A Study of Differentiated Enterprise Strategy Based on Customer Value

Kai Xiong

Business School, Jianghan University, Wuhan City, Hubei Province, P.R.China
xkyx@sina.com

Keywords: Differentiated Strategy; Customer Value; Strategy Implementation

Abstract: Differentiated strategy is one of the important business strategies to generate competitive advantage. By implementing the differentiated strategy, enterprises can get better performance in the market and acquire a more reasonable distribution of resources in the internal costs, which depend on customer value in the market. The paper describes the logical relationship between customer value and differentiated strategy, and analyses the mechanism of customer-based differentiated enterprise strategy through the factor of customer perception profits, customer perception costs and cost optimization in the customer value. At last, the paper also introduces some corresponding implementation strategies.

Introduction

In the process of the development of knowledge economy, the improvement of enterprise value comes from the knowledge resources which can create new value. Since the idea of competitive advantage put forward by Professor Porter of Harvard University has been widely recognized by the academic and business circles, people began to actively try and explore for sustainable competitive advantage. Scholars from the value chain management, quality management, organization and process reengineering, corporate culture, layoff and other aspects to explain how enterprises should establish competitive advantage, but the fundamental of these efforts are internal improvement of the organization, and when these efforts can not be market-oriented, its products and services can not be recognized by customers, it can not establish the real competitive advantage of enterprises. When entrepreneurs' exploration of internal improvement fails to achieve the desired success, people begin to turn to the external market, that is, to seek competitive advantage from the perspective of customers. Woodruff proposed that only by providing more value to customers than other competitors, that is, excellent customer value, can enterprises retain and create loyal customers, so as to remain invincible in the competition [1]. Because of this, customer value has become the focus of theoretical and business circles, and is regarded as a new source of competitive advantage.

Logical relationship between customer value and differentiation strategy

The internal relationship between customer value and differentiation strategy. Customer value is the origin of enterprise differentiation strategy, which reflects in four aspects: Firstly, the basis of differentiation is market demand. It's not a random pursuit of being different that can be called a differentiation strategy. Not all differentiation strategies can keep profits. A truly effective differentiation strategy must be to achieve the goal that the differentiation benefit is greater than the cost. The profit lies in that the differentiation implemented by enterprises can meet or even create market demand. Just as the theory of customer value is gradually born with the formation of driving market concept, the basic guidance of differentiation strategy must also be market demand.

Secondly, the advantage of differentiation comes from customer satisfaction. It is not enough for an enterprise to carry out differentiation strategy only to meet or create market demand. To maintain competitive advantage in the market, the products or services launched by differentiation must be recognized by customers, that is, customer satisfaction, Philip Kotler believes that "satisfaction is a
level of people's feeling state, which comes from the comparison between the performance or output envisaged by a product and people's expectation" [2]. When the customer response brought by differentiation strategy exceeds its expectation, it lays the foundation for customers to maintain loyalty and form the competitive advantage of the enterprise.

Thirdly, the persistence of differentiation comes from customer value. To maintain sustainable competitive advantage has always been the goal of enterprises, and to satisfy customers through differentiation is only to meet the success of a single transaction. To form a sustainable advantage through differentiation, providing customer value is the key [3]. "Our interest is not just to satisfy our customers, but to tap into the valuable things that our customers think can enhance our relationship," said William Taylor, President of American maintenance chemicals. In the process of establishing long-term partnership between enterprises and customers, enterprises provide customers with "customer value" beyond their expectations, so that customers can obtain satisfaction in each purchase process and post purchase experience, and each satisfaction will enhance customers' trust in enterprises, so that enterprises can obtain long-term profits and development.

Fourthly, The connotation of differentiation should be based on customer perception. From the perspective of consumers, differentiation is not only a symbol, a strategic action, but also a unique service or product that consumers can perceive different from other organizations, and it is based on a perception entity, and even reflects the uniqueness of a certain type of customers. In the implementation of differentiation strategy, enterprises give its connotation and significance, such as the social responsibility image transmitted by enterprises, the core value concept of brands, the personality of enterprises or brands, etc. through this, they can establish unique customer perception, form customer trust and unique preferences, and achieve customer loyalty.

The external relationship between customer value and differentiation strategy. The implementation of differentiation strategy is to achieve better performance in the market and more reasonable resource allocation in the internal cost, which must be based on customer value. The high-quality market performance of enterprises comes from customer value. To obtain the largest market profit and the most advantageous market competitiveness is the high-quality market performance that the enterprise pursues. In a fully competitive market, it can be assumed that the external market opportunities faced by enterprises are equal, and the internal scale and capacity of enterprises are also equal. Under the same conditions, how can enterprises obtain better market performance than their competitors? In such a competitive market environment, the enterprises that dare to break the existing industry practices and operation modes will inevitably become the excellent ones in the market performance. However, the change of the existing industry practices and operation modes, whether it is the cost reduction brought by the technological progress that reduces the market price or creates higher industry quality and service standards, must be based on the needs of customers please. Only products or services that meet or even exceed customer satisfaction can attract more customers' attention and form unique differentiated competitive advantage [4]. The cost optimization control of enterprises is based on customer value. In economics, it is emphasized that, on the equal output line, the factor input of an enterprise can reach the optimal distribution according to the supply value. At the same time, increasing the input of key factors will make the output income of an enterprise increase. The analysis of the key elements is based on the customer value. Through the integrated customer management of customer demand, customer perception, customer satisfaction and customer loyalty, the enterprise calculates the most core elements of the enterprise's products based on the customer value, that is, the key elements, so as to increase its investment, expand the economic cost and maximize its utility in the cost investment.

