

Channels UNLIMITED



Amid the exponential growth of market channels, finding a new niche is every company's Job 1.

In the "good old days" of television, our only viewing choices were the three networks, and we were pretty much content with them. Now people lament that there are "50 channels and nothing to watch." But despite the occasional complaint, people do relish choice, and I don't think anyone would want to go back to those "good old days."

This incredible number of choices isn't limited to TV. It used to be that when people wanted to buy pencils and paper, for example, they had only one place to go—the retail stationer. With the advent of new communications and logistics technologies, about half of those stationers have been wiped out. Yet consumers and business buyers have *more* choices, not fewer. They can "channel surf" a dozen or more categories of suppliers: traditional retail stationers, national superstores, general retailers, catalog merchants, Internet suppliers and so on.

The proliferation of channels is occurring in most markets, and all the players in a channel would do well to take notice. I often hear complaints from intermediaries—agents, brokers, dealers, distributors, wholesalers and retailers—that

there's something "unfair" about all this. Usually, this epithet is directed at the new players who bypass expensive assets like stores, warehouses, trucks and people and use cheaper information, computer networking and logistics technologies to sell their wares.

Complaining, though, won't stop the growth of new channel categories. Action is a better strategy: Finding a new niche or role, rather than defending the old and quickly disappearing one, is "Job 1" in the era of tech-driven channels.

PLAYING WITH FIRE

The good news is that most of these new technologies are within the financial and technical grasp of anyone. The bad news is that choosing and executing a channel strategy is still the toughest job around.

For much of my career, I worked in businesses that depended on downstream intermediaries who served the final consumer. Disrupting an established flow was seldom an option. I always maintained that changing channels was like playing with fire.

Much of a producer's success, after all, depends on the physical presence of a product or service in the marketplace.

As Coca-Cola has successfully shown, you need to be "within an arm's reach of anyone with a thirst." Hence, better to go with a safe and secure channel, even if it's less effective or efficient.

But now technology has set the distribution world ablaze, and one more fire will not be noticed. Unless people adopt aggressive new channel strategies, however, everyone in the distribution cycle will get burned. The first step is to recognize just what's fueling the fire.

MULTIMEDIATION

Consumer demand for choice is creating the will for change, while rapidly maturing technologies are making it possible. These new technologies mandate that everyone, even those with the most entrenched channels, develop new channel strategies.

Ah, you might say, this advice is becoming routine. True. But while many companies develop the right channel strategy, they often focus on the wrong aspect of the execution.

At its heart, a "channel strategy" consists of just two key decisions: *channel length* (the number of intermediaries between the producer and final consumer), and *channel breadth* (how many outlets are available to the consumer). While a lot of rhetoric has been directed at the former, the real action is in channel breadth.

For the past few years, business pundits have been proclaiming the rise of "dis-intermediation," or the removal of intermediaries between the producer and consumer. Most recently, such pundits (including me) have announced the arrival of "re-intermediation," or the introduction of new information-based intermediaries. Examples of these new *informediaries* include eBay, the online consumer auction house, and FreeMarkets, an online industrial products bidding service.

The pundits are right on both counts. There are fewer traditional intermediaries and a lot of new infomediaries, who are simultaneously stretching and shortening channel length. But the real change is occurring at the customer interface, where channel breadth is rapidly expanding. I call this *multi-intermediation*.

Three trends are creating multi-intermediation: As channel lengths shorten, companies that get squeezed out of tra-

ditional channels are moving into closely aligned industries for the first time. And as horizontal competition replaces vertical competition, many players in a vertical industry are establishing a direct presence with customers for the first time, typically on the Internet.

Finally, driven by cost considerations and the need to add new value by way of real-time information, companies with a traditional physical presence are establishing parallel channels.

KEY OBSTACLES

Two problems prevent some companies from taking full advantage of these trends: the fear of losing control and "bad attitudes."

In the B2C (business-to-consumer) music market, for example, traditional retailers have moved to the Internet, and soon everyone else in the business will be joining them to establish a point of direct customer presence. Greg Linn, senior marketing director at Columbia Records [www.columbiarecords.com], says, "Virtually every retailer has just woken up and thrown their hat in the [Internet] ring.... The hardest thing for us is trying to keep the retailers involved as our partners and trying to retain some kind of control."

To find new ways to add value, any channel player must first change its traditional attitude. The leaders in some industries are struggling with the proliferation of channels. They believe that creating a Web presence would be seen as a threat to their long-standing retailer partners in a given territory. Trevor Traina, founder of the electronic shopping guide, CompareNet [www.comparenet.com], notes that some manufacturers, such as Pioneer and Maytag, have relationships with retailers that are holding them back from the Net.

Others, after a period of denial, are getting on the multi-intermediated power curve. Autobytel.com, for example, has had firsthand experience with a strong initial resistance from car manufacturers. Autobytel provides consumers with unbiased information on automobiles via the Internet and phone. When a consumer is ready to buy, the site leads him or her to a specific dealer, offering a price that's already agreed upon.

As president and CEO Mark Lorimer explains, this concept wasn't an instant hit with car manufacturers. "Their attitude has gone through several phases. First they simply wanted to kill us. Later they just whined that they didn't like it because they had no control. Finally," he says, with a bit of vindication, "they've gotten to the point of saying, 'Hmm, maybe these guys can actually help us!'"

Bad attitudes in cyber style also occur in the B2B arena. While Internet sales were some \$50 billion last year and are expected to double in each of the next few years, business buyers still put up much resistance to the new channels.

Car makers put up a fight initially, but Autobytel sold them on its online service.



For Aداuction.com, a new online intermediary that sells leftover Internet advertising space, pitching sales has been a Herculean job. Says CEO Neil Cohen, "Our biggest job has been to change attitudes and perceptions in what has been a very traditional industry." Although successful, the company is now hitting another round of resistance as it moves into selling unused print, outdoor billboard and other premium space.

HELP IS ON THE WAY

If all this seems a bit challenging, companies in many industries can look for help from new businesses that offer technical and management advice and services.

One company putting itself in the middle of the fragmented office supply industry is Business Essentials, on whose board I serve. The Nashville, Tennessee, firm has formed an alliance of 450 independent office suppliers through its consulting and supply arm, Corporate Supply Network. Chairman Paul Christians says that many companies are intimidated by technology and cling to old methods out of fear and resistance. "We help them move forward with small steps," he explains. "By focusing technology on re-

ceivables and inventory, we can free up 30 to 40 percent of their budget to spend on more productive areas, such as marketing."

The company's Internet-based central buying mechanism gives the office suppliers better prices, more information about products and advice on how to focus and specialize. This way, they can spend time on selling relationships and service rather than logistics.

Similarly, VerticalNet operates 41 different B2B Web sites that it refers to as "vertical communities" [www.verticalnet.com]. These sites allow producers to

post catalogs, participate in "virtual trade shows," submit proposal requests to suppliers and so on. More than just auction space, the sites also provide chat rooms, forums, news and vendor profiles. Each sells software that helps the industry-specific companies do their jobs better.

ATTITUDE ADJUSTMENTS

Every company is being challenged by the changing channels in today's multi-intermediated marketplace. But the technologies needed to adapt and succeed are there for the taking. Like so much else in this fast-changing environment, it's the attitude toward technology, not the technology itself, that is separating the winners from the losers. **MR**



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