

# How to Avoid The Commoditization Trap

## *Executive Summary*

Nothing is more frustrating to the highly specialized and skilled professional of today than being viewed as simply another commodity.

Your ability to position your firm as a value leader and hence command premium pricing in your market will be vital not only to the future of your firm but also to the standard of living that you will enjoy in the coming years.

Existing in a price driven environment is a position that no professional knowledge firm wants to find itself in.

Commoditization is a fact and it is here to stay and even the largest professional knowledge firms are being confronted with it.

This paper outlines steps that you can take to avoid the commoditization downward spiral.

In this paper you'll learn:

1. What is commoditization.
2. The driving forces behind commoditization.
3. How complexity effects commoditization.
4. The various forces at work in the current B2B buying environment.
5. Why most professionals have a price tag printed on their forehead.
6. The best approaches to escaping the commoditization trap.

Like most business challenges, there isn't a quick fix, but there are solutions. It only requires the commitment and determination to implement them.

Please enjoy this white paper and feel free to share it with your friends, colleagues, clients and business associates.

## *What is Commoditization?*

Commoditization is the process whereby buyers of goods and services reduce their buying decision to the lowest common denominator—price.

Think for a moment about something that you'd like to buy. Chances are very good that you have a wide range of possible supplier choices at the local, regional, national and even the international level.

The basic nature of capitalism has always allowed more than one entrant in any given market and has therefore always provided us with choice as to which we would do business with.

In the past, these choices have been relatively easy to make due to obvious differences between suppliers

as to quality, perceived value, speed etc. Think of the automobile manufacturers, for example. Compare an entry-level sedan to a top of the line luxury car and your buying decision is simple. If you're a top executive and money is no object—the low-priced sedan will never be seen in your reserved spot at the office. However, things are not as straightforward in the world of high value B2B and professional services.

### ***The Driving Forces of Commoditization***

Survival and the avoidance of downward fee pressure requires the professional knowledge firm of today to overcome three opposing forces:

1. Increasing complexity of the services and technologies we offer, often make solutions incomprehensible to our clients.
2. Clients (buyers) feel pressured to devalue the differences between goods and services and thus are reducing their purchasing decisions to the lowest common denominator—price.
3. Professional knowledge firms have not found consistently effective ways to connect unique value to the client's business and personal pressures.

### ***Does Complexity Help or Hurt Our Firms?***

Professional knowledge firms are constantly seeking differentiation by touting the complexity of their solutions. In fact, many professions (such as the CPA and law professions) regularly present their client with more and more complexity with items like new tax laws, new labor laws, new contract laws, new software etc.

Technology is rapidly changing in all areas of our lives. Many people are beginning to find the pace of technological change overwhelming. The fact that these changes are being imposed on us is having the effect of creating resentment in constantly having to upgrade to new technologies.

The concept of getting the newest toy is losing its luster simply because we can't see the need for more new toys.

When we (the clients) are unsure of what we are dealing with, our overwhelming tendency is to treat all solutions the same—as commodities. The DVD player is now a commodity. When it first came out there were just a few choices from the major manufacturers. Now there are dozens of manufacturers and a seemingly endless supply of models to choose from.

When everything seems to be similar and there is no distinction between DVD players (or CPA firms), the natural response for many people is to sort through the maze by going with the lowest price.

Competition, by its very nature, leads to commoditization of all products and services unless you understand and implement important measures to combat commodity thinking in your client base.

### ***The B2B Buying Environment***

Whether your clients are individuals, sole proprietorships, or large Fortune 500 companies, one thing is the same regardless:

*"Speed and price have become the dominant forces shaping all buying decisions unless you can offer superior value."*

Value can be either real or it can be perceived.

Put yourself in your clients' shoes for a moment. As technology and business complexity advances, so does the difficulty of the decision making process and your client is going to be confronted with a multitude of choices.

- How many competitors do you have?
- How similar are your services to your competitors?
- Do your client's truly understand the cost of not using your solutions and advice?
- Does the client truly see unique value added benefits from your services?
- Are you offering something that the client can't easily get elsewhere?
- Are you simply delivering things like tax returns, or contracts or computer system maintenance — are you just an assembly line for service delivery in your own mind?

If your client can't clearly see the value of your firm in a differentiated way and if they don't also understand what you bring to the table, they respond by commoditizing you.

Your service has simply become a thing in the mind of the client. Things have prices and clients are well versed these days in how to get the best prices.

Clients will, however, still pay top dollar for something that is perceived as truly unique.

### ***The Price Tag on Your Forehead***

Ask most professionals what they do, and they'll describe themselves by their professional designation or their job description, such as "I'm a CPA" or "I'm a lawyer."

