

# Product Differentiation Strategy for Organizational Financial Profitability: Enhancing Market Share and Profitability- A Comprehensive Literature Review

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Received: June 06, 2023

Revised: August 20, 2023

Accepted: September 30, 2023

## Abstract

This research aims to explore the impact of product differentiation strategies on a firm's competitive advantage and market performance and organizational financial profitability, particularly within highly competitive markets. The study is anchored in the resource-based view (RBV) and the positioning perspective, providing a theoretical lens through which the multifaceted nature of differentiation is examined. Methodologically, this investigation synthesizes a comprehensive literature review with empirical data, utilizing quantitative methods to assess the correlation between differentiation strategies and their effectiveness in enhancing market share and profitability. The findings reveal that effective product differentiation, encompassing unique product attributes, innovative technologies, and a well-orchestrated marketing mix, significantly contributes to a firm's competitive edge. Specifically, the integration of advanced technologies like artificial intelligence and the Internet of Things into product offerings not only enhances functional attributes but also elevates the customer experience, thereby distinguishing products in saturated markets. Additionally, strategic brand management and the alignment of marketing mix components are crucial in communicating value and building brand equity, which in turn supports sustained competitive advantage. These results underscore the critical role of dynamic capabilities in adapting product strategies to evolving market conditions and consumer preferences, highlighting the necessity for firms to continually innovate and tailor their offerings to maintain market relevance and leadership.

**Keywords:** Product Differentiation, Competitive Advantage, Marketing Mix, Brand Equity, Technological Innovation, Organizational Financial Profitability.

DOI : <https://doi.org/10.57178/atestasi.v6i2.821>

p-ISSN : 2621-1963

e-ISSN : 2621-1505

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## Introduction

In the highly competitive market environments of the 21st century, firms are incessantly

driven by the need to distinguish their offerings to attain market prominence and profitability. This comprehensive introduction is crafted to set the stage for descriptive quantitative research based on prior studies, examining the impact of product differentiation strategies on enhancing market share and profitability. Product differentiation is a strategic approach that businesses employ to make their products stand out in a crowded marketplace. This strategy not only encompasses variations in product features, design, and quality but also includes nuances in customer service, marketing techniques, and brand perception. The rationale behind product differentiation is to create a competitive edge that attracts and retains customers, thereby increasing the market share and profitability of a company. While general business strategies provide a broad view of market engagement, product differentiation focuses specifically on modifying the product or its presentation to appeal uniquely to the customer base. This could be as straightforward as altering the product design or as complex as changing the entire user experience. For example, in technology markets, differentiation often involves innovations in technology and functionality, whereas in consumer goods, it might focus more on branding and customer perception.

Product differentiation strategy stands as a cornerstone for firms aiming to secure a competitive edge in crowded markets. Within this strategy, components such as new technologies, marketing mix, competitive advantage, and value proposition are intricately linked, each playing a pivotal role in defining a company's distinctiveness. This comprehensive exposition delves into how these components interplay and contribute to a successful product differentiation strategy, ultimately enhancing a firm's market share and profitability. The infusion of new technologies in products or services is a significant element of product differentiation. As technological advancements continue to accelerate, companies that leverage these new technologies can offer unique features that set their products apart from competitors. For instance, in the automotive industry, the integration of AI-driven features such as autonomous driving and advanced safety systems differentiates products from traditional vehicles. Similarly, in consumer electronics, incorporating cutting-edge technologies like OLED displays or 5G connectivity can make a product more appealing to tech-savvy consumers. By adopting new technologies, companies not only enhance the functionality and attractiveness of their products but also position themselves as innovators in the eyes of consumers.

The marketing mix, comprising product, price, place, and promotion, is crucial in shaping a product differentiation strategy. Each element must be carefully considered and aligned to ensure that the differentiated product effectively reaches and resonates with the target audience. The core of the marketing mix, where differentiation starts, involves features, quality, and design that are distinct from competitors. Pricing strategies play a dual role in differentiation. A premium price can signify higher quality or exclusivity, whereas a competitive pricing strategy might appeal to cost-conscious consumers. Distribution channels also contribute to differentiation. Exclusive distribution can enhance a product's luxury appeal, while broad availability can be key for everyday commodities. Advertising and promotions tailored to highlight a product's unique features can significantly influence consumer perceptions and enhance differentiation. Effectively managing these aspects of the marketing mix ensures that

the differentiated product is not only visible but also desirable to the target market, thereby increasing its market penetration and customer base.

Competitive advantage is gained when a company's differentiated product delivers greater value to consumers than similar products offered by competitors. This advantage can be sustained by continuously enhancing product features, improving customer service, and innovating marketing strategies. For example, a company may use superior materials in its products for better durability, a factor that could be heavily promoted to boost consumer confidence and preference. Furthermore, competitive advantage can be fortified by patents protecting technological innovations or by cultivating brand loyalty through consistent customer satisfaction. The goal of achieving competitive advantage through differentiation is to not only attract but also retain customers, creating barriers to entry for competitors and securing a firm's position in the market. The value proposition is the promise that a company makes to deliver specific benefits that meet the needs of its customers, clearly stating why its product is superior to competing options. A compelling value proposition is essential for effective product differentiation, as it encapsulates the unique value that the product offers. It communicates how the product solves problems, improves situations, and delivers specific benefits. For instance, a smartphone with a professional-grade camera offers clear value to photography enthusiasts, or an electric car with a long-range battery addresses range anxiety issues for potential buyers. A strong value proposition is communicated through every interaction with the consumer, reinforcing the differentiated aspects of the product. It is integral to building a brand's reputation in the marketplace, encouraging loyalty, and justifying price points based on perceived value. The increasing homogenization of products in the global market has made differentiation a critical strategy. As products become more similar in functionality and quality, businesses must find new ways to distinguish themselves. This phenomenon is driven by rapid technological advances, globalization, and changing consumer preferences, all of which necessitate a robust strategy that leverages uniqueness as a key value proposition. In the ever-evolving landscape of global markets, continuous innovation and strategic differentiation remain paramount for companies striving to outperform competitors and captivate discerning consumers. The interplay between new technologies, the marketing mix, competitive advantage, and value proposition forms the cornerstone of product differentiation strategies. This in-depth exploration identifies current phenomena that expose potential research gaps within these components, suggesting avenues for investigation that could enhance theoretical frameworks and practical applications in business strategy. The rapid advancement of digital technology, particularly artificial intelligence (AI), the Internet of Things (IoT), and blockchain, presents a fertile ground for research into their integration into product differentiation strategies. While many studies have explored the adoption of these technologies in operational processes, less is known about how they can specifically enhance product uniqueness and customer experience. For instance, AI's ability to personalize consumer interactions offers a unique vantage point. There remains a gap in understanding how such personalized experiences can be effectively scaled and integrated into diverse product lines to maintain a competitive advantage while ensuring privacy and data security. Additionally, as blockchain technology fosters transparency and security, its impact on consumer trust as a component of product differentiation could be further explored, particularly in industries plagued by counterfeit concerns or where authenticity adds significant value.

