



# Commoditization and How to Avoid It



When your prospects can't tell the difference between you and your competitors, there's only one way to win a deal. Price. And that's a battle no one wants to win.

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# INTRODUCTION

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**Commoditization is one of the biggest threats facing today's sales organizations.**



When your prospects can't tell the difference between you and your competitors, there's only one way to win a deal: price. Prospects prefer it this way, because it makes deciding much easier for them.



But price and value aren't the same. Sellers who escape commoditization are connecting with priority.

A prospect who feels that their priority is being met buys more often and is happier after their purchase, too.

In this course, you will learn:

- What commoditization is and why it happens
- Why commoditization represents a risk to your organization and to prospects
- How to deal with prospect-driven commoditization



How to recognize and change your own beliefs about commoditization

**CONTINUE**

## WHAT IS COMMODITIZATION?

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**Put simply, commoditization is when a buyer can't tell the difference in the value between two or more products or services.**



Think of it as the “same-ification,” if you will, between what you’re selling and the alternatives that the prospect is going to choose from.

There are some instances where this is genuinely the case. Imagine a counter full of cups of coffee, all of them exactly the same. There is no difference to the buyer between one cup and another.



**But in most B2B sales, products, and especially the services and solutions that surround them, aren't the same. Yet, prospects actively work to see things that way. Even worse, sellers and sales organizations are constantly surrendering to this point of view.**

Many sales organizations spend hours talking about strategy, positioning, and differentiators. Then they go into the field and answer the three ugly questions that signify the ultimate commodity sale: Can you do it? Do you want it? How much will it cost? If you're at this point, you're already toast.



CONTINUE

## WHY DOES IT HAPPEN?

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There are two kinds of commoditization. They are independent of each other, but they can occur at the same time. Both are dangerous. Both lead to the same outcome. Let's explore each one.

### 1. Buyer-Driven Commoditization

This is where the buyer – usually unintentionally – tries to classify their own choices, and deems them the same or very similar. Once this happens, they usually choose exclusively based on price.



Buyers do this because they're human beings making decisions. You'll remember from the Let's Get Neuro course that the deciding part of the brain (a.k.a. the Primitive Brain) thinks quickly and wants to make things simple and easy to preserve critical thinking capacity. Deciding between prices requires little thought.

This is made worse due to information overload, courtesy of the internet. Today's prospect has a wealth of information at their fingertips. But all that information doesn't offer any clarity. They need guidance to find what matters to them, but they don't invite sellers into the picture until after they've made up their mind that all options are good and, therefore, **equal**.

## 2. Seller-Driven Commoditization

This is where the seller willingly tells the buyer that their choices are equal. Sellers couple this with pricing strategies that help buyers choose them because they're less expensive.

Sellers usually end up doing this because of **learned helplessness**, a psychological principal that boils down to: if you can't beat 'em, join 'em. After competing on price, time after time, sellers lose focus on selling value and develop pricing strategies instead.



This mindset becomes ingrained in these organizations. It's a very dangerous self-limiting belief. If you, the seller, don't think you're different and better, then why on earth would a prospect? Seller-driven commoditization usually leads buyers down the same path.

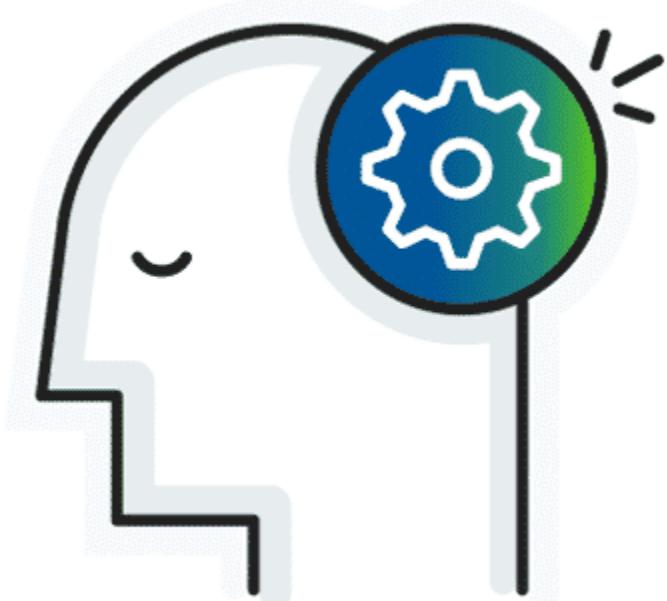
These two kinds of commoditization exist in roughly equal amounts in the B2B sale today. Both are incredibly dangerous.

