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Surviving in a Commoditized World

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Abstract
This paper examines why organizations have adopted a wide range of responses when addressing the opportunities and threats posed by commoditization. Some may choose to focus on their cost base, whilst others may focus on innovation. Whatever strategy is adopted, it will be driven by a range of factors including the market or markets in which the organization operates the nature of its competition and how easy it is for them to become commoditized. This paper will present Ryanair, Wal-Mart, Starbucks, Tesco, General Electric and Dell as examples of which highlight how different organizations have approached the challenge of commoditization. What we can conclude from these is that there are many different ways to tackle commoditization and that many organisations do so successfully. For those organizations which are comfortably outside the commoditized zone, it will give them some insights on what to do should the risk of commoditization increase to a point where action is necessary.

Keywords
Commoditization, Ryanair, Wal-Mart, Starbucks, Tesco, General Electric and Dell

JEL Codes
A10, D21, D23, D24, D40, F02

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Introduction

Organizations have a wide range of responses to choose from when addressing the opportunities and threats posed by commoditization[1]. Some may choose to focus on their cost base, whilst others may focus on innovation. Whatever strategy is adopted, it will be driven by a range of factors including the market or markets in which the organization operates the nature of its competition and how easy it is for them to become commoditized. One of the things that is often helpful when weighing up the various options is to consider what other companies have done, or are doing. This paper will present a number of vignettes which highlight how different organizations have approached the challenge of commoditization. We will see that for some it has involved the complete reengineering of the business whilst for others it has been to concentrate on their workforce so that the benefits of full engagement can be realised. What we can conclude from these is that there are many different ways to tackle commoditization and that many organisations do so successfully. This is helpful because it demonstrates that it is possible to work very effectively within commoditized markets. For those organizations which are comfortably outside the commoditized zone, it will give them some insights on what to do should the risk of commoditization increase to a point where action is necessary. The companies selected cover a range of industries, many of whom are global or have global ambitions. But what is particularly interesting is that for a number of the companies mentioned in this paper the option of moving outside of the commoditized zone was a real one. Therefore, just because you may find yourself trapped in a me-too commodity market, it does not mean you have to remain there.

Ryanair – moving from high to low cost provider[2]

Ryanair is a perfect example of how an organization is capable of transforming itself from a high to a low cost provider. It also demonstrates how radical such a transformation has to be if it is to succeed and how it is possible to change consumer behaviour to allow it to expand and take market share from its established rivals.

Ryanair was started in 1985 by the Ryan family and at that time operated a single aircraft from Waterford (Ireland) to Gatwick (England) and had a staff of just 25. By year end some 5,000 people had flown with them and their staff had grown to 51. Over the next four years it expanded rapidly acquiring new planes and opening new routes, including some regular services into continental Europe. By the end of 1989 they had 477 staff and some 644,000 people had flown on their aircraft. Then the crunch came as the level of investment combined with the intense competition and pricing strategies of its principal competitors, British Airways and Aer Lingus, started to unravel the business. Although passenger and staff numbers rose slightly, the firm accumulated £20 million in losses. The initial strategy of undercutting its rivals by up to 50 per cent was only successful in the short-term as both British Airways and Aer Lingus cut their high fares in response. If it was to survive it had to remodel itself and undergo a significant transformation. Basing itself on Southwest Airlines, the

[1] Economic integration is expected to change the size and the structure of markets and commoditization is a notable case in point. The six cases considered in this paper are examples of how firms respond to commoditization as seen in a business economic perspective. In Martellato (2008, forthcoming in this Series) an economic approach is used to focus the changes produced by integration.

[2] This section has been derived from two principal sources: Kumar, N., (2006), Strategies to fight low-cost rivals, Harvard Business Review, December, p 1112 and Ryanair's history which appears on their website – see www.ryanair.com

successful United States low cost airline, Ryanair brought in Michael O'Leary to turn the business around.

