

PRODUCT DIFFERENTIATION AND MARKET COMPETITIVENESS OF FIRMS EMPIRICAL AND ANECDOTAL EVIDENCE FROM LITERATURE

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Abstract

This paper examined the relationship between product differentiation and market competitiveness of firms. Adopting extensive literature review as its methodology, the study synthesized reports and arguments of scholars to find out evidence of connection between product differentiation and market competitiveness. The literature review indicates firms succeed through practicing product differentiation hinged on prioritizing innovation and catering to local taste and preference, to enable them capture market share, build brand strength, and create a unique position in the market. The paper concludes that a robust approach to product differentiation, aligned with strategic marketing initiatives, is pivotal to sustained market competitiveness of firms.

Keywords: Brand strength, market share, market competitiveness, product differentiation

Introduction

As the industry continues to evolve, the features or qualities that distinguish the products of a firm from those of competitors become blurred. This is even more acute in industries where firms in an industry use a common technology or implement similar procedures. This often leads to cutthroat competition as firms struggle to win consumers' attention and patronage using price and relational factors. This is the prevalent trend in today's highly competitive global market that is characterized by the proliferation of commoditized offerings.

However, companies must aspire to be different. Changing consumer preferences and intense competition, and highly disruptive regulatory and supply factors, all points to the need for firms to firms to effectively differentiate themselves and their products, if they must to attract and retain customers. This position is buttressed by the view that companies must competently differentiate their products to maintain a competitive edge (Noe et al., 2015).

Kotler and Keller (2016) define product differentiation as a marketing strategy where firms emphasize the unique features, quality, packaging or branding of their offerings to distinguish them from competitors' and their offerings. Similarly, Shane and Michael (2016) suggest that product differentiation is a strategic approach companies use to stand out in the market. Lee and Karpova (2018) further state that in a highly competitive environment, product differentiation is central to determining a firm's market competitiveness, enabling them to thrive amid competition.

Salguero et al. (2019) asserts that in a highly competitive business landscape, companies require a strong product differentiation strategy to strengthen their market operations and achieve competitive advantage by providing unique products. So, product differentiation pertains to the development of offerings that are seen as distinct by customers.

Ukenna (2019) stated that companies distinguish their goods via innovation. That is, consistently introducing product lines to adapt to evolving consumer preferences and maintain a competitive edge by providing distinctive and innovative features that align with market conditions. Firms use this strategy to increase market share, strengthen brand identity, and improve competitive edge.

Ajayi and Oladejo (2020) characterized product differentiation as a crucial strategy for companies to differentiate themselves from competitors and attract a target market by providing distinctive features, benefits, or attributes that establish a competitive advantage aligned with consumer preferences.

The specific relevance of product differentiation to business success is relatively under-researched. However, market competitiveness that manifests in market share and brand strength is a desired outcome for all firms. Thus, this paper probed extant literature to better conceptualize product differentiation and determine its relevance to market competitiveness.

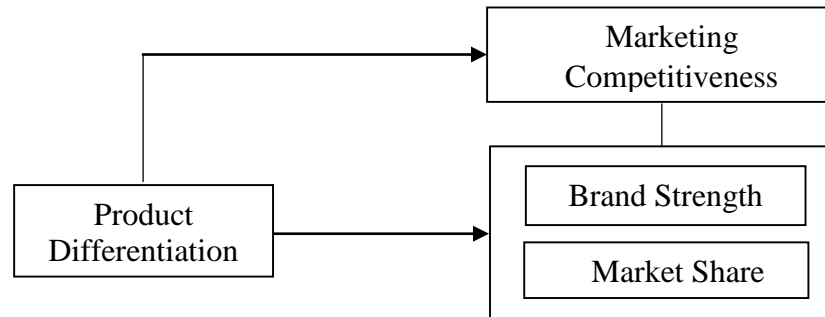


Fig. 1: Conceptual framework product differentiation and market competitiveness.

