



**Commoditisation of Markets:
An Analysis of Evolving Market
Competition: A Case study of Sandvik
Machining Solutions, Sweden**

Master's Thesis in Business Administration

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Gävle: 20th May, 2012

Acknowledgement

This thesis work marks the end of our studies at The University of Gavle. We have received incredible help and advice from our supervisor Prof. Aihie Osarenkhoe during the period we carried out this research. We are truly grateful for his support and without his guidance; the outcome of this thesis wouldn't have been the same.

We would also like thank our course facilitator, Dr. Maria Malama for taking us through the entire program and directing us on how to write and structure a constructive thesis report. The skills and techniques acquired during the period we carried out this research will surely be helpful in our future endeavors.

We are dearly indebted to our Sandvik AB supervisor Mikael Lovblad who commissioned and provided all material needed to ensure the success of this project. We would also like to thank Claes Sandh, Senior Manager Pricing and Profitability Management, Ulf Hermansson, Business Intelligence Analyst, Anu Lindahl, Manager Business Development, and Anna Hultin Stigenberg and the whole department of Business Intelligence at Sandvik Machining Solutions for taking off time to participate in the interviews conducted and making our time at Sandvik a memorable one.

Lastly, we extend our most sincere thanks to our families and friends for the great support and encouragement during the development of this thesis.

Gavle, Sweden

20th May, 2012

ABSTRACT

Problem

Competition in an industry continually works to drive down the rate of return on invested capital. In complex competitive markets such as commoditized markets, the strategic choice would be to hold price and lose market share or lower prices and hold market share, whichever the decision, companies lose their pricing power and experience reducing profit margins.

Commoditization is fast becoming a fact of business and this requires companies to identify and devise strategies that can help them escape or benefit from the commodity trap and in turn increase or maintain profitability in a complex competitive market. Most times managers are in denial, fail to realize this and as a result don't respond in a timely manner leading to costly and irreversible consequences for all stakeholders. For this reason, there is increasing practical importance for managers to understand and identify commoditization.

Purpose

The purpose of this thesis is therefore to give a better understanding of the nature and aspects of commoditization. In doing so the authors will investigate the various facets of commoditisation including its causes, effects and strategies implemented in overcoming this dangerous and sometimes ignored situation.

The thesis will add to the existing knowledge relevant to firms in line with the marketing and competitive business strategies. It will also help Sandvik Machining Solutions in particular to identify whether their markets are commoditized or in danger of commoditization.

In addition to the above, the thesis is also a pre-requisite to the award of a Masters' degree in Business administration for the authors once successfully completed.

Methodology

A Qualitative study approach has been used adopted in order to provide deep insights on the commoditisation phenomenon. In this thesis the authors adopted one primary case study and three secondary case studies. In order to fulfill the purpose of this thesis, a number of interviews were conducted with various officers at the primary case company.

Findings

The study reveals that commoditisation exists in three different forms/traps each having its unique causes, characteristics and strategies that a firm can implement to overcome it. Furthermore, the thesis shows that although a company may avoid or escape from one or two of the commodity traps, it may not be able to survive the other commodity traps.

Originality/Value

This thesis through the findings provides significant and useful information on commoditisation, a state of hyper competition which can easily occur in any industry. The thesis also contributes literature on the effects of commoditisation on market structures.

Implications

A number of practical solutions to real world problems have been forwarded in this thesis. The authors believe that these solutions are highly valid in today's highly competitive business environment to secure survival and growth for firms.

Limitations

Due to the evolving nature of commoditisation, not so much information was readily available on this topic making it difficult for the authors to conduct a thorough literature review.

Key terms

Commoditisation, Economies of scale, Branding, Price wars, Hyper-competition, Differentiation.

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LIST OF ACRONYMS

SMS - Sandvik Machining Solutions

R&D - Research and Development

P L C - Product Life Cycle

IMC Group - International Metalworking Companies Group

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CHAPTER ONE

INTRODUCTION

In this chapter, the reader will be introduced to the research at hand, i.e. the research this paper will embark upon, together with the background of the study. More also, problem discussion showing the gaps the study intends to investigate will be brought forward, narrowing it down to the purpose and research questions that this paper hopefully should be able to provide answers and finally the outline showing the remains of this thesis.

1.1 Background to the study

The rapid growth of multinational firms during the past 30 years has created global competition in almost all major economic sectors. These include manufacturing (Colantone & Sleuwaegen, 2010), service (Doh, Bunyaratavej, & Hahn, 2008; Laanti, McDougal, & Baume, 2009), and research and development (Demirbag & Glaister, 2010).

Furthermore, the marketing of products and services has begun to pose many challenges to marketers because of saturated market conditions, the overwhelming availability of substitutes, and diminishing opportunities for differentiation (Prakash and Sharma, 2010).

The prevailing competitive situation in the contemporary business environment is further exemplified by Kashani (2006: p 1) by stating that:

“Your core product or service has lost its uniqueness: competition has copied your winning features and is underselling you by a wide margin.” Your customers, once delighted with your innovations and quality services, are now only interested in your price. They view all competing offers alike and dismiss your claims to the contrary as just a hollow sales pitch, and a handful of large customers, who account for an increasing share of your turnover, are aggressively using their bargaining power to the detriment of your prices and margins. And, as if that wasn't enough, your marketing has become powerless as no amount of persuasive communication and brand building can redress this imbalance of the bargaining positions”.

It is pertinent to mention that the above mentioned scenario is best described as commoditization, a situation faced by many companies which have seen their control over prices disappear along with their brand equity and customer loyalty. This scenario is alive and kicking in many business sectors today. For example, Holmes (2008) wrote in his book that organizations and those who work within them are under attack from the increasingly pervasive impacts of commoditization. With little to distinguish one company's products and services from another or one person's skills and capabilities from the next, organizations and workers alike are finding themselves trapped in the 'me-too hell' of commoditization. For many this means the survival of the cheapest, as price becomes the principal basis for decision making. For others it requires them to think creatively to avoid the trap of commoditization, even though this may only provide a temporary respite. Hence the question: Can you fight commoditization and win?

This thesis investigates the 'commoditization of markets', a unique phenomenon of evolving market competition in which distinguishable products become indistinguishable in the eyes of the consumers in terms of attributes (uniqueness or brand) causing them to only infer to the price of the product to make consumption decisions (Dumlupinar,2010). Many high-tech industries currently face the challenge of commoditization as a steadily greater number of offerings from their component suppliers are undifferentiated, including computer memory, television parts, and disk drives (Christensen & Raynor, 2003; Greenstein, 2004). Companies that differentiate their products by building them to be smaller, faster, more powerful and cheaper begin to find that others quickly imitate every new feature that they introduce. The length of time that any given product is attractive in the market begins to decline, as even newer products quickly take over. More so with the globalization of manufacturing and even R&D, skills like total quality management, six sigma, supply chain management and enterprise resource management are now widespread, and known to almost everybody.

1.2 Problem Discussion

Competition in an industry continually works to drive down the rate of return on invested capital (Porter 1980). In complex competitive markets such as commoditized markets, the strategic choice would be to hold price and lose market share or lower prices and hold market share, whichever the decision, companies lose their pricing power, experience reducing profit margins. Prior research has also shown that commoditized industries are more likely to experience price wars (Davenport, 2005) which can destroy markets, disrupt industries and disorganize long successful firms (D'aveni, 2009). In a similar vein, researchers have argued that increased commoditization will lead to lower profitability of firms (Matthyssens & Vandembemt, 2008; Narver & Slater, 1990; Rangan & Bowman, 1992).

Commoditization is fast becoming a fact of business (D'aveni, 2009) and this necessitates companies to identify and devise strategies that can help them escape or benefit from the commodity trap and in turn increase or maintain profitability in such complex competitive markets. Managers are often in denial and fail to realize this and as a result fail to respond in a timely manner. Companies will need to reposition themselves and reconfigure the value chain to provide lower cost and differentiation (Porter, 1985) as it will no longer be enough to just produce products.

Previous research has shown that commoditization is not limited to a single industry but rather constitutes a general trend pertaining to an increasing number of industries (Greenstein, 2004). This research will therefore look at the Engineering industry in which the Sandvik Group operates and has considerable market share.

The increasing practical importance for managers to understand and identify commoditization, together with recent academic interest in the topic, suggests two avenues for improving our comprehension of the phenomenon. Although studies have mentioned a few key characteristics related to commoditization, such as homogenous products (Pelham, 1997) and industry stability (Hambrick, 1983b), the literature offers little or no comprehensive construct that captures root causes of commoditization so that the very source can be avoided or eliminated.

1.3 Objectives of the Research Study

- a) The authors of this thesis are therefore motivated to establish the causes of commoditisation
- b) The second objective is the need to examine how the process of commoditization can change the structure of a market as companies may need to change their strategic focus and reconfigure the value chain. This thesis will also help Sandvik Machining Solutions in particular to identify whether their markets are commoditized or in danger of commoditization.

Consequently, the objective of this thesis is to give a better understanding of the nature and aspect of commoditization of markets. In doing so we address four essential research questions

1.4 Research Questions

- 1) What factors drive a (product) market to become commoditized?
- 2) What strategies have been proven successful to fight commoditization?
- 3) How does the process of commoditization change the structure of a market; Effects of commoditization?
- 4) On commoditized markets, which business strategies have proven successful for company growth and profitability?

The authors first explore the nature and aspect of commoditization, and then investigate strategies that have proven successful in fighting commoditization. Nonetheless, since the novelty of this thesis lies on investigating the factors that drive a market to become commoditized, the findings will span from theoretical views and empirical study.

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1.5 Disposition

The thesis is structured according to the following chapters: *the Introduction* which provides an overview of the research at hand and justification of the study. The second is *literature review* that seeks to review the existing literature on theories about the nature and aspect of commoditisation and its overall effects on the market structure. In the *Theoretical framework chapter*, the authors adopt the three commodity traps framework that will be used as a lens to investigate commoditisation levels in the empirical study.

The *Methodology* explains the methods used and procedure followed to obtain data which is needed to answer research questions that are central to this research project.

The *Empirical study* chapter will present the collected empirical findings for the study that are divided into two main parts. The primary findings consist of primary information gathered with the help of interviews with the top management of Sandvik Machining Solutions while the secondary findings consist of desk research on how commoditisation evolved in the different companies and strategies that were deployed for profitability.

The *Analysis and Discussion* chapter will present the analyses that are divided into five parts. In this chapter the authors interpret and analyze the empirical findings, using existing theories and models from theoretical framework section.

The last is *Conclusion* chapter where the authors summarize the analyzed data by providing the reader with conclusions and answers to the research questions and justifying the research purpose. This is done with the aim of seeing whether the purpose of the thesis is fulfilled. In addition, this chapter spells out the managerial implications and as well it presents the areas for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review presented in this chapter forms the basis for the theoretical and conceptual frameworks used to operationalise the research questions stipulated earlier in this thesis. First, the nature and various definitions of strategy are presented and discussed. Thereafter, some perspectives in strategic management literature on how ‘strategising’ or the strategic development processes happens and levels of strategy are reviewed. At the end of this section, the relationship between the dimensions of strategy and the operational framework adopted in this research project is outlined. This chapter ends with our own reflection on the entire chapter and how the frameworks are going to be operationalised in reality.

2.2 Nature of commoditisation phenomenon

The most important theme in the study of competitive strategy has been to understand the causes of differing competitive environments and the implications of environmental changes for firms’ strategic orientations (Heil and Montgomery, 2001; Weitz, 1985) Similarly, marketing scholars (e.g Reimann *et al.*, 2010; Greenstein, 2004; Christensen and Raynor, 2003) have set out to comprehend the phenomenon of commoditisation, investigate its causes and recommend strategic action.

Reimann *et al.*(2010) considers commoditization as a market scenario characterised by increasing *homogeneity of products*; where products are viewed in the market as interchangeable (Greenstein, 2004) , *higher price sensitivity* among customers which is attributed to the fact that buyers are looking for the best price for a standard product on the assumption of the continuing availability of products with essentially equivalent quality and features (Shapiro, 1987), *lower switching costs*; switching cost as a combination of buyers’ economic risk, evaluation, learning, set-up, benefit loss, monetary loss, personal relationship loss, and brand relationship loss costs

(Burnham et al., 2003) are lower in commoditized markets. Highly commoditized competitive environments are also characterized by *high industry stability* (Pelham, 1997), which refers to predictable market demand, a consistent, competitive structure, and little changes in the demography of customers (Day & Wensley, 1983)

The classical hypothesis for commoditization is the increased competition due to globalisation i.e. trade de-regulations of markets that has broken down barriers to market entry within industries. Companies are experiencing significant pressures from increased levels of competition, rapidly changing market requirements, higher rates of technical obsolescence, shorter product life-cycles and the heightened importance of meeting the needs of increasingly sophisticated customers (McGrath *et al.*, 1992). Today's global competitive landscape makes it difficult for firms to sustain premium prices for an extended period of time (Olson & Sharma, 2008) as the product life cycle suggests that, the longer the product categories matures, the more it is vulnerable to commoditization. The ability for competing products to emerge quickly is increasing and two developments have been cited as fundamental to this market evolution (Matthyssens & Vandenbempt, 2008; Shapiro, 2002): First, customers have become more informed. They can learn a great deal about a product, its use and will be able to find substitutes if necessary. Second, increasing transparency in competitive markets allows firms to imitate and improve on a competitor's product, providing sufficient alternatives to the customer, increasing the likelihood that he or she will switch to a different supplier.

Another reason it is getting tougher to differentiate products and services is that customers don't want to differentiate them (Dumlupinar, 2005). The more complex products and services are, the more difficult it is for customers to compare and evaluate them. Analyzing and deciding between long lists of non-identical features is hard. Simply comparing the purchase prices is much easier for such customers.

Christensen and Raynor (2003) provide a compelling logic that when product designs become comprised of homogeneous (standardized), commoditization occurs, making it difficult to earn anything more than subsistence returns. They further propose that the opportunity for profits will shift to another stage in the value chain. For example, the personal computer market has become commoditized and the opportunity for profits has shifted to microprocessors (Intel) and

Operating system (Microsoft) software. In the same way the Airline industry, the opportunity for profits has shifted low cost operations (Ryan air, Belgium air) while KLM has shifted opportunity to Customer intimacy. Companies have to devise ways of competing efficiently within the value chain. This explains the increasing number of strategic alliances and outsourcing as companies keep their core competencies and activities in-house.

In their study, Reimann et al., 2010 recommend marketing strategies in commoditised markets derived from value proportion theory; *operational excellence*, *product leadership*, and *customer intimacy*—that firms can use to create value for their customers. While operationally excellent firms create value by offering customers a low-cost product made attained through efficiency and cost reductions in operations, firms striving for product leadership create value through innovative design and brand image (Reimann et al., 2010). The third value discipline, customer intimacy, creates value by focusing on understanding customers and meeting their specific needs. The most overlooked investment a marketer can make in advance of inevitable commoditisation is a customer relationship management system that allows computation of the profit margin associated with each customer based on price-paid less cost to serve (Quelch, 2011). Companies need to have this data readily available once profit margins start being squeezed.

