

# Countering Commoditization Through Innovation

## Challenges for European B2B Companies

*B2B companies can use a Commoditization-Innovativeness Matrix to identify actions to counteract the pervasive threat of commoditization that exists in many B2B markets.*

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**OVERVIEW:** B2B companies are an important part of the global economy, and traditionally they have relied on technological capabilities to compete. Currently, the B2B sector is under increasing pressure, as many B2B companies no longer have a technological advantage, and they also face commoditization. Companies see innovation as a way to compete against these challenges. Although product and process innovation are important in B2B markets, companies need other forms of innovation such as service and business model innovation to create a differentiated offering. B2B managers' views on the value of market research vary widely, and many are unaware that sophisticated techniques such as ethnography can effectively identify B2B customer needs. Our Commoditization-Innovativeness Matrix is a diagnosis tool that enables B2B companies to identify actions that can counter commoditization.

**KEYWORDS:** B2B companies, Commoditization, Competitive strategy, Customer needs

Business-to-business (B2B) companies form an important part of the global economy. In the US, for example, they generate approximately 42 percent of total revenues (Lilien 2016). No similar revenue statistic is available for Europe, but the importance of the sector has still been recognized (Bughin et al. 2019). B2B companies have often competed in the past based on their technological capabilities (Lilien 2016), but in recent years increasingly difficult marketplace conditions (Wiersema 2013), in particular, market commoditization, have become problematic (Adhikari and Singh Gill 2011; Grove et al. 2018). Many companies are choosing to focus on innovation as a

response to these challenging market conditions (Merrilees, Rundle-Thiele, and Lye 2011; Cortez and Johnston 2017; Biemans and Griffin 2018). Despite the B2B sector's importance, researchers have not given it enough attention (Lilien 2016; Cortez and Johnston 2017), particularly in Europe.

What challenges do European B2B companies face and how are they responding? This question was the catalyst for our three-phase study. Our results show that European B2B companies are experiencing commoditization of their markets, which is compounded when they have no technological advantage. In this tough business environment, companies turn to

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innovation as their strategic response, and the companies with a deep understanding of their customers' needs are able to develop unique offerings and create niche markets.

We selected commoditization and innovativeness as the axes of a two-by-two matrix that managers can use to identify actions they can take to respond to market challenges. The matrix identifies clear strategies that B2B companies can use to address commoditization.

## Literature Review

For many years, research on B2B innovation lagged behind the extensive study of the business-to-consumer (B2C) sector (Lilien 2016; Cortez and Johnston 2017). Recent studies focused on B2B companies (mainly in the US) provide insights on three main topics: market challenges in the B2B sector, how companies manage innovation, and the difficulties in identifying B2B customer needs.

The literature shows that B2B companies need to respond to serious challenges. The first challenge is "customers have become more demanding, insisting on both off-the-shelf products and more complex, customized solutions" (Davie, Stephenson, and Valdivieso de Uster 2010, p. 2). Second, technological prowess is no longer a guarantee of success (Lilien 2016). Third, the buying process has become more complex, which means more decision makers are involved (Lingqvist, Plotkin, and Stanley 2015); electronic markets have emerged (Dhawan et al. 2000), which impacts margins (Kumar and Ganguly 2020); and channels have evolved (Davie, Stephenson, and Valdivieso de Uster 2010). Fourth, there is widespread commoditization (Adhikari and Singh Gill 2011; Pine 2015)—for example, in chemical products (Miremedi, Musso, and Oxgaard 2013). To address these challenges, Pine (2015, p. 2) suggests companies should "continuously innovate how they attract, engage and excite customers by finding new possibilities for creating value."

Although B2B companies need to manage innovation effectively, they lag behind the B2C sector in this domain (Wiersema 2013). According to a large US survey, in comparison with B2C companies, "B2B firms are less likely to have an innovation strategy or to use innovation revenue growth targets" (Biemans and Griffin 2018, p. 119). In addition, many management tools and techniques do not address the idiosyncrasies of B2B markets (Lilien 2016). B2B firms can improve their innovation performance by screening out less-promising projects at an early stage (Biemans and Griffin 2018). B2B manufacturers can also become better at communicating the benefits of their products through demonstrations, showrooms, simulations, and novel websites (Pine 2015).

