Gartner Research

3 Mistakes to Avoid in Product Differentiation

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One of the constant pressures on product managers is increasing differentiation of their product in the market. By understanding and avoiding three common pitfalls, product managers can effectively differentiate their products while remaining focused on customer value.

Overview

Key Findings

- Continued, effective differentiation in a given market is often an afterthought rather than an express goal of product teams and is heavily influenced by short-term concerns from the business.

- Many product managers base differentiation decisions on an assessment of competitors' capabilities, without considering customer value.

- The larger and more successful a product is, the more a company may drift away from those activities, characteristics or features that rely on and further their distinctive competency.

Recommendations

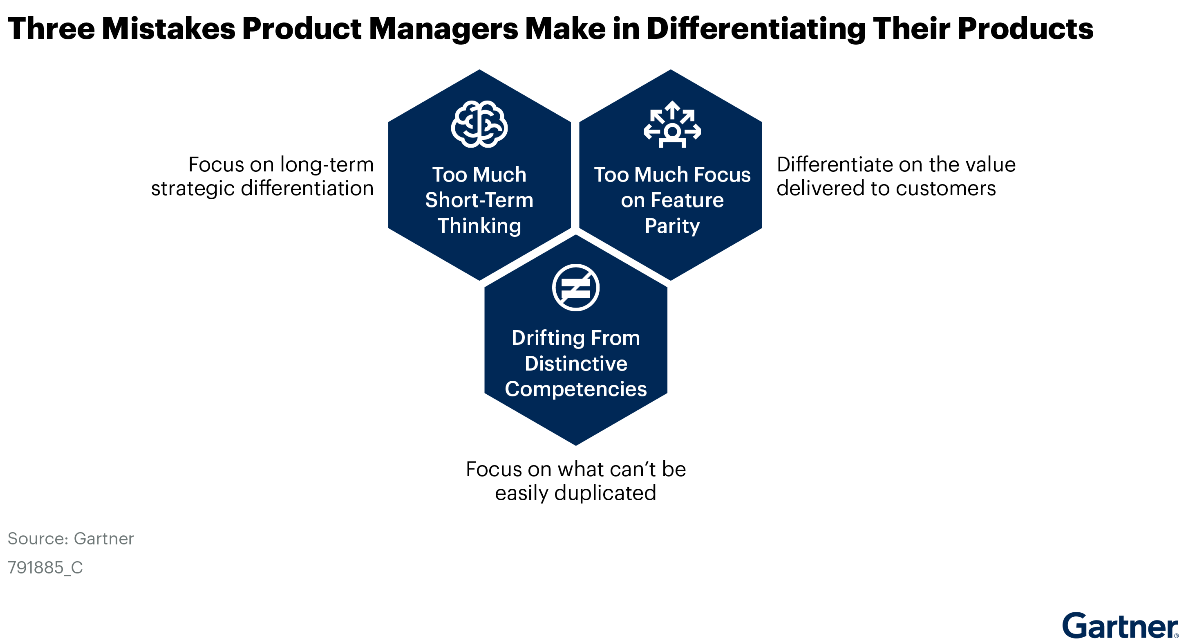
Product managers seeking to better differentiate the value they are delivering in their market must:

- Look broader than the in-the-moment opportunity at hand and focus messaging value that resonates with the larger market.

- Deprioritize competitors as the primary determiner of differentiation and shift focus to customer value.

- Reduce the amount of drift from core distinctive competencies of the company and its products by pushing for more integration of other technology and partnerships to deliver value.

Figure 1: Three Mistakes Product Managers Make in Differentiating Their Products



Introduction

As technology products become faster, easier and more efficient to create, the ability to effectively differentiate one's product or service in the market becomes more and more important to success. In Gartner's 2022 Product Management Branded Survey, product management leaders identified differentiation as one of the top five critical challenges to solve for the overall performance of product management teams. [1] Unfortunately, far too many product managers fall prey to quick and easy differentiation that is neither compelling nor sustainable, relying on short-term thinking, direct competitive comparisons and drifting from their distinctive competencies. Avoiding these traps allows product managers to establish long-lasting, defensible and convincing differentiation from others offering similar products or services in their markets. Figure 1 illustrates some of these challenges.

