Chapter 17

DISRUPTIVE DISTRIBUTION

What's the Trend?

Creators and makers use new models for distribution to disrupt the usual channels, cut out middlemen and build more direct connections with fans and buyers.

There are two things I learned about Taylor Swift this year: she believes that the music industry is not dying and her apartment smells like an Anthropologie retail store.

The source of her views on the music industry is fairly well known. In early July 2014, about a month before releasing her single "Shake It Off," she published an opinion editorial piece in the *Wall Street Journal*, where she shared her optimistic vision for the future of music.

My inside knowledge of her apartment comes from a tweet shared by an adoring fan who was among the chosen few Swifties (Taylor Swift's biggest fans) invited back to her NYC apartment for a pizza party after the live online launch show for her new song.

While Instagram and Twitter were flooded that night with shares and reshares of images from that pizza party, journalists and music industry analysts were hard at work trying to figure out what this all meant for the future of the industry itself.

Complicating matters was a string of disruptive releases by well-known artists distributed directly to their fans.

About six months earlier, Beyonce famously delivered the release of an entire album without any advance promotion in a single night, including videos for each song. In an interview after the launch, she described her motivation behind releasing the entire album simultaneously by saying "that vision in my brain is what I wanted people to experience."

This desire and ability to connect directly with audiences and displace the middle men has expanded beyond music as well.

Unbundled Entertainment

Comedian Aziz Ansari released his latest comedy special, *Dangerously Delicious*, directly to fans via online platform VHX.tv, following Louis C.K., who made more than a million dollars in his direct release's first 12 days.

Outside of individual stars, even television networks and cable channels are starting to use direct distribution as a way to remove their reliance on networks for distribution.

In October 2014, HBO announced it would be selling a version of HBO directly via the Internet in 2015. CBS, the only broadcast network that is not part of Hulu, announced soon after that "CBS All Access" would provide web-based access to all the channel's programming.

Each of these examples is a natural result of the growth in fast Internet access and devices that can stream media entertainment. Aside from the growth of streaming, though, is an important secondary effect of this form of media delivery … a more direct connection between creators and consumers without gatekeepers to control the price or access.

In industries where there are relatively rigid structures to create near monopolies of distribution, this type of disruption is increasingly becoming commonplace. Most of the examples above focus on forms of entertainment, but *Disruptive Distribution* is affecting many other industries as well.

The Death Of Academic Journals

In early June 2014, online publishing site Academia.edu passed the impressive threshold of signing up its first 10 million users.

For most of these academics, the method for sharing valuable research has been the same for decades. After conducting research, the typical path for publishing is to submit to an academic journal, which then provides an authoritative peer-reviewed process to validate the research and then publish it to the industry.

Not only has this model for publishing been in practice for decades, but it also generates billions of dollars for a select few publishers who own the vast majority of the journals, including Elsevier ($3.2 billion in revenue for 2012) and Springer ($1.1 billion for same year).

It is estimated that both companies have margins higher than 35% thanks to their exorbitantly high costs of subscriptions and relatively minimal cost of content production (since researchers or reviewers are rarely paid).

Price's aim with Academia.edu is to transform this industry by offering a viable alternative.

Though his greatest challenge lies in offering a viable alternative to the reputational value that the current journals offer, as the size and continued usage of the platform continues—the site offers a clearly valuable alternative to the closed distribution ecosystem of academic journals.

Dealership Wars

If the definition of an industry pioneer is someone who fights a tough battle on behalf of an entire industry, then Elon Musk definitely fits the description. For much of 2014, his Tesla Motors publicly fought with multiple states for the right to sell their cars directly to consumers without going through franchised dealerships, as all other automakers do.

Despite the long-standing battle, though, there are signs that Tesla's early arguments may be shifting the entire industry toward a more direct sales model ,and perhaps toward other business models as well. In 2014, automakers like Volvo and GM tested online car sales where buyers could negotiate all the elements of a car purchase online before working with a dealership only on the final step.

BMW has moved beyond car sales to offer a rental option for its electric cars through the BMW Drive Now program, which is piloting in selected cities across the United States, Germany and a handful of other countries.

Each of these pilot programs is shifting the traditional model for car sales to integrate more collaboration, fewer middleman relationships and more one-to-one experiences.

Delivering Value in Russia

When Russian e-retailer Lamoda decided to start selling fashion to customers across the country online, they ran into a big problem: the postal service in Russia was notoriously unreliable.

Rather than letting that steer the brand towards opening retail locations like others had done, they took surprising step of building their own fleet of hundreds of delivery vehicles and more than 700 couriers. These trained courier-advisors not only deliver products, but also stand by while customers try them on, decide what to keep, and even offer fashion advice.

This direct approach to retail has certainly been costly.

It is not easy to build your own infrastructure from the ground up to deliver products to a country as large as Russia. Yet the site is one of the fastest growing retailers in the sector, their delivery vehicles are increasingly familiar as Russians encounter them on the roads, and they already have more than 1.5 million customers and an estimated $240 million in revenue.