Unique products are crucial for B2B companies (Cooper 1983). To develop such offerings, B2B companies must understand clearly their customers' needs (Eggers, Kraus, and Covin 2014) and the outputs they desire (Grove et al. 2018). Unfortunately, many B2B companies only have a superficial understanding of their customers and markets (Wiersema 2013), which, as Eggers, Kraus, and Covin (2014) noted, leads to incremental innovations. A recent study found that most German B2B manufacturers base their knowledge of their

customers' needs on internal data and market reports (Geyer, Lehnen, and Herstatt 2018). B2B companies need more sophisticated approaches to identify their customer needs (Wiersema 2013; Lilien 2016) based on regular customer contact and suitable resources (Geyer, Lehnen, and Herstatt 2018), and effective communications across the marketing-sales interface (Biemans, Makovec Brenčič, and Malshe 2010). Although smaller B2B companies have more regular contacts with customers, they still need to become more effective at understanding customer needs (Merrilees, Rundle-Thiele, and Lye 2011).

## Method

We conducted an exploratory investigation of European B2B companies in three phases: interviews, case studies, and, as themes emerged, follow-up interviews.

### Phase 1: Face-to-face Interviews

The study started with face-to-face, semi-structured interviews to avoid any misunderstanding in the terminology used. We used open questions based on, but not limited to, the topics in the literature. The interview guide covered demographics, market challenges, managing B2B innovation, and methods for understanding customer needs. We deliberately limited the interview to 20 questions and piloted the questions with several managers.

An opportunistic sample of European B2B companies was appropriate, based on the authors' personal networks supplemented by snowball sampling—that is, asking interviewees to recommend other companies. We included companies in Germany, the UK, Sweden, Switzerland, and Ireland, and interviewed innovation directors, marketing executives, and CEOs (all respondents received a summary of the results).

Our sample included a range of industries with mid-sized companies that have up to 2,000 employees (except for one major company with more than 50,000 employees that was keen to participate in the research) (Table 1). In total, we interviewed 31 respondents (designated R1 to R31), seven of whom were CEOs/managing directors. Interviews lasted 70 minutes on average.

We coded the respondents' answers to open questions into categories and cross-checked them for reliability. Through the coding process we identified key issues and illustrative quotations across the interviews, and we took steps to ensure these were representative.

### Phase 2: Case Studies

In parallel to the survey, we conducted two case studies systematically (Goffin et al. 2019) to develop a deep understanding of the B2B context. We selected two companies based on their successful innovation in the previous three years and their focus on customer needs. The study authors made several visits to these companies and collected data from interviews, websites, and presentations on products and innovation processes.

### Phase 3: Follow-up Interviews

During our analysis of the first interviews, commoditization and innovativeness (defined later) emerged as key issues. Therefore,

**TABLE 1. Overview of sample companies**

Sectors Covered	Number of Companies	Typical Revenues (M EUR)	Number of employees	Typical markets
Electrical/Electronic Manufacturing	8	20–200	100–300	Mining, Automotive, Construction, Utilities
Building Materials Manufacturing	5	100–500	300–5,000	Construction, Public Sector
Machinery	9	100–500	500–2,500	Automotive, Construction, Mining, Logistics
Chemistry	4	200–65,000	300–50,000+	Agriculture, Automotive, Construction, Electronics, Furniture
Textiles	3	50–100	300–1,000	Construction, FM, Business Support Services
IT/Telecom	2	20–50	50–200	Automotive, Construction, Logistics
Total	31			

we selected these two factors as the axes of a two-by-two matrix aimed at framing B2B market issues in such a way that interviewees could explain how they were responding to commoditization. In 12 follow-up interviews, we asked respondents where their organization is currently positioned on the matrix, their intended position, and actions they planned to make this “move” (change of position). A similar approach has been used before (Penttinen and Palmer 2007). We identified and collated different actions and selected representative quotations. The case companies participated in the follow-up interviews, but they requested we not disclose their “moves” on the matrix.

**Results**

The interviews generated rich data on 31 European B2B companies’ issues (Table 2).

