
PREDICTABLE
PROFITS
HOW TO
MARKET
ESCAPING THE
COMMODITY TRAP

MODERATOR:

It is really exciting to have our featured speaker here with us tonight. We at the WSA live and die by the sustained growth and profitability of our members — so it's with special excitement that I welcome Charles Gaudet to our annual gathering.

Charlie is one of America's top marketing consultants and business coaches. His advice appears across a wide array of media channels including *Fox Business* and *Forbes*. He was recently selected as one of 2014's Top Industry Influencers by The American Genius (agbeat.com).

Charlie's been an entrepreneur since the age of four (I want to hear more about that) and created his first multimillion dollar business at the age of twenty-four. His new book, *The Predictable Profits Playbook: The Entrepreneur's Guide to Dominating Any Market and Staying on Top* hits the shelves on April 8th.

His client work has netted impressive successes including guiding a six-figure-a-year company to generate $250,000 within twenty-four hours (twenty-four hours!) and $1.1 million in additional sales within ten days after that. Another company he worked with reduced return rates from an astonishing 35 percent down to less than 2 percent and it's not uncommon for companies to grow by 35 percent or more over the course of a year while working with Charlie.

That's just a taste of what's possible with the Predictable Profits methodology. If you've ever felt the competitive pressure to lower your price to generate more sales or to gain market share, Charlie's going to make you think twice before doing so. In fact, Charlie's going to show you why competing on price may be the worst thing for your business and how you can actually get premium prices for your products and services and still dominate your market.

Ladies and gentlemen, please welcome Mr. Charles Gaudet. [Applause]

CHARLES GAUDET:

Circuit City. How many of you remember Circuit City? Come on. Not that long ago, right? Circuit City. Second-largest U.S. electronics retailer behind Best Buy. They employed 60,000 people and were doing billions of dollars in sales. They were known as the place to go to get your DVD player, your big screen TV, and your home theatre for less money than the mom and pop stores that they were alienating. Just as fast as they reached their dominance, they went out of business. On March 8, 2009, they shut their lights off for good.

How does this happen? How does a company with sixty years of proven experience go from $1.5 billion in sales to being out of business? How does a company generate so little customer loyalty that nobody missed them once they were gone? Here they were, doing everything the MBAs told them they needed to do to be successful, which was sell a great product at a low price. Why wasn't that enough? What were they missing?

That's part of what we're going to talk about today. We're going to talk about what you can do to avoid the Circuit City trap. What you can do to create a business that's more memorable to your customers. How you can build a business where you're not competing on price and yet still dominating your market.

As you've probably experienced, the consumer environment has changed and it's continuing to change. In fact, it's changing at an ever-rapid rate (with a special thanks to the Internet). Selling goods and services is *not* enough to compete in today's new economy.

We're going to do three things:

1. We're going to talk about why every single business has the looming threat of being commoditized. It doesn't matter if you've got the greatest product out there. Every business — B2B, B2C, no matter what your industry — we're all at risk of being commoditized.

2. We're going to talk about how you can take price out of the buying equation, actually become a premium-priced competitor and still dominate your market.

3. Finally, we're going to talk about what your customers are now demanding. I can tell you this. It's a lot more than quality, it's a lot more than features, and it's a lot more than just having a good price.

As I get started with today's presentation, just a couple of things. Number one, I was actually diagnosed by a doctor as having the worst case of ADHD she's ever seen. That means that when I get excited about something, I tend to talk really fast. I'm going to try to slow myself down, but it's almost genetically impossible for me to do so. All I ask is that if I do talk a little fast, you try to listen a little faster. I've only got so much time with you today and I want to give you as much value as I possibly can. We'll leave it at that.

Cell phones. Do me a favor. Pull out that damn cell phone and make sure the ringer's off. Not only is it going to completely derail me, but it's also going to distract your neighbor. It's a good thing I mentioned it because I have to shut my own cell phone off.

Finally, I'm going to be standing in the corner of the room at the end of the night to answer all of your questions. If you could just hold your questions until the very end, I will stay as long as it takes to answer them once I'm off stage. Are we ready to get to work? Great. Perfect.

Borders. Here's another company. Founded in 1971. They were later acquired by Kmart. In 1992, Kmart acquired Borders bookstore. You can only imagine what one of the largest discount retailers — what strategic plan they had in mind to compete with the likes of Barnes & Noble and eventually Amazon.com. They wanted to compete on price.

Kmart — which owns Borders Group — eventually purchased the mall-based Waldenbooks store, making them the second largest book retailer. Just as we saw with Circuit City, they went from market dominance to being out of business in 2011. Again, here's a company that was one of the largest companies in the world. They had four decades of proven experience; yet they couldn't stay alive. They couldn't keep their head above water. Why was that? Why was that happening? What was missing? Borders had one of the top advisory groups in the world; yet it wasn't enough for them. Why?

Maytag. They're a company that's been around since 1929. They're one of the few companies that were profitable in the successive years after the Great Depression. Maytag quickly became a dominant player in the appliance marketplace and they remained a dominant player all the way through the early 2000s.

Maytag focused on their customers. They focused on new customer acquisition. They focused on keeping their retailers happy. If you had the opportunity to sell Maytag, you loved selling Maytag. They just treated everybody well.

Then in the 2000s, they felt the competitive pressures against the big box retailers (GE, LG, you name it) and so they made the strategic decision that in order to compete and get more market share, they were going to lower their prices. In order to lower their prices, they had to cut their new product investment by 50 percent. They had to cut the investments they were making that kept their customers happy.

In turn, what they did is they tanked their market share to an all-time low and they sank their customer satisfaction levels to a point where they were getting complaints left, right and center. At the end of the day, what ended up happening was Maytag got acquired by Whirlpool and they ceased to exist as an independent company in 2005.

