

*Commoditization
and the Strategic
Response*

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GOWER

Preface

The business environment is constantly evolving as companies of every shape and size attempt to capture market share, expand their operations by seeking out new opportunities and find new ways to add value for their customers and shareholders. This process does not work in a vacuum as each and every one of them has to survive in a competitive environment which is becoming more globalized and increasingly cut-throat. Globalization, of course, has its supporters and its detractors, but whatever point of view you may hold, the stark reality of trying to compete in a market that is forever seeking out products and services at the lowest price is one that an increasing number of companies have to contend with. But it is not just the raw costs of products and services that matter, it's also the expertise and experience that go into creating and delivering them. With rising levels of education and particularly the influx of highly qualified graduates from China and India the opportunity to achieve elevated levels of product and service quality at lower cost is fast becoming a reality. Whereas the West struggles to entice its youth into pursuing engineering and science based degrees, India and China are finding it much easier. This helps to create an environment in which labour can be exported to countries where it is both cheaper and smarter; a critical wake-up call for every organization and white-collar worker, not just those at the bottom of the service economy.

But it's not just about labour; the choices we all have to purchase goods and services from wherever we want, often at the touch of a button, increases the competitive edge required to survive. With the world as the shop window, the opportunity to seek out more responsive product and service providers at an acceptable price is forcing businesses to remove unnecessary costs from their supply chains, review their core capabilities and offload activities which can be executed at a lower cost. We are now at the beginning of a wave of commoditization which few of us are prepared for. The parallel with the downsizing of white-collar workers in the 1990s is profound. Assuming commoditization can only happen to the lower educated, or the lesser skilled is as naïve as it was in the 1990s, when many middle managers couldn't believe that it was they who were in the firing line.

Commoditization in its various forms has always been with us. We have witnessed the commoditization of the railways, telecommunications and more recently information technology and to a significant extent, the airline industry, but now it's affecting a broader spectrum of businesses and especially white-collar work. White-collar work is increasingly becoming a commodity, and businesses which have been used to outsourcing and offshoring their manufacturing activities are now shifting white-collar work to locations where the workforce can produce high quality outputs for a fraction of the price. At the same time, companies are waking up to the power of the emerging economies of the East, such as India and China, who are fast catching up and will soon be overtaking the Western economies which have dominated the global economy for the last 250 years.

This book is about the nature of commoditization; how it evolves, how it affects industries, companies and workers and how to respond to it. In it I hope to widen your understanding of

what commoditization means for organizations and individuals alike and through this provide the basis for charting a course that either seeks to exploit it or one which attempts to avoid it. Drawing on a wide variety of sources, I will attempt to describe the impacts, issues, risks and opportunities associated with the commoditized zone. I do not profess to have all the answers, as opinions and courses of actions are always down to the individual. What I do hope is that you will find this interesting and thought provoking and a useful guide as you navigate your own and your company's future in an increasingly complex and competitive world. Commoditization is coming, and your response will determine whether or not you and the company you work for, or perhaps own, become commoditized in the process.

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