Although the traditional components of the marketing mix (product, price, place, promotion) are well-established in literature, the digital transformation of markets demands a reevaluation of these elements. The increasing significance of social media platforms and online marketplaces has altered the dynamics of how products are promoted and distributed. A critical gap exists in strategic frameworks that adapt the marketing mix to these digital platforms, particularly in integrating user-generated content and influencer partnerships which have shown substantial influence on consumer behavior. Furthermore, dynamic pricing strategies enabled by real-time data analytics pose questions regarding optimal pricing tactics in digital markets where consumer price sensitivity can be instantaneously gauged. Research could explore how these new realities affect product differentiation strategies and their effectiveness across various digital channels. The current global market scenario, marked by rapid technological change and shifting consumer preferences due to socio-economic shifts, such as those prompted by the COVID-19 pandemic, highlights a need for updated research on sustaining competitive advantage. The resilience of differentiation strategies in volatile markets is less understood, particularly in sectors heavily impacted by supply chain disruptions and changing consumer priorities. Research could focus on how companies adapt their differentiation strategies in real-time to maintain or enhance their competitive edge. Moreover, there is a growing consumer preference for sustainability and corporate responsibility. Investigating how integrating these elements into product differentiation can contribute to a sustainable competitive advantage could fill a significant research void. In today's highly informed consumer market, the value proposition of products must resonate not only with functional attributes but also with emotional and ethical dimensions. The trend towards more conscious consumerism, where buyers consider the social and environmental impact of their purchases, presents a gap in understanding how value propositions need to evolve. Research could explore how value propositions that effectively communicate sustainability and ethical practices influence consumer choice and loyalty. Additionally, as digital natives become a larger segment of the consumer market, their perception of value may differ significantly from previous generations, necessitating new studies into how value propositions can be tailored to this demographic's unique preferences and expectations.

A multitude of studies have examined various facets of product differentiation. For instance, research by Porter (1985) emphasized the importance of differentiation strategies in gaining a competitive advantage. Subsequent studies have expanded on this by linking differentiation to specific business outcomes like market share and profitability. Moreover, empirical studies have shown that effective differentiation strategies not only improve market positioning but also enhance financial performance by creating more value for consumers, thereby allowing companies to charge premium prices. Product differentiation strategies, particularly using new technologies, is crucial for firms to maintain a competitive edge in mature markets (Zehr, 2016). This strategy involves creating unique offerings with an unmatched value proposition, which can lead to sustainable competitive advantage (Zehr, 2016). Apple, for example, has successfully differentiated its products based on superior functionality, social value, aesthetics, and emotional value (Sun, 2017). To emphasize these differences, firms can use strategies such as brand name, consumer emotions, and product essence (Hong-xia, 2005). The combination of differentiation and cost minimization strategies can further enhance a company's competitive advantage (Михайлов, 2019). Successful implementation of these

strategies can increase consumer perceptions of greater value and contribute to the expansion of exports (Михайлов, 2019). Product differentiation also influences buyers' perceptions and their buying decisions (Livesey, 1976). Lastly, a value innovation strategy, which increases consumer value by improving product quality, can be a practical approach for firms (Li-hong, 2007).

This research aims to objectively assess the correlation between product differentiation strategies and their impact on market share and profitability. By utilizing a qualitative approach, this study will rely on literature review. The objective is to synthesize these findings to provide a clear and comprehensive understanding of how differentiation strategies have been implemented across various industries and their subsequent effect on business performance. The study will systematically review existing literature, focusing on qualitative data that delineates the outcomes of differentiation strategies. This includes an analysis of market share changes, profitability metrics, and consumer perception before and after the implementation of differentiation strategies. By aggregating and analyzing these data points, the research aims to confirm or refute the effectiveness of differentiation strategies in the current business environment.

## Literature Review

The conceptual landscape of product differentiation strategy is multifaceted, encompassing various elements such as new technologies, the marketing mix, competitive advantage, and value proposition. This literature review delves into the studies related to these components, providing definitions and specific explanations, and situating them within the context of contemporary market dynamics. The review synthesizes findings from existing literature to build a cohesive understanding of how differentiation strategies are implemented and their resultant impact on market performance.

### *New Technologies*

The advent of new technologies has significantly transformed product differentiation strategies. According to Porter and Heppelmann (2014), the integration of the Internet of Things (IoT) in products not only enhances functionality but also alters the value chain, creating new opportunities for differentiation. Similarly, Huang and Rust (2018) argue that AI is a game-changer in service industries, where its application in personalizing customer interactions presents a new frontier for competitive differentiation. These studies underscore the potential of new technologies to redefine product and service offerings, thus providing companies with novel ways to distinguish themselves from competitors. However, the strategic incorporation of these technologies in differentiation efforts necessitates a deeper understanding of their implications on consumer behavior and operational logistics, a gap that future research could address. The integration of new technologies has indeed revolutionized product differentiation strategies, reshaping the competitive landscape across industries. Porter and Heppelmann (2014) shed light on the transformative potential of the Internet of Things (IoT) in product innovation. The IoT, characterized by interconnected devices capable of exchanging data, not only augments product functionality but also reconfigures the value chain. Drawing from Porter's value chain framework, the incorporation of IoT-enabled sensors, for instance, enables real-time monitoring of product usage and performance, thereby facilitating proactive maintenance and personalized customer support. This dynamic shift in value creation extends beyond the



product itself, permeating upstream and downstream activities within the value chain.

