



# Redifferentiating Products and Services

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Employ an Entrepreneurial Mindset

EXCERPTED FROM

*The Entrepreneurial Mindset:*

*Strategies for Continuously Creating Opportunity in an Age of Uncertainty*

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**REDIFFERENTIATING**

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**PRODUCTS AND**

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**SERVICES**

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IN THE LAST CHAPTER, WE FOCUSED ON FILLING THE OPPORTUNITY register with ideas based on redesigning the mix of attributes you currently offer your customers in existing products and services. Next, we consider finding new opportunities for *differentiation*, meaning ways that you set yourself apart from the competition and that customers perceive as positive. We start with a method we call *quizzing*, which you can use for developing insight into customer behavior. Quizzing can eventually form the basis for new opportunities to differentiate. Then, we show you how to identify specific opportunities for differentiation by carrying out what we call *consumption chain analysis*.

We should probably lay our biases on the table here and now. We believe that no market is so mature that you cannot further differentiate your offerings, although we hear this lament all the time, particularly from managers in embattled business-to-business industries. Shelly Weinig, one of the first Americans to open a manufacturing plant in Japan and a habitual entrepreneur himself, didn't believe it either: "Show me a manager who claims he's in a mature

business,” Weinig said, “and I’ll show you a manager who’s asleep at the wheel.”

Sure, some managers seem naturally adept at creating opportunities from what seems to be nothing. Years of teaching and working with many different organizations have convinced us, however, that this is a skill that can be learned.

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### QUIZZING FOR CONTEXT

It’s surprisingly easy to forget that customers don’t really care about your offerings. What customers care about is their own needs and how to meet them. A way of reminding yourself of this is to recall that your customers are always embedded in a context. The context is full of influences that will affect how the customer behaves at any given point in time. What they are doing, worried about, looking forward to, and trying to avoid are all usually far more important to them than your product is. In addition, they can be influenced by whom they are with, their physical location, where they are going, and where they would prefer to be. Given these competing claims on a customer’s attention, it is the unusual product that captures their full attention.

Understanding the customer’s experiential context is your key to bringing about great differentiation.<sup>1</sup> You can get at it by means of quizzing, a process of asking and getting answers to questions in much the same way that a reporter tracks down a story. In Journalism 101, students are taught that every story should, to the extent possible, provide an answer to these questions: who, what, when, where, and, the trickiest, how? For each of your offerings, you want to consider the what, who, when, where, and/or how proposition from as many angles as possible. In some cases you’ll be able to ask and answer all of the questions; in others, only a few. You can also elaborate on these basic questions, asking, for example, “what else?” once you have your first “what” scoped out. The idea is to use this process to deeply understand what is motivating the customer at that particular moment. Ideally, it will help you to differentiate in ways that are overlooked by companies taking a more conventional view. Examples of the kinds of questions you’ll want to ask are listed in figure 4-1.

**FIGURE 4 - 1**

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**QUIZZING: SAMPLE QUESTIONS**

**WHO?**

- Who is with customers while they [use]<sup>a</sup> the offering?
- How much influence do these others have on the customer?
- If we could arrange it, who would we want the customer to be with?
- If we could arrange it, how might we want these people to influence the decision to purchase?
- Who does not [use] our product, but the competitors' products? Why do they not [use] our product?
- Who is experiencing problems similar to those our customers are experiencing? Current competitors' customers? An expanded customer set—for instance, a similar kind of customer who is in a different location or part of a different demographic group? Indirect customers who might benefit from our offering?
- What is stopping us from servicing these other potential customers?

**WHAT?**

- What do our customers experience as they [use] the offering?
- What need provokes the [use] of our offering?
- What change in conditions takes place for customers?
- What problem does it solve for them?
- What problems does it not solve for customers? What stops us from solving these problems for them?
- While customers are [using] the offering, what else are they doing? Identify all the major activities a customer may be engaged in while [using] the offering.
- What new activity might they engage in if it were possible? (This gets at possibilities for new offering enhancements.)
- What concerns do they have as they [use] the offering? Can we find ways of alleviating those concerns?
- What other related problems are our customers experiencing that we could solve? What is stopping us?

**WHAT ELSE?**

- What else might customers have on their minds as they are [using] the product?
- What else would they prefer to be doing rather than [using] the product?

*continued*

FIGURE 4-1 (CONTINUED)

**QUIZZING: SAMPLE QUESTIONS****WHEN?**

- When do our customers [use] the offering?
- If we could arrange it, at what other times might they [use] it?

**WHERE?**

- Where are our customers while they [use] the offering?
- If we could arrange it, where else might they be?

**HOW?**

- How do customers learn to [use] the product?
- How do they make trade-offs between [using] this product and deploying some other solution to their problem?
- How did early customers start [using] the product? How did later adopters start [using] it?
- How do customers know when to start and stop [using] the product?

<sup>a</sup> The term *use* is bracketed because it represents only one aspect of the customer's experience of your offering. Others include *purchase*, *search for*, *select*, *install*, and *repair*. Use the same quizzing process to stake out opportunities for differentiation in these areas.

To demonstrate how quizzing works, let's walk through an example of how one very successful entrepreneur differentiated a product that most people would regard as a slow-growth commodity. Our example involves a company called Blyth Industries. Blyth's chief executive officer, Bob Goergen, has met with incredible success in manufacturing and marketing—of all things—candles. Goergen is the sort of person we like to study—someone who has perceived and grasped opportunities that were seemingly invisible to others. How did he come up with a way of differentiating a product that is not only utterly common but easy to manufacture as well? Let's see how the quizzing process influenced what his company did.

Let us first ask what the candle is being used for and where it is being used. Candles can be used for many reasons in different places, for instance, to celebrate or provide light in the home, to provide light and atmosphere in restaurants, to provide light outdoors, to express reverence in places of worship, and to pay homage at vigils.

