“Differentiation Strategy: Winning Customers by Being Different should be required reading for every board and leadership team. Kevin’s explanation of the principles and practice of differentiation is extraordinary.”

G. Peter Bidstrup, Founder and emeritus CEO of Doubletree Hotels

“Kevin is our secret weapon. The process described in Differentiation Strategy: Winning Customers by Being Different has helped several of our clients differentiate their products and dominate their markets to the tune of hundreds of millions of dollars.”

Sheila Kloefkorn, CEO, KEO Marketing, Inc.

“We retained Kevin to facilitate a workshop guided by the framework in Differentiation Strategy: Winning Customers by Being Different. Our new strategy played a major role in growing our company from 60 hotels under management to more than 100.”

John Hamilton, Executive Vice President, Pyramid Hotel Group

“Read Differentiation Strategy: Winning Customers by Being Different and learn how to create a strategy that leaves your competitors in the dust. The chapter on creative thinking, alone, is worth the price of the book.”

Woody Wade, Author of Scenario Planning: A Field Guide to the Future
This comprehensive and richly illustrated book explains how to create a differentiation strategy—a strategy for being different in a way that causes customers to prefer your products and services to those of your competitors.

Filled with frameworks, tools, and templates, this book will enable you to create a compelling answer to your customers’ most fundamental question: Why should I buy from you instead of your competitors? What makes you different? The first half of the book provides an in-depth analysis of the concepts and principles that underlie the practice of differentiation, including the meaning of competitive advantage, competitive strategy, and customer-perceived value. The second half of the book explains how to create a differentiation strategy by identifying the target of your strategy, using customer research and creative problem-solving to design a unique offering, devising a value proposition that emphasizes a key benefit and the reasons to believe you will deliver the benefit, and designing the activity system that will implement your differentiation strategy.

Business leaders in companies large and small, business students, and leaders in government, higher education, and the non-profit sector will gain a deep understanding of all that goes into creating a successful, difficult-to-copy differentiation strategy.

**Kevin Holt** uses a combination of facilitated workshops and customer research to help organizations devise differentiation strategies that work. His hands-on experience makes him uniquely qualified to write this book. He has worked as a development officer and consultant in the hotel industry, where he sat on the executive committee of a national hotel chain, owned a small business, and, since 2001, conducted consulting and workshop engagements in the USA and in London, Geneva, Singapore, and Delhi. Kevin received a BS degree from the University of Wisconsin-Madison and an MBA from Arizona State University. He has developed an e-learning course that complements this book. For more information, go to www.differentiationstrategy.com.
Differentiation Strategy
Winning Customers by Being Different

Kevin Holt
For Janet, Matthew & David
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Up and along. This book is the result of a lifetime of being pulled up and along by others. Others who were smarter, wiser, and more disciplined than me. Others who deserve to be acknowledged and thanked.

I’ll start with one of my oldest and dearest friends, Dick Binder. Dick was two years ahead of me in high school. He went off to college at the University of Wisconsin-Madison, where, when I visited him, I discovered he had transformed from my happy-go-lucky friend into a seriously serious student. It paid off. He went on to become a successful lawyer. I went home inspired to become a seriously serious student. Years later, I would tell my college-bound sons the “Dick Binder story” as part of explaining how important it was for them to get serious about their studies right from the start. They did, and they did well. And I imagine that years from now they’ll tell their children the Dick Binder story. I thank you, my children thank you, and I expect my grandchildren will someday thank you, Dick. You were, and still are, an inspiration to me.

Next is Ray Monnat, M.D., who I roomed with at UW-Madison and who got me a part-time job as a research technician in Dr. Waclaw Szybalski’s genetics laboratory. Ray’s love of learning was extraordinary. He stirred the same passion in me. Ray went on to medical school and thereafter became a Professor of Genome Sciences and Pathology at the University of Washington. I went on to discover that I didn’t have a future in science. So I moved on to “Plan B” and entered the MBA program at Arizona State University.

At ASU, I was fortunate enough to take a marketing course taught by Dr. Louis Grossman. Dr. Grossman was right up there with Ray on the love-for-learning scale, and he must have seen the same thing in me, for during and after my time at ASU, he encouraged me to get a Ph.D. and become an academic. During his 40’s, Lou had left his job as a retail executive and earned a Ph.D. in marketing. He used to tell me, “I left the world of things for the world of ideas.” I never did get the Ph.D., but I have Lou to thank for pulling me further into the world of ideas.

