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Strategic Differentiation in Small Enterprises: Specialisation, Customer Value, and Competitive Positioning

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ABSTRACT

Small enterprises frequently seek differentiation through distinctive branding while leaving unresolved the operational choices required to deliver a credible customer advantage. This conceptual article examines differentiation as a relationship between a defined customer problem, a specialised capability and an economically sustainable offering. Drawing on research concerning small-firm strategy, micro-firm development and historical patterns of flexible specialisation, it develops a framework for choosing, testing and maintaining a competitive position. The analysis distinguishes meaningful differentiation from novelty, specialisation from dependence and flexibility from indiscriminate expansion. It considers customer segmentation, capability coherence, pricing, imitation and the risks of serving adjacent markets. The article argues that a small enterprise's position becomes defensible when its promises are supported by a coordinated set of activities that customers value and competitors cannot readily reproduce without changing their own operations. Implications are developed for owner-managers and for research examining differentiation under resource constraints.

KEYWORDS: strategic differentiation; small enterprises; specialisation; customer value; competitive positioning; business development.

1. INTRODUCTION

A small enterprise can be visibly different without being strategically distinctive. An unusual name, attractive design or broad claim of superior service may create recognition, but it does not explain why a customer should choose the business or how the business will deliver the promised advantage consistently. Differentiation becomes strategically meaningful when it addresses a customer problem through capabilities that support sustainable value creation. Resource constraints make this problem especially demanding. Small firms cannot ordinarily develop every capability, serve every segment or absorb the cost of unlimited customisation. Their strategic decisions therefore involve exclusion as well as expansion. Choosing which requests to decline can be necessary to preserve the quality, reliability or economics of the offering that matters most.

This article examines how small enterprises can establish a coherent competitive position through specialisation. Its contribution is a practical framework linking customer relevance, operational capability and economic viability. The argument does not assume that small firms must remain narrow or that growth inevitably weakens differentiation. It asks how expansion can preserve the relationship between what the business promises and what it is equipped to deliver.

Conceptual Method and Evidence Base:

The analysis draws on six scholarly articles published in Cambridge and Oxford university press journals. Verreynne (2006) examines strategy-making processes in small firms. Achtenhagen et al. (2017) investigate business-development activities in micro-firms. Carnevali (2003) analyses Birmingham jewellery production, while Fitzgerald et al. (2023) examine strategic transformation among Japanese small and medium-sized enterprises. The sources combine quantitative research, interviews and historical case analysis. They provide insight into different aspects of small-firm strategy but do not establish a single optimal model. Historical manufacturing cases cannot be transferred unchanged to contemporary professional services or retail. Their value lies in identifying relationships among specialisation, capabilities and market adaptation that can inform further analysis. The framework is conceptual and normative. It proposes questions and decision criteria rather

than reporting an evaluated intervention. Differentiation is defined as a customer-relevant distinction that an enterprise can deliver consistently and sustain economically. The definition makes novelty insufficient unless it changes the customer's assessment of the offering.

Locating a Valuable Customer Problem:

Strategic differentiation begins with a specific problem experienced by an identifiable group. Broad claims about quality or convenience rarely provide enough direction for operational decisions. A customer may value reliable completion dates, specialised expertise, reduced administrative effort, compatibility with existing systems or access to a service that larger providers handle poorly. Segmentation should therefore examine circumstances and needs rather than rely exclusively on demographic categories. Two customers of similar size may value different outcomes because their operations, capabilities or risk exposures differ. Conversely, customers in different industries may share a problem that the enterprise can address through the same underlying competence. Owner-managers should distinguish expressed preference from demonstrated value. Customers may praise extensive customisation while remaining unwilling to pay for its cost. They may request faster delivery without considering the trade-off with reliability. Observation, completed transactions and carefully designed trials can provide stronger evidence than general expressions of interest. The relevant comparison is the customer's available alternative. A small firm does not need to be superior on every dimension. It needs to provide a compelling reason for a defined customer to choose its offering under particular circumstances. That reason should be sufficiently concrete to guide product design, service delivery and communication.