Moreover, Huang and Rust (2018) emphasize the disruptive impact of artificial intelligence (AI) on service industries, particularly in personalizing customer interactions. AI-driven algorithms analyze vast datasets to discern individual preferences and behavior patterns, enabling tailored recommendations and responsive customer service. In essence, AI transcends traditional segmentation approaches by offering hyper-personalization at scale, thus redefining the parameters of competitive differentiation. Through AI-powered chatbots, virtual assistants, and recommendation engines, service providers can deliver bespoke experiences that resonate with consumers, fostering deeper engagement and brand loyalty. These insights align with theories of technological innovation and diffusion, notably Rogers' (2003) diffusion of innovations theory, which posits that the adoption of new technologies follows a bell-shaped curve, influenced by factors such as relative advantage, compatibility, complexity, trialability, and observability. In the context of product differentiation, the perceived advantages of IoT and AI technologies, such as enhanced functionality and personalized experiences, act as catalysts for adoption among firms seeking to gain a competitive edge. Furthermore, the compatibility of these technologies with existing business processes and consumer preferences facilitates their integration into differentiation strategies. However, the strategic deployment of IoT and AI technologies necessitates a nuanced understanding of their implications on consumer behavior and operational logistics. Drawing from literature on consumer behavior, Ajzen's (1991) theory of planned behavior suggests that consumer attitudes, subjective norms, and perceived behavioral control influence their acceptance of technologically enhanced products and services. Hence, firms must consider factors such as privacy concerns, data security, and usability when designing IoT-enabled products and AI-driven services. Additionally, operationalizing these technologies requires investment in talent acquisition, infrastructure development, and organizational change management, echoing the resource-based view of the firm (Barney, 1991) which emphasizes the strategic importance of unique resources and capabilities in achieving competitive advantage.

### *Marketing Mix*

The role of the marketing mix in product differentiation has been extensively discussed in the literature. McCarthy's (1960) foundational concept of the 4Ps (Product, Price, Place, Promotion) has evolved with the advent of digital marketing, as noted by Wirtz et al. (2018), who highlight the shift towards personalized marketing and omnichannel strategies. Research by Kotler and Keller (2016) further refines this approach, emphasizing the importance of integrating consumer experience into the marketing mix to create unique value propositions. Studies by Homburg, Jozić, and Kuehnl (2017) demonstrate how a nuanced approach to the marketing mix can significantly affect consumer perceptions and brand loyalty. These insights reveal the critical nature of adapting traditional marketing strategies to contemporary consumer expectations and digital platforms, offering a rich area for further exploration. The marketing mix plays a pivotal role in shaping product differentiation strategies, serving as a foundational framework for companies to design and implement their marketing initiatives. McCarthy's (1960) seminal concept of the 4Ps—Product, Price, Place, and Promotion—has long been regarded as a cornerstone of marketing strategy. However, with the proliferation of digital technologies and evolving consumer preferences, the traditional 4Ps framework has undergone

significant adaptation to remain relevant in contemporary markets. Wirtz et al. (2018) observe a notable shift in marketing strategies towards personalized marketing and omnichannel approaches in response to the digital revolution. Personalized marketing leverages consumer data and analytics to tailor product offerings, messaging, and promotions to individual preferences and behaviors. This customization enhances the perceived value of products and services, thereby facilitating differentiation in increasingly competitive markets. The concept of omnichannel marketing extends this personalization across multiple touchpoints, seamlessly integrating online and offline channels to provide a cohesive and immersive customer experience. Such strategies enable companies to differentiate themselves not only through their products but also through the manner in which they engage with consumers throughout their purchase journey.

Building upon these advancements, Kotler and Keller (2016) advocate for the integration of consumer experience into the marketing mix as a means to create unique value propositions. Consumer experience encompasses every interaction that a consumer has with a brand, from initial awareness to post-purchase support. By incorporating elements such as sensory appeal, emotional resonance, and convenience into the marketing mix, companies can create differentiated experiences that resonate with consumers on a deeper level. This approach goes beyond product features and pricing strategies to encompass the holistic journey of the consumer, fostering brand loyalty and advocacy. Homburg, Jozić, and Kuehnl (2017) underscore the significance of a nuanced approach to the marketing mix in influencing consumer perceptions and brand loyalty. Through empirical research, they demonstrate how variations in product positioning, pricing strategies, distribution channels, and promotional tactics can significantly impact consumer behavior and brand preferences. For instance, a premium pricing strategy may signal superior quality and exclusivity, thus attracting discerning consumers willing to pay a premium for perceived value. Similarly, strategic partnerships with reputable retailers or endorsements from influencers can enhance brand credibility and desirability, further differentiating the product in the minds of consumers. These insights resonate with theories of consumer behavior and marketing strategy, particularly the concept of perceptual mapping (Kotler & Keller, 2016), which posits that consumers evaluate brands based on their perceptions of product attributes and benefits relative to competitors. Additionally, the resource-based view of the firm (Barney, 1991) emphasizes the strategic importance of leveraging unique resources and capabilities, including marketing expertise, to achieve competitive advantage.

### *Competitive Advantage*

Competitive advantage through product differentiation has been a major theme in strategic management literature. Barney (1991) defines competitive advantage as the ability to create more economic value than competitors by implementing a strategy that is not simultaneously being implemented by others. Porter (1985) aligns this concept closely with differentiation, suggesting that unique attributes of products or services that are valued by customers help firms achieve superior performance. Recent studies by Teece (2018) update this view by integrating dynamic capabilities that enable firms to rapidly adapt and innovate in response to environmental changes. Research on competitive advantage now increasingly focuses on the sustainability of differentiation strategies in a globalized and technologically

advanced market environment. This evolving understanding calls for ongoing research to assess how sustainable competitive advantages are developed and maintained in the digital age. Competitive advantage, rooted in the concept of product differentiation, occupies a central position in strategic management literature, offering firms a pathway to outperform rivals and achieve sustained success in dynamic market environments. Barney (1991) conceptualizes competitive advantage as the capacity to generate greater economic value than competitors through the implementation of unique strategies. This notion underscores the essence of differentiation as a means to create a distinctive value proposition that resonates with customers, thereby fostering loyalty and market dominance.