After I graduated from ASU, I worked on the real estate side of the hotel business, where I eventually came to work for Doubletree Hotels. The founder and CEO of the company was Peter Bidstrup, a West Point graduate and Harvard MBA. Pete was the sort of mentor who constantly moved the dial on your intellect. I can’t count the number of times I walked out of his office mumbling to myself, “I can’t believe I didn’t think of that.” And neither before nor after did I work for a company with a more inspiring culture, a culture that was the perfect blend of entrepreneurial enthusiasm, corporate professionalism, class, and caring. I would have gladly worked there for the rest of my life, but it finally came time for Pete to sell the company.

Woody Wade, also a product of Harvard Business School, is another person who has pulled me up and along. Woody occasionally calls on me to provide electronic brainstorming technology for his scenario planning workshops. And, periodically, we converse to “kick

Marian Gerlich worked for the public relations company retained by Doubletree before she and her husband started their own PR firm, P&G Communications. We became friends and remain friends to this day. Never a more positive and encouraging person has God put on this earth. Nor a more knowledgeable grammarian. (I’ve always called her “Marian the Grammarian” behind her back. I guess this is as good a place as any to fess up.) Thank you, Marian, for your 30+ years of encouragement. (And the grammar advice.)

Another friend, and a business associate, is Sheila Kloefkorn, owner of KEO Marketing and digital marketer extraordinaire. We worked together to create and market the online course that complements this book. I have Sheila to thank for getting me to stop saying I’d like to write a book someday and start writing it. Thank you, Sheila. I’m sure the bruise on my butt will eventually fade.

While it may have been Sheila who kicked me over the edge, it was my son Matthew, a hedge fund trader, who got me there in the first place. The mental echo of, “Dad, you’re never going to be happy until you’re holding a book that you’ve written” was like two hands pushing me gently but relentlessly towards the edge. And as you will soon find out, once the book was started, it was my son David who helped to complete it. David, a graphic designer who has the unique ability to turn an idea into just-the-right visual, created many of the illustrations that are a part of this book. I am so thankful to have been blessed with you both. Your mother would have been so proud of you.

Then there is Elaine, who never once complained about being ignored when I disappeared into my study seven days a week while writing this book. Thank you, dear. Your encouragement and moral support were indispensable.

And finally, there is my sister Bonnie. Those of you who have had the pleasure of knowing her will know exactly what I mean when I say, “Thank you, Bonnie, for being Bonnie.”
Introduction

This book explains how to create a differentiation strategy. Differentiation is about being different in a way that causes customers to prefer you. It’s about having a compelling answer to the one-two question: Why should I buy from you instead of your competitors? What makes you different? Differentiation is crucial because it’s the prime source of competitive advantage. The late Robert Guizetta, Chairman and CEO of The Coca-Cola Company, knew that. It’s the reason he said, “In real estate it is all about location, location, location. In business, it is differentiate, differentiate, differentiate.” The advertising executive Jack Trout knew that too. It’s why he coined the phrase differentiate or die.

Differentiate or die. Faced with differentially advantaged competitors, a company is destined to die. It’s only a matter of time until the competitors shrink its customer base below the threshold of survival. Fortunately, meaningful differentiation is rare. Not because it is difficult to do, but because managers in most industries tend to do what is safe and conventional, which is to say, what everyone else is doing. As Joan Magretta, a senior associate at Harvard’s Institute for Strategy and Competitiveness, observes, “Nothing is more absurd—and yet more widespread—than the belief that somehow you can do exactly what everyone else is doing and yet end up with superior results.”

The fact is that few companies have a convincing answer to the What makes you different? question. That spells opportunity. For you, if you choose to differentiate. For a competitor, if you don’t.

The content of this book applies to businesses large and small. To businesses that offer products and services. And to businesses classified as B2C (business-to-consumer) and those classified as B2B (business-to-business). And while the content centers on competing for customers, it also applies to competing for others. The title of this book could just as well have been Competing for Employees by Being Different. For cities and states, it could have been about competing for Employers, or Visitors, or Residents. For universities, Students. Associations, Members. Nonprofits, Beneficiaries. And for everyone, Funders. The principles and practices in this book apply across the board.