**Challenges in B2B Markets**

Of the companies surveyed, 71 percent (22 out of 31) are facing commoditization. Interviewees spoke of customer relationships being “very transactional” (R13), and one manager said their “whole industry can be described as ‘red ocean’” (R21). Various respondents described their own products as “sheer commodity” (R9), “boring” (R1), “simple” (R10), and even “unsexy” (R9), all of which meant that “low-priced competition from East Europe/Far East is a threat” (R23).

The 29 percent (9 out of 31) of companies not facing commoditization stated, for example, “Some products are prone [to commoditization], some are not” (R22). Similarly, a construction materials company manager (R3) stressed, “The bulk of [our] products are heavily commoditized (for example, plaster boards), but there is a part of the market [that] is ready for high added-value innovative products.” Managers at the other companies not facing commoditization said their customers appreciated specific product features and superior product quality and were willing to pay a price premium.

Most respondents (84 percent, 26 companies) stated their firms had no technical advantage, which makes them more susceptible to commoditization. One respondent (R2), said, “[We have] no particular uniqueness, we just try to keep pace with the newest technologies, but our competitors do the same.” Another respondent (R9) said, “all competitors have the same technology.” Yet another respondent (R5) said, “There are some advances in technology which differentiate us from competitors, but they are not massive.”

Sixteen percent (5 out of 31 companies) considered they had a technological advantage with one CEO (R1) saying his company had “proprietary technologies.” One manager (R12) said, “basic technologies are . . . available to all players,

**TABLE 2. Overview of survey findings**

	Topic	Key Findings
A	Challenges in B2B markets	<ul style="list-style-type: none"> <li>• 71% view their markets as commoditizing.</li> <li>• 84% of companies view themselves as having no technical advantages in their markets.</li> </ul>
B	Managing B2B innovation	<ul style="list-style-type: none"> <li>• 81% view product innovation as key to success:               <ul style="list-style-type: none"> <li>○ Creating/maintaining unique products</li> <li>○ Service innovation</li> <li>○ Process innovation</li> <li>○ Communicating product advantages</li> <li>○ Customer intimacy or niche marketing</li> </ul> </li> <li>• No companies are satisfied with their innovation management.</li> <li>• Only 20% of companies use innovation metrics.</li> </ul>
C	Understanding B2B customer needs	<ul style="list-style-type: none"> <li>• 71% of companies do not conduct formal customer research (relying only on informal customer contacts with sales).</li> <li>• Only 10% use sophisticated methods like ethnography.</li> <li>• Only 10% have used agencies (none currently use agencies).</li> </ul>

but there may be some particular innovations which allows [us] to create products which are unique for a while.”

### Managing Innovation in B2B Companies

Twenty-five respondents (81 percent) regarded innovation as crucial, but only two companies focused on product innovation in isolation. Most companies also innovated in additional ways because they considered differentiation through product innovation alone challenging, due to their conservative customers and the expectations of many B2B buyers that better products would also be lower priced. Most companies complemented their products with “production and process excellence” (R18) and “processes—how we manufacture our products” (R19). Another interviewee (R14) said, “everything could be copied by competitors, and even patents are not ‘bulletproof.’ So, we . . . innovate constantly also in processes.”

Companies also use a range of other approaches to complement product and process innovation: augmenting the product with services, and business model innovation, and steps to build stronger relationships with customers, including involving them in co-development (Table 3). The innovativeness required of B2B companies in challenging markets goes beyond product and process innovation. One theme mentioned by many respondents was the difficulty to communicate added value of sophisticated products. One manager (R3) explained, “we operate in the market that is very price sensitive, and we try to propel new value-priced products. It is not easy... creating a value proposition that articulates values clearly and justifies a price premium is crucial.”

Although respondents identified different ways in which they needed to innovate, none expressed satisfaction with their innovation performance. Only 20 percent of respondents used metrics (KPIs) for innovation, such as “ROI on

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investments in R&D of particular products” (R31). Based on their metrics, one manager (R3) explained that “the length of NPD is too long; [there are] not enough insights from customers; [and there is] general difficulty of creating products with high added value at a price-sensitive market.”

