Discovering New Points of Differentiation

by Ian C. MacMillan and Rita Gunther McGrath
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Most profitable strategies are built on differentiation: offering customers something they value that competitors don’t have. But most companies, in seeking to differentiate themselves, focus their energy only on their products or services. In fact, a company has the opportunity to differentiate itself at every point where it comes in contact with its customers – from the moment customers realize that they need a product or service to the time when they no longer want it and decide to dispose of it. We believe that if companies open up their creative thinking to their customers’ entire experience with a product or service – what we call the consumption chain – they can uncover opportunities to position their offerings in ways that they, and their competitors, would never have thought possible.

Take the case of Blyth Industries, a candle manufacturer. By differentiating and redifferentiating its products, Blyth has been able to grow from a $2 million U.S. producer of candles used for religious purposes to a global candle and accessory business with nearly $500 million in sales and a market value of $1.2 billion. Not bad for a company in an industry that, as CEO Robert B. Goergen says, “has been in decline for 300 years.” Blyth’s story is, quite simply, a manifestation of the power of strategic differentiation.

Business history is full of stories of entrepreneurs who stumbled upon a great idea that then became the cornerstone of a successful company. But finding ways to differentiate one’s company doesn’t have to be an act of genius or intuition. It is a skill that can be developed and nurtured. We have designed a two-part approach that can help companies continually identify new points of differentiation and develop the ability to generate successful differentiation strategies. The first part, “Mapping the Consumption Chain,” captures the customer’s total experience with a product or service. The second, “Analyzing Your Customer’s Experience,” shows managers how directed brainstorming about each step in the consumption chain
can elicit numerous ways to differentiate even the most mundane product or service.

Mapping the Consumption Chain

As we’ve said, the first step toward strategic differentiation is to map your customer’s entire experience with your product or service. We recommend that companies perform this exercise for each important customer segment.

To begin, assemble groups from all areas of your company—in particular, those employees who use marketing data and those who have face-to-face or phone contact with customers. Charge the groups with identifying, for each major market segment, all the steps through which customers pass from the time they first become aware of your product to the time when they finally have to dispose of it or discontinue using it.

Naturally, every product or service will have a somewhat different consumption chain. However, a few activities are common to most chains. Consider the following questions, each of which illustrates one of those activities. Then, as the group begins to get a feel for the special relationship between your customers and your products, ask questions about more complex activities that pertain to your business.

How do people become aware of their need for your product or service? Are consumers aware that you can satisfy their need? Are they aware that they even have a need that can be satisfied? Your company can create a powerful source of differentiation if it can make consumers aware of a need in a way that is unique and subtle. Consider the problem of differentiating an everyday consumer product, such as a toothbrush. For many people, brushing is a ritual to which they pay relatively little attention. As a consequence, many brushes are used well past the point when their bristles are worn and are no longer effective. Toothbrush maker Oral-B discovered a way to capitalize on this widespread habit. The company, by introducing a patented blue dye in the center bristles of its toothbrushes, found a way to have the brush itself communicate to the customer. As the brush is used, the dye gradually fades. When the dye is gone, the brush is no longer effective and should be replaced. Customers are thus made aware of a need that previously had gone unrecognized. So far, the idea sounds like something out of Marketing 101. What gives it particular value is that the need can be filled only by Oral-B’s patented process. The company turned differentiation into a competitive advantage.

How do consumers find your offering? Opportunities for differentiating on the basis of the search process include making your prod-
Can you make the buying process more convenient and less irritating?

product available when others are not (24-hour telephone-order lines), offering your product in places where competitors do not offer theirs (the mini McDonald’s outlets in Walmart stores), and making your product ubiquitous (Coca-Cola). Making the search process less complicated, more convenient, less expensive, and more habitual are all ways in which companies can differentiate themselves. And when competitors can’t or won’t do the same—at least, not right away—you have the potential for a strategic advantage.

