

Six Techniques Used for Strategic and Differentiation Analysis

by: Stephan M. Liozu, Ph.D.

While companies may understand what makes them unique, they frequently neglect to consistently measure and evaluate the evolution of their differentiation strength. Effective competition necessitates constant measurement, management, and improvement of differentiation and advantage, as the author explains. Stephan M. Liozu, Ph.D. (sliozu@gmail.com), is Founder of Value Inruption Advisors, a consulting boutique specializing in industrial pricing, XaaS pricing, and value-based pricing. He is also the co-Founder of Pricing for the Planet, which specializes in pricing for sustainability. Stephan has 30 years of experience in the industrial sector with companies like Owens Corning, Saint-Gobain, Freudenberg, and Thales. He has authored and edited 14 books on value and pricing management. Stephan sits on the Board of Advisors of Professional Pricing Society. He is a Senior Advisor with BCG and Black Winch.



Differentiation lies at the core of value-based strategies, particularly for businesses not relying on low prices as their primary competitive advantage. To effectively manage and enhance differentiation, it is crucial to identify and comprehend its current level. In the realm of Michael Porter's generic business strategies, differentiation and focus both derive their advantages from the ability to outcompete alternative offerings in the market. However, this advantage is highly dynamic and can diminish over time. Despite this, many companies, even those engaged in value-based marketing and pricing, fail to regularly assess the evolution of their differentiation power. Often, they realize the loss only when it is too late.

In my extensive experience in value-based strategies, I have observed that, while companies may understand what makes

them unique, they frequently neglect to consistently measure and evaluate the evolution of their differentiation strength. Effective competition necessitates constant measurement, management, and improvement of differentiation and advantage. To compete successfully, one must be aware of their current standing, understand how to enhance it, and possess the ambition to emerge victorious.

Drawing from my years of reading, experimentation, and innovative practices in value and differentiation, I have encountered various techniques and concepts. While many strategy books delve into the whys, whats, and whens, my focus is on the practical hows. How does one understand their competitive advantage and level

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The Concept of Differentiation

*“In economics and marketing, product differentiation (or simply differentiation) is the process of **distinguishing** a product or service from others, to make it **more attractive** to a particular target market. This involves differentiating it from competitors' products as well as a firm's own products”.*

The concept was proposed by Edward Chamberlin in his 1933 Theory of Monopolistic Competition.



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of differentiation? How can they measure it accurately? How can teams be aligned around these perceptions? And, most importantly, how can they improve their current market position?

Below, I've listed and described six essential techniques and concepts developed from over a decade of working in the field of value and differentiation. These insights are crucial for marketers, pricers, and sellers aiming to enhance their understanding and mastery of these critical aspects. Let's embark on this journey.

1. USP (Unique Selling Proposition):

- **Source:** Rosser Reeves, "Reality in Advertising"
- **Description:** The **Unique Selling Proposition (USP)** emphasizes the need for a distinct and compelling reason a customer should choose a product or service over competitor offerings. It answers the question, "Why should customers buy from you?" The USP concept is well understood by sales teams, and they are able to comprehend and communicate this simple concept.
- **Example:** Apple's USP lies in its seamless integration of hardware and software, providing a user experience unparalleled in the technology

industry. The "Think Different" campaign further reinforced this unique positioning.

- **Practical Implication:** For businesses, identifying and clearly communicating their USP is critical for building brand identity and attracting a loyal customer base.

2. VRIO Framework:

- **Source:** Jay B. Barney, "Firm Resources and Sustained Competitive Advantage"
- **Description:** VRIO is a strategic framework that assesses the **Value, Rarity, Imitability, and Organization** of resources within a company. It helps identify and prioritize resources that can lead to sustained competitive advantage. Based on yes/no answers or 1 to 10 ratings, you can identify long term competitive advantage, short term competitive advantage, or areas of competitive disadvantage.
- **Example:** Google's search algorithm is a valuable and rare resource that is difficult to imitate, giving Google a competitive advantage in the search engine market.
- **Practical Implication:** Companies can use the VRIO analysis to strategically allocate resources, ensuring they focus on leveraging assets that provide a sustainable competitive edge.

