

## Channel Conflict

### Commentary from the META Group

#### How the Internet plays into Channel Conflict for Consumer Goods manufacturers.

The Internet has become the equalizer for all industries enabling organizations of all sizes to reach out and directly touch consumers, partners, employees, and even competitors. Whatever the motivation, manufacturers must guard their existing relationships with primary channel partners while balancing the desire to directly capture consumer information.

The Internet has given birth to the concept of partner disintermediation; where bypassing middlemen enables suppliers to develop a relationship with customers, cutting costs. Disintermediation has forced many resellers to examine what kind of value they add to the supply chain while at the same time suppliers are focusing on preventing "cutting off their noses to spite their face."

Supply chain disintermediation comes in many forms such as consumer direct sales, rerouting of consumer demand to a "favored" channel partners site, and e-marketplace participation. The urge to gather consumer information without channel partner participation creates "information disintermediation" and can corrode a profitable partner relationship leading to a smaller bottom line.

We at META Group believe that through 2003, organizations outside the US will concentrate e-business efforts on reinforcing existing relationships (perhaps through CPFR or Scan-Based Trading) rather than replacing them, emphasizing increased channel efficiency versus disintermediation. International uptake will be limited by inconsistent commerce "infrastructures," creating a predominantly localized e-transaction world through 2005/06. E-marketplaces will need to address globalization issues as these e-Marketplaces mature.

Organizations seeking to promote channel partner relationships are pursuing co-branded Internet channel strategies where the manufacturer's website collaborates with their channel partners' sites in the form of content sharing and co-branded showrooms.

Co-branding comes with challenges. Content management issues, retention, and accuracy of product information will need to be addressed. The co-branded showroom's content will have to be searchable by both partners' home sites, leading to the creation of shared content indices. Content costs and charge-backs should be modeled after current store based co-op and advertising agreements. Pricing content, revenue sharing, activity based costing and avoiding favoritism will be the largest hurdles for co-branding because both retailers and manufacturers will have shared competitors. This changing environment will enable an increase in promotion spending for all

channels. The fuel will be the battle for consumers' attention. Consumers are moving towards a promotion to promotion pattern catalyzed by such online technologies as personalization, campaign marketing and direct email management. This is leading innovations in co-branded marketing .

Some manufacturers have already felt the wrath of retailers who do not wish to be disintermediated. Manufacturers have also found that single order picking, packing, labeling, and shipping can be quite costly and can defocus a manufacturer from their primary functions. Further, many have discovered that reverse logistics can be more painful and costly than forward logistics. Manufacturers' Web initiatives should be brand—as well as partnership—building. Successful brand building implementations focus on product attributes and providing advice that solve a consumer's problems.

**Business Impact:** These battles for the multi-channel endcap and preferred pricing will lead to tighter integration of manufacturers and retailers systems through e-marketplaces.

**Bottom Line:** Manufacturers and retailers must re-evaluate their e-channel strategies (by recognizing multi-channel retailing is here to stay) to better emphasize collaboration (including information sharing) and to co-brand their products/outlets verses competing with one another.