Now that I’ve said what this book is about and why you should read it, let’s turn to some miscellaneous matters. The first matter pertains to terminology. As it is used here, the term customer can mean either an existing customer or a prospective customer. The context will make clear which of the two meanings is intended. The second term is offering. Elsewhere, offering is often used as an umbrella term for a product or service. Here it is used as an umbrella term for a product or service, for a combination of products and services, or for some aspect of the customer’s experience of a company. Again, the context will indicate which meaning is intended.

Second, this book is rife with references—three on the first page alone. The reason is that many of the topics we’re going to cover are themselves worthy of book-length treatments. So I’ve referenced books I think you’ll find useful if you want to learn more about a topic.
Another reason for the references is that it’s often impossible to improve on another person’s words. So why try? Better to quote the person than tender a poorer-put paraphrase.

The third matter is that this book is full of figures—the graphical kind, not the numerical kind. That’s because verbal and visual thinking together are better than either one alone. Graphical depictions convey what verbal descriptions cannot and vice-versa. Also, research shows that people are better at remembering material when they learn it using both images and words (a phenomenon known as dual coding).

Another matter worth mentioning pertains to the examples used to ground the principles and practices explained in this book. While I draw on a range of examples from a variety of industries, the hotel industry gets more than its fair share. That’s partly because I spent much of my career in the industry, first as a development officer and later as a consultant. It’s also because most people are familiar with hotels, especially business road warriors, who are the people most likely to read this book.

The final matter pertains to an idea arguably attributed to the philosopher Immanuel Kant. It runs along the following lines: Theory without practice is empty; practice without theory is blind.

Above all else, this book is intended to be practical. That’s why it includes the theory. When I say theory, I’m not talking about unproven, high-minded ideas that float free of reality. I’m talking about the concepts and principles that enable you to understand why you’re doing what you’re doing. And when I talk about practice, I’m not talking about guidelines that are so general as to be useless. I’m talking about detailed methods you can “put to work on Monday,” as the saying goes. The first six chapters are mostly about the theory. The last eight are mostly about the practice. I say “mostly” because there’s a sprinkling of practice in the first six chapters and a sprinkling of theory in the last eight.

Chapter 1 defines the terms competition, competitive advantage, and competitive strategy—seemingly simple terms that aren’t so simple upon closer inspection. The chapter goes on to explain the two types of competitive strategy, cost leadership and differentiation, and then elaborates on the meaning of differentiation. It also explains how to tell when you have a competitive advantage.

Chapter 2 explores the concept of value, one of the most-used and least-understood terms in business. It explains that value is sometimes taken to mean the monetary worth of something. Other times it’s equated with the sort of value with which we’re concerned—customer-perceived value. Customers perceive that the value of an offering equals the benefits they obtain from it less the costs they must incur to obtain the benefits. In other words, customer-perceived value equals what customers get minus what they must give to get it.

Chapter 3 looks at the nature of benefits and introduces the offering–function–benefit trilogy. The trilogy summarizes the idea that an offering performs functions that generate benefits. The chapter next looks at various ways of classifying benefits, including a long look at a six-benefit typology that I’ve developed. The six kinds of benefits are physical, mental, emotional, social, economic, and cost/risk reduction. The long look will serve you well, considering that differentiation is fundamentally about providing more and better benefits than your competitors.

Chapter 4 examines the middle part of the offering–function–benefit trilogy. It starts by defining the function of an offering (to produce or help produce an outcome) and describing the proper way to state one (a verb-noun phrase). The chapter then explains how the same offering can perform different functions and how the same function can be performed by different offerings. It also explains the concept of co-production and the way that offerings help or enable customers to produce an outcome or relieve them of the task altogether. The chapter next explains how customers judge an offering by how well it performs a function. The final part of the chapter explains several ways to do function analysis.

Chapter 5 takes a deep dive into offerings, the first part of the offering–function–benefit trilogy. It first explains the adage, “Form [the offering] follows function.” It goes on to
examine offerings at the level of individual products and services, the level of bundles and complementary products and services, and the level at which the customer’s experience is determined by other elements of the company. At the first level, the chapter explains the difference between a product and a service and then explains how both are more accurately described by employing the concepts *component*, *property*, *attribute*, *link*, and *configuration*. At the second level, the chapter explains bundling and complements (e.g., a core product and a complementary service). At the third level, the chapter explains the remaining things that determine the customer’s experience of a company, chief among them being its sales and marketing activities, distribution channels, and customer relationship program.