Reimann et al., 2010 further develop a multi-dimensional scale of commoditization level and empirically demonstrate commoditization as a multidimensional construct. Results of their study show that commoditisation does not take place in the same way within the industries. Some industries are highly commoditized and others have low levels of commoditisation. This shows that different strategies work in different commoditisation environments. D’aveni (2009) echoes this in his study and provides a framework of three different commodity traps. To run in the right direction, you have to understand how the commoditisation occurred; recognize the different traps and the appropriate counter-attacking strategies. Identifying these traps, how to escape them and appropriate strategy is the focus of this study.

2.3 Effects of commoditisation on Market structure of an industry

Commoditisation has led business managers to rethink their strategies, and at times business models to remain relevant in the market place. This had led to the evolution of industries and the market as well. An understanding of the evolving market structure can provide insights into future features of a commoditised market and how companies can best respond to the threat.

2.3.1 Price and Innovation Wars

An obvious result of commoditisation on the market structure is the creation of price wars (Dumlupinar, 2010) where price become the main basis of comparison in the cases of intensive competitive rivalry, excess number of suppliers in the market compared to the demand and lack of unique product features. Companies suffer losses in terms of margins, consumer equity, and fall victim to substitutes, and even face bankruptcy (Busse, 2000). As consumers get used to low prices, their reference price for the brands involved lowers. As a result, they often become unwilling to pay higher prices later on (Blattberg *et al.*, 1995). In the long run only the firms that can translate their low cost structures into low prices will be able to survive and remain dominant in the sector. For those that will still be facing fixed costs and increasing production costs, Sales revenues will go down as product prices are lowered and market share is lost. The result will be falling margins for these firms. With continuous deterioration and failure to break even, the companies' financial standing will be in jeopardy and for publicly listed companies, the share price will tumble and they may opt to move away from the market.

In a bid to justify and defend prices, companies begin to re-define value for their products through product innovations. Product innovations by one company are soon counter attacked by innovations from competing firms and consequently firms find themselves caught up in 'innovation wars'. "*Companies become locked into a form of one-upmanship each rival trying to outdo its rivals offering*, D'aveni, 2009 p 83. This directs emphasis on R & D and companies begin to spend and allocate a substantial amount of resources into production of next generation products to fight the innovation wars.

2.3.2 Shortening life cycle of products

Once a product takes on a marketing profile, it develops through a product life cycle. Shorter product life cycles denote a scenario where products quickly become inapplicable, and further accelerate the cycle of new product development in a company or industry. Kotler *et al.*, (2008) give five stages of a product life cycle.

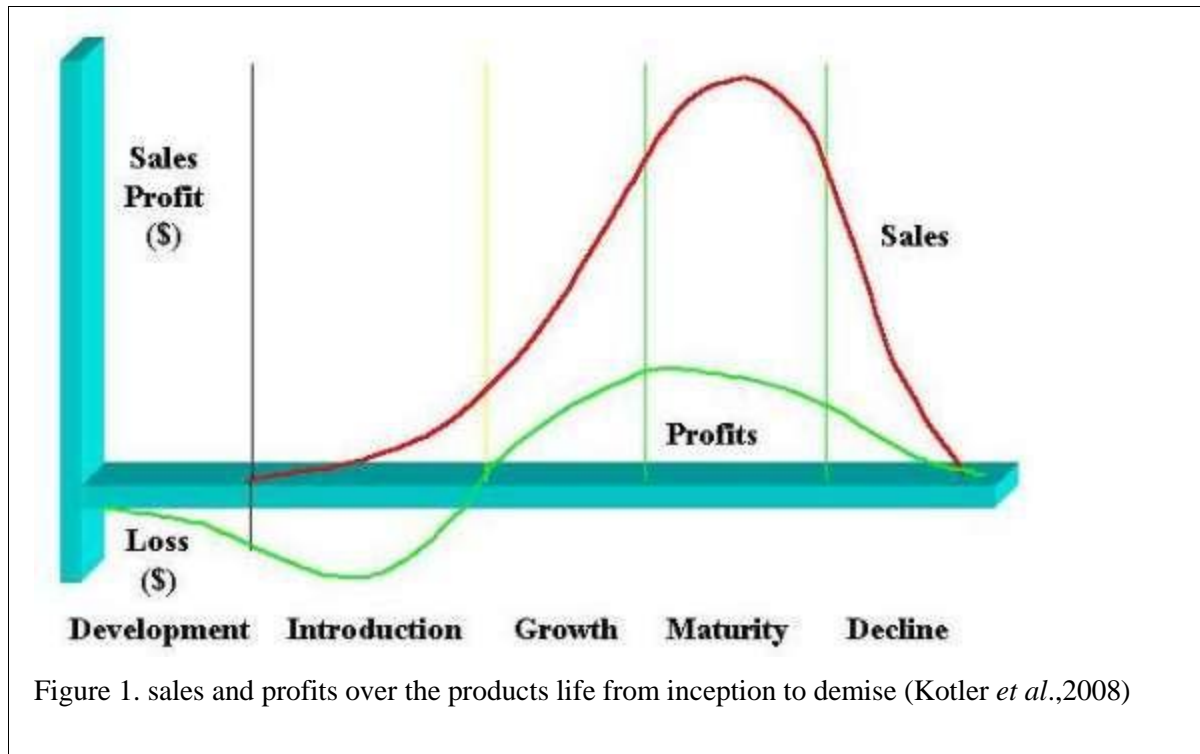


Figure 1. sales and profits over the products life from inception to demise (Kotler *et al.*,2008)

Figure 1 depicts the five distinct stages in a product life cycle Kotler *et al.*, (2008) ; 1) *Product development* which begins when the company finds and develops a new product idea. 2) The *introduction stage*, a period of slow sales growth as the product is being just introduced in the market. Products at this stage are monitored for growth. 3) The *growth stage*, which is characterized by rapid growth in sales and revenue through rapid market acceptance. 3) *Maturity stage* a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Competition is intense and companies fight to maintain their market share. 4) *Decline stage*, the market share is decreasing and further reducing the overall amount of profits. A product takes on these cycles in a period of time, for some industries it can take years

and others months. Notably the period between the stages also varies. However in a commoditised market, intense advertisement through mass media and the internet have accelerated the diffusion rate of new products (Dumlupinar, 2010). At the same time, technical innovation and intense competition in the market in turn promote rapid obsolescence of existing products and technologies (Higuchi and Troutt, 2004). When a company succeeds in developing a new product category, other competitors may soon emerge.

2.3.3 Value chain dynamics

Commoditisation forces are impacting the value chain strategies of companies. The value chain linking suppliers, producers, marketing intermediaries, consumer and organizational end users becomes a very important dimension of marketing strategy (Cravens, 2006). As the market place evolves and customers value requirement changes, this drives business decisions about what activities to focus on and what to outsource. Companies begin to reconfigure their value chains, to compete favorably and develop core competencies that lead to market niches in a way. Over its 20-year reign H-P's value chain has evolved dramatically. *“As a market pioneer, it began by having to do everything in-house in order to push the technology boundaries and over time it has gradually outsourced non-key components of manufacturing”* (Hutt and Davidson, 2005). The focus on core competencies has creates specialized knowledge and this has heightened the rise of collaborative alliances among the value chain members (Cravens, 2006) for example in the airline industry; Star Alliance and Sky team in order to achieve various objectives such as market penetration and innovation. Companies like Apple have formed alliances with companies such as AT & T to help them keep ahead. In fact according to Chesbrough (2011), *“the greatest innovation from Apple was not the iPod and iPhone themselves but the fact that they had to form new alliances with apps and rights owners.”*

2.3.4 Customer Relationship Management

As firms strive to maintain and increase market share in the midst of commoditised markets, the need for customer relationship management strategies has emerged. Making and selling ceases to be sufficient to succeed, this has required a different view of business, one that places emphasizes on exchange relationships and focuses on partnerships (Donaldson & O'Toole,

2007). In an effort to keep customers loyal, the market is infested with loyalty programs to motivate customers to remain loyal however their effectiveness still remains a debate. Further to this, Donaldson & O'Toole (2007) say that, in a fiercely competitive environment where incumbents have easy access to the same technologies new sources of competitive advantages are required to strengthen strategies based on costs and differentiation. Commoditisation has pushed companies to pursue relationship- based strategies to protect revenue. As a result companies invest in CRM systems such as social media to engage customers. Customer analyses and engagement can reveal what motivates customers to buy and also lead to the creation of the next generation product (Dumlupinar, 2010). *“The future for companies like Nokia is no longer in their labs but also in customer satisfaction”* (Chesbrough, 2011). Product industries are morphed into service industries (D'aveni, 2009) as they strive to give the ultimate customer experience.

2.3.5 Declining Brand differentiation

According to Dumlupinar (2010), a differentiation strategy is one in which a product offering is different from that of one or more competitors in a way that is valued by the customer. A meaningful differentiation can be based on (Kotler, 2000 p.140) a) *Physical differences*, b) *differences in convenience for attaining*, c) *service differences*, d) *price differences*, and e) *image differences*. In a commoditised market every company is striving to differentiate itself from the other through their brand among other strategies. However, each differentiation is soon imitated by your competitors. Fashion collections are soon imitated, software upgrades, cell phone features and *“Soon everyone has the same bells and whistles”* (D'aveni, 2009). While some researchers like Johnston (2009), bring forward the notion that, a market place becomes a commodity market when it chooses not to differentiate a product, service or brand, continuous differentiation by the players as an effect of a commodity market will again bridge the gap and lead further to commoditisation. The different brands increasingly become blurred in the eyes of the consumer. This means that for successful firms, product differentiation alone is not enough but must also use differentiation to change their industries structures in ways that avoid, or get out of the commoditisation trap.

Summary of chapter

In this chapter, the authors reviewed existing literature on the nature of commoditisation, its root cause and also looked at how this phenomenon can change the market structure. This literature can be a foresight into the disastrous nature of commoditisation and be a motivation for companies to invest resources and substantial effort in avoiding the commodity trap.

CHAPTER THREE

COMMODITY TRAPS - A THEORETICAL FRAMEWORK

3.1 Introduction

In this chapter, the authors adapt D’aveni’s (2009) framework of the commodity traps because it is grounded in the dynamics of Price-Product benefit positioning and offers strategies that have proven to work in companies caught up in fearsome price wars. For each of these traps we will identify the basic concepts of the characteristics, causes of the commoditisation and align them together with relevant strategies. This chapter ends with our own reflection on the entire chapter.

3.2 The Three Commodity Traps Framework

	Deterioration ↓ Price, ↓ Benefits to customers	Proliferation ↓ ↑ Price, ↓ ↑ Benefits	Escalation ↓ Price , ↑ Benefits
Description	Caused by a firm with a dominant low cost- low benefit position that swallows market share and upsets the positioning of those around it.	Caused by multiple threats due to substitutes, imitators, market fragmentation, and new product innovation. Opens many new price-benefit positions surrounding and eroding the firms product uniqueness	Caused by rising benefits for the same or lower price. Rivals jockey to offer more value to customers driving competition down toward the lower end of the price-benefit map.
The challenges	You can’t beat them, but if you run away from them, you have to abandon the segments that you do best, so either way profits will erode.	You can’t fight every-one everywhere, all the time. But if you don’t, you are stung to death by a swarm of bees.	Price-benefit competition can be costly, but no company can afford to be the first to blink and end the game of one-upmanship.

Figure 2. The three commodity traps framework (D’aveni, 2009)

Figure 2 above depicts the three different commodity traps framework that grounded in deep research carried out by D'aveni on a number of industries ranging from amateur photography to advanced materials, automobiles to artificial sweeteners and music playing devices to motorcycles. Consequently it concludes that, there can exist three different commodity traps that is to say, *escalation trap*, *deterioration trap* and *proliferation trap* and a company can find itself trapped in either or all of them.

3.3 Escalation Commodity Trap

When Apple launched the iPhone in 2007, with a sleek design and a multicolored touch screen the Price tag for an 8GB iPhone was \$599. Two years later the 8GB iPhone was sold for \$99, and guaranteed to have a lot fancier features compared to the original iPhone (Apple, 2009). In response to Apple's iPhone 4s, Samsung has unveiled the Galaxy Nexus smartphone with improved camera and biggest screen in the Samsung bundle (Samsung, 2012). Consequently Apple and Samsung, the leading maker of Android-based devices, have become bitter rivals in a battle for smart phone supremacy and find themselves caught up in an '*escalation trap*'.

This is a scenario where companies are trying to outdo their competitors by offering more customer benefits at the same or lower price. Primary benefits that once excited customers are later being taken for granted and become ordinary features as companies try to outdo their rivals by creating new benefits. For the Intel brand, the previous differentiating feature, microprocessor speed has become decreasingly important as faster chips have overshoot the customer needs and the strategy has been to broaden the benefits it provides to PC makers by providing more emphasis on features targeted at the changing needs of customers (Hutt & Davidson, 2009) D'aveni (2009) calls this game of one up man ship the "Escalation trap".

3.3.1 Causes and characteristics

In this Escalation trap, customers get more and more for their money and in the event companies are losing out on their margins. This can be seen as companies continue to innovate, add more benefits to products but cannot charge a premium price for the added benefits, instead they may opt to lower the prices even further to maintain or increase market share. The customers within

this environment have high buying power (Dumlupinar, 2010) and the companies engage in the escalation of benefits, leading to price and benefit wars. *“You feel like you are locked into an arms race with competitors, constantly adding new features and benefits and lowering prices just to keep up.”*(D’aveni, 2009 p 83). Companies that can cut their costs ahead of price decreases lead the escalation of benefits while others are trapped in a game of non-profitable catch-up. Soon you find that, the primary benefit which excited customers yesterday is now taken for granted. We can see this in the cell phone industry, where connectivity was once the customers’ main concern. Today it is no longer a primary benefit. The cell phone has to be sleek, provide emotional attachment and also be integrated in the customers’ daily life. For example Nokia market leader in India saw rural opportunity ahead of competition and now provides a phone that can double up as flashlights because of rural India’s power outages. Consequently firms caught in this trap find themselves moving from a product business to a service business. This trap can be caused by;

3.3.1.1 Economic downturn

As any other one of these traps, changes in the makeup of the customer be it lifestyle, age, demographic can shift the market direction. An Economic downturn in this regard will cause demand to evaporate, giving consumers power to demand more for less.(D’aveni,2009).Changes in major economic variables such as income, cost of living, interest rates, savings and borrowing patterns have an impact on the shift of the market.(Kotler, 2008). Companies that watch these variables using economic forecasting will be able to take advantage of the changes in the economic environment.