3. 7 Powers:

- **Source:** Hamilton Helmer, "7 Powers: The Foundations of Business Strategy"
- **Description:** The **7 Powers** framework extends traditional competitive analysis by identifying seven sources of enduring competitive advantage. These powers collectively form a framework for businesses to analyze and strengthen their strategic positions in the market. Helmer's "7 Powers" model provides insights into the foundations of business strategy and how companies can build and maintain a competitive edge over time. Here are the 7 Powers:
 - **Scale Economies:** Achieving cost advantages as the scale of operations increases. Larger scale allows for the spread of fixed costs over a greater volume of production.
 - **Network Economies:** Gaining an advantage as the size of the network or user base grows. The value of the product or service increases as more people use it.
 - **Counter-Positioning:** Establishing a unique position that is difficult for competitors to replicate. Creating a differentiated offering that competitors cannot easily imitate.

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- **Switching Costs:** Creating barriers that make it expensive or inconvenient for customers to switch to alternatives. High switching costs enhance customer loyalty.
- **Branding:** Building a strong brand that represents trust, quality, and a unique value proposition. A well-established brand can command premium pricing and customer loyalty.
- **Cornered Resources:** Controlling a significant share of critical resources or assets in the industry. Having exclusive access to key inputs or distribution channels.
- **Process Power:** Developing superior processes and capabilities that lead to efficiency, quality, or innovation. Operational excellence that is difficult for competitors to replicate.
- **Example:** Microsoft’s network effects, where the value of Windows increases as more users adopts it, create a powerful competitive advantage in the operating system market.
- **Practical Implication:** Recognizing and harnessing one or more of the 7 Powers allows companies to build resilient and defensible market positions.

4. Purple Cow:

- **Source:** Seth Godin, “Purple Cow: Transform Your Business by Being Remarkable”
- **Description:** Coined by Seth Godin, the **Purple Cow** concept emphasizes the need for products or services to be remarkable, unique, and worthy of standing out in a crowded market. It encourages businesses to avoid being ordinary and to rise above the marketing noise. This concept is highly relevant in times of competing attention for the buyer’s mindshare.

- **Example:** Tesla’s electric cars, with their groundbreaking technology and sustainable focus, serve as a Purple Cow in the automotive industry, capturing attention, and disrupting traditional norms.
- **Practical Implication:** Businesses should constantly innovate to create products or services that stand out, fostering customer interest and loyalty.

THE PURPLE COW CONCEPT EMPHASIZES THE NEED FOR PRODUCTS OR SERVICES TO BE REMARKABLE, UNIQUE, AND WORTHY OF STANDING OUT IN A CROWDED MARKET.

5. Unfair Advantage (Ash Maurya):

- **Source:** Ash Maurya, “Running Lean”
- **Description:** Ash Maurya’s concept of **Unfair Advantage** involves identifying unique strengths that give a startup a competitive edge, often rooted in early customer feedback and insights.
- **Example:** A startup gaining early customer traction and insights through a beta version of its product may have an Unfair Advantage in understanding customer needs ahead of competitors. Understanding unmet and hidden needs better than the competition can be turned into a more differentiated innovation that aims at solving the problems.
- **Practical Implication:** Incorporating the Unfair Advantage concept helps startups focus on areas where they can outperform competitors early in the development process.