What were they missing? Sadly, the examples of Borders and Circuit City and Maytag were not anomalies. We're all facing the risk of commoditization. Selling goods and services is not enough to compete in today's economy. It requires a lot more than that.

Let's see a show of hands. How many remember the Yellow Pages? That big yellow book that got delivered to your door? Yes, actually it still does. It makes a good door stopper right now.

Many of you probably remember the classic buying funnel. This is the point where you open up the Yellow Pages. The consumer becomes aware of the message. Now back in the day, advertising wasn't as crowded as it is today. You had your Yellow Pages, your TV, your radio, and your print media. That was pretty much about it. Then they get in the consideration phase. This is where they sit back and they deliberate as to whether or not this makes sense for them. Then they finally make the purchase.

All that's changed (a special thank you to the Internet) because now there's two more elements to the buying funnel — the investigation and the conversation. This is where you're still getting the message, except now in order to stand out, you really have to be strategic because now there's more noise than there's ever been in history and there's going to continue to be even more noise.

They still go through the consideration phase, but once they get past the consideration phase, they now jump on the Internet and look for alternatives. They're looking for comparisons. They're jumping on Twitter and Pinterest and Facebook and forums and blogs. They're looking for all this information to justify their purchase.

> *Seventy percent of Americans say they look at product reviews before making a purchase.*

Here's something else you'll find interesting.

> *Pre-shopping, before buying, has become a huge, huge part in customer behavior. In the past, it was pretty much confined to the big-ticket items like cars or expensive electronics or homes. Now people engage in discovery before shopping on very small things.*

That's what we're talking about with the new buying funnel. The investigation and the conversation are new elements that weren't there back in the day. And the reason why we've got the following three questions — the reason why people are going into the investigation and conversation elements — is because they're trying to answer three questions.

1. The first question they want to know is why should I trust you? Why should I trust you?

2. The second question they want to know is what makes you different? And I'm not talking about different like your feature is different than this person's feature. I'm talking about the difference in terms of what creates preference. What makes you different is the second question.

3. The third question is how do I know that I'm making a smart decision?

Again — why should I trust you, what makes you different and how do I know that I'm making a smart decision?

What we're going to focus on today, primarily, is what it is that makes you different. And the reason why we're going to focus on that today is because *the Internet has become the greatest form of commoditization in the world.*

Let's face it. Your customers are walking into your stores and your dealerships. They're going on your website. They've got their smartphones in their hands. All the data and all the information they need is immediately accessible to them. They're looking at all this information that was never as readily accessible. The Internet has become the greatest form of commoditization in the world.

Your customers are investigating reasons and rationale for why they want to do business with you and why you're that much different than anybody else. If they can't figure out enough of a reason to create preference between your features and someone else's features — it's all going to come down to price. They're going to base their decision on price. And the moment your customers base their decisions exclusively on price — you have just commoditized yourself.

And that's what we're trying to avoid here today. We're trying to take price completely out of the buying equation. That's why one of the first questions that I ask my clients when we get together: *What do we have to do in order to make you the most expensive competitor in the industry and yet still dominate your market?*

It's a little non-traditional, because anybody can lower their prices. A traditional approach is to ask what we have to do to create a quality product and sell it for the lowest price possible. Anybody can lower their prices. You're going to see examples of companies that happen to be the most expensive and *still* dominate their market. That's what we're doing. We want to see what has to happen to be the most expensive competitor.

I'm the founder of Predictable Profits. I'm the author of *The Predictable Profits Playbook*. I'm a business coach and I'm a marketing consultant. And I'm not cheap. My top client has paid me $720,000 and he continues to send me checks month after month.

I've run the gamut. I've created a company that was nominated as one of the nation's best seed-stage companies and I found myself over $1 million in debt overnight. As Larry pointed out, I've been an entrepreneur since I was four years old. I was actually selling artwork to my neighbors. I've had a business every year of my life since the age of four. I created my first multimillion dollar business at the age of twenty-four. I've created subsequent businesses after that.

After I created that business at the age of twenty-four, I realized that there was more to success than meets the eye. I went on a journey — travelling the world studying billionaires, centimillionaires, celebrities, and authors — trying to figure out what it was that made them tick. One of the things I found fascinating was that every single one of us — and it didn't matter what industry we were in — is facing that threat of commoditization and struggling to create preference.

Raise your hand if you've ever felt the pressure to compete on price. Now, be honest. Now, raise your hand if you've ever made a purchase exclusively based on price. Sure. I think we all have, really. Peter Georgescu of Young & Rubicam said it best here, when he said:

> *Commoditization — what I see as the cancer of the 21st century commerce — has fueled ferocious price competition, leading to lower prices, margins and profits for businesses. With price as the only real differentiator, producers are left with a challenge: They must find a way to stand out in the crowd.*

With price as the only real differentiator, producers are left with a challenge. They must find a way to stand out from the crowd.

There's never been a company throughout history that has maintained their competitive advantage by using price as their main strategy. When I mention this, usually the first thing people ask me is what about Wal-Mart?

Here's the funny thing about Wal-Mart. Before Wal-Mart, there was Kmart. Before Kmart, there was Ames. Before Ames, there was Woolworth. Before Woolworth, there was an ever-changing cast of regional discount retailers. And, just in case you think that Wal-Mart is immune, according to *Bloomberg Businessweek, Target is now cheaper than Walmart — the widest gap in two years.*

There was a survey done by WSL Strategic Retail a couple of years ago that found that 86 percent of shoppers no longer believe that Wal-Mart has the lowest prices. So, let me ask you. If Wal-Mart doesn't have the lowest prices, what reason do any of us have to go to Wal-Mart?

