© 2006-2008 Richard E Murphy

"Every company has a monopoly of its own product."
- Joan Robinson (1933)

Robinson's statement assumes that a seller's offerings have unique properties, thereby giving the vendor some monopoly power. Expanding on Robinson's original premise, a competitive advantage may be gained through tangible product differentiators like quality, performance and ergonomics. In the sport of speed skating, for example, the manufacturer of a skate blade which gives a racer even a fractionally superior advantage is exhibiting a tangible product differentiator, which, if properly marketed, would certainly lead to a significant sales advantage.

Intangible matters, such as availability, delivery time, financing, guarantee, etc... may also have an important impact on consumer choice, as do packaging, design, color, and style (Anderson, 1992). A company that produces armaments for the military, as an example, must meet rigid standards for every intangible, as well as tangible, aspect of its goods, including the size and shape of packaging, on-time delivery, and product warrantee. In the consumer area, everyday items such as milk, bottled water and cleaning supplies may be nearly identical in every tangible way, yet an advantage can be achieved by which ever supplier offers the most compelling intangible factors, including container shape, entertaining commercials, shelf placement, pleasant scents, and even subtle links to childhood memories (Packard, 1957).

When products are differentiated based on such personal preferences as taste and appearance, consumers differ as to which item they like best — a situation known as horizontal differentiation. A typical example is the ice-cream offered in different tastes.

 © 2006-2008 Richard E Murphy

Lemon does not necessarily have better quality than chocolate (Piana, 2003). Conversely, vertical differentiation occurs in a market where the different goods can be ordered according to their objective quality (Anderson, 2005). This means that consumers without their own opinion nor the capability of directly judging quality may rely on the price to infer quality. They will prefer to pay a higher price because they expect quality to be better (Piana, 2003).

As a general rule, better products have a higher price, both because of higher production costs and bigger expected advantages for clients, partly reflected in higher profit margins. As an example, many people will choose a Toyota Corolla over a Chevrolet Prism, although they are identical vehicles and notwithstanding that the Toyota is more expensive. This is perhaps because Dr. Edward Deming was successful in his efforts to help the Japanese produce automobiles of superior quality, leading to a perception by the buying public that Japanese goods work better and last longer (Leadership Institute, 2006).

As well, external factors, such as ethics, politics, technology, or nature may dispose a customer toward a certain company and its offerings. Many customers, for example, are turning to companies that demonstrate an environmentally-conscious attitude, and companies are learning they can be both pro-business and pro-environment without hurting the bottom line. In fact, for some, it's been quite profitable. General Electric says sales of its energy efficient products such as light bulbs and cleaner locomotive engines topped $10 billion last year (Arcega, 2006). Gary Sheffer, a spokesman for the multinational conglomerate, says that figure is double from the year before. "We're sold out of our wind products and we're pretty much sold out on some of our most efficient aircraft engines."

© 2006-2008 Richard E Murphy

One intangible factor never to be overlooked, but which can greatly differentiate one company from another, even if they are offering identical products, is customer service. Chris Ottis (2005) of the Lousiville Courier-Journal writes about how local record stores are able to compete against the increasing corporatization of music stores and online downloading services by service differentiation, particularly the personalization of the customer relationship, and a recognition of the inherently social nature of shopping, especially for hedonic goods.

> "When there are so many other ways to get music," writes Ottis, "Louisville independent record stores said they survive by offering customers an atmosphere created by music lovers rather than by corporate strategists." Workers at independent stores seem more passionate about listening to music than about selling it, according to the article. Damien McPherson, who manages Underground Sounds, was quoted as saying he considers himself "a bartender of music." "I'm going to ask you, 'What do you feel like? Do you feel like something hard, something soft? What's in the CD player right now?' " he said. "I'm going to find you something cool." Customers won't find that "from a guy in a polo shirt at the mall," he said.

The Ottis article explains as well as any why and how it is that small, local retailing firms are not doomed when large, corporate retailers enter their markets. There are advantages to scale, but there are also liabilities and inevitable blind spots. As such, there will always be profitable niches to be exploited by local retailers with knowledge-intensive, customer-focused, business models.

© 2006-2008 Richard E Murphy

Conclusion:

Product differentiation, advertised such that it persuades the target market of better quality, price or performance, offers firms market power. The idea is not necessarily to make a better product than that of the competitor, just different; or to target a different market segment. Companies everywhere are struggling to differentiate their offerings in hopes of establishing an unassailable market position for their offerings, a position that will enable them to garner a major share of the customer's mind and wallet. Ultimately, strong product differentiation always yields higher profits. Whether a firm chooses to command a higher price, or to hold price and expand market share, it can expect profits to go up with effective differentiation.

 © 2006-2008 Richard E Murphy

References:

Anderson, Prof. Simon (2005). Product Differentiation. Paper presented at the University of Virginia, 31 March 2005. Retrieved 5 Sept 2006 from http://www.virginia.edu/economics/papers/anderson/Product%20differentiation%204-15-5.doc

Anderson, Simon; de Palma, Andre and Thisse, Jacques-Francois (1992). Discrete Choice Theory of Product Differentiation. The M.I.T. Press ISBN-10: 0-262-01128-X. October 1992, ppg 445.

Arcega, Mil (2006). Companies Adopt Environment-Friendly Policies to Improve the Bottom Line, *Voice of America News* 6 Sept 2006. Retrived 6 Sept 2006 from http://www.voanews.com/english/2006-09-06-voa37.cfm

Bovee, Courtland; Thill, John; Mescon, Michael (2005). Excellence in Business, Pearson Prentice Hall; ISBN 0-13-141438-0, ; 5:12, pg 318.

Ottis, Chris (2005). Lousiville Courier-Journal (20 June 2005 edition) retrieved 4 Sept 2006 from http://www.courier-journal.com/apps/pbcs.dll/article?AID=/20050620/BUSINESS/506200325/1003

Leadership Institute (2006). Recovered 31 August 2006 from http://www.lii.net/deming.html

Packard, Vance (1957). *The Hidden Persuaders.* Pocket Books of Canada, LTD., 1957; ISBN: 0140205853, ppg 68-78

Piana, Valentino (2003). Economics Web Institute. Product Differentiation Retrieved 4 September from http://www.economicswebinstitute.org/glossary/product.htm

Robinson, Joan V. (1933). Excerpted by Harcourt, Geoffrey and Kerr, Prue (2002) in their review of Robinsons's Economics of Imperfect Competition (1933). Routledge Publishing, London, UK., ISBN 0415217423, Pg 163. Retrieved 4 Sept 2006 from http://books.google.com/books?vid=ISBN0415217431&id=AosV3zA7digC&pg=PA163&lpg=PA163&ots=cZAFY7KYHi&dq=The+Economics+of+Imperfect+Competition+Joan+Robinson+monopoly&sig=-6U04RdTabMTZioRn3kKD0evj2c