

6 Differentiation Strategies

3 Value Map

3.1 Quality and Price

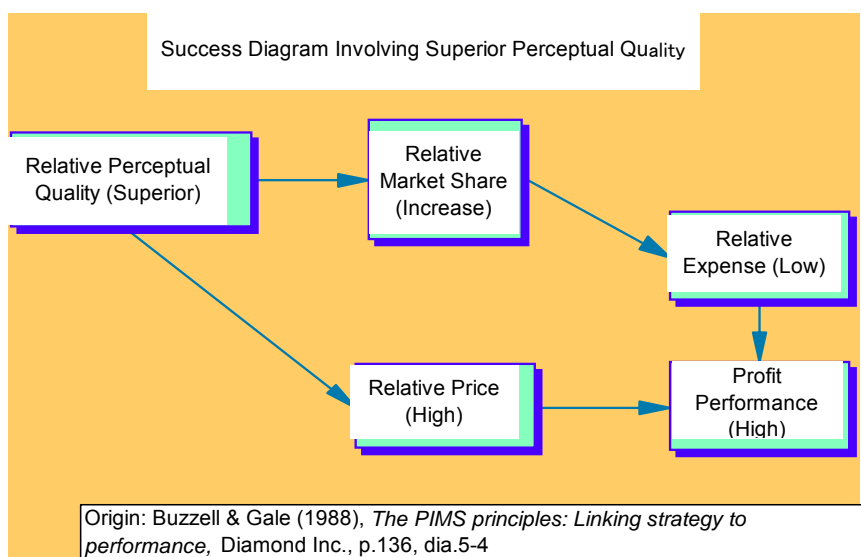
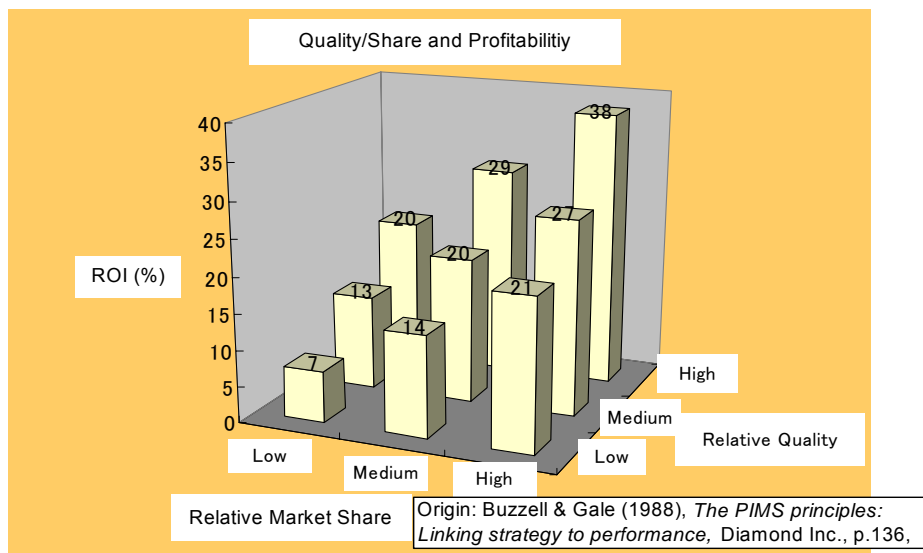
3.1.1 Experience Curve—Pitfall of Low-Price Strategy

- Extreme obsolescence in quality, debasement of competitive edge

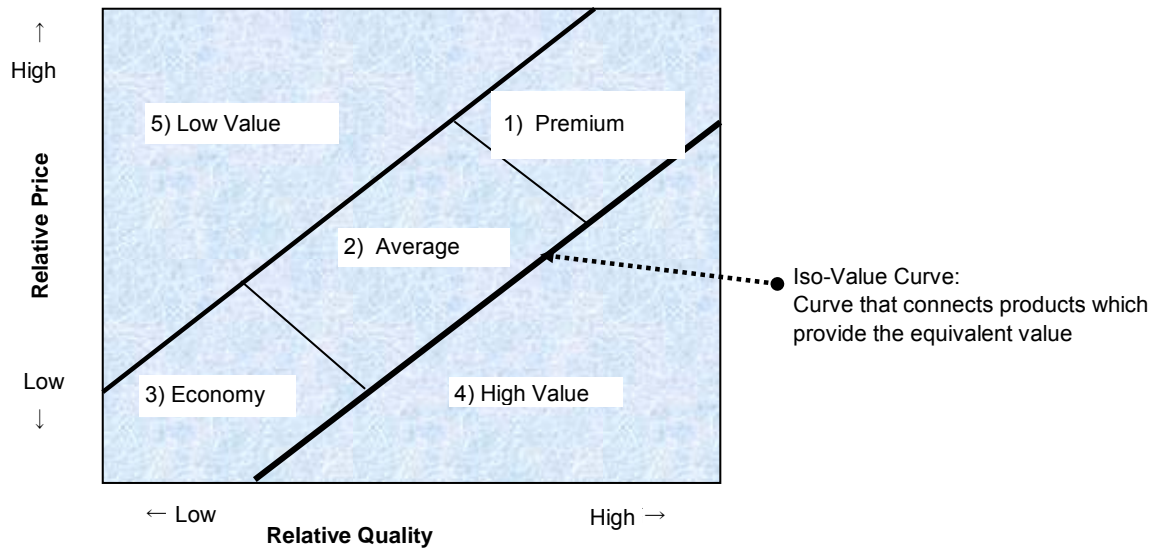
- →Erosion of the market share against competitive products
- →Decrease in the sales size against substitute products

