How to Brand Sand

By Sam I. Hill, Jack McGrath and Sandeep Dayal

In commodity-goods markets, price is usually the only differentiator. But if you can brand those goods and bundle them with services, even bricks and sand can command premium prices. Here is how to turn commodities into branded goods.

"OF COURSE, DIRT isn’t just dirt," said the client, a marketing manager for diatomaceous earth, a chalky white mineral used as an industrial absorbent and filtration medium and sold to a range of customers, from quarries to multibillion-dollar food processors.

That is clearly true from the perspective of the client — and anyone else who is trying to market a product that seems indistinguishable on its face from what others are offering. But it is just as true that such a view is not held by all customers.

Indeed, when it comes to commodity products, the burden of proof is almost always on the marketer to show why this handful of dirt is better, and worth more to the customer, than that handful. It is a marketing argument.

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that may have as much to do with the
way the dirt is packaged, delivered and
used as it does with the dirt’s actual
quality and characteristics. Whatever
is involved, it is a task that the marketer
must accept — and be prepared to han-
dle with a savvy sense of the differing
needs and cost points of the relevant
marketplace.

In this article, we address the
concerns of commodity marketers.
Commodity is a term that is often used
loosely — to denote both markets
with very intense price pressures and
the strategies employed by compa-
nies competing on the basis of low
cost/low price.

We use “commodity” to refer to a
specific group of products and mar-
kets — lowly differentiated products
or services with high levels of substi-
tutability and straightforward price
discovery. While many markets offer
such products, we have limited this
discussion to those in industrial set-
tings traditionally classified as low
tech. (For those still not sure if these
principles apply to them, see “A Self-
Test for Commodities,” page 32.)

To date, companies operating un-
der those conditions are frustrated
with marketing theory. “Ninety-five per-
cent of the published marketing text-
books deal with consumer marketing,”
Richard Morford, general manager for
tire and rubber chemicals at Rhône-
Poulenc S.A., told us. “We have stopped
sending our executives to business
school. It is frustrating to learn about
the marketing of Listerine mouthwash
and have what is of primary interest to
us treated as an aside.”

It is an appropriate time to ad-
dress this topic. Over the past decade,
in their efforts to slash costs, many in-
dustrial companies have eliminated
much of their marketing capability.
Those intent on reestablishing the em-
phasis on marketing should not sim-
ply rebuild their old marketing opera-
tions, with their heavy reliance on
transaction-oriented selling. Instead,
they should seize the opportunity to
create modern marketing capabilities
to understand customers’ needs, de-
vise and communicate new offerings
that meet those needs and then exe-
cute rational pricing strategies that
fully recognize the true cost-to-serve.

In this article, we outline a step-by-
step approach to developing an effec-
tive marketing strategy for providers of
lowly differentiated goods.

THE FOUR STEPS TO BRANDING

We propose a four-step approach to
branding commodities:

> First, carve up the market from
every angle — profits, needs, behav-
iors — to identify those customers
who are responsive to differentiation.

> Second, differentiate your of-
fering in one or more of the six “gener-
ic” dimensions of differentiation.

> Third, bundle several differen-
tiations into a brand, and then com-
municate that brand consistently and
strongly.

> Fourth, align your business ca-
pabilities to reinforce and defend the
brand and the underlying sources of
differentiation.

CARVE UP THE MARKET!

Carving up the market is the critical
first step. Commodity marketers who
know who will pay for differentiation,
how much can be invested in the dif-
ferentiation process and what benefits
are of value to their customers can be-
gin to build a brand. Those who in-
stead apply a shotgun approach will
likely run out of money before they see
results.

Successful commodity marketers
must start by recognizing that no
market is truly homogeneous. One
agribusiness giant has come to the
conclusion that it has a natural affini-
ty with certain customers based on ge-
ography, quality, long-term relation-
ships and compatible values. On the
other hand, company executives have
concluded that some customers will
never feel comfortable with them —
and they have gone so far as to “fire
customers” when it became clear that
the fit was not just right.

They are correct — some cus-
tomers are simply not responsive to
marketing and are a waste of time. We
call our process to identify the right set
of customers “carving up the market.”