MALE:

[00:19:49]

CHARLES GAUDET, II:

Maybe so. As I was driving past the mall the other day, I couldn't help but hang out the window and take a picture of this here: *Petco. We lowered our prices on over 1000 items and we price match.* Apparently their margins are so low, they couldn't afford the "o" of "on." But it got me thinking about Petco. I don't know if they have the lowest prices, but honestly — if Petco no longer has the lowest prices (and they probably don't) — what reason would any of us have to go shop at Petco?

If you're using price as your main competitive advantage, really what you're doing is you're writing your own gravestone. With permanently low labor costs in places like China and India, there's always going to be somebody who's going to come up with something at a cheaper price. There's a million different alternatives. There's a million different ways in which somebody can cut corners. There's always going to be somebody cheaper, so it's an unsustainable way to do business if you're using price as your main competitive advantage.

If your salespeople are using price in order to make the sale — let me tell you something. They get really good at using price as a strategy, but they absolutely fail at differentiating you. I'm a little bit of a self-professed marketing nerd. I went to go buy a car about a year ago. At every dealership I went into, I asked the salesperson, "If I can find a vehicle for a thousand dollars less at the dealership down the road, tell me why I should do business with you instead of going over to your competitors?" Nobody could answer the question except for saying, "Because we're a family-owned business," or "because we offer the best service."

Let me tell you something. I could give two flying you-know-whats about the fact that they're a family-owned business. I could care less. As far as service, if I'm going to spend any amount of money with a company, I expect good service. Nobody could tell me why I should do business with their dealership *or* with anybody else's.

One thing I would suggest you do when you get back to your offices is actually talk to your salespeople — whether they're salespeople on the phone or they're face-to-face salespeople. Ask them the question. What would happen if somebody was to ask you, "Why would I buy from you as opposed to a competitor who might be offering the same product for 10 percent cheaper?" Just see if the answer they give you is enough to create preference — without mentioning the things that we would ordinarily expect — like great service or quality. Those are things we've come to expect nowadays. If you don't have service or quality, you're not going to succeed.

When you've lowered your prices to a point where it really starts to hit your margins, let me tell you something. That's less money you can invest in customer retention. That's less money you can invest in customer acquisition. That's less money you can invest in keeping your customers happy. And when your customers are coming to you because of price; they'll drop you like a dime the moment they find anybody who's cheaper. They're the lowest source of customer referrals and they're the biggest source of headaches and poor customer experience — like we talked about with Maytag.

I will say that I'm not a fan of mass-marketed sales and promotions and rebates. In fact, the way 90-95 percent of all companies are doing it right now is all wrong. We use price as more of a tool, just as when you're building a house. You've got your nail gun. You've got your hammer. You've got your jigsaw. You've got all these different tools. But if you take that same nail gun that you use to frame the exterior of your house and then you bring it inside and you use it to frame your delicate finish work, what do you think is going to happen? You're going to break the finish work.

It's why price is used as a tool when it's required. I'll give you a couple of examples of when we use price and how we use price — but it's much different than the way it's done in a mass-marketed, mass-promoted, mass-rebate kind of way. Actually, I think you'll get a kick out of this.

> *The effects of coupons, sales and discounts are exactly the same as cocaine. The first time you get a discount card in the mail, you are elated!*

> *Wow! 10% off, 20% off, 2-for-1! You might rush out to the store and take advantage of the offer. But the next time you drive by that store, you think, "I'll just wait and see if there are any more coupons coming." The next time you drive by that store, you get mad because you forgot the coupon. Eventually you refuse to step in the store without a coupon.*

Let me tell you something. I have three young kids, and they are growing like weeds. My wife gets this coupon in the mail — 50 percent off for clothes. She takes off. She runs to the store. She comes back. She's got three bags of clothes. She's all excited.

Next month comes around. She gets another coupon. Boom! Takes off. Comes back. Now she has two bags of clothes. Next month, a coupon. Nothing. Next month, another one. Next month, another one. Nothing, nothing, nothing.

As winter comes around, my daughter Sage (she's four) decided she wanted nightgowns for winter, so we were going to buy her some nightgowns. We're in the car and passing by that store. I said to my wife, "We're passing by the store and Sage wants some nightgowns. Why don't we go in?" She said, "I've got the coupon sitting on the counter. We drive by the store all the time. I will grab the coupons and I'll turn around and I'll pick them up later."

Here's the funny thing. We ended up buying the nightgowns, but we did not buy them from that store — because that store preconditioned us into believing the only reason we should shop at that store is because of price and nothing else but price. Now, how many of you can relate to that story or that of cocaine and rebates and everything else? Sure.

What if I told you that you didn't need to compete on price and that you could actually charge premium pricing and yet still dominate your market? Would that interest you?

I'll tell you a little bit about my personal story. When I was twenty-four years old — young and energetic — I decided I was going to start a real estate development company. I bought a couple of tracts of land. I had to do everything. I had to take down the trees. I had to build the road. I had to build the houses, get the permits and all this other fun stuff.

At twenty-four years old, you can't just walk into a bank and expect to be handed over a few million bucks. I had to go for private money. And if anybody knows anything about private money, it's really expensive. I'm paying double-digit interest rates on this private money.

While growing up, I was told the secret to success was that I had to work hard. I took that literally. I set my alarm clock for three o'clock in the morning every morning so that I wouldn't oversleep. I worked every hour of every waking moment, including weekends and holidays, as long as I was allowed to work on the holidays. On Christmas and Thanksgiving, I put in as many hours as I could.

The thing is I was accumulating so much debt, I really didn't know how I was going to get out of it. I'm calling the broker every other day saying, "Look. What do we need to do? Do we have to lower prices in order to sell these houses?"

