

How to Profit from the Commoditization of Products and Services

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Manufacturers and service providers need to realize that their product or service will start on a path to becoming a commodity on the first day it is sold to a customer. There are ways to protect products and services with patents, copyrights, and trademarks, but the fact is that these actions only postpone the time when the company's products and services will become a commodity.

The key for a business is to really understand the product or service life cycle and take advantage of the commoditization of the product or service by enhancing its economic value. Businesses also need to be concerned about transforming the company's business model to developing new products and services that will generate new forms of revenue to support the life cycle stage of their products or services that are in the process of becoming, or already are, commodities.

Avoid the Temptation to be the Low Price Leader

The race to be the low price leader of a product or service that is becoming, or already is, a commodity is a temptation that businesses need to resist. The battle to have the lowest price will dramatically shorten the product's or service's life cycle, while creating several negative issues within the business. When a company battles for the lowest price, that means lower margin is received on each item the company sells and requires more sales of the product or service just to stay even with past financial performance. As the company sells more of the lower cost product or service to try to stay even financially, the ancillary and overhead cost of producing and supporting the product or service can actually increase due to the increased volume levels. The lack of profitability causes the end of life cycle for the product or service to have an accelerated time line, which in turn means the company needs new products or services to replace the poor performing revenue stream of the commoditized product or service. In addition, as the company is experiencing lower margins and higher ancillary costs, the company also needs to invest in developing a new product, again reducing the overall profitability of the business.

The alternative is to keep a commodity product or service at a higher price point, with lower product or service ancillary costs, and let end of the product or service life cycle take place naturally. This also allows the business to develop new products or services that will support the commoditized product and provide an even longer revenue tail.

Keep the Product Quality High

When commoditization of products or services starts to happen, the natural reaction is to lower quality standards for the product by reducing bill of material costs or lowering the depth of the service performed for the customer. A better way to approach the commoditization issue is to look for process improvements related to how the service is provided or reducing product burden costs that are ancillary to the product's production.

For service providers there may be excessive costs related to a service that can be cut out, such as reducing unneeded paperwork by improving back office operations, or improving workflow to reduce the number of times visiting a work site. For manufactured products look for ways to reduce shipping costs, manufacturing inefficiencies in the production process, or recycling parts considered waste in the production process. The goal in both cases is to maintain the same high quality standard the product or service has enjoyed historically while improving the processes and reducing ancillary costs.

Provide Great Customer Service

Every business knows that providing great customer service is important, but it is even more important when supporting a commoditized product or service. Great customer service makes a company's products or services stand above the competition. Customer service needs to be delivered at all levels of the company, from the receptionist, to the employees who are responsible to delivering the goods or services, to the people who handle problems if there is an issue with the product or service.

Customers are willing to pay more for a commodity product or service when they get great customer service from a company. All types of companies, from manufacturing, distribution, retail, to service providers, lose more than just a customer with bad customer service. The cost of providing poor customer service impacts the future growth potential of the business. Businesses often forget that the most expensive customer is the one that they have to replace.

Positive Company Image

When a company's positive image transcends its commodity products and services, customers develop a loyalty to the company and are willing to pay more for this image. A positive image can come from the mystique, glamour, or status the product projects to a customer's peers, such as being up on the latest technology innovations, or the causes a company supports such as being environmentally responsible, or simply being known as the best in class for the product or service being sold.

A company needs to make sure that this positive image is nurtured by avoiding being a low-price product or service, keeping the product or service quality high, and providing great customer service at all levels of the business.

Reverse the Business Strategy to Increase Revenue

A company may need to consider changing the way it is currently selling a product or service to become just the reverse of what it is known for selling. If a company is viewed as a product provider, but it really sells more services that support the products, perhaps it should be positioned as a service solution provider. Alternatively, a company that is viewed as a service company, but in reality sells more products that it services could also rethink its positioning. In either case, companies need to evaluate how they can increase their revenues by providing the exact opposite of what the business may be known for selling.

Reversing a business's selling strategy can increase a company's revenues in several ways. Customers buy more of the actual product or service than they intended to buy, because a turnkey solution is offered by the company. Selling both a product and a service at the same time diversifies the company's revenue stream, allowing customers more options to choose either the product or the service, or both.

Summary

Businesses need to embrace the fact that their products or services can and will become commodities. Customers at all levels of the business supply chain want to buy products and services from a company that they can count on and believe in. When a company properly positions pricing, quality, customer service, and product or service solutions, its customers will choose to pay more for what is considered a commodity product or service.

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