Electronics industry drivers of intermediation and disintermediation

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Abstract

Purpose

The purpose of this paper is to summarize the current thinking on intermediation and disintermediation, extract candidate drivers for this cycle, capture the expert opinions on what is driving the cycle and determine the quantitative and qualitative conclusions related to the electronics industry supply network integration and requirements for its success.

Design/methodology/approach

A series of one-on-one expert interviews were conducted to establish the validity of the initial list of drivers and to add to this list based upon their expert knowledge. A web-based survey followed with the purpose of validating the final dimensions list and assessing the various alternative value propositions that intermediaries should be considering. Finally, a Delphi exercise concluded this research thrust by convening experts in the electronics supply network for a one-day review of the results and a distillation of the results into expert forecasts of directions and trends.

Findings

Any supply chain intermediary must achieve “Operational Excellence” in their chosen field of endeavor for them to remain competitive in the electronics industry. But this condition is a necessary but not sufficient predictor of business success. The intermediary service “Bundles” bring more value than individual cash flow, material flow, information flow or knowledge flow alone. And unbundling one flow from the others does *not* seem to provide a successful disintermediation platform.

Practical implications

The paper provides electronics industry firms an assessment of the fundamental conclusions that must be addressed for this industry to better withstand another industry downturn than it did in the previous recessionary period (2001-2002).

Originality/value

This paper documents the first triangulated research project where knowledgeable experts within the electronics industry supply network were polled to determine the fundamental drivers for the intermediation/disintermediation cycle present in the electronics industry today.

Keywords

Supply chain management | Integration | Electronics industry

Citation

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Some think that electronic commerce, with producers selling directly to consumers over computer networks such as the Internet, will eliminate existing intermediaries ("disintermediation") and drastically reduce transaction costs (OECD, 1998). Transactioncosts: The work done by Ronald H. Coase in introducing the concept of transaction costs in understanding why firms exist in the form and size that they are, is perhaps more relevant now than ever. 2.1 Cost of intermediation: In the chain of activity between the final producer and the final consumer, intermediaries generally perform three services - transportation, wholesaling, and retailing. Disintermediation is the removal of intermediaries in economics from a supply chain, or "cutting out the middlemen" in connection with a transaction or a series of transactions. Instead of going through traditional distribution channels, which had some type of intermediary (such as a distributor, wholesaler, broker, or agent), companies may now deal with customers directly, for example via the Internet. Disintermediation and Reintermediation by E-business. By David Steele, December 2009. Abstract/Summary. Costs: Although disintermediation has the potential to reduce a firm’s costs, Van der Heijden (1996) suggests that the ‘economies of intermediation’ are often overlooked. Companies need to carefully consider the financial impact of cutting out intermediaries before doing so. Rosenbloom (2004) states that although large manufacturers enjoy economies of scale in production, it is unlikely that they will benefit from such economies of scale when it comes to providing services such as distribution. The practice of disintermediation means removing all intermediaries that are in place within a single supply chain. A common way to talk about this practice would be to “cut out all the middlemen.” When implemented, the supplier interacts directly with the buyer. Here are the pros and cons of disintermediation to think about and discuss. List of the Pros of Disintermediation. 1. It eliminates your intermediary expenses. When you’ve eliminated all of the middlemen, then you’ve eliminated the expenses that come with using them. Intermediary partners often require commissions and there are servic Disintermediation means to remove intermediation from the supply chain. With the advent of internet based shopping in the 1990’s the term became the buzzword signifying the elimination of middlemen as a result of direct to consumer e-commerce methods and consumers dealing directly with service providers. The value of intermediaries varies and is influenced by factors such as technology, industry life cycles, consumer abilities, and economic climate. The disintermediation of intermediaries whose cost become greater than the value sees the reduction of inefficiencies in its supply chain such as a decrease in the time lapse between production and delivery and resultantly increase profit for manufacturers.