I know that a number of you have been under very stressful situations and I'm sure you can all relate to very stressful situations. But the stress was literally killing me. I could not lay down and fall asleep in my bed. I would lay in my bed, and the thoughts would run through my head so fast that it wouldn't allow me to fall asleep, so I'd have to lay on the couch, numb my brain to the TV and eventually fall asleep in front of the TV. I'd be sitting at the dining room table bent over with chest pains.

The straw that broke the camel's back was when I was getting these shooting pains up my spine into the back of my head and into my brain. I went to the emergency room and the doctor said, "It's stress and the stress is killing you." At that point, I called my then-girlfriend (now my wife) and said, "Look. We need to do something differently here, because apparently this working hard B.S. isn't actually getting us any further and we're going to have to find a way to work smarter."

The first decision we made is that she was going to quit her job. We would fire the broker and she would sell the houses full time. This is where we came up with what we call our *growth factor question.* The growth factor question is, *What do we need to do to provide our clients the greatest advantage or the greatest benefit to provide them with the ultimate result they're after?* What do we need to do to provide our customers and clients the greatest benefit or the greatest advantage to get them the ultimate result they're after?

You see, building a house for somebody is a very overwhelming type of experience. The homeowner has to select what type of carpet they want or the room they want the carpet in. The color of the carpet. The same thing goes with tiles and cabinets and countertops and ceiling fixtures and plumbing fixtures. It's a very overwhelming experience and it's one not enjoyed by many.

We decided that my wife, Heather, was going to act as their consultant. She would hold them by the hand and take them through that entire process so it would become a more enjoyable experience. That's what *she* did. I still had a deal with the government regulators and the subcontractors, so I was still responsible for answering the growth factor questions. What do we need to do to create a greater advantage or greater benefit to get our customers or clients the ultimate result that they're after?

I stopped and I thought about it for a second. I thought, "What is the ultimate result? What other advantage can we give them? What *can* we give them? Eventually they're going to need furniture and TVs. Some people are asking for home theatres. Alarm systems. I know they're eventually going to want their driveway seal coated."

I reached out to find the highest-quality vendors that I wouldn't mind associating my name with and said, "Look. I've got a hungry market that could benefit from your services. I would like to introduce you to them, but in order for that introduction to work, I want you to provide them with a discount." This is where price becomes a tool. "I want you to provide them with a discount, special bonus or incentive just for making that connection." After all, they didn't have to pay for the customer acquisition and I was facilitating that deal. Now it's a win for my client and it's a win for the vendor.

But I wanted to win, too. I said, "Now, I'm acting as a salesperson because I'm facilitating that connection, so I want to take a piece of the revenue that you're making as a result of the sale." I made thousands of dollars extra per month as a result of that connection and we created a win-win-win type of scenario.

The cool thing is we went from near disaster (where I was calling the broker every other day to ask whether we should lower prices) to now having Heather sell these properties — and fast. Mind you, she's not a broker. She doesn't have any licenses. She was doing this through For Sale By Owner. It's technically more difficult for her.

She sold those properties out so fast that there was a six-month waiting list. Before we actually broke ground on these houses, we were raising prices — and people still had to wait. After the six-month waiting period, they still had to wait six to nine months for us to finish their house. We went from lowering prices to raising prices, and when we talked to our clients, the biggest feedback we got back from them was, "You know what? You guys aren't your typical builder and that's why we were able to make the transformations that we did."

A quick show of hands. How many of you drink coffee? How many of you drink Starbucks? The average Starbucks coffee goes for about $4.50 a cup. Just out of curiosity, how many people think that Starbucks has some of the best-tasting coffee around? Come on! There's at least a few of you.

I think you might find this interesting, and you probably know exactly where I'm going with this. Because Starbucks, according to the bold italic, was ranked last in a blind taste test behind Folgers. I mean, come on. Folgers is a cheap grocery store type of coffee and Starbucks is ranked last! Why are we spending $4.50 on a cup of Starbucks coffee when it doesn't taste nearly as good as a cup of Folgers? Of course, you might think it's a blind taste test and they were probably biased. I'd give you that *except* …

Time Magazine has an article. No joke. Wal-Mart coffee tastes just as good as Starbucks. Wal-Mart coffee. You're paying twice as much money for a Starbucks coffee than you would be if you were to buy a Wal-Mart coffee. Now, why is that?

I think Bruce Horowitz from *USA Today* said it right.

> *You may not be able to afford a McMansion — or a Lexus to park in the garage — but millions of us are willing to make that $5.00 splurge simply because it helps us feel better.*

When the 100th anniversary of Harley-Davidsons came out, I had to buy myself a Heritage Softail Classic. This was my baby until my real babies were born. If you and I made purchases exclusively based on logic — that would have been the dumbest decision of my life. Here I am spending thousands of dollars more in order to have a particular brand of motorcycle. Some people would say that a Harley is not as reliable as some of their competitors. Yet, I would still pay thousands of dollars more for this Harley over and over again. Because I'm really not buying the Harley. What I'm buying is the culture. I'm buying the ideal. I'm buying the dream.

Larry talked about this yesterday and I couldn't help but laugh. I had everything (I still have everything). I had the Harley-Davidson helmet. I had the Harley-Davidson gloves. The Harley belt buckle. The genuine Harley-Davidson jacket. The Harley boots. The Harley replica of my bike sitting on my desk. The Harley sticker plastered on the side of my vehicle. Like Larry, the only thing I didn't have were the tattoos up and down my arms.

Now, CrossFit. How many of you know CrossFit? CrossFit is a gym like any other gym — if you want to call it that — except I pay ten times more money to go to CrossFit than I would if I was to go to Planet Fitness. Now let me just paint a picture for you here. I worked out of a warehouse. The bars that I used when I worked out — they're covered in dried blood. There's sweat stains all over the floor. There's chalk thrown everywhere. Yet I still happily pay ten times more money to work out at CrossFit than I would at Planet Fitness.