For each major reason and location, we can probe deeper and ask specifically where at each location candles are used. For example, where in the home are candles used? Some obvious examples included the following locations: dining room, bedroom, basement (near the fuse box), patio, and bathroom.

Each of these locations in the home presents a different experiential context. Except during an electrical power outage, the emotional context of candle use at home is vitally important if you intend to sell lots of them. Candles might be wanted to create a festive mood, a romantic mood, a cozy mood, and so on.

Consider the dining room. To get at the context, you might start with who might be with the customer in the dining room when candles are used. Depending on who these other people are, you might sell very different kinds of candles. For instance, one could be entertaining family, having a neighborhood party, enjoying a romantic evening with a date, or entertaining business associates.

Let us now focus in on home, dining room, and family and ask when the candles are used? Again there are a number of possible occasions, each with its own connotations. There are, for example, birthdays, anniversaries, holidays, graduations, Valentine's Days, and job promotions.

This process can be repeated over and over again for different types of companions gathering in different rooms. By thinking through the context and emotional tenor of each situation, you might add value to the candle offering by providing ancillary products. So, we might ask, what else can be offered with the candle? Candles of different designs, colors, and scents thus might be sold on their own or provided with accessories such as potpourris, special-occasion wrappings and decals, fragrance dispensers, aromatherapy kits, festive place-setting packages, party kits, and cake decorating kits. Figure 4-2 depicts just three of the many differentiated lines of candles that Bob Goergen's company has brought to market.

The potential for differentiation is limited only by the imagination. As Goergen will tell you, "This industry has been in decline for the past three hundred years!" Yet that didn't stop Blyth Industries from differentiating and then redifferentiating its products. Goergen launched one new product after another, tailored to the specific

**FIGURE 4-2**

**USING QUIZZING TO DIFFERENTIATE MARKETS FOR CANDLES**

*Where* can candles be used? Examples include

- At home
- Outdoors
- On vacation
- At restaurants
- At places of worship
- At vigils

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Let us select *At home*

Let us again select *At home*

Let us select *Outdoors*

*Where* in the home can candles be used?

Examples include

- Dining room
- Living room
- Bedroom
- Patio

*Where* in the home can candles be used?

Examples include

- Dining room
- Living room
- Bedroom

*Where* can candles be used outdoors?

Examples include

- Camp site
- Picnic site

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Let us select *Dining room*

Let us again select *Dining room*

Let us select *Picnic site*

*Who* might people be with when they use the candles in the dining room? Possibilities include

- Family
- Friends
- Business associates
- Date

*Who* might people be with when they use the candles in the dining room? Possibilities include

- Family
- Friends
- Business associates
- Date

*Who* might people be with when using candles on a picnic? Possibilities include

- Family
- Friends
- Business associates
- Members of a club
- Charitable event

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Let us select *Family*

Let us select *Date*

Let us select *Business associates*

*When* do people use candles with family in the dining room?

Possibilities include

- Birthdays
- Anniversaries
- Holidays
- Graduations

*When* would someone use candles in the dining room when with a date?

Possibilities include

- First dinner
- Subsequent dinner
- Valentine's Day
- Welcome back

*What* might people be concerned about while using candles at a picnic with business associates?

- Candles blow out
- Candles attract insects

FIGURE 4-2 (CONTINUED)

**USING QUIZZING TO DIFFERENTIATE MARKETS FOR CANDLES**

*What else* might someone want while using candles on a date?

- Romantic atmosphere

*What else* might these people need while using the candles?

- Relaxed atmosphere

Let us select *Holidays*

*What else* might these people need while using the candles on holidays?

- Festive atmosphere

Using its unique skills in shaping, scenting, and coloring candles, the firm created an array of differentiated products and accessories.

**FESTIVE CANDLES**

- Candles in autumnal browns and oranges with scents like cranberry and cinnamon for Thanksgiving
- Striped red and white or green and white candles with scents like cinnamon and mint for Christmas

**ROMANTIC CANDLES**

- Tall, fluted candles in exotic colors for formal first meals
- As relationship develops, floating candles scented with aromatics to establish mood
- Red spiraled candles with rose or carnation scents for Valentine’s Day

**OUTDOOR CANDLES**

- Large, long-lasting candles infused with insect repellent, such as citronella
- Candles in windproof hanging containers, similar to Chinese lanterns

locations (where), companions (who), and occasions (when) for which the candles were to be used. He then extended the reach of the company beyond the U.S. market to other markets where candles were likely to be valued. There are, of course, places where the company still has not made much headway—in Japan, for instance, the development of the domestic candle market is likely to be slow because many residences are built with considerable amounts of wood and paper. The company (which Goergen acquired in the late 1980s as a “hobby” for \$200,000) grew from \$3 million in sales in 1982 as a

producer of religious candles to nearly \$500 million in sales in 1996 as a global candle and accessory business. Its market value in 1997 was \$1.2 billion. If Goergen can do it with candles, we believe you can do it with whatever products and services you are selling.

The best opportunities allow you to create differentiation on the basis of skills and capabilities that your business has and that your competitors do not. This makes it difficult for the competitors to match quickly. For Blyth Industries, Goergen used a combination of outstanding market research capabilities coupled with the company's technical skills at being able to deploy highly sophisticated production techniques to blend candle waxes, colors, and fragrances into shapes and styles that other companies couldn't match at the same price.

Goergen put two principles of entrepreneurial thinking to work. He developed a detailed understanding of the contexts in which his product was (and could be) used and then found ways of developing and deploying the firm's capabilities to deliver differentiated offerings that his competitors had trouble matching. You can do the same.

