DIFFERENTIATE OR DIE

Survival in Our Era of Killer Competition, Second Edition

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with

Steve Rivkin

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To Rosser Reeves,
the man who made the "unique selling proposition" famous.
He was truly a man ahead of his time.
Little did any of us realize just how competitive
the world would become.

PREFACE

For what seems like several lifetimes, my partners and I have been preaching the importance of being different:

- In Positioning, being different meant differentiating yourself in the mind of your prospect.
- In Marketing Warfare, being different meant using a differentiating idea to defend, attack, flank, or become a guerrilla.
- In the 22 Immutable Laws of Marketing, being different meant using a differentiating idea to build a brand.
- In the Power of Simplicity, being different meant using a strategy that was all about differentiation.

Being different is at the heart of everything we've done for over 30 years.

You might assume that by now the message has been delivered. Everyone is busy building "differentiation" into their plans. And no one would leave home without his or her differentiating idea. Right?

Wrong.

What we tend to see are two types of organizations. One type still doesn't get it. They're out there doing battle with "higher quality" or "good value" or good old "better products." They feel that they are better than their competitors and that truth will prevail.

They surround themselves with gurus who talk about quality, empowerment, customer orientation, and various forms of leadership.

Unfortunately, all of their competitors are surrounded by the same cast of "you-can-get-better" gurus. Nothing different.

The other type of organization understands the need to be different. But after some prodding, they will admit that they just don't know how to do it. Their excuse: Our product or salesforce just isn't that much different from our competitors.

They tend to get sucked in by the motivation crowd that promises peak performance, a winning attitude, and effective habits. Unfortunately, the same cast of characters is hanging around and motivating their competitors. Nothing different.

They don't get much help from the big-name academics. Harvard's Michael Porter, for example, does talk about the need for a unique position, but he never offers much help on how to be unique. Instead, he talks about strategic continuity, deepening strategic position, and minimizing trade-offs. Nothing different.

Their advertising agencies aren't much better. They talk about bonding, likability, breakthroughs, and cool. To them it's all about being artful, not scientific. Nothing different.

This book is about changing all that. It outlines the many ways you can be different while avoiding the lure of those things that sound different but really aren't.

With this information in hand, you should be in a better position to thrive in a very unforgiving and competitive world. It's a book, if you'll pardon the pun, that can make a difference in your business.

JACK TROUT

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CHAPTER

1

The Tyranny of Choice

In the beginning, choice was not a problem. When our earliest ancestor wondered, "What's for dinner?" the answer wasn't very complicated. It was whatever animal in the neighborhood he could run down, kill, and drag back to the cave.

Today, you walk into a cavernous supermarket and gaze out over a sea of different types and cuts of meats that someone else has run down, killed, dressed, and packaged for you.

Your problem is no longer catching it. Your problem is to try to figure out which of the hundreds of different packages in the case to buy. Red meat? White meat? The other white meat? Make-believe meat?

But that's only the beginning. Now you have to figure out what part of the animal you want. Loin? Chops? Ribs? Legs? Rump?

And what do you bring home for those family members who don't eat meat?

Fishing for Dinner

Catching a fish for that early ancestor was simply a matter of sharpening a stick and getting lucky.

Today, it can mean drifting into a Bass Pro Shop, an L.L.Bean, a Cabela's, or an Orvis and being dazzled by a mind-boggling array of rods, reels, lures, clothing, boats, you name it.

At Bass Pro's 300,000-square-foot flagship store in Springfield, Missouri, they will give you a haircut and then make you a fishing lure out of the clippings.

Things have come a long way from that pointed stick.

Going to Dinner

Today, many people figure it's better to have someone else figure out what's for dinner. But figuring out where to go is no easy decision in a place like New York City.

That's why, in 1979, Nina and Tim Zagat created the first restaurant survey in New York City to help us with that difficult choice.

Today, the pocket-size Zagat Surveys have become best-sellers, with 300,000 participants rating and reviewing restaurants, bars, and nightclubs in 54 different guidebooks.

An Explosion of Choice

What has changed in business over recent decades is the amazing proliferation of product choices in just about every category. It's been estimated that there are a million standard stocking units (SKUs) in the United States. An average supermarket has 40,000 SKUs. Now for the stunner: An average family gets 80 to 85 percent of its needs from 150 SKUs. That means there's a good chance we'll ignore 39,850 items in that store.

