

InSIGHT

Commoditization
**'GETTING AHEAD
OF THE CURSE'**

Text: Maurits Croon



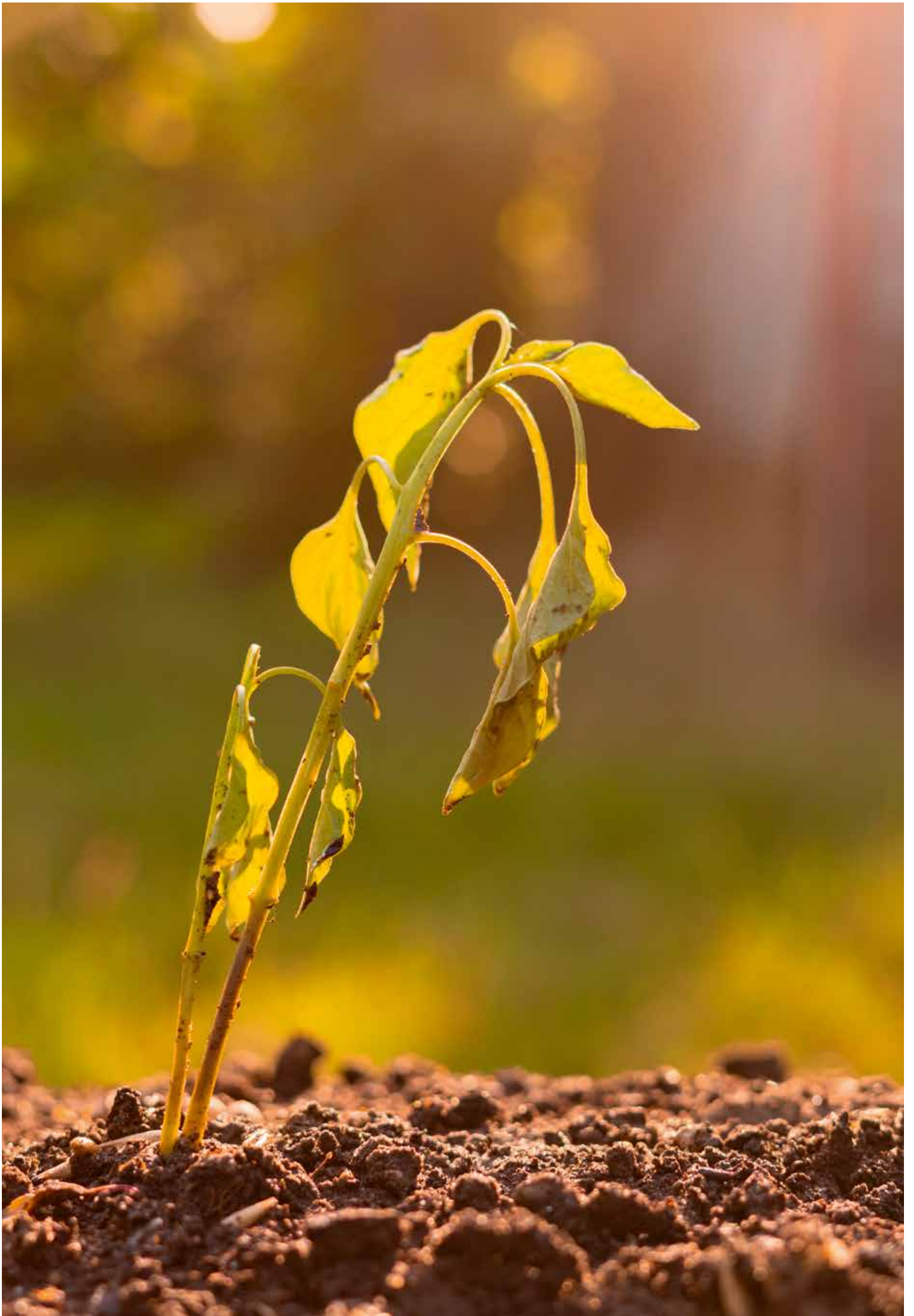
Commoditization is a symptom of neglect

It will hit a company unexpectedly. What initially seemed a mere dip, now starts to turn into a structural decline in growth. The market is tipping. Suddenly, customers just as easily trade you in for a competitor. And lately, negotiations are only about price. Your products or services were once so much appreciated. Now they have lost their appeal. Your people put in so much work and effort, and yet you see profits falling, together with morale. You're struck with the commoditization curse. And, you deserve it! Commoditization is not some 'force majeure', no outside event suddenly hitting your company. It is a symptom - a symptom of neglect in the most important part of your business.

