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Creating Differentiation: Be Unique or Be Gone

by Rich Horwath

All competitors who persist over time must maintain a unique advantage by differentiation over all others. Managing that differentiation is the essence of long-term business strategy.

--Bruce Henderson
Founder, Boston Consulting Group

What is not different is not strategic.

--Gary Hamel
Founder, Strategos

Strategy entails performing different activities from rivals or performing similar activities in different ways.

--Michael Porter
Professor, Harvard Business School

As these renowned strategists have noted, differentiation is at the heart of strategy. Possessing the mindset of continually seeking ways to do things uniquely is at the core of strategic thinking. The business landscape is littered with failed efforts to do the exact same things as competitors, only faster or better. Look at most industry categories and find the companies that are fourth, fifth or sixth in a market. It's a good bet they are simply imitating the strategy of the market leaders. Strategic thinking, by its very nature, demands a unique approach.

The basis of differentiation for strategic advantage also has roots in science. In 1934, a Moscow University researcher named G.F. Gause, known as the "father of mathematical biology," published the results of a set of experiments. In his experiments, he put two very small animals (protozoans) of the same genus in a bottle with an adequate supply of food. If the animals were of different species, they could survive and persist together. However, if the animals were of the same species, they could not survive together. This led to the Principle of Competitive Exclusion:

No two species can coexist that make their living in the identical way.

When we examine the business landscape, it becomes evident that the majority of successful enterprises have been driven by creating differentiation. Industries such as bottled water and bagged lettuce have shown us that profitable differentiation can be created for any product or service category.

Differentiation may be actual or perceived, as long as it exists in the mind of the customer. This is the premise of the concept of positioning, popularized by Al Ries and Jack Trout with their work *Positioning: The Battle for Your Mind*. They've advocated the importance of owning a differentiated word or phrase regarding the product/service in the mind of the customer (i.e., Volvo—safety; Rolex—status; Krispy Kreme—mouth-watering taste). Once this focused position has been established, all of the marketing, advertising and sales activity is geared toward supporting and driving home that message.

Trade-offs

The ability to create differentiation is preceded by one's willingness to make trade-offs. Trade-offs occur when more of one thing necessitates less of another. One cannot hope to hold the cost leadership position *and* provide the best customer service in the industry—the two activities are mutually exclusive. Trade-offs inherently prevent competitors from straddling and constantly repositioning by forcing them to either dramatically allocate resources to the area you have or pursue a different path.

Making trade-offs is one of the most difficult tasks for most companies, and the result is that most companies never do make the necessary trade-offs. Instead, they hedge their bets and abide by the adage of "trying to

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be everything to everyone." Retailers such as Sears and Kmart have shown us that the new equation is…

Everything = Nothing

By not making trade-offs and trying to do a little bit of everything for everyone, you wind up standing for nothing in customers' minds. Without trade-offs, strategy is not sustainable because any good, singular idea could be quickly imitated. Strategy is as much about choosing what *not* to do as it is in choosing what to do. Failure to identify the "nots" will weaken the legs of your differentiation platform.

A simple exercise in examining your trade-offs is to answer these three questions:

1. Who are we serving?
2. What are we offering?
3. How are we uniquely offering it?

Then answer the opposite of those questions:

1. Who are we not serving?
2. What are we not offering?
3. How will we not offer it?

By providing answers to both sets of questions, a clearer picture of the driving forces behind your differentiation will emerge. Trade-offs build your platform of differentiation versus competitors. Dell chooses to work on a direct sales model rather than through multilevel distribution channels. Southwest Airlines chooses to work on the point-to-point model instead of the hub-and-spoke model. Both have made trade-offs and both have differentiated themselves in their respective industries.

As we noted earlier, many business people refuse to make trade-offs because of the inherent risk they bring. Ray Kroc, former CEO and leader of McDonald's, brings the ideas of risk and differentiation full circle:

You've got to take calculated risks. Happiness is a by-product of achievement. Where there is no risk, there is no achievement. And where there is no achievement, there is no real happiness. To be successful, you've got to be daring, you've got to be first and you've got to be different.

Ray Kroc was a Storm Rider.

The Pull of the Status Quo

When faced with a decision and the opportunity to choose a bold new direction by making trade-offs, people have a strong affinity to the status quo. The reason we lean toward the status quo is our desire to avoid the discomfort, embarrassment or damage the ego suffers as a result of making a "wrong" decision. Making a decision that alters the status quo means taking action, which results in responsibility, and ultimately opens us up to criticism and regret. The status quo is safe. Be aware of the pull of the status quo and don't allow it to diminish your capacity to think strategically.

Strategy vs. Operations

In his 1996 *Harvard Business Review* article entitled "What is Strategy?," Michael Porter makes the case for several ways to create differentiation. Porter suggests that differentiation takes one of two forms:

1. Performing different activities than the competition.

2. Performing similar activities as the competition in a different manner.

One example of a company utilizing different activities is Peapod. The grocery delivery company has developed their business around bringing groceries to customers' homes, as opposed to customers shopping at a store. While the economic feasibility of their strategy remains to be seen, their differentiated activity comprises a distinct strategy.

An example of a company performing similar activities in a different manner can be seen with Sephora. The cosmetic and fragrance shop has taken the same activity as their competitors (selling in a retail outlet) and done it in a different manner by creating visually engaging video wall displays, removing the commission-driven salesperson from the equation, and arranging products by category and color. The result is an innovative, customer-centric way to purchase cosmetics and fragrances.

Operational Effectiveness

Operational effectiveness is the proverbial wolf in strategy's clothing. The concept of operational

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effectiveness is very often confused with strategy, which can lead to disastrous results. If a company is not engaged in one of the two methods of differentiation Porter outlined, then they are most likely only employing operational effectiveness.

Operational effectiveness is performing similar activities in a similar manner to rivals. The goal here is to perform the same activities better, faster or more efficiently than the competition. Contrast that with strategy's essence of differentiation. As strategy was born from the need for an army to defeat their enemy, strategy is inherently necessary to long-term success whenever competition exists.

No competition = Operational effectiveness

Competition = Operational effectiveness + Strategy

While operational effectiveness is an important component of the overall business, it alone will eventually result in failure in the face of competition. Witness airline industry titans United Airlines and American Airlines. When new competition in the form of low-cost carriers such as Southwest Airlines and JetBlue emerged, they continued to function without differentiation and relied solely on their scale and operational effectiveness. Add into the mix altered customer value drivers, a changing economic climate and terrorism, and their financial pictures dampened dramatically.

If your company is not employing or portraying differentiation in the marketplace, then operational effectiveness will only take you so far before the Principle of Competitive Exclusion ensures that you become someone else's lunch. ☐

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