

"Beating the Commodity Trap offers an insightful look at how companies can protect and differentiate their iconic brands in a rapidly changing global market place where the risks of commoditisation and low-price competition are rampant."
William R Johnson Chairman and CEO HJ Heinz Company

BEATING THE COMMODITY TRAP

RICHARD D'AVENI

What do high-end fashion companies, New York restaurants and Harley-Davidson have in common? Creeping commoditisation or *hyper-competition on steroids* because of globalisation and technological advances.

Think of retailers such as Walmart and Tesco which have introduced private label products, squeezing the margins of big brand products and forcing companies, even giants like Unilever and Proctor and Gamble, to re-think their strategy. Commoditisation is shattering long-term successful firms. Conventional wisdom says the best way to combat commoditisation is differentiation. However, differentiation is difficult and expensive to implement, and only keeps you ahead of the pack temporarily.

In *Beating the Commodity Trap*, Richard D'Aveni provides a radical new framework for fighting back. Drawing on an in-depth study of more than thirty industries, he recommends first identifying the commoditisation trap you're facing:

- **Deterioration:** Low-end firms enter with low-cost/low-benefit offerings that attract the mass market - as Zara did to high-end fashion companies.
- **Proliferation:** Companies develop new combinations of price paired with several unique benefits that attack part of an incumbents' market - as Japanese motorcycle makers did to Harley-Davidson.
- **Escalation:** Players offer more benefits for the same or lower price, squeezing everyone's margins - as the iPhone did in mobile devices.

The author provides a tool for diagnosing your competitive position and shows how to strengthen it whilst also boosting your pricing power - by destroying the commoditisation trap confronting you, escaping it, or turning it to your advantage.

So if you are confronting:

Deterioration: How do you manage market power to beat the low end competitors? The solution is to *sidestep, undermine or contain* the low end players' market power.

To sidestep the trap, a business could move upmarket, move away or move on. So for example, Diesel sidestepped Zara by moving upmarket, building expertise and dominance in denim products. Armani moved on by designing everything from designer hotels and restaurants to consumer electronics and helicopter interiors. By creating "Armani Lifestyle" and using products so high-end and unique, they have ensured they do not compete with Zara.

And to undermine the market power of Zara, H&M redefined value. They offered low-priced products whilst using stars such as Madonna, Karl Lagerfeld and Stella McCartney to raise their image.

Proliferation: How to manage multiple threats to your competitive position? The solution D'Aveni proposes is to escape, destroy or outflank the trap. So to destroy the trap, Microsoft has been accused of using vapourware (announced products that do not come to market) to prevent or delay customers from buying their rival's software.

Escalation: To manage the escalating momentum of one-upmanship a business must re-seize, reverse or harness the momentum. Within the computer industry, Dell created an escalation threat by delivering high quality, consumer designed, low cost computers directly to consumers and businesses, thereby squeezing margins in the industry. HP chose to gain scale and the new technologies it needed to compete and acquired Compaq.

IBM took a different route and sold its PC business to an even lower cost Chinese manufacturer. This allowed IBM to focus on its technology solutions business and other high-end products and services, exiting the low cost, low margin PC business and creating an even lower cost competitor for Dell.

Much of the book is taken up with how you can identify the type of commodity trap you are in and then deploying strategies to beat it. But the final chapter discusses how in the future, spotting a commodity trap before it has sprung and taking preventative action will be critical.

As Chinese philosopher Lao Tzu said "Opportunities multiply as they are seized".

Price benefit analysis can be used to understand shifts in competition dynamics. By looking at different benefits in more detail and understanding how they change over time, we can gain deeper insights into the opportunities that exist to defeat the traps. Then anticipate where the market is going, be nimble enough to make the changes and seize the opportunity.

For those who are prepared to seize the day, commoditisation brings opportunities as well as threats.

This book is concise and written so that readers can understand the essentials of commoditisation and how to act quickly to prevent it happening to them. It is also authoritative in that it provides advice based on solid, thorough research of more than thirty diverse industries.

Most of all it is practical, as it offers tools and frameworks to identify the source of commoditisation in your market and how to combat each of the three commodity traps.

This book provides a timely antidote to a most dangerous trend which will allow any executive to fight back and win.

About the Author:

Richard A. D'Aveni is Professor of Strategic Management at the Tuck School of Business at Dartmouth College. The Times chose him for the 2009 *Thinkers 50* list. He is the author of numerous books, including *Hypercompetition* and is a frequent contributor to the Harvard Business Review, Wall Street Journal, and CNN.com.

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