3.3.1.2 Rapid Technology Advancement

Technology is one of the real forces driving commoditization (Dumlupinar, 2010) and as a result industries with rapid changing technology environments are liable to this trap. Within high tech companies, innovations are rampant and these could either cause commoditisation or escape it. While they may present companies an opportunity for creating value for customers including those they could never reach before, high technology can accelerate product sameness, and lower

prices (Wood & Hwelin 2011). A good example of how emerging technology can commoditize a product is the personal computer and development of electronic commerce.

Dell Computer Corporation has played a leading role in the commoditization of the PC. The company took advantage of the e-commerce and offered a business model that was direct-to-customer, eliminating the distribution chains. Dell customers who wanted a self-service-transaction could research, configure and price their PCs. Today they can do the same at Dell's major competitors. They can compare prices and make their purchases without ever speaking to a salesperson. The once complex product has been transformed by technology into a product that can just as easily be treated as a commodity.

3.3.1.3 Industry stability paired with market demand growth

This trap can be stimulated by industrial stability where a large market with more producers and consumers exist. Customers are no longer just aware but have accepted the product generating market demand and the low entry barriers accelerating the entry of competitors such as the cellphone industry. Switching costs within such markets are quite low as companies introduce new product features, improve on rival's product and expand the market for the product (Kotler, 2008)

3.3.2 Strategies to Fight Escalation

The strategies for beating this trap such as research& development all involve managing the momentum of the escalation of benefits by reversing, harnessing or resizing the momentum (D'aveni, 2009)

3.3.2.1 Re- seize the momentum

In such aggressive competitive behavior where there is rapid imitation, more frequent redesigning and re-tooling is necessary and the firms that will escape this trap are those that will be able to anticipate and drive shifts rather than play constant catch-up.

Escalation of benefits can give way to a radical change in the industry causing the industry to evolve and metamorphose to a completely different primary benefit or product. More so, primary

benefits are redefined. *For example the music oriented iPod which later morphed into the iPhone.* (D'Aveni ,2009 p 96). According to D'aveni's research, industries seem to have a rhythm of change and changes in primary benefits appeared to run in three to four year cycles. Thus companies should carry out price- benefit at several points in time to know when and how to shift their R&D to focus on the most emerging benefit and to establish the Moore's law of their industry (Dumlupinar, 2010). In order to be able to anticipate the timing of redefinitions of primary benefits company needs to watch changing customer needs and demographics since the shifts in importance of benefits are mainly driven by changes in customers.

More so to echo Reimann *et al.*, (2010), the companies liable to this trap need to invest in Customer Relationship Management(CRM) in advance and leverage on the information they get from the customers to lead and set the pace in the re-definition of benefits. Waiting until competitors have shifted may be too late and force the company into a game of constant catch-up. To successfully pace and prepare for shifts organisations need to be able to efficiently operationalise the current benefit, set up good distribution channels, research changes in customer and technology markets and more so develop people and competencies that will drive and support the next generation primary benefit (D'aveni,2009). Managing this pacing requires that companies are just fast enough to be ahead of competition but not too fast to avoid throwing away margins before the value of the current benefit is utilized. Furthermore organizations need to be able to build internal capabilities beforehand such as competitive intelligence for the effective timing of these shifts and marketing skills that extend the current benefit as long as possible.

3.3.2.3 Reverse the momentum

While re-seizing the momentum helps the companies to keep ahead of the trap, reversing the momentum involves trying to slow or even reverse the momentum to restore balance to the industry and prevent further erosion of price (D'aveni, 2009).

The escalation can be damped by locking customers into long term contracts using high switching costs or other strategies that ensure brand loyalty market share and prices. Customer lock-in occurs when customers have significant costs associated with changing supplier or brand

(Kaplan & Norton, 2003). This burden could be financial, time linked or even emotional. For example changing mobile provider will give you a burden of changing your mobile number, leave an Internet access carrier and you can't keep your data or e-mail address. Customer lock-in strategies alone will not guarantee market share but they will slow down or dampen the escalation that might lead to price wars and other challenges. This strategy is particularly important if the market is not price or benefit sensitive.

3.3.2.4 Harness the momentum

This approach to escalation uses the momentum to drive and control escalation forcing others to catch up. In D'aveni's study Steve Loranger, CEO of ITT industries told him how his company had harnessed commoditisation by lowering prices, improving performance and expanding the market. "*We offer a thousand times the power with less than half the weight and size for half of the price and have stimulated an explosion in demand, making night vision standard issue for the U.S military*" (quoted in D'aveni 2009, pp. 108). The strategic choice for companies here is to relentlessly reduce their cost structure before reducing their price. The rivals will in response be forced to lower their prices then catch up on cost reductions later causing the weak ones to shake-out. According to Porter (2000), companies can follow a cost leadership strategy as a result of economies of scale and development of the experience curve. Companies like Apple have harnessed the momentum of escalation in launching successive generations of iPods, reducing prices and increasing prices for the entire line with each successive generation pushing the low end lower and blocking entry by low- cost imitators.

For companies to be able to reverse the momentum, freeze or slow it down, it would require a high level of *market power* over either customers or rivals. Notably, Companies can for example acquire this market power through Mergers & Acquisitions, strategic alliances and use this power to control prices and the erosion of margins. Besides gaining greater market power, M& A will increase product portfolios, open access to innovative capabilities, thus reducing the risks associated with the development of a new product or service, maximize efficiency through economies of scale and scope, achieve synergy effects (Lubatkin, 1987; Birkinshaw et al., 2000; Vaara, 2002) and finally in some cases, reshape a firm's competitive scope (Hitt *et al.*, 2007)

Effective pacing requires intimate *knowledge of the market*. Changes within customers could create opportunities for new benefits. Technology is important but has to rhyme with market interests. There are many great ideas whose time has not yet come and there are those that are on their way out before we can grasp them. Both of these can be assessed with intelligent market knowledge (D'Aveni, 2009).

3.4 Deterioration Commodity Trap

Deterioration is a scenario when a firm with a dominant low-cost low-benefit position and with great economies of scale enters the market, takes up a big chunk of the market share and upsets the positioning of all other firms around it (D'Aveni, 2009).

Besides the entrance of the dominant firm, deterioration is caused and amplified by a number of other factors as laid down below.

3.4.1 Causes and characteristics of Deterioration trap

3.4.1.1 Globalisation and Low cost producers

Globalisation is the trend toward greater economic, cultural, political and technological interdependence among national institutions and economies. This trend often leads to globalisation of production which is the dispersal of production activities worldwide to minimize costs and maximize quality (Wild et. al, 2012). Globalisation and the rise of outsourcing and off-shoring have enabled the dominant firms in most industries to keep their variable costs at a bare minimum. When the dominant low-end player moves into the market, it will distort the status-quo of this market. This firm can produce at a very low cost making it possible for it to charge extremely low prices while capturing more and more market share from the incumbent firms. To save their market share, incumbent firms will resort to lowering their prices to match the new entrants' offer but this will lead to more fierce price wars, competition and commoditisation.

3.4.1.2 Hyper competition and Economies of scale

Markets are increasingly becoming interrelated, complex, and turbulent creating challenges for managers in understanding market structure and identifying opportunities for growth (Cravens and Piercy, 2006, pp. 71). Global companies must therefore manage the competing pressures of global efficiency and responsiveness especially as they operate across increasing numbers of channels, formats and often business segments.

As companies expand into new markets and geographical regions, they are faced with an increasingly complex and hyper competitive environment with more variables to consider simultaneously. The higher level of competition is no longer driven by domestic competition alone but from competitors in the international arena as well which leads to hyper competition and commoditisation on a global scale.

Due to its increasing market share, the newcomer will then gain economies of scale which will in turn encourage further mass production. Quoting Cullen (1997, p. 140) “economies of scale exist when the long-run average cost falls as the rate of output increases.”

With this large scale production, the new entrant will continue to lower its already low production costs enabling it to drive product prices lower. Economies of scale remain an essential determinant for cost-efficient production, and that, without sufficient economies of scale, high levels of flexibility cannot alone translate into world competitive production. Bourgeois (1980) and Keats and Hitt (1988) also argued that by achieving economies of scale firms can improve their performance.

Incumbent firms have to react to save their diminishing market share and their reactions in most cases will intensify the competition in the industry thus commoditisation. These economies of scale enjoyed by the disrupting company make it hard for the other industry participants to compete on price (D’Aveni, 2009)

3.4.1.3 Well informed and sophisticated customers

The adoption of global practices, enabled by web-based applications has allowed customers to access more accurate information and made many of their processes impervious to geography and time zones and distance. This globalisation phenomenon has also rendered national borders useless leading to free flow of information in all markets (Wild, 2012).

As the customers get more and more informed of the existing alternatives, they become less and less willing to pay for additional benefits such as superior service and industry expertise as claimed by most industry leaders (D'Aveni, 2009).

These informed customers develop complex buying behavior, are highly price sensitive and take advantage of the competition in the market to bargain for lower prices.

Meyer-Waarden and Benavent (2006a) contend that it is difficult to change these established behavioral patterns even with the types of reward systems that are prevalent today.

Even language barriers are falling as many global process standards become more common. In this flattened, flexible world, the time it takes for products to commoditize is growing shorter, the ability for competing products to emerge quickly is increasing, and the complexity of the products themselves is increasing.

3.4.2 Strategies to Fight Deterioration

With the whole market shifting to the discounting low-end producer, other industry competitors have no choice but to react and limit its market power and to defend and maintain their share of the market and profits. The strategies to achieve this will be generalized below.

3.4.2.1 Sidestepping the Discounter

To escape and avoid the wrath and power of the discounter, D'aveni (2009) advises the competing firms to shift their market positions by moving upscale in terms of customers, move away from direct competition by changing their channels, time or place and finally move out of the market altogether to avoid further deterioration.

When firms move upscale they concede the low end market to the discounter but target other higher areas to maintain their exclusivity. By concentrating on these high value added positions

and brands, the affected companies move up from the line of fire of the dominant low-end firm (D'Aveni, 2009).

Perceptive market segmentation is useful in identifying the customers that offer the most promising potential to the organisation. High-value clients may be present within the existing customer base or in markets served by disruptive innovations. In both situations, Christensen and Raynor (2003, pp. 75) indicate that effective marketing strategies require “an understanding of the circumstances in which customers buy or use things”.

Applying this “requires that organisations: identify and focus resources on high-value customers; attract them by capturing and using knowledge about them to develop customized offerings and personalized communication; and nurture them by maximizing the value of their relationship with the organisation” (Ramaswami et.al., 2004, pp. 53).

Moving away entails shifting to other areas which have not been affected by the deterioration trap. As hyper competition and commoditisation set in, and companies lose their geographical market share, they can decide to move to less competitive geographical areas. The overly concentrated markets are left in favor of untapped markets especially in emerging economies.

The term emerging economy was first coined in 1981 by Antoine W. Van Agtmael of the International Finance Corporation of the World Bank. It refers to an economy that is developing rapidly or that has potential for rapid growth in response to the spread of capitalism. Emerging markets have social or business activity in the process of rapid demand growth and industrialization.

Emerging economies merit attention because although advanced economies account for more than 75 percent of the global market, many of them regularly suffer from economic recession and stagnation, ageing population, and low fertility rates leading to low growth in various product markets (Nakata and Sivakumar, 1997).

The intensive competition in a particular product market may be difficult to escape by *moving upscale* or *moving away* and can only be overcome by *moving on*. Moving on means shifting to completely different offerings and products from those offered by the low-end player and in some instances exiting from the market of the low-end producer (D'Aveni, 2009). The former market leader may soon realize that it will not be able to compete with this new entrant when it comes to particular products and therefore decides to offer completely different products.

3.4.2.2 Undermining the Discounter

This is the hardest but at the same time the most rewarding way of overcoming the threat. It involves redefining both the value and price as elements of competition.

- **Redefining value**

Redefining the value proposition of the low-cost producer is to erode its power from below by offering even lower prices and higher benefits through a reinvented value chain that still generate profits and this can be done by attacking its low-cost and quality position through simplified but much better and effective product designs while building up brand equity for the customers. Customer-based brand equity has been defined as the differential effect of brand knowledge on consumer response to the marketing of the brand (Kamakura and Russell, 1991). Thus brand equity is conceptualized from the perspective of the individual consumer and customer-based brand equity occurs when the consumer is familiar with the brand and holds some favorable, strong, and unique brand associations in their memory (Kamakura and Russell, 1991).

Although it takes time to develop, brand equity adds value for customers and helps to create defensible competitive positions (DeChernatony and MacDonald, 1992). The competitive advantage of firms that have brands with high equity includes the opportunity for successful extensions, resilience against competitors' promotional pressures, and creation of barriers to competitive entry (Farquhar, 1989).

By building up their brand equity they increase the perceived value of their products in the minds of the customers. Instead of hiking the prices due to this "increased" value proposition, they then charge the same or lower prices than those charged by the low-end producer thus undermining its market power.

- **Redefining Price**

Rivals can change the customers' perception of the total price being charged. Since some products require additional services like transportation and maintenance to make them fully operational, competing firms can offer these after-sales services at much lower fees or even for

free. By doing so, their total price over the product lifespan is deemed lower than that charged by the discounter.

This *bundling strategy* which involves the of selling complimentary products together at a much lower price than individually selling the products can be implemented to alter the customers' view and opinion on the total price being charged (D'Aveni, 2009). This strategy is often visible in supermarkets and retailers.

Besides the fore mentioned approach, firms have also used membership fees and loyalty programs as a way of lowering the prices charged to their customers. Lowering prices can attract new customers, and the satisfaction obtained by these customers will lead to customer loyalty.

Customer loyalty is the customer's commitment to do business with a particular firm, by purchasing goods and services repeatedly and more also, recommending the services and products to friends and associates. (McIlroy and Barnett, 2000) "Loyalty is a direct result of customer satisfaction", since satisfaction is influenced by value of services provided to customers (Heskett *et al.*, 1994).

Achieving customer loyalty could be done through several means (Wright & Sparks, 1999), for instance, location, quality and price. In fact according to Wright & Sparks (1999), location, convenience, price and quality are considered as most significant that drives customers towards a retailer. In short, when a customer is satisfied, possibility exist they will come back for more. According to Heskett *et al.*, (1994), the value a loyal customer brings to a firm could be huge, in terms of repeating purchases and referrals. As argued by Heskett *et al.*, (1994) profit and growth which are very important for the survival of firms facing commoditisation are tied to customer loyalty.

