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The Real Commodity Trap

Leaders in many companies complain about the commoditization of their products and services. They face extraordinary market conditions, with aggressive competitive pressures and sophisticated commodity buyers. Markets are soft and competitors are fighting for the same pie. **Whether you are in the B2C, the B2B, or the B2G world, we are all exposed to the acceleration of business change and the rise in the level of competitive pressure.**

Procurement teams pay attention. They know that they are in the driver's seat right now and they are getting more equipped than ever with technology and tools to extract cost savings from their suppliers. The worst scenario is when buyers actually categorize your products and services as commodities, and approach you with different processes than they do with suppliers of premium, engineered and differentiated products and services.

Faced with this level of competitive pressure and soft demand levels, I often face leadership teams with high levels of pessimism and low levels of confidence. They accept the fact that the market sets prices and that right now they have no choice but to surrender to pricing pressures. The materialization of this perceived fatality is that the term commodity is used over and over during business meetings, during interactions with the sales force and in other situations. The commodity mindset has totally infiltrated the organization and the mindset. To be honest with you, it drives me completely crazy when I see the following use of the word commodity:

1. **Commodity in the name of their business unit:** This is probably the worst-case scenario. If you name your business unit as a commodity, it is not realistic to think that you'll do anything other than sell commodities. That also bleeds into your service offerings and your corporate

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brand. So this is not a very smart idea.

2. **Commodity in the annual report and other official communications:**

Ditto. If you use the word commodity in all official communications, do not expect to be treated differently by procurement teams you face daily.

3. **Commodity in the daily vocabulary used in front of customers:**

This is also not very smart. The word commodity connotes high volume and inexpensive price point. It implies there is little chance for differentiation and room for price improvement, with expectations of annual cost savings and price erosion.

4. **Commodity in their business and pricing strategies:**

Obviously, if you do 1 through 3, chances are your business and pricing strategies will be commodity- or cost-based. So it might be irrational to expect anything other than discount requests, tough price negotiations and eroding margins if you surrender your pricing to market conditions.

5. **Commodity as a cop out mechanism in front of competitive pressure:**

Finally, based on your pricing strategies, your sales force will be faced with commodity-type buyers. I am sure you have heard the following statement: "We are in a commodity business; I cannot do anything on price." Does this sound familiar?

The end result of the constant use of the word commodity is that its use can pose devastating effects inside your organization and in the minds of some of your organizational team members.

A commodity mindset kills creativity and reduces the level of effort teams put into the defense of pricing and potential premiums. In fact, I often say that commodity is just another word for lack of imagination.



There is a real danger in accepting this commodity mindset:

1. **Self-fulfilling prophecy in their approach to market:** It is a slippery slope. Once you are in the commodity spiral, it is difficult to get out of it. The buyers you are facing know that.
2. **Commoditization of the organizational culture:** If you use the word commodity over and over, you will quickly move to a commodity-like culture with all the implications that connotes.
3. **Lack of confidence of the sales force in front of "commodity" buyers:** This is probably one of the worst outcomes. When your sales force refers to your products or service as commodities, they have a tendency to lack confidence in pricing. Any chance of catching additional pricing power in the market might not materialize.

My opinion is very straight forward.

There is no such thing as a commodity. If your business is transacting with customers today, there has to be some type of differentiation.

You have to find it, extract its value, and capture it through price. It might not reside in your core products or services. It might be hidden somewhere else. But for crying out loud, stopping using the word commodity over and over. Use "general-purpose products" or "high-volume specialties" instead. That is far more reasonable. The word commodity should be banned.

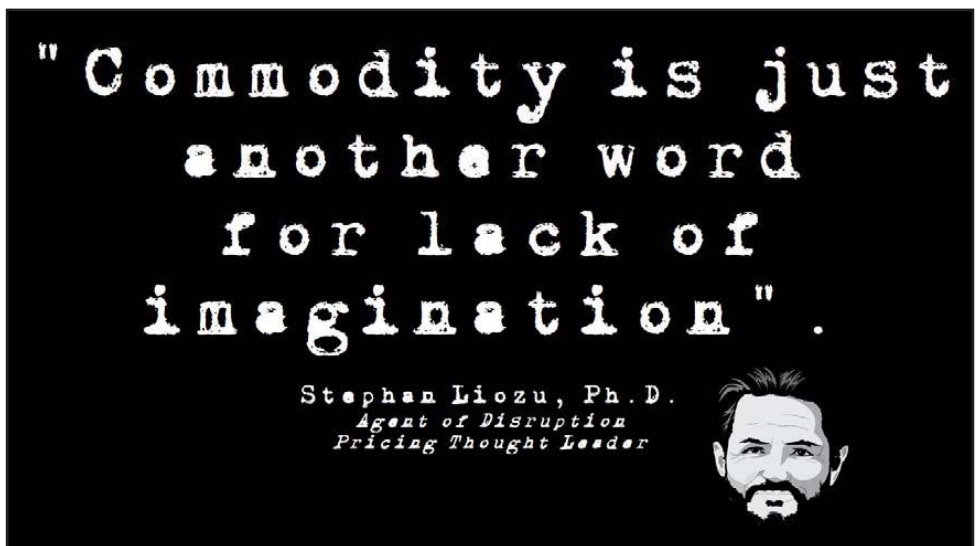
So to get out of this spiral of commodity, I propose the following actions:

1. Design a series of workshops on the topics of differentiation and hidden assets your business might have. These workshops need to include relevant functions and be deployed over a series of 90 days across your organizations.
2. Design specific product or service benchmarks with your product or service manager to rationally extract tangible and rational differentiation. These exercises need to be done in parallel with point 1.
3. Conduct an audit of your external and internal documents to find out how prevalent the use of the word

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commodity actually is in your formal documents. Make sure you flag these during the next management meeting and take immediate action to replace the words with more positive words.

4. Prepare new marketing documents with statements of differentiation and positioning. These could be new product data sheets, product or service customer value propositions, competitive bulletins, and differentiation stories.
5. Develop and design a series of lectures, webinars, and other communications to widely reinforce your company's sources of differentiation. Make sure your entire organization gets exposed to your differentiation statements. Use the newly created marketing documents.
6. Get the C-suite on board and get them involved in communicating differentiation statements and in building the collective beliefs of internal teams. They need to establish a new level of confidence and lead by example.
7. Pay particular attention to the sales force and how they project the company values and differentiation posi-



tion. Include differentiation as a key training module for all sales employees including customer service, sales operations, and sales support.

8. Be courageous by correcting people who use the word commodity right and left. I do this constantly and I do not accept the constant surrendering to market forces. Control what you can control and go fight. Be strong and be bold. There is no such thing as a commodity.

Are you with me? If you project messages of commodity, you will be treated like one. To change this situation, you have

to hit the reset button. Pricing folks play a critical role in making sure this is understood across the organization. They can engage their marketing counterparts and co-design all the necessary tools and messages to change the mindset. Never hesitate to bring the outside in to show how best-in-class companies do it. Companies like Apple, Hilti, Lego, Cisco, 3M and others are facing tremendous competition and pricing challenges. We all do. The key is having the resilience in front of competitive pressures to fight for differentiation and innovation. Commoditization is not a fatality. Fighting it starts internally and then in front of the all-mighty buyers.