Companies that neglect marketing and sales will, sooner or later, be confronted with commoditization. Commoditization is caused by a mix of developments: Competitors catch up and develop new

alternatives. An internal focus shifts attention and causes erosion of the unique edge of the company's products or services. And most importantly, the needs and expectations of customers change over time. Missing the signals of these developments creates an ever increasing disconnect between what customers need and what the organization offers. Closing that gap allows the company to create value for customers and beat commoditization. That starts with understanding what your customers need, which is the primary responsibility of marketing and sales. This ability defines the strength of a company. The sooner you reinvigorate marketing and sales, the stronger you will be.

Commoditization is not some 'force majeure', it is a self-inflicted curse





The commoditization curse

Commoditization is often perceived as a sudden shift. For years work came easy and revenue and profits were growing. Sure, it was hard work; it is no small feat to deliver to all these new customers and to organize the company in such a way that it could keep up with growth. It was demanding and challenging; but energizing and rewarding at the same time.

Now things are different. All of a sudden, the context seems to have shifted. Customers have become more critical and demanding. Elements of the product or service that used to excite them are now taken for granted and sometimes even become a source of complaints. And price, which for a long time used to be a formality

in the overall transaction process, is now a topic that doesn't leave the negotiation table. It is the prime subject of discussion from the very beginning to the very end. To make matters worse, customers see competitors as equal to your company,

Markets don't commoditize; they look for superior value

in some cases they actually take their business to the competition. They don't seem to appreciate the uniqueness of your product or service anymore.


These are all painful symptoms of commoditization and it is something to be taken seriously. It will affect your company. You will operate in a tougher environment.

Relationships with customers will become more strained as their expectations deviate more and more from what you can deliver. And the more effort you put into actively pushing your existing product, the more you emphasize that gap. The competitive pressure will intensify. Turnover will be increasingly under pressure, as competitors manage to claim an ever larger part of the market. To protect volumes, you are forced to take on work at lower prices. Margins will deteriorate. And all of this is likely to affect morale. So commoditization is truly a curse.

But be careful: markets don't commoditize; they merely look for propositions that meet their needs and requirements in a superior way - at that point in time. Markets essentially are a collection of

customers who continuously look for superior value. They will only pay a premium for what they regard as special.

It is important to realize that if anything is commoditizing, it is your product or service, not the market itself. And although it seems a sudden development, it most likely was long in the making. If a company experiences commoditization, it just failed to keep up with the markets quest for superior value. And you can be sure; somebody else did keep up.

A landscape photograph showing a dirt path leading through a field of dry, golden-brown grass. In the distance, a single, bare tree stands on a slight rise. The sky is overcast with soft, grey clouds. The overall mood is quiet and contemplative.

*If anything is commoditizing,
it is your product or service,
not the market itself*



