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How disintermediation is changing the rules of marketing, sales and distribution

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Abstract

Disinter — to unearth, to displace; and mediate — to act as middleman. Combined, they mean to displace the middleman. Disintermediation signifies major shifts in how we market, sell and deliver products. In many industries, distributors are disappearing and being replaced by electronic media. As a result, direct sales forces are shrinking and their role is changing.

On the other hand, marketing is being forced to become a revenue-producing part of the organisation. This paper discusses how field sales is waning in power, marketing is gaining ground, and the biggest beneficiary is the customer. As a result, there is a new class of middlemen called infomediaries,

By comparing old and new business-to-business sales and marketing models, we discover both the beneficiaries and the potential casualties of disintermediation. This paper discusses these major trends and recommends what companies must do to thrive in the emerging marketing landscape.

Keywords: Disintermediation, infomediary, Internet, e-commerce, distributors, middleman

Introduction

Disintermediation is not just a long word — it signifies major shifts in how we market, sell and deliver our products. In many industries, distributors are disappearing and being replaced by electronic media. Direct sales forces are shrinking and marketing is forced to become a revenue-producing part of the organisation. This paper discusses these major trends and what companies must do to thrive in the emerging marketing landscape.

The dictionary shows no definition for the word ‘disintermediation’. However, if you break up the word into two parts, the meaning becomes clear. Disinter is defined as ‘to unearth, to displace’, and mediate is defined as ‘to act as middleman’. Put the two definitions together and you have ‘to displace the middleman’. This is precisely what disintermediation does in today’s economy — it displaces the middleman. But it is also creating a whole new class of middlemen called information infomediaries.

Because of the massive changes in the amount of data available, and the easy access to these data by anyone with a Web browser, sales and marketing departments have to take a fresh look at how they conduct their operations. In many organisations, field sales will no longer be

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**Disintermediation
— To displace the
middleman**

‘king of the hill’ and, in fact, many field reps will lose their jobs or be moved to other positions.

As field sales wanes in power, marketing will gain in power. However, marketing managers should not become complacent because this new power will come at a price of greater accountability. The reason for this is twofold. First, the new marketing automation tools that companies are implementing are designed to quantify the results of all marketing activities. Just as the sales automation tools have exposed the weaknesses of many sales departments, so too will the marketing systems expose gaping weaknesses in marketing departments.

The second reason for marketing’s ascendancy is that it will finally own its own profit centre: the Internet and e-commerce channel. At first, this revenue channel was owned by the IT department, but it has increasingly been moved to the marketing department. An August 1999 study by Zona Research found that the number of companies where marketing owns the e-commerce site jumped from 15 per cent to 28 per cent in just six months. This trend is expected to continue.

The biggest winner in the new order is not marketing but rather the customer. Sales no longer control the flow of information and customers have 24-hour access to suppliers anywhere in the world. Products and services are becoming increasingly harder to differentiate and many are afraid everything is becoming ‘commoditised’.

The new sales and marketing model

Figure 1 shows a typical seven-step process for business-to-business field sales. Historically, the field sales rep has conducted all seven steps. In addition to doing all this, field reps spend large amounts of time in non-revenue-related activities, including customer service, information delivery and relationship building. John Coe, president of Database Marketing Associates, has conducted studies that suggest up

