Written by Braham Shnider
26 October 2017

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The sale of physical products (something with a SKU number) and some horizontal-based consumption based services (mainly IaaS) will be dominated by a small number of mega channels. In this blog I will deal with why this is going to happen, what the future will look like and the implications for us all.

Let's begin with "Why?"

As I wrote in an earlier blog , we as individual consumers are increasingly using B2C digital sales channels over traditional consumer channels. Through advanced analytics, B2C digital sales channels know what and who we like or not, who we are influenced by, what we want to buy, how price sensitive we are etc. As B2B customers, many of us also want this hyper-personalized customer experience in the B2B buying process. Most business customers prefer to do their own research using search, social media, chat, blogs etc.

In the past, the criteria from whom a business customer bought from was based on a good product knowledge, low contractual price, standards, supportability and controls in the buying process. Increasingly as purchasing inside businesses is moving to a decentralized model, business buyers are much more concerned with getting the lowest price in the market, speed of delivery, convenience and personalization of their information.

Transparency is the new world order. Today's IT supply chain is not efficient with many touch points nor is it transparent-- many customers pay a premium without realizing it. This is because we have an inefficient system of matching buyers and sellers.

Digital marketplaces will provide a much more efficient system of matching buyers and sellers whilst giving buyers what they want: the lowest price, very fast delivery, convenience and personalization of their information. The operator of the digital marketplace does not own any inventory-- they provide an efficient platform to present other people's inventory to a user and facilitate a transaction.

I expect as much as 50% of all B2B IT product sales to be conducted through digital marketplaces within 4 years.

What will the future channel look like for business product sales?

There will be numerous types of marketplaces including…

- Vertical, e.g., personal computing
- Horizontal, e.g., all IT products
- Customer-specific, possibly combined with collocation services

To deliver this market-based buying experience requires significant economies of scale, with a core business of providing a multi-channel, highly customized digital experience. Only a few channel partners in each geography will have the size, funding and business model to be able to compete on the razor thin margins that will result. These partners will likely be…

- The larger online sales channels (Amazon, Alibaba, Google)
- Large B2B product resellers (Insight, CDW, Computacenter, Bechtle)
- Large broad based distributors (Ingram Micro, Tech Data… more on disties later in this blog)
- Global System Integrators (GSIs) acting as an marketplace operator for specific customers