When we present this example to managers of industrial businesses, they often grumble that this is well and good for the consumer market but it doesn't work for the industrial market. We hope to convince you otherwise. There are many ways in which industrial firms have changed the rules of the game by differentiating—not only on the basis of products but also on the basis of the services provided with that product. For many years, for instance, IBM commanded price premiums for its services, even with plenty of competition. Indeed, the sourcing consultants Mitchell-Madison Group (MMG) (now part of USWeb/CKS) found that competitors would have to offer a total cost savings of 15 percent before their bids would even be entertained by IBM clients.<sup>2</sup>

If your customers are industrial, the single most important thing you need to do is to understand how they are trying to compete. To the extent that you understand how they are competing and can help them compete, you have a key differentiator. For instance, a senior executive at LSI Logic pointed out that if you are selling semiconductor arrays to Sony, for which the goal is primarily to be the leading innovator, the appeal is unique features and functionality. Matsushita, on the other hand, is a determined “fast follower,” so it is primarily interested in speed to market and reliability.

**CONSUMPTION CHAIN ANALYSIS**

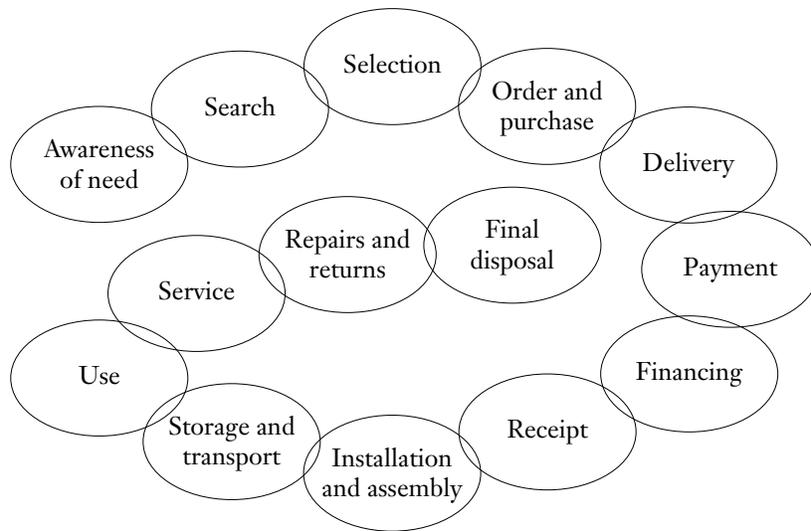
If looking at usage doesn't lead to a lot of great ideas, do not despair—there are many more places that you can do this! Enter a second tool that can be used for strategic differentiation: consumption chain analysis.<sup>3</sup> This works on the premise that opportunities for differentiation lurk at every step of the way your customers take, from the time they first become aware of their need for your product or service to the time they finally dispose of the remnants of the used-up product. We call these steps the customer's consumption chain.

**Identifying the Links in the Chain**

Any link in the consumption chain has differentiation potential—your job is to find out which links are the most promising for your organization, and why. The first step in doing this is to understand how the chain works. Figure 4-3 illustrates the typical links in the chain for a manufactured product.

**FIGURE 4-3**

**A TYPICAL CONSUMPTION CHAIN**



**Awareness of Need** How do customers become aware of their need for something you can provide, a problem you can solve? If you are a toothbrush manufacturer, your challenge is to persuade massive numbers of consumers not only that brushing their teeth is important but that your particular kind of brush is the one they have to have.

Managers at the Oral B division of Gillette were particularly entrepreneurial with respect to awareness. They took advantage of the fact that for most customers, buying a toothbrush is a low-priority event. Most people are not aware that a toothbrush's ability to stimulate the gums (which reduces gum disease) deteriorates with age. Customers can't tell when it's time to change brushes by just looking at the brush. In fact, even though dentists have recommended for years that people replace their brushes every three to four months, the average consumer hangs onto a brush for nine months or more.<sup>4</sup> This is a situation in which a customer has a need for a product (in this case, a new toothbrush) but is not aware of it.

Oral B's managers developed a line of toothbrushes that they called the Indicator line in 1992. The toothbrushes incorporate a patented method of dyeing the center bristles of the brush blue. When the blue dye has been leached away, it's time to change the toothbrush. In effect, the product tells the consumer when it needs to be replaced. This turned out to be a major win. Customers benefit by taking better care of their teeth. The company benefited by being able to charge premium prices—the Indicator toothbrush sells for about 15 percent more than Oral B's other brushes, which themselves cost double the price of standard store brushes. Partly because of more frequent replacement, even with the higher price, Oral B's growth has been impressive, exceeding 12 percent annual sales growth from 1988 to 1998; and profit growth in excess of 21 percent (1988–1993) and 17 percent (1993–1998). Remember, these results are for a product category that many would write off as mature.

The time for this kind of cheap, pervasive “intelligence” on the part of products has certainly come. Oral B pioneered with toothbrushes that tell you when they need to be replaced. The idea of building smart functionality into ordinary products, however, is everywhere.

Take batteries, a product category in which demand for portable devices has created booming demand. In 1996, Energizer pioneered the first on-battery tester, a technology that allows consumers to test battery power on the spot, creating an information benefit that people never had before. Indeed, this innovation so impressed the editors of *Popular Science* magazine that they selected it as one of the best home technological innovations of the year.<sup>5</sup>

Duracell International (now part of the Gillette Company) responded with its own tester, embedded in the PowerCheck battery. Hewlett-Packard and other manufacturers of copiers, fax machines, and printers, have long incorporated usage information in their products, so that customer can purchase replacements before the ink supply is exhausted.