### Understanding B2B Customer Needs

The interviews revealed conflicting views on the perceived value of research into B2B customer needs. Some managers indicated they perceived no value in market research, whereas others perceived it to be highly important. Seventy-one percent of companies (22 respondents) did not conduct formal market research, relying instead on day-to-day interactions between their salespeople and customers. A representative comment (R1) was “[We have] no structured stand-alone market research projects . . . [we rely on] organic gathering information by sales.” One respondent (R17) said, “customers often have problems to articulate them [their needs] clearly”; another (R27) said, “customers often don’t articulate clearly their concerns or articulate too simplistic[ly]”; a third (R12) said, “it is quite difficult to get real insights about product improvements.” Other respondents argued against formal market research: one (R4) said, “customers often have unrealistic expectations and want . . .

TABLE 3. Innovativeness of B2B companies

#	Type of Innovation	Examples and Quotations
1	Product innovation	“As the industry we are selling to is pretty conservative—our innovations are focused on Product.” (R1)
2	Process innovation	“very advanced . . . processes make the company technologically superior.” (R31)
3	Service innovation/product augmentation	“We have developed a very unique process of providing samples to customers; it’s greatly valued by them.” (R12) “We consciously and purposefully create ‘product augmentation,’ adding various elements to the core product itself.” (R4)
4	Business model innovation	“Customers pay for outcomes, not for products themselves.” (R2)
5	Niche marketing	“We customise our value proposition to particular segments.” (R4)
6	Customer relationship	“We are in constant contact with our customers (via sales force), and our NPD is very much based on insights from customers.” (R3) “Events, factory tours, sports tournaments for customers and so on; and during these activities we are getting insights in a friendly way.” (R12)
8	Co-development	“Customers are involved, they are the source of insights and particular inquiries.” (R8)
9	Communications: articulating product value	“Our company needs to ‘educate’ customers about benefits for them that this sophistication brings.” (R22)

much better performance . . . and with better price!"; and another (R30) said, "in B2B it is dangerous to be too customer-centric, as it leads to . . . a tactical solution that doesn't solve deep problems." Almost none of the interviewees were positive about the use of outside agencies, stressing that industry knowledge was crucial. One respondent (R12) said, "[Agencies] don't understand the data enough to get the best out of it." Another respondent (R21) said, "[Agencies only give] a 'helicopter view.'" A third respondent (R5) said, "outsourced research is prone to error due to . . . poor knowledge of our industry . . . I would prefer to create [an] internal capability for market research."

Notably, some respondents in companies that did not conduct market research saw this as a shortcoming. One respondent (R21) said, "The classic way is . . . a company discusses internally, how to innovate. Then they build the product. Then they launch it to the market . . . And then they play the game 'products looking for customers' . . . That is the *wrong* way." Another manager (R15) was cynical: "The doctrine that the management of the company has [is] 'we know the industry

very well' so, no necessity in additional research." Another respondent (R10) recognized the importance of more customer research: "The company should watch customers and get insights from them on a systematic basis."

The 29 percent (9 companies) that conducted formal market studies did so in connection with new product development. Six companies use surveys, focus groups, and direct interviews, while only three companies use more sophisticated methods such as ethnography. These three companies stood out because they had built a capability for generating deep customer insights—for example, as an "Ongoing process; the team of 6 people are constantly working on getting insights from the customers" (R31).

### Case Studies

The contradictory views across the sample on the value of market research led to our selection of two companies for our case studies: Altro Ltd., UK, and Heitkamp & Thumann Group, Germany. Both had built strong internal capabilities for identifying customer needs, which enabled them to develop

## Altro Ltd., UK

Altro Ltd. is a family-owned UK manufacturer of flooring and wall coverings. It has annual sales of £143 million, employs 800 people, and is a regular top-performer in the *UK Sunday Times* Best Place to Work rankings. Altro operates in the competitive, highly commoditized building materials industry, where customers are conservative and focused on price. The company's products target the education, healthcare, retail, industrial, and transport sectors.

