BEATING THE COMMODITY TRAP

How to Maximize Your Competitive Position and Increase Your Pricing Power

RICHARD A. D’AVENI

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Everyone in business today is facing hypercompetition on steroids. “Commoditization” – the process of making one product or service become completely interchangeable with that provided by others – is occurring everywhere. As soon as you improve the quality or other features of your offering, your actions will immediately be matched by others and generally at a lower price point as well. You will then get squeezed between the need to lower your own prices to stay competitive and the steadily rising costs of all your business inputs. Commoditization means you become unable to charge more for what you have to offer.

The conventional answer to commoditization is to differentiate, but before long everyone else has the same bells and whistles as well. A better approach is to get to understand what kind of commodity trap is arising in your industry – there are actually three types which crop up over and over – and then work to identify and resolve the dilemmas and challenges which are posed by each kind of trap. In fact, by coming up with a commodity trap specific business strategy, you can not only escape and destroy the trap but you can also position your firm to take advantage of the trap to grow even more in the future.

So how do you beat the commodity trap? There are six steps involved:

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**Three Commodity Traps**

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<td><strong>Identify the trap you face</strong></td>
<td>Prices go down and benefits go down as well as a new low end competitor comes into the marketplace and dominates</td>
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<td><strong>Spot the trap early</strong></td>
<td>Sidestep the market power of the low-end player – you can move upscale, migrate to another market niche or move on completely</td>
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<td>Undermine the low-end player’s own market power by reinventing your supply chain to undercut their prices or redefine value</td>
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<td><strong>Use the trap to your advantage</strong></td>
<td>Contain the low-end player’s market power so they are locked in to staying at the low end of the marketplace only</td>
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<td><strong>Choose the right strategy</strong></td>
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<td><strong>Identify the trap you face</strong></td>
<td>Prices go up or down and benefits go in all directions as various competitors offer new and different combinations to the marketplace</td>
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<td><strong>Spot the trap early</strong></td>
<td>Pick your competitive battles carefully and narrow the fronts or threats you respond to rather than getting spread too thin</td>
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<td><strong>Escape the trap</strong></td>
<td>Outflank the various threats by making available new and varied packages of your own combining primary and secondary benefits</td>
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<td><strong>Use the trap to your advantage</strong></td>
<td>Manage the threats you face so you conserve your resources or else go whole hog and commit to fighting on multiple fronts</td>
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<td><strong>Choose the right strategy</strong></td>
<td>Manage and control the movement of products towards the low price–high benefit corner of the price–benefit marketplace map</td>
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<td><strong>Destroy the trap</strong></td>
<td>Reverse the momentum by either freezing everyone in their current positions or by aggressively raising the bar for your industry</td>
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<td>Harness the momentum by adding more bang for the customer’s buck which in turn enhances your competitive advantage</td>
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"How can companies respond to deterioration? What should you do if the entire market is moving toward the low end? The answer comes from the problem: as low end discounter gain market power, their rivals must reduce or manage the market power of the dominant discounter by sidestepping, undermining, or containing or controlling the discounters."

– Richard D’Aveni

If you find yourself in a battle with a dominant low-end discounter who has lots more financial muscle than you, this may be a case where discretion is the better part of valor. Your options will probably include:

- **Move upscale** – concede the low-end of the market to the discounter and be done with it. Focus on turning out a superior product which is worth paying extra for. Put all your resources into doing the things which a mass-production low-end player wouldn’t dream of doing. Inject features into your products which make them demonstrably better and therefore worth a premium. Redefine benefits for your customers by focusing intensively on high-value-added positions in the marketplace. Italian silk makers responded to the threat of Chinese manufacturers by banding together to co-invest in new silk making technology which produced fabrics which don’t tear, irritate skin or stain. They also added convenience, innovation and flexibility to their services.

- **Move away from direct competition** – by changing channels, time or place. When Procter & Gamble introduced a new brand of pet food, it sold only through pet stores to avoid competing with established brands. When Southwest started to gain traction in the marketplace, major carriers focused on their international routes. Colgate cedes the U.S. market for toothpaste to Procter & Gamble and instead works at retaining its dominance in foreign markets.

