
Driving Forces Of Commoditization



by JEFF THULL

Rapid commoditization of products and services is exasperating even the most skilled professionals. The solution provider is struggling to differentiate their unique products and services, and simultaneously customers are putting the squeeze on margins and driving unique value to the lowest common denominator — price.

How is this happening? Why is the trend increasing at an alarming rate and how can you hold your price and get paid for the value you deliver?

To start to understand this dilemma we need to take a hard look at the driving forces of commoditization:

- Advances in technology.
- Lack of connecting unique value to customers' business drivers.
- Pressure on buyers to make quality buying decisions.

Companies are constantly seeking differentiation by upping the ante in technological advances. When the ante continues to escalate, you may find yourself not only playing against the advances of your competitor, but you may very well find yourself playing against your customer's best interests.

Seeking competitive differentiation through increasing uniqueness and complexity can be a deadly double-edged sword, espe-

cially if building that differentiation exceeds the needs and understanding of your customers. You and your competition may believe you have a high-value product or service, but if your customers can't comprehend, calculate or measure that value, they see a sameness and will respond by ignoring the features they do not need or simply not caring. However, they do understand cost. And there goes the downward spiral to commoditization.

Advancing Technology

As technology advances, so

does the difficulty buyers have in making quality business decisions. Put yourself in your customer's situation. How often have they made a decision regarding products such as yours? How similar are your products to your competitor's? Can your customer truly understand and differentiate the unique value of your solution and not only how it impacts their job responsibility and performance, but also other responsibilities in their organization? Even more critically, can they understand the cost of their problem in absence of your solution?

This is how Harvard Business

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School professor Clayton Christensen traces the process: "When the performance of two or more competing products has improved beyond what the market demands, customers can no longer base their choice on which is the higher-performing product. The basis of product choice often evolves from functionality to reliability, then to convenience, and, ultimately, to price."

All indicators are showing us that customers are moving into what we call an "Era Three Market," and solution providers are not doing a good job of keeping up. While providers are upping the ante and still attempting to align their solutions to what they believe about the customer's situation, the customer is moving ahead and is allowed to make high-risk decisions based on what they do understand about their situation, your products and services, your competitors and their market. That is also a high-risk situation for you because in a complex selling environment, customers don't necessarily fully comprehend the extent of their problems as it relates to the vari-

ous solutions available, and their choices may be subjective or random at best.

So, if you truly have a unique and valuable solution, how can you get paid for the value you deliver?

New Selling Era

- First and foremost, get your mindset straight. Understand that we are moving into a new era of selling. Be open to the fact that traditional practices that may have helped you become successful in the past, for the most part will likely not work in this evolving market. Today's market requires that organizations transform their approach from "purveyors of products" to "advisors to the customer's business situation."
- Second, develop skills to communicate at a business and strategic level.

The customer's desire to build tighter bonds with fewer vendors is adding complexity to the sales process. Buying decisions include more considerations and more players, and those players are often located at higher levels in the

organization. In the complex sale, the search for a mythical buyer — "the decision maker" — is fruitless. Today the majority of decisions, quality decisions, are the result of a consensus building effort — an effort that the best sales professionals orchestrate with multiple people either deciding on or influencing the decision to buy. It is your responsibility to manage the issues of the transaction from multiple perspectives. You must connect your unique value offer to each individual in the context of his or her job responsibilities and their own self-interest. Using the same approach from middle management up through the C-Level will prove to be futile.

- Third, help customers connect value to business drivers.

Customers are also asking suppliers to add value at much deeper levels than they have traditionally delivered to their organizations.

Value can be defined as incremental results the customer is willing to pay for. Sales and marketing professionals know that they must be able to create value for their customers and they must be able to capture a reasonable share of that value for their company. Your customer's business is constantly evolving, and it is important to continually refine your value proposition in the specific terms of each individual involved in the decision to buy. It is then critical to test that assumption against the scope of the specific customer's situation. Determine to what degree your assumptions are correct. Then identify and quantify the impact of the absence of value. To the degree the assumptions are correct and the customer agrees, you will have the

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beginnings of value agreement with that customer.

- Fourth, become business partners with your customers.

At the same time that customers are demanding commodity-based pricing, they are demanding more complex relationships with suppliers. They are drastically reducing their supply bases and asking the remaining vendors to take a more active role in their business process. They want those of you who are left to become business partners and open your organizations to them.

This shouldn't be a daunting task. When you come to an understanding of the requirements within an Era Three Market and focus on the customer's business situation and not on your own, your customers will start to recognize you as a unique and valuable partner.

We tend not to see the world through our customer's eyes, but when we do, we find that they

face many problems. Their business environments are more competitive than ever, technological advances are radically altering their industries and markets, and their margins for error are always shrinking. The oft-ignored reality of the complex sales environment is that our customers need help. They need help understanding the problems they face. They need

help designing the optimal solutions to those problems, and they need help implementing those solutions.

It is your responsibility to advise your customers, give them a process to make quality decisions, and help them succeed. Your competitive advantage will rapidly erode if you don't take the critical steps to help them get there.



ABOUT THE AUTHOR:

For the past 22 years, Jeff Thull, CEO/President of Prime Resource Group, has gained a reputation for his expertise in the arena of sales and marketing strategies for companies involved in complex sales. His wealth of real world experience has made him a leading authority and valued advisor for executive teams of major companies worldwide. Contact Information: Prime Resource Group, Inc.; (800) 876-0378; www.primeresource.com.