With industrial products now beginning to “communicate” their status to the people who use them, it can’t be long before enterprises for servicing these products crop up, ready to step in when components and parts exhaust themselves. For instance, logging trucks in Alaska and Northern British Columbia are linked through satellite to onboard computers that optimize various aspects of the truck to the information and weather systems. For instance, the tire pressure in the truck’s tires can be adjusted to fit the ambient conditions, which saves not only the cost of premature wear, but the cost and expense of downtime when a tire blows unexpectedly. Each truck is a big investment—downtime is expensive. Servicing those trucks is faster and less expensive now that the right parts can be anticipated and made ready in advance.<sup>6</sup>

**Search** How do customers identify alternative solutions? The key objective here is to increase product visibility. Making the customer’s search easy, positioning your offerings where he or she is likely to find them (whether in cyberspace or more earthly realms), finding occasions for purchase when customers simply don’t want to be bothered doing a lot of comparison shopping—these are all ways to capitalize on differentiation in the search process. At this search link, the Internet is having enormous impact. Companies such as Priceline.com have turned the traditional shopping equation on its head. Rather than offering a product or service and setting the price,

this company has the customer set the price and looks for vendors willing to sell for that amount. Time will tell if this concept will work in the long run, but in the meantime, Priceline.com has made a unique impression on the minds of many consumers.

**Selection** Why does a customer pick one solution over another? Consider the purchase of a used car, an experience fraught with bad publicity and, often, bad previous experiences. It carries a lot of negatives, including not only the possibility of buying a lemon that someone else has dumped but also having to negotiate the price and deal with pushy salespeople. As *Washington Post* correspondent Brock Yates observed in 1987, “I am about to engage in that 20th-Century flog known as buying a car. To most of us, that generates about as much pleasure as root canal work.”<sup>7</sup>

These sentiments were not lost on entrepreneurial managers. Companies like CarMax and AutoNation offer customers the opportunity to use computers to scroll through detailed descriptions of cars for sale on the lot. A nonnegotiable price is listed. When customers have winnowed the list down to the most attractive set of choices, they can then request a salesperson to show them the autos of interest. Many customers have responded to this way of shopping to free themselves of one of life’s many sources of stress and discomfort. A second revolution in used-car buying is under way, made possible, of course, by the Internet. It is now entirely possible for a customer to specify what car he or she is looking for, what price range, and what geographic location, and subsequently find a ready seller, for virtually no investment of time or energy.

**Order and Purchase** What must a customer do to buy from you? Surprising though it might seem, many companies are successful at interesting the customer and persuading them to select their product, only to lose the game at the point of sale. Many sites on the Internet are guilty of making the most difficult part of the process the actual purchase of a good or service, by requiring time-consuming entry of customer information, and often multiple, slow-to-load validation and verification screens. The result? Would-be buyers never complete the transaction, and the sale is lost. Other firms have tackled

this link with more imagination. Amazon.com, for instance, created a one-click system in which repeat customers can simply press a single button on the screen and order from prestored information with no further effort. Of course, stores in the bricks-and-mortar realm are also guilty of making purchasing difficult, as anyone who has ever waited in an endless checkout line at a major discount store can affirm.

**Delivery** How does an offering get from you to the customer? An entire cottage industry in the music and prerecorded content business is focusing on the location and delivery of music to the customer. Firms such as CD-NOW promise to revolutionize the consumption of music from recorded media by making it possible for customers to create their own CD-ROM disks, in batches of one. Rather than having to go to a music store or purchase music from a catalog, the customer creates his or her own collection. Another take on this idea is being developed by Audible.com, a firm that provides an Internet site with downloadable content, and a special, Walkman-like device on which this can be played back. For many firms, of course, delivery is their business, and we have all consequently benefited from enormous advances in logistics and packaging, prompted by the innovations of firms such as Federal Express. For many other kinds of firms, such as commodity shippers, construction companies, and food and newspaper companies, delivery has significant competitive implications as well.

**Payment** How does the customer pay? How do you receive payment? Optimizing the payment link can improve business in multiple ways. Obviously, if payment is more convenient, that helps to differentiate your product. Second is the substantial benefit your organization should enjoy in terms of reduced costs to process payments, more rapid positive cash flows, or both. Consider Mobil's Speedpass. Customers enrolled in the Mobil Speedpass system use a miniature radio transmitter attached to a key chain or to their car's rear window. The transponders transmit a special code that is recognized by a receiver in the pump. The two devices then simply charge the customers' fuel purchase to a designated credit or checking card. This

eliminates the hassle of waiting while a credit card is charged, or conversely having to handle cash. The automatic payment system was introduced in 1997. By 1999, over 3,800 Mobil stations were participating in the program and the company had signed up over three million users. Company studies show that customers using the Speedpass technology purchase gasoline at Mobil an average of one time more per month than those not using the Speedpass. Think about the considerable advantage this is giving Mobil in terms of market share—all because the company recognized that customers wanted more speed and convenience at the pump.<sup>8</sup>

**Receipt** Once customers have it, what do they do with it? Questions to consider with respect to receipt, especially with service offerings, are whether the process can be made more convenient, more efficient, or more enjoyable. One of our favorite examples is Progressive Insurance, which we mentioned in chapter 2. It's hard to imagine a more responsive or rapid way to receive claims adjustment services than to have an adjuster in a mobile van settle the claim right at the scene of the accident. Not only that, but think of the reassurance Progressive provides by helping clients locate all the parties needed to get the car repaired, get a rental car, and tend to any insurance concerns raised by medical issues. Serving customers in this way has also had an unexpected benefit. Progressive suffers some of the lowest levels of nuisance lawsuits in the country. It appears that service is received so quickly that there is simply no time for fraud mongers to get involved.