Specialisation as Capability Development:

Specialisation can deepen expertise, improve recognition of recurring problems and permit more effective use of limited resources. However, it also creates exposure if the chosen market contracts or becomes dependent on a small number of buyers. The strategic task is to distinguish productive focus from avoidable fragility. Fitzgerald et al. (2023) describe how Japanese small and medium-sized enterprises adapted their capabilities during substantial economic and technological change. Their historical analysis emphasises the organisation of skills and equipment, rather than assuming that purchasing technology alone produces competitive differentiation. The implication for owner-managers is that capabilities emerge from coordinated use, learning and investment. A hypothetical specialist training provider illustrates the distinction. Purchasing a new learning platform may improve delivery infrastructure, but it does not establish distinctive expertise in a professional field. That position may require suitable instructors, relevant cases, reliable assessment and a clear understanding of the client's work. Technology contributes when it supports the chosen service model. Specialisation should also be defined at the right level. A firm may concentrate on a problem-solving capability while serving several customer groups. This can reduce dependence without abandoning focus. By contrast, expanding into activities that require unrelated expertise may create complexity that the existing organisation cannot manage well.

The capability underlying a specialist promise can be examined through routines. Becker (2004) reviews the organisational-routines literature and the ambiguities surrounding its central concepts. This encourages precision about what is actually repeatable: a written procedure, a recognisable pattern of work or the capacity to coordinate a difficult task. For a small enterprise, differentiation becomes operationally credible when the relevant performance can be reproduced across customers and employees. A distinctive founder's judgement may initiate the advantage, but organisational development must address how others learn to deliver it.

Coherence Across Activities:

A differentiated promise must be supported by the organisation's activities. If a business promises rapid customised delivery, it needs information flows, staffing and production arrangements compatible with that promise. A marketing commitment that operations cannot reliably fulfil converts differentiation into a source of dissatisfaction. Coherence requires examining interactions. Highly standardised processes can improve reliability but may constrain customisation. Extensive product variety can increase customer choice while complicating purchasing, inventory and staff training. These tensions do not mean that combinations are impossible. They mean that the firm must identify how the combination will work and what it will cost. Carnevali (2003) shows that Birmingham jewellery firms combined specialty and mass-production practices in responding to changing markets. The case cautions against treating specialisation and scale as mutually exclusive categories. A small enterprise may standardise common components while reserving specialist effort for the features customers value most.

This distinction supports a practical design principle: standardise where variation adds little value and preserve flexibility where it addresses an important customer need. The principle must be tested within the business. It

should not become a generic instruction to customise every visible feature while overlooking the operational burden created behind it. Teece (2018) treats dynamic capabilities as part of a system linking resources, strategy and managerial action, with attention to alignment and adaptation. This conceptual account strengthens the distinction between a collection of attractive features and a coherent strategic position. A firm offering unusually reliable fulfilment, for example, must align order acceptance, supplier commitments, staffing and communication. Adaptation then involves revising those relationships when conditions change. The framework supplies a way to analyse consistency; it does not predict that every aligned specialist strategy will earn superior returns.

Strategy-Making Under Resource Constraints:

Small firms differ in how they develop strategy. Some rely heavily on the owner's judgement; others use participative discussion, experimentation or more formal planning. Verreynne (2006), studying 477 small firms, identifies several modes and relationships with performance. The findings challenge the assumption that small enterprises constitute a homogeneous strategic category. A useful process should match the organisation's complexity and available resources. An owner-managed enterprise may not need a lengthy planning document, but it still needs explicit choices about customers, value, capabilities and financial requirements. Informality becomes problematic when important assumptions remain unexamined or when employees receive contradictory priorities. Achtenhagen et al. (2017), drawing on interviews with thirty micro-firms, connect business development with activities that use, secure and organise resources. Their work directs attention to implementation constraints such as time and context. For owner-managers, the practical issue is not simply identifying an attractive opportunity but creating the capacity to pursue it. A short strategic review can therefore focus on a limited set of questions. Which customers benefit most from the current offering? Which activities make that benefit possible? Where does complexity exceed its commercial value? Which capabilities require investment? These questions can support disciplined judgement without imposing administrative formality for its own sake.

The review should also identify evidence that would justify abandoning the position. Owners can become attached to a speciality because it expresses professional identity or reflects a substantial past investment. A declining pattern of repeat purchases, persistent delivery exceptions or customers' preference for a different benefit may indicate that the underlying proposition needs reconsideration. These signals should be investigated rather than treated as automatic proof of failure. Stating reconsideration conditions in advance can make adaptation less dependent on defending previous decisions. It also distinguishes commitment to a strategic position from an unwillingness to learn when its assumptions no longer hold.