Despite the company's success in addressing sectoral needs, it decided to go even further. The company conducted detailed market research in cooperation with Cranfield School of Management. In 2015, Altro created the dedicated role of product insights manager that reports to the company's marketing manager. Altro recruited Antonio Lourenco to drive a more sophisticated approach to identifying customer needs. During his first year, healthcare was Lourenco's priority. He travelled regularly, visiting hospitals, flooring contractors, and specifiers, trying to understand their concerns and hidden needs. The company used ethnographic market research ideas, and Lourenco observed the day-to-day usage of products at customers' facilities. He interviewed facility managers, doctors, nurses, patients, and cleaners—everyone that "used" the products. In total, he visited 21 customer sites and collected more than 15 hours of audio-visual data, the systematic analysis of which led to many actionable insights.

Working with colleagues, Lourenco identified numerous unintended ways in which customers used products, as well as many "workarounds" where customers had developed their own solutions. For example, in the high-secure environment of psychiatric wards, flooring products were installed on walls to protect the patients in danger of self-harm, and products intended for installation on walls were being installed on ceilings. Lourenco said, "I thought the gap in the market meant we needed to develop new products. I was surprised to find we already had products that were perfectly suitable to the high-secure environment, when applied correctly. Until now, these products had only been targeted at industrial applications." The crucial insight was the need for a product range aimed specifically at high-secure mental health environments, and offered extreme robustness and safety to both patients and staff. Altro had not realized before that the characteristics of its most robust industrial products were exactly those needed for specialized healthcare applications.

The company's research also showed that healthcare customers had difficulties specifying the products they needed, and many inefficiencies and misunderstandings existed between the different parties involved—from the healthcare administrators to facility managers, architects, and contractors. Altro responded in several ways. It now offers a popular Continuous Development Program, which explains interior design principles for professionals involved in flooring-walling decisions (architects, facility managers, etc.). The company created the "Altro Possibilities Studio" at its factory, which showcases nine different rooms for high-secure and mental-health environments. These rooms show different degrees of robustness, ease of use, and installation, to match different use scenarios. Between when the studio opened in October 2017 until March 2020 (and COVID-19 restrictions), approximately 400 customers visited, ranging from major healthcare trusts, to the Ministry of Justice and Mental Health Board. Altro estimates it has won approximately 50 projects as a direct result of the sector expertise demonstrated by the studio. Its focus on high-secure environments has reinforced Altro's brand as a leading healthcare supplier. Lourenco said, "Our experience in healthcare has demonstrated the importance of identifying hidden customer needs, and now we are applying our techniques in other sectors such as transport."

## Heitkamp & Thumann Group, Germany

The Heitkamp & Thumann Group, a family-owned global group of companies founded nearly 40 years ago, has its headquarters in Düsseldorf, Germany (Heitkamp & Thumann Group 2018a). The Heitkamp & Thumann Group consists of 16 companies organized into two divisions and four business units and employs approximately 2,000 employees. Since its inception, the Heitkamp & Thumann Group has strategically focused on niche products for high-volume markets, with the aim of becoming the leader in selected markets. For example, the H&T Battery Components Division produces components for the consumer battery industry and the fast-growing e-mobility market. Similarly, the division H&T Presspart leads in the manufacture of highly specialized metal and plastic components for the pharmaceutical industry. The Heitkamp & Thumann Group has a strong track record of process innovation and has the capability to develop equipment, tooling, and manufacturing systems.

The Heitkamp & Thumann Group considers innovation an essential group-wide initiative that has always been at the center of its corporate philosophy and entrepreneurial activities (Heitkamp & Thumann Group 2018b). A recent innovation brochure (Heitkamp & Thumann Group 2017) emphasized how the company is creating an employee-driven culture of innovation built on the strengths of the different divisions and business units. The Heitkamp & Thumann Group has developed and launched a range of new products (Heitkamp & Thumann Group 2017; Heitkamp & Thumann Group 2018c).

Over the last five years, the Heitkamp & Thumann Group has implemented a systematic innovation management process and defined an “innovation management toolbox” for developing breakthrough products with a sustainable competitive advantage. The toolbox includes methods such as Diffusion of Innovations (Rogers 2003). The Heitkamp & Thumann Group has trained technical, business development, and sales teams in innovation methods, including how to identify customers’ hidden needs.

