

Marketing Lecture 2: Product Differentiation Lecture Notes

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1 Competition and Product Differentiation

1.1 Introduction

These lecture notes aim to summarize the concept of 'product differentiation,' exploring its strategic significance and economic foundations. While the Japanese word for 'discrimination' (sabetsu) often carries negative connotations, in marketing strategy, '**differentiation**' (sabetsuka) is a critically important and positive activity through which firms build competitive advantage. These notes will elucidate why firms must engage in product differentiation, particularly by contrasting it with a '**perfectly competitive market**,' and examine the logic by which firms secure sustained profits.

1.2 Key Concepts and Points

1.2.1 Definition of Product Differentiation

Product Differentiation has a dual meaning.

1. **Differentiation as a state:** A situation where consumers perceive a product as different from competing products and 'irreplaceable,' holding a strong **preference** for it.
2. **Differentiation as an action:** The intentional marketing activities undertaken by a firm to create the situation (state) described above.

Firms endeavor to form strong consumer attachment and preference for their products by spending large sums on advertising, distributing free samples at the retail level, and so on. This is based on the premise that firms can exert influence over the market.

1.2.2 Contrast with a Perfectly Competitive Market

To understand the necessity of product differentiation, we contrast it with the theoretical economic model of a '**perfectly competitive market**.' A perfectly competitive market is a hypothetical market that satisfies the following conditions:

- **Innumerable market participants:** Numerous buyers and sellers exist, none of whom can influence the others.
- **Perfect information:** All participants have complete knowledge of prices, raw material costs, sales conditions, etc.
- **Product homogeneity:** From the consumer's perspective, there is no difference whatsoever between the products offered by any firm (they are homogeneous).
- **Free entry and exit:** There are no costs associated with entering or exiting the market.

1.2.3 The Price Taker Trap

In a perfectly competitive market, because products are homogeneous, the price is determined uniquely by the market's total supply and total demand, not by individual firms. Under these conditions, firms have no choice but to accept the market-determined price; they become '**Price Takers**.' Firms that are price takers can only earn the bare minimum profit required to survive in the market.

The objective of marketing activities and product differentiation strategies is to escape this price taker status.

1.2.4 Differentiated Markets (Real-world Markets)

Most real-world markets are not perfectly competitive but are closer to **oligopolies**, where a few large companies hold significant market share. In such markets, firms add 'differences' to product functions, designs, or services, appealing to specific consumer groups that 'our product is superior.' When this activity (differentiation as an action) succeeds, consumers begin to select products based on criteria other than price. Even if competitors slightly lower their prices, a loyal customer base is formed that continues to buy the firm's product. This becomes the firm's **competitive advantage**. As a result, the firm gains the ability to influence its own pricing (it is no longer a price taker) and can secure high profits exceeding the market average.

1.3 Application and Case Analysis

The example of the 'bag with a logo' presented in the lecture succinctly illustrates the essence of product differentiation. Even if there are two bags with identical functions and materials, if one has a specific brand logo, many consumers will perceive the logoed bag as having 'higher value' and will **prefer** it. This preference is not generated by the physical functional differences of the bag, but by intangible values such as the 'brand image' or 'reliability' symbolized by the logo. The product differentiation that firms aim for is precisely to make consumers recognize such 'differences' and to build a strong preference (a state of being irreplaceable) for a specific product.

1.4 Deeper Context and Lessons

As mentioned in the introduction to this lecture, the word 'discrimination' (sabetsu) can socially imply 'unfair distinction' and carries a negative resonance. However, 'differentiation' (sabetsuka) in marketing is a strategic concept of clarifying '**differences**' from other companies and providing that difference as value to the customer. Understanding this duality of the term is important for distinguishing between the social and strategic aspects of marketing activities.

AI Supplement: Expansion of Key Points

This lecture focused on 'why' firms engage in product differentiation (to escape being price takers). Here, we supplement this by addressing 'how' differentiation is constructed, including 'factors other than the product' suggested in the lecture. Product differentiation is not limited to physical product functions but is realized through the entirety of a firm's activities. The sources (axes) of differentiation are diverse and primarily include the following elements:

- **Product axis:** The most basic differentiation. Function, quality, performance, design, durability, etc.
- **Service axis:** Services accompanying the product. Delivery speed, after-sales support, warranties, quality of customer service, etc.
- **Channel (distribution) axis:** The means of obtaining the product. Convenient locations,

simple online purchasing processes, sales network coverage, etc.