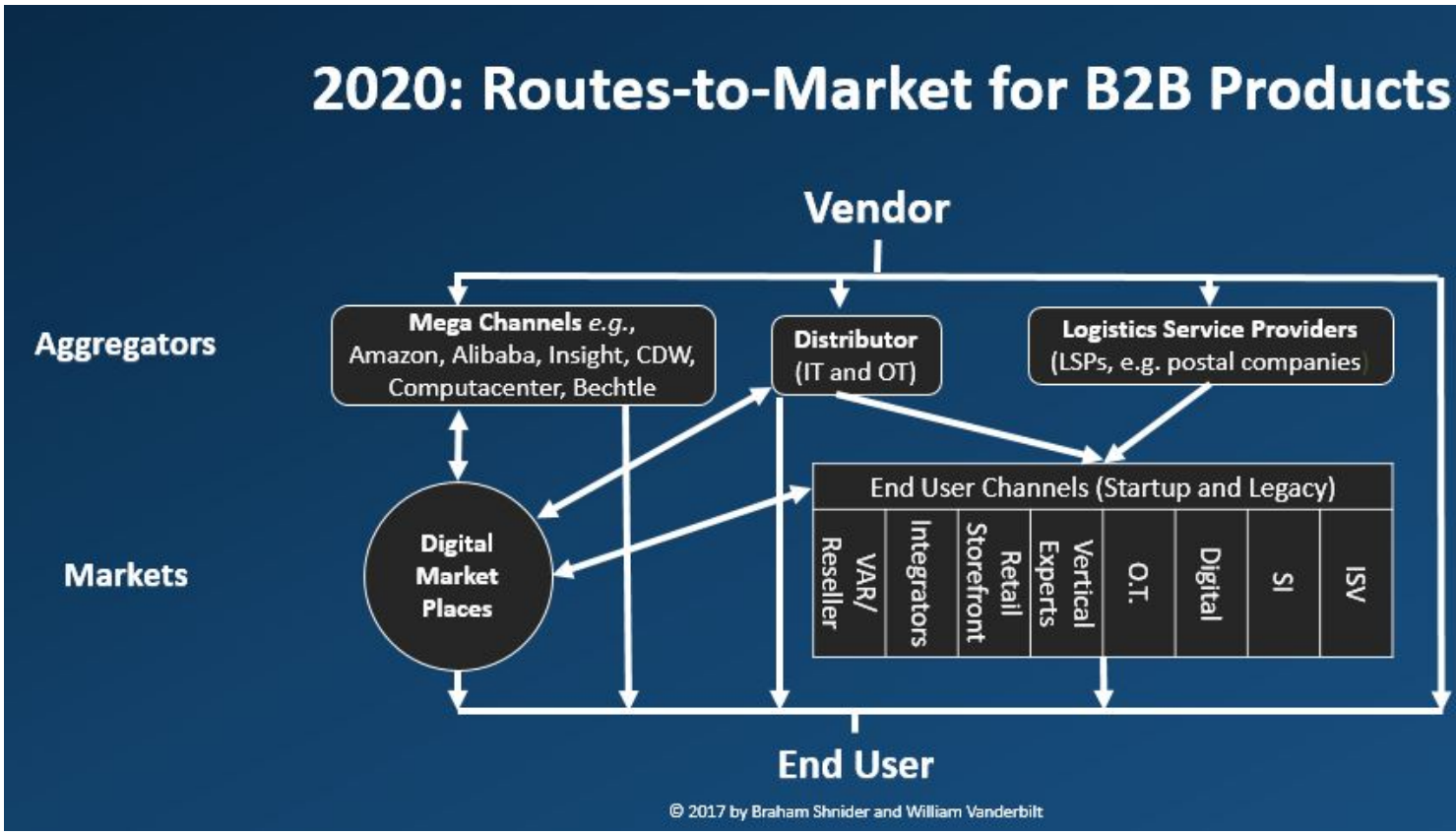
What are the implications on channel partners?

- Margins will further collapse as we have a more efficient system of matching buyers and sellers and therefore buyers can see all sellers and prices being offered in the marketplace.

- The channel will flatten and layers will be removed. The overlap between distributor, B2B resale and consumer channels will be further blurred as marketplaces do not discriminate between wholesale, commercial and consumer channels and customers.
- Traditional SMB channels (long tail) will be threatened as the role of the SMB advisor diminishes in time. SMB channel partners who want to continue to sell products will need to embrace digital transformation and be open to marketplaces and multi-vendor approaches.

- Logistics Service Providers (e.g., postal companies, DHL etc.) will enter the market and offer worldwide fee-based service logistics to support these digital marketplaces.
- Distributors are well-placed to set up or participate in marketplaces. This combined with increased margin pressure will further challenge distributor business code of wholesale-only.

Click to enlarge chart.



What are the implications for product vendors?

- Loss of brand relevance (B2C for sure, and likely B2B) as vendors' brands become secondary to mega partners. A consequence: customers will no longer want to pay a premium for vendors' brands.
- Mega channels white-labelling products to vertically diversify.
- Vendors who do not directly interact with customers (except for large B2B), will be at a disadvantage to gain access to valuable customer insights or access customer data.
- International boundaries are not relevant in a digital B2B marketplace world. So the grey market will flourish and vendors will need to come up with alternative strategies

That's my take. Do you think the channel will flatten by 2020 and product sales will be dominated by a few mega channels?

Join me next week for my next blog on "channels of the future."

Feel free to reach out to me to discuss or--even better-- to let me know if I can help you and be your GTM disruptor.

Braham Shnider is a channel management expert, strategic thinker, change agent, and implementer of innovative hybrid sales models for global companies in more 30 countries. Braham was the founder and served as CEO for 13 years at Channel Enablers, a global channel training provider for vendor channel teams and channel consulting solutions company with expertise in multi-channel routes-to-market. He negotiated the sale of Channel Enablers to Miller Heiman Inc. in 2013. Braham continues to work with a select few global clients on their next generation channels and partner ecosystems.