Buying a car in the 1950s meant a choice between a model from GM, Ford, Chrysler, or American Motors. Today, you have your pick of cars, still from GM, Ford, and Chrysler, but also from Acura, Aston Martin, Audi, Bentley, BMW, Honda, Hyundai, Infiniti, Isuzu, Jaguar, Jeep, Kia, Land Rover, Lexus, Maserati, Mazda, Mercedes, Mitsubishi, Nissan, Porsche, Rolls-Royce, Saab, Saturn, Subaru, Suzuki, Volkswagen, and Volvo. There were 140 motor vehicle models available in the early 1970s. There are more than 300 today.

And the choice of tires for these cars is even worse. It used to be Goodyear, Firestone, General, and Sears. Today, at just one retail outlet called The Tire Rack, you can browse the likes of Goodrich, Bridgestone, Continental, Dunlop, Firestone, Fuzion, General, Goodyear, Hankook, Kumho, Michelin, Pirelli, Sumitomo, Toyo, Uniroyal, and Yokohama.

The big difference is that what used to be national markets with local companies competing for business has become a global market with everyone competing for everyone's business everywhere.

Choice in Healthcare

Consider something as basic as healthcare. In the old days, you had your doctor, your hospital, Blue Cross, and perhaps Aetna/US Healthcare, Medicare, or Medicaid. Now you have to deal with new names like MedPartners, Cigna, Prucare, Columbia, Kaiser, Wellpoint, Quorum, Oxford, Americare, Multiplan, and concepts like Health Maintenance Organizations (HMO), Peer Review Organizations (PRO), Physician Hospital Organizations (PHO), and Preferred Provider Organizations (PPO).

It's gotten so confusing that magazines like *U.S. News & World Report* have taken to rating hospitals and HMOs to make our choice easier.

California is even getting into a healthcare public "report card" arena. It started with several physician groups and health plans publishing "report cards" evaluating the performance of network providers. Then the 2.1-million-member PacifiCare of California published its new "Quality Index" report on its web site, rating more than 100 physician-based organizations according to clinical outcome measures, as well as member satisfaction, administrative data, and professional/organizational data.

It's gotten so confusing that people aren't worrying about getting sick. They worry more about where you go to get better.

Choice in Consumer Electronics

One keen observer wandered into his local consumer electronics superstore and spent some time in the audio aisle. There were 74 different stereo tuners, 55 CD players, 32 tape players, and 50 sets of speakers. (Do your ears hurt yet?)

Given the fact that these components could be mixed and matched anyway you want, that means there is the opportunity to create 6.5 million different stereo systems. (Now we know your ears hurt.)

Choice Is Spreading

What we just described is what has happened to the U.S. market, which, of the world's markets, has by far the most choice (because our citizens have the most money and the most marketing people trying to get it from them).

Consider an emerging nation like China. After decades of buying generic food products manufactured by state-owned enterprises, China's consumers now can choose from a growing array of domestic and foreign brand-name products each time they go shopping. According to a recent survey, a national market for brand-name food products has already begun to emerge. Already China has 135 "national" food brands from which to pick. They've got a long way to go, but they are on their way to some serious tyranny.

Some markets are far from emerging. Countries like Liberia, Somalia, North Korea, and Tanzania are so poor and chaotic that choice is but a gleam in people's eyes.

The Law of Division

What drives choice is the law of division, which was published in *The 22 Immutable Laws of Marketing.*

Like an amoeba dividing in a petri dish, the marketing arena can be viewed as an ever-expanding sea of categories.

A category starts off as a single entity. Computers, for example. But over time, the category breaks up into other segments: mainframes, minicomputers, workstations, personal computers, laptops, notebooks, pen computers.

Like the computer, the automobile started off as a single category. Three brands (Chevrolet, Ford, and Plymouth) dominated the market. Then the category divided. Today, we have luxury cars, moderately priced cars, and inexpensive cars; full-size, intermediate, and compacts; sports cars, four-wheel-drive vehicles, RVs, minivans, and suburbans (station wagons on steroids).

In the television industry, ABC, CBS, and NBC once accounted for 90 percent of the viewing audience. Now we have network, independent, cable, satellite, and public television. Today, a basic wired household has hundreds of channels from which to choose. Add in "streaming video" and you're talking about a 500-channel universe. With all that, if you flip through the channels to try to find something to watch, by the time you find it, the show will be over.