[CONTINUE](#)

**Stop and reflect:**

- Identify a time you experienced buyer-driven commoditization. What happened? How did it impact your sale?
- Identify a time you experienced seller-driven commoditization (it happens-- becoming aware of it is the best way to start to overcome it!). What happened? How did it impact your sale?

When you're ready, click Continue.



**CONTINUE**

## WHY IS IT A RISK?

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**You may be thinking: *if we can be the lowest price and win more deals, why does it even matter?***

The answer has to do with the lifetime value of a customer and how much you value your own growth.

Even if you can win on price, you're subjecting your next sale to a lot of exposure. Think about it this way: In a world where price is all that matters, the next bid that beats you – even by the smallest fraction – will take away your business. That's why the lifetime value of a customer that only buys on price is much smaller, because they'll jump to the next provider who is a couple bucks cheaper.





**The other risk of being commoditized is margin erosion.**



The other reason winning on price isn't a sustainable strategy is due to the margin on your sale. It may not seem like much to carve out 2% of the cost of a solution. But every single dollar discount is pure margin.

Consider selling something that has a 10% margin. A 5% discount to the overall price seems small, but losing half the margin on a deal is bad business. Less margin means less capital. For sellers, that means fewer raises, lower commissions, and less support for the other critical sales functions that support them – things like marketing, project management, or solution design.



Combine these low margins with customers that are liable to switch at any time, and it's no wonder why selling to commoditization leads to pressure-packed sales organizations. These are the companies where grumpy managers constantly press stressed-out sellers for more production.

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## STOPPING BUYER-DRIVEN COMMODITIZATION

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**It's time for you to stand up to commoditization.**

Savvy companies – ones that understand what's happening and don't want to play price games – have tried to combat commoditization. But they usually go about it completely wrong. All the conversations about “differentiation” are useful, but they stop short of connecting to priority, which is where true differentiation happens.

In a world where the prospect wants deciding to be easy, whoever makes themselves the easiest decision will separate from the crowd.



**The way to make buying easy is to connect to your prospect's priority.**

This may sound simple, but it's not. Connecting to priority is hard and requires more effort than most sellers are making today. But connecting to priority is enough to create meaningful, lasting separation from your competition.

Think of it this way ...

**Part 1**



Amanda and Andrew are sellers competing on the same deal.

Part 2

# Features and Specs Bells and whistles etc. etc. etc. blah blah blah



Andrew tries to create separation by talking about features. These are the things that his product has that Amanda's doesn't.

### Part 3



Amanda connects her solution to a priority for the prospect. The prospect sees Amanda's solution as something that will solve a problem. They see Andrew's solution as a collection of priced-out features.

Part 4



The prices for each solution are revealed. Andrew's is cheaper, by 7%.

## Part 5



When the prospect is discussing the proposals behind closed doors, they acknowledge the price difference. One member of the committee says, "It would be a waste of money to go with Andrew's solution, because it's not going to solve our problem."

They choose Amanda's solution instead.



Please review the story above.



When your prospect says, "We want to make an apples-to-apples comparison," that's telling.

It means that you have more work to do to find and connect to their priority. Until you do that, you're just one more apple.



Ask yourself, how is your apple best at solving one of their biggest priorities?

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## STOPPING SELLER-DRIVEN COMMODITIZATION

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**If you don't think you're different – and better – then don't expect your prospect to think so, either.**

To effectively stop putting yourself in harm's way, you need to recognize the behaviors you and your organization may have that make things worse. Sometimes, sellers indicate to their prospect that *we're actually all the same*.



For example, when you reduce the price for the same bill of goods and services, you're indicating to your prospect two important things. First, that you're no different than your competition.

Sellers--and people, in general--carry self-limiting beliefs that contribute to seller-driven commoditization.

*We explore the topic of self-limiting beliefs further in other Priority Sale courses and labs.*

Second, you're indicating that what you're selling isn't actually very valuable. Even if you end up beating a competitor's price, they may still walk away because they've lost faith in the value.