The Heitkamp & Thumann Group has learned three key lessons from its recent innovation activities:

1. Deriving a solid understanding of customers’ hidden needs, using techniques such as repertory grid analysis or ethnographic studies, is key to developing differentiated B2B products.
2. If a B2B company aims to develop breakthrough products, it must identify customers’ hidden needs before it allocates substantial resources to product development; otherwise, it will end up in the incremental product trap. Having an advanced innovation toolbox to develop breakthrough products is insufficient if the company applies these tools too late during the product development process.
3. A project management “toolbox” needs to include methods to identify customers’ hidden needs. Applying these innovation tools systematically throughout a company requires a major change process, especially for successful, profitable companies. This change process takes at least five years, requires ambidextrous leadership that has the ability to manage exploitation and exploration at the same time (Tushman and Smith 2011), and a healthy company culture that encourages organizational learning. It also requires continuous effort to strengthen the key attributes of a “culture of innovation” (Heitkamp & Thumann Group 2017; Heitkamp & Thumann Group 2018c).

unique products and create a market niche. To build capability, Altro Ltd., a flooring and walling company, appointed a full-time manager for identifying customer insights. Similarly, the Heitkamp & Thumann Group found it crucial to identify customer needs early in the development cycle using sophisticated techniques such as ethnography. (See Altro Ltd., UK on p. 24 and Heitkamp & Thumann Group, Germany on p. 25).

### Follow-up Interviews

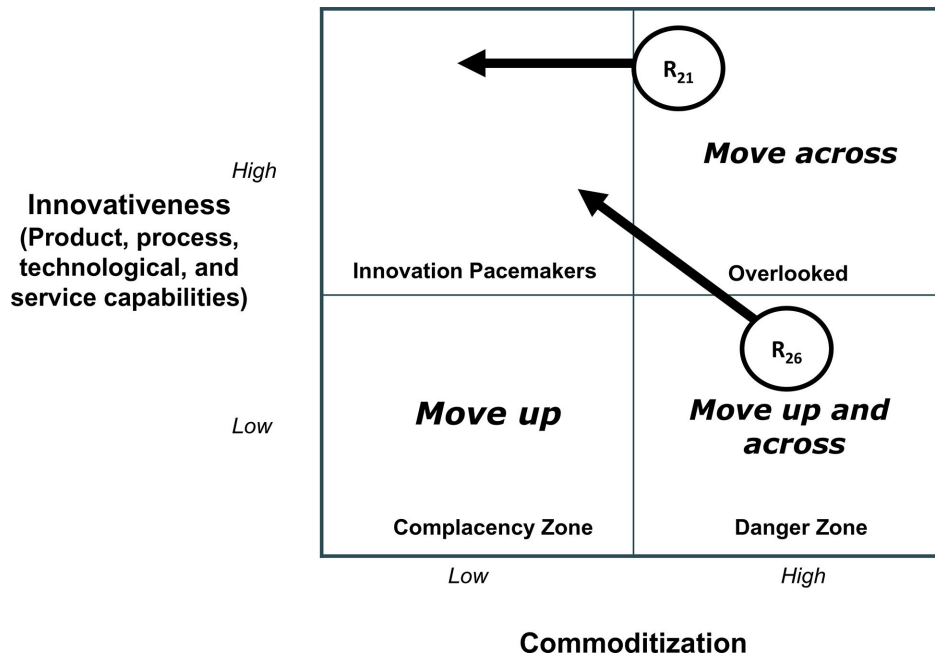
The data showed that innovativeness is a key way B2B companies address commoditization. We discussed our two-by-two Commoditization-Innovativeness Matrix in the follow-up interviews (Figure 1). Respondents identified their current position and the actions they planned to take to increase innovativeness and address commoditization.

Respondent R26 indicated that their company had low levels of innovativeness and was in the bottom-right quadrant, a commoditized market. R26 stated that “competition is growing . . . [and the] product is definitely a commodity,” but they said it would be possible to develop a better product as the company had “some technological superiority.” In trying to move to the top-right, respondent R26 recognized that

product innovation was necessary but not sufficient: “The challenge is to communicate to customers the fact that the product is more complicated, and its quality is more important than it appears to be.”

