Internet changed the middleman's role, but didn't cut it out

By Chris Cobbs

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It's the world's second-oldest profession.

For as long as goods and services have been sold, there has been a middleman between large-scale sources of products and the customer at the end of the supply chain.

But by the reckoning of many economists and business experts at the time, the Web was going to dislodge the middleman and connect the manufacturer directly with the customer, a process with the unwieldy title of disintermediation.

However, the middleman is still with us, in a new and evolving role. In fact, the experts have had to coin a buzzword—reintermediation—to describe the business model of resellers handling product orders.

"The middleman can no longer view his value as simply buying and selling products," said Adam Fein, president of Philadelphia-based Pembroke Consulting, a firm that works with wholesale distributors. "He must add value and get paid directly for that value."

There are a few examples of how the Web has greatly reduced the role of the middleman—none more vivid than Dell Computer, which has taken the job in-house en route to becoming a leading vendor of PCs.

In addition, vendors of information products such as music, books and travel have seen their business models scrambled by online commerce.

A mixed bag

A look at the effect of the Web on traditional middlemen such as real estate agents, mortgage brokers and auto sellers turns up a mixed bag, showing an adaptation to the digital economy while maintaining a direct human link to the customer.

The do's and don'ts for the middleman are clearly present in the automotive business.

A century ago, there were 400 U.S. automakers, but their number was winnowed to three—Ford, General Motors, Chrysler—because of the difficulty of setting up a national dealer and service network, which functioned as middleman.

But even the Big Three have had to accommodate the Web.

Any Web surfer interested in a new vehicle can find the manufacturer's cost for a given make and model. No longer is the dealer's markup a source of mystery and debate. With a little homework, any shopper can visit a sales lot knowing what a model costs down to the penny.

"The availability of that much online information has essentially eliminated the ability of many car dealers to make money selling new cars," Fein said. "Instead car dealers generate most of their profit from service and financing."

People still like to see a car and kick the tires. It's just that now they don't have to get themselves worked up while bickering with sales managers.

Some of the same principles apply in real estate. Nobody wants to buy a new home without seeing it. But every shopper with a computer can do a lot of the research about cost and features before going out with an agent to view desirable homes.

If there was one arena that seemed ripe to become a victim of disintermediation, it was real estate.

But a funny thing happened. The real estate professional has, for the most part, flourished, while wannabes—stay-
at-home moms trying to break into the field, or retired military guys hoping to sell homes part-time--have taken a hit.

The home shopper can find a lot of details online and even take virtual tours, but, in the end, many shoppers choose to connect with a pro when it comes to going out to see homes and hammer out a transaction.

The same thing occurs with picking a mortgage, said Todd Barry, vice president and Orlando sales manager of HomeBanc Mortgage Corp.

"Shopping for a car, house or mortgage is a high-intensity purchase, requiring thought, advice and tire-kicking," he said.

About one-third of HomeBanc’s loans are handled primarily online, but a majority of applicants prefer face-to-face interaction throughout the process, Barry said.

"People want to feel they can trust somebody when they are dealing with this many zeroes," he said.

The individual can fend for himself or herself in other areas without nearly as much need for a specialist/middleman. For example, buying an insurance policy or a plane ticket can be accomplished comfortably online without much hand-holding.

"Many people are buying insurance policies online because it’s less invasive, you have more privacy and control the transaction," said Richard Gallagher, author of "The Soul of an Organization: Understanding the Values That Drive Successful Corporate Cultures."

On the other hand, buying a perishable product such as pet food isn’t a transaction that has worked well online, he said.

"In the case of pet food, the local retailer adds more value than a Web merchant by giving the customer the ability to take home the food on the day you run out and have a hungry dog or cat," Gallagher said.

What next?

Between doggie bones and disintermediation, there’s a lot to think about. So just how will the role of the middleman continue to change?

By providing connectivity between organizations that have outsourced many activities to focus on their core business, said Anthony Townsend, associate professor of logistics, operations and management-information services at Iowa State University.

"If you follow the organizational structure over the past 20 years, there has been a lot of resizing and downsizing," he said. "The ideal organization has become one that has stripped itself to core function and outsourced many other functions and relationships."

But, as Townsend also observed, business is fundamentally conservative. Business doesn’t like to fix something that isn’t broken. And, for that reason, the middleman will be around for a long time, providing a human touch to many transactions.

"People will discover the Web can give us a false sense of security about what we are doing," said Jeanette S. Cates, an Austin, Texas, technology consultant.

"It can be overwhelming if you attempt to take on the role of the middleman instead of using an expert. I mean, you can represent yourself in court, but most of us choose a lawyer, who is basically a middleman. Most of us wouldn’t think of trying to serve as our own lawyer."

Thus, if travel agents, real estate sales crews and others use the Web to make themselves indispensable, they can avoid disintermediation and retain the venerable and profitable role of middleman.