



The New Market Power: A Democratic Exchange

by Nilofer Merchant

Marketplaces are defined by exchange. In the Old World, exchanges took place via the Silk Road to China and caravans crisscrossing the Middle East. Today those exchanges often take place via the Web. Bits and bytes have replaced the ox and cart, but many companies still operate in old-school ways.

One of the fundamental truths about the technology market today is that consumers have tremendous power. Market power used to be much like a big castle surrounded by high walls and a moat to control access. Dell, Intel and AT&T are all examples of companies that fared well under that model. The peasants that supported the castle had little power because they depended on the castle for protection and the king controlled the drawbridge and the gates. That model is completely passé.

The New Way: High Visibility, Many Paths

If the old-school world was the castle and the moat, the new model is more like an aerial view of San Francisco—lots of paths in and out.

It used to be that if you kept customers in the dark, they didn't have many alternatives for access to other products, price comparisons, and the like. The first wave of the Internet put the kibosh on that. Consumers can find out more about offers, price-shop, blog about customer service, and chat with other customers who buy the same models, brands, etc. Think people who buy and "pimp" Scion xBs don't trade information on Scion dealers and aftermarket suppliers?

What is also interesting is that consumers today get a lot of things free or at reduced prices because of different monetization practices. All that's good. But here's the rub: Companies that produce great content, great products, great customer service, and all the things that relate to customer love require investment in those items to continue providing them; ultimately, if we give too much away free, not enough is left in the bank for a rainy day when we need to invest in the next level of growth to continue creating excellence for the marketplace.

A Level Playing Field

The Web has democratized shopping. It's easy now for a consumer with just a bit of knowledge to use Amazon, CNET, eBay, PriceGrabber.com, or ShopWiki, to comparison-shop, read

reviews written by other purchasers, or acquire incredibly detailed information on virtually any kind of merchandise.

Some shoppers actually use eBay as an information source, gaining education on a particular type of product, say old Volkswagens, then locating other blogs and Web sites for collectors that allow them to fill in any gaps in their knowledge. And since there are thousands of dollars in value riding on their knowing the difference between the correct 1968 and 1970 bumper, the Web has become a way to quickly gain sometimes obscure knowledge that used to take years to obtain through reading magazines, attending car club meetings, going to car shows, and talking to mechanics.

What if you don't want people talking about your product? Sorry to disillusion you, but they're doing it anyway and you're not going to be able to stop them. The Web turns old industries on their head. Industries that have had monopolies or highly profitable duopolies are the ones most likely to be completely gutted when a more powerful, more efficient system comes along.

Consumers Get More—and Less

Two things are happening. The Web allows consumers to obtain more of what they want while forgoing what they don't want. For example, when you take pictures with a digital camera, you select and print only what you like. That red-eye portrait of Auntie Edna under the mistletoe with wig askew and her martini spilling on your finicky tabby cat Fluffy? Use the power of digital photography and follow this mantra—delete early and delete often.

Google has democratized advertising. It used to be that only a few brands had the economic power to reap the benefits of advertising. SMBs were left out in the cold. But Google allowed everyone to buy advertising and become more involved in marketing via online, efficient, targeted systems. And what happened to the market? It grew.

Changes in Music Publishing

Watching the music publishing industry has been interesting. The market is still trying to find its footing. The business was fundamentally predicated on forcing customers to buy things they didn't want. Albums were usually twelve songs pressed into 33 1/3 vinyl, with two featured—one as the "A" side and another the "B" side of a 45. All this, and what consumers frequently wanted was just one song.

The industry kept its walls up—and was turned on its head by Apple's iTunes store.

Last Christmas, after everyone opened the iPods that Santa brought, iTunes was inundated with 400% of its normal amount of business—enough to make its servers choke. Now, with DRM being eliminated and the iPhone coming out, there are many more changes to come in this industry before 2007 is over.

Changes in Photography

Photography is another example of the old turned on its head—this time with digital cameras. The film business used to be a cash cow. Eastman Kodak and Fuji had a highly profitable duopoly for 20 years before digital cameras came along. They never dreamed customers would quickly abandon film and prints.

But customers are happy to pay for new digital cameras because they can select the good pictures without having to pay to print out a roll of mostly mediocre shots. Now film sales are dropping 20% or more per year, and Kodak has reported losses for eight consecutive quarters while closing plants around the world and laying off thousands of people.

Meanwhile, HP has snapped up Snapfish, and Shutterfly has reported more than 23 consecutive quarters of growth.

Changes in Book Publishing

Will the value in books be unlocked by the Internet? The current book-publishing business model requires customers to pay for the entire book just to get to the material they want in chapter three. Writers receive royalties ranging from 1% to 15%, depending on whether the book is paperback or hardback and a myriad of other considerations.

This old industry could experience change far beyond that brought about by Amazon. Marketing 101 says that connecting things people value to the people who want to buy them generates value. What if a book, particularly a nonfiction book, could be purchased by the chapter instead?

More than ever, we're shopping by mouse, doing the clickety-click to obtain goods and services. With the potential for drill-down provided by Google, your purchase might not be buying the whole book from Amazon at \$19.95. Instead you may want an article on the topic by the same author for \$0.40. With the potential offered by micro payments and Google's innovative thinking, stay tuned for new ways of providing readers with the exact materials they want.

The fundamental lesson here is that having lots of roads in and out creates value—just one or two aren't enough anymore. Meta increases in distribution channels and market participants increase revenue size and velocity. Expanding the footprint of who can buy and who can sell, as well as when and where, is democracy at work.

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