

# Marketing Lecture 2: Product Differentiation Lecture Notes

M. O.

November 3, 2025

## Contents

1	Competition and Product Differentiation	1
2	Product Attributes and Positioning	5
2.1	Introduction . . . . .	5
2.2	Key Concepts and Points . . . . .	5
2.3	Application and Case Analysis . . . . .	6
2.4	Deeper Context and Lessons . . . . .	7
2.5	Conclusion . . . . .	8
2.6	Key Terms List . . . . .	8
2.7	Comprehension Quiz . . . . .	9
3	Product Differentiation Strategy	10
3.1	Introduction . . . . .	10
3.2	Key Concepts and Points . . . . .	10
3.3	Application and Case Analysis . . . . .	11
3.4	Deeper Context and Lessons . . . . .	12
3.5	Conclusion . . . . .	13
3.6	Key Terms List . . . . .	13
3.7	Comprehension Quiz . . . . .	13

## 1 Competition and Product Differentiation

### Introduction

These lecture notes aim to organize the concept of 'product differentiation,' examining its strategic significance and economic background. While the word 'discrimination' often carries negative connotations in general use, '**differentiation**' in marketing strategy refers to an essential and positive activity for firms to build a competitive advantage. These notes will explore the logic by which firms secure sustainable profits, clarifying why they must engage in product differentiation, particularly through a contrast with '**perfect competition markets**'.

## Key Concepts and Points

### Definition of Product Differentiation

**Product Differentiation** has a dual meaning.

1. **Differentiation as a State:** A situation where consumers perceive a product as distinct from competing products, believing it 'cannot be substituted,' and thus hold a strong **preference** for it.
2. **Differentiation as an Action:** The intentional marketing activities a firm undertakes to create the aforementioned situation (state).

Firms strive to cultivate strong consumer attachment and preferences for their products through substantial advertising expenditures, distribution of free samples at the retail level, and other means. This is based on the premise that firms can exert influence over the market.

### Contrast with Perfect Competition Markets

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

- **Innumerable Participants:** So many buyers and sellers exist that no single one can influence the market.
- **Perfect Information:** All participants have complete knowledge of prices, raw material costs, sales conditions, etc.
- **Product Homogeneity:** Products offered by all firms are identical (homogeneous) from the consumer's perspective.
- **Free Entry and Exit:** There are no costs associated with entering or exiting the market.

### The Price Taker Trap

In a perfect competition market, because products are homogeneous, the price is not set by individual firms but is uniquely determined by the market's total supply and total demand. Under these conditions, firms have no choice but to accept the market-determined price; they become '**Price Takers**'. A firm that is a price taker can only earn the minimum profit necessary to survive in the market. The objective of marketing activities and product differentiation strategies is to escape this price-taker status.

### Differentiated Markets (Real-World Markets)

Most real-world markets are not perfectly competitive but are closer to **oligopolies**, where a few large firms hold significant market share. In such markets, firms add 'differences' in product features, design, service, and more, 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. A loyal customer base is formed that continues to buy the firm's product even if competitors lower their prices slightly; this constitutes 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.

## 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 two bags are identical in function and material, if one has a specific brand logo, many consumers will perceive the logo-bearing bag as having 'higher value' and will **prefer** it. This preference is not born from physical differences in the bag's function, but from the intangible value created by the logo, such as 'brand image' or 'reliability.' The product differentiation firms aim for is precisely this: making consumers recognize such 'differences' and building a strong preference for a specific product (a state of non-substitutability).

## Deeper Context and Lessons

As touched upon in the introduction to this lecture, the Japanese word for 'discrimination' (sabetsu) can socially imply 'unjust distinction' and carries a negative connotation. However, 'differentiation' (sabetsuka) in marketing is a strategic concept that means clarifying '**differences**' from competitors and providing those differences as value to customers. Understanding this duality of terminology is important for distinguishing between the social and strategic aspects of marketing activities.

