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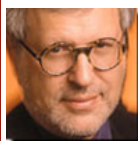


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## Out Of The Box: The Myth Of Disintermediation

Distribution chains are becoming obsolete, replaced by distribution communities that collectively create value for the customer

By Michael Hammer



The Internet has spawned many myths, perhaps the greatest of which is disintermediation. This term first became part of the lexicon during the revolution in financial services precipitated by the high interest rates of the 1970s. At that time, consumers discovered they could get better returns on their money by disintermediating--i.e., cutting out banks and directly investing in the same money markets as the banks.

Today, disintermediation is supposedly dooming distributors, retailers, wholesalers, and all other intermediaries between manufacturers (or service providers) and the ultimate customer. Because the Internet lets customers connect to and order from the primary source of a product, there's presumably no need for traditional distribution channels and their costs and delays. The great role model for all of this is Amazon.com, whose success in the book business has caused much consternation and gnashing of teeth in many other industries. This is the conventional wisdom, and, as usual, the conventional wisdom is wrong.

A more reasoned view of the impact of the Internet on distribution channels is that it will transform but not eliminate them. The reality is that customers need a significant amount of value to be added to most products before they can buy and use them. Think about an air-conditioning system: A customer needs help to determine how much air conditioning he or she requires, which system to buy, and what related products--duct work, for instance--are needed. The customer also will likely need help installing and maintaining the system. Who is going to provide all this value? Certainly not the manufacturer, which has no local presence and may not have all the needed skills. This value needs to be provided by the distribution channel, which is here to stay, but not in its current form.

The job of the companies in the distribution channel is to add value that customers need, including but not limited to actual physical distribution. Seen in this light, the book business is extraordinarily unrepresentative. Its products require no customization, installation, or ongoing support; they can be easily selected online and inexpensively sent directly to the customer. In the book business, disintermediation is a relevant idea. In most others, it isn't.

The model of the distribution channel as a series of companies, buying from and selling to one another, is indeed a casualty of the Internet. The job of an intermediary is not to buy, sell, and hold inventory between those two events, but rather to add just that customer-required value that the intermediary is best equipped to provide.

In the auto industry, dealers are here to stay, since the day is far off when consumers will be willing to buy a car without test driving it or when they can test drive it from a home PC over the Internet. (Just imagine where the leads would have to go in order to provide a feel for the car's ride.) Nor is factory-to-consumer direct delivery economically viable. Rather, the car buyer will research cars over the Net, test drive one at a dealer, order it over the Net from the manufacturer (who will build it to order), then pick it up at the dealership, which will also service it over its lifetime. The dealership continues to exist in order to add value, but it changes, evolving into a demonstration center, a delivery site, and a service center. And it's less likely to deal--that is, to buy and sell.

What value is created by the dealer buying the vehicle from the manufacturer and then reselling it to the customer? None at all, but it does create a lot of cost and overhead. Instead of making profit on a transaction, the dealership will be paid a commission by the manufacturer as a reward for the services it provides.

The notion of a distribution chain is becoming obsolete; in its place is arising the notion of a distribution community, a group of companies that collectively create value for the customer. There's room in this community for many companies besides the manufacturer, as long as they are ready to rethink their roles in customer value terms. Today, people directly invest a lot more money than they used to, but the last time I looked, the banks, which were supposed to have been destroyed by disintermediation, were still around and thriving. The Internet community should take note.

Michael Hammer is president of Hammer and Co. in Cambridge, Mass. Find out about Hammer and Co.'s Frictionless Distribution Communities Conference in Phoenix, Sept. 18-19, at <http://www.hammerandco.com>

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