**Installation and Assembly** How does your customer put the product to work? An example of capitalizing on installation difficulties is how Otis Elevator used wireless technology to expand the market for its remote elevator-monitoring systems. Otis Elevator formed an alliance with Novatel Wireless and Bell Atlantic Mobile to tackle installation problems with Otis's remote elevator-monitoring systems. Customers previously used land-line modems to relay information about elevator performance to OTISLINE, the company's twenty-four-hour maintenance dispatching center. This required the installation of phone lines in the elevator machine room. If for what-

ever reason it was infeasible to install phone lines, the customer could not use the service. The three companies developed a solution in which a wireless Novatel modem could be used to communicate information directly to Otis, eliminating the need for phone lines. Novatel executives estimate that this technology would allow Otis to reach a market of over 60,000 elevators that might otherwise not have been suitable for the service.<sup>9</sup>

***Storage and Transport*** What bothers or worries the customer about storing the product? In the industrial gas business, for example, focus on storage and transportation of the product by leading producers has transformed the way business is done in the industry. In the traditional business model, products come out of centralized plants and are transported by truck to user sites, where customers put them to work in their own manufacturing process. The expense and complexity of shipping, storing, and distributing large volumes of industrial gases have been overcome by plants in which the focus is on on-site generation of needed materials. This represents savings for customers, because most gases require either high-pressure storage or low temperatures in special tankers, increasing carriage costs. BOC Gases is known as a leader in the business of on-site generation of nitrogen, oxygen, and hydrogen and has also developed an attractive business marketing its technology and know-how to promote the use of these gases in new industrial processes.<sup>10</sup>

***Use*** What is going on while the customer is using the product? What help does the customer need in using the product? BOC Gases again provides a good example in this area. The company created significant value by assisting its customers to reduce the total systems cost of using gases in the biotechnology industry. In January 1998, the company announced that it had become the sole, preferred supplier of gases and related services to the Massachusetts Biotechnology Council, a trade association representing over 190 biotechnology companies. BOC's approach was to focus on the total cost of using gases in the laboratory and in bulk, through implementing such practices as Internet ordering, cylinder tracking, and gas management services. In addition to these services designed to make their products

easier or less expensive to use, BOC also offers a special technical hot line, a support service that provides customers with information and support for handling its products.

**Service** What happens when the offering needs service? How is it provided? A good example of a company that differentiates on the basis of service is Otis Elevator, with its remote diagnostics systems. In high-traffic office buildings, Otis can predict possible service interruptions and send maintenance staff to carry out evening preventative maintenance before the elevator actually fails.

**Repairs and Returns** What happens when the offering needs repair or is returned or canceled? Retailers are finding that differentiating on the basis of ease of repairs and returns is one way to combat the incursions of Internet-based businesses in their markets. Most on-line merchants require that customers wishing to return products ship them back to their warehouses. Dayton Hudson's Target stores, however, are betting that they can differentiate their offering by allowing consumers to return items purchased on-line at any one of their 881 bricks-and-mortar stores. They are seeking to take advantage of unexpectedly hostile customer reactions to hassles in returning items purchased on-line.

Previously, many thought that customers would treat the experience of returning a product purchased from an Internet site just as they had traditionally done when purchasing from catalogs. On-line returns can present some startling differences from the catalog model, however. For instance, some Internet vendors' systems are programmed to send gift purchase refunds automatically sent to the giver, not the recipient, because the ordering information is linked to the giver's account. Other customers are irritated by their inability to return the product to the physical affiliate of a store's Internet site. Still others find the process of having to deal with a return when they expected a painless shopping experience particularly vexing. Inflated expectations on the part of customers only make matters worse.

To some extent, these difficulties in returns relate to the fact that shopping over the Internet is becoming a mass market, mainstream experience. Firms without experience in this arena are often

ill equipped to meet the intense service challenges of a mass medium. Forrester Research, for instance, estimates that more than \$4 billion was spent on Internet purchases during the 1999 holiday season. Difficulties in arranging returns and getting service are a budding enabler in this increasingly rich market.<sup>11</sup>

**Final Disposal** What does the customer do with the offering once it's no longer of any use? All good things come to an end, which raises the question of whether there is a way to differentiate by increasing the convenience of disposing of the exhausted product. Canon, for instance, has developed a system that allows customers to return used-up copier cartridges, which are then rehabilitated. This creates a positive feeling of being environmentally responsible for the customer, while at the same time enhancing the image of Canon as environmentally friendly. It also reduces costs for Canon, since it is much less expensive to rehabilitate a used cartridge than to manufacture a new one.

The disposal link can be particularly profitable if you can structure disposal in such a way that the customer is naturally led to replace the exhausted or obsolete product with your next-generation offering. Computer retailers, for instance, appeal to fears of rapid obsolescence through various forms of creative computer rental. One recent example is a company that takes a monthly lease fee from customers for the use of a computer and also upgrades it as soon as it becomes out of date. This frees the customer from worries about product obsolescence and from the need to come up with several thousand dollars each time he or she wants or needs a new computer.

#### **Improving the Links in a Consumption Chain**

The purpose of consumption chain analysis is to help you identify opportunities to differentiate—opportunities with the potential to go beyond what your firm and others are doing today. Let's illustrate how this works with four links from a typical chain: search, storage and transport, use, and purchase.

**Search** How do people search for a family car? Consider some of the numerous ways people might search for their next family automobile:

- Go to the same dealer with the purpose of buying the latest model of current auto.<sup>12</sup>
- Go to different dealers with the purpose of buying the latest model of current auto.
- Go to different dealers to find a newer, used model of current auto.
- Go to different dealers and compare new and/or used models of different autos.
- Watch TV ads and go to the advertised dealers.
- Read all the ads in automobile section of newspaper.
- Search on-line.
- Discuss the purchase in detail with friends and relatives.
- Consult *Consumer Reports* in print.
- Consult *Consumer Reports* on-line.
- Visit several dealers to see comparable autos.
- Do multiple test drives of many autos.
- Read dozens of industry magazines, do detailed analyses, and then do multiple test drives.

To a certain extent, the procedure that a potential car buyer uses to search for a car will determine the kind of advertising he or she is most likely to see and be most receptive to. The same is true for your customers—that is, you may find ways to add value for potential customers searching for your sort of product or service by improving the ways in which they search. For instance, if you wanted to target people who usually buy the latest model of the car they currently own, you might target advertising to them when models change if you are the current provider, or offer a target discount and a point-by-point comparison of why your car is superior at the time models change.