### AI Supplement: Expanding on Key Points

This lecture focused on 'why' firms engage in product differentiation (to escape price-taker status). Here, we supplement this by addressing '**how**' differentiation is built, including 'factors other than the product itself' that were alluded to in the lecture. Product differentiation is not limited to physical product functions; it is achieved through the entirety of a firm's activities. The sources (axes) of differentiation are diverse, primarily including the following elements:

- **Product Axis:** The most basic differentiation. Features, 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, easy online purchase processes, sales network coverage, etc.
- **Personnel Axis:** The skills and hospitality of employees. A key differentiator, especially in service industries.
- **Brand Image Axis:** Intangible value built through advertising, symbols, long-standing reputation, etc. The bag example mentioned earlier falls into this category.

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

customers.

## Conclusion

As learned in this lecture, the fundamental reason firms engage in product differentiation is to escape the logic of **perfect competition markets** (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**, leading consumers to choose them based on criteria other than price (such as brand, quality, or service). This enables firms to secure higher profit margins and achieve a sustainable **competitive advantage**. As a practical lesson, marketers must not only 'make a good product' but also strategically design the entire process of defining that product's 'uniqueness (difference),' appealing to target customers, and making them perceive it as non-substitutable.

## Key Terms List

**Names:** (None) **Theories/Concepts:** Product Differentiation, Perfect Competition Market, Price Taker, Preference, Competitive Advantage, Oligopoly Market, Positioning

## Comprehension Quiz

1. From a consumer's perspective, explain the definition of 'product differentiation' in marketing.
2. Product differentiation has dual meanings as a 'state' and an 'action.' What is product differentiation as an 'action'?
3. Using the term 'price taker,' explain the fundamental reason why firms aim for product differentiation.
4. What is the theoretical economic market model called in which product differentiation does not occur?
5. Of the four conditions for a perfect competition market to exist, what is the condition related to products?
6. In a perfect competition market, how is the product price determined?
7. What are market participants who can only accept the market-determined price called?
8. What level of profit can a price-taker firm earn?
9. When product differentiation succeeds, how do consumer purchasing criteria (other than price) change?
10. What status does a firm that succeeds in product differentiation achieve regarding price setting?
11. What example was given in the lecture of how consumer 'preference' is born?
12. Can product differentiation be achieved through means other than the physical functions of the product?
13. Real-world markets were described as being closer to what market structure than to perfect competition?
14. In the AI supplement, name two of the five classifications listed as sources (axes) of differentia-

tion.

15. In the AI supplement, how was 'positioning' defined?

### Answer Key

1. (e.g.) A situation where consumers perceive a product as distinct, 'non-substitutable' compared to competitors, and hold a strong preference for it., 2. (e.g.) Intentional marketing activities undertaken by firms to make consumers hold a strong preference for their product (to create a differentiated state)., 3. (e.g.) To escape the 'price taker' status (having to accept market prices, minimizing profits), gain influence over pricing, and secure high profits., 4. Perfect competition market., 5. Product homogeneity (products from all firms are identical)., 6. Determined by the market's total supply and total demand., 7. Price Taker., 8. (e.g.) The bare minimum (minimum) profit required to survive in the market., 9. (e.g.) They begin to select products based on criteria other than price (brand, quality, design, etc.)., 10. (e.g.) They can influence their own pricing (they are chosen even if they set a price higher than the market)., 11. The bag with a logo., 12. Yes (e.g., service, channel, brand image)., 13. Oligopoly market., 14. (e.g.) Any two of: Product axis, Service axis, Channel axis, Personnel axis, Brand image axis., 15. (e.g.) Placing one's own product in a clear and unique position relative to competing products in the minds (perception) of target customers.

## 2 Product Attributes and Positioning

### 2.1 Introduction

This report organizes the lecture content on product differentiation and considers its core approaches. It addresses 'what' and 'how' products should be differentiated for a firm to build a competitive advantage in the market. The aim is to deepen understanding of the development process and practical application of **Positioning** strategies using **Perceptual Maps**, based on the two core concepts of **Vertical Attributes** and **Horizontal Attributes**.