Porter (1985) further elucidates the link between competitive advantage and differentiation, asserting that the ability to offer unique attributes or features that are highly valued by customers is instrumental in attaining superior performance. By differentiating their products or services, firms can carve out a niche market segment and command premium prices, thus enhancing profitability and market share. Porter's framework emphasizes the importance of strategic positioning and value creation in achieving sustained competitive advantage, highlighting differentiation as a key driver of long-term success. Building upon these foundational theories, Teece (2018) introduces the concept of dynamic capabilities, which enable firms to adapt and innovate in response to environmental changes. Dynamic capabilities encompass a firm's capacity to sense, seize, and reconfigure resources and competencies in alignment with shifting market dynamics. In the context of product differentiation, dynamic capabilities facilitate agility and responsiveness, allowing firms to continuously evolve their offerings to meet evolving customer needs and competitive pressures. By leveraging dynamic capabilities, firms can enhance their competitive advantage through ongoing differentiation efforts, thereby positioning themselves for sustained success in turbulent market environments. The contemporary landscape of competitive advantage research increasingly emphasizes the sustainability of differentiation strategies in a globalized and technologically advanced market environment. With the rise of digitalization and globalization, firms face unprecedented challenges and opportunities in maintaining their competitive edge. Research in this area seeks to assess how firms can develop and sustain competitive advantages in the digital age, where market dynamics are characterized by rapid technological innovation, shifting consumer preferences, and intensifying global competition. Key theories relevant to this evolving understanding include resource-based view (RBV) and dynamic capabilities theory. RBV posits that competitive advantage stems from the possession of valuable, rare, and inimitable resources and capabilities (Barney, 1991). In the context of differentiation, firms must leverage their unique resources—such as technological expertise, brand reputation, or proprietary technologies—to create distinctive products or services that cannot be easily replicated by competitors. Dynamic capabilities theory complements RBV by emphasizing the importance of agility and adaptability in responding to changing market conditions (Teece, 2018). By continuously evolving their differentiation strategies in line with market dynamics, firms can sustain their competitive advantage over time.

### *Value Proposition*

The value proposition of a product is central to its differentiation strategy. Osterwalder and Pigneur (2010) define a value proposition as an aggregation of benefits that a company



offers to customers. The importance of aligning the value proposition with customer needs and desires is paramount, as discussed by Anderson, Narus, and van Rossum (2006), who emphasize the role of customer value assessments in crafting compelling value propositions. Recent research by Kowalkowski (2011) suggests that value propositions in industrial markets have shifted from product-centric to service-dominant logic, indicating a broader trend towards integrating services as a key element of differentiation. These shifts highlight the need for further investigation into how value propositions are designed and communicated in various industry contexts, especially in an era marked by increased consumer awareness and demand for customization. The concept of the value proposition stands at the core of product differentiation strategies, serving as the linchpin that articulates the unique benefits and advantages that a company's offering provides to its customers. Osterwalder and Pigneur (2010) define the value proposition as a comprehensive package of benefits that a company delivers to its customers. This definition underscores the multifaceted nature of the value proposition, which encompasses not only functional features but also emotional, social, and experiential benefits that resonate with customers. Aligning the value proposition with customer needs and desires is paramount for its effectiveness in differentiation strategies, as emphasized by Anderson, Narus, and van Rossum (2006). Their research highlights the importance of understanding customer value assessments and preferences in crafting compelling value propositions. By aligning the value proposition with customer-centric criteria such as quality, price, convenience, and emotional appeal, companies can create offerings that stand out in the marketplace and resonate with target audiences.

Recent research by Kowalkowski (2011) sheds light on the evolving nature of value propositions, particularly in industrial markets. Kowalkowski suggests a shift from a product-centric to a service-dominant logic in value proposition design, reflecting a broader trend towards integrating services as a key element of differentiation. In today's business landscape, where competition is increasingly based on the delivery of holistic solutions and experiences rather than standalone products, the integration of services into the value proposition becomes critical for maintaining competitiveness and relevance. These insights are closely aligned with theories of customer value and service-dominant logic. According to Vargo and Lusch (2004), the foundational premise of service-dominant logic is that service, rather than goods, is the primary basis of exchange. In this perspective, value is co-created through interactions between customers and service providers, emphasizing the importance of understanding and fulfilling customer needs and preferences. Building on this framework, Grönroos (2008) argues that value propositions should focus on the benefits and outcomes that customers derive from using a product or service, rather than the features or attributes of the offering itself. This customer-centric approach underscores the need for value propositions to resonate with customers on an emotional and experiential level, fostering deeper connections and loyalty.

## Research Method

In this qualitative research study, we delve into the realm of product differentiation strategies and their impact on competitive advantage and market share. The research method employed is a systematic literature review, a rigorous and structured approach that facilitates an in-depth understanding of the subject through the evaluation of existing scholarly articles, books, and empirical studies. The primary goal of this methodology is to synthesize a broad

array of academic perspectives and empirical findings to offer a cohesive understanding of how product differentiation strategies are conceptualized, implemented, and their resultant effects on organizational performance. This method not only captures the breadth and depth of the available literature but also addresses gaps and inconsistencies, thereby setting a foundation for future theoretical and empirical advancements.

### *Research Design*

The research design for this literature review follows a methodical process outlined in several stages: defining the scope of review, literature search and selection, data extraction, and synthesis of findings. Each stage is crafted with the intent to minimize bias and enhance the reliability and validity of the review.

### *Defining the Scope of Review*

The initial step involves establishing the boundaries and objectives of the review. For this study, the scope is confined to examining the influence of product differentiation strategies on competitive advantage and market share. The review questions were formulated to guide the search and analysis, focusing on how product differentiation contributes to competitive positioning and market success, the role of technological innovations, and the integration of marketing mix strategies in differentiation.

### *Literature Search and Selection*

A comprehensive search strategy was employed to gather relevant literature from multiple databases, including JSTOR, PubMed, Google Scholar, and specific academic journal repositories related to business and marketing. Keywords such as "product differentiation", "competitive advantage", "market share", "marketing mix", and "technological innovation in marketing" were used in various combinations to ensure a wide coverage of relevant topics. The inclusion criteria were set to select studies published in peer-reviewed journals from the year 2000 onwards to focus on the most recent insights and developments in the field. The articles needed to explicitly discuss product differentiation strategies, their implementation, and outcomes. Exclusion criteria included non-English articles, conference proceedings, unpublished theses, and papers not peer-reviewed, to maintain the scholarly rigor of the sources.

### *Data Extraction*

Each article selected for review was subjected to a detailed examination. Key information extracted included the author(s), year of publication, research objectives, methodology, key findings, and conclusions. This process was meticulously documented in a data extraction form designed to standardize and simplify the analysis. Special attention was given to studies that discussed the integration of new technologies and innovations within product differentiation strategies, as these represent a critical area of modern marketing strategy.