O'Leary recognised that if Ryanair was to be successful it had to be up to 90 per cent cheaper than its established rivals, as it would be impossible for them to match such low fares. Cutting fares alone would not make the company profitable however, so O'Leary completely remodelled the basis of travel to allow low fares to drive profitable growth. The key changes he introduced included:

- Standardising the fleet on Boeing 737s and thereby simplifying the engineering and maintenance needs of the airline. The existing fleet consisted of 14 different aircraft which made the ongoing maintenance unnecessarily expensive
- Operating from secondary cities rather than secondary airports around primary cities
- Eliminating indirect and manual booking by first moving to shared service centres to book over the telephone and then to the internet so that all booking was direct with the customer
- Concentrating purely on economy and leisure travellers and eliminating business class from the aircraft
- Ceasing the serving of free meals and drinks to passengers, instead offering a limited range of simple snacks and beverages for sale which saved three cabin staff
- Increasing the turnaround of aircraft through the elimination of assigned seating and carrying freight
- Simplifying ground operations and aircraft maintenance to allow it to outsource both.

The result of this transformation speaks for itself. By 1995 they overtook Aer Lingus and British Airways to become the largest passenger airline on the Dublin-London route and transported over two million passengers and by 2002 became Europe's number one airline for customer service beating all other European airlines for punctuality, fewer cancellations and the least lost bags. By the end of 2006 Ryanair carried a record 42.5 million passengers on 436 routes across 24 countries, had 100 Boeing 737-800s in its fleet and followed its established rivals such as Easy Jet and British Airways by introducing online check-in. In 2007 it became the world's largest international airline in terms of passenger numbers[3].

Ryanair continues to innovate and change at both the back end and front end of its business. For example it will be enticing its passengers to carry hand baggage only by charging for bags which are carried in the hold of the aircraft and it continues to cut costs, which in 2006 were reduced by 6 per cent. As an example of how to survive within the commoditized zone Ryanair has demonstrated how it can be done.

[3] Robertson, D., (2007), Fewer passengers, falling profits, sliding shares – time for a price war, says Ryanair, The Times, June 6, p 51

Wal-Mart – supply chain par excellence[4]

When Sam Walton established Wal-Mart in Bentonville in 1962 he founded the company on the principle of providing everyday low prices to his customers. To achieve this he focused on improving sales, reducing costs, implementing efficient distribution and logistics processes and applying technology innovatively. Most importantly however was his belief that any savings should be passed directly to his customers, rather than increasing the profits of the company. And it was this that set Wal-Mart aside from its competitors. Nothing has changed since the early days of Wal-Mart except its size; it is now the largest retailer in the world. In 2005, Wal-Mart reported a net income of $10.3 billion from earnings of $285 billion[5].

One of the principal reasons why Wal-Mart has achieved this pre-eminence is because of its highly efficient supply chain management practices. Today Wal-Mart is able to offer a vast range of products at the lowest cost in the shortest possible times through its highly automated distribution centres and its inventory system which has reduced shipping times and costs and speeded up the checking out time and recording of transactions[6]. Unwrapping this further allows us to identify some of the factors which make Wal-Mart's supply chain management one of the best there is. First, when it comes to procurement Wal-Mart negotiates directly with its suppliers, cutting out all intermediaries. It also spends time with them to understand and improve their cost base so that they (Wal-Mart) can be assured they are getting the lowest price possible. Second, with regards to distribution Wal-Mart retains control over this by using its own warehouses so that it is capable of supplying 85 per cent of its inventory. This allows it to replenish stock within two days and keep its shipping costs to around 3 per cent[7], which is much lower than its rivals. Each distribution centre uses integrated barcode technologies and increasingly RFID (Radio Frequency Identification) to pick and track the products as they move from warehouse to store. Thirdly, in terms of logistics Wal-Mart exercises its usual tight control by employing dedicated drivers with over 300,000 accident free miles to operate the 3,500 company owned trucks[8]. The operating principles under which the drivers work are explicit, monitored and reinforced and this helps to establish a smooth supply of goods from the distribution centres to the stores. In addition Wal-Mart exploited the cross-docking technique which involves the finished goods from the manufacturers being sorted and supplied direct to the customer thereby reducing the handling and storage requirements. Requisitions from individual stores are converted into purchase orders and sent direct to the manufacturers who confirm their ability to meet the deadlines associated with the order. This has led to changes in the way Wal-Mart has managed its supply chain as cross-docking made the process far more customer pull than retailer push, which in turn has reduced the need for centralised control. The final aspect is associated with inventory management which is where Wal-Mart has probably invested the most in IT. Their inventory system is able to track sales and merchandise in its stores across the United States and can even inform staff in individual stores where products are in