"Division" is a process that is unstoppable. If you have any doubts, consider Table 1.1 on the explosion of choice.[1]

The "Choice Industry"

All this has led to an entire industry dedicated to helping people with their choices. We've already talked about Zagat's restaurant guides and the healthcare report cards.

Everywhere you turn, someone is offering advice on things like which of the 8,000 mutual funds to buy. Or how to find the right dentist in St. Louis. Or the right MBA program from among

Table 1.1 The Explosion of Choice

Item	Early 1970s	Late 1990s
Vehicle models	140	260
KFC menu items	7	14
Vehicle styles	654	1,212
Frito-Lay chip varieties	10	78
SUV styles	8	38
Breakfast cereals	160	340
PC models	0	400
Software titles	0	250,000
Soft drink brands	20	87
Bottled water brands	16	50
Milk types	4	19
Colgate toothpastes	2	17
Magazine titles	339	790
Mouthwashes	15	66
New book titles	40,530	77,446
Dental flosses	12	64
Community colleges	886	1,742
Prescription drugs	6,131	7,563
Amusement parks	362	1,174
OTC pain relievers	17	141
TV screen sizes	5	15
Levi's jean styles	41	70
Houston TV channels	5	185
Running shoe styles	5	285
Radio stations	7,038	12,458
Women's hosiery styles	5	90
McDonald's items	13	43
Contact lens types	1	36

hundreds of business schools. (Which one will help me get a Wall Street job?)

The Internet is filled with dot-coms that can help you find and select anything you can imagine, all promised at rock-bottom prices.

Magazines like *Consumer Reports* and *Consumers Digest* deal with the onslaught of products and choices by rotating the categories on which they report. The only problem is that they go into so much detail that you're more confused than when you started.

Consumer psychologists say this sea of choices is driving us bonkers. Consider what Carol Moog, PhD, has to say on the subject: "Too many choices, all of which can be fulfilled instantly, indulged immediately, keeps children—and adults—infantile. From a marketing perspective, people stop caring, get as fat and fatigued as foie gras geese, and lose their decision-making capabilities. They withdraw and protect against the over-stimulation; they get 'bored.'"[2]

Choice Can Be a Turnoff

The typical argument is that extensive choice is appealing. But as Dr. Moog suggests, it can actually be a turnoff. Choice can actually hinder the motivation to buy.

Consider the research done into 401(k) plans and the employees who sign up for them. Researchers studied data on 800,000 employees of 647 plans in 69 industries in the year 2001.

What happened? As the number of fund options increased, employee participation rates dropped. Too many choices spelled confusion. And confusion spelled, "No thanks."

Swarthmore sociology professor Barry Schwartz wrote a book about these turnoffs. He called it *The Paradox of Choice*. Speaking at an industry forum in 2006, he said:

> *People are so overwhelmed with choice that it tends to paralyze them. Too much choice makes people more likely to defer decisions. It raises expectations and makes people blame themselves for choosing poorly. You don't expect much if there are only two pairs of jeans to choose from. If there are hundreds, you expect one to be perfect.*[3]

Choice Can Be Cruel

Barry Schwartz calls it a paradox. He's too kind. It's actually a tyranny. The dictionary defines tyranny as absolute power that often is harsh or cruel.

So it is with choice. With the enormous competition, markets today are driven by choice. The customer has so many good alternatives that you pay dearly for your mistakes. Your competitors get your business and you don't get it back very easily. Companies that don't understand this will not survive. (Now that's cruel.)

Just look at some of the names on the headstones in the brand graveyard: American Motors, Braniff Airlines, Burger Chef, Carte Blanche, Eastern Airlines, Gainesburgers, Gimbel's, Hathaway shirts, Horn & Hardart, Mr. Salty pretzels, Philco, Trans World Airlines, Trump Shuttle, VisiCalc, Woolworth's.

And this is only a short list of names that are no longer with us.

You Have to Be Careful

If you ignore your uniqueness and try to be everything for everybody, you quickly undermine what makes you different. Consider Chevrolet. Once the dominant good-value family car, Chevrolet tried to add "expensive," "sporty," "small," and "truck" to their identity. Their "differentness" melted away as did their business.

Look at Table 1.2 of the top-selling U.S. cars in 2006. Chevy's first appearance is at #5, and sales to car rental fleets have a lot to do with that.