-Miss a new production method that nearly changes the proficiency ratio

-A company, if preoccupied with a high-margin policy during the maturation and indolent about an investment, results in losing to its competitor that provides a differentiated product or to another firm that develops a totally new substitute product.



3.1.2 Value Map



◆ Position to provide average value

-Premium

Provide a superior quality at a price adding premium

-Average

Provide an average quality at an average price

-Economy

Provide an inferior quality at a low price

◆ Position to provide high value

-Provide a superior quality at an equivalent or low price

◆ Position to provide low value

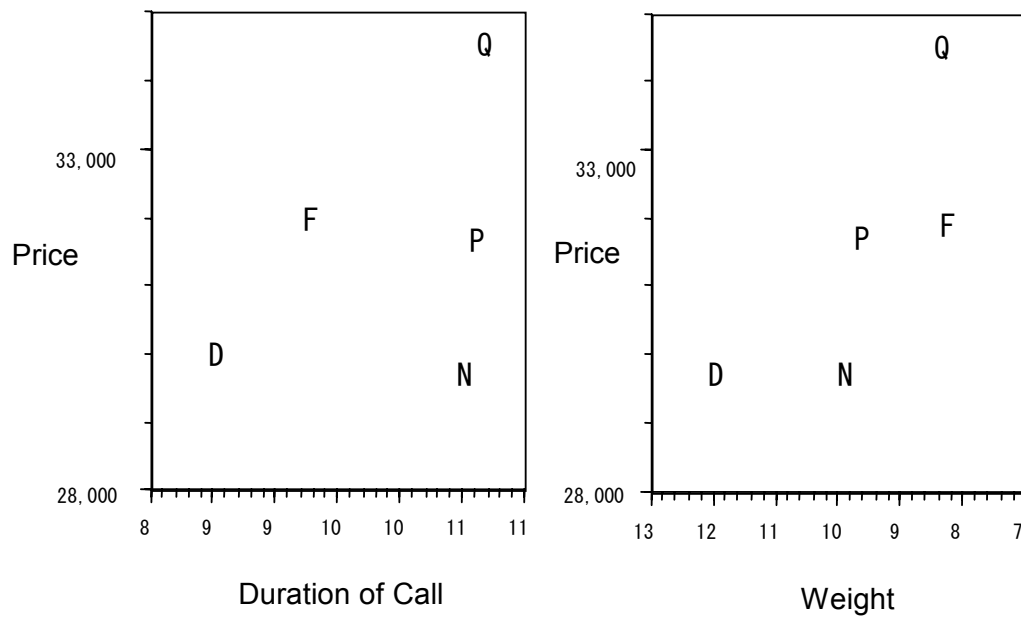
-Provide an inferior quality at an equivalent or high price

