McMann&Ransford

Renewable Differentation

The Antidote to Accelerated Commoditization

Today's Reality: Accelerated Commoditization

Commoditization of products and services is occurring more quickly today than ever before, and nobody is feeling the pressure more than businesses that generate the majority of their revenue by selling into other organizations, otherwise known as Business to Business (B2B) firms. Commoditization occurs when products and services become indistinguishable from, or inferior to, the competition's offerings, therefore eroding a company's ability to charge a premium. This cascades down into missed revenue and margin targets, a limited ability to produce an ROI on R&D, and the evaporation of market share.

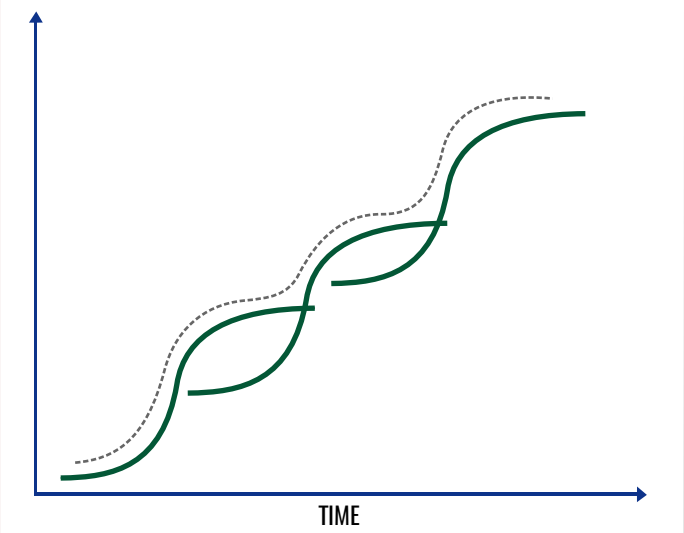
While the challenges of commoditization have plagued business for decades, the accelerated rate of commoditization (RofC) in today's fast-paced economy, is making these problems increasingly difficult to manage. As technological advances increase, as does the RofC – the rate of diminishing revenue and/or margin for R&D investment in a product, product line, or service (demonstrated below in the Commoditization S-Curve graph).

The fact that commoditization is now somehow "accelerated" is based on Moore's law, the observation that technological capabilities double every 18 months. The result of capability advancement is:

- The quality of the product improves and/or,
- The cost of product production or providing a comparable service is reduced.

While commoditization benefits customers – the products and services available in the market are continually getting better or cheaper, and they are doing so at an ever-increasing pace – it wreaks havoc on business, especially those with high priced items that have a long time between buying cycles, (e.g., MRI machines) hence why B2B firms are impacted most significantly. If a company isn't creating the most recent, advanced version of a product or service, then their existing offerings quickly lose out to better or lower-cost competitors.

Commoditization S-Curve



As the speed from launch to maturity increases, products and services ride the Accelerated Commoditization curve.

Characteristics of Commoditization

01 Instilling new product lines in a market only to watch them quickly deteriorate into commodities.

02 Increasing buyer aptitude resulting in targeting issues with a customer base that changes year over year.

03 Utilizing Business Intelligence and Big Data to gain market insight compresses the sales cycle to fruit-lessly compete in a non-differentiated, price-driven market.

04 Leveraging relied-on sales distribution networks and coverage from the past or "zenith of their S-curve" only to produce dissatisfying results.

05 Competing with an increasing number of new companies that are able to match effort and react to new or improved products rapidly – reducing return on investment.

Commoditization Considerations

Accelerated Commoditization isn't yet occurring in all businesses, but unfortunately, the early warning signs are often over-looked, and reversing this trend early is critical. Because the warning signs of Accelerated Commoditization are often disregarded or misinterpreted, the common solution to commoditization problems include doubling-down on sales training, marketing, or R&D. However, those solutions often produce temporary or limited results, because they don't address the core issue. It's the age-old adage – the first step to recovery is admitting you have a problem – and in this instance, the problem is not an isolated sales, marketing, or R&D issue – it is a problem of Accelerated Commoditization.

Commoditization and the issues it presents an organization are not necessarily a death sentence for a company.

Read about how Apple has avoided the Innovator's Dilemma by anticipating customer problems.

Though many companies overlook the warning signs of commoditization, **some react too strongly**. In response to the challenges of Accelerated Commoditization, **some companies have over-adjusted their offerings** and out-innovated the market.

To determine whether a company is experiencing offer commoditization, consider the following:

- Is project revenue difficult to accurately project?
- Is growth virtually flat for multiple periods?
- Are deals experiencing lower margins?
- Is it challenging to develop intimacy with key customers? Do top executives know the company personally and value the relationship?
- Does the company have access to executive buyers?
- Is the company stuck in a comparison loop against competitors?
- Is the company losing market share to lower cost providers?
- Are deal conversations focused on meeting prices by other players?
- Is it difficult to sell new models? Are the new features and functions or models driving new sales?