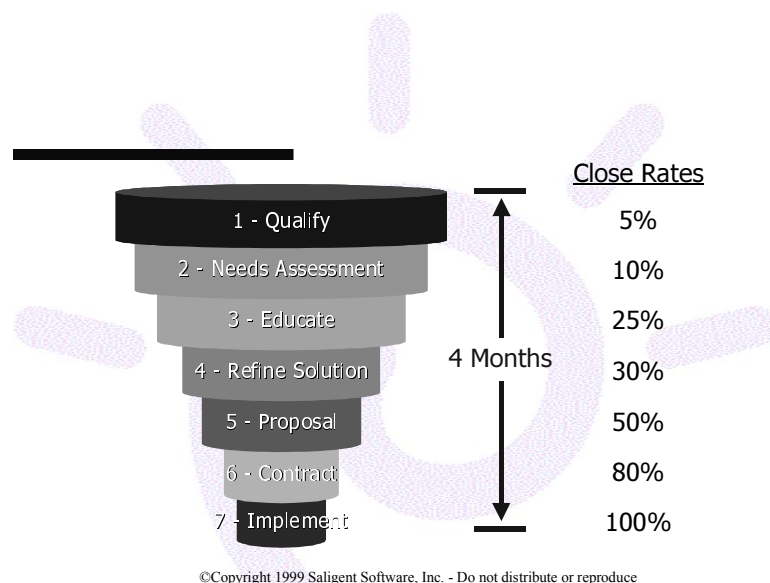


Figure 1. Sales process — The old model

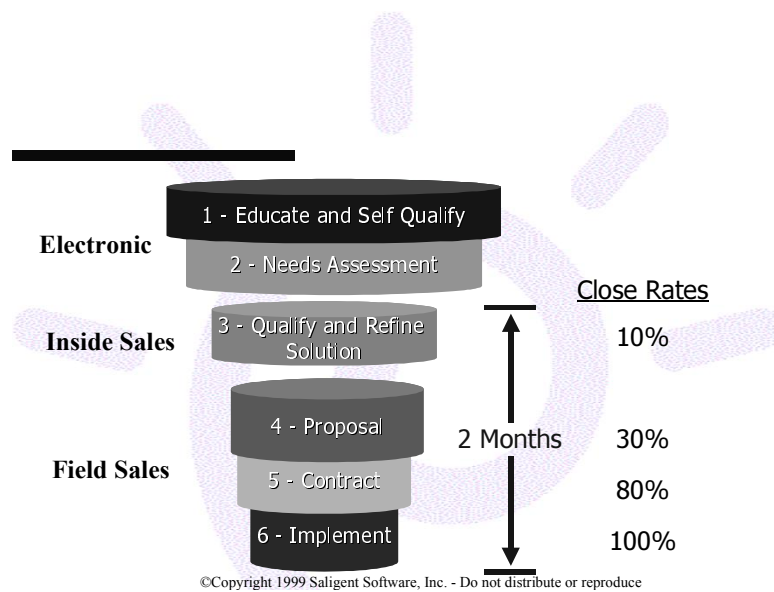


Figure 2. Sales process — Tomorrow's model

to 70 per cent of the average rep's time may be spent on such activities. Because field sales resources are so expensive, this is highly inefficient.

Smart organisations have learned that much of what field reps now do can be accomplished by a combination of inside personnel and electronic services, which frees up the expensive field sales personnel to concentrate on revenue-producing activities. In fact, the seven-step process in Figure 1 can be truncated to six steps, three of which can be handled by the Internet and non-field personnel (Figure 2).

It is important not to misunderstand. Field sales will still play a major role in most organisations, but it will be different. The field rep's most important job will become customer advocacy and his primary mission will be to represent customers' companies to his own organisation, not vice versa. In effect, salespeople will become true customer stewards. In addition, sales reps will have an important role in reporting on the delivery of actual results versus the promises made in terms of the impact on the customer's business.

The trend toward sales force verticalisation will also continue. Instead of being sources of channel conflict, inside and field sales teams will become true partners. Compensation models will be adjusted to reward inside and field sales teams who cooperate on the same accounts. Sales reps will also be compensated for their customers' e-commerce purchases and will continue to own the customer relationship on large accounts.