One example is the rapid growth of catalog sales in channels formerly dominated by retail chains. Consumers now can obtain detailed, up-to-the-minute information about a breathtaking range of products over the telephone or through the Internet, without enduring the inconvenience of visiting a showroom and the often inadequate knowledge of the floor sales staff. The PC Connection & Mac Connection, a company that sells computers through its catalog, operates a 24-hour-a-day, seven-day-a-week toll-free phone number for people wanting information about computers, software, and related products. When a caller expresses an interest in buying a computer system, a company representative asks a set of questions to narrow from selecting their products, while your procedures encourage people to come to you. Citibank for years captured a significant share of the college student market for credit cards simply by making it easy for students to obtain a card while competitors made it difficult.

Another example of this dynamic is playing out right now in the used-car business. For many potential customers, the experience of choosing a used car is an ordeal— to the point where one CEO of a major automaker observed that some people would rather have a root canal. But a new method of selecting cars is transforming the industry. Companies such as CarMax Auto Superstore and AutoNation USA have targeted the selection experience as their competitive focus. At a CarMax showroom, customers sit in front of a computer and specify what features they are looking for in an automobile. They can then, in private, scroll through detailed descriptions of cars that might meet their needs. The final (and only) price for each vehicle is listed. A sales assistant then lets the customers inspect the autos that interest them and handles all the paperwork if they decide to buy one. The “selling” is done not by the salespeople but by the selection process the customers create for themselves.

Can you make the buying process more convenient and less irritating?

CarMax and AutoNation “sell” cars by letting customers create their own selection process.

How do customers order and purchase your product or service? This question is particularly important for relatively low-cost, high-volume items. Can a company differentiate itself by making the process of ordering and purchasing more convenient?

American Hospital Supply revolutionized its industry by radically simplifying the ordering and restocking process for such products as bandages, tongue depressors, syringes, and disinfectants. The company installed computer terminals at each hospital and medical supply store with which it did business. The terminals connected those customers directly to the company’s system, allowing direct drop shipment and automatic restocking whenever supplies fell below a certain level. Hallmark uses a similar approach for its greeting cards.

Many companies, including ice-cream makers and pet-food manufacturers, are also using this method to stock supermarket shelves, reaping the benefits of preferred access to these crucial outlets as well as of superior displays. Another, more subtle benefit of this form of differentiation is that it imposes a switching cost on customers that might be tempted to try another supplier. Once customers have signed on, it is expensive for them to switch; this deterrent creates a barrier to competition, and, once again, a potential strategic advantage for the supplier.

How is your product or service delivered? Delivery affords many opportunities for differentiation, especially if the product is an impulse purchase or if the customer needs it immediately. Let’s return to our catalog computer dealer, the PC Connection. Customers can call its toll-free number as late as 3 A.M. to receive “next-day” shipments of items in stock. How does the company do it? The amazing turnaround times are possible because the warehousing and distribution facilities are conveniently located near an Airborne Express hub. Packages can be picked up at the warehouse, transferred to Airborne, and shipped to the customer in a matter of hours. Not only does this delivery strategy constitute a real benefit for customers, but, because there are a limited number of opportunities for such a warehouse-hub connection, competitors will find it hard to adopt the same strategy.
What happens when your product or service is delivered? An often overlooked opportunity for differentiation lies in considering what has to happen from the time a company delivers a product to the time the customer actually uses it. Opening, inspecting, transporting, and assembling products are frequently major issues for customers.

That applies even to the delivery of services. Consider how difficult it can be to get an auto accident claim processed and paid by an insurance company. Now consider how Progressive Insurance of Cleveland, Ohio, tackled the problem. The company has a fleet of claims adjusters on the road every day, ready to rush to the scene of any auto accident in their territory. There they can record all the information they need and often settle claims on the spot for policyholders. The process has greatly increased customer satisfaction by eliminating the hassle and delay that so often accompany conventional reporting, inspection, and assessment methods. A side benefit for the company is that its approach also has decreased the incidence of fraud by reducing the opportunity to file false claims and inflate repair bills.

How is your product installed? This step in the consumption chain is particularly relevant for companies with complex products. For example, installation has presented an enormous barrier for computer manufacturers trying to break into the novice-PC-user market. Computer beginners are notoriously intolerant of such on-screen messages as “Disk Error 23.”