- **Move on** – invest more attention on developing products for other markets. When Asian manufacturers came into the memory chip industry, Intel prospered by shifting to making microprocessor chips for personal computers instead. When the Asians entered that market in the early 2000s, Intel moved to making chips for consumer electronics and other applications like digital medical systems. Armani has moved out of fashion clothing and is instead designing hotels and restaurants, partnering to build consumer appliances, furniture and even helicopters. Armani is actively working towards creating what it terms the “Armani Lifestyle”. Another approach is to redefine your target segment and create products which meet the preferences of that new market segment. When Wrigley saw its traditional chewing gum brands being underpriced, the company introduced new sugar-free brands which promised to freshen the breath and whiten teeth at the same time as they serve as a low-calorie snack. These new brands have grown at a robust rate while the sale of Wrigley’s traditional gums have continued to decline. Wrigley then moved to build a $45 million research center in Chicago in 2005 to help the company develop more next-generation products. By sidestepping its competitors, Wrigley has gone into actively developing new products for the new growth segments which are already in the process of outgrowing Wrigley’s traditional markets. Wrigley is far better off for having made the decision to move on.

Deterioration happens when a new low-end competitor comes along and creates a dominant low-price / low-benefits position. This often expands the market size at the low end as positions around that low-price / low-benefits combination tend to get swallowed up as well. This is what happened with the growth of Wal-Mart, the arrival of Geico as a U.S. auto insurer and the establishment and subsequent growth of Southwest or Ryanair. There’s a lot of money at the low end of almost every established marketplace.

The telltale signs of deterioration are:

- An apparently dominant low-cost competitor comes along offering a stripped-down version of your product which disrupts the status quo dramatically.
- The new market entrant has economies of scale which make it hard or impossible for you to compete with them on price.
- Customers look at their offering and become far more reluctant to pay for value-added benefits like superior service or greater industry expertise.
- Even though you lower prices and reduce the product benefits you offer which results in lower margins, you are still faced with losing market share.

Deterioration is tough. You can’t compete head-to-head with these new competitors and hope to win because they are playing to their strengths, not yours. Even if you do try and match their offering, all you end up doing is fragmenting the market further and reducing overall industry revenue levels.
Certainly the most satisfying and rewarding way to respond to the arrival of a discounter is to attack them. How do you do that?

- **See whether you can reinvent your supply chain** – so you still earn a profit even though you offer lower prices and benefits than the discounter does themselves. Try to simplify your product design, strip out unwanted features or whatever else you can do to lower your costs.

- **Redeﬁne the way customers see value** – so you undermine or match the discounters. If you’re a car manufacturer, what about introducing to the marketplace a recyclable car which is intended to operate for three years and then be traded in? Or you might be able to come up with other ways to offer more for a lower price than has been available. When Armani noted discounters were imitating their designs, they started giving private showings to manufacturers and retailers. These “pre-release” sales now account for 60 to 70 percent of Armani revenues because they enhance the notion of exclusiveness. Other companies have responded to discounters by moving to the sale of pre-owned goods. High-end fashion labels have done very well by developing used-clothing stores in recent times. In the car repair business, the only two options of the marketplace were traditionally to use a small mom-and-pop bodywork shop or to go to a new car dealership which had the latest diagnostic tools and factory-trained technicians. In recent times, new specialty car repair chains have emerged which use automation to charge less than the independents while at the same time offering faster turnaround, a more professional image and better service. This is a good example of how low-end players can stake out even better competitive positions.

- **Change customer perceptions of pricing** – perhaps by focusing on the total cost of ownership rather than just the initial purchase price. For many products, energy, ﬁnancing, repairs, downtime and other operating expenses are substantial. General Electric has fought off many lower-priced rivals in the locomotive and large turbine markets by making its total life-cycle costs lower than those of its rivals. Or companies might give away the product free and make their money on usage fees or ancillary products. Adobe gives away its Acrobat reader software so people will pay to buy the software which will create Acrobat ﬁles. Other companies including consultants have started to charge for the performance improvements they generate and deliver to clients rather than an hourly consulting fee. BJ’s and Costco charge a membership fee but keep product prices low. Cell phone companies and airlines are famous for having pricing plans so complex it becomes difﬁcult to compare what one company offers with another.