3.4.2.3 Containing and controlling the Discounter

Through quality management, the company can offer high end quality products at lower than expected prices in order to lure away the discounter's customers and entice other undecided customers. Quality management consists of three core building blocks, which are customer orientation, process control, and continuous improvement and based on these three building blocks it can be argued that quality management can be seen as a control system aiming to control an organisation's processes and to improve and change these processes in response to

changes. (Dean and Bowen, 1994; Wilkinson et al., 1998; Handfield and Melnyk, 1998; Dale et al., 2000; Dale, 2003)

D'Aveni (2009) notes that by moving customers to this new upscale value proposition the market power of the discounter can be controlled and contained. This is different from the earlier discussed strategy of moving upscale in a way that this time the firm moves both its products and customer base upscale leaving the disrupting discounter a narrow market base.

3.5 Proliferation Commodity Trap

D'Aveni (2009) defines proliferation as a scenario that occurs when rival companies develop new value propositions which are combinations of price and benefits that they use to attack the incumbent's market. The incumbent firm's product is surrounded by rivals offering very similar substitutes through imitations and proliferation is bound to occur characterized by the following;

3.5.1 Causes and characteristics

3.5.1.1 Easy product and brand imitation due to open processes

Brand imitation is a profitable marketing strategy based on the utilisation of similarity such as packaging, design, brand name or advertising, in order to facilitate the acceptance of a brand by consumers (Zaichkowsky, 1995). Because it resembles the successful (original) brand that it intends to imitate, the brand imitator may be attributed the original brand's properties such as quality, performance, reliability, or origin and such generalization is thought to have a significant impact on brand attitude and purchase (ibid).

Globalisation which is an open process has enabled the transfer of advanced technology across national borders. This has encouraged technological innovation and accelerated product and brand imitation by companies resulting in homogenous products that cannot be differentiated in the eyes of customers. (Wild *et al.*, 2012)

3.5.1.2 Market fragmentation and Narrowing Niches

As new overlapping offerings, varieties and brands are introduced by the competitors, the product market is fragmented into smaller and smaller niches leading to fierce competition and commoditisation (D'Aveni, 2009).

Within the proliferation trap, multiple threats and overcrowding are witnessed in most or all of the market segments and the incumbent's market share is nibbled away time after time. After fending off earlier competition in the 1970s from the Japanese motorcycle makers, Harley-Davidson encountered another threat in the mid-2000s. This time round, American competitors Big Dog and Victory who made highly customized motorcycles threatened Harley's high end premium niche. The two companies were even able to command a 41 percent premium over Harley-Davidson for the same engine, features and accessories (D'Aveni, 2009).

The uniqueness of products offered across the market niches is lost when firms produce overlapping products which provide similar benefits to customers (Clancy, 2001). Some firms will then try to regain their exclusivity through differentiation.

Product differentiation is a classic marketing strategy to gain competitive advantage but radical product development projects, which are undertaken to create new product categories of products, present significant challenges to development teams (Seidel, 2007). However D'Aveni, (2009) cautions that differentiation alone is simply not sufficient. Competitors will soon follow suit leading to a vicious cycle of differentiation, competition and commoditisation.

3.5.1.3 Pressure to cut prices

The situation of having many firms competing for the same consumer with homogeneous product offerings, price defines the competitive position, and is as a powerful competitive weapon (Dolan and Simon, 1996; Kotler, 2003; Lucas et al., 1994).

When the incumbent firm's market share declines, it will be forced to viciously defend and hold onto its remaining market portion and existing customers. The firm may be obliged to reduce its prices in order to retain these customers. If this is not done, then the customers are more likely to change to the rivals who are now offering a similar or sometimes better value proposition (D'Aveni, 2009).

The pressure to cut prices will increase proportionately to the increase in competition and sometimes even much faster leading to diminishing margins and returns signaling commoditisation. However, if a firm is not accustomed to having to compete on price, it is often hard for firms to adjust to that notion (Porter, 1998a). Competing solely on price requires a business strategy that allows for significant cost cutting measures below those of their competitors.

It should be noted though that, price alone can rarely build or sustain marketing strategy. Unless committed to this strategy, through cost models and sourcing strategies, this model is potentially highly unsustainable (Nagle and Holden, 2002; Porter, 1998a).

Ultimately, the situation is made worse by the fact that the incumbent might have limited resources to compete favorably against all proliferators. D'Aveni (2009) also mentions that the firm cannot fight on all fronts and if it tries to, it will be stretched thin and bare but again if it does not react about the rivals attacking it, then it may lose its entire market share. Therefore, a firm must shift in direction of value to take pressure off maintaining a price advantage.

3.5.2 Strategies to Fight Proliferation

The commoditisation that results from the hyper competition and proliferation can be managed using the following strategies.

3.5.2.1 Selecting other segments

Firms can overcome proliferation by moving away from its threats. The companies avoid direct confrontation with the new entrants by selecting other less competitive segments and areas which are equally or more rewarding (D'Aveni, 2009). In most scenarios these other segments offer the least resistance and the incumbent can maximize the benefits if it has got tremendous advantage in this position; including first-mover advantage.

First-mover advantage" refers to pioneering brands that enjoy long-term market share advantages, along with possible advantages in distribution, product-line breadth, and quality (Buzzell and Gale, 1987; Lambkin, 1988; Robinson, 1988; Robinson and Fornell, 1985; Urban *et al.*, 1986).

These other segments are not completely new areas but rather existing positions that have not been fully exploited before. Although this strategy can work in the short run, again one cannot rule out the possibility of rivals following the incumbent to the new found segment which would definitely trigger off proliferation again.

3.5.2.2 Facing and overwhelming the threats

The firm can decide to divide up the company down into smaller parts that are more flexible in reacting to each threat as it comes. The new smaller parts will then have the flexibility and ability to concentrate and defend the parent firm's brand and product niches being attacked by the proliferators. New product flexibility represents the amount and variety of products that can be introduced in a production without triggering transition penalties and performance losses (Koste and Malhotra, 1999).

The most common way of gaining flexibility is acquiring the proliferators threatening the product markets status quo are through mergers and acquisitions long before these proliferators can establish themselves. M&A activities are value-creating, indicating that the synergies of M&A come from a broad range of sources such as revenue enhancement, cost reduction, access to new products, tax gains, etc. (Weston *et al.*, 2004; Singal, 1996).

Once these have been acquired, the acquirer is then in position to offer diversified product lines to meet various customers' needs without fear for unnecessary competition.

3.5.2.3 Timing and deterring the fights

If the resources are not readily available then it has got to do this sequentially. In managing the threats sequentially the firm can acquire, absorb and form alliances with a few rivals while deterring threats from other rivals for the meantime (D'Aveni, 2009).

To deter, prevent and scare off competitors from attacking its market, the firm can use "fighting" brands and "ghost" product strategies. Fighting brands are created specifically to attack a rival's key product. For example Word processor created by Microsoft as a direct challenger to Corel's word Perfect. Ghost products only exist in prototype formats and are mostly used to enhance the superiority of already existing firm products. Microsoft has over the years been accused of using "vaporware" – announcing products that never come to market.

3.5.2.4 Outflanking the threats

If the firm cannot escape the proliferation trap nor fight it, then turning it to its advantage is the ideal way to go. This entails finding and filling in the “white space” in the market, repositioning itself to create new growth segments and avoid the saturated ones.

- **The white space and the new market segments**

Kim and Mauborgne (1999) offer compelling insights into how companies can create new market space. This process involves finding and pursuing opportunities to offer value innovations to markets segments that are not being served. The core logic is to identify market segments that have value requirements that are not being satisfied by existing products. This strategy is very different from the earlier discussed strategy of selecting other segments in a way that the former involves already existing and less competitive segments while the latter entails searching for the unexploited segments.

Finding new market space (white space) requires changing management’s strategic perspective of looking for market opportunities within market boundaries, and instead identifying opportunities across markets.

Christensen and Raynor, 2003 explain that developing a vision about future competitive space is essential in guiding strategic initiatives. An example of the importance of this capability is demonstrated by the perceptible shifts in IBM’s business and marketing strategies over the last decade. A key strategic initiative was management’s exit from the personal computer market. These actions were guided by management’s strategic vision that commoditization would impact large segments of computer hardware and software businesses. Management recognized the need to shift IBM’s business design to a different stage in the value chain (consulting services) to avoid the impact of commoditization on financial performance (Christensen and Raynor, 2003)

In the long-run, if the white space is very attractive and has low barriers to entry then chances are high that competitors will follow the incumbent to this area setting off the commoditisation battle again. To avoid this scenario, the incumbent firm can also try and create totally new segments by maintaining the primary benefit for the market but adding on secondary and exclusive benefits

not offered before. Matthyssens *et al.*, 2006 argue that efforts to sustain competitive advantage can be focused on the creation of new markets and new ways of competing. The firm targets the customers in need of the primary benefit but offers them more benefits and in doing so, it creates a new market niche altogether where it can charge premium prices.

Framework showing the commodity traps, their causes, characteristics and strategies to overcome the traps (Authors' own illustration)

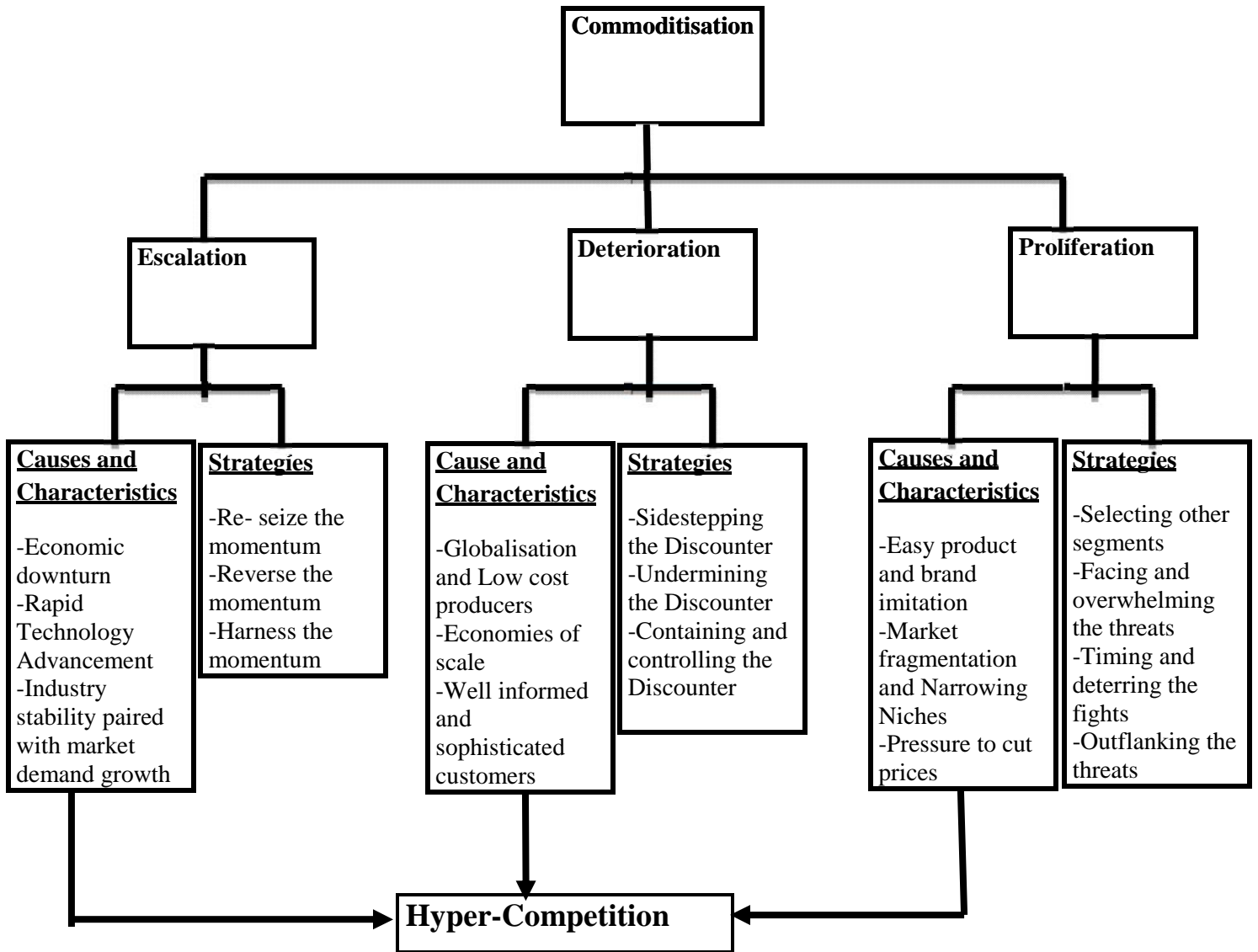


Figure 3: Framework showing the commodity traps, their causes, characteristics and strategies to overcome the traps

Summary of Chapter

The authors of this thesis have summarized the theoretical section into a model to ease the readers' task of interpreting the different sub-sections presented under the entire theoretical framework chapter. The chapter provides insights on what a commodity market looks like and how one can operate in a commodity market. Since commoditisation is an externally instigated process arising from product, market and industry dynamics, companies cannot stop the process. However companies can adjust their strategies or find new ones that allow them to move away from, sidestep or destroy the push towards commoditisation. Firstly is to recognize the different type of commoditisation and the direction of shifts in the markets. Consequently, a strategy has to be adopted that fits the present condition. In this chapter, the authors define what causes a commodity trap, the characteristics and good fit strategies to fight the nature of commoditisation.

The authors subsequently collected data based on this framework to recognize the type of commoditisation if any that is present in their primary case study, SMS and the strategies that have been adopted to fight commoditisation. Additionally, secondary case data was also collected through the same lens to show how companies have adjusted their strategies to cope with the competitive landscape. The secondary case data collected, will be helpful in answering the research question, *“On commoditized markets, which business strategies have proven successful for company growth and profitability?”*

CHAPTER FOUR

METHODOLOGICAL PROCESS

4.1 Introduction

This methodology chapter presents a blue print of how the research topic was studied, and completed; the research philosophy and choice of methods used for this thesis.

4.2 Research approach

The authors of this thesis adopted the exploratory study approach to investigate the *commoditisation of markets* phenomenon. In line with Saunders, Lewis and Thornhill (2007), this kind of study involves providing insights into and understanding of phenomena in new light which is exactly what this thesis will be doing as it seeks to provide deeper insights and better understanding of the nature and aspect of commoditisation. On the contrary, a conclusive study approach describes specific phenomena, tests specific hypotheses and examines specific relationships (Malhotra and Birks, 2007)

4.3 Qualitative and Quantitative Approach

The exploratory nature of this study led the authors of this thesis to adopt a qualitative research approach because of its in-depth nature that provides possibility of exploring the study at hand and particularly since it will not involve any quantification or hypothesis testing. Moreover the authors collected data and analyzed it in parallel with the theoretical framework, which resonates with Holloway (1997) notion and therefore justifies the qualitative approach in order to investigate the commoditization of markets phenomenon.