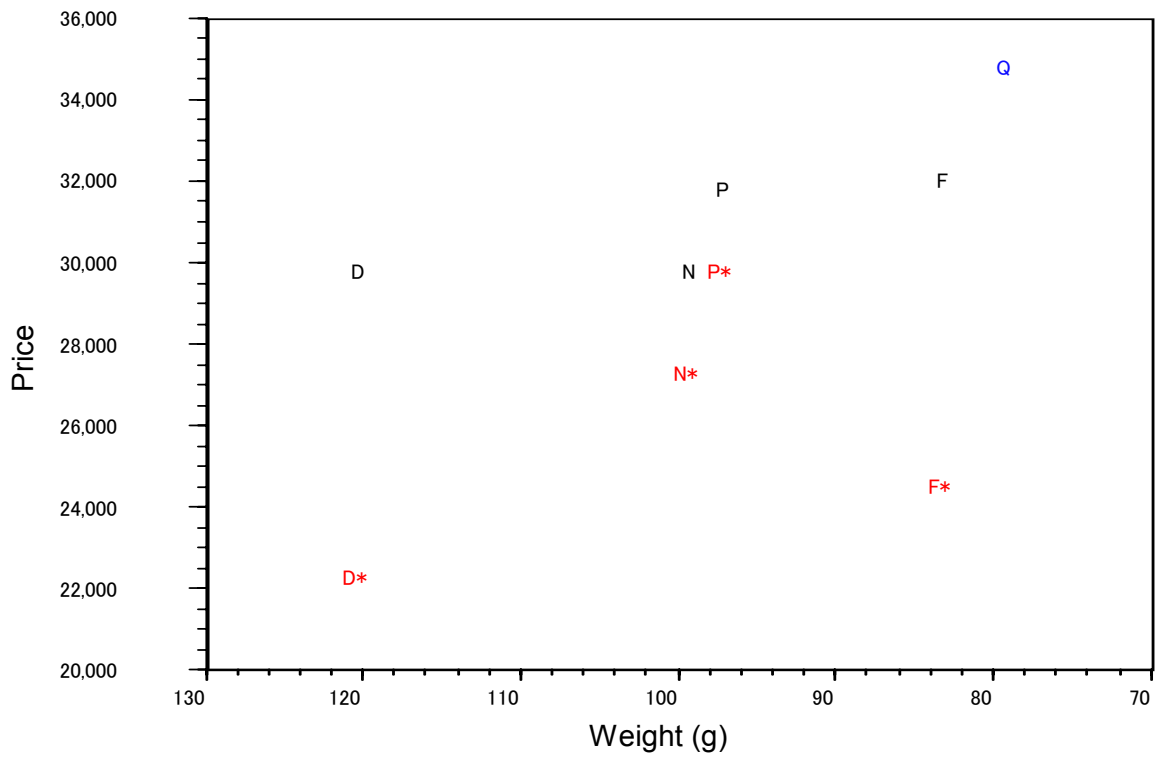
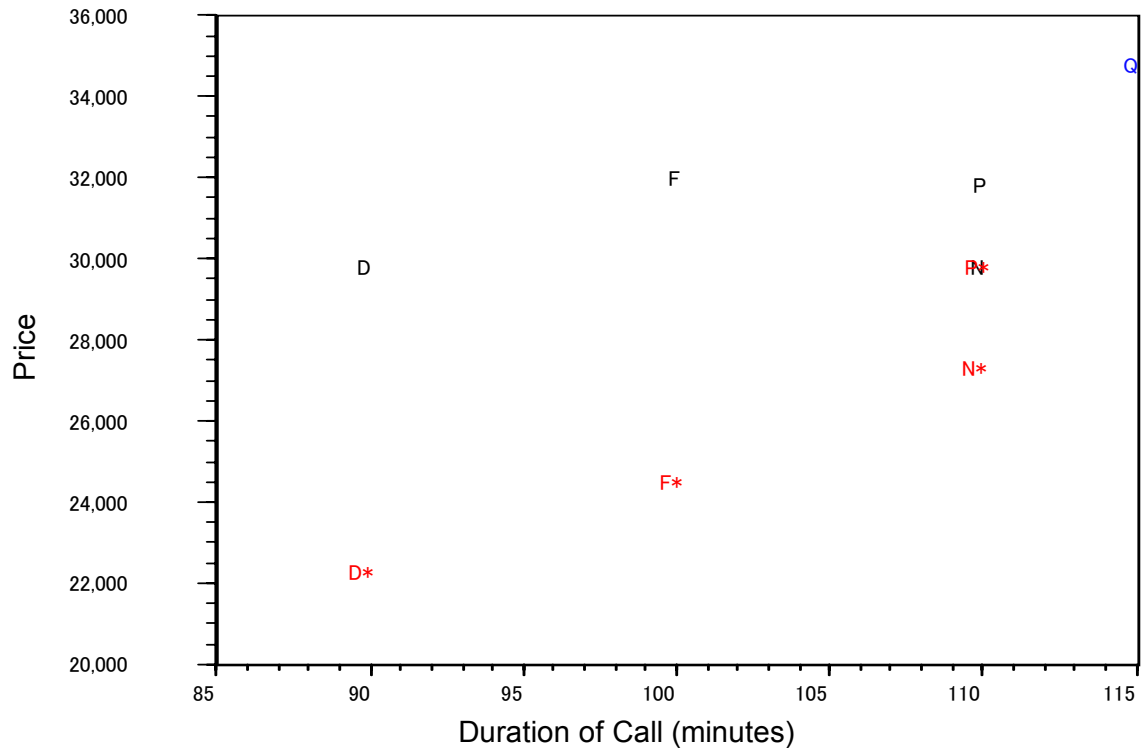
▲ Example: Reduction in size and weight of cellular telephones (up to 1997)