Carving up the market goes well
beyond traditional segmentation. It is
a deliberate process to find those cus-
tomers who need, appreciate and will
pay for differentiation. The first step is
to conduct a disciplined behavioral segmentation of the market. This is very different from traditional psychographic or demographic approaches; instead of relating how customers behave to how they purchase, actual purchase patterns are examined. Our research identifies three distinct classes of customers:

1. **Gold Standard Customers**
   These are the customers whose concerns exceed a narrow fixation with rock-bottom price. They will pay a premium for offerings that deliver true value in terms of process enhancements, cost reduction or benefits to end-users. They typically represent a small portion, anywhere from 5 to 25 percent, of the total market. One study found that 8 percent of the customers fit this category in steel strapping, while our research found the segment ranging as high as 22 percent in some chemical markets.

   Consider the experience of the Australian Wheat Board, which scans global markets looking for buyers who are seeking high-quality wheat with very specific characteristics. While most wheat buyers require wheat to meet only two or three specifications, demanding buyers such as the Japanese may have a list of 20 requirements. By seeking out the most demanding customers, and efficiently matching them with hard-to-find supplies that meet their requirements, the Wheat Board is able to extract a significant premium in a business where most competition is based solely on price.

   The true Gold Standard customers will consider long-term, strategic partnerships with multiple levels of client interaction. These are the customers sought by commodity marketers like our agribusiness giant. “We are going through a revolution in customer selection, spending less time with the transaction types, and embracing partners,” said the director of marketing at this company’s dry milling division.

   Of course, even Gold Standard commodity customers are demanding — sometimes more so than other market segments. However, at least they are willing to pay for their demands.

2. **Potentials**
   A larger segment of the market, generally ranging from 30 to 45 percent, places a higher emphasis on pure price, but is occasionally willing to entertain the notion of selective relationships involving certain products or services. Customers in this segment have some degree of interest in partnering, although they shy away from long-term commitments.

   This group sometimes even includes traditional cost managers. Because they are concerned with delivered cost, it is possible on occasion to interest them in opportunities to reduce network costs, including transportation, delivery and warehousing. And supply-risk managers, rather than fixating exclusively on cost, are primarily concerned about the potential to avoid supply interruptions.

   Once it is possible to move the dialogue beyond delivered price, the potential for differentiation exists.

3. **Incorrigibles**
   No matter what you do, these customers are not going to love you. You can rent their affection, but only until your money runs out. These are not strategic thinkers. They are tightly focused on a single goal: making the best possible deal on the transaction at hand.

   These are the pure price buyers, who treat suppliers as the enemy and focus exclusively on current delivered price. They will switch suppliers with lightning speed for even the slightest price differential. Not only is it often a waste of time to market to these bottom-feeders, it is sometimes not even worth the trouble of having them as customers; their greatest use is often as gifts to competitors.

   Unfortunately, the Incorrigibles constitute half the market, or more, in some commodity businesses. They are so prevalent that no supplier can seriously think about “firing” all of them.

   The behavioral segmentation of the market is just the first step in understanding customer potential, albeit the most important. Marketers also need to analyze the extent to which customers truly contribute to their profitability, rather than eating up profits by failing to pay the true cost-to-serve. At one European commodity supplier, 45 percent of the customers provided all of the profit and then some, making up for the more than 35 percent that actually cost the company money.

   The result of these segmentations is a short list of the customers around

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which real marketing can take place.

The next step is to acquire an in-depth appreciation of the needs of these customers. The supplier must develop insights into needs the customer might not be able to either articulate or even understand. That means understanding not only the needs of the direct customer, but sometimes also those of an end user, or what we call the “true customer.” This becomes necessary when the direct buyer — someone internal or external who is other than the true customer — is acting as an agent and does not appreciate all the nuances involved in the commodity’s actual use. Getting “close to the customer” may have become a cliché, but that doesn’t negate the underlying concept. Insight requires understanding, and understanding requires proximity.

Through the 1980’s, the Mogul Corporation, which is now part of the Nalco Chemical Corporation’s Specialty Division, sold its industrial water-treatment chemicals to two primary market segments: boiler rooms and cooling towers. For years, Mogul viewed its market solely from that perspective. But steadily declining market share forced the company to take a closer look.

Analyzing the needs of its customers, Mogul discovered that they purchased chemicals for three basic purposes: to increase the quality of their processes, to increase their safety or to make them less costly. Given the vast differences in their operations and end-products, each of Mogul’s 2,500 customers achieved those benefits through specific methods. Mogul found that by combining its chemical offering with technical consulting on its best use, it could convert its buyers into partners willing to pay a premium for the added-value opportunities arising from changing demands from end-users.