As put across by Bryman & Bell (2007), research strategy is the term used to refer to the general direction in which one can perform of social research. There are two research strategies when it

comes to the collection and analysis of data and these are; qualitative and quantitative research strategies (Bryman & Bell, 2007). The difference between these two strategies is not just of quality and quantity. Qualitative data is unique in a way that it gives the researcher deeper insights into the phenomenon (Robson, 2002), while quantitative data is based on reasoning and hypothesis testing. In addition, qualitative research provides descriptions and explanations placed in a particular context, and as such can help in development of new theory or revision of conceptual frameworks. Other than answering the initial research questions, qualitative research can provide answers to research questions not originally asked (Sedmak and Longhurst, 2010).

4.4 Deductive Approach

In this thesis the authors used a deductive approach, since the analysis was built from existing knowledge and framework (Ghauri and Gronhaug, 2005), by this the authors mean, all the concepts, for instance commodity traps, their causes and fit strategy, the models, where all built from existing knowledge . All this knowledge helped us to narrow down to the investigation of commoditisation in our case study and served as the analysis framework for the commoditisation strategy.

Two approaches mainly exist when carrying out a research of empirical study; inductive and deductive approach. According to Bryman (2004), a deductive approach can be defined as a “research approach involving the testing of a theoretical proposition by the employment of a research strategy specifically designed for the purpose of its testing”, while, inductive approach is defined as a “research approach involving in the development of a theory as a result of observation of empirical data” (Saunders *et al.* 2007, p.599).

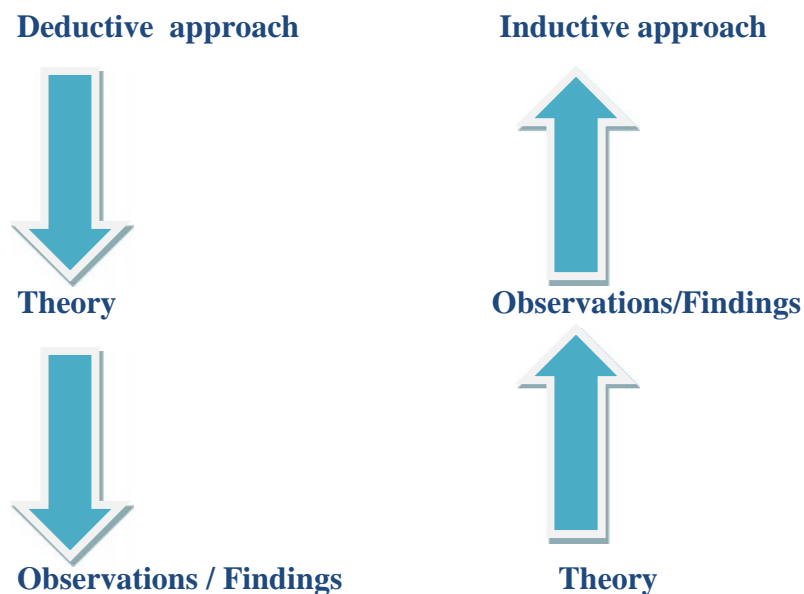


Figure 4. Deductive and inductive approaches to the relationship between theory and research. (Bryman 2004 p.10)

4.5 Case Study Discussion

The authors of this thesis adopted the case study research design because they are concerned with the complexity and particular nature of the case in question as well as emphasizing the intensive examination of the setting (Bryman and Bell, 2007). Research design refers to the frame work for the collection and analysis of data and the choice of the research design reflects decisions about the priority being given to a range of dimensions of the research process such as causality and generalization (ibid). In addition to having chosen the qualitative approach as the research strategy, the authors of this thesis found it viable to combine it with the case study design since it provides a vehicle through which several qualitative methods can be combined thereby avoiding too great reliance on one single approach (Bryman and Bell, 2007). Moreover a case study answers “why”, “what” and “how” questions (Yin, 2009). Since this thesis will be answering research questions; 1) “what” factors cause commoditisation, 2) “what strategies have been successful to fight commoditisation”, and 3) “how” commoditisation changes the structure of the market and 4) then case study was considered to be suitable for this thesis. In addition the

authors used the case study method to test the *commodity trap* theories (See figure 2) and their applicability to the organization, Sandvik Machining solutions. This is in accordance with Ghauri and Gronhaug (2005, p.116) that, “a case study is to be conducted if we want to follow a theory that specifies a particular set of outcomes in some particular situation, and if we find a firm which finds itself in that particular situation”.

Furthermore, the authors of this thesis conducted a multiple-case study, which in addition to the primary case study, Sandvik Machining solutions, involves three other case examples by use of secondary data ; case example of DELL, the fashion industry, and a case example from the hotel industry. This was done to better answer research question, “ *On commoditized markets, which business strategies have proven successful for company growth and profitability?*” and also apply the existing theory to investigate whether the markets of the primary case study are liable to commoditisation. More so the data from multiple cases is often considered more compelling, and the generated result is regarded as more robust (Yin, 2009).

- **Choice of company**

The authors chose the company primarily as a response to the company’s need to investigate the commoditization of markets phenomenon and its causes. Further to this, determine whether their markets are liable to commoditization. The company’s problem/challenge at hand was fitting our field of research of business administration and also got the authors interested in researching a real life business case.

4.6 Data collection process

The authors used both secondary and primary data sources with an aim of strengthening the content of the entire research work.

Robson (2002) argues that collecting data is about using the selected methods of investigation and doing it properly means using these methods in a systematic and professional fashion. There is no general “best method “so; the selection of methods should be driven by the kind of research questions you are seeking to answer (Robson, 2002).

4.6.1 Secondary data collection- Literature review

After getting a grip of the research at hand, the authors defined and redefined the keywords of the subject “commoditisation of markets” which depicts an environment of hyper competition, and also based on the research questions and objectives of this study, searched through academic databases. According to Saunders et al (2007), getting reliable data by reviewing literatures requires fulfillment of certain pre-requisites such as checking on academic databases. Sets of databases were used in order to get the most valid and reliable data.

Databases:

Emerald

Science Direct

Google Scholar

Library, Higgins catalogue

Company reports

Since this is a comparatively new phenomenon and not a lot of literature could be found on the study topic, the authors redefined keywords to literature on hyper competition, price competition, globalization, competitive advantage as well to better explore the study topic.

4.6.2 Primary data collection- Interviews

The primary data required in this thesis was collected through *communication* (Ghauri and Gronhaug, 2002, p. 201) in the form of open-ended in-depth interviews consisting of 27 unstructured questions each (See Appendix 2), deduced from commodity traps framework, and had questions ranging from pricing, competition environment, and product development. The authors of this thesis choose this methodology in order to gain a better understanding from real life cases on how commoditization occurs and also to investigate how organizations respond to the threat of commoditization which in the authors’ opinion was sensitive and privileged information. For such information, Denscombe (2007) recommends the use of in-depth interviews. While unstructured interviews are not predefined, rather, they are open-ended

questions that respondents answer in their own words (Malhotra and Birks, 2007) it gives the interviewee room to answer questions freely in respect to the question being asked.

To ensure that the designed interview questions were relevant, valid and easily understood, the authors pre-tested the interview guide with Dr. Mikael Lovblad from the competitive intelligence department akin to those that participated in the interviews. This was in compliance with advice from Bell (1995) that all data whether qualitative or quantitative should be pre-tested. In light of this, the authors received constructive feedback from Mikael Lovblad. For instance, some questions were proposed, the wording of certain sensitive questions, redefinition of some concepts so that the interviewees clearly comprehended the questions and also the some irrelevant questions were eliminated. Changes to the interview guide were made to accommodate this feedback and interview requests were thereafter sent out in form of email to some of top management in Sandvik Machining solutions ; Anu Lindahl, Claes Sandh, Ulf Hermansson, Borje Ahnlen, and Henri Sevonen. However owing to the peak busy schedules towards summer, we were able to get acceptances from only 3 interview candidates including Anu Lindahl; *Manager Business Development*, Claes Sandh; *Senior manager pricing and profitability*, and Ulf Hermansson; *Business Intelligence Analyst*. The authors proceeded to schedule interviews with these candidates since they are top management with a good general overview of the business climate and conclusions can thereafter be drawn from their interviews.

In order to minimize participant error and ensure reliability of collected data, Saunders et al. (2007) urges the importance of choosing a neutral day for data collection or study, due to the possibility of obtaining different results across different days of the week. For instance, Fridays afternoon and Monday mornings might not be appropriate to conduct interviews or research due to the employee's high expectation on Friday because they will be looking forward to the weekend and low on Monday, having a working week in front of them. To ensure reliability of the data collected, the authors took this into consideration and conducted interviews on neutral days and times i.e. Wednesday and Thursday. Further to the issue of reliability, the interviews conducted in this research were directed to top management personnel in the company, as participant bias may arise when interviewees tend to say what their bosses want to hear especially in cases where employees feel insecure (Saunders *et al.* 2007).

The interviews lasted about one and half hours during which the interviews were audio taped, and notes taken. Duplicate of recordings and field notes were ensured in a bid to heed advice from Denscombe (2007) that back-up copies should be made of all original materials because qualitative data tends to be irreplaceable. Owing to the busy schedules of the interviewees it was not possible to send back the transcribed interviews in order to ensure construct validity. However to avoid any data errors, the authors transcribed the audio records word for word.

4.6.5 Data analysis & interpretation process

The analysis of data from Case studies is particularly rather challenging since there are no clear cut strategies & techniques for analysis in comparison to quantitative data. Analysis according to Saunders *et al.* (2007) is the ability to break down data and to compare aspects of the data or find re-current themes. More so, for data to be meaningful it has to be analyzed and the qualitative analysis procedures allow you to develop theory from your data (Saunders *et al.*, 2007). Before the data can be used for research purposes, they need to be collected, processed, and filed in a way that makes them amenable to analysis (Denscombe, 2007). The data collected was analysed in three phases: data reduction, data display, and conclusion drawing and verification (Miles and Huberman, 1994). For the authors of this thesis, this process began by the transcribing of the audio taped interviews, and then aligning the data with the themes of the theoretical framework (figure 2) to help draw clear conclusions and action.

4.7 Methodology summary

This chapter has presented the research strategy that the authors have chosen to use in this thesis together with the approach. Multiple case studies are used in this study because it increases the generalizability of the findings of this thesis.

CHAPTER FIVE

EMPIRICAL STUDY

5.1. Introduction

This chapter presents three secondary case studies; each as a case study of a particular commodity trap, how it evolved and the strategies that were adopted for business success. The authors also present findings of their primary case study, Sandvik Machining Solutions which aims to present the commoditisation level if any and the strategic alignment.

5.2 Secondary case study

5.2.1 The Escalation Commodity Trap: Case of Dell (Adapted From D'Aveni, 2009)

In 2009, the computer industry appeared to be imprisoned in an escalation trap created by Dell, but rivals ultimately found ways to escape.

Dell developed a model to deliver high-quality customer designed, low-cost computers directly to consumer and business clients, driving down costs and squeezing margins across the industry. Prices fell to incredible levels and Dell appeared to be unstoppable. Given this escalation of the price and benefits war, competition such as Hewlett-Packard found it increasingly difficult to compete against Dell. Both Hewlett-Packard found different paths out of this trap. Hewlett-Packard chose to gain the scale and new technologies it needed to compete. HP's acquisition of Compaq ultimately gave it the scale and technology needed to radically differentiate its products and make HP the market leader. IBM took a different approach, selling its personal computer business to even lower low-cost Chinese manufacturer Lenovo. This allowed IBM to concentrate more on its tech solutions business and other high-end, differentiated computer products and services, exiting the low-margin PC business. IBM did not just exit the market but created a killer, an even lower cost competitor for Dell at the same time. Suddenly, Dell found itself in a commodity trap.

Hewlett-Packard drove down the cost of printing technology to take color printing from a small luxury niche to a mass market. It used ink-jet technology to redefine the value proposition for color copies. It continued to shift the decimal point on its printer prices and boost quality. The cost of color copies went from \$1 or \$1.50 per page to about 7 cents per page or less. This shift opened up the market to home offices, small businesses, and amateur digital photography.

5.2.2 Deterioration: Case of the Fashion Industry (Adapted From D’aveni, 2009)

5.2.2.1 Commoditisation issues

The fashion industry faced the *deterioration trap* when the low-end producer from Spain, Zara entered this lucrative and promising market. Zara offered better quality fashion designs at much lower prices than those charged by the French and Italian haute couture fashion houses such as Armani, Calvin Klein and Dolce & Gabbana (D&G).

The company uses superior production technologies coupled with time-compressed production processes to imitate its competitors’ top class fashion trends and designs. With over two hundred in-house designers, it identifies the trends in the upper-class haute segments and produces them in a shorter time compared to its competitors. The designs are then available for the middle and low-end markets at much lower prices.

Using this business model Zara has been able to lower its costs of production, gain economies of scale and undertake a massive expansion drive globally. The competitors are left in a fix since their once superior quality fashion designs can no longer be sold at price premiums.

This has greatly damaged their brand image, reputation and lowered their profit margins.

5.2.2.2 Management of commodity trap

- **Sidestepping Zara**

Hermes and Chanel have *sidestepped* Zara by conceding their share of the low and mid-range sections of the fashion market and *moving upscale* to high-end luxury fashions while Diesel has also decided to focus and build its expertise with particular products.

Armani *moved away* by venturing into creating a unique lifestyle known as the "Armani Lifestyle" for its wealthy customers. The company is now designing hotels, restaurants, furniture, and electronics. It has designed the Armani Casa furniture and is working with Samsung on mobile phone designs.

These cannot be imitated by Zara's large scale production system. By offering completely different products, the company has sidestepped Zara's deterioration trap.

- **Undermining Zara**

Fashion house H&M has *redefined value* by using renowned stars and celebrities like Madonna to raise its brand image awareness and neutralize Zara's model. In the mind of the buyers the value derived from these designs is way higher than that offered by Zara for similar designs.

Armani has *undermined* Zara's imitation prowess by showcasing its new designs privately and secretly to retailers. By the time they are made public, Zara's imitation expertise would have been pre-empted. Armani has attributed 60 -70% of its revenues to these pre-collection sales.

- **Controlling and containing Zara**

To *control and contain* Zara, competitors have surrounded it and tried to limit it from expanding further. H&M has introduced specialized stores for different market segments including children's clothing, and accessories. H&M has implemented this strategy to increase its product range and at the same time halt Zara's expansion drive especially into these market segments.

5.2.3 Proliferation Commodity Trap: Case of the Hotel Industry (Adapted From D'aveni, 2009)

In a space of a few years the competition in the hotel industry has intensified as new entrants challenged the already established brands. The new brands which included Cambria Suites, NYLO (New York Lofts) and Hotel Indigo, just to mention but a few have competed on price while offering similar and overlapping features as those of the already established brands. The positions in the industry which were once as clear as set out in the ratings stars are no longer as clearly spelt out as they used to be. The overlap in features and services has cut across all Hotel Star Ratings meaning that three-star hotels can now offer similar and much better services to those of four-star rated hotels and even at lower prices.