“Everything commoditizes over time. The edges and points of difference get worn off by competition. The facets of diamonds are worn away and you are left with a piece of glass. It is easy to imitate and hard to innovate.”

– Steve Heyer, former CEO, Starwood Hotels & Resorts Worldwide and former COO of Coca-Cola

“Commoditization is an ugly word – and often an ugly reality – for companies around the world. Everything becomes a commodity eventually.”

– Richard D’Aveni

When faced with a deterioration trap, the smartest thing to do is turn it to your company’s own advantage instead. How can you achieve that in practice?

- **Contain the low-end discounter** – by establishing positions around it. Target responded to Wal-Mart by emphasizing design and style over price alone. Costco and BJ’s Wholesale Club used membership fees to consistently offer lower prices than Wal-Mart on high volume items. Kroger stopped Wal-Mart’s expansion into the grocery business by offering lower prices and improved customer service. All of these moves by Wal-Mart’s rivals make it difﬁcult for Wal-Mart to move into new markets. In a similar vein, when Microsoft bundles ﬁrewalls and antivirus software into its operating system for free, it becomes impossible for its rivals to compete on price. Instead, they have to compete by offering faster updates and more responsive customer service. These efforts have the practical impact of constraining Microsoft to one part of the overall market alone.

- **Control the low-end discounter** – by moving customers to more upscale value propositions. You might move your products more upmarket and then create easy ways customers can migrate with you as you move. A noteworthy example of how to do this is Gillette. In the 1970s, BIC launched disposable razors onto the market. Gillette responded initially by launching its own version of a disposable razor but the company then brought its new Sensor shaving system to the market at a compelling price-beneﬁt position. Gillette then continued to raise the bar by launching its new Mach3 and Fusion models. All of these innovations raised the bar for smoothness, safety and closeness of shaving. BIC’s position in the marketplace became much more restricted and controlled as a result.

Ultimately, using a potential commodity trap to your own advantage comes down to a key decision: “Should we ﬁght or ﬁee?” If you look at the resources you have available by comparison with the resources of your competitor, you will get a fairly realistic view of how it’s likely things will turn out. If it’s an even battle or you have the upper hand, ﬁghting will be appropriate. If you’re out muscled, this may be an opportune time to transition to newer and bigger markets. Or you might consider selling your business altogether to someone who is better placed to ﬁght the low-end player.

“The essence of strategy is, with a weaker force, always to have more force at the crucial point than the enemy.”

– Napoleon Boneparte

“It is easier to resist at the beginning than at the end.”

– Leonardo da Vinci

“If you are going through hell, just keep going.”

– Winston Churchill

“Once a company is caught in a commodity trap, differentiation is rarely enough to get it back out. Indeed, the reason most companies ﬁnd themselves in the trap in the ﬁrst place is because they failed to innovate early enough to avoid it or they later differentiated and cut prices so much they have exacerbated the trap.”

– Richard D’Aveni
Proliferation means a product’s value proposition gets eroded by the appearance of a number of new products which offer completely different price-benefit positions. These new products target small niches of the customer pool causing the larger market to fragment into multiple segments. In sync with this, new business models may also surface as companies compete aggressively to serve those specific segments.

The most obvious signs of proliferation are:

- Your market is becoming more and more fragmented as new offerings and variations are being introduced – leading to products which overlap each other.
- Your value proposition is under attack as new offerings target narrow market niches.
- You’re frustrated because your firm is being attacked on multiple competitive fronts but you lack the resources to respond comprehensively to all of these incursions.
- As you become surrounded on every side, you find yourself under constant pressure to reduce your prices just to try and retain your existing customers.

