

Differentiation: The Anecdote to a Disruptive Threat

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The core of any
successful strategy
is differentiation.

There are two ways a company makes a desired profit: (1) by performing a task considered valuable to its customer base; (2) by being different from competitors in a manner that is appreciated by that base.

From a customer's perspective, the sharper a company's differentiation, the greater its market advantage. An example of this sharp differentiation would be PPG's E-coat position in the metal coatings market in North America. First, PPG is the market leader in this technology (>20 percent market share – M. Porter's definition). Plus, PPG protects its market leading position by (a) constant and timely improvement innovations; (b) blanket service with highly trained personnel; and (c) total systems management.

Another example would be Forreast Paint with its high temperature (>500°) coatings and paints market niche leadership position. Forreast focuses on its technical strengths and the fact that their claims of performance meet the stringent high temperature performance tests, while many others do not.

In any dynamic market segment, the problem market differentiators run into is the fact that over time, a differentiated product/service, without judicious upgrades in that differentiation, results in market share loss. The culprit in this scenario is usually internal to the company itself. The reason for this is that the growth created by successful differentiation creates a more multi-faceted company. This new complexity, in most instances, provides amnesia, that is, a disregard for what core elements it has been good at.

This new complexity can be caused by several different or a combination of different influences. It always comes from change, which could be the result of acquisitions; proliferation of services/products; the C-suite becoming more abstract and less involved with the real business; and consistency loss, just to name a few.

Unfortunately, past successful differentiators, once starting a downhill trend, have a com-

elling knee-jerk reaction and feel they must thoroughly change their original business model and reinvent themselves. Most successful companies do not reinvent themselves through periodic dramatic change strategies. Successful companies learn how to relentlessly build on the differentiation model.

The basic key to a successful long-term differentiation strategy is (1) constant technical/service/market quest for a competitive difference, and (2) making certain that everyone in the organization is thoroughly and constantly on the same page.

It is important to note that successful differentiators build their strategies on a few brilliant forms of differentiation, when performed as a system, support and strengthen one another in the business process.

Again, it must be mentioned, success is only as good as the company's personnel being totally in the know (transparency) while buying into the specific differentiation strategy wholeheartedly. A totally transparent, in combination with overall buy-in throughout the organization will result in dramatically improved quality and efficiency in communications, which, in turn, further distinguishes it from competition.

Starting Points: Differentiation Flow Diagram

Historic diagnosing evaluations of past successes and failures are not much fun but it is an exercise, properly addressed, that can make a great deal of sense in building a differentiation model.

Take the past five to 10 (the more the better) growth investments and ascertain what they have in common. Determine your most important differentiators in these growth initiatives by screening your judgments through these sets of fundamental questions:

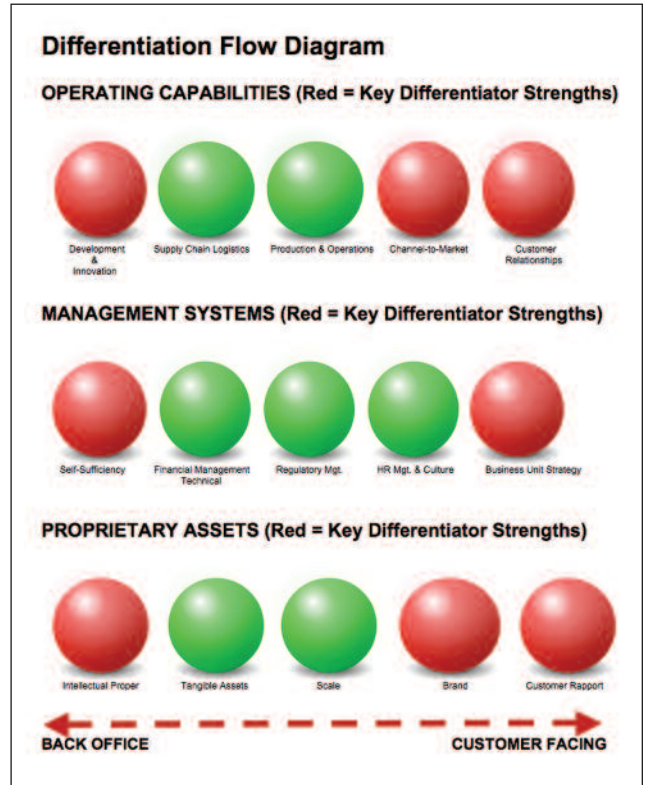
- Are they truly distinctive?
- Are they measurable (quantifiable) vs. competitors?
- Are they pertinent to your core customer deliverable?
- Are they mutually reinforce able?
- Are they obvious to all levels of the organization?

Once this very difficult process is complete and thoroughly tested at all levels of the company, one has a formula for focusing on innovation. Innovation in this case refers to the complete spectrum of business activity, not just technical innovation.

Additionally, it is very important not only to recognize your differentiation but also to test the sources of competitive innovation and its potential affect on your key differentia table position. Experience indicates that when your position is strong and has a defensible position, even disruptive innovations will affect only one part of a business model.

Replicating successful differentiation models is a key and time-consuming tactic to successful strategic positioning. Markets are changing faster than ever experienced in the past. For example, coatings and adhesives designed for rigid packaging (metal cans, etc.) must change dramatically when a rigid package loses to a flexible packaging design. Those formulators (and suppliers to formulators) who supplied an interior coating for a beer/beverage can may lose business if it cannot bring a new coating/adhesive system to the flexible beer pouch in this transfer dynamic. Equally important is being able to keep up with the flexible packaging design change frequency versus the very slow-to-change rigid packaging changes.

Therefore, to be a successful market differentiator, constant and rapid change in your markets must be accompanied by swift learning and adjustment. **CW**



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