- **Personnel axis:** The skills and hospitality of employees. A crucial differentiating factor, especially in service industries.
- **Brand image axis:** Intangible value built through advertising, symbols, a long track record, etc. The aforementioned bag example falls into this category.

These axes of differentiation are closely related to the '**Positioning**' strategy in marketing. Positioning is 'placing one's own product in a distinct and unique position relative to competing products in the mind (perception) of the target customer.' Firms attempt to establish their desired positioning by designing their 'differences' using these axes of differentiation and effectively communicating them to customers.

1.5 Conclusion

As learned in this lecture, the fundamental reason firms engage in product differentiation is to escape the logic of a **perfectly competitive market** (i.e., the '**price taker**' status where profits are minimized). By succeeding in product differentiation, firms can avoid price competition and build a strong **preference** among consumers, who will choose them based on criteria other than price (brand, quality, service, etc.). This enables firms to secure higher profit margins and achieve a sustainable **competitive advantage**. As a practical lesson, marketers must not just 'make a good product,' but must also strategically design the entire process of clearly defining that product's 'uniqueness (difference),' appealing to the target customer, and making it perceived as irreplaceable.

1.6 Key Terms List

People: (None) **Theories/Concepts:** Product Differentiation, Perfectly Competitive Market, Price Taker, Preference, Competitive Advantage, Oligopoly, Positioning

1.7 Comprehension Quiz

1. As a 'state' of product differentiation, why is it important for securing corporate profits that consumers perceive a product as 'irreplaceable' compared to competitors?
2. What is the strategic objective of product differentiation as an 'action,' where firms spend money on advertising, etc.?
3. Explain the fundamental reason why firms aim for product differentiation, using the term '**price taker**'.
4. In marketing strategy theory, why is the model of a '**perfectly competitive market**,' which doesn't exist in reality, used as a point of contrast? Explain its strategic implication.
5. What is the logical consequence for a firm's profit-making when '**product homogeneity**,' a condition of a perfectly competitive market, holds?
6. What status does a firm achieve in pricing once it succeeds in product differentiation and escapes the **price taker trap**?

7. What does the 'bag with a logo' example from the lecture symbolize about the essence of product differentiation?
8. What is the logical reason why a firm that is a price taker can only earn 'the bare minimum profit required to survive in the market'?
9. When product differentiation succeeds, why can firms avoid price competition? Explain by focusing on consumer behavior (preference).
10. When a real-world market is close to an 'oligopoly,' why do firms have a stronger incentive to differentiate than in a perfectly competitive market?
11. While the word 'discrimination' (sabetsu) in general society can have negative meanings, why is 'differentiation' (sabetsuka) in marketing considered a positive strategic activity?
12. Why do the 'service axis' and 'brand image axis' mentioned in the AI supplement bring competitive advantage to a firm, just as physical functional differences on the 'product axis' do?
13. According to the definition in the lecture notes, what is the objective of the 'Positioning' strategy, as explained in the AI supplement?
14. Among the five axes of differentiation listed in the AI supplement, which axis is most relevant to the 'bag with a logo' example from the main text, and why?
15. As the conclusion of this section, what is the ultimate goal for a firm engaging in product differentiation (the goal beyond simply escaping the price taker status)?

