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THE EXECUTIVE SUMMARY

The Internet and Distribution

Internet facilitated distribution represents a potentially disruptive, game changing channel vehicle, as well as an opportunity to penetrate new markets and reduce the cost of serving existing ones.

Nonetheless, many managers, especially those with well established traditional channel processes, often seem paralyzed when internet facilitated distribution makes an appearance in their industry. Should they develop a "digital" channel strategy? Just embrace the internet in hopes of reaching new customers and/or lowering channel costs? Risk cannibalizing current channels and/or jeopardizing long-standing channel partnerships?

One thing is certain; indecision on this issue can be fatal. It has allowed upstarts like Amazon, Charles Schwab, Dell, Direct Line, JetBlue, and IKEA to displace the leading suppliers in their industries. These newcomers took advantage of the internet to capture share and gain brand loyalty through expanded product selection, convenience, and lower prices. More examples? Think printing and publishing, office supplies, financial services, Jan/San supplies, commercial lighting, travel services, used car sales, etc.

Internet facilitated distribution usually appears in a B2B industry initially as a result of:

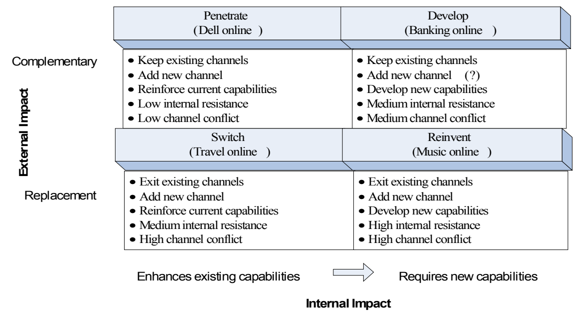
- The acquisition of a "weak player" with an old, but well recognized brand by a larger company outside the industry.
- A smaller competitor being locked out of the traditional distribution channels and deciding to "go direct" in desperation.

What to do? Channel managers first must ask and answer two questions.

- Will internet facilitated distribution complement or replace their existing channels? And,
- Will internet facilitated distribution enhance or devalue their current channel process?

These two questions must be answered from the perspective of their market, not the industry.

The graphic below illustrates the internal and external options that internet facilitated distribution created in four different industries.



But first, let's get back to the basics. If internet facilitated distribution has the potential to replace your existing channel process or alter its value to the end users, you need to develop a digital strategy. Ask:

- ***What do you want an internet channel to do for you?*** Penetrate additional markets? Reduce channel costs? Increase product selection and service to your current markets? Be specific!
- ***Do you have a competitive advantage?*** Can it be communicated efficiently and fully over the internet?
- ***Are you committed to supporting an internet channel?*** Do you have the operational and administrative systems and resources to take advantage of the internet's speed and conductivity?
- ***Is your product category in the mature phase of its lifecycle and your brand well known?*** You need a highly recognized brand and a product category whose function and benefits are well understood and/or easily communicated via the internet.

Of course the most critical question is "what will happen if you open an internet channel versus what will happen if you don't?"

The Point: Internet distribution is/will be a disruptive force in most B2B industries. Those manufacturers with the largest market share and pricing leadership are at the greatest risk.

American business relentlessly pursues efficiency. Internet facilitated distribution has the potential to greatly improve channel efficiency especially in large, single-language, single-currency markets. Developing a digital distribution strategy is strongly advised.

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