Surveying the Influence of Differentiation on Gaining Competitive Advantage

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Abstract
In today’s complex world, achieving competitive advantage is more accessible by focusing on competitive strategies like cost leadership, centralization and differentiation. The main purpose of writing the current paper is to survey the influence of differentiation strategy on gaining competitive advantage. The research is applicable from goal view and descriptive from data collection. Data gathering method is library and fieldwork. Statistical society includes 125 experts and managers of rare perfume importers which decreased into 95 ones applying sampling formula. A questionnaire includes 60 questions about differentiation strategy and competitive advantage and distributed among statistical sample. For measuring differentiation, five main dimensions include rivals, substitute goods, consumers, suppliers and potential rivals were utilized. Therefore a main hypothesis and five secondary ones were considered. The results of applying Pearson and Regression test illustrated that differentiation strategy and its dimensions affect significantly and positively on gaining competitive advantage in niche markets in which “rivals” was selected as the most important ones.

Keywords: differentiation, rivals, substitute goods, consumers, suppliers, potential rivals, competitive advantage

Introduction
Business strategy development is concerned with matching customers’ requirements (needs, wants, desires, preferences, buying patterns) with the capabilities of the organization, based on the skills and resources available to the business organization, leading to the issue of core competence (Holmes and Hooper, 2000). This concept has been defined as ‘something that the organization does at least as well as other organizations, or preferably better than, any other organization in the market’. According to Webster (1994), when products are based on such core competencies, they define the organization’s value proposition in each target market and the organization’s business strategy; thus, the business strategy adopted by an organization must be able to give it a competitive edge over other competitors in the industry. The pursuit of competitive advantage is at the root of organizational performance and as such understanding the source of sustained competitive advantage has become a major area of study in the field of strategic management (Porter, 1985, 1991; Barney, 1991). The resource-based view stipulates that the fundamental sources and drivers of competitive advantage and superior performance are chiefly associated with the attributes of resources and capabilities, which are valuable (Barney, 1986; 1991). Furthermore, the resource-based view provides an avenue for organizations to plan and execute their organizational strategy by examining the role of their internal resources and capabilities in achieving competitive advantage. Markets have become highly competitive and turbulent and are constantly changing. Market conditions move from being simple to complex, from stable to dynamic, and from tame to hostile (Neu and Brown, 2005). In response to changing market conditions, manufacturing companies have traditionally become more customer-centric and innovative, in a way that customers receive products that better fit their needs (Deshpande et al., 1993; Drucker, 1954; Johnson and Selnes, 2004; Narver and Slater, 1990; Treacy and Wiersma, 1993). In addition, manufacturing companies have started adding more services to their total offerings as part of a differentiation strategy (Gebauer et al., 2010; Neu and Brown, 2005; Oliva and Kallenberg, 2003). Companies with greater reliance on the service part of their business reportedly achieve better return on sales and improve their value (Fang et al., 2008). As globalization leads to more intense competition among manufacturing organizations, with increase in customer demands, these organizations tend to seek competitive advantage by producing products with more valued features, such as product quality, product flexibility or reliable delivery (Baines and Langfield-Smith, 2003). As such, a differentiation strategy would provide greater scope for these organizations to produce products with more valued, desirable features as a means of coping with such demands. This research work therefore, focused on how competitive advantage can be achieved through product differentiation strategy.
Literature review