The explosive growth of e-commerce

E-commerce is the main factor in disintermediation. The biggest reason why e-commerce is an unstoppable trend is that customers enjoy electronic shopping and purchasing. Not all customers like it, but

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\$48bn in 1998 to
\$1.3trn in 2003**

lots do and the numbers are increasing. Suppliers like e-commerce because it is much cheaper to service an electronic buyer. For example, First Internet Bank of Atlanta estimates that each electronic banking transaction costs it about one cent, versus \$1.07 for a transaction that involves a bank teller. Companies such as Federal Express have saved millions per year by getting customers to log on instead of picking up the phone.

There is one more economic reason why suppliers embrace e-commerce — they do not have to pay sales commissions. As mentioned earlier, customers have more access to pricing information, and this is causing significant margin erosion in most industries. This erosion will not support old compensation models that heavily reward field reps.

Just how fast will e-commerce grow? No one knows for sure but virtually all experts expect explosive growth. Another telling sign is that the 100 largest software companies are investing an average of 75 per cent of their R&D budgets in customer-facing Internet and e-commerce applications.

Most marketers are being forced to become familiar with Net-speak. Internet laggards are finding their Web-savvy competitors can generate electronic leads and sales at much lower cost. Advertisers are moving to the Web at record speed. According to Intermedia Advertising Solutions, ad spending on the top 300 websites rose 80 per cent to \$359m in the first quarter of 1999. Incidentally, the two biggest Web ad spenders are Microsoft and IBM, followed by First USA Bank, General Motors and AT&T.

Companies that decide to jump on the e-commerce bandwagon can receive these four e-benefits.

- Efficiency — sales and distribution cycle times as well as transaction times can be reduced significantly.
- Enhancement — the addition of e-commerce can make the customer experience much better, provided you use technology in a way that does not create a barrier between you and the customer.
- Expansion — the Internet is a great way to expand your product line or geographic market coverage. Assuming you have the proper distribution system set-up, you can often expand at very little incremental cost.
- Eyeball share — early companies in the e-comm space have proven that it is not just revenue that counts, it is exposure. A well-designed e-commerce site is one that gives people a reason to keep coming back.

Dell Computer is a company that has used its 14,000-page website to achieve all four of these objectives. As of this writing, Dell does \$18m in online business daily. The company estimates its customer self-service site eliminates 50,000 phone calls weekly. Dell takes the electronic part of its business so seriously that it requires all sales candidates to pass a test of their Web knowledge before being hired. This knowledge will

come in handy since Dell reps, not the IT department, help build their customers' personal websites.

The huge impact of infomediaries

Infomediaries, also known as information infomediaries, offer the greatest evidence of disintermediation. The Omnibus Lexicon definition of infomediary is:

'A trusted person or Web-enabled organization that specializes in information and knowledge services for, about and on behalf of a virtual community. The infomediary facilitates intelligent communication and interaction among the members of the virtual community. It administers and cultivates a proprietary knowledge asset that contains content and hyperlinks that are of specific interest to the community.'

Infomediaries are sometimes referred to as category killers because they have such a lethal effect on other companies in the field. Amazon.com is probably the best-known consumer infomediary. While there are many flavours of infomediaries, they share six common characteristics.

1. They have category mass and dominance, with access to all or most major suppliers.
2. They offer information, products and services. In fact, they are one-stop virtual shopping centres for certain categories.
3. They have virtual inventories, operations and fulfilment. Most infomediaries never build anything, store anything or ship anything.
4. They own communities of users. This is the 'eyeball share' referred to above. An infomediary is ineffective without the ability to attract customers because suppliers will not cooperate without the promise of exposure to large numbers of prospects.
5. They offer several levels of content. Most infomediary sites start with very broad areas of content and move to the very specific. Often, users of the site are segregated according to their usage of the information. Many sites require buyers or sellers to complete registration forms while casual viewers are free to browse.
6. They are very customer relations oriented. Infomediaries are only successful to the extent they keep people coming back to the site again and again. This is why value-added services are so important, over and above the ability to complete transactions. It is also why you will see many infomediaries make alliances with industry groups.