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[4] Wal-Mart's supply chain has been analysed by a wide range of commentators, and this section is based upon the following sources: Richmond, B., (2003) Wal-Mart's supply chain management practices, ICFAI Center for Management Research (ICMR), Byrnes, J., (2003) Supply chain management in a Wal-Mart world, Harvard Business School, Working Knowledge, Langdoc, S., (2005) Wal-Mart, Accenture, RILA team to bring common language to retail supply chain, AMR Research Alert

[5] Ryan, J., (2006) Wal-Mart and China: Boon or Bane for American Interest, European Business School, p 1

[6] Richmond, B., (2003) Wal-Mart's supply chain management practices, ICFAI Center for Management Research (ICMR), p 3

[7] Ibid, p 4

[8] Ibid, p 5

the supply chain (in the distribution centre, being loaded onto a truck or on its way to the store). It is also able to reduce unproductive inventory by allowing individual stores to manage their own stock levels and most critically using a retail link system which connects Wal-Mart to the thousands of suppliers allows suppliers to monitor the sales of their goods and replenish inventories as their products are sold[9].

Of course to be successful Wal-Mart has had to engage with its suppliers. The earliest example of this was the alliance established with Proctor & Gamble which incorporated vendor-managed inventory, category management and other inter-company innovations. Proctor & Gamble even opened an office next to Wal-Mart's head office in Bentonville so that a dedicated team which represented their key functions such as sales and marketing, distribution and supply chain management and IT were on site ready to improve and enhance the service provided to their most significant customer[10]. This relationship became the basis from which Wal-Mart redesigned and computerized its dealings with all its major suppliers[11]. Today there are circa 400 Proctor & Gamble employees on the Bentonville site and they have been joined by 500 of Wal-Mart's largest suppliers who like Proctor & Gamble have opened an office in northwest Arkansas to be close to their principal source of income[12].

More recently and in order to overcome the inconsistent supply chain language used across its supplier base, Wal-Mart has initiated a programme to ensure all its suppliers understand the roles, processes and metrics associated with the retail supply chain. They have partnered with Accenture's Supply Chain Academy and the Retail Industry Leaders Association to produce and market a Retail Supply Chain Certification programme[13]. The benefits of the certification are clear, and especially so to Wal-Mart, as it standardizes the language used between trading partners which reduces the time spent debating inventory policy definitions, forecasts and other technical details. It also establishes the basis for building and rewarding supply chain expertise. And finally it will allow supply chain staff to concentrate on the forward thinking elements of effective supply chain management, such as demand-driven supply networks, demand forecasting and inventory optimization[14].

Starbucks – extending the coffee experience into a brand[15]

It is remarkable how coffee, one of the most basic of commodities, has been transformed into a lifestyle product that seemingly few of us can do without. And none have done this quite so well as Starbucks. Starting out in Seattle, Washington in 1971 its dream was to transform the coffee drinking experience of the average American, by combining high quality coffee with the charm and romance of the

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[9] Ibid, p 7

[10] Byrnes, J., (2003) Supply chain management in a Wal-Mart world, Harvard Business School, Working Knowledge, p 1

[11] Bianco, A., (2006), The bully of Bentonville: How the high cost of Wal-Mart's everyday low prices is hurting America (New York: currency Doubleday), p 180

[12] Ibid, p 178

[13] Langdoc, S., (2005) Wal-Mart, Accenture, RILA team to bring common language to retail supply chain, AMR Research Alert

[14] Ibid

[15] See Horovitz, B., (2006) Starbucks Nation, USA Today, May 19-21, pp 1-2A and Michelli, J., (2007) The Starbucks Experience, (New York: McGraw-Hill)

