

Differentiation in a commoditised environment

 By [Peter Gilbert](#)

1 Jan 1900

It is now a business truism that products and services are becoming commoditised more rapidly than ever before, and margins of most industrial businesses are under increasing pressure. Winning companies are however discovering that if you cannot differentiate yourself by what you sell, and you cannot differentiate yourself by how you sell, you will, by default, have to differentiate yourself by how much you sell it for.

You may have differentiated your product, but the differentiation doesn't create value because it doesn't matter to the customer. You have become a commodity. As markets commoditise, the amount of value that resides in the product steadily erodes. Consequently, the sales process itself plays an increasingly important role in creating customer value.

Interestingly the HR Chally World Class Sales Benchmarking Study, covering 7200 sales forces, clearly revealed that most of the world's best sales forces are in commodity industries. Paper and office supplies ranked well ahead of pharmaceuticals, IT and Financial services and the reason for this is clear. To sell commodities at respectable margins requires innovative, and creative sales processes.

In his classic article titled, 'Marketing Success Through Differentiation - of Anything', Theodore Levitt begins by stating: "There is no such thing as a commodity. All goods and services are differentiable. Though the usual presumption is that this is more true of consumer goods than of industrial goods and services, the opposite is the actual case." The following examples illustrate the point.

Southern Company, the United States' largest electricity producer, has an asset base of more than \$1 billion represented by customers in the highly competitive pulp and paper industry. Southern Company's commitment to providing energy to paper mills prompted the company to consider the volatility and risks associated with the pulp and paper producers and consumers by applying its expertise in risk management to this market.

Southern Company now offers a service to manage the financial risks between paper producers and their consumers. Southern Company provides 'price insurance' for both groups by trading in futures or using other hedging instruments. This service allows producers, which are major energy users, to reduce or eliminate dramatic pricing shifts. Consumers (i.e., printers, publishing companies) benefit by avoiding undue pressure when the cost of paper is high, allowing these companies to focus on their core business. Southern Company benefits by supporting the financial stability and health of strategic customers representing more than \$1 billion in revenue to the company. This represents a win-win-win innovation, in which the customers enjoy financial stability and Southern Company obtains long-term contracts.

Boise Cascade Office Products (BCOP) provides major corporations with office consumables - pens, pencils, paper,

foolscap pads, and the rest. Using their considerable skills in activity based costing, BCOP are able to show customers that in addition to the cost of consumables, they lose substantial sums of money through purchasing from multiple sources, failure to benefit from bulk buying, shrinkage, lack of control and many other sources. Through it's "SAVE" program and innovative software BCOP is able to deliver substantial financial benefits for its customers. The "SAVE" process facilitates the development of institutional linkages between BCOP and it's customers.

These linkages make it very easy for customers to work with BCOP and create high switching costs for customers to move to another supplier. This innovation involves the customer and demonstrates the financial value delivered. This is consistent with BCOP's strategic goal of being its customers' "Total office supplier". This innovation represents a systematic, repeatable, highly quantitative method of achieving value-added status in a commodity business.

Marriott Hotels, Morton Salt, Mettler-Toledo, AKZO Industrial Coatings, Pioneer Hybrid Seeds, and many other companies in diverse industries have also developed creative approaches to competing in a commodity environment.

A sales force that adds real value can justify higher prices and can also create strong competitive advantage. World Class sales organisations are meeting customer expectations and requirements by changing the role of their salespeople. The traditional sales role that included day-to-day transaction management providing specialised technical support and customer service is evolving to that of business consultant. To facilitate this changing role, World Class sales organisations are investing in and building a more sophisticated infrastructure to handle those services previously provided by the salesperson. Order entry, tracking, service delivery, and technical support are now managed directly by electronic processes or by individuals supported by "user friendly" electronic processes.

By removing more administrative or transactional activities from the salesperson's daily responsibilities, increased face-to-face time with the customer becomes available to the business consultant. There is opportunity to better understand the customer's business, to elevate the point of contact beyond the customer's purchasing, technical, and administrative personnel, and thus to provide the total solutions that provide value beyond that of the core product or service.

Positioning the sales force as business consultant, however, requires support. The World Class sales organisations provide the sales force with a wide array of experts to assist in improvement of the customer's business results, either through improved revenue streams or reduced costs. The rapid emergence of specialised sales/service roles provides the necessary support personnel who can assist both customers and business consultant with financial, logistical, transactional, quality, and technical issues.

ABOUT PETER GILBERT

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