Information mechanism of differentiation based on customer value

Market differentiation of customer value. Many scholars have classified customer value from different perspectives. Sheth et al. Classified customer value into five categories: functional value, social value, emotional value, cognitive value and conditional value. Burns divides customer value into product value, use value, possession value and total value according to customer evaluation process. Woodruff divides it into actual value and expected value. Through the above analysis, it is easy to see
that although scholars have a lot of understanding of customer value, the core of customer perceived value is the trade-off between perceived benefits and perceived contributions, which has been recognized by many scholars. Therefore, improving customer value can be achieved by increasing customer perceived benefits or reducing customer perceived payments. Customer value can be expressed by the following formula: customer value \( CV = f (CPV) \); customer perceived value \( CPV = f(U) \); \( u = CPP / CPC \), where \( u \) is the overall value perception of customers from enterprise services or products, \( CPP \) is customer perceived gain, \( CPC \) is customer perceived loss of products or services in the life cycle. \( U \) is directly proportional to \( CPP \) and inversely proportional to \( CPC \). Increasing \( CPP \) or reducing \( CPC \) can enhance customer value and improve competitive advantage of enterprises.

It can be seen from this that when \( U \) value is 1, it means that the perceived profit and perceived profit are equal. When \( U \) value is larger, it means that the customer's satisfaction is higher, so the loyalty to the enterprise's products or services is higher. But if \( U \) value is less than 1, it means that the customer's perception is smaller than the perceived profit and loss, and it must be the core factor that causes the customer's dissatisfaction. When \( U \) value is negative, it means that the customer's perception is smaller than the perceived profit and loss. That is to say, when the perceived profit of customers is negative, the enterprise must produce significant errors when providing products or services, resulting in the negative evaluation of customers, which requires the enterprise to invest a lot of costs in the later period to reverse this negative impact.

From the above analysis, it can be seen that customer value has an inevitable relationship with customer perceived profit and loss. Therefore, it is very important to analyze the factors that affect customer perceived profit and loss. Different enterprises, different products, different services and so on will lead to different customer perceptions, and customers with different characteristics have different judgment standards for enterprise products. Therefore, it is necessary for the differentiation strategy of enterprises to be based on the analysis of customer value: \( CPP = \sum P_i \cdot A_i \) \((i=1,2,3 \ldots N)\)

Where \( P_i \in (0,1) \), representing the weight of each factor. \( A_i \) is the factor that directly affects \( CPP \), that is, the differentiation factor that enterprises tend to adopt in the process of implementing differentiation strategy, including: (1) product function satisfaction; (2) product quality that enterprises have to provide safely and reliably; (3) product service factor; (4) product experience value; (5) brand value identification; (6) situation conformity degree of products or services. According to the different environment and the different purchase objects, different personalized differentiation strategies are adopted to meet the different needs of different consumers in the dynamic situation. Similarly, \( CPC = \sum P_i \cdot B_i \) \((i=1,2,3 \ldots N)\). Among them, \( P_i \in (0,1) \) represents the weight of each factor, and \( B_i \) is the factor directly affecting \( CPC \), including: (1) Price cost of purchased products or services; (2) service cost in the process of product purchase or after purchase; (3) transportation cost in product acquisition; (4) transfer cost due to unique product differences; (5) maintenance cost, etc.

**Cost Differentiation of customer value.** Customer perceived profit and loss mainly focuses on customer consumption cost, while enterprises are also facing the problem of cost control in the implementation of differentiation strategy. According to Porter, the implementation of differentiation strategy sometimes contradicts the activities of striving for a larger market share [5]. From the perspective of enterprises, differentiation means the increase of cost. From the perspective of internal enterprises, differentiation indicates that more capital needs to be invested to carry out technological innovation and the integration of the enterprise's own customer value chain. From the perspective of external market performance, market segmentation brought by differentiation is likely to reduce the target customer group, so as to expand the profits of scale economy. It's hard to achieve. However, the differentiation based on customer value can give another explanation to the cost performance of enterprises, that is, gradually expanding the economic cost.