European coffee house[16]. Starbucks' success speaks for itself; since 1992 its stock price has increased by 5,000 per cent, the number of people employed by them has grown from 100 in 1987 to 100,000 in 2006[17] and today it sells four million coffee drinks every day in the US alone. There are a number of factors which have allowed Starbucks to achieve such a remarkable and sustainable track record and one of the most prominent is the way it treats its staff. Apart from allowing them to share in the wealth of the business they provide extensive training in product knowledge, guiding principles for success, personal empowerment and building great customer experiences. They also ensure that staff understands the link between their efforts, the customer experience and the profitability of the company. New partners are given a 104 page booklet that they complete within their first 90 days of employment. This includes a map of the coffee growing regions of the world, information on farming, roasting and brewing and the range of flavours that Starbucks offers their customers. Partners are also expected to complete verified tastings twice a year and each is given a pound of coffee each week to continue to develop their knowledge of the coffees which Starbucks sells. Over time, they are also given the opportunity to become a coffee master – true experts in their field. Such attention to developing a consistent approach to the delivery of their product and ensuring their staff are knowledgeable is one of the ways Starbucks develops a strong corporate identity. And this pays significant dividends for the business especially in terms of retention and building strong relationships with existing as well as new customers. Turnover is 120 per cent lower than the industry average for those working in the quick-service restaurant sector[18]. But there is more to Starbucks than this, as despite being within a commoditized market, they take time to innovate. Such innovations may not be massive, or indeed require major investment, but they are critical to the brand. Such things as the ubiquitous recycled cardboard sleeve (aped by many of their competitors) and the introduction of the gift card are just two examples. In many respects Starbucks has made the drinking coffee into a social phenomenon, which they now want to leverage.

Not content with changing the way we drink, and how and where we work, Starbucks wants to become a global corporation to rival McDonalds. Unlike McDonalds however, Starbucks intends to influence pop culture from what music we listen to, what books we choose to read and what films we watch. Considering their influence so far, they have been able to:

- Make it acceptable to pay $5 for a cup of coffee
- Raise the quality and taste of the coffee we buy, forcing McDonalds and Burger King to follow suit
- Introduce mass customisation into the ordering process, giving the consumer total choice in how they want their coffee configured
- Make healthy food fashionable through the introduction of a range of food which is better for their customers
- Create an environment where people can meet, socialise and conduct their business – following in the footsteps of the coffee house which was at the centre of the emerging financial and insurance industries in 17th century England. Everything the company does is designed to create and reinforce a positive

[16] Michelli, J., (2007), The Starbucks experience, (New York: McGraw-Hill), p 2
[17] Ibid., p 14
[18] Ibid., pp 8-9

experience while buying and consuming their food and beverages[19].

- Bring awareness of social and environmental issues to the wider population, which has ranged from using Fair Trade coffee growers to the use of recycled material. For example, they are replacing 5 per cent of the energy used in its US stores with wind energy, reducing its carbon emissions by 2 per cent and have set a goal of providing $10 million to water projects in developing countries in the next five years.[20]

With such an influence, it's no wonder that Starbucks wants to take this further and use its influence elsewhere. For example, two years ago they established Starbucks Entertainment, which it wishes to use as a vehicle through which their name can be associated with music, films and books. So far it has promoted the Ray Charles Genius Loves Company CD (of which its stores have sold 835,000 copies – about 25 per cent of the total) and the Akeelah and the Bee movie (which has been less successful). It is also looking to promote books and provide entertainment downloads by improving the wi-fi networks already in its stores. With five more stores opening every day worldwide, its long term goal is to have 30,000 globally. By reaching into normal peoples' lives and changing the way individuals eat, drink and perceive the world around them, Starbucks is likely to become the pop culture guru it wants to be.

However, there is no room for complacency as even a brand such as Starbucks is at risk of being viewed and treated as a commodity by its customers. A recent memo from the Chairman, Howard Shultz[21] outlines the risks of commoditization and the need to remain vigilant. In his memo he questions some of the decisions made by Starbucks as it has expanded over the last ten years and believes some of them have watered down or commoditized the brand. He claims that although many of the decisions were right at the time, it has been their cumulative effect which has resulted in the dilution of the Starbucks experience. For example swapping out the old espresso machines for ones which are automated may have solved the issue of efficiency, but it has reduced the romance and intimacy of watching the coffee being made by the barista. In another example, he cites how the move to flavour locked packaging (needed to supply the thousands of stores across the USA and every international market) has reduced the aroma that is part of the attraction. The biggest issue he believes has been the loss of the store's soul and neighbourhood feel, primarily due to the need to streamline store design and satisfy the financial side of the business. Indeed according to his memo, customers are viewing the stores as sterile and no longer reflecting the passion the partners feel about Starbucks coffee. All of this he believes has allowed the competition to steal market share and he feels this loss of competitive advantage should be eradicated by returning to the core of what made Starbucks what it is – the heritage, tradition, and passion that is central to the Starbucks experience.

