

# ESCAPE THE COMMODITIZATION TRAP

BY B. JOSEPH PINE II

Welcome to a world of commoditization. In industry after industry—with metals service centers no

exception—customers consider five factors in making purchasing decisions: availability, convenience ... and price, price, price.

Differentiation doesn't matter, relationships don't last, and quality's a given. The sad part? Most companies fall into the trap of commoditization by copying their competitors, allowing their products to stagnate and focusing their

customers on price.

Consider, however, a true commodity: the coffee bean. A few years ago, its price on the futures market hit a 100-year low. That's what happens to commodities (and commoditized offerings) over time—they go down in price. Converting the futures price to a per-cup basis, we find those who treat coffee as a commodity receive just a penny or two per cup. That's it.

When a manufacturer roasts, grinds, packages and puts those same beans in a grocery store, turning them into a good, the price jumps to between five and 25 cents a cup, depending on brand and package size. Brew the

ground beans at a run-of-the-mill diner or corner coffee shop, and that service now sells for 50 cents to a dollar per cup.

But wait. Serve that same coffee in a Starbucks, where the ordering, creation and consumption of the cup embodies a heightened ambience or sense of theater, and consumers gladly pay anywhere from \$2 to \$5 for each cup.

Businesses that ascend to this fourth level of value establish a distinct experience that envelops

For author Pine's 10 suggestions for metals companies looking to escape the commoditization trap, visit [www.msci.org/forward](http://www.msci.org/forward).

whatever goods or services are for sale, increasing the value—and therefore the price—by several orders of magnitude over the original commodity.

## A New Level of Economic Value

It's crucial to understand that experiences are a distinct economic offering, as distinct from services as services are from goods. Experiences result when a company uses tangible goods as props and intangible services as the

stage for engaging each customer in an inherently personal way. They thereby create a memory, the hallmark of every experience.

Don't think experiences are confined to the consumer space, however. Companies like your own that sell to other businesses also can take advantage of shifting up what I call the "Progression of Economic Value" to staging experiences.

Indeed, three arenas in business-to-business selling have always been about the experience: trade shows, executive briefing centers and sales calls. Think about how much more experiential each of these has become over the years.

## Mass Customize Your Offerings

Customization is the antidote to commoditization, because customizing a good automatically turns it into a service, and customizing a service automatically turns it into an experience. Think of how Dell Inc. provides the service of giving each customer the exact personal computer he or she desires with the most volume and lowest costs in the industry.

The key to low-cost, efficient, high-volume customization—mass customization—is to break apart your goods and services into modules that can be brought



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together in different ways for different customers like LEGO building bricks. Work to understand your customers' individual wants and needs, and then bring together exactly what's required to do the job.

Ross Controls of Troy, Michigan, for example, provides pneumatic controls to manufacturers across a wide range of industries. In each case, it works with the customer to understand needs, design a prototype control and then test it. If the control isn't precisely right, the company

does it again. And again. And again. However many times it takes. Once Ross puts together the exact right control from its library of modules, it has that customer locked in. No one else can replicate the learning gained during the process.

#### **Surround Those Offerings With Experiences**

Turn your everyday, mundane interactions with customers—whether over the phone, on your Web site or in-person at your place or theirs—into a memo-

rable, engaging experience. Don't think it can be done? Consider a company that turned the sterile, tedious activity of computer repair into a compelling encounter: the Geek Squad.

Founder Robert Stephens decided there was no one better for this task than true geeks. These hired geeks are costumed in white shirts, black ties—always clip-on, just in case they get caught in the printer—black pants, black shoes and, of course, white socks.

Agents drive around in Geekmobiles, black-and-white Volkswagen Beetles with the Geek Squad logo emblazoned on the side. When meeting a customer, they flash their official badge. Then they go about giving an engaging computer repair experience.

Stephens says his goal is to make the experience so engaging that his customers can't wait until their computers break down. And it's an experience that scales: Following its "infiltration" of retailer Best Buy Co. four years ago, there are now more than 12,000 Geek Squad agents in North America.

#### **Stage Marketing Experiences**

These are experiences that do the job of marketing, generating demand for your core offerings. Think of the mountain to climb in REI stores, Whirlpool's Insuperience Studio in Atlanta that showcases its appliances, the theater and café at American Girl Place stores in three cities or the wonderful performance that is Pike Place Fish Market in Seattle.

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My favorite business-to-business example is the Case Tomahawk Experience Center. Case Construction Equipment created it in the north woods of Wisconsin to provide an outdoor arena for potential customers to try out its large construction gear in a low-key, relaxed atmosphere. Not surprisingly, Case found that as a result of the relationships created there, a trip to Tomahawk dramatically increases its close rates.

#### Go Beyond the Experience

The final way to escape the commoditization trap is to

recognize that experiences themselves can be commoditized, what I call the “been there, done that” syndrome.

When you design an experience that is so perfect for an individual person or business—providing exactly what’s needed right then, right there—then you cannot help but change that individual. Such an offering is a transformation, the fifth and final offering in the Progression of Economic Value, which companies layer on top of experiences.

Key to reaching this level is finding out what your customers

aspire to become. I guarantee that everything you sell them today is but a means to an end. Sell them the end—their aspirations—rather than the mere means, and you will gain much more economic value as a result. 🚀

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