A good example of the proliferation trap is what happened to Sears. Sears pretty much defined the department-store retail category and dominated it for about a century. By the mid-1990s, however, Sears was facing the challenge of regional department stores like Federated at the high end of the market, Wal-Mart, Kmzart and discount clubs in the discount segment, specialists like Home Depot and Lowe’s in hardware and home improvement and other specialists like Lands’ End and later Internet retailers in the mail-order catalog line of business. Sears responded by conceding the low-end value proposition to the discounters, by abandoning its mail-order catalog, by selling its stand-alone chains and by repositioning its mall stores but it was a case of too little too late. Ultimately Sears would go out of business and be acquired by Kmart which was engaged in its own intense competitive battle with Wal-Mart.

“It is ironic that extreme differentiation results in commoditization. But as firms produce many products that begin to overlap with each other, they threaten the uniqueness of each others’ products. Consequently they must reduce price to hold on to market share, or lose market share to hold on to their price. This is the proliferation trap. The primary solution to the proliferation trap is threat management. Companies can avoid threats by choosing their battles, outflanking the proliferators by finding power vacuums and open spaces. Or they can select and overwhelm the threats by eliminating them, scaring them off, swallowing them up, crushing them, or out proliferating the proliferators.”

– Richard D’Aveni

You won’t have enough resources to fight everyone who enters your market all the time. If you try and do this, you’ll be pulled in all directions and become so thinly spread you do nothing effectively. You have to figure out what you do best which is another way of saying what your core competencies already are – and based on that decide which threats you will respond to and which you will not. Narrow the battles you want to gear up to fight.

So how do you make this selection? There’s no hard-and-fast rule involved but generally speaking, most companies pick the battles they want to fight based on a combination of:

- Areas where there is the least resistance from rivals – hopefully because everyone else recognizes this is where you have tremendous advantages.
- Awareness of profitable or emerging growth segments of the market – niches you recognize will grow strongly in the immediate future because of your market participation.

Holiday Inn learned the importance of astutely picking its competitive battles the hard way. By the mid-1970s, more than fourteen hundred Holiday Inns dotted American interstates offering inexpensive, standardized family accommodation. Each Holiday Inn was carefully located to be within a day’s drive of the next, and offered travelers reliably clean rooms, air conditioning, swimming pools and friendly service. As such, Holiday Inns became a fixture of the American highway. Before long, Motel 6 and Quality Inn attacked from the low end of the market offering reasonable quality rooms but less services at a greatly reduced tariff. At the same time, upscale hotel chains emerged, offering many more features at a higher room rate. Holiday Inn tried to respond by dropping its poorer quality facilities and attempting to match its competitors offer new and different packages of its own combining primary and secondary benefits

Outflank the various threats by making available new and varied packages of your own combining primary and secondary benefits

Pick your competitive battles carefully and narrow the fronts or threats you respond to rather than getting spread too thin

Overwhelm the threats you face by concentrating your resources where they will do the most good and by being selective

Destroy the trap

Escape the trap

Use the trap to your advantage

Manage the threats you face so you conserve your resources or else go whole hog and commit to fighting on multiple fronts

Choose the right strategy

Three Commodity Traps

1 Identify the trap you face

2 Spot the trap early

3 Escape the trap

4 Destroy the trap

5 Use the trap to your advantage

6 Choose the right strategy

Proliferation

2
If the competitive threat of the proliferators can’t be neutralized or escaped by outflanking them, then it’s time to fight fire with fire. You have to get busy overwhelming the threats. How?

- Concentrate rather than spread your resources – find a single position in the market and use all your resources to defend that position against all comers. Do things which will add value for the customers you already serve. New market entrants will be hoping the marketplace is one-size-fits-all but you’ll know better. Focus everything you have on getting even better at what you already do well.

- Create a ‘wolf pack’ – break your large corporation into smaller business units which can act much more nimly. Fight fire with fire. Let each independent business unit respond to different proliferators quickly and flexibly.

- Get busy building critical mass – use mergers and acquisitions to assemble a full portfolio of offerings right across the market spectrum. Once you have a full and diversified portfolio in place, you can then meet the changing needs of consumers, respond to the positioning of new arrivals and use cross-subsidization from one segment to another to deal with the proliferators.