Analysis

Avoid Short-Term Thinking, Differentiate Sustainably

Differentiation based on short-term thinking is often driven by the same factors that randomize product ideas — big clients, sales or marketing pushes, and even executive influence. These influences focus on the value **right now,** usually in the face of big money opportunities. And while they're well-meaning, these approaches to differentiation are often not sustainable, repeatable or particularly compelling outside of the in-the-moment situation. These pushes may also be based on emerging trends or technology — generative AI being the most recent example. In a worst-case scenario, they give the appearance of supporting trendy new tech, but in reality only loosely adopting or applying it. Such efforts may work in the short term, but as clients gain more knowledge and comfort with the technology, they can result in damage to the product's and company's reputations in the market.

> **"Focus on Long-Term Impact emphasizes long-term thinking and encourages us to extend the timeline for the impact we have, rather than optimizing for near-term wins."**
>
> — *Meta Core Values [2]*

It's important for product managers to maintain a long-term view of the ways in which their product is differentiated, because the customer who signs a deal today may not be your customer tomorrow. Churn is a real threat, particularly where differentiation has been approached from a short-term view. Customers who see your product riding each consecutive trend may look elsewhere for something more grounded in actual value. It is critical for product managers to maintain a thorough understanding of the lifetime value of your customers, as well as how their perceptions may change as your differentiation from others changes.

It can be particularly attractive to engage in short-term differentiation during times of uncertainty, such as everyone has experienced in the past several years. And often the primary driver of such short-term efforts is to get cash in the door. When short-term differentiation is unavoidable, product managers need to remind the organization that there is “good money” and “bad money” in these deals. “Good money” supports the continued development of capabilities that solve market-wide problems, and allows for innovation and growth. “Bad money” instead restricts the ability of the product to grow and is focused on individual needs or problems, resulting in higher levels of custom work than is optimal. Maintaining the proper perspective on longer-term strategic engagement with customers and the market optimizes product efforts to exit uncertainty on an upswing, rather than a downturn.

Product managers working to reduce short-term thinking in regard to product differentiation should:

- Pressure sales, marketing and executives to look broader than the in-the-moment opportunity before them and instead consider messaging that resonates with the larger market.
- Establish a baseline for expected customer lifetime value and provide guidance to others in the organization about which customers provide the longest and most valuable support for your company.
- Reinforce the need to maintain a long-term perspective during times of uncertainty to avoid falling prey to too many short-term investments that damage the product and company’s ability to exit on an upswing.

Reduce Focus on Competition, Increase Focus on Value

It sounds counterintuitive to say that product managers should focus less on competitors when making decisions about differentiation, but it’s true. Customers and prospects care **less** about how you may be different from a competitor and **more** about how you address important marketwide problems. Too much focus on what the competition is doing results in “parity wars,” which divert valuable resources from creating new and innovative solutions toward copying what others in the market are offering or developing. And, feature parity is never truly differentiating — if the competition has a capability and we copy it, we’re ceding the position of “leader” in that space to our competition.

> "Leaders start with the customer and work backwards. They work vigorously to earn and keep customer trust. Although leaders pay attention to competitors, they obsess over customers."
>
> — *Amazon.com Leadership Principle: Customer Obsession [3]*

Further, too much focus on the competition almost inevitably causes a race to the bottom, as players in the market continue to drive toward the lowest common denominator. Instead of matching other companies feature for feature, differentiation requires that we break from the pack — that we change the denominator to something specific to our focus, to our capabilities, to our unique value to the market. Competitors can be a wayfinder of sorts, but we should never simply replicate what others have unless we see an opportunity to better serve our customers.

