

GS Insight

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Channel Shock

“The medium is the message.” — Marshall McLuhan

Among the many impacts of the Internet on business, perhaps none is more jarring than the realization that the channel itself has become the message. Regardless of the state of your Web site or extranet, how well customers are able to interface, navigate and download conveys some of the personality of your organization and can be an important point of differentiation. Moreover, beyond routine queries, orders and order tracking, *the channel has become a completely new mode of distribution.*

Not all queries require direct human involvement for every transaction, of course. In commodity businesses, customer inventory can be remotely monitored by a vendor and automatically reordered and invoiced when supplies run low. In service businesses, the commodity is often information about availability and scheduling, not just data exchanges. In the communications sector, new high-bandwidth networks at customer sites can be remotely monitored, maintained and upgraded through a centralized operational support system (OSS). The channel, backed by knowledge of the networked system, *is* what the customer buys. These channel-based services reduce costs by orders of magnitude over manual maintenance and service methods.

The flip side to virtual distribution is virtual procurement. A number of companies such as CommerceOne have sprung up to meet the demand for automated buy programs for corporate purchasers. The automotive industry, long a leader in supply-chain management, is one of many taking advantage of the new channel to trim procurement costs. General Motors recently organized a virtual marketplace with more than 30,000 suppliers to buy and sell everything from factory equipment to office supplies. Now Ford and DaimlerChrysler have joined GM in a three-way agreement to create a single auto-parts exchange over the Internet.

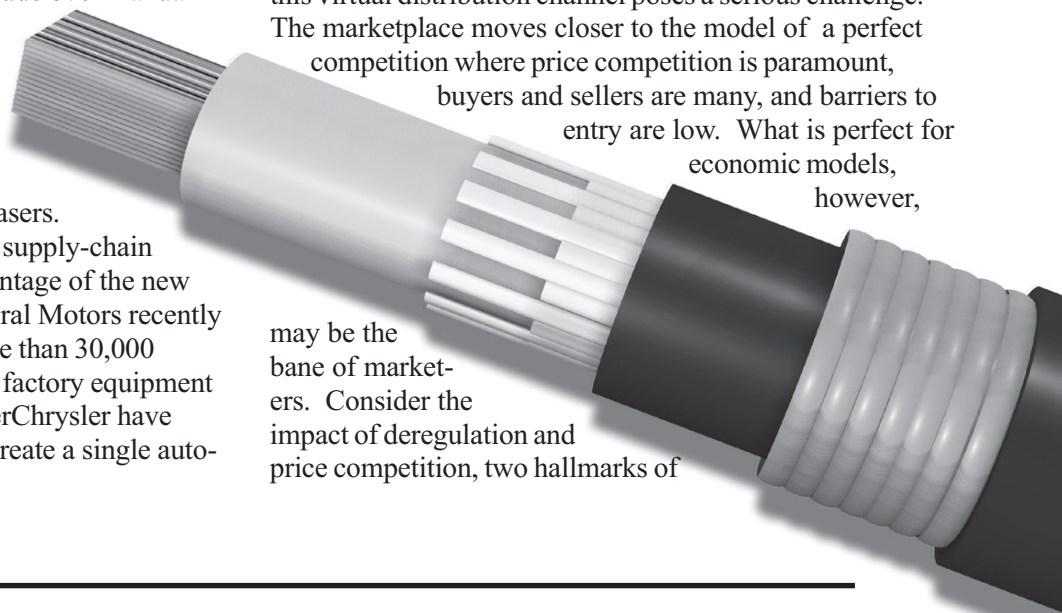
Marketing Implications

The real difference between online bidding procurement and traditional sealed bidding is that it makes the process more available to a wider number of suppliers — and consequently, hypercompetitive. To the extent that such bidding forces suppliers to greater efficiency and cuts costs, it makes both buyer and seller more competitive in a global economy. But what of the impact on marketers?

First on the economic side, high-volume purchasers have always enjoyed an edge in obtaining the deepest discounts. Now mid-size companies can benefit from third-party service providers that act as virtual distributors, organizing B-to-B buyers and sellers, without ever taking title to the merchandise. Scale still matters, but these intermediaries help level the playing field and bring together smaller companies into purchase cooperatives. Those buyers who adopt such virtual methods first will gain an edge — at least until competitors catch up.

For marketers, the hypercompetitive environment created by this virtual distribution channel poses a serious challenge. The marketplace moves closer to the model of a perfect competition where price competition is paramount, buyers and sellers are many, and barriers to entry are low. What is perfect for economic models, however,

may be the bane of marketers. Consider the impact of deregulation and price competition, two hallmarks of



perfect competition, on the long-distance phone market. "Cents-a-minute" price wars ultimately hurt everyone involved. The smallest, most vulnerable companies go out of business. Only a few major providers survive, usually with greater market share and razor-thin profit margins. Consumers enjoy a short-term advantage — until prices boomerang. The marketer's role in all this is to upset the traditional rules of perfect competition in order to create a competitive advantage.

Escape to Growth

Marketing and communications can provide an escape hatch for continued growth by heightening differentiation in the product-service bundle, including enhancements in the channel itself. Beyond improving channel functions and management, marketing can fight back in a number of ways including:

1) Strengthen brands. The product-service bundle embodied in the brand

By 2004, online marketplaces will account for \$2.71 trillion, or 37 percent of all Internet Business-to-Business transactions.

gives core customers a variety of reasons to buy. Strong brands convey trust and confidence that lead to long-term agreements and repeat sales. All modes of communications and customer interface contribute to brand enhancement.

2) Develop tighter customer relationships. Customers want to deal with those who understand their goals and anticipate their needs. Time invested in gaining that understanding and building relationships is never wasted. Customer events, joint-problem solving sessions and gaining feedback from major accounts are keys to nurturing future business.

3) Tailor products/services more closely to customers. Dell Computer offers the perfect build-to-order model in consumer marketing that can work equally well in business-to-business. Find out what customers want, then build it. Business marketers can certainly borrow and build on these concepts that online systems can only enhance.

4) Improve convenience. The experience of convenience is a prime motivating factor, especially for frequently purchased items. (The converse also is true.) Personal digital assistants open the possibility for a quantum leap in convenience for those on the go.

5) Boost service. Streamlining order, delivery, complaint and service systems improves customer satisfaction and leads to repeat sales. And if you've "got it, flaunt it" — in the trade press, in your newsletters and Web site — to attract attention and draw more business.

- The Gartner Group

6) Introduce innovations. Market leaders are often prolific innovators, adept at finding new ways to outdo themselves with enhanced products, features and services.

7) Improve availability. That includes both products and service. If properly designed, 24/7 service and automated help desks can go a long way toward keeping customers satisfied.

Knowing which product/service attributes to enhance requires intimate knowledge of your customers and their perceptions of both you and your

competition. It is certainly possible to spend money in the wrong places and enhance services that do not boost customer value.

It is clear that the waters have changed and there is no turning back. Companies from General Electric to United Technologies are embracing the new channels of distribution. Without supplanting traditional distribution, they have created complementary new virtual channels that improve efficiencies, both for themselves and their forward-thinking customers. Those enterprises that recognize the change and make the investment in the links, alliances, and marketing necessary to promote their newfound advantages will remain a step ahead in the new economy. 

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