

Article 35 – Do you suffer from Sameness Syndrome?

“When it comes to the crunch, they only look at the price”! I don’t know how many times I’ve heard that comment yet our Customer Feedback Surveys have never recorded an instance where Price was rated by the customer as the most important factor in a supplier’s offering.

I’ll concede, however, that it is often the key factor in a prospective customer’s decision making process. After all, if we perceive two products to be identical why would we buy the more expensive one? And the fact is that many products *are* very similar to one another – either in perception or reality.

So if you are going to avoid selling on price, you have to find an antidote to Sameness Syndrome.

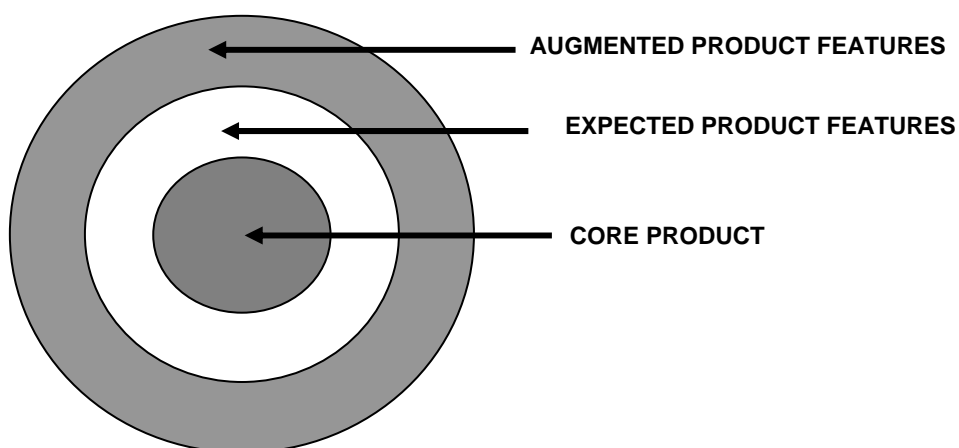
There are two basic strains of Sameness Syndrome.

- π Your product is perceived to be the same when in fact it’s not
- π Your product is perceived to be the same and in fact it is!

The two strains have one thing in common. When it comes to devising an antidote it’s up to you – you can’t blame the buyer for doing exactly what you would do in the same circumstances.

So let’s start on a cure for the first type.

The first point to appreciate is that the vast majority of products and services are sold to other businesses or organisations and so differentiation may exist in all manner of attributes in addition to the product per se. Availability, Order fulfilment times, On-time delivery, After sales service, Customer service and Marketing support are just six examples of where differentiation might exist. But note that there is a hierarchy to the order in which product attributes should be addressed. It is illustrated in the following diagram, based on Theodore Levitt’s Total Product Concept.



Core product – the fundamental product or service that you are providing is always the most important and critical component of the “product”. So for a restaurant, it’s the food. For a Swatch watch, it is not just the timing mechanism itself but its value as a fashion accessory. For a saucepan, it is a combination of its design, brand

name, the materials from which it is made, its ability to conduct heat, its ease of cleaning etc.

Expected product – the attributes that your customer *expects* in addition to the core product. If the product were a car, for example, one would expect dealerships, service facilities, spare parts availability, warranties etc

Augmented product – the attributes that your customers value but which are not regarded as “must haves” but rather “nice to haves”

Thus a real point of differentiation in an aspect of the Expected Product will always trump one in the Augmented Product and one in the Core Product will trump both the others. Put another way, exceptional marketing support (an augmented product feature) will not compensate for inferior product performance (part of the core product).

So if you believe that your core product is different and better, you must develop a strategy for communicating that fact to your target market **prior** to the sale. Here is an example of such a strategy.

It concerns an Australian manufacturer of UPS (Uninterruptible Power Supply) systems. These come in a wide range of capacities depending on the nature and application of the computer controlled system they are designed to protect. The CEO complained bitterly that the specifiers of such systems based their specification on the KVA rating required and the capacity of the batteries – and that was it. Obtain quotes from suppliers using these two criteria and choose the cheapest quote.

When I asked the CEO whether there were significant differences between UPS systems of the same nominal capacity, the answer was an emphatic – yes! When asked whether the average specifier appreciated these differences, the answer was an equally emphatic – no! But it wasn't up to the specifiers to educate themselves – it was the responsibility of my client to get the message across that “oils ain't oils”!