### *Synthesis of Findings*

The extracted data were synthesized to identify patterns, themes, and divergences in the literature. This synthesis involved a qualitative thematic analysis, where data were coded and organized into major themes such as the impact of differentiation on market share, the role of technology in differentiation, and the effectiveness of various marketing mix elements in

supporting differentiation strategies. The findings were then integrated into a narrative that discusses the theoretical contributions and practical implications of product differentiation strategies. To ensure the quality and credibility of the review, several measures were employed. The process of literature selection and data extraction was conducted independently by two researchers, followed by a reconciliation discussion to resolve any discrepancies. This dual-review process enhanced the accuracy and depth of the review. Moreover, the study adhered to the PRISMA guidelines (Preferred Reporting Items for Systematic Reviews and Meta-Analyses), which provide a comprehensive framework for reporting systematic reviews, thereby ensuring transparency and replicability.

## Result and Discussion

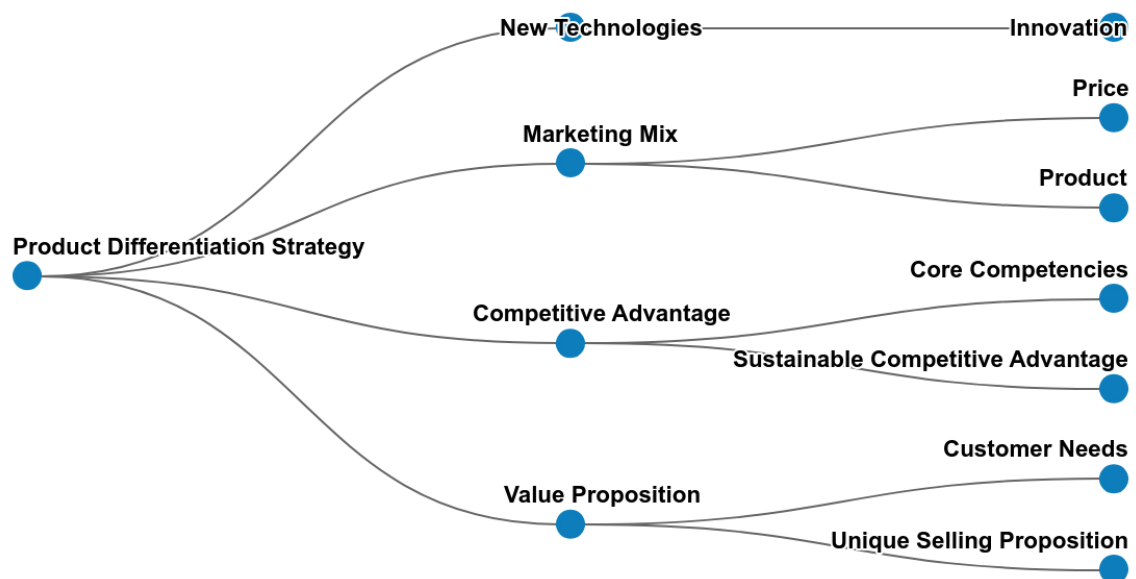


Figure 1. Concept Map by SCOPUS AI

### 1. The Impact of Product Differentiation Strategy on Competitive Advantage:

- *To what extent does the implementation of product differentiation strategy influence a company's attainment of competitive advantage?*

The theoretical foundation of this inquiry rests upon the resource-based view (RBV) and the positioning perspective within strategic management literature. RBV posits that competitive advantage stems from the possession of valuable, rare, inimitable, and non-substitutable resources and capabilities. Product differentiation strategy, as a resource and capability, aligns with this view by endowing firms with distinctive assets that can be leveraged to garner a competitive edge. Additionally, the positioning perspective accentuates the significance of creating a unique market position through product differentiation to outmaneuver rivals and

capture customer mindshare.

### *Market Positioning and Brand Equity*

Effective implementation of product differentiation strategy enables firms to carve out distinct market positions, resonating with specific customer segments and fulfilling unmet needs or desires. Through meticulous brand management and innovation, firms can cultivate brand equity—perceived value and loyalty associated with the brand—which serves as a potent driver of competitive advantage. High brand equity engenders customer preference, trust, and willingness to pay premium prices, thereby fortifying the firm's market position and thwarting competitive encroachment. Market positioning and brand equity are crucial elements in the success of a brand. Chaves (2017) and Amini (2012) both emphasize the importance of brand identity, positioning, and image in building brand equity. Brzaković (2021) and Trendafilov (2015) further highlight the need for a strong positioning strategy, which involves identifying a target market, analyzing competition, and creating points of difference. Radoviciu (2009) and Brondoni (2001) underscore the role of brand positioning in differentiating products and services, and the use of brand equity as a tool to counter demand volatility and stimulate customer loyalty.

### *Customer Value Proposition and Loyalty*

At the crux of product differentiation lies the formulation of a compelling customer value proposition—articulating the unique benefits and value proposition offered by the differentiated products. A well-crafted value proposition resonates with target customers, engendering satisfaction, loyalty, and advocacy. Consequently, firms engrossed in product differentiation often witness heightened customer retention rates and reduced-price sensitivity, amplifying their competitive advantage by fostering enduring customer relationships and minimizing the threat of commoditization.

- *Are companies employing product differentiation strategies more likely to achieve greater competitive advantage compared to their competitors?*

### *Market Leadership and Differentiation*

Empirical studies have consistently underscored the symbiotic relationship between product differentiation strategy and competitive advantage. Companies' adept at implementing product differentiation strategies often emerge as market leaders, wielding considerable influence and commanding premium prices for their differentiated offerings. Through continuous innovation, branding initiatives, and customer-centricity, these firms cultivate a reputation for excellence and uniqueness, fostering customer loyalty and market dominance. Consequently, they are better positioned to weather market fluctuations, navigate competitive pressures, and sustain long-term profitability—a testament to the efficacy of product differentiation in bolstering competitive advantage. Market leadership and differentiation are closely linked, with the former often being achieved through the latter. Sorenson (1995) and Gruber (1992) both highlight the importance of differentiation in maintaining market leadership,

with Sorenson emphasizing the role of product-improving R&D and Gruber discussing the impact of product innovation. Brown (1994) and Dimitrieska (2016) further underscore the significance of differentiation, with Brown noting that market leaders often have significant advantages and Dimitrieska outlining cost leadership and differentiation as key competitive strategies. McElheran (2008) and Zehr (2016) both explore the role of innovation in achieving market leadership, with McElheran finding a positive correlation between market leadership and the adoption of e-business capabilities and Zehr discussing market-based innovation as a means of achieving sustainable competitive advantage. Li (2014) adds to this discussion by comparing the outcomes of simultaneous and sequential price settings in a vertically differentiated market, highlighting the importance of strategic pricing in maintaining market leadership.