● Cell phones for NTT Docomo

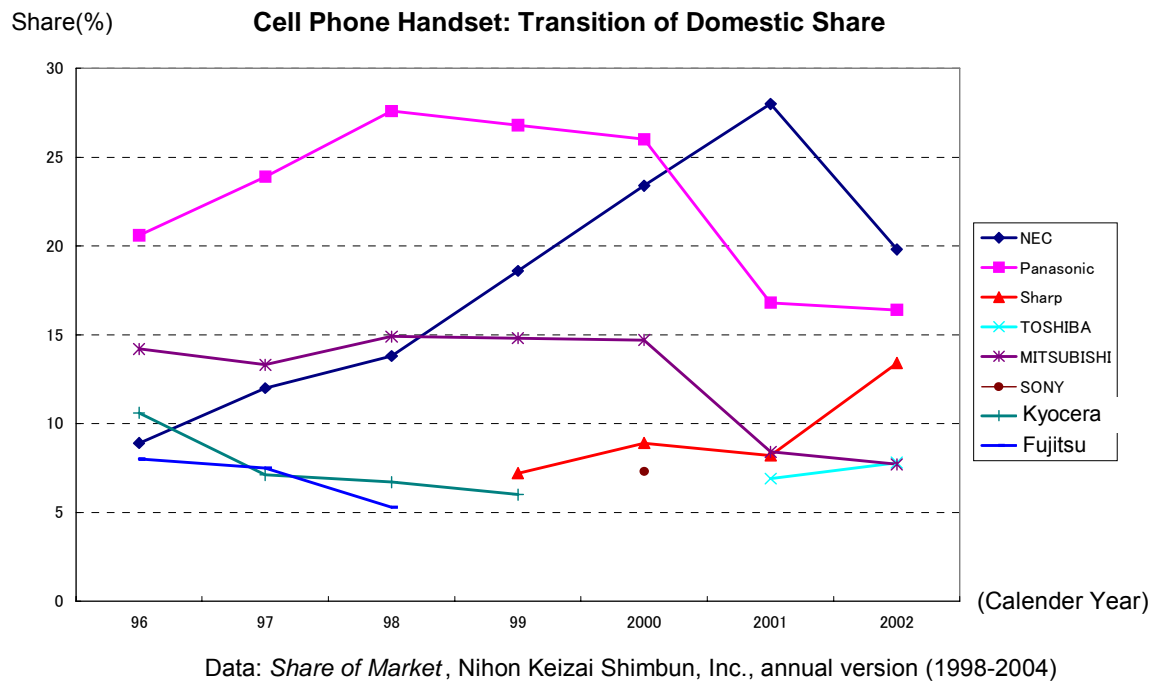


● Value Map on Cell Phones (Left on price and duration of call: Right on price and weight)

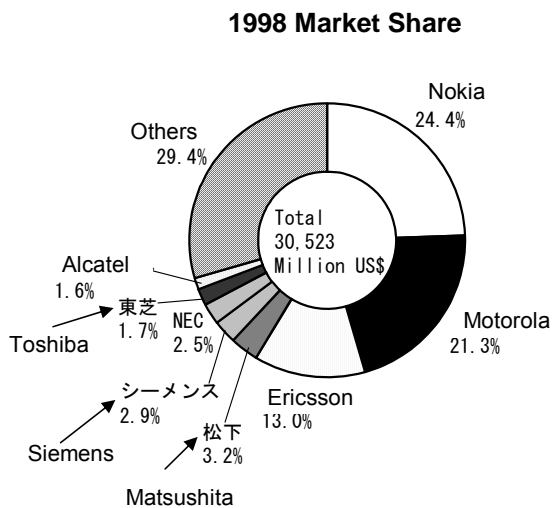




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Share Transition

		1995	1996	1997	1998
Nokia	Finland	14.8%	16.7%	17.2%	24.4%
Motorola	U.S.	27.3%	26.2%	24.4%	21.3%
Ericsson	Sweden	10.6%	12.5%	15.0%	13.0%
Matsushita	Japan	4.6%	5.0%	3.3%	3.2%
Siemens	Germany	1.9%	2.3%	2.0%	2.9%
NEC	Japan	6.1%	5.4%	3.7%	2.5%
Toshiba	Japan	2.6%	2.3%	1.6%	1.7%
Alcatel	France	0.8%	1.3%	0.9%	1.6%
Others		31.2%	28.4%	31.9%	29.4%
Total		100.0%	100.0%	100.0%	100.0%

Origin: TELESEEQ Yearbook

3.2.1 Method to Evaluate Relative Quality

- 1) List up product attributes that influence a purchasing decision other than pricing.
- 2) Weigh (W) each attribute in order of level of influence on a purchase decision.
- 3) Evaluate score (R = 1-10 points) on each attribute with respect to the whole product line of own company and the competitors'.
- 4) Compute the relative quality.

