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## Disintermediation - A new buzz word in business

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TRADITIONAL economic theory taught us the need for employing intermediaries for the effective distribution of goods and services. The middlemen are supposed to provide the place and time utilities to the ultimate consumers.

The intermediary effects an economy of effort by making the required assortment of goods in quantities needed by the customers at a time and place where they are needed. Consequently, the manufacturer can concentrate on his/her core competency areas of design and manufacturing of goods.

That is why companies employ several intermediaries such as the wholesaler, retailer, broker and so on who play a crucial role in the distribution of products and services.

However, the new developments in Information Technology is turning the conventional wisdom upside down and the current move is towards disintermediation.

Disintermediation is giving the user or the consumer direct access to information that otherwise would require a mediator, such as a salesperson, a librarian, or a lawyer.

Observers of the Internet and the World Wide Web note that these new technologies give users the power to look up medical, legal information, travel, or comparative product data directly, in some cases removing the need for the mediator (doctor, lawyer, salesperson) or at the very least changing the relationship between the user and the product or service provider.

Simply put, disintermediation is the act of shutting out middlemen, who are traditionally involved in the process of selling something. The Internet, of course, is the prime agent in making disintermediation happen. Consider the case of car dealers. When you go into a car showroom, chances are you pretty much know what you want already. It is in effect a factory outlet. For this reason, it's not hard to imagine buying directly from the factory. It is expected that the car dealers will get eventually disintermediated.

Traditional book publishers will slowly but inevitably disappear. Bookstores will vanish even sooner, as they bring almost no value over a Web site like Amazon.com.

For example, Dell Computer of the US sells PCs not by model but by configuration. A typical phone customer dials in with a configuration and a budget in mind, and uses an interactive exchange with the sales rep at the other end to identify an optimum, involving permutations on capacities and speeds of different components, that will meet his/her budget.

Dell's Website automates this process. Customers choose the broad-type of the system: a high-end multimedia, or a gamers or a home-office machine.

They are then directed to a screen where each sub-component of the configuration is displayed. There are separate lists of CPU- type, memory, hard disk, multimedia components, modems et al.

Customers can change their choices, and as they do so, get the price for the selected configuration on the screen. When they are satisfied, they can close the

deal. At Dell's end, this system is linked to its just-in-time manufacturing system. (Business Today - Ideas, March 22, 1998)

The arrival of the Internet in many ways resembles the invention of the printing press by Gutenberg, which eliminated the need for the intermediary between the individual and God as people could individually have copies of the Bible and read for themselves.

As a result, the church lost much of its power and had to resort to the carrot and stick of Paradise and Damnation to get the congregation back to the church. It also meant that you didn't have to be a Priest to teach people and so learning could be disentangled from religion.

Ian Hughes in a letter to the Direct Marketing Forum on the Internet (<http://www.dmforum.com>) says:  
``Sales channels were put in place because it was difficult for manufacturers to deal with the needs of customers that were geographically dispersed.

This was until Direct Marketing was invented. Then they could mail people without having to have distributors and dealers in the way. Now they want to get even closer to the end customer, thus cutting out yet more of the sales channel."

Disintermediation, powered by a thirst for reduced price, will be the order of the day. Companies that wish to maximise revenue will add as much information as they can, delivered through the most cost-effective medium (probably the Net). Those that don't will have to ensure that they empower the information brokers to pass on recommendations about their products to people who want to buy.

Another trend that we can notice is supply chain integration and disintermediation. Supply chain integration is the tightening of links among participants in a supply chain, along one or more of three dimensions: goods, information and funds. Supply chain disintermediation reduces the number of participants in the supply chain - in other words.

``cutting out the middleman".

Currently, the main impact of merging technologies in transportation is driven by increasing integration; at the same time, there is evidence of the early impact of disintermediation.

In each respect, the rules for value creation in the supply chain are changing. Tomorrow, we can see an interesting example on supply chain integration.

(To be concluded)

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