Compaq Computer, with its Presario line, was among the first to target installation as a source of differentiation. Instead of providing an instruction book filled with technical terminology, Compaq offers its customers a poster that clearly illustrates the ten installation steps. The company uses color-coded cords, cables, and outlets to simplify installation further and also has rigged its computers so that a cheerful video and audio presentation leads new users through the setup and registration process when they first turn on the machine.

How is your product or service paid for? Many companies unwittingly cause their customers major difficulties with their payment policies. Here’s a test to see whether payment might be such an issue for your customers: Take a walk over to your accounts-receivable department and ask to see a copy of a recent invoice. If your company is anything like about 80% of those we have worked with, the invoice will be virtually incomprehensible. Why? Because invoices are generally designed by systems people for systems, not customers. Given the prevalence of this situation, your company may find opportunities to set itself apart by making the whole payment process easier for customers to understand.

You may discover even greater opportunities by rethinking why your company uses its current payment policy in the first place. We once worked with a company in the energy control business that was having a hard time selling its services to residential co-op owners. At every co-op, the company ran into opposition from a hard core of owners who resisted the capital outlay involved in installing an energy management system. The company eventually won a huge share of the co-op market by altering its policy. Customers no longer pay an up-front installation fee; instead, they pay over time, out of the energy savings.

How is your product stored? When it is expensive, inconvenient, or downright dangerous for customers to have a product simply sitting around, the opportunities for differentiation abound. Air Products and Chemicals, a producer of industrial gases, grew to dominate its market segments by addressing the problem of storage. Realizing that most of its customers—chemical companies—would rather avoid the burden of having to store vast quantities of dangerous high-pressure gases, Air Products built small industrial-gas plants next to customers’ sites. The
move pleased customers; it also generated switching costs. Best of all, once an Air Products plant was in place, competitors had little opportunity to move in.

**How is your product moved around?** What difficulties do customers encounter when they must transport a product from one location to another? Whether the journey is across a room or across a state, this step in the consumption chain is another often-overlooked opportunity for differentiation. Ask yourself the following questions: Does the customer find the product fragile? Difficult to package? Awkward to move?

Consider how John Sculley’s marketing team at Pepsi-Cola used packaging as a way to differentiate Pepsi from Coke. Sculley’s team created a distinct—if temporary—advantage for Pepsi in the early 1970s by designing plastic bottles that were lighter, and thus easier for customers to carry, than the heavy glass bottles of the time. The beauty of the move was that it not only made carrying soda easier, but it also reduced the advantage of Coke’s well-known contoured glass bottle. At the time, it was difficult to produce plastic bottles in that shape.

**What is the customer really using your product for?** Finding better ways for customers to use a product or service is a powerful differentiator. And such opportunities abound, especially for companies whose products are expensive and used relatively infrequently. General Electric’s Transportation Systems division, which manufactures diesel-electric locomotives, used this step in the consumption chain as the basis for rethinking its business.

With few exceptions, the railroads that are the customers for GE’s locomotives are not all that attached to a particular unit. What they really want to know is, if they have freight to ship, will a locomotive be there to haul it? GE is working on an arrangement through which the company will guarantee that a locomotive will be available on demand. Under that arrangement, GE will take over the management of all the engines in the customer’s system. It will relieve the customer of repair and maintenance concerns, and also will gain economies of scale by managing an entire network. What’s more, the entry barrier created by such a system can be formidable.

**What do customers need help with when they use your product?** The company with the most helpful response has a significant advantage here. GE, for instance, has an enormously popular 800 number that is available 24 hours a day to help people who have difficulty using any of the company’s consumer products. Similarly, Butterball Turkey’s 24-hour hot line fields cooking questions from hundreds of customers every Thanksgiving. Butterball has recently supplemented its hot line with an Internet home page and a turkey-cooking guide that its customers can download.

**What about returns or exchanges?** Too many companies put all their efforts into the selling side of the product life cycle, forgetting that long-term loyalty requires attention to customers’ needs throughout their experience with a product. Handling things well when the product doesn’t work out can be as powerful as meeting the need that motivated the initial purchase.