Theoretical Framework

This paper was grounded on resource-based view (RBV) which to argue that a firm's competitive advantage stems from owned resource (Barney, 1991). RBV posits that organizational resources that are valuable, unique, and challenging to replicate or replace, enhance corporate performance, and as serve as a source of competitive advantage (Barney, 1991).

RBV urges firms to concentrate on identifying distinctive qualities that may lead to external market success, offering a theoretical basis for evaluating precise elements influencing performance of firms (Wernerfelt, 1984). According to RBV, organizations differentiate themselves from competitors and achieve sustained competitive advantage using internal resources.

RBV posits that organizations achieve market competitiveness by cultivating unique and variably dispersed resources. Armstrong et al. (2001) asserts that the RBV allow firms to execute strategies aimed at enhancing efficiency and effectiveness by utilizing valuable resources that are typically scarce, imperfectly imitable, and devoid of direct substitutes.

The significance of RBV in the context of product differentiation and market competitiveness lies in its emphasis on the capacity to distinguish products, which is profoundly shaped by a firm's resources and capabilities. Companies that adeptly use their distinctive resources may augment market competitiveness, resulting in enhanced performance and consumer loyalty.

Concept of Product Differentiation

Product differentiation is a marketing strategy that enhance market competitiveness when applied by a corporation, by enabling the provision of goods that meet particular client demands, hence improving performance. Marangu et al. (2017) define product differentiation as a strategy that entails developing distinctive traits and features in an offering that consumers view as valuable and distinct, enabling a firm to charge premium pricing and attain a competitive advantage. Kotler

and Lehemann (2016) states that enterprises using a differentiation approach concentrate on developing high-quality and distinctive offers to separate themselves from competitors.

The primary step in formulating a differentiation strategy is to identify factors that distinguish a firm from its competitors, including market knowledge, service quality, brand image, geographical reach, customer engagement, product offerings, delivery systems, and marketing strategies (Vogel & Paul, 2016). Product differentiation enhance competitiveness by elevating perceived value of goods.

Concept of Market Competitiveness

Market competitiveness comprise elements of market and competitiveness, and is defined as the dynamic interaction between a firm's internal capabilities and external market conditions (Sanchez, 2018). It necessitate firms to continuously adapt and innovate to maintain competitive edge and satisfy evolving customer demands. Smith (2020) asserts that market competitiveness is an ongoing process wherein a firm continuously evaluate and enhance its competitive position through strategies that generate and maintain customer value, while simultaneously distinguishing itself from rivals.

Beleska-Spasova (2022) defines market competitiveness as a company's capacity to provide goods that fulfil consumer wants and expectations in a manner that distinguishes them from rivals, resulting in enhanced market performance. This indicates that market competitiveness reflects a company's ability to provide distinctive products to current consumers more effectively than rivals.

The significance of market competitiveness for a corporation includes various critical aspects, such as profitability, market share, innovation and sustainability. Scholars assert that competitive firms frequently lead in innovation by investing in research and product development, enhancing existing products or creating new ones (Dresch & Collatto).

Moreover, market competitiveness encompasses not just immediate profits but also enduring sustainability, whereby enterprises are more adept at enduring economic recessions and other external disruptions. Kim and Mauborgne (2019) assert that competitive enterprises adopt blue ocean strategies to establish new market areas that surpass rivals in growth and market share. Blue ocean strategy is a systematic plan of action aimed at eliminating competition by delivering products that create demand and capture new market space beyond industry boundaries (Harry & Ateke, 2019).

Gisela et al. (2021) contend that market competitiveness is impeded by entrenched market rules that address unserved market segments, potentially leading to disruptive innovation. Another relevance of market competitiveness is the preservation of market share, which is a crucial metric of competitiveness. Daoud and Tarek (2023) Stocker and Varkonyi (2022) emphasized that market competitiveness is maintained by strategic agility, asserting that agile firms swiftly modify plans in reaction to change in business conditions, hence preserving their competitiveness over time.

Market competitiveness has several indicators, including brand strength, market share, profitability, sales growth, sales volume, and customer retention and loyalty (Sudirijo, 2023). This article utilizes brand strength and market share to measure market competitiveness.