### 2.2 Key Concepts and Points

The central point of the lecture is the definition of 'attributes' as the foundation of product differentiation, and the different strategies 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, it is thought that consumers unconsciously apply weights to each attribute (e.g., TV size, picture quality, design) based on importance, and calculate an overall evaluation score.

#### 2.2.2 Vertical Attributes

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

- **Examples:** Mobile phone battery life (longer is better), packing tape durability (stronger is better).
- **Characteristics:** Differentiating on this attribute (**vertical differentiation**) often requires **technological innovation** or large-scale capital investment, demanding long-term, strategic resource commitment.

#### 2.2.3 Horizontal Attributes

**Horizontal attributes** refer to attributes where evaluation differs based on consumer preference. Like 'left and right,' it is impossible to say which is inherently superior.

- **Examples:** Design (mature, casual), color vibrancy, air freshener scent strength, umbrellas (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, it also has the aspect of being easy for competitors to **imitate**, as there are no high technological barriers.

#### 2.2.4 Trade-offs Between Attributes

Often, 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 is often sacrificed. As a result, consumers must choose based on their preferences and usage scenarios (e.g., prioritizing portability vs. stationary work performance). Thus, trade-offs between vertical attributes can sometimes result in factors for 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 consumers use to evaluate products (often horizontal attributes) as two (or more) axes, and plots competing products and one's own products within that space. This placement is determined based on how consumers evaluate each product's attributes (average evaluation scores). **Case (Beer Market):** In the beer market example suggested in the lecture, 'refreshing taste' and 'kire' (crispness) could be set as the two axes.

- **Asahi Super Dry** is positioned in a region high in both 'crispness' and 'refreshing taste.'

- Conversely, **Suntory Malts** and **Sapporo Yebisu** are positioned in different regions.

Visualizing the market this way allows for an at-a-glance understanding of the relative standing of each product.

### 2.3.2 Positioning and Its Functions

**Positioning** refers to the activity of using perceptual maps and other tools to clarify the unique standing (position) one's own product occupies in the target consumer's mind relative to competitors, or it refers to that resulting position itself. The main functions of positioning analysis are as follows:

1. **Understanding Competitive Relationships:** Products located close to each other on a perceptual map are likely perceived by consumers as 'substitutable (similar products).' This helps identify direct competitors.
2. **Avoiding Cannibalization:** If a company has multiple product lineups, and they are clustered closely on the map, there is a risk that their own products will steal customers from each other (**cannibalization**).
3. **Discovering Market Opportunities:** Identifying an 'empty space (gap)' where no competing products exist represents the greatest chance for new product development.

## 2.4 Deeper Context and Lessons

Slightly diverging from the main thesis of the lecture, there were several important supplementary points regarding the practical aspects and background of positioning strategy.

The market and consumer perceptions are always changing. Due to the entry of competitors or changes in consumer lifestyles, an existing positioning may become inappropriate. Perceptual maps are also used to track these market changes over time and predict future shifts in positioning. If the current positioning is deemed inappropriate, **repositioning** (intentionally changing the position) becomes necessary.

Methods for repositioning mentioned included 'model changes' (changing the concept or design without altering the product's essential function), '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 critical. First is how to select the 'axes (attributes)' that contribute to consumer satisfaction. This involves ambiguity and tests the marketer's instincts. Second is discovering the consumer's 'ideal point (a zone of concentrated demand).' Going a step further, it is also possible for the firm, through marketing activities (e.g., advertising that 'Fresh is the trend this summer'), to '**guide**' scattered consumer ideal points into a **specific zone**, thereby creating a boom.

Establishing superiority in a vertical attribute (e.g., **Sharp**'s image quality, **Apple**'s innovativeness) requires enormous resources (time and money) and tends to become a competition among large corporations. Success requires strategically concentrating resources on an attribute that consumers strongly

prefer and where there are few rivals (high cost of imitation). This differentiation is difficult, but if established, it is hard to follow, securing a long-term **competitive advantage** and high customer satisfaction.

