Only, whose name describes its merchandising strategy, is housed in a no-frills warehouse in an older section of City of Commerce, California. The success of these stores proves that companies pursuing a cost leadership strategy must emphasize cost containment in every decision, from where to locate the company headquarters to which items to stock.

**DIFFERENTIATION** A company following a differentiation strategy seeks to build customer loyalty by positioning its goods or services in a unique or different fashion. That, in turn, enables the business to command a higher price for its products or services than competitors. There are many ways to create a differentiation strategy, but the key is to be special at something that is important to the customer. In other words, a business strives to be better than its competitors at something customers value.

**Urban Outfitters**

Urban Outfitters, a 75-store chain selling clothing for young people, has achieved success by implementing a contrarian strategy to distinguish itself from the cookie-cutter stores on which many of its national retail competitors rely. “Shopping here should be like a treasure hunt,” says the company’s general merchandising manager. Indeed, the company engages customers’ sense of adventure by displaying one-of-a-kind vintage garments next to new fashions and unique, funky home décor items such as beaded curtains and cocktail shakers. Founder Richard Hayne encourages customers to return to Urban Outfitters outlets by stocking small batches of new merchandise and employing a visual arts staff to redesign its stores every two weeks. “Rather than relying on identical stores,” says one industry analyst, “Urban creates an experience that’s intellectually stimulating.” Customers seem to enjoy the “organized clutter” layout because they shop for an average of 45 minutes per visit, twice as long as shoppers spend in a typical clothing store. In another clever move, every Urban Outfitters store places Xboxes and vintage video games in the men’s section to keep bored boyfriends from pressuring female shoppers into leaving! To ensure that it sells the latest fashions, the company sends teams of buyers and designers on globe-hopping trips, where they look for design inspirations. The teams have come back with ideas for tunics from Stockholm and art deco jewelry from a Prague art museum. Urban Outfitters’ differentiation strategy works well; its stores generate $596 in annual sales per square foot of space, 80 percent higher than its competitors.

If a small company can improve a product’s (or service’s) performance, reduce the customer’s cost and risk of purchasing it, or provide intangible benefits that customers value (such as status, prestige, a sense of safety, among others), it has the potential to be a successful differentiator. Companies that execute a differentiation strategy successfully can charge premium prices for their products and services, increase their market share, and reap the benefits of customer loyalty and retention. To be successful, a business must make its product or service truly different, at least in the eyes of its customers.

**Entrepreneur Yngve Bergqvist** has no trouble setting his hotel in Jukkasjärvi, Sweden, apart from others. Located 125 miles above the Arctic Circle, the aptly named Ice Hotel offers travelers a unique experience. **Everything** in the hotel—walls, beds, night tables, chairs, cinema, bars—is made from 30,000 tons of snow and 10,000 tons of crystal clear ice harvested from the Torne River! Each of the 60 rooms is unique, designed by a different artist from around the world. Guests sleep in insulated sleeping bags on ice beds covered with thin mattresses and plenty of reindeer blankets. Because temperatures inside the hotel typically hover at 5 degrees below zero (centigrade), guests cannot take their luggage to their ice rooms; it will freeze! Amenities include an ice bar, an ice chapel, an ice cinema, and an ice art exhibition. The

**Ice Hotel**

A stay at the Ice Hotel in Jukkasjärvi, Sweden, is like an evening in no other hotel in the world. **Everything** in the hotel—the walls, the beds, the bar, the glasses—is made of ice! Rebuilt every year from ice from the Torne River, the Ice Hotel is the ultimate example of a differentiation strategy.
Although few businesses are innately as unique as the Ice Hotel, the goal for a company pursuing a differentiation strategy is to create that kind of uniqueness in the minds of its customers. The key to a successful differentiation strategy is to build it on a core competency, something a small company is uniquely good at doing in comparison to its competitors. Common bases for differentiation include superior customer service, special product features, complete product lines, instantaneous parts availability, absolute product reliability, supreme product quality, and extensive product knowledge. To be successful, a differentiation strategy must create the perception of value in the customer’s eyes. No customer will purchase a good or service that fails to produce its perceived value, no matter how real that value may be. One business consultant advises, “Make sure you tell your customers and prospects what it is about your business that makes you different. Make sure that different is on the form of a true benefit to the customer.”

Other small companies that are deploying a differentiation strategy successfully include the following:

- **Woodentoys-and-more.com** is an online store that sells upscale children’s toys. Shoshana Bailey started the company when she had difficulty finding creative, educational toys for her grandchildren at mass merchandisers such as Wal-Mart and Toys-R-Us. Some of her company’s best-selling items include a $147 hand-made wooden train set and a $420 cherry wood rocking horse made by a Tennessee craftsman. “Mass-market retailers can’t stock all of these unique toys,” explains one industry analyst. “Their job is to stock the most in-demand toys.”

- **PrairieStone Pharmacy** is using technology to offer fast service and individual attention to customers getting drug prescriptions filled. At locations inside Lund Food Holdings, a chain of upscale supermarkets in the Minneapolis-St. Paul area, PrairieStone stores drugs in a high-tech vertical container that saves space, dispenses the most often prescribed drugs automatically, and allows pharmacists to have more face-to-face time with customers. A system of bar-code scanners verifies the accuracy of every order and protects customers from medication errors. PrairieStone also was the first pharmacy in the nation to offer automated multidose packaging for customers taking multiple medications. A specialized machine organizes the various drugs and then packages them in a sealed sleeve marked with the time of day the patient should take the medication. Not only does the technology provide cost savings for PrairieStone, but it also speeds up transaction times, enhances safety for customers, and gives pharmacists more time to spend working with customers rather than counting pills manually.

Small companies encounter risks when pursuing a differentiation strategy. One danger is trying to differentiate a product or service on the basis of something that does not boost its performance or lower its cost to customers. Another pitfall is trying to differentiate on the basis of something that customers do not see as important. Business owners also must consider how long they can sustain a product’s or service’s differentiation; changing customer tastes make the basis for differentiation temporary at best. Imitations and “knock-offs” from competitors also pose a threat to a successful differentiation strategy. For instance, entrepreneurs in Finland have built an ice hotel to compete with the original ice hotel in Sweden. Designers of high-priced original clothing see much cheaper knock-off products on the market shortly after their designs hit the market. Another pitfall is overdifferentiating and charging so much that the company prices its products out of the market. The final risk is focusing only on the physical aspects of the product.