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Net poses distribution dilemma



DIGITAL SURVIVOR

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Of all the challenges facing business organizations, perhaps the most vexing is what to do with the distribution channel.

Executives in many different industries are wondering — in light of the threats and opportunities posed by e-commerce — whether they should compete directly with operators that have faithfully distributed their products or services for many years.

Auto companies, financial institutions, manufacturers, travel and leisure organizations — you name it, these people are contemplating a big dilemma.

It wasn't always perceived as such. In the early days of the e-commerce revolution, it seemed simple. The rallying cry was disintermediation is the future. Proponents of the Internet argued that the network provided a business utopia in which companies could go "direct-to-consumer" and bypass the costs and complexity of the middleman.

Some industries followed the disintermediation model quickly and weren't concerned with the impact on their distribution channel. It happened fast in the airline industry, where most major carriers determined that they would compete with travel agent representatives. Quite simply: every time a carrier sells a ticket through its Web site, a travel agent commission is avoided.

Yet for many other industries, the issue is turning out to be a far bigger problem. After all, a company can't just set out to do business on-line with consumers without causing a great deal of consternation in its loyal distributor base.

Take the insurance industry. While many insurers would love to sell directly on-line, they know they risk significant upheaval within their agents and brokers, particularly those who aren't "captive" or exclusive to them. A number of those loyal representatives could leave them for other carriers.

Or insurers may find that while relationships remains intact, the agents and brokers refuse to sell their products at all, simply out of spite. That's a direct threat to the bottom line.

Then there is the automobile industry. Although auto makers have announced plans to sell direct, they also know they face a big challenge in managing the attitudes of the dealers.

Mutual fund firms face a similar problem. How many financial planners may decide to abandon particular fund products if the companies decide to "go direct?"

Manufacturers are not isolated from the issue. Home Depot sent letters last year that put many major suppliers on notice that the retailer may drop their product if they choose sell on-line.

Every organization will be faced with some type of direct-to-consumer competition regardless of what they do. This will come either from an existing competitor or, more often than not, from some brash Internet startup.

And if you don't get sideswiped by on-line competition, you'll be broadsided by new business models. Consider Chemdex (**www.chemdex.com**) and Metalsite (**www.metalsite.com**), two initiatives that are shaking up the distribution of products in their respective markets.

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