- Time your battles – to match your resources. In its early days, Microsoft followed a sequential strategy to see off its challengers before they could develop into potential killer apps. Microsoft moved from MS-DOS to a graphical user interface (Windows) to limit Apple’s growth. It then started developing word processing software to eliminate WordPerfect before it had time to add operating system to its offerings. Microsoft addressed the threat of Lotus by developing its own spreadsheet software which was subsequently consolidated into an office suite. Later Microsoft bundled browser software in with its operating software to discourage others from competing in this market niche. All of these moves were made sequentially rather than simultaneously.

- Deter some selected threats – by making alliances with potential rivals for a specified time or by releasing details about “ghost products”. Ghost products are those which exist only in prototype format. No one ever buys them and they are never actually produced but your rivals know you could go into production at any time if necessary. In the software industry, announced products which never come to market are referred to as “vaporware”. Customers become reluctant to buy a competitor’s product while they wait to see what you come out with. This is a legitimate way to defer threats for a time.

- Get your brands into action – either your actual brands or “fighting brands” you develop to attack specific rivals. In the late 1980s, Purina launched a new dog food brand called Graaavv in response to Quaker’s Gravy train. Purina’s proposed brand name was similar enough to its rival’s brand that it created confusion for consumers. Purina also threatened to price Graaavv dog food products well below Quaker’s prices. Quaker got the message and didn’t expand any further into the dry dog food market segment.

“In business, the competition will bite you if you keep running; if you stand still they will swallow you.”

– William Knudsen, former president and chairman, General Motors

If you engage in some creative proliferation of your own, then you have the chance to turn the threat of proliferation to your own advantage. How do you pull this off?

- Fill in the white spaces in the market – come up with new price-benefit pairings which are in totally unexploited spaces along the expected price line. Sharpen your understanding of the primary benefit being offered and come up with some new combination. Deliver a new customer experience in a different part of the market before your competitors are even aware a viable niche exists there. Create your own full-line portfolio of brands which cover the entire spectrum.

- Create new customer segments – above and below the expected price-benefit line. In practical terms, creating a new customer segment means you come up with different secondary benefits. These secondary benefits can be used to target specific customer groups. Las Vegas is the only legal gambling spot in the United States but it is increasingly facing threats from riverboat casinos, state lotteries, Atlantic City, Internet gambling and upscale international gambling in Europe and Asia. To create new customer segments, Las Vegas has moved beyond pure gambling by adding in weekend entertainment options, family vacation experiences, high roller gambling venues and adult entertainment. These secondary features layer on top of the risk and potential fortune offered by gambling itself. Instead of attracting those who want to gamble, Las Vegas is now appealing to a much wider demographic.

- Reinvent your product or service – take a blank page approach and reinvent your product or service from the ground up. Pharmaceuticals did this when they changed from selling to doctors to instead sell their products to insurance companies, pharmacy chains and direct to end consumers. Each of these groups have different priorities. Doctors want to avoid lawsuits at the same time as the person is made better. Insurance companies want to reduce their future costs. Pharmacy chains want volume discounts and just-in-time logistics. Patients want their disease cured no matter what the cost. Pharmaceuticals created new customer segments by delivering the primary benefit while at the same time also emphasizing the applicable secondary benefit for each customer group. This type of market reinvention can be used almost anywhere.

- Create a threat management strategy – how will you meet any kind of proliferation threats which might conceivably arise in the future. Do some contingency planning on how you would respond to competitive threats that may or may not arise in the future. Plan where you would place your resources so they would be where they are needed most. Decide now what you will do to avoid being overstretched. Think about market white spaces and how you can create and then serve new customer segments by adding in secondary benefits to the primary benefit you already deliver.

“He who knows when he can fight and when he cannot will be victorious.”

– Sun Tzu

“You must not fight too often with one enemy, or you will teach him all your art of war.”