This proliferation is characterized by hotels offering different combinations amenities and the use of brand image to differentiate themselves from others of the same ratings. Mid-range hotels like Holiday Inn which seemed safe in their segments were faced with proliferation when they were attacked by rivals from both the high and low end scale. Holiday Inn was a well-known three-star brand that offered reliable, standardized and inexpensive service in the family accommodation niche. It was then attacked from the bottom by two-star rated hotels like Quality Inn from the bottom and Starwood's' aloft brand from the upscale. The attacks eroded the uniqueness of its benefits and profit margins resulting into commoditisation.

5.2.3.1 Management of commodity trap by various players

Confronting proliferators

When its main market segment was exposed to threats by proliferators, Holiday Inn, owned by Bass Group launched the Holiday Inn Express brand to counter these threats in the down scale market. It slightly discounted prices but gave service way above that by its competitors in this part of the industry. It also set up Crowne Plaza to counter attack threats coming in from the upscale giving its customers here an experience fitting five-star clients. The ability to confront multiple threats was due to its vast resources. Even with these new spots, the owners maintained their core focus on the three-star position.

The absence of resources to compete on all fronts forced Choice Hotels to concentrate exclusively on the one and two-star end of the market especially for the budget travelers. The Hotel brand decided to integrate all its marketing and branding efforts on these areas since it could not sustain the contest against all its competitors.

Focus on core competence

Although Starwood has all the necessary resources to contend on multiple fronts, it chose to focus on its five-star brands including Sheraton, Westin and its ultra-luxury brands including St. Regis. It has thus built up expertise and gained experience in handling business in this niche. These have played a key role in its ability to attract and retain wealthy clients.

Starwood has added secondary benefits in the form of the lifestyle experienced by clients who visit any of its branded hotels. This white space in which different clients feel different, better and special has been paramount to its success. Rivals find it extremely hard to imitate or copy the emotional quality of the lifestyle enjoyed by Starwood's customers. It is impossible for the rivals to replicate the new secondary features and services that are layered on top of the primary benefits.

5.3 Primary Case Study: Sandvik; Sandvik Machining Solutions

5.3.1 About Sandvik

Sandvik is a Swedish company that was founded in 1862 by Göran Fredrik Göransson in Sandviken, Sweden. It is an engineering group dealing in tooling, materials technology, mining and construction. The company is a high-technology engineering group and a world-leader in tooling, stainless steel alloys and materials technology, mining and construction and has about 50,000 employees operating in over 130 countries, with annual sales of over SEK 90 billion.

Company Goal

Sandvik Group's goal is to actively contribute to improving the customers' productivity and, consequently, their profitability. The products and services offered by Sandvik shall provide maximum value to customers in terms of performance, quality, speed, safety, flexibility and total economy.

Organizational Structure

Sandvik consists of five business areas which include, Sandvik Mining, Sandvik Machining Solutions, , Sandvik Materials Technology, Sandvik Construction and Sandvik Venture.

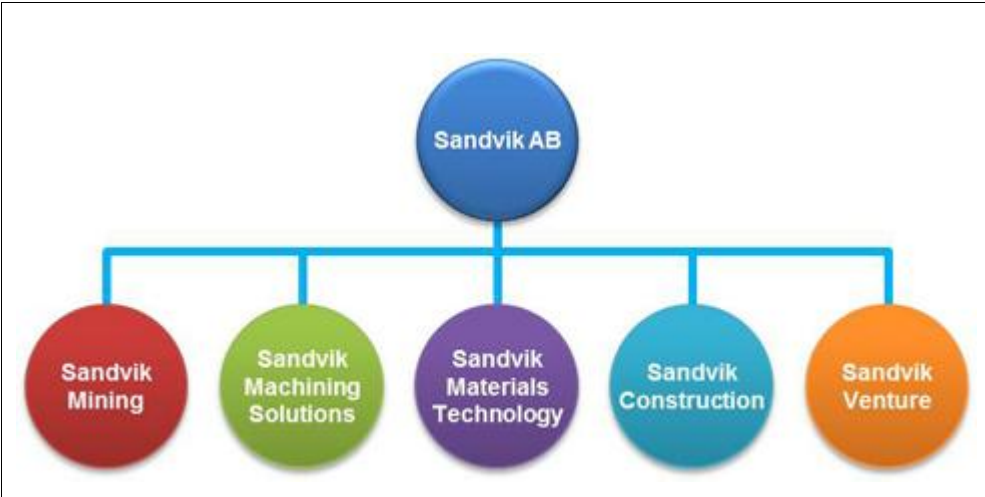


Fig.5 Organizational structure of Sandvik (www.sandvik.com)

Sandvik Operational Structure

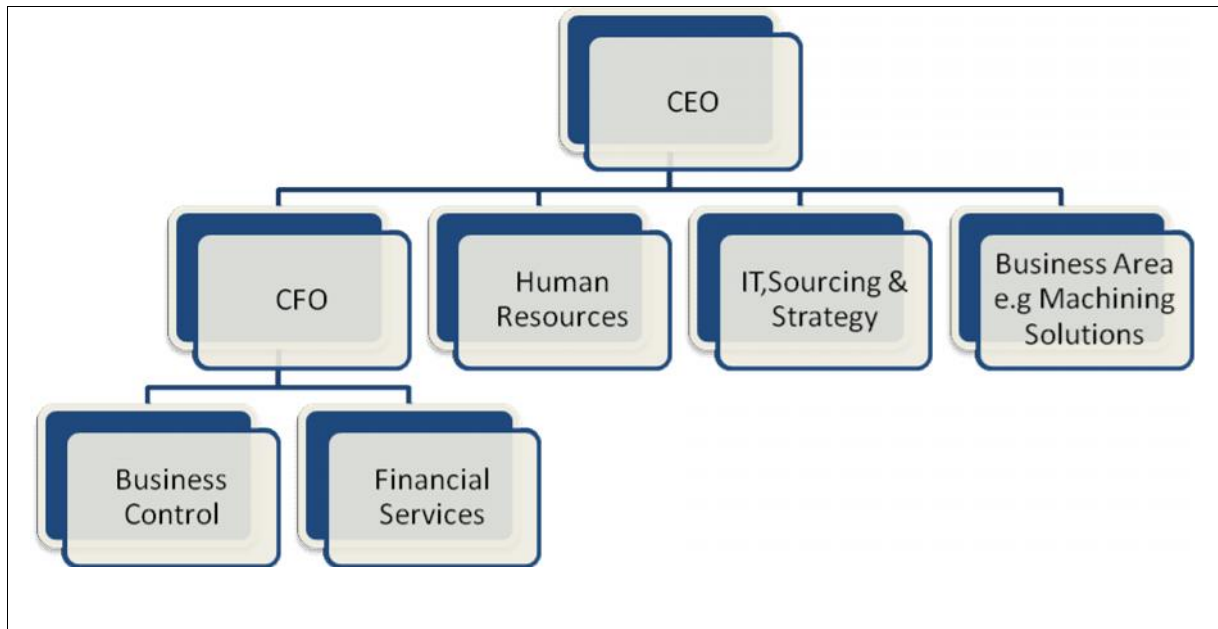


Fig. 6. Sandvik operational structure(www.sandvik.com)

Sandvik Machining Solutions

The empirical study of our thesis will focus on Sandvik Machining Solutions and try to uncover the fore-discussed aspects of the commoditisation phenomenon in its markets.

The Sandvik Machining Solutions business area (formerly Sandvik Tooling) is primarily concerned with the production and development of metal cutting tools and also manufactures carbide tipped tooling for metal cutting applications. As a global market-leading manufacturer of tools and tooling systems for advanced industrial metal cutting, its Products are manufactured in cemented carbide and other hard materials such as diamond, cubic boron nitride and special ceramics.

Machining Solutions is composed of several brands as a result of Sandvik acquiring other companies and keeping their brands. It began as Sandvik Coromant and Sandvik Coromant remains one of Sandvik Machining Solutions' most important brands. It employs about 18,500 and in 2011 sales were approximately SEK 28 billion.

Competitive Environment

The main competitors for SMS are Kennametal from the US, Mitsubishi and Kyocera from Japan, IMC Group a privately held company from Israel.

There are also other competitors in specific niches including Glisan from the US which specializes in milling. Others are Zedong and Zhouzho from China.

The major customers served by SMS include the automotive, aerospace and general engineering industries.

5.3.2 Interviewees

During the interviews the authors sought to find key market and business characteristics that signal market commoditisation or possible market commoditisation and what strategies have been used by SMS, which is a market leader in its industry to avoid commoditisation. Three members from top management were interviewed guided by semi- structured questions and their responses are presented in the following.

Interviewee 1

Claes Sandh who is the Senior manager pricing and profitability is duly concerned with pricing and positioning of the SMS products was interviewed on key questions regarding pricing and competitive environment. The interview lasted about 80minutes

Claes Sandh mentioned that SMS dominates the market in terms of market share however when you look at the market, there are other Big players like Kennametal, and ISCAR that lead in different directions. SMS has four different brands in the market including Sandvik Coromant, Seco, and Walter which compete in the same market. All these four together represent the biggest share of the market.

Sandvik main customers are found in a number of major industries including Aerospace, Automotive, dynamo, general machining and others but have different segment weights in different regions of the world. For example the Aerospace industry is big in Europe but small in

Asia while the automotive industry that used to be big in the UK has now shifted to China and Taiwan. The Sandvik brand offers additional value and benefits like superior market presence compared to competitors. Sandvik group operates in over 130 countries while SMS is found in about 60 countries.

Competition wise, some companies have geographic and domestic advantage such as Japanese or Chinese companies in China while other players are fast when it comes to the innovative level. However different players bring different needs to the market. For example none of Sandvik coromant's competitors offers the same assortment, same offer or same market presence. "*Some of the competitors are very good at what they do and they keep us on our toes all the time.*" says Claes Sandh. On another note, other competitors sometimes have a price advantage meaning they are lower positioned when it comes to price however according to Claes Sandh, senior manager pricing and profitability this would not be a problem as the low prices infer that the offering of those companies is not as good as Sandvik's. "*There are many players in the market especially from Asia who have low cost production and offer very cheaply priced products but are not dominant in any way.*" adds Claes Sandh. Nonetheless, if there is price erosion or disruption of the market price, profitability of firms will be affected. There will always be a part of the market attracted by low prices, but for SMS, "we have chosen to deal with the market in our own way of offering highly productive products, services and solutions." In some instances, SMS has been forced to cut prices when rivals reduce their prices however Sandvik also considers other ways and solutions of producing low priced products to replace the low priced products before they can reduce their own prices.

For business survival in this industry production economies of scale are very vital along with distribution economies of scale which are important in increasing efficiency and precision in delivering products. SMS has opportunities to exploit production economies of scale and as such produces millions and millions of "inserts" from several plants in different corners of the world.

Sandvik strives to keep ahead of competitors in product development and service delivery. Industry wise, new upgraded products are introduced to the market on a regular basis (every year). Sandvik Coromant itself introduces thousands of new product upgrades annually. These upgrades range from small simple upgrades to technically advanced upgrades. From a technical point of view, some of these products may be different yet the customers may not see it and in

other cases the differences can easily be seen by the customer ” (..) *the difference in inserts with four-cutting-edges when upgraded to inserts with eight-cutting-edges can easily be seen, even by the customers.*” exemplifies Claes Sandh. When the authors asked what happens to the broad market structure when all these new offerings are introduced? Claes mentioned that there is a possibility of the market getting fragmented as other players with new (evolving) products come in. “*Many years ago we had rails which were primarily high speed steel (HSS) rails but were over time converted to carbide rails with better performance, better tool life.*” When further asked whether these new products undermine or call SMS to rethink their value proposition. Claes confidently comments that for SMS, the major value propositions are quality, productivity, performance, consistency, and reliability. “*It is at the customer that our products prove themselves when it comes to our value proposition*” ...(..) *We are always challenged by good competitors whose product offerings try to beat our offerings but we invest a lot of resources making better products and try to make the customers believe in our products.*”

Interviewee 2

Ulf Hermansson who is the Business Analyst for SMS was second to be interviewed. The interview lasted about 60minutes.

When asked to analyse SMS’ competitive environment, Ulf Hermansson duly pointed out they have major competitors such as Kennametal in the USA Mitsubishi and Kyocera from Japan, IMC Group from Israel which is a privately held company. Competitors in milling also include Glisan from the US. Others are Zedong and Zhouzho from China.

Kennametal has very strong relationships with the industries in the US including Automotive, Aerospace and US Defense. The Chinese competitors have advantages a domestic advantage when it comes to competition in China. “*These include language and culture. It is much easier for Chinese companies to talk to a fellow.*”

When asked about any low cost dominant firms that use low cost business models, Ulf commented that naturally there are low cost companies especially in China but they are not dominant per se. “*Most of the domination is in the high-end of this industry.*” (Ulf Hermansson, 2012). The Big players in this industry such as Sandvik, Kennametal, and ISCAR form some kind of oligopoly and determine the standards in the industry. More so production and

distribution economies of scale are very important in the industry. This is why most industry players are restructuring to reduce the number of production units and go for high volume production.

When further asked whether Sandvik has had to compete with rivals on price, Ulf comments that price is always important, Sandvik as market leader is most sensitive to price wars therefore tries to avoid anything to do with price competition. Price wars are always initiated by new entrants that try to get into a particular niche. *"We are facing a lot of price competition mostly in the Chinese market which has many small companies that are willing to offer lower prices just to get in."* says Ulf Hermansson. However to justify the premium price, SMS guarantees customers a premium productivity curve. When asked whether SMS' market share is threatened when competitors lower their price, Ulf comments that SMS has concentrated on the high end market that is concerned with high quality, productivity, high technical service and main goal is to keep prices as high as possible to maintain good profit margins. In this regard, SMS wouldn't be threatened if there is a price reduction however in the mid-range market there are those firms that lower their prices in order to move up and that may threaten SMS' market share.

As a defense strategy, mainly for high margin segments SMS tries to meet the competition at different levels. It tries to have many brands in the wide market targeting different niches. These include Sandvik Coromant, Seco, and Walter. The market has become more and more fragmented over the years. Each industry segment has its own logic, price level, technical requirements. *"The market is becoming more and more specialized. The 'one size fits all' is not a notion that works well for Coromant"* says Ulf Hermansson.

When asked about the main value proposition of SMS products and whether it is often undermined by competitor offerings, Ulf commented that Increased productivity for the customer is the main value proposition for SMS products however smaller companies try to undermine our 'customer productivity' value proposition by offering simpler technical solutions. The competitors tell the customers that productivity is not important to talk about; it's the technical solution that is important.