The reason for that is because the workouts have to be good. Let's face it. If you're going to charge premium pricing for something, you've got to have a good product and you've got to have a good service. But a number of us were sitting around the other day joking around and said, "Even if CrossFit changed their workout regime to Zumba, we'd probably still be paying as much as we're paying because it's not really about the workout. It's about the community."

There I am there. There's my wife and my youngest right there. It's about the community. These are some of my closest friends and we all live in the same town. I was in the Cayman Islands just a couple of months ago. I walked into CrossFit in the Cayman Islands and was treated with the same sort of welcome that I'm treated with here in Portsmouth, New Hampshire. If I went to the one over here in Steamboat, it would be same thing.

What makes Harley and CrossFit and Starbucks stand out?

> *Consumers aren't interested in you, per se. They're interested in what an association with you means for them.* They're interested in what an association with you means for them.

How many of you own an iPad? iMac? iPhone? iPod? Any one of these Apple products? Almost all of you. Now Apple seldom has any discounts or any sales whatsoever. And you're going to love this.

> *Apple has the most successful retail stores by a wide margin. According to RetailSales, a retail and consumer goods consulting firm, the tech giant's 372 worldwide locations sold goods at a rate of more than $6,000 per square foot of floor space in the past twelve months. The average store of the next most successful company in the United States — Tiffany — sold less than half that per square foot.*

People — Tiffany sells diamonds. Apple sells computers, right? Tiffany sells diamonds, and yet Apple is selling more than twice of what is Tiffany is doing per square foot.

Why can Apple get premium pricing? Why can Harley sell their motorcycles for thousands of dollars more than some of their competitors? Why would I pay ten times more money to go to CrossFit? Because they're in the business of selling experiences — not goods and not services.

That's just what I learned when I was in the real estate development company going from near disaster to building a successful company. We got into the business of selling experiences — not goods and not services.

> *A recent study by the Weatherhead School of Management at Case Western Reserve University confirmed what we already know in our heart of hearts — satisfaction has little to do with loyalty. What was a surprise to them, however, was clear evidence that trust wasn't the deciding factor either — at least not trust alone. What customers are looking for first and foremost is value — not the monetary kind of value, but value that impacts a person's life.*
>
> *To determine the real, loyalty-building value of your products and services, you have to go beyond the features, beyond the functions and beyond the processes we are all so fond of and instead look at two critical factors — the value your offering brings to a customer's life and how the experiences that surround and support your offering add to or detract from that value.*

At the very basic level, we've got our commodities. These are very undifferentiated goods and services. Then as we start to move towards more differentiated goods and more differentiated services, we can start to charge higher prices. Ninety percent of all companies are competing there. What we want to do today is get you beyond the economic opportunities that are stuck within goods and services and get you towards creating a market of your own.

Earlier I told you that one of the first questions I ask my consulting clients is what we need to do in order to get them to be the most expensive competitor in their industry and still dominate their markets. This is where we need to be. We need to be creating an experience. The goal is *not* to make your products or services the real value — but the experience of working with you as the real value.

Joe Pine and James Gilmore are the authors of *The Experience Economy*. They asked a real probing question. *How would your business be different if you charged admission to do business with you?* I thought that was interesting. I mean, what would you have to do in order to charge people to walk into your storefront or go onto your website just to do business with you? How would that experience have to be different?

You'll see a couple of examples of companies that actually could charge people to do business with them. But I'll tell you what. If you actually charge somebody to do business with you, there's one thing that I know for sure. You would have to change your ways from the boring blah, "What can I do to help you" type of experience and offer one which is a little bit more, say, transformational.

Netflix. Look at Netflix for a minute. The way Netflix operates is they look at winning more moments of truth. This is at, say, 7:15 p.m. — when somebody could be watching a movie on Hulu or pop in a DVD or a video game or whatever it might be — they call this their moment of truth.

> *We win those moments of truth when members expect Netflix to be more pleasurable than their other options based on their prior experiences. The pleasure comes from easy-choosing total control of when to play, pause and resume a video and content that suits the taste and mood of everyone in the household.*

Netflix is competing on offering more pleasure — and also content, or information, or experience — if you want to call it that. Nowhere here are they trying to say, "We offer the widest selection of movies available." They're not trying to compete with iTunes or Comcast. They're creating a market of their own. They're trying to compete on being the most pleasurable experience and offering the content that suits the taste and mood of everyone around.

How many people took a plane to get here?

When you walked into the plane, you looked over your shoulder and you took a look at the cockpit. You saw that the pilot had a number of different dials. Well, the dials, as you know, tell the pilot how to get safely from where he is now to his future destination. As a business owner, we look at what dials we need to monitor in order to take us from where we are today to where we need to be to fulfill the vision that we have of our future.

Just as a pilot can't oversee everything — they can't oversee whether or not Mary Jane got her Coke in aisle ten or whether or not there's enough toilet paper in the bathroom —

as a business owner, we can't oversee everything that's going on; but there are critical dials that we need to be able to pay attention to.

One of the dials that we created for our clients is called the *differentiator gap*. It's broken down into three different sections here: what you offer that no one else does; what they offer that you don't, and what you both offer. What we do is we score them on a range of 1 to 10. Now, we don't score them based on features and how cool you think your features are. We score them based on how the customer prefers them.

You might have a three-stage rocker on your wakeboard, but if another particular wakeboard is being ridden by a multiple-time wakeboard champion, what do you think is going to carry more weight with the general consumer? The association of being ridden by a champion or the fact that you have a three stage rocker? It's a celebrity association. We give that a little bit more weight.