#### 2.4.1 AI Supplement: Expanding on Key Points

While this lecture explained the detailed mechanisms 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 **STP process**, a framework for marketing strategy. It exists within a sequence: first, dividing the market (**Segmentation**), next, selecting the market segment to target (**Targeting**), and finally, situating a unique value in the minds of that target audience (**Positioning**).
2. **Link with Brand Identity:** Whereas positioning is the strategic 'goal' of 'how we want to be perceived by target consumers,' **Brand Identity** is the 'means/substance' of 'how the company defines itself and how it communicates that.' The 'perceptual changes via advertising' or 'design changes' mentioned in the lecture are 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 discerning whether the **attributes** composing the product are 'vertical' or 'horizontal.' **Vertical differentiation** is an investment-intensive strategy aiming for long-term, sustainable advantage through technological innovation. Conversely, **horizontal differentiation** hinges on market sense and speed in capturing diverse consumer preferences. In practice, **Positioning** analysis using **Perceptual Maps** is an indispensable tool for understanding the competitive environment, organizing one's own product lineup (avoiding cannibalization), and above all, discovering 'empty spaces (market opportunities)' for new product development. The practical lessons from this lecture are that one must not only discover existing demand zones (ideal points) but that it is also possible to 'guide' consumer ideal points through marketing and create a market; and that while vertical differentiation is extremely difficult, the return upon success (long-term competitive advantage) is immense.

## 2.6 Key Terms List

[Names]

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. What do we call product attributes (e.g., battery life) where almost all consumers agree on which is superior?
2. What do we call product attributes (e.g., design) where evaluation differs based on consumer preference?
3. What is the relationship called, like 'large screen size' and 'light weight' in a laptop, where pursuing one means sacrificing the other?
4. To achieve horizontal differentiation, what corporate capability is considered more important than technological prowess?
5. What long-term, large-scale corporate activity is essential for achieving vertical differentiation?
6. What is the diagram called that plots market products on axes representing attributes perceived by consumers?
7. What is the activity called that clarifies the standing of one's own and competing products on a perceptual map and appeals to a unique value?
8. If products are positioned close to each other on a perceptual map, what relationship can be inferred they have from a consumer's perspective?
9. What is the state called where a company's own products are clustered closely on a perceptual map and steal customers from each other?
10. What is the act of intentionally changing a product's positioning in response to market environment changes called?
11. Name two specific methods for repositioning mentioned in the lecture.
12. In new product development using a perceptual map, what is the area on the map that should primarily be targeted called?
13. What were the two attributes listed as examples for the axes of a beer perceptual map in the lecture?
14. A strategy of using advertising to guide consumer 'ideal points (demand zones)' in a specific direction is effective for positioning based on which type of attribute (vertical or horizontal)?
15. What is the greatest advantage of successful positioning by vertical attributes compared to horizontal differentiation?

### Answer Key

1. Vertical attributes, 2. Horizontal attributes, 3. Trade-off, 4. Market sense (the ability to discover or guide demand zones), 5. Technological innovation (or strategic resource investment), 6. Perceptual Map, 7. Positioning, 8. A substitutable (similar) relationship, 9. Cannibalization, 10. Repositioning, 11. (e.g.) Model change, changing perceptions through advertising, changing sales channels, 12. Empty space (gap), 13. Refreshing taste, crispness (kire), 14. Horizontal attributes, 15. The ability to establish a long-term, sustainable competitive advantage (because it is difficult to imitate)

## 3 Product Differentiation Strategy

### 3.1 Introduction

This report organizes the multifaceted **differentiation strategies** that firms strategically execute, in addition to the differentiation based on product attributes (vertical and horizontal) discussed in the previous lecture. The key to competitive advantage lies not only in the product's own functions and attributes, but in how the 'situations surrounding' the product are controlled to build 'irreplaceable preference' among consumers. The purpose of this paper is to analyze and consider the structure of differentiation factors other than the product itself—such as service, channel, advertising, and even organizational capabilities—using case examples.