## **So how do you combat seller-driven commoditization?**

**Connect with priority.** Solving a problem that other solutions won't is the best way to combat commoditization. There will still be situations in which price matters. Don't cut prices for the same solution. Here's what to do instead:

### **Cut scope**

Take items out of the bill of goods and services. This will demonstrate value while accommodating budgets

### **Offer additional, low-cost value at the same price**

This is effective when your organization can deliver the extra value for little or no cost and when the cost to the marketplace is relatively low, as well. Beware: when you add extras for free, don't expect to ever charge for them in the future.

## **Offer additional incentives that likely have little to no value to the prospect**

This strategy is risky, but when it works, you're showing the prospect that you're acting in good faith and that any price reduction may be impossible to achieve otherwise.

## **Help the prospect believe in the outcome**

When they say, "It's too expensive," they're really saying, "I don't believe it will work." After all, if it delivers what it promises, it's worth the money, every time.

## **Finally, stand firm**

When a prospect says, "You're too expensive," they're indicating that **they'd like to work with you**. Many prospects will simply ask for a discount before they buy. It helps them feel like they're contributing value to the purchase and many simply think, "It can't hurt to ask, right?"

When you connect to priority, you've earned the confidence to withstand this last hurdle before they commit to your solution. You'll be surprised how often saying "no, I'm sorry" this one last time leads to a faster close.



Please review the strategies above.

## **KNOWLEDGE CHECK**

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Before we wrap up, put what you've learned about commoditization to the test.

*Question*

**01/09**

Which of the following is the best description of commoditization?

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- When a buyer can't tell the difference in the value between two or more products or services.
- When a buyer can't tell the difference in the solutions between two or more competitors.
- When a seller can't provide additional value beyond the standard product or service offering.

*Question*

**02/09**

When your prospects can't tell the difference between you and your competitors, there's only one way to win a deal:

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Type your answer here

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*Question*

**03/09**

Your prospect has spent some time researching your offerings, as well as the offerings of your competitors. He thinks your solution is no different than the competition and ends up selecting a competitor offering because it is less expensive.

**Which of the following just happened?**

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- Seller-Driven Commoditization
- Buyer-Driven Commoditization

*Question*

**04/09**

A newer seller on your team is debriefing a recent prospect meeting with you for your feedback. She tells you she was completely honest with her prospect and told them that the choice between her offering and the competition's offering was equal. She excitedly shares that she offered a pricing strategy to beat out the competition, and she won the deal!

You recognize that this is a clear case of seller-driven commoditization. **Which of the following can you tell her are the dangers of this type of selling? Select all that apply.**

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- If a seller doesn't believe their offerings are different or better than the competition, then prospect won't, either.
- It's a self-limiting belief.
- This can lead to distrust in the buyer-seller relationship.
- This can become a habit.

*Question*

**05/09**

What are some of the reasons being the lowest price is a risk? **Select all that apply.**

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A dip in sales

You'll have to change your product to meet the low price demands

The next bid that beats you will take away your business

Margin erosion or less capital

*Question*

**06/09**

**True or false:** Differentiation is a useful place to start in your fight against commoditization, but it stops short of connecting to priority.

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True

False

*Question*

**07/09**

You've had several meetings with a new prospect. They've revealed the competitors they've researched and seem torn between your solution and one other.

Your prospect says, "We want to make an apples-to-apples comparison." You know your competition well and are familiar with their pricing, and you know your solution is about 4% more costly.

**What should you do to win this deal? Select the best answer.**

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- Point out negatives about your competition's solution
- Take a step back to ensure you've found and connected to the prospect's priority
- Spend more time building the relationship
- Discuss a price cut with your sales manager

*Question*

**08/09**

When you reduce the price for the same bill of goods and services, what two things are you indicating to prospects? **Select the best answers.**

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- You'll always be willing to undercut your competition.
- What you're selling needs improvement to meet your competition's offering.
- You're no different than your competition.
- What you're selling isn't actually very valuable.

*Question*

**09/09**

Solving a problem that other solutions won't is the best way to combat commoditization, but there will still be situations where price matters. **Which of these should you do INSTEAD of cutting your price? Select all that apply.**

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- Help your prospect believe in the outcome
- Cut scope
- Offer additional, low-cost value at the same price
- Offer additional, high-cost value at the same price

## SUMMARY

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### Congratulations!

You've successfully completed this course, and your progress has been marked as complete.

#### Next Steps

- Download the [Commoditization and How to Avoid It Quick Reference Guide](#), below.
- Click any lesson title in the menu to review that course content.
- Close your browser tab to exit the course.



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