***Storage and Transport*** How do people stock (and carry) headache pills? Here are some ways in which customers might behave with respect to the storage and transport link in the consumption chain:

- Wait until the pills have run out and then buy replacement pills.
- Keep single replacements available in the medicine closet at home.
- Keep backup replacements in the medicine closet.
- Carry the pills in a briefcase or purse.
- Carry the pills in a briefcase or purse and keep a backup at home.
- Carry the pills in a briefcase or purse and keep a backup at home and in the office.
- Buy new pills when they have a headache and leave half-empty packs lying around at home, eventually to be discarded.

Here we could speculate that customers with different storage and transport habits might find different kinds of packaging or promotion enticing. For instance, if some customers buy pills only as needed, why would they want to buy a large box? A little box or an envelope will do. Those customers who carry pills with them routinely, however, may want a box because sturdy packaging keeps their pills from being pulverized while carried from one place to another.

**Use** How do people handle difficulties with product use? For example, what might different customer segments do with respect to an expensive sweatshirt that has shrunk in the wash?

- Throw it out with a philosophical attitude—this is the kind of thing that just happens sometimes and there’s no need to get upset about it.
- Throw it out and complain to family.
- Throw it out and complain to family, friends, and co-workers.
- Throw it out and vow never to purchase that brand again.
- Throw it out and vow never again to purchase that brand or anything from the store where it was bought.

- Call the store and complain over the phone.
- Visit the store and complain in person.
- Visit the store in person and demand a refund.

Here again, different customer segments will respond differently to the way in which your organization handles this kind of problem. If they fall into the “throw it out and never buy that brand again,” you’ll never know how you lost them. Because these may be some of your most profitable customers, you need to find a way to encourage them to take some action when they are dissatisfied with a purchase. For instance, many firms offer full refunds if an unsatisfactory product is returned. This allows you to analyze what the problem was and try to recapture that customer’s confidence.

Totally different actions may be called for with the noisier segments of customers—some of whom may have a legitimate beef about the sweatshirt but who may also be unrepresentative of the kinds of customers you want. For instance, they may chronically ignore the use and care instructions for clothing and create the problem themselves. By getting the shirt back to be analyzed, you can tell first of all whether you have a genuine problem with customer carelessness and, second, whether you might want to position differently with respect to how the shirt is sold.

**Purchase** How might quizzing be used to differentiate customer behavior in, say, the purchase of consumer gasoline? Differentiating consumer gasoline sales is tough. But let’s say it is your problem to do so. There are many questions you might ask.

What are consumers doing when purchasing gasoline? They may be commuting to work, going on a leisure trip, going on a business trip, going shopping, going on vacation, or just filling a spare gas container in order to operate home equipment (such as a lawnmower).

The next step in the quizzing process is to select one of these contexts for further inquiry. Let us select “Going on a business trip.” Who are these customers with when purchasing gasoline for the purposes of a business trip? They could be alone, traveling with one or

more business acquaintances, traveling with a group of people, or traveling with a spouse.

Let us say that a potential customer is going on a business trip alone. The logical next question might be to consider where the customer might buy the gasoline. He or she might buy it at the local gas station the person usually uses, at convenient locations between cities en route, or at a gas station that is preapproved by the person's company, even if it isn't the one he or she personally uses.

Suppose we are interested in capturing customers who are buying along the route to a destination other than their home or workplace. We might then think about when they would be likely to make their purchase. They could buy gasoline mainly during daylight hours, sometimes at night, mainly during the week, or sometimes during the weekend.

Let's say now that we want to focus on those who sometimes have to buy gas en route at night. What might concern these customers who are making an uncustomary purchase? They might worry about getting lost, having enough money to pay, having to stop again, or running out of gas, or their personal safety while making the purchase.

Now let us further define the "who" we are dealing with by deciding to focus on women, driving alone, on a long business trip that might require them to stop during odd hours during the night in unknown places for gas. Several ideas for differentiation present themselves. One would be to reconfigure the gas stations along highways that are principal driving (as opposed to flying) business routes to appeal to the concerns of this segment. This might include providing the customer with the following amenities:

- Well-lit stations
- Gas station attendants to pump gas
- A local travel adviser at each gas station with detailed knowledge of the area—for instance, which roads are safe, which exits should be avoided, which restaurant stops are pleasant and safe, and which hotels might be appropriate
- A loaner mobile phone that will be given to them at the first station on their trip and taken back at the last station

Going a step further, you might specially cater to this segment by setting up a travel chain that would extend from gas station to gas station. Each time your customer buys gas, the station calls ahead to the next station on her route to alert attendants there of her expected plans and destination. If she doesn't arrive within a specified time, this service might send a car out to look for her.

This example raises a few points that are worth noting. First, once your gas stations have a reputation for being safer, you can capture spillover effects: People will be inclined to stop there irrespective of whether it is night or day, whether they are alone or not. Second, not all of these ideas will be profitable. Before making a big investment in restructuring stations or adding services, you would have to consider whether there would be enough customers in the target group and enough spillover to make your efforts worthwhile. A third point is that there is no reason you have to provide all the material for differentiation yourself. For instance, a mobile phone company might be happy to provide services based at the gas station, creating differentiation for you (relative to other gas stations) without any expense or investment on your part. Now that's entrepreneurial thinking.

### **Mapping the Attributes of the Consumption Chain**

Every link in the consumption chain is laden with attributes that can be mapped to further differentiate a product or service for a particular customer segment. The tools of attribute mapping and consumption chain analysis are made more powerful when used together. Let's return to the example of Progressive Insurance and look at the receipt link in the chain for an automobile insurance claim.