So we co-authored a booklet called “How do specify a UPS system”. Instead of describing the features and benefits of the UPS systems that my client produced, we helped the specifier make a more informed and inclusive evaluation by listing and explaining the impact of all the variables under four major headings – Specifying a UPS System, Selecting a Make of UPS, Maintaining UPS Performance and Evaluating Offers. The number of variables rose from 2 to 25. Now the specifier could appreciate the risk attached to ignoring 23 variables. Above all, well-founded seeds of doubt were planted in the minds of any specifier who selected a UPS on price alone.

There is a further benefit to the supplier in communicating product differences to its target market. Since the difference only benefits sales if it enhances the value of the product from the customer's perspective, there will be a percentage of customers who believe that these differences detract from their value equation and thus strike your product off its short list.

That is actually a good thing.

Why? Because it there was a perception in the market place that all supplier's products were Commodores and now there is a perception that your's is a Mercedes, you no longer need to compete with the price of Commodores and can legitimately charge the premium that you believe the product is worth. Moreover, although the potential market for your product is diminished, there is now a well-defined sub

segment to be exploited. Better to be a big fish in a small pond than a small fish in a large one.

I agree with Levitt that if you follow his concept of the TPC and start with the bull's eye and work outwards towards the Augmented Product, there are very few products that cannot be differentiated in some way or another.

But there are limitations to this strategy. For example, when products are introduced that require education in their use, suppliers can differentiate themselves by providing that sort of back-up and charge a premium if their customer support is seen to be superior to that of their competitors. Over a period of time, however, the value that the customer attaches to such a service will decline, especially if the service is paid for in the price charged by the supplier.

IBM faced such a problem in the 1990's with its computer hardware, in particular mainframes. In this instance the customer perception *and* the reality was that there was little to choose between competing products as far as core and expected features were concerned and IBM's famed customer support was much less valued by a more savvy customer base. IBM's prices were 30 – 40% above those of the competition.

Customers were no longer prepared to pay a hefty premium for a product with all the options when the standard model was what they required. The situation reached crisis point in 1993 when IBM lost a record US\$ 8.1 billion.

IBM responded with two strategies. Firstly they reduced mainframe prices to a competitive level and at the same time invested heavily in a new technology that dramatically improved the cost/performance ratio.

At the same time, a decision was made to form a stand-alone division called IBM Global Services that would design, build, run and maintain integrated IT systems on behalf of its customers. Whereas before IBM had only serviced IBM systems as a means of adding value to its hardware and software, now it would recommend whatever hardware and software it deemed as the most suitable for the task at hand. This was IBM's solution to the commoditisation of hardware and its inability to charge the premiums that it once commanded.

Has this strategy been a success? You bet it has.

Between 1992 and 2005, IBM Global Services revenue has grown from US\$7.4 billion to US\$ 47 billion. It is twice the size of the next largest business – Hardware – at US\$24 billion down from US\$34 billion over the same period.

The decline in the revenue in the hardware business was due to lower unit prices but profit has risen due to changes in technology. It has enabled IBM to offer bigger and more powerful systems at very competitive prices. Its main rival Hitachi, which continued with the old technology, left the market in 1997.

So if you are experiencing Sameness Syndrome, try the following remedies.

Strain 1 - Perception rather than reality

π Educate the customer on the real differences between products from different suppliers. Start with the Core Product and work outwards so if the Core Product is the same, look at each aspect of the Expected Product. If there is

little scope in the Core and the Expected Product, consider the Augmented Product.

π Increase the customer's perceived level of risk in making the wrong decision by increasing the number of variables the customer uses in the decision-making process – oh yes, I hadn't considered that

π If real differences are only to be found in the Augmented Product, make sure that customers value those differences. There are three situations - a) the differences are not valued, therefore Sameness Syndrome remains, b) difference is valued but no premium can be charged, c) difference is valued to the extent that some customers are prepared to pay a premium.

Strain 2 – Perception accords with reality

π Take time to really understand the customer's needs even if you think you know them. Help *them* to expand the list of decision-making variables.

π Promote yourself as the most knowledgeable and expert supplier

π Promote yourself as problem-solver and solution provider to add value to the customer's purchase

π Make your customer feel most confident when they deal with you

π Look at the Augmented Product to see how you can add value to the customer's purchase at no addition to the price. It might be an extended warranty or a free service or your reps offering product training or marketing support.

Finally always bear in mind that the median market price for anything is a function of supply and demand – but that's a topic for another article.

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March 2007