Commodity Strategies

by Guy Smith
Silicon Strategies Marketing
www.SiliconStrat.com

Murphy was an optimist!

There once was a fellow named Ginsberg who must have had that very thought when he penned his cynical postulate, claiming:

1. You can't win.
2. You can't break even.
3. You can't even quit the game.

Commodity markets sure look like this – at least to those trapped within such markets. Massive competition, cutthroat pricing, and lack of differentiation create a seemingly unwinnable situation and make quarterly breakeven improbable. Yet most companies remain trapped in commodity markets just in order to stay alive.

“Seemingly” is a tricky word. Though these markets may look like Ginsberg’s own hell, we know that any market can be manipulated – including technology commodity markets.

“Seen one pork belly, you’ve seen ‘em all!”

Commodities are, by definition, products with little or no differentiation. That is why crude oil, copper, and yes, swine stomachs are blindly traded in bulk – because you can buy and sell such items with little risk of one batch being significantly different from the next.

Technologies always become commodities, and are driven to this status either through agreed-upon standards (USB, x86, Linux) or through general lack of difference (a Seagate or Western Digital 500GB internal hard drive). The technology industry is uniquely prone to commoditization due to the very need for everyone to agree upon interoperability.

The same can be said of toothpaste. All brands of enamel gunk removal compounds have the same basic features: they remove undesirable waste from your mouth, and they don’t taste any worse than what is being removed. Past that point, all differentiation is either minor (such as color) or a matter of branding. Indeed, most consumer preference for one dental hygiene mush over another is brand-based, influenced by primarily irrational motivations.

When it comes to technology, the more commoditized it is, the less the technology matters in the customer's "buy" decision. Disagree? Then explain how Apple sells more portable music players than anyone on the planet when, from a purely "play my music" point of view, they offer nothing special. Yet when you see an iPod billboard or television ad, you have an emotional response to their technology, and as their sales figures show, you have a new buying preference.

You can't win

Of course you can. Any market can be manhandled. The real question is not, can you win, but is it worth the cost? You must decide if it is worth market-assault costs.[1] Is it worth lost-opportunity costs? Is it worth pulling your hair out by the roots?

Winning a market always requires creating differentiation where none existed before, and communicating that differentiation as a meaningful benefit to buyers. iPod advertisements communicate that you will feel alive, excited, and carefree if you use their MP3 player (which I find odd given that most iPod listeners I see in public are nearly motionless, aside from some faint head bobbing).

The inverse of this is also true. If you are coming from behind and cannot develop differentiators (real or imagined), then eliminating differentiation removes some of the alleged benefits that larger competitors provide. You may end up competing on price, but at least you will be on the customer's short list.

The differentiators you create in commodity markets are largely emotional. Even in IT technology markets, people's emotions influence decision making – and when there is no material difference between products, emotional desire decides. Long has the adage been true that "nobody ever got fired for buying from IBM." I suspect that very phrase came from IBM's marketing department as a way of leveraging the natural fears we all have about making bad decisions. Thus, the IBM brand gained preference even if their products did not crunch numbers or index databases any faster than the competition.

The hard part for technology marketing pros is that we are indoctrinated with the feature/benefit mantra, which blinds us to the softer side of marketing. When features are the same, the benefits are similar. When this happens – and the market is now commoditized – relying on features and benefits to sell products is useless. It is time to tap into the human brain to find what thrills or scares them.

Let's take this blurb from a recent tech journal article:

> *Reliability is important to system administrators since 70 percent of IT budgets are now spent on maintenance, with only 30 percent dedicated to buying new computers, he said. That ratio is the inverse of cost structures 10 years ago.*

1 - William Davidow, a former marketing executive at Intel, calculated that you would have to invest 75% of the revenues of the market leader in order to create a survivable position in their market.

You can see that the primary motivation in the market has changed. The perception of who offers the most reliable products is now the primary "buy" motivation. Creating better reliability or even the perception of greater reliability allows you to win the game in markets where products are commodities.

You can't break even

Why would you even want to? Breaking even is a slow path to financial death. Much better to innovate non-technical differentiations and outmaneuver your competitors.

But there are reasons for breaking even – for holding the status quo. If your company is in the middle of a new product development cycle, breaking even may be a good position. Not losing market share, not reducing revenue, not risking R&D dollars is wise when you are giving birth to a new technology.

In the absence of your competitors creating imaginary differentiation, maintaining status quo requires not doing anything special. Breaking even means not lowering or raising prices. Not bring out significant new features (real or imagined). Not making big press waves. Zero. Doing nothing is an incredibly difficult thing for marketing people, as we are programmed for action – at least on days devoid of three martini lunches.

Odds are that a "do nothing" strategy will not last long, because your competition is not content with the status quo you are attempting to maintain. You may be forced into marketing reactions in order to keep your position. Make sure you keep the heat on your R&D department – so they are at least creating minor "+1" functional differentiators and rushing the new products – while you are holding back the invading hordes of competitors.

You can't quit the game

Of course you can quit the game. But in any company bigger than one person, others may have differing opinions. And if there are shareholders involved, odds are you'll be outvoted.

A recurring question in the minds of commodity market victims is if they should leave the market, and the answer revolves around two new questions: What else would we do? and, How do we make the transition?

Agile companies recognize when the market is moving against them, and a product being commoditized is one such movement. Lotus had the best spreadsheet software available, until Microsoft started surrounding the entire office desktop market with the killer idea that data should migrate between applications. Lotus saw a green field in the virgin collaboration space, and never looked back.

Quitting the game is unwise if you have a reliable cash cow of a product. Even if the product is unexciting and commoditized, your company has processes for maintaining position within the market and creating a predictable revenue stream. Computer Associates made a nice living from acquiring cash cows and doing little with them except extracting annual support revenue.

Do recognize that when you make a decision to start a new product or enter a new market, you are likely making the long-term decision to quit the old market. Rare is the company that can focus on two or more dissimilar markets for very long, especially when one is old, dull, and unchanging.

Commoditized thoughts

The common key in winning, breaking even, or quitting is differentiation. To win you must differentiate. To break even you must not differentiate. To quit the game, you must differentiate your internal mission.

Commoditize this!

Every philosophy that attempts to make life understandable is based on the negation of Ginsberg's Law. For example:

> Capitalism is based on the assumption you can win.
> Socialism is based on the assumption that you can break even.
> Religion is based on the assumption that you can quit the game.

Guy Smith heads Silicon Strategies Marketing, a marketing consultancy devoted to helping high-technology vendors dominate their markets. He has consulted with technology firms in such diverse fields as high-availability software, interactive television, wireless messaging middleware, pure e-commerce plays, and Collaborative Software Development suites. Smith focuses on guiding his clients through the rigors of developing precise market strategies and educating his clients on both the theory and tactical necessities of their strategic implementations. His marketing expertise is matched by more that 20 years as a technologist specializing in high-availability IT processing.