Nordstrom is an excellent example of a company that has taken this issue to heart. The clothing retailer captured national publicity in the 1970s when one of its store managers “took back” a set of tires from a customer despite the fact that Nordstrom did not sell tires. By focusing on and aggressively promoting its no-questions-asked return policy, Nordstrom has enhanced its position as a company that provides unique customer service. Customers may be unhappy with the brands they return, but they are not unhappy with the store.

**How is your product repaired or serviced?** As many users of high-tech products will attest, repair experiences—both good and bad—can influence a lifetime of subsequent purchases.
An ideal solution, used by Tandem Computers—a company that makes computers with parallel central-processing units for applications in which downtime is a major problem—is to try to repair a product even before the customer is aware that such service is needed. Tandem staff members can spot a malfunctioning component through remote diagnostics, send the appropriate part and instructions to the customer by express mail, and walk the customer through the repair process on the phone. This approach has almost completely eliminated expensive and inconvenient downtime for the company’s customers; it also has eliminated their need for a costly on-site service force.

Otis Elevator uses remote diagnostics in a different way. In high-traffic office buildings, where servicing elevators is a major inconvenience to occupants and visitors alike, Otis uses its remote-diagnosis capabilities to predict possible service interruptions. It sends employees to carry out preventive maintenance in the evening, when traffic is light.

What happens when your product is disposed of or no longer used? In a world in which it is becoming increasingly economical simply to replace many products as they age rather than spend the money to fix them, what do customers do with the obsolete goods?

Canon offers an interesting example of how a company can differentiate itself at this step in the chain. It has developed a system that allows customers to return spent printer cartridges at Canon’s expense. The cartridges are then rehabilitated and resold as such. The process makes it easy for customers to return used cartridges: all they need to do is drop the prepaid package off at a United Parcel Service collection station. At the same time, it enhances the image of Canon as an environmentally friendly organization.

Analyzing Your Customer’s Experience

Although mapping the consumption chain is a useful tool in itself, the strategic value of our approach...
To analyze your customer’s experience, consider how five simple questions apply at each link in the chain.

ways interacting with people, places, occasions, or activities. Those interactions determine the customer’s feelings toward your product or service at each link in the chain. When they are viewed strategically, they can shape the dynamics of competition for that customer’s business.

Essentially, this step involves considering how a series of simple questions—what, where, who, when, and how—apply at each link in the consumption chain. We have found that the most rewarding way to approach this exercise is to have a group of people from a company start down a path with any of their questions and brainstorm until their ideas dry up. Sometimes a given question will not lead to any particular insight. That’s not a problem; the goal is to assemble an inventory of possible points of differentiation. Once the ideas are on the table, you can assess each one and select those that are most promising for your situation.

Blyth Industries, the candle manufacturer we mentioned earlier, provides a good example of how analyzing your customer’s experience works in practice. By exploring the options raised by their analysis, Blyth employees were able to take a prosaic product that is easy to imitate and create a profitable competitive advantage. What is important to understand here is that Blyth makes no pretense of being able to create the fabled “sustained competitive advantage” – so beloved of strategy texts – in any single segment of the candle market. Rather, what the company seeks to do is be the first to create and then dominate many small niches in rapid succession over time, gaining economies of distribution and scale by the sheer number of products it has in the marketplace.

Consider some of the possibilities that Blyth employees uncovered when they applied the questions to their business:

**What?** What are customers doing at each point in the consumption chain? What else would they like to be doing?

**Where?** Where are your customers at any given link in the chain? What else would they be at this link? What problems could they be experiencing? (These problems may not be directly related to your product or service.) Is there anything you can do to enhance their experience while they are at this stage of the chain?

**Who?** Who else is with the customer at any given link in the chain? Do those other people have any influence over the customer? Are their thoughts or concerns important? If you could arrange it, who else might be with the customer? If you could arrange it, how might those other people influence the customer’s decision to buy your product?