A camera technology manufacturer manager (R21) used the matrix to diagnose their current and desired positions. He said the company was “somewhat between the ‘top-left’ and ‘top-right’ and [our challenge is to] move left, to high innovativeness, little commoditization quadrant.” To achieve this move, the manager said the company needed to “position our products properly, changing the value proposition from

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**FIGURE 1.** Actions to counter commoditization by respondents R21's and R26's companies

'cameras making images' to 'cameras understanding images and suggesting decisions.'" In addition to his verbal response, R21 sent a detailed written response in which he identified key steps in designing and marketing products, including "understand from customers what to do next . . . have them want us [our products] more than our new competitors' [products]." R21 also said the company's innovation team is crucial: "They HAVE TO prove customer problems and develop suitable solutions for them—together with them [lead customers]."

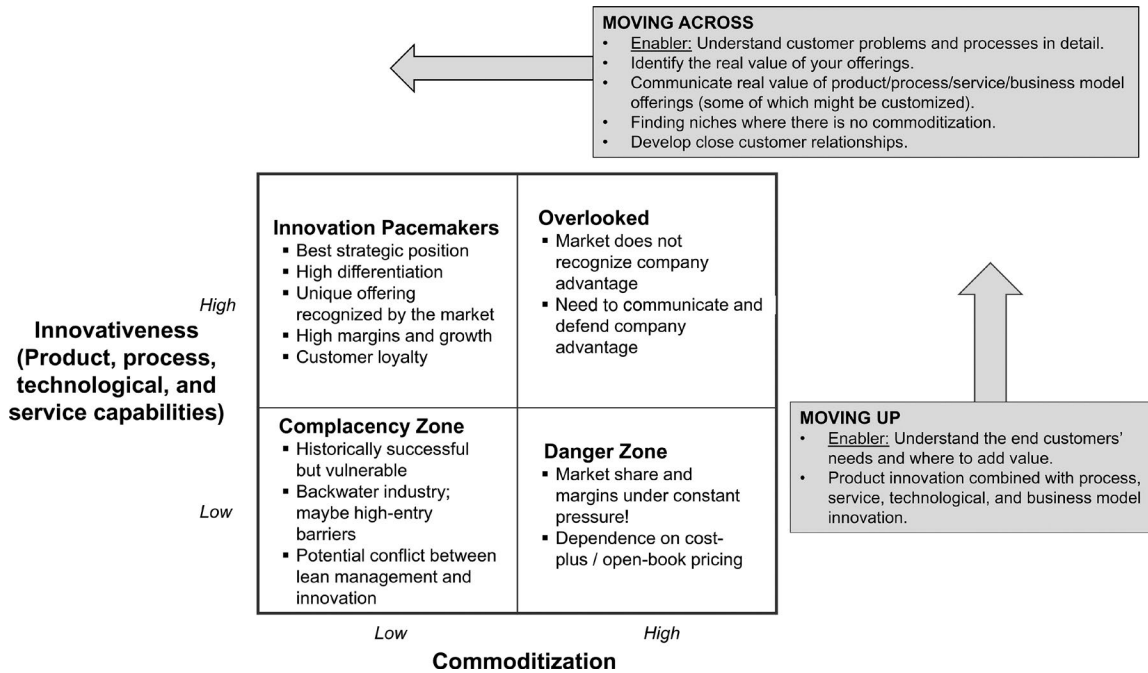
Other respondents in the follow-up interviews identified their current and desired positions on the matrix and the associated implications. For example, respondent R22 said that to move to the top-left quadrant the company needed, "to convince a customer that they need this high level of sophistication . . . the company needs to 'educate' customers about [the] benefits for them that this sophistication brings," whereas respondent R25 said their company was currently in the top-right quadrant and "the biggest challenge is to sell on value, to justify the price premium." One CEO (R31) indicated that his company had succeeded in moving some products into the top-left quadrant and earned margins 20 percent higher than competitors. Currently,

R31's company uses ethnography to generate ideas for innovations in other product lines in an effort to move these into the top-left quadrant. Other companies operating in the top-left quadrant earned higher margins because, R28 said, "customers are interested in particular characteristics and value our technical solutions."