Answer Key

1. (e.g.) Because customers with a strong preference ('irreplaceable') choose based on criteria other than price, allowing the firm to avoid price competition and secure high profits., 2. (e.g.) To influence consumer perception, intentionally create the 'state' where their product is 'irreplaceable,' and build a competitive advantage., 3. (e.g.) To escape the price taker status (where one must accept the market price and profits are minimized), gain influence over pricing, and secure high profits., 4. (e.g.) To define the worst-case scenario ('price taker') that a firm falls into if it neglects marketing activities (differentiation), thereby logically demonstrating the necessity of differentiation strategy., 5. (e.g.) If products are homogeneous, consumers judge by price alone, forcing firms into price competition, and the price ultimately falls until profits are minimal., 6. (e.g.) They reach a state where they have influence over their own pricing (they are chosen by customers with a preference even if they set a price higher than the market average)., 7. (e.g.) The point that differentiation is not about physical functional differences, but about building consumer 'preference' through intangible values like a logo (brand image)., 8. (e.g.) Because products are homogeneous, if they set a price even slightly higher than the market price, no one will buy; as long as they sell at the market price, profits are minimized (or profits become zero due to free entry and exit)., 9. (e.g.) Because differentiation forms a 'preference' to choose based on criteria other than price (brand, quality, etc.), consumers continue to choose the firm's product even if competitors lower prices somewhat., 10. (e.g.) In an oligopoly, firms operate on the premise that they have influence over the market (are not price takers), and highlighting 'differences' from competitors directly leads to profits., 11. (e.g.) Because it is a strategic (not unfair) activity of clarifying 'differences' from other companies and providing that difference as a unique 'value' to customers to build a competitive advantage., 12. (e.g.) Because when consumers judge a product's value, not only physical functions but also service and brand image can be sources of

an 'irreplaceable' preference., 13. (e.g.) To place one's own product in a distinct and unique position relative to competing products in the mind (perception) of the target customer., 14. (e.g.) Axis: Brand image axis. Reason: The preference is generated not by the bag's functional difference, but by the intangible value symbolized by the logo, such as 'brand image' or 'reliability'., 15.

2 Product Attributes and Positioning

2.1 Introduction

This report organizes the lecture content on product differentiation and examines its core approaches. 'What' attributes of a product should be differentiated, and 'how,' for a firm to build competitive advantage in the market? The purpose is to deepen understanding of the strategic formulation process of **Positioning** using a **Perceptual Map**, centered on the two fundamental concepts of **Vertical Attributes** and **Horizontal Attributes**.

2.2 Key Concepts and Points

The central theme of the lecture is the definition of 'attributes' that form the basis of product differentiation and the strategic differences based on them.

2.2.1 The Concept of Product Attributes (Lines)

A product is defined as a **bundle of multiple attributes (also referred to as 'lines' in this lecture)** that consumers can perceive. When evaluating a product, consumers are thought to unconsciously assign weights to each attribute (e.g., TV size, picture quality, design) based on its importance, and then calculate a comprehensive evaluation score.

2.2.2 Vertical Attributes

Vertical attributes refer to attributes for which almost all consumers have a clear consensus on 'which is better.' This is a concept of 'high and low' where superiority is clear.

- **Examples:** A mobile phone's battery life (longer is better), packing tape strength (stronger is better).
- **Characteristics:** To differentiate on this attribute (**Vertical Differentiation**), it often requires **technological innovation** or large-scale capital investment, demanding long-term and strategic resource commitment.

2.2.3 Horizontal Attributes

Horizontal attributes refer to attributes where evaluation is divided based on consumer taste. Like 'left and right,' it cannot be said which is inherently superior.

- **Examples:** Design (mature, casual), color vibrancy, strength of an air freshener's scent, umbrella (foldable or not).

- **Characteristics:** Differentiation based on this attribute (**Horizontal Differentiation**) does not necessarily require advanced technological innovation, but strongly demands **market sense** to accurately capture the needs of a specific consumer segment (zone). However, since there are no high technological barriers, it also has the aspect of being easily **imitated** by competitors.

2.2.4 Trade-offs Between Attributes

In many cases, products are evaluated on multiple attributes, which can lead to **trade-offs** between them. For example, in laptops, 'screen size' (bigger is better) and 'weight' (lighter is better) are both vertical attributes. However, with current technology, achieving both 'large screen' and 'light weight' is difficult, and one must be sacrificed. As a result, consumers must choose based on their own usage scenarios (priority on portability vs. priority on stationary workability). In this way, trade-offs between vertical attributes can sometimes become a factor in horizontal differentiation.

2.3 Application and Case Analysis

In the lecture, 'Perceptual Maps' and 'Positioning' were introduced as tools for utilizing these attribute concepts in practice.

2.3.1 Perceptual Map

A **Perceptual Map** is a diagram that takes the main attributes (often horizontal attributes) consumers use to evaluate products as two axes (or multi-dimensionally) and plots competing products and one's own product in that space. This placement is determined based on how consumers evaluate each product's attributes (average evaluation scores). **Example (Beer Market):** In the beer market example suggested in the lecture, 'refreshing taste' and 'sharpness (kire)' could be set as the two axes.