$$\sum_{i=1}^n RiWi$$

n : Quantity of Attributes

$$\sum Wi = 1$$

$$1 \leq Ri \leq 10$$

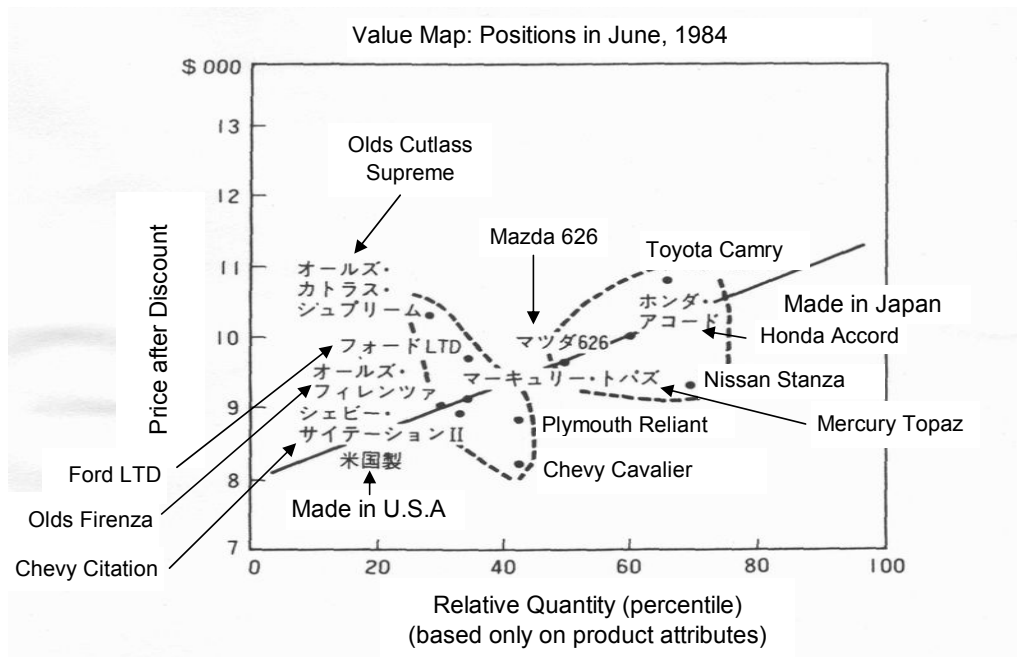
Diagram 6-10 Overall Performance Evaluation on Compact Cars: U.S.A. vs. Japan

Key Buying Criteria	Weight (%) ^{*1}	Evaluation Score ^{*2}	
		U.S.A.	Japan
Product Attributes			
Engine and transmission	Fuel economy	10	5.0 < 7.0
	Engine maneuverability	5	8.4 < 8.5
	Shift	5	6.1 < 9.0
	Acceleration	5	5.9 < 7.1
Handling and break	Accident avoid-ability	5	5.9 < 7.5
	Steering-wheel accuracy	5	5.0 < 8.5
	Break	5	5.3 < 8.5
Ride quality	Ride comfort	4	5.0 < 5.0
	Noise	4	5.3 < 5.0
	Driver's seat position	4	6.7 < 8.0
	Front seat	4	5.9 < 8.0
	Back seat	4	3.3 < 4.0
	Air conditioning	4	9.0 > 8.0
Accommodation	Controllability	3	5.6 < 8.0
	Display	3	6.4 < 9.0
	Ease of use	3	6.7 < 6.5
	Need for maintenance	7	2.7 < 8.5
Service attributes	Ease of procurement	10	9.0 > 6.0
	Convenience of service	10	9.0 > 6.5

*1 Rough estimate by SPI staff *2 Evaluation of products' attributes quoted from *Consumer Reports*

Origin: Buzzell & Gale (1988), *The PIMS principles: Linking strategy to performance*, Diamond Inc.

Diagram 6-11 Discount price and import quota strengthen American models' competitiveness