Rhône-Poulenc had much the same experience, also in the 80’s. In a last-ditch effort to rejuvenate a disappointing silica business, Rhône-Poulenc’s researchers were developing highly dispersible silica, or HDS, for vehicle tires, which made it possible for the first time to decrease rolling resistance without diminishing wet traction. As a result, HDS was priced at premiums up to 75 percent over common grades of silica. And as fleet fuel efficiency standards grew tougher in the United States, Rhône-Poulenc entered into a long-term agreement to provide a major manufacturer with HDS silica. The customer would use HDS to produce tires that could provide up to 9 percent higher fuel efficiency than those made with standard silica.

Thus, in effect, the company had succeeded in branding sand.

DIFFERENTIATE!

Commodity differentiation must be tangible, robust and capable of withstanding intense scrutiny. The marketed offering must significantly enhance some element of the customer’s value chain in ways other competitors can’t match.

That requires the development of a unique, tangible source of value — technological and engineering support, special distribution and delivery, or specific application of the commodity product to end use. Once in place, that differentiated source of value is difficult for competitors to duplicate. What’s more, if the supplier can
bundle multiple sources of differentiation into a single, integrated offering, the challenge facing competitors becomes immense.

There are always ways to differentiate, through both how you add value and how you deliver it. Value is created in commodity products through improving the consistency of the offering, making it more convenient or aggressively customizing it to the customer’s operation. This value can be delivered either through the product itself or through service enhancement. Exhibit I demonstrates what happens when you combine the two different dimensions.

What results from that combination are the six “generic” ways to differentiate:

1. Quality Control: Value From Product Consistency.
2. Reliability: Value From Consistent Service.
3. Packaging: Value From Product Convenience.

3. Packaging: Value From Product Convenience. Consistent quality and service, though essential, constitute only the most basic forms of differentiation. Adding convenience to consistency provides a major new dimension to the offering, making it substantially harder for competitors to match.

Spice producers traditionally sold small packets of spices to dog food manufacturers. Although the dog food was mixed in huge industrial vats, workers had to manually measure and pour the spices into the food because they were delivered in amounts too small to be measured by any of the industrial equipment. The cumbersome, time-consuming process inevitably resulted in substantial spillage and waste.

Then one producer seized on the idea of mixing pre-measured amounts of the spices into sacks of flour. The new packaging eliminated the need for customers to do any more measuring — when packed with flour, the seasoning came in sufficient bulk to be automatically measured and mixed by equipment, rather than by workers. The producer successfully differentiated its offering by redesigning its own packaging to accommodate its customers’ production process.

4. Taking Responsibility: Value From Convenient Service. Delivering supplies as soon as customers order them is important. Automatically supplying them on time without the customer having to place an order is infinitely better.

5. Matching: Value From Product Customization. The wheat market provides a clear example of selective...
customers — the Gold Standard customers described earlier — who are willing to pay a premium to a supplier who can match them with the exact commodity they need.

Given the vagaries of nature, it is impossible to insure the precise characteristics of any wheat crop. The resulting variations in qualities such as moisture content might make a tremendous difference to end customers, like bakers and food producers. But those variations tend to be subtle — and unimportant — differences to the millers who buy wheat in 55,000-ton containers. For most of them, the determining factors are price and availability. And the price advantage often lies with the heavily subsidized American and European producers.

But to some buyers — the Japanese, in particular — seemingly minor variations are of enormous importance. Their purchases have to meet exacting demands and long lists of specifications. The Australian Wheat Board, hard pressed to match its global competitors on price, markets to the Japanese and other highly selective buyers with a customized offering. Using its computerized capacity to monitor the precise content of the wheat in all 1,500 of Australia’s elevators, the board tracks down the hard-to-find wheat the Japanese demand. Across all its customers, the board earns a higher price realization of $2 a ton, a significant advantage in a low-margin business.

6. Knowledge-Based Applications: Value From Customized Service. The most intense form of differentiation also requires the deepest involvement in the customer’s operations. Exhaustive knowledge of the customer’s processes can be used to provide substantial value and pave the way for long-term partnering relationships.

Earlier, we discussed Mogul’s realization that its accepted view of the market — segmented simply into boiler rooms and cooling towers — was woefully superficial. Each customer used Mogul’s water-treatment chemicals in particular processes to achieve specific purposes. Over time, Mogul began assembling bundled systems of chemicals, equipment and services, segmented by industry, to help each customer achieve its desired goal — improving the quality, increasing the safety or lowering the costs of its processes.

