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COMPETITIVE PRODUCT ADVANTAGES

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Cost advantages may be either internal or external. Internal economics of scope, scale, or experience, and external economies of focus or logistical integration, enable a company to produce some products at a lower cost than the competition. The coordination of pricing with suppliers, although not actually economizing resources, can improve the efficiency of pricing by avoiding the incrementalization of a supplier's nonincremental fixed costs and profit. Any of these strategies can generate cost advantages that are, at least in the short run, sustainable. Even cost advantages that are not sustainable, however, can generate temporary savings that are often the key to building more sustainable cost or product advantages later..
Even when a product's physical attributes are not readily differentiable, opportunities to develop product advantages remain. The augmented product that customers buy is more than the particular product or service exchanged. It includes all sorts of ancillary services and intangible relationships that make buying the same product from one company less difficult, less risky, or more pleasant than buying from a competitor. Superior augmentation of the same basic product can add substantial value in the eyes of consumers, leading them to pay willingly what are often considerable price premiums.

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When a product offers buyers nothing more than its competition, the purchase decision tends to focus on price alone. An undifferentiated product leaves the most important determinant of price sensitivity the unique value effect working against the seller. Unless one or more of the other determinants is very favorable (that is, buyers do not know of the substitutes, the expenditure is too small to consider, or they are locked in by complementary expenditures), the resulting price sensitivity creates the potential for intense price competition. Even if cooperation can be maintained to minimize downward pressure on prices, there is little opportunity for growth beyond the growth in total market demand. There is also the constant threat of additional entry by smaller competitors whose interests will not be consistent with cooperative pricing. The kinds of cost advantages discussed can partially shield profits tram competitive price-cutting but cannot eliminate the threat itself. The key to disarming the threat is to minimize buyers' price sensitivity through differentiation.

Product Superiority

One way to achieve differentiation is through constant innovation. Some companies-Procter & Gamble, Johnson & Johnson, 3M, Du Pont Pfizer-seem to possess an uncanny ability to maintain profitable prices by offering a constant stream of new and improved products, one step ahead of the competition. The advantages of product uniqueness are not limited to companies that can develop patentable products in costly research facilities. Even in the most mundane markets, a few companies differentiate their products in ways that enable them to achieve premium prices.

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Loctite, a small company just a few years ago, has been particularly successful in making small product changes with big effects on pricing. After six weeks of interviewing product users, it reintroduced a new and improved version of its existing industrial adhesive under the name Quick Metal. Designed to keep broken equipment running until replacement parts arrive. Loctite targeted maintenance engineers who had authorization to purchase whatever they needed to repair broken equipment quickly. The new product was essentially the old one reformulated as a gel (to make it less messy) and repackaged in a tube (to make it easier to apply). Because of the high value of those simple improvements to users Quick Metal became a runaway success in spite of a price premium of nearly 100 percent.

The key to offering a differentiated product is a clear understanding of the hovers. their product needs, the support they require, and their preferred ways of purchasing. Even when product differentiation is made possible by technologies, one must first understand buyers' problems in order to recognize how technology might solve them.

The North Face (performance clothing, equipment, and footwear). Cannondale (bicycles), and Marmot (performance outdoor products) are all examples of companies whose success is built on knowledge of the people their products serve and the problems they encounter. Almost and good company has the technical ability to develop product lines such as these companies offer, but few have the necessary understanding of the *needs* that the products are designed to satisfy.

These companies cater to the unmet needs of outdoor enthusiasts. Practically ever thing they sell offers something that the competition does not: extra zippers for easy ventilation. Y-joint sleeves that allow arms to he raised freely without pulling up the jacket, and hoods with cutaway sides for better peripheral vision. Those additional features are worth a lot to their customer's when they are facing the elements far from a warm cabin, biking 100 miles, or making an ascent up a sheer cliff.

Product Augmentation

Are some products just inherently undifferentiable ? In his classic article "Marketing Success Through Differentiation-of Anything", Theodore Levitt makes a compelling case that any product can, in principle, be distinguished from the commodity mass. The key is recognizing that what buyers purchase is morn than just the physical product or particular service exchanged. They buy an entire package-including the ease of purchase, terms of credit, reliability of delivery, pleasantness of personal interactions, fairness in handling complaints, and so on-that is called the called the augmented product. Even when the physical product or service is immutable, the augmented product is invariably differentiable.

Consider Premier Industrial Corporation, whose maintenance division sells a variety of nuts, bolts, lubricants, welding supplies, and other products that people think of as commodities, but these products arc not sold or priced as commodities by Premier.