By defining yourself through your specialty, you are firmly and doggedly commoditizing yourself. There are some 600,000 plus CPAs in the United States and well over 1,000,000 lawyers. Pick any profession and there literally hundreds of thousands of them in America today.

Using your job description to distinguish yourself from the competition can have the opposite effect—it actually forces you into competition with all these other identical players and it invites comparison to all the successes and failures of your profession and your industry.

Escaping commoditization requires a shift in your mental thinking. It's a simple shift, but one that is necessary to free up your thinking before any real progress can be made.

### ***Escaping Commoditization by Escaping Your Specialty***

Start considering that you are not your specialty, but rather, you are an entrepreneur who happens to have a specialty in a specific profession.

Now ask yourself: If I am just another CPA; (or lawyer, consultant, or sales rep) why do my clients come to me versus all other choices available to them in my locale? Chances are it isn't simply because of "price." There is some other reason that has drawn your current client base to you (or at the very least, your best clients should be with you for a reason other than price.)

The quality that has drawn your best clients to you is the core of you as an entrepreneur.

Entrepreneurs strive to find better ways to deliver better value to their clients. Superior value has no commoditized price tag.

The quality that has brought your best clients into your firm is your best current differentiator.

It may not be the best differentiator, but it's a starting point.

### ***Escaping Commoditization By Escaping Your Industry***

All of your clients operate and live outside of your industry. They are firmly not interested in your profession's rules, problems, regulations or idiosyncrasies. In fact, all of your current clients could have gone through life quite happily without ever having met you, except a problem or opportunity arose in their lives and you had the ability to help them address that big need at that time.

You used your specialized wisdom to make a difference for your clients.

Now ask yourself: "How can I package my specialized wisdom to create value for clients?"

Notice we aren't speaking of skills here. Skills such as writing a legal document or preparing a tax return can be bought anywhere and they can be bought cheaply. Skills are things.

Wisdom on the other hand is something that is earned over a long period of time...wisdom can be priceless.

Something that is priceless can never be commoditized.

### ***Package Your Wisdom In a Comprehensible Way***

People will pay more for services that they fully understand. They will always commoditize you if they don't see any real or perceived difference in what you do, or if they don't understand what it is that makes your solution and your approach unique.

This requires that you adopt an education based marketing mindset.

Devise marketing materials, seminars, sales presentations and client interview skills that focus on one thing and one thing only...educating the client about the unique value that you offer and in what unique

deliverables you bring to the client situation.

Tell your clients why you cost more and then show them why you deliver more value.

You must deliver this message at a strategic level and a personal level. Companies don't buy things... people do.

If you aren't connecting with people (whether it's the executive committee at a Fortune 500 company or the president of the local barbershop) you will never escape the downward spiral of commoditization.

### ***Communicate Value by Connecting Your Offer to Business and Emotional Drivers***

Clients want more value than they have wanted before.

Value is defined as the incremental results that a client is willing to pay for. Not all incremental results are directly related to business performance indicators.

People are driven by many needs and desires. It's often said that people make buying decisions based on emotions and back fill with logic.

Look at the owner of a very expensive watch. Other watches that tell time with exactly the same precision can be found for about \$20.00. Why did he or she spend thousands on the best of the best?

It is because he is successful and has the emotional need to be respected for his accomplishments. When other people notice his expensive watch, they recognize his financial achievements and status.

If you asked this owner why he bought the watch, do you think he'd deliver a non-emotional exposition as to how accurately it tells time?

Probably not. He would probably simply say that it is the best watch there is.

The watch is an emotional experience for its owner.

Do you know the emotional needs of each one of your best clients?

### ***Start Having a New Conversation With Your Clients and Perspective Clients***

As professionals we tend to be overly analytical, numbers driven and generally passionless about things outside the technical realm of our specialties.

We neglect the human side of our endeavors and tend to view everything as very cut and dried situations.

How do you approach your clients?

When you approach a client or perspective client with an attitude of selling something, you're firmly placing yourself in the world of commodities. When you talk about your client's unique situation, you bypass the

commoditization quagmire.

Most of you reading this will say, "Of course I speak to my client's unique situation; how else could I derive the right technical solution?"

This is only part of the conversation you should be having.

Every professional has a technical conversation with his or her client. This is your fact finding, problem seeking, and problem solving conversation.

The high value professional has another conversation with his clients. He has real conversations about the client's future dreams, hopes and aspirations.

### ***When Was the Last Time Someone Spoke With You About Your Dreams?***

If you're like most people, other than our parents and maybe our spouses, not very many people are interested in our futures. After all, people have their own lives, their own problems to solve.

The world is too busy to be interested in the single individual.

When you ask people about their future, what they're most excited about, what they most fear, what they are most confident about, what they hope to accomplish in the next three years...you are making the most powerful connection one human being can make with another human being.