### 3.2 Key Concepts and Points

The central point of the lecture is that **product differentiation** is not something completed by the product alone; it 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 (features, design, etc.)—i.e., product differentiation in the narrow sense. It refers broadly to the firm's intentional control over the **situations surrounding** the product (e.g., purchasing channels, service, reputation, advertising) 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 will be satisfied to purchase the product even at the price set by the firm.

#### 3.2.2 Differentiation Factors from Situations Surrounding the Product

The following were raised as key differentiation factors, other than product attributes, that firms can control.

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

- **Conversion to a Horizontal Attribute:** An interesting point is that a seemingly positive evaluation can function as a **horizontal attribute**. The reputation of 'being loved for a long time,' while a mark of 'trust,' can also create a perception of being 'old-fashioned,' causing evaluations to split based on consumer preference.

■ **Service** Services provided after the purchase (or during the purchase process) 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 can be factors for **vertical differentiation**, as a clear consensus on superiority exists for most consumers.

■ **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 can appeal to the importance of a new attribute, different from conventionally valued ones, thereby manipulating consumer perception (the axes of the perceptual map). (e.g., Detergent: 'Cleaning Power' → 'Odor from drying indoors')

■ **Sales Channels** 'Where' and 'how' a product is sold—the sales channels and purchasing scene—also contribute significantly to differentiation.

- **In-Store Scene Differentiation:** Differentiation at the point where consumers make their final decision, such as securing advantageous display locations, POP advertising, special sales, and providing **free samples**.
- **Differentiation by Channel Itself:** Intentionally limiting sales locations (e.g., stocking only in high-end supermarkets) to enhance the product's quality image and scarcity.

### 3.3 Application and Case Analysis

#### 3.3.1 Case: Utilizing Reputation (@cosme)

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

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

- **Indoor-Drying Detergent:** Capturing social changes like the increase in dual-income households, advertisers moved away from the traditional axis of 'cleaning power' and presented a new evaluation axis via advertising—'no odor even when dried indoors'—thereby creating a new market.
- **Men's BB Cream:** By promoting the concept 'An era for men to have a clean look,' advertisers expanded the market by making a new **male** demographic, which had not previously considered cosmetics relevant, recognize the importance of the new attribute of 'cleanliness.'

#### 3.3.3 Case: Sales Channels (Chocolate Ranking)

In the sales ranking for chocolate (older data) shown in the lecture, the common feature of the top 10 products was '**ease of access**' (available anywhere nationwide). The causal relationship is unclear: are they widely distributed because they are popular, or are they popular because they are widely distributed? However, this suggests that the breadth of the channel itself—'being available anywhere'—becomes a convenience for the consumer, and as a result, a powerful differentiation factor (or perhaps a prerequisite for competition).

### 3.4 Deeper Context and Lessons

While reputation was noted as a differentiation factor, consumer behavioral traits were added as background. According to one study, people tend to spread **negative word-of-mouth** more actively than positive information. For a consumer to go out of their way to share 'positive word-of-mouth,' an 'exceptionally high level of satisfaction' that far 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 specific product A, if product B (which they considered second-best) is being sold at a steep discount or with a bonus item, they may end up non-rationally choosing product B (their mind wavers).

In recent years, '**commoditization**'—where product functions and quality become uniform across many markets, making differentiation difficult—has advanced. Commoditization invites price competition, so firms must escape it. In doing so, the essential source of differentiation is not just the final output (the product), but the invisible '**organizational capability**' required to continuously produce differentiated output.

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

1. **Technological Prowess:** An organizational structure and process that creates unique technologies competitors cannot imitate.
2. **Speed of Decision-Making:** If an organization's internal approval process is long, innovative products are unlikely to emerge. It is the process capability to capture market changes and launch products quickly through rapid **decision-making**.
3. **New Concept Creation:** Consumer surveys are useful for improving existing products, but they rarely generate innovative ideas (like the iPad). A **concept creation capability** (dependent on organizational culture and talent) that deciphers latent consumer needs and leads market trends is crucial.