– Napoleon Boneparte
### Escalation

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**Escalation happens when companies engage in a form of corporate one-upmanship. Everyone is so busy trying to outdo each other the fact nobody is now making any money escapes attention. The trap is nobody wants to be the first to blink and therefore customers keep on getting more and more for their money.**

The telltale warning signs of an escalation trap are:
- You feel like you’re locked in an arms race with your competitors where you add features and benefits and lower prices simultaneously just to keep up.
- Your profit margins are falling as your volume increases.
- You find what was the primary benefit yesterday is now being taken for granted and is no more than entry stakes today.
- Your customers wise up to what’s happening and keep on demanding more for less money.

The personal computer industry is a superb example of the escalation trap in action. By the year 2000, Dell’s direct-to-consumer business model was gaining momentum. All the other players including Hewlett-Packard and IBM were getting swept up into an escalation battle while prices fell to extraordinarily low levels. Hewlett-Packard responded by acquiring Compaq and then setting about radically differentiating its products. IBM sold its personal computer business to low-cost Chinese manufacturer Lenovo and concentrated instead on high-end computer products and services. All of a sudden, Dell faced products which attacked from below (Lenovo) and at the high-end of the market (Hewlett-Packard) at the same time as the company competed against all the other manufacturers.

The most effective way for any company to escape the escalation trap is to first re-seize the marketplace momentum. How do you do that?

- **Make a truly monumentous move** – which leapfrogs everyone else who is trying to play catch up. A great move will make the market focus on a completely different primary benefit. This is what Apple pulled off when the music-oriented iPod morphed into the iPhone. General Electric did this when it changed from making turbines to becoming a service provider. In the 1990s, the key selling point and primary benefit for small cars changed from platform to reliability to safety. Every industry has its own rhythm of change and to re-seize the momentum, you have to redefine the primary benefit customers are willing to pay for. Gas stations have evolved from being full service stations in the 1960s to self-service filling stations in the 1970s, convenience stores in the 1980s, safe havens in the 1990s and full-range convenience stores in the 2000s. Perhaps they will morph into centers for alternative fuels in the future. When you shift the primary benefit, you force laggards to play catch up. The basis for competition then becomes adding in new benefits rather than carving out new niches. Whoever doesn’t keep up with the evolution dies off or gets acquired by others.

- **Get better at making transitions** – so you can move smoothly and quickly to each new primary benefit that may become highly valued. To prepare for transitions, your organization must be good at four things:
  1. Running the operations required to deliver today’s benefit.
  2. Gearing up for next-generation products.
  3. Planning and researching changes in the marketplace.
  4. Envisioning what might come next.

To re-seize the momentum, you have to be able to do all four of these tasks not only well but simultaneously. That will only happen if you have people, budget and facilities for each task in place. You have to be ready to rotate your people out of one part of your organization, retrain them and then put them to work building the capabilities and competencies you will require in the future in another part of your organization. There’s quite an art to making a successful handoff from one product generation to the next as you cannibalize your company.

“**One challenge for the company re-seizing the momentum is to gauge when the ultimate value point is reached** – where there is little or no opportunity to push prices lower, improve upon the primary benefit, or expand the market. This is when harnessing the momentum of the last primary benefit must give way to re-seizing the momentum, or to move to a strategy of slowing or reversing the momentum. So it is important to monitor the price–benefit equation to understand and predict the shifts in the primary benefit. Managing this pacing requires that companies are just fast enough to stay ahead of the competition but no faster, to avoid jumping too soon and throwing margins away. Among the capabilities needed for effective timing of these shifts are competitive intelligence and marketing skills that extend the current primary benefit as long as possible, as well as the capabilities to launch quickly and reduce the risks of launching products based on new primary benefits.”

– Richard D’Aveni
Re-seizing the momentum is one way to escape the escalation trap but there are other options as well. You might try to slow or even reverse the momentum and in so doing restore balance to the industry. Doing this also prevents further erosion of price. This can be beneficial if breakthrough innovations are not available or if the market is not particularly price or benefit sensitive. How can you reverse escalation?

- **Freeze everyone in their current market positions** – by allowing your competitors to dominate some niches without intensive competition from you. You might also license some technology from your competitors or purchase some commodity inputs from them to signal your intentions. At various times in the past, General Electric published its price list openly in order to encourage other firms in the market to follow its lead. Locking customers into long-term contracts also ensures market share and prices are maintained at sustainable levels.