You are showing genuine interest in the client as a person.

What your clients care most about is their future.

Conversations about what matters most to clients allows you to formulate plans and approaches to help them realize their future dreams and avoid their biggest dangers. You may not have all the resources at your disposal to help them but you may be able to put them in touch with others who can solve their problems.

You're building a relationship here. You are becoming a trusted advisor, a friend and a confidant.

You are positioning yourself as a true long term value added partner.

### ***Successful Business Is About Long Term Relationships***

The best business relationships are based on long-term partnerships. Just like a marriage, the relationship must be constantly nurtured and cared for.

Conducting relationship conversations with your clients is incredibly valuable but it comes with some big responsibility. You're now the custodian of your client's dreams and future. Your client's future is the most important thing on earth to him and he wants it treated with the highest respect.

## ***Are You Giving The Client a First Class Experience?***

We need to deliver a first class experience to our clients.

When you speak of a client's dreams and aspirations shouldn't you be treating them as the most important things on earth?

Your business clients are usually in business to be successful (whatever that definition may mean to them).

Whenever you interact with a client you are sending a message.

If you are truly and genuinely interested in your client's success, you should be treating everything you do with that client with the utmost respect.

Here are a few details that when added together, compile a freight train of information about you and your firm in the client's mind:

- Do you return phone calls within 20 minutes?
- Do you meet with your clients at least once a year to have the relationship conversation?
- Do your offices reflect the dreams of your clients...if they all want vast monetary success...does your office convey success?
- Do you dress appropriately for the practice you are trying to build?
- Do you send email when you should make a personal phone call?
- Do make a phone call when you should have a personal meeting?

Is dealing with your business an experience...or is just another vendor/ client relationship?

## ***The Most Important Meeting You Can Have With a Client***

We sell intangible items in the professional knowledge firm business. The client has no way to measure value other than by the subtle mental cues that they pick up on each and every time they interact with us, our staff, and our final deliverables.

In the world of intangible the final product is some type of report or hard copy paper product.

All of your exploratory meetings, information gathering efforts and other client interactions have led to this big moment. It's the moment when you present the final document. This is the document that you ultimately expect to get paid for.

Your image and your perception by the client are all that you have with which to raise yourself above the 95% of all the others in your profession.

Are you doing everything you possibly can to align your image with the vision of a professional who is simply not another commodity?

For years, smart M&A lawyers and accountants have always staged what is called the closing. The one big

moment when all parties to the deal sit down and sign the final papers and consummate the transaction.

No other part of the process receives as much flourish and lavish attention as the closing of a major deal. It's frequently held in the largest and most ornate boardrooms. Advisors wear their best suits. Support staffs are efficient and polite. There are usually fully catered meals and refreshments served. The atmosphere is a combination of near reverential church service combined with relief and celebration.

Why is there so much expense and stage production simply to sign some documents?

The truly successful professionals know that this is the moment of truth.

This is the moment when they earn their fees. It isn't all the work leading up to this moment...it's the delivery of the goods that gets you a check that you can take to the bank. How do you treat moments of truth at your firm?

- Do you deliver final products to clients with the most class and flourish possible?
- Do you and your staff look and act the part of super successful professionals?
- Do you sit down with your client and explain to them how your services are helping them move closer to their perfect future?
- Have you packaged the final documents with as much class as possible?
- Are you using the cheapest papers or the best?
- Have you bound the documents in the best presentation folders available?
- Do you hand the documents to the client with an almost reverential treatment?

### ***This is what the client is paying you four, five and six figure fees for. The document!***

When people buy anything whether it's a tax return, an audit or even the assumption of the mortgage on their family home, they want an experience.

They want the experience to be memorable in a big and positive way.

What kind of experience have you been delivering to your clients? Is it a budget experience or a high quality experience? Can you deliver this kind of experience with an email or a FAX or a document dropped in a mailbox?

The final product is ultimately the client's property. If you don't treat your work and your client's property with reverence and handle it with respect in front of the client, how can you expect the client to have high regard for it? How do you expect to collect premium fees for it? How do you expect to build relationships based on mutual respect?

Never fall into the trap of becoming blasé about the delivery of your final product.

### ***Conclusion: Relationships Matter Only if You Want a Superior Business***

Do these investments in time, effort, and superior client experiences cost you money? Ultimately, no. Are

you cultivating deep client relationships or just completing deals?

If you don't want to be another commodity, you need to develop relationships and... you won't develop meaningful relationships if you're just another professional copy.

These conversations and the related image building materials are an investment in great relationships.

You are demonstrating your desire to truly earn the business and the loyalty of your client both as a business client and as a friend.

Friends don't care about price. They care about the deeply satisfying emotional rewards and other results that arise from interacting with other people who truly care about them.