Chapter 6 is the last chapter having to do with theory. It first defines the concept of *differentiation*. The chapter then describes different aspects of differentiation by asking and answering the questions: Different why? Different where? Different how? How different? Different for how long? Different at what level of abstraction?

The practice part of this book starts with Chapter 7. It’s impossible for a company to be all things to all people. For this reason, differentiation strategies are segment specific. The chapter first explains how to identify and target a supply chain segment. It then explains how to use top-down and bottom-up methods to identify and target one or more of the market segments that comprise a supply chain segment. It also explains how to use segmentation to identify differentiation opportunities.

Chapter 8 explains three ways of using attributes to identify differentiation opportunities. Surprisingly few management teams can accurately list the attributes that the customers in their industry consider when deciding from whom to buy. Fewer still can identify the unique attributes that distinguish their offering. The three attribute methods are intended to overcome these problems. The first method utilizes a *strategy canvas*. The second method employs an *attribute map*. And the third uses the concept of *attribute lines*.

Customers engage in certain *actions* (behaviors, jobs, tasks, steps) before, during, and after they use an offering. Chapter 9 explains four ways of using the actions to identify differentiation opportunities. The first method centers on what customers are trying to do at each step of the *consumption chain*. The second method, known as the *jobs-to-be-done method*, considers the jobs customers are trying to do at each step of a job map. The third method builds a *mental model* of the tasks customers are trying to perform as they work through a process. And the fourth method focuses on what customers want at each step of a *journey map*.

Superior strategies stem from superior insights into segments, attributes, and actions. Superior insights stem, in turn, from superior research. Chapter 10 explains how to do the two traditional types of qualitative research—interview research and observation research. It also touches on survey research, a form of quantitative research, as well as two non-traditional forms of research—employee idea systems and living labs.

Superior insight into your customers’ problems—obtaining the attributes they want but don’t have and performing the actions they want to do but can’t—gets you only part of the way to a differentiation strategy. The next part is finding creative solutions to their problems, solutions that will cause them to prefer you to your competitors. Chapter 11 explains three ways of creating superior solutions—expertise, logic, and analogy. It also explains the significant role your subconscious plays in problem-solving and how to use it to generate creative ideas. Finally, it explains the role that experimentation plays in growing the seed of an idea.

The next part of devising a differentiation strategy is to translate your superior solutions into a value proposition. The value proposition answers the two-part question: *Why should I buy from you instead of your competitors? What makes you different?* Chapter 12 explains that the value proposition is essentially a benefit proposition. It also explains why the value proposition should emphasize a single key benefit and how to decide which benefit to emphasize.
And it explains why the value proposition should include one or more of the seven kinds of reasons to believe that you will deliver the promised benefit. Finally, the chapter explains how to distill the value proposition down to a short micro-script that customers will remember and repeat to others.

The last part of devising a differentiation strategy is designing the *activity system* that will implement the strategy. This is where the rubber meets the road. Every company consists of a system of activities that produces the benefits that customers desire. Some of the activities are “onstage” activities that customers are able to see, and other activities are “backstage” activities that produce the onstage activities. In both cases, differentiation requires that you, as compared to your competitors, do the activities differently or do different activities. Chapter 13 explains three frameworks for designing the activity system—the *value chain*, the *strategy wheel*, and the *dependency diagram*.

Chapter 14 summarizes the process for devising a differentiation strategy, which, up to the point of this chapter, was spread across the previous chapters. The process is to develop a coherent set of answers to the following five questions: (1) Who are we targeting? (2) What benefits do they desire? (3) What offering will provide the benefits? (4) What compelling answer can we give to the “What makes you different?” question? and (5) What system of activities can we create to profitably produce and deliver the benefits? I debated whether to make this the first or last chapter of the book. I settled on making it the last chapter so that readers would understand the concepts that are incorporated in it—*targeting*, *benefits*, *offering*, *value proposition*, and *activity system*. But you may want to read the last chapter first to understand why you’re learning the concepts in the first place.

Now, on with the show.