The real differentiator gap looks a little bit like this. It's a little bit hard to read, but we've got a summary differentiator gap right here. Just to take you through a little bit of an exercise, we'll take Netflix — the company that we just went over — and Blockbuster.

Netflix has unlimited movies for a flat rate with no late fees. So, flat rate. Throw out a number on a scale from 1 to 10 with 10 being the best of what kind of preference you would give that. A nine. Okay.

They both have a wide selection, so we'll give that a zero. Blockbuster had an in-store location. That's nice. You can walk down to the store and look at the selection of movies. Pick up dates. An in-store location. What would you give that? An eight.

Netflix has the ability to stream movies directly on your TV instantly. Now, that's pretty cool. We'll give that a 10. Netflix also has the ability of providing custom recommendations based on past movie-watching history. That's pretty cool. We'll give that at least a nine. Maybe a ten.

And then Netflix has the ability to let you see the reviews that other people have had — one to five stars of the movies that you're about to watch. That answers the third question that we talked about earlier. *How do I know that I'm making a smart decision*? This helps to answer that question. How do I know I'm making a smart decision? We'll give that at least a nine.

When you look at this dial — the differentiator gap — it's easy to see why Netflix very quickly dominated the marketplace whereas Blockbuster went under. I mean Blockbuster should have bought Netflix when they had the opportunity. That just was one of the dumbest decisions ever. But Blockbuster tried to compete with the likes of Netflix and they just couldn't. It was too little too late.

The important point to remember about the differentiator gap is that the gap is not static. It's dynamic. Domino's Pizza — they had the gap really wide at one point because they had their thirty-minute pizza delivery or your pizza was free. They were known as "the pizza delivery company." They had that gap really wide.

Then what happened? All the other pizza companies decided they were going to turn around and do pizza delivery. The gap ended up narrowing and Domino's Pizza struggled for a while. Now they've been trying to reinvent themselves and they've been doing a pretty good job at doing so.

But the objective with that dial is to always keep tabs on the store and keep it as wide as possible. The wider the gap, the less you have to compete on price. The narrower the gap, the more you have to compete on price. The wider the gap, the more you have positioned yourself in a place of preference. The narrower the gap, the less preference, which means now you're giving your consumers no other choice but to compete on price.

One interesting thing (I actually had this conversation just this afternoon) is when I speak with a coaching client. One of the things I want to know right off the bat is what makes them different. Like everybody, they talk about all their features. Again, we're not talking about features as something that make you different, because your average consumer doesn't know how a Malibu and a Nautique are different from one another, just as they really don't know the difference between a Hyperlite or a Liquid Force.

They really don't know the difference between an Apple and a Harley versus a PC and a Honda, but if you were to ask them, what they would do is they would regurgitate a bunch of facts and figures that they found from their investigation or their conversation area of the buying funnel or what the salesperson told them. What they're really doing is they're reflecting back what an association with you means to them.

On my way over here, I spoke with my dad. My dad has purchased a new wakeboard boat every year for the last fifteen years. Fifteen wakeboard boats. He should be up on this stage. Just for fun, because I knew what I was talking about here, I said to my dad, "Hey. Out of curiosity. Why did you choose this particular brand of wakeboard boat?" *Oh, it's because of this feature and this feature.* I said, "You know what? That's great, dad. But let me ask you a question. If Mark changed his brand of wakeboard boat, would that influence your decision?"

Now, Mark is a friend of ours. He's a multiple-time wakeboard champion and Mark's son is also a multiple-time wakeboard champion. I said, "If Mark changed his preference on boats, would that influence your decision?" And he stops and he laughs, and he says, *Huh! You know what, kid? You're right.* It's true, because consumers do business with you based on what their association with you means to them. It's something to think about. I know we all like to think that we're different.

> *A recent survey of 9,000 decision-makers in B2B companies found that 86% of the 'unique benefits' touted by vendors were not perceived as unique or having enough impact to create preference.*

This is the big deal here — to create preference. Now, I would be a fool to think that the reason why people do business with me is because somehow I've managed to position myself as the smartest marketing guy in the world. There are a lot of smart guys on the planet. I make some really, really good company. But when I surveyed my Insiders' Club members and my clients because I really wanted to know — why did you choose to do business with me — believe it or not, not one person said marketing. Not one person.

They said, *You know what, Charlie? The reason why we do business with you is because you help us become better versions of ourselves*. I guess this is something I was hoping for. I just never consciously realized that that's what I was doing. That was enough for me to create preference.

See, there are coaches that like to sit on the sidelines and then there are players that are in the court. I've always looked at myself as being a player. As being somebody who sits on the same side of the table as the people that I work with. I was that consultant back in the day where I was charging $500 an hour — and hated it — because I felt like every time I got on the phone with somebody, their stopwatch was going and they were like, "All right. Enough. Let's get down to business." I wanted to sit on the same side of the table with people and have some skin in the game.

With my Insiders' Club membership, I guarantee you get a hundred times worth your investment from the start or you get all your money back. My Platinum Coaching members are told they can spend an hour with me. If they don't get a million-dollar idea in that hour, they don't have to pay me. And if you're one of my Centurion-level consulting clients, the only way I get paid is through a percentage of the profits that I bring to the company. If I don't make the company any money, they get the benefit of my time and my research. They don't have to pay me a dime and we part as friends.

Zappos. How many of you have done business with Zappos? Something from Zappos shows up in my house about every week. Now, Zappos is a tremendous company — but if Tony Hsieh walked into my office and said to me, *Hey, Charlie. Here's a deal. I'm thinking of starting this online shoe company. I realize shoes are one of the most highly commoditized markets, but I think we can dominate the market* — I would have put that guy in a straitjacket, tossed him in the back of the paddy wagon and had him locked up forever.