Finally Ulf Hermansson stated that to fight off competition and retain customers, SMS usually tries to use different forms of technical support strategies and customer education as strategies to retain customers. Everything you can do for the customer other than distorting price.

Interviewee 3

The third interview was taken with Anu Lindahl, who is the Manager Business Development for SMS. The interview lasted about 80minutes.

Anu Lindahl started with a brief overview of their competitive environment which was consistent with the earlier interviews with Ulf Hermansson and Claes Sandh but however added competitor brands such as Mitsubishi, Kyocera, and which are mainly distributor brands and have less technical services. Anu Lindahl further mentioned that the business model for SMS, Kenametal, and the IMC Group is similar while Mitsubishi is mainly focused on distributorship. When asked about the low cost dominant firms in this industry, consistent with earlier respondents Anu Lindahl, mentioned that China is an emerging market with the government investing a lot on improving production and as such Chinese companies have managed to enter this industry. However SMS is positioned in the premium high end market which requires high investments and long term evolution. When asked about whether SMS has had to compete with rivals on price, Anu Lindahl mentions that the cutting tool market is driven by price increases and every year there will always be an increase in the cutting tool price. SMS usually leads this increase in prices. *"This industry is unique in a way that, we do value selling and not selling per cost."* adds Anu Lindahl. However Anu Lindahl mentions of a price war by domestic competitors in Korea that distorted the market structure and SMS had to reduce its prices but within the same margin.

When asked how SMS justifies its high prices, Anu Lindahl mentions that SMS justifies its premium prices by offering customers a lot of additional services such as technical assistance in form of optimizing the products. In addition to these additional services, Sandvik Coromant has a reputation of having the best high quality engineers and high quality products. When further asked whether SMS is threatened when competitors lower their price, Anu Lindahl mentions that SMS educates our customers a lot on productivity and to some customers productivity doesn't matter meaning they only buy on price but those are the small ones most of SMS customers are big and have large scale production and understand the productivity.

As a strategy to counter price reductions by rivals, SMS uses a centrally driven price and profitability management system where the sales people do not know the production cost and

only concentrate on value selling. *"The centralized price setting strategy is a key factor for us."* says Anu Lindahl.

When asked about the product development in this industry, Anu Lindahl, mentions that the development cycle in this industry is much longer than that for the cell phone industry. Product upgrades are produced almost every year and they are very similar in this market. However these product offerings by competitors do not really undermine SMS' value proposition which is customer productivity. *"SMS will not move the premium brands to the mid-market, because the customers in these segments are only going to get higher and higher."* says Anu Lindahl.

SMS always adds features but not lowering prices the process of adding features is a natural development in the industry. We introduce new products continuously and though the technology is changing it is not rapidly changing.

Finally Anu Lindahl stated that service and innovation is important to retain customers and fight off competition.

Summary of chapter

This chapter has described commoditisation issues and strategies in three industries namely, the Computer, Fashion and Hotel industries together with three top managements' views on business environment on the metal cutting industry. Therefore, based on the above case studies, and the theoretical framework developed in the previous chapter (4), the next chapter will analyze and discuss the nature and causes of commoditisation and how it can be managed, and avoided based on the companies and the interviewees point of view.

CHAPTER SIX

ANALYSIS & DISCUSSION

6.1 Introduction

Under this section the authors analyze the empirical findings with the help of the theories presented earlier in the frame of references, in order to provide greater understanding for the chosen subject.

6.2 Nature and causes of commoditisation

The authors at the start of the thesis set out to explore the nature and aspect of commoditisation and its causes. Without doubt, the authors find that commoditisation is fast becoming a fact of business as remarked by D'aveni (2009). The trend towards commoditisation is still accelerating due to factors such as globalization, increased information exchange and technology developments as forwarded by Dumlupinar (2010) and also illustrated in the secondary case studies of the fashion, computer and hotel industry. As demonstrated in the introduction, the commoditised markets are characterized by higher price sensitivity among customers in the introduction Commoditisation can be caused by various factors such as a low cost competitor that lowers price and distorts the price structure of that industry (D'aveni, 2009). However for the case of SMS, the low cost competitors that exist in this industry are not dominant enough to distort the price structure of Sandvik's market share because SMS concentrates in the high end market segment which is willing to pay the premium price for the value offered by SMS products which is customer productivity and quality (Anu Lindahl, Ulf. H and Claes Sandh, 2012).

Commoditisation can also be caused by rapid technology advancements which could change the way business is done and rapidly change business models as seen in the case of Dell. In addition to this, rapid technology advancement accelerates the product development cycle leading to the escalation of benefits at much lower prices causing the *escalation* commodity trap. In practice even though the technology in the metal industry is changing and giving way to new products there has not been any technology breakthrough's.

This form of hyper competition continues to be a threat to all industries and requires managers to keep a keen eye on the market and competition. The managers that will survive are those that can anticipate it. More so the authors recognize that for those prepared to seize the day commoditisation brings opportunities as well. Dell re-engineered its business model to deliver high-quality customer designed, low-cost computers directly to consumer and business clients, driving down costs and squeezing margins across the industry. Dell was prepared to seize the day, it was unstoppable.

6.3 Effects of commoditisation

The authors find that when commoditisation occurs, companies search for other areas within the value chain to compete favorably shifting core activities and outsourcing the non-core competencies as urged by Christener and Raynor (2003). None core competencies such as production have been shifted to emerging countries like China and India that can provide a low cost structure. For some of these companies they slowly morph into other business areas and offerings. When faced with commoditisation in the fashion industry, fashion house Armani moved away and morphed into designing hotels, restaurants and furniture. For IBM, it sold its personal computer business to low cost Chinese manufacturer Lenovo and this allowed IBM to concentrate more on its tech solutions business and other high end differentiated computer products. While HP's acquisition of Compaq ultimately gave it the scale and technology needed to radically differentiate its products and make HP the market leader.

Consistent with advice from Shapiro (2002), products are taking on shorter life cycles as seen with the new constant product upgrades within SMS on average annually. Matthyssens & Vandembemt (2008) also attributed the shorter product life cycles to increasing transparency in competitive markets allowing firms to imitate and improve on competitor's product. The authors recognized this trend in the case of Zara, the fashion company that uses superior production technologies coupled with time-compressed production processes to imitate its competitors' top class fashion trends and designs. With over two hundred in-house designers, it identifies the trends in the upper-class haute segments and produces them in a shorter time compared to its competitors and at lower prices. In the same breadth it is worth noting that technology

advancements such as these used in Zara, provide innovation opportunities but also accelerate the trend towards commoditisation. As mentioned by (Wood and Hwelin, 2011), while the technology advancements may present companies an opportunity for creating value for customers including those they could never reach before, they can accelerate product sameness, and lower prices.

While Zara distorts the market with lower prices and quick fashion, Companies like Dell offered more benefits, re-engineered their business model to deliver high-quality customer designed, low-cost computers directly to consumer and business clients, driving down costs and squeezing margins across the industry. This is consistent with the conclusions of Reimann *et al.*,(2010) that commoditisation is multi-dimensional and for managers to devise the strategies that will work, it is paramount that they know which direction the commoditisation is taking.

The empirical research has been about the identity of the type of commodity trap and the strategies deployed to beat it. However, it is worth noting that being able to detect that a commodity trap is coming your way, remains based on anticipation, anticipation that the your customers' needs are going to change, anticipation that your competitors are changing strategy.

6.2 Deploying Strategies to fight commoditisation

It is increasingly becoming difficult for companies to maintain uniqueness. “A *lot of the developments and introductions in the industry are very similar .*” mentions Anu Lindahl, Business development manager at SMS. What are managers doing when such threat is imminent? From the empirical research, authors realize that commoditisation requires a shift in present strategy given the prevailing level of commoditisation. Companies can adjust their strategies or find new ones that allow them to *side step, move away*, or even *move on* their products or services away from commoditisation. “If this scenario arises, and the affected product areas have not been that active and does not fulfill our business expectations, then Sandvik could consider the option of leaving this area altogether” says Claes Sandh, senior manager pricing and profitability for SMS.

Companies may be able to postpone commoditisation by finding new points of differentiation through alliances, branding, commitment to R&D and intimate market knowledge. Mergers and acquisitions to gain market power should be considered for firms that need to remain relevant efficient and in control. The big players in the market as seen in the case of Sandvik have to a greater extent control on the commodity trap.

In such aggressive competitive behavior where there is rapid imitation, more frequent redesigning and re-tooling is necessary and successful firms have to be able to anticipate these shifts and organize resources, develop internal competencies in advance for these shifts. Those that don't will have to catch up later and miss out on the first mover advantage of profitability.

6.4 How SMS has avoided commoditisation

Sandvik Machining Solutions as a market leader has been able to avoid commoditisation within its markets. SMS enjoys a premium market of B2B clients such as aerospace, automobile and others. Marketing scholars Reimann *et al.*,(2010) recommended strategies in commoditised markets such as *product leadership* and *customer intimacy*. SMS is a company that is committed to research and development, always looking for ways to increase customer productivity through its new products SMS mostly leads the generation of new products creating more value for the customer and this increased value is usually followed by an increase in price and in the same way SMS leads the pricing of the products too. More so SMS prides in intimate customer knowledge through their continued trainings, technical support and workshops and as a result are able to evolve their products with evolving customer needs.

Needless to mention, SMS has a huge market power and maintains relevance and control in its markets. The company enjoys large economies of scale in production, distribution and sales all which are very vital in this industry and this keeps SMS ahead of the competition curve. In accordance with Porter (1980), the entry barriers in this industry especially in the premium end are still high with huge requirements on investments and long term relationships and due to this SMS and its main competitors Kennametal, IMC enjoy an oligopoly.

Whereas increasing homogeneity of products cause market commoditisation as forwarded by Reimann *et al.*, (2010) that is to say products are viewed in the market as interchangeable, SMS

has maintained its high quality brand superiority that is among others attributed to the fact that they have a reputation of recruiting high quality engineers. This boosts the brand image and differentiates it from other offerings on the market making their customers are willing to pay premium prices.

One key factor that is unique to SMS is their value proposition of *productivity for the customer* whereby they do not simply sell a product but sell value to the client, the products should be able to increase productivity for the client. The products are priced on value given rather than cost. The authors note that such a scenario reduces the likelihood of price wars, where companies are rather committed to reducing their costs and then translate them to lower prices. As a strategy to avoid price selling, SMS adopts a centrally driven price and profitability management system where management is concerned with pricing and the sales personnel do not have product cost knowledge

However lately, low cost competitors though not dominant are penetrating the Asian low end and mid-market and further aspire to move to the high end market. This will require counter strategies from SMS to protect their market share and prevent the distortion of the market.

Analysis of commodity Traps – case of SMS

Escalation trap : For a trap that is characterized by the escalation of newer products and the consequent reduction of price, sometimes because of the high bargaining power of customers, SMS and rivals; Kennametal often bring new upgrades to the market almost every year but with higher prices. SMS has a strong customer focus, as suggested by D’aveni (2009) which is seen in their continued customer training efforts and as a result is always aware of what the customers need and is able to anticipate the shifts if any. Although SMS’ clients such as the Aerospace have a high bargaining power and the ability to demand more for less, Ulf Hermansson is confident that the customers value what SMS offers and are not too price sensitive. SMS’ main value proposition among others is to increase the productivity of the customer.

Even though the authors realized that the technology in this industry is not rapidly changing to accelerate the escalation commodity trap, the authors find that SMS is liable to fall in this

commodity trap especially as one of their competitors Kennametal is ahead with the generation of secondary benefits using IT applications while SMS sticks to the core benefit.

Deterioration trap: The authors find that this trap is normally stirred up by a low cost competitor, who penetrates the market with low prices. For SMS, there has been a recent upsurge of low cost competitors in the south Asian market but the firms remain not dominant. SMS does enjoy an oligopoly position with its main rivals Kennametal and IMC group at the high end market where they set the standards of pricing. Although some of the low cost firms try to penetrate their middle market with low cost prices, SMS does not compromise their brand; they in response produce a low priced product to compete with that of its low cost competitors says Ulf Hermansson. This strategy is in line with the views of Dumlupinar (2010). They are the market leaders and if they were to start a price war, they would be the losers. The big players always have to act rationally and responsibly, confirmed Ulf Hermansson. Their actions can distort the market price structure and erode profitability in the industry.

SMS enjoys good production economies of scale which are very vital in this industry. They are able to produce millions and millions of ‘ inserts’ every year and in addition SMS customers are willing to pay for the additional benefits. The authors view this customers’ willingness to pay for these additional benefits as a positive sign that SMS will be able to maintain its brand superiority, premium prices and avoid any kind of price wars that may arise in this trap.

However for markets such as China where SMS is facing a lot of price competition from the Chinese firms, SMS may have to rethink strategies to contain these low cost competitors from moving up to their mid-market.

Proliferation trap: For the proliferation trap, where rivals begin to develop new value propositions to attack and undermine the value proposition of the incumbent firm, SMS has had a consistent value proposition of *customer productivity* over the years. Companies have tried to undermine this proposition that productivity is not as important but SMS continually invests in the production of quality and better products and it can be assumed that SMS has the sufficiency of resources to fight off any *proliferation wars* by its rivals.

However to an extent the authors find SMS viable to this trap in the long run as penetrating rivals companies begin to develop ‘speciality’ areas and create market niches.

CHAPTER SEVEN

CONCLUSION

7.1 Introduction

In this chapter the authors will answer the purpose and the research questions of the thesis that were formulated in the first chapter of the thesis. Conclusions will be drawn from the analysis of the thesis, providing the insights, managerial implications and areas for further research.

7.2 Purpose of the Thesis

As stated in chapter one, the purpose of our thesis was to give a better understanding of the nature and aspect of commoditization of markets. In doing so we addressed four questions:

- 1) What factors drive a (product) market to become commoditized?
- 2) What strategies have been proven successful to fight commoditization?
- 3) How does the process of commoditization change the structure of a market? - Effects of commoditization?
- 4) On commoditized markets, which business strategies have proven successful for company growth and profitability? Answered Research questions

The authors believe that the above questions have been fully answered in both the empirical study and the Analysis and Discussion sections. Below we give the concluding remarks on each question.

1) What factors drive a (product) market to become commoditized?

Commoditisation of markets and products can be looked at using the three Commodity traps framework and from this point of view, it is discovered that commoditisation cannot be generalized. The three commodity traps which include Escalation, Deterioration and Escalation have been found to be caused and driven by completely different factors although they all lead to the same end scenario of hyper competition.

The Escalation trap or type of commoditisation is majorly caused by rapid technological advancement and industrial stability while the deterioration type is driven by low cost producers distorting the market, competitors using their economies of scale to compete on price and increasing number of sophisticated customers with a high bargaining power.