Brand strength

An enduring competitive advantage can be achieved through brand strength. A company's ability to contend effectively with its competitors is often facilitated by the increased consumer loyalty and recurrent purchases that a strong brand often generates. Kotler and Keller (2016) assert that brand strength is the efficacy of a brand's performance on intangible measures in comparison to its competitors. Similarly, Keller and Lehmann (2016) assert that a brand is a valuable asset that has the potential to influence consumer behaviour and foster loyalty.

The development of a robust brand identity necessitates the establishment of a consistent message, the fulfilment of promises, and an emotional connection with consumers. According to Ha and Perks (2018), it is crucial to establish robust customer-brand relationships in order to build brand strength. In order to enhance brand strength, it is crucial to differentiate products, which in turn influences consumers' evaluations of quality. Also, the extent to which a brand generate sales is determined by its strength, as a brand's revenue increase with increase in its strength increases.

Smith and Brown (2018) indicates that consumers are more inclined to select products from brands that are perceived as reputable and robust, even if they are priced higher. Similarly, Gupta et al. (2020) asserts that brands have the opportunity to engage with consumers in real time and establish relationships through personalized interactions. A brand is a powerful marketing tool that differentiate a business in a crowded market and connect with consumers on a deeper level, as it encompasses the overall perception and reputation that consumers have of a business.

According to He and Calder (2022), brands are characterized by varying levels of intensity and strength. This is due to the fact that firms integrate sensory, emotive and intellectual aspects of their brand with individual consumers, serving as a market differentiation strategy. Studies show positive correlation between financial performance and brand strength, underscoring the importance of investing in brand-building (Karpova, 2023; Vukasovic, 2022).

Market share

Market share refers to number of consumers in a large market that a specific firm or product controls. It is expressed as a percentage and can be determined by dividing total sales of a firm during a specific period by the number of companies. A company's competitive prowess and position within its market are elucidated by its market share. Market share is a measure of a company's sales as a percentage over a given period, and an increase in market share may indicate profitability during the review period (Olubiyi et al., 2019).

Ukenna (2019) posits that market share growth is accomplished through the implementation of strategies like segmentation, corporate social responsibility, price adjustment, advertising, and the development of complementary offerings that align with consumer preferences. Market share is a metric of competitiveness that frequently motivate strategic or tactical actions (Eze et al., 2024). Widodo (2020) aver that market share is a sum of the profit and performance of enterprises over a specific period of time.

Product Differentiation and Market Competitiveness

Literature is replete with evidence of the relevance of product differentiation to companies' market competitiveness. Anecdotal and empirical reports of scholars show that companies and can become more competitive by following a differentiation strategy. Vikas (2019) reports that product diversification relates to profitability.

Dirisu et al. (2013) in a study among food and beverage companies in Nigeria found that product differentiation boost market competitiveness; and using Porter's typology of competitive strategies, Rusibana (2018) found that success of manufacturing firms is highly correlated with product differentiation. Also, Vikas (2019) argue that establishing a solid reputation in differentiation confer competitive advantage on firms. Dedi (2018) examined effects of product differentiation on companies' success; and found that product differentiation affects market dominance; while Ajayi and Oladejo (2020) confirm that product differentiation contributes meaningfully to performance of firms.

Conclusion and Recommendation

This paper set out to demystify the concept of product differentiation and determine its contribution to market competitiveness of firms. The paper carried out a comprehensive review of conceptual and empirical literature, analyzing and synthesizing scholar's arguments and reports on antecedents and consequences of product differentiation. The evidence in literature suggests that product differentiation is a key determinants of market competitiveness.

The positions and reports of scholars converge in holding that product differentiation lead to brand strength and market share, hence, market competitiveness. This means that companies that to offer product with features and qualities that are markedly different from what competitors offer, can improve their market competitiveness.

The study concludes that product differentiation is a critical determinant of market competitiveness of firms. By focusing on product differentiation, firms stand a better chance to improve their brand strength, market share, and innovation, all of which are facets of market competitiveness.

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