In today’s rapidly changing economic and business environments, organizations compete for customers, revenue, market share with products and services that meet customer’s needs. Global competition has brought about technological changes whereby customers are demanding for superior quality products/services with lower prices. More so, this increased rate of global competition has brought about reduction in product life cycle. This has led to much emphasis being placed on organizational competencies and creation of competitive advantage which is believed would give them an edge over other competitors. Though there are many objectives an organization would want to achieve these days, the two major ones are: (i). to achieve a competitive advantage position and (ii). Enhance their organization’s performance in relation to that of their competitors (Raduan et al, 2009). It is therefore, necessary for business organizations to understand the relationship between the organization’s internal strengths and weaknesses, as well as the potential effects on their organization’s competitive advantage and performance. It is also necessary that the organization makes a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. The generic strategies as developed by Porte (1980; 1985) for achieving a competitive advantage position by an organization are: product differentiation and cost leadership. Product differentiation being the most commonly used one of these two strategic typologies (Spencer et al, 2009). A differentiation strategy involves the firm creating a product/service, which is considered unique in some aspect that the customer values because the customer’s needs are satisfied. On the other hand, cost leadership emphasizes low cost relative to that of the competitors (Porter, 1980; 1985). He argued that cost leadership and differentiation strategies are mutually exclusive. Recent literatures and research studies have notwithstanding, questioned this idea recognizing the fact that organizations may pursue elements of both types of strategy (Chenhall and Langfield- Smith, 1998). Nevertheless, past researches have shown that a number of the manufacturing organizations view the differentiation strategy as a more important and distinct means to achieve competitive advantage in constrict to a low cost strategy (Kotha and Orne, 1989; Baines and Langfield-Smith, 2003). According to Barney (1991), when a firm is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors, such a firm has competitive advantage. In addition, competitive advantage is described as an advantage that one firm has relative to competing firms. In other words, a competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). The source of the advantage can be something the business does that is distinctive and difficult to replicate, also known as a core competency (Prahalad and Hamel, 1990). Although, competitive advantage has taken centre stage in discussions of business strategy, a definite definition of the term is quite elusive. However a common theme has remained ‘value creation’. According to Porter (1985), ‘competitive advantage is at the heart of a firm's performance in competitive markets’ This implies that, competitive advantage means having low costs, differentiation advantage, or a successful focus strategy. Also, he argues that ‘competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm’s cost of creating it’ (Porter, 1986). Porter’s arguments reflect the common strengths, weaknesses, opportunities, and threats (SWOT) framework for assessing competitive advantage. Competitive advantage stems from a firm’s ability to leverage its internal strengths to respond to external environmental opportunities while avoiding external threats and internal weaknesses (Mooney, 2007).There has been a wide range of research contributions that examine the relationships among innovativeness, customer centricity, and business performance (e.g., Hult et al., 2004; Jaworski and Kohli, 1993; Narver and Slater, 1990). Narver and Slater (1990; 2000) test and retest the positive relationship between market orientation and business profitability, providing strong support for the importance and generalizability of the market orientation profitability relationship. Hult et al. (2004) examine a general model of the direct relationship between innovativeness and business performance, which reveals the significant effects of innovativeness and market orientation on business performance. Strong support exists for the relationships among market orientation, innovativeness, and business performance across varying environmental contexts. The literature review also shows that authors often consider market turbulence rather than directly assessing the complexity of customer needs. Jaworski and Kohli’s (1993) association of market orientation with business performance appears to be robust across environmental contexts that are characterized by varying degrees of market turbulence, competitive intensity, and technological turbulence. Hult et al. (2004) reveal that the effect of innovativeness and market orientation on business performance does not differ greatly during periods of low and high market turbulence. In contrast, a significant relationship does exist between market orientation and innovativeness under high market turbulence, but not under low market turbulence.

Conceptual framework and hypotheses

Figure 1 shows the influence of differentiation strategy on gaining competitive advantage. In the model differentiation and its dimensions include rivals, substitute goods, consumers, suppliers and potential rivals are independent variables and competitive advantage is dependent one.
Differentiation strategy in niche markets affect significantly and positively on gaining competitive advantage.
- Rivals affect significantly and positively on gaining competitive advantage.
- Substitute goods affect significantly and positively on gaining competitive advantage.
- Consumers affect significantly and positively on gaining competitive advantage.
- Suppliers affect significantly and positively on gaining competitive advantage.
- Potential rivals affect significantly and positively on gaining competitive advantage.

Research methodology
The study is in a society involving 125 experts and managers of rare perfume importers which decreased into 95 ones applying sampling formula.
A questionnaire includes 25 questions about competitive advantage and 45 ones about strategy were designed.
For assessing questionnaire validity we asked for experts’ opinions and to confirm its reliability Cronbach’s alpha method has been applied. For reliability Cronbach’s alpha technique was utilized.
The reliability of each variable and questionnaire as a whole are shown in table 1:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation strategy</td>
<td>0.74</td>
</tr>
<tr>
<td>Rivals</td>
<td>0.77</td>
</tr>
<tr>
<td>Substitute goods</td>
<td>0.83</td>
</tr>
<tr>
<td>Consumers</td>
<td>0.77</td>
</tr>
<tr>
<td>Suppliers</td>
<td>0.78</td>
</tr>
<tr>
<td>Potential rivals</td>
<td>0.76</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>0.91</td>
</tr>
</tbody>
</table>

As table 1 shows all ones are more than 0.7, so the reliability was proved.