**Notes**

4 When I say “we,” “we’re,” and other like terms, I’m referring to you the reader and me the author.
5 Which reminds me of the old line in economics, “Sure it works in practice, but will it work in theory?”
6 In my workshops, I first present the theory that is relevant to the step of the differentiation strategy process upon which we are about to embark. Unfortunately, there is a limited amount of time for me to present the material and for my clients to absorb it. Much of the impetus for this book was the observation that managers would do a better job of devising their differentiation strategies if they first read a book that thoroughly grounds them in the theory and practice of differentiation.
1 Competition

The concepts of *competition*, *competitive advantage*, and *competitive strategy* seem simple enough. That is until you try to define them. Give it a try. What’s the meaning of competition? Is there a difference between competing in a race and competing for a customer? In business, what does it mean to have a competitive advantage? And how do you know when you have one? What is a strategy? What is a competitive strategy? Are there different kinds of competitive strategies? In this chapter, we take a closer look at each of these terms and the questions that surround them.

**Competition Defined**

If you had a tough time defining competition, don’t feel bad. You’re in good company. James Case starts his book *Competition: The Birth of a New Science* by noting that competition is a surprisingly difficult term to define. Despite repeated attempts, he explains, modern lexicographers have failed to improve on the definition given by Samuel Johnson in the 1755 edition of the *Dictionary of English Language*, where Johnson defined “competition” as a noun meaning “the act of endeavoring to gain what another endeavors to gain at the same time; rivalry; contest.”\(^1\)

Johnson’s definition evokes the image of two children tugging on a teddy bear, each endeavoring to gain what the other is endeavoring to gain at the same time. From there, it’s a short leap to imagining the two children as adult business rivals, each endeavoring to gain a customer the other is endeavoring to gain at the same time. Case, an expert in game theory, goes on to explain that in a two-party competition the contest amounts to a zero-sum game—the winner wins what the loser loses, be it a teddy bear, a customer, or something else. But, he says, the definition of competition gets a lot more complicated, and inescapably mathematical, when the contest is a non-zero-sum game among three or more competitors. Fortunately, for those of us who didn’t get the math gene, we can get by with Case’s amended version of Johnson’s definition, which says that competition is the act of endeavoring to gain what *others* endeavor to gain at the same time.

**Competitive Advantage**

Most people think of a *competitive advantage* as something that gives one party a better chance of beating another in a contest or competition. With wrestlers, for example, that “something” is strength. Stronger wrestlers have a competitive advantage relative to weaker ones. In basketball, it’s height. Taller basketball players have a competitive advantage compared to shorter ones. And in most sports, the team playing at home is considered to have a “home-court” or “home-field” advantage.

But the concept of competitive advantage is a bit more complicated in business. As
explained in the book *Strategic Learning: How to be Smarter Than the Competition and Turn Key Insights Into Competitive Advantage*, authored by Willie Pietersen, formerly the CEO of several multi-billion dollar companies and now a professor at Columbia University Business School, a company’s offering has a competitive advantage when, relative to a competing offering, there is a bigger gap between the amount of value customers perceive that they derive from the offering and the cost the company incurs to provide that value.² The idea is illustrated in Figure 1.1, where you can see that the gap between your offering’s customer-perceived value and the cost of providing that value is bigger than the gap between your competitor’s customer-perceived value and its cost of providing that value.

Pietersen goes on to explain that the amount of customer-perceived value is something you can objectively assess because price and volume (units sold) are derivatives of value. You know you’re providing more customer-perceived value than your competitors when you can charge a premium price without sacrificing volume or you can improve volume at comparable prices. But when customers perceive that you offer comparatively less value, you can expect to see a decline in price, volume, or both.

It’s tempting to think that, like superior strength in wrestling, superior value is the “something” that gives you a competitive advantage in business. But there’s more to it than that. If your costs were so high that you lost money on each transaction (i.e., the cost box in Figure 1.1 moved above the value box), you wouldn’t be able to say you have a competitive advantage. Nor would you be able to say you have a competitive advantage if, as shown in Figure 1.2, your costs were so high that your competitor was making more money than you on each transaction—in other words, if there were a smaller gap between the amount of

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**Figure 1.1** You have a competitive advantage when your offering has a bigger gap than your competitor’s.

Source: Adapted from *Strategic Learning: How to be Smarter Than the Competition and Turn Key Insights Into Competitive Advantage*, Fig. 2.1. Reproduced with permission.