price leader in a product category or it could use a premium pricing strategy to match the perceived high quality of the product or brand.
- **Place**: A wider range of customers can be reached through differentiated marketing through retailers, wholesalers and distributors. The internet may prove a good distribution channel for young, busy families, whereas retail shops would suit youth and older market segments better.
- **Promotion**: Promotion is often associated with informing potential customers that a particular product is different in a better way from the competition, and persuading customers to purchase (take action) on this basis. A successful promotional strategy will create a positive perception around the product, often in relation to its unique selling point.

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ADVANTAGES AND DISADVANTAGES OF DIFFERENTIATION

Advantages	Disadvantages
▪ **Brand recognition and loyalty** Having a successful brand that is instantly recognisable and has customer loyalty can be a major source of competitive advantage for a firm in a particular market. It is why firms invest heavily in their branding. A positively differentiated brand will increase sales and enable the company more pricing power when it comes to setting a product's price. Increases profit margins.	▪ **Economies of scale** Cost savings cannot be fully exploited if mass production is not being engaged in. The lower average cost associated with producing large numbers of a single product will be much lower than the costs associated with producing smaller numbers of a differentiated product, including the marketing costs. Economies of scale can be exploited to provide a lower cost product than that of a firm's competitors. Again, a source of differentiation!
▪ **Price advantages** Undifferentiated or homogenous products enable very limited ability to set and control prices. A stand product that is similar to that of the competition will be assessed by the consumer on its price. With positive differentiation comes an increased ability to set prices on terms more favourable to the firm, as the product is often perceived as having more inherent value.	▪ **Differentiation** Differentiation can be expensive and lead to higher costs; special promotions and investment into product research and innovation increase costs. Large companies are better suited to differentiate their products because they have the financial wherewithal to do so.
▪ **Distribution advantages** Retail is ruthless. Store and shelf space is limited. The best-selling brands are often the ones that are preferentially stocked and provided with prime store placement. The best-selling brands are those that have successful product differentiation.	▪ **Excessive differentiation** If too many products are differentiated customers can end up confused. Not only does it strain a company's resources to successfully differentiate itself and its products, consumers can be turned off by too much choice and not make a purchase altogether. See **Barry Schwartz: The Paradox of Choice**, embedded here.