Tesco – building and leveraging customer loyalty[22]

Tesco is not only the UK's number one retailer, it is also the world's most successful internet supermarket, and Europe's fastest growing financial services provider.

[19] Ibid., 11
[20] Ibid., p 31
[21] This memo was picked up on the Starbucks Gossip website - http://starbucksgossip.typepad.com/_/2007/02/starbucks_chair_2.html
[22] Humby, C., Hunt, T., and Phillips, T., (2007) Scoring points: how Tesco continues to win customer loyalty (second edition), (London: Kogan Page)

Central to Tesco's continued success is their singular focus on building and leveraging customer loyalty. If you should wander into the headquarters of Tesco in Cheshunt in the UK, you will see the centrality of customer loyalty enshrined within their mission statement on a plaque on the wall. It states that the company's core purpose is to *create value for customers and to earn their lifetime loyalty*. Central to Tesco's dominance of the UK's retail market has been the continued success of its Clubcard loyalty card programme. The card was piloted in 1993 and rolled out nationally in 1994 in the belief that it could deliver more than a boost to like-for-like sales. Tesco were looking for an increase in customer goodwill and ultimately loyalty[23]. In a highly competitive market in which the price of goods is the most significant factor in the average consumer's choice, Tesco knew that if they could create a powerful following through the Clubcard they could keep their existing customers coming through their doors and could grow market share.

Tesco had not always been so focused or indeed lucky with its loyalty campaigns. Although it was a great proponent of Green Shield Stamps which were awarded to its customers from 1963, it did not achieve the loyalty Tesco expected and by 1977 the programme was costing the company too much (£20 million per annum) at a time when customers were losing interest in Tesco which they believed was too expensive.

The Green Shield Stamp programme was cancelled[24]. This marked the beginning of the transformation of Tesco that took it to the development of the Clubcard. Key to being able to make the Clubcard work and to lock-in their existing customers was linking spending patterns to real people so that the reward vouchers could be sent directly to the customer's home address. This made the Clubcard more powerful than any discount scheme because it personalised it and ensured that it kept their customers interested. This was in sharp contrast to Sainsbury's rival scheme which depended on customers taking their rewards on demand (which meant as they were paying for their shopping at the checkout). The early results were better than the board could have hoped for; over 80 percent of the daily sales were coming from Clubcard members. And over the next 18 months, Tesco adapted and advanced the Clubcard concept in terms of how it rewarded its customers, how it turned customer data into valuable customer knowledge and how the card and its benefits were marketed. By May 2006 over £80 million was paid to Tesco customers every quarter, significantly more than the £14 million that was paid out when it was launched in 1995[25]. Today this money can now be spent on a whole range of food and non-food items, which includes books and magazines, holidays, days out, theme parks, film hire and so on. Over the course of a year, the rewards add up to be quite significant and can for example allow a family of four to travel on the Eurostar to Paris or Brussels for £100 in Clubcard vouchers. The usual price would be £400.

What has made Tesco's Clubcard programme so successful and its sustained growth so profound has been the creation of a strong bond between their customers and the brand. This customer-Tesco contract has five steps and neatly encapsulates how they have established a virtuous cycle which continues to pay dividends in a highly competitive and commoditized market[26]:

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[23] Ibid, p 37
[24] Ibid, pp 40-42
[25] Ibid, p 71
[26] Ibid, p 69

1. Identify individual customers
2. Reward involvement, spend, consolidation of spend
3. Build dynamic customer knowledge
4. Create accurate segmentation for marketing efficiency
5. Enable more personal, relevant service to customers.