### *Customer Perception and Brand Equity*

A critical dimension of the impact of product differentiation strategy on competitive advantage lies in its influence on customer perception and brand equity. Differentiated products resonate with consumers by addressing specific needs or preferences, thereby eliciting favorable perceptions and engendering brand loyalty. High brand equity translates into enhanced customer trust, preference, and willingness to pay premium prices, amplifying firms' competitive advantage by fortifying their market position and insulating them from competitive threats. Brand equity, a key factor in business success, is influenced by customer perception. Gangamala (2019) and Rungtrakulchai (2018) both found that brand equity significantly impacts consumer perception. Dwivedi (2016) further expanded on this, proposing a holistic framework for evaluating retail corporate brands, which includes brand equity. Stahl (2009) and Kegoro (2020) both emphasized the positive correlation between brand equity and customer loyalty, with Stahl (2009) specifically highlighting the impact of customer-based brand equity on customer acquisition and retention. Dabija (2014) and Atilgan (2009) provided practical applications of these findings, with Dabija (2014) focusing on the dimensions of brand equity in the fashion industry and Atilgan (2009) discussing the measurement of brand equity for global brands.

## 2. The Influence of Technological Innovation on Product Differentiation Strategy:

- *How does the integration of technological innovations affect the selection and execution of product differentiation strategies within firms?*

### *Impact of Technological Innovation on Product Differentiation*

Technological innovations provide firms with a myriad of opportunities to differentiate their offerings and create unique value propositions for customers. These innovations span a spectrum of domains, including product features, design, functionality, performance, and user experience. By leveraging cutting-edge technologies such as artificial intelligence, internet of things (IoT), augmented reality, and data analytics, firms can develop innovative products that resonate with evolving customer needs and preferences. Moreover, technological advancements facilitate the customization and personalization of products, enabling firms to



cater to niche markets and individual customer segments with tailored solutions. A range of studies have explored the impact of technological innovation on product differentiation. Ligthart (2015) found that both organizational and technological process innovations can enhance product innovation performance. Lee (2016) highlighted the importance of technology exploration, particularly customer involvement and outsourcing R&D, in achieving higher degrees of product innovation novelty. Weiss (2002) and Weiss (2001) both emphasized the role of competition in driving firms to favor product or process innovations, with the former being preferred in intense competition and the latter in less intense competition. Khin (2012) and Nieto-Antolín (2014) both underscored the significance of understanding customer needs and technological trends, as well as the influence of industry characteristics and institutional context, in achieving product innovation. Lastly, Robinson (1990) identified the product's relative advantage as the most impactful attribute on market share performance.

#### *Integration of Technological Innovations in Product Development*

The integration of technological innovations profoundly influences the selection and execution of product differentiation strategies within firms. It necessitates a strategic approach to technology adoption, encompassing factors such as R&D investment, collaboration with external partners, and organizational readiness for technological change. Firms must strategically evaluate emerging technologies and assess their potential to enhance product differentiation and create competitive advantage. Moreover, the execution of product differentiation strategies requires cross-functional coordination and alignment to ensure seamless integration of technological innovations across product development, marketing, and customer engagement processes. The integration of technological innovations in product development is a critical factor for success, as highlighted by several studies. Jugend (2013) and Oliveira (2013) both emphasize the importance of integrating R&D with other departments, with the latter proposing a model for this integration. Hardaker (1998) and Linnemann (1998) stress the need for a responsive and adaptable approach to market demands, and the translation of consumer preferences into technological developments. Hu (2013) introduces the concept of integration innovation, which emphasizes the recombination and application of existing resources and technologies. Iansiti (1995) and Drejer (2000) both provide empirical evidence and models for the integration of product and technology development. These studies collectively underscore the significance of integration in product development and provide various models and approaches for achieving it.

- *What role does the adoption of emerging technologies play in enabling companies to execute effective product differentiation strategies?*

#### *Impact of Adopting Emerging Technologies*

The adoption of emerging technologies plays a pivotal role in enabling companies to execute effective product differentiation strategies by unlocking new avenues for innovation and value creation. Emerging technologies encompass a broad spectrum of advancements,

including artificial intelligence, blockchain, internet of things (IoT), 3D printing, and advanced analytics. By embracing these technologies, firms can enhance product features, functionalities, and performance, thereby offering unique value propositions to customers. Moreover, emerging technologies facilitate the development of novel business models and value chains, enabling firms to redefine industry boundaries and capture untapped market segments.

#### *Enabling Innovation and Customization*

One of the primary ways in which the adoption of emerging technologies facilitates effective product differentiation is by enabling innovation and customization. These technologies empower firms to engage in rapid prototyping, iterative design, and agile development processes, allowing for the creation of highly tailored products that address specific customer needs and preferences. For instance, advances in additive manufacturing enable companies to produce customized products at scale, catering to niche markets and individualized customer demands. Additionally, technologies such as big data analytics and machine learning enable firms to gather and analyze vast amounts of data to derive actionable insights, informing product development decisions and enhancing customer experiences.

### 3. The Effectiveness of Marketing Mix Components on Product Differentiation Strategy

- *How do various elements of the marketing mix, such as pricing and product attributes, impact the success of product differentiation strategies within organizations?*

The effectiveness of marketing mix components, such as pricing and product attributes, significantly influences the success of product differentiation strategies within organizations. Pricing strategy, for instance, plays a pivotal role in shaping customers' perceptions of product value and differentiation. Premium pricing strategies may signal superior quality or exclusivity, thereby enhancing the perceived differentiation of products. Conversely, discount pricing strategies may undermine differentiation efforts by commoditizing products and eroding brand equity.

- *Is there a discernible relationship between specific components of the marketing mix and the effectiveness of product differentiation strategies?*

The effectiveness of marketing mix components profoundly influences the success of product differentiation strategies within organizations. Each component of the marketing mix—product, price, place, and promotion—plays a distinct yet interrelated role in shaping customers' perceptions of product differentiation and value. Product attributes such as quality, design, features, and brand image contribute to the distinctiveness of offerings and influence customers' purchasing decisions. Pricing strategies signal value propositions and position products within the competitive landscape, while distribution channels and promotional activities enhance brand visibility and communicate differentiation messages. Empirical studies suggest that certain components, such as product attributes and branding, exhibit a stronger association with the success of product differentiation strategies compared to others. For instance, product innovation and unique features often serve as primary drivers of differentiation, enabling firms

to carve out distinctive market positions and command premium prices. Similarly, branding, and promotional activities play a crucial role in communicating differentiation messages and building brand equity, thereby enhancing the effectiveness of product differentiation strategies.