For example, within their food industry portfolio, Mogul’s managers assembled money-saving solutions for makers of dairy products, fruit juices and potato chips. Combining modular industry solutions with specific site configurations, Mogul designed customer-specific solutions, which were then stored in databases for easy access by field representatives. Salespeople were offered incentives to produce and document their own systems solutions, based on actual situations encountered in the field. In time, the databases grew to include a web of offerings that could be assimilated and customized for new buyers. That valuable storehouse of information and applied technology became a key differentiated offering for Mogul and a distinct competitive advantage.

**BUNDLE!**

Defining and delivering a differentiated attribute that provides real value to the customer is essential, but not necessarily sufficient. Often, a single attribute — consistent quality or service, for example — can be matched, or at least neutralized, by agile competitors. Differentiation tied to a specific product is the most tenuous basis for branding. Ideally, commodity branding is associated with an offering — the basic product or service enhanced by various forms of differentiation — rather than with a particular product. The goal is to bundle multiple sources of differentiation — and then to fight ferociously to prevent competitors from unbundling them.

In the end, the goal is first to build the brand identification with a bundle of integrated offerings, and then to extend the brand relationship to the institutional level, where it affords the greatest opportunities for leverage. The people who market Du Pont’s
chemicals and mineral products understand they have a considerable advantage because of the company’s reputation for innovation, reliability and stability. Even if there is nothing particularly innovative about a specific product they might be selling, one manager acknowledged, “people buy from us because we are Du Pont.” That is the essence of commodity branding.

The objective of institutional branding is to create customer relationships that are broad and deep—broader than the traditional link between a salesman and a purchasing manager, and deeper than a teen-ager’s emotional attachment to a particular brand of designer jeans. In commodity brand relationships, those emotional bonds are replaced by shared goals and common values. For example, one major agribusiness supplier believes that in face-offs with competitors, “ethics and culture are our tiebreakers.”

Brand marketing requires multiple points of company-to-company contact as both partners seek mutual ways to create value through aligned processes, applications and capabilities. It demands an entirely new focus on relationships rather than transactions, on offerings rather than products, on premiums rather than discounts. “Relationships used to be uno a uno — now it’s across the company and across the customer,” said our agribusiness director of marketing.

It also requires effective communication of the brand. But years of disappointing experience, stemming from the costly and inappropriate use of consumer marketing techniques, have made commodity suppliers leery. Indeed, some have an almost pathological fear of communication in general, and of advertising in particular.

Well-targeted, sharply focused communication does work well in commodity markets; it just doesn’t bear much resemblance to the mass advertising most commodity suppliers automatically associate with brand marketing. The key is to communicate the value clearly, using economics rather than emotion. (See Exhibit II.)

Take the case of polyethylene resin, a commodity used in making plastic products ranging from trash cans to freezer storage bags. Du Pont’s tests showed that pipes made from its Alathon 25 resin were 5 percent more durable than competitive products. But despite several years of price cuts, Du Pont failed to persuade pipe manufacturers that its product was worth a premium.

Finally, Du Pont launched an all-out program to educate its customers about the true value of its higher-grade resin. It produced a detailed analysis of the comparative costs involved in installing and maintaining in-ground irrigation pipe made from Alathon versus the competitors’ standard resin. The direct savings from the reduced need to buy replacement pipe turned out to be fairly minimal. The real savings — 10 times the savings on new pipe — came from the diminished need to pay the labor and crop damage costs associated with digging up and replacing the underground pipe. As a result, Du Pont was able to increase
the price of Alathon by 7 percent, resulting in an overall premium of nearly 38 percent, and still see its sales double the following year.2

DELIVER!

The extraction of a premium for a differentiated offering demands that the supplier make good on the promise of added value. Execution is critical; the supplier must have the business systems and processes required to deliver the marketed offering. It must also have the business systems to not deliver to customers who don’t pay for it. The Australian Wheat Board has to locate and deliver the high-quality wheat it promises. Tires containing Rhône-Poulenc’s HDS silica have to provide increased fuel efficiency. And irrigation pipe made from Du Pont’s Alathon 25 polyethylene resin has to last longer and produce tangible savings in replacement costs.

When commodity buyers pay a premium for value, it can’t be skin deep. The value has to be real and tangible, because they will constantly measure and reevaluate it. If the customer paid for the highest-quality product or the highest level of service, then that is what the customer has to get. At the same time, business systems must enforce internal discipline to insure that buyers of the most basic commodities are not over-served.