#### 3.4.1 AI Supplement: Expanding on Key Points

This lecture explained service, channel, and advertising as individual differentiation factors. However, a perspective that is critically important in 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 throughout the entire series of processes, from when the customer becomes aware of the product/service, to consideration, purchase, use, and disposal. The 'service,' 'channel,' 'advertising,' and 'reputation' mentioned in the lecture are all elements (touchpoints) that constitute this CX. For example, Apple Inc. achieves an extremely high level of differentiation not only through product design (attributes) but by integrating the sophisticated Apple Store (channel), an intuitive UI (usage experience), and seamless support (service), thereby building a powerful **Customer Experience**.

**ence** that other companies find difficult to imitate. Differentiation is the design of the sum total 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 and horizontal), but is a broad activity of strategically controlling all situations surrounding the product, such as the 'manipulation of evaluation axes' via advertising, 'ease of access' and 'staging the purchase scene' via channels, and post-purchase 'service.' Especially in the modern era of advancing market **commoditization**, differentiation of the visible output (the product) is difficult and lacks sustainability. As a practical lesson, true competitive advantage lies in the invisible '**organizational capability**' (technological prowess, rapid decision-making processes, concept creation ability) required to continuously produce differentiated products and services. Furthermore (as an AI supplement), the perspective of integrally designing and managing these individual elements as a '**Customer Experience (CX)**' offers an indispensable insight for future differentiation strategy.

### 3.6 Key Terms List

[Names]

None [Theories/Concepts]

Differentiation Strategy, Situations Surrounding the Product, Consumer Evaluation (Word-of-Mouth), Horizontal Attributes, Service, Vertical Differentiation, Advertising (Changing Evaluation Axes), Sales Channel, Purchasing Scene, Ease of Access, Commoditization, Organizational Capability, Speed of Decision-Making, New Concept Creation, Customer Experience (CX)

### 3.7 Comprehension Quiz

1. Other than the product itself, name three examples of 'situations surrounding the product' that a firm can control as differentiation factors.
2. If a reputation for 'being loved for a long time' is perceived by some consumers as 'old-fashioned,' which type of attribute (vertical or horizontal) is this reputation primarily functioning as?
3. Which was mentioned in the lecture as spreading more easily: positive word-of-mouth or negative word-of-mouth?
4. What was the name of the cosmetics review site given as an example in the lecture?
5. What do we call differentiation based on value provided after the purchase, such as technical support for a PC or the speed of air conditioner installation?
6. Differentiation based on the quality or quantity of service, as exemplified in the lecture, is primarily which type (vertical or horizontal)?
7. As in the detergent example where advertising shifted the consumer's focus from 'cleaning power' to 'indoor-drying odor,' what differentiation function does advertising possess?
8. What product category was advertised in the lecture as promoting 'cleanliness' for men?
9. Special sales or prominent displays in a drugstore are attempts at differentiation at what stage?

10. What 'differentiation factor' was mentioned as a common point for the top-ranking products in the chocolate sales ranking?
11. What is the situation called where there is almost no difference in function or quality among products in a market, leading easily to price competition?
12. In a commoditized market, what, other than the product itself, do firms focus on as a source of differentiation to escape price competition?
13. Among differentiation by organizational capability, what organizational characteristic is considered crucial for rapidly launching innovative products?
14. What is the capability called where a firm creates new concepts that lead market trends, rather than relying solely on consumer surveys?
15. (From the AI supplement) What is differentiation based on the total value a customer experiences through the entire process, from awareness to purchase and after-service, called?

#### Answer Key

1. (e.g.) Consumer evaluations (word-of-mouth), service, advertising, sales channels,
2. Horizontal attribute,
3. Negative word-of-mouth,
4. @cosme,
5. Differentiation by service,
6. Vertical differentiation,
7. The function of changing the attributes (evaluation axes) that consumers value,
8. BB Cream (men's cosmetics),
9. The purchasing scene (in the sales channel),
10. Ease of access (being available anywhere),
11. Commoditization,
12. Organizational capability (technological prowess, processes, concept creation, etc.),
13. Speed of decision-making,
14. The capability to create new concepts,
15. Customer Experience (CX)