A Nike is a Nike is a Nike no matter where you buy it. The market was already saturated. What the hell was this guy thinking — that he was going to start an online shoe company? Zappos quickly became a billion dollar company and Zappos does not sell the cheapest shoes. Not even close.

> *But at Zappos, anything worth doing is worth doing with WOW. WOW is such a short, simple word but it literally encompasses a lot of things. To WOW, you must differentiate yourself, which means doing something a little unconventional and innovative. You must do something that's above*

> *and beyond what's expected. And whatever you do, you must have an emotional impact on the receiver.*
>
> *We are not an average company, our service is not average, and we don't want our people to be average. We expect every employee to deliver WOW, whether internally with co-workers or externally with our customers and partners, delivering WOW results in word-of-mouth. Our philosophy at Zappos is to WOW with service and experience, not with anything that relates directly to monetary compensation. For example, we don't offer blanket discounts or promotions to customers.*

They got that whole price thing that we talked about earlier. They nailed it. They got that right. They're one of the few companies that don't offer mass promotions, mass discounts, and mass rebates. They got it right and they're a billion dollar company. They're playing off the billion dollar playbook. But Zappos doesn't sell shoes. No. What Zappos sells is service. That's why we do business with Zappos. Not because of the shoes — but because of service.

Google. Google is a lot more than just a search engine and an email provider.

> *Google's mission is to organize the world's information and make it universally accessible and useful. Focus on the user and all else will follow. Since the beginning, we focused on providing the best user experience possible. Whether we're designing a new Internet browser or a new tweak to look at our home page, we take great care to ensure that they will ultimately serve you rather than our own internal goal of the bottom line.*

What does Google sell? They sell information and they sell experience. They're more than just a search engine or an email provider.

Here's just a short list of the experiences that you can build into your company.

CELEBRITY ASSOCIATION - We talked about celebrity association. I mentioned the example of my dad and the wakeboard boat — why he's giving preference because of the multiple wakeboard champions that are using that particular boat. Jerry talked last night about how he's connecting influencers with the next generation of Harley riders, because he knows how much that association means to them.

BETTER GUARANTEES - We talked about that with one of the ways I compete in my business and with Zappos. You can't beat Zappos guarantee — a 365-day guarantee and they pay for return shipping.

PERSONALIZATION - A number of you actually are doing a great job with the personalization. Our family designed this particular wakeboard boat we purchased all the way down to the last details. It's fantastic. Customers are willing to pay more when they can make something uniquely their own.

CUSTOMIZATION -We talked about that example with Netflix.

BETTER CONVENIENCE - If I've got an issue with a product or service that I've purchased from you, what happens? Do I have to go to you or do you come to me? Do I have to pay shipping or are you going to pay for shipping? What happens if I have an issue? How are you going to service me to make it right?

SAVING MONEY AND SAVING TIME - That's something we all want more of. Is there a way you can build into your product or service a way to save money and time? Maybe it's a follow up with your customer of other ways they can save money. Maybe you can give additional support after the purchase.

EXCLUSIVITY - Harley is a great example of that with their Hogs group — the Harley owners group. I don't know whether a bunch of guys riding a Kawasaki all get together and form their own Kawasaki Hell's Angels group. But when you own a Harley, it's cool. It doesn't matter if you're a Hell's Angel or another guy like me. When you're driving by, you just drop that left hand down, you give it a little bit of a wave. *What's up?* You're all part of a fraternity. It's pretty cool. You build in that association and that exclusivity.

EXPERIENTIAL DISPLAYS AND TEST DRIVE PROGRAMS - Jerry also talked about the demo rides. There's ways that he's introducing that experiential component inside of Harley. I'll give you an example of entertainment and pleasure in just a minute.

Amazon.com. Now, look. Amazon.com — there is no way — *no way* — they could ever compete on just selling books alone. In fact, I'd argue they really don't sell books. They sell service and they sell information. Think about it. I know myself. If I'm not sure as to whether or not I want to make a purchase, Amazon is one of my go-to resources to see what the reviews are.

If I walk into a store and I don't know whether I'm getting a good deal or if this product is going to be right for me, I'll take my smartphone, I'll scan the barcode and I'll read it. Then if I don't want to walk around the mall carrying this package all day and I'm okay waiting for two-day delivery, I'll just buy it right there. See, the stores aren't giving me any reason for preference (other than Nordstrom). Nordstrom has done a great job at creating preference when you shop at one of their stores.

Amazon pulled one of the smartest marketing plays of this century on Cyber Monday of 2013. Just to give you an idea of Amazon's way of thinking, on Cyber Monday they came out with the press release about drones. Let me tell you something. It was brilliant.

Cyber Monday is a time when all the other Internet companies are competing against each other. Amazon came out with story about using drones for faster delivery and all the attention was on Amazon. Everybody was talking about Amazon.com and their drones —

whether or not it's actually going to happen. They're thinking what they can do to speed up the shipping even faster than dealing with UPS.

They're now looking into what they refer to as *anticipatory shipping*. Amazon is creating this algorithm based on your past shopping history to try to get it in your heads to ship the product before you actually order it so that you get it even faster. It's wild.

Live camera support on the Kindle Fire. You press a button and you can look at the person you're talking to. They can't see you, but you can look at them and ask them questions. A lot of people were concerned that they were dealing with somebody from another country and it made them somewhat uncomfortable. Now they can see who they're talking to.

Consumer education. We talked about that. All their reviews. They're one of the leaders in reviews.

Mobile price check — buy with one click. I know somebody that works at Amazon. He tells me they spend millions of dollars trying to increase the speed of their website by nanoseconds — not seconds. By this point, they're already fast. They spend millions of dollars trying to increase their website by nanoseconds. They do this because it all comes down to experience. They know they can't compete on just selling books alone. They've got to do more than sell books.