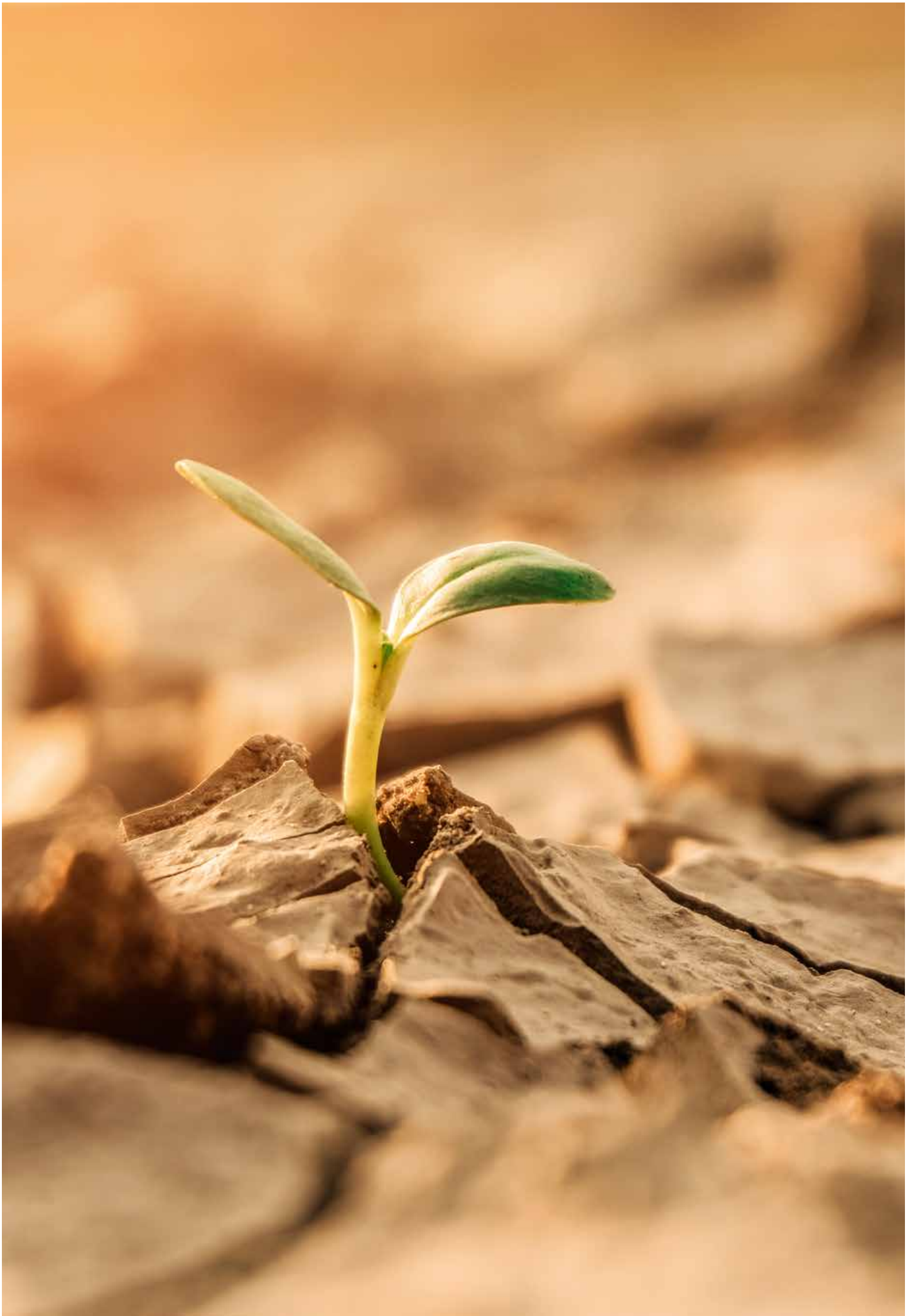
Creating value starts with understanding what customers need

The causes of -and therefore also the solutions to- commoditization can be found within the business itself. As soon as the focus of companies shifts from creating superior value for customers towards other drivers (profit maximization, operational excellence, reorganizations, integration efforts or internal politics) they will experience a commoditization of their offering. Commoditization is a symptom of the neglect of the two essential elements of the business: sales and marketing.

Probably the most profound business insight is the fact that the primary purpose of any organization is to create a customer. And creating customers is what sales and marketing is all about. You need

market intelligence to understand the needs of the customers, to develop specific propositions to meet those needs and to know where to find potential customers. You need marketing communication to differentiate the company and appeal to target customers, to explain to them that you bring superior offerings and to demonstrate how they benefit from that. And you need sales to connect with the right customers, manage the flow of opportunities and close the deals. Because only through a transaction is a customer truly created.

*The primary purpose
of any organization is
to create a customer*





Step up and focus on customer value

So; is your company facing commoditization?
Don't blame the market or your competition. Step up and address
your commercial challenges.

Bring focus on customer value throughout the company.
This will require a mind shift, especially in B2B companies
that trend toward a strong technical or operational focus.

Make sure that you focus, that you clearly position your company
and that you make choices. You cannot be everything to everybody.

Creating superior value can only be done if you commit to
specific customer needs that you can address better than others.

And, last but not least, bring discipline in your
commercial activities. The concept of superior value doesn't let
you get away with 'more or less correct'. Sales needs to be
on top of their game, all the time. Markets will change constantly.

You can only be successful if every activity in the company is aimed
at staying ahead of customers' quest for superior value. •

*You can only
be successful
if you stay ahead
of customers' quest
for superior value*



About the author

Maurits Croon founded Studio Croon to assist B2B companies in unlocking their strategic and commercial potential. Maurits brings thorough understanding, built in roles as advisor and investment manager, and hands-on experience from senior management roles in multinational B2B companies.

His energetic and committed approach results in clear choices and pragmatic plans.

STUDIO
CROON

+31 6 2462 0901

maurits@studio-croon.com

studio-croon.com