Many people are unfamiliar with infomediaries because the vast majority serve market niches, not large categories. In fact, some are so narrowly focused that they are referred to as 'Net gnats', because they drain away small amounts of business from big companies.

An example of a smaller infomediary is Marex (www.marex.com). Marex is a boat equipment exchange that brought together 920 buyers and sellers of boats and marine equipment. At any time, Marex may list approximately \$175m of merchandise and it will earn about \$30m in revenue in its first year in business.

On a larger scale is ChemConnect (www.chemconnect.com). ChemConnect is an online auction for the \$1.6trn chemical industry. It is a 24-hour-per-day virtual trading floor for everything dealing with chemicals, and 21 of the top 25 chemical companies participate. With a highest transaction of \$3m and an average transaction of \$198,400, it appears that there are chemical salespeople who are not getting commissions because potential customers can conduct their entire transactions electronically.

The future of infomediaries is extremely promising. They are already playing a large role in e-commerce. According to the 17 October 1999 Internet Economy Indicators, infomediaries generated \$58bn in 1998, nearly a third of total Internet commerce revenues. Seventy per cent or more of the new sites will focus on vertical markets.

Over 10,000 infomediaries will be formed in the next five years, with business-to-business sites outpacing consumers

How to prosper despite disintermediation

The first recommendation for how to approach the new era is to follow the age-old advice of accepting what you cannot change. The disintermediation train is moving down the tracks at high speed and there is little you can do to derail it. If you are in a business that relies on bricks and mortar, you need to think about how to integrate your existing business model with a virtual presence. Not all of us can be in the infomediary business but we can have a plan for moving to the e-commerce model. And we can definitely have a hard look at how our marketing and sales resources (human and other) are being deployed, with an eye to making changes before the competitive environment forces these changes on us.

Most of us have been trained in classical business models that assign value to physical assets, but not to information assets. It is suggested that this model is no longer valid, and we need to concentrate on our digital assets. There are four good reasons to do so.

1. Data are cheap and plentiful. Thanks to the Internet, you have access to the same data as the largest corporations and government agencies. Their value lies in the way you manage five steps:
 - gather
 - organise
 - select
 - synthesise
 - distribute.
2. Digital assets are reusable.
3. Digital assets do not have geographic limitations.

4. Digital assets have higher value. If you doubt this, consider that Microsoft has a higher market capitalisation than General Motors and US Steel put together.

Also look at the wildly successful public offerings of companies such as Priceline.com, a travel infomediary that owns no hotel rooms and no airplanes, but has a huge worth because of the way it gives everyone access to the best prices on travel services. And ask yourself if you would like to start the next Priceline.com or the next hotel chain or airline.

Certain careers are better suited to the digital economy than others, so you might want to take a close look at your chosen occupation. Ideally, you will opt for something that takes advantage of the explosive growth of e-commerce and infomediaries and bypasses traditional slow-growth fields (eg field sales). Here are a few choices to consider.

- Interactive marketing manager — also called electronic marketing manager or Internet marketing manager. These are the people who know how to use Web and e-commerce sites to create demand for products and services.
- E-commerce specialist — these individuals have many of the same characteristics as e-marketing managers but are more focused on driving transactions than generating leads.
- Webmaster — someone has to build and maintain the websites that make e-commerce possible. Although the Webmaster title is not as unusual as it used to be, these folks will have high demand for years to come.
- Vertically focused sales rep — despite the earlier comments about the decline of the field sales force, reps who have a very deep understanding of particular industries will enjoy a good future.
- Infomediary — whether you create your own information site, or work for someone else who did, the future is bright for anyone who has the word infomediary on his or her cv.
- Domain expert — domain experts are those who know a lot about a particular industry or horizontal area such as marketing or finance. Domain experts are very important to infomediaries and e-commerce sites.

Whether you are someone who is a beneficiary or a potential casualty of disintermediation, the changes that are occurring are not going away. Instead of holding on to the old way of doing things, why not embrace the digital age and thrive?