Testing Customer Value and Economic Viability:

A proposed position should be tested through bounded commitments. The firm can offer a limited service, trial a defined package or examine demand within a narrow segment before making substantial irreversible investment. The test should specify what would count as evidence of customer value and what would challenge the underlying assumption. Revenue alone is insufficient. A differentiated offering may attract customers while consuming disproportionate management attention or requiring costly exceptions. Evaluation should consider contribution after relevant delivery costs, repeat demand, reliability and the effort required to maintain quality. A high price does not guarantee an attractive business model if the cost of fulfilling the promise rises faster. Customer value also has several dimensions. Some benefits reduce the customer's expenditure; others reduce uncertainty, save time or improve an important outcome. The enterprise should explain these benefits accurately and avoid claiming a measurable advantage that it has not demonstrated. Credible evidence can include relevant performance records, carefully bounded examples and clear service commitments. Pricing should reflect both value and cost. Cost information establishes whether the offering can be sustained, while customer assessment determines whether the price is acceptable relative to alternatives. Treating either side as sufficient can produce error. A cost-based price may understate a valuable specialist service, while a value claim unsupported by delivery capability may prove commercially fragile.

Defensibility, Imitation and Reputation:

Visible features are often easier to imitate than the capabilities that support them. A competitor can copy a promotional claim or service package more quickly than it can reproduce accumulated expertise, reliable coordination or a well-developed understanding of a particular customer problem. Defensibility therefore depends on what lies behind the offering. This does not imply that experience creates permanent protection. Staff turnover, changing technology and shifts in customer requirements can erode an advantage. A small firm should identify which capabilities remain valuable and how they are renewed. Continued learning is part of maintaining differentiation, not merely a response to failure. Reputation can help customers assess quality

before purchase, but it should be treated as an outcome of consistent conduct. Claims of personal service become credible through responsiveness and continuity. Claims of specialist expertise become credible through relevant work and sound judgement. A reputation that depends on promises beyond the firm's capacity creates exposure when expectations rise. The business should also avoid dependence on one individual where the customer promise requires organisational reliability. If only the owner can deliver the distinctive value, growth and absence become difficult to manage. Developing colleagues, documenting important practices and clarifying decision rights can preserve quality while distributing capability.

Growth, Adjacency and Strategic Drift:

Growth opportunities should be assessed by their relationship to the existing position. An adjacent market may use the same capabilities and solve a similar customer problem. Another opportunity may look attractive financially while requiring a different operating model. The distinction matters because revenue expansion can conceal a gradual loss of coherence. An enterprise should examine what must change to serve the new opportunity. Relevant questions concern expertise, staffing, working capital, delivery processes and brand expectations. If the new activity requires substantial exceptions, management should decide whether to build a separate capability, redesign the current model or decline the opportunity. Strategic drift can occur through individually reasonable concessions. A business accepts an unusual order, adds a service for a major customer and extends its market coverage. Over time, it becomes difficult to explain whom the firm serves particularly well. Periodic review should therefore examine the cumulative effect of exceptions, not only the profitability of each transaction. Concentration risk remains important. A narrow position can be attractive while leaving the enterprise exposed to one buyer, technology or distribution channel. Diversification should address the specific vulnerability where possible. Expanding into unrelated activities merely to appear diversified can introduce risks that the firm understands less well.

Research Implications and Limitations:

The framework requires empirical evaluation across sectors and institutional settings. The selected literature includes historical manufacturing cases and studies of firms with different sizes and resources. It does not establish that any particular degree of specialisation maximises performance or survival. Future research could examine how small firms identify customer-relevant differences, how capability coherence changes during growth and when standardisation supports rather than weakens differentiation. Longitudinal studies would help distinguish a temporary commercial opportunity from a durable position. Research should also examine firms that deliberately decline growth to preserve quality, profitability or manageable risk.

2. CONCLUSION

Strategic differentiation in small enterprises depends on a credible relationship between customer needs, specialised capabilities and economic sustainability. A distinctive message is useful when it expresses that relationship accurately. Owner-managers should identify a valuable problem, organise the activities required to solve it, test the economics and assess expansion against the coherence of the position. Specialisation then becomes a disciplined basis for value creation, with sufficient adaptability to respond when customers, competitors and operating conditions change.

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