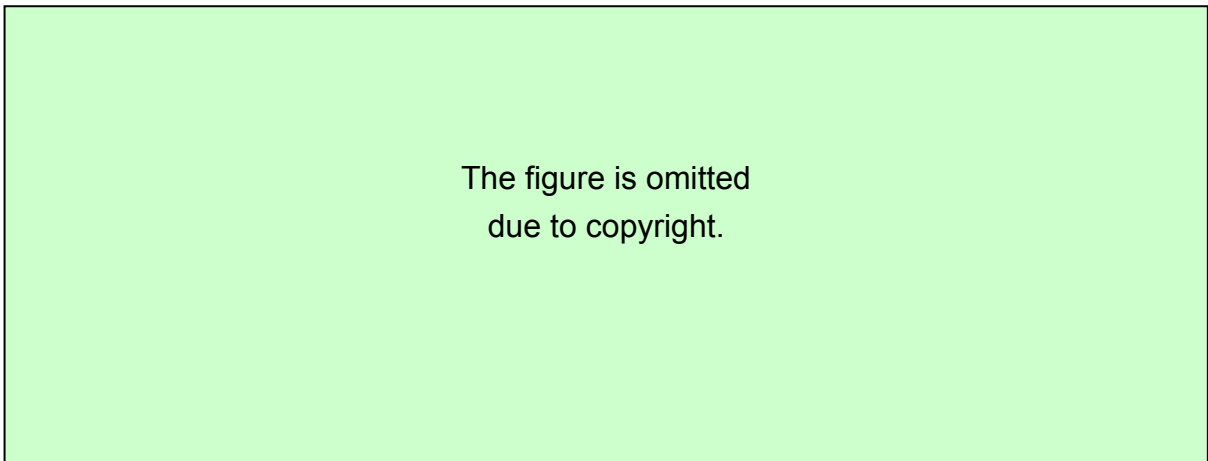


Origin: Buzzell & Gale (1988), *The PIMS principles: Linking strategy to performance*, Diamond Inc.

3.2.2 Multi Dimensional Scaling (MDS)

Method to plot product positions on the multidimensional space by measuring “difference” that consumers perceive by product brand

▲ Example 1: MDS Mapping of American Midsize Passenger Cars



Origin: Barney (1996), *Gaining and Sustaining Competitive Advantage*, Prentice Hall

▲ Example 2: Tylenol

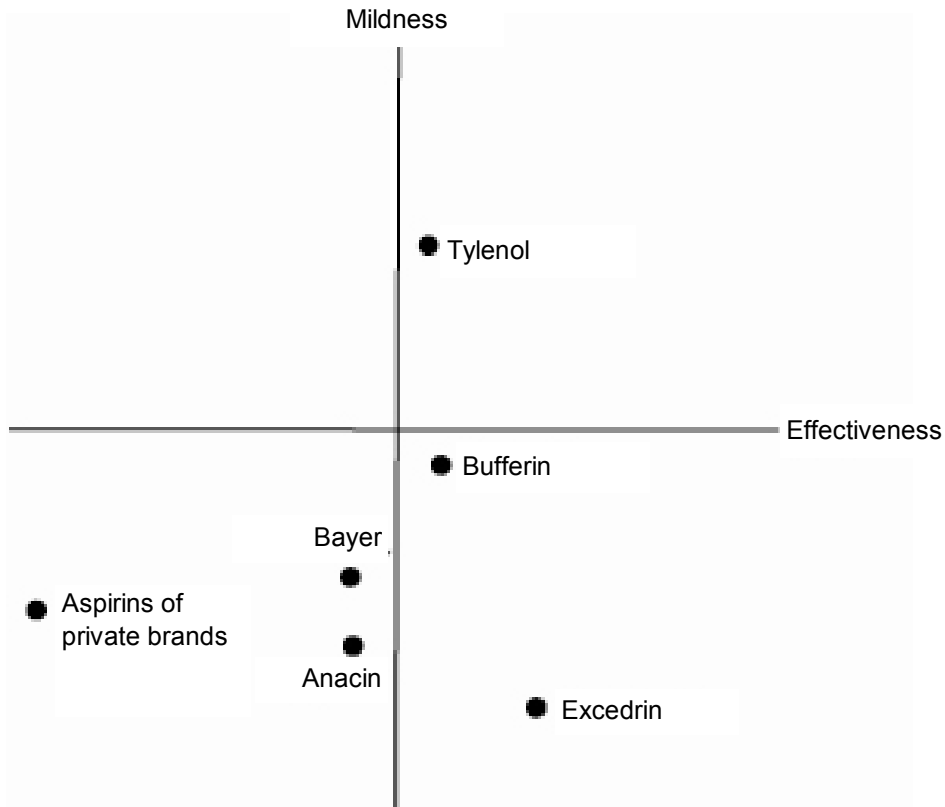


Diagram 6-1 Perception Map of Analgetics

Origin: Urban, Hauser & Dholakia, *New Product Management*, President, Inc., 1989

