

Commoditization... destroys margins, erodes brands and seriously hinders your ability to differentiate your products. Here's what to do about it.

By John R. Wirtz

Marketing professionals have lots to worry about these days. But few things are more disturbing than when the competitive environment reduces proprietary products into “commodities” because commoditization destroys margins, erodes brands and seriously hinders your ability to differentiate yourself from competitors on anything other than price.

From a marketing standpoint, commoditization is devastating because it means that the customer doesn't see any real differences between our products and those of our competitors. As a result, they differentiate products by the only other standard available to them...price. The first step in avoiding commoditization is understanding how it happens.

Commoditization is normally a five step process:

1. A company develops a proprietary product that, while “not good enough”, comes closer to satisfying customers' needs than anything else currently available. It does this with proprietary architecture and is rewarded with attractive profit margins.
2. To keep ahead of the competition, additional features and benefits are added to improve the product. Eventually, the product reaches a point where it is “over-engineered” with features that the customer doesn't need or want to pay for. This opens the door for low cost competitors to gain a foothold in the market with a less expensive, less feature-rich imitation of the original product. Quite often this entails competitors going to customers with a “knock off” of your product that is not as good as yours, but “good enough” for customers looking for a cheaper solution.
3. This changes the basis of competition in the lower tiers of the market from quality and performance to price.
4. Unfortunately, once low cost competitors get a foothold in the lower end of the market, they start working their way “up-market” with cheaper products that look even more like the original products but don't perform like them..
5. For the leader, the end result is that the very quality and performance enhancements that differentiated its products for years (and allowed them to charge a premium price) become liabilities as competitors attack them with less

expensive alternatives that they claim are just as good as the original...only cheaper.

Unfortunately, a company that finds itself in this situation, can't win. Either a disruption caused by a new breakthrough technology or product will steal its market or commoditization will steal its profits. In either case, the company is in real danger of losing its edge and seeing the power of its brand to command premium pricing erode dramatically.

This is why new product development is so critical to a company's future. If you need to protect market share, resurrect your brand or get back on track fast, the quickest way to do this is with a New Product Development Program that will consistently produce new products that are so innovative and unique that they constantly redefine the competitive landscape and continually raise the bar for anyone who chooses to compete with you.

But innovative new products that can change the playing field don't often happen by accident. It requires a commitment to innovation that permeates every level of an organization starting with top management. In other words, you need to develop a culture of innovation.

Research clearly shows that the common thread between companies known for innovation is a corporate culture where innovation is not only expected but is required, recognized and rewarded. This is because strategic innovation is a journey, not a destination. It requires dedication, hard work and most of all patience. Here are few things you can do to begin building a culture of innovation in your company:

- Create a cross-functional team of key management people to serve as your New Product Innovation Team...Sales, Marketing, Engineering, Finance and Operations
- Make innovation a required trait of every new hire and every managerial promotion.
- Create a system to reward employees who demonstrate innovative thinking and activities.
- Create and launch an internal promotional program to promote innovation throughout the organization using things like signage, buttons, bumper stickers, caps, tee shirts, banners, etc.
- Create an intra-company library of books and white papers on new product development, innovation and creative thinking...and sponsor a "book of the month" program where everyone reads a selected book and meets over dinner to discuss it and how things they learned might be implemented at your company.
- Send key people to seminars and workshops that focus on strategic innovations and new product developments...then have these people make a presentation on what they learned to the rest of the management team.
- Bring in innovations experts from outside the company to share their expertise and insights into the new product development process.
- Create a Wall of Fame to recognize employees who come up with winning, innovative ideas for new products and services.
- Send a team of marketing, engineering and R&D professionals from your company out to observe how customers actually use your products and identify ideas for new products and innovations that will bring even greater value to the

customer. (or work with customers to install cameras to record the daily work process electronically). Often these processes identify needs that the customer doesn't yet realize they have...enabling you to deliver even greater value to your customers.

- And more...

Clearly, the challenge of fighting the premature commoditization of your products is not going away anytime soon. The time to address this challenge is before you begin to erosion in sales, profitability and market share...and the only true protection you have is your ability to consistently develop and introduce new products that continually raise the bar for the competition via the development of a culture of innovation that is unique to your organization.

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