#### 4. The Interplay Between Competitive Advantage and Product Differentiation Strategy

- *How does a company's competitive advantage correlate with its choice and execution of product differentiation strategies?*

##### *Impact of Competitive Advantage on Product Differentiation*

Competitive advantage and product differentiation are intertwined concepts that mutually reinforce each other. A company's competitive advantage, derived from its distinctive resources, capabilities, or market positioning, shapes its choice and execution of product differentiation strategies. Firms possessing superior resources or capabilities are better positioned to invest in product innovation, research and development, and marketing initiatives, thereby enhancing their ability to differentiate their offerings from competitors. Conversely, effective product differentiation strategies can contribute to the consolidation and reinforcement of a company's competitive advantage by enhancing customer loyalty, brand equity, and market share. Empirical evidence suggests that firms with a strong competitive advantage are more likely to adopt and successfully execute product differentiation strategies compared to their rivals. These firms possess the requisite resources, capabilities, and market insights to identify and capitalize on opportunities for differentiation, thereby reinforcing their market leadership and enhancing their competitive position. Furthermore, companies with a differentiated product offering often enjoy higher profit margins, customer loyalty, and market share, further solidifying their competitive advantage over time. The interplay between competitive advantage and product differentiation strategy is a complex and multifaceted one. Arping (2002) highlights the trade-off between price competition and customer concerns about firm viability, particularly in highly differentiated products. Kim (2014) further emphasizes the role of firm and industry characteristics in the choice of differentiation strategies. Sun (2017) and Mikhailov (2019) both underscore the importance of product differentiation in enhancing competitive advantage, with Sun specifically focusing on Apple's differentiation strategies. However, Friar (1995) cautions that product performance innovation alone may not be enough to create meaningful differentiation, especially in highly competitive markets. Lastly, Peter (2022) and Yi-bing (2006) both stress the positive relationship between product differentiation and competitive advantage, with Yi-bing specifically highlighting the role of differentiation strategy in forming a distinctive competitive advantage.

- *Do companies possessing distinct competitive advantages tend to implement differentiating product strategies compared to their industry counterparts?*

Competitive advantage and product differentiation are intrinsically linked concepts that mutually reinforce each other. Firms with distinct competitive advantages are better positioned to invest in and execute product differentiation strategies compared to their industry counterparts. These firms possess superior resources, capabilities, or market positioning,

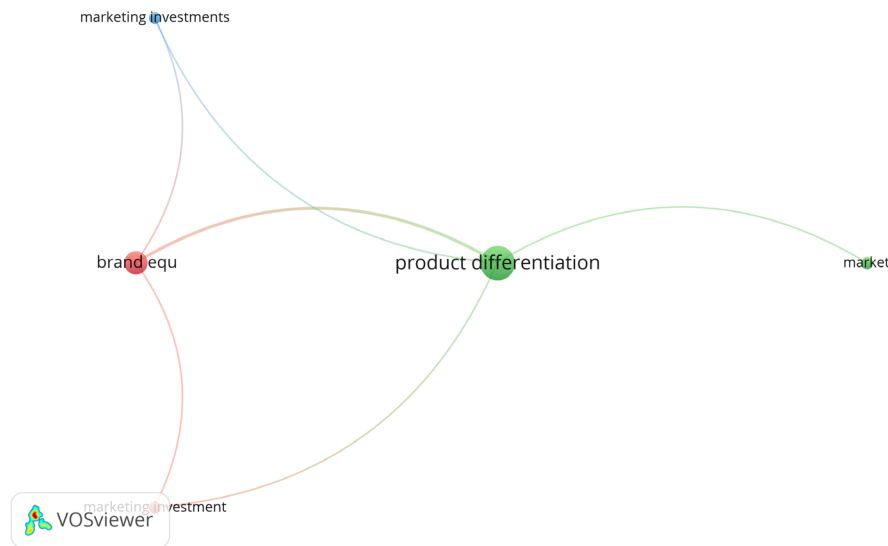
enabling them to identify and capitalize on opportunities for differentiation more effectively. Moreover, companies with a strong competitive advantage often enjoy greater customer loyalty, brand equity, and market share, providing fertile ground for implementing and sustaining differentiating product strategies. Empirical evidence suggests that companies with distinct competitive advantages are indeed more inclined to adopt and successfully execute product differentiation strategies compared to their industry counterparts. These companies possess the requisite resources, capabilities, and market insights to identify and exploit opportunities for differentiation, thereby strengthening their market position and outperforming rivals. Furthermore, firms with a strong competitive advantage are better equipped to withstand competitive pressures and market fluctuations, enabling them to invest in innovation, branding, and customer-centric initiatives that underpin successful differentiation efforts.

## 5. The Significance of Value Proposition in Product Differentiation Strategy

- *How do value propositions, reflecting customer needs and unique selling propositions, influence the efficacy of product differentiation strategies?*

The value proposition serves as a linchpin in product differentiation strategy, shaping customers' perceptions of product value and differentiation. A compelling value proposition articulates the unique benefits and value that a company offers to customers, addressing their specific needs, desires, and pain points. By aligning the value proposition with customer preferences and market demands, firms can differentiate their offerings from competitors and create a sustainable competitive advantage. Moreover, value propositions play a crucial role in communicating the distinctiveness and superiority of products, influencing customers' purchase decisions, and fostering brand loyalty. Empirical evidence suggests that value propositions, which resonate with customer needs and unique selling propositions, play a pivotal role in driving the effectiveness of differentiation efforts. Value propositions that address specific customer pain points, offer innovative solutions, and communicate clear benefits and value propositions are more likely to resonate with target customers and differentiate offerings from competitors. Furthermore, value propositions that are authentic, credible, and aligned with firms' core competencies and brand identity are instrumental in fostering customer trust, loyalty, and advocacy, thereby enhancing the efficacy of product differentiation strategies.