Data analysis
a) Kolmogorov-Smirnov test
To survey normality of statistical society, K-S test was applied.
Table 2: The results of applying K-S test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Sig</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rivals</td>
<td>0.851</td>
<td>Data distribution is normal</td>
</tr>
<tr>
<td>Substitute goods</td>
<td>0.334</td>
<td>Data distribution is normal</td>
</tr>
<tr>
<td>Consumers</td>
<td>0.142</td>
<td>Data distribution is normal</td>
</tr>
<tr>
<td>Suppliers</td>
<td>0.294</td>
<td>Data distribution is normal</td>
</tr>
<tr>
<td>Potential rivals</td>
<td>0.620</td>
<td>Data distribution is normal</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>0.953</td>
<td>Data distribution is normal</td>
</tr>
</tbody>
</table>

Table 2 illustrates that data distribution in statistical society is normal. Therefore to test hypotheses, some nonparametric tests were applied.

b) Pearson correlation test

To survey the relationship between differentiation strategy and its dimensions with gaining competitive advantage, Pearson correlation test was applied.

Table 3: The results of applying Pearson correlation test

<table>
<thead>
<tr>
<th>Correlation between variables with competitive advantage</th>
<th>Sig</th>
<th>Statistic</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation strategy</td>
<td>0.000</td>
<td>0.617</td>
<td>Significant and positive correlation</td>
</tr>
<tr>
<td>Rivals</td>
<td>0.000</td>
<td>0.537</td>
<td>Significant and positive correlation</td>
</tr>
<tr>
<td>Substitute goods</td>
<td>0.000</td>
<td>0.364</td>
<td>Significant and positive correlation</td>
</tr>
<tr>
<td>Consumers</td>
<td>0.000</td>
<td>0.512</td>
<td>Significant and positive correlation</td>
</tr>
<tr>
<td>Suppliers</td>
<td>0.000</td>
<td>0.578</td>
<td>Significant and positive correlation</td>
</tr>
<tr>
<td>Potential rivals</td>
<td>0.037</td>
<td>0.214</td>
<td>Significant and positive correlation</td>
</tr>
</tbody>
</table>

Table 3 shows that there are positive and meaningful correlations between differentiation strategy and its dimensions with competitive advantage.

c) Regression test

To survey the influence of differentiation strategy and its dimensions on competitive advantage, Regression test was applied.

Table 4: The results of applying Regression test

<table>
<thead>
<tr>
<th>Influence of variables on competitive advantage</th>
<th>Sig</th>
<th>Statistic</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rivals</td>
<td>0.000</td>
<td>0.417</td>
<td>Significant and positive influence</td>
</tr>
<tr>
<td>Substitute goods</td>
<td>0.000</td>
<td>0.364</td>
<td>Significant and positive influence</td>
</tr>
<tr>
<td>Consumers</td>
<td>0.000</td>
<td>0.386</td>
<td>Significant and positive influence</td>
</tr>
<tr>
<td>Suppliers</td>
<td>0.000</td>
<td>0.375</td>
<td>Significant and positive influence</td>
</tr>
<tr>
<td>Potential rivals</td>
<td>0.037</td>
<td>0.121</td>
<td>Significant and positive influence</td>
</tr>
<tr>
<td>Differentiation strategy</td>
<td>0.000</td>
<td>0.478</td>
<td>Significant and positive influence</td>
</tr>
</tbody>
</table>
Table 4 shows that customer relationship management and its dimensions affect significantly and positively on competitive advantage.

Conclusion and suggestions
In the current paper it tried to survey the influence of differentiation strategy in niche markets on gaining competitive advantage. The results of applying parametric test illustrated that differentiation strategy and its dimensions affect significantly and positively on gaining competitive advantage in which the impact of rivals on gaining competitive advantage is more than others.

Attending to the results, some suggestions can be represented as:
- Making educational courses for expert employees to making them aware about identifying customers’ needs, suppliers, rivals and substitute goods
- Reengineering the processes to improve products’ necessary characteristics
- Identifying the key activities which create high value for customers to enhance customer satisfaction
- Enriching human capital to make markets for luxury goods by project and team structures
- Employing, educating and empowering human resources along with making them familiar with modern methods to enable them represent different services to the customers
- Strategic planning as affecting factor on gaining competitive advantage
- Analyzing customer value, cost grouping them in terms of profitability and brand reputation
- Utilizing modern technologies by personnel to update new goods

References