6. Hidden Assets (Chris Zook):

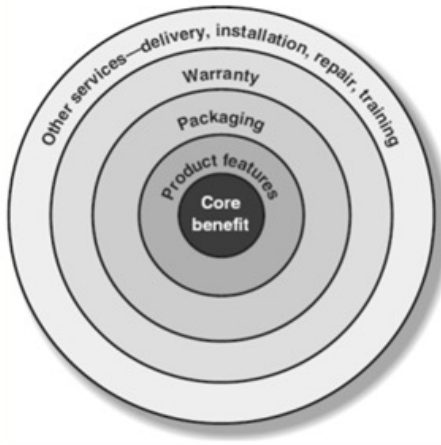
- **Source:** Chris Zook, “Unstoppable: Finding Hidden

Assets to Renew the Core and Fuel Profitable Growth”

- **Description:** Chris Zook’s concept of **Hidden Assets** is a strategic framework that focuses on identifying and leveraging underutilized strengths within an organization to gain a competitive advantage. Zook is a renowned business strategist and partner at Bain & Company, and his work often emphasizes the importance of unlocking the full potential of a company’s existing resources. The first step in leveraging hidden assets involves a thorough analysis of a company’s internal capabilities, resources, and knowledge base. This includes proprietary technologies, intellectual property, industry expertise, talented workforce, and other unique strengths that may not be fully exploited. The goal of uncovering Hidden Assets is to transform these latent strengths into a source of competitive advantage. By recognizing and maximizing these internal capabilities, a company can differentiate itself from competitors and create value for its customers.
- **Example:** A company with a core team possessing unique industry insights and experience could have Hidden Assets that, when leveraged, lead to strategic advantages. Hidden Assets can be little or seem insignificant internally, but they can bring a lot of value for customers. The objective is to identify these nuggets of neglected and underestimated value.
- **Practical Implication:** Regularly assessing and maximizing Hidden Assets, as highlighted by Chris Zook, enables organizations to tap into latent potential for sustained growth and competitiveness.

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Where is Your Differentiation Hidden?



Hidden Assets Could be in:

- Technology Features**
- Service Platforms**
- Corporate Services**
- Unique Capabilities & Skills**
- Business Models**
- Intellectual Property**
- Exclusive Relationships**
- Unique Access**

Now that you are acquainted with these intriguing techniques, deploying them can be both interesting and enjoyable. While I recommend delving into the corresponding books, here is a suggested process for implementation:

- 1. Select the Techniques:** Choose one or two techniques to focus on initially. Gather information on their practical applications, drawing insights from examples and case studies available in the public domain.
- 2. Adapt to Your Context:** Recognize that some techniques may seem theoretical or esoteric. Embrace them, but also tailor them to your working culture. If your team is accustomed to Excel, incorporate a template in Excel. Use canvases when applicable. Streamline the

technique, if needed, ensuring it aligns with your desired output.

- 3. Develop Relevant Templates:** Craft templates for practical working sessions. Aim for a standardized document that can be utilized in workshops, training sessions, and process documentation.
- 4. Train Champions and Experts:** Educate your champions and experts on the techniques, concepts, and templates. Leverage various mediums such as papers, books, videos, and podcasts to effectively convey the message. Repetition, highlighting key differentiation concepts 7 to 10 times, enhances retention.
- 5. Deploy Within Your Organization:** Identify teams that can benefit from these

techniques and templates. For value-based pricing transformations, select the appropriate tools and include relevant templates in the toolbox. The VRIO framework and Hidden Assets techniques are fundamental components of the value toolbox.

- 6. Industrialize the Process:** Simplify and make the techniques and templates practical to encourage widespread adoption within the organization. The VRIO framework in particular tends to be the primary tool used in any company I collaborate with. Industrialization hinges on organizational adoption. To encourage tool usage, integrate them into the workflow. Provide straightforward descriptions, simple tools, and user guides for effective implementation.

Allow me to guide you through the process I employ when extracting true differentiators in the value-based pricing approach. I have adapted the VRIO framework by redefining each letter and introducing a 1 to 10 rating system to accommodate variations in responses. The VRIO framework becomes a powerful tool to distill a list of potential differentiators, generated through brainstorming sessions, into a concise summary of 3 to 5 TRUE differentiators:

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A Differentiation Value Strategy Must Meet the VRIO Criteria

- Is it **V**aluable to Customer in Dollars & Cents?
- Is it **R**are to Find or Access?
- Is it costly to **I**mitate?
- Is the firm **O**rganized to exploit it?