Technology innovation cost based on customer demand. The development of social economy depends on the benefit of the whole consumer after the cost reduction brought by the technological progress. When the enterprise carries out the technological innovation of product differentiation based
on the perspective of customer demand, the cost investment in it should be worth the price compared with the leader who becomes the industry benchmark.

Quality management control based on customer trust. When more and more products are homogenized today, the pursuit of differentiation to win competitive advantage has become the consensus of enterprises, among which TQM, which is generated through the pursuit of quality, provides a good foundation for enterprises to implement differentiation strategy. When enterprises regard product or service quality as the core strategic elements of enterprises, their defective rate will definitely decline. The company has established a good brand image on the product reputation.

Supply cost control based on customer perception. The optimal control of supply cost is mainly reflected in the supply chain of enterprises. Many enterprises apply differentiation to the back end of customer value chain, and adopt flexible manufacturing to ensure the advantages of both scale economy and differential cost. For example, based on customer segmentation, Vanke Real Estate maximizes the value of the supply cost that customers pay attention to or directly perceive, while the supply cost that customers don't pay attention to is based on the high cost performance value, so as to ensure its cost differentiation advantage.

Information cost control based on customer management. With the rapid development of Internet, learning organization is highly sought after by enterprises. In the process of building learning organization, knowledge management is particularly important. Based on the fact that customers are the most important assets of an enterprise, they should be managed most effectively. Therefore, many enterprises carry out information operation platforms such as customer relationship management, enterprise resource management, etc., which make enterprises gain the advantage of differentiation in information management.

Implementation of differentiated enterprise strategy based on customer value

Creating high quality differentiated market performance based on customer value. The first is to complete the differentiation beyond the existing market paradigm. It is important for enterprises to carry out the differentiation strategy with customer value as the core, and to examine the fit between their resource capabilities and the differentiation strategy. At the same time, it is also important to pay attention to the dynamics of competitors in the industry. However, to break the inherent paradigm based on customers in the industry, and to think beyond their own resources and capabilities as the core can highlight the differentiation of enterprises' thinking based on customer value. The so-called "breaking the inherent paradigm" in the industry means that enterprises think of using more advanced, more convenient, lower price and higher quality differentiation methods than existing products or services in the industry to maximize the interests of customers; while thinking beyond resources and capabilities mainly focuses on the enterprise's innovation perspective differentiation method, and this innovation thinking must focus on customers. In order to transcend customer perception and focus on customer demand, the benefits are not limited to the constraints of existing resources and capabilities of the enterprise, so as to make a faster and more appropriate response to the market. The second is to acquire new and more favorable resources and capabilities to adapt to customer value differentiation strategy. To achieve this goal, two aspects of work must be completed. On one hand, enterprise should develop its dynamic capabilities. Any kind of enterprise can not exist in the static market environment. When the market transactions are everywhere and the information network develops gradually, the competitive advantage brought by any kind of differentiation can be imitated by competitors. When the industry standard is improved, the competitive advantage of the enterprise no longer exists. Therefore, in such a super competitive dynamic environment, the enterprise should develop its dynamic capabilities. Any kind of enterprise can not exist in the static market environment. When the market transactions are everywhere and the information network develops gradually, the competitive advantage brought by any kind of differentiation can be imitated by competitors. When the industry standard is improved, the competitive advantage of the enterprise no longer exists. Therefore, in such a super competitive dynamic environment, the enterprise should develop its dynamic capabilities.
creating differentiation, and an internal organizational convention in the sense of experience is formed. When such organizational convention is contained in the internal culture, process and control system of the enterprise, the possibility of being imitated and replaced will be greatly reduced.

**Internal cost optimization based on customer value forming difference leading.** Firstly, enterprise should strengthen the fit between the resources and capabilities owned by the enterprise and the differentiation strategy formulated. Enterprises implement the differentiation strategy based on customer value in a gradual and reform way, which emphasizes to complete the new strategy in a certain process [6]. No matter what way the enterprise adopts to implement the strategy, the basis must be to maximize the effectiveness of the investment, and the resources owned by the enterprise must be limited, and the ability construction of the enterprise is not overnight. Therefore, in the process of implementing the differentiation strategy with the customer as the core, the enterprise needs to consult the existing resources and abilities to reach an effective agreement with the strategy implementation To ensure the effectiveness and feasibility of cost input in the implementation of the strategy.

Secondly, enterprise should establish and perfect the management control system of performance measurement. The implementation of any kind of strategy can't be accomplished overnight. Whether it's a way of planning or an exploration of environmental adaptation, it's a long-term behavior. In the process of implementation, there is a strategic deviation. Of course, this deviation may be due to the factors of environmental adaptation, but it may also be a factor that goes against the original vision of the enterprise. No matter from the perspective of planning or adaptation, it is emphasized that enterprises can maximize the market effect and cost-effectiveness, which requires efficient coordination and configuration between R & D, production, marketing and other functions, and to achieve the ultimate differentiation strategic goal of the enterprise centered on customer value, a perfect management control system is crucial for enterprises.

**References**


