Don’t Let Commoditization Sneak Up on You

By David Macchia *Thu, Sep 29, 2016*

Our guest columnist, creator of the Wealth2k advisor marketing and income planning tools, learned a valuable lesson about commoditized workers during a 2010 visit to an athletic shoe factory in Vietnam.

In May 2010 I traveled to Vietnam with a group of fellow MBA candidates in order to learn about a variety of NGOs [non-government organizations] and commercial companies. Our trip began in Hanoi. We traveled south by bus and airplane, making numerous visits along the way. The Vietnamese people I encountered were warm, friendly and entrepreneurial.

A daylong visit to a sneaker factory outside Ho Chi Minh City was truly memorable. The single-story factory, owned by a Korean conglomerate, HWASEUNG, encompassed 1.6 million square feet, or the equivalent of about 33 football fields, and housed 16,000 workers. The building was spotless. Every worker was neatly dressed in the same-style of short-sleeve shirt, in one of several colors. The shirts reminded me of doctors’ scrubs at a hospital.

In a far corner, a group of workers, four thousand strong, all wore blue. Another group wore yellow. Still another wore red. Each of these teams performed a different function in the sneaker manufacturing process, together turning out 1.4 million pairs of sneakers per month.

At noon a horn blew. With great precision, half of the workers filed out of the building to be handed a tray holding a nutritionally balanced lunch. Thirty minutes later, this group returned to the factory and the other 8,000 people went outside to eat their lunches. The entire process was carried out with cl

That was the day I learned the meaning of globalization. And commoditization.

The Vietnamese workers struck me as some of the happiest people I had ever met. Later, in 2012, I wasn't at all surprised to learn from the Happy Planet Index (HPI) that among 151 countries surveyed, the people in Vietnam are the second happiest, after Costa Ricans.

Those Vietnamese factor workers I met were paid just $5 per day. Yet they were happy. Why? Because two years earlier, they had been earning only $2 per day. Happiness, I realized, varies according to one's relative economic circumstances, especially when those circumstances have recently changed.

The United States, a much wealthier country than Vietnam, ranks 104th on the Happy Planet list. We rank behind Zambia, Saudi Arabia, Malawi, Serbia, Paraguay, Nepal and Turkey. The relative unhappiness of American workers, I believe, is due to commoditization.

In America, people and jobs are continuously being commoditized. It's not an inspiring experience. The American sneaker factory worker became commoditized long ago. As a result, American sneaker manufacturing jobs, which paid little in the U.S., migrated to other places, like Vietnam, where they paid relatively much more and raised the standard of living of thousands of workers.

Economists sometimes advise American workers to sidestep commoditization by moving up the "value chain." Workers who offer greater value to customers, it is said, are more likely to experience bright economic futures. This is easier said than done. Most workers can't independently shift to higher value jobs. Instead, they often end up in lower-paying jobs that result in lower living standards.

The impact on advisors

As I think about the likely impact of the Department of Labor’s fiduciary rule on financial advisors, I think about commoditization. Each day, financial advice is becoming more commoditized. The robo-advisor that provides accumulation-focused investment advice at a cost 80% below the amount charged by a human advisor is like the Vietnamese factory that slashes the cost of manufacturing sneakers by 90%.

The DOL rule aims to reduce costs. It also makes almost all advisors fiduciaries. To be sure, I believe that all clients deserve unconflicted advice. But when assisting clients with retirement income distribution, a fiduciary must do more than simply lower his or her fees. Low investment fees alone won’t stop a client from going broke in retirement. When working with retirees, advisors also need to choose an appropriate income-generation method, or integrate “flooring” and other insurance elements into clients’ portfolios, or segment assets over time through a “bucket” method.

To avoid commoditization and achieve long-term success, advisors should move up the value chain by acquiring a broader range of income planning skills. Even better, to maintain job security, they should consider specializing in micro-niches such as “outcome-focused” income planning, or income planning for “constrained” investors, to make even more valuable contributions to investors’ lives. Such advisors aren’t likely to see robots take their jobs, or see their jobs outsourced to Asia.