Changes in the business capabilities are not restricted to production and logistics, but are even more important on the “soft side” — customer management. Employing a traditional sales force to market a branded commodity is the epitome of the Pogo Principle: “We have met the enemy and he is us.”

Brand marketing requires massive reeducation, new values and tailored incentives. Traditionally, commodity salespeople have had two concerns: volume and the immediate transaction. Their basic tactic is to enhance their personal relationship with the buyers. To close the deal, they will offer practically anything, culminating in the pitch: “I know what the rate card says, but here’s what I’ll do for you.” And that approach will spell disaster when applied to brand marketing. With alarming speed, the salespeople will unbundle your offerings. They will erase your premiums. They will offer unfathomable discounts. Left to their own devices, they will destroy your brand faster than any marketing effort can build it back up.

Few issues are more problematic for commodity marketers than pricing. “I know of very few commodity marketers that sell on the basis of value,” the general manager of a major European chemical supplier told us. “It appears to be a foreign concept.” The norm, instead, is cutthroat bidding aimed at moving volume.

The traditional commodity pricing mentality dictates that all consumers must pay the same price, with reasonable adjustments for transportation and volume. That view of the marketplace is blatantly wrong. The notion that all customers of lowly differentiated commodities pay essentially the same price is a myth. In one commodity segment, for example, our analysis of more than 100 customers found that 61 percent were paying a price that varied by more than 10 percent from the moving average. In some cases, customers purchasing comparable volume paid effective prices that differed by multiples of three or four. And in general, the largest discounts were enjoyed by the smaller-volume purchasers.

Clearly, commodity suppliers are accustomed to charging a wide range of prices; the rational basis underlying those price variations is not always evident. But haphazard pricing practices will not support a long-term branding strategy. Marketing branded commodities involves a set of basic pricing principles.

First, the supplier of branded offerings must be constantly aware of the true cost of differentiation. Commodity suppliers, rather than risking the loss of a customer by demanding a premium, often provide a particular service upon request. Over time, they incrementally increase the value of their offering without extracting an appropriate premium. Ultimately, that can be ruinous. Effective branding requires an accurate calculation of the true cost of initiating, delivering and supporting the offering.

Second, it is essential for suppliers to command value for even small differences. As we saw in the case of Du Pont’s irrigation pipe, a 5 percent dif-

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A Self-Test for Commodities

“Commodity markets” is a term used so often it tends to be meaningless. Rather than debate the definition, we propose the following test: Which, if any, of the following five characteristics apply to your market?

1. Your customers carefully evaluate each and every purchase. In some markets, purchases are made automatically and receive little or no scrutiny. For example, at one extreme, consumers devote an average of 11 seconds to the typical supermarket buying decision, according to a 1978 study. The purchase is usually one of hundreds the consumer makes each week, and receives little conscious consideration. Even if consumers had the time and inclination, few possess the resources or technical capability to accurately compare competing offerings. In fact, the consumer is paying for the luxury of not having to think about the purchase. The brand offers instant clues — highest quality, lowest cost, reliable service, greatest cachet — that relieve the consumer of the effort required to weigh the pros and cons of each purchase systematically.

Commodity buyers possess not only the resources and capability but also the incentive to evaluate each purchase. The risk factor involved in each purchase far surpasses those faced by consumers, and justifies the investment in increased attention.

2. The “true customer” is anonymous. Your product is purchased by a buyer or agent who is not the final user of the product and who may not appreciate subtle but important differences. For example, in the case of the Australian Wheat Board, which is in the business of supplying high-quality wheat, different wheat characteristics make for tremendous differences to an end user, like a baker. A sudden change in supply can result in loaves of bread an inch too high or too low. However, sellers of wheat deal not with bakers, but with a purchasing agent, who is often located far away at a flour mill, and who may have little appreciation for the differences in performance that even small variations can create. The baker is the “true customer,” not the pur-

One producer of refractory brick charges a premium for its high-grade brick — but that premium pales in comparison with the enormous cost of taking down a glass furnace for repairs stemming from the use of inferior brick.

Closely related is a third principle: Understand the true value of the offering in terms of the customer’s operations and ability to switch. One producer of refractory brick charges a premium for its high-grade brick — but that premium pales in comparison with the enormous cost of taking down a glass furnace for repairs stemming from the use of inferior brick.

