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ARE YOU BECOMING IRRELEVANT TO YOUR CUSTOMERS?

Why Marketers, Agencies and Media Execs Need to Understand Disintermediation

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By John Battelle

Disintermediation is overrated.

Those who fear disintermediation should in fact be afraid of irrelevance -- disintermediation is just another way of saying that you've become irrelevant to your customers. It doesn't mean there isn't a customer, or middlemen of some sort who service that customer, or that the core proposition of your business has disappeared. It just means you're in a bit of a rut, and as much as you might pine for the past, it's probably time to rethink things before it's too late.


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Put another way, disintermediation happens for a reason. Rather than staring at its result (and shaking our fists at Google and TiVo), let's start at the beginning. What's really going on here?

Cutting the middleman
As the marketing business understands it, disintermediation happens when technologies provide a method for someone to cut us out of a transaction in which we've grown accustomed to participating. It might be that it is the customer who cuts the middleman out of the business, or it might be an upstart that has a better idea of how to connect product or service with consumer. (It might also be a conspiracy of them both, of course.)

Regardless, our first response is one of indignation: We've been cheated out of our rightful place! Agencies and publishers fear disintermediation by the paid-search networks of Google and Yahoo, for example. Print and online publishers fear disintermediation by the consumer-driven technologies of blogs, syndication and search. TV networks fear disintermediation by the rapid uptake of digital video recorders and Internet-based video (they should also fear Comcast, Google and Yahoo, but that is a story for another day).

But the truth is, the products that are threatened by disintermediation are not imperiled because of technology; they are imperiled because they are based on models that offer less value to the customer than competing alternatives. In example after example, the middleman isn't being cut out. He's simply being replaced by a better one.

This is worth repeating: What we have grown to call disintermediation is, at the end of the day, simply the cold reality of someone doing our job better than we are. If you sense the cold breath of “disintermediation” on your back, more likely than not a bunch of upstarts are delivering your business’ core value proposition for less cost and in a better fashion than you are. And while it seems a bit obvious, it’s nevertheless true: You’ve probably fallen victim to old Railroad disease - you thought you were in the train business, but meanwhile, the other guys have figured out a better approach to moving cargo around the country.

What business are you in?
Let’s break it down for the media business. What business are marketers in, after all? The 30-second-spot business? The media-buying business? The client-acquisition business? No, no and no. Marketers are in the communication business. And what business are content companies in? The magazine, network or newspaper business? Again, no. They are also in the communication business.

If the only way the media industry knew how to communicate was through 30-second spots, or print magazines, or network sitcoms, I’d argue that they are well and truly screwed. But honestly, does anyone really believe that the need for human beings to communicate is itself being disintermediated?

Of course not. Where one industry stumbles, another rises up. So here are some ground rules for media in a Web-dominated world:

1. Intent trumps content
The traditional model for marketing used to be that content companies made content, then advertisers attached themselves to that content in various ways. Content was a proxy for the audience, and the audience was what marketers were after.

But in the age of search, consumers are declaring their intent first through the mechanism of the search box. They are stating what they want. This is proving an irresistible attachment point for marketers, and hence we have the rise of paid search, with Google/Yahoo as its leaders. Content is what is found after intent is declared, and a new middleman -- the search box -- has created value by creating an attachment point where every marketer wants to be -- at the point of intent. This doesn’t mean content is dead; far from it. Content is often what consumers want. But if your content is not found when the consumer’s intent is declared, well, you lose.

2. Join the “point-to” economy
If you’re a publisher and you forbid deep linking into your site, or have a paid wall or registration requirement, then you’re making it hard to “point to” your content. When no one points to your content, your content is harder to find because search uses links as a proxy for popularity. Hence, sites like Variety.com, which have been around for years but are based on paid models, have far fewer links than sites like Defamer.com, which is a year old but is already far better linked that its old-school cousin. The net: Searchers looking for content about Hollywood have a better chance of finding it at Defamer than at Variety.com. To win in this new Web world, you need to join the conversation, and that means you need to allow linking. (Don’t worry, there are ways of doing it without losing your shirt. Technology can work for you, after all.)

3. Make your living in the long tail
Named and popularized in late 2004 by *Wired* editor Chris Anderson, the long tail is essentially the idea that there is more aggregate value in the multiple smalls than the few larges. The media business in particular lives “down the tail,” though it seems to forget this lesson every time a technological innovation comes along. (Anyone remember the VCR wars? Turns out there was a whole new business there way down the tail. Whoever thought someone would pay to rent *Kindergarten Cop,* after all? Once the content business got out of its own way, it realized plenty of folks would.)