## 6. Product Differentiation Strategy on Market Share and Financial Profitability



**Figure 2. VOS Viewer Visualization**

In the intricate arena of business strategy, the facet of product differentiation emerges as an indispensable element for securing a competitive edge. This concept has been the focus of various research endeavors, which have unpacked the ramifications of differentiation strategies across small and medium-sized enterprises (SMEs), intricate pricing mechanisms, and the broader scope of market behavior. Within the sphere of SMEs, the work of R. Sivashanker (2021) is particularly insightful. It posits that embedding eco-friendly practices into product differentiation can propel businesses beyond economic and resource barriers, fostering a unique market position conducive to growth and longevity. This eco-centric approach not only sets products apart in the marketplace but also solidifies the company's presence amid fierce competition. The narrative evolves as we examine Nebojsa S. Davic's analysis (2014), which intricately ties brand equity, marketing investments, and product differentiation to the art of pricing. His findings illuminate a direct correlation between innovation-led differentiation and the ability to command premium prices, particularly within the fast-paced FMCG sector. This relationship serves as a cornerstone for developing pricing strategies that reflect a product's unique value proposition. Turning to the Kenyan landscape, the research by P. K. Maina and A. Kagiri (2016) within East African Breweries Limited (EABL) echoes the importance of aligning product offerings with consumer preferences to gain a strategic advantage. This focus on tailored product delivery and customer-centric service can significantly reduce operational inefficiencies and position a company as a reliable and consumer-friendly entity in the marketplace.

Further dissection of the quality dimension by Alexander Ellert and Oliver Urmann (2010) reveals that strategic quality differentiation plays a pivotal role in markets where consumer perception is key. Their study suggests that a sequential approach to quality enhancement can establish a competitive equilibrium, possibly giving the pioneering company a notable edge in market perception and financial returns. In a two-sided market scenario, A. Borovkova (2019) highlights the merits of launching diversified product iterations. This strategy is especially fruitful in leveraging indirect network effects, particularly benefiting one segment of market agents who can exploit versioning to cater to diverse consumer needs, potentially enhancing



engagement and profitability. Marco S. Giarratana and Alessandra Perri (2014) explore the symbiosis of product diversification and brand width, indicating how a judicious blend of the two can bolster market presence, particularly in sectors where production economies of scope prevail. Their findings imply that a well-orchestrated diversification, married with coherent brand development, can enhance market share by satisfying diverse consumer demands while sustaining a potent brand presence. Richard Makadok and David Gaddis Ross (2013) cast a spotlight on product differentiation as a strategic maneuver in contexts where legal limitations stifle consolidation. In such environments, differentiation becomes a potent weapon for firms to assert their market dominance, shaping unique value propositions that transcend mere market presence to enhance profitability.

Returning to the FMCG sector, the insights of Nebojsa S. Davcik and Piyush Sharma (2015) elucidate the link between innovative product differentiation and premium pricing. This strategic move is particularly relevant for functional foods, which tend to attract a higher price point over their organic and traditional peers. The implication here is clear: differentiation that hinges on innovation can carve a distinct niche in the market, propelling market share and financial success. As the corporate landscape continues to evolve, differentiation strategies—particularly those that are sustainably oriented—will become increasingly vital. Future research may delve into the long-term impact of eco-friendly differentiation on brand loyalty and economic performance. Moreover, the intersection of digital transformation and product differentiation offers a rich terrain for exploration. Understanding the leverage of digital platforms in distinguishing products and shaping consumer choices will be a critical factor in the continued evolution of competitive business strategies.

## Conclusion

The intricate study of product differentiation strategy unveils its pivotal role in shaping the competitive landscape of contemporary markets. This research provides a comprehensive analysis, drawing from various theoretical frameworks and empirical evidence to delineate the multifaceted impact of differentiation on a firm's competitive advantage and market performance. The culmination of these insights leads to a synthesis of both theoretical and managerial implications, essential for academics and practitioners alike in understanding and leveraging the benefits of effective differentiation strategies. From a theoretical standpoint, the findings reinforce and expand the resource-based view (RBV) of the firm, positing those unique, valuable, and inimitable resources and capabilities—such as those developed through successful differentiation strategies—are critical to achieving and sustaining competitive advantage. This research underscores the importance of not only possessing unique resources but also the strategic application of these resources in creating product offerings that are distinct and appealing to targeted consumer segments. The positioning perspective within strategic management literature further complements this view, highlighting the necessity for firms to carve out a unique market position through differentiation, thereby securing a stronghold against competitive forces.

Moreover, the study enriches understanding within the domain of marketing management by integrating the concept of the marketing mix with product differentiation strategies. It elucidates how elements such as product attributes, pricing strategies, placement, and

promotion work in tandem to enhance the perceived value and uniqueness of product offerings. These components are crucial in shaping consumer perceptions and behaviors, which in turn influence brand equity and customer loyalty. The nuanced analysis of how these marketing mix elements is orchestrated to support differentiation provides a richer theoretical understanding of strategic marketing practices. The exploration of technological innovation within the context of product differentiation also contributes significantly to the innovation management literature. This research highlights how cutting-edge technologies like AI, IoT, and data analytics redefine product and service offerings, enabling firms to meet the evolving demands of the modern consumer. The role of technology in facilitating customized and personalized products aligns with contemporary shifts towards more dynamic, consumer-centric business models. This alignment emphasizes the theory of dynamic capabilities, which suggests that the ability of a firm to integrate, build, and reconfigure internal and external competences to address rapidly changing environments is crucial in maintaining competitive advantage. Managerially, the implications of this research are profound and multifaceted. For practitioners, the clear message is that product differentiation is not merely a tactical tool but a strategic imperative that requires careful and thoughtful implementation. Managers are advised to critically assess their firm's unique resources and capabilities to determine how best to deploy these in crafting differentiated products that not only meet customer needs but also exceed their expectations. This involves a deep understanding of the target market, including customer preferences, behaviors, and values. Effective brand management emerges as a critical managerial task from this analysis. Managers must ensure that the differentiated products are supported by strong, coherent brand messages that resonate with the desired market segments. This involves meticulous planning and execution of marketing campaigns that highlight the unique attributes and benefits of the products, thereby enhancing brand equity and building a loyal customer base.

Furthermore, the integration of technological innovations into product offerings requires managers to stay abreast of technological advancements and assess their applicability to their own product contexts. This strategic incorporation of technology can provide a significant edge in marketplaces that are increasingly driven by technological sophistication and innovation. Managers must also consider the infrastructure and skills required to support such technologies, ensuring that their firms are equipped to handle the integration of new systems and processes. Additionally, the research suggests that managers must be vigilant in aligning the marketing mix elements with their differentiation strategy. This alignment is crucial in ensuring that the product not only stands out in the market but also delivers on the brand promise, thereby reinforcing the product's differentiated position. Pricing strategies must reflect the added value of the differentiated products, balancing between capturing value and remaining accessible to the target consumer.

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