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Understanding the disintermediation process

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(This is the second and concluding part of the article 'Disintermediation - A new buzzword in business' that was carried in these columns on May 12.)

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ALL the talk of disintermediation may sound pretty grim for many small businesses. After all, why should a client use a small broker or other middlemen when he/she could go right to the source? And why should large companies have to deal with the middle guy any more when they can cost effectively deal directly with their clients? Well, perhaps, it is not quite as simple as all this.

One thing a small business can no longer do is to represent itself as all things to all people. A client will want local, specialised expertise in their industry and/or market. Another thing that small and larger companies entering the electronic marketplace need to be aware of is the need for delivery and filtering of information about their products and services. Major airlines will take your bookings directly. And hundreds of Web sites will provide you with all possible goods, services and information about markets, airports, ports, Customs and just about everything else. But, how will you have the time to find that information when you also have a business to run?

This flawed notion holds that the Internet will allow

buyers and sellers to deal with each other directly, raising profit margins for sellers and cutting prices for buyers. Just cut out the middlemen. But we need those intermediaries.

The disintermediation concept rests on a correct understanding of the Internet but wrong-headed perceptions about commerce. Yes, the Net allows sellers and buyers to interact directly, but probably inefficiently. Even for simple transactions, the Web uses intermediaries. For finding the book of your choice one may have to use a Web browser/shopping network - which is an intermediary. You could check the major manufacturers directly and compare prices; the search engine could identify manufacturers and you'd click to visit. But you might like to go to a computer storefront where you could learn about several models, compare features and check on availability. The Web store becomes an intermediary for the buyer.

Think about the seller, too. In the physical world, manufacturers use intermediaries because the manufacturers are not set up to deal with individual buyers.

They make the modems, then put them into distribution channels so retailers or other intermediaries can sell products, offer advice, answer questions, ship products, take returns and handle complaints. Without intermediaries, the manufacturer must do all that, moving it from its core business into areas where it may not excel.

Many software companies do sell software directly from their Web sites. But despite the appearance, you may well be dealing with an intermediary.

Many software companies contract with intermediaries to handle the transaction from the time the user clicks the 'buy' button - taking orders, authorising credit- card payments, collecting purchase data, shipping the product. Intermediaries exist in the real world for a reason, and those reasons don't go away on the Net. Are these trends relevant to India? Distribution in India is very unique

compared to other countries. Indian wholesalers operate with amazing efficiency when we look at the paltry margins (4-5 per cent) they get from the manufacturers. However, they do not follow proper systems and procedures that are amenable to computerisation. Also, they tend to keep large inventories to safeguard against the vagaries of the Indian environment, like `bandhs', strikes and natural disasters.

Hoarding and black-marketing is also prevalent in certain product categories. Moreover, basic commodities like sugar, steel and fertilisers continue to be rationed (as opposed to marketing) where the production people decide what should be consumed by the public.

Since India is a vast country with its population spread across 5 lakh-plus villages and 3,696 towns, physically moving goods from production units to consuming centres itself continues to be a big challenge to any marketer.

Though India has progressed a great deal in the telecom sector, considerable improvements are to be made in the telephone systems before we can have reliable data transmission from one place to another.

However, a number of Indian companies are realising the importance of cutting the cost of distribution and are gradually resorting to the use of IT in distribution. Ponds' Institute offers skin care advice through its Web site <http://www.ponds-institute-india.com>.

A number of book stores have sprung up on the Internet. A number of companies are concentrating on integration and disintermediation of their supply chains and they are likely to move towards disintermediation in marketing as well.

(Concluded)

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