Lastly, when it comes to new and emerging capabilities or innovations in providing value, if the competition has it then it's **too late**. By the time a competitor releases some new capability or feature, they've likely spent months in discovery, validation, definition, development and planning to roll out that capability. Which means that by the time we know about it, we're playing catch-up. Instead of constantly chasing competitors, product managers must assert leadership over their product strategies through innovation and differentiation. Being responsive to changing offerings is important, but our differentiation strategy can't be a series of fire drills that are **reactive** to moves by the competition.

Product managers working to reduce the impact of competitive maneuvers on their differentiation strategy should:

- Decrease the focus on feature-based differentiation and renew focus on value-based differentiation to avoid "parity wars" within the market.
- Increase focus on unique value propositions and unique customer value when influencing differentiation from both product and marketing perspectives.
- Proactively differentiate from others in the market based on existing capabilities and characteristics, rather than merely reacting to changing conditions or competitors' improvements.

Don’t Drift From Core Competencies

Product managers are constantly faced with the conflicts between their duty to make build, buy or partner decisions and the existence of “not built here” biases. And all too often, it’s the “not built here” negative bias that wins in such conversations. Every successful company starts with a specific problem or set of problems that they solve effectively, and the best companies maintain that competency throughout their lives. But companies that fall prey to the “not built here” bias often water down that competency by investing in tools, features and technology that are outside this focus. Product managers must push their organizations to be more willing to buy or partner with technology solutions whose core competencies complement their own. Doing so allows the company to focus on what they do best, to expand on the unique value that cannot be easily duplicated and ultimately to deliver more value to their customers.

> **“It’s best to do one thing really, really well. We do search. With one of the world’s largest research groups focused exclusively on solving search problems, we know what we do well, and how we could do it better.”**
>
> *— Google — Ten Things We Know to Be True [4]*

Product managers should be mindful, however, that what was once the core competency of the company may no longer be. As companies evolve, the value that they deliver to the customers evolves as well. As companies go through mergers and acquisitions, the focal point of their power to deliver value may change. A constant eye on the real distinctive competency of the company is critical for product managers to most effectively differentiate their product in the market. Clinging to the old identity of the company when there are new opportunities to deliver value often results in a mismatch between the solutions being offered and the value expected by the market.

Product managers looking to reduce drift from their product and company’s core competencies should:

- Define the core competencies of your product and your company so that each stakeholder understands what it is that actually makes you unique to your customers and prospects.

- Focus on messaging, positioning and product investments that complement and build upon your organization's core competency, rather than engaging in "me too" feature parity battles.
- Research your competitors to better understand what their core competencies might be, so that you can devise strategies to mitigate their impact on common customers or prospects.

Evidence

[1] **2022 Gartner Product Management Branded Survey.** This survey was conducted to understand the needs, challenges and key initiatives of people in product management roles from July through August 2022. In total, 251 respondents were interviewed in their native languages across the U.S. (n = 61), Canada (n = 35), the U.K. (n = 34), China (n = 25), France (n = 25), Germany (n = 23), India (n = 20), Australia (n = 14) and Hong Kong (n = 14). Small base sizes of less than 30 respondents should be interpreted with caution. To enable key trends to be compared and contrasted, we established quotas on key organizational and respondent characteristics. Qualifying organizations operate in high-tech industries (cloud services, software, communications equipment, carriers, devices and computer infrastructure, technology and business services, and semiconductors) with anticipated enterprisewide annual revenue for 2022 of more than $50 million or equivalent. Qualified participants have the title of director or equivalent and above. Disclaimer: The results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

[2] Culture at Meta, Meta.

[3] Leadership Principles, Amazon.

[4] Ten Things We Know to Be True, Google.

The approaches outlined in this document are based on the consolidated input of Gartner analysts and the strategies observed from clients during interactions.

Recommended by the Author

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