Honing in on the line of thinking Blyth used about domestic candles, consider the use of candles in the dining room. Who else is going to be there? The other people could be members of the immediate or extended family, business associates, close friends, or a suitor. Each type of person means a possible point of differentiation; each type means a different experience, a different mood, and a different time.

**When?** When—at what time of day or night, on what day of the week, at what time of the year—are your customers at any given link in the chain? Does this timing cause any problems? If you could arrange it, when would they be at this link?

Take the scenario of a dining room with the family. Blyth found that the question _when_ uncovered a wealth of opportunities for differentiation. Candles are used in the dining room...
with the family on birthdays, anniversaries, holidays, and graduation days, and at meals marking other special occasions. Each occasion provides a distinct experience. Important for a candle maker, each also triggers distinct emotions. Blyth employees were able to identify what became several successful new areas of differentiation by exploring how their candles might be designed in special shapes, colors, or scents. They also came up with a variety of ways to package the candles and combine them with such accessories as napkins to suit each situation.

Candles intended for use with family members at Thanksgiving, for example, might be scented with cinnamon, colored in tones associated with the holiday, and sold with special holders.

Because there are many holidays and other occasions when families get together in the dining room, you can begin to get a sense of the opportunities available for differentiation. Moreover, the process can be repeated for as many different companions and settings as the imagination of your employees can contemplate. Blyth, for example, also has found a tremendous opportunity to differentiate its products for romantic meals. CEO Goergen has worked hard to design scented candles in various shapes in order to influence the ambience of such occasions so that, as he says, “eating becomes dining, and dining becomes romance.”

How? How are your customers’ needs being addressed? Do they have any concerns about the way in which your company is meeting their needs? How else might you attend to their needs and concerns?

Think about how candles are used outdoors—say, at a company barbecue. Citronella candles come to mind. In addition to creating a festive atmosphere, they are an attractive way to protect people from insect bites.

As we’ve seen, there is considerable potential for differentiation even in products so simple that at first blush they seem like commodities. Candles are but one. Gasoline is another. (See the exhibit “Is There a Way to Differentiate Selling Gas?”)

Understanding the customer’s experience at any link in the chain for

Is There a Way to Differentiate Selling Gas?

Consider the “purchase link” of the consumption chain.

If you pursue the business-trip option, the next question is, Whom are they with when they buy gasoline on a business trip? Your customer could be alone or accompanied by a colleague. He or she could be with a spouse or significant other. Your customer also could be traveling with a group of people.

If you pursue the idea that your customer is alone, the next question is, Where does your customer buy gasoline while he or she is on the business trip? Your customer might stop first at a local gas station, then again between cities along the way.

What else are your customers doing when they buy gasoline? Among other things, they might be commuting, on a leisure trip, on a business trip, on vacation, shopping, or planning to use equipment (such as a mower or a tiller).
any product offers companies the opportunity to identify and explore many nontraditional ways to create value. The task then becomes selecting from among this wealth of possibilities; considering how each idea meshes with a company's particular skills, assets, and systems; and focusing on those that can generate a competitive advantage. Each idea also may open up an opportunity to develop a new competence.

Too many companies pursue what seem like great new ideas without carefully assessing whether their organizations are well suited to do so and how quickly competitors can respond. Robert Goergen knows that Blyth Industries has certain strengths its competitors do not, including several unique production techniques and, more important, a deep knowledge of fragrances. Those special strengths, coupled with a solid understanding of customers based on market research, give Blyth an edge. Goergen thus evaluates opportunities for differentiation based on those considerations and moves forward only with the ideas that promise the strongest returns.

**Focused Creativity**

Virtually every company we have ever worked with has within it scores of people of considerable creativity and imagination. Unfortunately, all too often, the company never benefits because that talent isn't appropriately focused. It may even be squelched by the homogenizing pressures that any large organization tends to impose.

An important benefit of the process we've outlined above is that it unlocks the creativity in an organization so that the insights of particular individuals can contribute to a shared understanding of the customer—so that the company, in effect, knows its customers almost better than they know themselves. Companies that do this successfully find themselves deeply attuned to their markets. And, like entrepreneurs, they spend the imagination they have in lieu of the money they may lack to outperform competitors where it counts.

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