- **Asahi Super Dry** would be positioned in the region high in both 'sharpness' and 'refreshment.'
- Meanwhile, **Suntory Malts** and **Sapporo Yebisu** would be positioned in different regions.

By visualizing it this way, the relative standing of each product in the market can be grasped at a glance.

2.3.2 Positioning and Its Functions

Positioning refers to the activity of clarifying what unique standing (position) one's own product occupies in the target consumer's mind compared to competitors, using tools like perceptual maps, or the resulting position itself. The main functions of positioning analysis are as follows:

1. **Understanding competitive relationships:** Products located close to each other on the perceptual map are likely perceived by consumers as 'substitutable' (similar). This helps identify direct competitors.
2. **Avoiding cannibalization:** If a company has multiple product lineups, and they are close together on the map, there is a risk of them stealing customers from each other (**cannibalization**). Positioning analysis provides data to judge whether a lineup reorganization is necessary.
3. **Discovering market opportunities:** Discovering an '**empty space** (blank spot)' where no competing products exist represents the greatest chance for new product development.

2.4 Deeper Context and Lessons

Slightly diverting from the main topic of the lecture, there were some important supplementary remarks regarding the practical aspects and background of positioning strategy.

The market and consumer consciousness are always changing. Due to new entries by competitors or changes in consumer lifestyles, an existing positioning may become inappropriate. Perceptual maps are also used to track such market changes over time and predict future positioning shifts. If the current positioning is judged to be inappropriate, **Repositioning** (changing the position intentionally) becomes necessary.

As means of repositioning, measures mentioned included 'model changes' (changing the concept or design without altering the product's essential functions), 'promoting learning' (influencing consumer perception through advertising), or changing sales channels (e.g., from low-price outlets to department stores) to refresh the product image.

In positioning using horizontal attributes, two points are crucial. First, how to select the 'axes' (attributes) that contribute to consumer satisfaction. This involves ambiguity and tests the marketer's sense. Second, discovering the consumers' 'ideal point' (the zone where demand is concentrated). Going a step further, it is also possible for the company to 'guide' scattered consumer ideal points into a **specific zone** through marketing activities (e.g., advertising 'Fresh is the trend this summer') and create a boom.

Establishing superiority in vertical attributes (e.g., **Sharp**'s image quality, **Apple**'s innovativeness) requires enormous resources (time and money) and tends to become a competition among large corporations. For success, it is necessary to strategically concentrate resources on attributes where there are few rivals (high cost of imitation) and which consumers strongly prefer. This differentiation is difficult, but if established, it is hard to imitate, securing a long-term **competitive advantage** and high customer satisfaction.

2.4.1 AI Supplement: Expansion of Key Points

While this lecture explained the detailed mechanics of positioning, the following two points are supplemented regarding its strategic placement.

1. **Placement within STP Marketing:** Positioning does not function in isolation; it must be understood as the final stage of the marketing strategy framework known as the **STP process**. It exists within a series: first segmenting the market (**Segmentation**), next selecting the market to target (**Targeting**), and finally, positioning a unique value in the minds of that target audience (**Positioning**).
2. **Link with Brand Identity:** Whereas positioning is the strategic 'goal' of 'how one wants to be perceived by target consumers,' **Brand Identity** is the 'means/substance' of 'how the company defines itself and what it communicates.' The 'perceptual changes via advertising' and 'design changes' mentioned in the lecture are precisely the concrete activities for building and communicating this brand identity to achieve the target positioning. The two are two sides of the same coin.

2.5 Conclusion

The core of product differentiation strategy begins with first assessing whether a product's constituent **attributes** are 'vertical' or 'horizontal.' **Vertical differentiation** is an investment-intensive strategy aiming for long-term, sustainable advantage through technological innovation. On the other hand, **horizontal differentiation** keys on market sense and speed to capture diverse consumer preferences. In practice, **Positioning** analysis using a **Perceptual Map** is an indispensable tool for grasping the competitive environment, organizing one's own product lineup (avoiding cannibalization), and above all, discovering 'empty spaces' (market opportunities) for new product development. Practical lessons from this lecture include the point that it's possible not just to discover existing demand zones (ideal points), but sometimes to 'guide' consumer ideal points through marketing activities and create a market, and the point that while vertical differentiation is difficult, the return upon success (long-term competitive advantage) is immense.