Collating all of the comments from the follow-up interviews allowed us to develop the annotated version of the Commoditization-Innovativeness Matrix (Figure 2). We designated the bottom-left quadrant the "Complacency Zone" because companies talked about being successful without distinctive products or technological advantages, but they recognized their vulnerability if stronger competition eroded margins. We designated the bottom-right "Danger Zone" as, with low innovativeness, market share and margins are both under pressure. Respondents perceived "Moving Up" to be enabled by a better understanding of customer needs (contradicting what some had said about the low value of market research in B2B), leading to product innovation, process innovation, as well as other types of innovation. For companies in the top-right quadrant, we used the term "Overlooked" to signify that these companies *had* unique products, processes, services, and the like, but customers had not understood the uniqueness of the offerings. Respondents perceived "Moving Across" to be enabled by a deep understanding of the customer's issues and the ability to translate this knowledge into a value proposition that the customer could readily grasp. Finally, respondents perceived the top-left quadrant, designated "Innovation Pacemakers," as the most attractive position because it allowed higher margins and unique offerings to translate into customer loyalty. Several companies indicated their efforts to move at least some of their portfolio into this quadrant.

The Commoditization-Innovativeness Matrix should be applied at the business unit level. Respondent R17 said, "Our group consists of different businesses. Each company has a

Respondents perceived "Moving Up" to be enabled by a better understanding of customer needs, leading to product innovation, process innovation, as well as other types of innovation.



**FIGURE 2.** Commoditization-Innovativeness Matrix

different target market and business models and therefore it is important to position the companies separately on the matrix.” Several managers commented that the matrix helped them recognize opportunities and threats. A CEO (R18) said, “I think that we have overlooked some of our technological strengths. If we can build on our potential, I am convinced that there are niche markets where we can offer unique features and benefits.”

**Discussion**

Our small, exploratory sample is unlikely to be representative of the European B2B sector; however, our results affirm that European companies face similar issues to those described in the literature: erosion of technological advantage, commoditization, and challenges in managing innovation. Notably, our results draw attention to three new key points.

First, although product and process innovation are important in B2B markets, we found that companies do not consider them sufficient. They indicated that other forms of innovation such as service and business model innovation are necessary to create a differentiated offering, as is the ability to communicate clearly the advantages of a specific offering to customers. To be able to communicate the advantages of a specific offering requires a deep understanding of customers’ processes and problems, and the ability to identify the real value in offerings.

Second, and perhaps surprisingly, we identified widely varying views on the value of B2B market research. Seventy-one percent of companies do not conduct market research. Some companies used the cliché that customers cannot tell you what they want (something also noted by van Kleef, van Trijp, and Luning 2005), whereas other managers lamented their companies’ inability to generate customer insights. In contrast, nine companies actively conducted market research,

six of which use traditional methods such as interviews. We surmised that few European B2B companies are aware of the value of sophisticated techniques for identifying B2B customers’ hidden needs (Matzler and Hinterhuber 1998; Wagner and Hansen 2004; van Kleef, van Trijp, and Luning 2005; Goffin, Lemke, and Koners 2010). Three companies in the sample, including the two case study companies, used techniques like ethnography to generate deep customer insights. For example, Altro Ltd. operates in a commoditized market but invested time and effort in market research, which enabled the company to develop unique offerings for transport and hospital markets. Similarly, Heitkamp & Thumann Group built an internal capability for generating deep customer insights—for example, and a supportive culture.

Third, most B2B companies surveyed are vulnerable to commoditization, as they do not have unique products or technology, nor do they offer distinctive value. Our Commoditization-Innovativeness Matrix enables B2B companies to identify their current position and to develop a strategy to tackle commoditization effectively. Previous B2B research has highlighted commoditization (Adhikari and Singh Gill 2011) but has not identified all the ways in which managers can respond. Our results indicate the actions that B2B companies can take to counter commoditization in their markets.

**Conclusion**

Commoditization is a pervasive threat in many B2B markets. Our research led to a new diagnosis tool, the Commoditization-Innovativeness Matrix that helps practitioners identify market challenges and pinpoint actions to counter commoditization. A key activity highlighted by the matrix is the identification of customers’ needs. Surprisingly, most B2B respondents underestimated the value of market



research and were unaware that techniques such as ethnography can generate deep insights into B2B customers' needs. Our two case studies demonstrate that a deep understanding of customer needs leads to ways to create and demonstrate more value to customers and counter commoditization effectively.

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