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Understanding Internet Disintermediation and Reintermediation

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Fundamental alterations in core business processes, due to the rapid technological innovations provided by the Internet and related services, have brought about much fear, confusion and opportunities for both traditional and entrepreneurial, retail intermediary operations alike. However, to avoid throwing out the baby with the bath water, and identify potential improvements to so-called "best practices" and the value chain in general, one must first demystify certain, prevalent buzzwords and more carefully investigate the current operational styles of both the "brick and mortar" and internet economies. We will attempt to bring the reader closer to that level of comprehension necessary for competent decision making.

Briefly, there has been considerable transformation in what is considered as standard business procedure: primarily targeted is the hierarchical structure, in which employees' workloads are organized. Typically, these structures were pyramidal in design whereby those frontline employees with the most contact to clients and markets have the least decisional power. Another give-away was the relative amount of inflexibility and rigidity displayed: how fast could a company respond to the ever-changing demands of consumers? On the other hand, could they offer customization, handle individually, specialized requests? Alternatively, could they simply remember the preferences and purchasing histories of each customer? In comparison to the modern, fractal (e.g. proactive, flexible and seemingly fluid) organizations utilizing e-Commerce, the traditional business model appears to be a recipe for extinction.

Who is responsible for the term disintermediation and what then is "disintermediation" all about? The term was coined by Nicholas Negroponte and is discussed under the title "Reintermediated" in the September 1997 issue of *Wired*. Essentially, disintermediation means cutting out the middleman responsible for the normative selling of products through the supply chain. Of course, the Internet is not the singular example of this cost-reducing strategy; anyone familiar with a factory outlet store will immediately recognize the principle of disintermediation, not to mention the benefit the customer receives. Reintermediation then is simply the re-introduction of a broker, agent or middleman to the supply chain, rather, one that emphasizes specifically on customer relationship management.

Naturally, the principle of selling and marketing directly to the customer is not a novel one nor is it rocket science, but one that is greatly enhanced via the Internet. Furthermore, the application of mass-marketing and broad appeal online, begs the following questions for those concerned with the business status quo: what products and services are more efficiently delivered online, per se? How is value added? Who is and will be affected by alteration in retailing? What are the major components of the technological revolution?

To fully appreciate the enormous selling potential that is just now being implemented, consider the following examples as indicative of possibilities for greater market share: CD books, stocks, cars, travel etc. Of course, each industry has its particularities, but the common denominator here is the superior delivery of services, regardless of geographic location and the significant savings in commissions, fees and taxes.

Consider for a moment that the music industry has been partially disintermediated by the

called Indie rock (Independent labels) Internet start-ups. With the development of MPEG rather user-friendly program for the compression of CD's into manageable data that can easily downloaded, artists can now be directly (or via reintermediaries, the Indie rock steps) more closely in contact with their customers, regardless of musical preference. Here this practice, although deemed piracy by the establishment, effectively challenges the core competency of the record labels to best serve the customer, while producing chart busters. Additionally, the use of these programs does not require extensive training and a minimum of equipment; usually a Pentium PC and a CD Burner (a recording device) will suffice.

Massive upheaval has also shaken the trading and securities brokerages: not only do individuals have direct access to markets, they can receive timely updates on their Desktops, instantaneous transactions and expert conciliation online all at a fraction of the cost of traditional brokerage houses. There are numerous personalized services now available from E-trades, Discover, Charles Schwab and even Merrill Lynch. Are banks still next in line? Likewise, travel agents can no longer justify the 15% or greater commission the delivery of airline tickets; with the arrival of online travel services such as Expedia, one can now select from among a number of choices, all pre-determined by the customer. One can imagine buying your next car online, without the "assistance" of a commissioned sales representative!

What does the future hold for the information professional or sales representative? With the advent of the Internet, information is everywhere, in abundance. However, it would appear that the salient enterprises are providing expertise and invaluable advice to their clients. Nevertheless, the value of branding has not been replaced so easily, and most consumers exhibit some loyalty behaviours when making purchase decisions. One thing is clear... change is inevitable, but has proven extremely profitable for those adaptive and creative those who strive to fulfill their client's desires economically and "remember" those certain shopping nuances will be continuously rewarded.

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