Factors That Enable Reintermediation

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Abstract

Traditional intermediaries refer to service providers such as travel agents, real estate brokers, job agencies and insurance agents which matching services for buyers and suppliers in a traditional market. The introduction of Electronic commerce resulted in the automation of many tasks provided by intermediaries and seemed to eliminate the role of many traditional intermediaries, which is called disintermediation. However, depending on their market power, traditional intermediaries either will be disintermediated or fill new roles by providing added value and assistance, which is called reintermediation.
According to the research of Alina M. Chircu et al. there are three conditions for reintermediation for traditional intermediaries. Three conditions are weak appropriability of EC innovations, ownership of co-specialized assets for both market intermediation and EC innovations and economies of scale.
Besides these three reintermediation conditions, we hypothesize that leveraging BPO can be a suitable strategy for traditional intermediaries to be transformed into reintermediaries. Business Process Outsourcing (BPO) is the leveraging of technology or specialist process vendors to provide and manage an organization's critical and/or non-critical enterprise processes and applications.
This paper will investigate the relationship between above reintermediation conditions including BPO and reintermediation.

Keywords:

Disintermediation, Reintermediation, Business Process Outsourcing

Introduction

In IT-mediated market, Malone, Yates, and Benjamin hypothesized that electronic brokerage effect threatens intermediaries who previously matched buyers and suppliers. This effect suggests that as search costs with IT fall, these intermediaries are no longer needed. The original belief was that electronic markets would eliminate the need for traditional intermediaries, and give rise to massive disintermediation [5].
Even though introduction of web based electronic commerce changed the structure of distribution channels which resulted in the demise of the existing traditional intermediaries, it also provides new opportunities for the existing intermediaries or attracts new forms of intermediaries [4]. Depending on their market power, traditional intermediaries either would be disintermediated or fill new roles by providing added value and assistance, which is called reintermediation [6].
When disintermediation results in the replacement of traditional middlemen that support the transactions through the value-added chain of a buyer-supplier relationship, new and improved ways for transaction support are made possible through process-focused or technological innovations [1].
Reintermediation is achievable by strengthening and leveraging core competencies, and by making the strategic investment in technology as an enabler [8]. Business roles and functions are not changed by the Internet. What does change is how supporting processes are performed and how information is used [3].
This paper suggests that traditional intermediaries leverage BPO for their reintermediation. Gartner Group defines BPO as the delegation of one or more IT-intensive business processes to an external provider that in turn owns, administers and manages the selected process based on defined and measurable performance criteria. And it also can be defined simply as contracting with an external organization to take primary responsibility for providing a business process [9]. According to Scholl, Business process outsourcing consists of the outsourcing of supply (moving, storing, making and buying of goods and services) and demand (customer selection, acquisition, retention and extension) management, and certain enterprise services (human resources, finance and regulatory, IT and facilities management) [12].
BPO can free key business units vertically across the corporation from their noncore, day-to-day processes. When outsourcing IT infrastructure and knowledge for e-commerce to the BPO providers, traditional intermediaries can focus on delivering its core competencies and improved customer services without paying much attention to develop IT technology not to disintermediate from e-commerce [8].
According to key industry analyst, BPO is on the rise. Gartner estimates show that a strong trend toward outsourcing continues throughout all vertical markets. Process management spending is projected to grow at a compound annual growth rate (CAGR) of 9.3 percent worldwide from 2002 through 2007, reaching $129 billion

in 2007. SG Cowen Securities expects the BPO market to jump by as much as 15 percent in the 2003-2004 periods. Clearly, as an enabler of enterprise agility, BPO is a strong trend that will continue to grow [8].

In this paper, we'll identify the co-relationship between three reintermediation factors that brought from previous research written by Chircu and Kauffman (1999) and reintermediation. In addition, we will add BPO as a additional factor of reintermediation for traditional intermediaries

Literature Review

Traditional nontechnological middlemen have a grater opportunity to reintermediated in the long run, and even to strengthen their position in the market as [1]e-commerce-able intermediaries [2]

Chircu and Kauffman explore the conditions under which incumbent traditional intermediaries are displayed by the EC technology players, and then, over time, are able to reestablish themselves as e-commerce-able, but not e-commerce-only intermediaries [10]. They identified that, at least hypothetically, reintermediation could be explained by three separate factors:

- Imitation and weak appropriability of e-commerce innovations
- Ownership of cospecialized assets for both market intermediation and e-commerce innovations
- Economies of scale

Weak appropriability means that reintermediation is likely to occur when an EC innovation can be imitated. Internet is an infrastructure-not a technology-that can be employed by any firm in the conduct of business. According to Jim Powell (2000), Technical conditions for reintermediation favor EC-enabled intermediaries over EC-only intermediaries. Technology and Internet infrastructure are readily available and cheap to imitate [3].

If traditional intermediaries exist in the value chain, they often have significant co-specialized assets: their expertise, customer base and relationships with suppliers. Some of the cospecialized assets owned by traditional intermediaries have been built up over time and have path dependencies [1, 2].

Even if a traditional intermediary has all the necessary co-specialized assets for market intermediation, it still may lack the development of EC application. To prepare for reintermediation, a firm can either develop the requisite technologies by itself or acquire them from existing providers [1, 2].