The proliferation type of commoditisation is caused by rivals offering new and very similar products mainly as a result of brand imitation caused by the open processes leading to constant fragmentation of the market into smaller niches and increased pressure to cut prices in order for firms to survive.

2) What strategies have been proven successful to fight commoditization?

A number of general strategies such as continuous differentiation, branding, product re-designing used to overcome commoditisation were mentioned. However, it should be noted that the different strategies are applicable to different traps.

These range from Customer Relationship Management, building internal capacities such as competitive intelligence, and continuous innovation for the escalation trap while strategies like increasing the firm's product flexibility through Mergers and Acquisitions, selecting new market segments and the use of 'ghost' products can be used by firms faced with proliferation.

Redefining value and price are the two major ways firms have used to overcome the deterioration trap scenario. Redefining value means offering even lower prices and higher

benefits through a reinvented value chain and redefining price occasions changing the customers' perception of the total price being charged.

3) How does the process of commoditization change the structure of a market? - Effects of commoditization?

It was discovered that all the three traps lead to a scenario of hyper competition and other effects that change the dynamics of markets and industries. Commoditisation results into a vicious cycle of price and innovation wars, shortening product life-cycle, and affects the value chain dynamics by forcing companies to streamline their value chains in the face of intense competition.

From the customers' point of view, most products become homogenous as brand differentiation declines over time. This is mainly because every new product, design and feature that a company comes up with, is easily and soon imitated by rivals.

The above effects often have the end customers as the main beneficiaries especially given the lowered prices and price wars. Thus commoditisation has given rise to the need for Customer Relationship Management strategies necessary for the gaining and retention of customers vital for firm survival.

4) On commoditized markets, which business strategies have proven successful for company growth and profitability?

This question was answered in the empirical study and specifically using the secondary case studies.

These practical illustrations gave examples of the strategies that were employed in commoditized markets including the computer industry, the hotel industry and fashion industry.

Dell's competitor Hewlett-Packard had to acquire another firm for it to grow and compete favorably against Dell which had created the escalation trap.

In the fashion industry, Zara's competitors implemented strategies like moving to high end luxurious parts of the market and redefining the total value added in order to escape from the deterioration trap Zara had created.

When Holiday Inn found itself in the proliferation trap, it employed strategies such as creating new brands for specific segments to fight off competitors brands and to remain profitable.

7.3 Contribution of the Thesis

The authors realized that commoditisation phenomenon is multi-dimensional and can take different directions all that threaten a company's profitability and market share. It can further be dissected into smaller parts in order for one to get a clearer picture.

This thesis adds to the existing literature on hyper competition especially through the use of the commodity traps framework. Using this framework the authors approach the hyper competition phenomenon by systematically giving the different forms and levels of commoditisation, its causes and characteristics and finally strategies that can be used by companies in successfully tackling it.

The effects of commoditisation on both the external and internal aspects of the market are a contribution worth mentioning since very little had previously been written about it.

We believe that this thesis will help Sandvik Machining Solutions become more aware of the industry environment and its evolution and position itself to respond and overcome any commoditisation threats that are inherent in all industries, markets and products.

7.4 Managerial Implications

From a managerial perspective, the case studies provided in empirical findings give a practical and real world approach of commoditisation on different industries, its effects on these industries and markets and how various players responded to it. Using this commodity framework, managers can easily identify characteristics imminent in their markets and deploy appropriate strategies.

SMS as a market leader has been able to avoid and postpone commoditisation of their markets thus far with strategies such as high commitment to R&D, intimate customer business knowledge. However in the wake of increased globalization, and technology advancement SMS cannot be "too safe". The authors find SMS liable to the escalation and proliferation trap especially as arch rivals Kennametal, begin to infuse IT solutions in their secondary benefits and SMS remains confident in the production of the core benefit or product. SMS should keep in mind the aforementioned strategies in this research to keep ahead of competition.

SMS also faces price competition from firms in China and Asia, the authors recommend that SMS looks into strategies on how to contain these low cost competitors as provided in the framework such as creating another brand that can compete on the level of the low cost Chinese competitors and keep them away from rising to SMS' mid-market segment.

Societal contribution

This thesis was commissioned by Sandvik to investigate commoditisation in its markets and will with no doubt help SMS to avoid and escape from commoditisation, should this state of hyper competition ever occur in its industry.

The survival and success of SMS and Sandvik Group is important to Sweden and the Gavleborg region since it is the biggest employer in this region and at the same time the company contributes a lot in form of tax revenue.

Through collaboration programs like this thesis, the students at regional institutions like University of Gavle also get opportunities to expand their practical knowledge and gain real world experience from companies like Sandvik.

7.5 Limitations

We cannot say that commoditisation is a completely new area rather it is one that has not been explicitly approached. Various scholars have researched and written about hyper competition and other market disruptive forces but not many have written close to the commoditisation topic. The inadequacy of information was therefore one of our shortcomings especially when researching about the theoretical literature part of this thesis.

In addition to this, the authors were limited by the short time allocation for this thesis to carry out primary case studies on companies such as Zara and Dell to better answer the research question, *“On commoditized markets, which business strategies have proven successful for company growth and profitability?”*

7.6 Recommendations for further study

This thesis has unearthed some issues in the area of commoditisation; therefore we are suggesting some areas for further research.

First, although this thesis study focused on a company offering mainly products, it would be of great interest if a similar study was carried out on a company and industry offering services exclusively. This would give us a better opinion on the notion of ‘everything can be commoditized’.

Even though the authors contributed to the research area on the effects of commoditisation on the market structure, they cannot say that it is quite comprehensive and recommend further research focusing on the effects on commoditisation on market structures for both product and service to better answer research question , *How does the process of commoditization change the structure of a market? - Effects of commoditization?*

This thesis looked briefly at the economic factors that can cause commoditisation, and mainly looked at industrial factors and players. Further research to clearly conceptualize the economic factors that can instigate commoditisation would be a great contribution to this area of study.

Finally, a study involving all industry stakeholders including suppliers and customers would be great in a way because it would answer how different participants are affected by commoditisation, why and what drives different participants to act as they do when faced with commoditisation and which participants are most affected by commoditisation.

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Internet Sources

www.sandvik.com

www.apple.com

www.samsung.com

APPENDIX

APPENDIX 1 : Company Research Assignment

Master thesis assignment – commoditization of markets

Within the Business Area Sandvik Tooling, department TFC is responsible for financial controlling, competitive intelligence, brand management and strategy facilitation. At TFC, we have identified a need to further investigate the process of commoditization of markets, and would like to give this assignment to a Master level student within Business Administration / Economics who can perform it in the form of a degree thesis.

The thesis work should answer the following research questions:

- What factors drive a (product) market to become commoditized?
- What strategies have proven successful to fight commoditization?
- How does the process of commoditization change the structure of a market (value chain, actors surviving, new entrants ...)?
- On commoditized markets, which business strategies have proven successful for company growth and profitability?

We think that the main focus of the work will be literature studies, both text books and academic articles, within areas such as (but not limited to) marketing, market management and micro economics. The student will also get the opportunity to perform interviews with relevant people in the organization. It is a requirement for applicants to have received relevant training within the above topic areas. A relevant candidate must have sufficient abilities to read and write in English, along with the capability to convey his/her findings to a broader audience within Sandvik in written English text. Further, the candidate must have access to an academic library along with access to scientific databases to retrieve journal articles. The candidate must also have an academic supervisor at his/her department, who has agreed that the task (as described

above) is a relevant master thesis topic. During the time of writing the thesis, the candidate should be located in the Gävle/Sandviken area. Recruitment of the candidate is done at the sole discretion of the company, and will be based on the above mentioned criterias. The assignment can be given to one or two individuals. If you wish to work in a group of two, please indicate so and send in the details for both applicants.

The selected candidate will be offered a supervisor at Sandvik Tooling who will be supporting and monitoring the work. He/she will also be offered an office desk at (or close to) department TFC. It is not a requirement to be present in the office during the whole work with the thesis, but we would like the student to spend most of his/her time here. Access to phone and computer will be supplied if needed.

We see the work as fulfilled when the thesis is approved by the supervisor at Sandvik Tooling as well as by the assigned supervisor at the university.

APPENDIX 2: Interview Guide

We are two MBA students at the University of Gavle in Sweden pursuing a Thesis / Research Project as a pre-requisite to attaining our degree qualification. Our area of research is specifically in line with the Commoditisation phenomenon and its effects on the market for Sandvik Machining Solutions. We shall be glad if you timely respond to these questions to a great detail and be sure that your responses will be treated with a high degree of confidentiality.

1. Who are Sandvik's main competitors and which firms dominate the industry in terms of market share?
2. What are your competitors' competitive advantages?
3. Are there any dominant low-cost competitors in your market? to what extent do new entrants or existing competitors use low-cost business model and techniques?
4. What would you say are the types of economies of scale that are vital in this industry? Production, distribution or sales? Which of these economies of scale does Sandvik Enjoy?
5. Which firms (including Sandvik) enjoy the most economies of scale in the industry?
6. Has Sandvik found itself in a position where it has to compete on price with rivals given their economies of scale? How has Sandvik responded to the rivals' economies of scale advantage?
7. Which industries constitute Sandvik's main customers? Roughly what percentage of the main customers are repeat buyers?
8. Which additional benefits and incentives do you offer customers to justify premium prices charged?
9. How willing are Sandvik's customers to pay for these additional benefits? Would you say you are often forced to offer these additional benefits at give-away price? Please motivate your answer.

10. Is Sandvik's market share threatened when competitors lower their prices? Please motivate your answer
11. Are Sandvik's profit margins threatened when rivals reduce their product prices? Please motivate your answer.
12. What strategies does Sandvik use to counter price reductions by its rivals? Do these strategies restore Sandvik's market share and profit margins? Please motivate your answer.
13. How often are new product offerings and variations introduced by rivals? Industry and Sandvik?
14. How different or similar are these new product offerings to those already offered on the market? Please motivate your answer.
15. What happens to the broad market structure when these new offerings are introduced? Does the market get fragmented into smaller market niches? Please motivate your answer
16. What are your major products and what value proposition is offered with the main products? What would you say are your rivals' value propositions?
17. How do the new product offerings affect Sandvik's main products' value proposition? Do the rival offerings undermine Sandvik's value proposition? Please comment
18. On average, how much of revenue earned does Sandvik allocate to R& D and marketing activities? What trend has this allocation taken over the years? How is this compared to industrial average?
19. Comment on the sufficiency of Sandvik's resources to maintain high innovation and marketing strategies, in the midst of regional and global competition.
20. How often is Sandvik forced to cut its prices to retain existing customers? Apart from price cutting, which other strategies has Sandvik considered in trying to fight off surrounding competition and retain existing customers?
21. Do you feel like you are locked into an arms race with competitors, constantly adding new features and benefits and lowering prices just to keep up? Please comment.
22. How often does Sandvik introduce new products? Would you say the technology in this industry is rapidly changing and giving way to technological breakthroughs overnight?

23. How often are new features and benefits added to products industry wise? How does Sandvik compare? Are these new features and benefits followed by price increments or price cutting? Please comment
24. Does Sandvik lead the generation of benefits (innovation) in this industry or does it sometimes find itself in a position of playing catch-up? Please motivate your answer.
25. How long does it take on average before customers find the primary benefits offered obsolete and inapplicable?
26. Does Sandvik constantly find itself under pressure to change its value proposition very often? Please comment
27. Do your customers have the power to constantly demand more for less money? Please comment.

APPENDIX 3: Request for Interview (ULF HERMANSSON)

Dear Ulf Hermansson,

Hope this email finds you well.

As earlier mentioned by Mikael, Timothy and I are students at the University of Gavle, investigating a hyper competition phenomenon commonly referred to as the '*commoditisation of markets.*' This is a phenomenon that can seriously threaten profit margins for any organisation if it finds itself trapped in a commodity market. However managers that can be able to identify this scenario ahead of time can escape or use it to their advantage. We have successfully gathered theoretical data that we would now like to align with Empirical data through interviews.

Having said this, we would like to request your assistance to provide us with empirical data in this regard through an interview.

The main purpose of this interview will be to gain insights on whether sandvik's cutting metal markets are a *commodity market* or liable to be a commodity market. The Interview will consist of structured questions ranging from areas of competitive environment, product, pricing, strategy and should take about 1 hour.

In the event that you agree to offer us the required assistance, we would like to request you to further provide us a date and time (preferably within next week) that will be convenient to take the interview.

Prior to the interview, we will send you the questions to be used during the interview.

Thanks & regards

Claire Kyoshabire

MBA Finalist

University of Gavle

(See attached file: Interview Guide -Commoditisation of Markets.doc)

APPENDIX 4: Request for Interview (CLAES SANDH)

Dear Claes Sandh,

Hope this email finds you well.

As earlier mentioned by Mikael, Timothy and I are students at the University of Gavle, investigating a hyper competition phenomenon commonly referred to as the '*commoditisation of markets*.' This is a phenomenon that can seriously threaten profit margins for any organisation if it finds itself trapped in a commodity market. However managers that can be able to identify this scenario ahead of time can escape or use it to their advantage. We have successfully gathered theoretical data that we would now like to align with Empirical data through interviews.

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The main purpose of this interview will be to gain insights on whether sandvik's cutting metal markets are a *commodity market* or liable to be a commodity market. The Interview will consist of structured questions ranging from areas of competitive environment, product, pricing, strategy and should take about 1 hour.

In the event that you agree to offer us the required assistance, we would like to request you to further provide us a date and time (preferably within next week) that will be convenient to take the interview.

Prior to the interview, we will send you the questions to be used during the interview.

Thanks & regards

Claire Kyoshabire

MBA Finalist

University of Gavle

APPENDIX 5: Request for Interview (ANU LINDAHL)

Dear Anu Lindahl,

Hope this email finds you well.

As earlier mentioned by Mikael, Timothy and I are students at the University of Gavle, investigating a hyper competition phenomenon commonly referred to as the '*commoditisation of markets*.' This is a phenomenon that can seriously threaten profit margins for any organisation if it finds itself trapped in a commodity market. However managers that can be able to identify this scenario ahead of time can escape or use it to their advantage. We have successfully gathered theoretical data that we would now like to align with Empirical data through interviews.

Having said this, we would like to request your assistance to provide us with empirical data in this regard through an interview.

The main purpose of this interview will be to gain insights on whether sandvik's cutting metal markets are a *commodity market* or liable to be a commodity market. The Interview will consist of structured questions ranging from areas of competitive environment, product, pricing, strategy and should take about 1 hour.

In the event that you agree to offer us the required assistance, we would like to request you to further provide us a date and time (preferably within next week) that will be convenient to take the interview.

Prior to the interview, we will send you the questions to be used during the interview.

Thanks & regards

Claire Kyoshabire

MBA Finalist

University of Gavle