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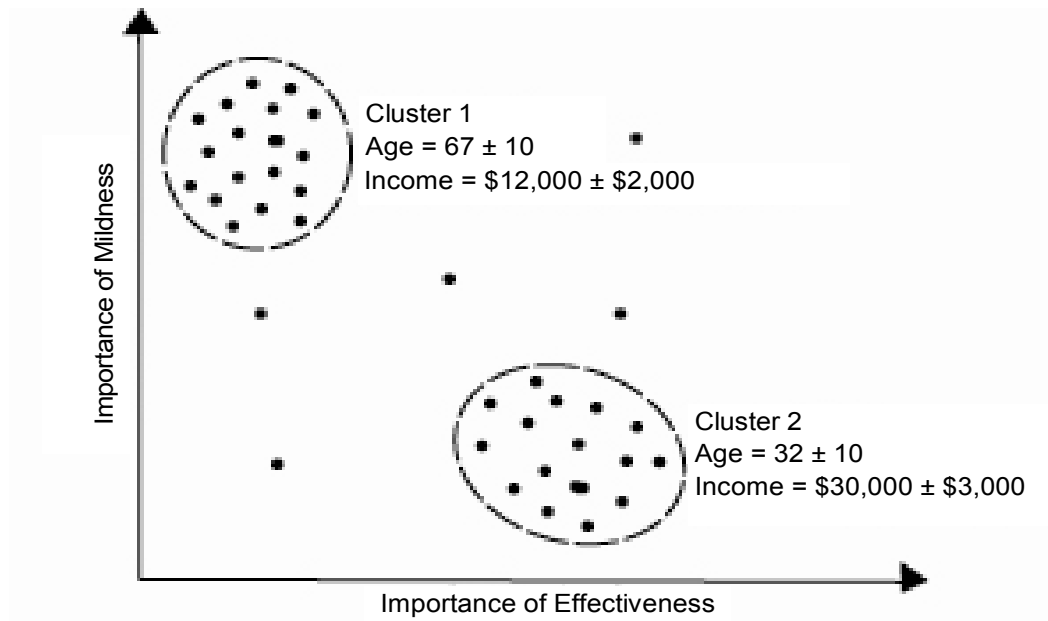


Diagram 7-9 Exemplification of Consumer Clusters on Analgetics

Origin: Urban, Hauser & Dholakia, *New Product Management*, President, Inc., 1989

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●Reference (Origin: J&J web site <http://www.jnj.co.jp/jjmkk/ja/history/story28.html>)

McNeil Consumer Healthcare Company is the largest non-prescription drug company in the U.S., and its major product “Tylenol” is the top brand of pain-relieving drugs with the annual sales of 1 billion US dollars across the world.

The success of this Tylenol has begun since it first came onstage as a prescription drug 43 years ago in the U.S. Used by physicians as an ethical pharmaceutical in the beginning, it was further developed into an over-the-counter drug, and was launched in 1975 after carefully repeated market surveys.

Upon placing it on the market, J & J put in a powerful sales effort through TV, publications and sales promotions, etc. targeting at consumers.

Partly reinforced by high commendations already scored from doctors and pharmacists, in 1981 which was 6 years after the market introduction, the gross sales of Tylenol came to occupy more than 35% of the analgesic market, which was a phenomenal success.

Acetaminophen, Tylenol’s active ingredient, has an effect on relieving pain and reducing fevers. Both acetaminophen and aspirin are excellent analgesic agents which consumers can obtain without prescriptions, and numerous clinical studies have confirmed that these ingredients relieve pain and have antipyretic effect. However, as taking aspirin involved a possibility to entail adverse side effects, Tylenol consisting primarily of acetaminophen has been widely accepted as a drug without such concerns by medical professionals and consumers to have accelerated its sale growth.

In 1982 and again in 1986, the Tylenol case broke out that shook the U.S. from coast to coast (cyanide-tampering case), which forced J & J and McNeil to encounter an acute crisis. Then-Chairman Burke not only responded to this situation by positioning it as a crisis management, but also laid out a system to prioritize the “responsibility to consumers”, a decision made based on the first responsibility in “Our Credo”, the corporate philosophy of J & J.

J & J’s response to this affair was much more highly appraised than ever by general consumers and governmental/industrial communities. Needless to say, the product recuperated the market as the result of the full staff effort acting as a unit to place the product on the market in the rapid speed way beyond an unexpectedly pace.

3.3 Two Kinds of Differentiation

◆Vertical Differentiation (differentiation by quality)