[1] According to Chircu and Kauffman(1999), three different types of intermediaries are defined as : traditional intermediaries which provide matching services for buyers and suppliers in a traditional market, e-commerce-only intermediaries which conduct their *business in the electronic environment of the internet, and* e-commerce-able intermediaries conduct business using both traditional methods and on-line.

Many traditional intermediaries have already achieved economies of scale in traditional markets and can use this advantage to leverage their reintermediation attempts [1, 2]. Meanwhile, Jim Powell (2000) argued that the conditions for reintermediation would arise because of the weak appropriability of supporting technology, the desire for buyers and sellers to have more concentrated relationships, buyer preference for branded products and branded distribution outlets, and the ownership of specialized assets by the existing aggregators in the value chain [3].

In addition to conditions for reintermediation, Chircu and Kauffman (1999) also identified three strategies for reintermediation:

- Alliancing for technology development
- Portfolio partnering
- Other strategies involving technological focus, market timing and preexisting industry expertise

A *strategy of alliancing for technology development* entails a decision by a firm to develop all the necessary e-commerce applications jointly with only one technology provider. Portfolio partnering means to work concurrently with a number of technology providers, each responsible for developing one component of its electronic commerce solution [2].

Above two strategies, alliancing for technology development and Portfolio partnering for reintermediaton can be applied to leveraging BPO for traditional intermediaries for their reintermediation. Traditional intermediaries can let technology developers develop e-commerce solutions thoroughly, then they can focus on their core business processes.

Earnest Flores (2006) argued that reintermediation is achievable by strengthening and leveraging core competencies and by making the strategic investment in technology as an enabler. Although the internet is viewed as a technological agent of change affecting and altering the industry, technology in and of itself is not forcing change. He also pointed out the importance of adopting BPO strategy and choosing right BPO partners to help achieve maximum efficiency and gain competitive advantage especially in the travel and hospitality industry [8]. Also, Nault and Dexter(1997) argues that IT allows a finer separation of business processes, while reducing integration costs between those processes [7].

However, these conditions and strategies for reintermediation were identified from the case studies, not from the empirical studies. In this paper, we will use these three conditions proposed by Chircu and Kauffman as factors that enable reintermediation and also add BPO as an additional factor for reintermediation.

Methodology

Model

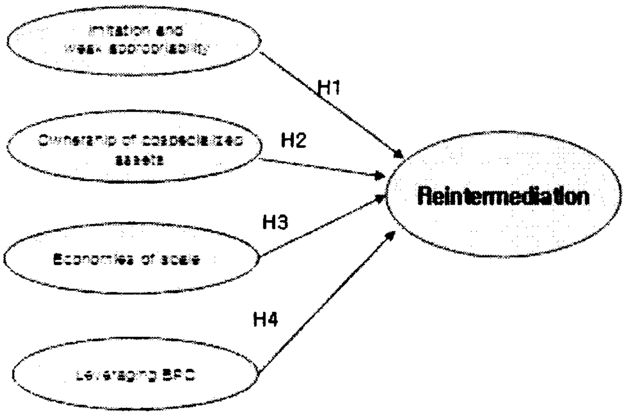

Figure 1 – Model

The model based on previous research that identified three conditions for reintermediation for traditional intermediaries proposed by Chircu and Kauffman(1999) discussed in previous . Three conditions can be each factor that affects reintermediation. In addition to these three factors, we have added one more factor which is leveraging BPO for reintermediation.

Sample and data

The sample for this study will be selected from various service industries such as travel agents, real estate brokers, job agencies, insurance agents in Korea. The data of each construct will be obtained through a survey that is sent to senior business executive of the firms. And then survey will be analyzed by SAS.

Hypothesis

H1: Imitation and weak appropriability is positively related to reintermediation

H2: Ownership of cospecialized assets are positively related to reintermediation

H3: Economies of scale is positively related to reintermediation

H4: Leveraging BPO is positively related to reintermediation

Variables

Imitation and weak appropriability:

- Easy of adopting EC application
- Easy of conducting business through the web
- Easy of installing Internet infrastructures

Ownership of cospecialized assets:

- Cospecialized expertise with suppliers
- Cospecialized customer base with suppliers
- Cospecialized relationships with suppliers

Economies of Scale:

- Turn over increase
- Widened and deepened range of services
- Repetitive particular type of services
- Larger quantities at each transaction

Leveraging BPO:

- Cost reduction
- Core competence focus
- Flexibility while retaining control

Control variables

Firm size, Firm structure, Firm age, Industry profitability

Limitation and Acknowledgments

This paper used conditions and strategies of reintermediation for traditional intermediaries identified by Chircu and Kauffman from case study for validating as an empirical study.
However, this paper didn't include result of data analysis, which is the critical section of this paper, due to lack of time. We expect that all of 4 hypothesis will be supported as we analyze the result.
Despite of its limitation, this paper will surely contribute to traditional intermediaries for their reintermediation as it will reveal factors that enable reintermediation.
As previously mentioned, even though introduction of web based electronic commerce changed the structure of distribution channels which resulted in the demise of the existing traditional intermediaries, their original business roles and functions are not changed by the Internet or EC. What does change is how supporting processes are performed and how information is used. By adopting BPO, especially IT and EC application processes, traditional intermediaries can more focus on their own business and reinforce their business functions, which will result in successful reintermediation.

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