If you ignore changes in the market, your difference can become less important. Consider Digital Equipment Corporation (DEC). Once the U.S.'s premier minicomputer manufacturer, they ignored changing technology that was making desktop computing the driving force in the office. Their "differentness" became less important. DEC is now deceased, having been absorbed by Compaq, one of the surviving biggies in desktop computing.

Table 1.2 Top-Selling U.S. Cars in 2006

1.	Toyota Camry	448,445
2.	Toyota Corolla/Matrix	387,388
3.	Honda Accord	354,441
4.	Honda Civic	316,638
5.	Chevrolet Impala	289,868
6.	Nissan Altima	232,457
7.	Chevrolet Cobalt	211,449
8.	Ford Focus	177,006
9.	Ford Taurus	174,803
10.	Ford Mustang	166,530

If you stay in the shadow of your larger competitors and never establish your differentness, you will always be weak. Consider Westinghouse. They never emerged from the shadow of General Electric. Today, Westinghouse is no longer with us. Or consider Goodrich. Over the years, Goodrich could reinvent the wheel and Goodyear would get all the credit. Because of the name confusion with their larger competitor, it was all but impossible to separate themselves in the minds of their prospects. Today, Goodrich is on a life-support system.

It's an unforgiving world out there.

And It Will Only Get Worse

Don't bet that all this will calm down. We believe that it will get worse for the simple reason that choice appears to beget more choice.

In a book titled *Faster*, author James Glieck outlines what can only be called a bewildering future which he describes as, "The acceleration of just about everything." Consider the following scenario that he describes:

This proliferation of choice represents yet another positive feedback loop—a whole menagerie of such loops. The more information glut bears down on you, the more Internet "portals" and search engines and infobots arise to help by pouring information your way. The more telephone lines you have, the more you need. The more patents, the more patent lawyers and patent search services. The more cookbooks you buy or browse, the more you feel the need to serve your guests something new; the more cookbooks you need. The complications beget choice; the choices inspire technology; the technologies create complication. Without the distribution and manufacturing efficiencies of the modern age, without toll-free numbers and express delivery and bar codes and scanners and, above all, computers, the choices would not be multiplying like this.[4]

Ladies and gentlemen, we haven't seen anything yet.

CHAPTER

2

The Creeping Commoditization of Categories

While categories are expanding thanks to the law of division, something sinister is happening. Despite all the attention paid to branding these days, more and more of these categories are sliding into commoditization. In other words, fewer and fewer of the brands in these categories are well differentiated. In people's minds, they are there but that's about all. You could call them placeholders. They are sort of like squatters. They live there but don't own a meaningful idea that makes them unique.

Wishful Thinking versus Reality

Today everybody from clothing designers to celebrities claims to be a brand, but ultimately the products and services must face the realities of the marketplace—and the consumers. Consumers ask, "What do you have on offer? How are you different from others in the category? How are you better? Do you represent values that are valuable to me *and* make me feel valued? How *are* you differentiated from the others?"

"It's no secret that more and more companies are having problems differentiating themselves from their competitors. The Total Quality and Process Re-Engineering movements of the last two decades of the 20th century pretty much guaranteed that companies that actually made it to the 21st century were going to be virtually indistinguishable from one another," noted Robert Passikoff, founder of Brand Keys, Inc., a New York-based loyalty and engagement research consultancy. "After hundreds of millions of dollars of advertising, consumers are, of course, *aware* of these companies, but the real question is do they differentiate themselves from the other players in their categories?"

Differentiation, of course, exists, and does so on the basis of a product or service actually owning values—real or perceived, rational or emotional—and occupying a real place in the consumers' minds—beyond the consumer just being aware of them. And the degree to which they possess these values and have meaning in the consumers' lives (*beyond* primacy of product) determines whether they have differentiated themselves. But fewer and fewer products and services are able to demonstrate any degree of actual differentiation.