Suppose a Progressive enrollee has just had an automobile collision and her car requires moderate body work. She is a very busy person who has little time to devote to such problems. The attribute map for the receipt of insurance services for such a person might look like the one in figure 4-4.

Busy people will be highly gratified to receive on-the-spot claim assessments and a loaner auto to drive while repairs are being made. A smaller group of such people—with luck, enough for Progressive's needs—will also be relatively price-insensitive. They will, in other

FIGURE 4 - 4

**RECEIPT LINK FOR AUTOMOBILE INSURANCE SERVICES FOR TIME-CONSTRAINED CUSTOMER SEGMENT**

	<b>Basic</b>	<b>Discriminator</b>	<b>Energizer</b>
<b>Positive</b>	<b>NONNEGOTIABLE</b> Damage reimbursement	<b>DIFFERENTIATOR</b> Provision of automobile loaner	<b>EXCITER</b> On-the-spot assessment
<b>Negative</b>	<b>TOLERABLE</b> \$600 deductible	<b>DISSATISFIER</b> Cumbersome forms and reporting	<b>ENRAGER</b> Discontinued coverage
<b>Neutral</b>	<b>SO WHAT?</b> Company infomercial literature	<b>PARALLEL</b> Detailed quotation from recommended body shop	

words, tolerate higher deductibles and more substantial premiums because saving time, not money, is a key driver of value for them. These might well be the most desired target segment for Progressive. Providing these customers with fast, efficient service not only is likely to increase their propensity to repurchase but is also likely to spur them to spread the word, giving Progressive positive word-of-mouth references. On the other hand, having to set aside time to complete lengthy, cumbersome forms is likely to be a source of great dissatisfaction for these customers, and being dropped for coverage (especially if the collision was not their fault) is likely to be enraging. This matters even more to the extent that people’s feelings about the product have a spillover effect—an enraged customer might, for instance, withdraw from other insurance policies held with Progressive, or sever ties with other providers associated with the same parent.

Breaking the customer’s experience into the component consumption chain links makes even more detailed attribute mapping possible. You can start to systematically identify opportunities for differentiation by building an attribute map for each segment at each

link in the consumption chain. The goal is to make sure that you are aware of what attributes fall into which categories for key customer segments at each link in the chain. You can then begin to ask questions like this:

- How can we deliver the positive attributes faster, more cheaply, and otherwise better than we do now?
- How might we reduce or remove negative and neutral attributes?
- How can we meet new needs that customers may be developing?
- What might customers find useful if only we could give it to them?

The answers to each of these questions will show you the opportunities to move from the attribute maps in place today to the blockbuster offerings that can drive profitability tomorrow.

As you begin to flesh out ideas about what future blockbuster offerings might look like, try to be diligent about capturing opportunities in your opportunity register. Since it is hard to anticipate what will eventually prove to be valuable, the more ideas you can identify now, the more you will be to be positioned to act on when an opportunity materializes.

### **Identifying the Triggers That Precipitate Customer Action**

Customers move from one link to another in the chain on the basis of trigger events. These are events that cause a new need to emerge, that change the customer's perspective on a need, or that signal the end of a consumption event. You must know what these triggers are and be able to act on them before the competition does. For instance, the search for a new product is often triggered when the customer's current product breaks down or becomes obsolete. Anyone who has been caught in a cycle of continual computer upgrades knows what this is like. Triggers will differ by customer segment. People who like to drive late-model cars, for instance, will be triggered to look for a

new car simply by the passage of time. On the other hand, someone who likes to tinker may happily go on driving a vehicle that requires frequent attention.

The same goes for many other kinds of products. Consider washing machines and other household appliances. Some customers will replace their appliances whenever they move, fashions change, or new features are offered. Others will use them until they are worn completely out. All too often, companies lump these very different segments together in a useless, generic category, like “upper-income suburban families.”

Companies often fail to check their assumptions about what triggers a move along the consumption chain for a particular segment. This often results in missed opportunities. Consider, for example, the unhappy experience of one of us (McGrath) with her washing machine (box 4-1).

It is not stupidity that leads companies to lose such opportunities. Rather, it is a consequence of assumptions made about how customers behave at each link in the chain—assumptions that may be entirely correct for one segment and dead wrong for others. For your more important segments, it is worth spending the time to identify the key events that lead them to transition between links—awareness of need, search, selection, purchase, and so on. You must then decide who within your firm is in the best position to spot these events, so that when they occur you will be informed and poised to react. For instance, your complaint line and technical support people may be the most likely to have the information before anyone else does.

#### **Differentiating within Customer Segments**

If you have a number of different customer segments, each will have its own consumption chain. In that case, your first task is to pin down the entire consumption chain for your product or service, segment by segment. If possible, call or personally interview distributors, customers, and customer service representatives to articulate the path taken by each segment and the needs it has as it moves along each link in the chain. The result of this process should be a consumption chain that looks something like figure 4-3 for each strategically

important customer segment. Remember—you don't need comprehensive coverage of all segments to start. It is enough to identify one or two segments that you think are of most interest and work through these, returning to other segments later.

**BOX 4-1****A MINOR WASHING MACHINE TRAGEDY  
(OR HOW ONE COMPANY'S LOSS IS ANOTHER'S GAIN)**

My trusty Whirlpool washing machine (which came with the house when I bought it from the original owners) broke for a second time. I called the Whirlpool help line. Here's what happened:

I gave a customer service representative my phone number and address (from which she should have been able to pinpoint the socioeconomic region I'm in). I explained the reason for my call: My existing washer had stopped working. I indicated that I had owned this Whirlpool washer for five years and that I did not buy it myself, but that my experience with it had generally been positive.