2.6 Key Terms List

[People]

None [Theories/Concepts]

Product Attributes (Lines), Vertical Attributes, Horizontal Attributes, Product Differentiation, Vertical Differentiation, Horizontal Differentiation, Trade-off, Perceptual Map, Positioning, Repositioning, Cannibalization, STP (AI Supp.), Brand Identity (AI Supp.)

2.7 Comprehension Quiz

1. Why is differentiation by 'vertical attributes' (e.g., battery life) often difficult for competitors to imitate (thus leading to long-term advantage)?
2. Why does differentiation by 'horizontal attributes' (e.g., design) require 'market sense' more than technological strength?
3. As in the laptop example, when a 'trade-off between vertical attributes' occurs, why can this result in becoming a factor for 'horizontal differentiation'?
4. Name one of the three strategic objectives (functions) for which a company creates a 'Perceptual Map,' as listed in the lecture.
5. Based on the lecture content, explain why 'enormous resources (time and money)' are required to establish superiority in vertical attributes.
6. When drawing a 'Perceptual Map' like in the beer example, on what basis should the two axes (attributes) be selected, according to the lecture's description?
7. According to the definition in the lecture notes, 'Positioning' strategy is about establishing what kind of 'position' in whose 'mind,' relative to competitors?
8. What is the strategic 'threat' to a company if its product and a competitor's product are located close to each other on a perceptual map?

9. If a company has multiple product lineups, how should positioning analysis be used to avoid 'cannibalization'?
10. What kind of changes in the business environment force a company to execute 'repositioning'?
11. In 'repositioning,' what measures can be taken if the company wants to change only consumer 'perception' without changing the product's function itself?
12. Why is discovering an 'empty space' on a perceptual map said to be the greatest chance for new product development?
13. In positioning by horizontal attributes, what is the strategic objective for a company to 'guide' consumer 'ideal points (demand zones)' through advertising, etc.?
14. (From AI supplement) In the STP process, 'after' which stage should 'Positioning' be executed, and why?
15. By what mechanism (why is it hard to imitate) is the 'long-term competitive advantage' brought about when vertical differentiation succeeds?

Answer Key

1. (e.g.) Because it often requires technological innovation or large-scale capital investment, and the cost to achieve (or imitate) it is extremely high., 2. (e.g.) Because superiority is not clear, it requires the ability to accurately grasp what a specific consumer segment (zone) prefers, and to discover (or guide) demand., 3. (e.g.) Because the trade-off makes them mutually exclusive (e.g., a large, heavy PC vs. a small, light PC), consumers must choose based on their usage scenario 'preference,' turning it into a matter of taste (horizontal) rather than superiority., 4. (e.g.) Any one of: Understanding competitive relationships / Avoiding cannibalization / Discovering market opportunities (empty spaces)., 5. (e.g.) Because establishing superiority in vertical attributes (e.g., image quality, innovativeness) requires technological innovation or large-scale investment, and it tends to become a competition among large corporations., 6. (e.g.) They should be 'axes (attributes)' that contribute to consumer satisfaction and also ones on which evaluation is divided based on consumer taste (mainly horizontal attributes)., 7. (e.g.) To establish a 'distinct and unique position' in the 'mind' of the target consumer, relative to competing products., 8. (e.g.) The threat of being perceived as 'substitutable (similar)' by consumers, leading to direct price competition or mutual customer poaching., 9. (e.g.) To judge whether it is necessary to reorganize the positioning among lineups so that each product is not too close to the others on the map., 10. (e.g.) When the existing positioning becomes inappropriate due to new entries by competitors or changes in consumer lifestyles/consciousness., 11. (e.g.) Changing the concept or design (model change), changing perception through advertising (promoting learning), changing sales channels, etc., 12. (e.g.) Because it is a region where no competing products exist and where unmet customer needs are likely to exist (a market opportunity)., 13. (e.g.) To concentrate demand in the zone where the company's product is located, create a boom, and create (or shape) the market to its advantage., 14. (e.g.) After 'Targeting.' Reason: One cannot decide what positioning (P) to adopt for a target audience until after segmenting the market (S) and deciding which target audience to aim for (T)., 15. (e.g.) Because establishing it requires enormous resources (technological innovation or investment), the cost of imitation is very high, making it difficult for competitors to copy easily, thus allowing the advantage to be sustained for a long time.