Commoditization Considerations Continued...

Breaking out of the Accelerated Commoditization cycle requires Renewable Differentiation -- a company's commercial model that is designed to be constantly building and rebuilding the perception of differentiation in the eyes of the market.

Many B2B companies have all of the pieces of a consolidated commercial strategy. They know how to interface with the market, what portfolio to pursue, the go-to-market model, and the organizational structure that creates revenue – but those pieces as organized today aren't generating past results.

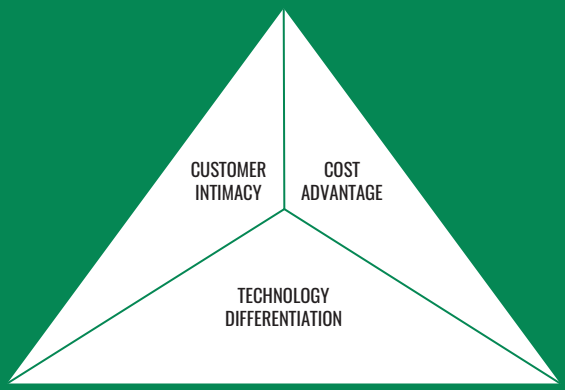
In spite of having the basic structure, companies often fail to effectively adjust these components form a new, sustainable, competitive advantage. Historically, low price and/or technological superiority have been the hallmark of competitive advantages, but these traditional strategies are unsustainable in the age of Accelerated Commoditization.

Achieving Renewable Differentiation and competitive advantage is now based on a company's ability to remain relevant in the eyes of the customer. This requires companies to:

- Deeply understand their buyer.
- Know how to solve their buyer's problems.
- Maintain a reputation as a trusted advisor who is capable of helping the buyer capitalize on opportunities and overcome challenges to win in the future state.

Warning signs were clear for IBM-they were able to address the issue quickly enough and change their approach toward the market, continue to win and dominate.

There are only three models that have worked throughout the history of business, and, if product/technology differentiation has run its course, then the **only truly available option is Customer Intimacy/Indispensability** (low-cost advantage is rarely a sustainable option).



Sources of Competitive Advantage

Achieving Renewable Differentiation

Once a company focuses its commercial model on deeply understanding its customers, anticipating their needs, and becoming an advisor to their senior leadership team, it can begin to achieve Renewable Differentiation. Achieving Renewable Differentiation allows companies to break the cycle of Accelerated Commoditization and realize the following benefits:

- **Growth –** Obtain a larger share of key customers wallets, acquire customers from competitors, and provide entry into new markets.
- **Margin –** Sell fewer deals through RFPs and price differentiation, therefore improving margins. Customer journeys are designed to contain a better margin mix of products and services, leading to better deals that are larger and close faster.
- **Return on R&D –** The intimacy and growing understanding of key customers' needs and markets allows customer participation in the creation of new products/services. R&D spend becomes more focused on better serving those needs.
- **Sales Cost Reduced –** The model encourages paid-for sales time – creating value that forms the beginning of a Customer Journey or Service Chain.
- **Intimacy with Key Customers –** Companies are seen as an extension of their client's leadership team: a key advisor and someone that brings new ideas and responds to their unanticipated problems.
- **Provide Solutions that reach higher in Customers Organization –** Work above the Line of Safety, becoming a different kind of partner instead of vendor.

In this process, the firm and the market collaborate in a mutually-beneficial way. When aggregating information and applying new solutions, a continuous feedback loop is created between the company and its customers, and the firm is able to improve offers and innovate on an ongoing basis.

Renewable Differentiation in Action

The Client, a $6B family-owned and operated organization comprised of metal manufacturing, processing, and distribution divisions, was struggling to refine its commercial strategy. The client 's role as a distributor had steadily and inevitably commoditized. A larger steel mill (the Client 's traditional supplier) had begun to cut the Client out of the entire process, directly engaging many of the Client 's key customers with lower-price options. As the mills began to capture a bigger piece of the market, the Client watched its customer base and margins erode. To remain relevant, the Client had to find a way to provide more value to the end -user.

Solution: In a multi-stage approach, the Client refined its Go-to-Market model to enable Renewable Differentiation. This process entailed:

- **Implementation:**

As the Client began to improve their customers ' performance, they earned permission to spend more time with their customers ' key executives discussing strategically important topics. This provided our Client with a greater understanding of its customers. Through this customer knowledge, the Client achieved Renewable Differentiation and was able to design future offers at higher margins that they knew would resonate with their buyers.