The Hard Facts

To prove this, Brand Keys conducted an analysis of 1,847 products and services, in 75 categories, *via* their Customer Loyalty Engagement Index®. Using a combination of psychological inquiry and factor regression, and causal path analyses, the customer

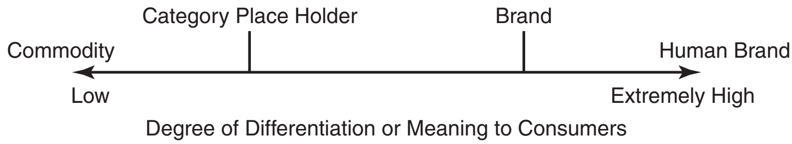

Figure 2.1 Degree of Differentiation or Meaning to Customers.

assessments of the products and services, predictive of how positively or negatively consumers will act toward the products, identified a continuum along which all products and services could be placed, depending on their degree of differentiation (Figure 2.1). As you migrate from left to right, you go from no (or low) differentiation to extremely high differentiation.

On average, the study found that only 21 percent of all the products and services examined had any points of differentiation that were meaningful to the consumers. This is nearly 10 percent less than a benchmark study that was conducted in 2003.

On the far left are Commodities, products and services so basic that they are not differentiated in the minds of the consumer by anything other than price.

Moving to the right we have Category Placeholders. This is a new designation for products or services with strong awareness in the category in which they compete, but so absent of any meaning that they cannot be differentiated from the competition in the minds of the consumer. Think General Motors or The Gap.

Next, comes 21st Century Differentiated Brands. These are products and services that are strongly differentiated from the competition. Think Toyota or Apple.

Finally, the study identified the apex of differentiation, the Human Brand. This is an actual human being, most often the company founder, who represents 100 percent of the differentiation for the company. While this designation represents the highest level of differentiation, the fragility of brands that are invested mainly in a human being are fodder for the popular press since any sudden change in public perception of that human brand has an immediate—and potentially devastating—effect on the brand's equity, and soon after, its profitability. Think Martha Stewart or Donald Trump.

Category Differentiation

Degree of differentiation differed by category. In the Bar Soap category, for example, 100 percent of the brands differentiated themselves. Fifty percent of Credit Card offerings were found to stand for something in the minds of the consumers. But Banks, Motor Oil, and 20 other categories—nearly a third of all the categories examined—did not have any differentiated brands. The products and services were known, but not for anything in particular.

A list of the 75 categories appears in Table 2.1. The percentage indicates—according to the consumers of the category—the number of actual differentiated brands in the category. You can say that this chart can show you how much trouble you are in, especially if you live in a low percentage category.

Table 2.1 Percentage of Differentiation in Each Category

Category	Percentage
Airline	29
Allergy medicine(OTC)	0
Allergy medicine (Rx)	0
Athletic footwear	29
Automotive	38
Baby care	20
Bank	0
Beer (LIGHT)	25
Beer (Regular)	29
Bottled water	13
Cable service providers	0
Car insurance company	40
Car rental company	57
Casual dining	20

Table 2.1 (Continued)

Category	Percentage
Cell phones	25
Cereal breakfast food	37
Cigarettes	29
Chewing gum	20
Clothing catalogues	0
Coffee and doughnuts	33
Canned coffee	0
Computer	9
Cosmetics	14
Credit card	50
Cruise ships	20
Diapers	0
Digital cameras	0
Dog food	20
DVD players	0
Energy provider	13
Evening news shows	50
Fashion brands	20
Feminine products	0
Gasoline	14
HDTV	8
Hotel	22
Ice cream	50
Insurance company	0
Internet service providers	0
Laundry detergent	11
Long distance phone Service	0
Magazines	37
Major league sports	75
Morning news shows	50
Motor oil	0
Motorcycles	20
MP3/digital music players	20

(*Continued*)

Table 2.1 (Continued)

Category	Percentage
Mutual fund	0
Office copier	0
Online books and music	25
Online brokerage	17
Online travel	25
OTC pain reliever	29
Paper towels	0
Parcel delivery	50
Potato chips	25
Pizza	14
Printers	0
Quick-serve restaurants	30
Retail stores (apparel)	50
Retail stores (discount)	40
Retail stores (department)	0
Retail stores (electronics)	0
Retail stores (office supplies)	0
Retail stores (home improvement)	0
Satellite radio	0
Search engine	9
Skin care	60
Soap	100
Soft drink (diet)	0
Soft drink (regular)	20
Toilet paper	80
Toothpaste	33
Wireless phone service	20
Wristwatches	38

Table 2.1 shows you how much trouble you are in especially if you live in a low percentage category.

Some Further Explanation

To better explain this, take a category such as Automotive. This has a reasonable number such as 38 percent. This means that you have a