When Premier sells oil for heavy-duty truck engines the buyer can send a sample to the company a Premier-supplied mailing canister and get free computer analysts that aids in engine maintenance. At the Indianapolis 500 race, Premier sets up a complete parts shop that not only builds goodwill with influential mechanics and designers, but also lets them see the quality of Premier's products under adverse conditions. What Premier does not do is cut price in this or any of its other divisions. By augmenting its common products to make them uncommon values, it does not have to.

Some companies are able to charge premium prices even when their products are technically inferior because their superior augmentations overcome those deficiencies. Although WordPerfect software may not offer the seamless integration that Microsoft's products possess under Windows, its outstanding on-line help and customer support help maintain market share in a market dominated by Microsoft Word. To find opportunities for successful augmentation one must look beyond the obvious.

Similar augmentations hays successfully differentiated fertilizer, airfreight, vinyl latex, and, more recently, financial services-all products usually thought of as inherently the same across sellers. Successful augmentations have also enhanced the inherent differences in household kitchen appliances (augmented with cooking classes and magazines), breakfast cereals (augmented with games printed on the box), and retail outlets (augmented with uniquely appealing displays or exceptional service).

Given the opportunity to augment, any firm selling any product can offer buyers something extra that will limit price sensitivity or increase differentiation value.

Finding that something extra is not easy. It usually requires a total commitment by the entire organization. There is much evidence that such a commitment can produce a profitable augmented product. even where the physical product is at best minimally differentiable.

Sustaining Product Ad-vantages

Unfortunately, product advantages are sometimes short-lived. When a soap company enhances its detergent with a lemon scent, a paper company packages tissues in designer boxes, or a clothing company makes skirts in a new style, competitors imitate the successful improvements within a short time. Unless a company has a unique ability to bring forth a constant stream of such improvements, it often provides little basis for sustained profitability. Some product improvements produce competitive advantages that can be sustained: enabling a company to skim a small market indefinitely or to set prices that are high in dollar terms but is neutral or penetrating when compared with economic value.

There are a number of reasons why the first company to improve its product offering may enjoy *a first-mover advantage* that is sustainable against competitive imitation.

Known Supplier

When a product's differentiation involves an attribute that consumers cannel easily observe without first buying the product (such as reliability, cleaning power, or taste), it gains a sustainable competitive advantage as the known supplier. When comparison among brands is easy, any imitator who offers even a small price discount can be attractive to a large market segment.

Why pay more for what is obviously the same thing? When comparison is difficult, imitators must offer a substantial discount to induce buyers to learn that their products are comparable. Hence the first mover with a new differentiation can often sustain its position in spite of a price premium. That premium, however, can be no greater than the cost for buyers to confirm the claims of competitors.

Buyers' Investments

When a company's product requires that buyers make investments such as in employee training, or complementary products, buyers will be reluctant to switch suppliers if it means making those investments again. They will accept a price premium as long as the total premium they spend on the original brand is less than the value of sunk investments (the switching cost effect).

Although Microsoft promoted the superior value of its spreadsheet and database software (Excel and Access), most users of Lotus (Lotus 1-2-3) and Borland (Dbase) products remained loyal to their older packages, giving's Lotus and Borland time to incorporate the improvements. Although buyers acknowledge the improved performance of the Microsoft packages, the value of that performance did not exceed the sunken investment they made learning their old packages, or the required investment to learn new ones.

Channel Preemption

The more brands that distributors and retailers carry, the greater their inventory, stocking, and purchasing costs. Like consumers, they will try the first brand simply because it is unique, hoping that it will attract new customers. They are reluctant, however, to carry me-too brands, unless they receive a larger margin to compensate for their trouble. That raises costs for imitators, reducing their ability to undercut the first mover's prices.

Scarce Resource Preemption

The first mover enjoys the first pick of scarce resources. As springy, waters became popular, the first movers could buy or lease those springs with water and the easiest access. Similarly, the first pay-TV channels contracted for the best reruns, and as discount airlines began to proliferate following deregulation, the first movers got the best choices of available gates at airports.

Niche Marketing

Many products are differentiated to appeal only to a small niche in the marketplace. The product advantage of serving a niche is often sustainable because of economics of scale, even when the extent of those economics is small in relation to the total market. The market may just not be large enough to support many companies serving those same small segments.

Image

The first mover's innovativeness often gives its name a certain cachet with buyers that competitors find difficult to imitate, even when they can imitate the product itself. Because the best auto mechanics all bought Snap-on brand tools when there was no other brand of comparable quality, ownership of Snap-on tools has become a standard by which many garages now judge a mechanics competence. Even when competitors can easily imitate a first mover's product, images are difficult to duplicate. Moreover, the imitator's lack of image cannot easily be overcome by price-cutting without further undermining buyers' perceptions of their quality (the price-quality effect). Part of what differentiates Perrier from other spring waters is precisely its image as an expensive indulgence.

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