We have discussed the fourth principle at some length, but it is worth repeating one more time: Do not allow differentiation to be unbundled, either by competitors or by your own sales force. The bundled offering is the core of the brand.

Fifth, effective marketers must be prepared to make continuous and complex trade-offs between volume and price. That means deliberately surrendering market share on continued on page 34
chasing agent or the miller, but is anonymous to the wheat board. It is not at all uncommon for commodity marketers not to know their “true customers.”

3. You have “dumb” competitors. Not all competitors act in ways that support market-focused strategies. Witness the persistent, self-defeating price wars that periodically ravage the airline industry. Despite efforts to improve margins through differentiated offerings, such as frequent-flier programs, “this industry is always in the grip of its dumbest competitors,” Robert L. Crandall, the chief executive of American Airlines, once told Time magazine. Typically, “dumb” competitors believe they are sufficiently advantaged that they can compete on cost and cost alone.

In fact, the traditional commodity strategy of “pure lowest price based on lowest cost” rarely works in practice. Many industries actually have multiple low-cost producers that are similar in size and capability, with many operating well beyond the minimum efficient scale break point, the point at which economies of scale are no longer critical. Even a supplier that truly has the lowest costs, and prices accordingly, is vulnerable to price wars initiated by aggressive competitors gunning for volume and share. Nonetheless, many competitors persist in rushing to market with well-disguised but inferior product offerings, emphasizing price, price, price.

4. Your channels compete with you for the heart and soul of the “true customer.” “Customer” is often used to describe the channel; often “competitor” is more accurate.

Using a consumer example because it will be easily recognizable, consider the case of suppliers of carpet fibers. They have often pushed the benefits of this particular type of fiber, with the result that consumers look to the fiber trademark as the brand, and believe that the different types of carpets are much the same, except for color, etc. After all, they all use the same key ingredients. The same phenomenon occurs in many other consumer markets — cooking pans, outdoor jackets and personal computers, for starters. In industrial markets, e.g., wheat, the point is that the miller wants to own the baker’s loyalty, not share it with suppliers of the wheat.

5. There are “anti-branding agents” at work. Any organization, however well meaning, that encourages comparison on price and helps to obscure differences between products is in effect an “anti-branding” agent. When trading organizations authorize contracts for spring wheat, and commodity exchanges quote prices for those contracts, it makes it that

Many industries have multiple low-cost producers that are similar in size and capability, with many operating well beyond the minimum efficient scale break point, the point at which economies of scale are no longer critical.
occasion when the tide is running the wrong way, then moving aggressively to regain share when conditions are right. It requires a dynamic, day-to-day approach that the Australian Wheat Board describes as “guerrilla marketing” — prowling world markets for opportunities that play to your strengths, and passing up fights when the cost of victory appears too high.

Finally, a successful pricing strategy requires the supplier to maintain market discipline — a deliberate, unemotional approach to outbreaks of price wars. It requires careful analysis of what competitors are doing, and why, in order to avoid misreading signals that might actually point to a spot phenomenon or geographical aberration rather than across-the-board price cuts. It is imperative to avoid getting panicked into price slashing, which undercuts the long-term strategy.

SUMMARY

In short, we believe you can brand sand. For those who are intrigued but skeptical of the outcome, the news is good. Based on extensive research, we would argue that you can indeed brand not only sand, but also wheat, beef, brick, metals, concrete, chemicals, corn grits and an endless variety of other commodities traditionally considered immune to the process.

What’s more, within reasonable limits, there is a substantial payoff for success in the form of a “brand premium.” Remember the extra $2 a ton that the Australian Wheat Board managed to harvest.

But marketing carries major risks. Research shows that while effective marketing can provide commodity businesses with high returns, ineffective marketing is worse than no marketing at all.3

Given the economics of commodity businesses, the margin for error is incredibly thin. Consider a commodity supplier of wheat flour; typically, net margins will be in the 5 percent range. The manufacturer who buys that wheat and turns it into breakfast cereal has traditionally enjoyed margins closer to 35 percent. If the cereal manufacturer spends considerably more than it should on sales, that is unfortunate but not disastrous. A similar miscalculation by the wheat supplier can demolish margins.

The key is to take a disciplined, deliberate approach that begins with the market, understands how to create and deliver value and, most importantly, figures out how to get paid for it. Getting paid for it requires branding, extending the relationship beyond the transaction to encompass the full organization.

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