- **Raise the bar** – elevate the entire industry by making features which were previously expensive add-on options a part of the standard basic package. The sports car industry is a good example of this. Performance is the primary benefit sports car purchasers are paying for and they are prepared to pay a premium for advances in performance. Adding in antilock brakes and other safety features is nice but these moves are relatively easy for competitors to match. Savvy sports car makers commit the majority of their R&D towards improving performance because this is what the market values.

### Use the trap to advantage

Escalation can be used to drive and ultimately control an industry. A good example of this phenomena is ITT Industries which is in the high-tech business of making and selling military night-vision goggles.

“We offer a thousand times the power with less than half the weight and size for half the price, and have stimulated an explosion in demand, making night vision standard issue for the U.S. military. As we get more innovative and leverage our scale, we are able to offer even lower prices and our operating margins are going up.”

Steve Loranger, CEO, ITT Industries

This is a great example of what is termed a virtuous cycle in business. As prices decline, the size of the market increases. Night-vision technology moves from being issued just to mission specialists to becoming standard issue for every GI. That, in turn, leads to higher quality products being able to be made and then sold at an even lower price. Escalation works for you if you can reduce your own costs before you’re forced to lower your price. It can also force your rivals to lower their prices before they have built up the scale to afford to do that.

Clearly, there is a limit to how far this can go. Once every soldier has night-vision technology, ITT will then need to integrate some secondary benefit to restart movement along the price-benefit line. Perhaps night-vision systems could integrate with GPS, mapping and communication systems so soldiers have a real-time heads-up display which paints the battlefield. Soldiers would then know who were the friendlies and who were the enemies. ITT could then start charging more for its systems because of the additional features.

### Reverse the momentum

Apple is a good example of a company which harnesses the momentum of the marketplace to good effect. Consider what Apple did with its iPod digital music player:

1. **In July 2002**, Apple launched the iPod offering 5- or 10-gigabyte versions with play lists and digital libraries.
2. **In July 2003**, Apple lowered the price of iPods and extended the line. It also launched iTunes offering legally downloadable songs for the iPod.
3. **In January 2004**, Apple lowered its price per gigabyte to respond to low-end digital music players offered by Sony, Dell and Creative Technology. Apple launched the 4GB Mini with iPod’s usual sleek design features. Apple also launched the iPod Photo.
4. **In February 2005**, Apple launched the Shuffle to block entry to the market by low-cost imitators. Apple also launched the super-slim Nano giving the company a full line of iPods right across the market spectrum from low- to high-end devices.

By continuing to add more and more bang for the customer’s buck with each successive generation of iPods, not only does it enhance the coolness of its own products but Apple makes it difficult for its competitors to catch up. Every time they get close, Apple ratchets up the game and accelerates its own innovations. Apple has now continued to add wireless connectivity, a fully functional Internet browser and voice telephony to its iPod range allowing them to morph into the iPhone and a color-screen video game player as well.

When you harness the momentum of the marketplace like ITT Industries and Apple have done, you strengthen your market leadership. You force other would-be players to drop their prices before reducing their costs rather than the other way around. To pull this off, you need to have three things going for you:

1. **Innovation** – you must have the capacity to come out with the next generation device before any of your rivals can.
2. **Market power** – so you can slow, freeze or reverse the momentum whenever it suits you. Market power requires relatively few competitors, high barriers to entry and the ability to scale back capacity at times in order to create artificial shortages which will inflate prices.
3. **Intimate market knowledge** – a good feel for how consumers value the primary benefit and secondary benefits on offer.

“Managing momentum is more critical in hypercompetitive markets than more stable environments. When imitation is easy, technology is changing quickly, or customer needs and priorities are shifting frequently, the escalation trap can constantly appear. Firms can be expected to attempt to escape the trap by finding a new primary benefit to replace the old one, thus endlessly restarting the cycle of differentiation and escalation. A new primary benefit can become the key differentiator for products in the market because: (1) it used to be a secondary benefit, but has become first priority for customers because the competition has neutralized the previous primary benefit; or (2) it is a new benefit not previously offered in the market, but suddenly valued by customers because of their changing tastes; or (3) when (some) firms develop production capabilities that make it affordable for the masses. The cycle seems endless. No matter which momentum strategy you select, escalation will eventually restart owing to changes in technology, disruptive competitors and entrants, or shifting customer needs. The battles are never won permanently, just transformed.”