In 2014, thanks to its innovations in the supply chain model the retailer even attracted a €10 million financing from the IFC, a member of the World Bank Group and one of the largest global development institutions. The investment was centered on helping to support the regional development of the company's express delivery network, Lamoda Express, as a more modernized supply chain that could promote greater consumer spending.

Why It Matters

The pace of change in the music industry happens to be the perfect testing ground for a more direct model that many other industries are considering at the same time. Through the flux in music, automotive sales, retailing, academic journals and even the growth of a popular Russian e-retailer, the theme that emerges is that there is significant innovation coming not only in how products and services are made, but also in the way that they are distributed and sold. Most of that is focused on disrupting the traditional models of distributions that have sometimes been in place for decades.

It is this second element that has become far more important to track as a trend because it could potentially affect so many other types of businesses that are unrelated to any of these industries mentioned above.

Who Should Use This Trend?

Any business that sells products or services in a marketplace or through channels controlled by a central distributor will see some impact of this trend. The opportunity exists then, to find ways to leverage the audience you already have and deliver directly to those who want to buy from you.

In a world where the method for how you have sold your products or services and distributed them is undergoing seismic changes, how can you make sure your business is ready to survive? That is the ultimate question that this trend will force many businesses to confront in 2015.

How to Use This Trend

✓ **Make a big statement** – When a group of North Dakota farmers decided to create a restaurant on the East Coast called Founding Farmers, part of the idea was to bring the direct model of farm-to-table restaurants to Washington, DC. The aim, aside from reconnecting people to the growers and sources of their food, was to put a themed restaurant in a high-profile location filled with foodies and influential politicians. The lesson is an important one for leveraging the value of *Disruptive Distribution*: sometimes the ideal way to start is by creating a small pilot and building from that.

✓ **Take the better deal (even if it's not perfect)** – While the model of Lamoda is tempting, it is also hugely expensive and complex. The far easier path is to find a distribution model that is disruptive enough to offer *more* control. Amazon's model for book selling is a perfect example. It offers higher margins back to authors and publishers, yet it is still far from perfect because it also separates authors from readers while Amazon retains ownership of customer data. The point is, sometimes using *Disruptive Distribution* means taking the better option and getting as *close* to direct distribution as possible.

Chapter 32

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The 2016 Perspective

Near the end of 2015, Fortune magazine released its "Unicorn List" featuring more than 100 companies that had reached a $1 billion or more valuation based primarily on fundraising. Many of these companies are recognizable mainly for the industry disruption they have caused. Uber, AirBNB, and Facebook are all household brands that have changed the way that their previous industries handled distribution of services or products.

In the coming year, the emerging category of Financial Technology startups (often referred to as "FinTech") is also a space that will see continued growth and opportunity. Hotly debated virtual currency Bitcoin, for example, saw plenty of investment and attention across the year as leading startup Coinbase managed to collect support from both venture capital firms and banks themselves.

In the middle of the year, crowdsourcing advisory firm Massolution released a research report predicting that by 2016 crowdfunding would account for more startup investment that traditional venture capital. Despite its industry bias, the report does spotlight an interesting development in the world of financial investment which continues to rise – the widespread acceptance of nontraditional sources of funding.

As the collaborative economy continues to force more disruption among financial services firms, thanks in part to a growing surge in equity based crowdfunding, a recent *Venture Beat* report led by analyst Jeremiah Owyang estimates the sharing economy has created 17 billion dollar companies so far and 10 "unicorns."

Disruptive Distribution is also fueled by smaller but no less significant experimental initiatives from entrepreneurs hungry to experiment with new models. In another example, the world of wine and spirits saw entrepreneurs experiment with distribution thanks to a recent law passed in Alaska that allowed independent distilleries to open tasting rooms. Across the past year, a range of popular new distilleries including Port Chilkoot Distillery, High Mark Distillery and Anchorage Distillery are making the remotest of US states a tourist destination for an all new reason.

In May of 2015, a Japanese bookstore clerk named Yoshiyuki Morioka launched a bold experiment with his Morioka Shoten bookstore in the upmarket shopping district of Ginza in Tokyo. The store captured the attention of the world for its radical idea – it would only sell one book at a time and devote an entire week to author events, community discussions and engagement around that book.

Whether or not the bookstore lasts and the concept catches on – it is a perfect example of the logical extremes that this trend of *Disruptive Distribution* has been driving entrepreneurs to explore across the past year. As time moves on and new startups enter unexpected markets and innovate faster than the incumbents are able to match – disruption in the fundamental distribution of how goods and services are sold and delivered will continue to escalate.

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✓ **Take the better deal (even if it's not perfect)** – Russian eretailer Lamoda solved its distribution problem by building a fleet of delivery vehicles and its own transportation network. While the model of Lamoda is tempting, it is also hugely expensive and complex. The far easier path is to find a distribution model that is disruptive enough to offer *more* control. Amazon's model for book selling is a perfect example. It offers higher margins back to authors and publishers, yet it is still far from perfect because it also separates authors from readers while Amazon retains ownership of customer data. The point is, sometimes using *Disruptive Distribution* means taking the best available option and getting as *close* to direct distribution as possible.