3 Product Differentiation Strategy

3.1 Introduction

This report organizes the multifaceted **differentiation strategies** that firms strategically execute, adding to the discussion of differentiation based on product attributes (vertical and horizontal) from the previous lecture. Beyond the functions and attributes of the product itself, how to control the 'surrounding context' of the product to build an 'irreplaceable preference' in consumers is key to competitive advantage. This paper aims to analyze and consider the structure of differentiation factors other than the product—such as service, channel, advertising, and even organizational capabilities—using examples.

3.2 Key Concepts and Points

The central theme of the lecture is that **product differentiation** is not completed by the product alone, but is an activity of strategically managing all elements that influence consumer perception.

3.2.1 Broad Definition of Differentiation Strategy

Differentiation strategy is not limited to creating differences in the product's own attributes (function, design, etc.) (which is product differentiation in the narrow sense). It refers broadly to all intentional controls by the firm over the **surrounding context** of the product (purchasing channels, services, reputation, advertising, etc.) that influence the entire process by which consumers evaluate and select products. The ultimate goal is to avoid price competition and build a strong **preference** such that consumers are convinced to buy at the price the company has set.

3.2.2 Differentiating Factors via the Product's Surrounding Context

The main differentiating factors other than product attributes that firms can control were listed as follows.

■ **Consumer Evaluations/Reputation (Word-of-Mouth)** Evaluations and reputations formed among consumers can become a powerful differentiating factor for a firm.

- **Conversion to a horizontal attribute:** An interesting point is that a seemingly positive evaluation can function as a **horizontal attribute**. An evaluation like 'long-loved' is proof of 'reliability,' but it also carries the potential to create a 'dated' perception, meaning the evaluation splits based on consumer preference.

■ **Service** Services provided after (or during) the product purchase also become a source of differentiation.

- **Examples:** Technical support after a PC purchase, speed of air conditioner installation.
- **Vertical differentiation:** The 'quality' or 'speed' of these services has a clear superior-

ity/inferiority for most consumers, thus becoming a factor for **vertical differentiation**.

■ **Advertising** Advertising not only raises product awareness but also has the power to change the very 'axes' consumers use to evaluate products.

- **Changing evaluation axes:** It appeals to the importance of a new attribute different from those traditionally emphasized, manipulating consumer perception (the axes of the perceptual map). (e.g., detergent's 'cleaning power' → 'odor from indoor drying')

■ **Sales Channel** 'Where' and 'how' a product is sold—the sales channel or purchase scene—also contributes significantly to differentiation.

- **In-store differentiation:** Differentiation at the point where consumers make their final decision, such as securing advantageous display locations in-store, POP (Point of Purchase) advertising, special sales, and providing **free samples**.
- **Differentiation by the channel itself:** Intentionally limiting the places of sale (e.g., handling only in luxury supermarkets) to enhance the product's quality image or scarcity.

3.3 Application and Case Analysis

In the lecture, several real-world examples were used to explain the differentiating factors above.

3.3.1 Example: Utilizing Reputation (@cosme)

The cosmetics review site '**@cosme**' is a platform where consumer evaluations accumulate. Companies leverage facts like '@cosme No. 1' in their in-store POP advertising, using third-party 'reputation' itself as a promotional tool to achieve differentiation.

3.3.2 Example: Changing Evaluation Axes via Advertising (Detergent, BB Cream)

- **Indoor-drying detergent:** Capturing social background changes like the increase in dual-income households, they shifted the axis from the conventional 'cleaning power' to a new evaluation axis, 'doesn't smell even when dried indoors,' presented through advertising, creating a new market.
- **Men's BB cream:** By promoting the concept 'an era where men also strive for a clean look' in ads, they made the **male** demographic—which previously hadn't considered cosmetics their concern—aware of the importance of a new attribute, 'clean look,' expanding the market.