The customer service representative's next question was whether I wanted to try to repair the machine myself. No, I indicated, I have no interest in repairing it myself. Nevertheless, she (very nicely) switched me over to the repair hot line. The gentleman at the repair hot line tried to get me to describe what noises and behavior the machine exhibited before it died, in order to locate the correct repair parts for me. At this point, I hung up. This is an exemplary case of a trigger event in the making—a current customer, ripe for a solution, and looking to your company to provide it. The company didn't respond appropriately.

So I went off to the local appliance store, where a knowledgeable salesperson walked me through the pros and cons of all the machines. Unfortunately for Whirlpool, I ended up

buying a Maytag. I'd had good experience with other Maytag products, their sales display was more convincing (they had a display with a part-by-part comparison emphasizing the durability of their washing machines), and I liked the feel of the knobs better (so much for sophisticated assessment of all the new appliance technology). The store offered not only to deliver the new machine but also to take away the old one within forty-eight hours. I didn't even mind paying a little more for the Maytag than the comparable Whirlpool. Half an hour and \$600 later, the decision was settled, and with any luck, I won't be in the market for another washing machine for ten years or more. Whirlpool thus suffered a long-term loss.

Had the company been focused on trigger events such as this one, the outcome might have been different. Rather than sending me off to the repair people and losing the replacement sale, they could have switched to a different sales pitch, for instance, offering a special replacement machine deal. Further, in removing the old machine, the company could have gone over it to detect any areas that could benefit from product development. They might have found, for instance, which bits broke, how the machine had been used, and whether there is a systematic problem that requires attention in the manufacturing or design process.

Not only that, but by having their own delivery people come to my home, the company could have learned what other appliances appeared to need replacing, what I don't have that I might need, how I do my wash, and so on. All this data could have been used to help the company tailor its offerings and more finely segment its customers. I would have been happier, and they would have gotten the sale.

Of course, the one question Whirlpool should ask before going to all this trouble to serve my customer segment is whether the segment is big enough and price-insensitive enough to make it worth the company's while. If not, then they shouldn't bother.

### **Mobilizing the Organization**

Mapping the consumption chains for your most important segments represents an area in which getting multiple people involved can really pay off, particularly people who are directly engaged with the customers. Bob Crandall, the former chief executive officer of American Airlines, for example, made a point of expecting his managers, including himself, to spend one day each month talking directly to the people who interact with prime target customers on a daily basis. The reservation clerks, the gate attendants, and the baggage handlers were all regularly asked, “What are you hearing from the business-class passengers? What will make them more likely to want to fly with us?”

Among other things, this led to the continuous redifferentiation of the frequent-flyer offering for business-class passengers. American began by borrowing from Scandinavian Airlines System the idea of developing a different service offering for business-class travelers than for coach-class travelers. Business class separated out the highly desirable business segment from either first class (which many companies regarded as excessively extravagant) or coach class (which many business travelers experienced as excessively taxing). Breaking out the business-class segment from others was a concept that was then extended into other service offerings. Thus, frequent business travelers were offered what was essentially a special discount in the form of frequent-flyer miles, which allowed them to take personal travel inexpensively after accumulating enough corporate travel. Business customers were encouraged to stay loyal to American by having their mileage program linked to car rentals, and then hotel stays. American Airlines flyers then were permitted to benefit from flying on partner airlines, spending on affiliated credit cards (such as Citibank’s Advantage card), and membership in American’s Admiral’s Clubs at important airport hubs. Companies were also approached with offerings such as consolidated travel and expense reports to keep track of their travel and entertainment expenses.

No advantage lasts forever. Other airlines aggressively entered the competition for the business-class passenger. For years, however, American was considered the airline of choice for the business-class passenger, easily the most profitable segment of customers for airline services. Crandall was relentless in his focus on finding new links in

the frequent-flyer consumption chain to use for differentiation. For years he made the American Airlines frequent-flyer program the easiest for customers to work with—from recording miles to cashing them in, making reservations, and receiving tickets. The major benefit was his emphasis on saving time and hassle for that most important business segment.

There is nothing to prevent you from doing what Goergen and Crandall did. To the extent that you can mobilize others in the company to genuinely understand what is going on for key customer segments as they move through the consumption chain, you have the opportunity to free up enormous entrepreneurial energy in your organization.

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#### **SUMMARY OF ACTION STEPS**

The following action steps are meant to get you started on the concepts and processes discussed in the chapter. Feel free to elaborate in a way that works for your company.

**STEP 1:** For each significant customer segment (and perhaps each key distributor and key supplier), sketch out the consumption chain. Do so by interviewing—or including—as many people as possible who are in direct contact with the customer at any link.

**STEP 2:** Identify the trigger events that precipitate customer movement from link to link in their chain (awareness, search, selection, etc.). Articulate how your organization could get the information to know when a customer is moving from one link to another.

**STEP 3:** Put in place procedures to alert you when the trigger is pulled, and plan your responses when it does. Get the people responsible for executing the response on board—knowing what the trigger is and what to do when it is pulled.

**STEP 4:** Starting with the order/purchase and use links, start quizzing to get at needs that may not be met appropriately as products and

services are currently configured. If one of the questions (what, who, when, where, or how) leads to a dead end, go on to another.

**STEP 5:** Create an attribute map for each major link in the consumption chain, for each important segment that you serve or seek to serve, again beginning with ordering/purchasing and use. Later move on to other links in the chain.

**STEP 6:** Use your insight into the customer's experiential context at each link to identify opportunities to forge a blockbuster offering for each segment you intend to serve.

**STEP 7:** Put the ideas that you generate into your opportunity register.

**STEP 8:** Revisit the process above with each of the other links in your customer's consumption chain.

**STEP 9:** Repeat the process for other key stakeholders (like brokers, distributors, suppliers).

## N O T E S

### CHAPTER 4: REDIFFERENTIATING PRODUCTS AND SERVICES

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12. This segment actually exists—MacMillan and his wife buy cars in this way. This type of buyer is the automaker's dream, as long as it is your make of auto they are buying!