

Disintermediation – Friend or Foe of Today’s Businesses

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For the past 100 of 110 years, business has been extraordinarily focused on the supply chain: building it, perfecting it, defending it. And the modern corporation depends on the supply chain to continually generate profits, because systemic growth has been so hard to bottle. The middle man is at risk in today’s environment unless they adapt.

The great companies of the past have always taken an historic innovation— Ford with autos, AT&T with the telephone ,IBM with computers—and then consolidated control of their markets by defending their distribution arm by all means. But today’s fastest growing companies, such as Apple, Amazon, Microsoft, Facebook, Twitter, and Google, don’t focus nearly as much on distribution channels. Instead, their businesses are built around consumption models, and their single minded focus is on building relationships to their family of consumers to earn their trust, to expand their role in their consumers’ lives, and to enlist them in everything from product design to service to delivery.

Today’s enterprising companies are as focused on constantly improving their levels of trust with their clients as they are on the degrees of efficiency of supply.

And that is only half of the story. Even as this cultural shift is taking place, the nature of distribution itself is undergoing a transformation. Today, most manufacturing business models are still built around the traditional notion of a physical community of towns and roads, warehouses and delivery trucks, advertising and point of sale marketing. Not surprisingly then, most supply chains are also built around local physical stores, factories and the ubiquitous dealers that serve them.

But what happens in a world where one’s neighborhood is as much virtual as physical? When your friends and other key influences are scattered around the world? What happens when a single opinion, via a blog or Web posting, can

influence a millions of clients on four continents? For these questions, the traditional supply business model has few answers that fit today's models.

From the Industrial Revolution to the brand management system to the virtual corporation, has taken place at the system level. That is, how do you coordinate assets, information, and people? Today, the Internet is the ultimate such system, bigger than any that came before. Can we be surprised then that it reverses that most traditional of business relationships, the one between manufacturer and client? Or that the old supply model is now beginning to seek new solutions in a world in which the consumer, for the first time ever, is enthroned in the driver's seat of the global economy? If you don't find your path and you are not controlling the supply you better find a way to draw in the demand or be gone.

We were given an advance warning of this trend more than a decade ago, during the mortgage refinance bubble. Unfortunately, we drew all of the wrong conclusions from that period. Even today, that era, with its creation and destruction of hundreds of new companies, is typically seen as an example of wasteful runaway business growth. But to be sure its effect cut margins razor thin and the companies providing products over reacted to the demand by losing control of them and did not scale back their resources in time or manage supply cycle instead they rode the rapids like an exciting trip down the river until they met the "Falls".

We should look back on that era as being one of extraordinary importance. The "big idea" in the air in the 1990's was disintermediation: the notion that business systems, empowered by the new information and communications technologies, would strip out the middleman and grow more efficient in the process. That period of time was essentially this idea of disintermediation, propelled by the Internet, reaching the retail world—replacing traditional bricks and mortar businesses with e-commerce companies.

The fact is that almost all of those e-commerce companies were retail driven enterprises, often driven by old line supply companies. And if you had looked at their business plans, you would have noticed that few of them had any idea exactly who would buy these products or services. All they knew is that their clients were taking the shortest and quickest route they could find direct to the

supplier. In fact, very few had any fulfillment capability or competitive advantage to speak of.

By comparison, those companies that did survive the shakeout— Amazon, eBay, Yahoo, Zappos, Google—have proven to be some of the most important and influential companies of recent years. And they in turn set the pattern for the Web 2.0 social media firms such as Twitter, MySpace, Facebook, and YouTube that have redefined modern life. What did those survivors have in common? Their business was based on what clients wanted, rather than what the suppliers already had. They were the harbingers of the demand driven economy.

The lesson for those who act as the current authorized middle man for the manufacturer to be learned is that in this era of oversupply it is now imperative that you construct a framework in your company that encompasses and aligns everyone toward meeting not just the current but the latent and emerging demand of your highest profit clients and consumers. And before you can do that, you need to understand who those clients and consumers are, where they are, and what “need states” they exhibit as they make their purchasing decisions. The concept of need states is important for developing an in-depth understanding of demand. Need states are the circumstances or the occasions that cause someone to want something and to take action in its pursuit.

The transformation you must make in your company and the reversal you must make in your perspective will be easier than you think. This is not re-orienting this is rethinking. This is not reorganizing, it's reshaping dealers, manufacturers, retailers, and the media into a collaborative network that will work to the benefit of all who participate. For a long time, this new model of organizing and collaborating has been intuitively felt, and now it's real. It's called the feeding the flow by corralling disintermediation to win in the new demand based economy.

The problem is not that the client can and has found their way to their purchase decision via this process, it is you haven't identified it and set a strategy to focus it for your business. Gone may be the traditional sales force and the flow personnel you have had for years as the future challenges you to embrace your client, involve them on a current basis in the decision process and let them see it all as through the project management by giving them heretofore unavailable real

time access to their decision online thus cementing your relationship with them. Your marketing should parallel this concept by instead of beating the bushes in an “us” versus “them” mentality, by alienating yourself with their needs through crowd sourcing and knowledge based marketing which make your effort in concert with their needs.