Again, you're not making the product or the service the real value of working with you, but it's the experience. It's the experience of dealing with Amazon that gives the real value.

Disney. Disney World — they're the place where dreams come true. They're not selling rides. They're selling dreams. That's why they can compete with the likes of Six Flags and Universal Studios, because they're competing on different planes. Disney is selling dreams.

Can anybody guess what this is a picture of? Let me give you a clue. This is a bluegrass band playing in the background over here. There's a big celebration over here. Fried dough vendor over here. Let me give you another clue. This is their other location. Trapeze act. Food vendors over here. Water fireworks over here. A big IMAX theatre over here. Are there any guesses? This is Jordan's Furniture. This is a furniture store.

I told you I'm a little bit of a geek — and this is where I took my wife on our second date. This is a furniture store. You will seldom drive by Jordan's Furniture — it doesn't matter if there's three feet of snow on the ground or it's late at night — and not see their parking lot packed. Jordan's Furniture made such an impact that Warren Buffett ended up buying their company for millions and millions of dollars.

Jordan's Furniture is competing by doing more than just selling furniture. They're selling an experience. It's crazy. I'm a dad of three kids and there are times when I ask my kids, "Hey. You want to go to Jordan's Furniture? Let's go have fun! Let's go on the trapeze! Let's go to the IMAX." This is the way they're competing.

When you start moving your mind from this transactional commodity idea, it becomes a mind-set. Creating an experience is a mind-set.

> *The 'commodity mind-set,' according to former British Airways chairman Sir Colin Marshall, means mistakenly thinking that a business is merely performing a function — in our case, transporting people from Point A to Point B on time and at the lowest price.*

That's the commodity mind-set. It's mistakenly thinking that a business is merely performing just a function.

When a customer enquires with your company, there needs to be more than just a, "How can I help you?" boring type of experience. It needs to be more of a, "What can I do to WOW you" transformational type of experience.

Who can tell me who this is? Richard Branson —a man I admire so much I named my son after him. Now Richard Branson started hundreds of different companies — eight companies with an enterprise value over $1 billion. When Richard Branson was asked what the secret to his success was, he said:

> *…we have approached business development proactively and opportunistically, looking for openings where we can surprise and delight customers by offering something truly different.*

Whether we're talking about Virgin Galactic, Virgin America or Virgin Atlantic, Richard Branson competes by way of experience. They're the first airline which offered mood lighting. The moment you step foot on one of Virgin Airline's planes, you know you're in for a different experience. They were ranked number one, according to *Consumer Reports*, for having the highest level of customer satisfaction because they were so different from everybody else.

They were the first airline with mood lighting. There are 3,000 MP3s on every flight. You order your food from your seatback. How simple is that. People like it. They don't actually want to press that little button over their head. They'd rather just order it right from their seatback. And the safety video. I don't know if anybody's seen the safety video, but it's more of a rock video. My kids have had me watch it on YouTube at least a dozen times. I mean — what's in a safety video?

One of the guys that I interviewed for my book, *The Predictable Profits Playbook,* is Walter Bergeron. He created this company called Power Control Services. He does circuit board repair. Boring, commoditized circuit board repair.

In the beginning, he figured the way he would widen the commodity gap is to compete by offering the fastest service possible. Just as we saw with Domino's Pizza, as soon as he offered this fast service, all his competitors started doing the same thing and the gap ended up narrowing. He realized that wasn't going to work and that he had to try something different.

He really went wide by doing something none of his competitors would dare do — he offered them a lifetime warranty on any repair work that he did. His competitors just didn't have the guts to do what he offered. He ended up dominating his marketplace, and as a result, his company just recently was bought out for millions and millions of dollars. In fact, he said he never has to work again a day in his life as a result of that.

The takeaway here is the worst experience you could give to any one of your customers is the same experience they could get anywhere else. Right now, I'm going to ask you to do just two things. I'm going to ask you to think of two words that describe what it is that you're selling and I don't want you to mention your product or your service.

I want you to think of what it is you're selling just like Harley-Davidson does here on their website. *We sell dreams of personal freedom.* This is what they're selling. They're selling dreams and they're selling freedom. I want you to take a minute. You'll see there's a white spot on the back of the postcard there if you want to use that. Just write down two words that describe what it is that you're selling and then I'm going to ask you to share it with your neighbor. You've got two minutes. Please go ahead and do it.

All right. It was a little faster than two minutes, but I want to get you guys back out and over to the bars tonight. Just real quick. Can I get a volunteer who's going to share the two words? Larry? *Fun and family*. Fun and family. Fantastic. Let's give Larry a round of applause. One more person. Who can tell me what it is that they're selling? *Family fun.* There you go. Awesome.

You see why we choose to do business with companies like Apple, Harley, Google, Amazon, Netflix — why we choose to do business with them is because they offer us a better experience than we can get anywhere else.

Companies that are dominating the market today — companies that are escaping the commodity trap — have gone way beyond the transactional, "What can I do to help you?" type of experience to, "What can I do to WOW you?" type of experience. You see, transactions are singular — but they're one of the many moments in time that define a customer's experience.

Transformations in customer loyalty don't just happen when you ink a deal on a contract or at the cash register or at the final page of a website. Those things happen from the moment they walk into your store all the way through to after money exchanges hands. When you widen the gap and you fix the economics so that you're creating a market of your own, you win. My time is up. Thank you very much for having me. It's been my pleasure. [Applause]

We learned a lot. It was great.

It was fantastic. I really enjoyed it.

Yeah, it was great. Two thumbs up. We should all try to do it.

It thought it was awesome. Very good. I learned a lot. [01:22:03]

It was very informative and a lot of good information. We're looking forward to applying some of the things ourselves.

[End]