Clubcard has provided Tesco with a number of real options, but the most significant has been their launch into the e-commerce space. At the very outset Tesco decided to integrate Clubcard with Tesco.com and in this way was able to lock the customer in to the point where 93.9 per cent of purchasers shop loyally. Moreover, because it already had the details and shopping habits of its customers this made the transition to the online environment a lot smoother and much less costly than many of the online stores found during the Dot Com boom; all that was needed was the Clubcard number. Using a combination of the offline data collected by Clubcard customers' in-store and that accumulated online Tesco was also able to eliminate many of the other problems associated with the early forays into online food stores, such as the willingness to purchase fresh food. The centrality of data continues to provide dividends and increase the number of regular shoppers who are willing to become loyal customers of Tesco. For example, they are using customer profiling to understand which categories of shopper are likely to use the online store and combining this with outside customer data to attract new customers using a combination of targeted mail shots and email to entice them onto the site and from this into their stores[27]. This is proving to be a significant untapped growth area for the company. The continued power of the Tesco brand lies in its ability to connect with the customer, give them what they want, when they want it and through this generate the value and the lifetime loyalty, which is gold dust in the commoditized world.

GE – dominating markets and adapting to a changing environment[28]

GE has been in business for over 126 years and has gone through several transformations since its inception by Thomas Edison in 1879. Its leaders have come and gone and some have been more iconic than others, with Jack Welch being the most prominent. GE's success has been put down to a number of factors, including leadership, talent, influence (over a whole range of stakeholders which includes government bodies through to unions) and management systems (indeed today we use many of the techniques developed by GE), but it is their adaptability that is possibly the most significant factor in their continued success[29].

GE's roots lie within the electricity industry which in the late 19th century was still in its infancy. Edison understood the need to adapt and even drive this new market and he did this by bringing his inventor's discipline and vision to the organizational setting. Instead of dismissing other peoples' ideas and failures, Edison was willing to experiment, adapt and build upon others' work and then exploit this for financial gain. He supported this by protecting his patents and copyrighting everything; he had over 1,000 approved patents. More important however, was Edison's desire to dominate the markets in which he operated. He did this through a combination of equity ownership, licensing, partnerships and helping his customers by taking an equity

[27] Ibid, pp 231-232

[28] For a detailed analysis of GE from its inception through to the current day, see Rothschild, W., (2007), The secret to GE's success, (New York: McGraw-Hill)

[29] Ibid, p vi

position in their businesses. In that way, they were able to leverage and build on the Edison name and he was able to maintain a stake in their business[30]. In addition to dominating the markets in which they operated, GE also began to adapt. As the emerging electricity and utility industry expanded, they recognised that they could no longer continue to finance the nascent companies on their own, so GE established EBASCO (the Electric Bond and Share Company) to finance the electric utilities and this not only stabilised the industry, but it also provided the basis for negotiating with state regulators.

During the 1920s and 1930s, when the management of GE passed over to Swope and Young, the focus on maintaining the company's position remained a powerful focus. In order to do this they used a variety of approaches, including franchising, controlling retail prices and relationship selling[31]. Although important, it was the application of the benign cycle strategy that allowed GE to maintain its market dominance. By building and marketing an increasing number of electrical products across all of its markets it would stimulate greater demand for electricity which would require the utility industry to upgrade its systems, which GE would supply[32]. This strategy allowed GE to remain profitable throughout the Depression. And in the same way they dominated the electricity industry they managed to dominate the emerging radio and broadcasting industries.

During the next phase of their evolution GE became heavily involved with the US war effort and was able to apply their knowhow to the requirements of the military. During this period, the focus of GE shifted away from consumers as they took direction from the military. The most significant dividend from this was diversification which ensured the company was well positioned for the consumer boom which followed the end of the war. The other principle benefit which this brought was recognition that growth could be achieved through internal means and talent rather than through acquisition or merger. And to achieve this, GE took the trouble to identify and nurture its talent and professionalise its management. This theme of being on the vanguard of many of the management techniques that we now take for granted was something that would continue as GE was guided under the direction of jack Welch, who was the unexpected winner from the leadership race that preceded the retirement of the then CEO Reg Jones[33]. Welch's selection was another indication of GE's core strength of adaptability because Jones recognised that the company need a leader with new ideas and a different style[34].