SUMMARY OF THE VRIO MODEL				
IS IT VALUABLE?	IS IT RARE?	IS IT HARD TO IMITATE?	IS THE FIRM ORGANIZED AROUND IT?	WHAT IS THE RESULT?
NO				COMPETITIVE DISADVANTAGE
YES	NO			COMPETITIVE EQUALITY
YES	YES	NO		SHORT-TERM COMPETITIVE ADVANTAGE
YES	YES	YES	NO	UNUSED COMPETITIVE ADVANTAGE
YES	YES	YES	YES	LONG-TERM COMPETITIVE ADVANTAGE

When engaging in the process of differentiation through the VRIO framework, I implement the following structured approach:

- 1. Formation of a Cross-Functional Team:** I convene a multi-functional group comprising 20 to 30 professionals for a two-day workshop. Pre-approved invitations are sent, ensuring the inclusion of top-tier talents across various functions such as sales, marketing, pricing, supply chains, technology, and R&D.
- 2. Strategic Workshop Agenda:** The workshop is meticulously planned with a focus on identifying existing, hidden, and future differentiators. The agenda comprises three pivotal blocks. Commencing with a training session on differentiators, we proceed to a quick warm-up exercise to stimulate brainstorming and conclude with an action planning exercise.
- 3. Brainstorming Sessions:** Each block initiates with a 60-minute brainstorming session within

small groups of 5 to 7 participants. These groups comprehensively list differentiators spanning products, services, people, channels, branding, software, and more using flip charts. After the initial hour, we conduct a preliminary purging of ideas, distilling the top 25 differentiators in a template. Subsequently, employing the VRIO template, we rate each differentiator on a 1 to 10 scale using established golden rules. This can be an intense process as diverse opinions and realities are shared. The objective is to extract the top 5 differentiators termed as TRUE differentiators. Each group then allocates 15 minutes to share their findings with the entire group.

- 4. Iteration Process:** This cycle repeats three times with breaks and presentations interspersed. Towards the end, we consolidate the efforts of each group, creating a reference list encompassing all existing, hidden, and future differentiators, leveraging the collective intelligence of the diverse group.

5. Refined Output Presentation:

The workshop's output is refined, packaged, and presented to the wider organization. This content finds application in various avenues such as value-based marketing materials, a value-based selling playbook, and a value quantification process.

This approach represents one utilization of the VRIO and Hidden Assets techniques. Depending on client dynamics, I have employed these techniques in diverse ways. The benefits derived from this process include:

- 1. Multi-Functional Alignment:** Alignment across various functions.
- 2. Inclusive Participation:** Involvement of functions not traditionally consulted in strategy.
- 3. Elevated Energy Levels:** Increased enthusiasm and confidence when the output is rich and varied.
- 4. Widespread Buy-In:** Support from diverse stakeholders during subsequent phases.
- 5. Valuable Content Production:** Creation of content for marketing and sales playbooks.

The realms of differentiation and competitive advantage are frequently overlooked and, unfortunately, poorly comprehended. The profound task of effective management

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falls squarely on the shoulders of the marketing and strategy teams, with collaborative support from other key stakeholders. Maintaining a successful position necessitates a continuous understanding of your competitive stance. Refreshing your differentiated

value proposition every six to twelve months is imperative for remaining relevant in a dynamic market. Without ongoing measurement and rigorous testing, advantages slowly dissipate, allowing competitors to gradually close the gap. Proactive engagement in this strategic

work is far more preferable than responding to a stark realization when margins begin to erode, and market share dissipates. The pivotal question is: Who within your organization takes ownership of the critical domain of differentiation?