

What happened to disintermediation?

By Niraj Dawar

With the rise of the web in the 1990s came predictions of disintermediation.

In a world where the upstream players (the makers of products and services) could reach end customers directly through the internet, there was no longer a *raison d'être* for intermediaries.

This was particularly true for information industries – banking no longer needed branches, music artists no longer needed CD stores or even record labels, writers no longer needed publishers or bookstores. We were looking out at a world of empowered small producers who could finally reach the end customer as easily and inexpensively as the massive marketing and distribution machines of the large intermediaries. Stephen King, the most popular novelist in recent history, self-published an electronically downloadable novel; As recently as 2007, Radiohead, the music band went one step farther and offered an album for download on a “pay what you want” basis.

Neither model has caught on. I don’t see too many well-known writers or music bands following in their footsteps.

What has caught on are iTunes and Amazon. These intermediaries are the most powerful players in the music and book industries, and of course, bank branches still abound. How did this happen?

In part this happened because the old intermediaries, the publishers, the record labels, were so stultified, so contentedly mired in their oligopolistic business models that they were unable to recognize the benefits of the new

distribution technology. They had it good for so long, that they couldn't see how it would end.

But there was another structural reason: scale still matters. It matters that iTunes has 200 million customers with registered credit cards; that Amazon has almost 150 million; that you can find just about anything ever published you're looking for on the two sites. It turns out that the advantages of disintermediation are far outweighed by the one-stop shop idea that can serve hundreds of millions. In fact, content aggregation – the ability to find whatever you're looking for on one site – is hitting other industries too. Standalone newspaper sites are finding that their customers are no longer satisfied with one newspaper – they want a mix of news from multiple newspapers on a single site.

Finally, brand still matters. Customers want aggregated content from a trusted source. Smaller players (the thousands of authors that are not Stephen King; the hundreds of music bands that are not Radiohead) would need to build brand platforms to sell books on their own. The Amazon and iTunes platforms are trustworthy sources that have built up recommendation and review systems that customers trust. Small producers can't compete with that.

Like it or not, we're in the era of intermediation.

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