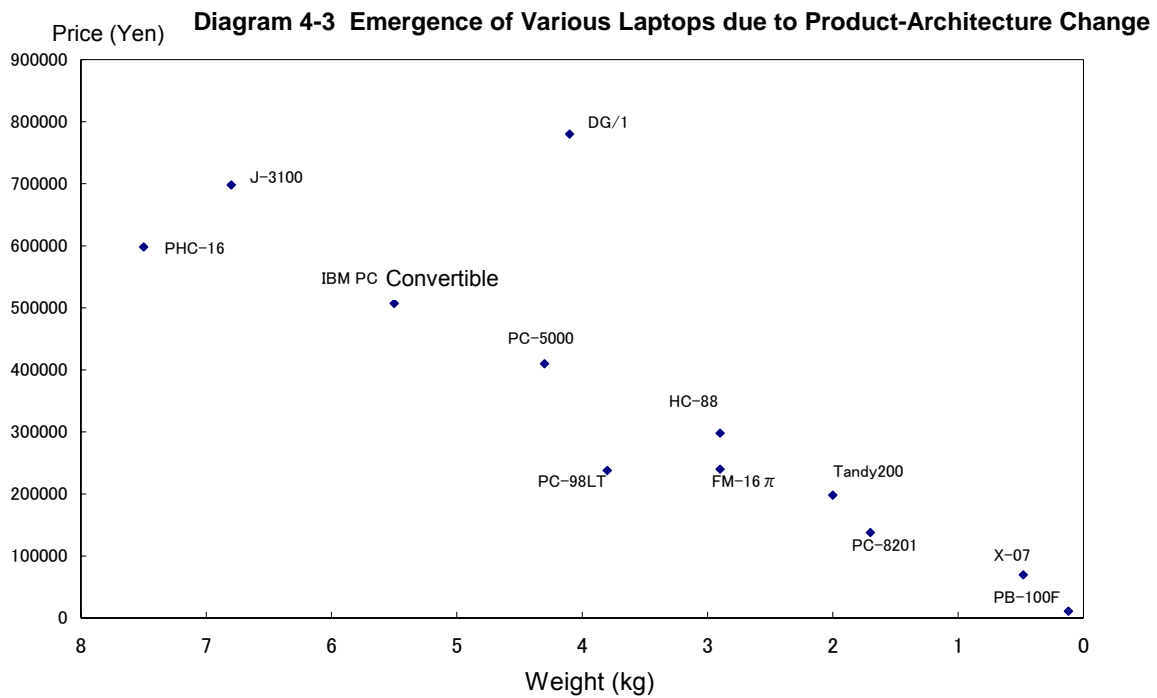
➤ To enhance the level of each attribute beyond that of other firms’ through a combination among certain attributes

◆Horizontal Differentiation

➤ Combination among attributes or their ratio included in a product is different from that of other firms’.

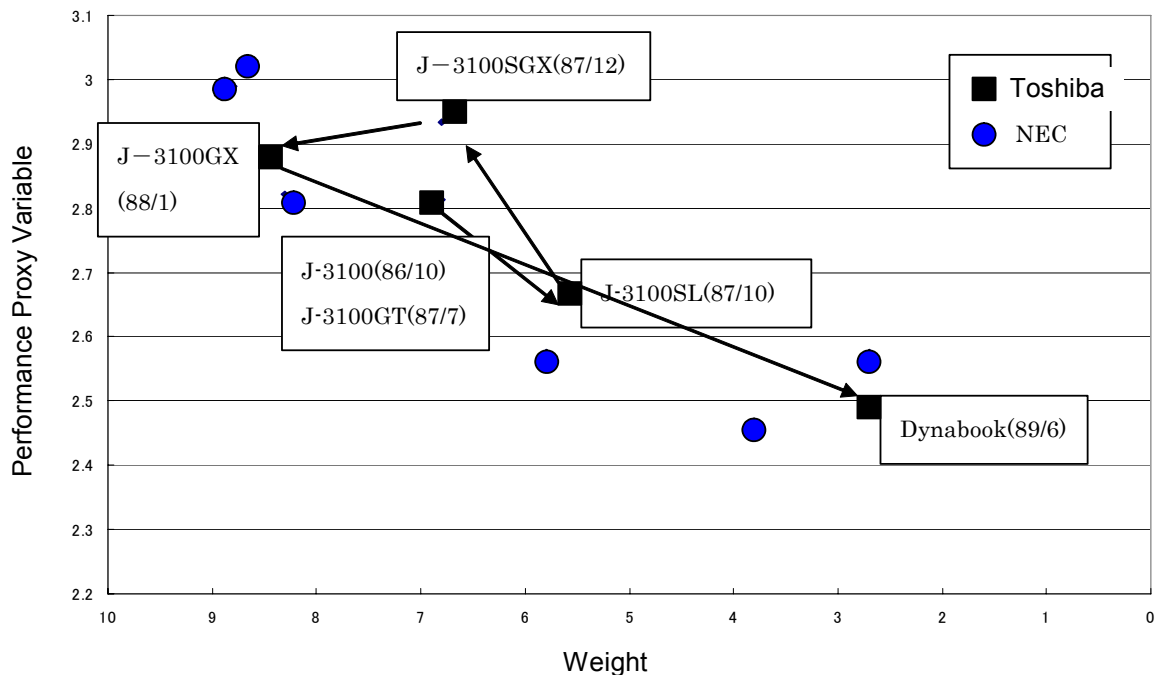
➤ Portable personal computer, PDA

▲ Example: Competition between Toshiba and NEC over Laptop PC



Origin: Wi, Jong-Hyun, Master Dissertation, University of Tokyo

● Trajectory of Toshiba's Products



Note: Though "J-3100GT" is the souped-up version of "J-3100", both are being shown in the overlap.

● Trajectory of NEC's Products