3.3.3 Example: Sales Channel (Chocolate Ranking)

In the chocolate sales ranking (old data) shown in the lecture, the common feature of the top 10 products was '**ease of acquisition** (can be bought anywhere nationwide).' The causal relationship isn't clear—is it widely distributed because it's popular, or did it become popular because it's widely distributed? However, it suggests that the breadth of the channel itself, 'availability everywhere,' becomes a convenience for consumers and, as a result, serves as a powerful differentiating factor (or a prerequisite for competition).

3.4 Deeper Context and Lessons

In addition to the main lecture topic, the market environment behind differentiation strategy and deeper corporate initiatives were mentioned.

While the main text stated reputation becomes a differentiator, consumer behavior characteristics were supplemented as background. According to one survey, people tend to spread **negative word-of-mouth** more actively than positive information. For consumers to go out of their way to post 'positive word-of-mouth,' 'considerably high satisfaction' that significantly exceeds expectations is necessary.

As background to the importance of channel strategy, it was pointed out that consumer purchasing behavior is not always rational. For example, even if a consumer visits a **drugstore** intending to buy product A, if product B (which they considered second-best) is being sold at a large discount or with a free gift, they may non-planfully select product B (their mind wavers).

In recent years, in many markets, product functions and quality have become uniform, leading to '**commoditization**', which makes differentiation difficult. Commoditization invites price competition, so firms must escape it. In doing so, the essential source of differentiation is not just the final output (product), but the invisible '**organizational capability**' to continuously produce differentiated outputs.

The following three points were raised as organizational capabilities that create differentiation:

1. **Technological strength:** An organizational structure and process that creates unique technology competitors cannot imitate.
2. **Decision-making speed:** Innovative products are unlikely to emerge if the internal approval process is long. A process capability that captures market changes and launches products quickly with swift **decision-making**.
3. **New concept creation ability:** Consumer surveys are useful for improving existing products but are unlikely to generate innovative ideas (e.g., the iPad). **Concept creation ability** (dependent on organizational culture and talent) to read latent consumer needs and lead market trends is important.

3.4.1 AI Supplement: Expansion of Key Points

In this lecture, service, channel, and advertising were explained as individual differentiating factors. However, a perspective crucial to modern marketing—the integration of these elements—was not mentioned, so it is supplemented below.

■**Integrated Differentiation via Customer Experience (CX)** Modern differentiation strategy is not measured by the superiority of individual elements, but by the **total experiential value (Customer Experience: CX)** gained through the entire series of processes from when the customer recognizes, considers, purchases, uses, and disposes of the product or service. The 'service,' 'channel,' 'advertising,' and 'reputation' mentioned in the lecture are all elements (touchpoints) that constitute this CX. For example, Apple Inc. integrates not only product design (attribute), but also sophisticated Apple Stores (channel), intuitive UI (usage experience), and seamless support (service), thereby building a

powerful **Customer Experience** that is difficult for others to imitate, achieving an extremely high level of differentiation. Differentiation is the design of the sum of all these experiences.

3.5 Conclusion

From the analysis in this lecture, it is clear that **Product Differentiation** is not limited to the pursuit of product attributes (vertical/horizontal) but is a broad activity of strategically controlling all surrounding contexts, such as 'manipulating evaluation axes' through advertising, 'ease of acquisition' or 'staging the purchase scene' via channels, and post-purchase 'service.' Especially in the modern era where market **commoditization** is advancing, differentiation of the visible output (product) is difficult and lacks sustainability. As a practical lesson, true competitive advantage lies in the invisible '**organizational capability**' (technological strength, rapid decision-making processes, concept creation ability) itself, which continuously produces differentiated products and services. Furthermore (per AI supplement), the perspective of integrally designing and managing these individual elements as a '**Customer Experience (CX)**' provides an essential insight for future differentiation strategy.