Prior to the rise of the Internet, it was expensive to create media. Besides content costs, you had manufacturing, distribution and marketing expenses. In essence, if you didn’t have a hit, you didn’t make the media. So media became a “hits” business that lived in the head end of the value chain. You had to open big, go platinum, hit the bestseller list, pass half a million in circulation -- only then could you recoup on a media investment.

But through the Internet, you can find your bliss with much smaller numbers, and thanks to technology and search in particular, you can aggregate those small numbers into impressive totals. Take AdSense, for example. This Google program aggregates hundreds of thousands of publishers and an equal number of advertisers, then makes a market between them. Ebay does essentially the same thing in commerce, as does Amazon, which sells far more “backlist” titles than they do hits (why on earth do you think they have that recommendations system, after all?). In a new media world, it pays to scale to the tail.

Creative no longer driver

Given these rules, these realities, what role do intermediaries like agencies and publishers play? A very robust one, but the models are shifting. Take the role of the agency. In a content-driven, hit-based, pre-search world, the most successful agencies were those that made the best creative. Their goal was to make creative that was, in itself, a hit. I’ll never argue that the creative role should go away, but creative is no longer the key driver of value in a new media world.

Thanks to search, marketing has become a science on the one hand and a conversation on the other. No longer do we need to interrupt the reader or viewer with marketing. Instead, we answer their call for more information in a relevant and contextually appropriate way. (Once we do, of course, it pays to be creative.)

In other words, we need to be prepared to have a real conversation to get down to the thing we’re supposed to be good at: communicating. Not selling, not grabbing attention, not seducing. Communicating. It sounds obvious, but in fact it’s an entirely new approach to marketing, and it requires a new approach to being an agency.

And what of the role of publisher or content creator? Increasingly, those who have the ability to create great media can get pretty far without attaching themselves to the traditional indentured servitude of a publisher, label or network. Writers, for example, are finding their own voices outside the strictures of magazines and newspaper publishers. Blogs like Boing Boing, Daily Kos and Cool Tools are drawing millions of readers each month, and their overhead is the cost of a high-speed Internet line.

Writers go directly to readers

What’s the role of a publisher when authors are going direct to the reader like this, and using tools like AdSense for revenue? It seems like media is exploding into millions of pieces. What can be done about it?

The answer is simple: Go back to what you’re good at. Publishers are born connectors, they bring like-minded people together. They are also conversationalists of the first order. They foster the interaction between the three key parties in commercial media: the audience, the author/creator and the marketer. This facilitation is still very much needed. And as much as the folks at Google would beg to differ, when it comes to true value, nothing beats human communication. Figure out a way to be part of the conversation, and you will always prosper.

Old models may no longer be growing, but new models are emerging where publishers are adding value by enabling the conversation without forcing authors to give up their intellectual-property rights or forsake their true voices. Look at Topix.net, Adbrite, or my own company, Federated Media, for examples. Each allows authors to find their audiences and their marketing partners while maintaining independence from traditional models. Call us innovators, call us troublemakers, but don’t call us disintermediators. That’s the wrong term. We’re simply figuring out new ways to move cargo around the country.

Rise of the new middlemen

But wait, you might argue, these new middlemen are all well and good, but they are not really creating the kind of value that old-school media companies do. Well, the market disagrees with you. The combined market value of Yahoo, Google and IAC, the three horsemen of the new-media world, is $149 billion, and that doesn’t include MSN, AOL, or eBay and Amazon, both of which are arguably players in the new-media world. And what was all of their aggregate value a slight 10 or so years ago? Pretty much zero.

As I said at the beginning of this piece, if you sense the cold breath of “disintermediation” at your back, more likely than not a bunch of upstarts are delivering your business’ core value proposition for less cost and in a better fashion than you are.

But this is a message of hope, rather than despair. For at the end of the day, all this new media augurs a much larger market than the one we're used to. Just like the VCR opened the film and TV industries to unimaginable new revenue streams, search, RSS and the Internet will do the same for marketers and media companies. If Google, Yahoo, TiVo, and the rest have you feeling irrelevant, don't despair.

Embrace their new models, and remember what you're good at. Then get on with doing it.

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