One of the first things that Welch did was to address the sacred cows within GE. He believed that if the company was to continue to be successful each business had to either grow and lead their chosen markets or be sold off. In the first two years of his tenure Welch sold off 71 product lines and completed 188 deals[35]. Part of his success was down to his willingness to allow the GE logo to be sold off with each of the businesses – just one of the many sacred cows. In many respects Welch epitomised GE's adaptability which he encapsulated within his six rules[36]:

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[30] Ibid, p 17
[31] Ibid, pp 57-58
[32] Ibid, pp 58-59
[33] Ibid, pp 183-185
[34] Ibid, 189
[35] Ibid p 194
[36] Ibid, p 208

1. Face reality as it is, not as it was or as you wish it were
2. Be candid with everyone
3. Don't manage; lead
4. Change before you have to
5. If you don't have competitive advantage, don't compete
6. Control your destiny, or someone else will.

Of this it is the fourth and sixth which are focused on adaptation and the third and fifth which focus on dominating their chosen markets. Not satisfied with applying this to the portfolio of businesses, Welch also applied it to his managers and leaders so that only the best were rewarded and those at the bottom of the performance scale were sacked. Brutal perhaps, but Welch knew that the ability to adapt to dominate their chosen markets required managers and leaders who could do the same. Welch was willing to seek out and apply any techniques and tools that would satisfy the objectives of the company and many companies watch what GE does before following suit. Jeff Immelt who succeeded Jack Welch in 2001 has continued to grow the firm, despite the belief that Jack Welch *was* GE.

Dell – standardization and selling direct to the customer[37]

Dell started out a little over three years after the first IBM PC hit the market in 1981 and today it is the largest PC sales company in the US and the world[38]. Its success can be put down to a number of things, but the three most important elements to its success are cutting out the middleman, pursuing a strategy of component based standardization and keeping its inventory as low as possible. When the company started, PCs were largely sold through retailers. Although this model worked, Dell believed that a more efficient model was possible by eliminating the middle man and selling direct to the customer. This allowed them to sell its computers at a lower price than the competition, which saved the company between 25 and 45 per cent of the mark-up typically made on computers sold through the retailers[39]. However, although Dell was successful in cutting out the middleman and driving down costs, it was the focus on component standardization that allowed it to truly thrive. And in the same way that Ryanair was able to change the focus of the airline industry, Dell has done the same within the computer hardware industry.

Dell applies the principals of commoditization extremely well and does so by initially watching what the market does. When new technology arrives, such as the PC, it tends to be proprietary in that the hardware tends to be created in its entirety by the manufacturer. This restricts competition and allows the manufacturer to capture market share through the first mover advantage and keep its margins high. This continues until others enter the market which leads to increased competition and a standardization of the technology. This is used by Dell as a key indicator of potential market returns and this is when they take action. Their aim is to both undercut and outperform the existing suppliers by building machines using less expensive, off-the-shelf, standardized parts[40]. Once Dell has entered the market it becomes almost impossible for the incumbents to force their customer base back to proprietary hardware; HP and IBM have both tried to do this and both have been unable to

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[37] Holzner, S., (2006) How Dell Does IT, (New York: McGraw-Hill)
[38] Ibid, pp 1-2
[39] Ibid, pp 5-6
[40] Ibid, p 64

reverse the trend. Apart from the price sensitivity, it is also due to the customers' refusal to limit their choice to one supplier who has the power to charge what they like. The final element to Dell's success has been the focus on its inventory and taking its build-to-order process to the extreme. In 2000 Dell had about six days worth of inventory and by 2005 it had reduced this as low as two hours in some of its plants. Dell has placed the onus on their suppliers to deliver the components it needs to build PCs and other hardware just in time and in order to do this many have co-located their factories next to Dell's. It is able to fund this by billing customers as soon as they make an order and then paying its suppliers between 30 and 45 days later. Other factors that have made this possible include reducing their supplier base, letting the suppliers hold the inventory, and by only taking delivery of the components when it needs to[41].

Conclusion

Each of the vignettes covered in this paper illustrate how organizations can tackle the commoditization of their business. Some, like Wal-Mart and Ryanair have concentrated on their key business processes and especially their back offices. Each approach has yielded dividends; some greater than others, but it is important to recognise that the response developed will be contingent on a variety of factors which range from those which are market driven to those which can be considered to be entirely internal to the company. There is no one best way and it is essential to remember this when developing your own response.

[41] Ibid, pp 85-106