3.6 Key Terms List

[**People**]

None [**Theories/Concepts**]

Differentiation Strategy, Product's Surrounding Context, Consumer Evaluation (Word-of-Mouth), Horizontal Attribute, Service, Vertical Differentiation, Advertising (Changing Evaluation Axes), Sales Channel, Purchase Scene, Ease of Acquisition, Commoditization, Organizational Capability, Decision-Making Speed, New Concept Creation Ability, Customer Experience (CX)

3.7 Comprehension Quiz

1. Why is differentiation by the 'product's surrounding context' (e.g., service, channel), as defined in the lecture, just as important as differentiation of the product's own functions?
2. Why can a positive reputation like 'long-loved' function as a 'horizontal attribute' (i.e., not be an advantage for all consumers)?
3. What implication does the fact that consumers need 'considerably high satisfaction' to post 'positive word-of-mouth' have for business management?
4. What is the specific method of leveraging third-party 'reputation' for differentiation strategy, as shown in the '@cosme' example?
5. Why does differentiation by 'service,' such as PC support or air conditioner installation, contribute to building a strong customer 'preference'?
6. Why is the quality of 'service' (e.g., quality of support, speed of installation) considered a factor for 'vertical differentiation' in most cases?
7. As shown in the 'indoor-drying detergent' example, what is the competitive objective of a strategy where advertising changes the consumer's 'evaluation axis' itself?
8. In the 'men's BB cream' example, what effect did the strategy of presenting a new evaluation axis via advertising have, other than gaining a competitive advantage in the existing market?

9. What strategic opportunity does consumer irrationality—such as making unplanned purchases at a drugstore (mind wavering)—represent for companies?
10. Why can 'ease of acquisition (breadth of channel),' as suggested in the chocolate example, become a powerful differentiating factor in itself?
11. In a market where 'commoditization' is advancing, what managerial consequence (trap) is a company likely to fall into if it neglects differentiation strategy?
12. Why, as commoditization advances, is the source of differentiation thought to shift from the 'product (output)' to 'organizational capability (process)'?
13. Why was it explained in the lecture that innovative products are unlikely to emerge from organizations with slow 'decision-making speed' (long approval processes)?
14. Why are 'innovative ideas (e.g., the iPad)' unlikely to be generated by relying solely on consumer surveys (which are effective for improving existing products)?
15. (From AI supplement) Why is differentiation by 'Customer Experience (CX)' considered more difficult to imitate (i.e., more powerful) than differentiation by product function or service alone?

Answer Key

1. (e.g.) Because consumers evaluate and choose based on the entirety, including the purchase process and service, not just product functions, and these also become sources of a strong 'preference' that avoids price competition., 2. (e.g.) Because while some consumers perceive it as 'reliability,' other consumers perceive it as 'dated,' and the evaluation splits based on preference., 3. (e.g.) The implication that word-of-mouth doesn't happen with mere satisfaction; differentiation by positive reputation only becomes possible by providing products/services at a level of impressiveness that greatly exceeds expectations., 4. (e.g.) Using objective, third-party evaluations (reputation), such as '@cosme No. 1,' in-store POP, etc., to appeal for the product's superiority or reliability., 5. (e.g.) Because even if the main product's functions are equivalent, the added value of post-purchase peace of mind or convenience becomes a factor that makes it perceived as 'irreplaceable' by other companies' products., 6. (e.g.) Because for 'quality' or 'speed,' such as kind support or fast installation, there is a clear 'superiority/inferiority' for most consumers (i.e., preferences don't split)., 7. (e.g.) To change the competitive playing field from a highly competitive axis like conventional 'cleaning power' to a new axis where the company is advantageous (or which is new), like 'odor from indoor drying,' and establish an advantage., 8. (e.g.) It made the male demographic, which had not been customers before, aware of the importance of a new attribute, 'clean look,' thereby creating and expanding a new market (demand)., 9. (e.g.) That differentiation (appeals) at the 'purchase scene'—such as securing display locations, POP advertising, special sales, and free samples—has a significant influence on the final purchase decision., 10. (e.g.) Because the convenience of 'availability everywhere' is itself a value for consumers, making it easier to be included in their purchase options (or becoming a prerequisite)., 11. (e.g.) Due to product homogenization, they will be judged only by price, fall into 'price competition' similar to price takers, and end up with minimized profits., 12. (e.g.) Because the product (output) itself becomes uniform and easily imitated, the 'process (organizational capability) for continuously producing differentiated outputs,' which other companies cannot imitate, becomes the essential source of competitive advantage., 13. (e.g.) Because even if they capture market changes, if it takes time to get approval for commercialization, they will be beaten by competitors, and the innovation will be lost

(or the opportunity missed)., 14. (e.g.) Because consumer surveys are strong at discovering existing needs or dissatisfactions, but are unlikely to uncover latent n