- **Refining Segmentation:**

The Client 's segmentation strategy was traditionally organized geographically, selling to any/all buyers in each region. This limited their ability to understand why they were losing deals to the mills and where opportunities existed for them to provide more value to their customers, since all the industries they served had many different needs and challenges. The Client first transformed its perspective of its market and began viewing it not by region, but by industry (e.g., construction, oil & gas). This allowed the Client to begin to better understand each industry and therefore better understand what their customers truly needed the Client to provide.

- **Developing Offers:**

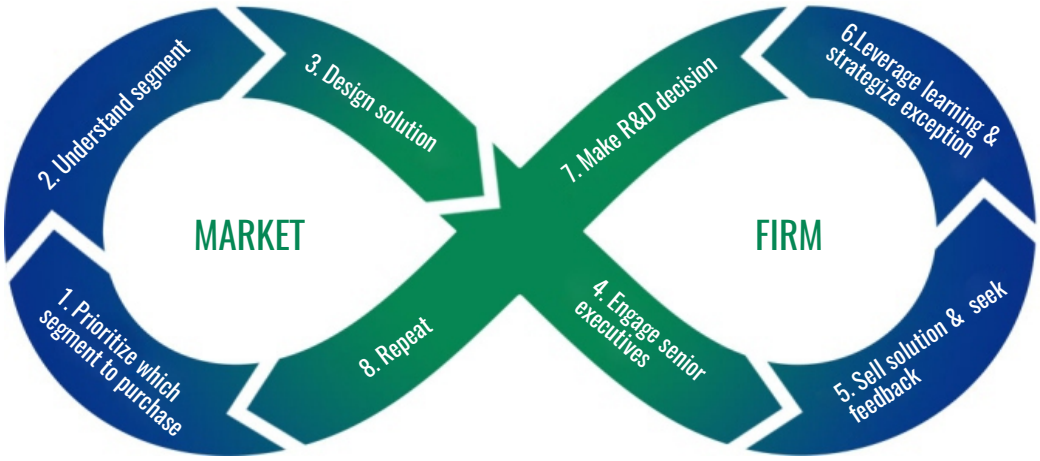
After segmenting the market differently, the Client was able to consolidate its experience and expertise in each industry to develop unique product and service offers targeted at solving the key challenges they knew their market was facing. Having these industry specific offers allowed them to begin to play the role of trusted advisor to many of the customers they were at risk of losing. Not only did the Client generate more revenue directly tied to these new offers, but they were able to improve their customers ' performance, enabling them to buy more steel and increasing their desire to work with our Client rather than the mills.

Starting the Journey

Getting started isn 't a one-size-fits-all journey. The varied approaches and need for customization are what make Renewable Differentiation so difficult while also causing it to be such a powerful competitive advantage.

As mentioned, most B2B firms already have many of the components of an effective commercial organization in place, but these components are not organized and interrelated in the way that allows them to feed off of one another other (and your interactions with your customers) to generate Renewable Differentiation. Companies can pursue the following steps to initiate the journey to Renewable Differentiation:

1. Select a market, segment, and subsegment valuable enough to pursue, and specific enough to need their own unique solutions.
2. Seek to understand that market or segment and their core challenges. This may be achieved through 3rd party research, Sales or delivery team experiences.
3. Design a solution for that market. Relay specific messaging tailored to their problem, not firm capabilities.
4. Engage the senior executives with the relevant Idea and True Solution
5. Sell new solution and/or obtain feedback on other market challenges to provide input for future solutions.
6. Determine solution/learnings applicability for other segments, subsegments, and markets.
7. Make R&D decisions based on the greatest ability to solve the market 's problems.
8. Start over—with either the same segment but different problem or a new segment.



Demand for Solutions

Ideas to Solve Problems

Key Considerations

The first step in the process (reflected in the model on the left) is to pick a priority segment to pilot. Once you have tested the approach, you repeat by applying learnings in new segments.

McMann & Ransford

About

For more than 20 years, McMann & Ransford has helped some of the world's leading B2B companies overcome commoditization by realizing the value of customer intimacy as a sustainable business model.

The greatest risk facing business-to-business (B2B) companies today is commoditization of the very products and services that made the company successful.

McMann & Ransford provides B2B companies a means of thwarting the commoditization cycle through Renewable Differentiation, a proven mechanism for returning to growth and margin. We help our clients create True Intimacy™ with their customers and in their key markets.

This allows our clients to become members of their customer's management team, as a trusted advisor that leads the way in helping their customers address problems and take advantage of opportunities. Giving you access to greater share of their senior executive's attention, focus, and ultimately share of spend.

Learn More

www.mcmannransford.com

@mcmann_ransford

https://www.linkedin.com/company/mcmann-&-ransford_2/