Richard D’Aveni
"In the future, spotting a commodity trap before it is sprung – and taking preventative action – will be critical. At the same time, it is important to realize that, for those prepared to seize the day, commoditization brings opportunities as well as threats. Every down has a potential upside. Integral to dealing with commodity traps and exploiting the windows of opportunity they present is the ability to look ahead to see how a market might develop so you can stake out an advantageous position. As the Chinese philosopher Lao Tzu said, 'Opportunities multiply as they are seized.'"

– Richard D'Aveni

To keep finding your optimum competitive position and do everything you can to avoid commodity traps, become more skilled at doing a price-benefit analysis for your industry. A thoughtful price-benefit analysis will:

- Identify emerging opportunities which are not that obvious or apparent to others.
- Help you understand what your competitors are up to and what they are likely to do in the future based on the trajectory of their moves.
- Allow you to anticipate when your market is primed to undergo a major change.
- Enable you to sidestep upcoming commodity traps or else use them to your advantage.

A price-benefit analysis doesn’t need to be complicated to be useful. All you do is chart out how your market currently shapes up when all competitors are accounted for:

![Price-Benefit Chart](image)

You can draw a price-benefit chart like this for the companies in your industry or for individual products on offer. The projected price line (dotted line) can then be superimposed as the central position of the players or the products involved. The size of each circle (A, B, C or D) can be drawn in such a way it is proportional to the market share of individual products or the size of each respective firm.

One of the best uses of a price-benefit analysis is you can identify what specific value proposition is worth the most in the eyes of customers. You can then focus your own R&D expenditure so you work on what customers are willing to pay more for, not only today but also in the future. By finding where the market “sweet spot” is, you can “skate to where the puck will be in the future” Wayne Gretzky style rather than get sidetracked by where it is at present. In other words, you can gear up to give customers more of what they will pay for before your competitors are even aware of what’s going on.

Too many companies launch “me-too” products rather than superior, differentiated new products. This is unfortunate because better products with real customer benefits have been shown to have five times the success rate and market share of catchup products. If you can use the price-benefit map to find a distinctive position in the marketplace and then develop offerings which precisely target those positions, you’ll end up having products and services customers are willing to pay more for.

"Commoditization is a rapidly moving game. There is sometimes little time for detailed analysis. A price-benefit map can be sketched out quickly based on informed but impressionistic data or based on only a couple of weeks of rigorous research. In either case, it offers a graphic illustration of where competitors are now and how they are changing over time. But only industry knowledge, competitor analysis, and some informed guesstimation can get to the right answer from any fact-based analysis. As a result, price-benefit analysis, coupled with managerial intuition and up-to-date experience, are always needed to size up the situation, anticipate where the market is headed, and get out in front.”

– Richard D'Aveni

"You may have to fight a battle more than once to win it."

– Margaret Thatcher, former British prime minister

"The fact is, commoditization is not going away soon. Pragmatic executives learn to live with it. Smart executives will use it to their advantage. They will find ways to analyze and anticipate their markets. In this way they will be able to identify windows of opportunity that can be exploited. It is possible not just to survive – but to actually thrive – on commoditization. In sum, by using price-benefit analysis and good managerial judgment to anticipate the different commodity traps and opportunities created by them, executives can stay one step ahead. Or to put it another way, you avoid what Oscar Wilde described as the extremes of the cynic – ‘a man who knows the price of everything and the value of nothing’ – as well as the pitfalls of the sentimentalist – ‘a man who sees an absurd value in everything and doesn’t know the market price of any single thing.’ In the end, though, it is up to you. Anticipate the trap. Escape the trap. Destroy the trap. Turn the trap to your advantage. Or get trapped. It’s your choice.”

– Richard D'Aveni